

# INSPIRING PEOPLE

# REVIVING A NATION





# **INSPIRING PEOPLE REVIVING A NATION**

As a bank intrinsically linked with the people's progress, HNB has long been a part of the nation's transformation. Over the years, we have stood at the helm of our nation's development, fuelling our nation's journey through times of challenge and change.

At every turn, we have remained a part of our nation's resurgence story, maintaining our stance as a pioneering force at the forefront of innovation. Our dynamic team of employees has long served as the driving force behind our quest to inspire sustainable growth across the society and the economy; even as we channel unmatched wealth creation across the vast network of people we touch, from every walk of life.

Today, as we transition into a new era, we're playing an integral role in our nation's progress and transformation. We're leading the people into a future of renewed promise.

We're inspiring people. We're reviving a nation.

# CONTENTS

## INTRODUCTORY REPORTS

About the Report	3
About HNB Group	6
Performance Highlights	8
Chairman's Message	10
Managing Director / CEO's Review	14

## THE STRATEGIC REPORT

Operating Environment	19
Outlook, Risks and Opportunities	22
Listening to Stakeholders	24
Determining Materiality	26
An Integrated Strategy	28
How we Create Value: Building and Nurturing Inclusive Financial Ecosystems	30
Business Line Review	32

## BUSINESS LINE REVIEW

Retail Banking	36
Wholesale Banking	37
SME	38
Microfinance	39
Treasury	40
Insurance	41
Finance	42
Real Estate	43
Investment Banking	44

## CAPITAL REPORTS

Financial capital: Profitable growth	45
Digital Capital	52
Human Capital	56
Social and Relationship Capital	64
Natural Capital	76
Intellectual Capital	86
Manufactured Capital	90

## GOVERNANCE AND RISK

Board of Directors	92
Corporate Management	98
Senior Management	102
Chairman's Message on Corporate Governance	109
Corporate Governance	110
Annual Report of the Board of Directors on the Affairs of the Company	154
HR and Remuneration Committee Report	164
Nominations and Governance Committee Report	166
Board Integrated Risk Management Committee Report	169
Board Audit Committee Report	173
Related Party Transactions Review Committee Report	176
Statement by the Senior Independent Director	178
Directors' Statement on Internal Control Over Financial Reporting	179
Independent Assurance Report	181
Directors' Interest in Contracts with the Bank	183
Risk & Capital Review	186

## FINANCIAL REPORTS

Financial Calendars	230
Chief Executive Officer's and Chief Financial Officer's Responsibility Statement	231
Directors' Responsibility for Financial Reporting	232
Independent Auditor's Report	234
Financial Highlights - Bank	239
Income Statement	240
Statement of Profit or Loss and Other Comprehensive Income	241
Statement of Financial Position	242
Statement of Changes in Equity	244
Statement of Cash Flows	248
Notes to the Financial Statements	250

## SUPPLEMENTARY INFORMATION

Market Discipline-Disclosure Requirements Under Pillar III	412
Income Statement in US Dollars	436
Statement of Profit or Loss and Other Comprehensive Income in US Dollars	437
Statement of Financial Position in US Dollars	438
Sources and Utilisation of Income	439
Value Added Statement	440
Value Created to Stakeholders	441
Ten Year Statistical Summary	442
Quarterly Statistics	443
Investor Relations	444
Independent Assurance Statement	454
Annexure	457
GRI Index	458
Sustainability Disclosure Topics & Accounting Metrics	464
Glossary of Financial/Banking Terms	465
Our Branch & Smart Self-service Machine (SSM) Network	472
Notice of Meeting	474
Form of Proxy [Voting]	477
Form of Proxy [Non-Voting]	479
Investor Feedback Form	481
Corporate Information IBC	



# ABOUT THE REPORT



This is the 11th Integrated Annual Report of Hatton National Bank PLC setting out a balanced account of the Group and Bank performance for the financial year ended 31st December 2023. It is noteworthy that the country continues to face high levels of economic uncertainty. This has highlighted the need for sound governance and transparent, reliable and timely reporting which provides sufficient information to stakeholders to assess the current position and available options. Furthermore, we continue our quest for excellence in sustainability reporting despite the challenges in the operating environment.

## Adapting to an Evolving Landscape

2023 saw the issue of several standards which affect the preparation of the Integrated Annual Report. Treatment of these standards in this report is set out below.

Standard/Regulation	Treatment in this Report/Plan
1. IFRS Sustainability Reporting Standards	HNB is reviewing the requirements of the two standards with the intention of making a holistic alignment to reporting in accordance with the same in 2024. It is noted that the report complies with the SASB and TCFD which are embedded into IFRS Sustainability Standards.
2. CSE Listing Rule Section 9 on Corporate Governance	Integrated into the Corporate Governance Report with an index given on page 143 indicating the status of compliance. In identified instances, the Bank has used the transition provisions included in the Rule. The Bank will be fully compliant with all requirements by the dates given in the Rule.
3. Code of Best Practice on Corporate Governance issued in December 2023 by the Institute of Chartered Accountants of Sri Lanka	Integrated into the Corporate Governance Report.
4. European Sustainability Reporting Standards	HNB is monitoring the developments on these standards with a view to benchmarking best practice and understanding the reporting landscape. However, will not apply the same in preparing the report at present.



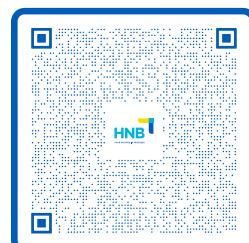
[www.hnb.net](http://www.hnb.net)



[www.hnb.net/2023](http://www.hnb.net/2023)



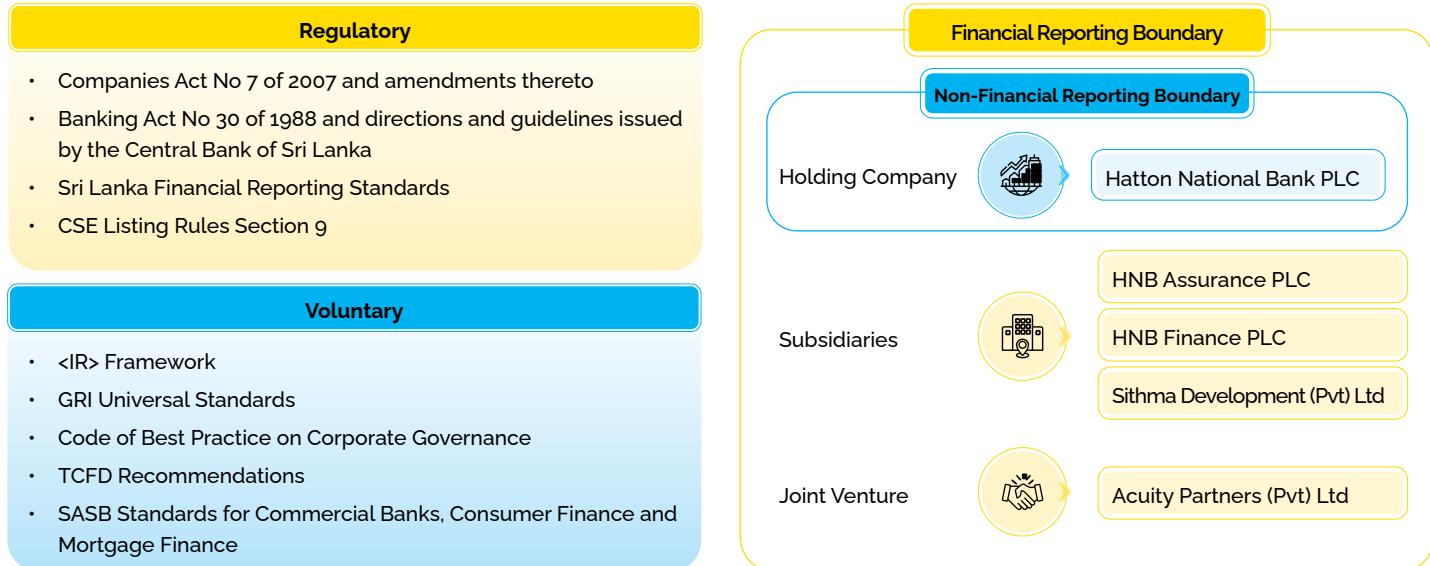
Chairman's Message 10  
Managing Director / CEO's Review 14  
An Integrated Strategy 28  
Business Line Review 32



# ABOUT THE REPORT

The following regulatory requirements, standards and codes have influenced the preparation of this Integrated Annual Report.

## Frameworks



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 86% of Group PAT and nearly 95% of total assets and total liabilities.

## Assurance

KPMG has provided assurance on 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 conforms to the IR Framework and in accordance with the GRI Standards.

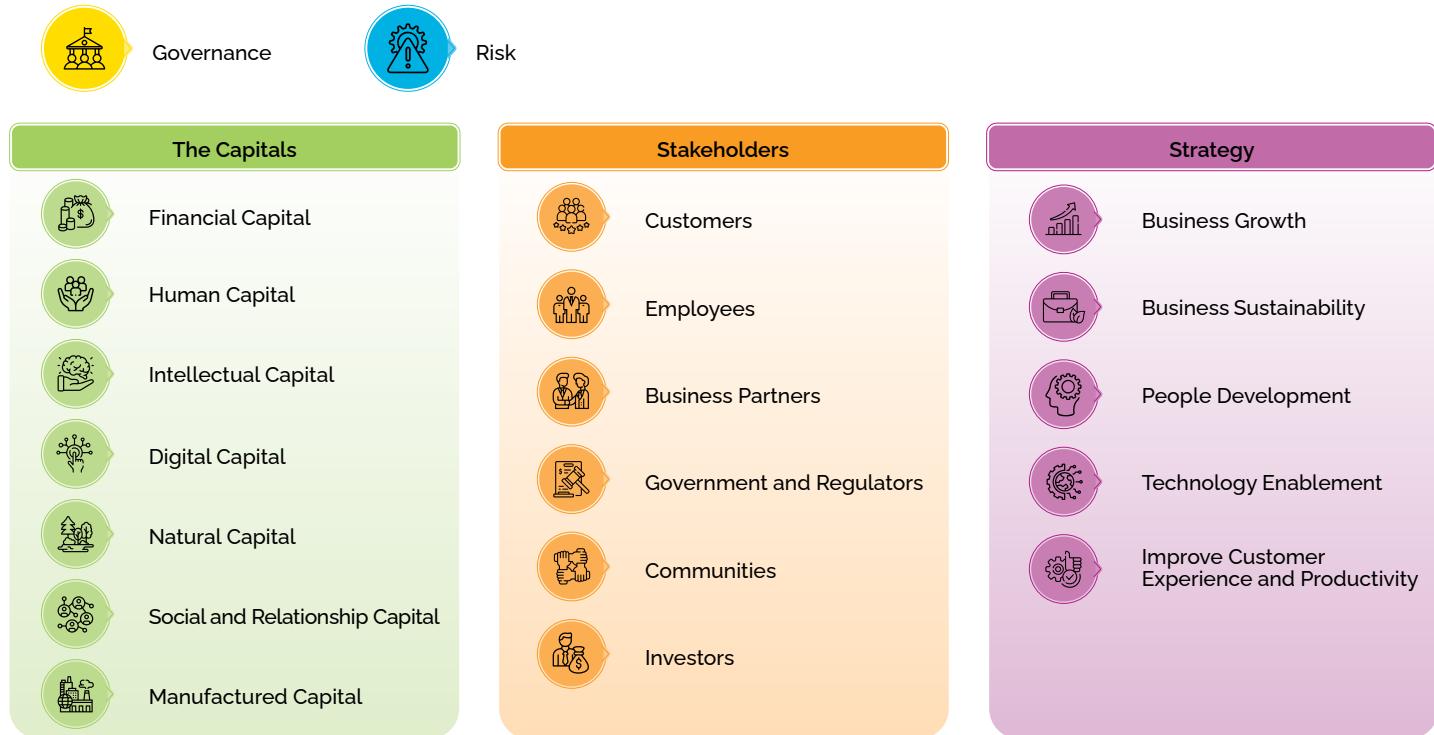
## Report Evolution

Key changes to the report this year are as follows:



## Connectivity of Information

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



## 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.

## Statement of Responsibility

The Board acknowledges its responsibility to ensure that the Integrated Annual Report provides a balanced view of its performance

in 2023 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 Management of the Hatton National Bank PLC have prepared and reviewed the Integrated Annual Report and the Corporate Governance, Risk and Capital Management Report and submitted the same to the Board Audit Committee who recommended the reports to the Board for approval in accordance with the delegation of authority.

The reports were unanimously approved by the Board on 15th February 2024 and is signed on its behalf by

Nihal Jayawardene PC  
Chairman

Colombo, Sri Lanka  
15th February 2024

Devaka Cooray  
Chairman, Board Audit Committee

Jonathan Alles  
Managing Director/CEO

# ABOUT HNB GROUP

From inception, Hatton National Bank (HNB) embraced principles of inclusivity that have found new resonance as calls for sustainability grow louder and more urgent. HNB is now relevant to individuals, farmers, employees, entrepreneurs, businesses and migrant workers connecting them to opportunity, goods and services, markets and loved ones. There is no doubt that HNB has gone beyond the traditional role of a bank to innovate relevant products and platforms to ensure the successful integration of Sri Lankans in an increasingly digitalised future.

## Connecting Sri Lankans



**> 2.6 Mn**  
Individuals



**> 220k**  
SMEs and Micro  
Entrepreneurs



**> 3.3k**  
Corporates and  
Emerging Corporates

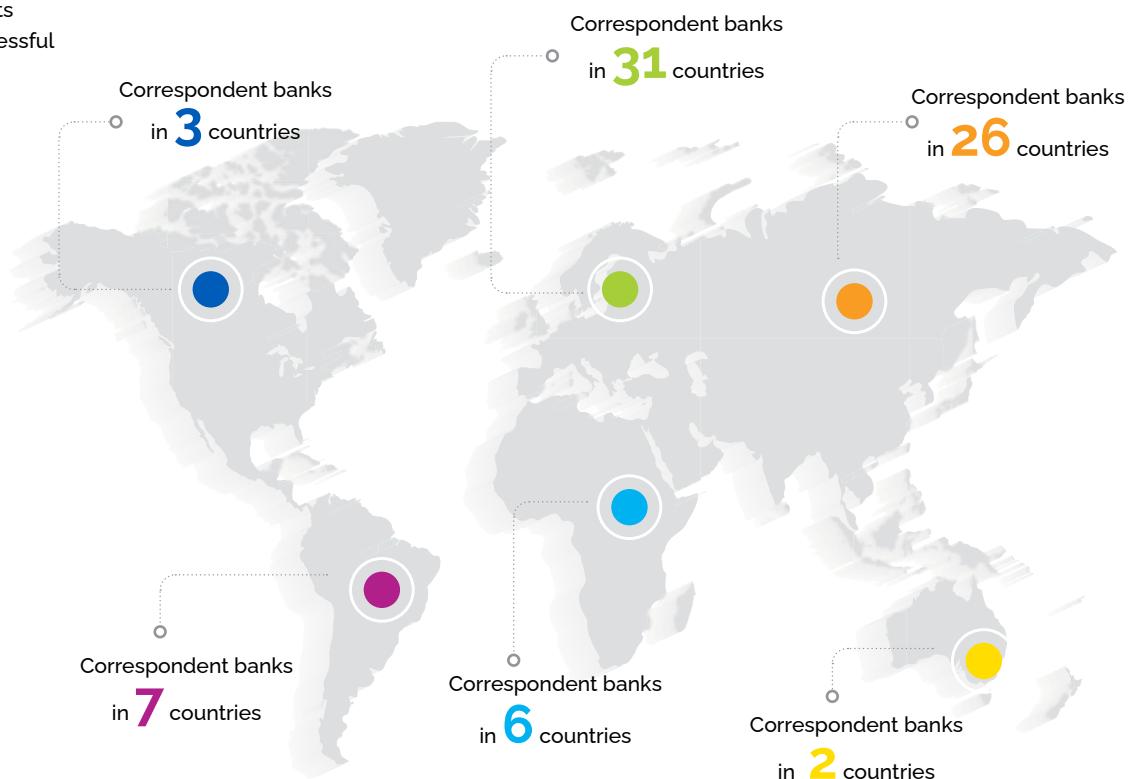
**254**  
Branches

**799**  
SSMs

**586k**  
Active digital  
customers

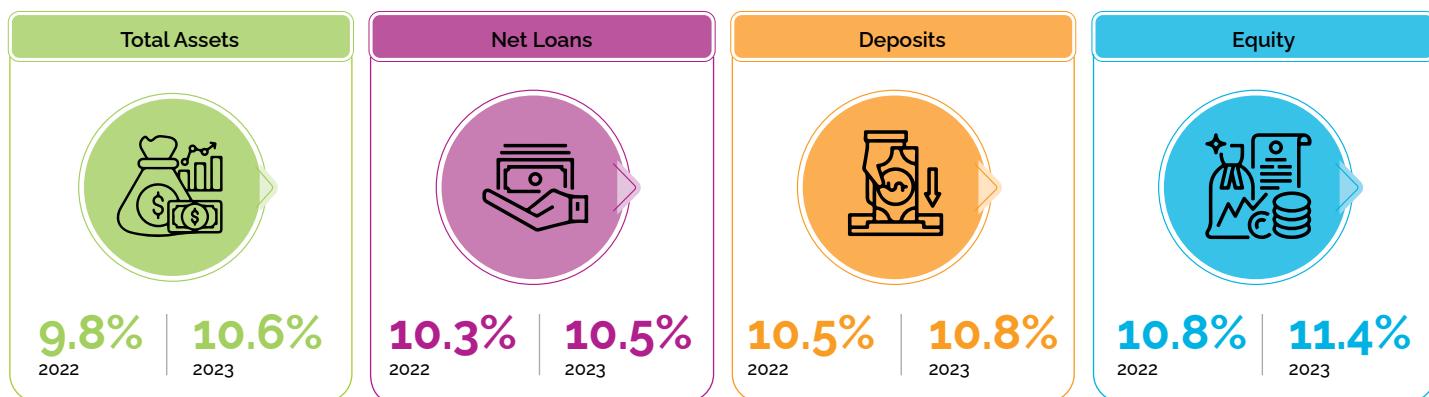
**380k**  
HNB Solo  
downloads

**20k**  
Merchants



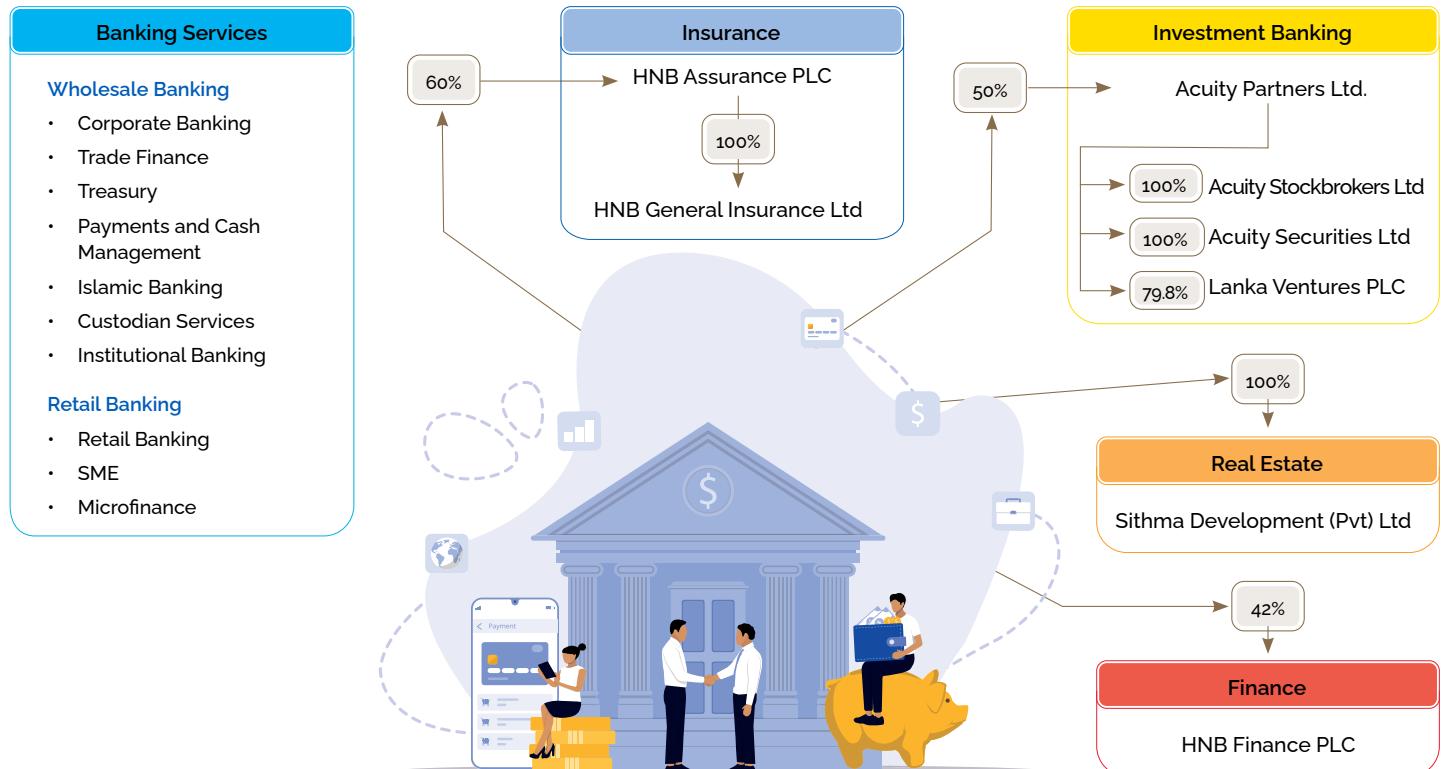
## Domestically Significant

HNB's market share against Licensed Commercial Bank Assets and Liabilities (As at end of 2022 and Q3 2023)



Data source for comparison: CBSL

## Group Structure



### Employees



8,989      5,492

Group      Bank

### Female Representation



3,418      2,540

Group      Bank

### Deposits



Rs 1,609 Bn      Rs 1,580 Bn

Group      Bank

### Loans and Advances



Rs 1,081 Bn      Rs 1,042 Bn

Group      Bank

### Total Assets



Rs 2,047 Bn      Rs 1,934 Bn

Group      Bank

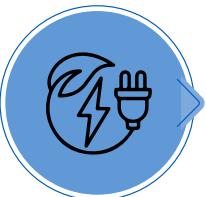
### Equity



Rs 212 Bn      Rs 185 Bn

Group      Bank

### Investments in Clean Energy



Rs 9.3 Bn      Rs 7.1 Bn

Group      Bank

### Emissions

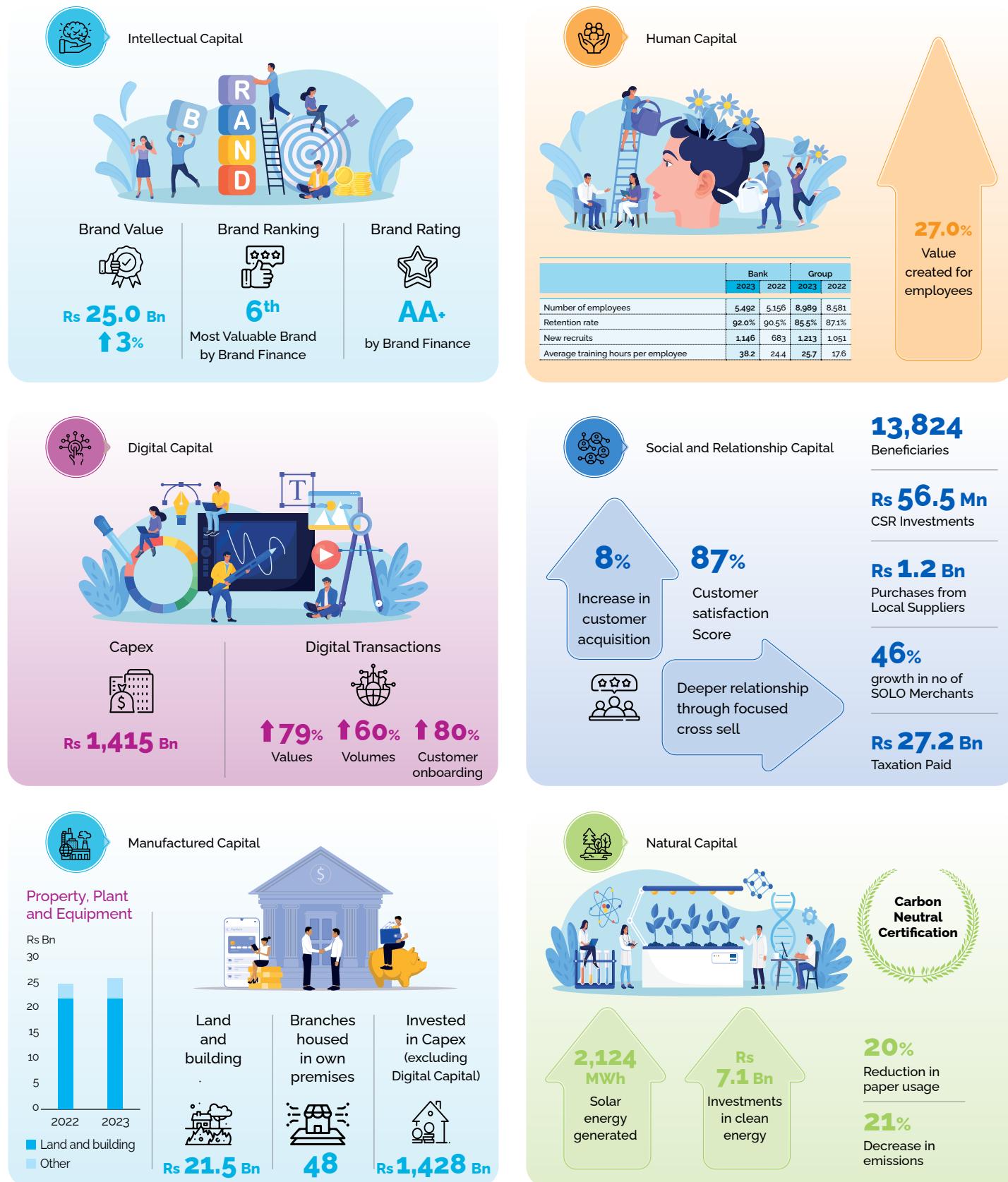


9,025 tCo2e

Bank

# PERFORMANCE HIGHLIGHTS

Financial Capital	Bank			Group		
	2023 Rs Mn	2022 Rs Mn	Change	2023 Rs Mn	2022 Rs Mn	Change
<b>A Resilient Performance</b>						
Gross income	299,139	242,412	23.4%	336,638	270,509	24.4%
Net interest income	104,342	102,877	1.4%	118,075	111,567	5.8%
Net fee and commission income	15,841	15,174	4.4%	16,573	15,902	4.2%
Total operating income	118,916	137,924	-13.8%	149,500	160,875	-7.1%
Impairment charges	40,589	90,461	-55.1%	42,524	91,736	-53.6%
Operating expenses	35,504	30,388	16.8%	60,375	49,804	21.2%
Operating profit before tax on financial services	42,823	17,075	150.8%	46,601	19,336	141.0%
Profit before income tax	32,689	11,974	173.0%	37,218	14,420	158.1%
Profit after tax	20,353	14,033	45.0%	23,606	15,748	49.9%
<b>Financial Stability</b>						
Shareholders' funds	184,977	159,327	16.1%	212,240	183,292	15.8%
Customer deposits	1,579,780	1,407,800	12.2%	1,609,154	1,443,179	11.5%
Gross loans and advances	1,041,990	1,061,372	-1.8%	1,081,186	1,107,500	-2.4%
Total assets	1,934,252	1,690,539	14.4%	2,047,040	1,798,275	13.8%
Total liabilities	1,749,275	1,531,212	14.2%	1,827,484	1,608,188	13.6%
<b>Profitability</b>						
Net interest margin (%)	6.47%	7.57%	-110 bps	6.97%	7.79%	-82 bps
Cost to income ratio (%)	29.86%	22.03%	782 bps	40.38%	30.96%	943 bps
Return on assets (%)	1.12%	0.92%	20 bps	1.23%	0.97%	26 bps
Return on equity (%)	11.82%	9.01%	281 bps	11.51%	8.52%	300 bps
<b>Asset Quality</b>						
Impaired loans (stage 3) ratio (%)	3.76%	3.40%	36 bps			
Impairment (stage 3) to stage 3 loans ratio (%)	57.49%	56.99%	47 bps			
<b>Investor Information</b>						
Earnings per share (Rs)	36.36	25.07	45.0%	40.68	27.39	48.6%
Net assets per share (Rs)	330.47	284.65	16.1%	379.18	327.46	15.8%
Market value per voting share (Rs)	169.25	78.90	114.5%			
Total dividends per share (Rs)	8.00	5.00	60.0%			
Cash dividends per share (Rs)	4.00	-	N/A			
<b>Regulatory Ratios</b>						
Core capital ratio (%)	13.66%	11.06%	260 bps	14.70%	11.42%	328 bps
Total capital ratio (%)	17.13%	14.00%	313 bps	17.95%	14.15%	380 bps
Statutory liquid assets ratio (%)	48.17%	33.95%	1422 bps			



## CHAIRMAN'S MESSAGE





**The Board continued to maintain focus on liquidity, capital management, socioeconomic impacts and profitability to navigate the Bank through the uncertainty in the operating environment. Robust risk management practices, processes and sound governance structures in place were key strengths that enabled the Board to maintain the course to sustainable and profitable growth.**

*Dear Shareholder,*

I am pleased to report that Hatton National Bank Group recorded a Profit After Tax of Rs 23.6 Bn for the year 2023 which is a growth of 49.9% against the previous year. It is commendable that this was achieved through a consistent focus on strategic priorities, without compromising our solid foundations of asset quality, liquidity and capital adequacy which are well above industry average and in line with the Group's risk appetite. The improvement in customer and employee satisfaction scores during this time also bear testimony to the formulation and progress on a holistic plan for sustainable growth and shared prosperity.

#### **Restoring Stability**

We commenced the year hoping the worst of the financial crisis was behind but wary of what the year held in store. There were a number of high impact downside risk factors that needed to be stabilised to pave the way for normalcy and growth. Inflation which was 59.2% (NCPI) at the beginning of the year, was stabilised through policy interventions to 4.2% by December 2023. High interest rates which deterred private sector credit growth declined as indicated by AWPLR which moved from 27.24% in December 2022 to 12.13% by the close of 2023. The rupee strengthened with the exchange rate moving from Rs 367.50 to Rs 324.00 against the US dollar, strongly supported by worker remittances and tourism which cushioned the impact of a decline in exports by 9.0%. The domestic debt optimisation was completed by June 2023 supporting the improvement in the country's long-term local-currency issuer rating by both Fitch Ratings and S&P Global

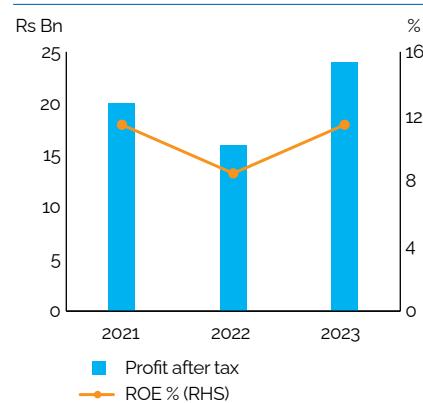
Ratings. Disbursement of the second tranche of the IMF extended fund facility, funding from multilaterals and increased taxation revenues also contributed to restoring stability by December 2023. Although the GDP is likely to be a negative for the year, the positive growth in the 3rd quarter is encouraging and imbues a much-needed sense of optimism to move the country forward to a path for resilient growth.

#### **Navigating Uncertainty**

The Board continued to maintain focus on liquidity, capital management, socioeconomic impacts and profitability to navigate the Bank through the uncertainty in the operating environment. Robust risk management practices, processes and sound governance structures in place were key strengths that enabled the Board to maintain the course to sustainable and profitable growth. Elevated credit risk indicators necessitated a shifting of gears to drive growth in selected areas of the economy. The success achieved in expanding market share in exports is a notable example for the focused strategies implemented to align the Bank's growth to specific areas of national interest.

Customer centricity is the key differentiator and the Board regularly reviewed the results of stakeholder engagement across multiple platforms to ensure high standards were established and pain points were addressed. The Bank had also invested heavily in technology over the past 4 years and it was necessary to maintain the momentum in onboarding customers and firmly establishing the Bank's leadership in this area to move

#### **Returns**



# CHAIRMAN'S MESSAGE

ahead. It was heartening to note the increase in digital transactions and growth in related revenues, supporting our vision for the future of the Bank.

## Stability and Returns

The Group revenue was supported by a moderate growth in net interest income and fee and commission income, amid declining interest rates. The 53.6% decrease in impairment charges was hard earned relief. This was supported by multi-layered review mechanisms, strengthened recoveries and credit risk management processes on the credit front and relatively higher impairment provisions made in the previous year on account of investments held in foreign currency denominated government securities. Higher taxation rates increased the effective tax rate to 51.8% in 2023 as the government sought to increase the country's tax revenues to bridge the budget deficit.

Balance sheet growth was largely propelled by deposit mobilisation which supported high levels of liquidity necessary to navigate 2023. Subdued credit demand and elevated credit risk necessitated a cautious approach to lending resulting in a decrease of 2.4% in the Group's loan book. Equity increased by 15.8% due to improved profitability.

The Bank was able to maintain the Net Stage 3 Loans to Total Advances at 3.76% in 2023, showcasing one of the best asset quality ratios in the industry. Additionally, Stage 3 provision coverage of 57.5% is also well above industry average. Group Capital Adequacy Ratios remained strong with Tier 1 Capital Ratio at 14.70% and total capital at 17.95% by the close of 2023, well above the regulatory requirements of 13.5% and 9.5%. Liquidity improved during the year as indicated by the improvement in both the Statutory Liquid Assets ratio and Liquidity Coverage ratio.

## Value to Shareholders

I am pleased to report that HNB Group has distributed Rs 8.00 to shareholders as dividends and has retained Rs 4.00 for business needs, creating long term value for shareholders. Net Asset Value per share increased by 15.8% to Rs 379.18 further

enhancing value. The price of a non-voting share increased by 100% to Rs 140.00 while the voting shares moved in tandem increasing by 114.5% to Rs 169.25 during the year. HNB remains an attractive investment at current valuations. I also refer shareholders to my message in the Corporate Governance Report on page 109 which summarises the governance matters that underpins the delivery of value to shareholders.

## Looking Ahead

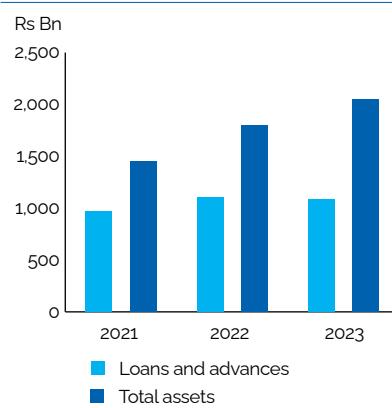
Sri Lankans will agree that it is time to move on beyond the crisis mode to focus on delivering economic growth based on principles of shared prosperity for all. We must do so while building resilience to shield potential downside risks which will hurt us more if we do nothing to progress. Sri Lanka needs to stay on course to recovery during a moderation in growth in the global economy, managing potential knock-on effects with foresight.

HNB will remain focused to deliver the long-term vision - to be the most admired bank, the most customer centric bank, the best digital bank and the most preferred employer. I will add to this the importance in institutionalising a holistic sustainability strategy which has been recognised and is well underway.

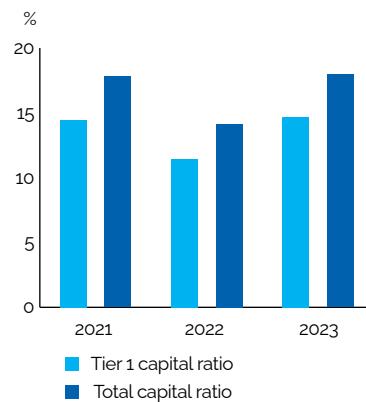
In driving growth, we will continue to focus on areas that are priority sectors for the country. The Bank will continue to increase investments in the MSME segment, reviving businesses and encouraging entrepreneurs to build strong value chains that cross the land and extend beyond. The issues in the sector such as capacity building, access to markets and access to finance will continue to be addressed as a priority to uplift the sector with meaningful interventions.

I am pleased to report that HNB was certified as a carbon neutral bank by the Sri Lanka Climate Fund, for 2022 in the year 2023. Every branch was involved in calculating its own carbon footprint which served to raise awareness of the variables that need to be managed to minimise the footprint. Understanding financed emissions is key for long term sustainability of the nation and the

## Growth



## Resilience





**Sri Lankans will agree that it is time to move on beyond the crisis mode to focus on delivering economic growth based on principles of shared prosperity for all. We must do so while building resilience to shield potential downside risks which will hurt us more if we do nothing to progress. Sri Lanka needs to stay on course to recovery during a moderation in growth in the global economy, managing potential knock-on effects with foresight.**

Environment and Social Management System implemented ensures that these aspects are reviewed prior to granting loans to ensure compliance.

HNB continues to invest in its people and I am pleased to see the results of a cohesive talent management agenda. Retention of professionals has been a key challenge across the country and it is heartening to note our retention rate of 92%. The training hours delivered per employee has been the highest in the history of the Bank and we continue to focus on this important aspect to add value to employees, aligning their aspirations to the Bank's strategic goals.

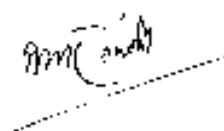
The Board has announced the change in leadership of the Bank to the Colombo Stock Exchange as Mr Jonathan Alles who has led the executive function of the Bank for 11 years retires in August 2024. Mr Damith Pallewatte will take on the mantle and the period till then facilitates a smooth transition.

### **Appreciation**

The Board joins me in commending the Managing Director/CEO Mr Jonathan Alles for the leadership provided to move the Bank to the top of the league tables across multiple indicators. We take this opportunity to thank him for guiding the Bank through some of the most difficult years in its history and wish him the best for the future.

I also convey my appreciation of the CEOs of our Group companies who have pulled together to maximise synergies. I congratulate the HATNA team on its transformation and look to their support

to consolidate the lead in the year ahead. Our customers have been our strongest champions and I thank them for their patronage. We extend our appreciation for the advice and support provided by officials of the Central Bank of Sri Lanka. In closing, I thank our shareholders and business partners for their confidence and unwavering support that enabled us to deliver value.



Nihal Jayawardene PC

*Chairman*

Colombo, Sri Lanka  
15th February 2024

## MANAGING DIRECTOR / CEO'S REVIEW





We also supported our customers through the pandemic, the financial crisis and its aftermath, keeping businesses afloat by restructuring loans, offering moratoria and even grants for micro entrepreneurs. As the country recorded positive GDP growth in the third quarter of 2023, we now need to ensure that this is a tide that lifts all boats. There are opportunities that Sri Lankans must seize to drive economic growth.

Dear Shareholder,

A strong start off the blocks in Q1 set the pace for 2023 as Hatton National Bank PLC recorded the highest profits in the industry and maintained the leadership position up to Q3, the last quarter upto which we have comparative information. More importantly, we gained pace while maintaining a top three industry position on key aspects such as asset quality, liquidity and cost income efficiency. Value delivered to stakeholders was carefully managed during the past four years and I am happy to say that we have made progress in restoring a sustainable balance to this more complex equation, ensuring that depositors are safeguarded, customers have access to finance, employees receive fair rewards and recognition while investors generate a fair return for the risk undertaken. This bears testimony to the enduring focus on delivering a holistic performance, with every team and process in step to deliver value to our stakeholders in line with the theme of our annual report this year.

## INSPIRING PEOPLE

As a Group, we invested in truly listening to our stakeholders through an unparalleled range of mechanisms to understand their concerns and respond effectively to them. Stakeholder value propositions were revisited and changed with the information received through multiple channels with a view to inspiring people to reach higher, dream bigger and do more with less. There is no doubt that this is the way forward, not just for Sri Lankans who are feeling the pinch of taxation and high cost of living but for every

person on the planet who will experience some adversity rooted in the impacts of global economic downturn and climate change. At the same time, we understand that the ease of doing business must also improve so that entrepreneurs and innovators are able to beat the odds and compete effectively in global markets.

### Customers

Inspiring our customers to move forward with optimism is key to growth and we set out to understand and address customer pain points to make banking more enjoyable. The technology transformation is now stabilising and showing the promise of a digital dividend. We now have a critical mass of over 20% digitally active customers who drive growth in digital transaction volumes and we expect this number to grow rapidly as customers understand the convenience offered through our digital banking platforms.

We also supported our customers through the pandemic, the financial crisis and its aftermath, keeping businesses afloat by restructuring loans, offering moratoria and even grants for micro entrepreneurs. As the country recorded positive GDP growth in the third quarter of 2023, we now need to ensure that this is a tide that lifts all boats. There are opportunities that Sri Lankans must seize to drive economic growth. Having actively listened to our customers, HNB is looking forward to inspiring our customers with new tools, products and advice to take their businesses to a new era of growth while navigating through the global and local uncertainties that prevail, as a true partner in progress.

### The Power of Positivity

#### Most Admired Bank

- Best Corporate Citizen in Sri Lanka by the Ceylon Chamber of Commerce
- Top 10 - Most Admired Companies - by CIMA, ICCSL and Daily FT

#### Most Customer Centric Bank

- Net Promoter Score (NPS) 59%
- Customer Satisfaction Score (CSAT) 87%
- Deposit growth 12%

#### Best Digital Bank

- Digital transactions volume ↑ 60%
- Digital revenue increase ↑ 39%

#### Most Preferred Employer

- Employee retention 92%
- Employee satisfaction score 64%

# MANAGING DIRECTOR / CEO'S REVIEW

This would also be strengthened by the strong system of support available to our clients, catering to their needs for financial services, throughout the value chain. These include capacity building initiatives for micro entrepreneurs and SMEs, creating access to global and domestic markets through initiatives such as 'Avurudu Pola', 'Solo Podi Podi business' and partnerships such as Cord 360 and Appigo. The variety of digital payment options such as IPG, Solo, MoMo and digital banking enables MSMEs to enter the next stage of their growth. HNB is also going back to its roots to strengthen value chains from the mountains and farmlands to the sea, creating opportunities for inclusive economic growth.

## Employees

Inspiring the HATNA Team has perhaps been the most rewarding undertaking so far as they are now leading change at the frontlines. We initiated multiple mechanisms to listen and resolve their issues including novel solutions like appointing an Employee Experience Officer who was not part of the human resources function. Training initiatives were ramped up with dedicated leadership development programmes. We also invested in creating a self-paced online learning platform, that certify employee knowledge in various aspects of banking. In 2023, we delivered 38 hours of training per employee with 82% of the trainings conducted in-person. Additionally, we have walked the talk and increased the value distributed to employees consistently during 2021 and 2022 and maintained a fair share in 2023 while restoring value distributed to investors and retained for business.

## The Power of Positivity

The leadership of the Bank focused on delivering the long term strategy of the Bank under the careful direction of the Board, infusing optimism, energy and inculcating a culture of positivity within every vertical. The investments in leadership development and team building paid off as we overcame multiple challenges during the year to celebrate the wins. Increased frequency and depth of progress reviews, prompt exception reporting and problem solving, deeper



**The leadership of the Bank focused on delivering the long term strategy of the Bank under the careful direction of the Board, infusing optimism, energy and inculcating a culture of positivity within every branch and department. The investments in leadership development and team building paid off as we overcame multiple challenges during the year to celebrate the wins.**

insights through objective data analytics, timely escalations of potential problems and a host of digital tools sharpened minds to anticipate issues and prepare well ahead of time.

A plethora of awards reflect our progress on becoming the Most Admired Bank and attest our commitment to excellence in every aspect of our business. The continued upward movement of customer satisfaction score from 85% in 2022 to 87% in 2023 is the result of delivering the big picture as well as attention to detail in providing customised solutions. HNB is also on course to becoming the best digital bank as digital transaction volumes increased by 60% and consistently high ratings on our apps on both App Store and Google Play. Importantly, digital revenues increased by 39% reflecting the return on the investments made over the past few years. An employee satisfaction score of 64% and a retention rate of 92% reflect the strong employer brand built over 135 years.

## Delivering Results

HNB, the Bank delivered strong growth in profit before tax (PBT) of Rs 32.7 Bn and a profit after tax (PAT) of Rs 20.4 Bn in 2023 recording increases of 173.0% and 45.0% respectively over 2022 as we moved ahead to challenge the industry status quo. Group profitability followed suit with positive contributions from all Group entities with PBT and PAT of Rs 37.2 Bn and Rs 23.6 Bn.

The Group recorded key milestones during the year, with assets crossing Rs 2.0 Trillion,

advances crossing Rs 1.0 Trillion and deposits surpassing Rs 1.5 Trillion to reach Rs 1.6 Trillion.

## Business-line Review

HNB is the most diversified financial services Group with a comprehensive offering, supporting synergies through cross selling of products. The Bank is also able to structure increasingly more sophisticated products such as supply chain financing which combine expertise across its verticals, strengthening value chains across the country. All subsidiaries as well as the joint venture investment bank contributed positively to PBT and PAT contributing 12.2% and 13.8% respectively. The Bank accounts for 94.5% of Total Assets of the Group.

## Retail Banking

A portfolio of products catering to every stage of life and a range of lifestyles underpins our success in retail banking. It accounts for 45.8% of the Group's funding base and 13.1% of the asset base.

Retail Banking reported the highest net fee and commission income among segments with a strong growth of 26.1% reflecting higher credit card transactions and digital banking revenue as more customers sought the convenience offered through digital platforms. The charge for impairment declined by 83.4%, reflecting prudent management of the Retail loan book. Retail Banking also manages 162 student savings units in schools to inculcate the savings habit with the next generation. This

approach nurtures the ecosystem and is a step in the right direction towards long term sustainability.

### **Corporate Banking**

Corporate Banking combines lending, trade services, Islamic banking, payment and cash management as well as custodian services. It has the largest portfolio of net loans and advances amounting to 24% of the Group's total assets. Catering to the needs of corporates and emerging corporates, relationship management goes hand in hand with the latest digital banking products and a network of correspondent banks to provide a seamless service. A new Payments and Cash Management system was rolled out providing new features for corporates to operate. The portfolio declined largely due to the appreciation of the LKR as the USD denominated loans accounted for 27.3% of segment assets. However, deposits increased by 3.5% reflecting the low appetite for investment and the propensity to build resilience. Making inroads to capture around 7.3% of the country's total exports business has been a key success factor, positioning the Bank for strong growth. It is noteworthy that Trade Services and Islamic Banking were recognised for their excellence with awards. Corporate Banking operates Chinese, Japanese and Indian desks to capture business from and to these countries.

### **SME**

In order to support this vital segment, the Bank secured concessionary funding and leveraged the guarantee facility from USAID. As a priority we continue to work with CBSL and other agencies to access low cost funds. The Bank also invested in the National Credit Guarantee Institution, which was setup by the Government of Sri Lanka with the support of ADB. This enables the Bank to minimise the credit risk and impact on capital thereby enhancing the ability of the Bank to further support this vulnerable segment.

This vertical was able to grow deposits by 7.8% to Rs 280.9 Bn during the year making it a net contributor to funding sources of the Bank. While the loan portfolio contracted due to the low demand in the first half of the year, the rigorous efforts in improving

asset quality paid off as reflected in the impairment reversal recorded for the year. The SME segment which is an important link in the country's value chains and economic resurgence, remains one of the key focus areas for growth.

### **Micro**

2023 was a year of repositioning the Micro Finance segment, ensuring that micro entrepreneurs are included in an increasingly digitalised economy. Accordingly, on-boarding of micro merchants on to Solo, in addition to driving other digital payment channels was a key focus. The Bank also supported these customers through many initiatives in connecting to end consumers. Both loan and deposit portfolios recorded significant growth while the improving economic conditions and the recovery efforts enabled improvement in asset quality. Over 70 capacity building programmes were carried out during the year.

### **Treasury**

Treasury navigated another challenging year as interest rates declined and exchange rates remained volatile. Treasury continues to hold the largest portfolio of assets within the Group amounting to Rs 771.4 Bn, as it increased by 34.6%. Assets comprised largely of debt and other financial instruments and the Bank further increased the provision for impairment on foreign currency denominated government securities on a prudent basis.

### **Insurance**

The HNB Assurance Group delivered a strong performance outpacing industry growth in both Life and General Insurance business for the second consecutive year. Focused strategies to become a Tier 1 player included expansion and training of the sales force, digital transformation and enhancing customer experience, resonating with the Bank's own experience. Mapping of customer needs to the suite of products affirmed the relevance and availability of sufficient base products and riders in Life Assurance which allowed this business to focus on effective selling and management of relationships. HNB General Insurance was successful in diversifying its portfolio to the

concentration of motor business by driving growth in other categories. Institutional partnerships with captive customer bases accelerated expansion in key areas such as microinsurance and mortgage protection. Accordingly, Total Operating Income increased to Rs 23.2 Bn, a 27.6% increase over 2022 driven by growth in gross written premiums and investment income. The technological transformation is key to success, enhancing the productivity of a tech savvy sales force who are supported by additional tools to help reduce lapse rates and build trusted relationships with their customers. This segment is poised to deliver growth while maximising cross sell opportunities.

### **Finance**

HNB Finance turned around in 2023, recording a profit of Rs 281.0 Mn compared to the loss of Rs 526.3Mn reported in the previous year. The company continued to maintain a prudent stance on disbursements as credit risk remained elevated, particularly in the SME and Micro segments which form the bulk of this NBF's customer base. We will focus on leveraging the company's considerable expertise and captive customer base of microentrepreneurs who will be key to unlocking its potential.

### **Acuity Partners**

Acuity Partners recorded its best year supported by the exceptional performance of its primary dealership which benefited from the declining interest rates. Thin trading volumes impacted the performance of the stockbroking arm which, nevertheless, recorded a profit due to its lean operations. Corporate advisory services were also affected by the subdued performance of equity markets. The venture capital arm which specialises in renewable energy faced challenges with overseas investments and recorded a loss. The consolidated profits from this specialised financial services powerhouse soared by 243.6% boosting profits of the Group by Rs 1.1 Bn with its share of profits.

# MANAGING DIRECTOR / CEO'S REVIEW

## REVIVING A NATION

Banks will play a key role in reviving the nation as we look to consolidate the return to positive GDP growth witnessed in the third quarter. HNB is aligning its strategy to the country's needs and is committed to charting a course that delivers shared prosperity to Sri Lankans and supporting the country's transition to a low carbon economy. Areas identified for growth include tourism, renewable energy, healthcare, education, local manufacturing, technology and agriculture. We are excited about inspiring farming communities to adopt green agricultural practices to strengthen the country's food security. We also want to groom the next generation of entrepreneurs through dedicated programmes and working with educational institutions at different levels. Simultaneously we will support the drive to attract much needed foreign direct investments into the country. Port City is an example and HNB became one of the first banks to be granted an Authorised Person License to operate within the Colombo Port City Special Economic Zone.

Sustainability will be the common thread that runs through all our plans. Becoming a carbon neutral bank was a milestone for HNB and we will continue to manage our carbon footprint in a holistic manner as set out in this report. With the ESMS in place to minimise financed emissions, HNB is keen to source green funding to support greening of the portfolio and is working with multilateral agencies to secure the same. There is more to be done to ensure that growth is inclusive and we will be launching projects and products to drive greater female participation in the workforce and as entrepreneurs.

Technology creates connections and opportunities. HNB continues to work with fintechs to develop novel solutions for everyday issues that will make banking enjoyable for our customers. It will be key to our integration with the global economy and providing scalable solutions that are cost effective to all.

The revival of the nation needs to gain traction in 2024 despite the uncertainties within our own economy and those in the global economy. It is an election year for Sri Lanka, USA, and UK and the associated uncertainty must be recognised. Growth must be resilient, built on solid foundations of disciplined financial management and sound corporate governance. It is the need of the hour at individual, entity and government levels as we stand up not just for our rights but to honour our obligations as well.

### Acknowledgements

It has been a privilege to serve as the Managing Director/CEO of this 135 year old institution for more than a decade and it is with pride that I look back at what we have achieved during my tenure at the helm. I wish to thank the HATNA team that worked with dedication during good times and bad with a true appreciation of the role we play in the economy and in the lives of people. I thank the Board for their guidance and oversight which enabled us to transform the Bank to move ahead. I convey my sincere appreciation to our customers and business partners for their confidence and patronage which underpinned our success. My gratitude to the Governor and the officials of the Central Bank of Sri Lanka for their guidance and support in ensuring banking sector stability. In conclusion, I thank our investors for their confidence in the leadership of this prestigious institution which is now poised to lead the revival of our motherland.



Jonathan Alles  
*Managing Director / CEO*  
Colombo, Sri Lanka  
15th February 2024

# OPERATING ENVIRONMENT



**The economy has shown initial signs of stabilisation due to crucial reforms undertaken in the economic landscape, indicating that Sri Lanka is on a road to recovery. Despite the restoration of stability, the situation remains delicate, marked by uncertainties in key areas. This includes challenges arising from the crisis, which had a substantial impact. Here, we provide a summary of these issues along with the response from the HNB Group.**

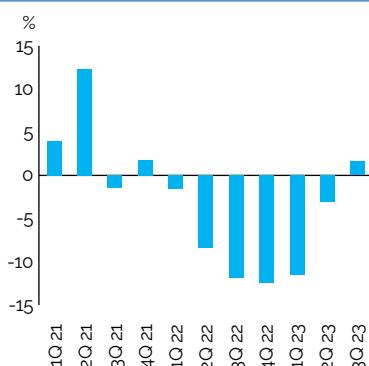
## Economic Environment

The approval of the IMF's Extended Fund Facility (EFF) in March 2023 boosted optimism, however uncertainties surrounding the Domestic Debt Optimisation (DDO) caused concern. During mid-2023, the GOSL finalised the DDO, excluding banking sector investments in government securities from the DDO.

In December 2023, the IMF concluded the first review of the Extended Fund Facility, unlocking further funding of USD 337 Mn in support of Sri Lanka's ongoing economic reforms.

With the operating environment improving gradually, economic activity began to return to normalcy resulting in an economic growth of 1.6% in the third quarter of 2023. This growth was witnessed after six quarters of economic contraction. All key sectors namely agriculture, industry and services indicated growth during the quarter.

## Real GDP growth

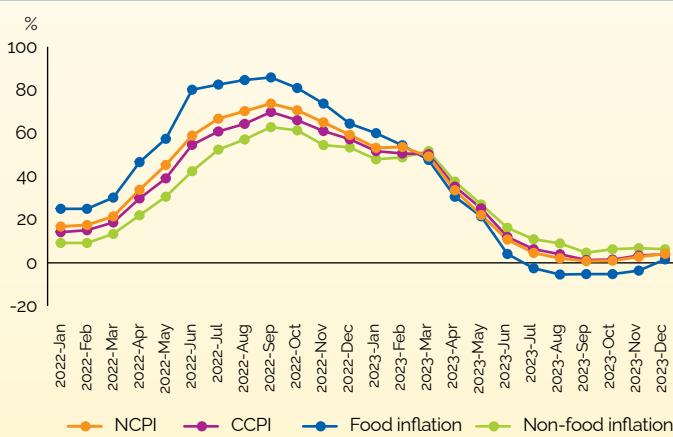


## Stabilising Inflation

Tight monetary and fiscal policy leading to subdued consumer demand, softening of food and energy prices and the improvement in domestic supply with the increase in economic activity, supported to curb inflation which peaked at over 70% in September 2022. As at end of 2023 inflation was at 4%.

Inflation is expected to remain at single digits amid weak demand and reach the targeted 5.0% level. However, a temporary uptick in inflation has occurred due to the VAT increase since January 2024.

## Inflation NCPI and CCPI



## Impact to HNB and our response:

The gradual reduction in inflation enabled HNB to manage cost escalations at acceptable levels. HNB also focused on cost optimisation and rationalisation of key cost areas. Having identified the long-term impact created through automation and digitalisation, HNB continued to invest in these areas and was able to record one of the best cost to income ratios in the industry which was below 30%.

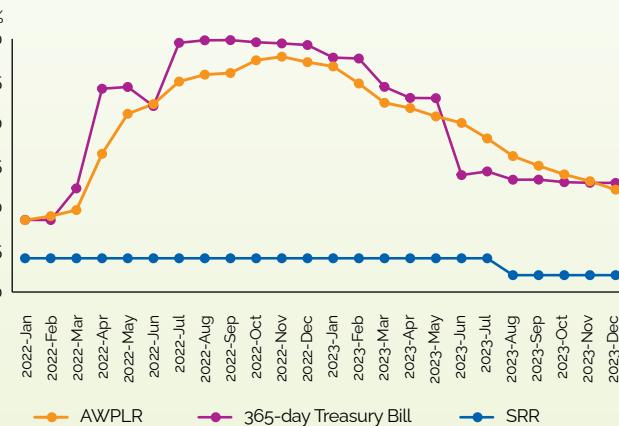


# OPERATING ENVIRONMENT

## Decline in Interest Rates

Subsequent to the successful completion of the domestic debt restructuring programme and inflation coming under control, the CBSL relaxed monetary policy from June 2023 with policy rates reducing by 550 basis points on five occasions during the second half of the year. The SDFR and SLFR stood at 9.00% and 10.00%, respectively, as of end of 2023 while 12-month treasury bill rate and average weighted prime lending rate moved from 29.27% and 27.24% at the beginning of the year to 12.93% and 12.13% respectively by end December 2023.

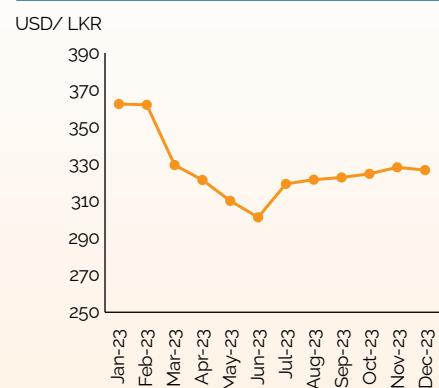
### Interest Rates and Liquidity



## External Sector

In 2023, the merchandise trade deficit recorded the lowest level since 2010. The country recorded a trade deficit of USD 4.9 Bn for 2023 compared to the deficit of USD 5.2 Bn recorded in the previous year. This was driven by a relatively larger

### Exchange Rate



drop of 8.3% in imports to USD 16.8 Bn, partly impacted by import restrictions and lower consumer demand. Exports dropped by 9% to USD 11.9 Bn for the year, as demand for apparels especially was hampered by the sluggish global economic conditions.

Foreign exchange strains eased due to reduced debt service payments, stronger remittance flows, and improved tourism earnings.

The receipt of the IMF second tranche and funding from multilaterals helped in boosting reserves at the end of the year to USD 4.4 Bn leading to further strengthening of the rupee.

### Impact to HNB and our response:

With majority of HNB's loans being on variable terms and investments in government securities being on the shorter end, the significant drop in interest rates impacted the interest margins.

Nevertheless, through prudent asset and liability management and repricing rates the Bank managed to record a NIM of 6.45% for the year. However, the impact is expected to be higher for 2024 as the rates are expected to remain relatively low on average compared to 2023.

### Impact to HNB and our response:

The appreciation of the rupee against the significant depreciation noted in the previous year resulted in an exchange loss for the Bank with the revaluation of the FCBU retained earnings.

With the foreign currency liquidity position improving during the year, the Bank had more capacity to support importers. However, lower than expected import volumes impacted the trade fee income, as the trade tariffs were reduced during the year. Nevertheless, the Bank was able to increase market share in exports and remittances.



### Restructuring of External Debt by the Government

Subsequent to the completion of the DDO, the Government initiated discussions with external creditors on restructuring of debt.

Agreements in-principle have been reached with the Official Creditors Committee and the Export – Import Bank of China on debt treatments which are also in line with that of the EFF targets set out. Timely conclusion of agreements with private creditors also becomes crucial in Sri Lanka's road to recovery. Upgrading of Sri Lanka's foreign currency issuer ratings which is currently at 'default' would only be subsequent to the successful completion of the external debt restructuring.

#### GOSL debt



#### Impact to HNB and our response:

HNB has investments in foreign currency denominated government securities which amounted to USD 560 Mn as at end of the year. However, on a prudent basis we have provided for impairment up to 52% of the exposure as at end of 2023.

HNB is also working closely with the GOSL, their advisors and the IMF through the banking sector consortium in negotiating the restructuring of International Sovereign Bond (ISB) holdings by the sector.



### Digitalisation

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 below:

Internet subscribers  
(including mobile internet)

**22.1 Mn**

Increase in Internet based payments (Q3, 2023)

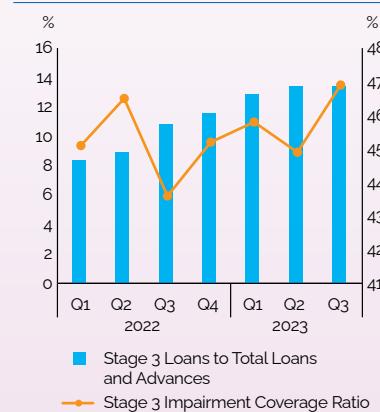
**- Volume 36.6%**  
**- Value 1.4%**



### Increased Risk of Default

The high interest rates that prevailed during the first half of the year, higher taxation and high cost of living resulted in asset quality deteriorating across the sector.

#### Banking Sector Asset Quality



#### Impact to HNB and our response:

In line with the industry trend HNB witnessed its asset quality deteriorating up to third quarter, despite continuing to be better than the industry. Improving operating environment, the reduction in interest rates and through concerted efforts, Bank's asset quality improved as at end of the year with the gross stage 3 ratio at 8.83%, net stage 3 ratio at 3.76% and stage 3 provision cover at 57.5% well ahead of the industry levels.



# OUTLOOK, RISKS AND OPPORTUNITIES



Here we present the potential pressure points that can impact the country's banking industry. We have considered the factors and information as at date of this report. However, considering the uncertainties in the market, investors are advised to update themselves on estimates given below at the time of evaluation as these could change due to numerous factors.

## A Return to Growth

Sri Lanka is expected to maintain the growth recorded in the third quarter into 2024. Key forecasts for 2024 and 2025 extracted from the press release no. 23/439 issued by the IMF in December 2023 are given below:

	2023	2024	2025	2028
Real GDP	-3.6	1.8	2.7	3.1
Inflation (average CCPI)	17.9	7.9	5.6	5.2
Exports (USD Mn)	12,365	13,555	14,377	16,651
Imports (USD Mn)	17,887	20,718	23,002	26,049
Current account balance (USD Mn)	1,232	-634	-908	-764
Credit to private sector adjusted for inflation (% change, end period)	-17.6	-0.2	3.2	4.3
Gross official reserves (USD Bn)	3.8	5.3	7.5	15.3
External debt (USD Bn)	53.8	55.5	57.7	65.1

Sources: Data provided by the Sri Lankan authorities; and IMF staff estimates

### Key areas highlighted by the IMF include:

- The completion and signing of a Memoranda with External Creditors
- Sustaining the reform momentum to ensure a full and swift recovery
- Reinforcing the revenue-based fiscal consolidation supported by revenue administration reforms
- Safeguard the credibility of inflation targeting regime, accumulate reserves and maintain exchange rate flexibility
- Safeguarding financial sector stability
- Creating social safety nets to safeguard the poor and vulnerable

## Industry Outlook

Successful and timely completion of the external debt restructuring programme will be crucial for the economic recovery journey of Sri Lanka. While we remain positive on the recovery, many uncertainties still remain. In the event of a derailment of the IMF process, the country may move in to a much worse position.

The Banking Soundness Index improved in 2023 supported by improved liquidity ratios which is a strength going into 2024. However, asset quality remains a concern as stage 3 loans to total advances increased. Nevertheless we expect the situation to improve with reduction in rates and improved economic conditions.

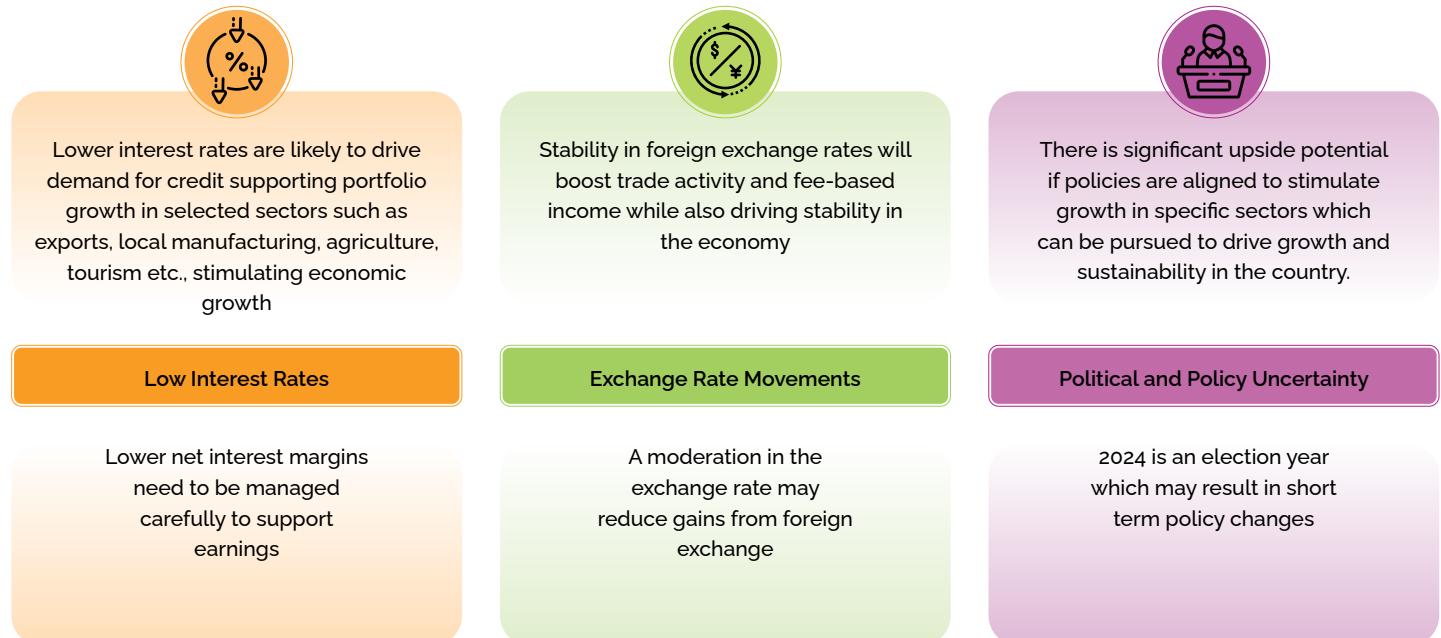
While liquidity and capital adequacy improved, sovereign exposure increased as Banks increased investments in treasury bills and bonds. Rupee government securities to liquid assets (DBUs) was 78.3 % while Sovereign exposure to total assets was 43.3%.

Expanding the loan book will be key to earnings and growth in 2024. Forecast growth in exports, tourism and worker remittance is encouraging and will be areas to pursue to drive earnings growth.

## HNB Group Plans

- The HNB Group will continue to drive credit growth in selected industry sectors, while strengthening local supply chains
- The Group will also pursue its long-term strategy as set out on page 28, tempering growth aspirations to be in line with economic conditions and the Group's strengths
- Deeper integration of environmental and social sustainability will be a key focus as this will support the country's long-term socioeconomic stability with shared prosperity

Understanding the risks and opportunities that are present in the current operating environment and identifying those that we will pursue are key to successful delivery of the Group's strategic goals.



#### Transitioning to a low carbon economy

The Group has a sizeable opportunity to align its strategy to transition the country to a low carbon economy. It is well positioned with an island wide presence and a sound digital infrastructure to encourage awareness, forge partnerships and direct investments to steer the transition in the right direction.

#### Developing MSMEs

This is an area that HNB has developed strengths in over many years. The Bank has focused on supporting their growth through access to market, capacity building and financing initiatives and is committed to growing this sector. We believe there will be opportunities through concessionary financing to provide holistic solutions for these entities that make up the backbone of our economy.

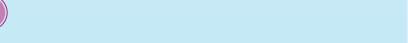
#### Food security

HNB has a sizeable agriculture portfolio encompassing all sizes of businesses and is well positioned to finance the growth of this vital sector that supports food security through targeted initiatives. The Bank is reviewing the possibilities of strengthening the country's value chains to drive the country's food security agenda forward.

# LISTENING TO STAKEHOLDERS

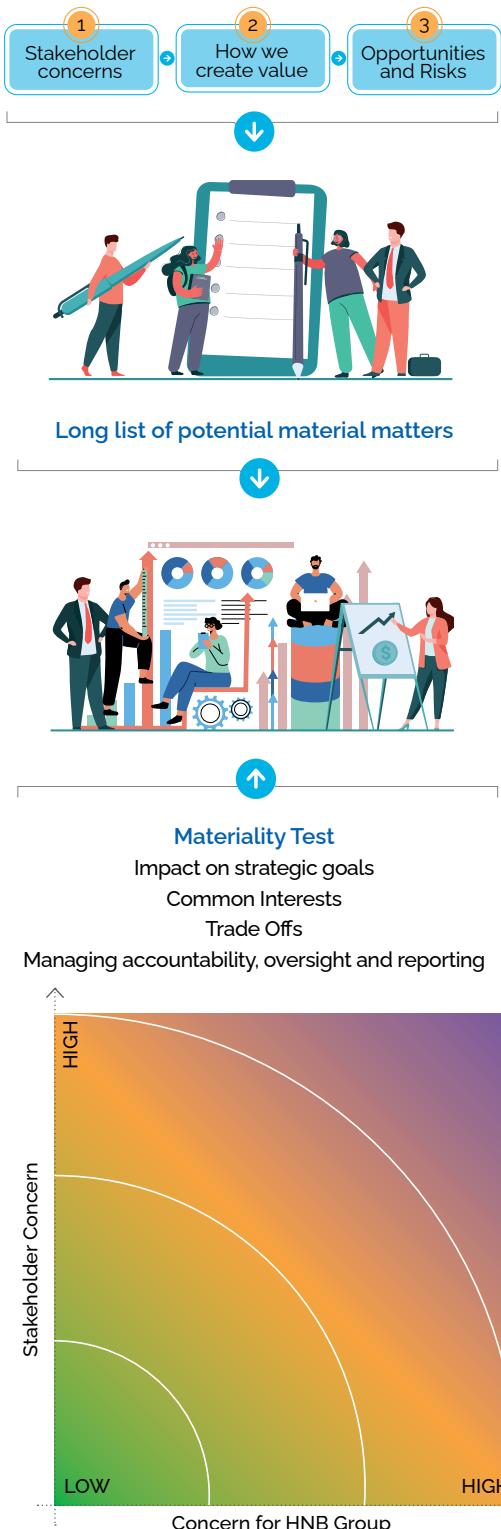
We engage extensively with our stakeholders to understand their needs and concerns, particularly over the past 4 years as paradigms changed, affecting stakeholders in different ways. The HNB Group has responded with alacrity, carefully balancing the interests of key stakeholders and business sustainability, 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	 <p>Customers</p> 	 <p>Employees</p> 
Dedicated mechanisms	<ul style="list-style-type: none"> <li>A dedicated 24x7 contact centre</li> <li>Community based activations</li> <li>On-line and in person surveys</li> </ul>	<ul style="list-style-type: none"> <li>Proactive engagement by HR</li> <li>Employee Experience Officer and other processes for communicating grievances</li> <li>Performance appraisals</li> <li>Employee townhalls</li> <li>CEO newsletters</li> <li>HATNA magazine</li> </ul>
Stakeholder concerns		
Stakeholder specific concerns	<ul style="list-style-type: none"> <li>Assistance in staying afloat</li> <li>Flexibility in repayments of loans due to economic stress</li> <li>Access to markets and opportunities for growth</li> <li>Innovative and relevant products</li> <li>Sound financial advice</li> <li>Access to finance</li> <li>Superior customer experience</li> </ul>	<ul style="list-style-type: none"> <li>Support through successive years of turmoil</li> <li>Fair remuneration and benefits</li> <li>Opportunities for growth</li> <li>Training and development</li> <li>A caring and nurturing workplace</li> <li>Health and safety</li> <li>"Just transition" to the future workplace</li> </ul>
Our response	<ul style="list-style-type: none"> <li>Increased engagement with vulnerable customers</li> <li>Establishment of Special Assistance Management Units to support customers in distress</li> <li>Flexibility in repayments where deemed appropriate</li> <li>Financial literacy and capacity building for MSMEs</li> <li>Process automation and digitisation</li> <li>Access through 254 customer centres, 799 ATMs and digital channels</li> </ul>	<ul style="list-style-type: none"> <li>Adjustments to employee salaries to cushion inflation and increased taxation</li> <li>Increased awareness of emotional and mental well-being</li> <li>Creating pathways for growth through talent fitment and succession planning</li> <li>Structured management development programmes</li> </ul>
Link to strategy		
More information	Business line reviews on pages 32 to 44	Human capital report on page 56

Investors	Government and Regulators	Business Partners	Community
 <b>Investors</b>	 <b>Government and Regulators</b>	 <b>Business Partners</b>	 <b>Community</b>
 <ul style="list-style-type: none"> <li>Annual General Meeting</li> <li>Annual Report</li> <li>Quarterly financial statements and press releases</li> <li>Announcements through the Colombo Stock Exchange</li> <li>Dedicated investor relations webpage</li> <li>Quarterly webinar</li> <li>Investor relations meetings and roadshows</li> </ul>	 <ul style="list-style-type: none"> <li>Continuous engagement with regulators at senior levels of the Group</li> <li>Timely regulatory reporting</li> <li>Access to information</li> <li>Responses to queries and reviews carried out</li> </ul>	 <ul style="list-style-type: none"> <li>Supplier registration process</li> <li>Request for proposals</li> <li>Feedback where relevant</li> </ul>	 <ul style="list-style-type: none"> <li>Community activities</li> <li>Island-wide presence to facilitate last mile delivery of financial services</li> <li>Grievance hotlines or email addresses</li> </ul>
 <ul style="list-style-type: none"> <li>Stable financial performance</li> <li>Dividends</li> <li>Share price and liquidity</li> <li>Timely communication of price sensitive information</li> <li>Upholding principles of democracy at AGM and shareholder rights</li> </ul>	 <ul style="list-style-type: none"> <li>Contributing to resolution of multiple crises</li> <li>Stability of the financial sector</li> <li>Effective implementation of new directions and regulations</li> <li>Partnering sustainable development initiatives of the government</li> <li>Timely statutory reporting</li> </ul>	 <ul style="list-style-type: none"> <li>Opportunities to grow</li> <li>Fair terms of trade</li> <li>Timely payments</li> <li>Constructive feedback to improve</li> </ul>	 <ul style="list-style-type: none"> <li>Financial inclusion</li> <li>Partnering sustainable development</li> <li>Strategic CSR</li> <li>Access to affordable financial services and products</li> <li>Environmental and social responsibility</li> <li>Job opportunities and youth empowerment</li> </ul>
 <ul style="list-style-type: none"> <li>Timely reporting of performance and price sensitive information</li> <li>Increased emphasis on risk, capital and liquidity management</li> <li>Increased rigour of performance oversight</li> <li>Aligning strategy to country's development plans</li> </ul>	 <ul style="list-style-type: none"> <li>Supporting government agenda for recovery</li> <li>Maintaining sound liquidity and capital buffers</li> <li>Aligning strategy to the sustainable development needs of the country</li> <li>Effective implementation of directions issued to curtail the crises</li> </ul>	 <ul style="list-style-type: none"> <li>E-procurement system strengthening transparency in procurement processes</li> <li>Increased number of collaborations, particularly on fintech</li> </ul>	 <ul style="list-style-type: none"> <li>Broad MSME development initiatives</li> <li>Financial literacy and capacity building activities</li> <li>Strategic philanthropy for health and education</li> <li>Extensive physical and digital presence</li> <li>Voluntary drives by employees to support community needs</li> <li>School banking units offering financial education</li> </ul>
<p>CEO's and Chairperson's messages on pages 14 and 10</p>	<p>CEO's and Chairperson's messages on pages 14 and 10</p>	<p>Social and relationship capital on page 64</p>	<p>Social and relationship capital on page 64</p>

# DETERMINING MATERIALITY

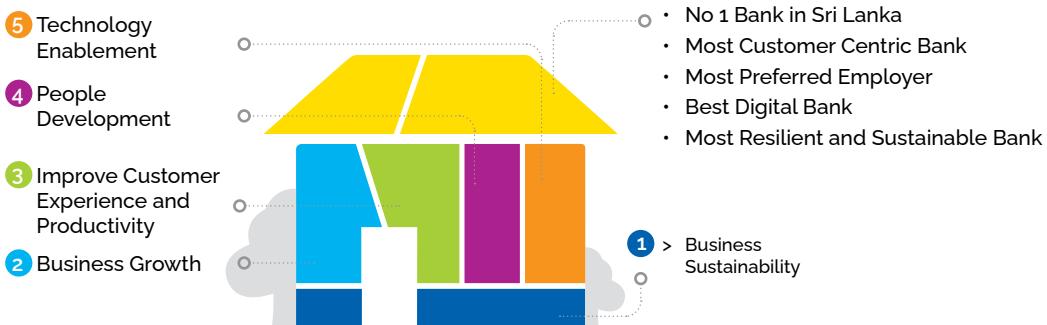
Material matters set out here reflect the Board's priorities within the operating context, progress made in the second half and residual uncertainties.



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

Our long-term strategy is designed to deliver value to all stakeholders while pursuing corporate goals of achieving excellence in key areas. The Board continues to monitor progress and review the need to recalibrate or change direction. The progress made during the year are as set out below.



## Business Growth

### Objective:

To be the No.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

### 2023 Score:

	2022	2023
Group profits	Rs 15.7 Bn	Rs 23.6 Bn
ROE	9%	12%
Deposit growth	30%	12%

- Lending to priority sectors of the economy
- Rupee loan book grew by 6.4% during the second half

### 2024 Plans:

- Support key sectors in the economy
- Drive CASA growth
- Optimising group returns

### Stakeholders Impacted:



### Capitals Impacted:



## Improve Customer Experience and Productivity

### Objective:

To be the most customer centric bank in Sri Lanka

### Medium Term Goals:

NPS > 65%

Cost to income < 30%

### Alignment to SDG Targets:

8.2, 17.8

### 2023 Score:

	2022	2023
NPS	56%	59%
CSAT	90%	87%
Cost to income	22%	30%

- Launch of robotic process automation
- Implementing Customer 360

### 2024 Plans:

- Implementing queue management at selected branches
- Productivity gains through process improvements
- Automation
- Customer relationship management

### Stakeholders Impacted:



### Capitals Impacted:



## Business Sustainability

Business Sustainability covers Sustainability, Governance and Risk Management. It is aligned to the following SDG's with each pillar clearly aligned to a specific target.

### Objective:

To be the most resilient and sustainable bank

### Medium Term Goals:

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

### 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

### 2023 Score:

- Best corporate citizen in Sri Lanka
- Net stage 3 ratio : 3.8% ; Stage 3 provision coverage ratio : 57.5%
- LAR : 48.17% ; LCR > 450% against 20% and 100%
- CAR : Tier 1 > 13% ; Total > 17% against 9.5% and 13.5%

### 2024 Plans:

- Enhance governance structures
- Strong risk management
- Liquidity, asset quality, capital management
- Manage impact on society and environment



## People Development

### Objective:

To be the most preferred employer

### Medium Term Goals:

Employee engagement score > 70%

### Alignment to SDG Targets:

5.1, 8.5

### 2023 Score:

	2022	2023
Retention	90%	92%
Training hours per employee	24 Hours	38 Hours
Employee engagement score (GPTW score)	58%	64%

### 2024 Plans:

- Organisational design
- Retention and rewards
- Employee engagement and wellness
- Succession planning

### Stakeholders Impacted:



### Capitals Impacted:



## Technology Enablement

### Objective:

To be the best digital bank in Sri Lanka

### Medium Term Goals:

Additional income Rs 4.0 Bn by 2026

### Alignment to SDG Targets:

8.2, 17.8

### 2023 Score:

	2022	2023
Growth in digital transaction volumes	116%	60%
Total digital users	685k	1,007k
Increase in digital revenues	53%	39%

### 2024 Plans:

- Drive digital adoption across all segments
- Data and analytics
- Stabilise core systems/develop enabling systems

### Stakeholders Impacted:



### Capitals Impacted:



# HOW WE CREATE VALUE: BUILDING AND NURTURING INCLUSIVE FINANCIAL ECOSYSTEMS



## Vision:

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



## Mission:

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

### Inputs



#### Social and Relationship Capital

Page 64

Relationships underpin our success



#### Human Capital

Page 56

The HATNA team

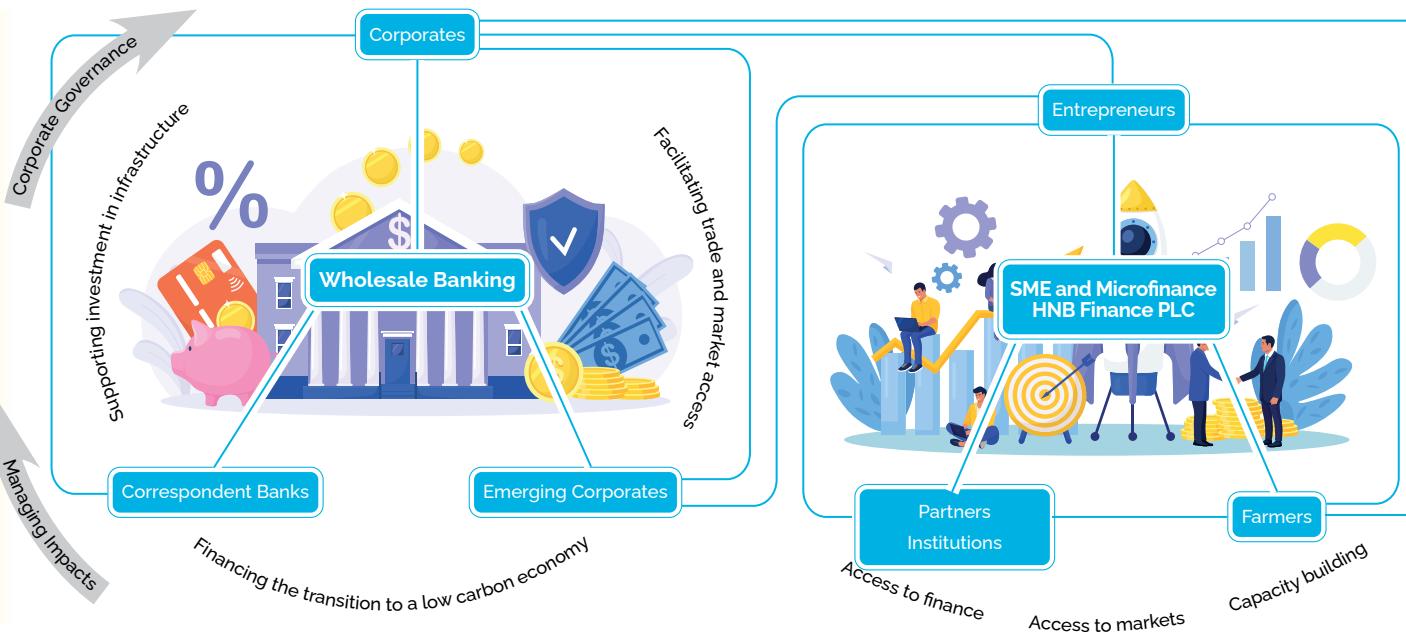


#### Financial Capital

Page 45

Financial assets, liabilities and equity

### How we create value



### Output



#### Social and Relationship Capital

- Over **200k** customers acquired
- Acquired **28** business partners in housing and leasing
- Retained correspondent banks despite crisis



#### Human Capital

- 1,146** New recruits
- Investment in training **Rs 84.8 Mn**
- Personnel expenses **Rs 20.9 Bn**



#### Financial Capital

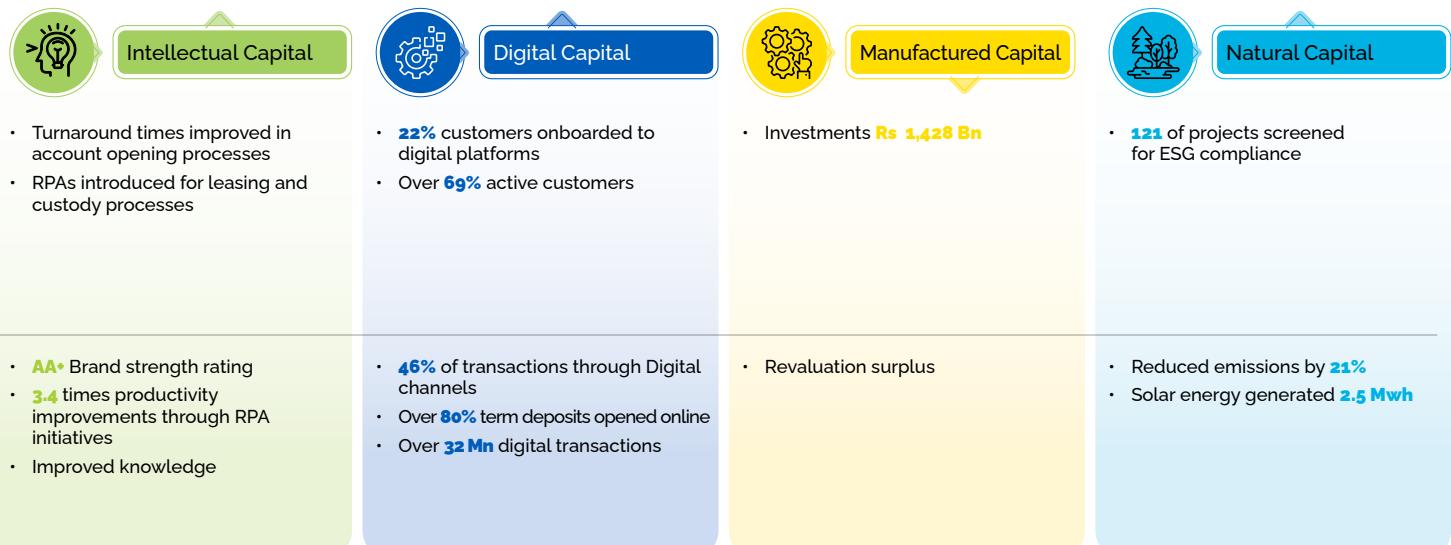
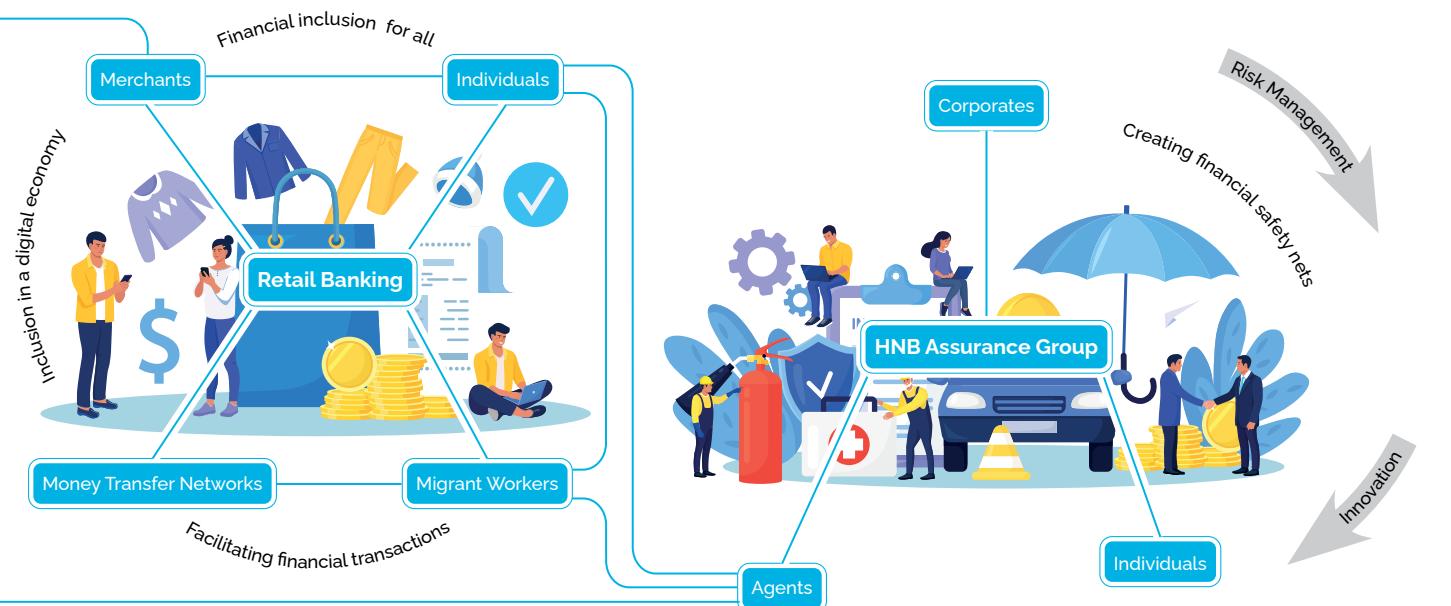
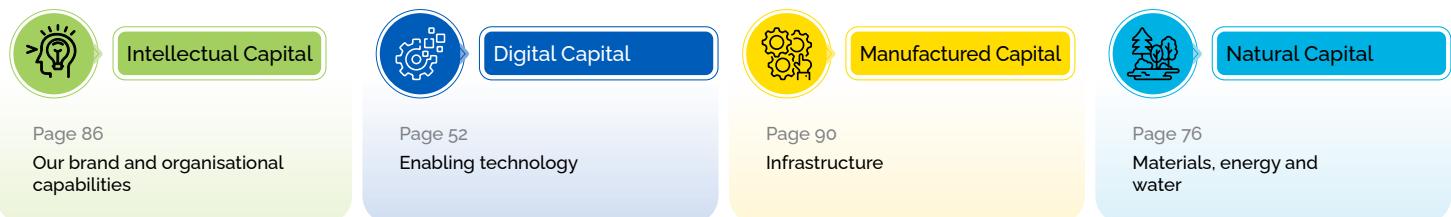
- Rs 1,609.2 Bn** Deposits mobilised
- Rs 1,081 Bn** Disbursed in loans
- 1,193** New housing loans
- 46,251** Loans to MSMEs
- Rs 4.5 Bn** Total dividends paid to shareholders
- Rs 27.2 Bn** paid as taxation

### Outcomes

- NPS at **59%**
- Deeper relationships

- Employee engagement score **at 64%**
- 820** Promotions

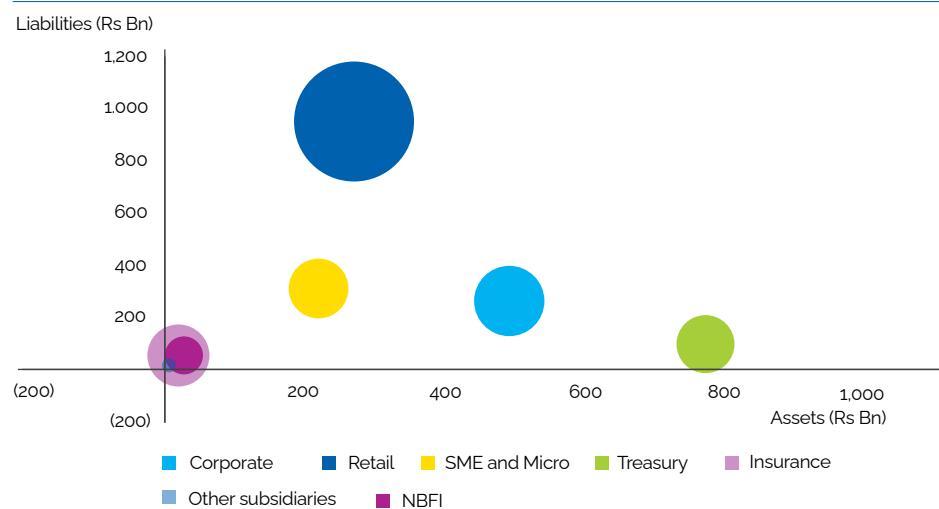
Profit After Tax grew by **45.0%** to **Rs 20.4 Bn**  
 Earnings per share improved by **45.0%** to **Rs 36.36**  
 Net Assets per share improved by **15.8%** to **Rs 379.18**  
 Dividend per share of **Rs 8.00**



## BUSINESS LINE REVIEW

- ⊕ This is a summarised view of the business lines fully aligned to the segmental reporting note on pages 408 and 409 which is part of the audited financial statements. Retail banking, Corporate banking and SME were the top 3 performers in Bank operations with improved NII, fees and commission income and reduced impairment charges. Insurance was the largest contributor from the subsidiaries recording gross written premium growth outpacing the industry in both Life and General Insurance for two consecutive years.

Overview of Segments



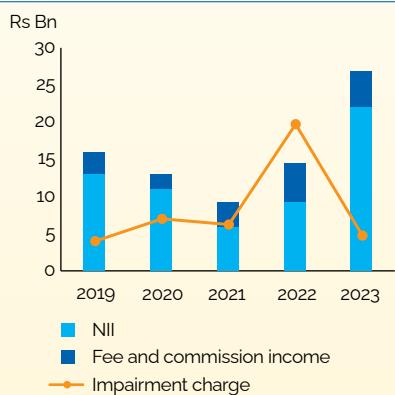
This graph highlights the contribution made to Total Operating Income by each business segment in relation to the funds mobilised to finance the activities of the Group (liabilities) and allocation of funds among them.

## Wholesale Banking

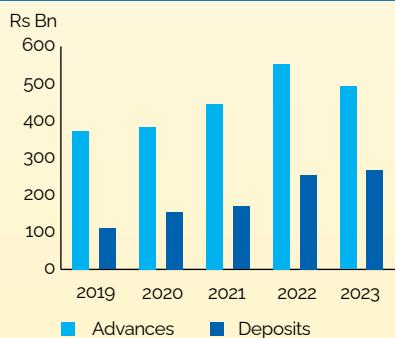
### Highlights 2023

- Strong growth in export market share
- Launch of Payment and Cash Management solution
- One of the first banks to obtain Authorised Person license to operate in the Colombo Port City

### Earnings



### Portfolio



### Core offering

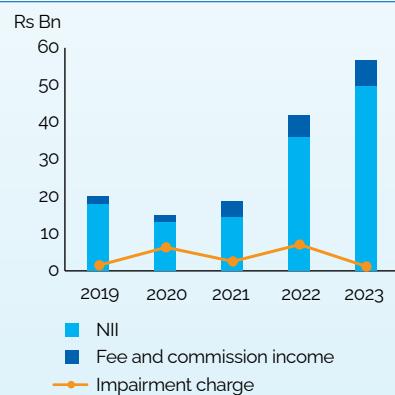
- Working capital
- Term loans
- Trade finance
- Project finance
- Payments and cash management
- Islamic banking
- Custodian and trustee services
- Treasury products

## Retail Banking

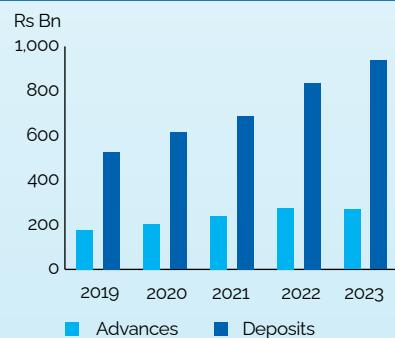
### Highlights 2023

- Growth supported by strong deposit mobilisation, cards and pawning
- HNB Solo, internet banking and an unrivalled merchant network supports a strong customer value proposition, propelling our growth

### Earnings



### Portfolio



### Core offering

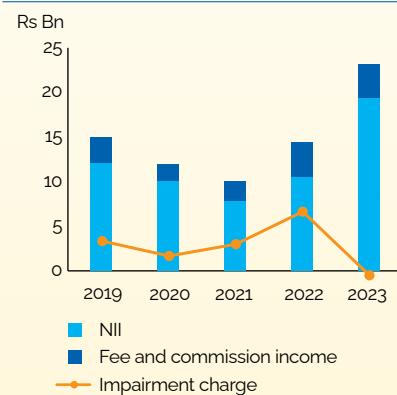
- Savings and current accounts
- Personal loans
- Housing loans
- Cards
- Leasing
- Pawning
- Remittances
- Private banking
- Minor savings

## SME

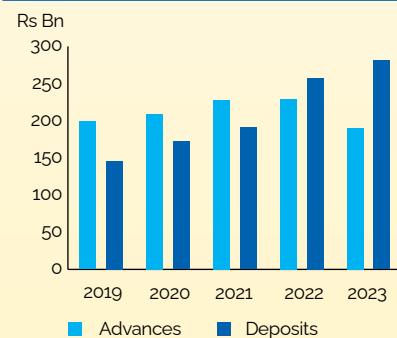
### Highlights 2023

- Supporting business revival
- Leveraging partnership with foreign partners such as USAID
- Integrating sustainability into lending through training of branch relationship managers and ESMS
- Expansion of supply chain financing

### Earnings



### Portfolio



### Core offering

- Working capital
- Term loans
- Business card
- Insurance
- Digital banking
- Digital payment solutions
- E-commerce solutions
- ERP solutions
- Equity partners

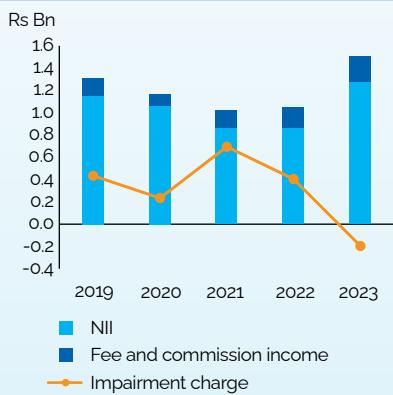
# BUSINESS LINE REVIEW

## Microfinance

### Highlights 2023

- Strong deposit growth
- Partnered with Sri Lanka Agripreneurs' Forum to introduce new technology to farmers
- Conducted 71 capacity building programmes benefiting over 3,800 customers

### Earnings



### Portfolio



### Core offering

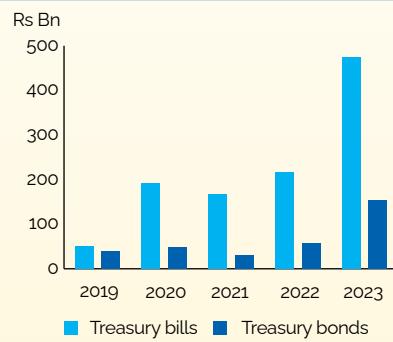
- Micro lending
- Agriculture loans
- Entrepreneur capacity development programmes
- Micro insurance

## Treasury

### Highlights 2023

- Continues to be one of the largest Treasuries in the country providing unparalleled services to customers
- Investments in LKR government securities grew significantly amid sluggish demand for credit.

### GOSL Investments (LKR)



### GOSL Investments (FCY)



### Core offering

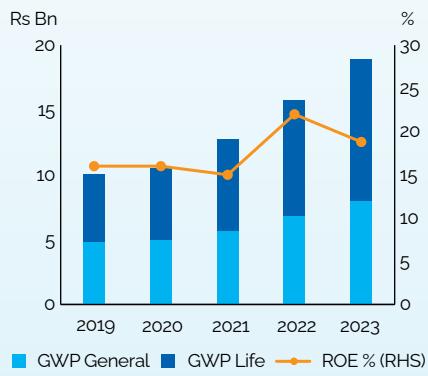
- Spot transactions
- SWAP transactions
- Repos and reverse repos
- Commercial paper
- Treasury bonds
- Treasury bills

## Insurance

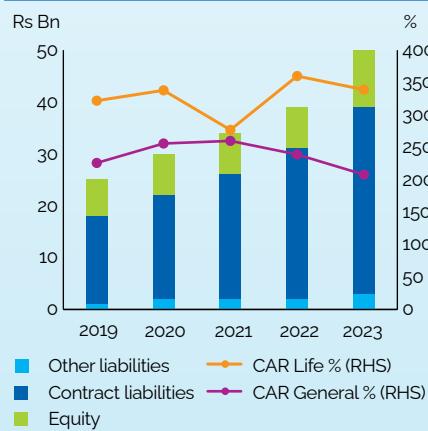
### Highlights 2023

- Growth of Life insurance GWP by 12% outpacing industry growth
- Growth of General insurance GWP by 6% also outpacing industry growth
- On track to make the quantum leap to a Tier I player in the industry

### Gross Written Premium



### Capital Adequacy Ratios and Capital Structure



### Core offering

#### - Life

- Protection
- Savings
- Health
- Retirement
- Mortgage protection
- Takaful

#### - General

- Motor
- Medical
- Fire
- Travel
- Marine
- Liability
- Cargo

## NBFI

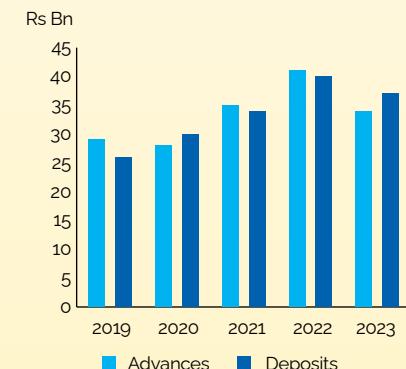
### Highlights 2023

- Listed among the top 100 most valuable consumer brands in Sri Lanka by LMD
- Launch of a new Supply Chain Financing scheme

### Earnings



### Portfolio



### Core offering

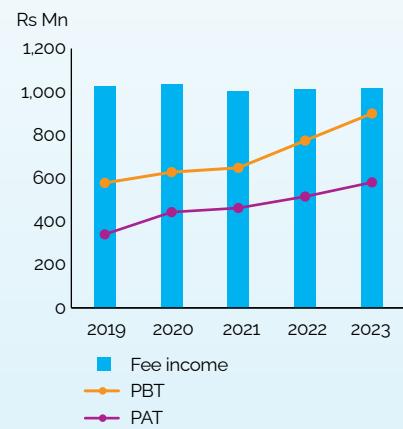
- Savings
- Fixed deposits
- Leasing
- Micro finance loans
- Pawning
- Business loan

## Real Estate

### Highlights 2023

- 21% reduction in carbon footprint
- 100% occupancy rate maintained in 2023

### Earnings



### Assets/ Liabilities



### Core offering

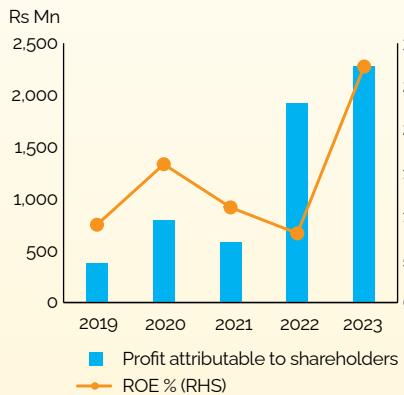
- Commercial real estate rental
- Premises management

## Investment Banking

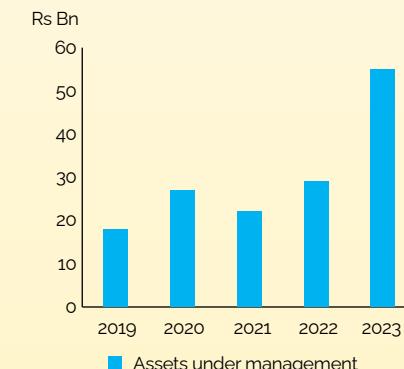
### Highlights 2023

- Raised Rs 10.0 Bn in debt capital for customers in 2023 through debentures
- Assets under management of Rs 55.0 Bn
- Further diversification of renewable energy portfolio

### Earnings



### Assets Under Management

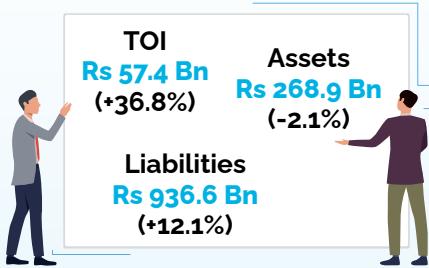


### Core offering

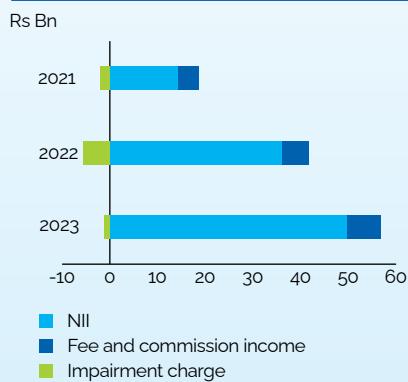
- Structured finance
- Transaction advisory
- Investment banking
- Stock brokering
- Primary dealer in GOSL securities
- Venture capital

# RETAIL BANKING

## Performance



### Earnings



### Contribution to the Group



### Key highlights

- Recognised as the Best Retail Bank in Sri Lanka for the 13th year by the Asian Banker Magazine

## Operating context

Exceptionally high interest rates, elevated inflation and the increase in income taxes continued to affect consumer spending resulting in reduced business activity during the first half of the year. However, encouraging signs of economic recovery which included moderating inflation, a more stable currency, easing of interest rates and the removal of certain import restrictions resulted in a more favourable business environment as the year drew to a close.

## Strategy and performance in 2023

Given the prevailing uncertainties in the macro-economy, the Bank maintained caution towards retail lending, leading to a 2.1% contraction in its retail portfolio. Net interest income expanded by 37.8% supported by commendable growth in Pawning and CASA. Meanwhile net fee and commission income grew 26.1% supported by the increased use of digital platforms and credit card volumes. Prioritising portfolio quality led to a 83.4% reduction in impairment charges during the year. Overall, the net operating profit of the Retail banking segment expanded by 47.8% to Rs 56.8 Bn during the year.

Strategic emphasis was placed on deposit mobilisation, leveraging an extensive array of savings and investments products designed for both children and adults. As a result, the total retail deposits reached Rs 936.6 Bn growing by 12.1% YoY.

Given the prevailing conditions in the operating environment, primary lending focus was on consolidating and preserving portfolio quality. Credit guidelines were tightened to facilitate the onboarding of credit worthy customers especially during the first half of the year. Efforts to preserve portfolio quality involved greater engagement with customers, revised repayment plans and enhancement of recovery processes. Through these efforts Bank was able to maintain the gross retail stage 3 ratio at 4.5%.

During the second half of the year, with reduction in rates, leasing market picked up and HNB's retail leasing book saw an 7.7% growth further strengthening its market

share. Demand for housing loans indicated signs of gradual recovery towards the end of the year.

Efforts were also directed towards enhancing the retail customer experience. The Customer Experience Unit implemented a retail customer survey considering a range of factors including wait times and service quality. Customer pain points identified through the survey were addressed through automation, improvements in branch layouts and multi-skilling staff.

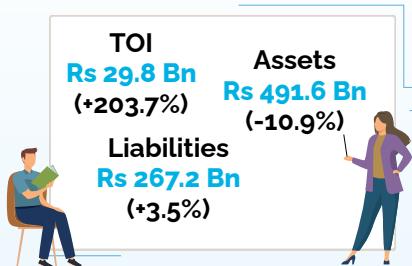
Digital platforms were enhanced enabling customers to conduct majority of their banking activities from the comfort of their homes. Additionally, our extensive 20,000+ merchant network was supported through a range of digital tools. These efforts yielded a notable 92.0% increase in digital transactions during the year.

## Outlook for 2024

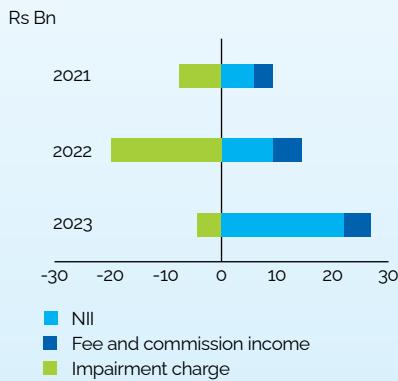
As the economy shows gradual signs of recovery, we stand poised to serve the emerging needs of our retail customers with emphasis on maintaining exceptional service quality. We will continue to enhance our digital value proposition, consolidate our position in cashless payments and pursue new collaborations and partnerships to transform the customer experience while aligning ourselves with the future landscape of banking.

# WHOLESALE BANKING

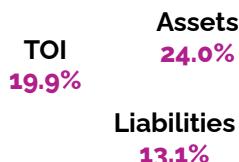
## Performance



## Earnings



## Contribution to the Group



## Key highlights

- Euromoney awards for Best Service and Market Leader in Trade Finance
- Asia Money awards for Best Service and Market Leader (Asian Banks) in Trade Finance
- ADB TSCFP awards – Winner, Trade Deal of the year
- Gold awards at Sri Lanka Islamic Banking and Finance Industry Awards for Islamic Finance Entity of the year, and Islamic Finance Window/Unit of the year
- Four gold awards at Islamic Finance Forum of South Asia including the coveted Islamic Finance Entity of the year

## Operating context

While interest rates and foreign exchange rates stabilised during the year, credit risk remained elevated. Sri Lanka's exports declined during the year while imports increased with the easing of restrictions. Dollar and rupee liquidity eased enabling Wholesale Banking to support their customers better.

## Strategy and performance in 2023

Wholesale Banking focused on de-risking the portfolio while driving growth in exports and a few other identified sectors such as energy, local manufacturing, healthcare, pharmaceutical manufacture and education. Profitability was boosted by growth of the rupee loan book and deposit growth. The decline in the overall loan book was due to the appreciation of the rupee resulting in a revaluation of the dollar denominated loans. We continued to drive down the stage 3 loans and maintain adequate provision coverage during the year.

The digital transformation gathered momentum with the roll out of the new Payments and Cash Management solution in 2Q 2023. Customer onboarding commenced in the second half of the year supporting improvements in CASA and regulatory compliance. A Customer Services Group was set up to provide operational support to corporates, paving the way for a smooth transition to digital banking.

Trade Services focused on becoming the most tech enabled local trade bank in the country, supporting its dominant position in the industry. Accordingly, RPA and AI tools were implemented to increase efficiency levels. We successfully penetrated the export market with the right products at the right price, gaining over 7.0% market share. We also formed the Trade Client Service Center, to create a centre of excellence, consolidate its position as the Best in the market.

The Financial Institutions Division established a strategic partnership with the EXIM Bank of India supporting trade opportunities between the two countries. The collaboration with the Asian Development Bank was pivotal to facilitating imports of essential goods and

our efforts were recognised with the Best Trade Deal award from ADB for supporting the import of milk powder. We continue to collaborate with foreign banks to enhance operational efficiency.

Custody and Trustee Services continue to maintain their dominant market share in Fund Services operations and is the main settlement bank for the Colombo Stock Exchange. Implementation of RPAs supported the efficiency of the business during the year.

## Outlook for 2024

Wholesale banking is positioned for growth with a full spectrum of financial, trade and digital products and a proven track record of service excellence. Strengthened recovery processes support plans for portfolio growth in selected industries. There is a significant opportunity to build strong supply chains, collaborating with other business segments to provide holistic solutions that span the entire supply chain. Onboarding customers to the convenience of digital platforms will be a priority as we pursue our aspirations to become the Best Digital Bank.

## Performance



## Earnings



## Contribution to the Group

TOI	Assets
16.1%	9.3%
Liabilities	
	13.7%

## Key highlights

- Awarded the Best SME Bank in Sri Lanka by Asia Money Magazine

## Operating context

Elevated interest rates, increased costs of essential inputs and a slowdown in consumer demand had a significant impact on the SME sector, leading to a decline in business activity while adversely impacting its repayment capability. However, favourable indicators of a gradual economic recovery which included moderating inflation, a stabilising currency and a shift towards monetary policy easing contributed to a gradual improvement in business activity and an uptick in credit demand toward the latter half of the year.

## Strategy and performance in 2023

SME loans contracted by 17.0% as at end-2023, given the decline in demand for credit and the vulnerability of the sector to adverse economic conditions. Strategic focus was directed towards business revival as opposed to aggressively pursuing loan growth. We engaged closely with those more severely impacted by the economic downturn in 2022, restructuring facilities to align with new business realities. Additionally, emphasis was placed on consolidating our presence in trade finance by onboarding several new exports and import customers.

Building our deposit base was another key strategic focus during the year. The deposit base expanded by 7.8% as at end-2023 to Rs 280.9 Bn despite intense competition.

Consequently, net interest income increased by nearly two-fold in 2023 underpinned by a strategic focus on monitoring portfolio profitability and the prevailing high interest rate environment in the first half of the year. Conscious efforts to preserve portfolio quality led to a reversal of Rs 600.0 Mn in impairment charges in 2023 compared with charge of Rs 8.0 Bn in the previous year. The higher NII and the reversal in impairment contributed to a 3.8 times expansion in SME net operating income.

Support to the SME sector during the year also encompassed the provision of funding at concessionary rates through refinance lines and subsidy schemes and intensified efforts in capacity building. This combined with our own efforts to support the sector led to the

disbursement of over Rs 5.0 Bn to SMEs. Our partnership with USAID, facilitated access to a guarantee scheme enabling loans to start-ups, high risk industries and customers without tangible collateral. The Bank also invested in the National Credit Guarantee Institution, a government initiative to drive lending to the SME sector by providing guarantees to participating financial institutions.

Expanding our sustainable financing portfolio was also a key consideration during the year and a special concessionary loan scheme was approved to drive agriculture and renewable energy sectors. Meanwhile, several capacity building programmes were conducted across all regions in collaboration with various partner organisations, focusing on expansion to export markets, providing financial and other technical skills as well as promoting women led enterprises.

## Outlook for 2024

We remain steadfast in our commitment to nurturing the growth of the SME sector, recognising its contribution towards the gradual recovery of the Country's economy. Our dedication extends to supporting the sector through various business cycles, forging new partnerships to offer affordable funding options and providing advisory services to assist customers in expanding their businesses. Emphasis will be placed on supporting businesses in the adoption of renewable energy, the agriculture and ICT sectors as well as empowering female entrepreneurs.

# MICROFINANCE

## Performance



## Operating context

The operating landscape presented substantial challenges as high interest rates and inflation during the initial half of the year, adversely impacted borrowers' repayment capacity and demand for credit. However, renewed investment in the agriculture sector, and the easing of monetary policy during the latter half of the year created a more favourable business environment for the Microfinance sector.

## Strategy and performance in 2023

The Microfinance sector delivered a robust performance despite a challenging year with loans increasing 3.7% while over 29,000 new customers onboarded as at end-2023. Growth stemmed primarily from agriculture-related lending reflecting our strategic emphasis on supporting the revival of the agriculture sector in alignment with its recognition as a national priority sector vital for driving economic recovery. A resurgence in demand for paddy related financing was noted in the North and East.

Our extensive, nationwide presence and access to concessionary funding lines underpinned our ability to identify and capitalise on demand at the grassroots level. Leveraging the New Comprehensive Rural Credit (NCRC) scheme provided by the CBSL, we provided financing to farmers at concessionary interest rates, making it feasible for them to secure funding in a high interest rate environment. However, this, alongside a robust 72.1% growth in the deposit base in a high interest rate environment led to a 47.0% expansion in net interest income in 2023. Meanwhile, emphasis on grassroots-level cross-selling initiatives led to a notable 24.1% expansion in net fee and commission income supported by growth in digital and insurance income.

Emphasis on preserving asset quality played a vital role in maintaining gross stage 3 loan ratio at 10.4% despite the sector's inherent vulnerability to economic shocks. We conducted 91 recovery camps at branches, enabling one-to-one engagement with customers facing repayment strain to develop a customised repayment plan. Our focused efforts on recoveries also resulted in the recovery of several loans previously

considered non-recoverable. Overall, these initiatives led to an impairment reversal in 2023, contributing to an 161.7% expansion in net operating income during the same period.

Our initiatives to foster the growth of the microfinance sector also included capacity building programmes and the facilitation of market linkages. We conducted 71 capacity building programmes aimed at enhancing financial literacy with a specific focus on cash management. These programmes were well received attracting the participation of over 3,800 customers. Furthermore, we organised an 'Avurudu Pola', providing a platform for microfinance customers to access new markets. This event featured stalls set up by over 120 microfinance customers attracting a crowd of over 25,000 visitors.

'Solo Podi Podi business' initiative, continued during the year to support the growth of micro businesses by encouraging the adoption of digital cashless transactions with customers. This initiative involved offering physical space within HNB customer centres for these businesses to showcase and sell their products to walk-in customers, enabling contactless payments and supporting the expansion of these businesses.

In alignment with the increased focus on agriculture, the sector forged a partnership with Sri Lanka Agripreneurs' Forum (SLAF) to enhance support to farmers by facilitating access to new technology and markets. The sector also sought to upskill its staff in agriculture-related skills, through focused training to enhance support for customers in this sector.

## Outlook for 2024

Microfinance will continue to be a priority for the Bank, allowing us to positively impact the communities we operate in, by enhancing financial inclusivity and supporting livelihoods. We will continue to explore new opportunities to expand our value chain proposition while maintaining support for the agriculture sector. We will also focus on forging new partnerships to access low-cost funding while leveraging existing ones, particularly with the Sri Lanka Agripreneurs' Forum (SLAF) to introduce new technology to farmers and improve their market access.

## Key highlights

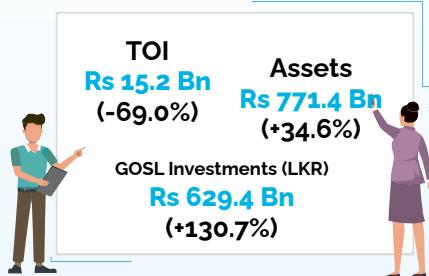
- Supported businesses revival
- Solo Podi Podi Business and Avurudu Pola to provide access to market
- Capacity building programmes across the country

## Contribution to the Group

<b>TOI</b>	<b>1.0%</b>
<b>Assets</b>	<b>1.3%</b>
<b>Liabilities</b>	<b>1.3%</b>

# TREASURY

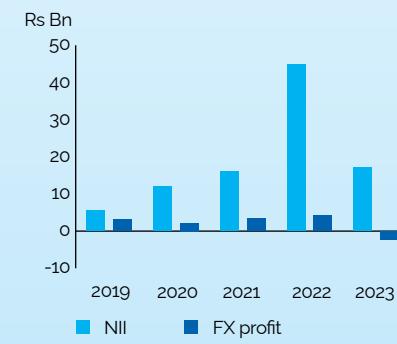
## Performance



## Earnings



## NII and FX profit



## Contribution to the Group

<b>TOI</b>	<b>Assets</b>
<b>10.2%</b>	<b>37.7%</b>
<b>Liabilities</b>	
<b>4.2%</b>	

## Operating context

Significant uncertainty posed challenges to both the Bank and businesses in the first half of the year impacting business volumes. The uptick in tourism and worker remittances as well as funding from multilateral agencies eased pressure on the exchange rate and resulted in relaxation of import controls. Combating inflation provided much needed head room to ease the high interest rates during the latter half of the year. The domestic debt restructuring was concluded with no impact to the banking sector. Accordingly, there was positive growth in demand during the second half of the year. While significant concerns remain as the foreign debt restructuring is yet to be finalised and the country rating is still at default, the signs of recovery are encouraging.

Despite the increase in treasury investments, the treasury NII indicated a drop, as the Bank changed the internal fund transfer pricing methodology to incentivise business segments to drive growth.

As the dollar liquidity and the swap market activity improved during the year, the swap volumes also saw an increase, resulting in a higher swap cost for 2023. Therefore despite making a foreign exchange gain through transactions, the treasury recorded an exchange loss of Rs 2.3Bn for the year compared to the FX income of Rs 4.2Bn in the previous year.

Having provided 35.0% for impairment against the investments in foreign currency denominated government securities in the previous year, the Bank made a further provision of Rs 38.0 Bn in 2023 on a prudent basis.

## Strategy and performance in 2023

The core strategy was to maintain rupee and foreign exchange liquidity to ensure public confidence amidst significant uncertainty. It was necessary to maximise yields within these constraints to build resilience against potential provisions that maybe necessitated by the foreign debt restructuring.

HNB's Treasury is one of the largest in the country and a market maker with a team of highly skilled professionals who offer specialised advice to customers on structuring their commercial transactions. State of the art systems, robust systems and controls and a wide network of correspondent banks support the treasury function. Relatively subdued levels of transactions enabled capacity building during the year, strengthening capabilities.

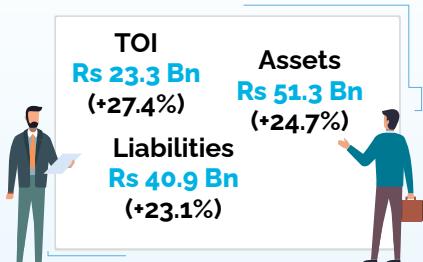
The Treasury remained largely on short term instruments optimising yields while staying liquid. The Bank's portfolio of GOSL securities increased by 34.6% with Treasury bill portfolio growing by 119.1% to Rs 474.4 Bn and treasury bond portfolio growing by 172.2% to Rs 153.4 Bn.

## Outlook for 2024

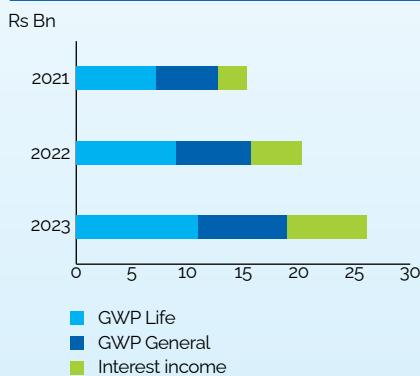
The gradual uptick and optimism observed in the second half is expected to continue into 2024. Increased revenue from tourism and remittances are expected to bolster foreign exchange reserves. While exports remain a concern, finalisation of the foreign debt restructure is expected to further stabilise the economy, paving the way for growth.

# INSURANCE

## Performance



### GWP and Interest Income



### Contribution to the Group

<b>TOI</b>	<b>15.5%</b>
<b>Assets</b>	<b>2.5%</b>
<b>Liabilities</b>	<b>2.5%</b>

### Key highlights

- Best Life Insurance Company
  - Best Bancassurance Provider
  - Most Customer Centric General Insurance Brand
  - Recognised as one of the most outstanding Women Friendly Workplaces
- HNB General Insurance also recorded a stellar performance with GWP recording 17.8% growth to Rs 8.0 Bn which in comparison to the current industry growth rate at 5.6% reflects a 3-time increase despite the challenges. Importantly, HNBGI succeeded in diversification of its revenue, curtailing dependency on motor and concentrating on non-motor revenue by maintaining motor non-motor mix at 56.2% and 43.8%. Customer retention rates were above 84.0% reflecting consistent improvement in NPS scores and recognition as the Most Loved Brand by LMD and the Most Customer Centric insurance brand in Sri Lanka by the Global Brands Magazine.

## Operating context

The insurance penetration rate in Sri Lanka stands at a mere 1.0%, a figure notably lower when compared with international insurance markets. This discrepancy underscores a substantial untapped growth potential within the industry supported by increasing awareness about the need for financial safety nets at all income levels. Industry growth of 12.0% and 5.6% for Life and General Insurance reflect both the market potential and the decline in disposable income which posed a challenge during the year.

approaches. Improved turnaround times and customer convenience has supported customer retention while initiatives such as virtual branches and paperless processes have contributed to curtailing costs.

The HNBA Group recorded GWP growth of 20.0% to Rs 18.8 Bn reflecting the focused implementation of strategy to become a Tier I player by 2026, harnessing the power of its networks. Adroit investment strategies supported an increase of 59.1% in interest and dividend income to Rs 7.2 Bn despite the declining trend in interest rates. Accordingly, HNBA Group recorded a Net Income of Rs 23.3 Bn, an increase of 27.4% over 2022. Higher costs of claims continue to be a concern. Increased costs in these key areas as well as overall cost increased damped profitability, resulting in a decrease of 3.6% in Profit After Tax of Rs 1.8 Bn.

Total Assets increased by 24.7% to Rs 51.3 Bn reflecting the progress made in aggressively growing the two business portfolios. Contract liabilities for Life increased by 25.9% to Rs 30.9 Bn as Life business grew significantly. Equity increased by 31.8% to Rs 10.3 Bn affirming a sound balance sheet with ratings of A- (lka) by Fitch Rating for both companies.

## Outlook for 2024

HNBA proved indomitable in its pursuit of sustainable growth in its Life and General Insurance business and is on track to deliver its aspirations to become a Tier I player by 2026. Prudent risk management continues to anchor growth while capacity building of its expanded sales force propels its growth.

The technology transformation of the Group has enabled improved insights into stakeholder behaviour and concerns, enabling it to focus effort in pursuing lucrative segments with highly customised

# FINANCE

## Performance



## Operating context

The operating landscape continued to prove challenging as substantial economic uncertainties prevailed, especially during the initial half of the year. Considering the inherent vulnerabilities of our customer base to economic downturns, our clientele was particularly affected by elevated inflation and high interest rates. However, we remained resilient amid the prevailing conditions, focusing internally on streamlining processes and consolidating our financial position, preparing to seize emerging opportunities as economic activity gradually picked up.

Overall, the profit after tax of HNB Finance expanded 253.3% to Rs 281.0 Mn, underpinned by a decline in the cost of funding and prudent management.

## Outlook for 2024

Having successfully addressed the financial position during 2023, HNB Finance is now better positioned to pursue balanced growth in the coming year. Strategy going forward involves diversifying the microfinancing model and moving in to other areas of opportunity in order to balance credit risk. Cross-selling and sustainable financing opportunities will be explored while maintaining the commitment to continually support micro-entrepreneurs through capacity-building initiatives.

## Strategy and performance in 2023

Following the loss recorded in 2022, HNB Finance's strategic priorities shifted during the year to three key focus areas: managing cost of funding, intensifying recovery efforts, and consolidating and realigning its lending portfolio.

The company's loan book contracted 17.4% as at end-December 2023, reflective of its strategic shift towards consolidating its portfolio as opposed to pursuing growth. Considering the increased pressure on repayment capacity of customers, the company consciously moderated microfinance lending while placing greater focus on leasing.

Conscious efforts were made to strengthen underwriting of new credit, which included refining policies and procedures, incorporating more stringent credit evaluation processes while pursuing aggressive recovery strategies.

Strategic focus on managing cost of funding also proved favourable during the year. Efforts to pare down high-cost fixed deposits combined with a decline in interest rates toward the latter part of the year contributed to a 65.5% increase in net interest income. Consequently, the company's deposit base contracted by 6.2% to Rs 37.5 Bn as at end-2023, as the company consciously let go of some of the large deposits at very high rates.

## Contribution to the Group

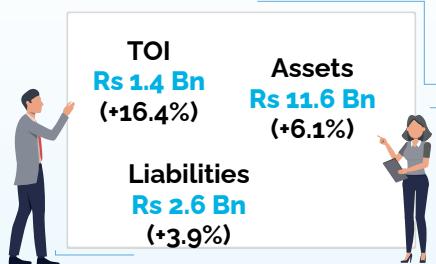
TOI	Assets
<b>4.7%</b>	<b>2.4%</b>
Liabilities	
<b>2.4%</b>	

## Key highlights

- Bronze award at the TAGS awards 2023 conducted by CA Sri Lanka, in the NBFI category
- Merit Award at CMA Excellence in Integrated Reporting awards 2023
- Collaboration with Auto Miraj to benefit leasing customers

# REAL ESTATE

## Performance



### Rental and Investment Income



## Operating context

The commercial space industry faced subdued demand as the slowdown in economic activity, higher costs and the limited availability of fittings due to import restrictions hampered businesses' expansion strategies. Moreover, an excess supply of premium commercial space in the prevailing macroeconomic environment further impacted the growth potential of the commercial space market.

## Strategy and performance in 2023

Despite the slowdown in economic activity during 2023, Sithma recorded a favourable performance, with a 12.4% expansion in rental income and a 16.4% increase in net operating income. Improved performance was driven by the denomination of rental rates in US dollars in line with industry practice and the upward revision in rental rates. Sithma's ability to raise rental rates despite market conditions is underscored by its commitment to creating value for its tenants through regular maintenance and facility enhancements. However, Sithma was not immune to rising costs, notably electricity tariffs which increased 30.0% during the year, resulted in a considerable increase in operating expenses.

## Contribution to the Group

<b>TOI</b>	<b>Assets</b>
0.9%	0.6%
<b>Liabilities</b>	<b>0.6%</b>

## Key highlights

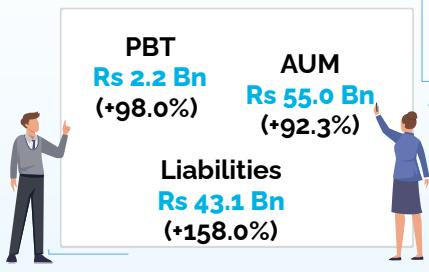
- 21% reduction in carbon footprint
- 100% occupancy rate maintained in 2023

## Outlook for 2024

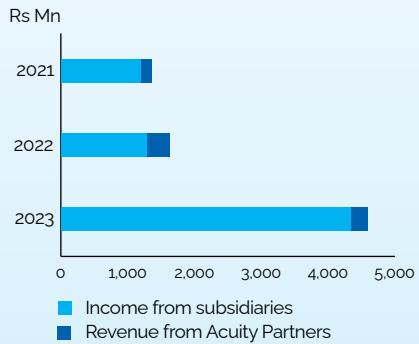
The rise in costs associated with maintaining physical spaces is likely to drive businesses to explore new ways of working including remote work, hot desks and hybrid models. While this shift may impact demand, the surplus of premium office spaces is likely to exert pressure on rental rates. Considering this, we believe it is imperative that we continue to invest in enhancing the tenant experience. This entails investing in solutions that enable the cost-effective maintenance of physical spaces for businesses and smart solutions that facilitate new work methods, thus aligning ourselves with the evolving needs of our customers while shaping the office spaces of the future.

# INVESTMENT BANKING

## Performance



### Revenue from Acuity Partners and Subsidiaries



### Key highlights

- Ranked as the Most Respected Investment Bank by the LMD
- Recognised as one of the TOP 100 Brands in Sri Lanka by Brand Finance for the 2nd consecutive year

## Operating context

The uncertainty that prevailed during the year affected our diverse portfolio of businesses in different ways. The primary dealership benefited from the sharp decline in interest rates from the abnormally high rates in the previous year. The benchmark ASPI moved up as the economy stabilised although the market is yet to regain its former buoyancy due to a fragile economic recovery and a cautious approach to investing by foreign institutional investors. Economic challenges in Bangladesh and Nepal led to a weakening of these currencies which had a significant impact on the energy investments in these countries by Lanka Ventures.

## Outlook for 2024

We are cautiously optimistic that the bourse will regain some of its buoyancy in the year ahead, supporting reactivation of deal flows and trading volumes. We maintain a sense of optimism amidst uncertainty and continue to seek new opportunities with emphasis on those that will support the transition of the country to a low carbon economy.

## Strategy and performance in 2023

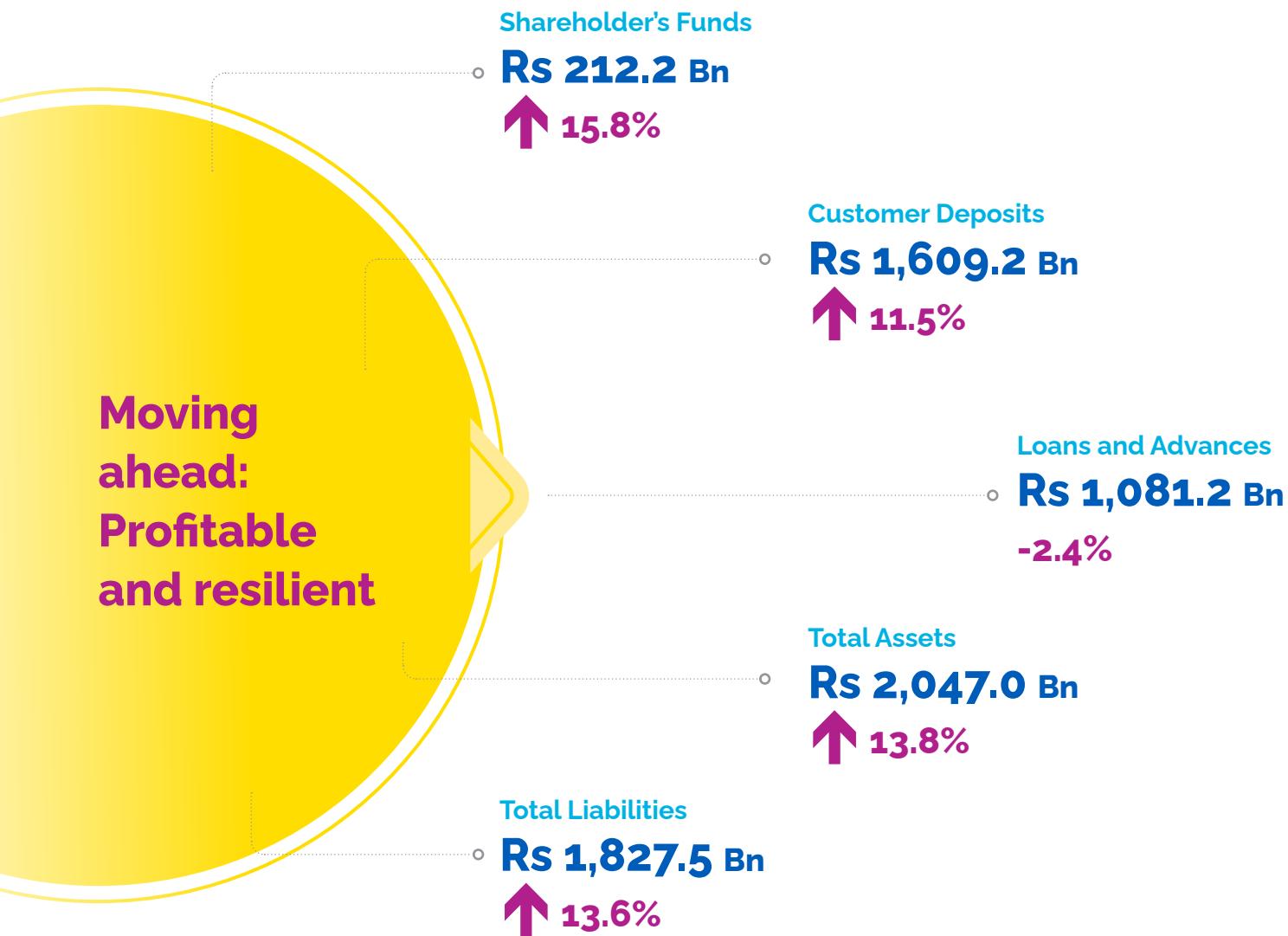
Acuity recorded the best performance in its history with a PAT of Rs 2.0 Bn supported by the strong performance of its primary dealership, Acuity Securities. A portfolio of high yield securities enabled this company to record capital gains in an extraordinary year when interest rates declined sharply. This reflects the expertise built within the company to strategically position itself to capitalise on potential market movements.

Acuity Stockbrokers turned in a profit despite the relatively thin trading volumes as the ASPI moved up in the first 7 months and fluctuated within a narrow band thereafter. It proved to be a quiet year for the Corporate Finance team as low market valuations resulted in deferred deal flows. The value of their expertise was recognised in the market as they were ranked as the most respected Investment Bank in Sri Lanka by LMD in 2023 and were included among Sri Lanka's Top 100 Brands by Brand Finance for the 2nd consecutive year.

The energy portfolio of Lanka Ventures gave rise to losses due to a sharp decline of currencies in Bangladesh and Nepal. While the portfolio of renewable energy in Sri Lanka performed well, particularly in the first half of the year, it was insufficient to cover the losses in Bangladesh and Nepal.

## FINANCIAL CAPITAL: PROFITABLE GROWTH

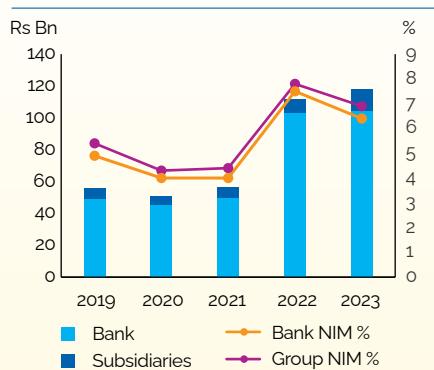
→ The performance in 2023 is testimony to the resilience of the Bank which was reinvigorated by the people, process, brand and technology transformation that was undertaken over the last few years. The financial capital review sets out the Group's management of this key resources to gain market share and demonstrate strength and stability.



# FINANCIAL CAPITAL: PROFITABLE GROWTH

## Earnings

### Net Interest Income



Policy rates declined by 550 basis points during the second half of the year, leading to a drop of nearly 1500bps in the average weighted prime lending rate. However, NIMs were largely cushioned during the year due to the lag effects, with NII increasing by 5.8% to Rs 118.1Bn at the Group level. However this will be a concern in the year ahead.

### Net Interest Income (NII)

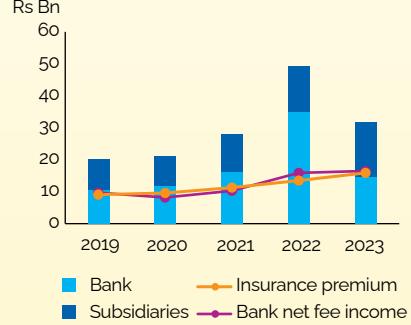
**Rs 118.1 Bn**

**↑ 5.8%**



### Non Interest Income

#### Non Interest Income



Growth in Net Fee and Commission Income of 4.2% was boosted mainly by digital revenues and increased card volumes. This reflects the impact of the technology transformation and successful on-boarding of customers to multiple digital platforms.

Non Interest Income was impacted due to the exchange loss of Rs 2.3 Bn compared to the exchange gain Rs 19.1 Bn in 2022. This was largely due to the higher swap volumes with the improvement in foreign currency liquidity and the revaluation of on-balance sheet assets, as the rupee appreciated by approximately 12% in 2023 as opposed to the significant devaluation of nearly 80% experienced in 2022.

The strong growth in Gross Written Premiums in both Life and General Insurance businesses which outpaced the industry growth supported the Non Interest Income.

**-36.3%**



### Total Operating Income

#### Total Operating Income



The impact of the rupee appreciation resulted in a decline of 7.1% in Total Operating Income to Rs 149.5 Bn for the year 2023. The Bank accounted for approximately 80% of the Total Operating Income of the Group.

**Rs 149.5 Bn**

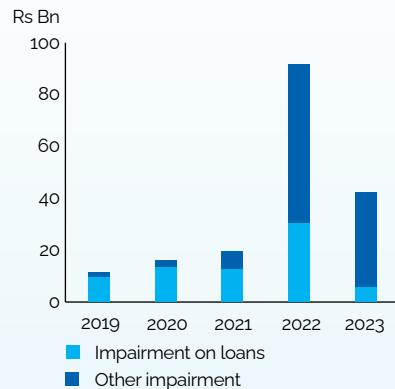
**-7.1%**



## Total Operating Income

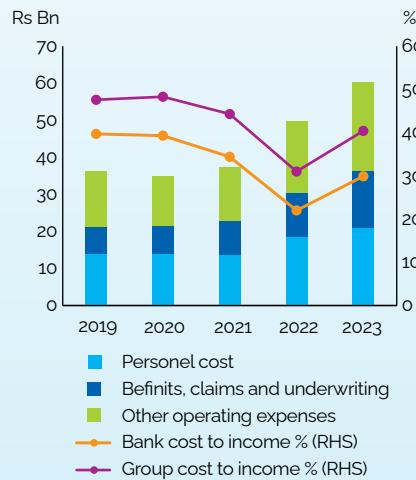
### Impairment Charges

Having provided Rs 73.4 Bn on investments in international sovereign bonds up to 2022, the Bank increased its impairment cover up to 52% from 35% on a prudent basis, with an additional provision of Rs 38.0 Bn during the year. With economic conditions improving especially during the second half, asset quality which has been under pressure indicated signs of recovery. Nevertheless the Bank continues to maintain a prudent approach to provisioning due to the relatively high levels of uncertainty that prevails with the global and local economy, maintaining its Stage 3 provision cover at 57.5% at a Bank level, well above the industry.



### Operating Expenses

Personnel expenses increased by 13.2% due to necessary increases in salaries. Other expenses increased by 23.6% at a Group level, reflecting the impact of inflationary pressures which masked the significant cost management initiatives. Additionally, cost of insurance claims increased by 29.9% as healthcare costs and repair costs of vehicles increased.



### Profitability

Despite the impact of declining interest rates, exchange losses and a significant impairment of Rs 42.5 Bn, profit before taxes increased by 141% aided by relatively lower impairments compared to the previous year.

The Group's total effective tax rate increased to 51.8%, reflecting the full year's impact of the increase in corporate tax rate from 24% to 30% and the introduction of the social security contribution levy of 2.5%, which took effect from October 2022.

The share of profits from the joint venture increased by 243.6% to Rs 1,140.8 Mn as Acuity Partners recorded the best year since inception. HNB Assurance PLC and HNB Finance PLC recorded profits of Rs 1.8 Bn and Rs 281.0 Mn.

Accordingly, Profit After Tax increased by an encouraging 49.9% to Rs 23.6 Bn reflecting agile management in another year of extraordinary volatility. Earnings Per Share increased from Rs 27.39 in 2022 to Rs 40.68 in 2023.



# FINANCIAL CAPITAL: PROFITABLE GROWTH

## Resilient and Stable

The Group financial position reflects the focus on building resilience to whether forecast downside risks in Sri Lanka and the global economy. Accordingly, exposures and funding were managed to strengthen liquidity, capital adequacy and asset quality.

### Total Assets

**Rs 2,047.0 Bn**



### Total Liabilities

**Rs 1,827.5 Bn**



### Equity

**Rs 219.6 Bn**

- Gross Loans and Advances portfolio declined by 2.4% to Rs 1,081.2 Bn in 2023, reflecting low demand for credit especially during the first half of the year. The classification of loans is given below:

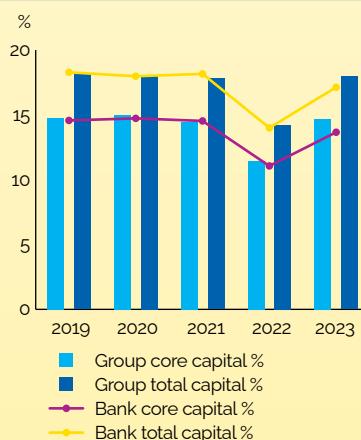
Stage	1	2	3
Gross (Rs Bn)	839.4	118.2	123.5
Accumulated impairment (Rs Bn)	13.0	10.7	68.9
Net (Rs Bn)	826.4	107.5	54.6

See note 31 to the financial statements for further information.

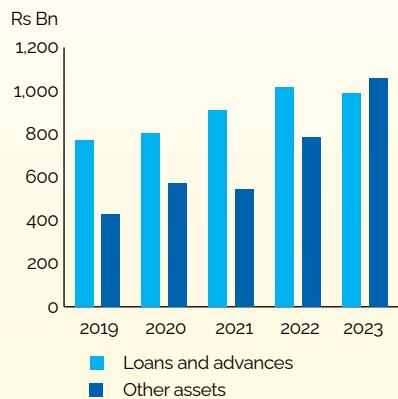
- Foreign currency loan book which accounts for nearly 14.5% of total loans and advances witnessed 2.5% YoY growth. Nevertheless, this was reflected as a 9.8% YoY drop as a result of the appreciation of the rupee impacting the total loan book growth
- Group assets increased by 13.8%, supported by strong liquidity. In the backdrop of relatively lower demand for credit, investments in GOSL securities increased by 130.7%, while positioning the Bank for growth in 2024

- Total Liabilities increased by 13.6% to Rs 1,827.5 Bn, driven by strong deposit mobilisation across all business verticals
- Deposit growth of 11.5% to Rs 1,609.2 Bn was driven largely by term deposits as customers moved funds to benefit from the rate difference between CASA and term deposits. Predictably, the Net Loans to Deposits ratio strengthened to 61.4% while the CASA ratio declined to 29.4%
- Despite, extremely high impairment provisions of Rs 134.3 Bn made during the past two years the Group maintained stable capital adequacy levels well above the regulatory levels
- Total Shareholder's Equity increased by 15.8% during the year to Rs 212.2 Bn largely due to retained earnings
- Stated capital increased during the year due to the issuance of a scrip dividend in 2023 amounting to Rs 2.7 Bn

### Capital Ratios



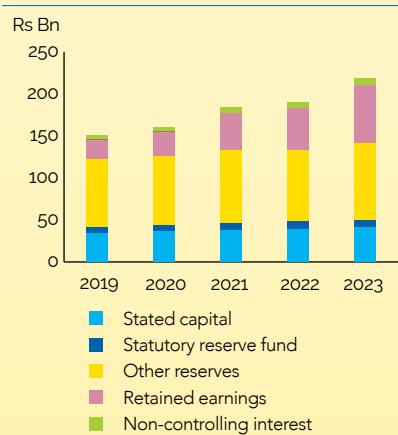
### Group Total Assets



### Group Liabilities



### Total Equity



# FINANCIAL CAPITAL: PROFITABLE GROWTH

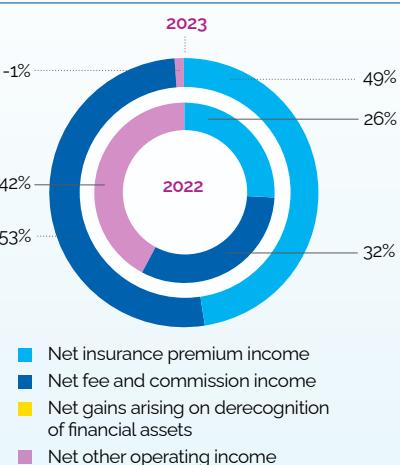
## A Segmental Review

### Segmental NII Contribution

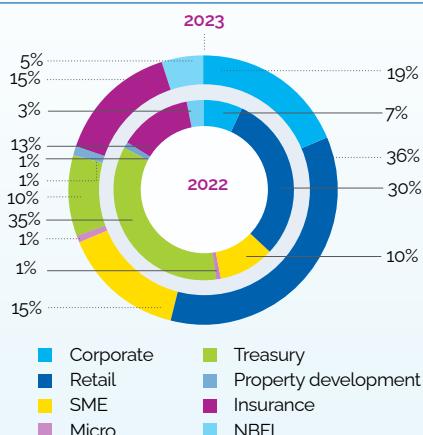
Income Statement



### Segmental Non Interest Income Contribution

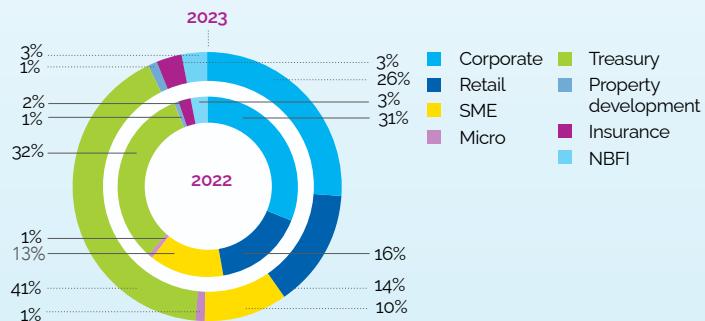


### Segmental TOI Contribution



### Segmental Assets

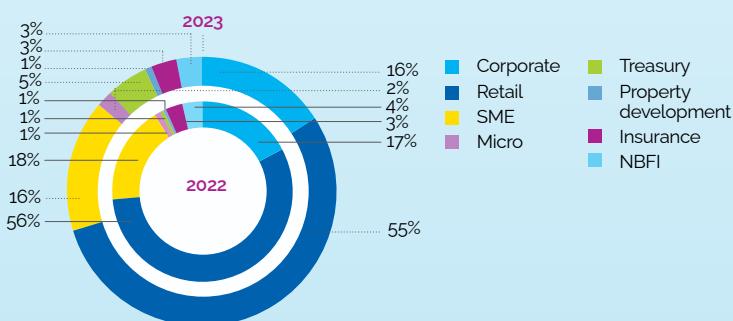
Assets



- Treasury has the largest portfolio of assets amounting to 37.7% of the Group's assets
- Corporate Banking is the second largest accounting for 24.0% of assets

### Segmental Liabilities

Liabilities

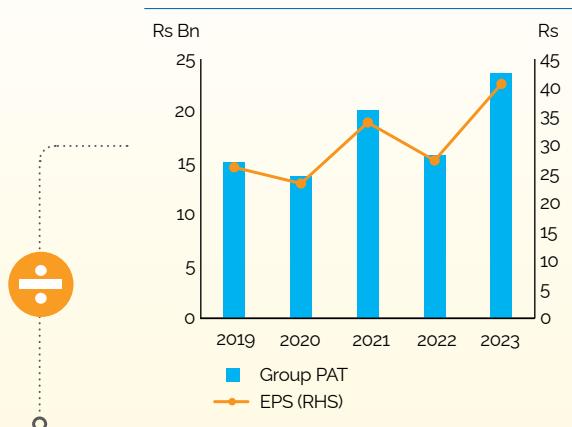


- Retail banking accounts for the highest proportion of liabilities due to its strong deposit mobilisation activities

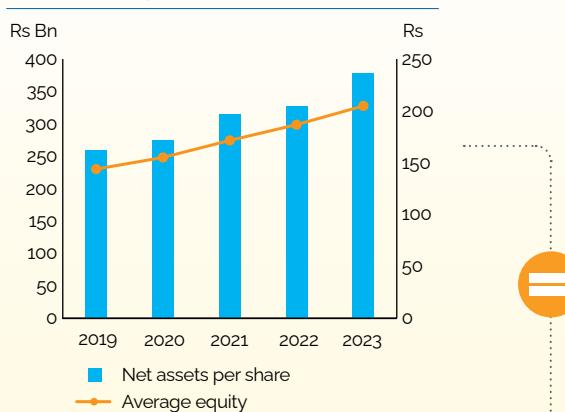
## For Investors

### Return on Equity

**Group PAT**



**Average Equity**



### Risk Weighted Assets



The increase in ROE is underpinned by strong growth in profitability and assets tempered by high levels of liquidity to strengthen resilience. A focus on the long term while navigating the short term enabled delivery of a holistic performance as reflected in the analysis of these key ratios.

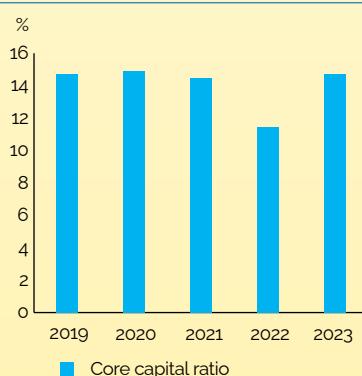
### Return on Equity / Return on Core Capital



### Return on Risk Weighted Assets



### Core Capital Ratio



# DIGITAL CAPITAL

 Digital capital comprises the IT and digital infrastructure of the Bank, the operating systems and software that enables functionality. It is strongly linked to our aspiration to become the Best Digital Bank in Sri Lanka. The digital bank functions alongside and complements the branch network, offering customers the convenience of banking from their preferred locations. Our digital transformation has also reduced the time taken to process transactions, enhancing productivity. Here we look at how we manage our digital capital and the value delivered to our stakeholders.

## Our Digital Capital

### Core and enabling systems

**799**

### Self Service Machines

### Digital App

### Internet Banking

### Digital Wallet

### ISO 27001: 2013

certified  
IT operations

## Key Highlights in 2023

- Invested **Rs 1.4 Bn** in 2023 on enhancing digital capital

- Revamped payment and cash management solution to support businesses

- Launched customer **360 solution** to support the frontline

- New features on the **digital app** and **digital wallet**

- Review of **IT Policy Framework** to benchmark to global standards

## Value Created

Digital revenue > **Rs 926 Mn**

**47% increase** in total digital customer users

**60% growth** in digital transactions

> **87%** of deposits and withdrawals through **self-service machine** transactions

> **6,400** active **SOLO** merchants

**80%** of Fixed Deposits opened online

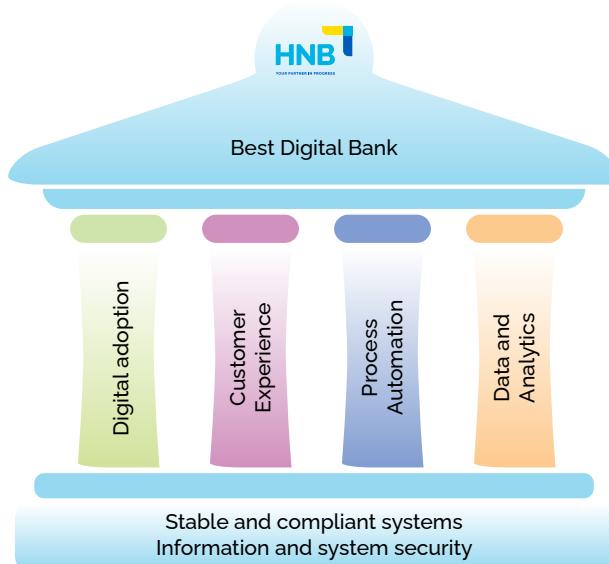


## Our Digital Suite

For Retail Customers	For Business Customers	For Employees
<ul style="list-style-type: none"> <li>• Digital Banking App</li> <li>• Internet Banking</li> <li>• SOLO – digital wallet</li> </ul>  	<ul style="list-style-type: none"> <li>• Payment and cash management solution - HNB TxB</li> <li>• Payment platforms – IPG, SOLO, MoMo</li> <li>• Connecting markets to through partnerships with Appigo, Cord360 etc</li> <li>• ERP solutions</li> </ul>  	<ul style="list-style-type: none"> <li>• E-learning platform – Talent Space</li> <li>• Human Resource Management System - Talent Edge</li> <li>• Online portal on products and services – knowledge hub</li> <li>• Training through virtual channels</li> <li>• Connecting the HNB family through HatnaNet</li> <li>• Automated processes</li> </ul>  

## Our digital vision and strategy

Our digital vision of being the best digital bank in the country revolves around ensuring that the Bank's core and enabling systems are stable and secure. This stability, security and our customer offerings enable us to drive digital adoption among our existing customers and to attract new customer segments. Our key focus with regard to our suite of digital products is to ensure user experience at each point. This is a combination of the features of user interfaces, efficiency of the systems and processes involved as well as the knowledge and service provided by our team. Being cognizant of the importance of data, data analytics plays a pivotal role in the digital 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

Sets out the Bank's approach to cyber security and defines expected user behaviours

### IT Recovery Policy

Sets clear plans for disaster recovery in line with the Bank's overall business continuity plan

### IT Service Management Policy

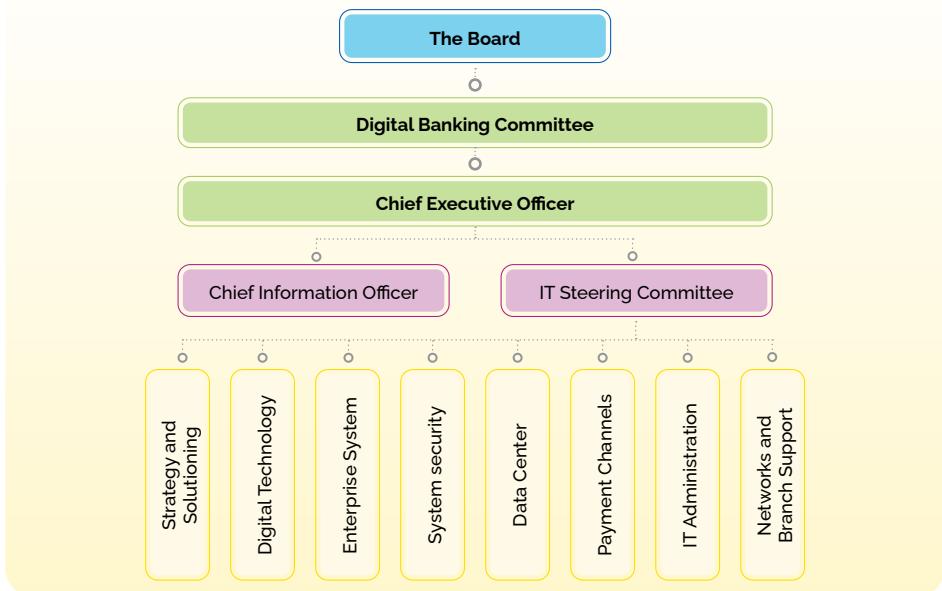
Implementing service standardisation with SLAs defined for service delivery

# DIGITAL CAPITAL

The Board has set in place an IT Governance framework that address the following:

- IT Governance – Ensuring that IT projects are aligned to the Bank's business goals, are cost efficient and completed on time.
- Compliance and Internal Controls – Ensuring that enhanced technological capability also supports the rigour of internal controls and compliance with regulatory requirements.
- Information and Cybersecurity – Ensuring that information assets are safeguarded
- Data privacy – Transforming processes to be compliant with the Personal Data Protection Act related regulations.

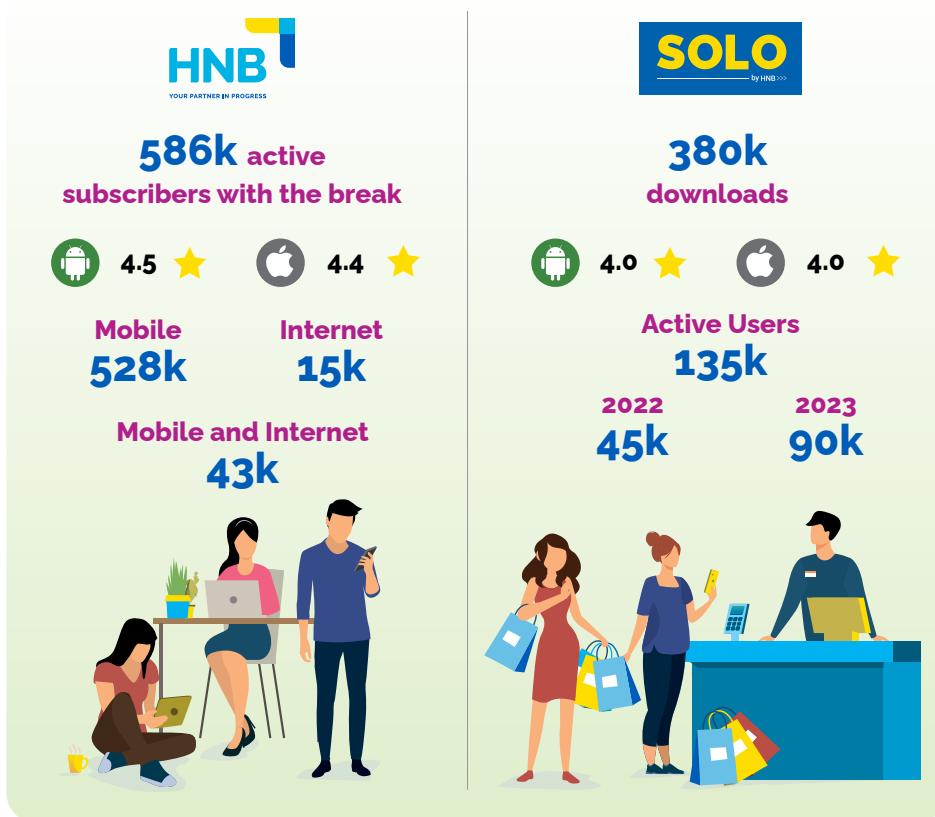
## IT Governance Structure



## Digital Business

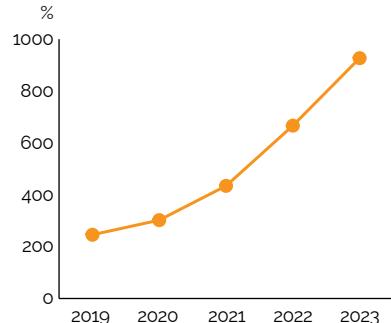
Many new features were added to the HNB Digital App and the Digital Wallet during the year. The ratings of the two apps remain the highest among competitor products in the market.

A comprehensive payment and cash management solution in place of the existing system was launched during the year.

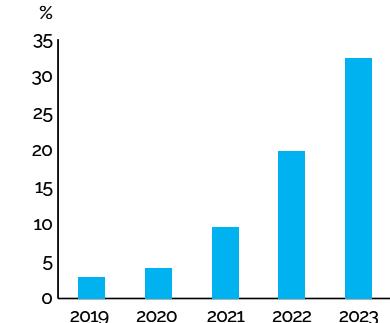


The introduction of HNB TxB – the payment and cash management solution is a testament to our legacy of innovation and leadership in the digital banking space. Our vast SME network augments the TxB proposition as the system connects value streams from business-to-business, consumer-to-business and vice versa. With TxB, large corporates as well as multinational companies have the ability to make local and cross border settlements seamlessly. Similarly, it enables customers to receive or acquire payments from distributors, radically enhancing the efficiency of their financial operations. Customers can also make real time payments relating to taxes, Sri Lanka Customs and Sri Lanka Ports Authority among more than 100 other service providers. Customers can connect to TxB through the web or through their enterprise resource planning solutions. TxB complies with the latest security standards. While this is an area that has traditionally been dominated by international banks, we believe that powered by TxB, the future of transaction banking in Sri Lanka is now here at HNB.

### Digital Revenue



### Digital Transactions (mobile and internet banking)



The Bank's security programme is aligned to local and international best practices.

- National Institute of Standards and Technology (NIST) cybersecurity framework
- ISO/IEC 27001 Information Security Management System Standard
- ISO/ IEC 22301 Business Continuity Management System
- Baseline Security Guidelines issued by the Central Bank of Sri Lanka
- Personal Data Protection Act No.9 of 2022 of Sri Lanka

### Information and Cyber Security

Information technology is the key enabler which connects HNB to its customers and business partners. Our investment in technology remains one of the highest capital expenditures undertaken in the recent past. Given these investments and the privacy of the customer information we hold, safeguarding the investments as well as the information assets, ensuring uninterrupted functioning of systems, and preserving the integrity of operational processes becomes critical for the Bank and the Group.

We seek to ensure that our information assets are protected from identified internal and external threats. We also remain committed to ensuring that customer privacy is maintained in accordance with the Personal Data Protection Act No.9 of 2022. This in turn enables us to manage the reputational risk as a trusted custodian of financial records of customers.

### Data privacy

We appointed a Data Protection Officer (DPO) in order to ensure that the Bank maintains a proactive and compliant stance to the Personal Data Protection Act No.9 of 2022. The DPO will oversee all data protection activities and act as a point of contact for data subjects and regulatory authorities.

We have been improving our cybersecurity controls in line with the National Institute of Standards and Technology (NIST) Cybersecurity framework. Our Business Continuity Management (BCM) process is also ISO/ IEC 22301 certified ensuring its resilience for a sustainable business operation.

### Way Forward

As the country demographics improve with digital penetration and literacy levels HNB's focus on being future ready will be more prominent. We will continue to drive adoption levels, while enhancing our capabilities and solutions to provide a delightful experience to our customers, in line with the ever-evolving customer needs. Safeguarding information security would be a prime objective aligning to local regulatory requirements and global benchmarks and we will focus on imbedding privacy throughout HNB, in order foster a culture of security awareness and responsibility. We will also continue to leverage on data analytics gains as we move ahead.

# HUMAN CAPITAL



Comprising over 5,492 members, the HATNA family is our most valuable asset, propelling our strategic ambitions and sustaining our competitive edge in an ever-evolving business landscape. Our forward-looking "Happy n Bright" HR strategy persists in nurturing a skilled, committed, and agile workforce that fosters productivity and innovation, while providing opportunities for growth and progression.

**Our Human Capital**  
A family of **5,492 employees** operating at Head Office and branches across the island

## Key Highlights in 2023

- Focus on enhancing the skills and competencies of our team
- Providing opportunities for knowledge sharing through mentoring and coaching
- Career progression opportunities
- Providing an inclusive work environment that embraces and celebrates diversity
- Encouraging greater engagement and employee participation

## Value Created

**Rs 16.9 Bn**  
payments to employees

**Rs 84.8 Mn**  
Investment in training and development

**38.2 training hours**  
per employee

**1,598 mobility opportunities**

Participated in **Great Place to Work** Survey and shown **significant improvement YoY**

**Higher focus**  
on employee engagement and wellness

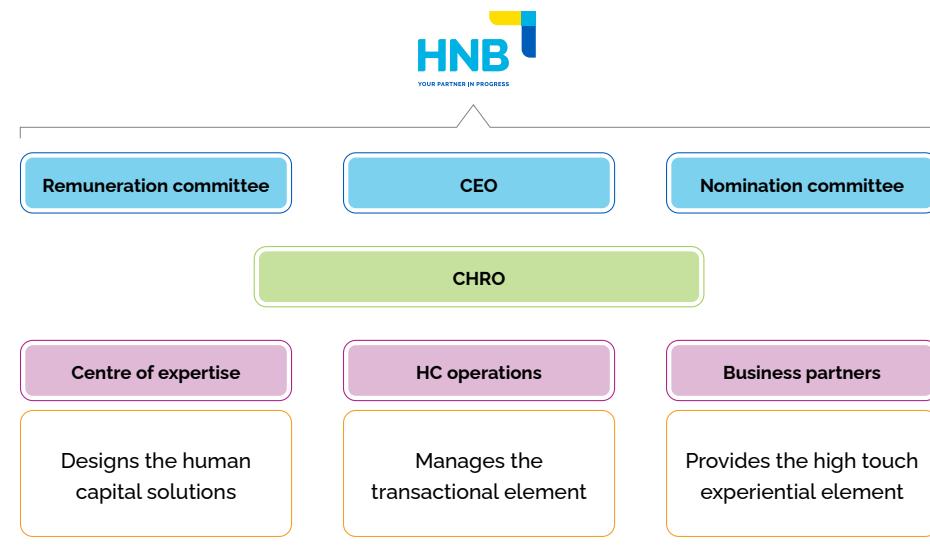


## HR Governance

A comprehensive HR policy framework supported by robust processes and procedures governs the Human Capital practices of HNB ensuring a fair and equitable environment for all employees. Policies, processes, and procedures are reviewed and updated periodically

enabling a relevant, up to date governance framework that addresses evolving business and employee needs. During the year, we updated our promotions policy and several amendments to other policies will be implemented during the coming months. Human capital strategies are

designed in alignment with the overall strategic objectives of the Bank while enabling a dynamic work environment for employees. The Human Capital Department is responsible for the Human Capital function of the Bank and is structured as shown below.



#### HATNA Family Values and Personalities

Introduced in 2022, the HATNA family's values and personalities embody what we have recognised as crucial for being prepared for the future, ensuring customer satisfaction, advancing our strategic goals, and meeting the needs of the nation.



#### The HATNA family's actions are guided by the 3Hs – Head, Heart and Hand

**Head**  
Clear and aligned vision ensures consistency in decision making and encourages the rest of the organisation to think clinically and strategically



**Heart**  
The passion to work together with mutual respect, empathy, and valuing time of others and self. Collaborating to provide a meaningful contribution to HNB

**Hand**  
Execution excellence which drives desired outcomes, enables achieving our KPIs, fosters effective management practices and corrective actions

#### Human rights and ethical business practices

- Human rights policy
- Anti bribery and corruption policy
- Social media policy
- Whistle blowing policy
- Employee share trading policy

#### Safe place to work

- Health and safety policy

#### Talent management policies

- Talent acquisition policy
- Talent mobility policy
- Talent development policy
- Remuneration policy
- Employee recognition and rewards policy
- Foreign training policy
- Promotion policy
- Succession planning policy
- Work-life balance policy

#### Industrial relations

- Industrial relations policy

#### Diversity and equity

- Diversity, Equity and Inclusion policy
- Anti-harassment policy

#### Disciplinary action

- Disciplinary guideline policy

#### Grievances

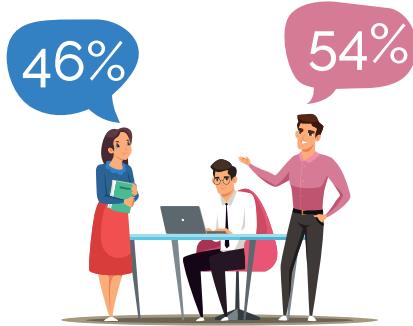
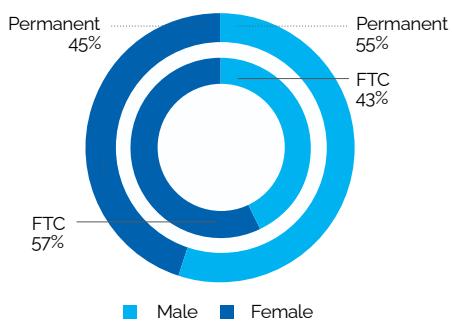
- Grievance policy



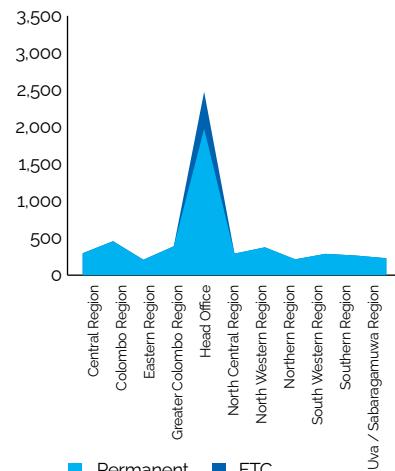
# HUMAN CAPITAL

## The HATNA Family Profile

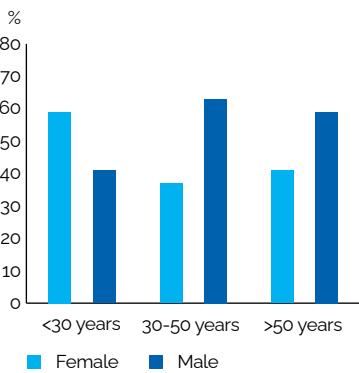
### Employees by type and gender



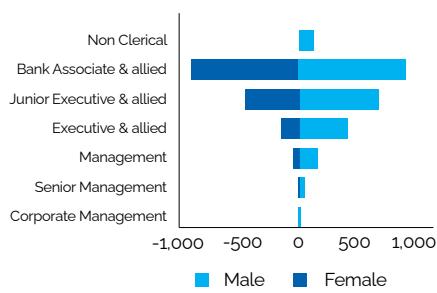
### Employees by type and region



### Age analysis



### Gender profile by designation



## Talent Acquisition, Retention and Turnover

Employee retention remained a significant challenge within the industry, reflecting broader national trends in migration. Therefore, nurturing and developing the HATNA family was a key focal area during the year and centred on training and development, career growth, job rotation, succession planning and greater engagement to align individual career aspirations with organisational needs. Emphasis was placed on fulfilling vacancies internally by addressing skill gaps and equipping staff with the new skills required for a future focused bank. While a robust Board approved succession plan has been in place for corporate and senior management roles, plans are now underway to extend it to subsequent tiers of management. Initiatives were also implemented to prepare candidates for higher roles, while recognising and appreciating long-serving staff at milestones of 10, 15, 20, and 25 years of service to the Bank. Employee turnover for the year ended 2023 stood at 8.2% (Permanent employees).

For recruitment, a formal, unbiased, and equitable process is in place and encompasses an external management trainee program designed to attract suitable talent. Emphasis has also been placed on implementing a robust internship initiative while strengthening partnerships with professional institutions to widen access to a diverse talent pool. Furthermore, job rotation programmes within branches, regions, and between the head office and branches further facilitated skill development and knowledge transfer among staff while enabling high levels of service quality to our customers. Additionally, the welcome guide given to Trainee Bank Associates was enhanced to elevate the onboarding experience.



**The Bank recruited**

**1,146 new employees**  
during the year



**798 employees left**  
the organisation  
during the year

#### Recruitment and turnover by age

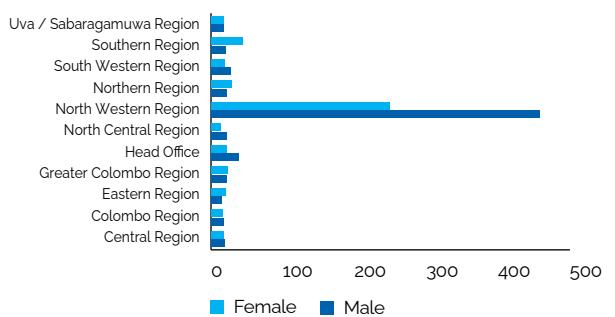
	Recruitment	Turnover
Under 30 years*	1,088	501
30 – 50 years	55	271
Over 50 years	3	32

\*The Bank does not recruit minors to the workforce.

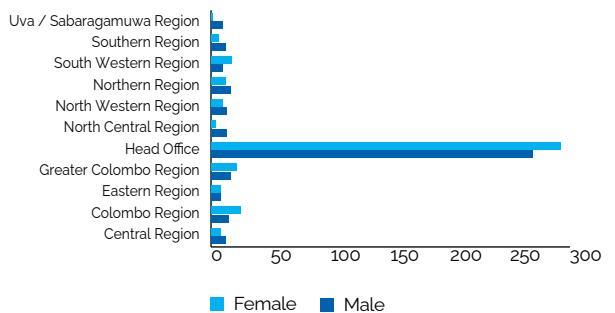
#### Recruitment and turnover by grade

	Recruitment	Turnover
Corporate Management		
Senior Management	1	5
Management	6	11
Executive & allied	35	38
Junior Executive & allied	4	72
Bank Associate & allied	668	281
Support staff		1
FTC	432	390

#### Recruitment by gender and region



#### Turnover by gender and region



# HUMAN CAPITAL

## Diversity and Inclusion

We are dedicated to nurturing an inclusive workplace that values diversity and ensures fairness for all our employees. This commitment is upheld by policies and procedures that prioritise equitable treatment for all while consistent investment in training ensures these principles are embedded into our corporate culture.

### Policies

- > Recruitment policy
- > Mobility policy
- > Diversity, Equity and Inclusion policy
- > Anti-harassment policy
- > Human rights policy
- > Grievance policy

**'Women at Work' initiative**  
Through this initiative we remain committed to empowering our female employees by offering training, career development opportunities and unwavering support to guide them through their professional journey



### Practices

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



#### Female representation

**46%**  
of workforce

**59%**  
of recruitment

#### Maternity Leave and Retention

Return to work rate

**100%**

Retention rate

**100%**

#### Female representation by category

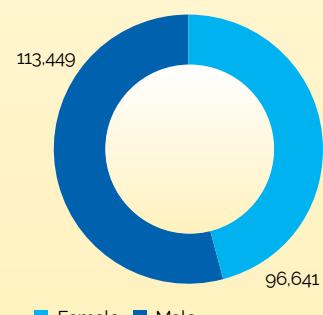
By category	Male	Female	% of Female Employees
Corporate Management	23	5	18%
Senior Management	61	15	20%
Management	180	65	27%
Executive & allied	462	177	28%
Junior Executive & allied	758	511	40%
Bank Associate & allied	1,335	1,767	57%
Support staff	133		0%
Total	2,952	2,540	46%

	Number	% of Female workforce
Maternity leave availed 2023	60	2.3%
Returned to work during 2023 after obtaining maternity leave during 2022	57	2.2%
Resignations during 2023 after obtaining maternity leave during 2022	0	0%
Retained within the organisation, 12 months post maternity leave obtained in 2022	35	1.4%

\*22 employees are yet to complete 12 months, post return from maternity leave in 2023

During the year no incidents related to discrimination were reported

#### Training hours by gender



## Performance Management

We foster a performance-driven culture at HNB, with executives appraised bi-annually against KPIs communicated to them at the beginning of the year which cascade down from the Bank's overarching strategic goals. All other employees are evaluated on an annual basis. All employees received performance evaluation reviews during the year.

## Remuneration and Benefits

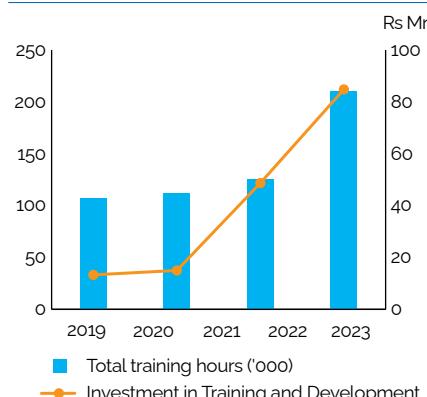
We uphold a transparent, impartial, and consistently applied remuneration and reward system that not only adheres to industry benchmarks but also effectively attracts, motivates, and retains talent. In addition to the guaranteed fixed pay component, all our permanent employees are entitled to a performance-based compensation element tied to both individual and Bank performance. Additionally, permanent employees are also offered a wide range of benefits including life insurance, medical allowances and reimbursement of professional subscriptions. As an employer committed to equal opportunities, we strictly enforce a policy of non-discrimination based on gender when determining compensation.

Accordingly, there is no gender pay gap. The Bank maintains a pension fund which is 100% funded by the Bank. At present, there are 85% of permanent employees who will be eligible to receive a pension on their retirement and 8.6% opted for pension buy-back in lieu of pension payment.

## Talent Development

As a talent-driven organisation, prioritising talent development is a strategic imperative for the Bank as it empowers our employees to cultivate new skills and competencies, fosters innovation and agility in the highly competitive banking industry. Talent development is also important in boosting productivity while offering our employees growth opportunities and playing a vital role in staff retention.

## Training and development



The learning and development offered is tailored to address the specific competency requirements of each individual and aligns with both the Bank's strategic goals and the unique needs of the employees. The process of identifying learning needs and creating programmes is an ongoing, collaborative effort involving the individual employees, their line managers, and the Talent Development team. They work together to identify and develop programmes that align closely with individual competency requirements and organisational needs.

### Training Record for 2023

**Rs 84.8 Mn**  
(+74%)  
Investment in training and development

**210,090**  
Total training hours

**38.25**

Average training hours per employee

**100,843**

**109,247**



Training hours per employee

### Training Delivery in 2023

- Classroom and virtual training – **882 programmes** delivered through class room learning
- E-learning (Talent space platform) – **68,561 online engagements** including courses and quizzes
- Structured leadership training programmes – **671 employees** participated in **28 programmes**
- Role based training – designed for front line staff for certification
- 'Committed to serve' campaign – Service excellence related training
- External training – **1,307 employees** participated in **268 programmes** locally and overseas

### Training Focus in 2023

#### Business sustainability

240 programmes | 8,059 participants

#### People development

502 programmes | 7,375 participants

#### Technology enablement

73 programmes | 2,670 participants

#### Business growth

260 programmes | 5,475 participants

#### Improve customer experience and productivity

75 programmes | 3,080 participants

# HUMAN CAPITAL

## Health and Safety

Safeguarding the physical and mental well-being of our staff continues to be a central HR focus at HNB. In pursuit of this goal, the Bank has established an extensive Health and Safety policy that extends to all employees and exceeds the regulatory standards stipulated by law. This policy has been crafted to create a work environment that is safe and injury free for all our team members.

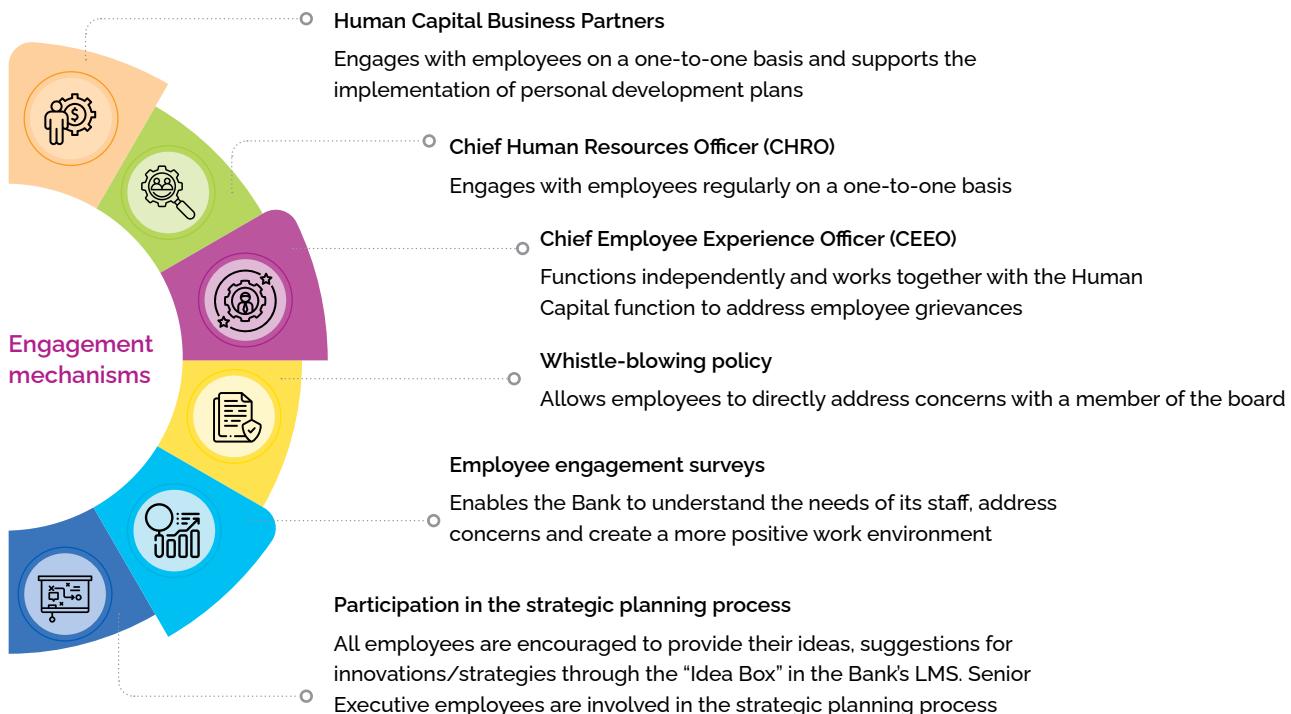
There were no employee injuries reported during the period.

All full-time employees are entitled to life insurance and healthcare benefits including reimbursement of surgical and hospitalisation expenses for self and family. Ongoing efforts to promote health and well-being included the organisation of periodic health and wellness programmes, in which 1,395 employees participated in 2023. Key health and wellness initiatives conducted during the year included, Mobile Medical Camps, Women's health programmes, Diabetes awareness, Mindfulness for Performance, Emotional Intelligence, Stress, and Anger management programmes, and First-aid application from St. John's Ambulance Service.



## Employee Engagement

We maintained our focus on employee engagement, providing multiple channels for employees to voice their concerns and share their perspectives.



HNB participated in the Great Place to Work survey during the year and seven areas, including working culture, diversity and inclusion, health and well-being, and communication were identified for enhancement. Action plans to address the identified areas were formulated in collaboration with GPTW and involved the commitment of the senior management. Action plans have been cascaded down to regional and branch level while regional engagement teams review progress against goals under the oversight of the GPTW committee at Head Office.

#### **HNB Walk the Talk**

Motivating employees to focus on their health and well-being through cycling and walking activities. 108 cyclists and 263 walkers have actively participated in this initiative



#### **HNB Saru Gewaththa**

Fostering a culture of sustainability by promoting home gardening



#### **Regional mobile medical camps**

Regional mobile medical camps continued through our partnerships with Lanka Hospitals and Asiri Medical Hospital. Additionally, counselling services were also made available to staff while women's health programmes were also conducted during the year



#### **Labour Relations**

We respect employees' right to associate and engage in collective bargaining and we consistently foster a close relationship through transparent communication. We ensure that substantial operational changes are preceded by sufficient notice, while provisions for consultation and contract negotiations are specified in the Collective Agreements with the respective trade unions. At the end of 2023, 60.42% of our workforce were affiliated with the Ceylon Bank Employees Union (CBEU) and the HNB Officers' Union. Throughout the year, the Bank maintained harmonious relations with both trade unions, with no disputes.

#### **Anti-bribery and Corruption**

We strongly hold that bribery and corruption are unethical, intolerable, and contradictory to our values and the Bank's code of conduct. Our anti-bribery policy offers guidance to employees. Throughout the year, training and awareness campaigns were conducted to reinforce these principles. HNB's partnership with the Business Against Corruption (BAC) initiative which is a collaboration between the Sri Lanka Institute of Directors (SLID) and Transparency International Sri Lanka (TISL) also aids in strengthening these principles within the Bank.

#### **Way Forward**

In an ever-evolving landscape, the focus on HR and how it supports the business as a strategic partner will take the forefront this year. We understand the important role we play in nurturing, retaining and attracting the right talent. Our initiatives will focus on our employees and their continuous development, career progression and skilling for future roles. We will continue the initiatives we implemented during the previous year that have increased employee engagement, created more opportunities for growth and introduce new initiatives to further strengthen the HR capabilities that support our business.

# SOCIAL AND RELATIONSHIP CAPITAL

 Our social and relationship capital embodies the robust relationships we have nurtured with customers, business partners and the community for over a century. During the year, we continued to place emphasis on deepening these relationships, fostering mutual value creation while striving to make a meaningful impact within the communities we serve.

## Our Social and Relationship Capital

**2.9 Mn**

customers

### Business partners

**696**

Correspondent banks

**139**

Exchange houses

**20k**

MERCHANTS

**250**

Suppliers

## Key Highlights in 2023

Revamped Committed to Serve initiative

**Rs 56.5 Mn**

investment in CSR initiatives

## Value Created

**59%**

Net promoter score

Over

**200k**

New customer acquisitions

**5k+**

merchants added to our network

**Rs 1.2 Bn**

Payments to suppliers

Over

**13,824**

Beneficiaries through our CSR initiatives



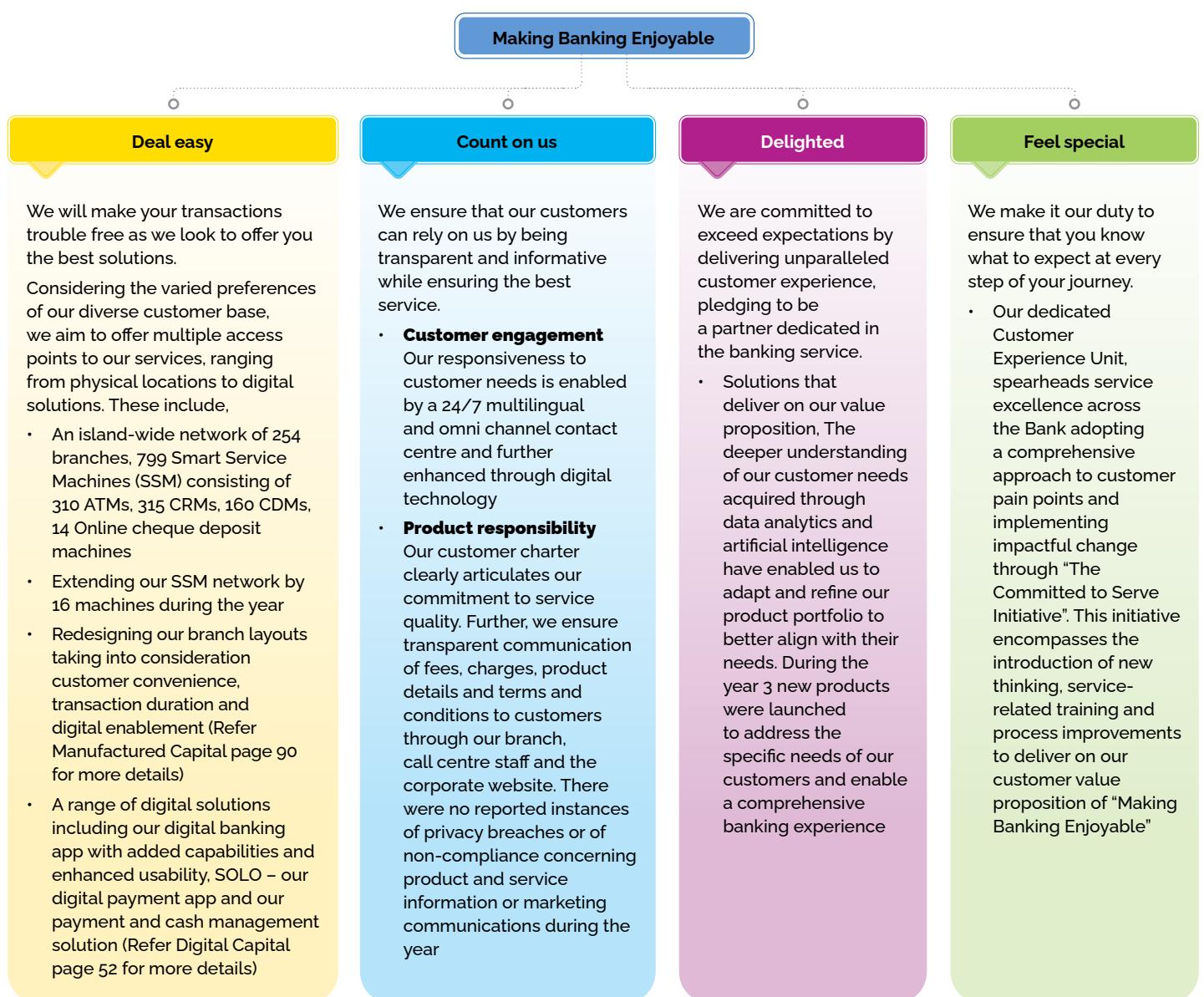
### Value to Customers

Our customer value proposition centres on providing an enjoyable banking experience to our diverse customer base guided by our brand ethos of 'Making Banking Enjoyable'. This entails offering convenient, seamless and customised banking solutions that are tailored to meet their evolving needs.



### Memberships and Affiliations

- Sri Lanka Association Sustainable Banking Initiative
- Biodiversity Sri Lanka



### Solo Podi Podi Business Initiative

Solo Podi Podi Business initiative was launched by the Retail arm with the objective of supporting small business owners to reach to a wider market by offering physical locations to conduct business through contactless transactions. In addition, the Bank was able to create digital awareness among the society while supporting many micro customers, playing a significant role in the success stories of many who were at the verge of financial difficulty due to day-to-day struggles of reaching the right set of customers.

	Unit	Amount (Rs Mn)
<b>Customer privacy</b>		
Number of account holders whose information is used for secondary purposes	Number	-
Total amount of monetary losses as a result of legal proceedings associated with customer privacy	Rs	-
<b>Selling practices</b>		
Percentage of total remuneration for covered employees that is variable and linked to the amount of products and services sold	%	0.2%
Total amount of monetary losses as a result of legal proceedings associated with selling and servicing of products	Rs	-

# SOCIAL AND RELATIONSHIP CAPITAL

## Value to Business Partners

Our business partner network comprises of Correspondent banks, Exchange houses, Merchants and Suppliers. Throughout the year, our dedication persisted in fostering robust partnerships with our business partners with a focus on mutual value creation through operational synergies, expanding market reach and seizing emerging market opportunities.

### Exchange Houses

**139**

exchange houses in

**over 40 countries**

- Relationships with 5 new exchange houses in Spain, Seychells and UK were established during the year
- We also deployed an additional 4 HNB Representative Officers to UAE, Qatar and Israel
- Mutual value created as these initiatives enabled us to advance our remittance mobilisation efforts while simultaneously providing our partners with access to new markets

### Agency Banking

#### HNB Ithuru Ithuru - a partnership with SLT Mobitel



- A total of **Rs 6.8 Mn** transactions were carried out through mCash agents in only its second year of operations
- This initiative has enabled us to extend our reach and enhance customer convenience while enabling our partners the opportunity to provide their customers with supplementary value-added services



### POS Merchant Network

**5k +**

new merchant relationships in 2023

A merchant network of  
**Over 20k**  
merchants

**One of the largest merchant networks in the country**

We continued to create value for merchants by enabling digital payments through payment gateways and introducing new technology. Additionally, there were ongoing efforts for acceptance of China Union Pay (CUP) which is enabled fully.

Furthermore, the Bank is currently in the process of implementing a project to enable soft POS acceptance for merchants, demonstrating our commitment to staying at the forefront of technological advancements in the banking industry.

Payment gateways and e-commerce platforms accessible to our merchants

<b>HNB Solo</b>	A contactless and cashless payment solution
<b>HNB Payfast</b>	Secure internet-based payment gateway
<b>CyberSource</b>	Assists merchants globally in expanding their sales, safeguarding their brands, and operating with increased flexibility

### 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 14 Real Estate Developers while HNB Leasing entered into partnerships with 14 vehicle traders

### Suppliers

Our supplier base comprise of utility service suppliers, material suppliers, transport providers and maintenance service providers.

- Value is created through transparent and sustainable procurement practices, regular engagements and capacity building
- Procurement is carried out in adherence with our Board Approved Procurement Policy and supplier performance is monitored to ensure compliance with service standards
- All new suppliers are screened using environmental and social criteria which includes a commitment to not employing child labour and forced/ compulsory labour

Thirty-six new suppliers were screened using environmental and social criteria in 2023

**Rs 14.4 Bn**  
payment to suppliers



## Value to Community

As a financial institution we aim to create value for our communities by delivering inclusive financial services that drive sustainable economic growth. Our strategic CSR initiatives complement these efforts by addressing more urgent needs within our communities.



## Catalyst for growth in the SME sector

- We aim to provide our customers in the SME sector a holistic banking solution that encompasses financial services and technical support
- Our emphasis on value chain financing has also given rise to substantial benefits for SMEs and micro-entrepreneurs granting them improved access to finance and markets
- Recent efforts have been focused on facilitating the digital empowerment of our SME clients to boost their efficiency, competitiveness and capabilities

## Championing micro-entrepreneurs

- HNB's microfinancing programme 'Gami Pubuduwa' has supported over 28,000 micro-entrepreneurs
- Services extended to the micro-entrepreneurial segment include technical support, capacity building and opportunities to expand market reach through initiatives such as the HNB Avurudu pola and Solo Podi Podi Business initiatives

## Empowering women

- We offer a range of products specifically designed to promote the financial independence of women
- Furthermore, we actively promote and provide support for more women to explore entrepreneurship

## Promoting financial inclusivity and driving inclusive and sustainable economic growth

We are 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. This involvement has positioned us as a driving force in the economic advancement of many rural communities in Sri Lanka while enabling us to extend our services to reach underserved segments.

	Number	Amount (Rs Mn)
Loans outstanding qualified to programmes designed to promote small business and community development	30	1,196
Number of no-cost retail checking accounts provided to previously unbanked or underbanked customers	2,970	N/A
Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers	3,800	N/A



# SOCIAL AND RELATIONSHIP CAPITAL

## Strategic CSR

HNB's CSR initiatives are guided by its Sustainability Foundation, which was established in 2009. Key CSR initiatives undertaken during the year are given below.

### Initiatives through the 'Oba Venuwen Api' Fund

Initially established in 2020 to aid Sri Lankans affected by the pandemic, the "Oba Venuwen Api" fund has since expanded its scope, partnering with diverse stakeholders to extend support across various areas of need. Key initiatives undertaken during the year are given below,

**Oba Venuwen Api' Fund**

**Hospital donations**

- Essential medical equipment and medicines were donated to Lady Ridgeway, Rikilagaskada, Kalmunai, Mathugama, and Balangoda hospitals during the year. Since the inception of the project in 2020, 44 hospitals have benefited, resulting in a cumulative donation totalling Rs 19 Mn
- Donated two ambulances through our partnership with the "Adopt an Ambulance" initiative by the 1990 ස්වයංකරු Ambulance Service



**Nutrition drive**

- Ongoing project to support the nutritional needs of expectant mothers. This involved the provision of dry ration packs for 3 months to 1,000 beneficiaries selected through collaborations with the MOH hospital, Grama Niladharies and Medical officers



**Disaster relief support**

- Provided essential dry rations and supplies to families displaced by floods and landslides. Extended timely humanitarian aid during disasters/emergencies in both the northern and southern regions. Distributed basic necessities, such as mats and bedsheets, to families affected by floods



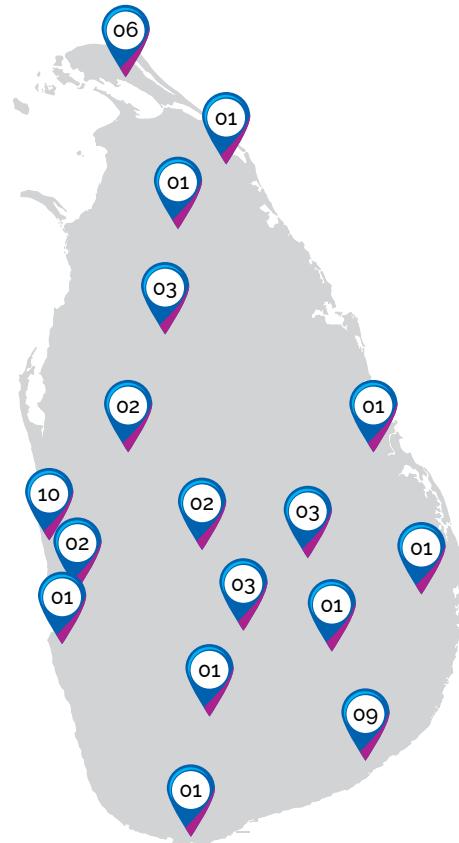
**Microfinance grant**

- The Bank allocated a further Rs 10 Mn during the year to assist 100 micro-entrepreneurs during the year. This project has benefited 400 microentrepreneurs with a cumulative investment of Rs 40 Mn since 2020

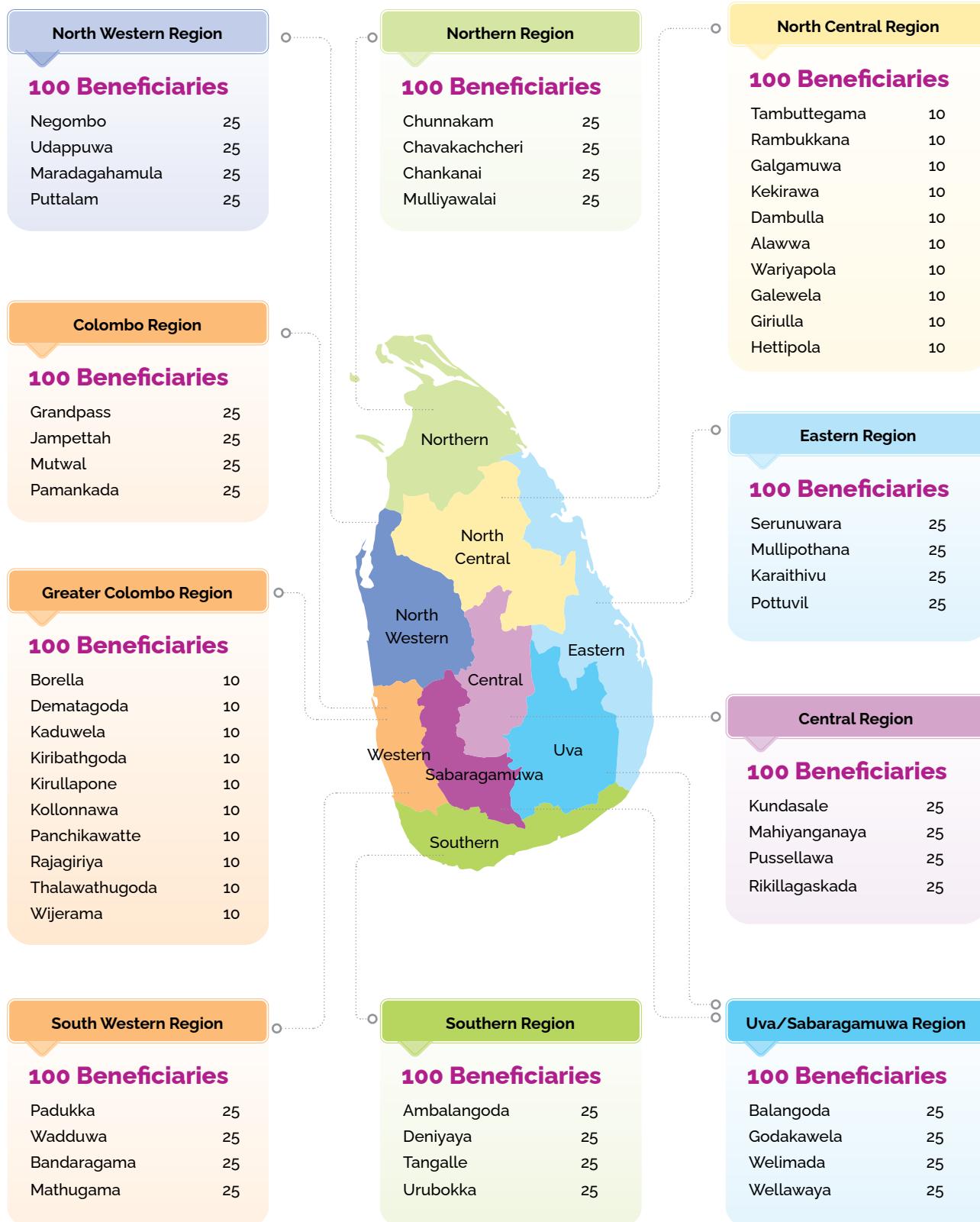


### Micro-Finance Grant-2023

Total Number of MF Customers	Grant Amount
<b>48</b>	<b>Rs 4.8 Mn</b>
Districts Covered	Gender Diversity M:F
<b>17</b>	<b>60:40</b>
Number of People Directly Impacted	
<b>250</b>	



## HNB "Oba Venuwen Api' Nutrition Drive



Island wide distribution of beneficiaries-2023

# SOCIAL AND RELATIONSHIP CAPITAL

## Other initiatives carried out by the HNB Sustainability Fund

### Partnership with Appa Lanka Foundation to support home gardening in Poonakary

- The HNB Sustainability Foundation has partnered with the Appa Lanka Foundation to support a home gardening initiative in the Poonakary area of Kilinochchi. This involved the provision of essential resources including fertiliser, seeds and cultivation tools to home growers with the aim of fostering sustainable livelihoods.



### UNICEF Sri Lanka's 'Rise for children' initiative

- HNB partnered with UNICEF Sri Lanka's 'Rise for Children' initiative to support the education of underprivileged children. This programme encompasses a comprehensive strategy that includes catch-up classes, learning modules, and teacher training. The initiative was actively supported through donations by the staff at HNB, while the HNB Sustainability fund matched each donation up to a maximum of Rs 3 Mn.

### Supporting underprivileged schools and villages

- For the seventh consecutive year, the Corporate Banking Division continues its initiative to support the education of underprivileged children by providing educational resources to schools and villages in need. This effort has reached 120 beneficiaries in Kothmale, 402 in Weerawila, 268 in Padaviya, and 300 in Punarin, with the aim of empowering students for learning and academic growth.

### Infrastructure facilities for underserved communities

- Our collaboration with the Capital Maharaja Group and Gammedda, Sri Lanka's largest rural development movement, to improve infrastructure in Yaaya 6 Mahawilachchiya reached its conclusion during the year. The Mahawilachchiya initiative was launched by The Club HNB to encourage and enable The Club customers to engage in meaningful philanthropy. As the Club customers contributed with much passion and enthusiasm, together we have completed the following phases:
  - Phase 1: construction of a RO plant to ensure safe drinking water for a community of 650 families
  - Phase 2: construction of a digital lab equipped with desktops and sanitary facilities at the Saliyamala Maha Vidyalaya
  - Phase 3: construction of 2 km roadway from Mannaram junction to MR junction
- The completion of this project was also marked by a workshop organised in collaboration with our Microfinance division and conducted by a CBSL official and regional development officer to enhance entrepreneurship and financial literacy in an effort to promote a sustainable livelihood
- 25 minor investment accounts sponsored by Club customers were gifted to high achieving students of Saliyamala Maha Vidyalaya



### Community support initiative

- The Bank is actively involved in supporting a community event in Bogawantala aimed at raising awareness among various segments of the local community, including planters, students, and traders. HNB has invested Rs 1 Mn in this project, enabling the organisation of voluntary based programmes across 10 different regions



## Financial support for cancer patients

- An ongoing project of the HNB Sustainability Foundation, the initiative provides financial assistance to cancer patients at the Apeksha Hospital Maharagama. During the year, the monthly donation per patient was increased to Rs 7,500 from Rs 5,000 in line with the rise in cost of living, while an additional Rs 100,000 per month was allocated to provide medication to patients. The Bank also covers the annual cost of maintaining the Cancer Counselling Centre at the hospital. This initiative has benefited over 98 cancer patients and their families in 2023 at an investment of Rs 4 Mn
- The Bank also partnered with the Sri Lanka Cancer Society in its commemoration of its 75th anniversary with staff participating at the '75 years by your side' cancer walk. Relevant to SDG Target 3.4 on reducing mortality from non-communicable diseases and promote mental health
- Provided funding support for a cancer care facility offering lodging and holistic care to patients undergoing treatment at Samagi Sevena. Enhances healthcare access for vulnerable groups.
- Our staff also participated at a Bakthi Gee Ceremony organised at the Apeksha Hospital, Maharagama
- HNB donated 7 state-of-the-art VDI minicomputers to the NHSL Cardiology Unit during the year, to enhance efficiency and automate prescription writing



## Our business impact

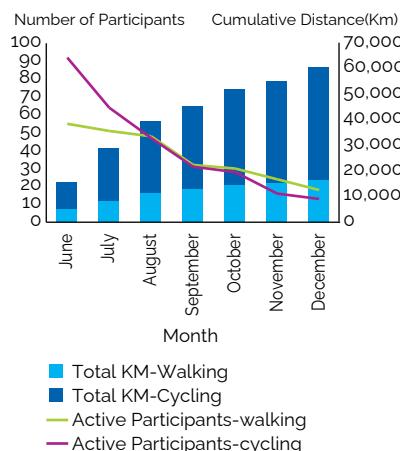
At HNB, we aim to drive sustainable, inclusive growth in Sri Lanka through our lending and community programmes. Over the past year, our lending portfolio has focused on poverty alleviation and sustainable business practices, benefiting SMEs and smallholder farmers. Our support to key sectors like agriculture, renewable energy, and infrastructure has spurred entrepreneurship, job creation, and financial access. Targeted community initiatives in areas like women's empowerment, education, and healthcare have also created shared value.

### Employees cycling and walking to work

- To encourage environmentally friendly practices and healthier lifestyles among our staff, we have introduced an exciting cycling and walking challenge called the "HNB Walk the Talk" challenge. It promotes using eco-friendly modes of transportation while improving personal well-being. Our employees have collectively covered over 16,148 km on foot and cycled 44,133 km, showcasing remarkable engagement across our network.



#WalktheTalk



**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 commercial logging operations for use in primary tropical moist forests, production or trade in wood or other forestry products unless they come from sustainably managed forests, and trade in wildlife or wildlife products regulated under CITES.
- Lending for sustainably certified plantations amounts to Rs 412 Mn.
- 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 greenhouse gas (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.



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

- As per the bank's environmental policy, Bank do not finance illegal fishing methods, such as "drift net fishing" in the marine environment using nets in excess of 2.5 kilometers in length, to ensure the sustainable use of marine resources.

- From Bank's total lending portfolio value of Rs 858 million, Bank have identified lending for sustainable fisheries activities in accordance with the CBSL Green Finance Taxonomy Guidelines.



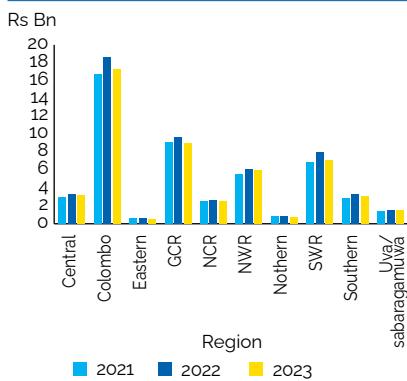
# SOCIAL AND RELATIONSHIP CAPITAL

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

- Bank have financed sustainable energy projects with an installed capacity of 50 MW in hydro power, 5 MW in wind power, 5.3 MW in biomass electricity, and 35 MW in solar power.
- In 2023, Bank granted new loans with a value of Rs 8,094 Mn for housing loans to build houses or purchase residential properties for 214 customers.
- Additionally, Bank invested Rs 31 Mn to improve passenger transport.
- Bank allocated Rs 20,983 Mn for waste management projects (excluding waste-to-energy initiatives)



## Housing Loan Portfolio distribution



## Achieve gender equality and empower all women and girls

- During the year, Bank drafted a Gender Policy. While the Bank's existing Diversity and Equality Policy covers areas such as recruitments, promotions, and work allocations within the Bank, the Gender Policy will include an assessment of the Bank's lending activities to ensure that no gender discrimination occurs through the Bank's lending portfolio. The respective changes will be incorporated into the Environmental and Social Screening Checklist and the due diligence report format during the next revision of the ESMS.
- The portfolio value for sustainable women empowerment amounts to Rs 121 Mn.

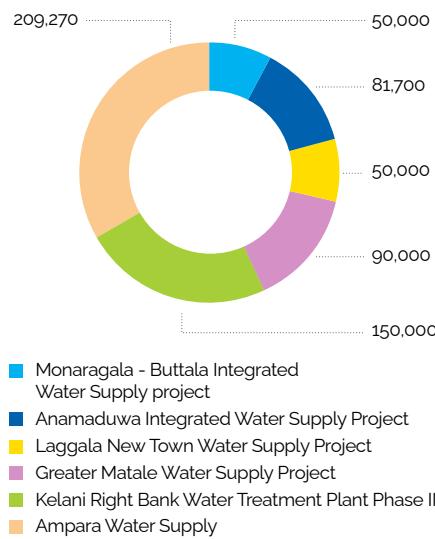


## Ensure availability and sustainable management of water and sanitation for all

- Number of beneficiaries from financing for drinking water supply development projects in the country as follows.



### No of Beneficiaries -Water Supply Project



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

### Lending for paddy cultivation in poverty provinces

Paddy cultivation lending in 2023 aims to contribute to income generation for farmers and employment generation in poverty-stricken provinces.

	Gross Income (Rs Mn)	Employment Generation (man days)*
Northern	116	13,986
Eastern	475	57,134
Uva	10	1,281

\*Hired Labour

Total income and employment generation in Sri Lanka through paddy cultivation lending in 2023.

**116,438**

(man days)  
employment  
generation

**Rs 968 Mn**

gross income  
generation to  
the farmers

Assumptions were based on the above calculations

- 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 occurs under the IR)

- Total cost Including cost of farmer owned inputs

- To find out employment generation only consider hired labour

Used information for calculations

Cost per cultivation of one hectare of paddy

Average Yield per hectare

Employment Requirements per hectare

Gross return per hectare

Sources - Socio Economics and Planning Centre of the Department of Agriculture, Peradeniya-AgStat-2022



### Food production from our lending

	Area cultivated (ha)	Production (Mt)
Paddy	16,634	71.659
Minor foods*	743	3.715

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

- Cultivation loan portfolio (including fruits, vegetables and minor food crops), a value of Rs 533 Mn contributes to enhancing sustainable agricultural practices in the country.
- In 2023, Bank provided lending support of Rs 1,356 Mn to the fisheries and aquaculture sector.
- Total Milk Production- 88 Mn L
- Produced 2,484 Mt of meat from poultry farming.
- Paddy production yielded 50,111 Mt of rice, which could provide the equivalent of 1,404,981 meals in 2023 or enough food to sustain approximately 468,327 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

### Total Lending for poverty provinces in 2023

**Rs 18,598 Mn**

Eastern

**Rs 19,524 Mn**

Northern

**Rs 10,614 Mn**

Uva



### Value addition to agriculture products in 2023

- Bank provided Rs 5,764 Mn in lending support for food and beverages manufacturing.

### Increase agricultural productivity and production

- Bank provided Rs 403 Mn in lending support for farm mechanisation.

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

- HNB provided Rs 15,771 Mn in lending support for health care services development projects.
- Bank provided Rs 2,770 Mn in lending support for pharmaceutical and healthcare product manufacturing.
- In 2023, pharmaceutical imports amounted to Rs 317 Mn.
- In consideration of social impacts, HNB does not finance the production or trade of alcoholic beverages (excluding beer and wine) and tobacco.



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

Lending for,

- Development of primary and secondary education - Rs 887 Mn
- Development of tertiary education - Rs 1,046 Mn
- Other education developments activities - Rs 7,953 Mn



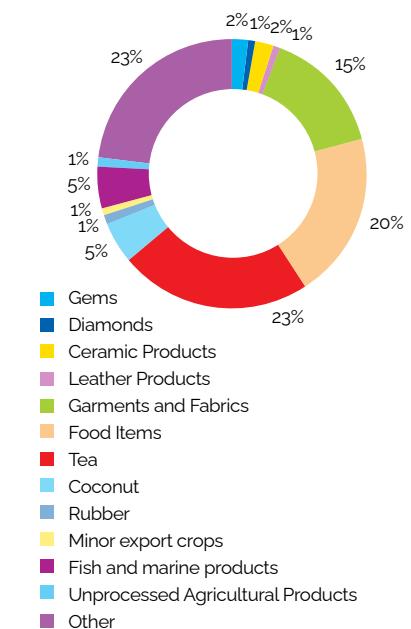
### Build resilient infrastructure promotes inclusive and sustainable industrialisation and foster innovation

Lending for,

- Road development projects - Rs 22,161 Mn
- Development of telecommunication sector - Rs 10,642 Mn
- Development of Information Technology and Communication sector - Rs 1,829 Mn



### Financing export of production



# SOCIAL AND RELATIONSHIP CAPITAL

## Financing Export of Production

### Financing to main export crops

Crop	Amount (Rs Mn) of lending for production	Production from lending
Tea	7,285	11,402 Mt
Coconut	1,846	68 Mn Nuts
Rubber	4,083	14,180 Mt

*Tea*

*Used information for calculations*

*Total cost of production per one kg tea*

*Sources: CBSL Annual Report 2022*

*Coconut*

*Used information for calculations*

*Total cost of production per one nut*

*Sources: CBSL Annual Report 2022*

*Rubber*

*Used information for calculations*

*Total cost of production per one kilogram of rubber*

*Sources: CBSL Annual Report 2022*

*Assumption - For perennial crops and long-term livestock development, outstanding as at 31.12.2023 was taken per calculations. Amounts granted during the year was taken for other short-term agricultural development activities.*

- Bank provided Rs 385 Mn for minor export crops production.
- New lending for the tourism sector in 2023 amounts to Rs 65,476 Mn enabled in increasing tourist arrivals to Sri Lanka during the year.
- From Bank's total lending portfolio for the tourism sector, a value of Rs 1,782 Mn has been disbursed to National Sustainable Tourism certified customers for enhancing their sustainable tourism practices.

## Lending for Sustainability Certified entities

Sector	Description	Certification or sub description	No. of credit facilities	Value of the outstanding credit facilities as at 31/12/2023 (Rs Mn)
Agriculture, Forestry and Logging	Sustainable certified agriculture business	GLOBAL G.A.P. certification	3	1,282
		Other sustainability certificates	33	575
	Sustainable certified tea plantations	Rain forest alliance	10	912
	Sustainable fisheries	Friend of Sea certification	67	859
	Replacement of organic fertilisers	EU Organic certification, USDA(NOP) Organic certification	4	25
	Other	EU Organic Certification – Other crops	51	1,600
Manufacturing	Other sustainable manufacturing	Organic certification for coconut oil	123	3,097
		Sustainability certified Textiles	39	2,792
		Sustainability certified rubber products	38	2,943
		EU Organic, certified Other businesses	78	4,978
Sustainable tourism and recreation		National sustainable tourism certification	21	1,783
Total			467	20,846



Promote peaceful and inclusive societies for sustainable development provide Access to justice for all and build effective, accountable and inclusive institutions at all levels

HNB does not provide financial support for production or activities involving harmful or exploitative forms of forced labour or harmful child labour.



### Way forward

HNB has made commendable strides in integrating sustainability and social responsibility into its business strategy. Going forward, priority will be placed on continuing to scale positive impact across the country while proactively managing environmental and social risks. Specifically, HNB will build on its financial inclusion efforts by using innovative technologies and partnership models to reach more unbanked and underserved segments. The bank is encouraged to set concrete targets for growing its sustainability-focused lending portfolio in areas like renewable energy, sustainable agriculture, and SME financing to catalyse entrepreneurship and job creation.

# NATURAL CAPITAL

<p> We recognise that our most substantial environmental impacts stem from our value chain and are dedicated in our efforts to minimise them. Attaining carbon neutrality marked a significant milestone on this journey. We continue in our commitment to reducing our environmental footprint while also addressing the environmental impacts associated with our upstream and downstream activities through innovative and impactful initiatives.</p>	<p><b>Our Natural Capital</b></p>	<p><b>Key Highlights in 2023</b></p>	<p><b>Value Created</b></p>
<p><b>Energy consumption within the organisation</b></p> <p>Electricity from the National Grid</p> <p><b>12.39 GWh</b></p>	<p>Solar power generation</p> <p><b>2,124 MWh (+15%)</b></p>	<ul style="list-style-type: none"> <li>Reaffirming our commitment to the <a href="#">Green Pledge</a></li> <li>Achieving <a href="#">carbon neutrality</a> as a Bank</li> <li>Obtaining Board consent for the <a href="#">Sustainability policy</a></li> <li>Allocating funds for <a href="#">energy efficient operations</a> and <a href="#">practices</a></li> <li>Installing <a href="#">smart carbon calculator system</a> at head office and branches</li> <li>Continuing to <a href="#">digitise</a> and <a href="#">reduce paper usage</a></li> <li>Introducing the <a href="#">HNB Sustainability Excellence Awards 2023</a></li> <li>Recycling plastic bottles</li> <li>Supporting <a href="#">biodiversity conservation</a> projects</li> <li>The <a href="#">#WalktheTalk</a> initiative</li> </ul>	<p>Achieved carbon neutrality during the year</p>
<p>Diesel Consumption</p> <p><b>85,551 Litres (-71%)</b></p>	<p>Material consumption</p> <p><b>61,151 kg (-20%)</b></p> <p>in paper consumption</p>		<ul style="list-style-type: none"> <li>Cut down <a href="#">GHG emissions</a> by 21% through energy efficient operations and practices</li> <li>Reduced <a href="#">paper usage</a> by 20%</li> <li>In collaboration with schools and Eco Spindles, collected and recycled 1,598 kg of plastic bottles.</li> <li>Restored 2.5 acres of forest land</li> <li>Recorded 44,133 Km of cycling and 16,148 Km of walking by employees</li> </ul>

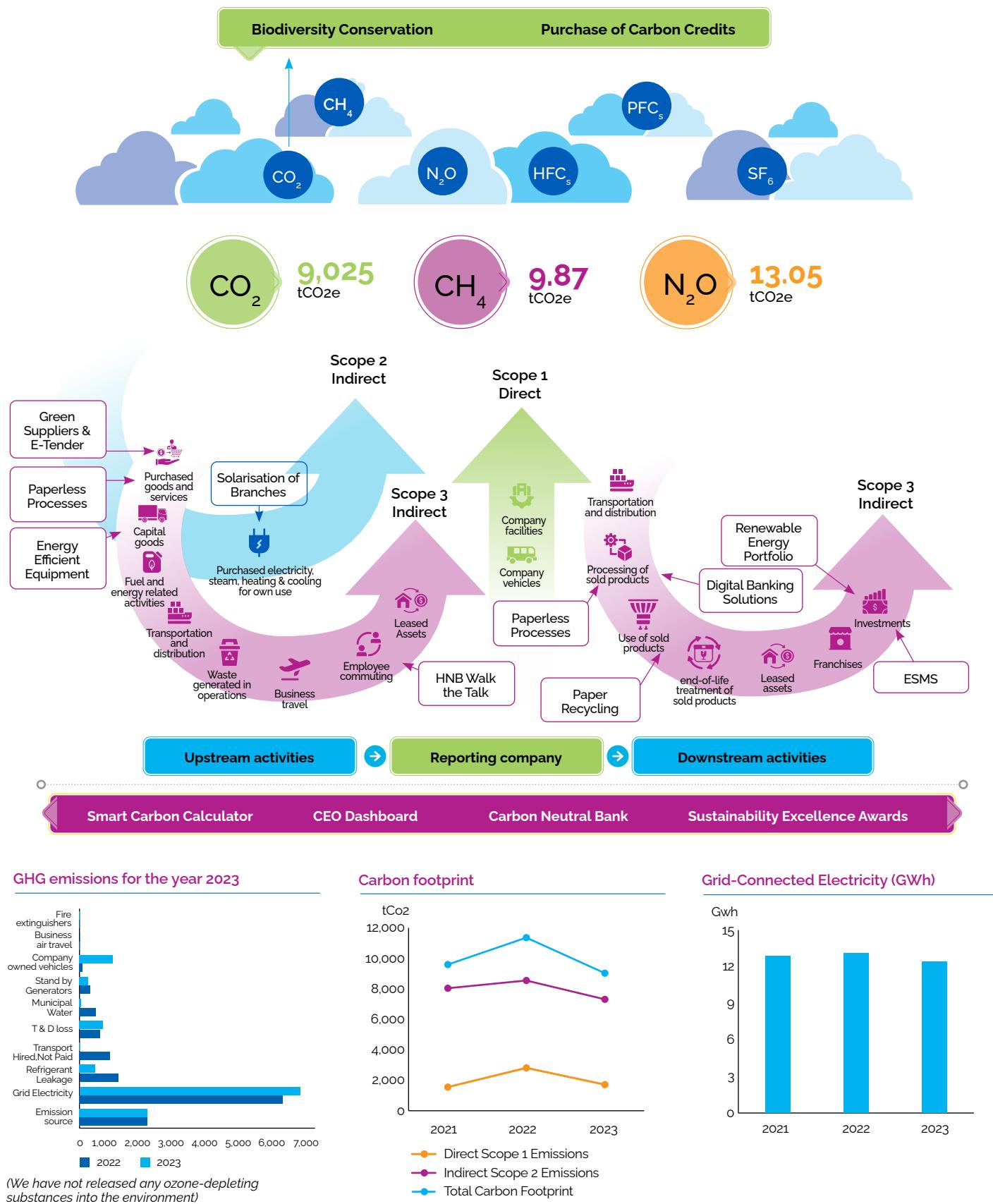


## Understanding our impact on Natural Capital

As a financial institution with a nation-wide branch network that serves all sectors of our country, we recognise that our most substantial environmental impact stems from our value chain. Therefore, this year, we have chosen to adopt a value chain approach for the evaluation, mitigation and disclosure of our climate and broader environmental impacts. The adoption

of a value chain approach has enabled us to arrive at a more comprehensive assessment of the environmental implications associated with every stage of our operation, extending from upstream activities which include procurement and employee commuting through to downstream environmental impacts stemming from our lending activities. Over

the years, we have strived continuously to mitigate the negative environmental impacts stemming across our operations. This year too, we have made considerable strides along this journey persisting untiringly towards a carbon-neutral economy.



# NATURAL CAPITAL

## Integrating ESG into strategy

Our ESG strategy adopts a value chain approach to managing emissions and environmental impacts and focuses on minimising the carbon footprint within the organisation while advocating for sustainable environmental practices both upstream and downstream of our operations.

The Bank's approach to environmental governance is given below,



### In alignment with

- Sri Lanka Sustainable Banking Initiative established by the Sri Lankan Bankers' Association (SLBA)
- Sri Lanka Sustainable Finance Roadmap of the Central Bank Sri Lanka
- ISO 14064-1:2018 certification awarded by the Sri Lanka Climate Fund



### The HNB Sustainability Foundation

- The apex body responsible for driving the Bank's sustainability agenda. The Foundation is responsible for all sustainability related decision making and monitoring within the Bank
- Officers of the foundation include,
  - Chairman of the Foundation MD/CEO
  - NED / NID
  - ED / COO\*
  - DGM – Sustainability and Corporate Communication\*
  - Head of Legal / Board Secretary\*
  - AGM Risk
  - AGM Strategy
  - CFO
  - Head of Marketing
  - Head of Services

\*Resigned in January 2024 and new members have been appointed

### Policy Framework

#### Environmental and Social Management Policy

Aimed at mitigating the environmental and social impacts of our lending activities

#### Green Pledge Policy

Aimed at ensuring resource efficiency and responsible behaviour within the organisation



### Monitoring Performance & Reporting

A range of systems and processes have been implemented to accurately track and report the Bank's ESG performance

- Bi-monthly monitoring of key environmental and social indicators
- Quarterly reporting of sustainability related performance to the Sustainability Foundation through the CEO dashboard
- External sustainability related audit every year
- Internal sustainability audits for selected branches at regular intervals
- Launching the Smart Carbon Calculator system in 2021 to measure and track the Bank's GHG emission
- Reporting of ESMS performance in the Annual Report
- Introducing the Sustainability Excellence Awards

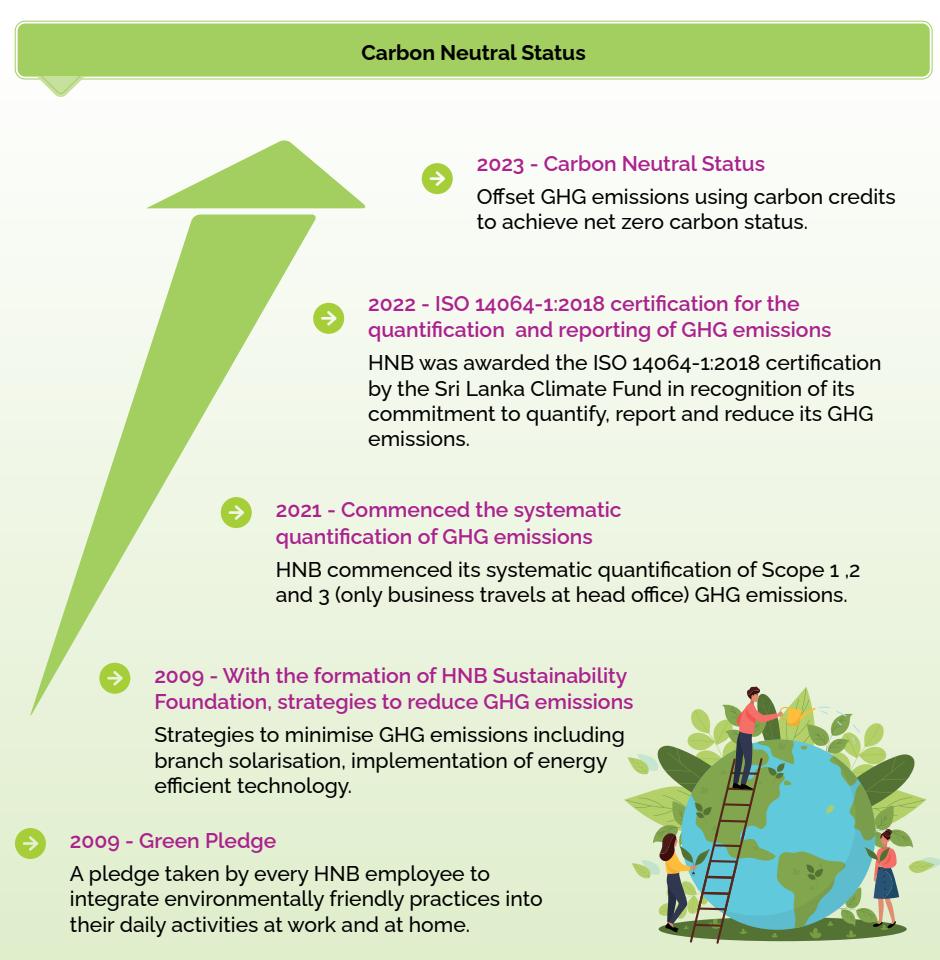
## Achieving carbon neutrality

### Our Carbon Neutral Journey

HNB has upheld its commitment to environmental stewardship, exemplified in our Green Pledge – a promise from each employee to integrate eco-friendly practices both at work and home. To honour this commitment, we have implemented solarisation across almost 37% of our branch network, adopted energy-efficient technology and initiated waste reduction measures across our operations. Since 2021, we have systematically measured, tracked and reported operational greenhouse gas emissions.

In 2022, we took a significant stride in our carbon neutral journey by independently verifying its greenhouse gas emissions and obtaining ISO 14064-1:2018 certification from the Sri Lanka Climate Fund.

In 2023, our efforts reached a pinnacle as we neutralised our greenhouse gas emissions using carbon credits to become the first bank in the nation to achieve net zero carbon status and setting the benchmark for emission management within the industry.



## Financed emissions

As a leading financier in the Sri Lankan banking sector, we understand our capacity to influence climate action through our lending activities. We are committed to supporting the Government's efforts to transition towards a green, inclusive and balanced economy in Sri Lanka. In cognisance of this, we have chosen to address our financed emissions by integrating climate related criteria into our credit appraisal process, while actively supporting our clients in their efforts to transition to a lower carbon operation.

### Integrating ESG in credit and investment appraisals

Our process for managing environmental and social risks enables the identification and ongoing assessment of the environmental and social impacts associated with our customers and partners. Our policies and procedures are aligned with



### 131 Monitoring performance and reporting

### 2 Rejections during the year



Environmental and social considerations have also been built 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. During the year, a gender policy was drafted in collaboration with IFC and will be included in the ESMS from next year.

# NATURAL CAPITAL

## Implementing strategy

Our emission management strategy focuses on the three key value chain areas of Customers, Suppliers and Partners, Operations and Financed Emissions. Efforts to digitalise our operations have significantly reduced the need for customers, suppliers and partners to visit our branch network positively impacting our Scope 3 emissions while reliance on solar energy and improving the energy efficiency of our operations have aided reductions in Scope 1 and 2 emissions. In addition to these, we have endeavoured to identify novel and efficient methods of reducing our climate impact. A synopsis of the steps initiated during the year are given below.

### HNB Saru Gewaththa

Encouraged employees to engage in home gardening and share pictures of their efforts. Promotes sustainable food production and reduces waste.

### HNB Walk the Talk

The initiative attracted 108 cyclists and 263 walkers by tracking their eco-friendly commuting performance through a mobile app and awarding monthly prizes to top performers.

### Renewing the Green Pledge

The renewal of the Green Pledge symbolised HNB's ongoing commitment to environmental stewardship, aiming to establish leadership in proactively addressing environmental concerns and envisioning a future where employees actively reduce resource consumption and champion sustainability.

### Launched the HNB Sustainability Excellence Awards 2023

This initiative seeks to recognise outstanding commitment to sustainability across HNB by comprehensively evaluating sustainable practices, innovative solutions, responsible conduct, and impactful sustainability projects.

### Digitisation

Emphasis on digitisation across the value chain has reduced waste generation from the consumption of paper and Scope 3 emissions stemming from customer and supplier commuting.

#### 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

#### 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



### Enhancing energy efficiency

Ongoing efforts to increase energy efficiency through the installation of LED lighting, energy efficient lifts and invertor air conditioning.

### Solarisation

95 branches out of 254 branches have been solarised as at end-December 2023. 15% of our electricity requirement is met through solar power.

"Our dedication to green initiatives at Hatton National Bank Sri Lanka is reinforced by our credible certifications, which demonstrate our commitment to environmental responsibility and sustainability practices."

### Employees

- Digitisation of internal processes
- E-learning
- Remote work
- E-filing systems
- Octoplex for approval and e mails for internal communications
- Reusing stationery and fixed assets
- Lean Six Sigma initiatives
- Re-engineering business processes
- Robotic Process Automation integration into operations



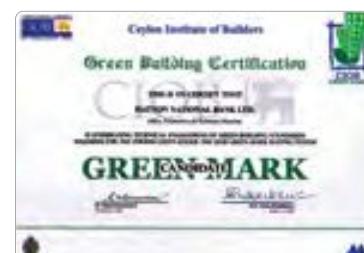
Implemented a smart carbon calculator system to enable monitoring and optimisation of electricity, water, diesel and refrigerant usage across all branches.

### Capacity building

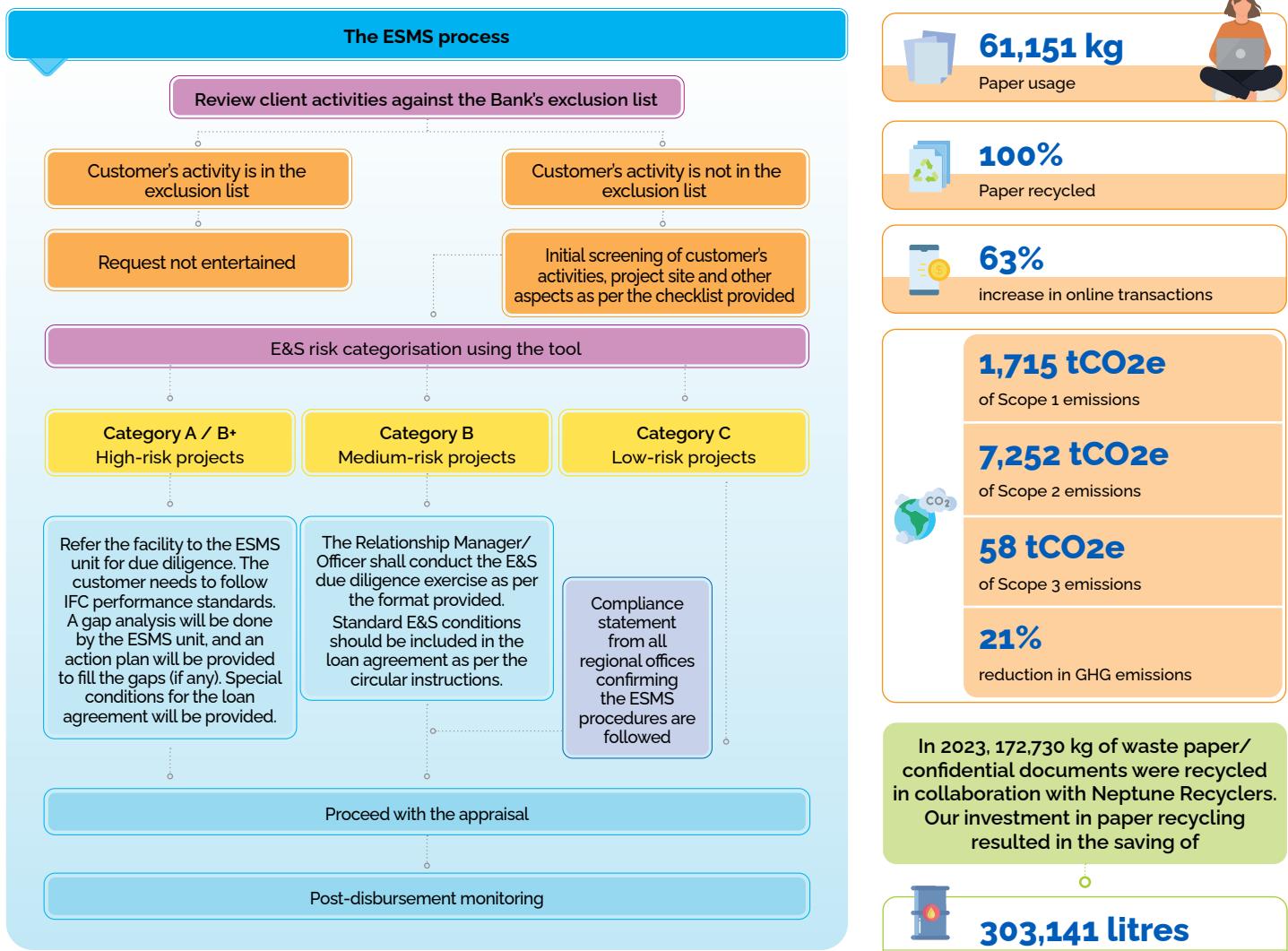
Ongoing efforts to enhance our internal capabilities to identify, evaluate and manage environmental and social risks and opportunities linked to our business operations.

### Waste management

The Bank monitors and adjusts its waste management practices on an ongoing basis, segregating paper waste for recycling and using third-party contractors for safe disposal of e-waste, while initiating new efforts like a plastic bottle recycling programme that sent 1,598 kg of bottles for recycling in the past year.



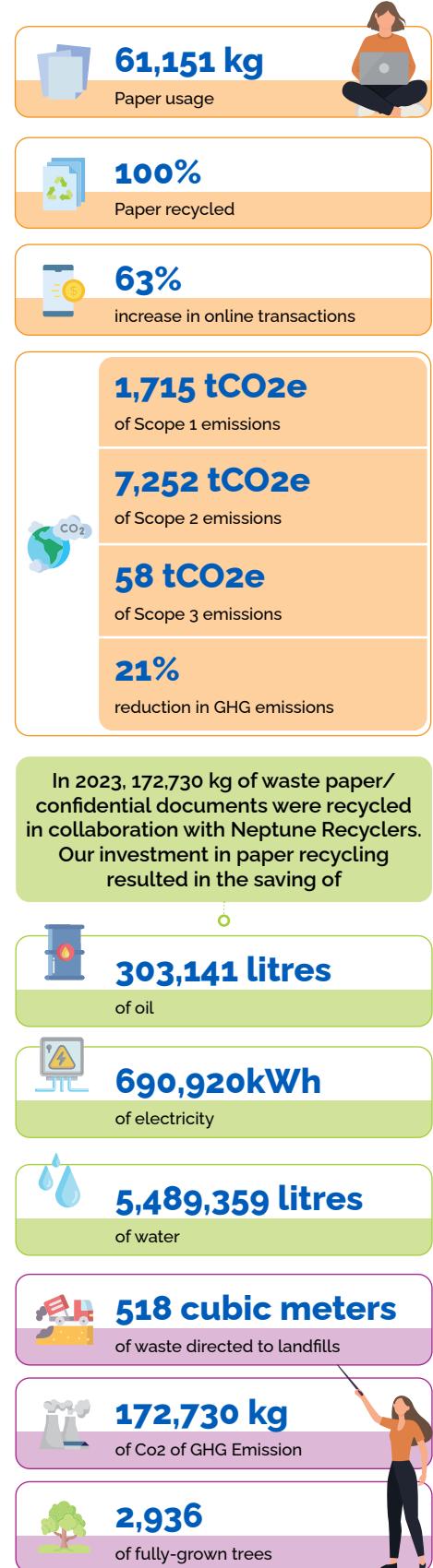
# NATURAL CAPITAL



Description	2023		2022	
	Capacity (MW)	Original amount (Rs Mn)	Capacity (MW)	Original amount (Rs Mn)
Hydro power	49.6	7,479.9	60.4	8,313.6
Wind Power	5.0	381.0	5.0	554.5
Solar energy	34.9	4,756.0	34.9	5,125.0
Biomass	3.3	537.8	3.3	490.0
Waste	10.0	2,748.0	10.0	2,500.0

## Capacity building of clients and partners

We continued to engage with customers through regular awareness sessions and capacity building workshops to educate customers and partners about the imperative to conduct operations in a more sustainable manner, and assisted them on their path toward environmental neutrality.



## Sustainable financing

During the year, our focus included lending to priority sectors and subsectors outlined in the Sri Lanka Green Finance Taxonomy, introduced by the Central Bank of Sri Lanka in May 2022. Concurrently, we continued to provide customers with a variety of environmentally friendly loan schemes as a part of our commitment to fostering sustainable initiatives. Bank lending to these sectors as at end-December 2023 are given below.

Sector (Priority sectors as identified in Sri Lanka's Green Financing Taxonomy)	No. of credit facilities	Value of outstanding credit facilities as at 31.12.2023 (Rs Mn)
Agriculture, forestry and logging	245	6,554
Manufacturing	717	35,557
Electric power generation, transmission and distribution	5	153
Water supply, sewage and waste generation	166	2,967
Sustainable tourism and recreation	5	861
Other sectors (Sustainable women empowerment initiatives, waste-to-energy project and facilities granted to retrofit energy efficient machinery)	348	12,762
<b>Total</b>	<b>1,486</b>	<b>58,854</b>

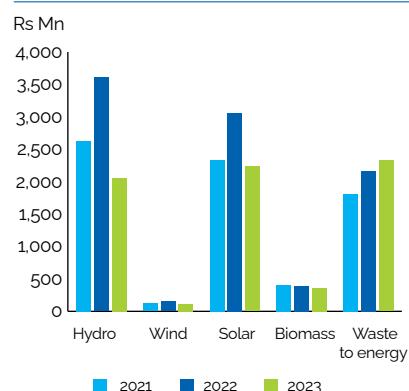
## Biodiversity conservation

### Initiatives related to biodiversity conservation include,

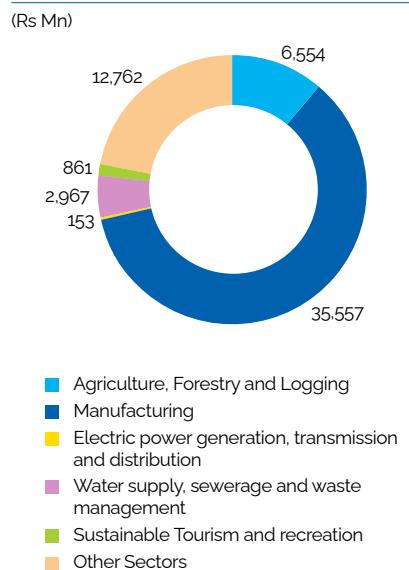
- Restored 2.5 acres of degraded forest land in Kanneliya forest over a 5-year period starting in 2018, with technical assistance provided by IUCN and the Forest Department, while continuing the Kanneliya reforestation programme in collaboration with Biodiversity Sri Lanka to establish a biodiversity credit accrual system for Sri Lanka through reforestation.
- The Bank collaborated with Biodiversity Sri Lanka to organise a special event in honour of the International Day for Biological Diversity. The theme for this year was "From Agreement to Action: Build Back Biodiversity" and encouraged proactive measures in line with the Kunming-Montreal Global Biodiversity Framework.



## Renewable Energy Portfolio



## Sustainable Financing Activities



# NATURAL CAPITAL

## Climate-related risks and opportunities

Sector	Climate related risks	Potential financial impacts
Transition risks	<ul style="list-style-type: none"> <li>Increased emissions related regulations</li> <li>Enhanced emissions related reporting obligations</li> <li>Costs to transition to lower emission technology</li> <li>Increased stakeholder concern on climate related implications</li> </ul>	<ul style="list-style-type: none"> <li>Increased compliance costs</li> <li>Capital investments in technology that reduces GHG emissions</li> <li>Reputational risk arising from increased stakeholder concerns and non-compliance with regulations</li> <li>Costs associated with adopting new practices and processes that reduce GHG emissions</li> </ul>
Physical risks	Acute Increased severity of extreme weather events leading to floods and landslides.	<ul style="list-style-type: none"> <li>Increased costs associated with maintaining infrastructure and increased insurance premiums in 'high-risk' locations</li> <li>Increased impairment costs from sectors vulnerable to extreme weather events</li> </ul>
	Chronic Changes in precipitation patterns and vagaries in weather patterns	<ul style="list-style-type: none"> <li>Increased impairment costs from sectors (eg: agriculture) vulnerable to changes in precipitation patterns and vagaries in weather patterns</li> <li>Increased energy costs associated with inadequate water supply for national hydro-electricity generation</li> </ul>
	<b>Climate related opportunities</b>	<b>Potential financial impacts</b>
	<ul style="list-style-type: none"> <li>Emphasis on enhancing resource efficiency, improving operational efficiencies and recycling</li> <li>Use of more energy efficient technologies and lower-emission sources of energy</li> <li>Access to new markets</li> </ul>	<ul style="list-style-type: none"> <li>Lower operational costs associated with reduced resource consumption (eg: reducing our paper consumption)</li> <li>Minimise vulnerability to fluctuations in energy prices</li> <li>Access to green-financing and financing opportunities in the renewable energy sector</li> </ul>

## Summary of progress against TCFD recommendations

Governance	
Governance around climate related risks and opportunities	
Board's oversight of climate related risks and opportunities	The Board Integrated Risk Management Committee is overseeing all risks including climate-related risks. Also, an independent director is assigned to the HNB Sustainability Foundation, which is the monitoring body for sustainability-related activities in the Bank.
Management's role in assessing and managing climate related risks and opportunities.	The ESMS Unit quarterly presents an ESMS dashboard to the HNB Sustainability Foundation. The Foundation provides guidance to the Unit.
Strategy	
<b>Actual and potential impacts of climate related risks and opportunities on the Bank's businesses, strategy and financial planning.</b>	
The climate related risks and opportunities the Bank has identified over the short, medium and long term.	We are in the process of developing sector-wise scorecards for different climate and ESG related risks, and the assessments will be used for the decision-making process in the future.
The impact of climate related risks and opportunities on the Bank's business, strategy and financial planning.	Climate action is a strategic priority for HNB that we have identified as a material sustainability topic.
The resilience of the Bank's strategy, taking into consideration different climate related scenarios including a 2°C or lower scenario.	HNB has established a Sustainable Finance division to monitor our lending portfolio and advance our commitments to sustainable lending.

Risk management		
<b>The processes within the Bank to identify, assess and manage climate related risks</b>	<p>The Bank's processes for identifying and assessing climate related risks</p> <p>The Bank's processes for managing climate related risks</p> <p>The Bank's processes for identifying, assessing and managing climate related risks are integrated into the organisation's overall risk management.</p>	<p>The bank has an environment and social management system to identify and manage ESG related risks in lending projects, including climate related risks. The bank also identifies material ESG related risks and considers these risks in the Pillar II assessment under capital requirements. The bank uses industry-developed scorecards for this purpose.</p> <p>The ESMS unit consists of qualified staff for the evaluations. The unit exclusively handles ESMS related functions.</p> <p>The ESMS Unit carries out industry-level climate and ESG risk assessments to provide recommendations for the bank on managing and mitigating the risks. During the year, one such assessment was reported and circulated among staff on the apparel sector ESG risks. Another assessment was done on the impacts of the 2023-2024 El Nino on our agriculture portfolio.</p>
Metrics and targets		
<b>Disclose the metrics and targets used to assess and manage relevant climate related risks and opportunities where such information is material</b>	<p>The metrics used by the Bank to assess climate related risks and opportunities in line with its strategy and risk management processes.</p> <p>The Bank's Scope 1, 2 and if appropriate Scope 3 greenhouse gas (GHG) emission and the related risks.</p> <p>The targets used by the Bank to manage climate related risks and opportunities and performance against targets.</p>	<p>We disclose the following related to GHG emission related metrics and climate related risks and opportunities:</p> <p><b>Absolute Scope 1 emissions:</b> Business travel-company owned vehicles, Stand by generators, Refrigerant leakage, Fire extinguishers.</p> <p><b>Absolute Scope 2 emissions:</b> Grid connected electricity.</p> <p><b>Absolute Scope 3 emissions:</b> Business air travel, Business travel hired/rented, Municipal water,T &amp; D loss</p> <p><b>Absolute Scope 1 emissions</b> – 1,715 tCO<sub>2</sub>e  <b>Absolute Scope 2 emissions</b> – 7,252 tCO<sub>2</sub>e  <b>Absolute Scope 3 emissions</b> – 58 tCO<sub>2</sub>e</p> <p>We achieved carbon neutrality during the year by significantly reducing GHG emissions in 2023 and purchasing carbon credits for the remaining emissions which we could not easily reduce or offset.</p> <p>We categorise all lending activities into high, medium or low risk categories according to environmental and social risks, allowing the Bank to implement and manage the critical risks accordingly.</p>

### Way forward

We have set up a forward-thinking vision for sustainability, setting ambitious goals that align with the expectations of our stakeholders and the community we serve. Despite extraordinary circumstances and challenges, we demonstrated resilience and a staunch focus on sustainable business performance, earning us recognition among the top corporate citizens for our efforts. Our commitment to socioeconomic development is reflected in our efforts to empower communities with access to finance, financial literacy, and financial inclusion. We believe in being transparent about our environmental impact and use sustainability reporting as a tool to communicate our environmental risks, opportunities, and practices to our stakeholders. The ongoing strategic initiative of the ESG Roadmap is essential for staying relevant, resilient, and responsive to the changing sustainability landscape, ensuring that we are on a trajectory of continuous improvement.

# INTELLECTUAL CAPITAL



Our intellectual capital, shaped by tacit knowledge garnered over 135 years, a strong brand and a relentless commitment to continuous improvement has enabled us to remain agile in an evolving and competitive banking landscape. This commitment has not only propelled our sustainable growth but has also earned recognition both internationally and locally.

## Our Intellectual Capital

### Brand value

**Rs 25 Bn**  
(+3%)

Tacit knowledge and collective experience of longstanding employees

- > **15 years** of service  
**2,414**
- > **10 - 15 years** of service  
**621**
- > **5-10 years** of service  
**560**

Systems and processes fine-tuned over

**135 years**  
of operations

## Key Highlights in 2023

**Rs 171 Mn**  
investment in brand building initiatives

## Value Created

**6th** most valuable brand in the country in **2023**  
(Brand Finance)  
(**2022: 9th**)

**Best Retail Bank**  
for the **13th time**

**3 new**  
products  
launched

**3.4 times**  
**productivity**  
**improvements**

through RPA initiatives



## Brand Identity

Transforming our touchpoints to reflect our vibrant new brand identity and communicating our new brand ethos continued during the year. Unveiled in 2022, our new brand identity aims to align HNB's rich legacy of 135 years to the simple and singular idea that we make banking enjoyable for all. This underscores the lasting impression we aspire to create, following any encounter or engagement with HNB within any environment.

During the year, 10 branches, and 66 offsite ATM's along with 116 new sign boards were transformed to align with the new brand identity. A strong ATL campaign was also employed to increase the visibility of the new brand and reach a wide audience. In addition to enhancing the visibility of our brand, our focus included differentiating our brand through a range of innovative products while elevating its relevance through community engagement.

### Deal easy

Making our touchpoints efficient, simple, and agile to make our customers comfortable

### Feel special

Making customers feel valued by being personal and respecting their needs



### Count on us

Emphasising that our customers can rely on us by being transparent and informative while reassuring the best service

### We know you better

Making our customers feel seen by proactively delighting them

**+3% in brand value to Rs 25 Bn in 2023**

**6th most valuable brand in Sri Lanka in 2023 (2022: 9th)**

**Won the Brand of the Year - Bronze in the Service Category after 20 years**

## Process Improvements

Ongoing efforts to enhance efficiency and flexibility while striving for service and operational excellence led to the following improvements to our processes during the year.

### Process Automation

- Robotic Process Automation (RPAs) were implemented during the year across Custody Banking and Trustee Services, and insurance renewal process for leases and loans. Automation through robotics enabled efficient centralisation of the insurance renewal process with a productivity improvement of approximately 3.4 times. Additionally, quality of data and controls were improved and staff was availed with more bandwidth to better engage customers.
- The Robotic Process Automation initiatives at Custody Department allows employees to focus on more specialised tasks, enabling upscaling. RPA implementation drastically reduced processing time by almost 90%, allowing for trade reports to be given on the same day (T) as opposed to the following day (T+1). Furthermore, the time taken for Equity and Margin settlements reduced significantly by approximately 96%.

### Business Processes and Quality Improvements

- Account opening process was automated reducing the account opening time by implementing the LIME system.
- Centralised Operations Department, Inward Remittances and Outward Remittances departments successfully achieved ISO 9001: 2015 quality certification as part of a broader initiative by the Bank to implement ISO 9001 quality standards across the centralised processing departments and support functions to improve process standardisation, quality and efficacy to facilitate improved customer experience and continuous improvement.
- In addition credit card issuance and leasing processes were reviewed and improvements were made on the turn around times.

# INTELLECTUAL CAPITAL

## Harnessing our Tacit Knowledge

"In the ever-changing landscape of the banking sector, the collective tacit knowledge and expertise within our team are vital for maintaining a competitive edge. This wealth of experience provides deep insights, guiding us in innovation, improving efficiency, elevating customer service, adapting to evolving needs and operational challenges. Our continuous efforts to enrich tacit knowledge involve investments in training and development, promoting talent mobility for skill growth, fostering knowledge sharing, creating certified internal faculty, and prioritising leadership development. Safeguarding this wealth of tacit knowledge is a fundamental focus at HNB, supported by a strong employee value proposition". (Refer Human Capital page 56 for more details).

## New Product Development

Delivering a relevant product offering is integral to 'Making Banking Enjoyable' for our customers. AI and data driven insights into evolving customer needs and commitment to innovate has enabled us to consistently develop new products that cater to their evolving needs. During the year, we introduced the following new offerings.



### HNB Easy Draft

HNB Easy Draft is a type of hybrid overdraft facility offered to business borrowers to meet short term working capital requirements to facilitate business revival and urgent cash flow requirements to carry out day to day business activities



### Mudharabha Salary Smart Account

Mudarabah Salary Smart is a product made available by the Bank to salaried customers who draw a monthly salary of over Rs 55,000/- This works under the concept of Mudarabah



### Open Account Export Loan

The Open Account Export Loan (OAE) is designed to cater to the working capital funding requirements for open account exporters in order to fulfil their sales obligation and/or to bridge their cash flow gap post sales until the settlement of payment by their buyers



## Awards and Accolades

Our commitment to achieving excellence across all facets of our operations have been acknowledged both locally and internationally across the years. This recognition has contributed significantly to enhancing our brand value. During the year, we were awarded the following international and local awards.

International	Local
<ul style="list-style-type: none"> <li>• Best Retail Bank in Sri Lanka for the 13th occasion, at the Global Excellence in Retail Financial Services Awards 2023 hosted by the Asian Banker, Magazine</li> <li>• Best SME Bank in Sri Lanka at Asia Money Awards 2023</li> <li>• Best Trade Deal of the year award by the Asian Development Bank (ADB)</li> <li>• 'Best Service in Trade Finance (Asia Banks)' and 'Market Leader in Trade Finance (Asia Banks)' for 2023 by the Asiamoney Magazine</li> <li>• 'Best Service in Trade Finance' and 'Market Leader in Trade Finance' at the Euromoney Awards 2023.</li> </ul>	<ul style="list-style-type: none"> <li>• Best Corporate Citizen Sustainability Award 2022 presented by the Ceylon Chamber of Commerce, <ul style="list-style-type: none"> <li>- Overall winner of the "Best Corporate Citizen Sustainability Award" for 2022</li> <li>- Overall sector winner for Finance</li> <li>- Corporate Governance category award winner for Corporate Governance</li> <li>- Runner up for "Demonstrating resilient practices in the COVID-19 context"</li> </ul> </li> <li>• No 5 in the Business Today Top 40 companies' rankings</li> <li>• Recognised among the Top 10 Most Admired Companies in Sri Lanka 2022 for the fifth consecutive year by AICPA, CIMA and ICCSL</li> <li>• Winner of the "Bank of the Year for Excellence in Customer Convenience" at the LankaPay Technovation Awards 2023</li> </ul> <ul style="list-style-type: none"> <li>• Bronze winner in the Service Brand of the year at SLIM Brand Excellence Awards</li> <li>• 5 awards including gold and bronze at the SLIM National Sales Awards 2023</li> <li>• Best Card Base Campaign Partner at the Daraz Payment Partner Performance Awards 2023</li> <li>• Sri Lanka Technology Excellence Award for Robotics - Banking at the Asian Technology Excellence awards 2023 for the integration of Robotic Process Automation in Custody Banking and Trustee Services</li> <li>• Three gold awards at the Sri Lanka Islamic Banking and Finance Industry awards (SLIBFI) 2023. <ul style="list-style-type: none"> <li>- The prestigious Islamic Finance Entity of the year</li> <li>- Islamic Finance Window / Unit of the year</li> <li>- Mr Hisham Ally recognised with Transformative Leadership Award</li> </ul> </li> </ul>



# MANUFACTURED CAPITAL



Our Manufactured Capital contributes significantly in enabling accessibility and delivery of comprehensive and inclusive banking solutions to our diverse customer base. We have consistently invested in enhancing our in-person banking experience, upgrading branch layouts while also creating happy and bright workspaces for our team.

## Key Highlights in 2023

Revamping the branch network to reflect the new brand ethos

**Rs 1.4 Bn**  
investment in PPE

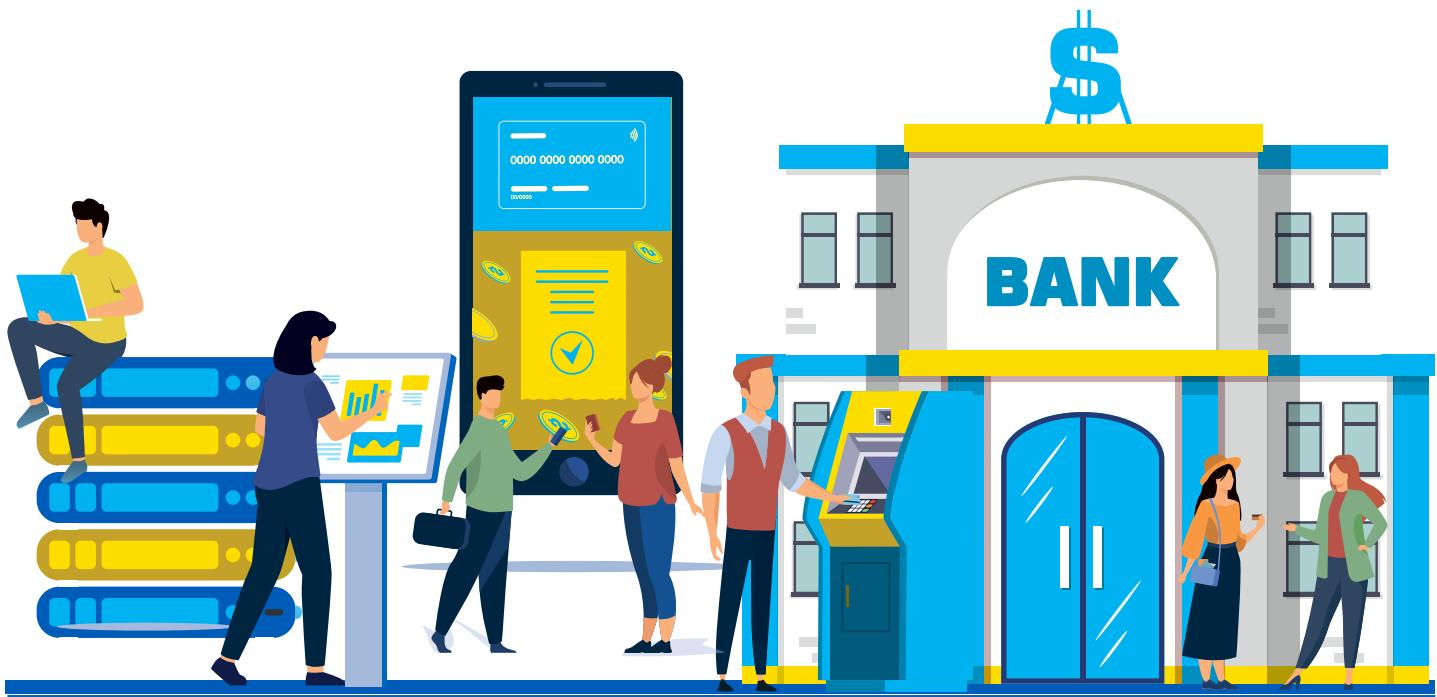
## Value Created

**100 branches**  
redesigned to reflect the new brand ethos

Made '**Banking More Enjoyable**' for our customers through branch designs that simplified the **customer banking experience**

Created workspaces that are '**Happy and Bright**' for our team

Ongoing commitment to **greening our physical spaces**



## Our Banking Infrastructure

HNB operates with an extensive branch network across the island, providing accessibility to customers who value an in-person banking experience. These branches are strategically positioned in prominent areas within key towns and cities of Sri Lanka. A significant portion of these

branches is owned by the Bank, contributing to its substantial property, plant and equipment base.

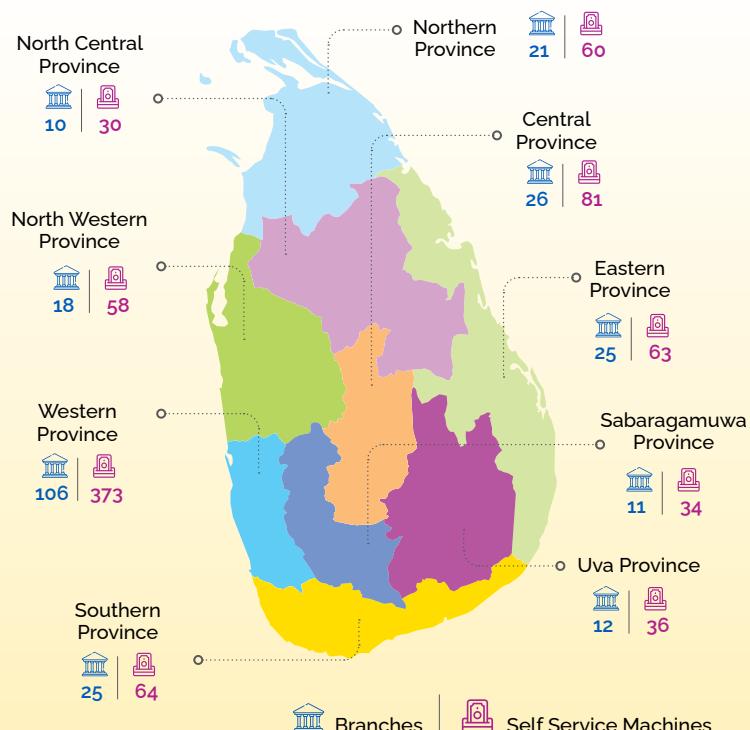
Sithma Development Ltd, HNB's 100% owned subsidiary, owns its corporate headquarters - HNB Towers – a 22 floor

commercial property that serves as the Bank's Head Office while also offering Grade A office space for lease. HNB Towers is equipped with numerous contemporary and innovative features including Building Management System and CCTV system, enhancing its appeal for potential tenants.

## Rolling out the New Brand Ethos across the Branch Network

The Bank continued to upgrade its branches to reflect the new brand ethos rolled out in 2022. This encompassed the redesign of facades, signages, colour schemes and branch layouts in line with the Bank's customer proposition of "making banking more enjoyable". During the year, 10 branches and 66 offsite ATMs along with 116 new sign boards in the branch network were upgraded while a further 100 branches are planned for the coming year.

HNB is also currently reassessing and redesigning its branch layout. The new branch concept, is designed to enhance the customer journey, improving engagement, simplifying the experience, and fulfilling all customer needs. The space includes experimental zones, lounges and sitting areas, self-help kiosks and swift, user-friendly digital screens. The design of the space also takes into consideration service duration; the front is dedicated to swift transactions and features a digital zone that is available 24/7 while the rear is tailored to assist customers requiring more comprehensive support.



## Creating 'Happy and Bright' Workspaces

As we evolve into a future-ready workplace, we are committed to providing well-designed, modern and comfortable work environments that motivate and inspire our team. We are exploring innovative concepts, including open plan offices and hot desking, with the overarching aim of creating 'Happy and Bright' work spaces for our employees.



**96**  
branches

solar power  
installations



**2.5 MW**  
solar power

generation  
capacity



## Greening our Physical Footprint

The sustainable management of our physical footprint is of strategic importance to the Group. All branches suitable for solar power have been equipped with solar panels. Moreover, we actively embrace sustainable property management practices including the installation of LED lighting, inverter technology, space optimisation and natural lighting across all our premises. We have also implemented a robust building management system to enable the efficient use of resources within our premises.

### Way Forward

We will continue to realign our physical footprint to reflect the new brand proposition, aiming to create sustainable spaces that optimise the customer experience and inspire our team.

## BOARD OF DIRECTORS



⊕ Jonathan Alles  
Managing Director /  
Chief Executive Officer  
(Executive Director)

⊕ Nihal Jayawardene PC  
Chairman / Director  
(Non-Independent /  
Non-Executive Director)

⊕ Madura Ratnayake  
Director  
(Independent /  
Non-Executive Director)

⊕ Devaka Cooray  
Director  
(Senior Independent /  
Non-Executive Director)

⊕ Dilshan Rodrigo  
Director  
(Executive Director /  
Chief Operating Officer)  
Resigned w.e.f. 12th January 2024



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⊕ Prawira Rimoe Saldin  
Director  
(Non Independent /  
Non-Executive Director)

⊕ Kithsiri Gunawardena  
Director  
(Non-Independent /  
Non-Executive Director)

⊕ Shiromi Hallooqua  
Company Secretary

⊕ Osman Chandrawansa  
Director  
(Independent /  
Non-Executive Director)

⊕ Dr Prasad Samarasinghe  
Director  
(Non-Independent /  
Non-Executive Director)

⊕ Rasitha Gunawardana  
Director  
(Independent /  
Non-Executive Director)

# BOARD OF DIRECTORS

## Nihal Jayawardene PC

*Chairman*

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

LL.M (Lond), President's Counsel

**Appointed:** August 2021

Appointed Chairman : June 2023

### Skills & Experience:

Mr Jayawardene, who is a distinguished old boy of St. Anthony's College – Kandy, 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 extensive experience in Public Enterprises reforms programmes carried out in the areas of Insurance, Telecommunication, Aviation, Port & Shipping and Plantation sectors.

In recognition of his 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 Companies Act, Civil Aviation Authority Act, Civil Aviation Act, and the Colombo Port City Economic Commissions Act. In December 2023 as the Chairman of a Committee appointed to review the Bills of Exchange Ordinance he submitted comprehensive recommendations to the Minister of Justice.

### Other Current Appointments:

He is presently the Chairman of Company Law Advisory Commission and a member of Board of Governors of the 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 Jayawardene has served as the Founder Chairman (NED) of Lanka Sathosa Limited, a Director (NED) of Hotel Developers Lanka Limited from 2004 to 2015, a Director (NED) of Milco (Pvt) Ltd from 2005 -2008 and also served as a Director (NED) of People's Leasing and Finance PLC. Mr Jayawardene has also been a Member of the Board of Civil Aviation Authority of Sri Lanka for more than 12 years.

## 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 37 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 a member of Sri Lanka Institute of Directors.

A dynamic Banker and a corporate leader, Mr Alles has contributed vastly to HNB's macro development with the Bank now operating through 254 customer centres. Under his leadership, HNB underwent a transformational journey, in every sphere of the business, particularly in digital evolution and customer centricity. During his tenure at the helm, HNB has won multiple awards in multiple categories, both locally and internationally. 'The Best Bank', 'Best Retail Bank', 'Best SME Bank', 'Best Microfinance

Bank', 'Best Trade Bank', 'Best Islamic Bank', Digital, Technology, Transformation and Productivity awards to name a few, and most of these on multiple occasions. This includes being adjudged the 'Best Corporate Citizen in Sri Lanka 2022' by the Ceylon Chamber of Commerce, being among the 'Top ten most admired companies in Sri Lanka' by CIMA and ICC for the fifth consecutive time.

Mr Alles has been conferred the award 'CEO with HR orientation' at the Global HR Excellence Awards 2016 sponsored by CIMA and 'Hall of Fame' title for outstanding business leadership, by Colombo Leadership Academy in 2019. He has also been bestowed with 'CEO Leadership Achievement Award for Sri Lanka in 2019' and 'Leadership Achievement Award for Best COVID-19 Response in Sri Lanka' at the Asian Banker Leadership Awards.

## Previous appointments

He served on many Boards within the HNB Group as well as in the Banking Industry. He was the Chairman (NED) of Sri Lanka Banks' Association (Guarantee) Ltd from 2013 to 2015 and in 2018, he was elected Chairman (NED) of Asian Bankers Association (ABA) for the period 2018 to 2021 and was the Chairman of ABA Advisory Committee from 2021 to 2023. He also served as the Chairman (NED) of Sri Lanka Banks' Association (Guarantee) Ltd, 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 Sithma Development (Pvt) Ltd and Director (NED) of Lanka Clear (Pvt) Ltd, HNB Assurance PLC, HNB General Insurance Ltd and Acuity Stockbrokers (Pvt) Ltd. He served as a member of the Main Committee of the Ceylon Chamber of Commerce and was also a Founder Member/Director of the Advisory Committee of Sri Lanka Business & Biodiversity Platform.

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

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

**Appointed:** October 2018

**Skills & Experience:**

A Chartered Engineer, Mr Ratnayake holds a MBA from the Postgraduate Institute of Management (Sri Jayewardenepura), a First Class Honours Degree in Software Engineering from City University in London and Dip.in Computer System Design (NIBM) Sri Lanka.

Mr Ratnayake 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 President of Scybers (Pvt) Ltd, a global cybersecurity consulting and managed services company and Director (IND/NED) of hSenid Business Solutions PLC, the 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 (IND/NED) 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**  
**Senior Independent Director**  
(Independent / Non-Executive Director)

FCA (SL), FCMA (UK)

**Appointed:** July 2020 as Independent Director  
June 2023 Designated as Senior Independent Director

**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 (IND/NED) of United Motors PLC, U M L Property Developments Ltd, U M L Heavy Equipment Ltd, Unimo Enterprises Ltd, Dutch Lanka Trailer Manufacturers Ltd and Dutch Lanka Engineering (Pvt) Ltd. He is also the Managing Director of Management Systems (Pvt) Ltd. He serves as Independent Director (NED) of HVA Foods PLC, JAT Holdings PLC and George Steuart and Company.

**Previous appointments**

Mr Cooray 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.

 **Dilshan Rodrigo**  
**Director**  
(Executive Director / Chief Operating Officer)

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

**Appointed:** July 2020  
**Resigned:** w.e.f. 12th January 2024

**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, 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 centralisation, automation, outsourcing and process improvement initiatives and recognised for driving a performance culture through training, talent acquisition and introducing several breakthrough cost optimisation initiatives.

# BOARD OF DIRECTORS

## 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 (NED) of HNB Finance PLC and holds Directorships (NED) in HNB Assurance PLC, Guardian Acuity 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

Mr Rodrigo 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 Rimoe Saldin

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

FCA (Sri Lanka), ACA (Eng&Wales UK), FCMA (UK), CMA (Australia)

**Appointed:** April 2021

## Skills & Experience:

Mr Saldin is a Fellow of the Institute of Chartered Accountants of Sri Lanka and an Associate of the Institute of Chartered Accountants of England and Wales. He is also a Fellow of the Chartered Institute of Management Accountants in UK and a Certified Management Accountant, Australia. He is an alumni of the Asian Institute of Management Manila. He has over 30 years of top management level experience in the areas of Finance, Human Resource Development, General Management and Operations.

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:

Mr Saldin is currently employed as Director (ED) of Paints & General Industries Limited and Director/Chief Executive Officer of Polypak Secco Limited. He is also the Chairman (NIND/NED) of Chemanex PLC and serves as a Director (NIND/NED) of CIC Holdings PLC. He also serves on the Board of Directors of Akzo Nobel Paints Lanka (Private) Limited, Link Natural Products (Private) Limited, CIC Agri Businesses (Pvt) Ltd and a number of companies in the CIC Group as a Director (NIND/NED). He is the Chairman (NIND/NED) of CISCO Speciality Packaging (Private) Limited. He also is Chairman (NIND/NED) of Sithma Development (Private) Limited and serves as a Trustee of the HNB Sustainability Foundation.

## 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.

### Rasitha Gunawardana

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

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

**Appointed:** January 2022

## Skills & Experience:

Mr Gunawardana is a senior Banker with over 3 decades of experience covering major aspects of Banking. Mr Gunawardana is also a Director (IND/NED) of Richard Pieris Finance Ltd.

## 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) and 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 (NED), Peoples Insurance PLC (NED), Peoples Merchant Finance PLC (NED), Lanka Clear Ltd (Ex-Officio), Institute of Bankers of Sri Lanka (Ex-Officio), Credit Information Bureau of Sri Lanka (CRIB), Peoples Travels Ltd (NED), Peoples Micro Finance Ltd (NED) and Lankan Alliance Finance Ltd - Bangladesh (NED).

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

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

**Appointed:** January 2022

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

Mr Gunawardena 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 Gunawardena is the Chief Operating Officer – LOLC and 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.

 **Dr Prasad Samarasinghe**  
**Director**  
*(Non-Independent / Non-Executive Director)*  
*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 the 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.

Prior to being appointed to the Board of Directors of Hatton National Bank PLC, Dr Samarasinghe functioned as Alternate Director to Mr L U D Fernando from 5th July 2019 to 25th October 2022.

#### **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 (NED) of Hayleys Fibre PLC, serving in its Board from September 2017, and the Chairman and Director General of Sri Lanka Rupavahini Corporation.

 **Shiromi Halloluwa (Ms)**  
**Company Secretary**

**Appointed:** January 2023

Joined Hatton National Bank PLC in June 2000.

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

Law, Banking and Finance, Securities Regulations, Company Secretarial Practice.

She is an Attorney-at-Law who counts over 23 years of service in the Bank and has completed 28 years of practice in the Legal Profession.

#### **Other Current Appointments**

Head of Legal of HNB PLC and Member of the Bar Association of Sri Lanka, Association of Corporate Lawyers - Sri Lanka, Colombo Law Society and the Association of Board Secretaries of Banks in Sri Lanka.

#### **Previous appointments**

Served as the Company Secretary of HNB Assurance PLC (2012 January – 2016 September), HNB General Insurance Limited (Initial Company Secretary) and HNB Finance Limited (2014 November to 2017 January).

# CORPORATE MANAGEMENT



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



⊕ **Dilshan Rodrigo**  
*Executive Director /  
Chief Operating Officer*  
M.B.A. (Cranfield), F.C.M.A.(UK), C.G.M.A.,  
F.C.C.A. (UK)  
(Resigned w.e.f. 12th January 2024)



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



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



⊕ **Chiranthi Cooray**  
*Deputy General Manager - Sustainability  
and Corporate Communication*  
FCMA (UK), CGMA, M.B.A. (Wales), S.C.P. SHRM  
(USA), I.P.M.A. - CP (USA), M.C.I.P.M. (Sri Lanka)  
(Resigned w.e.f. 24th January 2024)



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



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



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



⊕ **Arjuna Abeygunasekara**  
*Deputy General Manager  
- Treasury & Markets*

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



⊕ **Nirosh Perera**  
*Deputy General Manager /  
Chief Credit Officer*

M.B.A. (Manipal),  
Dip. in Marketing - L.B.S. (Sri Lanka)



⊕ **Rajive Dissanayake**  
*Deputy General Manager  
- SME & Micro Finance*

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



⊕ **Hisham Ally**  
*Deputy General Manager  
- Islamic Banking*

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



⊕ **Tyronne Hannan**  
*Head of Custody and Trustee Services*

M.B.A (Australia)



⊕ **Majella Rodrigo**  
*Assistant General Manager  
- Corporate Banking*

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



⊕ **Indrajith Senadhira**  
*Assistant General Manager - Services /  
Chief Employee Experience Officer*

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.C.I.P.M.

# CORPORATE MANAGEMENT



⊕ Druvinda Vaidyakularatne  
Assistant General Manager – Information Technology / Chief Information Officer

F.B.C.S. (UK), EMBA (PIM, Sri J)



⊕ Vinodh Fernando  
Head of Micro Finance



⊕ Sisira Atapattu  
Assistant General Manager – Recoveries



⊕ Kanchana Karunagama  
Assistant General Manager – Personal Financial Services

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



⊕ Supun Dias  
Assistant General Manager – Network Management

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



⊕ Sivarajah Nandakumar  
Assistant General Manager – Operations

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



⊕ Kailavasan Indravasan  
Assistant General Manager / Chief Human Resources Officer

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



⊕ Vijaya Vidyasagara  
Assistant General Manager – Emerging Corporates & Project Finance

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



⊕ **Dilunika Jayasinghe**  
*Assistant General Manager  
- Credit Operations & Administration*  
M.B.A. Finance (USQ, Australia), F.C.A (Sri Lanka),  
B.Sc. (Colombo), A.C.S.I. (UK)



⊕ **Priyanka Wijayarathne**  
*Assistant General Manager - Strategy*  
M.B.A. (Sri J), A.C.M.A. (UK), C.G.M.A.,  
B.Sc. (Colombo)



⊕ **Chammika Weerasinghe**  
*Assistant General Manager  
- Digital Business*  
M.B.A. (Sri J), M.C.I.M. (UK)



⊕ **Neil Rasiah**  
*Assistant General Manager - Compliance*  
M.B.A. Finance (USQ, Australia), M.A Financial  
Economics (Colombo), B.Sc. (Colombo), A.I.B.  
(Sri Lanka), Dip. in Int. Trade (IBSL)



⊕ **Anuradhi Delage**  
*Assistant General Manager /  
Chief Financial Officer*  
F.C.A. (Sri Lanka), A.C.M.A (UK), C.G.M.A.,  
B.Sc. Accountancy (Sri J)



⊕ **Suresh Emmanuel**  
*Assistant General Manager  
- Information Security /  
Chief Information Security Officer*  
M.B.A (Cardiff - UK), F.B.C.C. (UK), B.Sc. Computer  
Science (IIC Uni.), C.I.S.S.P (USA), C.I.S.M (USA),  
C.I.S.A (USA), C.D.P.S.E. (USA), G.C.C.P (USA)

## SENIOR MANAGEMENT



⊕ **Saumya Aryasinha**  
*Head of Employee Banking*  
(Retired w.e.f. 5th February 2024)



⊕ **Priyantha Seneviratne**  
*Chief Manager - Treasury  
(Corporate Sales)*  
A.C.I.



⊕ **Tissa Nanayakkara**  
*Head of Card Operations*



⊕ **Sothiratnam Mathanan**  
*Chief Manager - Credit Operations*  
M.B.A. (Australia), F.A.B.E. (UK)



⊕ **Rajeev Rajaratnam**  
*Head of IT Project Delivery  
& Portfolio Management*  
A.I.B. (Sri Lanka)



⊕ **Somaskandasarma Narendhiran**  
*Regional Business Head  
- Colombo Region*  
M.B.A. (UK)



⊕ **Sampath Kukulevithana**  
*Regional Credit Head  
- Colombo Region*  
M.B.A. (Manipal), Dip. in Marketing (UK)



⊕ **Thusitha Ediriweera**  
*Chief Manager - Legal (Recoveries)*  
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.



⊕ **Viranga Gamage**  
*Head of Deposits*  
LL.B (Sri Lanka), M.B.A (Colombo),  
Attorney-at-law



⊕ **Shiromi Halloluwa**  
*Head of Legal/Board Secretary*  
Attorney-at-Law & Notary Public,  
Company Secretary



⊕ **Murtaza Normanbhoy**  
*Chief Manager - Internal Audit*  
F.C.A. (Sri Lanka), F.C.M.A. (Sri Lanka)



⊕ **Rajeev Perera**  
*Head of Human Capital Operations*  
M.B.A. (UK)



⊕ **Udara Pathinayake**  
*Head of Pawning*  
M.B.A. (Uni. of Preston - USA)



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



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



⊕ **Dilanka De Silva**  
*Chief Manager - Head Office Branch*  
A.C.I.M. (UK), A.I.B. (Int. IBSL)



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



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



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



⊕ **Rukshan Senaratne**  
*Chief Manager - Centralised Credit  
Operations*  
M.B.A. (Malaysia)



⊕ **Gauthami Niranjan**  
*Head of Cards*  
C.M.A. (Sri Lanka), M.B.A.  
(Edith Cowan University - Australia)



⊕ **Angelina Dharmaraj**  
*Head of Centralised Credit Administration*  
M.B.A. (UK), A.C.S.I. (UK), A.I.B. (Sri Lanka)

# SENIOR MANAGEMENT



⊕ **Susith Perera**  
*Head of Leasing*  
A.I.B. (Sri Lanka)



⊕ **Bandula Monnekulama**  
*Regional Business Head - North Central Region*  
N.D.T. - Agriculture (HTT)



⊕ **Deepal Udukumbura**  
*Regional Credit Head - North Central Region*  
N. Dip. Technology (Hardy TTI), P.G. Dip Management (Rajarata)



⊕ **Vindhya Wijegunawardane**  
*Head of Customer Experience*  
M.B.A. (Cardiff Metropolitan University, UK)



⊕ **Pasindu Dharmasiri**  
*Head of Payment & Cash Management*  
B.Sc. (Hons.) - IT (London Metropolitan Uni. - UK),  
M.Sc. (IT) - (Charles Sturt Uni. - Australia)



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



⊕ **Shankar Dharmaratne**  
*Head of Digital Innovations & Partnerships*  
B.Sc in Business Administration  
- University of Coventry (UK)



⊕ **Rozanne De Almeida**  
*Head of Trade*  
A.I.B. (Sri Lanka)



⊕ **Roshantha Jayatunge**  
*Head of HR Strategy and Talent Development*  
A.I.B. (Sri Lanka), Professional Certified Coach (ICF)



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



⊕ **Daphne Gamage**  
*Senior Manager - Inward Remittances/SWIFT*  
M.B.A. (UK)



⊕ **Sivasaravanabavan Sunthareswaran**  
*Head of HR Business Partnering*  
M.B.A. (Manipal), BSc Hons. (Agriculture)



⊕ **Upul Adikari**  
*Head of Marketing*  
M.B.A. (Sri J.), Chartered Marketeer, FSLIM (SL)  
MCIM. (UK), P.Mkt (SL)



⊕ **Siddique Faleel**  
*Senior Manager - Recoveries*  
M.B.A. - Finance (USQ, Australia)



⊕ **Amila Ranasinghe**  
*Senior Manager - MI & Analytics*  
A.C.M.A. (UK), C.G.M.A.



⊕ **Shalindra Karunaratne**  
*Regional Credit Head - Southern Region*



⊕ **Manoj Pitadeniya**  
*Head of Centralised Credit Monitoring*  
A.I.C.A (UK), A.I.C.M (UK), A.I.C.M (Sri Lanka),  
Diploma in Credit Management



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



⊕ **Michelle De Silva**  
*Head of Private Banking*  
Professional Certified Coach (ICF), Investment  
Advisor (SEC)



⊕ **Rohana Amarasiri**  
*Head of IT Payment Channels*  
B.Sc. in Physical Science (Sri J), M.B.C.S. (UK)



⊕ **Vathulan Ganeshan**  
*Regional Business Head - Greater  
Colombo Region*



⊕ **Rajitha Wijenayake**  
*Regional Business Head  
- Southern Region*  
N.D.E.S (Mechanical Engineering)

# SENIOR MANAGEMENT



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



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



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



⊕ **Ajith Kandaramage**  
*Senior Manager - IT Procurement*  
B.Sc. in Computer Networks & Systems Security  
(North West, USA), M.B.C.S. (UK)



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



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



⊕ **Sujeewa Jayasinghe**  
*Regional Operations Head - Colombo Region*  
AIB (SL), MBA - Finance (Colombo)



⊕ **Harsha Wickramasinghe**  
*Regional Business Head - Central Region*  
M.B.A (Cardiff - UK)



⊕ **Chaminda Abeyasinghe**  
*Head of Analytics & Artificial Intelligence*  
Dip. in Computer Programming, System Analysis  
& Design, Masters in Information Technology  
(University of Keele, UK), M.B.C.S. (UK), A.C.S  
(Australia)



⊕ **Sathiyamoorthy Amalan**  
*Regional Credit Head - North Western Region*  
Dip. in Business Management (ACHE), M.B.A.  
Finance (University of Southern Queensland,  
Australia), C.M.A. (Australia)



⊕ **Eshan Jayaratna**  
*Senior Manager - City Office*  
LL.B (Buckinghamshire New University)



⊕ **Nithianantham Kethiswaran**  
*Head of SME - Products & Partnerships*

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



⊕ **Nadun Gomes**  
*Head of IT PMO*

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



⊕ **Nishanthan Karunairaj**  
*Regional Business Head - Northern Region*



⊕ **Sithy Rumaiza Faaiz**  
*Senior Manager - Legal Operations*

Attorney-at-Law



⊕ **Roshan Anuradha**  
*Senior Manager - Operations*

M.B.A (UK)



⊕ **Azyan Hameed**  
*Senior Manager - Card Systems*

B.Sc. (MIS), ACMA (UK), MBCS (UK), Higher Dip. in Computer Based Information Systems (NIBM Sri Lanka).



⊕ **Gayathri Ganeshan**  
*Senior Manager - Talent Development*

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



⊕ **Iranjan Fernando**  
*Regional Operations Head - Uva/Sabaragamuwa Region*

M.B.A (Cardiff Metropolitan, UK), Diploma in Credit Management (IBSL)



⊕ **Duminda Premathilaka**  
*Senior Manager - Maharagama Branch*



⊕ **Sumathy Subramaniam**  
*Senior Manager - Wellawatte Branch*



⊕ **Diva Devasagayam**  
*Senior Manager - IT Security & Assurance*

M.B.C.S. (UK)

# SENIOR MANAGEMENT



⊕ **Samuddika Mendis**  
*Senior Manager - Kollupitiya Branch*  
A.I.B. (Sri Lanka), MBA (Cardiff Metropolitan, UK),  
CMA (UK)



⊕ **Senarath Nagahapitiya**  
*Regional Operations Head  
- North Central Region*  
DPHRM (CIPM), Diploma in Agri. (SLSA),  
Certificate in Financing Micro Enterprises (IBSL)



⊕ **Lasitha Ranathungha**  
*Regional Business Head - Uva/  
Sabaragamuwa Region*  
A.I.B. (Sri Lanka), MSc in Management (Sri J.),  
Diploma in Credit Management (IBSL)



⊕ **Eranga Abeywickrama**  
*Senior Manager - Galle Branch*  
MBA (Cardiff), Dip. in Credit Management (IBSL),  
Diploma in Digital Marketing (DDM - SLIM)



⊕ **Krishan De Silva**  
*Senior Manager - Panadura Branch*  
M.B.A (Cardiff, UK), A.I.B. (Sri Lanka), PQHRM  
(CIPM-SL), Dip. in Marketing (LBS)



⊕ **Nirosh Edirisinghe**  
*Senior Manager - Negombo Branch*  
MBA (Sri J.), A.C.M.A (UK), C.G.M.A, A.C.S.I (UK),  
A.I.B. (Sri Lanka)



⊕ **Chamin Kodikara**  
*Senior Manager  
- Cinnamon Gardens Branch*  
MBA (Anglia Ruskin), BSc



⊕ **Palitha Vasana**  
*Senior Manager  
- Electronic Banking Systems*  
BSc (Colombo)



⊕ **Sampath Weerasinghe**  
*Head of Credit Risk and  
Integrated Risk Management*  
MBA (Finance-UK) A.I.B. (Sri Lanka), ACIB (UK),  
MSLIM, Diploma in Credit Management

# CHAIRMAN'S MESSAGE ON CORPORATE GOVERNANCE



Dear Stakeholders,

As stewards of a domestically systemically important Bank, the Board plays a critical role in ensuring financial stability of the Bank and the Group while balancing the interests of key stakeholders. A high level of uncertainty prevailed during the year under review as the volatility in market indicators was exacerbated by the uncertainty over the domestic and foreign currency debt restructuring. The regulatory environment also witnessed changes. As a result, the Board exercised an enhanced oversight of matters relating to governance, financial stability, risk management, stress testing and internal control. Our performance and stability are testimony to the careful balance maintained between often conflicting priorities.

There were significant changes to the composition of the Board during the year as set out in the Governance Report which has led to a decrease in the number of Directors on the Board from twelve (12) to nine (9) as at date compared to the beginning of 2023. The Board is currently working toward filling these vacancies while adequate levels of skills and competencies are at the disposal of the Board at present to discharge its duties effectively. On behalf of the Board, I take this opportunity to thank Mr Amal Cabraal, Mrs Aruni Goonetilleke, Mr Visvanathamoorthy Govindasamy and Mr Dilshan Rodrigo for their invaluable contribution to the Bank.

My own appointment as the Chairman of the Bank gave rise to the designation of Mr Devaka Cooray as the Senior Independent Director to ensure a greater independent element in terms of Direction No. 3 (5) (ii)

- Banking Act Direction No.11 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka which was duly notified to shareholders through Colombo Stock Exchange (CSE) Disclosure. I am also very pleased to note that our succession planning program for the Senior Leadership Team is effectively rolled-out as evidenced by the formal appointment of Mr Damith Pallewatte - Deputy General Manager - Wholesale Banking Group as the successor to MD/CEO with effect from August 2024, subject to his fit and propriety being cleared by the Central Bank of Sri Lanka and the announcement was duly made through CSE Disclosure.

The year under review witnessed changes to both voluntary and regulatory requirements relating to Corporate Governance, significantly expanding the role of the Board and its Sub-Committees. The Board reviewed the changes and approved a road map for compliance to fall in line with the effective dates of the CSE Listing Rule Section 9 on Corporate Governance, which necessitated the re-naming of the Nominations Committee as the Nominations & Governance Committee as well as revising its Terms of Reference. The Board also commenced a review of the Terms of Reference of Board Sub-Committees to ensure alignment with CSE Listing Rule Section 9 on Corporate Governance which will be completed in the first quarter of 2024. However, it is noteworthy that the Bank as a regulated body is already compliant with many areas covered in the CSE Listing Rule Section 9 on Corporate Governance which are falling in line with the Banking Act Direction No.11 of 2007 on Corporate Governance and the Code of Best Practice on Corporate Governance (2017) issued by CA Sri Lanka.

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.

As the Chairman I wish to reaffirm that the Board of Directors of the Bank will continue to support the Good Governance and the application of sound Corporate Governance principals based on effective and ethical leadership. Further, we will ensure best practices on governance are also in place and comply with statutory governance requirements to ensure long term sustainability of the Bank at all times. Towards this end, we will remain vigilant regarding the evolving business landscape while managing the ongoing uncertainties associated with the challenging economic conditions in order to uphold our reputation for good governance leadership.

A handwritten signature in black ink, appearing to read "Nihal Jayawardene, PC". It is written in a cursive style with a diagonal line underneath the signature.

Nihal Jayawardene, PC  
*Chairman*

Colombo, Sri Lanka  
15th February 2024

# CORPORATE GOVERNANCE

## Board Governance Highlights 2023

### Compliance with Corporate Governance Regulations

- The Bank ensured full compliance with all provisions of CBSL Banking Act Direction No.11 of 2007 on Corporate Governance
- The Bank ensured full compliance with the Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka, being the guideline applicable throughout the year in 2023
- The Bank is already compliant with CSE Listing Rule Section 9 on Corporate Governance which are in force. Most of the areas in the revised Listing Rules with future effective dates have already been complied by the Bank as a regulated body. The Bank is in the process of being fully compliant with the revised Section 9 of the CSE Listing Rules on Corporate Governance prior to the specified effective dates
- New Code of Best Practice on Corporate Governance issued in December 2023 by the Institute of Chartered Accountants of Sri Lanka will be adopted in 2024

### Changes to the Board Composition

#### Appointments

- Appointment of Mr Nihal Jayawardene, PC (NIND/NED) as the Chairperson w.e.f. 09th June 2023
- Designation of Mr Devaka Cooray (IND/NED) as the Senior Independent Director w.e.f. 09th June 2023
- Appointment of Mr Visvanathamoorthy Govindasamy (IND/NED) w.e.f. 16th June 2023

#### Retirements

- Retirement of Mr Amal Cabraal (IND/NED) w.e.f. 01st April 2023 on completion of nine (9) years

#### Resignations

- Resignation of Mrs Aruni Goonetilleke as Chairperson (IND/NED) w.e.f. 09th June 2023
- Resignation of Mr Visvanathamoorthy Govindasamy (IND/NED) w.e.f. 27th October 2023
- Resignation of Mr Dilshan Rodrigo (ED) w.e.f. 12th January 2024

### Review of Terms of Reference (TOR)

#### Revision and update of TOR's of the following Board Sub-Committees:

- Human Resources and Remuneration Committee (HRRC)
- Nominations & Governance Committee (NGC)
- Related Party Transactions Review Committee (RPTRC)
- Board Integrated Risk Management Committee (BIRMC)
- Strategy & Investment Review Committee (SIRC)

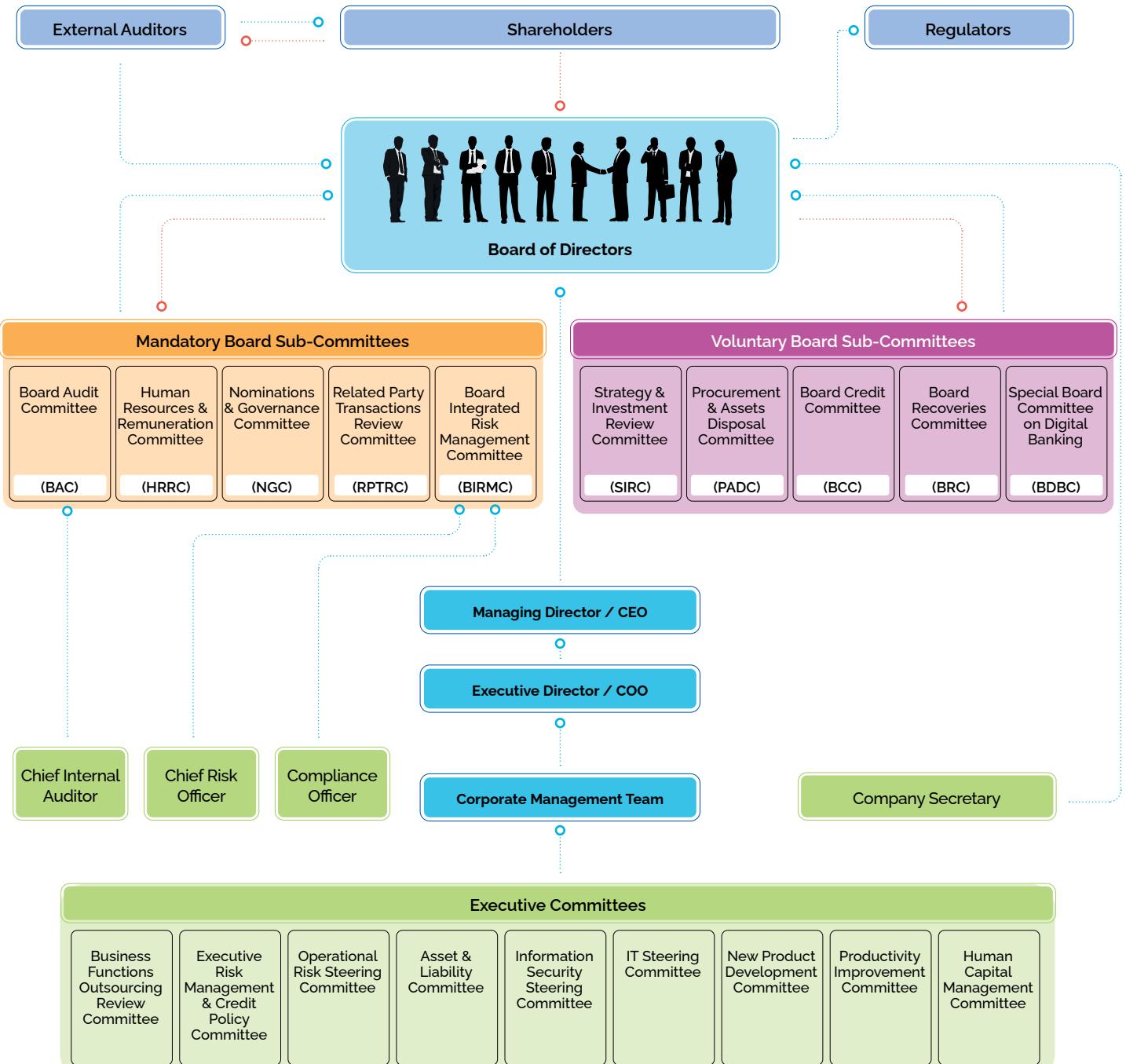
## Governance Framework & Structure

The Bank operates within a comprehensive governance framework, which encompasses governance structures that are strategically linked with performance management, enabling the Bank to focus on the areas that drive our business.

Corporate Governance is the management framework that facilitates the conduct of the business of the Bank in a responsible and accountable manner so as to promote the credibility and soundness of the Bank, which will lead to the overall stability of the banking sector in Sri Lanka. The Board is responsible and accountable for the management of the

affairs of the Bank, conduct of business and maintenance of prudent risk management and soundness of the Bank. The Board's role is to provide entrepreneurial leadership to the Bank within the framework of prudent and effective controls which enable risks to be managed. The Board sets the Bank's strategic aims, ensuring that the necessary financial, human and physical resources are in place for the Bank to meet its objectives. The Board sets the Bank's values and standards and ensures that its obligations to its stakeholders are clearly understood and met. The Board is also responsible for ensuring that management maintains an effective system

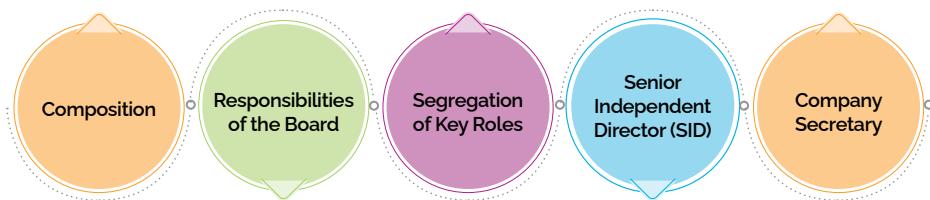
of internal controls that provides assurance on efficient operations and compliance with applicable laws and regulations. In carrying out this responsibility, the Board gives regard to what is appropriate for the Bank's business and reputation, the materiality of financial and other risks inherent in the business and the relative costs and benefits of implementing specific controls. The Board is also the policy-making body for all matters that are of strategic importance to the Bank's Corporate Governance.



# CORPORATE GOVERNANCE

## The Board

 The Board leads the Bank in formulating strategies, setting risk appetite, monitoring performance and the achievement of goals and objectives. In deliberating strategies, an integrated approach is adopted to value creation, embracing stakeholder inclusivity and considering the Environmental, Social and Governance (ESG) impacts across the Bank.



### Composition

 (Principles A.5, A.5.1, A.5.2, A.10)

The Board is diverse and well - balanced to effectively discharge its governance roles and responsibilities. All Directors are eminent professionals in their respective fields who bring varied perspectives to Board deliberations and constructively challenge management.

Appropriate Board size promotes accountability and encourage healthy & constructive debate, and decision-making, while meeting regulatory requirements. The Board at the close of the year comprised of ten (10) Directors including two (2) Executive Directors, four (4) Independent Non-Executive Directors and four (4) Non-Independent/Non-Executive Directors. Their membership of Committees, skills and expertise are given on page 113.

### Key Elements of Regulatory Framework Related to Corporate Governance

#### External

- Banking Act No.30 of 1988 and amendments thereto
- Directions, Determinations, and Circulars issued to Commercial Banks by CBSL
- Companies Act No.7 of 2007 (As amended)
- Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021
- Listing Rules of the Colombo Stock Exchange
- Code of Best Practice on Corporate Governance issued by CA Sri Lanka
- All other laws and regulations

#### Internal

- Articles of Association
- Board Charter
- Sub-Committee Charters/Terms of Reference
- Charter for Management / Good Governance for Group Companies
- Code of Conduct and Ethics for Employees
- Policies and Procedures
- Delegation of Authority Limits
- Customer Charter

Name of Director	Directorship Status	Appointment Date	Sub-Committee (As at 31st December 2023)	Skills and Expertise
Mr Nihal Jayawardene, PC		August 2021		Legal
Mr Jonathan Alles		May 2013		Banking & Finance
Mr Madura Ratnayake		October 2018		Information Technology and Digital
Mr Devaka Cooray		July 2020		Accounting & Finance
Mr Dilshan Rodrigo Resigned w.e.f. 12th January 2024		July 2020		Banking & Finance
Mr Osman Chandrawansa		April 2021		Regulatory and Banking & Finance
Mr Rimoe Saldin		April 2021		Management and Accounting & Finance
Mr Rasitha Gunawardana		January 2022		Risk Management and Banking & Finance
Mr Kithsiri Gunawardena		January 2022		Management and Legal
Dr Prasad Samarasinghe		October 2022		Information Technology, Digital, Management and Telecommunication

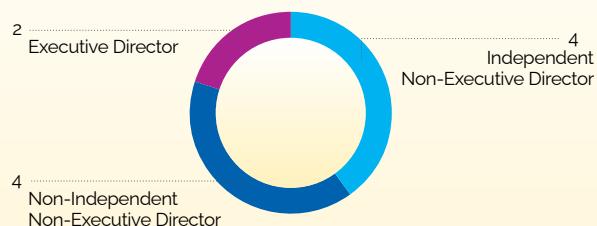
- Independent Non-Executive Director
- Non-Independent Non-Executive Director
- Executive Director
- Chairperson as at 31st December 2023

- Board Audit Committee
- Human Resources & Remuneration Committee
- Nominations & Governance 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
- Special Board Committee on Digital Banking

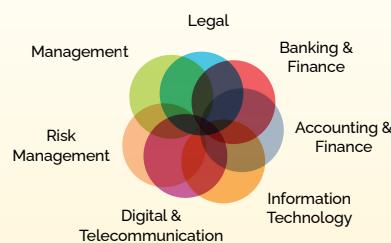
### Board Balance

80% of the Directors are Non-Executive Directors out of which 50% are Independent.



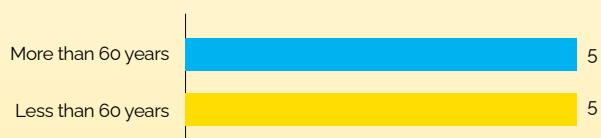
### Skills & Experience

Non-Executive Directors are eminent professionals in their respective fields.



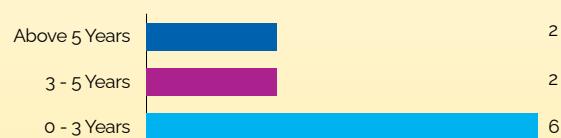
### Age Diversity

Well-represented balance in terms of experience and perspectives.



### Tenure of Directors

Sound balance between continuity, new expertise and insights.



# CORPORATE GOVERNANCE

## Responsibilities of the Board



All Directors are required to comply with the laws and regulations applicable to the operations of the Bank individually and collectively as a Board.

Responsibilities of the Board are summarised below:

- 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
- Approve budgets and major capital expenditure
- Determine limits of authority and financial delegation
- Ensure adopting appropriate accounting policies and financial regulations

## Segregation of Key Roles



Roles of Chairperson and Chief Executive Officer are segregated in line with principles of good Corporate Governance. Chairperson leads the Board, preserving good Corporate Governance, ensuring that it works effectively and acting in the best interest of the Bank while Managing Director/Chief Executive Officer is accountable to the Board for exercise of authorities delegated and for the performance of the Bank.

Responsibilities of the Chairperson and Managing Director/Chief Executive Officer are tabulated below;



Chairperson

- Setting the ethical tone for Board and Bank
- Leading the Board in providing strategic oversight and leadership to the Board
- Setting the Board's annual work plan and agenda in consultation with Company Secretary and MD/CEO
- Maintaining stakeholder trust and confidence
- Ensuring effective, regular communication with shareholders and their views are communicated to the Board
- Ensuring effective participation of all Board members
- Ensuring balance of power between Executive and Non-Executive Directors
- Monitoring the effectiveness and performance of the Board of Directors and, its Sub-Committees
- Ensuring the provision of accurate, timely and clear information to Directors



Managing Director/Chief Executive Officer

- Ensuring proper succession planning of Executive Team and assessing their performance
- Developing the Bank's strategy for consideration and approval by the Board
- Developing and recommending budgets to the Board, supporting Bank's strategy
- Monitoring and reporting the performance and compliance with regulatory and policy framework to the Board
- Establishing an appropriate organisational structure for the Bank
- Setting the tone for ethical leadership and creating an ethical environment
- Ensuring a culture that is based on the Bank's values
- Ensuring that the Bank operates within the approved risk appetite



### Senior Independent Director (SID)

(Principles A.5.7, A.5.8, A.5.9)

Since the Chairperson of the Bank is a Non-Independent/Non-Executive Director, Mr Devaka Cooray was designated as the Senior Independent Director (SID) in June 2023, in compliance with Direction No. 3(5) (ii) of the Banking Act Direction No. 11 of 2007 on Corporate Governance. The SID upholds Board balance and ensure the effective functioning of Independent Directors. A formal Terms of Reference for the Senior Independent Director is in place.

The role of the SID is set out on page 178 with the summary of Terms of Reference complying with the requirements of the Banking Act Direction, Corporate Governance Rules of CSE and the Code of Best Practice on Corporate Governance.

Responsibilities of the Senior Independent Director are summarised below;

- Act as a trusted intermediary, who is having independent views, for Non-Executive Directors.
- Take the initiative in discussing with the Chairperson or other members of the Board if it should seem that the Board is not functioning effectively, and it is going through stress.
- Act as a sounding board for the Chairperson and Chief Executive Officer on Board and matters on fellow Directors.
- Make himself available for confidential discussions with other Directors who may have concerns which they believe have not been properly considered by the Board as a whole and which pertain to significant issues that are detrimental to the Bank.
- Be the focal point for Board members for any concerns regarding the Chairperson, or the relationship between Chairperson and the Chief Executive Officer.
- Meet with Non-Executive Directors at least once a year without Executive Directors to discuss matters related to the Board and the entity and communicate their concerns to the Board and Chairperson.
- Meet the Executive Directors at least once a year to discuss governance related matters and communicate their concerns to the Board and Chairperson.
- Participate in meetings with shareholders and be made aware of their concerns.



### Company Secretary

(Principles A.1.3, A.1.4)

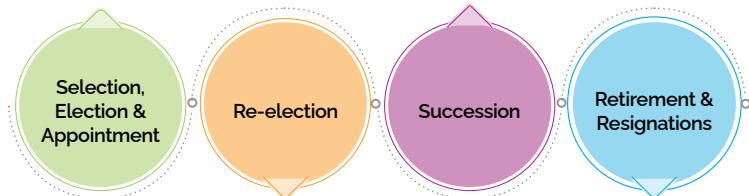
The Board appointed Ms Shiromi Halloluwa, as the Company Secretary with effect from 2nd January 2023. Ms Halloluwa is an Attorney at Law, who satisfies the provisions of Section 43 of the Banking Act No.30 of 1988. The Company Secretary guides the Board on discharging its duties and responsibilities, facilitates adherence to best practices in Corporate Governance and appraises the Board of relevant legislative and regulatory changes. The Company Secretary ensures the conduct of Board and General Meetings in accordance with the Articles of Association and relevant statutes and other regulations. The Company Secretary maintains the minutes of the Board meetings. The Minutes are reviewed by the Chairperson and 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. 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. Procedures are in place to allow Directors to seek independent professional advice, as and when necessary at the Bank's expense, in discharging their duties and responsibilities. This facility is coordinated through the Company Secretary.

The Company Secretary ensured that the Bank has obtained adequate insurance cover for the Board of Directors and Key Management Personnel in accordance with the recommendations of the Board. The Directors and Officers Liability Policy is renewed annually.

# CORPORATE GOVERNANCE

## Changes to the Board

- Structured changes to the Board ensure the introduction of members with new skills, insights and perspectives, while maintaining continuity and retaining valuable industry knowledge.



### Selection, Election & Appointment

(Principles A.4, A.7)

The Board has tasked the Nominations & Governance Committee with the review of the structure and composition of the Board and recommending nominees for Board appointments. This entails a review of the knowledge, Skills Matrix which includes Financial Acumen, Economics, Accounting, Banking, Legal, Digital, Risk and Information Technology. The Board considers the recommendations of the Nominations & Governance Committee in recommending suitable candidates for appointment or re-election by the shareholders at the Annual General Meeting. Shareholders elect members of the Board at the Annual General Meeting (AGM) and may submit their

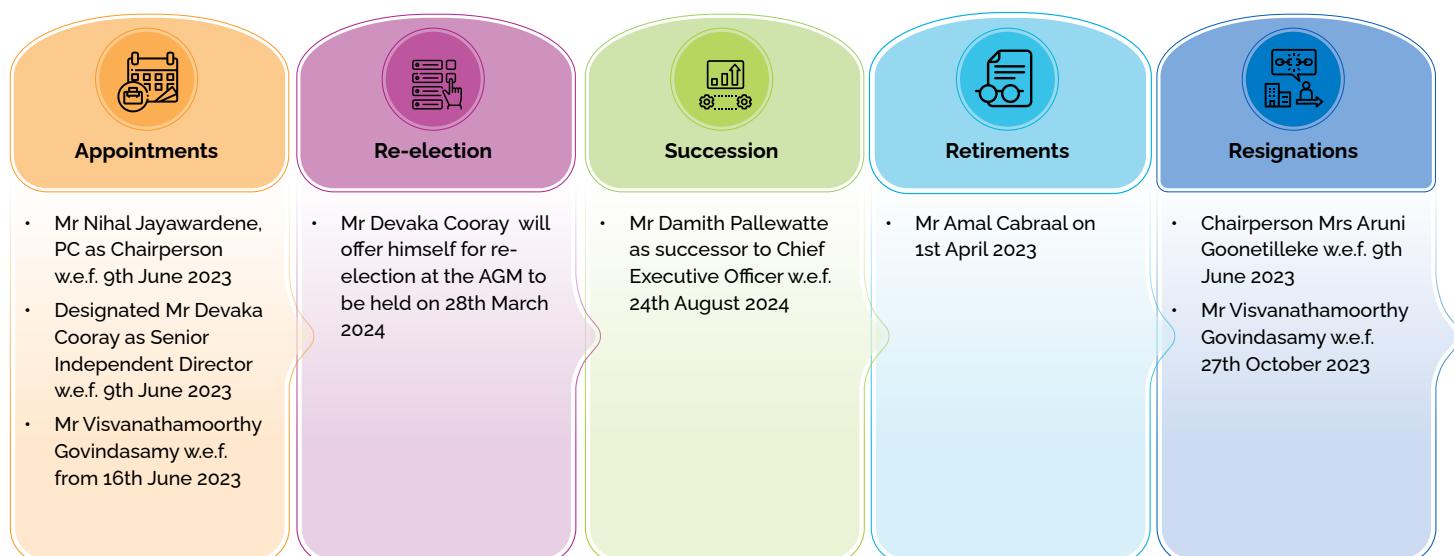
proposals to the Company Secretary prior to the AGM in this regard.

The Board may appoint Directors to fill any casual vacancy that arises during the year. Directors appointed in this manner hold office until the next Annual General Meeting and are required to seek re-election by the shareholders in line with the Articles of Association.

Directors are appointed upon receipt of the fit and proper approval from the Central Bank of Sri Lanka (CBSL) who confirms its approval after conducting a fit and proper assessment of selected nominees in terms of Section 42 of the Banking Act No. 30 of 1988 (as amended).

On receipt of fit and proper approval from CBSL, the Bank makes an immediate disclosure to the Colombo Stock Exchange together with a brief profile of the Director containing areas of expertise, names of companies in which the Director holds directorships or memberships in Board Committees, shareholdings in the Bank and whether such Director can be considered 'Independent'.

With the resignation of Chairperson Mrs Aruni Goonetilleke, Mr Nihal Jayawardene, PC was appointed as the Chairperson of the Board with effect from 9th June 2023. Since the Chairperson of the Bank is a Non-Independent/Non-Executive Director, Mr Devaka Cooray was designated as a Senior Independent Director with effect from 9th June 2023, in compliance with Direction No. 3(5) (ii) of Banking Act Direction No. 11 of 2007 on Corporate Governance. Mr Visvanathamoorthy Govindasamy was appointed to the Board as an Independent Non-Executive Director with effect from 16th June 2023 (Resigned w.e.f. 27th October 2023).



### **Re-election**



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. Prior to recommending a Director for re-election, the Board reviews the participation, contribution and engagement of such Director.

Accordingly, Mr Devaka Cooray will offer himself for re-election at the AGM to be held on 28th March 2024.

### **Succession**

The Board and Nominations & Governance Committee continuously review succession planning efforts at the Board level of Key Management Personnel. Similarly, the Human Resources and Remuneration Committee 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. In May 2023, the Bank announced Mr Damith Pallewatta as the successor to the incumbent Managing Director/Chief Executive Officer, Mr Jonathan Alles, who will retire in August 2024, facilitating a smooth transition in the executive leadership of the Bank.

### **Retirement & Resignations**

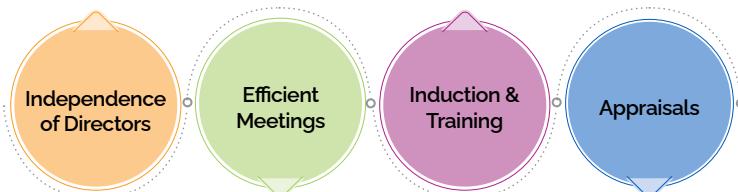
Board members can serve a maximum of nine (9) years on the Board of a Bank and must be below 70 years of age in line with Banking Act Direction No. 11 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka. These provisions are aligned to the requirements of CSE Listing Rule Section 9 on Corporate Governance for determining independence of Directors.

After completing a nine-year tenure as a member, Mr Amal Cabraal retired from the Board in April 2023. Mrs Aruni Goonetilleke resigned from the Board in June 2023 due to personal reasons and Mr Visvanathamoorthy Govindasamy resigned from the Board in October 2023, due to an independence requirement to be fulfilled for a statutory appointment accepted by him.

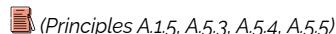
### **Effective Functioning of The Board**



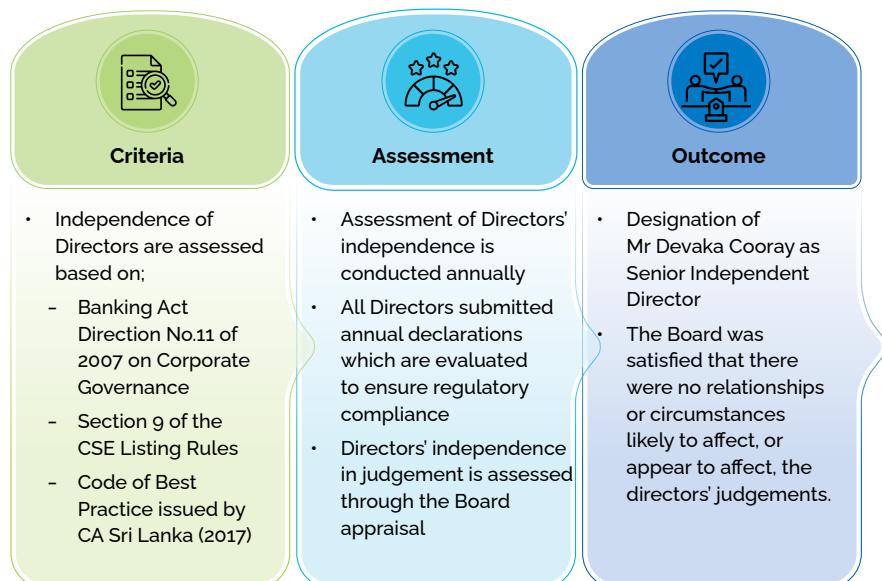
The Board comprises of eminent professionals in their respective fields, with credible track records and necessary skills and experience. They contribute diverse perspective to matters set before the Board Meeting, bringing independent judgement to bear on issues of strategy, performance and resources.



#### **Independence of Directors**



All Directors are required to exercise independent judgement on matters set before the Board as explicitly stated in the Board Charter. Principles of Independence are reinforced by the presence of Independent Directors as required by the Banking Act Direction No.11 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka, Corporate Governance Rules of CSE, and the Code of Best Practice on Corporate Governance. Ensuring the effective functioning of Independent Directors is a key consideration for the Board.



# CORPORATE GOVERNANCE

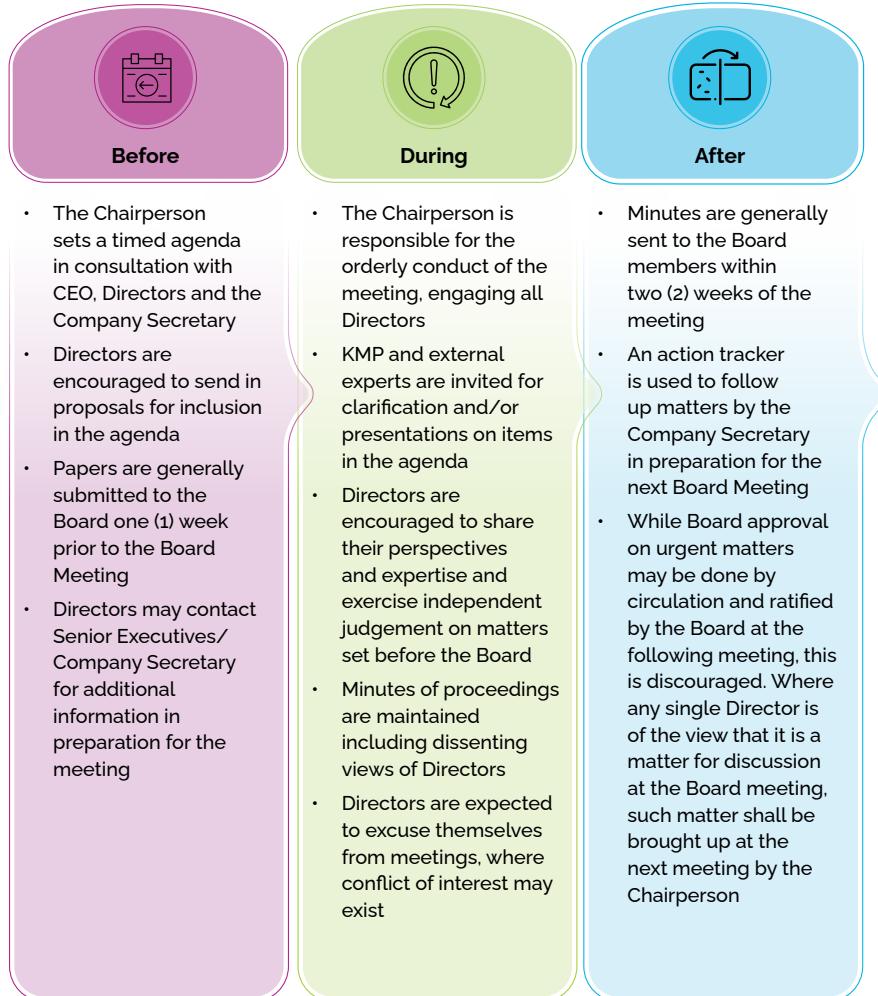
## Efficient Meetings

 (Principles A.1.1, A.1.6, A.1.7, A.6.A.10)

The Board meets monthly while Sub-Committees of the Board meet at varying frequencies. An annual calendar is shared with all Directors for Board and Board Sub-Committee meetings prior to the beginning of the year. 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. The Bank's reporting and information systems ensure that the Board receives relevant and objective information in a timely manner to make informed decisions. The Board makes further inquiries from the Leadership team on instances where necessary.

### Independent Meetings by Chairperson & SID

The Chairperson held two (2) meetings with the Non-Executive Directors during the year 2023. The SID held one (1) meeting with the Non-Executive Directors and one (1) meeting with the Executive Directors for the year 2023 and the feedback received was shared with the Board.



*Attendance at Board and Sub-Committee Meetings*

Name of Director	Board Meetings	Board Audit Committee	Human Resources & Remuneration Committee	Nominations & Governance 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	Special Board Committee on Digital Banking
Total meetings held	17	9	7	12	11	4	6	10	6	11	22
Mr Nihal Jayawardene, PC	17/17		4/4	6/6		4/4	3/3	6/7	6/6	11/11	
Mrs Aruni Goonetilleke <i>Resigned w.e.f. 9th June 2023</i>	9/10		3/3	6/6			3/3		3/3	5/5	
Mr Jonathan Alles	17/17	□ 4	□ 7	8/8	1/11	4/4	□ 6		□ 1		10/10
Mr Amal Cabraal <i>Retired w.e.f. 1st April 2023</i>	5/5		2/2				2/2		2/2	3/3	
Mr Madura Ratnayake	16/17		□ 7/7	11/12	9/11		6/6				□ 18/22
Mr Devaka Cooray	16/17	□ 9/9		□ 12/12	□ 10	□ 4/4			6/6		
Mr Dilshan Rodrigo <i>Resigned w.e.f. 12th January 2024</i>	17/17	□ 6			□ 10	□ 2	□ 6	□ 9	□ 5	□ 11	20/22
Mr Osman Chandrawansa	17/17	8/9	2/2			4/4			6/6	8/8	
Mr Rimoe Saldin	16/17	2/2 □ 7			□ 11/11			□ 10/10			
Mr Rasitha Gunawardana	17/17	9/9	2/2		6/6			9/10	□ 3/3	□ 11/11	
Mr Kithsiri Gunawardena	14/17	3/3	6/7		7/8		6/6				
Dr Prasad Samarasinghe	17/17				10/11		6/6	10/10			21/22
Mr Visvanathamoorthy Govindasamy <i>Resigned w.e.f. 27th October 2023</i>	5/5		0/1				0/1	1/1			

□ Chairperson as at 31st December 2023

□ Meetings attended by invitation

**Induction & Training**

All new Directors follow an induction programme on appointment to ensure that they are able to participate effectively at meetings. On appointment, Directors are provided with an orientation pack with all relevant external and internal regulatory documents. They also have a series of meetings with the Chairperson, the MD/CEO and selected KMP of the Bank, enabling them to understand the operations of the Bank. Additionally, visits are arranged to key branches as well.

The Bank places great importance in ensuring that the Directors have access to learning, development and training opportunities to better equip themselves

with skills and knowledge required to fulfil their fiduciary duties and carry out their respective roles and responsibilities. The Bank also arranges for Directors to attend various external forums including seminars, conferences and workshops to keep abreast of current developments in banking, banking regulations, cyber security and Corporate Governance best practices. The Directors are encouraged to participate in the programmes conducted by the Sri Lanka Institute of Directors to ensure they keep abreast of developments in Corporate Governance and other relevant matters.

**Appraisals**

Each Director undertakes a self-assessment of the Board annually, to ensure

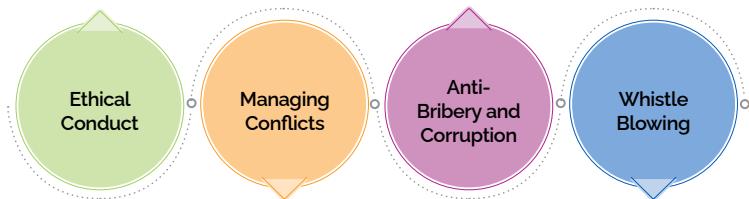
responsibilities are satisfactorily discharged. The outcome of the appraisal for the financial year 2022 was tabled at the Board Meeting held in March 2023. The 2023 annual appraisal is currently in progress. Further, each Director carries out an assessment of "fitness and propriety" to serve as a Director. The Board and Sub-Committees, attempts to continuously improve the performance and effectiveness by self-evaluations.

The performance of the MD/CEO is evaluated 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 performance appraisal of the MD/CEO is discussed by the Chairperson with the MD/CEO and responses of the discussions are documented prior to approval by the Board.

# CORPORATE GOVERNANCE

## Tone at the Top

 The Board is committed to setting the "tone at the top" to encourage adherence to high standards of conduct by employees of the Bank.



### Ethical Conduct

 (Principle D.5)

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 Bank's values. The management is accountable for the implementation of the ethical framework. Directors abide by a Code of Conduct and Ethics embodied in the Board Charter.

The Board has set in place a Code of Conduct and Ethics which Directors, Key Management Personnel and all other employees are required to adhere to. The Code, accessible on the intranet, provides guidelines on the conduct of the Bank's businesses and operations and is aligned to Bank's values, standards, policies and procedures. The Code serves as the basis of promoting good business conduct among employees. All employees receive training on compliance with the Code as part of their induction process and regular refresher courses. The Bank has also established a Share Trading Policy which specifies the procedure to be followed by KMP and any other employee involved in financial reporting.

### Managing Conflicts of Interest

 (Principle 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 the Bank. 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 94 to 97 and Related Party Transactions are disclosed in Note 60 of the Financial Statements on pages 399 to 405. The total number of Board seats (excluding directorship in HNB) held by each Director as of 31st December 2023 are summarised on page 121.

### Key features of the Code of Conduct and Ethics

 (Principle D.5)

- 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
- Avoidance of discrimination and harassment
- Prevention of bribery and corruption
- Maintain confidentiality
- Maintain fair dealing
- Prohibit entertainment and accepting gifts
- Ensure accurate accounting and record keeping
- Follow fair and transparent procurement practices
- Protection and proper use of Bank's assets including information assets
- Encourage whistle blowing
- Obtain corporate opportunities

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
Mr Nihal Jayawardene, PC		-	-	-	-
Mr Jonathan Alles		-	-	-	-
Mr Madura Ratnayake		1	-	2	2
Mr Devaka Cooray		-	3	1	9
Mr Dilshan Rodrigo <i>Resigned w.e.f. 12th January 2024</i>		-	2	-	2
Mr Osman Chandrawansa		-	-	-	-
Mr Rimoe Saldin		-	2	3	10
Mr Rasitha Gunawardana		-	-	-	1
Mr Kithsiri Gunawardena		1	1	-	17
Dr Prasad Samarasinghe		-	1	3	5

Independent Non-Executive Director

Non-Independent Non-Executive Director

Executive Director

### Anti-Bribery & Corruption (ABC)

The ABC Policy of the Bank is approved by the Board and reviewed regularly. It clearly states the Bank's zero tolerance position on bribery and corruption and provides guidance to employees on the process for reporting of such incidents. Objectives of the ABC Policy are embedded in our Compliance Monitoring Programme and reviewed by the Bank's Compliance Officer. While encouraging the employees to express their concerns, options have been made available internally for the incidents in such nature to be reported to higher authorities. Concerns that fall in line with the nature of misconducts detailed in the policy are escalated to the BIRMC / BAC / Board internally and employees have been encouraged to raise their concerns directly through the Whistle Blowing process. Ultimate objectives of the policy are further supported through internal control systems and procedures in areas where bribery and corruption risk may be present. Employee awareness of the policy is ensured through structured communication and training at induction.

### Whistle Blowing

The Bank has in place a Whistle Blowing Policy to encourage reporting of fraud, unethical conduct or other practices that violate the Code of Conduct & Ethics, Human Rights, regulatory requirements or policies of the Bank including Anti-Bribery and Corruption. The Whistle Blowing Policy and the mechanism has been communicated to all staff members.

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 Directors handling whistle blowing complaints provide regular updates to the BAC. The Board Charter addresses the Board's responsibility to encourage any communication regarding non-compliances and unethical behaviour within the Bank. The policy was strengthened in 2023. All reports are treated as confidential and whistle blowers' identities are protected. The policy allows for two-way communication, for any needed follow-up.

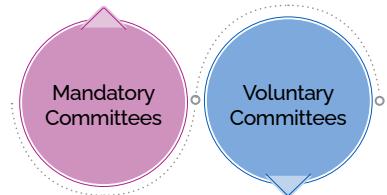
#### Key elements of the ABC Policy:

- Requires all employees to fully comply with all applicable laws and regulations including, anti-corruption laws
- Strictly prohibits to offer or accept bribes, facilitation payments, kickbacks, political contributions, unacceptable gifts, hospitality or expenses of any kind, when carrying out Bank's transactions and business dealings either directly or indirectly
- Provides definition of thresholds for what is an acceptable gift as well as procedures and reporting requirements
- Provides means and mechanisms for raising complaints, including whistle blowing
- Requires books and records of the Bank be kept accurate, clear, detailed and timely

# CORPORATE GOVERNANCE

## Board Sub-Committees

 Board Committees play a key role in assisting the Board in the discharge of its duties effectively as they typically comprise of Directors with competencies in specific areas. Further, the Terms of Reference of the Committees clearly set out their roles, responsibilities and authority, enabling them to dive deeper into specific areas of the Bank's operations. The Board has delegated certain functions to 10 Committees, 5 of which are mandatory. The Committee Chairpersons are accountable for the effective functioning of the Committees and they regularly report to the Board on Committee activities, highlighting matters for Board attention. Board approved Committee mandates are reviewed regularly.



### Mandatory Committees



Five (5) mandatory Sub-Committees have been constituted under regulatory requirements.

Reports on each Sub-Committee activities are provided on pages 164 to 177 of this Report.

Board Audit Committee (BAC)	Human Resources & Remuneration Committee (HRRC)	Nominations & Governance Committee (NGC)	Board Integrated Risk Management Committee (BIRMC)	Related Party Transactions Review Committee (RPTRC)
Composition of Directors as at 31st December 2023				
Mr Devaka Cooray	Mr Madura Ratnayake	Mr Devaka Cooray	Mr Rimoe Saldin	Mr Devaka Cooray
Areas of Oversight				
<ul style="list-style-type: none"> <li>Monitor and review adequacy and effectiveness of Internal controls, governance process and financial reporting process</li> <li>Exercise independent oversight of the Bank's assurance functions including internal and external audit</li> <li>Review compliance with relevant legal, regulatory and accounting standards in the preparation of Financial Statements</li> </ul>	<ul style="list-style-type: none"> <li>Review HR Policies including Remuneration Policy</li> <li>Promote Bank's values and Code of Conduct</li> <li>Review compliance with labour laws</li> <li>Review HR processes including performance evaluation, remunerations, talent management and succession planning</li> </ul>	<ul style="list-style-type: none"> <li>Selection and appointment of Directors, MD/CEO and Key Management Personnel</li> <li>Identify skill gaps and recommending of new appointment of Directors and KMP to the Board</li> <li>Review succession plans of Directors, KMP and Bank's critical roles</li> <li>Review the Bank's adequacy of Corporate Governance Framework, policies and skills required to achieve strategic goals</li> </ul>	<ul style="list-style-type: none"> <li>Establish a Comprehensive Risk Management Framework</li> <li>Monitor and assess effectiveness of Bank's risk management processes</li> <li>Review compliance with internal risk policy guidelines and relevant regulatory including Basel III and SLFRS 9</li> </ul>	<ul style="list-style-type: none"> <li>Review Related Party Transactions Policy</li> <li>Scrutiny of Related Party Transactions</li> <li>Market disclosures on Related Party Transactions</li> <li>Avoidance of conflict of interest</li> </ul>
Report Reference – page 173	Report Reference – page 164	Report Reference – page 166	Report Reference – page 169	Report Reference – page 176

Chairperson as at 31st December 2023

### Voluntary Committees

Five (5) voluntary Sub-Committees have been established by the Bank.

Strategy & Investment Review Committee (SIRC)	Procurement & Assets Disposal Committee (PADC)	Board Credit Committee (BCC)	Board Recoveries Committee (BRC)	Special Board Committee on Digital Banking (BDBC)
<b>Composition of Directors as at 31st December 2023</b>				
Mr Nihal Jayawardene, PC  Dr Prasad Samarasinghe Mr Madura Ratnayake Mr Kithsiri Gunawardena	Mr Rimoe Saldin  Dr Prasad Samarasinghe Mr Rasitha Gunawardana	Mr Rasitha Gunawardana  Mr Devaka Cooray Mr Osman Chandrawansa. Mr Nihal Jayawardene, PC	Mr Rasitha Gunawardana  Mr Nihal Jayawardene, PC Mr Osman Chandrawansa	Mr Madura Ratnayake  Dr Prasad Samarasinghe Mr Dilshan Rodrigo - <i>(Resigned w.e.f. 12th January 2024)</i>

<b>Areas of Oversight</b>				
<ul style="list-style-type: none"> <li>Review of economic climate, capital markets activity</li> <li>Economic and monetary policy direction, emerging trends and their potential impact</li> <li>Investment Policy</li> <li>Review Bank's investment portfolios and their performance</li> </ul>	<ul style="list-style-type: none"> <li>Procurement and Disposal Policy</li> <li>Approve procurements and disposal in line with delegation</li> </ul>	<ul style="list-style-type: none"> <li>Credit Policy and Lending Guidelines</li> <li>Credit risk control measures including pricing of credit risk</li> <li>Performance of credit risk indicators</li> <li>Formulate and periodically review the Credit Policy</li> <li>Authorise credit facilities over and above the delegated limits of specified categories</li> </ul>	<ul style="list-style-type: none"> <li>Provide strategic direction for speedy recovery of defaulted facilities</li> <li>Review the effectiveness of recovery initiatives deployed</li> <li>Ensure engagement of relevant stakeholders in the recovery process</li> <li>Recommend credit and recovery capability requirements to ensure effective management of NPA and recoveries</li> </ul>	<ul style="list-style-type: none"> <li>Provide oversight to the timely and seamless implementation of Bank's proposed Digital Banking Platform/Layer including oversight on related investment components and initiatives</li> <li>Creating a culture of prioritising of customer engagement</li> </ul>

 Chairperson as at 31st December 2023

### Banking Act Direction No. 01 of 2023

In terms of Banking Act Direction No. 01 of 2023 (Restrictions on Discretionary Payments of Licensed Banks) issued by CBSL on 2nd February 2023, the Board has entrusted the Human Resources & Remuneration Committee, Strategy & Investment Review Committee, Procurement & Assets Disposal Committee and Special Board Committee on Digital Banking with the responsibility of evaluating / recommending non-essential and/or non-urgent expenditure and / or capital expenditure coming under the purview of the respective Sub-Committee.

# CORPORATE GOVERNANCE

## Fair & Responsible Remuneration

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



### Policy and Procedure



As delegated by the Board, the Human Resources & Remuneration Committee (HRRC), has been mandated to review and make decisions on the remuneration policy and its implementation. The Committee consists of a mix of Independent and Non-Independent Directors with a majority of Independent Directors and meets at least twice a year and at such other times as the Chairman of the Committee shall deem necessary. Where relevant and required, the

HRRC will make recommendations to the Board for its consideration and 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 Banks 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 Board Sub-Committee. Independent professional advice is sought when required to determine market positioning and salary levels.

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

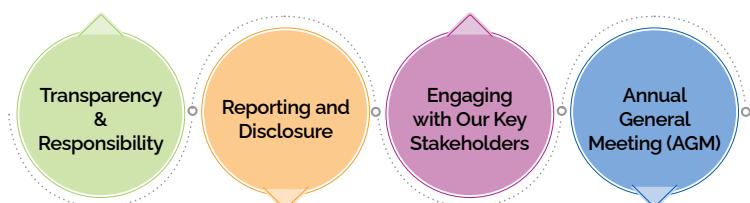
### Remuneration Disclosures



Refer page 315 for details of the remunerations paid to Directors of the Bank.

## Stakeholder Engagement

As a trusted finance sector pioneer committed to high standards of business integrity and ethics, being transparent and responsible to all our stakeholders is a priority. The Board adopts robust disclosure practices that drive open, transparent and reliable communications with both internal and external stakeholders including employees, clients, regulators and shareholders.



### Transparency & Responsibility

The Board consistently focuses on the Bank's relationship with its stakeholders ensuring direct engagements. The Board approved Corporate Communication Policy, which is guided by the principles of efficiency, transparency, proactivity, clarity and feedback was revised in 2021 with a view of ensuring effective and timely communications to all stakeholders including depositors, creditors, shareholders and borrowers.

The Bank has effectively implemented the provisions of Banking Act Direction No. 8 of 2011, known as the "Customer Charter of Licensed Banks", which is effective since

2012. The Charter seeks to improve the quality 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. Throughout the year, the Board reviewed key points in relation to the Bank's readiness to comply with the Financial Consumer Protection Regulations No. 01 of 2023 set to take effect in 2024.

#### **Reporting and Disclosure**

The Annual Report is the key medium through which the Board presents a fair and balanced review 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 during the reporting, to enhance credibility. The Board of Directors review and approve the Annual Report, prior to publication while the Interim Financials are reviewed & recommended by the Board Audit Committee and approved by the Board of Directors, prior to publication.

#### **Engaging with Our Key Stakeholders**

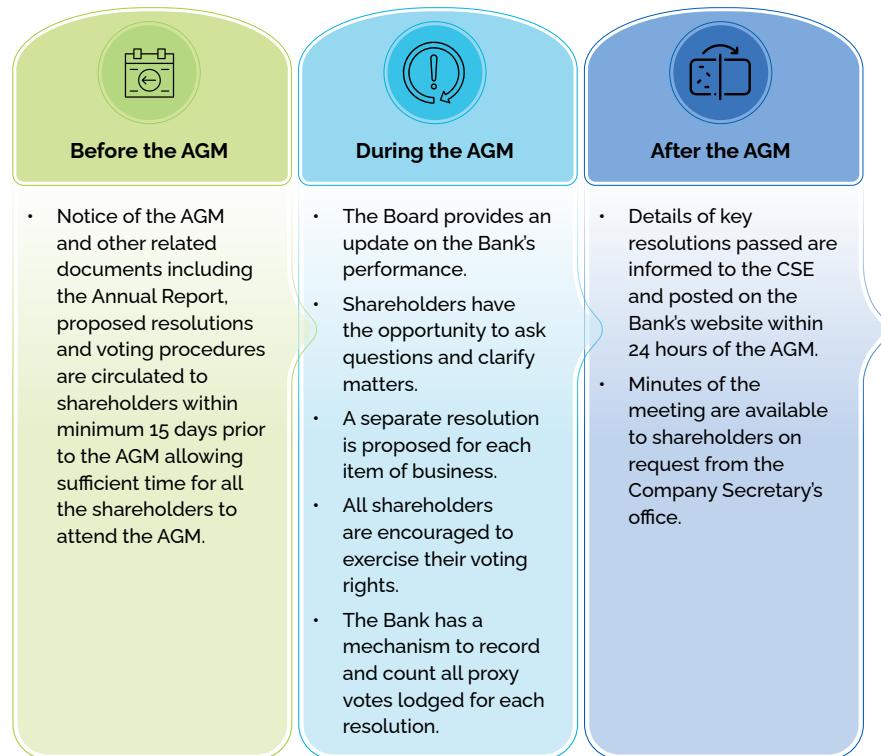


We engage extensively with our stakeholders to understand their needs and concerns, particularly over the recent years as paradigms changed, affecting stakeholders in different ways.

#### **Annual General Meeting (AGM)**



The AGM is the main mechanism for the Board to interact with shareholders, and provides an opportunity for shareholders' views to be heard. The Chairperson, Board members particularly, Chairperson of Board Sub-Committees, MD/CEO, KMP and External Auditors, are present and available to answer questions. Along with the notice of the Annual General Meeting published in the Bank's Annual Report, a summary of the procedures governing voting at Annual General Meetings is provided.



#### **Engaging with Our Key Stakeholders**

##### **Employees**

- Open Door Policy
- Chief Employee Experience Officer
- CEO Newsletter
- Engagement Surveys
- Grievance Mechanism
- Managers' Conference

##### **Clients**

- Centralised dedicated unit headed by Customer Experience Officer
- Call Centre
- Relationship Managers
- Complaints
- Social media

##### **Regulators**

- Periodic CEO meetings
- Formal reporting
- Meetings / discussions
- Feedback on draft papers and regulations

##### **Shareholders and Investors**

- Annual General Meeting (AGM)
- Investor Forums
- Annual Report
- Interim Financial Statements
- A dedicated investor relations page on the Bank's website
- Notification through CSE announcements
- Structured meetings held by Chairperson, MD/CEO and other senior management, with key institutional investors, on a need basis. Views of the shareholders are communicated to the Board as a whole by the Chairperson and MD/CEO
- Shareholders can also query the Management of the Bank by the Board, through representations made to the Company Secretary

# CORPORATE GOVERNANCE

## AGM 2023

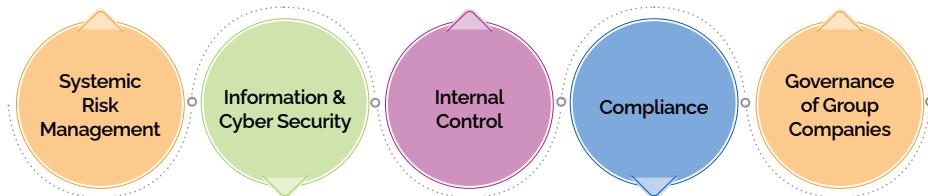


All shareholders were given the opportunity to submit any question to the Board / Management during the AGM and Voting was concluded on a show of hands.

Mode of Participation	No. of Shareholders	No. of Shares Presented	% of Shareholding
In Person	68	12,508,581	2.91
By Proxy	17	294,664,709	68.77
Total Represented		307,173,290	71.68

## Risk Management and Internal Control

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



### Systemic Risk Management

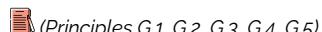


The Board holds the responsibility for oversight of the adequacy and effectiveness of the Bank's Risk Management Framework (RMF). Our robust framework enables the Bank to identify, measure, manage, price and control risks and risk appetite and to relate these to capital requirements to assist in ensuring capital adequacy and sustainability. The Risk Management Framework is built on the three lines of defense model, ensuring significant matters are escalated in a timely manner to the appropriate levels of authority for action. The Risk Department and several executive level committees supports the Board Integrated Risk Management Committee (BIRMC) in the implementation of the RMF.

During the year the Board and BIRMC maintained the rigour of oversight functions to effectively manage risk. High level of awareness of risk within the Bank facilitated navigation through the turbulence of black swan events from 2019 onwards. During

this time, risk management has been a key focus to carefully manage exposures and profitability. Refer the BIRMC report on page 169 and the Risk & Capital Reviews on page 186 for more information.

### Information & Cyber Security



As a financial services organisation, Information Technology is a key enabler connecting the Bank to customers and other business partners, creating an ecosystem for optimising utilisation of financial capital, maintaining financial records and providing relevant analytics of the same. The Bank's investment in technology remains one of the highest capital expenditures undertaken in the recent past and safeguarding the investments and information assets, ensuring the functioning of systems and preserving the integrity of operational processes is critical to the smooth operations of the Bank.

The Board has set in place an IT Governance framework and ensures the alignment of technology and information management to

the strategic objectives of the Bank. Cyber Security is a regular agenda item at Board Meetings and the Board has the collective skills and experience to guide the IT strategy of the Bank and exercise oversight over progress made. Specific responsibilities have been assigned to Committees at Board and Executive level such as BIRMC, BAC and Information Security Committee.

The Bank seeks to ensure that its information assets are protected from identified internal and external threats to ensure that customer privacy is maintained in accordance with the Personal Data Protection Act No.9 of 2022 and also to ensure the integrity and availability of information vital for decision making. It is also a key to managing the reputation risk of the Bank as a trusted custodian of customer financial records.

The challenging economic conditions and the complexity of increasing digital activities has led to a significant escalation in financial crimes. The Bank is committed to protect the confidentiality, integrity, availability and privacy of the Bank's information assets and client data, continuously investing in advanced security controls to identify, protect, detect, respond and recover effectively to the latest threats. Mature security programs manage these controls. The Board ensures 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, CISO and external consultants.

The Board appointed Mr Suresh Emanuel as the Chief Information Security Officer (CISO) who possesses sufficient expertise and authority. CISO is entrusted with the task of managing the Information Security Policy of the Bank.

Refer Risk & Capital Reviews page 212 for more information on management of Information and Cyber Security.

### Internal Control



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 173. The Board is satisfied with the integrity of financial information and the robustness of the internal controls and systems of the Bank.

### Compliance

The Board is conscious of its duty to comply with laws and regulations of the country. 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 communications, regular training, internal audit reviews and whistle blower mechanisms. Complaints or areas of concern identified are investigated with formal reports recommending further action to be implemented by the management.

**The Bank's security program is aligned to international best practice.**

- National Institute of Standards and Technology (NIST) Privacy Framework
- Baseline Security Guidelines issued by the Central Bank of Sri Lanka which references ISO 27000

### 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.

## Environmental Social and Governance (ESG)

→ 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.



### Role of the Board in Managing Impacts



The Board has the ultimate responsibility for managing risks and opportunities arising from EES impacts including climate changes and socio-economic developments. The Board has delegated the authority to the BIRMC to assess 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.

### HNB Sustainability Foundation



The Bank's Sustainability Foundation is responsible for managing the Bank's environmental footprint and its strategic CSR activities. The trustees consist of two Executive Directors and one Non-Executive Director. The Foundation meets frequently and oversees the Corporate Social Responsibility (CSR) initiatives and Environmental and Social Management System (ESMS). The sustainability dashboard, which shows key EES performance indicators, is reviewed for progress during the meetings

of the foundation. The dashboard and any concerns raised are presented to the Board on quarterly basis.

### Integration of Sustainability Strategy



The Sustainability strategy is integrated with Bank's Corporate Strategy and is aligned to the Sustainable Development Goals. Integration of EES impacts into strategy, risks and opportunities in creating value across the various capitals, is reported in the Capital Reports given below.

EES Consideration	Subject of the Report	Report References
Economic Sustainability	Financial Capital	Pages 45 to 51
Environment Sustainability	Natural Capital	Pages 76 to 85
Labour Practices	Human Capital	Pages 56 to 63
Social Sustainability	Social and Relationship Capital	Pages 64 to 75
Sustainability Development Goals	An Integrated Strategy	Pages 28 to 29

# CORPORATE GOVERNANCE

## Reporting of Compliance

- ⊕ The Bank ensured full compliance with all provisions of CBSL Banking Act Direction No.11 of 2007 of Corporate Governance and the Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka. The Bank is in the process of being fully compliant with the revised Section 9 of the CSE Listing Rule on Corporate Governance prior to the effective dates.



## 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><i>a. Setting Strategic Objectives and Corporate Values - Complied</i> </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><i>b. Approving Overall Business Strategy including Risk Policy and Management - Complied</i> </p> <p>The business strategy (Corporate Strategic Plan) together with the projections covering 2024 - 2026 was approved by the Board in 2023. 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><i>c. Risk Management - Complied</i> </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 processes 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>• Risk &amp; Capital Review on page 186.</li><li>• Board Integrated Risk Management Committee Report on page 169.</li></ul>

Section	Principle, Compliance & Implementation
	<p><i>d. Communication with all Stakeholders - Complied</i> </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 125.</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>During the year the Board reviewed key points in relation to the Bank's readiness to comply with Financial Consumer Protection Regulation Act No: 01 of 2023 which is to come into effect in 2024.</p>
	<p><i>e. Internal Control System and Management Information Systems - Complied</i> </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>
	<p><i>f. Key Management Personnel (KMP) - Complied</i> </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 Nominations &amp; Governance 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), Head of Custody &amp; Trustee Services and Head of Legal/Company Secretary 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 Nominations &amp; Governance Committee and approved by the Board.</p>
	<p><i>g. Define areas of authority and key responsibilities for Directors and Key Management Personnel - Complied</i> </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 Nominations &amp; Governance Committee and approved by the Board. The delegated authority limits for Key Management Personnel have been approved by the Board.</p>
	<p><i>h. Oversight of affairs of the Bank by Key Management Personnel - Complied</i> </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><i>i. Assess effectiveness of own Governance Practices - Complied</i> </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 the 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>

# CORPORATE GOVERNANCE

Section	Principle, Compliance & Implementation
	<p><i>j. Succession plan for Key Management Personnel - Complied</i> </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 Nominations &amp; Governance Committee is responsible for the formulation, review and rollout of the plan.</p>
	<p><i>k. Regular Meetings with Key Management Personnel - Complied</i> </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><i>l. Regulatory environment and maintaining an effective relationship with regulator - Complied</i> </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>
	<p><i>m. Hiring and Oversight of External Auditors - Complied</i> </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 principle 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 re-appointment 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 Chairperson 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 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. Seventeen (17) Board meetings were held in 2023, out of which four (4) 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 119 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. 24 Resolutions and 448 credit papers were approved in 2023, 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>

<b>Section</b>	<b>Principle, Compliance &amp; Implementation</b>
3 (1) (vi)	<b>Directors' Attendance - Complied</b>
	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 119. All Directors have attended at least two thirds (2/3) of Board meetings held during 2023, the lowest attendance being eight (8) Directors at a Meeting. No Director has been absent from three (3) consecutive meetings during 2023.
3 (1) (vii)	<b>Appointment and setting responsibilities of the Company Secretary - Complied</b>
	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.
3 (1) (viii)	<b>Directors' access to advice and services of Company Secretary - Complied</b>
	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.
3 (1) (ix)	<b>Maintenance of Board Minutes - Complied</b>
	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.
3 (1) (x)	<b>Minutes to be of sufficient detail and serve as a reference for regulators and supervisory authorities - Complied</b>
	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.
3 (1) (xi)	<b>Directors' ability to seek independent professional advice - Complied</b>
	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.
3 (1) (xii)	<b>Dealing with Conflicts of Interest - Complied</b>
	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.  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.
3 (1) (xiii)	<b>Formal schedule of matters for decision making - Complied</b>
	The Board reserves for itself a formal schedule of matters on which it takes the ultimate decision.
3 (1) (xiv)	<b>Inform Central Bank, if there are solvency issues - Complied</b>
	The Bank is solvent and no situations have arisen to challenge its solvency.  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.
3 (1) (xv)	<b>Capital Adequacy - Complied</b>
	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.
3 (1) (xvi)	<b>Publish Corporate Governance Report in Annual Report - Complied</b>
	This report forms part of the Corporate Governance Report of the Bank which is set out on pages 110 to 153.

# CORPORATE GOVERNANCE

Section	Principle, Compliance & Implementation
3 (1) (xvii)	<b>Self-Assessment of Directors - Complied</b>  <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 2022 was tabled at the Board Meeting held in March 2023. The 2023 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)	<b>Number of Directors - Complied</b>  <p>The Board consists of ten (10) Directors as at 31st December 2023, 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)	<b>Period of service of a Director - Complied</b>  <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 113.</p>
3 (2) (iii)	<b>Director Appointment of an Employee as a Director - Complied</b>  <p>There are two (2) Directors who served in an Executive Capacity in the Board as at 31st December 2023. The Board balance is compliant with the CBSL Direction which limits the number of Executive Directors to 1/3 of the Board.</p>
3 (2) (iv)	<b>Independent Non-Executive Directors - Complied</b>  <p>The Board comprises four (4) Independent Non-Executive Directors as at 31st December 2023, 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)	<b>Alternate Independent Directors - Complied</b>  <p>No Alternate Directors were appointed to represent Non-Executive Directors.</p>
3 (2) (vi)	<b>Criteria for Non-Executive Directors - Complied</b>  <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 judgement to bear on issues of strategy, performance and resources.</p>
3 (2) (vii)	<b>More than half the quorum to comprise Non-Executive Directors - Complied</b>  <p>Majority of the Board comprises Non-Executive Directors.</p>
3 (2) (viii)	<b>Identify Independent Non-Executive Directors in communications and disclose categories of Directors in Annual Report - Complied</b>  <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 113.</p>
3 (2) (ix)	<b>Formal and transparent procedure for appointments to the Board - Complied</b>  <p>The Board has a formal and transparent process in place for the succession and appointment of Directors. The Nominations &amp; Governance 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 Visvanathamoorthy Govindasamy was appointed to the Board w.e.f. 16th June 2023</p>
3 (2) (x)	<b>Re-election of Directors filling casual vacancies - Complied</b>  <p>All Directors appointed to the Board are subjected to re-election by shareholders at the first Annual General Meeting after their appointment.</p>

<b>Section</b>	<b>Principle, Compliance &amp; Implementation</b>
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> <p>Mr Amal Cabraal retired from the Board w.e.f. 01st April 2023 after completion of 9 years and Mrs Aruni Goonetilleke resigned from the Board w.e.f. 9th June 2023 on personal reasons. Mr Visvanathamoorthy Govindasamy resigned from the Board w.e.f. 27th October 2023 due to independence requirements to be fulfilled for a new statutory appointment accepted by him.</p>
3 (2) (xii)	<p><b>Prohibition of a director or employee of any other bank, being appointed as a Director of the 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>	<p><b>Criteria to assess fitness and propriety of Directors</b></p>
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>
3 (3) (ii)	<p><b>Directors should not be Directors of more than 20 companies and not more than 10 companies classified as Specified Business Entities - Complied</b> </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 121.</p>
3 (3) (iii)	<p><b>Cooling-off period when appointing Directors or CEO - Complied</b> </p> <p>The Bank has complied with the directions when appointing Directors during the year.</p>
<b>3 (4)</b>	<p><b>Management functions delegated by the Board</b></p>
3 (4) (i)	<p><b>Understand and study delegation arrangements - Complied</b> </p>
3 (4) (ii)	<p><b>Extent of delegation should not hinder Board ability to discharge its functions - Complied</b> </p>
3 (4) (iii)	<p><b>Review delegation arrangements periodically to ensure relevance to operations of the Bank - Complied</b> </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>	<p><b>The Chairman and Chief Executive Officer</b></p>
3 (5) (i)	<p><b>Separation of roles - Complied</b> </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><b>Non-Executive Chairman and appointment of a Senior Independent Directors - Complied</b> </p> <p>The former Chairperson, Mrs Aruni Goonetilleke was an Independent Non-Executive Director, as such there was no requirement to designate a Senior Independent Director until her resignation in June 2023. Mr Nihal Jayawardene, PC was appointed as the Chairperson w.e.f. 9th June 2023. As Mr Nihal Jayawardene, PC is considered a Non-Independent Director as per CBSL regulations, Mr Devaka Cooray was designated as the Senior Independent Director w.e.f. 9th June 2023. A formal Terms of Reference for the Senior Director is In place.</p>
3 (5) (iii)	<p><b>Disclosure of identity of Chairman and CEO and any relationships with the Board members - Complied</b> </p> <p>The profiles of the Chairperson and CEO are disclosed on page 94.</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>

# CORPORATE GOVERNANCE

Section	Principle, Compliance & Implementation
3 (5) (iv)	<p><b>Chairman to provide leadership to the Board - Complied</b> </p> <p>The Chairperson led the Board ensuring that it works effectively, and acts in the best interests of the Bank on a timely basis. The effectiveness of the Chairperson in discharging Board functions is assessed annually by the Board and through the self-assessment process.</p>
3 (5) (v)	<p><b>Responsibility for agenda lies with Chairman but may be delegated to Company Secretary - Complied</b> </p> <p>The Chairperson sets the Board agenda, assisted by the Company Secretary and MD/CEO.</p>
3 (5) (vi)	<p><b>Ensure that Directors are properly briefed and provided adequate information - Complied</b> </p> <p>The Chairperson ensured that the Board is sufficiently briefed and informed regarding the matters arising at Board Meeting. 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><b>Encourage active participation by all Directors and lead in acting in the interests of the Bank - Complied</b> </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 Chairperson which was approved by the Board.</p>
3 (5) (viii)	<p><b>Encourage participation of Non-Executive Directors and relationships between Non-Executive and Executive Directors - Complied</b> </p> <p>The Chairperson has encouraged effective participation of all Directors and constructive relations between Executive 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>
3 (5) (ix)	<p><b>Refrain from direct supervision of Key Management Personnel and executive duties - Complied</b> </p> <p>The Chairperson does 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 125.</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. The details of Board Sub-Committees are disclosed on pages 122 to 123.</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 Chairperson of the Sub-Committee. The Sub-Committee 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>
3 (6) (ii)	<p><b>Board Audit Committee</b></p> <p>a. <i>Chairman to be an Independent Non-Executive Director with qualifications and experience in accountancy and/or audit - Complied</i> </p> <p>The Chairman of the Board Audit Committee (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 95.</p>

Section	Principle, Compliance & Implementation
	<p><i>b. Committee to comprise solely of Non-Executive Directors - Complied</i> </p> <p>All the members are Independent Non-Executive Directors as at 31.12.2023.</p>
	<p><i>c. Board Audit Committee functions - Complied</i> </p> <p>In terms of its mandate, the Board Audit Committee is responsible for the following key recommendations:</p> <ul 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 2023.</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 standards.</li> </ul>
	<p><i>d. Review and monitor External Auditor's independence and objectivity and the effectiveness of the audit processes - Complied</i> </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>
	<p><i>e. Provision of Non-Audit Services by External Auditor - Complied</i> </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 173 for further details.</p>
	<p><i>f. Determines scope of Audit - Complied</i> </p> <p>The External Auditor Messrs. KPMG attended nine (9) 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><i>g. Review financial information of the Bank - Complied</i> </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> <ul style="list-style-type: none"> <li>I. Major judgemental areas,</li> <li>II. Any changes in accounting policies and practices,</li> <li>III. Significant adjustments arising from the audit,</li> <li>IV. The going concern assumption,</li> <li>V. Compliance with relevant accounting standards and other legal requirements.</li> </ul>
	<p><i>h. Discussions with External Auditor on interim and final audits - Complied</i> </p> <p>The Board Audit Committee discusses issues, problems and reservations arising from the interim and final audits with the External Auditor.</p>

# CORPORATE GOVERNANCE

Section	Principle, Compliance & Implementation
	<p><i>i. Review of Management Letter and Bank's response - Complied</i> </p> <p>The Board Audit Committee reviewed the External Auditor's management letter for 2022, and the Management's response and follow up on addressing the same thereto during 2023.</p>
	<p><i>j. Review of Internal Audit Function - Complied</i> </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><i>k. Internal Investigations - Complied</i> </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>
	<p><i>l. Attendees at Board Audit Committee Meetings - Complied</i> </p> <p>The Chairman of BIRMC, MD/CEO, ED/COO, Chief Financial Officer, Chief Internal Auditor and a representative of the External Auditor are the regular attendees as at the reporting date. Other Board members may also attend meetings upon invitation. The Committee met the External Auditor on two (2) occasions in 2023, in the absence of the Executive Directors and KMP.</p>
	<p><i>m. Explicit authority, resources and access to information - Complied</i> </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 173.</p>
	<p><i>n. Regular Meetings - Complied</i> </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><i>o. Disclosure in Annual Report - Complied</i> </p> <p>Details of activities of the BAC are included in the report of the Board Audit Committee given on page 173.</p> <p>The number of meetings held and attendance at Board Audit Committee meetings held in 2023 are set out on page 174.</p>
	<p><i>p. Maintain Minutes of Meetings - Complied</i> </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>

Section	Principle, Compliance & Implementation
	<p><i>q. Whistle Blowing Policy and relationship with External Auditor - Complied</i> </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 Directors handling whistle blowing complaints provide 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>
3 (6) (iii)	<p><b>Human Resources &amp; Remuneration Committee</b></p> <p><i>a. Remuneration Policy - Complied</i> </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 164.</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><i>b. Goals and Targets - Complied</i> </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 well-documented. Further, the goals and targets for 2023 for the MD/CEO and the senior leadership team were approved at the Board Meeting.</p> <p><i>c. Performance Evaluation - Complied</i> </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><i>d. Meetings - Complied</i> </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>
3 (6) (iv)	<p><b>Nomination Committee</b></p> <p><i>a. Appointment of Directors, CEO and Key Management Personnel - Complied</i> </p> <p>A formal procedure is in place to appoint new Directors, MD/CEO and Key Management Personnel.</p> <p><i>b. Re-election of Directors - Complied</i> </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><i>c. Eligibility criteria for appointments to key managerial positions including CEO - Complied</i> </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><i>d. Fit &amp; proper persons - Complied</i> </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 Nominations &amp; Governance Committee prior to submission to the Director of Bank Supervision of the Central Bank of Sri Lanka.</p>

# CORPORATE GOVERNANCE

Section	Principle, Compliance & Implementation
	<p><i>e. Succession plan and new expertise - Complied</i> </p> <p>A Succession Planning Policy is in place for KMP and Directors. Each year, the Nominations &amp; Governance 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><i>f. Composition of Nomination Committee - Complied</i> </p> <p>The Nomination Committee was renamed as the Nominations &amp; Governance Committee w.e.f. 30th November 2023, in order to comply with Colombo Stock Exchange (CSE) listing rules Section 09 on Corporate Governance. The revision to the Terms of Reference of the Nominations &amp; Governance Committee was approved on 30th November 2023 by the Board of Directors.</p> <p>The following Non-Executive Directors served on the Nominations &amp; Governance Committee during 2023.</p> <p><b>Chairman</b> Mr Devaka Cooray - Independent Non-Executive Director</p> <p><b>Other Committee Members</b> Mr Madura Ratnayake - Independent Non-Executive Director Mr Nihal Jayawardene, PC - Non-Independent/Non-Executive Director (Appointed w.e.f. 23rd June 2023) Mrs Aruni Goonetilleke - Independent Non-Executive Director (Resigned w.e.f. 9th June 2023)</p> <p>Terms of Reference of the Committee is described in the Committee Report on page 166.</p>
3 (6) (v)	<p><b>Board Integrated Risk Management Committee</b></p> <p><i>a. Composition of Risk Management Committee - Complied</i> </p> <p>The following personnel served on the Board Integrated Risk Management Committee during 2023.</p> <p><b>Chairman</b> Mr Rimoe Saldin - Non-Independent/Non-Executive Director</p> <p><b>Other Committee Members</b> Mr Jonathan Alles - Managing Director/CEO Mr Madura Ratnayake - Independent Non-Executive Director Mr Kithsiri Gunawardena - Non-Independent/Non-Executive Director (Appointed w.e.f. 03rd April 2023) Dr Prasad Samarasinghe - Non-Independent/Non-Executive Director Mr Rasitha Gunawardana - Independent Non-Executive Director (Resigned w.e.f. 23rd June 2023) Mr Ruwan Manatunga – Chief Risk Officer/DGM (Risk) Mr Neil Rasiah – AGM Compliance</p> <p>Mr Rasitha Gunawardana was appointed as the Chairman of the Committee w.e.f. 03rd April 2023 and the former Chairman, Mr Rimoe Saldin continued as a member of the Committee.</p> <p>With the resignation of Mr Rasitha Gunawardana from the Committee, Mr Rimoe Saldin was re-appointed as the Chairman w.e.f. 23rd June 2023.</p> <p>The Chairman of BAC, ED/COO attends meetings on invitation. The Committee makes decisions on behalf of the Board within the framework of the authority and responsibilities assigned.</p> <p>The Terms of Reference of the Committee was revised in January 2023. The Terms of Reference of the Committee described in the Committee Report on page 169.</p>

Section	Principle, Compliance & Implementation
	<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 are 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 2023.</p>
	<p><b>c. Review of Management Level Committee – 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>
<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 Related Party Transactions Review Committee (RPTRC) oversees the process relating to the said subject and the Committee report is provided on page 176.</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 on Note 60 to the Financial Statements on 'Related Party Disclosures' on pages 399 to 405. 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>

# CORPORATE GOVERNANCE

Section	Principle, Compliance & Implementation
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> <ul style="list-style-type: none"> <li>a. The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation,</li> <li>b. The creation of any liabilities of the Bank in the form of deposits, borrowings and investments,</li> <li>c. The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank and</li> <li>d. 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> </ul>
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> <ul style="list-style-type: none"> <li>I. 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 141.</li> <li>II. 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>III. 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>IV. Providing services to or receiving services from a related-party without an evaluation procedure.</li> <li>V. Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</li> </ul>
3 (7) (iv)	<p><b>Granting accommodation to a 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>As at 31st December 2023 the accommodation granted to all Directors are in line with the CBSL Direction.</p>
3 (7) (vi)	<p><b>Favourable treatment or accommodation to Bank employees or their close relations – Complied</b> </p> <p>No favourable treatment or accommodation is provided to Bank employees or their relatives, other than staff benefits.</p>
3 (7) (vii)	<p><b>Remittance of accommodations subject to Monetary Board approval – Complied</b> </p> <p>No such situation has arisen during the year.</p>
<b>3 (8)</b>	<b>Disclosures</b>
3 (8) (i)	<p><b>Publish annual and quarterly Financial Statements – Complied</b> </p> <p>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 and financial reporting standards and have been published in the newspapers in all three (3) languages.</p>

Section	Principle, Compliance & Implementation																									
3 (8) (ii)	<p><b>Disclosures in Annual Report</b></p> <p><i>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</i> </p> <p>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 232, Chief Executive Officer's and Chief Financial Officer's Statement of Responsibility on page 231 and Note 2.1.1 Statement of Compliance to the Financial Statements on page 251.</p> <p><i>b. Report by the Board on the Bank's internal control mechanism – Complied</i> </p> <p>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 179.</p> <p><i>c. External Auditor's certification on the effectiveness of the internal control mechanism – Complied</i> </p> <p>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 181. The recommendations made by the Auditors where relevant, will be dealt with in 2024.</p> <p><i>d. Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank – Complied</i> </p> <p>Profiles of Directors are given on pages 94 to 97.</p> <p>Directors' transactions with the Bank are disclosed in Note 60 to the Financial Statements on pages 400 to 401.</p> <p>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 315.</p> <p><i>e. Total accommodations granted to each category of related parties and as a percentage of the Bank's regulatory capital – Complied</i> </p> <p>The net accommodation granted to each category of related parties are given below as a percentage of the Bank's regulatory capital.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; padding: 2px;">Category of Related Party Transactions</th> <th style="text-align: right; padding: 2px;">Rs Mn</th> <th style="text-align: right; padding: 2px;">%</th> </tr> </thead> <tbody> <tr> <td style="padding: 2px;">Key Management Personnel *and their close family members</td> <td style="text-align: right; padding: 2px;">186.96</td> <td style="text-align: right; padding: 2px;">0.12</td> </tr> <tr> <td style="padding: 2px;">Subsidiaries</td> <td style="text-align: right; padding: 2px;">1,963.66</td> <td style="text-align: right; padding: 2px;">1.23</td> </tr> <tr> <td style="padding: 2px;">Joint Ventures</td> <td style="text-align: right; padding: 2px;">5,874.21</td> <td style="text-align: right; padding: 2px;">3.69</td> </tr> <tr> <td style="padding: 2px;">Government of Sri Lanka/Entities Controlled, Jointly Controlled, significantly influenced by the Government of Sri Lanka</td> <td style="text-align: right; padding: 2px;">61,443.51</td> <td style="text-align: right; padding: 2px;">38.58</td> </tr> </tbody> </table> <p>* includes the Executive Directors</p> <p><i>f. Aggregate values of remuneration to, and transactions with Key Management Personnel – Complied</i> </p> <p>The aggregate amount of remuneration paid during 2023 to KMP and the transactions with KMP are given below;</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; padding: 2px;">Remuneration and transactions with the Key Management Personnel</th> <th style="text-align: right; padding: 2px;">Rs Mn</th> </tr> </thead> <tbody> <tr> <td style="padding: 2px;">Remuneration paid</td> <td style="text-align: right; padding: 2px;">728.70</td> </tr> <tr> <td style="padding: 2px;">Loans and Advances</td> <td style="text-align: right; padding: 2px;">1,065.53</td> </tr> <tr> <td style="padding: 2px;">Deposits</td> <td style="text-align: right; padding: 2px;">1,290.61</td> </tr> <tr> <td style="padding: 2px;">Investments</td> <td style="text-align: right; padding: 2px;">72.57</td> </tr> </tbody> </table>	Category of Related Party Transactions	Rs Mn	%	Key Management Personnel *and their close family members	186.96	0.12	Subsidiaries	1,963.66	1.23	Joint Ventures	5,874.21	3.69	Government of Sri Lanka/Entities Controlled, Jointly Controlled, significantly influenced by the Government of Sri Lanka	61,443.51	38.58	Remuneration and transactions with the Key Management Personnel	Rs Mn	Remuneration paid	728.70	Loans and Advances	1,065.53	Deposits	1,290.61	Investments	72.57
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# CORPORATE GOVERNANCE

Section	Principle, Compliance & Implementation
	<p><i>g. External Auditor's certification of compliance – Complied</i> </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 2024.</p>
	<p><i>h. Report confirming compliance with prudential requirements, regulations, laws and internal controls – Complied</i> </p> <p>There were no material non-compliance to prudential requirements, regulations, laws and internal controls affecting the Bank.</p>
	<p><b>Non-compliance Report – Complied</b> </p> <p>There were no supervisory concern on 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>	<p><b>Transitional and Other General Provisions</b></p> <p>Transitional and other general provisions – Complied </p> <p>Transitional provisions have been complied with, as applicable.</p>

**Compliance with Colombo Stock Exchange (CSE) Listing Rules - Section 09 on Corporate Governance**

<b>Code Ref</b>	<b>Requirement</b>	<b>Extent of Compliance</b>	<b>Effective Date of compliance</b>
<b>9.1</b>	<b>Corporate Governance Rules</b>		
9.1.1	Extent of Compliance with Corporate Governance Rules	The extent of compliance with Corporate Governance Section 09 of the listing rules issued by CSE is tabulated below.	01 October 2023
<b>9.2</b>	<b>Policies</b>		
9.2.1	Availability of Policies	<p>The following policies which are mandated by the revised CSE listing rules are currently in place:</p> <ul style="list-style-type: none"> <li>• Policy on the matters relating to the Board of Directors</li> <li>• Policy on Board Sub-Committees</li> <li>• Policy on Corporate Governance, Nominations and Re-election</li> <li>• Policy on Remuneration</li> <li>• Policy on Internal Code of Business Conduct and Ethics for all Directors and employees, including policies on trading in the Entity's listed securities</li> <li>• Policy on Risk Management and Internal Controls</li> <li>• Policy on Relations with Shareholders and Investors</li> <li>• Policy on Environmental, Social and Governance Sustainability</li> <li>• Policy on Corporate Disclosures</li> <li>• Policy on Whistle Blowing</li> <li>• Policy on Anti-Bribery and Corruption</li> </ul> <p>The Bank is currently reviewing the above policies to ensure whether all criteria specified in the revised CSE rules are covered within those policies.</p> <p>The Bank is in the process of developing the following policy mandated by revised CSE listing rules.</p> <ul style="list-style-type: none"> <li>• Policy on Control and Management of Company Assets and Shareholder Investments</li> </ul> <p>Further, the HNB's Corporate website with regard to the availability of the mandated policies will be updated on or before the effective date.</p>	01 October 2024
9.2.2	Waivers and Exemptions	At present there are no waivers and exemptions applicable to the Bank.	01 October 2024
9.2.3	Disclosures in the Annual Report	Please refer section 9.2.1.	01 October 2024
9.2.4	Requesting of Bank Policies by Shareholders	A formal procedure is being developed to facilitate the providing of any of the above policies to the shareholders upon a written request.	01 October 2024
<b>9.3</b>	<b>Board Committees</b>		
9.3.1	Establishment of Board Committees	<p>The Nominations &amp; Governance Committee, Remuneration Committee, Audit Committee and Related Party Transactions Review Committee are in place.</p> <p>In November 2023, the Nominations Committee was renamed as Nominations and Governance Committee to comply with the revised CSE listing rules.</p> <p>Further, in November 2023 the Terms of Reference of the Nominations &amp; Governance Committee was enhanced to comply with the revised CSE listing rules.</p>	01 October 2023

# CORPORATE GOVERNANCE

Code Ref	Requirement	Extent of Compliance	Effective Date of compliance
9.3.2	Board Composition, Responsibilities and Disclosures	<p>The composition of all Committees are in line with the revised CSE listing rules. Each Sub Committee is governed by its own Terms of Reference and has a Secretary who arranges the meetings, maintains minutes and records under the supervision of the Chairperson of the respective Sub Committee.</p> <p>The Chairperson of the respective Sub Committee is accountable for the effective functioning of the Committee and reports on a periodic basis to the Board on the activities of the Sub Committee, highlighting matters for the attention of the Board. The Committee Terms of Reference/Charters are reviewed regularly.</p>	01 October 2023
9.3.3	Chairperson of Board Committees	The Chairperson of the Board of Directors was not the Chairperson of Nominations & Governance Committee, Remuneration Committee, Audit Committee or the Related Party Transactions Review Committee during 2023.	01 October 2024
<b>9.4</b>	<b>Adherence to principles of democracy in the adoption of meeting procedures and the conduct of all General Meetings with shareholders</b>		
9.4.1	Record Maintenance	The Company Secretary maintains records of all resolutions and information (Appointment of proxy, number of votes in favour & against and number of shares in respect of vote was directed to be abstained) of General Meetings.	01 October 2023
9.4.2	Communication and relation with Shareholders and Investors	The Bank has an established policy on communication. Further, the Bank is in the process of revising the Communication Policy incorporating the provisions of the revised CSE listing rules for effective communication and relations with shareholder and investors.	01 October 2023
<b>9.5</b>	<b>Policy on matters relating to the Board of Directors</b>		
9.5.1	Availability of policy on governing matters relating to Board of Directors	The requirements are currently captured in the Board Charter, several other policies and the Articles of Association. The Bank is in the process of updating the Board Charter with provisions of the revised CSE listing rules.	01 October 2024
9.5.2	Disclosures in the Annual Report	Disclosures are made in the Annual Report of the Board of Directors given on page 154.	01 October 2024
<b>9.6</b>	<b>Chairperson and CEO</b>		
9.6.1	Chairperson and CEO	The Chairperson is a Non-Executive Director. The position of Chairperson and CEO is not held by the same individual.	01 October 2023
9.6.2	Disclosure of Non-Compliances	Not applicable.	01 October 2023
9.6.3	Appointment of Senior Independent Director	<p>A Non-Independent Director was appointed as the Chairperson in June 2023, a Senior Independent Director was designated in terms of direction 3(5)(ii) of Banking Act Direction No.11 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka which was duly notified to shareholders through Colombo Stock Exchange ("CSE") Disclosure.</p> <p>However, since the Chairperson and CEO are not the same person or the Chairperson and CEO are not Close Family Members nor related parties, the designation of a Senior Independent Director doesn't arise under the revised CSE listing rules.</p> <p>Please refer the report of the Senior Independent Director given on page 178 for further details.</p>	01 October 2023
9.6.4	Disclosure of Non-Compliances in the Annual Report	Not applicable.	01 October 2023

<b>Code Ref</b>	<b>Requirement</b>	<b>Extent of Compliance</b>	<b>Effective Date of compliance</b>
<b>9.7</b>	<b>Fitness of Directors and CEOs</b>		
9.7.1 9.7.2	Appointment of Fit and Proper Persons	<p>The Board has a formal and transparent process in place for the succession and appointment of Directors. The Nominations &amp; Governance 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.</p> <p>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. All appointments were duly notified to CSE. All Directors appointed to the Board are subjected to re-election by shareholders at the first Annual General Meeting after their appointment.</p> <p>In any future appointments, the criteria stated in the revised CSE listing rules will also be taken into account.</p>	01 October 2023
9.7.3	Fit and Proper Assessment Criteria  a) Honesty, Integrity and Reputation b) Competence and Capability c) Financial Soundness	The assessment criteria detailed in the revised CSE listing rules have been incorporated into the annual declaration of the Directors and CEO.	01 April 2024
9.7.4	Annual Declarations from Directors and CEO	Annual declarations from Directors confirming that each of them have continuously satisfied the fit and proper assessment criteria set out in the CSE revised listing rules were obtained as at 31 December 2023.	01 October 2023
9.7.5	Disclosures in the Annual Report	Disclosures are made in the Annual Report of the Board of Directors given on page 154.	01 October 2023
<b>9.8</b>	<b>Board Composition</b>		
9.8.1	Board at Minimum to consist of Five (5) Directors.	The Bank is complied with the requirement. The Board of Directors of the Bank consisted of ten (10) Directors as at 31 December 2023.	01 October 2024
9.8.2	Minimum number of Independent Directors (Min:2 or 1/3 of total number, whichever is higher)	The Bank is complied with the minimum number of Independent Directors. The Board of Directors of the Bank consisted of four (4) Independent Directors as at 31 December 2023.	01 October 2024
9.8.3 9.8.4	Criteria for determining Independence	<p>The Bank is complied with the criteria for determining independence of a Director.</p> <p>The Bank takes in to account the provisions of Code of Best Practice on Corporate Governance issued by CA Sri Lanka (2017) and Banking Act Direction No.11 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka. The Bank also revised the criteria for determining the independence of a Director taking in to account the revised CSE listing rules.</p>	01 October 2023
9.8.5	Declarations	Annual Declaration was obtained from the Board of Directors incorporating the provisions made under the revised CSE listing rules as at 31 December 2023.	01 October 2023

# CORPORATE GOVERNANCE

Code Ref	Requirement	Extent of Compliance	Effective Date of compliance									
<b>9.9</b>	<b>Alternate Directors</b>											
9.9	Appointment of Alternate Directors	No Alternate Directors were appointed to represent Non-Executive Directors. Articles of Association includes provisions to comply with the revised CSE listing rules.	01 January 2024									
<b>9.10</b>	<b>Disclosures relating to Directors</b>											
9.10.1	Policy on the maximum number of Directorships	In terms of direction 3(3)(ii) of Banking Act Direction No.11 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka, Directors should not be Directors of more than twenty (20) companies or not more than ten (10) companies classified as Specified Business Entities.  As such Directors do not hold Directorships of more than twenty (20) companies/entities/institutions inclusive of Subsidiaries or Associate Companies of the Bank.	01 October 2023									
9.10.2	Appointment of new Director	Nominations & Governance Committee reviews all new appointments. No new appointment done after the effective date of the revised CSE listing rules.	01 October 2023									
9.10.3	Changes to the Composition	After the effective date of the revised CSE listing rules, a change in the composition of Human Resources and Remuneration Committee had taken place, and an immediate market announcement had been made on same.	01 October 2023									
9.10.4	Disclosures in the Annual Report	Please refer pages 94 to 97 for profiles of Directors.  Please refer page 178 for Terms of Reference of Senior Independent Director.  Please refer page 121 for Directorships in other companies.	01 October 2023									
<b>9.11</b>	<b>Nominations and Governance Committee</b>											
9.11.1	Availability of Nominations and Governance Committee	The Nominations Committee was renamed as the Nominations & Governance Committee with effect from 30th November 2023.	01 October 2024									
9.11.2	Appointment and re-election of Directors	The Committee follows a formal procedure in appointment and re-election of Directors.	01 October 2024									
9.11.3	Terms of Reference	The Committee has adopted a Term of Reference which define the scope, authority and duties. Revised Terms of Reference in line with the CSE listing rules was approved on 30th November 2023.	01 October 2024									
9.11.4 (1)	Composition - Minimum of three (3) Directors, out of which a minimum of two (2) members shall be Independent Directors	<p>The Bank is in compliance throughout the year with the revised CSE listing rules. Given below is the composition of the Nominations &amp; Governance Committee during 2023.</p> <table border="1"> <thead> <tr> <th>Period</th> <th>Independent Non-Executive Directors</th> <th>Non-Executive Directors</th> </tr> </thead> <tbody> <tr> <td>01 January to 22 June 2023</td> <td>3</td> <td>-</td> </tr> <tr> <td>23 June to 31 December 2023</td> <td>2</td> <td>1</td> </tr> </tbody> </table>	Period	Independent Non-Executive Directors	Non-Executive Directors	01 January to 22 June 2023	3	-	23 June to 31 December 2023	2	1	01 October 2024
Period	Independent Non-Executive Directors	Non-Executive Directors										
01 January to 22 June 2023	3	-										
23 June to 31 December 2023	2	1										
9.11.4 (2)	Composition - Independent Director shall be appointed as the Chairperson of the Committee	An Independent Director functioned as the Chairman of the Committee throughout the year.	01 October 2024									
9.11.4 (3)	Composition - The Chairperson and the members of the Committee shall be identified in the Annual Report	The Chairman and the members of the Committee are identified in the Nominations & Governance Committee report given on page 166.	01 October 2024									

<b>Code Ref</b>	<b>Requirement</b>	<b>Extent of Compliance</b>	<b>Effective Date of compliance</b>																		
9.11.5	Functions	The Bank has documented the functions of the Committee in the Terms of Reference. All functions are effectively discharged by the Committee. Please refer Nominations & Governance Committee Report on page 166.	01 October 2024																		
9.11.6	Disclosures in the Annual Report	Disclosure requirements are covered in the Nominations & Governance Committee Report given on page 166.	01 October 2024																		
<b>9.12</b>	<b>Remuneration Committee</b>																				
9.12.1	Definition of Remuneration	The Bank has established a formal transparent policy on remuneration and defined remuneration in terms of cash and non-cash benefits.	01 October 2023																		
9.12.2	Remuneration Committee	A Human Resources and Remuneration Committee was in place.	01 October 2023																		
9.12.3	Remuneration Policy - Executive Directors/ Non-Executive Directors	The remuneration policy of the Bank has been amended incorporating following sections and same has been approved by the Board on 14th December 2023. - Remuneration Policy for Non-Executive Members of the Board of Directors - Remuneration Policy for Executive Members of the Board of Directors	01 October 2023																		
9.12.4																					
9.12.5	Terms of Reference	The Committee has adopted a Terms of Reference which define the scope, authority and duties in compliance with the revised CSE listing rules.	01 October 2023																		
9.12.6 (1) & (2)	Composition - Minimum of three (3) Directors, out of which a minimum of two (2) members shall be Independent Directors	Given below is the composition of the Human Resources and Remunerations Committee during 2023.  <table border="1"> <thead> <tr> <th>Period</th> <th>Independent Non-Executive Directors</th> <th>Non-Executive Directors</th> </tr> </thead> <tbody> <tr> <td>01 January to 02 April 2023</td> <td>3</td> <td>1</td> </tr> <tr> <td>03 April to 09 June 2023</td> <td>2</td> <td>1</td> </tr> <tr> <td>23 June to 31 August 2023</td> <td>1</td> <td>2</td> </tr> <tr> <td>01 September to 08 November 2023</td> <td>2</td> <td>2</td> </tr> <tr> <td>09 November to 31 December 2023</td> <td>3</td> <td>2</td> </tr> </tbody> </table> The scope of the Committee is limited to the operations of the Bank.	Period	Independent Non-Executive Directors	Non-Executive Directors	01 January to 02 April 2023	3	1	03 April to 09 June 2023	2	1	23 June to 31 August 2023	1	2	01 September to 08 November 2023	2	2	09 November to 31 December 2023	3	2	01 October 2024
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9.12.6 (3)	Composition - Independent Director shall be appointed as the Chairperson of the Committee	An Independent Director functioned as the Chairman of the Committee throughout the year.	01 October 2023																		
9.12.7	Functions	The Bank has documented the functions of the Committee in the Terms of Reference. All functions are effectively discharged by the Committee. Please refer Human Resources and Remuneration Committee Report on page 164.	01 October 2023																		
9.12.8	Disclosures in the Annual Report	Disclosure requirements are covered in the Human Resources and Remuneration Committee Report given on page 164.	01 October 2023																		
<b>9.13</b>	<b>Audit Committee</b>																				
9.13.1	Audit and Risk Committees	The Bank has established separate Committees to perform the Audit and Risk Functions.	01 October 2023																		
9.13.2	Terms of Reference	The Committee has adopted a Terms of Reference which define the scope, authority and duties.	01 October 2023																		

# CORPORATE GOVERNANCE

Code Ref	Requirement	Extent of Compliance	Effective Date of compliance												
9.13.3 (1) & (4)	Composition - A Minimum of three (3) Directors, out of which a minimum of two (2) or a majority of the members, whichever higher, shall be Independent Directors	<p>The Bank is in compliance throughout the year with the revised CSE listing rules. Given below is the composition of the Audit Committee during 2023.</p> <table border="1"> <thead> <tr> <th>Period</th><th>Independent Non-Executive Directors</th><th>Non-Executive Directors</th></tr> </thead> <tbody> <tr> <td>01 January to 02 April 2023</td><td>3</td><td>1</td></tr> <tr> <td>03 April to 23 June 2023</td><td>2</td><td>1</td></tr> <tr> <td>24 June to 31 December 2023</td><td>3</td><td>-</td></tr> </tbody> </table> <p>The scope of the Committee is limited to the operations of the Bank.</p>	Period	Independent Non-Executive Directors	Non-Executive Directors	01 January to 02 April 2023	3	1	03 April to 23 June 2023	2	1	24 June to 31 December 2023	3	-	01 October 2024
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24 June to 31 December 2023	3	-													
9.13.3 (2)	Composition - The quorum for a meeting of the Audit Committee shall require that the majority of those in attendance to be Independent Directors	<p>As per the current Audit Committee Charter, if the majority of the members are present at a meeting it will constitute a proper quorum. In eight (8) out of the nine (9) meetings held during the year, the majority of members present were Independent Directors.</p> <p>The Bank is in the process of revising the Audit Committee Charter to be in line with the revised CSE listing rules.</p>	01 October 2024												
9.13.3 (3)	Composition - The Audit Committee may meet as often as required provided that the Audit Committee compulsorily meets on a quarterly basis prior to recommending the financials to be released to the market	The Committee met nine (9) times during the year. The Committee reviewed the quarterly and annual financial statements and recommended same to the Board of Directors prior to publication.	01 October 2024												
9.13.3 (5)	Composition - Independent Director shall be appointed as the Chairperson of the Committee	An Independent Director functioned as the Chairman of the Committee throughout the year.	01 October 2024												
9.13.3 (6)	Composition - The CEO and the CFO shall attend the Audit Committee meetings by invitation	<p>The Chairman of BIRMC, MD/CEO, ED/COO, Chief Financial Officer, Chief Internal Auditor, and a representative of the External Auditor are typically invited to attend meetings. Other Board members may also attend meetings upon invitation.</p> <p>MD/CEO was a member of the BIRMC throughout the year</p>	01 October 2024												
9.13.3 (7)	Composition - The Chairperson of the Audit Committee shall be a Member of a recognised professional accounting body	The Chairman of the Board Audit Committee, 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 of United Kingdom.	01 October 2024												
9.13.4	Functions	<p>The Bank has documented the functions of the Committee in the Audit Committee Charter. The Bank is in the process of making further improvements to the Audit Committee Charter. In order to be in line with the revised CSE listing rules the functions listed under 9.13.4.1 (vii), (viii) and (ix) are covered within the scope of Board Integrated Risk Management Committee.</p> <p>Functions are effectively discharged by the Committee. Please refer Audit Committee Report on page 173.</p>	01 October 2024												

<b>Code Ref</b>	<b>Requirement</b>	<b>Extent of Compliance</b>	<b>Effective Date of compliance</b>								
9.13.5	Disclosures in the Annual Report	Disclosure requirements are covered in the Audit Committee Report given on page 173.	01 October 2024								
<b>9.14</b>	<b>Related Party Transactions Review Committee</b>										
9.14.1	Availability of Related Party Transactions Review Committee	A Related Party Transactions Review Committee is in place.	01 October 2023								
9.14.2	Composition - A minimum of three (3) Directors, out of which two (2) members shall be Independent Directors. Committee may also include Executive Directors. An Independent Director shall be appointed as the Chairperson of the Committee	<p>The Bank is in compliance throughout the year with the revised CSE listing rules. Given below is the composition of the Related Party Transactions Review Committee during 2023.</p> <table border="1"> <thead> <tr> <th>Period</th><th>Independent Non-Executive Directors</th><th>Non-Executive Directors</th><th>Executive Directors</th></tr> </thead> <tbody> <tr> <td>01 January to 31 December 2023</td><td>2</td><td>1</td><td>1</td></tr> </tbody> </table> <p>An Independent Director functioned as the Chairman of the Committee throughout the year.</p> <p>The scope of the Committee is limited to the operations of the Bank.</p>	Period	Independent Non-Executive Directors	Non-Executive Directors	Executive Directors	01 January to 31 December 2023	2	1	1	01 April 2024
Period	Independent Non-Executive Directors	Non-Executive Directors	Executive Directors								
01 January to 31 December 2023	2	1	1								
9.14.3	Functions	<p>The Related Party Transactions Review Committee is responsible for reviewing the Related Party Transactions, to ensure the interests of shareholders as a whole are taken into account when entering into Related Party Transactions.</p> <p>The Committee has established and maintained a policy, procedure and process for the identification, clarification and reporting the Related Party Transactions on an end-to-end basis across the Bank's operations. The Bank is in the process of improving the policy in line with the revised CSE listing rules.</p> <p>Please refer Related Party Transactions Review Committee Report on page 176.</p>	01 October 2023								
9.14.4 (1)	General requirements - The Committee shall meet at least once a calendar quarter	The Committee met four (4) times during 2023. The minutes of all meetings are properly documented and tabled at the subsequent Board meetings for ratification.	01 October 2023								
9.14.4 (2)	General requirements - The Committee should ensure that they have, or have access to, enough knowledge or expertise to assess all aspects of proposed Related Party Transactions	The Committee has adequate knowledge and expertise to assess all aspects of Related Party Transactions.	01 October 2023								
9.14.4 (3)	General requirements - Approval by Board of Directors	Where necessary, the Committee shall request the Board of Directors to approve the Related Party Transactions which have been reviewed by the Committee.	01 October 2023								

# CORPORATE GOVERNANCE

<b>Code Ref</b>	<b>Requirement</b>	<b>Extent of Compliance</b>	<b>Effective Date of compliance</b>
9.14.4 (4)	General requirements - Conflict of Interest	The Related Party Transactions Review Committee oversees the process relating to the said subject. Steps have been taken by the Board to avoid any conflicts of interest, that may arise, in transacting with related parties. Directors provide declarations to the Board about their material interests in business transactions at the time of appointment and thereafter on quarterly basis. Directors do not participate in, and excuse themselves from the Meeting, when the Board considers any matters in which transactions with related entities are discussed and where a conflict in interest may arise.	01 October 2023
9.14.5	Review of Related Party Transactions by the Related Party Transactions Review Committee	The Committee takes into account the provision of the said listing rules when reviewing related party transactions.	01 October 2023
9.14.6	Shareholder Approval	A situation to obtain the shareholder approval as per revised CSE listing rules has not arisen during the year.	01 October 2023
9.14.7	Immediate Disclosures	A situation has not arisen where immediate disclosure is required to be made as per revised CSE listing rules.	01 October 2023
9.14.8	Disclosures in the Annual Report	Disclosure requirements are covered in the Related Party Transactions Review Committee Report given on page 176.	01 October 2023
9.14.9	Acquisition and Disposal of assets from/to related parties	The Bank has not acquired/disposed substantial assets from/to related parties.	01 October 2023
9.14.10	Exempted Related Party Transactions	The provisions of the sections are considered when evaluating the Related Party Transactions by the Committee.	01 October 2023
<b>9.16</b>	<b>Additional Disclosures</b>		
9.16	(i) Declaration of all material interest  (ii) Review of internal controls and compliance controls  (iii) Compliance with laws, rules and regulations  (iv) Material Non-Compliances	Disclosure requirements are covered in the Annual Report of the Board of Directors given on page 154.  Material non-compliance with any Law or Regulation has not arisen during the year 2023.	01 October 2023

**Compliance with the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (2017)**

Code Ref.	Requirement	Reference	Complied	Page Ref
A.	<b>Directors</b>			
A.1	The Board	The Board	✓	112
A.1.1	Board Meetings	Efficient Meetings	✓	118
A.1.2	Roles & Responsibilities of the Board	Responsibilities of the Board	✓	114
A.1.3	Compliance & Independent Professional Advice	Company Secretary	✓	115
A.1.4	Access to advice and services of Company Secretary	Company Secretary	✓	115
A.1.5	Independent Judgement	Independence of Directors	✓	117
A.1.6	Dedicate Adequate Time and Effort	Efficient Meetings	✓	118
A.1.7	Calls for Resolutions	Efficient Meetings	✓	118
A.1.8	Board Induction and Training Annual Assessment of Training Needs	Induction & Training	✓	119
A.2	Chairman & Chief Executive Officer	Segregation of Key Roles	✓	114
A.3	Chairman's Role in Preserving Good Corporate Governance	Segregation of Key Roles	✓	114
A.4	Availability of Financial Acumen	Selection, Election & Appointment	✓	116
A.5	Board Balance	Composition	✓	112
A.5.1	Independent Non-Executive Directors	Composition	✓	112
A.5.2				
A.5.3	Director's Independence	Independence of Directors	✓	117
A.5.4	Annual Declaration	Independence of Directors	✓	117
A.5.5	Independence of Directors	Independence of Directors	✓	117
A.5.6	Alternate Directors	No alternate Directors have been appointed to represent Non-Executive Directors of the Bank	✓	
A.5.7	Senior Independent Director (SID)	Senior Independent Director (SID) Statement by the Senior Independent Director (SID)	✓	115 178
A.5.8	Confidential Discussions with SID	Senior Independent Director (SID)	✓	115
A.5.9	Meetings with Non-Executive Directors by SID	Senior Independent Director (SID)	✓	115
A.5.10	Resolutions	Annual General Meeting (AGM)	✓	125
A.6	Provision of Appropriate and Timely Information	Efficient Meetings	✓	118
A.7	Appointments to the Board	Selection, Election & Appointment	✓	116
A.8	Re-election of Directors	Re-election	✓	117
A.9	Appraisal of Board & Sub-Committees	Appraisals		119
A.10	Annual Report to Disclose Specified Information Regarding Directors	Composition Managing conflicts of interest Efficient Meetings	✓	112 120 118

# CORPORATE GOVERNANCE

<b>Code Ref.</b>	<b>Requirement</b>	<b>Reference</b>	<b>Complied</b>	<b>Page Ref</b>
D.4	Related Party Transactions Review Committee	Mandatory Committees Board Related Party Transactions Review Committee report	✓	122 176
D.5	Code of Conduct and Ethics	Ethical Conduct Chairman's Message	✓	120 109
D.6	Corporate Governance Disclosures	Corporate Governance Report	✓	110-153
<b>E/F</b>	<b>Institutional and other Investors</b>			
	Encourage voting at AGM – institutional and other investors	Engaging with Our Key Stakeholders	✓	125
<b>G.</b>	<b>Internet of Things &amp; Cyber Security</b>			
G.1	Identify connectivity and related cyber risks	Information and Cyber Security	✓	126
G.2	Appoint a CISO and implementing a Cyber Security Policy			
G.3	Include Cyber Security on Board agenda			
G.4	Independent Assurance			
G.5	Disclosures in Annual Report			
<b>H.</b>	<b>Environment, Society &amp; Governance</b>			
H.1	Board to consider Sustainability Risks and opportunities	Role of the Board in Managing Impacts HNB Sustainability Foundation	✓	127
H.2	Consider views of stakeholders in managing sustainability related risks and opportunities	Integration of Sustainability Strategy		
H.3	Establish an ESG governance framework			
H.4	Establish an ESG governance structure			
H.5	Annual Report to contain sufficient information on sustainability related risks and opportunities			

# 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 2023 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) issued by the Central Bank of Sri Lanka (CBSL) 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 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 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(lka)/stable 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 15th February 2024.

## 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, Corporate Governance Rules of the Colombo Stock Exchange 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 128 to 153 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 112 to 128 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.

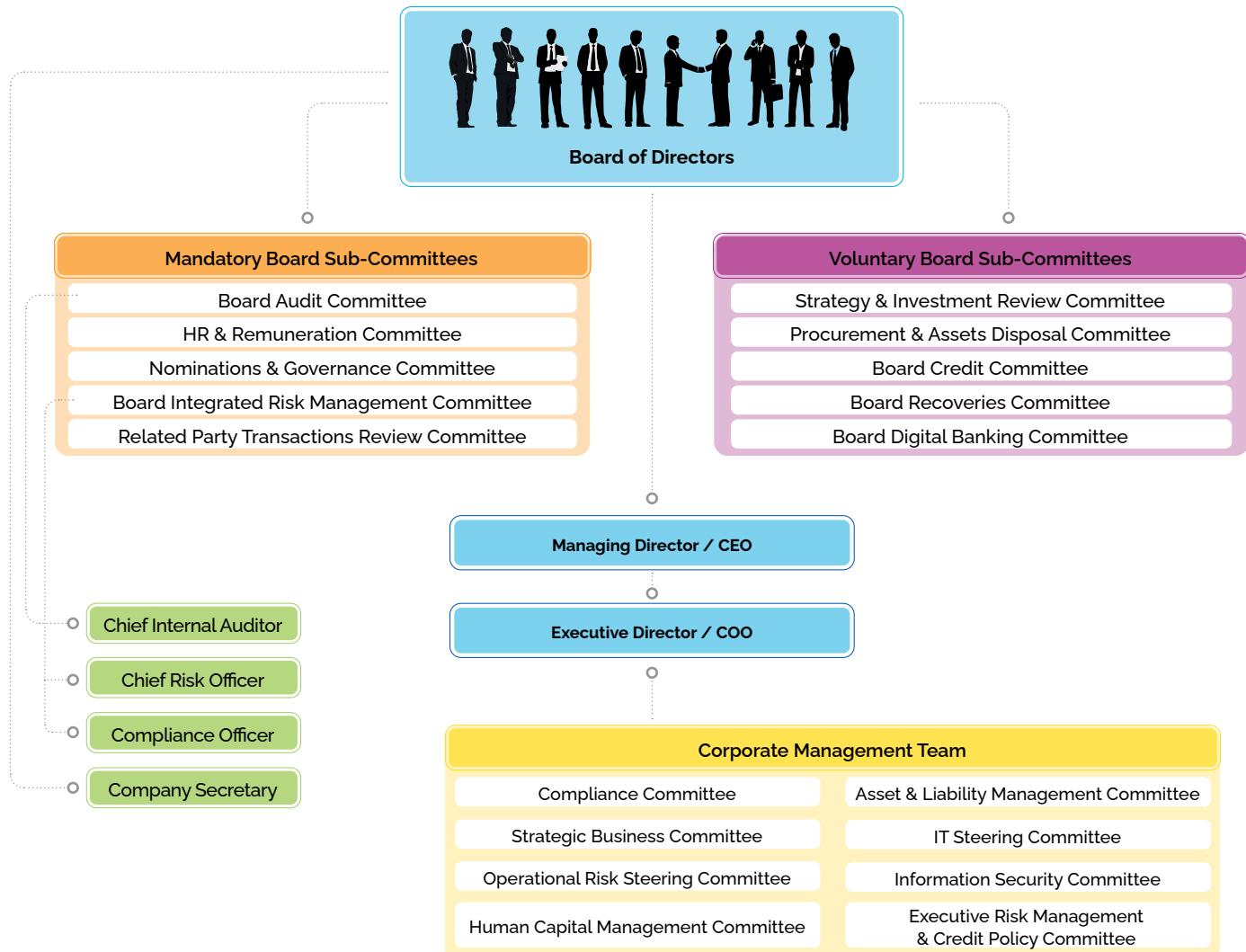
Management is open and transparent with the Board and brings to attention any matters of concern in a timely manner. Executive Directors and the Bank's Key Management Personnel (KMP) attend Board meetings, increasing contact between the Board and Management. Regular reporting on key matters enables effective oversight by the Board.

## Governance in 2023

2023 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,

### HNB Governance Structure



embracing stakeholder inclusivity while considering the Environmental, Social 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 24 to 25 in this report.

The annual review of strategy for the year 2024, was conducted by the Board in December 2023, in consultation with the Corporate Management Team, and considered impacts of the current economic conditions, risk and opportunities in

### THE BOARD

As at 31st December 2023

Non-Executive Independent Directors	<ul style="list-style-type: none"> <li>Mr Devaka Cooray</li> <li>Mr Madura Duminda Ratnayake</li> <li>Mr Osman Chandrawansa</li> <li>Mr Rasitha Gunawardana</li> </ul>	Senior Independent Director (SID)
Non-Executive Non-Independent Directors	<ul style="list-style-type: none"> <li>Mr Nihal Jayawardene PC</li> <li>Mr Rimoe Saldin</li> <li>Mr Kithsiri Gunawardena</li> <li>Dr Prasad Samarasinghe</li> </ul>	Chairperson
Executive Directors	<ul style="list-style-type: none"> <li>Mr Jonathan Alles</li> <li>Mr Dilshan Rodrigo</li> </ul> <p>Resigned w.e.f. 12th January 2024</p>	Managing Director /Chief Executive Officer Chief Operating Officer

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

approving the Bank's business plan and setting revised short, medium and long-term targets.

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. 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 Nominations & Governance Committee (NGC), 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, a new Director was appointed to the Board to fill vacancies that arose in 2023, however the appointed Director has resigned from the office of the Directors due to the independence requirements to be fulfilled for a statutory appointment that he has accepted.

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 laws, rules, regulations, capital market provisions 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.

The names, appointment dates and meeting attendance of Directors of the Bank are given on pages 94 to 97 and 119 of this report

## 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 2023 are given in Note 18 to the financial statements in page 315.

## 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 2023 appraisal was held in January 2024. 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 pages 183 to 185 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 the 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 399.

## 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 requirement to have a policy governing the matters related to the Board of Directors are currently captured in the Board Charter, several other policies and the Articles of Association. The Bank is in the process of updating the Board Charter with provisions of the revised CSE listing rules.

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 four (4) Independent Non-Executive Directors, in compliance with regulatory requirements.

Material non-compliance with Laws and regulations has not been arisen during the year.

#### **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. In response, the Bank enhanced its risk management capabilities to mitigate exposure as described in the Risk Review on pages 186 to 226.

#### **Innovation and Technology Governance**

The Bank is committed to protect customer managers data and improve digital banking. The Board recognises the benefits of agility, scalability, and innovation that digital platforms provided. To ensure that the Bank's digital technology strategy delivers exceptional client and employee experiences and is aligned with the Bank's overall business strategy, the Board ensures that it is effective and properly resourced.

The Board is also 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. To meet

the Bank's information and cyber security requirements, governance structures were strengthened and surveillance and monitoring tools were enhanced during the year.

The Bank's digital banking platform is designed to provide secure and convenient banking services to its customers. The HNB Digital Banking App is one of the highest rated mobile applications that facilitates and manages all customer finances right from the mobile phone securely and conveniently. The App offers a range of features such as E-pass book facility, peek balance, real-time fund transfers, and more. The app also provides 2FA (2 Factor Authentication) limits, transaction limits, and in-app notifications to ensure the security of customer transactions.

#### **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.

#### **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, 2023	240-249 Signed on page 243
3	Auditor's report on the financial statements of the Bank and the Group	Section 168 (1) (c)	Independent Auditor's Report	234-238
4	Any change in accounting policies made during the accounting period	Section 168 (1) (d)	Note 3.6 to the financial statements - Changes in Material Accounting Policies	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	183-185

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

No.	<b>Disclosure requirements</b>	<b>Reference to the Companies Act No. 7 of 2007</b>	<b>Disclosure reference for compliance</b>	<b>Page</b>
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	316
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	316
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  Corporate Governance Report	92-97  109-153
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	316
10	Particulars of any relationship (other than that of auditor) which the auditor has with or any interests which the auditor has in the Company or any of its subsidiaries	Section 168 (1) (j)	The Bank's auditors during the period under review were Messrs. KPMG, Chartered Accountants.  Board Audit Committee periodically reviews the independence and objectivity of the External Auditor and also considers the adherence to the Policy on non-audit services to ensure that their independence is maintained.  Based on the declaration provided by Messrs. KPMG, and as far as the Directors are aware, the auditors do not have any relationship or interest with the Bank that in our judgement, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), applicable on the date of this Report.  A resolution re-appointing Messrs. KPMG Sri Lanka as Auditors for the ensuing year and authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting.	174
11	Signed on behalf of the Board by two Directors and the Company Secretary	Section 168 (1) (k)	Complied with	163

### 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	<p><b>Vision and Mission</b></p> <p>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.</p>	30																													
2	Principal Activities	About HNB Group	6																													
3	Changes to the Group Structure	<p>There were no changes to Group structure during the year, except for the below noted transactions,</p> <p>1. Disposal of Guardian Acuity Asset Management Limited to CT CLSA in January 2023.</p>																														
4	List of Directors of Subsidiaries and Joint Ventures of the Bank as at 31st December 2023	<p><b>Subsidiaries</b></p> <table> <tr> <td><b>HNB Assurance PLC</b></td> <td><b>Sithma Development (Pvt) Ltd</b></td> </tr> <tr> <td>Mrs M A R C Cooray</td> <td>Mr P R Saldin</td> </tr> <tr> <td>Mr L U D Fernando</td> <td>Dr L Rohan Karunaratne</td> </tr> <tr> <td>Mr S A Chapman</td> <td>Ms Anuradhi U Delage</td> </tr> <tr> <td>Mr Ashoka Goonesekere</td> <td>Mr U A Roshan Fernando</td> </tr> <tr> <td>Mr R A Ebell</td> <td></td> </tr> </table> <p><b>HNB Finance PLC</b></p> <table> <tr> <td>Mr H D Wijesundara</td> </tr> <tr> <td>Mr B M D C Prabath</td> </tr> <tr> <td>Mr A G R Dissanayake</td> </tr> <tr> <td>Mr R D Manatunga</td> </tr> <tr> <td>Mr Lalith Withana</td> </tr> <tr> <td>Mr M S Polamarasetty</td> </tr> <tr> <td>Mr B Premalal</td> </tr> <tr> <td>Mr Saliya Jayawaeera</td> </tr> </table> <p><b>Joint Ventures</b></p> <table> <tr> <td><b>Acuity Partners (Pvt) Ltd</b></td> </tr> <tr> <td>Mr N H T I Perera</td> </tr> <tr> <td>Mr R Abeywardena</td> </tr> <tr> <td>Mr P G D B Pallevatte</td> </tr> <tr> <td>Mr A G R Dissanayake</td> </tr> <tr> <td>Mr M S Wijemanne</td> </tr> <tr> <td>Mr S I Wijesinghe</td> </tr> <tr> <td>Mr K S Jayasuriya</td> </tr> <tr> <td>Mr Nigel Bartholomeusz</td> </tr> </table>	<b>HNB Assurance PLC</b>	<b>Sithma Development (Pvt) Ltd</b>	Mrs M A R C Cooray	Mr P R Saldin	Mr L U D Fernando	Dr L Rohan Karunaratne	Mr S A Chapman	Ms Anuradhi U Delage	Mr Ashoka Goonesekere	Mr U A Roshan Fernando	Mr R A Ebell		Mr H D Wijesundara	Mr B M D C Prabath	Mr A G R Dissanayake	Mr R D Manatunga	Mr Lalith Withana	Mr M S Polamarasetty	Mr B Premalal	Mr Saliya Jayawaeera	<b>Acuity Partners (Pvt) Ltd</b>	Mr N H T I Perera	Mr R Abeywardena	Mr P G D B Pallevatte	Mr A G R Dissanayake	Mr M S Wijemanne	Mr S I Wijesinghe	Mr K S Jayasuriya	Mr Nigel Bartholomeusz	
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Mr Nigel Bartholomeusz																																

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

No.	Disclosure requirements	Note reference	Page
	<b>Other Group Companies</b> <i>HNB General Insurance Ltd (Subsidiary of HNB Assurance PLC)</i> Mrs M A R C Cooray Ms M A Tharmaratnam Mr L U D Fernando Mr M S Wijemanne Mr A V Abeygunasekara Mrs M L C Cooray Mr U K D Dharmadasa	<i>Lanka Ventures PLC</i> 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 Mr W P Kusal Jayawardana	
	<b>Acuity Securities Ltd</b> Mr M R Abeywardena Mr P G D B Pallewatte Mr A V Abeygunasekara Mr R A Dassanayake Mr K. S. Jayasuriya	<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	
	<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 Mr W P Kusal Jayawardana		
5	Review of Operations	Chairman's Message Managing Director/CEO's Message Stakeholder Reports Business Line Review	10-13 14-18 45-91 32-44
6	Future Developments	Chairman's Message Managing Director/CEO's Message Stakeholder Reports Business Line Review	10-13 14-18 45-91 32-44
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, 2023	240-249
8	Directors' Responsibility for Financial Reporting	Directors' Responsibility for Financial Reporting	232-233

No.	Disclosure requirements	Note reference	Page
9	Auditor's Report	Independent Auditor's Report	234-238
10	Material Accounting Policies	Note 2.1 and 3 to the financial statements - Basis of Preparation and Significant Accounting Policies, respectively	251-260
11	Going Concern	Note 2.1.5 to the financial statements – Going Concern	252
12	Income	Note 7 to the financial statements – Gross Income	300
13	Financial Results and Appropriations	Statement of Profit or Loss and Other Comprehensive Income Statement of Changes in Equity	241 244-247
14	Reserves	Statement of Changes in Equity	244-247
15	Corporate Donations	Note 18 to the financial statements - Other Expenses The Bank did not make any donations to Government approved charities	315
16	Taxation	Note 21 to the financial statements - Income Tax Expense	317
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	322
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 2,842,925,000 and 3,393,045,000/- respectively. (2022 Bank: Rs 1,403,342,000/- and Group: Rs 1,757,011,000/-) Details are given in Note 36, 37 and 39 to the financial statements.	352-370
	(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.	399
20	Property, Plant and Equipment	Note 37 to the financial statements - Property, Plant and Equipment	356-366
21	Net Book Value of Freehold Properties	Note 37 to the financial statements - Property, Plant and Equipment.	356-366
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.  Note 59 (c) to the financial statements - Litigation against the Bank	399
23	Events after the Reporting Date	Note 64 to the financial statements - Events Occurring After the Reporting Period	410
24	Stated Capital and Debentures	Notes 54, 47 and 52 to the financial statements – Stated Capital, Debt Securities Issued and Subordinated Term Debts, respectively	393, 379 & 385
25	Share Information	Investor Relations	444-453
26	Shareholdings	Investor Relations	444-453
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.	-

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

No.	Disclosure requirements	Note reference	Page																																	
29	Directors' Interests in the Ordinary Shares (Voting and Non-Voting)	<table border="1"> <thead> <tr> <th>Name</th><th>As at 31st December 2023</th><th>As at 31st December 2022</th></tr> </thead> <tbody> <tr> <td>Mr Nihal Jayawardene</td><td>-</td><td>-</td></tr> <tr> <td>Dr Prasad Samarasinghe</td><td>-</td><td>-</td></tr> <tr> <td>Mr Madura Ratnayake</td><td>-</td><td>-</td></tr> <tr> <td>Mr Devaka Cooray</td><td>9,265</td><td>8,776</td></tr> <tr> <td>Mr Osman Chandrawansa</td><td>-</td><td>-</td></tr> <tr> <td>Mr P R Saldin</td><td>3,422</td><td>3,242</td></tr> <tr> <td>Mr Kithsiri Gunawardena</td><td>-</td><td>-</td></tr> <tr> <td>Mr Rasitha Gunawardana</td><td>25,653</td><td>24,362</td></tr> <tr> <td>Mr A J Alles</td><td>140,353</td><td>143,614</td></tr> <tr> <td>Mr D P N Rodrigo <i>Resigned w.e.f. 12th January 2024</i></td><td>27,275</td><td>26,164</td></tr> </tbody> </table>	Name	As at 31st December 2023	As at 31st December 2022	Mr Nihal Jayawardene	-	-	Dr Prasad Samarasinghe	-	-	Mr Madura Ratnayake	-	-	Mr Devaka Cooray	9,265	8,776	Mr Osman Chandrawansa	-	-	Mr P R Saldin	3,422	3,242	Mr Kithsiri Gunawardena	-	-	Mr Rasitha Gunawardana	25,653	24,362	Mr A J Alles	140,353	143,614	Mr D P N Rodrigo <i>Resigned w.e.f. 12th January 2024</i>	27,275	26,164	
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Mr D P N Rodrigo <i>Resigned w.e.f. 12th January 2024</i>	27,275	26,164																																		
30	Directors' Interest in Debentures	Directors did not have any interest in debentures as at 31st December 2023	-																																	
31	Directors' Remuneration	Note 18 to the financial statements - Other Expenses	315																																	
32	Human Resources	Human Capital	56-63																																	
33	Employee Share Option Plan	Note 54 to the financial statements - Stated Capital	393																																	
34	Environmental Protection	<p>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.</p> <p>Specific measures taken to protect the environment are found in the Stakeholder Reports.</p>	45-91																																	
35	Risk Management and Internal Control	Risk & Capital Review	186-227																																	
36	Directors' Statement on Internal Control	Directors' Statement on Internal Control Over Financial Reporting	179-180																																	
37	Corporate Governance	Corporate Governance Report	109-153																																	
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	186-227																																	
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	8-9																																	

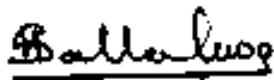
### **Notice of Annual General Meeting**

The 55th Annual General Meeting of the Bank is convened on 28th March 2024, 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 55th 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*

Colombo, Sri Lanka  
15th February 2024



Nihal Jayawardene  
*Chairman*

# HR AND REMUNERATION COMMITTEE REPORT



**Madura Ratnayake**  
Chairman, Human Resources &  
Remuneration Committee

## Composition & Meetings

The HR & Remuneration Committee of the Board comprises Five Non-Executive Directors whose details are given below:

### Chairman

Mr Madura Ratnayake (IND/NED)  
(appointed w.e.f. 5th October 2021)

### Other Members

- Mr Nihal Jayawardene (NIND/NED)  
(appointed w.e.f. 23rd June 2023)
- Mr Kithsiri Gunawardena(NIND/NED)  
(appointed w.e.f. 21st January 2022)
- Mr Rasitha Gunawardana (IND/NED)  
(appointed w.e.f. 9th November 2023)
- Mr Osman Chandrawansa (IND/NED)  
(appointed w.e.f. 9th November 2023)
- Mr Amal Cabraal (IND/NED)  
(Retired w.e.f. 1st April 2023)
- Mrs Aruni Goonetilleke (IND/NED)  
(Resigned w.e.f. 9th June 2023)
- Mr Visvanathamoorthy Govindasamy  
(IND/NED) (Resigned w.e.f. 27th  
October 2023)

(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 pages 92 to 97 in this report.

Meetings of the HR & Remuneration Committee (the "Committee") shall be held as and when 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 (TOR) which clearly defines the scope, authority, duties and matters pertaining to the quorum of meetings 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. The TOR was reviewed and revised incorporating the provisions to be in line with the Corporate Governance Rules of the Colombo Stock Exchange.

## Policy

The Bank's 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 Remuneration Policy was revised incorporating the remuneration policy pertaining to Non-Executive members of the Board of Directors and Executive members of the Board of Directors.

## 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:

- The remuneration payable to the Non-Executive Directors, Executive Directors, CEO and/or equivalent position thereof to the Board.
- 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 KMP 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). 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:
  - i. Bank's diversity policy;
  - ii. Establishment of measurable objectives for achieving diversity across the Group, annual assessment of both objectives and progress in

<b>Invitees of the Board</b>	Executive's total compensation in line with the market median.
Mr Jonathan Alles (MD/CEO) except when his remuneration or performance is discussed.	<ul style="list-style-type: none"> <li>Reviewing Revised Succession Plan for the Senior Management with a success rate assessment</li> <li>Amendments were made to the Whistle Blowing Policy by appointing a New Independent Non-Executive Director (Mr Rasitha Gunawardana)</li> <li>Implementing Great Place To Work (GPTW) Action plans based on the survey feedback and establishing Regional Engagement Teams and a mentoring program through the Corporate Management.</li> <li>Deliberating strategic directions for Collective Agreement negotiations for 2024-2027.</li> <li>Floating of Request for Proposals to select a consultant for key HR Strategic initiatives to be implemented during 2024</li> <li>Setting up strategic talent goals for the Bank, with emphasis on accelerated leadership development at all levels</li> <li>Reviewed and revised the Remuneration Policy incorporating the remuneration policy pertaining to non-Executive members of the Board of Directors and Executive members of the Board of Directors.</li> <li>Maintained continuous oversight on the familiarisation and handing over action plan for the successor to CEO</li> </ul>
<b>Management Participants</b>	
Mr Kailavasan Indravasan – Chief Human Resources Officer ( CHRO)	
<b>Secretary to the Committee</b>	
The Board Secretary functions as the Secretary to the committee.	
<b>Attendance during 2023 - Meeting</b>	
The Committee met Seven (7) times during 2023.	
Attendance details of meetings held during 2023 are as follows.	
Eligible to attend /Attended	
Mr Madura Duminda Ratnayake	7/7
Mr Nihal Jayawardene	4/4
Mr Kithsiri Gunawardena	7/6
Mr Rasitha Gunawardana	2/2
Mr Osman Chnadrawansa	2/2
Mr Amal Cabraal	2/2
Mrs Aruni Goonetilleke	3/3
Mr Vish Govindasamy	1/0
Mr Jonathan Alles	7

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 2023

- Creation of the People Roadmap & HR dashboard
- Putting in place the Training plan for 2023 aligned to Bank's strategy pillars with a higher focus on leadership development and regional training programs.
- Reviewing Executive Compensation & implementing market corrections to

### 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 2023.

Levels	Total
Corporate Management	27
Senior Management	72
Management & Executive allied	861
Junior Executive allied	1246
Bank Associate allied	2483
Secretaries	169
Support Staff	130
Total Permanent	4988
Fixed Term Contract	504
<b>Total</b>	<b>5492</b>

### 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 2024, 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.

Madura Ratnayake

*Chairman*

*Human Resources & Remuneration Committee*

Colombo, Sri Lanka

15th February 2024

# NOMINATIONS AND GOVERNANCE COMMITTEE REPORT



Mr Devaka Cooray, Chairman,  
Nominations and Governance Committee

## Composition & Meetings

The following Directors serve/served on the Nominations and Governance Committee:

### Chairman

Mr Devaka Cooray (IND/NED) Appointed on 30th July 2021

### Other Members

- Mr Madura Ratnayake (IND/NED) Appointed on 04th October 2021
- Mr Nihal Jayawardene (NIND/NED) Appointed w.e.f. 23rd June 2023
- Mrs Aruni Goonetilleke (IND/NED) Appointed on 4th October 2021 and Resigned w.e.f. 9th June 2023

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

Brief profiles of the Directors are given on pages 92 to 97 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.

## Activities In 2023

In terms of the Corporate Governance Rules of the Colombo Stock Exchange (CSE) the Nomination Committee was renamed as Nominations and Governance Committee w.e.f. 30th November 2023.

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 (KMP) 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 (KMP) to ensure continuity of operations and build strong talent pipelines. The Committee made its suggestions for the appointment of successor to Chief Executive Officer.

Reviewed the structure, skills and the composition of the Board and its Committees on an ongoing basis and made recommendations to the Board as appropriate.

Identified the required skill gaps at Board level and recommended suitable candidates to fill such vacancies on a continuous basis during the year.

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 KMP 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 KMP were examined during the year as and when required to ensure compliance with the CBSL requirements and Corporate Governance Rules of the

Colombo Stock Exchange (CSE). 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 Nominations and Governance 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 several 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, Corporate Governance Rules of the CSE 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.

<b>Attendance during 2023</b>	
	<b>Eligible to attend /Attended</b>
Mr Devaka Cooray (IND/NED)	12/12
Mr Madura Ratnayake (IND/NED)	12/11
Mr Nihal Jayawardene (NIND/NED)	6/6
Mrs Aruni Goonetilleke (IND/NED)	6/6
Mr Jonathan Alles - MD/CEO	8

## The Terms of Reference

The Terms of Reference (TOR) of the Nominations and Governance Committee, adopted by the Board in 2012, was reviewed periodically, to ensure that it always reflects industry best practices. It was further reviewed and amended by the members of the Committee at its meeting held on 16th November 2023 to be in line with the new Corporate Governance Rules issued by CSE.

## Duties Discharged by The Committee

### Board Composition

The Committee:

Reviewed the structure, skills and 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 several 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 Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka (the Direction), Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka and Corporate Governance Rules of the CSE.

Recommended the appointment of Mr Visvanathamoorthy Govindasamy as a Director to fill a casual vacancy created by the retirement of Mr Amal Cabraal after completing 9 years in the office of the Director. However, Mr Visvanathamoorthy Govindasamy has resigned from the office of the Director due to the independence requirements to be fulfilled for a statutory appointment that he has accepted. Thereon, recommend three other names of people with required skills to fill vacancies in the Board whose appointments are currently under evaluation.

### 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;

Reviewed the potential of the candidates made its recommendations to the Board's consideration in selecting the suitable candidate as the successor to MD/CEO.

### Board Effectiveness

The Committee:

Reviewed and recommended all new appointments to the Boards of subsidiaries and associate companies of the Bank.

### Highlights 2023

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 Nominations and Governance Committee;
- Reviewing succession plans for Board and KMP;

- 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 Rules 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 suggestion was given for the selection of successor to MD/CEO. Revised the selection matrix containing qualifications, experience, and the key attributes applicable for promotions to and within the Key Management Personnel.

### Group Governance/Management Principles

Appointed suitable KMP 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 2023 with sessions covering Board engagement.

Nine (9) training opportunities were made available to the Directors apart from conducting special presentations by imminent professionals on matters of importance such as corporate governance, cyber resilience, Domestic Debt Restructure, Digital Imperatives for Boards and Boards oversight Role & Responsibility in liquidity Management during crisis etc during the year 2023. Director training and developments were further supported through Board deep dives, risk deep dives and functions reviews.

# NOMINATIONS AND GOVERNANCE COMMITTEE REPORT

## Re-election/Re-appointment of Directors at the 55th 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. Accordingly Mr Devaka Cooray (IND/NED) having served three years since his last re-election is to retire by rotation and is eligible to be re-elected/re-appointed at the 55th Annual General Meeting to be held on 28th March 2024, under Article 34 of the Articles of Association.

Mr Devaka Cooray was appointed as a Director of the Bank on 3rd July 2020 and re-elected on 30th March 2021. He serves as the Chairman of Board Audit Committee, Nominations and Governance Committee and Related Party Transactions Review Committee and as a Member of Board Credit Committee. Mr Devaka Cooray attend Board Integrated Risk Management Committee as an invitee on need basis. For Directorships or Chairmanships and other principal commitments both present and those held over the preceding three years in other listed entities refer brief profile given in pages 94 to 97 in this report. Mr Devaka Cooray or his close family members do not have any relationships with the Directors of the Bank or its material shareholders other than the relevant interest in transactions with the Bank disclosed in pages 183 to 185 in this report.

As required under Rule No. 9.11.6 of the Corporate Governance Rules of the Colombo Stock Exchange we give below the information of the Director re-elected at the 54th Annual General Meeting held on 30th March 2023.

Dr Talpawila Kankanamge Don Aruna Prasad Samarasinghe was appointed as a Director of the Bank on 27th October 2022 and re-elected on 30th March 2023. He serves as a Member of Board Integrated Risk Management Committee, Strategy & Investment Review Committee, Procurement & Asset Disposal Committee and Special Board Committee on Digital Banking. For

Directorships or Chairmanships and other principal commitments both present and those held over the preceding three years in other listed entities refer brief profile given in pages 94 to 97 in this report. Dr Prasad Samarasinghe or his close family members do not have any relationships with the Directors of the Bank other than the relevant interest in transactions with the Bank disclosed in pages 183 to 185 in this report. Dr Prasad Samarasinghe is a nominee Director of Stassen Group.

## 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 2023, conducted by the Chairman and Committee Members and the review concluded that the Committee continues to operate effectively.

Declarations with regard to the assessment of independence/non-independence of Directors for the year 2023/2024 were submitted by the Directors in terms of items 3(2)(iv) and 3(5)(iii) of CBSL Direction on Corporate Governance, item A.5.5. of "Code of Best Practice on Corporate Governance" and Rule 9.8.5. of "Corporate Governance Rules of the Colombo Stock Exchange (CSE)" have been assessed by the Committee at its meeting held on 8th February 2024 and declared that the Directors of the Bank have met the criteria for determining the independence as set out in Corporate Governance Rules of CSE.

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.

The Committee declares that the Bank is in compliant with many areas covered in the Corporate Governance Rules of the Colombo Stock Exchange which are falling in line with the Banking Act Direction No. 11 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka and Code of Best Practice on Corporate Governance and a road map was approved to be in complaint with the effective dates of such other rules. Refer to the Corporate Governance Report pages 143 to 150.



Devaka Cooray

Chairman

Nominations and Governance Committee

Colombo, Sri Lanka

15th February 2024

# 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 05 members throughout 2023, of which 04 members were Non-Executive Directors as given below:

### Chairman

Mr Rimoe Saldin (NIND/NED)

### Other Members

- Mr Madu Ratnayake (IND/NED)
- Dr Prasad Samarasinghe (NIND/NED)
- Mr Rasitha Gunawardena (IND/NED Appointed till 23rd June 2023)
- Mr Kithsiri Gunewardena (NIND/NED Appointed with effect from 3rd April 2023)
- Mr Jonathan Alles (MD/CEO)

### Invitees of the Board

Mr Devaka Cooray (SIND/NED) – Chairman, Audit Committee

Profiles of directors are given in pages 92 to 97

### Management Participants

- Mr Ruwan Manatunga - DGM-Risk / Cheif Risk Officer
- Mr Neil Rasiah – Chief Compliance Officer

## Major Initiatives Implemented in 2023

The banking sector continued to face multiple challenges in 2023 and HNB responded to the changing risk environment by continually enhancing its risk management measures.

### Integrated Risk Management

- The Bank's ICAAP was reviewed during the year to ensure capital adequacy was maintained above minimum regulatory requirements. Variables such as asset quality, market risk factors, investments in Government securities, concentration risk assessments etc., were subjected to stress testing.
- The Risk Appetite Statement of the Bank was reviewed periodically in response to macro and micro economic factors of the country. It was ensured that the financial budgets and business performance of the Bank were in line with the Risk Appetite Statement.
- A series of industry reviews across various sectors were conducted to assess risk levels of these industries for corrective actions to better manage the Bank's lending portfolio.
- The Risk Adjusted Return on Capital (RAROC) assessment tool, which is used to ascertain the "Risk -Return" criteria of the Bank's lending was introduced to the SME segment in 2023. The RAROC tool was already introduced to the Corporate and Emerging Corporate segments in 2022.

### Group risk

- Strengthened the mechanism of assessment of Group Risk and compliance monitoring by way of introducing additional features to Risk Dashboards and Risk Assessment reports. Potential areas of risk concerns were reviewed quarterly and followed up on remedial actions to strengthened the risk management environment of Group companies.
- Regular meetings were scheduled at senior executive level to assess the compliance of Group companies as well as to identify any issues or challenges that need to be addressed.

### Credit Risk

- The Bank's Baseline Credit and Collateral Framework Policies were reviewed and updated to ensure they are in line with the current market environment.
- The Bank's Credit Risk Policy, which defines the internal policies, procedures and practices that outlines the Credit Risk Management process in the Bank was also reviewed.
- The Special Asset Management (SAM) Unit guidelines, which enables the Bank to have a more focused and effective approach towards management of stressed accounts was also reviewed.
- The Environmental and Social Risk Management Policy was reviewed in line with regularity requirements, whilst ensuring compliance with new Environmental, Social and Corporate Governance (ESG) directives.
- Monthly training and familiarisation sessions were conducted for business and credit approvers on the Bank's credit policies and guidelines, best practices and common lapses in credit underwriting of facilities, as well as rescheduling / restructuring of facilities.
- The credit approval structure was reviewed against new NPAs, LRM findings, moratorium changes, regulatory changes and other emerging credit risks to the loan book.
- In line with the regulatory requirements, the Green Finance Taxonomy which is a classification system, which defines and categorises economic activities that are environmentally sustainable, was implemented.

### Operational Risk

- Risk and Control Self-Assessments (RCSA) were conducted on a quarterly basis covering all Head Office departments, branch network and regional offices to access the risk levels of departments as well as action taken to mitigate risk.
- The Operational Risk Management Policy of the Bank was reviewed considering the new developments in the industry.
- Regular on-site reviews were conducted by Level 1 (Business) at the Outsource

# BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

## Regular Attendees by Invitation

- Mr Dilshan Rodrigo – Executive Director/ Chief Operating Officer  
*(Resigned with effect from 12th January 2024)*
- Mr Arjuna Abeygunasekara - DGM - Treasury & Markets
- Mr Niroshana Seneviratne - DGM - Internal Audit/ Chief Internal Auditor
- Mr Druvinda Vaidyakularatne – Chief Information Officer
- Mr Sampath Weerasinghe – Head – Credit Risk and Integrated Risk Management

## Secretary to the Committee

Mr Ruwan Manatunga – DGM – Risk/  
Chief Risk Officer

## Attendance during 2023

	Eligible to attend /Attended
Mr Rimoe Saldin	11 /11
Mr Madu Ratnayake	11/9
Mr Jonathan Alles	11/1
Mr Dilshan Rodrigo	11/10
Mr Devaka Cooray	11/10
Mr Rasitha Gunawardena*	11/6
Dr Prasad Samarasinghe	11/10
Mr Kithsiri Gunawardena **	8/7

\* Mr Rasitha Gunawardena appointed till 23rd June 2023

\*\* Mr Kithsiri Gunawardena appointed with effect from 3rd April 2023

Service providers (OSP) locations.

Additionally, joined up Level 1 and Level 2 (RMD) reviews were held to further strengthen the security and control aspects.

- Reviewed outsource service providers service agreements to include clauses for punitive actions related to reputational damages apart from the penalties imposed for operational lapses.
- Insurance coverage for Bank assets was strengthened.
- Improved security monitoring mechanism of the ATMs/ CDMs through CCTV surveillance
- Training sessions were conducted for business and operational teams across the Bank to create a culture of no surprises, where staff knowledge and skill levels were enhanced to identify, report and prevent operational risks.
- Public awareness was heightened through frequent notices in social media and throughout the branch network in order to prevent scams and frauds in relation to operations of Bank accounts.
- Suspicious transactions were monitored by the Compliance department through the Anti Money Laundering (AML) system and a stringent customer evaluation process was implemented to onboard customers.
- Root causes analysis reports were initiated to identify the causes of operational losses.
- BCP testing was conducted for all critical departments as well as DR Drills for IT systems to assess the operational resilience during a possible event of a disruption or disaster.

## Portfolio Risk Management

- The lending portfolios were frequently risk reviewed for credit quality, proper classifications, provisioning under SLFRS-9, credit concentration including compliance to the risk appetite levels of the Bank.
- Strengthened L2 review mechanism for specific lending portfolios i.e. Margin Trading portfolio, Overdraft portfolio, Credit Card portfolio etc. to ensure

adherence and compliance with the Bank's Credit policies.

- Conducted series of training sessions across business divisions and branch network to enhance knowledge on 'Classification, Recognition and Measurement of credit facilities based on SLFRS 9 ECL Approach.

## 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.
- Semi-annual stress testing was conducted for a comprehensive assessment of the implications on the Bank's liquidity position arising from a range of potential liquidity crisis scenarios. These assessments involved an in-depth analysis of the resultant impacts on the Bank, as well as strategic measures that could be taken to address potential liquidity gaps and minimise adverse consequences.
- Impact analysis on the Bank's capital base was carried out to assess the impact of the possible hair cut on the Bank's investment in USD denominated bonds, USD deposit run, LKR deposit run and immediate demand of Foreign Currency funding lines, identifying strategies and to minimise the impact of these events.

## Loan Review Mechanism (LRM)

- Enhanced post loan disbursement reviews were conducted on the Advances Portfolio in order to ensure compliance with 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 processes.
- The LRM Policy was reviewed and updated to meet the current requirements of the Bank.
- A comprehensive e-Learning module on LRM was hosted on the Talent Space, HNB Web Portal.

### Information & Cyber Risk

- Vendor and Outsource Service Provider (OSP) risk reviews and assessments were conducted regularly to identify potential Cyber risks exposures and impact to the Bank.
- IT / Cyber security assessments were conducted for all projects prior to implementation as well as post implementation.
- Invested in centralised network management systems and in advanced threat intelligence platforms.
- Security measures to counter Phishing risks were strengthened by including tailored employee training and simulated exercises. Strong content filtering was also introduced along with detection and blocking system to prevent Cyber-attacks.
- Carried out employee and customer awareness of Cyber security through training and simulated exercises.
- An incident response plan was established to prepare the Bank and its employees for any Cyber-attacks.

### Looking Ahead

The following key initiatives have been identified for implementation in 2024.

#### Integrated Risk Management

- Increase risk reviews on industries in order to identify new opportunities and exit from elevated risk business sectors.
- Review of the ICAAP model by an external consultant to ensure that the model mechanism is capable of identifying and capturing emerging risks.

#### Group Risk

- Further strengthen the mechanism and assessment of Group risk monitoring by way of introducing new tools.
- Roll out the implementation of the ICAAP and stress testing policy for subsidiary companies.

#### Credit Risk

- Risk assess customers whose business are impacted due to the current economic

climate and restructure customer facilities based on their forecast cashflows at an early stage to support in their business revival efforts.

- Upgrade and enhance IRR assessment models across all business segments to better risk assess the lending portfolio.
- Conduct frequent credit familiarisation programs for staff in order to upskill credit underwriting standards and build a prudent risk management culture.
- Improve credit evaluation / underwriting standards by issuing periodic guidelines and directions taking into account the anticipated changes in the economic and business environment in order to better manage stress levels on the Bank's lending portfolio.
- Strengthen evaluation standards for project finance, overseas lending and value chain financing by introducing credit risk guidelines.

LGD & EAD) forecast IFRS 9 ISL account impairments based on emerging risks.

### Market Risk

- Review caps and limits on investments in securities and measurement of volatility of forex and securities.
- Review the limits structure for Treasury activities for the year 2024, considering the strategic focus of the Bank, possible risk factors, current market and economic challenges, impact on external debt restructuring etc.

### Loan Review Mechanism

- Share LRM observations and learnings based on reviews carried out on Stage 3 accounts along with best credit underwriting practices with Business and Credit Teams in order to ensure qualitative improvements in Credit underwriting and Credit Administration process.

### Information & Cyber Risk

- Invest in advanced tools to monitor the Bank's Governance Risk and Compliance (GRC) process.
- Enhance the rigour and scope of incident Response Planning and simulations for possible Cyber-attacks.
- Implement rigorous third-party risk assessments to evaluate the Cyber security practices of vendors, partners, and service providers to prevent potential vulnerabilities introduced through external relationships.
- Conduct periodic security assessments to evaluate the effectiveness of the Banks' applications and enforce strong security measures.

#### Portfolio Risk Management

- Strengthen the periodic assessment of the individually significant loan portfolio to capture Objective Evidence of Incurred Losses (OEIL) as well as to classify and maintain an optimum level of impairment.
- Develop predictive models for Retail and SME segments to identify early warning signs of building up of portfolio stress.
- Develop forward looking macroeconomic models for deriving of risk estimates (PD,

# BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

## Summary of BIRMC Charter

The BIRMC Charter specifically establishes 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.

The Charter stipulates that 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 primary responsibilities of the BIRMC as defined by the terms of reference set out by the Board of Directors, are:

- 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 Cyber security 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 defined risk appetite and risk goals set for the Bank.
- Review issues raised by Internal Audit that impact to 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 by the Board.

## Other Responsibilities of The Committee

Other responsibilities of the BIRMC include:

- Supporting 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.
- Reviewing and monitoring the Bank's compliance report on money laundering and action taken in relation to it.
- Reviewing and referring 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 the systemic risks to the Bank, with a clear objective of eliminating repeat findings or managing forward risks.

## Compliance

The BIRMC was established as a Sub 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) 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, concerns and/or specific directions on material risks deliberated.

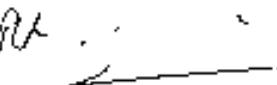
## Professional Advice

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 2024 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

15th February 2024

# BOARD AUDIT COMMITTEE REPORT



Mr Devaka Cooray, Chairman, Board Audit Committee

## Composition & Meetings

The Board Audit Committee comprises of three (03), Independent Non-Executive Directors as at 31st December 2023.

### Chairman

Mr Devaka Cooray (IND/NED)

### Other Members

- Mr Osman Chandrawansa (IND/NED)
- Mr Rasitha Gunawardana (IND/NED)  
Resigned w.e.f. 03rd April 2023 and re-appointed w.e.f. 23rd June 2023
- Mr Rimoe Saldin (NIND/NED)  
Appointed w.e.f. 03rd April 2023 and resigned w.e.f. 23rd June 2023
- Mr Kithsiri Gunawardena (NIND/NED)  
Resigned w.e.f. 03rd April 2023

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

Profiles of the Directors representing the committee are given on pages 94 to 97.

### Regular Attendees by Invitation

Managing Director/Chief Executive Officer, Executive Director/Chief Operating Officer, Chief Internal Auditor and Chief Financial Officer are regular invitees to the Committee as at the reporting date. The Engagement Partner of Messrs. KPMG (External Auditor) and the Chairman of the BIRMC also attends meetings by invitation.

## Significant Accounting Judgements Considered During 2023

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 uncertainty that characterises 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. Board Audit Committee Charter which is approved by the Board, clearly defines the Terms of Reference (TOR) of the Committee and regulates the purpose, composition, duties, responsibilities and investigative authority of the BAC. In the light of amendments made to section 9 of the listing rules of the Colombo Stock Exchange (CSE) dated 11th September 2023, Board Audit Committee Charter is being reviewed.

## 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 specialised functions where deemed necessary.
- Approve and review the annual internal audit plan and review the internal audit reports and liaise with the Bank's Corporate Management to ensure that precautionary measures are taken to minimise 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 2023

The Board Audit Committee (BAC) met nine (09) times during the year. Apart from the regular attendees from the management, the Committee invited Members of the Bank's Senior Leadership 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 2023 are summarised on page 174 and 175.

# BOARD AUDIT COMMITTEE REPORT

## Attendance during 2023

Attendance details of Meetings held during 2023 are as follows;

	Eligible to attend /Attended
Mr Devaka Cooray	9/9
Mr Osman Chandrawansa	9/8
Mr Rasitha Gunawardana	7/7
Mr Kithsiri Gunawardena	3/3
Mr Rimoe Saldin	2/2

The Engagement Partner of Messrs. KPMG (External Auditor) and the BIRMC Chairman attended all nine (09) meetings.

## 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 continued its ongoing focus on the assessment of adequacy of provision for Expected Credit Loss (ECL) recognised 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 stress testing relating to the exposures to risk elevated sectors, and adjustments made to economic factors to incorporate the latest macro-economic conditions such as exchange rates, interest rates, inflation and GDP growth rates.

- The BAC successfully oversaw the implementation of Directions No. 13 and 14 of 2021, issued by the Central Bank of Sri Lanka on 14th September 2021. These directives, which became effective from 1st January 2022, required significant alignment of our internal processes and systems. Having accomplished this alignment, the Committee is now continuing to evaluate and monitor the effectiveness of these changes. In 2024, the BAC will continue to focus on strengthening the internal control framework associated with these new processes and ensuring ongoing compliance with the regulations of the Central Bank of Sri Lanka.
- 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 Board Audit Committee obtained and reviewed assurance received from the Chief Executive Officer and Chief Financial Officer that the financial records have been properly maintained and the financial statements give a true and fair view of the Bank's operations and finances. The Chief Executive Officer's and Chief Financial Officer's responsibility statement, detailed in page 231 of this annual report, confirms adherence to applicable laws, regulations, and prudential requirements.
- The BAC assessed and monitored the adequacy, effectiveness and progress of Bank's reconciliation processes through periodic updates provided by the finance team.
- The BAC 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 Board 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 2023.
- The BAC assessed any potential threats to independence that were self-identified or reported by the External Auditor. The Committee considered the External Auditor to be independent, in accordance with professional ethical standards and applicable rules & regulations. The External Auditor provided the BAC with a written confirmation of its independence for the Financial Year ended 31st December 2023.
- 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 BAC 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.
- The BAC holds the responsibility for establishing, reviewing, and overseeing the non-audit services provided by the external auditor. This task is guided by the Bank's policy on non-audit services by the External Auditor.

- 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 2023, 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, the External Auditor has issued an Assurance Report on Directors' Statement on Internal Control over Financial Reporting.
- The BAC is satisfied with the reliability of the financial reporting system as disclosed on pages 179 and 180, Directors' Statement on Internal Control over Financial Reporting. BAC confirms that the report given in page 181 does not suggest any fundamental concerns over the control framework or procedures.
- Reviewed the processes for identification, recording, evaluation and management of significant risks that come under the purview of the BAC. 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 periodically, with a view of identifying and managing associated risks in order to maintain the smooth flow of operations.
- The Committee focused on specific operational areas of the Bank and held detailed discussions with the leadership team to ensure the adequacy and effectiveness of the Bank's internal controls over such operational aspects and Information security.

#### 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.
- Material concerns highlighted by the Internal Audit function of the Bank were taken up by the Committee for further discussion and deliberation at the Board where necessary.
- Assessed and addressed the Internal Audit Department's resource requirements including succession planning.
- Continuously monitored and guided the Internal Audit Department on the execution of the annual Internal Audit Plan.
- Reviewed and satisfied itself with the performance of the Chief Internal Auditor and other senior staff members of the Internal Audit Department.
- 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. Updates on each matter were reviewed by the Committee on a regular basis to ensure that adequate and appropriate actions are taken where necessary.

#### 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, Chairperson of the Board, Managing Director/CEO, Executive Director/COO, Chief Financial Officer, Chief Internal Auditor and External Auditor in accordance with international best practices and was deemed to be satisfactory.



Devaka Cooray

*Chairman  
Board Audit Committee*

Colombo, Sri Lanka

15th February 2024

# 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 consisting of three non-executive directors and an executive director. Two directors 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.

Brief profiles of the Directors are given on pages 92 to 97 in this report.

### Management Participants

Executive Director/Chief Operating Officer attended the meeting by invitation. In addition, the Committee summons other relevant officials of the Bank to participate in Committee proceedings on a 'need basis'

### Secretary to the Committee

Ms Anuradhi Delage – Chief Financial Officer

## Key Initiatives Implemented During 2023

Terms of Reference (TOR) of the Committee was reviewed and amended in 2023 taking into consideration the amendments made to Section 9 of the listing rules of Colombo Stock Exchange. Further, in the light of above noted changes, the related party transactions policy document is being reviewed and revised.

Further, measures were taken to increase the awareness on Related Party Transactions (RPTs) guidelines by conducting training programmes for relevant staff members.

## 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 2023, the TOR was amended subsequent to the amendment to Listing Rules of Colombo Stock Exchange.

## 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 compiled 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 falls under the responsibility of business heads and they confirm to the Committee that "more favourable treatment" was not offered to the related party transactions. The quarterly reporting is further reviewed by the Chief Financial Officer (who serves as the secretary to the committee) by comparing with benchmarked criteria applicable for comparable non-related party transactions, based on system generated reports.

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

**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 and Listing Rules of Colombo Stock Exchange. During 2023, four (4) such meetings were held and the minutes were circulated to the Board of Directors for their information and review.

Attendance details of meetings held during 2023 are as follows:

	Eligible to attend /Attended
Mr Devaka Cooray	4/4
Mr Osman Chandrawansa	4/4
Mr Nihal Jayawardene	4/4
Mr Jonathan Alles	4/4

from obtaining independent specialists' advice wherever necessary, the Committee has access to data and information pertaining to related parties as well as the ability to call for clarifications from the management 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 and the review for 2023 concluded that the Committee continues to operate effectively and competently.

Note 60 to the financial statements on pages 400 to 405 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

15th February 2024

# STATEMENT BY THE SENIOR INDEPENDENT DIRECTOR



Mr Devaka Cooray

The Board of Directors of the Bank designated Mr Devaka Cooray (IND/NED) as the Senior Independent Director (SID) of the Bank with effect from 09th June 2023 in terms of Section 3 (5) (ii) of the Corporate Governance Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka with the appointment of Mr Nihal Jayawardene PC, Non-Independent Non-Executive Director as the Chairman of the Bank.

A brief profile of Mr Devaka Cooray is given on page 95 of this report.

Appointment of a SID would be to provide a sounding Board for the Chairperson and to serve as an intermediary with independent views for the other Directors where necessary. The duties of the SID will be for other Directors, shareholders, Chairperson and to the Board.

A formal Terms of Reference (TOR) for the Senior Independent Director is in place. In terms of the TOR SID's role would involve:

- working closely with the Chairperson, acting as a sounding board and providing support
- acting as an intermediary for other Directors as and when necessary to help them to challenge and contribute effectively.

- being available to shareholders and other Non-Executive Directors to address any concerns or issues they feel have not been adequately dealt with through the usual channels of communication (ie through the Chairperson and/or Chief Executive Officer)
- meeting at least annually with the Non-Executive Directors to review the Chairperson's performance and carrying out succession planning for the Chairperson's role.
- Chair the Nominations and Governance Committee, when it is considering succession to the role of the Chairman of the Board
- Be the focal point for the Board members for any concerns regarding the Chairperson, or the relationship between the Chairperson and the Chief Executive Officer.
- Take the initiative in discussion with the Chairperson or other Board members if it should seem that the Board is not functioning effectively, and it is going through stress.

A meeting with the Non-Executive Directors for the financial year 2023/2024 without the Chairperson and the Executive Directors and a separate meeting with the MD/CEO to discuss matters related to the Board was held and the outcome of the discussion and the concerns have been communicated to the Chairperson and the Non -Executive Directors.

A handwritten signature in black ink, appearing to read "Devaka Cooray".

Devaka Cooray  
*Senior Independent Director*

Colombo, Sri Lanka

15th February 2024

# 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 and Rule 9.16 (ii) of the Corporate Governance Rules of the Colombo Stock Exchange.

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 pages 173 to 175 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 continued to refine the statistical models used in the computations of Expected Credit Losses (ECL) in accordance with SLFRS 9 - "Financial Instruments" 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

# DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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 the underlying assumptions, incorporate the potential implications of changes in the macroeconomic conditions prevailing in the country through amendments to the post model adjustments built up since 2021 following the COVID 19 pandemic and subsequent economic crisis 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 minimise the manual intervention.

Adequate training and awareness sessions have been conducted for the Board and the Senior Management with regard to this standard. Further, the Board ensures that processes and controls are put in place for use of management information systems and validation of information extracted to comply with SLFRS 9.

The recommendations made by the external auditors in connection with the internal control system in previous years were reviewed during the year and appropriate steps have been taken to implement those.

## Confirmation

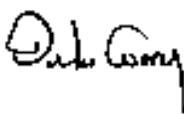
Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of

financial statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

## Review of The Statement by External Auditors

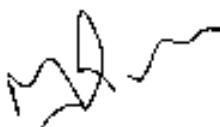
The external auditors, Messrs KPMG, have reviewed the above Directors' Statement on Internal Control Over Financial Reporting for the year ended 31st December 2023 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their 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 page 181 of this report.

By order of the Board

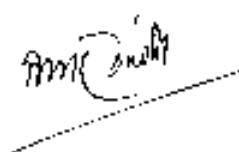


Devaka Cooray  
*Chairman*  
*Board Audit Committee*

Colombo, Sri Lanka  
15th February 2024



Jonathan Alles  
*Managing Director*  
*/Chief Executive Officer*



Nihal Jayawardene  
*Chairman*

# INDEPENDENT ASSURANCE REPORT



KPMG  
(Chartered Accountants)  
32A, 5<sup>th</sup> Mohamed Mawani Markar Mawatha,  
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Colombo 00300, Sri Lanka.

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## THE BOARD OF DIRECTORS OF HATTON NATIONAL BANK PLC.

### Report on the Directors' Statement on Internal Control

We were engaged by the Board of Directors of Hatton National Bank PLC ("Bank") to provide assurance on the Director's Statement on Internal Control ("Statement") included in the annual report for the year ended 31 December 2023.

### Management's responsibility

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.

### Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains

a comprehensive system of quality control including documented policies and procedures regarding professional compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### Our Responsibilities

Our responsibility is 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 design and effectiveness of the internal control of the Bank.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 (revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This standard requires that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purposes of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed and audit or review of the financial information.

### Summary of work performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for the Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Bank.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

- (a) Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the Directors in the annual report.
- (b) Reviewed the documentation prepared by the Directors to support their Statement made.
- (c) Related the Statement made by the Directors to our knowledge of the Bank obtained during the audit of the financial statements.
- (d) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
- (e) Attended meetings of the Audit Committee at which the annual report, including the Statement on Internal

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C P Jayasinha FCA  
Ms. S Joseph FCA  
S T D L Fonseka FCA  
Ms. B. D. Th. Abeygope FCA  
Ms. C. T. K. A. Perera FCA  
Principal: S. R. I. Peiris FCMA/ACMA LLB Attorney-at-Law H. S. Goonewardene ACA  
Ms. F. R. Zivari FCMA/ACMA FCA  
T. S. Rajapakse FCA  
Mr. S. H. B. Jayasankara FCA  
G. A. J. Ranasinghe FCA  
R. H. Rajapakse FCA  
A. M. R. P. Jayasankara FCA  
Ms. P. M. K. Sumanayake FCA  
W. W. C. Peiris FCA  
M. K. D. C. Achyegowda FCA  
R. M. D. B. Rajapakse FCA  
M. N. M. Samper FCA  
Ms. P. M. K. Sumanayake FCA

# INDEPENDENT ASSURANCE REPORT



Control is considered and approved for submission to the Board of Directors.

- (f) Considered whether the Director's 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 (revised) 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 (revised) 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.

The procedures selected depend on our judgment, having regard to our understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

## Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included on pages 179 to 180 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.

A handwritten signature in black ink, appearing to read 'KPMG'.

CHARTERED ACCOUNTANTS

Colombo

15 February 2024

# 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 2023		As at 31st December 2022			
			Limit Rs Mn	Outstanding Rs Mn	Limit Rs Mn	Outstanding Rs Mn		
<b>(A) Mr W M M D Rathnayake</b>								
Sri Lanka Institute of Information Technology (SLIIT)	Council Member	Term Loan - I Term Loan - II	2,000.00 785.52	2,000.00 785.52	1,229.89 -	1,253.71 -	Letter of Undertaking	
		Total	2,785.52	2,785.52	1,229.89	1,253.71		
Hsenid Business Solutions (Pvt) Ltd	Director (Independent/ Non-Executive)	Letter of Guarantee	7.75	7.75	-	-	Lien over Deposit	
		Total	7.75	7.75	-	-		
<b>(B) Mr P R Saldin</b>								
Sithma Development (Pvt) Ltd.	Chairman	Overdraft Letter of Credit (S/U) Total	50.00 12.47 62.47	- 12.47 12.47	50.00 - 50.00	-	Mortagage over - Commercial Property, - Cash Margin	
CIC Holdings PLC	Director	Short Term Loans Letter of Credit (S/U) Import Loan Corporate Credit Card Overdraft Shipping Guarantee Total	1000.00 (500.00) (500.00) (2.00) (20.00) - 1,000.00	538.00 6.00 371.68 - 3.53 1.65 920.86	- - - - - - -	-	Clean - Documents of Title, - Duly Accepted - Usance Drafts, - Standing order	
Chemanex PLC	Chairman	Letter of Credit (S/U) Shipping Guarantee Import Loan/ Short Term Loan Overdraft Forward Exchange Contract Total	200.00 (200.00) (200.00) (95.00) (200.00) 200.00	- - 105.20 - 1.09 106.29	- - - - - -	-	Documents of Title, - Duly Accepted - Usance Drafts, - Indemnity, - Clean	
<b>(C) Dr T K D A P Samarasinghe</b>								
Hayleys Fibre PLC	Director	Packing Credit Loan Export Bill Discounting Short Term Loan Letter of Credit (S/U) Letter of Guarantee Overdraft Saubhagya Term Loan Term Loan Forward Ex Contract Total	325.00 (325.00) (75.00) (3.00) (5.00) 6.00 - - (256.00) 331.00	114.52 - 75.00 - - 16.47 - - - 205.99	75.00 (50.00) (75.00) (3.00) (5.00) 6.00 11.11 (29.40) (256.00) 92.11	- 37.00 - - 1.79 4.38 11.11 - - 54.28	Clean, Indemnity, - Short Term Loan Agreement, - Documents of Title, - Duly Accepted Usance Drafts, Letter of Guarantee, Indemnity, Overdraft - Agreement, Forward Exchange Agreement	

# 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 2023		As at 31st December 2022			
			Limit	Outstanding	Limit	Outstanding		
			Rs Mn	Rs Mn	Rs Mn	Rs Mn		
(D) Mr M P D Cooray								
United Motors Lanka PLC	Chairman (Independent)	TOD Total	-	-	-	-	0.01 0.01	Clean
Unimo Enterprises Limited	Chairman (Independent)	LC Import Loan (STL) LG Total	1,500.00 '(1,500.00) '(1,500.00) 1,500.00	- 1,118.00 381.48 1499.48	1,500.00 '(1,500.00) '(1,500.00) 1,500.00	- 657.00 514.30 1,171.30		Corporate Guarantee of United Motors Lanka PLC, Indemnity
JAT Holdings PLC	Director (Independent)	Overdraft Letter of Guarantee Corporate Credit Card Letter of Credit(S/U) Import Loan Total	100.00 75.00 1.00 250.00 '(250.00) 426.00	80.10 52.84 - - 245.49 378.43	50.00 75.00 1.00 150.00 '(150.00) 276.00	45.67 51.63 - - 101.24 198.54		Clean Title of Documents, Duly Accepted Usance Drafts Import Loan Agreement
HVA Foods PLC	Director (Independent)	Packing Credit Export Bill Discounting Overdraft Export Loans Post Shipment Forward Ex Contract One off STL Total	320.00 '(320.00) 100.00 *(320.00) '(320.00) '(100.00) 420.00	111.28 99.17	365.00 '(365.00) 100.00	73.00 - 100.46		Corporate Guarantee from George Steuart and Co Ltd, Forward Exchange Agreement.
Dutch Lanka Engineering (Pvt) Ltd	Chairman-(Independent)	Overdraft Short Term Loan -(Revolving) Letters of Credit-(Sight) Letters of Credit-(Usance) Import Loans Short Term Loans - (Revolving) Short Term Loans- (One Off) Term Loans - 35Mn Letters of Guarantee Total	20.00 23.00 100.00 *(100.00) *(100.00) *(100.00) *(60.90) 3.65 5.00 151.65	**20.41 - - - 6.50 42.04 30.45 3.65 0.42 103.47	N/A	N/A		Corporate Guarantee from Dutch Lanka Trailer Manufactures (Pvt) Ltd, Lien & Setoff over Company FD's
(E) Mr D P N Rodrigo								
HNB Assurance PLC	Director	Bank Guarantee Corporate Credit Card Total	227.41 1.00 228.41	227.41 0.86 228.27	227.41 1.00 228.41	227.41 - 227.41		Lien over MMSA balance. 100% Cash back Margin, Corporate Guarantee of the company
HNB Finance PLC	Chairman	Overdraft MM Loan Corporate Credit Card Total	1,000.00 1,000.00 - 2,000.00	- 500.00 - 500.00	1,000.00 1,000.00 0.50 2,000.50	234.26 1,000.00 0.06 1,234.32		Negative Pledge for Rs 2.0Bn over all Movable & Immovable Assets

\* Figures in brackets indicate sub limits granted to respective entities.

\*\* Approval was obtained for the excesses.

**2. Other Business Transactions with the Bank**

Company/Director	Name of the Director / Relationship	Nature of Transaction	Amount	Amount
			Rs Mn	Rs Mn
			2023	2022
<b>(A) Mr A J Alles</b>				
Sri Lanka Bank's Association	Director	Subscription charges	0.80	0.55
Asian Bankers Association	Director	Subscription charges Registration fees on service awards and other	1.85 18.39	- -
<b>(B) Mr P R Saldin</b>				
Sithma Development (Pvt) Ltd.	Chairman	Interest on REPO Rental paid Rental income	- 832.61 23.00	8.00 748.10 23.00
<b>(C) Dr T K D A P Samarasinghe</b>				
Lanka Bell Limited	Managing Director	Merchant commission Data line expenses & other	3.01 12.11	4.59 12.06
Bell Solution (Pvt) Ltd.	Managing Director	System maintenance	37.73	20.07
Open University of Sri Lanka	Council Member	Merchant commission	1.20	3.57
<b>(D) D P N Rodrigo</b>				
HNB Assurance PLC	Director	Premium paid Interest on REPO Merchant commission Rental income Dividend income Commission received Claims paid	31.41 - 11.07 7.01 328.42 453.16 52.11	31.13 80.22 6.75 6.39 287.93 380.91 11.05
Lanka Financial Services	Chairman	Swift charges	16.63	13.56
Credit Information Bureau of Sri Lanka	Director	CRIB charges Interest on REPO	79.65 77.62	50.68 -
Sri Lanka Institute of Directors	Council Member	Subscription charges	0.08	0.03
<b>(E) Mr M P D Cooray</b>				
Management Systems (Pvt) Ltd	Managing Director	Administration expenses	5.83	6.40
JAT Holdings PLC	Director (Independent)	Merchant commission	1.41	1.73
<b>(F) Mr W M M D Ratnayake</b>				
Hsenid Business Solution (Pvt) Ltd	Director (Independent / Non Executive)	Interest on REPO Merchant commission System maintenance & other	- - 15.15	10.55 0.36 7.65
Open University of Sri Lanka	Professor	Merchant commission	1.20	3.57

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 31st December 2023.

The above entities also held customer deposits with the Bank totalling to 7,606 Mn. and interest paid was 1,273 Mn. Interest income earned from loans and advances amounted to 866 Mn. & Net Fee Income totalling to 892 Mn. for the year ended 31st December 2023.

# RISK & CAPITAL REVIEW



The Country's economy gradually stabilised during the 12 months of 2023 with lowering interest rates and a declining rate of inflation, creating a more favourable business and operating environment. Nevertheless, the risk landscape remained unpredictable with many persistent risks in Credit, Liquidity, and Operational aspects, and rapidly evolving risks in Information Technology and Cyber Security. The worsening geopolitical environment also translated into indirect risk pressures on the banking sector.

As a systemically important financial entity, HNB remained alert to the dynamics of the external risk environment while maintaining stringent supervision of its internal controls and risk management processes. The Bank continued to review and strengthen all its risk management aspects, while investing in improved technologies and human resource training, to mitigate impacts of continuing and emerging risk elements.



## Risk Management Achievements in 2023

- Bank was not exposed to any cyber breaches during the year.
- Operational losses were at record low levels.
- Managing risks for sustainable growth and profitability.

## Our Significant Risks/ Emergent Risk in 2023

### ⦿ Macroeconomic Environment

The overall macroeconomic environment presented a high threat level due to the combination of unfavourable developments that occurred during the year 2023. 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 in beginning of the year, augmented the existing risk factors during the year while paving the way for new risk elements.

### ⦿ Massive Swing in Interest Rates

In 2023, the Bank adeptly navigated the significant interest rate shift from approx.: 30% to 13%. Banks strategy involved a comprehensive approach, combining prudent risk management, proactive asset-liability management, and close collaboration with regulatory bodies. By swiftly adjusting the portfolios and employing advanced financial modelling, the Bank mitigated the impact of interest rate fluctuations. Additionally, strategic hedging and effective communication with stakeholders contributed to Bank's successful management of the massive interest rate changes, showcasing the Bank's resilience and adaptability in a dynamic financial landscape.

The Bank utilised advance analytics to assess the impact of interest rate fluctuations on portfolios. By employing scenario analysis and stress testing, the Bank was able to gauge the resilience of the balance sheets under various interest rate scenarios. This proactive approach enabled us to identify potential vulnerabilities and devise risk mitigation strategies.

The Bank also focused on enhancing liquidity management. The ability to quickly adjust funding sources and optimise asset-liability structures became crucial in mitigating interest rate risk. Diversifying funding channels, maintaining ample liquidity buffers, and ensuring access to short-term funding sources formed part of the risk management toolkit of the Bank during 2023.

In summary, the management of massive changes in interest rate risk in 2023, involved a holistic approach encompassing advanced analytics, liquidity management, regulatory collaboration, and the adoption of innovative financial instruments. This strategic response aimed to ensure resilience and adaptability of the Bank in a rapidly evolving financial landscape.

### ⦿ Geopolitical Instability

Geopolitical instability continued to heighten in Middle East and Ukraine during 2023 enhancing operational risks due conflicts and tensions.

### **Incomplete Debt Restructuring Process**

The incomplete restructuring of government debt can have several potential impacts. One major concern is the heightened credit risk associated with government securities. If the restructuring fails to address the underlying issues affecting the government's financial stability, it may lead to increased default risk, impacting the value of government securities held by the Bank.

Additionally, incomplete debt restructuring can contribute to economic uncertainty, potentially affecting overall market conditions. HNB, being a key player in the financial sector, may experience increased volatility in interest rates, exchange rates, and liquidity. This, in turn, could impact the Bank's profitability and asset quality.

Moreover, if the government debt restructuring is not effectively managed, it may lead to a lack of investor confidence in the broader economy. This could result in reduced investor appetite for government securities and negatively impact the overall stability of the financial system. HNB's exposure to government securities could then pose challenges to its capital adequacy and financial health.

Furthermore, incomplete restructuring may hinder economic recovery, affecting the performance of businesses and individuals who are clients of HNB. Loan portfolios could be impacted if borrowers face challenges due to the broader economic uncertainties arising from the incomplete government debt restructuring.

In summary, an incomplete restructuring of government debt poses significant risks to the Bank, including increased credit risk, market volatility, potential loss of investor

confidence, and adverse effects on the Bank's loan portfolio. The overall impact depends on the specific circumstances of the restructuring and in response to the changing economic landscape. The Bank has proactively provided impairment for such possible circumstances and impairment details are given in the page 189 of this report.

In addition, subsequent to the announcement of Domestic Debt Optimisation (DDO) program, the Bank reviewed the impact from the various options offered in respect of SLDB settlement and selected the option to exchange outstanding SLDBs to LKR denominated Treasury bonds. Bank also reviewed the impact of incomplete debt restructure on the Bank's superannuation funds, EPF and pension fund.

Capital projections were carried out by incorporating various scenarios in relation to domestic debt and ISB restructuring. Further, the impact of loan growth on Capital Adequacy Ratio was also closely assessed. Capital Adequacy projection after incorporating the impact from possible debt restructuring and the related capital augmentation plans were reviewed in detail and submitted to CBSL after obtaining Board approval.

Caution was exercised when investing in government securities. Treasury bills investments were encouraged with a view of possible hair cut on longer term bond investments. Investments made by the pension fund and EPF were reviewed from time to time and necessary guidance was provided.

### **Domestic Debt Optimisation**

The Government announced the Domestic Debt Optimisation (DDO) program on 29 June 2023 as an appendage to the original IMF approved Sri Lanka's Extended Fund Facility (EFF). This will reduce the government burden on debt repayment going forward.

### **Country Credit Rating**

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, which led to non-availability of swap funding opportunities, foreign borrowings, international trade operations and placements etc. Further, risk relating to the non-settlement of US dollar denominated Government Securities in the form of International Sovereign Bonds greatly impacted the Bank's US dollar liquidity, foreign currency cashflows and capital.

### **High Interest Rates and Low Real Income Stressing Loan Repayment**

Convergence of high interest rates and low incomes created significant stress for loan repayments in 2023. While inflation had decreased to lower levels in latter part of 2023, the persistently high price regime continues, placing considerable strain on borrowers, especially impacting their ability to meet loan obligations. Despite the reduction in inflation, the high cost of goods and services remains largely unchanged, creating a financial burden for individuals with limited income. This scenario directly affected the banking industry in 2023 as borrowers struggle to repay loans amidst this economic backdrop. High interest rates compounded the issue, making it harder for individuals to manage their debt.



# RISK & CAPITAL REVIEW



## Our Significant Risks/ Emergent Risks in 2023

### ⌚ Deterioration of Disposable income

A reduction in disposable income of households severely impacted the banking sector. It led to increased loan defaults as individuals struggled to meet their financial obligations. This, in turn, raised the levels of non-performing loans for banks, affecting their profitability and overall financial health. Banks also experienced a decline in demand for various financial products and services, such as loans and advances, as consumers tightened their budgets. This reduction in customer activity hampered revenue generation for banks. Additionally, the upward trend in Stage 3 loan portfolio prompted banks to re-assess their risk management strategies and tighten lending standards to mitigate potential losses.

In response to increased loan defaults in 2023, the Bank took proactive measures. These included enhancing risk management, revising lending policies for stricter criteria, introducing loan restructuring programs, intensifying collateral assessment, conducting customer education campaigns, collaborating with regulatory bodies, embracing digital solutions, and implementing effective debt collection strategies. These initiatives aimed to mitigate default risks, assist struggling borrowers, and strengthen overall financial stability for the Bank.

### ⌚ Increased Cyber Risk

Ransomware attacks reached previously unheard-of heights in 2023, both in terms of sophistication and ferocity. Such attacks are more dangerous and likely to target establishments that handle sensitive data, such as governments, banks, and healthcare facilities. Increased reliance on cloud infrastructure and possible security weaknesses may lead to unauthorised access and data breaches. Downtime in cloud services can impact operations and customer service. Non-compliance with data protection regulations may result in financial penalties. Proliferation of mobile devices enhances risks from mobile-specific Cyber threats including financial fraud, theft, and monetary losses. Breaches in mobile app security may lead to exposure of sensitive customer data. In view of increasing Cyber risk, more focus and attention were extended towards refining and enhancing Bank's Cyber security tools in 2023. These initiatives will be further strengthened in 2024 to counter any possible Cyber-attacks.

### ⌚ Foreign Exchange Risk

In 2022, the Sri Lankan Rupee (LKR) experienced depreciation, leading to economic challenges. This depreciation was attributed to factors such as external debt pressure, trade imbalances, and global economic uncertainties. As a result, the adverse fluctuations of the LKR persisted into 2023, impacting various sectors and causing concerns about inflation and the overall economic stability in Sri Lanka. Government interventions and monetary policies were implemented to address these issues, but the situation remained complex, requiring ongoing attention to stabilise the currency and foster economic recovery.

In 2023, the Bank took strategic actions to manage forex risk volatility. These included implementing hedging strategies, conducting regular risk assessments, enhancing overall risk management practices, diversifying currency holdings, collaborating with Central Banks/Overseas Banks, monitoring economic indicators, educating clients, ensuring high liquidity both in USD and LKR, conducting stress tests, and dynamically managing investment portfolios. These measures aimed to mitigate the impact of currency fluctuations and enhance the Bank's resilience in the face of forex risk.

### ⌚ Staff Turnover

Staff turnover spiked in 2023 due to a combination of factors including migration and headhunting by competitors, impacting the overall customer experience and putting pressure on specialised jobs due to losses of experienced and trained staff.

### ⌚ Deterioration of Outsourced Services

Due to adverse developments in external environment and increased thefts/robberies, service levels of vendors/outsourcing service providers were impacted, which in turn had an impact on the Bank's processes and quality of services.

## Liquidity Risk

While investments in USD development bonds and International Sovereign Bonds (ISBs) continued to decline in the latter part of 2023, impairment provisioning on ISBs increased substantially as at end 2023 negatively impacting profitability. 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.

### ⊖ Fraudulent Activities

Trend in fraudulent activities by customers and staff, such as fraudulent documents, identity theft, impersonation, money laundering etc. increased during the year, increasing risks of financial losses, reputational damage and legal action.

### ⊖ Vulnerabilities in Mobile Apps

Proliferation of mobile devices enhances risks from mobile-specific Cyber threats including financial fraud, theft, and monetary losses. Breaches in mobile app security may lead to exposure of sensitive customer data.

### ⊖ Potential Cloud Vulnerability

Increased reliance on cloud infrastructure and possible security weaknesses may lead to unauthorised access and data breaches. Downtime in cloud services can impact operations and customer service. Non-compliance with data protection regulations may result in financial penalties.

	Investments			Impairment		
	As at Dec 2023 Rs (Bn)	As at Dec 2022 Rs (Bn)	As at Dec 2021 Rs (Bn)	As at Dec 2023 Rs (Bn)	As at Dec 2022 Rs (Bn)	As at Dec 2021 Rs (Bn)
Bank's investment in USD development bonds	Nil	32.1*	51.5*	Nil	2.5	3.4
Bank's investments in ISBs	196.3*	209.6*	114.1*	102.1	73.4	7.6
Bank's investments in TBills	474.1	216.5	168.1	Nil	Nil	Nil
Bank's investments in TBonds	155.3	56.4	30.5	0.7**	Nil	Nil

\* Based on prevailing exchange rate during the corresponding dates

\*\* Refer Note Number 32 in page 336

# RISK & CAPITAL REVIEW

## Managing the Material Risks

All risks noted as material are continually measured and monitored to ensure operational stability and sustainability.

Figure 1: Material Risks

Definition of Risk	Credit Risk	Operational Risk	Information & Cyber Risk
Risk Drivers	<p>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.</p> <p>This risk includes:</p> <ul style="list-style-type: none"><li>⌚ Default Risk</li><li>⌚ Counterparty Risk</li><li>⌚ Concentration Risk</li><li>⌚ Residual Risk</li><li>⌚ Recovery Risk</li></ul>	<p>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.</p> <p>Operational Risk Components:</p> <ul style="list-style-type: none"><li>⌚ Compliance Risk</li><li>⌚ Legal Risk</li><li>⌚ Financial Crimes Risk</li><li>⌚ Technology Risk</li><li>⌚ Information &amp; Cyber Risk</li><li>⌚ Business Continuity Management</li><li>⌚ Conduct Risk</li></ul>	<p>Risk of financial loss, or disruption or damage to the reputation of the Bank from information by unintended parties and unauthorised access to our systems or data/information. This risk also arises from the failure of the Bank's Information Technology systems services due to unauthorised modifications.</p> <p>Components of Cyber Risk;</p> <ul style="list-style-type: none"><li>⌚ Information Risk</li><li>⌚ Cyber Risk</li><li>⌚ Financial Crime Risk</li><li>⌚ Technology Risk</li></ul>
How the Risk is Measured	<p>Drivers of this risk includes the current economic landscape, 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.</p>	<p>This risk arises from day-to-day operations and external events.</p>	<p>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</p>

Liquidity Risk	Market Risk	Strategic Risk	Reputation Risk
<p>This refers to the risk that the Bank is unable to meet its debt obligations or having to meet these obligations at excessive cost.</p>	<p>Market risk refers to the potential for losses in financial instruments or portfolios due to fluctuations in market conditions, such as changes in interest rates, exchange rates, and commodity prices. It encompasses the uncertainty that arises from various economic factors, impacting the value of investments in the financial markets.</p>	<p>The Strategic Risk is the uncertainties inherent in executing strategic objectives.</p>	<p>Refers to potential losses from damages to reputation.</p>
<p>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.</p>	<p>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.</p> <p>Components of Market Risk;</p> <ul style="list-style-type: none"> <li>⌚ Interest Rate Risk</li> <li>⌚ Foreign Exchange Risk</li> <li>⌚ Equity Price Risk</li> <li>⌚ Commodity Price Risk</li> </ul>	<p>Arises from external developments in Technology, Products, Business Models.</p>	<p>Arises from events that could adversely impact public perception of the Bank as a responsible corporate citizen.</p>
<p>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.</p>	<p>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.</p>	<p>Measured using a scorecard approach to quantify strategic risk under the Basel III Pillar 2 calculation.</p>	<p>Measured using a scorecard approach by assessing underlying risk drivers of Reputational Risk due to qualitative nature of the risk.</p>

# RISK & CAPITAL REVIEW

How the Risk is Monitored

Key Information

## Credit Risk

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. are submitted to BIRMC, BCC and executive committees.

A Credit Risk Management Policy and monitoring mechanism is available to manage this risk CBSL guidelines were used in extending the moratorium.

Assessment: High



Trend: ↑

Page 205

## Operational Risk

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 ERMCPC, BIRMC and Board

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.

Assessment: Moderate



Trend: →

Page 209

## Information & Cyber Risk

The Bank conducts security risk reviews/assessments on regular basis to ensure business processes are in line with guidelines. IT & Cyber-Risk dashboard are presented to BIRMC and ERMCPC monthly by Information and Cyber Security Risk vertical, Monitoring of Privileged User Activities and changes are carried out on a periodic basis and report to BIRMC.

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.

Assessment: Moderate



Trend: ↑

Page 212

Liquidity Risk	Market Risk	Strategic Risk	Reputation Risk
<p>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.</p> <p>A strong Liquidity Risk Management Framework is in place which includes contingency plans.</p>	<p>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.</p> <p>The Treasury Department overlooks this risk using diversification and hedging strategies.</p>	<p>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.</p> <p>The Corporate Management and Board are involved in managing this risk.</p>	<p>The Integrated Risk Management Unit monitors this risk through a scorecard and evaluated for any additional capital requirement through the ICAAP submission to the Board annually.</p> <p>The Bank sets the tone at the top and reinforces its core values and purpose.</p>
Assessment: Moderate	Assessment: Moderate	Assessment: Moderate	Assessment: Moderate
 Trend: →	 Trend: →	 Trend: →	 Trend: →
Page 217	Page 213	Page 220	Page 220

# RISK & CAPITAL REVIEW

## Enterprise Risk Governance

The Board is ultimately responsible for managing the Bank's risks and is assisted by the Board Integrated Risk Management Committee (BIRMC) in this task. 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. Expertise from executive committees consisting of corporate and senior management teams also contribute towards managing risks.

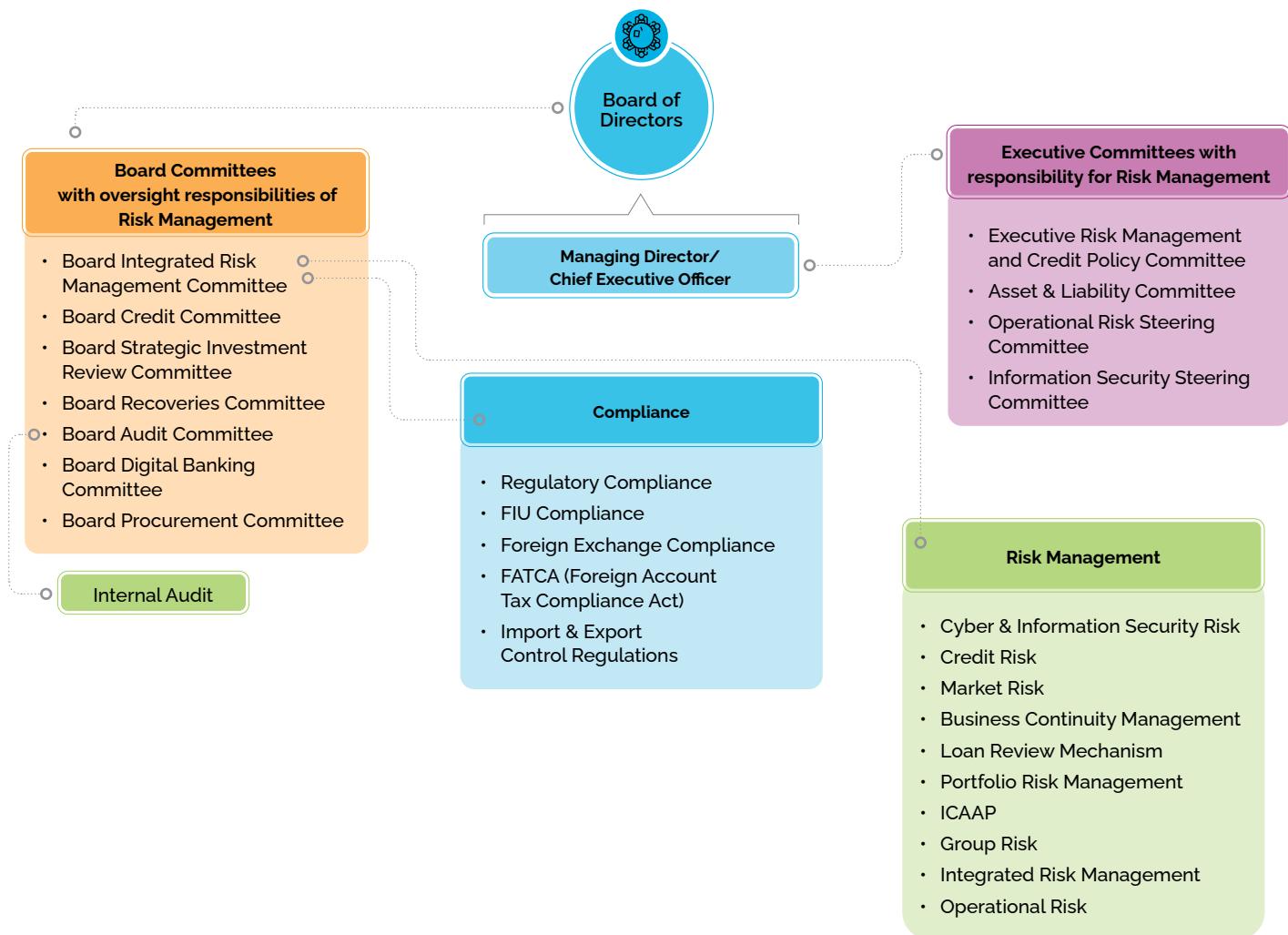
To enhance monitoring and advisory functions, the Bank has a dedicated Chief Information Security Officer.

## Three Lines of Defence

The 'Three Lines of Defence' model has been adopted to ensure the risk management initiatives of the Bank is in line with best industry practises.



Figure 2: Risk Governance Structure of the Bank



*Figure 3: Roles & Responsibilities of Committees in Relation to Risk Management*

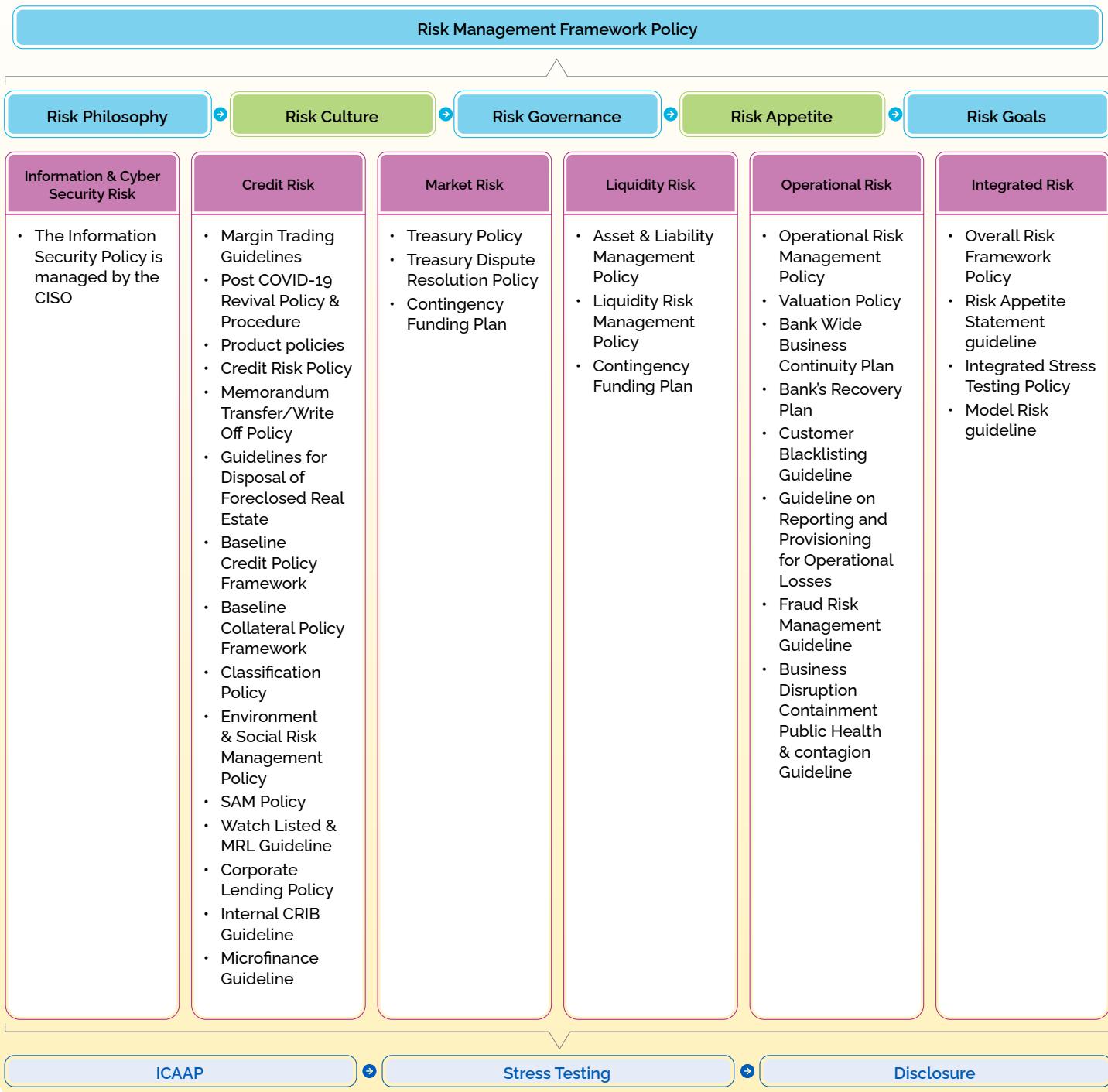
<b>Board Committees</b>	<b>Role of Committee in Relation to Risk Management</b>
<b>Board Integrated Risk Management Committee (BIRMC)</b>	Maintains oversight of Risk Management and makes recommendations to the Board on developing and implementing Risk Management Policies, setting the Bank's Risk Appetite 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.
<b>Board Credit Committee (BCC)</b>	Approves credit proposals 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.
<b>Board Recoveries Committee (BRC)</b>	Is responsible for overseeing of recoveries of Stage 3 advances and to strengthen the delinquent loan recovery function of the Bank.
<b>Board Audit Committee (BAC)</b>	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.
<b>Board Strategic Planning &amp; Investment Committee (BSPIC)</b>	Responsible for setting the overall business strategy of the Bank and ensures there is a congruence in the Bank's strategic direction, goals and KPIs and the Board's Risk Appetite.
<b>Board Digital Banking Committee (BDBC)</b>	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.
<b>Board Procurement &amp; Asset Disposal Committee</b>	Responsible for assessing proposals for procurement or disposal of assets/properties of the Bank and ensures transparency in procurement/disposal processes and good practices.
<b>Executive Committees</b>	<b>Role of Committee in Relation to Risk Management</b>
<b>Executive Risk Management and Credit Policy Committee (ERMCPC)</b>	Chaired by MD/CEO and comprising heads of key business lines and operating units of the Bank, the ERMCPC is the apex executive committee for risk management and supports BIRMC and BCC in effective implementation of the risk policy.
<b>Asset &amp; Liability Committee (ALCO)</b>	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 minimising potential risks.
<b>Operational Risk Steering Committee (ORSC)</b>	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.
<b>Information Security Committee (ISC)</b>	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 & CAPITAL REVIEW

## Risk Management Policy Framework

The Bank's Risk Policy stems from the Bank's risk philosophy which is to maximise value creation for all stakeholders. The Risk Framework Policy is approved by the Board and provides guidance to the management on implementing processes within the Bank. The primary objective of the Bank's Risk Management Policy 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.

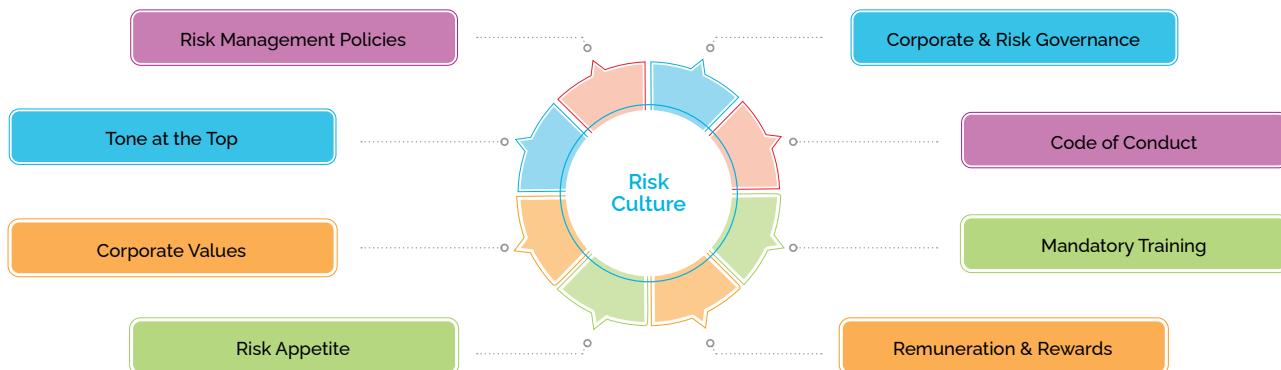
*Figure 4: Risk Management Policy Framework*



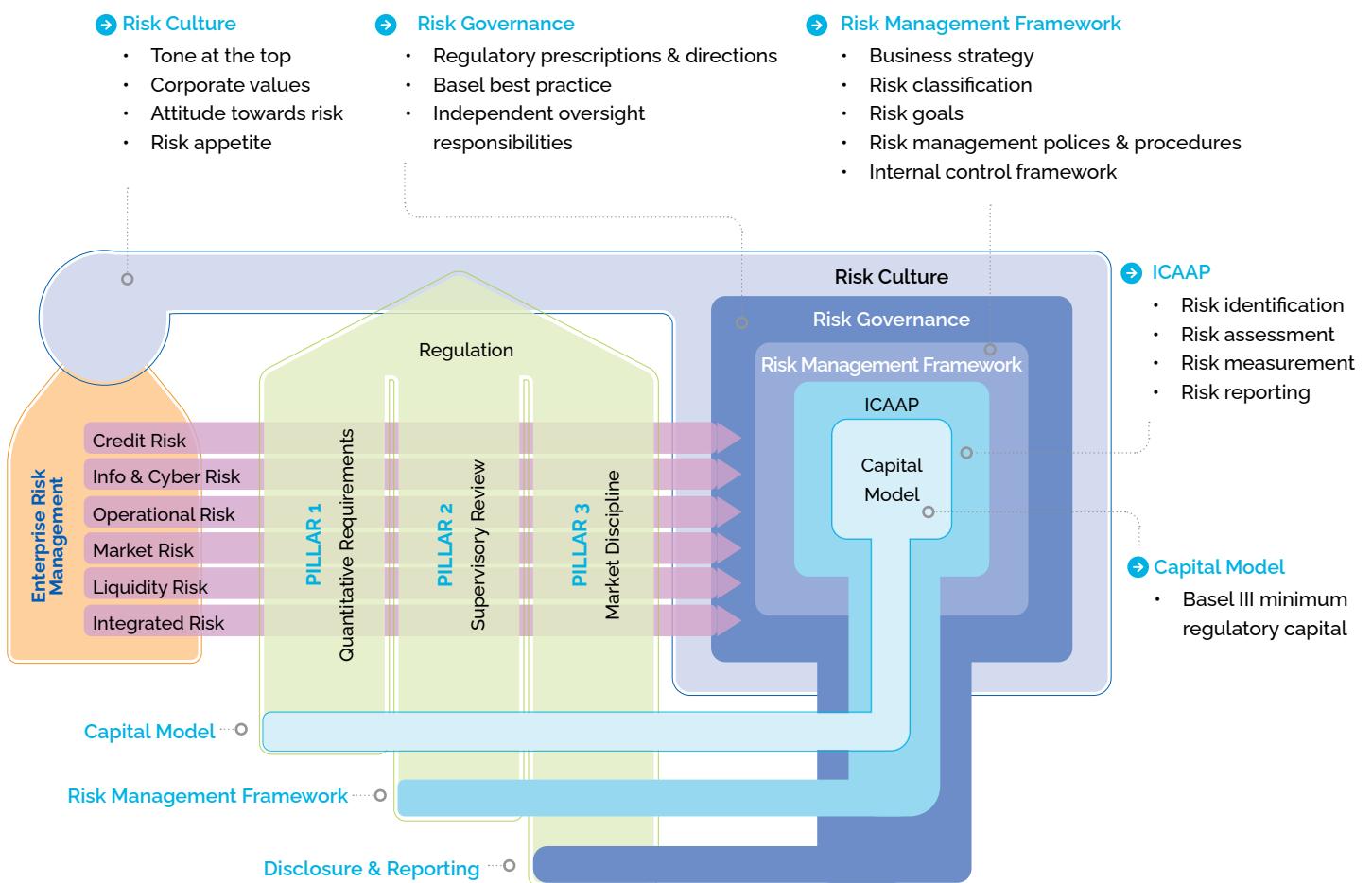
## Risk Culture

The risk culture of the Bank is a fundamental component shaping its approach to identifying, assessing, and managing risks inherent in banking and financial activities. It encompasses the shared values, beliefs, and behaviours within the Bank that collectively influences how risks are perceived, communicated, and integrated into decision-making processes. In the dynamic landscape of the banking industry, a robust risk culture is not merely a regulatory necessity but a strategic imperative for ensuring the long-term resilience and success of the Bank.

*Figure 5: Key Determinants of Risk Culture*



*Figure 6: HNB Philosophy in Managing Risk*



# RISK & CAPITAL REVIEW

## Risk Appetite

The Bank's Risk Appetite Statement instils 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:

- Links 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 takes corrective action, as and when required
- Compliance to regulatory principles on Risk Appetite requirements

## Stress Testing

The primary objective of Stress Testing is to assess the impact of adverse scenarios on the Bank's Capital Adequacy Ratio (CAR), profitability and liquidity. Appropriate stress scenario development methodologies applicable to each risk area are clearly

specified and key macroeconomic factors impacting the Bank are identified to support this process. To ensure the effectiveness of the process, the Bank's stress testing system complies with CBSL guidelines and the Basel Committee and encompasses all significant and high impact risk areas of the Bank. The outcome of stress tests is communicated to the BIRMC and to the Board.

## Group Risk

To sustain stringent Risk Management across the Group, the Bank's four direct subsidiaries are overseen by the Integrated Risk Management Division for regular review and continuous supervision, while senior Bank officials are members of the Boards of subsidiaries ensuring a high level of knowledge of the risk management activities of the subsidiaries. The two insurance subsidiaries and HNB Finance PLC have dedicated risk management units, which regularly liaise with the Bank's Integrated Risk Management (IRM) division. The IRM division also receives the Regulatory Inspection Reports and Management Letters of the Group entities to ascertain potential areas of risk concern and to 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). 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 2023

Ensuring a high level of responsiveness to macro environmental dynamics, the Bank continually reviews its external and internal environment as well as risk management systems and processes. This exercise has been strengthened by investing in modern information communication technology solutions towards enhancing the risk management process. All statutory reports such as the ICAAP report were submitted on time to the regulator maintaining an uncompromising level of compliance at all times.

**Figure 7: Key Initiatives of the Bank to Strengthen Risk Management in 2023**

Integrated Risk Management	Group Risk	Portfolio Risk Management
<ul style="list-style-type: none"> <li>The Bank's ICAAP was reviewed during the year to ensure capital adequacy was maintained above minimum regulatory requirements. Variables such as asset quality, market risk factors, investments in Government securities, concentration risk assessments etc., were subjected to stress testing.</li> <li>The Risk Appetite Statement of the Bank was reviewed periodically in response to macro and micro economic factors of the country. Ensured that the financial budgets and business performance of the Bank were in line with the Risk Appetite Statement.</li> <li>A series of industry reviews across various sectors were conducted to assess risk levels of these industries so that corrective actions could be taken to better manage the Bank's lending portfolio.</li> <li>The Risk Adjusted Return on Capital (RAROC) assessment tool, which is used to ascertain the "Risk -Return" criteria of the Bank's lending was introduced to the SME segment in 2023. The RAROC tool was already introduced to the Corporate and Emerging Corporate segments in 2022.</li> </ul>	<ul style="list-style-type: none"> <li>Strengthened the mechanism of assessment of Group Risk and compliance monitoring by way of introducing additional features to Risk Dashboards and Risk Assessment reports. Potential areas of risk concerns were reviewed quarterly, and followed up on remedial actions to strengthened the risk management environment of Group companies.</li> <li>Regular meetings were scheduled at senior executive level to assess the compliance of Group companies as well as to identify any issues or challenges that need to be addressed.</li> </ul>	<ul style="list-style-type: none"> <li>Risk reviewed the lending portfolios frequently, for credit quality, proper classifications, provisioning under SLFRS-9, credit concentration including compliance to the risk appetite levels of the Bank.</li> <li>Strengthened L2 review mechanism for specific lending portfolios i.e. Margin Trading portfolio, Overdraft portfolio, Credit Card portfolio etc. to ensure adherence and compliance with the Bank's Credit policies.</li> <li>Conducted series of training sessions across business divisions and branch network to enhance knowledge on 'Classification, Recognition and Measurement of credit facilities based on SLFRS 9 ECL Approach.</li> </ul>
<b>Credit Risk</b>		
<ul style="list-style-type: none"> <li>The Bank's Baseline Credit and Collateral Framework Policies were reviewed and updated to ensure they are in line with the current market environment.</li> <li>The Bank's Credit Risk Policy, which defines the internal policies, procedures and practices that outlines the Credit Risk Management process in the Bank was also reviewed.</li> <li>The Special Asset Management (SAM) Unit guidelines, which enables the Bank to have a more focused and effective approach towards management of stressed accounts was also reviewed.</li> <li>The Environmental and Social Risk Management Policy was reviewed in line with regularity requirements, whilst ensuring compliance with new Environmental, Social and Corporate Governance (ESG) directives.</li> <li>Monthly training and familiarisation sessions were conducted for business and credit approvers on the Bank's credit policies and guidelines, best practices and common lapses in credit underwriting of facilities, as well as rescheduling / restructuring of facilities.</li> <li>The credit approval structure was reviewed against new NPAs, LRM findings, moratorium changes, regulatory changes and other emerging credit risks to the loan book.</li> <li>In line with the regulatory requirements, the Green Finance Taxonomy which is a classification system, which defines and categorises economic activities that are environmentally sustainable, was implemented.</li> </ul>		

# RISK & CAPITAL REVIEW

## Operational Risk

- Risk and Control Self-Assessments (RCSA) were conducted on a quarterly basis covering all Head Office departments, branch network and regional offices to access the risk levels of departments as well as action taken to mitigate risk.
- The Operational Risk Management Policy of the Bank was reviewed considering the new developments in the industry.
- Regular on-site reviews were conducted by Level 1 (Business) at the Outsource Service providers (OSP) locations. Additionally, joined up Level 1 and Level 2 (RMD) reviews were held to further strengthen the security and control aspects.
- Reviewed outsource service providers' service agreements to include clauses for punitive actions related to reputational damages apart from the penalties imposed for operational lapses.
- Insurance coverage for Bank assets was strengthened.
- Improved security monitoring mechanism of the ATMs/ CDMs through CCTV surveillance
- Training sessions were conducted to business and operational teams across the Bank to create a culture of no surprises, where staff knowledge and skill levels were enhanced to identify, report and prevent operational risks.
- Public awareness was heightened through frequent notices in social media and throughout the branch network in order to prevent scams and frauds in relation to operation of Bank accounts.
- Suspicious transactions were monitored by the Compliance department through the Anti Money Laundering (AML) system and a stringent customer evaluation process was implemented to onboard customers.
- Root causes analysis reports were initiated to identify the causes of operational losses.
- BCP testing was conducted for all critical departments as well as DR Drills for IT systems to assess the operational resilience during a possible event of a disruption or disaster.

## 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.
- Semi-annual stress testing was conducted for a comprehensive assessment of the implications on the Bank's liquidity position arising from a range of potential liquidity crisis scenarios. These assessments involved an in-depth analysis of the resultant impacts on the Bank, as well as strategic measures that could be taken to address potential liquidity gaps and minimise adverse consequences.
- Impact analysis on the Bank's capital base was carried out to assess the impact of the possible hair cut on the Bank's investment in USD denominated bonds, USD deposit run, LKR deposit run and immediate demand of FC funding lines, identifying strategies and to minimise the impact of these events.

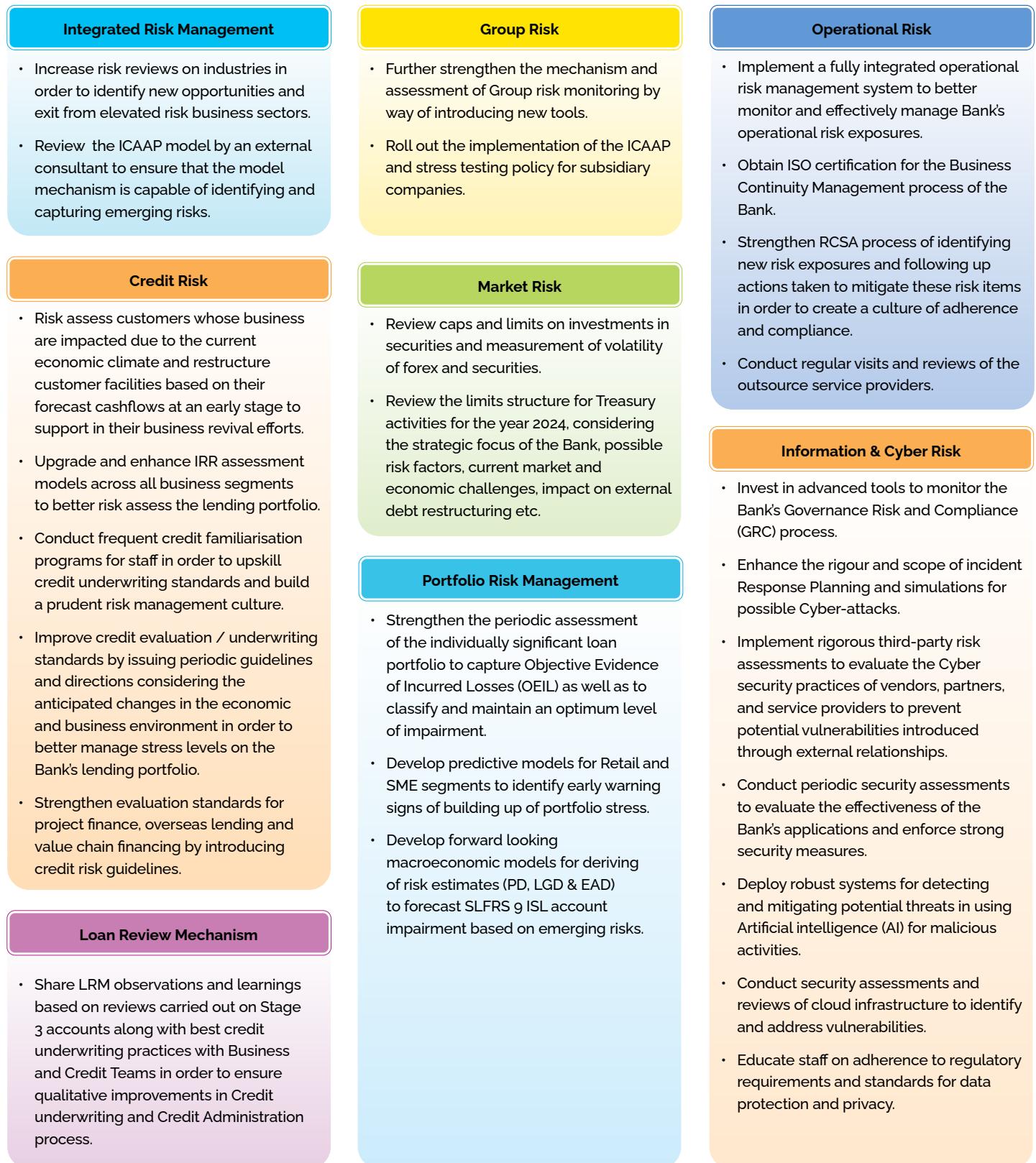
## Information & Cyber Risk

- Vendor and Outsource Service Provider (OSP) risk reviews and assessments were conducted regularly to identify potential Cyber risks exposures and impact to the Bank.
- IT / Cyber security assessments were conducted for all projects prior to implementation as well as post implementation.
- Invested in centralised network management systems and in advanced threat intelligence platforms.
- Security measures to counter Phishing risks were strengthened by including tailored employee training and simulated exercises. Strong content filtering was also introduced along with detection and blocking system to prevent Cyber-attacks.
- Carried out employee and customer awareness of Cyber security through training and simulated exercises.
- An incident response plan was established to prepare the Bank and its employees for any Cyber-attacks.

## Loan Review Mechanism (LRM)

- Enhanced post loan disbursement reviews were conducted on the Advances Portfolio in order to ensure compliance with 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 processes.
- The LRM Policy was reviewed and updated to meet the current requirements of the Bank.
- A comprehensive e-Learning module on LRM was hosted on the Talent Space, HNB Web Portal.

**Figure 8: Planned Initiatives to Strengthen Risk Management In 2024**



# RISK & CAPITAL REVIEW

## Integrated Risk Management & Capital Management

Figure 9: Regulatory Capital Requirements

Components of Capital	Regulatory Requirement as at			Bank's Position as at		
	31.12.2023	31.12.2022	31.12.2021	31.12.2023	31.12.2022	31.12.2021
Common Equity Tier (CET) 1 <sup>(a)</sup>	8.00%	8.00%	7.00%	13.66%	11.06%	14.53%
Total Tier 1 <sup>(a)</sup>	9.50%	9.50%	8.50%	13.66%	11.06%	14.53%
Total Capital <sup>(a)</sup>	13.50%	13.50%	12.50%	17.13%	14.00%	18.16%

(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.

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:

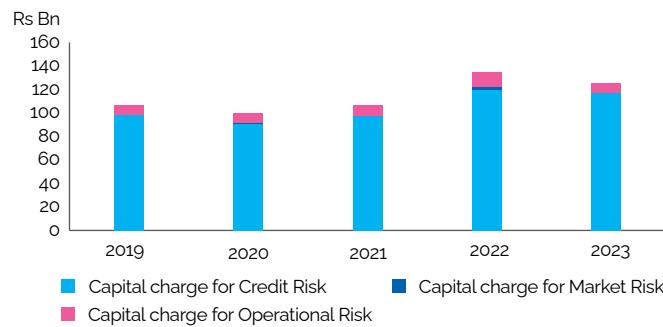
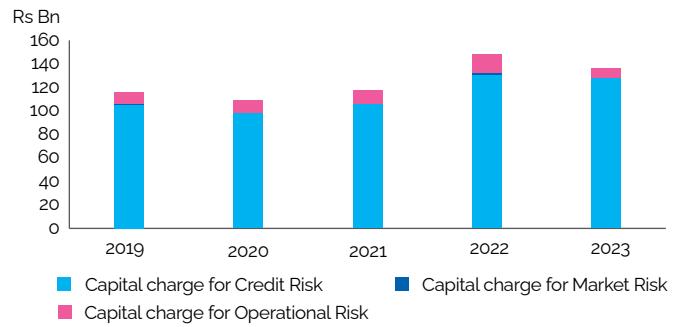
- Credit Risk – The Standardised Approach
- Market Risk – The Standardised Measurement Method
- Operational Risk – Basic Indicator Approach

**Figure 10: Risk Weighted Assets & Capital Charge**

Item (Rs'ooo)	Bank				Group			
	Risk Weighted Assets		Capital Required		Risk Weighted Assets		Capital Required	
	2023	2022	2023	2022	2023	2022	2023	2022
Credit Risk	865,022,689	886,459,570	116,778,063	119,672,042	945,277,000	963,875,964	127,612,395	130,123,255
Market Risk	534,316	14,398,617	72,133	1,943,813	765,987	14,566,345	103,408	1,966,457
Operational Risk	63,945,171	96,612,704	8,632,598	13,042,715	67,022,522	118,039,893	9,048,040	15,935,386
Total	929,502,175	997,470,892	125,482,794	134,658,570	1,013,065,509	1,096,482,202	136,763,844	148,025,097

**Total Assets Vs. Risk Weighted Assets Bank****Total Assets Vs. Risk Weighted Assets Group**

RWA reduced from 997 Bn in 2022 to 930 Bn in 2023 by 67 Bn for the Bank. The difference between Total Assets and Risk Weighted assets increased during the year to Rs 1 Tn.

**Capital Charge for Risk- Bank****Capital Charge for Risk- Group**

# RISK & CAPITAL REVIEW

## Stress Testing

Comprehensive stress tests were conducted on the Bank's CAR for the highest risk indicator in each major Risk category.

*Figure 11: Stress Testing Results on A Moderate Stress Scenario*

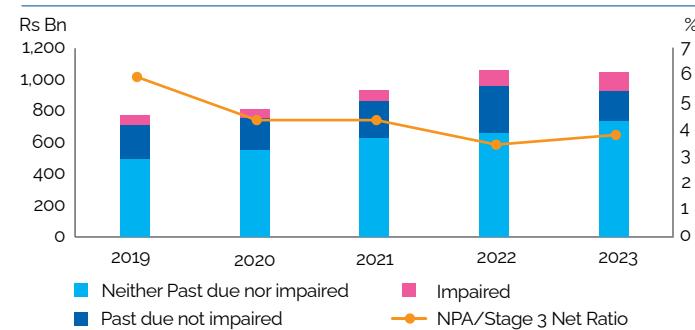
		Impact on CAR as at 30.06.2023		
		Moderate Impact	High Impact	Severe Impact
NPL Stress	Increase in NPL ratio for different portfolio and thereby increase in provision.	✓		
Credit Risk – Asset Downgrade	Increasing the direct non-performing facilities over the direct performing facilities balance for 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.		✓	
Operational Losses	Increase in Operational Losses in the Stress Scenario leading to higher capital requirements	✓		
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			✓

## Credit Risk

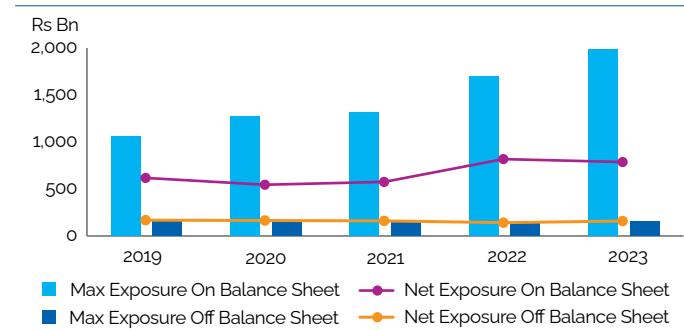
	2023 Maximum Exposure Rs. 'ooo	2022 Maximum Exposure Rs. 'ooo	%
Maximum Credit Exposures	2,133,836,283	1,838,660,151	16%
- Total Assets subject to Credit Risk	1,980,673,145	1,701,322,451	16%
- Off Balance Sheet Commitment subject to Credit Risk	153,163,138	137,337,700	12%
- Max Exposure to credit risk Gross Loans & Receivables to customers	1,041,990,203	1,061,371,654	-2%
Net exposure to credit risk of Loans & Receivables to Customers	477,385,883	452,717,179	5%
Impaired Loans	114,587,821	102,325,088	12%
Provisions for impairment	87,109,889	87,240,402	0%
- Individual Impairment	50,761,814	44,889,662	13%
- Collective Impairment	36,348,075	42,350,740	-14%
Net Stage 3 Ratio	3.76%	3.40%	10%

In 2023, the Bank's maximum exposures to credit risk increased by 16% while Impaired Loans as a % of Gross Loans and Receivables were at 11% reflecting a better position than its peers. Allowance for individual impairments increased by 13% to Rs. 51Bn while allowance for collective impairments reduced by 14% to Rs. 36 Bn.

## Credit Quality



## Credit Exposure



## Credit Risk Governance

The Risk Management Department's function was further streamlined to focus on the monitoring and advisory functions of credit risk, in order to enhance the 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.

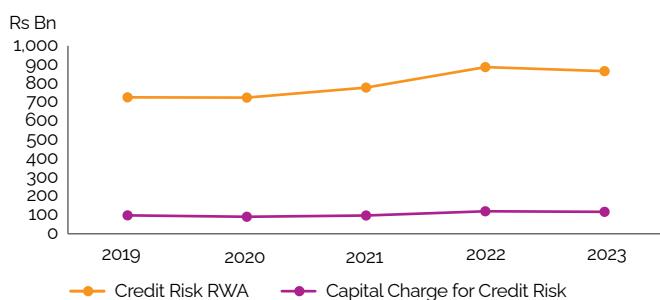
- Template 9 : Credit Risk under Standardised Approach: Exposures by Assets Classes and Risk Weights on page 203 provides details according to risk weights.
- Template 8: Credit Risk under Standardised Approach on page 419 details the computation of Risk Weighted Assets for Credit Risk.

# RISK & CAPITAL REVIEW

## Internal Risk Ratings (IRR)

The Bank's current IRR model, which is Basel III compliant enhances the 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.

### Risk Weighted Assets & Capital Charge for Credit Risk

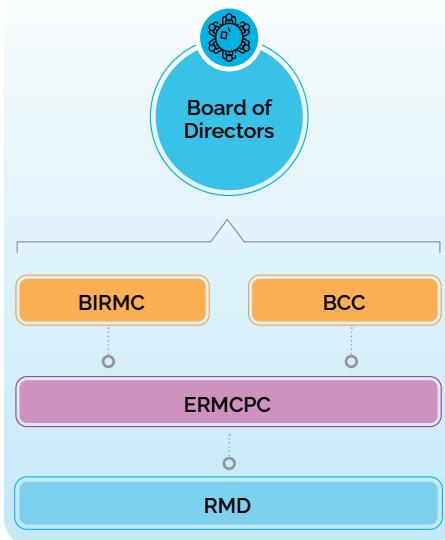


## Credit Risk Management Processes

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 assisted monitoring of the effectiveness of recovery processes at management and Board levels. Due to this segregation, it is possible to 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 rating 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, emerging corporates and SME portfolios 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 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 monitoring and recovery processes.
- Loan Review Mechanism – Post reviews of credit facilities are conducted covering

Figure 12: Credit Risk Governance



## Credit Risk

- Pre-Assessment
- Portfolio Management
- Loan Review Mechanism

## Credit Administration

- Security Documentation
- Disbursements

## Centre of Aspiration

- Collection & Recoveries

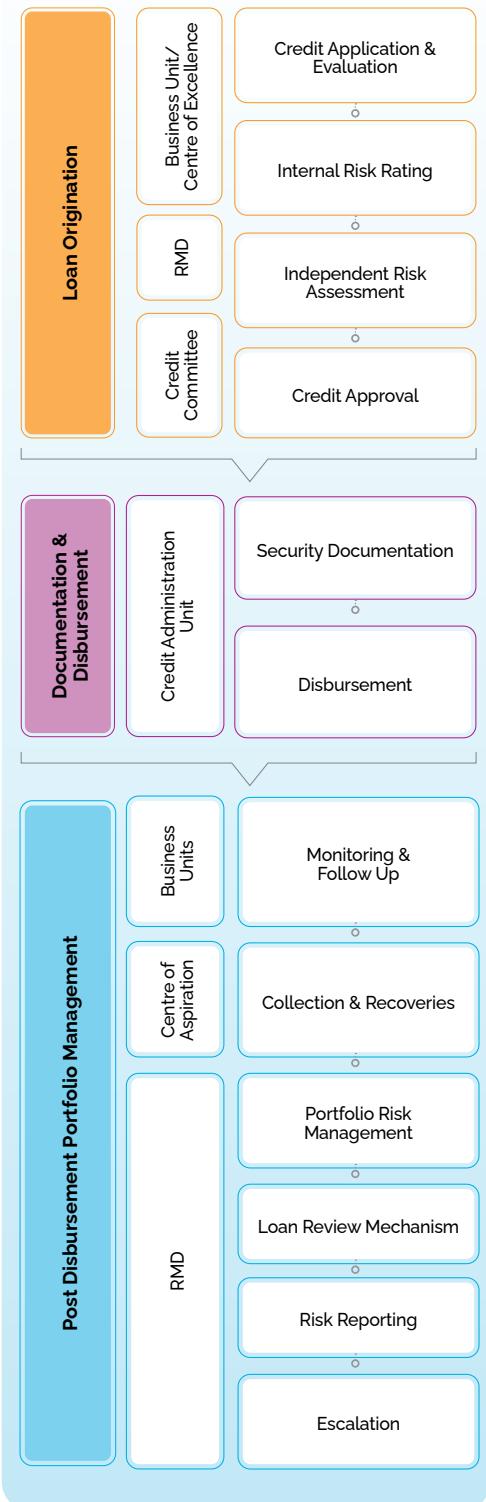
all business lines, and LRM reports are submitted to BIRMC and Board, and learnings from LRM reports are incorporated when Credit Policies are reviewed.

- 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. Likely to fall in to Stage 3 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*



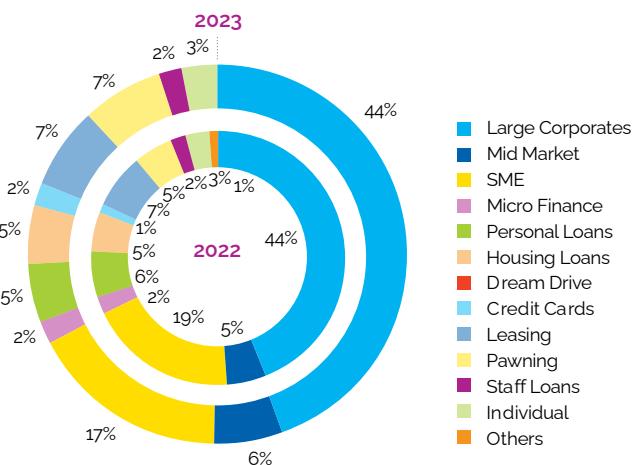
# RISK & CAPITAL REVIEW

## Concentration Risk

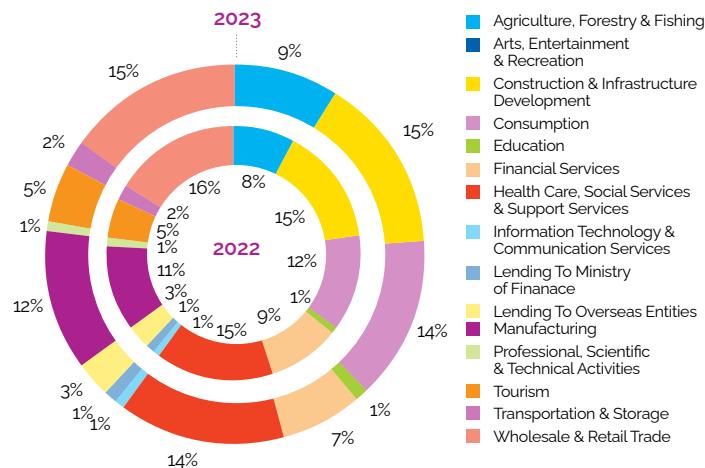
Potential concentration risk is managed through a diversified portfolio in line with risk appetite. The Herfindahl-Hirschman Index (HHI) model is used to quantify Concentration Risk and dashboards are reviewed at all levels of the risk governance structure to balance portfolio quality.

Portfolio by Region	Dec'23 (Rs Mn)	Dec'22 (Rs Mn)
Central	40,988	41,645
Colombo	110,596	133,961
Corporate/EC	535,003	531,994
Eastern	23,823	19,908
FCBU	596	1,513
Greater Colombo	69,274	71,090
North Central	40,867	41,162
Northern	27,129	22,018
North Western	69,189	69,882
Southern	42,769	42,774
South Western	53,629	57,063
Uva/Sabaragamuwa	28,127	28,102

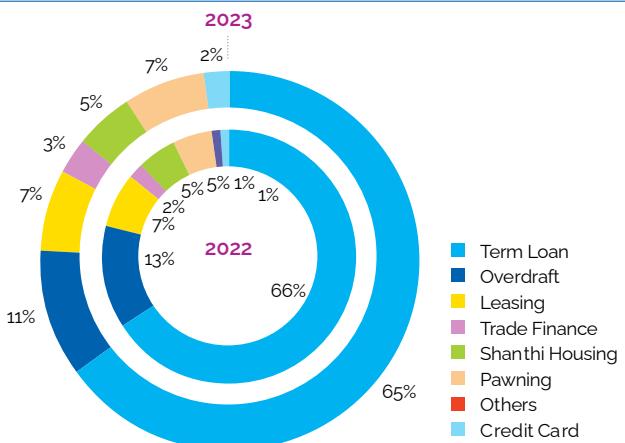
## Exposure by Counter Party



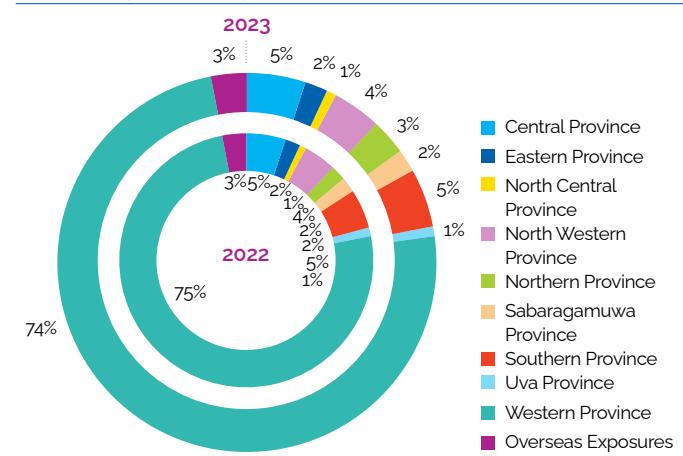
## Exposure by Industry Sector



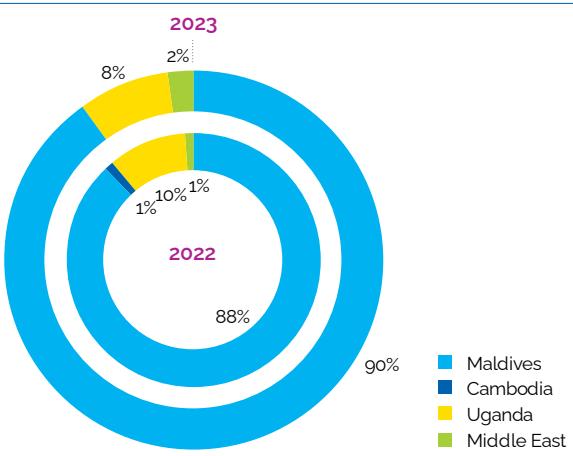
## Exposure by Product



## Exposure by Geography



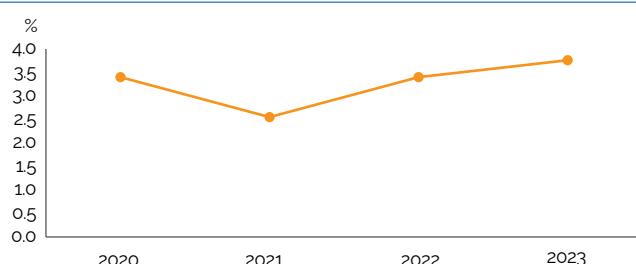
## Overseas Exposure



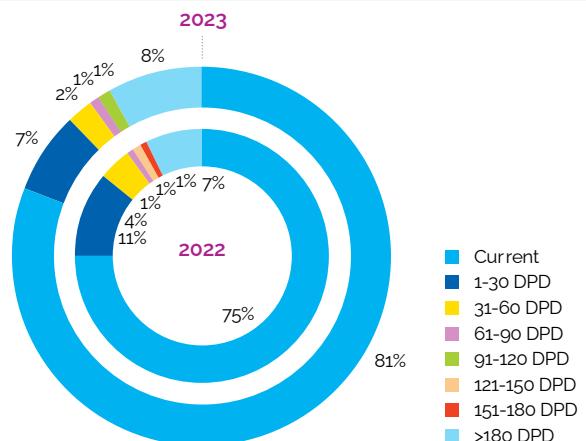
## Default Risk

Default risk Indicators include Stage 3 ratio, ageing of exposures and classification of the portfolio using Internal Risk Rating models.

**NPA/ Stage 3 Net as a % of Loans & Advances**



**Aging of Past Due Loans**



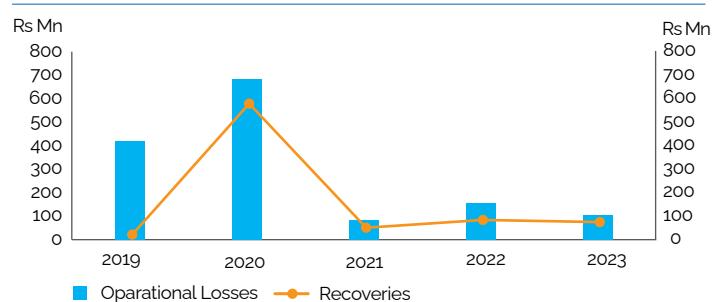
## Operational Risk

### Operational Risk Review

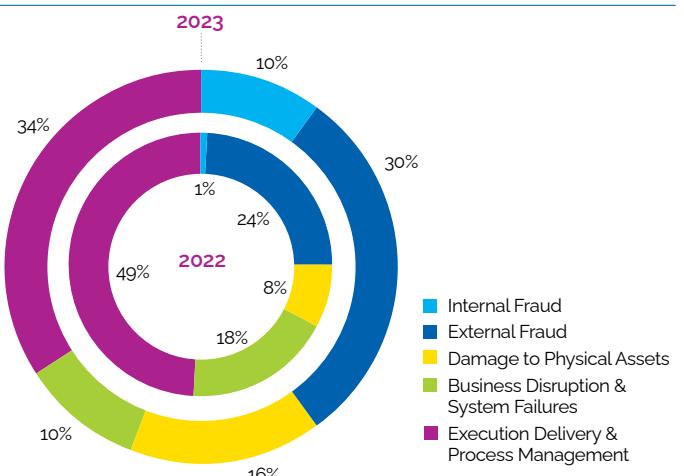
As a large island wide operator, HNB's operational risks are diverse. As a risk management strategy, the Bank invests in modern technologies, best practices and continuous training. A consolidated Recovery Plan has been implemented considering Business Continuity Policy, Contingency Funding Plan, Internal Capital Adequacy Process and Crisis Communication Plan. Further, the Fraud Risk Management Guideline and Customer Blacklisting Guideline were reviewed to address new and emerging risks.

The Bank has established a Management Committee to continually evaluate external socio-economic developments and provide vital feedback and advice for rapid risk responses. The Committee, which reports directly to the Board, comprises the top management of the Bank.

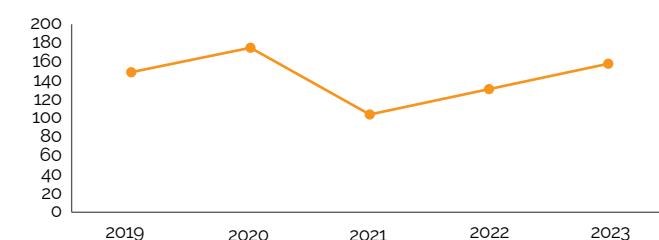
**Operational Losses & Recoveries**



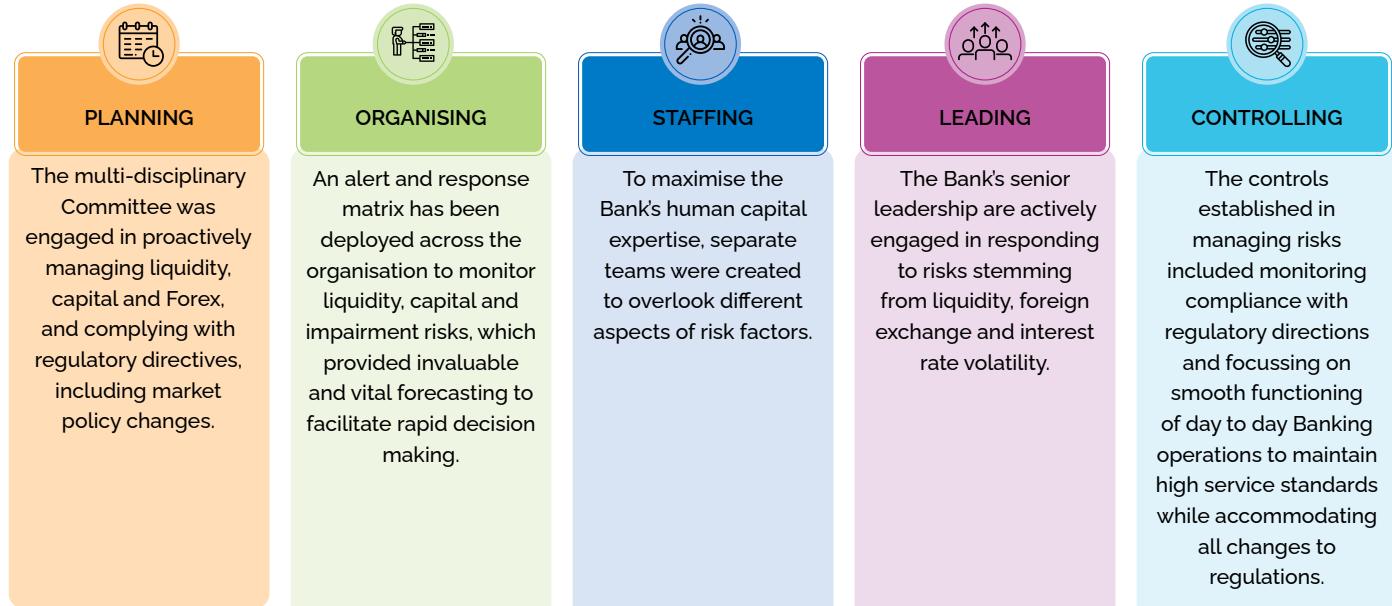
**Operational Losses by Event Type**



**No of Incidents**



# RISK & CAPITAL REVIEW



The Bank 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 will enable the Bank to reduce the capital charge for operational risk which in turn will enhance the Bank's profitability.

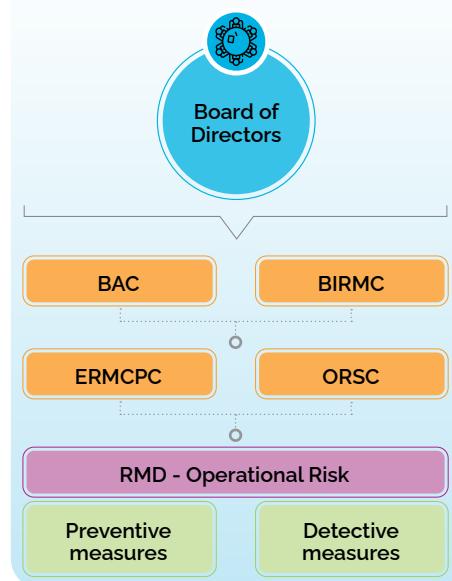
## Operational Risk Governance

The BIRMC continued to engage with the Risk Management department, 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 (ERMCPC) in addition to the Operational Risk Steering Committee (ORSC) which supports the BIRMC in identifying, measuring, monitoring and managing Operational Risk.

## 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.

Figure 14: Operational Risk Governance



## Managing Operational Risk

Operational Risk is managed by utilising the following tools.

- **Risk & Control Self-Assessment (RCSA)**

The frequency of the RCSA was increased to quarterly assessments, for more frequent Operational Risk monitoring. Businesses 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 are used for early warnings of risks and are monitored continuously with triggers and thresholds reviewed and revised regularly.

- **Internal Loss Data Capturing & Reporting**

Operational Risk Dashboards in accordance with Basel guidelines, are used for reporting 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 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 prioritise risks considering the potential impact and likelihood of occurrence.

and risk ownership. The culture is supported by a policy framework, governance structure, regular training and effective internal controls.

- **Insurance – The adequacy and effectiveness of the Bank's comprehensive insurance covers were reviewed during the year.**

- **Scenario planning - Scenario planning was continued in 2023 to develop appropriate responses for potential loss events such as fire, security breach etc.**

- **Assessment of Outsourcing Activities**

- The Bank has a comprehensive Outsourcing Policy that defines the activities, terms and conditions relating to outsourced activities and is monitored by the Compliance Division. Detailed KYC and due diligence tests are conducted before engagement, or renewal of existing contracts to assess the AML/CFT risks that may arise. The Operational Risk Unit carries out a risk-based review of critical outsourcing activities on a need basis. All critical outsourcing service providers are required to have a satisfactory BCP and must perform regular tests on its BCP, to ensure disaster readiness and a return to normal operations as quickly as possible.

## Risk Review of New Products & Processes

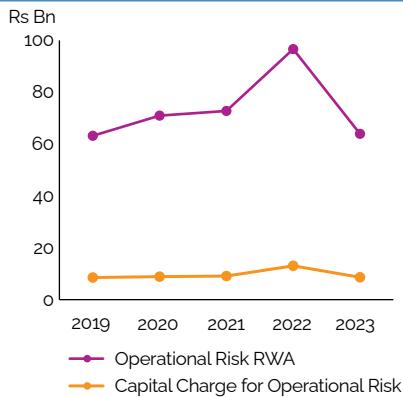
The Bank has clear policies and procedures for introducing new products or amending or discontinuing existing products or delivery channels, to minimise associated risks.

## Mitigating Operational Risk

The following tools are used to manage operational risk.

- **Risk Culture – The risk culture is a key preventive tool and all senior personnel lead by example, to inspire accountability**

## Risk Weighted Assets & Capital Charge for Operational Risk



# RISK & CAPITAL REVIEW

## Business Continuity Planning & Disaster Recovery

Mission critical units, critical processes and necessary resources, have been identified and documented together with Recovery Time Objectives (RTO), Recovery Point Objectives (RPO) and Recovery Strategies. A Business Continuity Management and Public Health Contagion Plan was also developed in 2020 following the emergence of the COVID-19 pandemic. 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.

## Information & Cyber Risk Governance

The Information and Cyber Security Risk Management Unit under the Risk Management Department, reports to the CRO, who reports independently to BIRMC and the Chief Information Security Officer (CISO) reports directly to the COO. Policy formulation is under the purview of the CISO while implementation and compliance are overseen by the Information and Cyber Security Risk Management team. The segregation of functions has strengthened the implementation and monitoring aspects of the Cyber Risk management function.

## Information Security Management

HNB has a fully-fledged Information & Cyber Security Policy that 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** – A layered defence model is deployed 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 categorisation 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 organisation 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

## Information and Cyber Risk

### Information & Cyber Risk Reviews

- Corporate Internet Banking Security Risk Review
- Data Center Physical Security Review
- Internet Gateway - Information Security Risk Review
- Privilege Access Management (PAM) Reviews
- Firewall Change Security Risk Reviews
- Legal Department - Information Security Review
- Information Security Risk Analysis on Northern Region Branches
- Vulnerability assessments on critical web facing infrastructure
- Third party/outsourced vendor security risk assessments
- Risk analysis on phishing simulation results

### Cybersecurity Threat Statistics 2023

- Average total cost of a breach : USD 4.45 Mn.
- 51% of organisations planning to increase security investments as a result of a breach
- The percentage of breaches that involved data stored in the cloud: 82%
- Increase in data breach costs for organisations that had high levels of security system complexity: USD 1.44 Mn
- Average cost of a data breach with a malicious insider initial attack vector: USD 4.90 Mn
- Only one-third of breaches were identified by the organisations' internal security teams and tools

(Source: IBM)

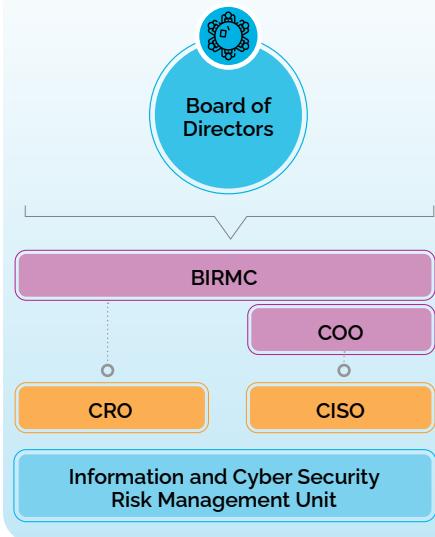
### Global Cybercrime Damage Cost Predictions for 2024

- \$ 9.5 Tn per year
- \$ 793 Bn per month
- \$ 182.5 Bn per week
- \$ 26 Bn per day
- \$ 1 Bn per hour
- \$ 18 Mn per minute
- \$ 302,000 per second

Source: Cybersecurity Ventures

Figure 15: Information and Cyber Risk

## Governance



- **Surveillance & Upgrading** – Continuous monitoring of effectiveness of Anti-virus/Malware/ Ransomware protections.
- **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)**
  - Provides 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

## Market Risk Review

The Bank's market risk exposures arise mainly from the Bank's Non-Trading Portfolio (Banking Book) which accounts for 28% of Total Assets and 31% 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.

	2023 (Rs Mn)	2022 (Rs Mn)
<b>Assets Subject to Market Risk</b>		
Cash & Cash Equivalents	73,149	80,239
Balances with Central Bank	12,234	32,344
Placements with Banks	55,991	54,371
Derivative Financial Assets	452	5,371
Financial assets measured at fair value through profit or loss	116	112
Financial assets measured at amortised cost - debt and other instruments	549,772	448,792
Loans & Receivables to other customers	954,880	974,131
Financial assets measured at fair value through other comprehensive income	189,326	2,707
<b>Liabilities subject to Market Risk</b>		
Due to Banks	9,020	6,105
Derivative Financial Liabilities	1,366	26
Due to Other Customers/Deposits from customers	1,579,780	1,407,800
Other Borrowings	24,933	32,351
Subordinated Liabilities	18,962	22,914

Since May 2023, the Central Bank of Sri Lanka started reducing the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) enabling the economy to reach its potential growth.

## Market Risk Governance

The Board has overall responsibility for managing the Market Risks and is assisted in its duties by the Board Integrated Risk Management Committee (BIRMC), while the Executive Risk Management and Credit Policy Committee (ERMCPC) makes proposals on policy to monitor risks. Market Risk exposures and profitability is supervised by the Asset and Liability Committee (ALCO) 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 Banks Market Risk related policies and exposure limits.

# RISK & CAPITAL REVIEW

## 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 in page 423. Market Risk under Standardised Measurement Method.

## Market Risk Management

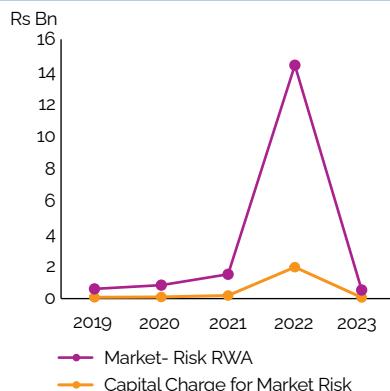
Market Risk is managed in accordance with the Asset and Liability Management (ALM) and Treasury Policy which support management of Interest Rate Risk, Investment and the Foreign Exchange Risk. The trading portfolio is managed by Treasury while the Non-Trading Portfolio is impacted by both the Bank's 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	Deposits <ul style="list-style-type: none"> <li>• Loans</li> <li>• Bonds (Investment Portfolio)</li> <li>• Bills &amp; Bonds (Treasury Portfolio)</li> <li>• Derivatives</li> </ul>	<ul style="list-style-type: none"> <li>• Bills &amp; Bonds (Treasury Portfolio)</li> <li>• 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>• Repricing risk</li> <li>• Basis risk</li> <li>• Forex Risk</li> </ul>	All components of market risk

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
- 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, optimising profitability and liquidity.

## Risk Weighted Assets and Capital Charge for Market Risk



- Bank also periodically conducts simulations on severe liquidity crisis events that can be triggered by any one or more of the following events taking place:
  1. Loss of reputation due to rumours of a large loss, fraud, management misdemeanour etc.
  2. Severe rating downgrade (3-4 notches or to below investment grade)
  3. News/speculation of an impending takeover/merger.
  4. 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:

1. A run on the Bank by depositors
2. Loss of short term interbank LKR liquidity
3. A global Banking crisis which could affect short term interbank FC liquidity
4. Worst case scenario comprising of the above stress situations (scenarios 1,2 and 3)
5. Loss of wholesale savings and deposits

Results of the stress testing are tabled at ERMCP/ ALCO/ BIRMC for their reference on ALM decisions.

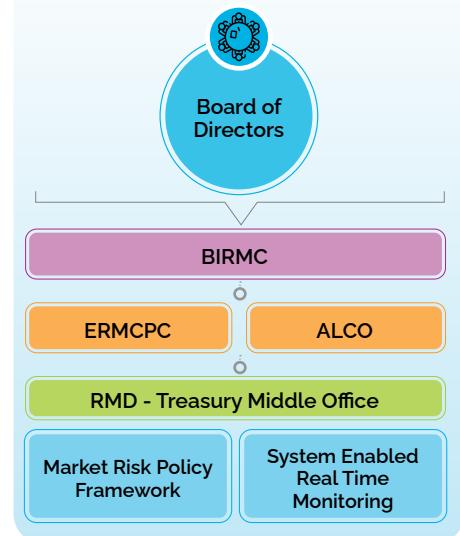
**Figure 16: Market Risk Limits**

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 Lankan 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
	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
Tolerance	Rate tolerances	Governs minimum / maximum deviation from market rates on interest / exchange rates to ensure no undue risks are undertaken
	Amount Tolerances	Governs 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.

### 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	2023		2022	
	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	2,034,672	(2,188,901)	2,549,391	(2,664,071)
Average for the Year	2,844,051	(3,014,317)	3,232,907	(3,405,999)
Maximum for the Year	5,018,180	(2,058,839)	5,705,000	(2,223,039)
Minimum for the Year	1,972,457	(5,301,717)	2,136,798	(6,050,000)
Minimum for the Year		1%	2%	5%
Fixed Income Risk	Original CAR	CAR After Change		
Fixed Income Total Portfolio	17.13%	17.04%	16.96%	16.69%
Fixed Income Trading Portfolio	17.13%	17.13%	17.13%	17.13%



# RISK & CAPITAL REVIEW

## 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 optimise 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)	Up to 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	587,044	224,452	290,269	240,342	233,661	114,146	105,942	203,948	1,999,804
Liabilities and Off Balance Sheet Exposures	212,119	371,378	284,032	288,808	135,708	124,353	103,266	432,644	1,952,307
Period Gap	374,925	(146,926)	6,237	(48,466)	97,953	(10,207)	2,676		
Cumulative Gap	374,925	227,999	234,236	185,770	283,724	273,517	276,193		
RSA/RSL	2.77	0.60	1.02	0.83	1.72	0.92	1.03		

## Foreign Exchange Risk

This risk is managed through 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.

	Net Open Position (NOP) (ooo)	Overall Exposure in Respective Foreign Currency (ooo)	Overall Exposure in LKR (ooo)
United States Dollar	(476)	2,292,233	742,683,651
Great Britain Pound	25	50,378	20,744,411
Euro	87	68,359	24,484,914
Japanese Yen	172	633,060	1,447,429
Singapore Dollar	97	3,075	754,326
Other currencies in USD	744	56,994	18,466,105
Total Exposure	469	2,495,620	808,580,836
Total Regulatory Capital Funds as at 31st December 2023	159,254,920		
Total exposure as a % of Capital Funds as at 31st December 2023	0.30%		
VaR (99%, 1 day) 31st December 2023	1.58%		
VaR (99%, 1 day) 31st December 2022	3.20%		

Magnitude of Shock	Original CAR	5%	10%	15%
Foreign Currency Risk		CAR after Change		
1) All foreign currencies	17.13%	17.13%	17.13%	17.13%
2) USD/LKR		17.13%	17.13%	17.13%

## Equity Price Risk

As at end December 2023, the Bank's equity portfolio stood at Rs 114 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 summarised below.

Magnitude of Shock	2023		2022	
	Exposure Rs. Mn	VaR (99%, 10 day Rs. Mn)	Exposure Rs. Mn	VaR (99%, 10 day Rs. Mn)
Equity (MV)	113.69	9.65	111	17.86

## Commodity Price Risk

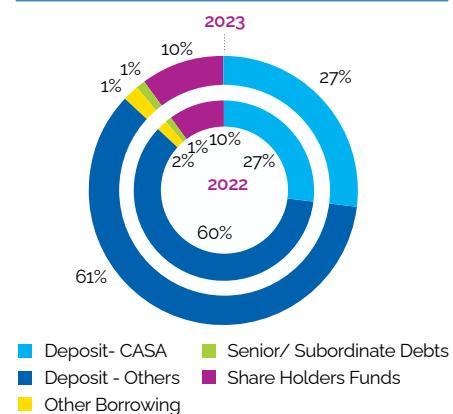
The Bank's careful management of the Pawning portfolio and the use of conservative loan to value ratios, have ensured that the risk exposure was limited to 6.46% of the loan book. It is noteworthy that the regulatory approach is to treat the exposure in line with Foreign Exchange Risk as described in the Approved Regulatory Capital Approach under Market Risk.

## Liquidity Risk

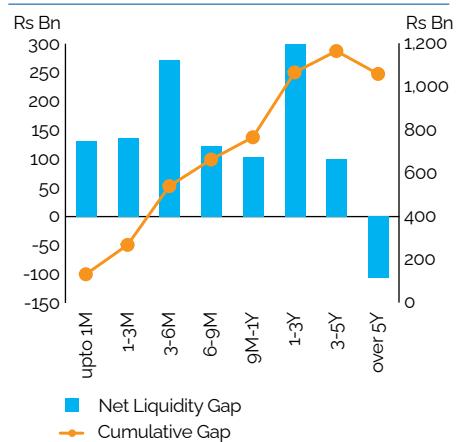
The Bank continued to maintain prudent Liquidity Risk management during the year.

Ratio	Dec-23
Statutory Liquid Asset Ratio (SLAR)	48.17%
Liquidity Coverage Ratio (For LKR)	387.17%
Liquidity Coverage Ratio (For All CCY)	445.92%
Net Loans to Total Assets	46.71%
Loans to Customer Deposits	71.21%
Liquid Assets to Short Term Liabilities	138.35%
Commitments to Liquid Assets	56.42%
Commitments to Total Loans	55.76%

## Funding Diversification by Product



## Liquidity Gap Based on Behavioural Analysis

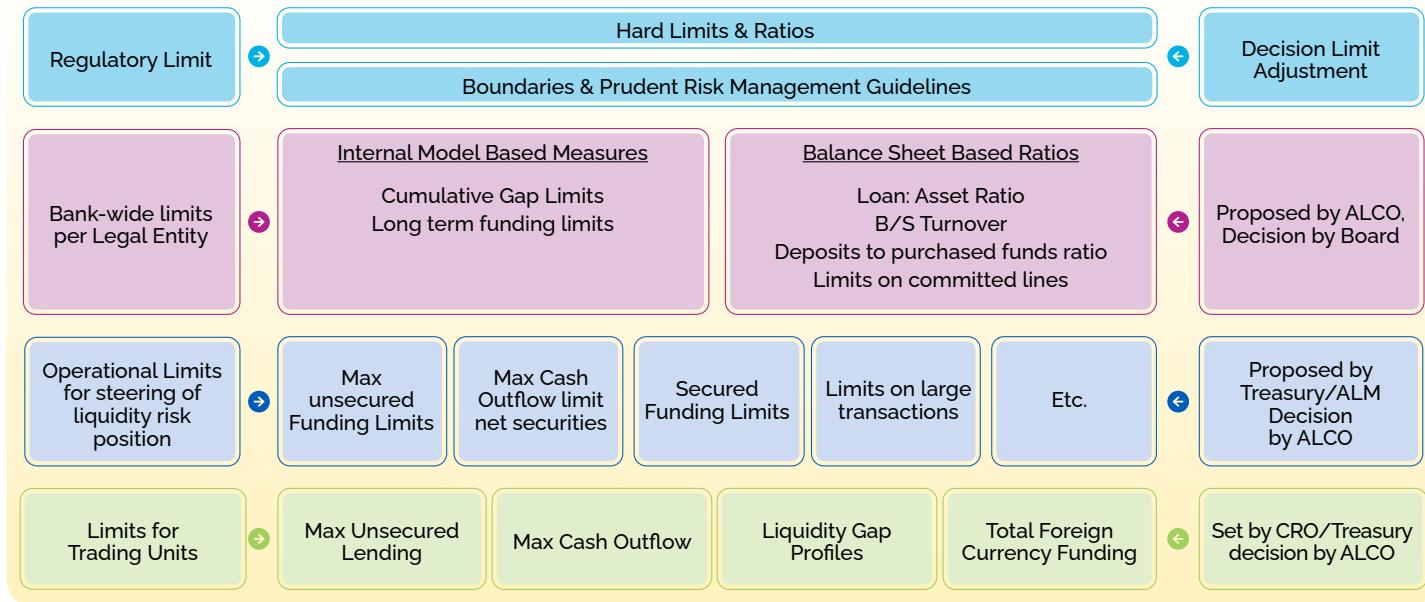


# RISK & CAPITAL REVIEW

## Liquidity Risk Governance

The Bank's Liquidity Risk management framework includes a contingency plan encompassing both contracted and un-contracted liquidity positions as summarised in Figure 18. The column on the extreme right reflects the governance structures identifying roles of those with responsibility for managing Liquidity Risk. The Board, BIRMC, ERMCP and ALCO regularly review reports on the Bank's liquidity indicators to ensure that they are managed within agreed parameters

Figure 17: Liquidity Risk Management Framework



## Liquidity Risk Management

A range of Liquidity Risk indicators are available to indicate changes in assets and liabilities to enable continuous 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. Liquidity gaps are monitored based on the behavioural analysis of the Bank's assets and liabilities, historical rollover patterns, drawdown of unutilised 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

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.

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 over reliance of borrowings and cross currency liquidity generation, are actively managed.

### Funding Diversification

Deposits from customers account for 98% of funds excluding shareholder funds and subordinate debts making this the primary source of funding for the Bank. Total Capital stood at 185 Bn.

### 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)
Outlook	Stable
Date Issued	05th October 2023
What can change the rating up	Positive rating action on the sovereign may lead to an upgrade in the Bank's rating. A sustained improvement in the Banks' key credit metrics beyond base-case expectations relative to peers, could also lead to an upgrade of the bank's rating.
What can change the rating down	A deterioration in the Banks' key credit metrics beyond base-case expectations relative to peers could trigger a downgrade on the Bank rating, which are driven by their intrinsic financial strength.

### Compliance Risk

The Bank has maintained a rigorous focus on all new, as well as existing, compliance guidelines, with the Compliance Division conducting regular compliance checks on branches and departments.



#### 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.

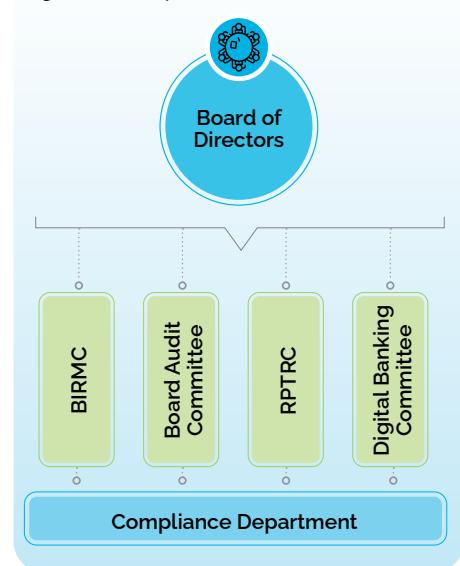
#### Key Activities of the Compliance Function

- 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.

Figure 19: Compliance Risk Governance



# RISK & CAPITAL REVIEW

## Mitigation

The Bank regularly reviews and updates its policy framework to incorporate changes in regulations, emerging threats and learnings from industry experiences and learnings from HNB itself. 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 Chief Compliance Officer. 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. 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.

## Reputation Risk

Bank has continued to manage its Reputation Risk by maintaining full compliance, ethical and professional behaviour and transparent and timely communications with its stakeholders. 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, reflect the high esteem in which the Bank is held.

## Mitigation

Mechanisms in place to safeguard the reputation of the Bank include:

- 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 organisation readiness to handle reputation risk events.

## Monitoring

A scorecard is used to assess Reputation 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 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 changing market conditions.

## Definition



Strategic Risk may arise if the Bank's future business plans and strategies are inadequate to meet desired business goals and expectations

The dedicated Strategic Planning Department oversees the strategic planning process while the RMD strengthens the process through analysis of potential areas of concern. Compliance is maintained with all Regulatory requirements. Key risk drivers and other material matters are monitored to identify potential areas of regulation. The Bank also engages external resources to support its strategic planning processes, injecting global expertise to enhance the management of Strategic Risk. Regular communications are maintained with employees to ensure that employees are engaged.

## 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 operationalise 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

Within the prevailing challenging and unpredictable macro environment, managing Conduct Risk is becoming increasingly significant. Underlying factors contributing to Elevated Conduct Risk include failures in internal controls, non compliance, negligence and failure to incentivise the right behaviours etc.

### Definition

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 the bank's obligations towards its stakeholders.

### Mitigation

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

The Bank continually monitors its compliance with all applicable laws and directives as well as maintaining high ethical standards, to address potential Legal Risks.

### Definition



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 practices, 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.

### Legal Risk Governance and Framework

- Claims arising from / deprived due to defective documentation in contracts
- Mis – selling / mis – buying
- Legislative / regulatory developments resulting in claims against / deprivation of making claims
- Dispute Management
- Claims arising from / deprived of due to non - contractual rights / obligations risks
- Constraints faced due to technological advancements

# RISK & CAPITAL REVIEW

## Model Risk

Models are widely used to support decision making in the financial sector, and are a critical component of a Bank's Risk Management. Therefore, prudent development of models and their lifecycle is fundamentally important to their effectiveness and Risk control.



### Definition

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.

### Model Risk Governance

The Bank's Model Risk Management Framework provides guidance on the structure of models and assumptions used for the Bank's business projections, financial analysis and risk management capabilities.

The governance principles for the Bank's model lifecycles are:

- 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 maximise performance with resources available.
- Independent validation of models with the aim of ensuring accuracy of models.

### Mitigation

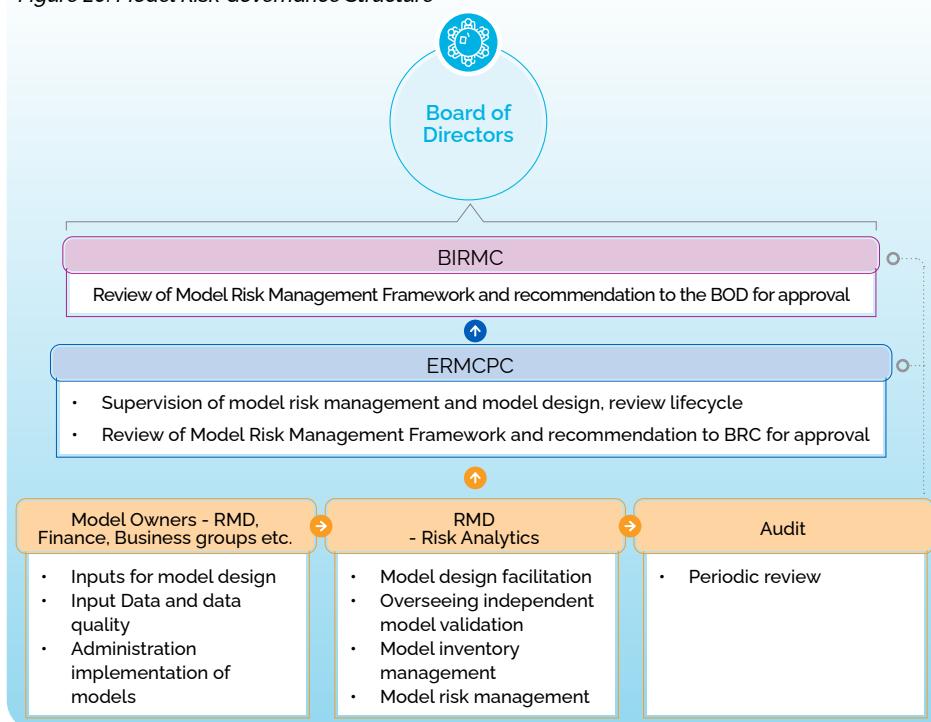
To mitigate the Model Risk, the Bank carries out supplementary model validations considering changes in the nature and structure of existing risks and the emergence of new risk.

### Monitoring

There is cross-departmental involvement in various stages of model development, implementation and review; with the oversight of the Board of Directors, through the BIRMC.

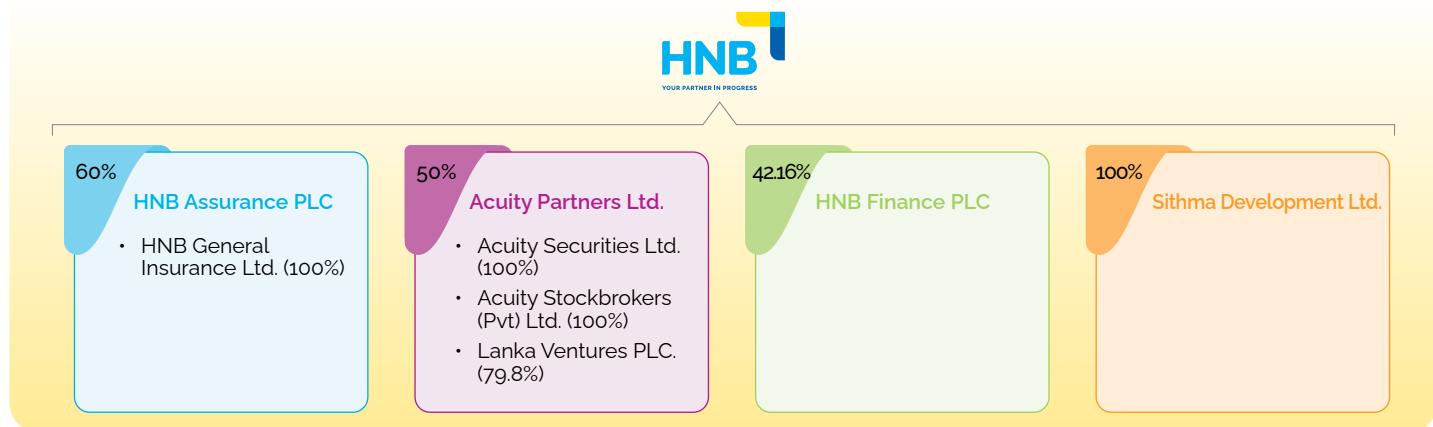
The performance of models against actual results are reported via dashboards and other monthly reporting methods. Further, the Bank also obtains independent validation of data quality and model processes to strengthen model risk management.

Figure 20: Model Risk Governance Structure



## Group Risk

The HNB Group comprises four subsidiaries, out of which three are engaged in the provision of 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.



## 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 Management 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 these 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 companies engaged in Insurance, Finance Business and Investment Banking are subject to regulatory oversight and have structures in place to facilitate compliance.

### Key Initiatives in 2023

- Strengthened the mechanism and assessment of Group risk by closely monitoring Group activities and frequently following up with Risk teams of Group companies.
- Introduced new KRIIs to Risk Dashboards for Key Risk Indicators.

Group Co.	Board Representation	Chairman	Board Risk Committee Representation
HNB Assurance PLC	✓	-	✓
Acuity Partners (Pvt) Ltd	✓	-	✓
Sithma Development Pvt Ltd	✓	✓	-
HNB Finance PLC	✓	✓	✓

# RISK & CAPITAL REVIEW

## HNB Assurance PLC

As a leading insurer in the country, HNB Assurance PLC (HNBA) and its fully owned subsidiary HNB General Insurance Limited (HNBGI) maintain stringent compliance and risk management systems. These companies also comply with multiple regulatory frameworks including 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 224 in this report.

Capital Adequacy Ratio	HNB Assurance PLC	HNB General Insurance
<b>HNBA</b> <b>341%</b>	<b>A-(lka)</b> Outlook :Stable	<b>A-(lka)</b> Outlook :Stable
<b>HNBGI</b> <b>208%</b>		

## Key Initiatives in 2023

- Strengthen KRI to risk dashboards for Key Risk Indicators.
- Conducted stress testing and scenario analysis based on the current economic situations.
- Conducted branch risk assessments and reports were submitted to Risk Committee.
- Increased emphasis on efficient management of reinsurance arrangements and counter party risks.
- Conducted BCP tests and disaster recovery simulations during the year and the results were reviewed by the Board Risk Management Committee.

Key Risk Indicators	2023	2022
<b>HNB Assurance PLC</b>		
Claims Ratio (without policy maturities)	12%	11%
Expense Ratio	53%	47%
Combined Ratio	79%	73%
Capital Adequacy Ratio	341%	308%
<b>HNB General Insurance Limited</b>		
Claims Ratio	72%	72%
Expense Ratio	39%	38%
Combined Ratio	111%	110%
Capital Adequacy Ratio	208%	242%

The HNBA Group's 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 Rodrigo (Resigned w.e.f. 11th December 2023)	Non Independent / Non-Executive Director - HNBA	Chief Operating Officer/Executive Director
Mr Sanjay Wijemanne	Non Independent / Non-Executive Director - HNBGI	Deputy General Manager - Retail Banking
Mr Arjuna Abeygunasekara	Non Independent / Non-Executive Director - HNBGI	Deputy General Manager - Treasury & Markets
Ms Chiranthi Cooray (Resigned w.e.f. 24th January 2024)	Non Independent / Non-Executive Director - HNBGI	Deputy General Manager - Sustainability & Corporate Communications

## HNB Finance PLC

HNBF has a comprehensive risk management framework aligned to the Bank's risk objectives and parameters that reflects the Company's status as a full- fledged finance company listed on the CSE in 2020. Its risk profiles are shaped by a legacy of microfinance business with more recent successful penetration into the SME market segment, extending the customer life cycle and broad basing the market segments.

The key risk indicators of HNBF are given below while a summary of its performance is given on page 225.



Key Risk Indicators	2023	2022
Deposit Growth (%)	-6.25	18.27
Advances Growth (%)	-17.36	18.38
Profitability (Rs. Mn)	281	(526)
Total Assets (Rs.Mn)	49,247	52,961
Shareholder Funds (Rs. Mn)	5,088	4,858
CAR (%) Total Capital	12.60	10.70
Impairment Charge (%)	35.34	22.95
Impaired Portfolio (Rs. Mn)	5,475	5,632
Stage 3 Ratio (%)	24.21	15.05

HNBF recorded a profit of Rs.281.04 Mn for the year 2023 and the NII which recorded an increase of 62.19%. Increased credit risk necessitated another year of high provisioning which dampened profitability.

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 Dilshan Rodrigo (Resigned w.e.f. 22nd December 2023)	Non-Executive Director / Chairman	Chief Operating Officer/Executive Director
Mr Ruwan Manatunga	Non-Executive Director / Chairman BIRMC and BRC	Chief Risk Officer
Mr Rajive Dissanayake	Non-Executive Director/ Chairman - Board Strategic & Investment Committee (w.e.f. 8th January 2024)	Deputy General Manager - SME & Micro-finance

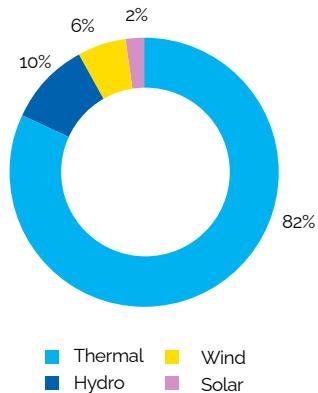
# RISK & CAPITAL REVIEW

## 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 monthly & quarterly reports 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 (Pvt) Ltd 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 PLC & its Group entities are 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 thermal, solar, wind and hydro power generation.

**Break-up of Installed power Generation capacity**



**Debt to Equity Ratio**

**30%**

**Profit After Tax**

**Rs 2.0 Bn**

Key Risk Indicators	2023	2022
ROE	27.30%	9.83%
ROI	151%	44%

APL Group recorded the best performance since its inception , with the Primary dealer division recording a exceptional PAT mainly driven by the sharp drop in T` Bill/Bond interest rates during the year. The stockbroking division also supported with a reasonable PAT despite the CSE is showing low turnover throughout the year. The Venture Capital Group, LVL had a challenging year, ended up with losses due to the adverse exchange rates prevailed in foreign jurisdictions in which they have invested in.

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
Mr Damith Pallewatta	Director-APL Director-ASL Member of the Board Integrated - Risk Committee -ASL Director/ Chairman- LVL PLC & LVEF PLC	Deputy General Manager - Wholesale Banking Group
Mr Rajive Dissanayake	Director-APL Member of Board Integrated Audit Committee for APL & ASB. Member of Board Integrated Human Resources & Remuneration Committee- Group Director-LVL PLC & LVEF PLC	Deputy General Manager - SME & Micro Finance
Mr Sanjay Wijemanne	Director-APL, Director-ASB	Deputy General Manager - Retail Banking Group
Mrs. Thushari Ranaweera (Resigned w.e.f. 31st December 2023)	Director -ASB	Deputy General Manager - Legal
Mr Arjuna Abeygunasekara	Director-ASL Member of Board Audit Committee-ASL	Deputy General Manager - Treasury & Markets

### 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. The value of its assets and rental revenues are impacted by real estate market movements. However, the prime location and A grade facilities of the building acts as a strength. 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.

During the current financial year Sithma retained its client base through regular communication with key stakeholders and increased investment in personal protective gear and rigorous reinforcement of agreed upon procedures.

### Sithma Development (Pvt) Ltd

## A Grade Smart Building

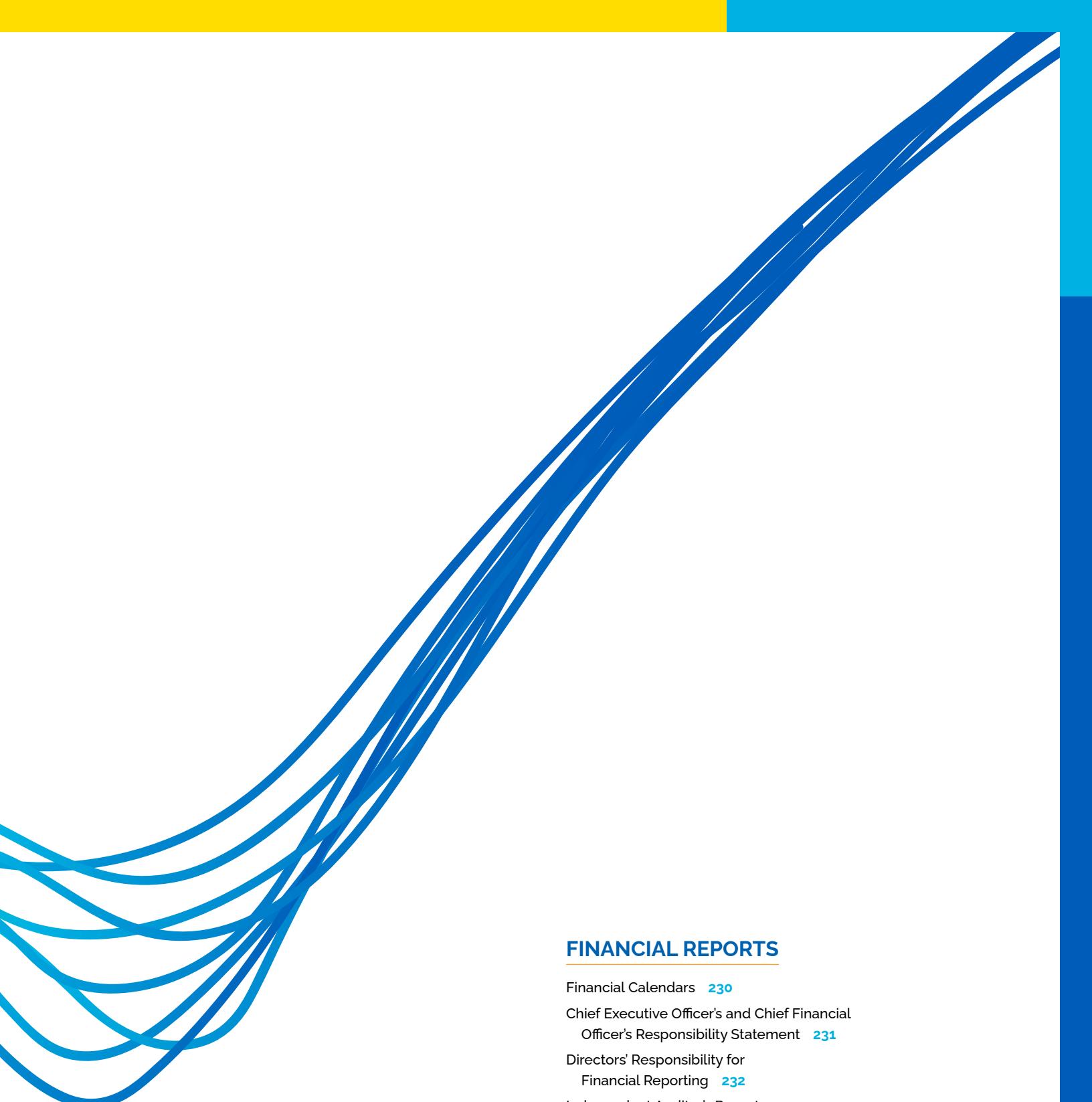
Value of Properties	Rs. 'ooo
<b>HNB Towers - No 479, TB Jayah Mawatha, Colombo 10.</b>	
Net Book Value	8,881,881
Market Value	18,881,600
<b>SMART Building - No 21, Janadhipathi Mawatha, Colombo 1.</b>	
Net Book Value	51,571
Market Value	484,332
<b>Building at Kegalle</b>	
Net Book Value	94,656
Market Value	420,000

	2023 Rs. 'ooo	2022 Rs. 'ooo
<b>Revenue from Rental</b>		
Rental Income	1,090,141	1,038,661
<b>Profitability</b>		
Profit After Tax	580,724	531,347
<b>Equity &amp; Debt</b>		
Equity & Reserves	9,043,227	8,854,587
Liabilities	2,599,403	2,106,864
Total Equity & Liabilities	11,642,630	10,961,451

**PRESERVING  
VALUE**

**SAFEGUARDING  
THE FUTURE**





## FINANCIAL REPORTS

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- Financial Calendars [230](#)
- Chief Executive Officer's and Chief Financial Officer's Responsibility Statement [231](#)
- Directors' Responsibility for Financial Reporting [232](#)
- Independent Auditor's Report [234](#)
- Financial Highlights - Bank [239](#)
- Income Statement [240](#)
- Statement of Profit or Loss and Other Comprehensive Income [241](#)
- Statement of Financial Position [242](#)
- Statement of Changes in Equity [244](#)
- Statement of Cash Flows [248](#)
- Notes to the Financial Statements [250](#)

# FINANCIAL CALENDAR

FINANCIAL CALENDAR	2023	2024
54th Annual General Meeting held on	30th March 2023	
Rs 5.00 per share Final Dividend for 2022 paid on	17th April 2023	
Audited Financial Statements for 2023 signed on	15th February 2024	
55th Annual General Meeting to be held on	28th March 2024	
Rs 8.00 per share Final Dividend for 2023 (Rs 4.00 in the form of cash and Rs 4.00 in the form of scrip)*	April 2024	
56th Annual General Meeting to be held in	-	March 2025
Final Dividend for 2024 payable in**	-	April 2025

\*Subject to confirmation by Shareholders

\*\*Subject to confirmation by Directors and Shareholders

Interim Financial Statements published/to be published in terms of Rule 7.4 of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka

	Colombo Stock Exchange		Newspapers (as required by CBSL)			2024 (To be published on or before)	
	2023 (Published on)	2024 (To be published on or before)	2023 (Published on)				
			English	Sinhala	Tamil		
1st Quarter Interim Results	15th May 2023	15th May 2024	30th May 2023	31st May 2023	31st May 2023	31st May 2024	
2nd Quarter Interim Results	11th August 2023	15th August 2024	21st August 2023	29th August 2023	29th August 2023	31st August 2024	
3rd Quarter Interim Results	10th November 2023	15th November 2024	24th November 2023	30th November 2023	30th November 2023	30th November 2024	
4th Quarter Interim Results	16th February 2024	28th February 2025	31st March 2024	31st March 2024	31st March 2024	31st March 2025	

# CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The financial statements of Hatton National Bank PLC (the "Bank") and the consolidated financial statements of the Bank and its subsidiaries (the "Group") and the Group's interest in its joint venture as at 31st December 2023 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 and the interim financial statements comply with the formats prescribed by the Central Bank of Sri Lanka. The Group presents the financial results to its shareholders on a quarterly basis.

The material accounting policies used in the preparation of the financial statements are appropriate and are consistently applied by the Group. The material accounting policies and estimates that involved a high degree of judgment and complexity were discussed with the Board Audit Committee and external auditors. Comparative information has been reclassified wherever necessary to comply with the current presentation. There are no departures from the prescribed accounting standards in their adoption.

The Board of Directors and the management of the Bank accept responsibility for the integrity and objectivity of these financial statements. The estimates and judgments relating to the financial statements were made on a prudent and reasonable basis in order that the financial statements reflect a true and fair view, the

form and substance of transactions and the Bank's state of affairs are reasonably presented. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which are reviewed, evaluated, and updated on an ongoing 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 changes in economic environment prevailing in the country, the associated uncertainties and the potential implications on the business environment. 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 179 to 180. 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 2023, as required by the Banking Act Direction No 11 of 2007, Corporate Governance Rules of the Colombo Stock Exchange result of which is given on page 179 to 180 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 181.

The financial statements of the Group for the year 2023 were audited by Messrs KPMG, Chartered Accountants, the independent external auditors. Their report is given in pages 234 to 238.

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 173 to 175.

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 2023, have been paid, or where relevant provided for.



Jonathan Alles

*Managing Director/Chief Executive Officer*



Anuradhi Delage

*Chief Financial Officer*

Colombo, Sri Lanka

15th February 2024

# 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 234 to 238.

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 2023, 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 2023; 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 (CSE) 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 2023 are given on pages 179 to 180 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 181.

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 173 to 175. 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 234 to 238 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 16th February 2024 as required by Sections 150 (1) (c) and 152 (1) (c) of the Companies Act.

Further, as required by Section 56 (2) of the Companies Act No. 7 of 2007, the Directors have confirmed that the Bank, based on the information available, satisfies the solvency test immediately after the distribution of dividends, in accordance with Section 57 of the Companies Act No. 7 of 2007, and has obtained a certificate from the auditors, prior to declaring a final dividend of Rs 8.00 per share (in the form of Rs 4.00 cash and Rs 4.00 scrip) for the year 2023.

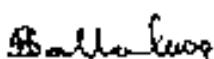
As required by Sections 166 (1) and 167 (1) of the Companies Act, the Board of Directors has prepared this Annual Report in time and the Annual Report will be published/hosted in the Bank's website and Colombo Stock Exchange website. The link will be shared with the shareholders enabling them to access 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

15th February 2024

# INDEPENDENT AUDITOR'S REPORT



KPMG  
(Chartered Accountants)  
32A, Sir Mohamed Moari Mawatha,  
P O Box 186,  
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 2023, 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 material accounting

policies as set out on pages 240 to 410 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 2023, 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 for Professional Accountants issued by CA Sri Lanka ("Code of Ethics) 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 amortized 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 amortized cost against loans and advances to customers, of Rs 1,041,990 Mn and Rs 1,081,186 Mn respectively as at 31st December 2023.

High degree of complexity and judgment are involved in estimating Expected Credit Loss (ECL) (Bank Rs 87,110 Mn; Group Rs 92,585 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:

- The ECL model governance and validation processes which involved assessment of model performance;
- The assessment and approval of the forward-looking macroeconomic assumptions and scenario weightings through challenge applied by internal governance processes;
- 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.



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 ECL models used by the Bank and Group to measure ECL allowances.

These models are reliant on data and estimates including multiple economic scenarios and key assumptions such as defining a significant increase in credit risk (SICR). SICR identification is a key judgement within the ECL methodology, as this criterion determines if a forward-looking 12 month or lifetime allowance is recorded.

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 considered to address known ECL model limitations or emerging trends in the loan portfolios. Additional subjectivity and judgement are required due to the heightened uncertainty associated with the impact of the economic outlook and its impact on customers, increasing our audit effort thereon.

Additionally, allowances for individually assessed loans exceeding specific thresholds are assessed. Challenging the assessment of specific allowances based on the expected future cash repayments and estimated proceeds from the value of the collateral held in respect of the loans by the Bank and Group in respect of the loans.

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.

#### Assessing adequacy of impairment for individually significant customers (ISL)

Selecting a sample of larger customers (based on quantitative threshold set by the Bank and Group for ISL 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 impairment

We tested key controls of the Bank and Group by:

- Obtaining an understanding of the processes to determine ECL allowances of the Bank and Group, evaluating the ECL model methodologies of the Bank and Group's 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 considerations of the uncertainty relating to key economic indicators used by the Bank and Group.
- By working with our Financial Risk Management (FRM) specialist we carried out the following procedures:

# INDEPENDENT AUDITOR'S REPORT



- 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 Group's ECL model and data limitations identified by the Group's ECL model validation processes, particularly in light of the extreme volatility in economic scenarios caused by the 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 assessment of the Bank and Group;
- Evaluating the approach taken by the management in identifying the risk elevated sectors and assessing the current market conditions and specific risks in the loan portfolios of the Bank and Group due to exposure to risk elevated sectors;

## 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 ECL model of the Bank and Group and data deficiencies identified in the 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 specific risks (including exposure to risk elevated sectors) in the loan portfolios of the Bank and Group;
- 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.

## Assessing the adequacy of impairment for financial assets

By working with our Financial Risk Management (FRM) specialist we carried out the following procedures:

- Challenging the underlying assumptions used and the methodology adopted by the Bank to compute the impairment provision; and
- Assessing the reasonableness of key inputs and assumptions using comparable data in the market and available alternatives.

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	Our Responses
<p>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.</p> <p>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.</p>	<p>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.</p> <p>Our further audit procedures included:</p> <p>General IT controls design, observation and operation</p> <ul style="list-style-type: none"> <li>• Assessing the governance and higher-level controls in place across the IT Environment, including those regarding policy design, policy review and awareness, and IT Risk Management practices;</li> <li>• 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;</li> <li>• 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.</li> </ul> <p>Application controls</p> <p>Design and operating effectiveness testing of key automated business process controls including those relating to enforcing segregation of duties to avoid conflicts from inappropriate role combinations within IT applications.</p> <ul style="list-style-type: none"> <li>• On sample basis, re-performed selected automated computations and compared our results with those from the system and the general Ledger.</li> </ul> <p>User access controls operation</p> <p>Design and operating effectiveness testing of key controls across the user access management</p> <ul style="list-style-type: none"> <li>• Assessing the management's evaluation of access rights granted to applications relevant to financial accounting and reporting systems and;</li> <li>• Evaluate the design and operating effectiveness of IT controls, including those related to user access and change management.</li> <li>• Assessing the operating effectiveness of controls over granting, removal and appropriateness of access rights.</li> </ul> <p>Where our testing identified design and operating effectiveness matters relating to IT systems or application controls relevant to our audit, we performed alternative audit procedures, including consideration of mitigating controls.</p>

#### 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

# INDEPENDENT AUDITOR'S REPORT



free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

## Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements 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, actions to eliminate threats or safeguards applied.

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.

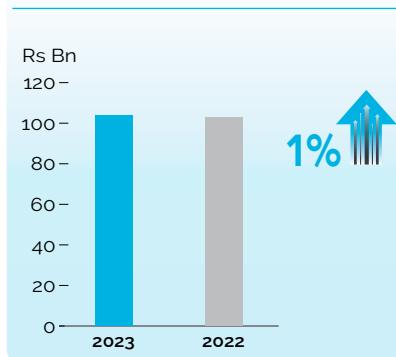
CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is FCA 2294.

Chartered Accountants  
Colombo, Sri Lanka

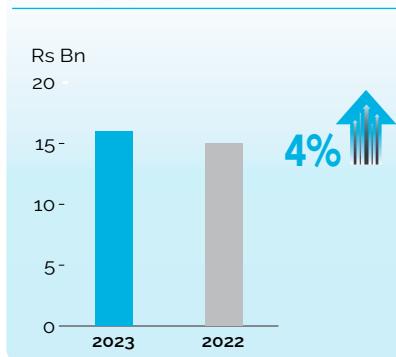
15 February 2024

# FINANCIAL HIGHLIGHTS - BANK

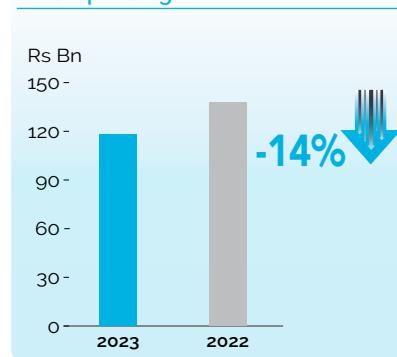
Net Interest Income



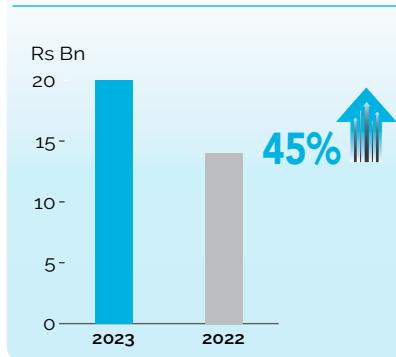
Net Fee and Commission Income



Total Operating Income



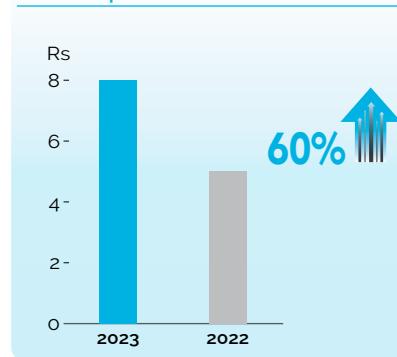
Profit after Tax



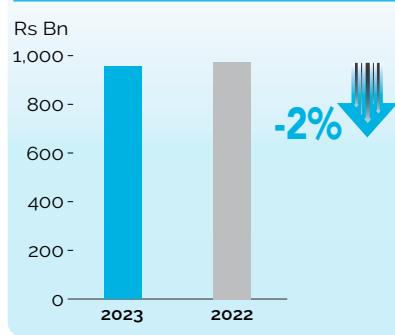
Earnings per Share - Basic



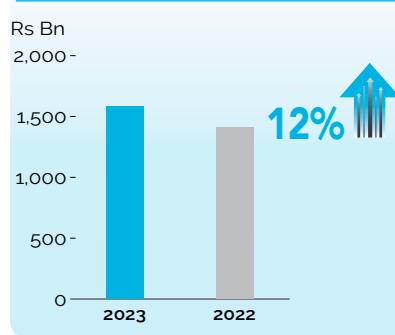
Dividend per Share



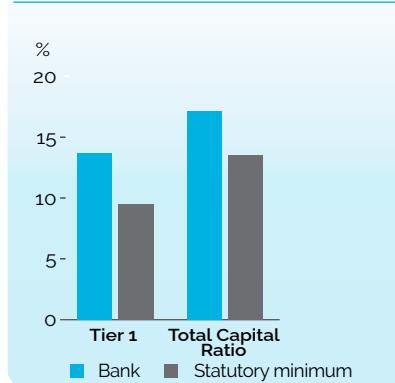
Financial Assets measured at Amortised Cost-Loans and Advances to Customers



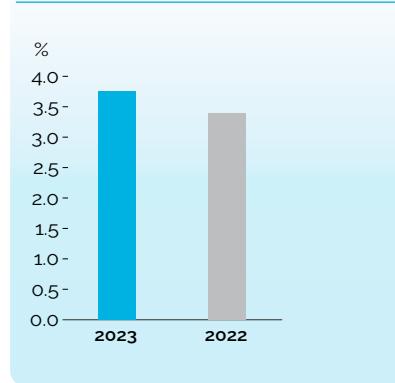
Financial Liabilities measured at Amortised Cost - Due to Depositors



Capital Adequacy Ratio



Net Stage 3 ratio



# INCOME STATEMENT

For the year ended 31st December	Note	Bank		Group	
		2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Gross income	7	299,139,347	242,412,491	336,638,191	270,509,409
Interest income		284,097,697	207,019,354	304,578,112	220,581,307
Less : Interest expenses		179,755,441	104,142,478	186,503,550	109,014,763
<b>Net interest income</b>	8	<b>104,342,256</b>	<b>102,876,876</b>	<b>118,074,562</b>	<b>111,566,544</b>
Fee and commission income		16,308,907	15,520,113	17,207,633	16,521,300
Less: Fee and commission expenses		467,572	345,863	634,980	619,555
<b>Net fee and commission income</b>	9	<b>15,841,335</b>	<b>15,174,250</b>	<b>16,572,653</b>	<b>15,901,745</b>
<b>Net interest, fee and commission income</b>		<b>120,183,591</b>	<b>118,051,126</b>	<b>134,647,215</b>	<b>127,468,289</b>
Net gains / (losses) from trading	10	(11,951,627)	4,898,719	(11,850,918)	4,825,568
Net gain from financial investments at fair value through other comprehensive income	11	271,537	22,619	310,852	23,099
Net insurance premium income	12	-	-	15,249,250	12,750,482
Net gains arising on de-recognition of financial assets	13	-	-	-	-
Net other operating income	14	10,412,833	14,951,686	11,143,262	15,807,653
<b>Total operating income</b>		<b>118,916,334</b>	<b>137,924,150</b>	<b>149,499,661</b>	<b>160,875,091</b>
Less: Impairment charge for loans and other losses	15	40,589,311	90,461,305	42,523,930	91,735,672
<b>Net operating income</b>		<b>78,327,023</b>	<b>47,462,845</b>	<b>106,975,731</b>	<b>69,139,419</b>
<b>Less : Operating expenses</b>					
Personnel expenses	16	16,944,206	15,025,888	20,934,258	18,490,530
Benefits, claims and underwriting expenditure	17	-	-	15,218,729	11,715,338
Other expenses	18	18,559,609	15,361,679	24,222,208	19,597,651
<b>Total operating expenses</b>		<b>35,503,815</b>	<b>30,387,567</b>	<b>60,375,195</b>	<b>49,803,519</b>
<b>Operating profit before taxes on financial services</b>		<b>42,823,208</b>	<b>17,075,278</b>	<b>46,600,536</b>	<b>19,335,900</b>
Less: Taxes on financial services	19	10,134,513	5,101,372	10,523,130	5,247,616
<b>Operating profit after taxes on financial services</b>		<b>32,688,695</b>	<b>11,973,906</b>	<b>36,077,406</b>	<b>14,088,284</b>
Share of profit of joint venture (net of income tax)	20	-	-	1,140,769	331,973
<b>PROFIT BEFORE INCOME TAX</b>		<b>32,688,695</b>	<b>11,973,906</b>	<b>37,218,175</b>	<b>14,420,257</b>
Less: Income tax expense	21	12,335,577	(2,059,587)	13,611,684	(1,327,978)
<b>PROFIT FOR THE YEAR</b>		<b>20,353,118</b>	<b>14,033,493</b>	<b>23,606,491</b>	<b>15,748,235</b>
Profit attributable to:					
Equity holders of the Bank		20,353,118	14,033,493	22,770,791	15,328,572
Non-controlling interests		-	-	835,700	419,663
<b>PROFIT FOR THE YEAR</b>		<b>20,353,118</b>	<b>14,033,493</b>	<b>23,606,491</b>	<b>15,748,235</b>
<b>Earnings per share</b>					
Basic earnings per ordinary share (Rs)	22	36.36	25.07	40.68	27.39
Diluted earnings per ordinary share (Rs)		36.36	25.07	40.68	27.39
<b>Dividend per share</b>	23				
Dividend per share: Gross (Rs)		8.00*	5.00	8.00*	5.00

The notes to the financial statements from pages 250 to 410 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	
		2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>PROFIT FOR THE YEAR</b>		<b>20,353,118</b>	14,033,493	<b>23,606,491</b>	15,748,235
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods					
Change in fair value of investments in equity instruments designated at fair value through other comprehensive income		3,398,710	(1,618,910)	3,399,392	(1,618,910)
Remeasurement of post-employment benefit obligations	53 (c) vi	3,507	1,857,052	(30,683)	1,911,065
Revaluation gain on freehold land and buildings		-	-	-	200,071
Share of other comprehensive income of joint venture that will not be reclassified to profit or loss		-	-	(43,046)	448,051
Less: Tax expense relating to items that will not be reclassified to profit or loss including the effect of rate change		-	(1,157,240)	10,921	(2,442,419)
<b>Total other comprehensive income that will not be reclassified to profit or loss</b>		<b>3,402,217</b>	(919,098)	<b>3,336,584</b>	(1,502,142)
Other comprehensive income that will be reclassified to profit or loss in subsequent periods					
Debt instruments at fair value through other comprehensive income :					
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income		3,238,371	(3,634,091)	4,470,635	(5,287,257)
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
Net change in expected credit losses of debt securities measured at fair value through other comprehensive income	15	-	(295,445)	-	(295,445)
Transfer (to)/from life policy holder reserve fund		-	-	(654,729)	1,244,429
Share of other comprehensive income of joint venture that will be reclassified to profit or loss		-	-	(273,289)	(7,090)
Less: Tax expense relating to items that will be reclassified to profit or loss including the effect of rate change		(971,511)	(466,439)	(1,079,170)	(387,768)
<b>Total other comprehensive income that will be reclassified to profit or loss</b>		<b>2,266,860</b>	<b>1,181,612</b>	<b>2,463,447</b>	<b>1,548,441</b>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<b>5,669,077</b>	<b>262,514</b>	<b>5,800,031</b>	<b>46,299</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<b>26,022,195</b>	<b>14,296,007</b>	<b>29,406,522</b>	<b>15,794,534</b>
Total comprehensive income attributable to:					
Equity holders of the Bank		26,022,195	14,296,007	28,384,289	15,119,144
Non-controlling interests		-	-	1,022,233	675,390
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>26,022,195</b>	<b>14,296,007</b>	<b>29,406,522</b>	<b>15,794,534</b>

The notes to the financial statements from pages 250 to 410 form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

As at 31st December	Note	Bank		Group	
		2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<strong>ASSETS</strong>					
Cash and cash equivalents	25	73,148,596	80,238,881	73,758,907	80,629,698
Placements with banks	26	55,991,134	54,371,028	61,836,382	58,172,046
Balances with Central Bank of Sri Lanka	27	12,234,361	32,344,341	12,234,361	32,344,341
Reverse repurchase agreements	28	-	-	1,830,461	1,380,579
Derivative financial instruments	29	452,193	5,370,501	452,193	5,370,501
Financial assets measured at fair value through profit or loss	30	115,641	111,617	801,065	236,178
Financial assets measured at amortised cost					
- loans and advances to customers	31	954,880,316	974,131,252	988,601,197	1,014,518,939
Financial assets measured at amortised cost - debt and other financial instruments	32	549,772,155	448,791,874	584,131,263	479,787,015
Financial assets measured at fair value through other comprehensive income	33	189,325,958	2,706,660	195,975,307	6,062,195
Investment in joint venture	34	755,000	755,000	4,474,789	3,650,354
Investment in subsidiaries	35	3,017,285	3,017,285	-	-
Investment properties	36	459,104	464,439	913,922	935,549
Property, plant and equipment	37	25,418,520	24,835,729	50,164,957	49,616,338
Right-of-use assets	38	5,081,338	5,397,734	2,473,450	2,463,788
Intangible assets and goodwill	39	1,560,099	1,250,154	2,009,896	1,771,092
Deferred tax assets	40	33,944,563	30,471,351	33,967,277	30,763,166
Other assets	41	28,096,221	26,281,118	33,414,983	30,573,372
<strong>Total assets</strong>		<strong>1,934,252,484</strong>	<strong>1,690,538,964</strong>	<strong>2,047,040,410</strong>	<strong>1,798,275,151</strong>
<strong>LIABILITIES</strong>					
Due to banks	42	9,019,582	6,104,578	9,019,582	6,104,578
Derivative financial instruments	29	1,365,523	25,632	1,365,523	25,632
Securities sold under repurchase agreements	43	61,793,694	6,540,014	61,793,694	6,540,014
Financial liabilities measured at amortised cost - due to depositors	44	1,579,780,228	1,407,800,492	1,609,153,685	1,443,179,121
Dividends payable	45	974,790	1,008,325	990,781	1,038,542
Financial liabilities measured at amortised cost - other borrowings	46	24,933,215	32,350,594	25,031,784	33,385,598
Debt securities issued	47	87,569	2,062,950	550,160	2,555,109
Current tax liabilities	48	23,953,823	30,025,919	24,707,679	30,460,242
Deferred tax liabilities	40	-	-	6,552,515	6,465,029
Insurance provision - life	49	-	-	30,975,260	24,592,403
Insurance provision - non-life	50	-	-	4,694,303	4,181,588
Other provisions		9,079,375	5,000,513	9,697,283	5,467,274
Other liabilities	51	19,325,952	17,378,270	20,696,216	18,041,795
Subordinated term debts	52	18,961,556	22,914,299	22,255,164	26,151,300
<strong>Total liabilities</strong>		<strong>1,749,275,307</strong>	<strong>1,531,211,586</strong>	<strong>1,827,483,629</strong>	<strong>1,608,188,225</strong>

As at 31st December	Note	Bank		Group	
		2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>EQUITY</b>					
Stated capital	54	40,955,116	38,679,005	40,955,116	38,679,005
Statutory reserve fund	55	10,410,000	9,310,000	10,410,000	9,310,000
Retained earnings	56	56,311,574	40,706,963	68,251,694	50,247,360
Other reserves	57	77,300,487	70,631,410	92,623,236	85,055,465
<b>Total shareholders' equity</b>		<b>184,977,177</b>	<b>159,327,378</b>	<b>212,240,046</b>	<b>183,291,830</b>
Non-controlling interests	58	-	-	7,316,735	6,795,096
<b>Total equity</b>		<b>184,977,177</b>	<b>159,327,378</b>	<b>219,556,781</b>	<b>190,086,926</b>
<b>Total equity and liabilities</b>		<b>1,934,252,484</b>	<b>1,690,538,964</b>	<b>2,047,040,410</b>	<b>1,798,275,151</b>
Contingent liabilities and commitments	59	883,033,112	809,328,957	883,033,112	809,328,957
Net assets value per ordinary share (Rs)	63	330.47	284.65	379.18	327.46

The notes to the financial statements from pages 250 to 410 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.

Anuradhi Delage  
*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*

Nihal Jayawardene  
*Chairman*

Shiromi Halloluwa  
*Head of Legal/Board Secretary*

15th February 2024  
Colombo

# STATEMENT OF CHANGES IN EQUITY

Bank	Stated Capital						Other Reserves			Total
	Voting Shares	Non Voting Shares	Statutory Reserve Fund	Capital Reserve	Fair Value Reserve	General Reserve	Retained Earnings			
Note	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Balance as at 1st January 2022</b>	30,680,591	6,683,653	8,560,000	15,084,556	(1,254,053)	57,100,000	35,186,807	152,044,354		
Adjustment for surcharge tax levied under the surcharge tax Act No.14 of 2022	-	-	-	-	-	-	(3,611,625)	(3,611,625)		
<b>Adjusted balance as at 1st January 2022</b>	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)	57 (c)	-	-	-	(1,157,240)	(1,618,910)	-	-	1,477,057	1,477,057
Other comprehensive income, net of tax	-	-	-	-	(1,157,240)	(141,853)	-	-	1,561,607	(1,214,543)
<b>Total comprehensive income for the year</b>	-	-	-	-	(1,157,240)	(141,853)	-	-	15,595,10	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	-	-	-	(1,314,731)	(1,314,731)		
<b>Total contributions by and distributions to equity holders</b>	1,052,150	262,611	-	-	-	-	(4,733,141)	(4,733,141)		
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)	(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		

Bank	Stated Capital				Other Reserves				Total
	Voting Shares	Non Voting Shares	Statutory Reserve Fund	Capital Reserve	Fair Value Reserve	General Reserve	Retained Earnings		
Note	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January 2023	31,732,744	6,946,264	9,310,000	13,927,316	(1,395,906)	58,100,000	40,706,963	159,327,378	
<b>Total comprehensive income for the year</b>									
Net profit for the year 2023	-	-	-	-	-	-	20,353,118	20,353,118	
Other comprehensive income, net of tax					5,669,077			5,669,077	
<b>Total comprehensive income for the year</b>					5,669,077		20,353,118	26,022,195	
<b>Transactions with equity holders, recognised directly in equity</b>									
Contributions by and distributions to equity holders									
<b>Dividends to equity holders</b>									
Final dividend 2022 - Cash	23	-	-	-	-	-	-	-	
Final dividend 2022 - Scrip	23	1,820,883	455,228	-	-	-	(2,677,777)	(401,666)	
<b>Total contributions by and distributions to equity holders</b>		1,820,883	455,228	-	-	-	(2,677,777)	(401,666)	
Transfer of / (subsequent settlement of) unclaimed dividends	56	-	-	-	-	-	29,270	29,270	
Transfers during the year 2023	-	-	1,100,000	-	-	1,000,000	(2,100,000)	-	
<b>Balance as at 31st December 2023</b>	33,553,624	7,401,492	10,410,000	13,927,316	4,273,171	59,100,000	56,311,574	184,977,177	

The notes to the financial statements from pages 250 to 410 form an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

Group	Attributable to Equity Holders of the Bank										Non Controlling Interests Rs 000	Total Rs 000	
	Stated Capital	Voting Shares	Non-Voting Shares	Statutory Reserve	Capital Fund	General Reserve	Fair Value Reserve	Life Policy Holder	Restricted Reserve Fund	Regulatory Reserve	Exchange Equalisation Reserve	Retained Earnings	Shareholders' Funds
<b>Balance as at 1st January 2022</b>	<b>30,680,591</b>	<b>6,683,633</b>	<b>8,580,000</b>	<b>30,816,980</b>	<b>57,100,000</b>	<b>(1,253,039)</b>	<b>(103,302)</b>	<b>381,156</b>	<b>163,202</b>	<b>43,643,800</b>	<b>1,766,683,041</b>	<b>6,599,222</b>	<b>183,267,283</b>
Adjustment for surcharge tax levied under the surcharge tax Act No 14 of 2022	-	-	-	-	-	-	-	-	-	-	(3912,900)	(3912,900)	(68,985)
Acquisition of non controlling interest during amalgamation of HNB Finance PLC with Prime Finance PLC	-	-	-	-	-	-	-	-	-	-	-	(201,135)	(201,135)
<b>Adjusted balance as at 1st January 2022</b>	<b>30,680,591</b>	<b>6,683,633</b>	<b>8,580,000</b>	<b>30,816,980</b>	<b>57,100,000</b>	<b>(1,253,039)</b>	<b>(103,302)</b>	<b>381,156</b>	<b>163,202</b>	<b>39,730,900</b>	<b>1,727,551,141</b>	<b>6,229,092</b>	<b>178,384,233</b>
<b>Total comprehensive income for the year</b>													
Net profit for the year 2022	-	-	-	-	-	-	-	-	-	15,328,572	49,663	15,748,235	
Transfer of fair value losses on debt instruments measured at FVOCI upon reclassification to amortised cost measurement category (net of tax)	-	-	-	-	-	2,481,042	-	-	-	-	2,181,042	-	2,181,042
Other comprehensive income, net of tax	-	-	-	(2,323,563)	-	(2,105,033)	-	-	448,051	1,590,675	(2,390,470)	255,727	(2,347,743)
<b>Total comprehensive income for the year</b>				(2,323,563)		(2,105,033)			448,051	1,619,9247	15,119,144	675,390	15,794,534
Transactions with equity holders, recognised directly in equity													
<b>Contributions by and distributions to equity holders</b>													
Dividends to equity holders													
Final dividend 2021 - Scrip	1,052,450	262,611	-	-	-	-	-	-	(344,830)	(344,830)	(192,000)	(3,610,380)	
Mergee reserve arising from amalgamation of subsidiary HNB Finance PLC and Prime Finance PLC	-	-	-	-	-	-	-	-	(1,314,761)	-	-	-	
Pre amalgamation profit of Prime Finance PLC	-	-	-	-	-	-	-	-	6,649	6,649	8,966	15,615	
<b>Total contributions by and distributions to equity holders</b>										53,683	53,683	73,648	127,331
Transfers to life policy holder reserve fund	5(e)	-	-	-	-	-	(1,244,429)	-	-	(1,244,429)	-	(1,244,429)	
Transfer of / subsequent settlement of unclaimed dividends	56	-	-	-	-	-	-	-	20,022	20,022	-	20,022	
Transfers during the year 2022	-	-	-	750,000	-	1,000,000	-	-	-	(1,750,000)	-	-	
<b>Balance as at 31 December 2022</b>	<b>34,732,741</b>	<b>6,946,264</b>	<b>9,310,000</b>	<b>28,493,447</b>	<b>58,100,000</b>	<b>(1,183,630)</b>	<b>(1,347,731)</b>	<b>381,156</b>	<b>611,253</b>	<b>50,247,360</b>	<b>1,83,291,830</b>	<b>6,785,096</b>	<b>190,086,926</b>

Group	Attributable to Equity Holders of the Bank										Total Rs 000	
	Stated Capital			Other Reserves								
	Voting Shares	Non-Voting Shares	Statutory Reserve Fund	Capital Reserve	General Reserve	Fair Value Reserve	Life Policy Holder Reserve	Restricted Holder Reserve	Exchange Equalisation Reserve	Retained Earnings	Shareholders' Funds	Non Controlling Interests
Note	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
Balance as at 1st January 2023	31,732,741	6,946,264	9,310,000	28,493,447	58,100,000	(4,182,630)	(1,347,731)	381,56	60,125,3	50,247,360	183,291,830	6,755,096
<b>Total comprehensive income for the year</b>												190,086,926
Net profit for the year 2023	-	-	-	-	-	-	-	-	22,770,791	22,770,791	835,700	23,006,491
Other comprehensive income, net of tax	-	-	-	-	-	5,674,494	-	-	(43,046)	(17,950)	5,613,498	186,533
<b>Total comprehensive income for the year</b>						5,674,494	-	-	(43,046)	22,732,841	28,384,289	1,022,233
<b>Transactions with equity holders, recognised directly in equity</b>												29,406,522
<b>Contributions by and distributions to equity holders</b>												
<b>Dividends to equity holders</b>												
Final dividend 2022 - Cash	-	-	-	-	-	-	-	-	-	(29,000)	(29,000)	
Final dividend 2022 - Scrip	1,820,883	455,228	-	-	-	-	-	-	(2,677,777)	(401,666)	-	(401,666)
<b>Total contributions by and distributions to equity holders</b>	1,820,883	455,228	-	-	-	-	-	-	(2,677,777)	(401,666)	(29,000)	(29,000)
Transfer to life policy holder reserve fund	57(e)	-	-	-	-	(422,91)	1,358,714	-	-	936,323	(281,594)	654,729
Transfer of / (subsequent settlement of) unclaimed dividends	56	-	-	-	-	-	-	-	29,270	29,270	-	29,270
Transfers during the year 2023	-	-	110,000	-	10,000	-	-	-	(210,000)	-	-	-
<b>Balance as at 31st December 2023</b>	33,553,624	7,401,492	10,410,000	28,493,447	59,100,000	4,069,473	10,983	381,56	568,207	68,251,694	212,240,046	7316,735
												29,556,781

The notes to the financial statements from pages 250 to 410 form an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

## ACCOUNTING POLICY

The statement of cash flows has been prepared using the direct method of preparing cash flows in accordance with Sri Lanka Accounting Standard - LKAS 7 on "Statement of Cash Flows" whereby gross cash receipts and gross cash payments of operating activities, financing activities and investing

activities have been recognised. Cash and cash equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

The cash and cash equivalents include cash in hand, balances with banks, placements with banks, money at call and short notice.

For the year ended 31st December	Note	Bank		Group	
		2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Cash flows from operating activities</b>					
Interest receipts		278,180,411	204,741,871	290,876,688	218,374,687
Interest payments		(154,092,480)	(78,077,951)	(161,351,036)	(82,156,552)
Net commission receipts		15,738,388	15,080,565	16,469,601	15,895,361
Payments to employees		(14,832,343)	(14,787,910)	(18,716,444)	(18,013,411)
Taxes on financial services		(7,494,176)	(3,857,416)	(7,878,196)	(4,061,341)
Receipts from other operating activities		(13,335,103)	12,094,882	2,929,554	25,889,244
Payments for other operating activities		(17,147,416)	(10,738,450)	(30,118,408)	(24,821,097)
<b>Operating profit before changes in operating assets and liabilities</b>		<b>87,017,281</b>	<b>124,455,591</b>	<b>92,211,759</b>	<b>131,106,891</b>
<b>(Increase)/decrease in operating assets</b>					
Balances with Central Bank of Sri Lanka		20,107,587	(6,523,852)	20,107,587	(6,523,852)
Financial assets measured at amortised cost - loans and advances to customers		(3,338,089)	(58,431,085)	1,994,876	(65,103,007)
Reverse repurchase agreements		-	-	(449,882)	4,865,697
Other assets		(1,087,315)	(6,107,771)	(2,309,843)	(6,967,076)
		<b>15,682,183</b>	<b>(71,062,708)</b>	<b>19,342,738</b>	<b>(73,728,238)</b>
<b>Increase/(decrease) in operating liabilities</b>					
Financial liabilities measured at amortised cost - due to depositors		183,203,524	149,135,812	177,265,179	152,260,052
Financial liabilities measured at amortised cost - other borrowings		(4,491,892)	(14,013,993)	(5,428,327)	(13,786,954)
Securities sold under repurchase agreements		55,144,079	(27,224,146)	55,144,079	(27,224,146)
Other liabilities		2,555,130	(16,324,873)	3,235,465	(16,423,675)
		<b>236,410,841</b>	<b>91,572,800</b>	<b>230,216,396</b>	<b>94,825,277</b>
<b>Net cash generated from operating activities before income tax</b>		<b>339,110,305</b>	<b>144,965,683</b>	<b>341,770,893</b>	<b>152,203,930</b>
Income tax paid		(22,852,568)	(9,520,889)	(23,549,119)	(10,222,643)
<b>Net cash generated from operating activities</b>		<b>316,257,737</b>	<b>135,444,794</b>	<b>318,221,774</b>	<b>141,981,287</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	37	(2,082,288)	(1,173,458)	(2,580,384)	(1,471,498)
Proceeds from the sale of property, plant and equipment		12,692	13,295	18,513	17,387
Net proceeds from sale, maturity and purchase of financial investments		(312,813,721)	(33,860,569)	(311,452,319)	(46,443,765)
Net purchase of intangible assets	39	(760,637)	(229,884)	(812,659)	(285,513)
Dividends received from investment in subsidiaries	14	288,473	287,933	-	-
Dividends received from other investments		33,497	41,771	43,724	50,872
<b>Net cash used in investing activities</b>		<b>(315,321,984)</b>	<b>(34,920,912)</b>	<b>(314,783,125)</b>	<b>(48,132,517)</b>

For the year ended 31st December	Note	Bank		Group	
		2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Cash flows from financing activities</b>					
Proceeds from the issue of subordinated debt		-	-	-	2,000,000
Repayment of subordinated debt/debt securities issued		(6,000,000)	(700,000)	(6,005,946)	(733,250)
Dividend paid to non controlling interests		-	-	(233,226)	(186,194)
Dividend paid to shareholders of the parent company		(405,932)	(3,399,227)	(405,932)	(3,399,227)
<b>Net cash used in financing activities</b>		<b>(6,405,932)</b>	<b>(4,099,227)</b>	<b>(6,645,104)</b>	<b>(2,318,671)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(5,470,179)</b>	<b>96,424,655</b>	<b>(3,206,455)</b>	<b>91,530,099</b>
Cash and cash equivalents at the beginning of the year		134,609,909	38,185,254	138,801,744	47,271,645
<b>Cash and cash equivalents at the end of the year</b>		<b>129,139,730</b>	<b>134,609,909</b>	<b>135,595,289</b>	<b>138,801,744</b>
<b>Note [a] - Reconciliation of operating profit before changes in operating assets and liabilities</b>					
Profit before income tax		32,688,695	11,973,906	37,218,175	14,420,257
Amortisation of intangible assets	18 (b)	450,692	409,274	539,914	503,555
Amortisation of right of use assets	18 (b)	823,040	865,228	820,805	871,892
Accretion of interest on right of use assets	8 (b)	862,480	859,672	385,875	341,159
Accrual for interest payable		31,468,717	26,876,001	31,434,875	26,825,599
Accrual for interest receivable		(5,387,080)	(4,974,147)	(13,171,218)	(4,906,468)
Accrual for other payables		(5,720,036)	2,056,359	(5,342,196)	3,099,067
Accrual for other receivable		(4,959,155)	14,418,145	(4,852,662)	11,501,007
Depreciation of investment property	18 (b)	5,335	5,335	29,281	29,305
Depreciation of property, plant and equipment	18 (b)	1,497,194	1,287,867	2,027,133	1,782,933
Dividend income		(445,431)	(329,704)	(167,185)	(50,872)
Gain/(loss) on FCBU revaluation		(4,659,417)	(19,418,284)	(4,659,417)	(19,418,284)
Gain on disposal of property, plant and equipment	14	(10,386)	(9,695)	(13,879)	(12,114)
Impairment charge for loans and other losses	15	40,589,311	90,461,305	42,523,930	91,735,672
Increase in insurance contract liabilities - life		-	-	6,382,857	4,214,388
Movement in general insurance reserve fund		-	-	512,715	445,667
Net capital gain/(loss) from financial assets measured at fair value through other comprehensive income		(117,291)	-	(156,247)	-
Net capital gain from financial assets measured at fair value through profit or loss		(66,814)	(17,915)	(75,575)	(22,001)
Net gain from marked to market valuation on financial assets measured at fair value through profit or loss		(2,573)	(7,756)	(84,653)	78,102
Share of profits of joint venture	20	-	-	(1,140,769)	(331,973)
		<b>87,017,281</b>	<b>124,455,591</b>	<b>92,211,759</b>	<b>131,106,891</b>
<b>Note [b] - Cash and cash equivalents at the end of the year</b>					
Cash and cash equivalents	25	73,148,596	80,238,881	73,758,907	80,629,698
Placements with banks	26	55,991,134	54,371,028	61,836,382	58,172,046
		<b>129,139,730</b>	<b>134,609,909</b>	<b>135,595,289</b>	<b>138,801,744</b>

The notes to the financial statements from page 250 to 410 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.

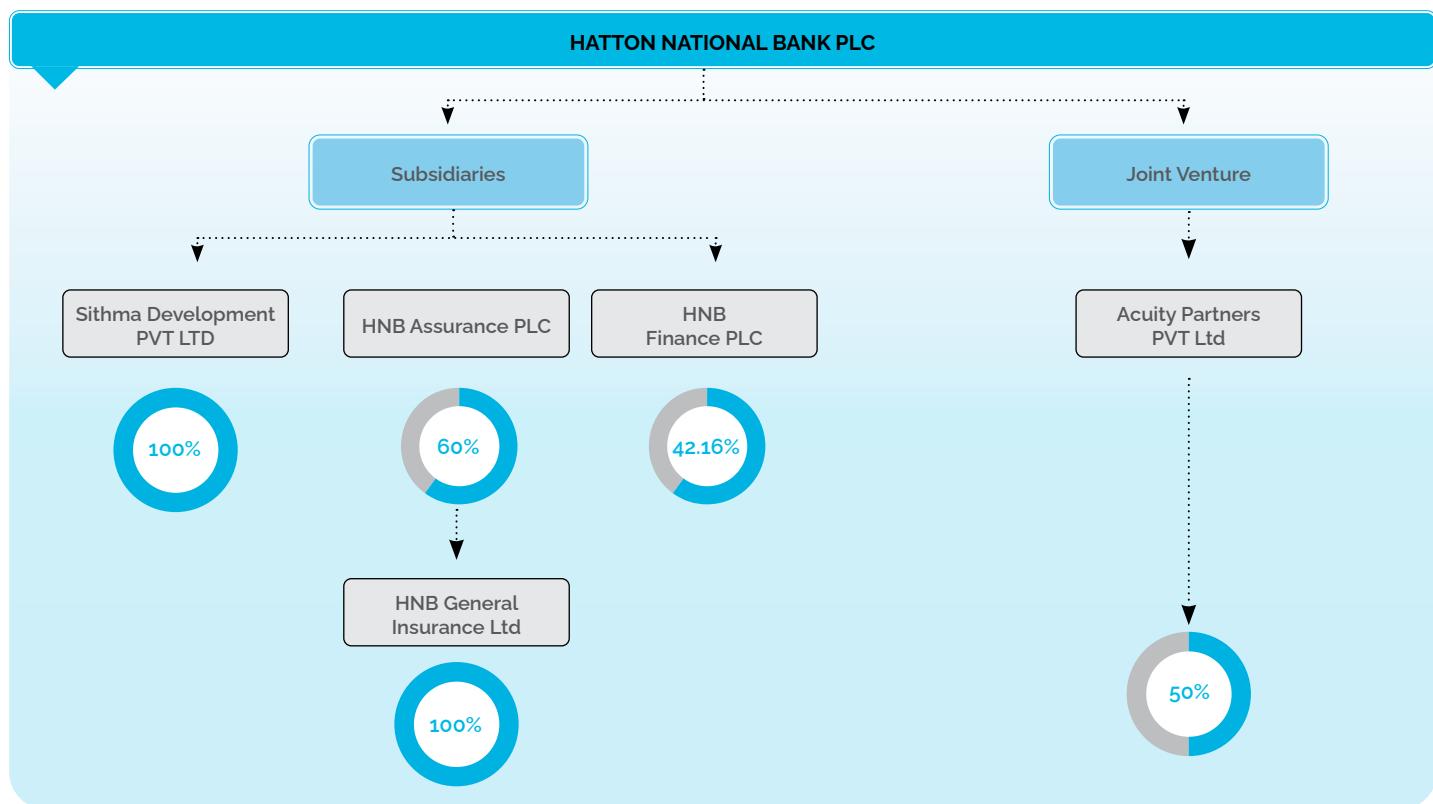
The staff strength of the Group and the Bank was as follows:

As at 31st December	2023	2022
Bank	5,492	5,156
Group	8,902	8,487

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 2023 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.
<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, and amendments thereto (including applicable directions), Insurance Industry Act No 43 of 2000 and Finance Business Act No 42 of 2011 and amendments 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 material accounting policies applied during the year are given in notes 3 to 62 on pages 254 to 410. 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 18th January 2019, on "Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks".

#### **2.1.2 Responsibility for Financial Statements**

The Board of Directors acknowledges their responsibility for financial statements as set out in the "Annual Report of the Board of Directors on the Affairs of the Company", 'Directors' Responsibility for Financial Reporting' and the certification on the statement of financial position on pages 163, 233 and 243 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 15th February 2024.

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 240 and 241;
- a statement of financial position (SOPF) providing the information on the financial position of the Group and the Bank as at the year end. Refer pages 242 and 243;
- 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 244 to 247;
- 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 248 and 249;

# NOTES TO THE FINANCIAL STATEMENTS

## 2 BASIS OF ACCOUNTING (Contd.)

- notes to the financial statements comprising material accounting policies and other explanatory information. Refer pages 254 to 410.

### 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	326
Financial assets measured at fair value through profit or loss	Fair value	30	327
Financial assets measured at fair value through other comprehensive income	Fair value	33	344
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	356
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	380
Incurred but not reported/incurred but not enough reported liability	Actuarially determined values based on internationally accepted actuarial policies and methodologies	50	382
Defined benefit obligations	Asset/(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	386

### 2.1.5 Going Concern

The Group's financial statements have been prepared under the assumption of a going concern, as the Board of Directors is confident that the Group possesses sufficient resources to continue its operations into the foreseeable future. This confidence is based on directors' comprehensive assessment, which includes adherence to regulatory capital requirements, and anticipated funding requirements. This assessment also takes into account the uncertainties associated with the prevailing economic conditions, and their possible effects on the Group's profitability, capital, and liquidity. Refer Note 5.4 and 5.7 to the financial statements.

### 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 Groups 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**

Despite the improvements in the economic indicators, uncertainty remains in the local economic environment impacting the credit worthiness of the corporate and the individuals resulting in non performing loans and recognition of impairment losses by the Bank.

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 (Sri Lanka International

Sovereign Bonds - SLISBs ) relates 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 predominantly relate to expected credit losses, fair value measurement and the assessment of the recoverable amount of 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 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	297
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)	15 (c)	310
Determination of control over investees	34. 35	347, 349
Classification of investment properties	36	352

#### **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 2023 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	259, 369
Measurement of the fair value of financial instruments with significant unobservable inputs	6.2	297
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	15 (a)	308
Useful life time of property, plant and equipment, investment properties and intangible assets	36, 37, 39	352, 356, 369
Determination of the fair value of freehold land and buildings on the basis of significant unobservable inputs	37 (c)	363
Right-of-use assets and operating lease liability	38	366
Recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used	40 (d)	374
Valuation of life insurance contract liabilities of subsidiary, HNB Assurance PLC (HNBA)	49	380
Valuation of non-life insurance contract liabilities of subsidiary, HNB General Insurance Limited	50	382
Measurement of defined benefit obligations: key actuarial assumptions	53 (c) vii	390
Recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources	59	398

# NOTES TO THE FINANCIAL STATEMENTS

## 2 BASIS OF ACCOUNTING (Contd.)

Accounting policy	Note Reference	Page Reference
<b>Material 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	347
Investment in subsidiaries	35	349
Investment properties	36	352
Property, plant and equipment	37	356
Right-of-use assets	38	366
Intangible assets and goodwill	39	369
Due to banks	42	376
Securities sold under repurchase agreements	43	376
Financial liabilities measured at amortised cost – Due to depositors	44	377
Financial liabilities at amortised cost – Other borrowings	46	378
Debt securities issued	47	379
Subordinated term debts	52	385
Insurance provision – Life	49	380
Insurance provision – Non-life	50	382
Employee benefit obligations	53	386
Contingent liabilities and commitments	59	398
<b>Material accounting policies – Recognition of income and expenses</b>		
Gross income	7	300
Net interest income	8	301
Net fee and commission income	9	303
Net gains/(losses) from trading	10	305
Net gain from financial investments at fair value through other comprehensive income	11	306
Net insurance premium income	12	306
Net gains arising on de-recognition of financial assets	13	307
Net other operating income	14	307
Impairment charge for loans and other losses	15	308
Personnel expenses	16	313
Benefits, claims and underwriting expenditure	17	314
Other expenses	18	315
Income tax expenses	21	317

## 3. MATERIAL 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 adopted the standards set out in Note 3.6 during the year. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective as given in Note 4.

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 material 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 349 and 398 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 summarised financial position and the Group's share of contingent liabilities of such joint venture are set out in Notes 34 and 59 on pages 347 and 398 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 3. MATERIAL ACCOUNTING POLICIES (Contd.)

### 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.

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>	<p>Cash and cash equivalents</p> <p>Placements with banks</p> <p>Balances with Central Bank of Sri Lanka</p> <p>Reverse repurchase agreements</p> <p>Financial assets measured at amortised cost - loans and advances to customers</p> <p>Financial assets measured at amortised cost - debt and other instruments</p>	<p>25</p> <p>26</p> <p>27</p> <p>28</p> <p>31</p> <p>32</p>
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	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>	<p>Derivative financial instruments</p> <p>Financial assets measured at fair value through profit or loss</p>	<p>29</p> <p>30</p>

# NOTES TO THE FINANCIAL STATEMENTS

## 3. MATERIAL ACCOUNTING POLICIES (Contd.)

### 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 Securities sold under repurchase agreements Financial liabilities measured at amortised cost - due to depositors Financial liabilities measured at amortised cost - other borrowings Debt securities issued Subordinated term debts	42 43 44 46 47 52
Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at fair value through profit or loss include; - Financial liabilities held for trading and - Financial liabilities designated at fair value through profit or loss	Derivative financial instruments	29

#### Financial liabilities designated at fair value through profit or loss

Financial liabilities in this category are those that are not held for trading and have been either designated by the Group upon initial recognition or are mandatorily required to be measured at fair value under SLFRS 9. Group only designates 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 financial asset, amongst others, the Group considers the following factors:

- Change in currency of the financial asset
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

#### **3.4.6 (b) Derecognition other than for substantial modification**

##### **3.4.6 (b)(i) Financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial

asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset
- or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement. Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:
  - The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
  - The Group cannot sell or pledge the original asset other than as security to the eventual recipients
  - The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset
- or
- The Group has neither transferred nor retained substantially all the risks and

rewards of the asset, but has transferred control of the asset

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Group would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### **3.4.6 (b)(ii) Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in income statement.

### **3.5 Impairment of Non-Financial Assets**

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication

# NOTES TO THE FINANCIAL STATEMENTS

## 3. MATERIAL ACCOUNTING POLICIES (Contd.)

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 Material Accounting Policies

#### 3.6.1 Deferred tax related to assets and liabilities arising from a single transaction

The Group adopted Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to LKAS 12) from 1st January 2023. 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. For leases, the Group is required to recognise the associated deferred tax assets and liabilities 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 transactions, the Group applies the amendments to transactions that occur on or after the beginning of the earliest period presented. The Group previously accounted for deferred tax on leases by applying the 'integrally linked' approach, resulting in a similar outcome as under the amendments, except that the deferred tax asset or liability was recognised on a net basis.

Following the amendments, the Group has recognised a separate deferred tax asset in relation to its lease liabilities and a deferred tax liability in relation to its right-of-use assets. However, there was no impact on the statement of financial position because the balances qualify for offset under LKAS 12. There was also no impact on the opening retained earnings as at 1st January 2022 as a result of the change. The key impact for the Group relates to disclosure of the deferred tax assets and liabilities recognised.

#### 3.6.2 Material accounting policy information

The Group also adopted Disclosure of Accounting Policies (Amendments to LKAS 1) from 1st January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements. The amendments require the disclosure of 'material', rather than 'significant', accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements. Management reviewed the accounting policies and made updates to the information disclosed regarding the Material accounting policies (2022: significant accounting policies) in certain instances in line with the amendments.

## 4. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has issued several new accounting standards and amendments/improvements to existing standards. These new standards are set to become effective in the coming years. Early application of these standards is allowed, but the Group has not early adopted any of the new or amended standards in the preparation of these financial statements.

Accounting Standard	Descriptions	Effective Date	Assessment of the impact on the Group/Bank
Sri Lanka Accounting Standard - SLFRS 17 "Insurance Contracts"	<p>SLFRS 17 Liability Recognition: Presents future cash flows as present value with risk adjustment and Contractual Service Margin (CSM), groups contracts by risk and profitability, and recognises losses directly in the income statement.</p> <p>New Insurance Revenue Measure: Shifts revenue measurement to service delivery, excluding investment-related premiums, and necessitates calculating deferred profit (CSM) at transition.</p>	1st January 2026	Impact on the subsidiaries HNBA and HNBGI: SLFRS 17 requires substantial changes in accounting for insurance contracts, involving significant judgment and new techniques. HNBA and HNBG are currently conducting assessments and are in the process of evaluating the approach towards implementation programs to adopt SLFRS 17 and SLFRS 9
Exemption - Sri Lanka Accounting Standard - SLFRS 9 "Financial Instruments"	<p>Temporary Exemption: SLFRS 9, which addresses financial instruments accounting, became effective from 1st January 2018.</p> <p>However, the financial statements of HNB Assurance PLC has been prepared in line with SLFRS 9 when preparing the consolidated financial statements. It allows a temporary exemption to apply LKAS 39 instead of SLFRS 9 for annual periods starting before 1st January 2023 and up to 31st December 2025, for qualifying insurers.</p> <p>Criteria for Exemption: Insurers like HNB Assurance PLC and HNB General Insurance Limited, whose activities are predominantly insurance-related, can opt to continue using LKAS 39 until 31st December 2025, based on the specified criteria.</p>	1st January 2026	<p>Given that HNBA and HNBGI are primarily engaged in insurance activities, and considering the criteria for exemption, both companies will continue to applying LKAS 39 instead of SLFRS 9 up until 31st December 2025</p> <p>However, the financial Statements of HNB Assurance PLC has been prepared in line with SLFRS 9 when preparing Consolidated financial statements,</p>
Classification of liabilities as current or non-current (Amendments to LKAS 1)	Amendments to LKAS 1 alter the classification of liabilities like convertible debt and introduce new disclosure requirements for liabilities subject to covenants	1st January 2024	No material impact is expected on the Group
Lease liability in a sale and leased back (Amendment to SLFRS 16)	The amendments specifically affect seller-lessee accounting in sale and leaseback transactions that qualify as a sale under SLFRS 15, especially those involving variable lease payments not based on an index or rate. They modify how a seller-lessee accounts for these leasebacks, preventing recognition of gains on retained rights of use due to lease term modifications or changes, which previously could occur when variable payments not defined as 'lease payments' were excluded	1st January 2024	No material impact is expected on the Group

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT

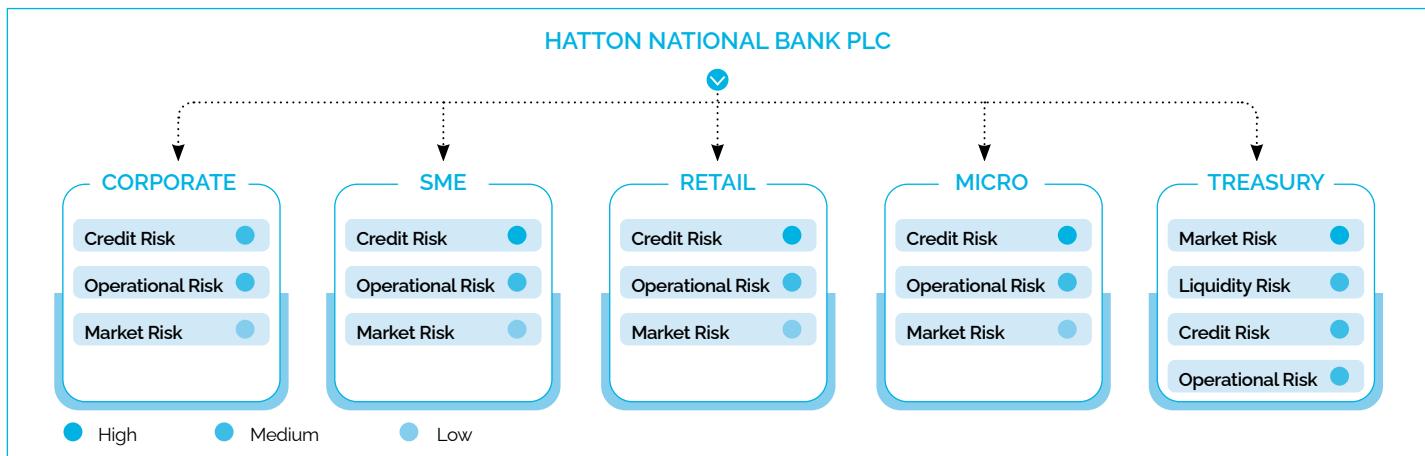
This note presents information about the Bank/Group exposure to financial risks and the Bank/Group's management of capital.

### 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's business units and the principal risks that they are exposed to. The significance of risk is assessed within the context of the Bank as a whole and is measured based on allocation of the regulatory capital within the Bank.



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), Strategy and Investment Review Committee (SIRC), Special Board Committee on Digital Banking, 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, 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.

	Page Reference
<b>5.3 Credit Risk</b>	
5.3.1 Settlement risk	263
5.3.2 Management of credit risk	263
5.3.3 Credit quality analysis	264
5.3.4 Credit exposure and expected credit loss (ECL) provision movement – Stage wise	271
5.3.5 Collateral held and other credit enhancements	277
5.3.6 Concentrations of credit risk	278
5.3.7 Offsetting financial assets and financial liabilities	282
5.3.8 Loan to value ratio	282
<b>5.4 Liquidity risk</b>	
5.4.1 Management of liquidity risk	282
5.4.2 Exposure to liquidity risk	283
5.4.3 Liquidity reserves	284
5.4.4 Analysis of financial liabilities and financial assets by remaining contractual maturities	284
5.4.5 Financial assets available to support future funding	287
<b>5.5 Market risk</b>	
5.5.1 Management of market risk	288
5.5.2 Exposure to equity price risk	289
5.5.3 Exposure to interest rate risk - Non-trading portfolios	290
5.5.4 Exposure to currency risks - Non-trading portfolios	291
<b>5.6 Operational Risk</b>	291
<b>5.7 Capital Management</b>	
5.7.1 Regulatory capital	292
5.7.2 Capital allocation	294

### 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 15 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.
- Formalise approval of such policies and guidelines from the Board of Directors upon clearance by relevant Board Sub-committees.
- Establishing the credit approval structure with delegated authority limits for the approval and renewal of credit facilities. The delegated authority limits are assigned to identified individuals. Larger credit facilities require approval by the Board Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk: credit risk unit of RMD assesses all credit exposures in excess of designated limits, before facilities are approved. Renewals of facilities are subject to the same review process.
- Setting the risk appetite for exposures to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

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	2023		2022	
	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	28,492,964	28,492,964	41,167,892	41,167,892
Placements with banks	56,024,833	56,024,833	54,383,166	54,383,166
Derivative financial instruments	452,193	452,193	5,370,501	5,370,501
Financial assets measured at fair value through profit or loss	115,641	113,694	111,617	111,121
Financial assets measured at amortised cost				
- loans and advances to customers (gross)	1,041,990,203	477,385,883	1,061,371,654	452,717,179
Financial assets measured at amortised cost				
- debt and other instruments	653,242,171	206,908,984	525,252,301	252,369,464
Financial assets measured at fair value through other comprehensive income	189,325,958	6,228,832	2,706,660	2,706,660
Other financial assets	11,029,182	4,158,958	10,958,660	3,479,578
	1,980,673,145	779,766,341	1,701,322,451	812,305,561
Guarantees, letters of credit and acceptances	153,163,138	151,569,468	137,337,700	134,466,381

**Group**

As at 31st December	2023		2022	
	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	28,743,107	28,743,107	41,297,208	41,297,208
Placements with banks	61,871,455	61,871,455	58,184,873	58,184,873
Reverse repurchase agreement	1,830,461	-	1,380,579	-
Derivative financial instruments	452,193	452,193	5,370,501	5,370,501
Financial assets measured at fair value through profit or loss	801,065	799,118	236,178	235,682
Financial assets measured at amortised cost				
- loans and advances to customers (gross)	1,081,186,166	510,597,510	1,107,500,061	494,018,552
Financial assets measured at amortised cost				
- debt and other instruments	688,376,005	216,512,060	557,021,541	260,398,281
Financial assets measured at fair value through other comprehensive income	195,975,307	6,234,312	6,062,195	2,709,372
Other financial assets	14,269,396	7,510,483	13,772,476	6,476,528
	2,073,505,155	832,720,238	1,790,825,612	868,690,997
Guarantees, letters of credit and acceptances	153,163,138	151,569,468	137,337,700	134,466,381

# 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 2023</b>												
<b>Financial Assets</b>												
Cash and cash equivalents	9,076,974	-	-	44,872,259	18,415,944	-	-	-	16,436	-	-	-
Placements with banks	13,130,910	-	-	-	42,893,923	-	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	12,234,361	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	430,664	-	-	-	6,069	-	-	-	-
Financial assets measured at fair value through profit or loss	1,947	-	-	-	-	-	-	3,285	-	-	-	-
Financial assets measured at amortised cost loans and advances to customers (gross)*	74,285,883	34,663,621	3,107,754	-	286,121,370	12,283,279	24,707,727	-	84,864,821	33,592,539	18,025,313	-
Financial assets measured at amortised cost debt and other instruments	451,616,625	-	-	-	3,110,992	196,305,095	112,827	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	183,097,126	-	-	-	-	-	-	5,501,697	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-	-	-	-	-
	731,209,405	34,663,621	3,107,754	57,537,284	350,542,229	208,588,374	24,820,554	5,511,051	84,881,257	33,592,539	18,025,313	-
<b>Off balance sheet exposures</b>												
Contingent liabilities and commitments*	79,213,419	139,483	2,600	-	204,204,987	4,847,199	2,192,730	-	57,679,873	7,791,666	362,719	-
<b>As at 31st December 2022</b>												
<b>Financial Assets</b>												
Cash and cash equivalents	10,731,515	-	-	39,274,001	26,417,716	-	-	-	10,130	-	-	-
Placements with banks	8,889,648	-	-	-	45,493,518	-	-	-	-	-	-	-
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	-	-	-	1,541	-	-	-	-
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	-	-	-	3,131,700	241,750,564	-	-	-	-	123,417	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	2,134,875	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-	-	-	-	-
	348,760,475	3,325,909	606,179	71,665,432	272,681,619	264,047,295	8,352,091	2,139,675	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	-

\* 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					
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	Total	Note
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000		
983,610	-	-	-	-	-	-	-	-	-	-	-	73,365,223	25
-	-	-	-	-	-	-	-	-	-	-	-	56,024,833	26
-	-	-	-	-	-	-	-	-	-	-	-	12,234,361	27
-	-	-	-	-	-	-	15,460	-	-	-	-	452,193	29
-	-	-	-	-	-	-	110,409	-	-	-	-	115,641	30
29,923,962	10,129,234	56,093,869	-	263,603,262	19,145,775	11,592,482	-	77,589,822	1,198,814	1,060,676	-	1,041,990,203	31
-	-	538,332	-	1,558,300	-	-	-	-	-	-	-	653,242,171	32
-	-	-	-	-	-	-	727,135	-	-	-	-	189,325,958	33
-	-	-	-	-	-	-	-	11,029,182	-	-	-	11,029,182	41
30,907,572	10,129,234	56,632,201	-	265,161,562	19,145,775	11,592,482	853,004	88,619,004	1,198,814	1,060,676	-	2,037,779,765	
12,301,140	831,726	1,356,083	-	324,312,457	787,891	564,665	-	-	-	-	-	696,588,638	53.6 (C)
4,008,531	-	-	-	-	-	-	-	-	-	-	-	80,441,893	25
-	-	-	-	-	-	-	-	-	-	-	-	54,381,166	26
-	-	-	-	-	-	-	-	-	-	-	-	32,344,341	27
-	-	-	-	-	-	-	5,355,062	-	-	-	-	5,370,501	29
-	-	-	-	-	-	-	74,670	-	-	-	-	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	661,813	-	1,061,371,654	31
-	-	538,332	-	1,558,300	-	-	-	-	-	-	-	525,252,301	32
-	-	-	-	-	-	-	571,785	-	-	-	-	2,706,660	33
-	-	-	-	-	-	-	-	10,958,660	-	-	-	10,958,660	41
23,345,712	14,778,441	26,095,612	-	341,537,774	90,475,928	49,667,730	6,001,517	94,125,822	636,116	661,813	-	1,772,940,793	
13,075,762	1,483,096	809,651	-	378,161,352	9,391,357	601,113	-	-	-	-	-	753,984,953	53.6 (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 2023	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	88,399,828	7,578,945	-	-	88,399,828	7,578,945
90 DPD	-	-	15,320,922	6,115,598	15,320,922	6,115,598
<b>More than :</b>						
30 DPD	22,613,434	2,754,802	-	-	22,613,434	2,754,802
90 DPD	-	-	99,266,899	60,007,277	99,266,899	60,007,277
<b>Total</b>	<b>111,013,262</b>	<b>10,333,747</b>	<b>114,587,821</b>	<b>66,122,875</b>	<b>225,601,083</b>	<b>76,456,622</b>

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>

### 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 2023	Derivative Type							
	Forward		SWAP		Spot		Total	
	Notional amount Rs 000	Fair value Rs 000						
<b>Derivative financial assets</b>								
By counterparty ;								
- with banks	10,661,000	94,219	55,029,220	341,056	518,504	1,459	66,208,724	436,734
- with other customers	1,812,988	15,459	-	-	-	-	1,812,988	15,459
<b>Total derivative financial assets</b>	<b>12,473,988</b>	<b>109,678</b>	<b>55,029,220</b>	<b>341,056</b>	<b>518,504</b>	<b>1,459</b>	<b>68,021,712</b>	<b>452,193</b>
<b>Derivative financial liabilities</b>								
By counterparty ;								
- with banks	2,589,789	22,840	81,153,257	1,332,762	1,105,936	316	84,848,982	1,355,918
- with other customers	777,679	9,605	-	-	-	-	777,679	9,605
<b>Total derivative financial liabilities</b>	<b>3,367,468</b>	<b>32,445</b>	<b>81,153,257</b>	<b>1,332,762</b>	<b>1,105,936</b>	<b>316</b>	<b>85,626,661</b>	<b>1,365,523</b>
As at 31st December 2022	Derivative Type							
	Forward		SWAP		Spot		Total	
	Notional amount Rs 000	Fair value 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>

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

### 5.3 (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 (restructured / rescheduled) 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.

	2023 Rs 000	2022 Rs 000
<b>Financial assets modified during the year</b>		
Amortised cost before modification	6,535,649	1,966,160
Net modification loss	776,406	350,228
<b>Financial assets modified since initial recognition</b>		
Gross carrying amount of financial assets previously modified for which loss allowance has changed during the year to an amount equal to 12month ECL from lifetime	327,904	573,956

**5.3.4 (a) Credit exposure and expected credit loss (ECL) provision movement - Stage wise**

Bank - 2023	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>Cash and cash equivalents</b>									
As at 1st January 2023	41,167,892	203,012	-	-	-	-	39,274,001	80,441,893	203,012
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated or purchased and effect of remeasurement	5,378,679	85,117	-	-	-	-	5,598,258	10,976,937	85,117
Financial assets derecognised or repaid (excluding write offs)	(18,053,607)	(71,502)	-	-	-	-	-	(18,053,607)	(71,502)
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2023</b>	<b>28,492,964</b>	<b>216,627</b>	-	-	-	-	<b>44,872,259</b>	<b>73,365,223</b>	<b>216,627</b>
<b>Placements with banks</b>									
As at 1st January 2023	54,383,166	12,138	-	-	-	-	-	54,383,166	12,138
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated or purchased and effect of remeasurement	37,864,106	28,354	-	-	-	-	-	37,864,106	28,354
Financial assets derecognised or repaid (excluding write offs)	(36,222,439)	(6,793)	-	-	-	-	-	(36,222,439)	(6,793)
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2023</b>	<b>56,024,833</b>	<b>33,699</b>	-	-	-	-	-	<b>56,024,833</b>	<b>33,699</b>
<b>Financial assets measured at amortised cost - debt and other financial instruments</b>									
As at 1st January 2023	282,839,987	3,324	241,750,564	75,795,353	661,750	661,750	-	525,252,301	76,460,427
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated or purchased and effect of remeasurement / exchange adjustment	182,762,940	799,949	-	28,704,510	(10,590)	(10,590)	-	182,752,350	29,493,869
Financial assets derecognised or repaid / exchange adjustment (excluding write offs)	(9,317,011)	(63,180)	(45,445,469)	(2,421,100)	-	-	-	(54,762,480)	(2,484,280)
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2023</b>	<b>456,285,916</b>	<b>740,093</b>	<b>196,305,095</b>	<b>102,078,763</b>	<b>651,160</b>	<b>651,160</b>	-	<b>653,242,171</b>	<b>103,470,016</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 - 2023	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 amortised cost</b>									
- Loans and advances									
As at 1st January 2023	790,590,235	12,477,377	168,456,347	16,235,373	102,325,072	58,527,652	-	1,061,371,654	87,240,402
Transfer to stage 1	31,772,102	3,752,167	(29,426,275)	(2,937,732)	(2,345,827)	(814,435)	-	-	-
Transfer to stage 2	(27,096,371)	(789,689)	32,980,565	2,721,815	(5,884,194)	(1,932,126)	-	-	-
Transfer to stage 3	(5,418,703)	(227,235)	(25,749,716)	(3,859,369)	31,168,419	4,086,604	-	-	-
New assets originated or purchased and effect of remeasurement	467,690,769	5,108,958	24,700,552	5,446,419	18,796,226	21,199,076	-	511,187,547	31,754,453
Financial assets derecognised or repaid (excluding write offs)	(441,148,912)	(9,791,651)	(59,948,211)	(7,486,540)	(27,780,899)	(14,908,287)	-	(528,878,022)	(32,186,478)
Write offs*	-	-	-	-	(1,690,976)	(1,690,976)	-	(1,690,976)	(1,690,976)
Foreign exchange adjustments	-	123,338	-	213,781	-	1,655,367	-	-	1,992,486
<b>As at 31st December 2023</b>	<b>816,389,120</b>	<b>10,653,265</b>	<b>111,013,262</b>	<b>10,333,747</b>	<b>114,587,821</b>	<b>66,122,875</b>	<b>-</b>	<b>1,041,990,203</b>	<b>87,109,887</b>
<b>Financial assets measured at fair value through other comprehensive income</b>									
As at 1st January 2023	-	-	-	-	-	-	2,706,660	2,706,660	-
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated/purchased or increase in fair value	183,097,126	-	-	-	-	-	3,522,172	186,619,298	-
Financial assets derecognised/repaid (excluding write offs) and reductions in fair value	-	-	-	-	-	-	-	-	-
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2023</b>	<b>183,097,126</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,228,832</b>	<b>189,325,958</b>	<b>-</b>
<b>Financial assets recognised through profit or loss measured at fair value through</b>									
As at 1st January 2023	496	-	-	-	-	-	111,121	111,617	-
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated/purchased or increase in fair value	1,437	-	-	-	-	-	2,587	4,024	-
Financial assets derecognised/repaid (excluding write offs) and reductions in fair value	-	-	-	-	-	-	-	-	-
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2023</b>	<b>1,933</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>113,708</b>	<b>115,641</b>	<b>-</b>

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	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>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>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	10,732,207	-	-	610,799	610,799	-	172,020,526	11,343,006
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	(161,182,848)	(10,731,812)	161,182,848	10,731,812	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated or purchased and effect of remeasurement / exchange adjustment	272,613,109	2,929	100,082,431	66,094,244	50,951	50,951	-	372,746,491	66,148,124
Financial assets derecognised or repaid (excluding write offs)	-	-	(19,514,716)	(1,030,703)	-	-	-	(19,514,716)	(1,030,703)
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2022</b>	<b>282,839,988</b>	<b>3,324</b>	<b>241,750,563</b>	<b>75,795,353</b>	<b>661,750</b>	<b>661,750</b>	-	<b>525,252,301</b>	<b>76,460,427</b>
<b>Financial assets measured at amortised cost - 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>1,061,371,654</b>	<b>87,240,402</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (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	ECL Rs 000
<b>Financial assets measured at fair value through other comprehensive income</b>									
As at 1st January 2022	199,100,862	295,445	-	-	-	-	4,325,571	203,426,433	295,445
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	(3,029,218)	(295,445)	3,029,218	295,445	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated/purchased or increase in fair value	-	-	-	-	-	-	9,201	9,201	-
Financial assets derecognised/repaid (excluding write offs) and reductions in fair value	(196,071,644)	-	(3,029,218)	(295,445)	-	-	(1,628,112)	(200,728,974)	(295,445)
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2022</b>	-	-	-	-	-	-	2,706,660	2,706,660	-
<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	496	-	-	-	-	-	7,760	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>	496	-	-	-	-	-	111,121	111,617	-

\* The contractual amount outstanding on financial assets that were written off during the year ended 31st December 2023 and that are still subject to enforcement activity is Rs 48 Mn (2022 - Rs 48 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 2023	Sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]				Sensitivity effect on Income Statement [Increase/(Decrease) in impairment charge] Rs 000
	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000	
<b>Change in Property realisation period of individually significant impaired customers</b>					
- Advanced by one year	-	-	2,284,483	2,284,483	2,284,483
- Deferred by one year	-	-	(2,210,103)	(2,210,103)	(2,210,103)
<b>Change in Probability of Default (PD)</b>					
- Increase existing PD by 10% across all age buckets	956,786	522,667	-	1,479,453	1,479,453
- Decrease existing PD by 10% across all age buckets	(956,786)	(522,667)	-	(1,479,453)	(1,479,453)
<b>Change in Loss Given Default (LGD)</b>					
- 1% increase	283,711	153,171	460,558	897,440	897,440
- 1% decrease	(283,711)	(153,171)	(460,558)	(897,440)	(897,440)
<b>Change in deemed loss period</b>					
- Deemed loss period increase by 1 year	(321,831)	(167,414)	(531,561)	(1,020,806)	(1,020,806)
- Deemed loss period decrease by 1 year	257,723	162,652	503,704	924,079	924,079
<b>Change in Economic Factor Adjustment (EFA)</b>					
- worse case 5% increase, best case 5% decrease, base case constant	107,857	59,383	-	167,240	167,240
- worse case 5% decrease, best case 5% increase, base case constant	(107,857)	(59,383)	-	(167,240)	(167,240)

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

As at 31st December 2022	Sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]				Sensitivity effect on Income Statement [Increase/(Decrease) in impairment charge]
	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 5% decrease, base case constant	178,343	176,954	-	355,297	355,297
- worse case 5% decrease, best case 5% increase, base case constant	(178,343)	(176,954)	-	(355,297)	(355,297)

### 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	2023		2022	
	Gross loan balance Rs 000	Security value Rs 000	Gross loan balance Rs 000	Security value Rs 000
<b>Stage 1</b>				
Cash Collateral	74,530,885	89,514,166	76,466,122	82,762,908
Property, plant and machinery	244,841,081	478,430,898	294,499,462	382,441,371
Treasury Guarantee	-	-	2,142,752	2,142,752
Others	278,902,436	372,417,742	243,973,379	288,778,859
Unsecured	218,114,718	-	173,508,520	-
	816,389,120	940,362,806	790,590,235	756,125,890
<b>Stage 2</b>				
Cash collateral	3,129,638	3,120,241	8,090,283	8,508,945
Property, plant and machinery	31,583,888	102,394,102	88,536,229	114,462,362
Treasury Guarantee	31,304,078	37,582,824	36,321,632	36,321,632
Others	10,789,823	31,717,461	20,894,344	26,665,323
Unsecured	34,205,835	-	14,613,859	-
	111,013,262	174,814,628	168,456,347	185,958,262
<b>Stage 3</b>				
Cash collateral	1,649,468	1,424,546	1,945,161	1,755,307
Property, plant and machinery	56,647,598	219,234,914	75,742,254	90,837,155
Treasury Guarantee	-	-	-	-
Others	19,183,831	70,126,525	9,567,545	13,193,178
Unsecured	37,106,924	-	15,070,112	-
	114,587,821	290,785,985	102,325,072	105,785,640

#### 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.

	2023 Rs 000	2022 Rs 000
Property	4,651,310	1,197,080
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 2023</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	-	-	48,278	1,940	3	-
Financial assets measured at amortised cost						
- loans and advances to customers (gross)	122,536,591	120,274,631	73,020,357	29,361,198	156,970,212	150,374,596
Financial assets measured at amortised cost	-	-	-	-	-	-
- debt and other instruments	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
	<b>122,536,591</b>	<b>120,274,631</b>	<b>73,068,635</b>	<b>29,363,138</b>	<b>156,970,215</b>	<b>150,374,596</b>
<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)	118,033,998	107,751,730	79,109,759	25,250,066	154,724,264	161,097,378
Financial assets measured at amortised cost	-	-	-	-	-	-
- debt and other instruments	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
	<b>118,033,998</b>	<b>107,751,730</b>	<b>79,146,744</b>	<b>25,252,099</b>	<b>154,724,266</b>	<b>161,097,378</b>

Information Technology and Communication Services	Financial Services	Professional, Scientific and Technical Services	Art, Entertainment and Recreation	Education	Health care, Social Services and Support	Consumption Services	Other	Lending to Overseas Entities	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
-	73,365,223	-	-	-	-	-	-	-	73,365,223
-	56,024,833	-	-	-	-	-	-	-	56,024,833
-	12,234,361	-	-	-	-	-	-	-	12,234,361
-	452,193	-	-	-	-	-	-	-	452,193
-	33,112	-	-	-	-	-	32,308	-	115,641
11,084,415	130,350,982	10,757,973	1,509,994	10,851,882	145,172,220	54,240,323	18,852,715	6,632,114	1,041,990,203
-	650,626,018	-	-	-	-	-	2,616,153	-	653,242,171
-	189,325,958	-	-	-	-	-	-	-	189,325,958
-	11,029,182	-	-	-	-	-	-	-	11,029,182
11,084,415	1,123,441,862	10,757,973	1,509,994	10,851,882	145,172,220	54,240,323	21,501,176	6,632,114	2,037,779,765
-	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
6,704,752	143,777,813	12,532,258	1,778,239	8,936,631	154,827,846	58,250,743	17,585,503	11,010,674	1,061,371,654
-	522,636,148	-	-	-	-	-	2,616,153	-	525,252,301
-	2,706,660	-	-	-	-	-	-	-	2,706,660
-	10,958,660	-	-	-	-	-	-	-	10,958,660
6,704,752	852,656,129	12,532,258	1,778,239	8,936,631	154,827,846	58,250,743	20,237,306	11,010,674	1,772,940,793

# 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 2023</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	-	70,108	48,278	1,940	7,303	-
Financial assets measured at amortised cost						
- loans and advances to customers (gross)	131,635,976	123,231,075	73,271,255	29,523,231	157,916,149	165,014,612
Financial assets measured at amortised cost						
- debt and other instruments	-	-	-	-	-	-
Financial assets measured at fair value						
through other comprehensive income	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
	131,635,976	123,301,183	73,319,533	29,525,171	157,923,452	165,014,612
<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)	126,909,927	112,850,054	79,760,125	27,090,966	156,247,108	178,839,022
Financial assets measured at amortised cost						
- debt and other instruments	-	-	-	-	-	-
Financial assets measured at fair value						
through other comprehensive income	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
	126,909,927	112,850,054	79,797,110	27,092,999	156,247,110	178,839,022

Information Technology and Communication Services	Financial Services	Professional, Scientific and Technical Services	Art, Entertainment and Recreation	Education	Health care, Social Services and Support Services	Consumption	Other	Lending to Overseas Entities	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
- 73,975,559	-	-	-	-	-	-	-	-	73,975,559
- 61,871,455	-	-	-	-	-	-	-	-	61,871,455
- 12,234,361	-	-	-	-	-	-	-	-	12,234,361
- 1,830,461	-	-	-	-	-	-	-	-	1,830,461
- 452,193	-	-	-	-	-	-	-	-	452,193
- 600,540	-	-	-	-	-	950	71,946	-	801,065
<b>11,123,174</b>	<b>130,883,434</b>	<b>10,796,082</b>	<b>1,544,738</b>	<b>11,088,438</b>	<b>152,292,436</b>	<b>57,438,383</b>	<b>18,795,069</b>	<b>6,632,114</b>	<b>1,081,186,166</b>
<b>148,112</b>	<b>685,582,223</b>	-	-	-	-	-	<b>2,645,670</b>	-	<b>688,376,005</b>
- 195,975,307	-	-	-	-	-	-	-	-	195,975,307
- 14,269,396	-	-	-	-	-	-	-	-	14,269,396
<b>11,271,286</b>	<b>1,177,674,929</b>	<b>10,796,082</b>	<b>1,544,738</b>	<b>11,088,438</b>	<b>152,292,436</b>	<b>57,439,333</b>	<b>21,512,685</b>	<b>6,632,114</b>	<b>2,130,971,968</b>
<hr/>									
- 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
<b>7,043,222</b>	<b>144,354,533</b>	<b>13,126,361</b>	<b>1,838,040</b>	<b>9,274,922</b>	<b>161,320,555</b>	<b>60,061,626</b>	<b>17,772,926</b>	<b>11,010,674</b>	<b>1,107,500,061</b>
- 554,405,388	-	-	-	-	-	-	<b>2,616,153</b>	-	<b>557,021,541</b>
- 6,062,195	-	-	-	-	-	-	-	-	6,062,195
- 10,851,976	-	-	-	-	-	-	<b>2,920,500</b>	-	<b>13,772,476</b>
<b>7,043,222</b>	<b>893,948,628</b>	<b>13,126,361</b>	<b>1,838,040</b>	<b>9,274,922</b>	<b>161,320,555</b>	<b>60,061,626</b>	<b>23,345,229</b>	<b>11,010,674</b>	<b>1,862,705,479</b>

# 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		Middle East	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Gross carrying value	24,596,050	30,872,476	2,321,470	3,486,830	582,992	228,796
Impairment allowance	(2,231,004)	(796,365)	(176,717)	(345,979)	(71,938)	(26,011)
<b>Net carrying value</b>	<b>22,365,046</b>	<b>30,076,111</b>	<b>2,144,753</b>	<b>3,140,851</b>	<b>511,054</b>	<b>202,785</b>

Total unutilised overdrafts approved to above customers as at 31st December 2023 amounts to Rs 1,292.22Mn (2022 : Rs 2,352.08Mn).

### 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	2023 Rs 000	2022 Rs 000
Documentary credit	26,964,874	21,226,810
Guarantees	114,927,736	109,352,321
Acceptances	11,270,528	6,758,569
Commitment for unutilised facilities - Direct	269,445,259	250,332,701
Commitment for unutilised facilities - Indirect	273,980,241	366,314,552
<b>Total</b>	<b>696,588,638</b>	<b>753,984,953</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.

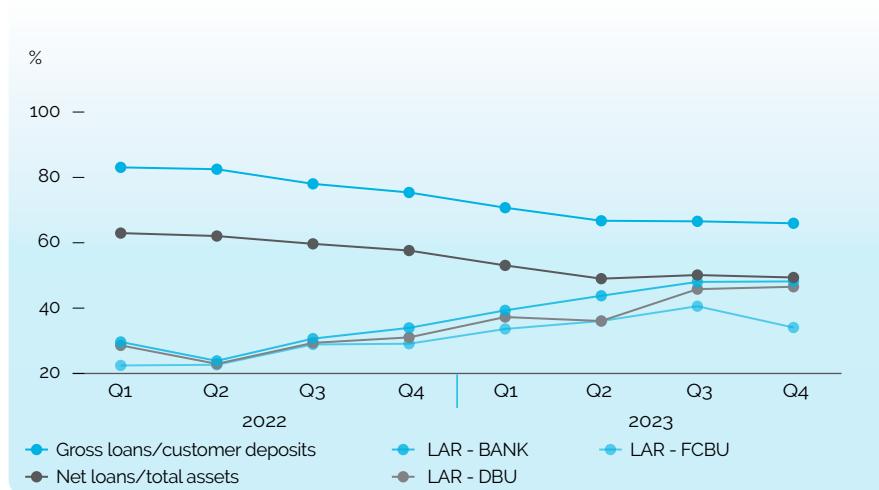
Management has evaluated the potential implications of the current economic environment on the Bank's operations and forecast cash flows and is of the view that the negative impacts from same would not pose any additional stress on the Bank's ability to maintain its regulatory capital margins which is 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		2023	2022
		%	%
<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	46.53	31.04
	Off shore Banking Unit	34.06	29.10
	Bank Unit	48.17	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	387.17	255.83
	All Currency Liquidity Requirement	445.92	519.47
<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.		150.19	130.85

As at 31st December	DBU		FCBU		Bank	
	2023	2022	2023	2022	2023	2022
	%	%	%	%	%	%
<b>Liquid Asset Ratio (LAR)</b>						
As at 31st December	46.53	31.04	34.06	29.10	48.17	33.95
Average for the year	41.61	27.28	37.29	24.80	44.15	28.62
Maximum for the year	46.53	31.04	46.18	29.10	48.17	33.95
Minimum for the year	34.25	22.94	28.35	20.20	37.27	23.86



# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

### 5.4.3 Liquidity reserves

Components of the Bank's liquid assets portfolio used for the purpose of calculating statutory liquid asset ratio in December 2023 and December 2022 (average balance for the month) is given below.

As at 31st December	2023 Rs 000	2022 Rs 000
Cash	37,823,508	35,462,644
Balances with licensed commercial banks	155,219	1,492,200
Money at call in Sri Lanka	1,311,935	909,677
Treasury bills and securities issued or guaranteed by the Government of Sri Lanka which have a maturity not exceeding one year	660,223,574	364,560,197
Import bills	1,177	1,177
Export bills	826,973	1,755,959
Cash items in the process of collection	243,828	243,012
Balances with banks abroad	84,075,399	90,037,563
Qualifying non-financial common equity shares	42,046	-
<b>Total average liquid assets for the month of December</b>	<b>784,703,659</b>	<b>494,462,429</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 2023 is presented in Note 32 and 33 to the financial statements.

### 5.4.4 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 31st December 2023	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>						
<i>Derivative assets</i>						
Derivative financial instruments held for risk management	372,931	79,262	-	-	-	452,193
<i>Non-derivative assets</i>						
Cash and cash equivalents	73,148,596	-	-	-	-	73,148,596
Balances with Central Bank of Sri Lanka	-	-	-	-	12,234,361	12,234,361
Financial assets measured at fair value through profit or loss	115,641	-	-	-	-	115,641
Financial assets measured at amortised cost - loans and advances to customers (gross)	510,966,289	271,288,937	255,267,419	117,535,245	145,202,120	1,300,260,010
Financial assets measured at amortised cost - debt and other instruments	116,048,993	314,248,587	150,552,106	68,855,666	18,670,201	668,375,553
Financial assets measured at fair value through other comprehensive income	74,111,053	83,115,001	12,656,030	28,039,592	23,703,832	221,625,508
Other financial assets	11,029,182	-	-	-	-	11,029,182
<b>Total undiscounted financial assets</b>	<b>785,792,685</b>	<b>668,731,787</b>	<b>418,475,555</b>	<b>214,430,503</b>	<b>199,810,514</b>	<b>2,287,241,044</b>

Bank 31st December 2023	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 Liabilities</b>						
Derivative liabilities						
Derivative financial instruments held for risk management	1,113,872	251,651	-	-	-	1,365,523
<i>Non-derivative liabilities</i>						
Due to banks	193,607,633	998,702,333	871,970,474	452,416,031	1,554,325	2,518,250,796
Securities sold under repurchase agreements	60,425,428	681,280	1,072,452	-	-	62,179,160
Financial liabilities measured at amortised cost						
- due to depositors	981,288,414	566,795,360	46,508,485	52,962,408	2,793,230	1,650,347,897
Dividends payable	974,790	-	-	-	-	974,790
Financial liabilities measured at amortised cost						
- other borrowings	47,278,134	6,812,277	11,829,213	4,133,995	1,267,597	71,321,216
Financial liabilities at amortised cost						
- debt securities issued	-	3,529	90,715	-	-	94,244
Other financial liabilities	7,224	-	-	-	-	7,224
Subordinated term debts	1,362,800	3,857,957	11,475,252	1,330,000	8,995,000	27,021,009
<b>Total undiscounted financial liabilities</b>	<b>1,286,058,295</b>	<b>1,577,104,387</b>	<b>942,946,591</b>	<b>510,842,434</b>	<b>14,610,152</b>	<b>4,331,561,859</b>
<b>Net undiscounted financial assets/(liabilities)</b>	<b>(500,265,610)</b>	<b>(908,372,600)</b>	<b>(524,471,036)</b>	<b>(296,411,931)</b>	<b>185,200,362</b>	<b>(2,044,320,815)</b>

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

Bank As at 31st December 2023	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>Documentary credit</b>						
Guarantees	24,555,382	2,319,000	90,492	-	-	26,964,874
Acceptances	55,244,549	44,450,916	10,627,418	131,678	4,473,175	114,927,736
Commitment for unutilised facilities - Direct	9,543,201	1,699,301	28,026	-	-	11,270,528
Commitment for unutilised facilities - Indirect	269,445,259	-	-	-	-	269,445,259
	273,980,241	-	-	-	-	273,980,241
	632,768,632	48,469,217	10,745,936	131,678	4,473,175	696,588,638

Contractual maturities of undiscounted cash flows of financial assets and financial liabilities

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
<b>Financial Assets</b>						
<i>Derivative assets</i>						
Derivative financial instruments held for risk management	80,238,881	-	-	-	-	80,238,881
<i>Non- derivative assets</i>						
Cash and cash equivalents	-	-	-	-	-	32,344,341
Balances with Central Bank of Sri Lanka						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	10,958,660	-	-	-	-	10,958,660
<b>Total undiscounted financial assets</b>	<b>930,178,749</b>	<b>327,414,787</b>	<b>427,625,818</b>	<b>235,191,936</b>	<b>229,856,033</b>	<b>2,150,267,323</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

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
<b>Financial Liabilities</b>						
<i>Derivative liabilities</i>						
Derivative financial instruments held for risk management	25,632	-	-	-	-	25,632
<i>Non-derivative liabilities</i>						
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>(181,040,177)</b>	<b>(271,164,076)</b>	<b>266,394,450</b>	<b>183,455,714</b>	<b>218,949,419</b>	<b>216,595,330</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
<i>Documentary credit</i>						
<i>Guarantees</i>						
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

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;

#### 5.4.5 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 2023 and 2022 is shown in the following tables.

As at 31st December 2023	Encumbered		Unencumbered		Total
	Pledged as collateral	Other	Available as collateral	Other	
	Rs 000	Rs 000	Rs 000	Rs 000	
Cash and cash equivalents	-	-	73,365,223	-	73,365,223
Placements with banks	-	-	56,024,833	-	56,024,833
Balances with Central Banks	-	12,234,361	-	-	12,234,361
Derivative financial assets	-	-	-	452,193	452,193
Financial assets recognised through profit or loss measured at fair value	-	-	115,641	-	115,641
Financial assets measured at amortised cost					
Loans and advances to other customers	-	-	1,041,990,203	-	1,041,990,203
Financial assets measured at amortised cost					
Debt and other financial instruments	65,592,995	-	587,649,176	-	653,242,171
Financial assets measured at fair value through other comprehensive income	-	-	189,325,958	-	189,325,958
Other financial assets	-	-	-	11,029,182	11,029,182
<b>Total</b>	<b>65,592,995</b>	<b>12,234,361</b>	<b>1,948,471,034</b>	<b>11,481,375</b>	<b>2,037,779,765</b>

As at 31st December 2022	Encumbered		Unencumbered		Total
	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	-	-	-	10,958,660	10,958,660
<b>Total</b>	<b>8,864,761</b>	<b>32,344,341</b>	<b>1,715,402,530</b>	<b>16,329,161</b>	<b>1,772,940,793</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 2023		Note	Market Risk Measurement		
			Carrying amount	Trading Portfolio	Non-Trading Portfolio
			Rs 000	Rs 000	Rs 000
<b>Assets subject to market risk</b>					
Cash and cash equivalents	25	73,365,223	-	73,365,223	
Placements with banks	26	56,024,833	-	56,024,833	
Derivatives financial assets	29	452,193	452,193	-	
Financial assets measured at fair value through profit or loss	30	115,641	115,641	-	
Financial assets measured at amortised cost					
- Loans to and advances to customers	31	1,041,990,203	-	1,041,990,203	
Financial assets measured at amortised cost					
- Debt and other financial instruments	32	653,242,171	-	653,242,171	
Financial assets measured at fair value through other comprehensive income	33	189,325,958	-	189,325,958	
		2,014,516,222	567,834	2,013,948,388	
<b>Liabilities subject to market risk</b>					
Due to banks	42	9,019,582	-	9,019,582	
Derivatives financial liabilities	29	1,365,523	1,365,523	-	
Financial liabilities measured at amortised cost - due to depositors	44	1,579,780,228	-	1,579,780,228	
Financial liabilities measured at amortised cost - other borrowings	46	24,933,215	-	24,933,215	
Debt securities issued	47	87,569	-	87,569	
Subordinated term debt	52	18,961,556	-	18,961,556	
		1,634,147,673	1,365,523	1,632,782,150	

As at 31st December 2022	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	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

## 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).

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

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	2023	2022
<b>Trading portfolio</b>		
Marked-to-market value of the trading equity portfolio - Rs 000	113,694	111,121
Value-at-Risk (under 99% confidence level for 10 day period)	8.49%	16.07%
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	9,651	17,857
<b>Non trading portfolio</b>		
Marked-to-market value of the non trading equity portfolio - Rs 000	22,273	17,290
Value-at-Risk (under 99% confidence level for 10 day period)	17.38%	18.71%
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	2,450	1,705,480

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	2023	2022
Non trading	0.9590	1.0398

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 2023	Carrying	Less than	3-6	6-12	1-5	More than
	amount	3 months	months	months	years	5 years
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial assets measured at amortised cost						
- Loans and advances to customers	1,041,990,203	291,519,255	255,511,226	200,823,099	99,981,336	194,155,287
Financial assets measured at amortised cost						
- debt and other instruments	653,242,171	188,804,329	210,340,699	70,697,209	173,081,717	10,318,217
Financial assets measured at fair value through other comprehensive income	183,097,126	87,093,139	-	73,525,528	22,478,459	-
	1,878,329,500	567,416,723	465,851,925	345,045,836	295,541,512	204,473,504
Financial liabilities measured at amortised cost						
- due to depositors	1,579,780,228	579,060,668	298,670,632	326,170,717	256,502,634	119,375,577
Debt securities issued	87,569	-	-	87,569	-	-
Subordinated term debts	18,961,556	1,327,463	-	1,987,358	8,360,693	7,286,042
Borrowings	95,746,491	71,853,191	1,428,364	713,024	20,482,578	1,269,334
	1,694,575,844	652,241,322	300,098,996	328,958,668	285,345,905	127,930,953
	183,753,656	(84,824,599)	165,752,929	16,087,168	10,195,607	76,542,551

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 2023 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)	2,034,672	(2,188,901)	3,922,614	(4,539,314)
USD Portfolio (USD 000)	3,232	(3,522)	6,203	(7,363)

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.

#### 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 2023, Bank carried a USD equivalent NOP/unhedged "Overbought" position of LKR 152 Mn. The impact of exchange rate risk is given below:

As at 31st December	2023	2022
Net exposure – USD equivalent	469,235	38,763,350
Value of position in Rs 000	152,032	14,245,531
Exchange rate (USD/LKR) as at 31 December	324.00	367.50
<b>Possible potential loss to Bank</b>		
– If exchange rate (USD/LKR) depreciates by 1% – Rs 000	1,520	142,455
– If exchange rate depreciates by 10% – Rs 000	15,203	1,424,553
– If exchange rate depreciates by 15% – Rs 000	22,805	2,136,830

#### 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 analysed by the Integrated Risk Management Division (IRMD) and recommend necessary improvements to the systems, processes and procedures to avoid recurrence and mitigate risks to minimise the losses.
- Analyse downtime of the critical systems, attrition information, exit interview comments and complaints to identify operational risks and recommend mitigating controls. The key findings of the analysis are evaluated at

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

- 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.
- 5.7 Capital Management**
- The Bank is required to manage its capital taking into 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 2022 - Common Equity Tier 1 ratio of 8% together with a Tier 1 ratio of 9.5% and a total capital ratio of 13.5%.

As at 31st December	2023	2022
<b>Common equity Tier 1 (CET1) capital after adjustments</b>	<b>126,926,615</b>	<b>110,339,128</b>
<b>Total common equity Tier 1 (CET1) capital</b>	<b>170,009,255</b>	<b>148,633,241</b>
Equity capital (stated capital)/assigned capital	40,955,116	38,679,005
Reserve fund	10,410,000	9,310,000
Published retained earnings/(accumulated retained losses)	56,305,768	40,600,740
Published accumulated other comprehensive income (OCI)	3,238,371	1,943,496
General and other disclosed reserves	59,100,000	58,100,000
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>43,082,640</b>	<b>38,294,113</b>
Goodwill (net)	-	-
Other intangible assets (net)	1,391,167	1,139,451
Revaluation losses of property, plant and equipment	-	-
Defined benefit pension fund assets	4,158,958	3,479,578
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	344,997	499,670
Significant investments in the capital of financial institutions where the Bank owns more than 10% of the issued ordinary share capital of the entity	2,618,180	2,704,063
Shortfall of capital in financial subsidiaries	624,770	-
Deferred tax assets (net)	33,944,568	30,471,351
<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>32,328,305</b>	<b>29,275,498</b>
<b>Total Tier 2 Capital</b>	<b>32,328,305</b>	<b>29,275,498</b>
Qualifying Tier 2 capital instruments	12,496,465	16,104,275
Revaluation gains	9,019,056	2,090,479
General provisions/Eligible impairment	10,812,784	11,080,745
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
<b>Total adjustments to Tier 2 capital</b>	<b>-</b>	<b>-</b>
Investment in own shares	-	-
Others (specify)	-	-
<b>CET1 capital</b>	<b>170,009,255</b>	<b>148,633,241</b>
<b>Total Tier 1 capital</b>	<b>126,926,615</b>	<b>110,339,128</b>
<b>Total capital</b>	<b>159,254,920</b>	<b>139,614,626</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

As at 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Total Risk Weighted Assets (RWA)</b>	<b>929,502,175</b>	<b>997,470,891</b>	<b>1,013,065,509</b>	<b>1,096,482,202</b>
RWAs for credit risk	865,022,689	886,459,570	945,277,000	963,875,964
RWAs for market risk	534,316	14,398,617	765,987	14,566,345
RWAs for operational risk	63,945,171	96,612,704	67,022,522	118,039,893
<b>Regulatory capital ratios (%)</b>				
Common equity Tier 1 Capital ratio	13.66%	11.06%	14.70%	11.42%
Tier 1 capital ratio	13.66%	11.06%	14.70%	11.42%
Total capital ratio	17.13%	14.00%	17.95%	14.15%

### 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.

## 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. Specific controls include:

# NOTES TO THE FINANCIAL STATEMENTS

## 6 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Contd.)

- Verification of observable pricing
- re performance of model valuations
- a review and approval of changes to models
- quarterly calibration and back testing of models against observed market transactions

### 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 2023	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>								
derivative financial instruments								
Currency swaps	-	282,184	-	282,184	-	282,184	-	282,184
Forward foreign exchange contracts	-	170,009	-	170,009	-	170,009	-	170,009
	-	452,193	-	452,193	-	452,193	-	452,193
<b>Financial assets measured at fair value</b>								
through profit or loss								
Quoted shares	113,694	-	-	113,694	331,492	-	-	331,492
Government Securities	1,947	-	-	1,947	1,947	-	-	1,947
Unquoted units	-	-	-	-	-	467,626	-	467,626
	115,641	-	-	115,641	333,439	467,626	-	801,065
<b>Financial assets measured at fair</b>								
value through other comprehensive income								
Quoted shares	5,501,697	-	-	5,501,697	5,501,697	-	-	5,501,697
Unquoted shares	-	-	33,035	33,035	-	-	38,515	38,515
Unquoted units	-	694,100	-	694,100	-	694,100	-	694,100
Government Securities	183,097,126	-	-	183,097,126	189,740,995	-	-	189,740,995
	188,598,823	694,100	33,035	189,325,958	195,242,692	694,100	38,515	195,975,307
<b>Financial liabilities measured at fair value derivative financial instruments</b>								
Currency swaps	-	1,287,948	-	1,287,948	-	1,287,948	-	1,287,948
Forward foreign exchange contracts	-	77,575	-	77,575	-	77,575	-	77,575
	-	1,365,523	-	1,365,523	-	1,365,523	-	1,365,523

As at 31st December 2022	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	-	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

## 6.2 Fair Value Measurement of Assets Classified as Level 3 and Level 2

The following table 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 35.68 per unit (2022 - Rs 27.96)]

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 2022. 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 2023.

Further, there were no transfers from Level 1 to Level 2 or Level 2 to Level 1 in 2023 and no transfers in either direction in 2022. There were no transfers out of Level 3 in 2023 or 2022.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 6 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Contd.)

### 6.3 Level 3 recurring fair values

#### Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

	Equity securities			
	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Balance as at 1st January	27,839	27,839	30,551	30,551
Addition during the year	-	-	-	-
Net change in fair value (unrealised)	5,196	-	7,964	-
<b>Balance as at 31st December</b>	<b>33,035</b>	<b>27,839</b>	<b>38,515</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 2023	Bank					Group				
	Fair Value					Fair Value				
	Carrying Value Rs 000	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000	Carrying 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]	73,148,596	-	73,148,596	-	73,148,596	73,758,907	-	73,758,907	-	73,758,907
Placements with banks [Note 26]	55,991,134	-	55,991,134	-	55,991,134	61,836,382	-	61,836,382	-	61,836,382
Balances with Central Bank of Sri Lanka [Note 27]	12,234,361	-	12,234,361	-	12,234,361	12,234,361	-	12,234,361	-	12,234,361
Reverse repurchase agreement [Note 28]	-	-	-	-	-	1,830,461	-	1,830,461	-	1,830,461
Financial assets measured at amortised cost										
- loans and advances to customers [Note 31]	954,880,316	-	949,550,566	-	949,550,566	988,601,197	-	989,517,180	-	989,517,180
Financial assets measured at amortised cost- debt and other financial instruments [Note 32]	549,772,155	493,293,433	10,603,890	-	503,897,323	584,131,263	493,293,433	16,808,956	-	510,102,389
Other financial assets [Note 41]	11,029,182	-	11,029,182	-	11,029,182	14,269,396	-	14,269,396	-	14,269,396
<b>Total financial assets measured at amortised cost</b>	<b>1,657,055,744</b>	<b>493,293,433</b>	<b>1,112,557,729</b>	-	<b>1,605,851,162</b>	<b>1,736,661,967</b>	<b>493,293,433</b>	<b>1,170,255,643</b>	-	<b>1,663,549,076</b>
<b>Financial Liabilities</b>										
Due to banks [Note 42]	9,019,582	-	9,019,582	-	9,019,582	9,019,582	-	9,019,582	-	9,019,582
Securities sold under repurchase agreements [Note 43]	61,793,694	-	61,793,694	-	61,793,694	61,793,694	-	61,793,694	-	61,793,694
Financial liabilities measured at amortised cost- due to depositors [Note 44]	1,579,780,228	-	1,596,246,417	-	1,596,246,417	1,609,153,685	-	1,624,937,437	-	1,624,937,437
Dividends payable [Note 45]	974,790	-	974,790	-	974,790	990,781	-	990,781	-	990,781
Financial liabilities measured at amortised cost- other borrowings [Note 46]	24,933,215	-	24,933,215	-	24,933,215	25,031,784	-	25,031,784	-	25,031,784
Debt securities issued [Note 47]	87,569	-	87,569	-	87,569	550,160	-	544,007	-	544,007
Subordinated term debts [Note 52]	18,961,556	-	17,977,991	-	17,977,991	22,255,164	-	21,121,727	-	21,121,727
Other financial liabilities [Note 51]	7,224	-	7,224	-	7,224	2,869,423	-	2,869,423	-	2,869,423
<b>Total financial liabilities measured at amortised cost</b>	<b>1,695,557,858</b>	<b>-</b>	<b>1,711,040,482</b>	<b>-</b>	<b>1,711,040,482</b>	<b>1,731,664,273</b>	<b>-</b>	<b>1,746,308,435</b>	<b>-</b>	<b>1,746,308,435</b>

As at 31st December 2022	Bank					Group				
	Fair Value					Fair Value				
	Carrying Value Rs 000	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000	Carrying 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]	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 measured 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 measured 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]	10,958,660	-	10,958,660	-	10,958,660	13,772,476	-	13,772,476	-	13,772,476
<b>Total financial assets measured at amortised cost</b>	<b>1,600,836,036</b>	<b>348,994,206</b>	<b>1,151,795,771</b>	-	<b>1,500,789,977</b>	<b>1,680,605,094</b>	<b>370,428,179</b>	<b>1,205,315,813</b>	-	<b>1,575,743,992</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 measured at amortised cost- due to depositors [Note 44]	140,780,049	-	142,183,781	-	142,183,781	144,317,912	-	145,835,738	-	145,835,738
Dividends payable [Note 45]	1,008,325	-	1,008,325	-	1,008,325	1,038,542	-	1,038,542	-	1,038,542
Financial liabilities measured 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>147,878,546</b>	<b>-</b>	<b>148,460,035</b>	<b>-</b>	<b>148,460,035</b>	<b>1,521,388,893</b>	<b>-</b>	<b>1,525,046,605</b>	<b>-</b>	<b>1,525,046,605</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 (SLDBs) are variable rate instruments where the re-pricing happens semi-annually. Thus the carrying value of these bonds

approximates their fair value as at reporting date. As explained in Note No. 32 (e) remaining balance of these SLDBs were exchanged with LKR denominated treasury bonds of Rs 15 Bn. The fair value of said portfolio is considered to be equal to the carrying value.

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

# NOTES TO THE FINANCIAL STATEMENTS

## 6 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Contd.)

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	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Interest income (Note 8 (a))	284,097,697	207,019,354	304,578,112	220,581,307
Fee and commission income (Note 9)	16,308,907	15,520,113	17,207,633	16,521,300
Net gain/(loss) from trading (Note 10)	(11,951,627)	4,898,719	(11,850,918)	4,825,568
Net gain from financial investments at fair value through other comprehensive income (Note 11)	271,537	22,619	310,852	23,099
Net insurance premium income (Note 12)	-	-	15,249,250	12,750,482
Net gains arising on de-recognition of financial assets (Note 13)	-	-	-	-
Net other operating income (Note 14)	10,412,833	14,951,686	11,143,262	15,807,653
	299,139,347	242,412,491	336,638,191	270,509,409

**8 NET INTEREST INCOME****ACCOUNTING POLICY**

Interest income and expenses are recognised in profit or loss based using the effective interest rate method.

Interest income and expenses presented in the income statement include:

- financial assets measured at FVTPL
- financial assets and financial liabilities measured at amortised cost
- financial assets measured at FVOCI

**Effective interest rate (EIR)**

The EIR 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	
	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000
Interest income [Note 8 (a)]	284,097,697	207,019,354	304,578,112	220,581,307
Less: Interest expenses [Note 8 (b)]	179,755,441	104,142,478	186,503,550	109,014,763
<b>Net interest income</b>	<b>104,342,256</b>	<b>102,876,876</b>	<b>118,074,562</b>	<b>111,566,544</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) 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) to the financial statements) and is no longer credit-

impaired, the Bank reverts to calculating interest income on a gross amortised cost basis.

The Group ceases to recognise interest income on assets that are collectively impaired (over 90 days past due) when it becomes probable that the associated economic benefits will no longer continue to flow to the Bank.

For Purchased or Originated Credit- Impaired (POCI) financial assets (as set out in Note 31 (b) 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 8 (a) INTEREST INCOME (Contd.)

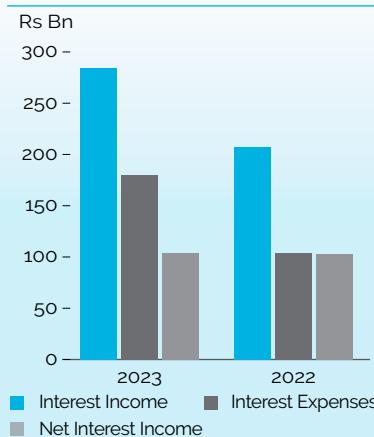
For the year ended 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Cash and cash equivalents	1,300,031	140,689	1,349,838	240,985
Securities purchased under resale agreements	193,259	348,965	567,228	750,619
Placements with banks	2,166,626	455,901	3,160,624	816,576
Interest income accrued on impaired financial assets	2,806,931	2,100,903	2,806,931	2,100,903
Financial assets measured at fair value through profit or loss	9,159	2,448	9,159	35,361
<b>Financial assets measured at amortised cost</b>				
Loans and advances to customers	156,040,060	141,356,955	168,309,664	149,742,363
Debt and other instruments	109,913,422	58,280,183	116,030,717	61,160,376
Financial assets measured at fair value through other comprehensive income [Note 8(c)]	11,063,144	4,129,607	11,747,046	5,561,098
Other interest income	605,065	203,703	596,905	173,026
	<b>284,097,697</b>	<b>207,019,354</b>	<b>304,578,112</b>	<b>220,581,307</b>

Interest Income from loans and advances to customers includes modifications made to loans due to debt concessionary schemes implemented by the Bank as a measure to support the recovery of businesses/customers affected by adverse economic conditions.

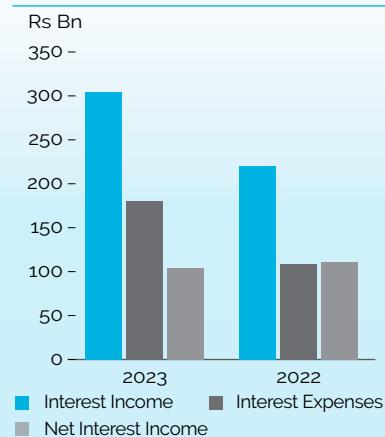
## 8 (b) Interest Expenses

For the year ended 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Securities sold under repurchase agreements	5,918,084	3,666,452	5,918,084	3,558,106
Due to banks	854,381	817,668	854,381	817,668
Due to depositors (deposits from customers)	167,742,498	94,780,324	174,174,723	99,269,835
Debt securities issued	188,091	267,202	405,718	406,992
Other borrowings	1,679,149	1,108,221	1,728,563	1,473,701
Subordinated term debts	2,502,644	2,644,572	3,028,092	3,148,935
Interest expense on lease liabilities [Note 38 (b)]	862,480	859,672	385,875	341,159
Other interest expenses	8,114	(1,633)	8,114	(1,633)
	<b>179,755,441</b>	<b>104,142,478</b>	<b>186,503,550</b>	<b>109,014,763</b>

Analysis of Interest Income - Bank



Analysis of Interest Income - Group



**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	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Interest income</b>				
Financial assets measured at fair value through profit or loss	9,159	2,448	9,159	35,361
Financial assets measured at amortised cost -Debt and other financial instruments	108,102,673	57,200,541	112,987,551	59,341,634
Financial assets measured at fair value through other comprehensive income	11,063,144	4,129,607	11,747,046	5,561,098
Securities purchased under resale agreements	193,259	348,965	567,228	849,141
<b>Less : Interest expenses</b>				
Securities sold under repurchase agreements	(5,918,084)	(3,666,452)	(5,918,084)	(3,558,106)
<b>Net interest income from Sri Lanka Government Securities</b>	<b>113,450,151</b>	<b>58,015,109</b>	<b>119,392,900</b>	<b>62,229,128</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 a recognising a financial instrument in the Group's financial statements may

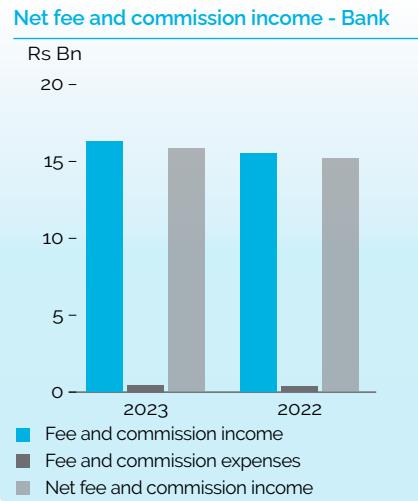
be partially in the scope of Sri Lanka Accounting Standard SLFRS 9 "Financial Instruments" and partially within the scope of Sri Lanka Accounting Standard SLFRS 15 "Revenue from Contracts with Customers". In such a scenario, the Group first applies SLFRS 9 to such separate contract and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

For the year ended 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Fee and commission income [Note 9 (b)]	16,308,907	15,520,113	17,207,633	16,521,300
Less: Fee and commission expenses	467,572	345,863	634,980	619,555
<b>Net fee and commission income</b>	<b>15,841,335</b>	<b>15,174,250</b>	<b>16,572,653</b>	<b>15,901,745</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 9 NET FEE AND COMMISSION INCOME (Contd.)



### 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.

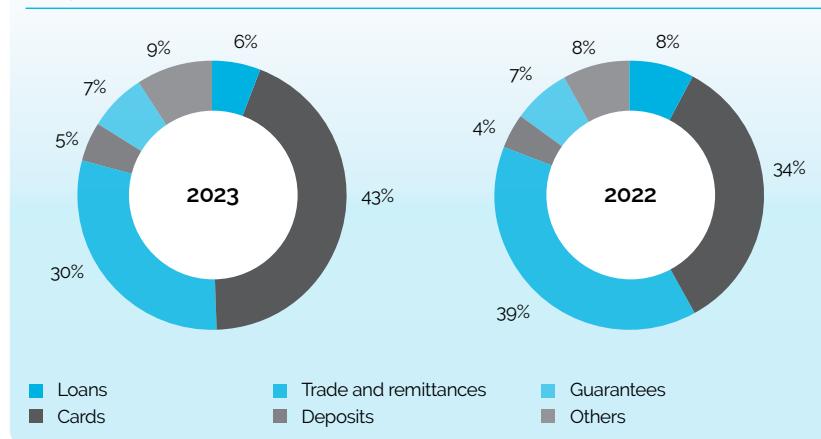
The following table provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

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 guarantees and trade related commissions are recognised on a straight-line basis over the period of contract.
	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.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
	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.		
Insurance service	Insurance contract policyholders are charged for policy administration services and other contract fees.	These fees are recognised as income upon receipt or when they become due.

### 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	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Loans and advances related services	1,051,363	1,170,253	1,051,363	1,170,253
Credit and debit cards related services	7,107,559	5,308,536	7,107,559	5,308,536
Trade and remittances related services	4,823,420	6,058,377	4,823,420	6,058,377
Deposits related services	765,135	624,784	765,135	624,784
Guarantees related services	1,065,708	1,089,948	1,065,708	1,089,948
Other financial services	1,495,722	1,268,215	2,394,448	2,269,402
<b>Gross fee and commission income</b>	<b>16,308,907</b>	<b>15,520,113</b>	<b>17,207,633</b>	<b>16,521,300</b>

**Analysis of Net Free 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	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Financial assets - Held for trading</b>				
<b>Fixed income</b>				
Net marked to market gain/(loss)	-	-	-	-
Net capital gain/(loss)	66,814	17,915	66,814	17,915
<b>Equities</b>				
Net marked to market gain/(loss)	2,573	7,756	84,653	(78,102)
Net capital gain	-	-	8,761	4,086
Dividend income	2,712	19,152	12,580	27,773
<b>Derivative financial instruments</b>				
Gain/(loss) on revaluation of foreign currency derivatives				
- With banks	(12,029,580)	4,839,236	(12,029,580)	4,839,236
- With customers	5,854	14,660	5,854	14,660
	(11,951,627)	4,898,719	(11,850,918)	4,825,568

# NOTES TO THE FINANCIAL STATEMENTS

## 11 NET GAIN FROM FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

### ACCOUNTING POLICY

Net gain from financial investments includes dividend income and net capital gains / losses 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	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Fixed income</b>				
Net capital gain/(loss)	117,291	-	156,247	-
<b>Equities</b>				
Dividend income	154,246	22,619	154,605	23,099
	271,537	22,619	310,852	23,099

## 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	
	2023 Rs 000	2022 Rs 000
Gross insurance premium income	18,310,207	15,300,741
Premium ceded to reinsurers	(2,922,404)	(2,164,702)
<b>Net written premium</b>	<b>15,387,803</b>	<b>13,136,039</b>
Net change in reserve for unearned premium	(138,553)	(385,557)
<b>Net insurance premium income [Note 12 (a)]</b>	<b>15,249,250</b>	<b>12,750,482</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	
	2023	2022	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Life Insurance</b>						
Individual policies	8,769,704	7,266,600	(345,211)	(242,771)	8,424,493	7,023,829
Corporate policies	387,414	391,181	(179,607)	(55,473)	207,807	335,708
Single premium	1,719,780	1,217,620	(67,373)	(174,768)	1,652,407	1,042,852
<b>Gross written premium - life insurance</b>	<b>10,876,898</b>	<b>8,875,401</b>	<b>(592,191)</b>	<b>(473,012)</b>	<b>10,284,707</b>	<b>8,402,389</b>
<b>General Insurance</b>						
Fire	1,488,609	965,140	(1,394,154)	(914,763)	94,455	50,377
Motor	4,519,986	4,217,856	(195,735)	(176,934)	4,324,251	4,040,922
Marine	123,155	158,297	(107,762)	(146,234)	15,393	12,063
Miscellaneous	1,301,559	1,084,047	(632,562)	(453,759)	668,997	630,288
<b>Gross written premium - general insurance</b>	<b>7,433,309</b>	<b>6,425,340</b>	<b>(2,330,213)</b>	<b>(1,691,690)</b>	<b>5,103,096</b>	<b>4,733,650</b>
<b>Net change in reserves for unearned premium</b>					<b>(138,553)</b>	<b>(385,557)</b>
	<b>18,310,207</b>	<b>15,300,741</b>	<b>(2,922,404)</b>	<b>(2,164,702)</b>	<b>15,249,250</b>	<b>12,750,482</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	
	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Financial assets measured at fair value through other comprehensive income</b>				
Government Securities	-	-	-	-
	-	-	-	-

**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.

# NOTES TO THE FINANCIAL STATEMENTS

## 14 NET OTHER OPERATING INCOME (Contd.)

For the year ended 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Dividend income from subsidiaries and joint venture	288,473	287,933	-	-
Foreign exchange gain *				
- With banks	6,219,559	11,598,865	6,118,264	11,989,821
- With customers	3,502,659	2,693,994	3,502,659	2,693,994
Gain on disposal of property, plant and equipment (net)	10,386	9,695	13,879	12,114
Rental income	13,631	12,520	233,380	252,050
Rental income from investment properties	142,904	103,737	215,084	197,160
Recovery of loans written off in prior years	145,862	169,459	200,020	218,133
Recovery of operational losses provided for in prior years	18,672	5,655	18,672	5,655
Miscellaneous	70,687	69,828	841,304	438,726
	10,412,833	14,951,686	11,143,262	15,807,653

\* Foreign exchange gain/(loss) represents both revaluation gain/(loss) on the Bank's net open position and gain/(loss) on foreign exchange contracts. Loss on revaluation of foreign currency derivatives amounting to Rs 12,024 Mn (2022 : Gain of Rs 4,854 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 loss of the Bank and the Group for the year ended 31st December 2023 amounted to Rs 2,301 Mn and Rs 2,200 Mn respectively (2022 : Gain of Rs 19,147 Mn for the Bank and a gain of Rs 19,538 Mn for the Group). In 2023, Sri Lankan rupee appreciated as opposed to a depreciation in 2022.

## 15 IMPAIRMENT CHARGE FOR LOANS AND OTHER LOSSES

### ACCOUNTING POLICY

The Group calculates Expected Credit Loss (ECL) allowances on financial assets in line with SLFRS - 9. Further, Bank also takes in to consideration the requirements as per the Banking Act Direction No. 13 of 2021 and No.14 of 2021 on Classification, Recognition and Measurement of Credit Facilities/ Other Financial Assets in Licensed Banks when assessing ECL on financial assets. The accounting policy adopted in determining

same is given in Note 15 (a) to the financial statements.

The Group calculates ECL allowances for financial assets, except for those assets that are measured at Fair Value Through Profit or Loss (FVTPL) and equity instruments which are not subject to ECL under SLFRS 9:

- 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

### 15 (a) Overview of the Expected Credit Loss Principles

The Group measures Expected Credit Loss (ECL) allowances based on the credit losses anticipated over the life of the asset (Lifetime Expected Credit Loss, or LTECL). However, if there has been no significant increase in credit risk since origination, the allowance is based on the 12-month expected credit loss (12mECL). The 12m ECL represents that portion of LTECLs which corresponds to ECLs that could result from default events within 12 months following the reporting date. The Group calculates Expected Credit Loss (ECL) by applying a 12-month Probability of Default (PD), adjusted

for Exposure at Default (EAD) and Loss Given Default (LGD). This figure is then discounted using a rate that approximates the original Effective Interest Rate (EIR).

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.

### 15 ( b) i Calculation of ECLs for individually significant loans

The Group initially assesses Expected Credit Losses (ECLs) for each individually significant loan (ISL), selected based on a predefined threshold. If these assets are not found to be

impaired through this individual assessment, the Group then aggregates them with loans and advances possessing similar credit risk characteristics for a collective impairment evaluation. The criteria used to assess whether there is a significant increase in credit risk of an individually significant loan are detailed under Note 31. The Group calculates ECLs for ISLs by using probability weighted scenarios to estimate expected cash flows. These cash flows are then discounted at a rate approximating the EIR. A cash shortfall is defined as the difference between the cash flows that are contractually due to the group and the cash flows that the group actually expects to receive.

### **15 ( b) ii Grouping loans and advances measured on a collective basis**

Loans and advances, including those assessed individually and found not impaired as well as individually insignificant loans, are collectively assessed for Expected Credit Loss (ECL) provisions. This process involves categorising these assets into groups with similar credit risk characteristics as described below.

- Product type
- Industry of the Borrower
- Whether the loan is restructured/ rescheduled
- Whether the loan is watch listed or not
- Additionally, the Group may determine other necessary criteria from time to time to classify such loans and advances appropriately.

The key elements of ECLs computation for collectively assessed loans 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. (Definition of default is given in Note 31 c (ii)).

**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 Purchase or Originated Credit Impaired (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 presented as a percentage of the EAD.

Discount rate for collective assessments are determined separately for portfolios of facilities with similar credit risk characteristics.

#### **• Credit card and Revolving facilities**

The Group offers a diverse range of products, including corporate, SME, and retail overdrafts, as well as credit card facilities. It conducts an annual review of the sanction limits, retaining the right to either cancel or reduce these limits. For these facilities, the Group calculates 12 month ECLs allowances, reflecting its expectations of customer behaviour, the likelihood of default, and potential future risk mitigation strategies, which may involve reducing or cancelling the facilities.

The EAD is determined by taking the maximum of the sanctioned limit adjusted by an appropriate credit conversion factor (CCF), or the gross carrying amount of the loan.

For credit cards, the Group assesses ECL over the asset's lifetime (Lifetime Expected Credit Loss, LTECL). However, if credit risk has not significantly increased since origination, the allowance is based on the 12-month ECL (12mECL), which represents the LTECL portion that is expected from default events within the next 12 months.

#### **• 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 generally 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, International Monetary Fund, Asian Development Bank and World Bank. In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as given in the following table.

# NOTES TO THE FINANCIAL STATEMENTS

## 15 IMPAIRMENT CHARGE FOR LOANS AND OTHER LOSSES (Contd.)

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.

- **Regulations issued by 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.

### **15 (c) Accounting Judgements, Estimates and Assumptions used in ECL calculation**

The measurement of impairment losses under 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 ECL allowances 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 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 criterias are elaborated under Note 31 (c) i.
- 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 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 2023
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.	There were no material changes to the policies during the year ended 31st December 2023. Details of SICR indicators are given under Note 31 (c) i.
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.	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 2023. As the moratoriums ended in 2022, PDs and LGDs have been computed based on actual movements. Current economic condition adjustments have been made as post model adjustments based on stress testing and historic patterns to better reflect the adequacy of ECL.
	In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.	There were no material changes to behavioural lifetime estimates during the year ended 31st December 2023.

Judgement/ Assumption	Description	Considerations for the year ended 31st December 2023															
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 2023, 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, Asian Development Bank and World Bank have been used.															
Probability weighting of each economic scenario (base case, best case and worse case scenarios)	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario at each measurement date.	<p>The key consideration for probability weightings in the current period is the uncertainties associated with prevailing economic conditions.</p> <p>In addition to the base case forecast, which accounts for the lingering effects of the economic downturn and the residual impact of COVID 19 pandemic, the Group has placed greater emphasis on the worst case scenario in light of the ongoing uncertainties associated with economic conditions while there are improvements to the economic indicators. This decision reflects the Group's assessment of heightened downside risks as the economy shows signs of recovery amidst continuing challenges. It is important to note that the assigned probability weighting carry a high degree of inherent uncertainty. Consequently, the actual outcomes may significantly differ from those projected.</p>															
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, post model adjustments have been applied to ensure credit provisions are appropriate.</p>	<table border="1"> <thead> <tr> <th>As at 31st December</th> <th>2023</th> <th>2022</th> </tr> <tr> <th></th> <th>%</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Best Case</td> <td>5</td> <td>5</td> </tr> <tr> <td>Base Case</td> <td>15</td> <td>15</td> </tr> <tr> <td>Worst Case</td> <td>80</td> <td>80</td> </tr> </tbody> </table> <p>Taking into consideration the above factors the Bank has not changed the weightages assigned to the three scenarios in 2023, despite the improvements in the economic factors.</p> <p>Management has made post-model adjustments to the modeled ECL based on Bank's loan portfolio exposure to risk elevated sectors (identified based on internal assessment) primarily due to the uncertainties associated with the economic landscape.</p> <p>Post model adjustments have been made to the modeled ECL provision, specifically addressing exposure to sectors identified by the group as having an elevated risk.</p>	As at 31st December	2023	2022		%	%	Best Case	5	5	Base Case	15	15	Worst Case	80	80
As at 31st December	2023	2022															
	%	%															
Best Case	5	5															
Base Case	15	15															
Worst Case	80	80															

# NOTES TO THE FINANCIAL STATEMENTS

## 15 IMPAIRMENT CHARGE FOR LOANS AND OTHER LOSSES (Contd.)

**15 (d) The Group calculates loss allowances equal to the lifetime Expected Credit Loss (ECL), except for the following assets, which are measured based on 12-month ECL**

- Debt Instruments that are determined to have low credit risk at the reporting date.

- Other financial instruments for which there has been no significant increase in credit risk since their initial recognition.

since its initial recognition. This assessment is based on evaluating the change in the risk of default over the remaining life of the financial instrument.

To support this approach, the Group has an established policy to assess, at the end of each reporting period, whether the credit risk of a financial instrument has significantly increased

**15 (e) Impairment charges on financial and non-financial assets**

**Bank**

For the year ended 31st December	2023					2022				
	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Other Rs 000	Total Rs 000	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Other Rs 000	Total Rs 000
<b>Impairment charge/(reversal) on financial assets measured at amortised cost</b>										
Cash and cash equivalents	13,615	-	-	-	13,615	194,133	-	-	-	194,133
Placements with banks	21,561	-	-	-	21,561	12,138	-	-	-	12,138
Loans and advances *	(1,700,774)	(5,687,845)	10,941,566	-	3,552,947	5,784,375	5,339,312	17,895,359	-	29,019,046
Debt instruments**	799,949	35,255,105	(10,590)	-	36,044,464	(10,728,883)	69,641,596	50,951	-	58,963,664
<b>Impairment charge/(reversal) on financial assets measured at fair value through other comprehensive income</b>										
Debt instruments	-	-	-	-	-	(295,445)	-	-	-	(295,445)
Impairment charge / (reversal) on loan commitments and financial guarantee contracts	458,740	(169,397)	(59,989)	-	229,354	1,778,367	362,578	76,596	-	2,217,541
Impairment charge on property plant and equipment, intangible assets and prepayments	-	-	-	(49,036)	(49,036)	-	-	-	-	-
Other impairment charges	-	-	776,406	-	776,406	-	-	350,228	-	350,228
	(406,909)	29,397,863	11,647,393	(49,036)	40,589,311	(3,255,315)	75,343,486	18,373,134	-	90,461,305

\*Impairment charges recognised against loans and advances include the amendments made to the previously recognised post model adjustments made outside ECL model using various stress testing technique in order to address the potential implications of prevailing economic conditions and associated uncertainties.

The improved economic factors applied to the base case in 2023, resulted in the reduction in modelled ECL. The management initiated post model adjustments to the modelled ECL from 2021 based on Bank's exposure to the moratorium schemes and risk elevated sectors identified by the Risk division of the Bank, primarily due to prolonged uncertainties that impacted the economic landscape immediately after the COVID 19 pandemic. With the conclusion of the moratorium schemes, the Bank's post model adjustments were re-assessed during 2022 and were reduced to address only the loan portfolio exposed to the risk elevated sectors reflecting the potential implications of the adverse economic conditions prevailed in 2022. During the year 2023, the Bank revisited the sectors exposed to elevated risks based on the improved economic conditions. Accordingly, required adjustments have been made to previously assessed post model adjustments resulting in a further reduction in the post model adjustments.

\*\*As mentioned in Note 32 (f) the Bank has recognised a provision of Rs 38 Bn during the year to arrive at a provision cover of 52% on investments in Sri Lanka International Sovereign Bonds. Further, as mentioned in Note 32 (d) the Bank recognised a loss on initial recognition on account of local currency denominated treasury bonds received in exchange of SLDBs as part of Domestic Debt Optimisation programme.

**Group**

For the year ended 31st December	2023					2022				
	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Other Rs 000	Total Rs 000	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Other Rs 000	Total Rs 000
	<b>Impairment charge/(reversal) on financial assets measured at amortised cost</b>									
Cash and cash equivalents	13,616	-	-	-	13,616	194,157	-	-	-	194,157
Placements with banks	22,246	-	-	-	22,246	12,476	-	-	-	12,476
Loans and advances *	(1,831,363)	(5,925,620)	13,244,742	-	5,487,759	7,063,302	5,336,892	17,864,736	-	30,264,930
Debt instruments	800,576	35,255,105	(10,590)	-	36,045,091	(10,728,276)	69,641,596	50,951	-	58,964,271
<b>Impairment charge/(reversal) on financial assets measured at fair value through other comprehensive income</b>										
Debt instruments	-	-	-	-	-	(295,445)	-	-	-	(295,445)
Impairment charge / (reversal) on loan commitments and financial guarantee contracts	458,740	(169,397)	(59,989)	-	229,354	1,778,367	362,578	76,597	-	2,217,542
Impairment charge on property plant and equipment, intangible assets and prepayments	-	-	-	(15,095)	(15,095)	-	-	-	-	-
Other impairment charges	-	-	776,406	(35,447)	740,959	-	-	377,741	-	377,741
	(536,185)	29,160,088	13,950,569	(50,542)	42,523,930	(1,975,419)	75,341,066	18,370,025	-	91,735,672

**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 unutilised accumulated annual leave are disclosed under Note 53 to the financial statements.

For the year ended 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Salaries and bonus	14,964,941	12,637,018	18,438,120	15,646,520
Contributions to Employees' Provident Fund (EPF)	950,407	898,035	1,270,966	1,172,828
Contributions to Employees' Trust Fund (ETF)	235,244	224,509	315,947	293,207
Provision for defined benefit plan - funded [Note 16 (a)]	9,225	609,248	9,225	609,248
Increase in liability for EPF interest guarantee [Note 53 (d)]	7,321	3,680	7,321	3,680
Increase in liability for accumulated leave [Note 53 (e)]	4,862	26,596	4,862	26,596
Provision for defined benefit plan - unfunded [Note 53 (g)]	-	-	115,611	111,649
Others	772,206	626,802	772,206	626,802
	16,944,206	15,025,888	20,934,258	18,490,530

# NOTES TO THE FINANCIAL STATEMENTS

## 16 PERSONNEL EXPENSES (Contd.)

### 16 (a) Provision for Defined Benefit Plan - Funded

For the year ended 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Current service cost [Note 53 (c) iii]	652,947	746,605	652,947	746,605
Net interest on defined benefit (asset)/liability [ Note 53 (c) v]	(643,722)	(137,357)	(643,722)	(137,357)
	9,225	609,248	9,225	609,248

## 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.

### 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	
	2023 Rs 000	2022 Rs 000
Net insurance benefits and claims paid [Note 17(a)]	6,426,719	5,408,276
Net change in insurance claims outstanding	239,365	145,419
Change in contract liabilities - life fund	6,352,522	4,340,103
Underwriting and net acquisition costs	2,200,123	1,821,540
	15,218,729	11,715,338

**17 (a) Net insurance benefits and claims paid**

For the year ended 31st December	Group					
	2023			2022		
	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Life Insurance</b>						
Claims - deaths, disability and hospitalisation	820,010	(343,333)	476,677	557,805	(210,879)	346,926
Surrenders	656,397	-	656,397	600,536	-	600,536
Annuity payments	12,472	-	12,472	12,767	-	12,767
Policy maturities	1,508,601	-	1,508,601	1,264,181	-	1,264,181
<b>Net life insurance claims</b>	<b>2,997,480</b>	<b>(343,333)</b>	<b>2,654,147</b>	<b>2,435,289</b>	<b>(210,879)</b>	<b>2,224,410</b>
<b>Non-life Insurance</b>						
Fire	449,393	(461,025)	(11,632)	326,523	(285,308)	41,215
Motor	2,537,409	(327)	2,537,082	2,660,477	(21,421)	2,639,056
Marine	18,973	(17,018)	1,955	43,883	(25,496)	18,387
Miscellaneous	1,321,432	(76,265)	1,245,167	548,595	(63,387)	485,208
<b>Net non-life insurance claims</b>	<b>4,327,207</b>	<b>(554,635)</b>	<b>3,772,572</b>	<b>3,579,478</b>	<b>(395,612)</b>	<b>3,183,866</b>
<b>Total net insurance benefits and claims paid</b>	<b>7,324,687</b>	<b>(897,968)</b>	<b>6,426,719</b>	<b>6,014,767</b>	<b>(606,491)</b>	<b>5,408,276</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	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Advertising and related expenses	293,467	288,449	521,336	495,653
Auditors' remuneration [Note 18 (a)]	26,325	23,875	42,244	42,094
Business promotion and product expenses	761,158	707,055	761,158	707,055
Crop insurance levy	206,000	150,000	226,298	152,351
Deposit insurance premium	1,475,073	1,276,819	1,475,073	1,276,819
Depreciation and amortisation [Note 18 (b)]	2,776,261	2,567,704	3,417,133	3,187,685
Direct operating expenses on investment property	-	-	48,781	19,400
Directors' emoluments - Board related fees only	43,119	42,170	100,775	73,100
Donations	56,468	28,837	57,218	29,567
Legal expenses and professional fees	226,241	228,525	253,499	248,136
Office administration and establishment expenses	10,328,732	8,617,134	13,570,441	10,821,799
Operational risk event losses	47,345	33,055	47,345	33,055
Other overhead expenses	2,319,420	1,398,056	3,700,907	2,510,937
	18,559,609	15,361,679	24,222,208	19,597,651

# NOTES TO THE FINANCIAL STATEMENTS

18 OTHER EXPENSES (Contd.)

**18 (a) Auditors' Remuneration**

For the year ended 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Audit fees and expenses	21,360	18,021	35,814	28,950
Audit related fee and expenses	3,685	2,890	3,685	6,601
Non-audit expenses	1,280	2,964	2,745	6,543
	26,325	23,875	42,244	42,094

**18 (b) Depreciation and amortisation expenses**

For the year ended 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Depreciation of investment property (Note 36)	5,335	5,335	29,281	29,305
Depreciation of property, plant and equipment (Note 37)	1,497,194	1,287,867	2,027,133	1,782,933
Amortisation of right-of-use assets (Note 38)	823,040	865,228	820,805	871,892
Amortisation of intangible assets (Note 39)	450,692	409,274	539,914	503,555
	2,776,261	2,567,704	3,417,133	3,187,685

**19 TAXES ON FINANCIAL SERVICES**

For the year ended 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Value Added Tax on financial services	8,898,597	4,932,774	9,239,089	5,070,791
Social Security Contribution Levy	1,235,916	168,598	1,284,041	176,825
	10,134,513	5,101,372	10,523,130	5,247,616

**(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 2023 was 18% (2022 - 18%).

**(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 2023 was 2.5%. (2022 : 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.

	<b>Group</b>	
	<b>2023</b>	<b>2022</b>
	<b>Rs 000</b>	<b>Rs 000</b>
Share of profit of joint venture before income tax	1,278,392	473,264
Income tax on share of operating results of joint venture [(charge)/reversal]	(137,623)	(141,291)
<b>Share of profit of joint venture (net of income tax) [Note 34 (b)]</b>	<b>1,140,769</b>	<b>331,973</b>

**21 INCOME TAX EXPENSE****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 in respect of 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**

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**

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:

- 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

# NOTES TO THE FINANCIAL STATEMENTS

## 21 INCOME TAX EXPENSE (Contd.)

<p>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</p> <ul style="list-style-type: none"> <li>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.</li> </ul> <p>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.</p> <p>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</p>	<p>been enacted or substantively enacted at the reporting date.</p> <p>Deferred tax relating to items recognised directly in equity are also recognised in equity, through other comprehensive income and not in the income statement.</p> <p>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.</p> <p>As of 1st January 2023, following amendments to LKAS 12, the Group separately recognises deferred tax assets and liabilities for lease liabilities and right-of-use assets, respectively. This has no impact on the financial position due to the offsetting nature of these balances. As of 31st December 2023, the total deferred tax assets recognised for lease liabilities amounted to Rs 378.3 Mn (2022: Rs 317.8 Mn), and the total deferred tax liabilities recognised for right-of-use assets were Rs 10.3 Mn (2022: Rs 5 Mn).</p> <p>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,</p>	<p>the Group had applied the provisions of Inland Revenue Act No. 24 of 2017 and the subsequent amendments thereto.</p> <p><b>ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS</b></p> <p>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.</p> <p>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. The Group has evaluated these uncertainties in terms of IFRIC 23 "Uncertainty Over Income Tax Treatment".</p> <p>The deferred tax liabilities/assets are disclosed under Note 40 to the financial statements.</p>
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### 21 (a) Income Tax Expense

For the year ended 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Current tax expense [Note 21 (b)]	16,780,300	25,573,882	17,796,557	25,981,411
Deferred tax expense [Note 21 (c)]	(4,444,723)	(27,633,469)	(4,184,873)	(27,309,389)
	12,335,577	(2,059,587)	13,611,684	(1,327,978)
Effective tax rate	37.74%	(17.20%)	36.57%	(9.21%)
Effective tax rate (excluding deferred tax)	51.33%	213.58%	47.82%	180.17%

### 21 (b) Current Income Tax Expense

For the year ended 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Current tax on profit for the year [Note 21 (b) (i)]	16,780,300	26,627,382	17,857,413	26,968,466
Over provision in previous years	-	(1,053,500)	(60,856)	(987,055)
	16,780,300	25,573,882	17,796,557	25,981,411

**21 (b) (i) 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 (c) Deferred Tax Expense**

	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Deferred Tax Liability [Note 40(a)]</b>				
Origination / (reversal) of temporary difference during the year	335,829	(425,790)	443,612	(178,642)
Effect of changes in tax rate	-	362,723	-	261,026
	335,829	(63,067)	443,612	82,384
<b>Deferred Tax Asset [Note 40(b)]</b>				
Reversal / (origination) of temporary difference during the year	(4,780,552)	(25,051,962)	(4,628,485)	(25,018,563)
Effect of changes in tax rate	-	(2,518,440)	-	(2,373,210)
	(4,780,552)	(27,570,402)	(4,628,485)	(27,391,773)
	(4,444,723)	(27,633,469)	(4,184,873)	(27,309,389)

Deferred tax asset has been recognised 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 (1) of the Gazette notification

issued on 25th October 2022 under Inland Revenue Act No 24 of 2017.

As described in note 32(f) i, the Bank has recognised provision against investment in Sri Lanka International Sovereign Bonds during the year amounting to Rs 38 Bn (2022 – Rs 58 Bn). Accordingly, a deferred tax asset

has been recognised against the said provisions (excluding the provision relating to interest) based on the current interpretation of the tax law. The total deferred tax asset recognised on impairment provisions on account of investments in Sri Lanka International Sovereign Bonds amounted to Rs 28.3 Bn.

**21 (d) Current Tax on Profit for the year - Subsidiaries**

	Group	
	2023 Rs 000	2022 Rs 000
For the year ended 31st December		
Sithma Development (Pvt)Ltd	313,119	252,053
HNB Assurance PLC	763,994	288,436
HNB Finance PLC	-	(199,405)
	1,077,113	341,084

**21 (e) Applicable Tax Rates**

The tax rate applicable for the Bank and Group is disclosed below.

Company	Tax rate applicable w.e.f 1st October 2022	Tax rate applicable prior to 1st October 2022
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%

# NOTES TO THE FINANCIAL STATEMENTS

## 21 INCOME TAX EXPENSE (Contd.)

### 21 (f) Reconciliation of Effective Tax Rate

For the year ended 31st December	Bank			Group				
	2023 %	Rs 000	2022 %	Rs 000	2023 %	Rs 000	2022 %	Rs 000
Profit before income tax		32,688,695		11,973,906		37,218,175		14,420,257
Tax using the corporate tax rate	30.00	9,806,609	27.00	3,232,955	30.00	11,165,453	27.00	3,893,440
Disallowable expenses	12.31	4,022,544	29.09	3,482,745	12.76	4,748,570	30.79	4,440,122
Tax effects on:								
Allowable expenses	(0.05)	(16,206)	(0.15)	(18,147)	(0.10)	(36,318)	(0.44)	(63,768)
Tax exempt income	(4.51)	(1,477,370)	(25.47)	(3,049,983)	(6.16)	(2,291,961)	(25.54)	(3,683,522)
Effect of change in tax rate	-	-	(38.86)	(4,653,657)	-	-	(32.57)	(4,697,188)
Utilisation of Previous Tax Losses	-	-	-	-	-	-	(1.90)	(273,554)
Undistributable profits of subsidiaries and joint venture	-	-	-	-	0.23	86,796	0.30	43,561
	37.74	12,335,577	(8.40)	(1,006,087)	36.74	13,672,540	(2.36)	(340,909)
Over provision in previous years	-	-	(8.80)	(1,053,500)	(0.16)	(60,856)	(6.85)	(987,069)
<b>Income tax expense [Note21 (a)]</b>	<b>37.74</b>	<b>12,335,577</b>	<b>(17.20)</b>	<b>(2,059,587)</b>	<b>36.57</b>	<b>13,611,684</b>	<b>(9.21)</b>	<b>(1,327,978)</b>

### 21 (g) Tax Expenses Relating to Items Recognised in Other Comprehensive Income

For the year ended 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Remeasurement of post-employment benefit obligations	-	-	10,921	(8,344)
Revaluation of freehold land and buildings	-	(1,157,240)	-	(2,434,075)
Net losses on investments in debt securities measured at fair value through other comprehensive income	(971,511)	(466,439)	(1,079,170)	(387,768)
	(971,511)	(1,623,679)	(1,068,249)	(2,830,187)

### 21 (h) Tax Losses Brought Forward and Utilised during the Year

	Group	
	2023 Rs 000	2022 Rs 000
Balance as at 1st January	-	1,139,763
Adjustment for brought forward tax losses	-	-
Tax losses utilised during the year	-	(1,139,763)
<b>Balance as at 31st December</b>	<b>-</b>	<b>-</b>

The details on tax losses utilised by subsidiaries have been given in Note 40 (d) to the financial statements.

**22 EARNINGS PER SHARE****ACCOUNTING POLICY**

The Bank/Group presents basic and diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders of the Bank and Group 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**

	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Amount used as the numerator				
Profit attributable to equity holders of the Bank (Rs 000)	20,353,118	14,033,493	22,770,791	15,328,572
<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)]	559,738	559,738	559,738	559,738
<b>Basic earnings per ordinary share (Rs)</b>	36.36	25.07	40.68	27.39

**22 (b) Diluted Earnings per Share**

	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Amount used as the numerator				
Profit attributable to equity holders of the Bank (Rs 000)	20,353,118	14,033,493	22,770,791	15,328,572
<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)]	559,738	559,738	559,738	559,738
<b>Diluted earnings per ordinary share (Rs)</b>	36.36	25.07	40.68	27.39

**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 2023
Number of shares in issue as at 1st January	535,555,442
Number of shares satisfied in the form of issue and allotment of new shares for final dividend 2022	24,182,945
<b>Weighted average number of ordinary shares as at 31st December</b>	559,738,387

# NOTES TO THE FINANCIAL STATEMENTS

**23**

## DIVIDENDS PAID AND PROPOSED

For the year ended 31st December	2023			2022		
	Gross	Dividend	Net	Gross	Dividend	Net
	Dividend	Tax	Dividend	Dividend	Tax	Dividend
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
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
Rs 5.00 scrip dividend per share declared in 2022 and paid in 2023	2,677,778	401,667	2,276,111	-	-	-

### 23 (a) Proposed Dividends

The Directors recommend that a final dividend of Rs 8.00 per share which consist of a cash dividend of Rs 4.00 and a scrip dividend of Rs 4.00, (2022: Rs 5 per share, scrip) on both voting and non-voting shares of the Bank, be paid for the financial year ended 31st December 2023.

The final dividend is to be approved at the Annual General Meeting to be held on 28th March 2024. 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 2023. Final dividend proposed amounts to Rs 4,478 Mn (2022 final dividend : Rs 2,678 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 15th, 2024 has been audited by external auditor, Messrs. KPMG.

**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 2023				As at 31st December 2022			
	Fair Value through Profit or Loss	Amortised Cost	Fair Value through Other Comprehensive Income	Total Carrying Amount	Fair Value through Profit or Loss	Amortised Cost	Fair Value through Other Comprehensive Income	Total Carrying Amount
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>								
Cash and cash equivalents	-	73,148,596	-	73,148,596	-	80,238,881	-	80,238,881
Placements with banks	-	55,991,134	-	55,991,134	-	54,371,028	-	54,371,028
Balances with Central Bank of Sri Lanka	-	12,234,361	-	12,234,361	-	32,344,341	-	32,344,341
Derivative financial instruments	452,193	-	-	452,193	5,370,501	-	-	5,370,501
Financial assets measured at fair value through profit or loss	115,641	-	-	115,641	111,617	-	-	111,617
Financial assets measured at amortised cost - loans and advances to customers	-	954,880,316	-	954,880,316	-	974,131,252	-	974,131,252

	As at 31st December 2023					As at 31st December 2022				
	Fair Value through Profit or Loss	Amortised Cost	Fair Value through Other Comprehensive Income	Total Carrying Amount		Fair Value through Profit or Loss	Amortised Cost	Fair Value through Other Comprehensive Income	Total Carrying Amount	
	Rs 000	Rs 000	Rs 000	Rs 000		Rs 000	Rs 000	Rs 000	Rs 000	
Financial assets measured at amortised cost - debt and other financial instruments	-	549,772,155	-	549,772,155		-	448,791,874	-	448,791,874	
Financial assets measured at fair value through other comprehensive income	-	-	189,325,958	189,325,958		-	-	2,706,660	2,706,660	
Other financial assets	-	11,029,182	-	11,029,182		-	10,958,660	-	10,958,660	
<b>Total financial assets</b>	<b>567,834</b>	<b>1,657,055,744</b>	<b>189,325,958</b>	<b>1,846,949,536</b>		<b>5,482,118</b>	<b>1,600,836,036</b>	<b>2,706,660</b>	<b>1,609,024,814</b>	
<b>Liabilities</b>										
Due to banks	-	9,019,582	-	9,019,582		-	6,104,578	-	6,104,578	
Derivative financial instruments	1,365,523	-	-	1,365,523		25,632	-	-	25,632	
Securities sold under repurchase agreements	-	61,793,694	-	61,793,694		-	6,540,014	-	6,540,014	
Financial liabilities measured at amortised cost - due to depositors	-	1,579,780,228	-	1,579,780,228		-	1,407,800,492	-	1,407,800,492	
Dividends payable	-	974,790	-	974,790		-	1,008,325	-	1,008,325	
Financial liabilities measured at amortised cost - other borrowings	-	24,933,215	-	24,933,215		-	32,350,594	-	32,350,594	
Debt securities issued	-	87,569	-	87,569		-	2,062,950	-	2,062,950	
Other financial liabilities	-	7,224	-	7,224		-	4,213	-	4,213	
Subordinated term debts	-	18,961,556	-	18,961,556		-	22,914,299	-	22,914,299	
<b>Total financial liabilities</b>	<b>1,365,523</b>	<b>1,695,557,858</b>	<b>-</b>	<b>1,696,923,381</b>		<b>25,632</b>	<b>1,478,785,465</b>	<b>-</b>	<b>1,478,811,097</b>	

**24 (b) Analysis of Financial Instruments by Measurement Basis - Group**

	As at 31st December 2023					As at 31st December 2022				
	Fair Value through Profit or Loss	Amortised Cost	Fair Value through Other Comprehensive Income	Total Carrying Amount		Fair Value through Profit or Loss	Amortised Cost	Fair Value through Other Comprehensive Income	Total Carrying Amount	
	Rs 000	Rs 000	Rs 000	Rs 000		Rs 000	Rs 000	Rs 000	Rs 000	
<b>Assets</b>										
Cash and cash equivalents	-	73,758,907	-	73,758,907		-	80,629,698	-	80,629,698	
Placements with banks	-	61,836,382	-	61,836,382		-	58,172,046	-	58,172,046	
Balances with Central Bank of Sri Lanka	-	12,234,361	-	12,234,361		-	32,344,341	-	32,344,341	
Reverse repurchase agreements	-	1,830,461	-	1,830,461		-	1,380,579	-	1,380,579	
Derivative financial instruments	452,193	-	-	452,193	5,370,501	-	-	-	5,370,501	
Financial assets measured at fair value through profit or loss	801,065	-	-	801,065	236,178	-	-	-	236,178	
Financial assets measured at amortised cost-loans and advances to customers	-	988,601,197	-	988,601,197	-	1,014,518,939	-	-	1,014,518,939	

# NOTES TO THE FINANCIAL STATEMENTS

## 24 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (Contd.)

	As at 31st December 2023				As at 31st December 2022			
	Fair Value through Profit or Loss	Amortised Cost	Fair Value through Other Comprehensive Income	Total Carrying Amount	Fair Value through Profit or Loss	Amortised Cost	Fair Value through Other Comprehensive Income	Total Carrying Amount
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial assets measured at amortised cost-debt and other financial instruments	-	584,131,263	-	584,131,263	-	479,787,015	-	479,787,015
Financial assets measured at fair value through Other comprehensive income	-	-	195,975,307	195,975,307	-	-	6,062,195	6,062,195
Other financial assets	-	14,269,396	-	14,269,396	-	13,772,476	-	13,772,476
<b>Total financial assets</b>	<b>1,253,258</b>	<b>1,736,661,967</b>	<b>195,975,307</b>	<b>1,933,890,532</b>	<b>5,606,679</b>	<b>1,680,605,094</b>	<b>6,062,195</b>	<b>1,692,273,968</b>
<b>Liabilities</b>								
Due to banks	-	9,019,582	-	9,019,582	-	6,104,578	-	6,104,578
Derivative financial instruments	1,365,523	-	-	1,365,523	25,632	-	-	25,632
Securities sold under repurchase agreements	-	61,793,694	-	61,793,694	-	6,540,014	-	6,540,014
Financial liabilities measured at amortised cost - due to depositors	-	1,609,153,685	-	1,609,153,685	-	1,443,179,121	-	1,443,179,121
Dividends payable	-	990,781	-	990,781	-	1,038,542	-	1,038,542
Financial liabilities measured at amortised cost - other borrowings	-	25,031,784	-	25,031,784	-	33,385,598	-	33,385,598
Debt securities issued	-	550,160	-	550,160	-	2,555,109	-	2,555,109
Other financial liabilities	-	2,869,423	-	2,869,423	-	2,434,631	-	2,434,631
Subordinated term debts	-	22,255,164	-	22,255,164	-	26,151,300	-	26,151,300
<b>Total financial liabilities</b>	<b>1,365,523</b>	<b>1,731,664,273</b>	<b>-</b>	<b>1,733,029,796</b>	<b>25,632</b>	<b>1,521,388,893</b>	<b>-</b>	<b>1,521,414,525</b>

## 25 CASH AND CASH EQUIVALENTS

### ACCOUNTING POLICY

Cash and cash equivalents include cash in hand and balances with banks. These are subject to an insignificant risk of changes in fair value and are used by the Group in the management of its short term commitments. These are brought to the financial statements at the face values or gross values where appropriate. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

As at 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
			2023 Rs 000	2022 Rs 000
Local currency in hand	42,396,821	36,929,336	42,757,014	37,190,861
Foreign currency in hand	2,475,438	2,344,665	2,475,438	2,344,665
Balances with banks	28,492,964	41,167,892	28,743,107	41,297,208
	73,365,223	80,441,893	73,975,559	80,832,734
Less : Allowance for impairment losses [Note 25 (a)]	216,627	203,012	216,652	203,036
	73,148,596	80,238,881	73,758,907	80,629,698

All cash and cash equivalent balances held by the group entities were available for use by the Group.

**25 (a) Movement in Impairment during the year**

	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Stage 1</b>				
Balance as at 1st January	203,012	8,879	203,036	8,879
Net impairment charge during the year [Note 15]	13,615	194,133	13,616	194,157
<b>Balance as at 31st December</b>	<b>216,627</b>	<b>203,012</b>	<b>216,652</b>	<b>203,036</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 where appropriate. Placements with banks are carried at amortised cost in the statement of financial position.

	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
As at 31st December				
Placements - within Sri Lanka	-	-	5,846,622	3,801,707
Placements - outside Sri Lanka	56,024,833	54,383,166	56,024,833	54,383,166
	56,024,833	54,383,166	61,871,455	58,184,873
Less : Allowance for impairment losses [Note 26 (a)]	33,699	12,138	35,073	12,827
	55,991,134	54,371,028	61,836,382	58,172,046

**26 (a) Movement in Impairment during the year**

	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Stage 1</b>				
Balance as at 1st January	12,138	-	12,827	351
Net impairment charge during the year [Note 15]	21,561	12,138	22,246	12,476
<b>Balance as at 31st December</b>	<b>33,699</b>	<b>12,138</b>	<b>35,073</b>	<b>12,827</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.

# NOTES TO THE FINANCIAL STATEMENTS

## 27 BALANCES WITH CENTRAL BANK OF SRI LANKA

Balances with Central Bank of Sri Lanka represent both statutory cash balance and standing deposit facility. Statutory cash balance is required to be maintained as per the provisions of Section 93 of the Monetary Law Act. The minimum cash reserve requirement on rupee deposit liabilities was 2% as at 31st December 2023 (2022 : 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	
	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000
Statutory balance with Central Bank of Sri Lanka	10,733,248	27,940,836	10,733,248	27,940,836
Standing deposit facility with Central Bank of Sri Lanka	1,501,113	4,403,505	1,501,113	4,403,505
	12,234,361	32,344,341	12,234,361	32,344,341

## 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	
	2023	2022
	Rs 000	Rs 000
Securities purchased under reverse repurchase agreements		
with banks	-	-
with customers	1,830,461	1,380,579
	1,830,461	1,380,579

## 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			
	2023		2022	
	Assets Rs 000	Liabilities Rs 000	Assets Rs 000	Liabilities Rs 000
<b>Currency swaps</b>				
Sales	79,182	1,400	-	-
Purchases	203,002	1,286,548	5,320,269	-
	282,184	1,287,948	5,320,269	-
<b>Forward foreign exchange contracts</b>				
Sales	155,382	18,326	35,271	4,103
Purchases	14,627	59,249	14,961	21,529
	170,009	77,575	50,232	25,632
	452,193	1,365,523	5,370,501	25,632

30

**FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS****ACCOUNTING POLICY**

The accounting policy pertaining to financial assets measured at fair value through profit or loss has been given in Note 3.3 and 3.4 to the financial statements.

A financial asset is classified as measured at fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss.

**Financial assets held for trading**

The Group classifies financial assets as held for trading in the following circumstances.

- Those have been purchased or acquired primarily for short-term profit making through trading activities; or
- Those form part of a portfolio of financial instruments that are managed together,

for which there is evidence of a recent pattern of short-term profit taking

Financial assets held for trading are measured and recorded at fair value 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" (Note 8) 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	2023		2022	
	Fair Value Rs 000	Fair Value Rs 000	Fair Value Rs 000	Fair Value Rs 000
Quoted shares - Bank [Note 30 (a)]		113,694		111,121
Government of Sri Lanka treasury bills - Bank [Note 30 (b)]		1,933		496
Government of Sri Lanka treasury bonds - Bank [Note 30 (c)]		14		-
<b>Total financial assets measured at fair value through profit or loss - Bank</b>		115,641		111,617
Quoted shares - Subsidiaries [Note 30 (d)]		217,798		124,561
Unquoted units in unit trusts - Subsidiaries [Note 30 (e)]		467,626		-
<b>Total financial assets measured at fair value through profit or loss - Subsidiaries</b>		685,424		124,561
<b>Total financial assets measured at fair value through profit or loss - Group</b>		801,065		236,178

# 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	2023				2022			
	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	27,880	34,000	23,035	18	34,910
National Development Bank PLC	50,618	10,904	8	3,285	48,164	10,904	8	1,541
<b>Sector Total</b>		33,939		31,165		33,939		36,451
<b>Construction and Engineering</b>								
Access Engineering PLC	175	6	-	3	175	6	-	2
<b>Sector Total</b>		6		3		6		2
<b>Diversified Holdings</b>								
Aitken Spence PLC	278,515	30,625	24	32,308	278,515	30,625	24	35,650
<b>Sector Total</b>		30,625		32,308		30,625		35,650
<b>Hotels and Travels</b>								
Aitken Spence Hotel Holdings PLC	575,301	45,998	36	36,244	575,301	45,998	36	29,225
Asian Hotels and Properties PLC	207,476	14,918	12	12,034	207,476	14,918	12	7,760
<b>Sector Total</b>		60,916		48,278		60,916		36,985
<b>Motors</b>								
United Motors Lanka PLC	33,385	3,522	3	1,940	33,385	3,522	3	2,033
<b>Sector Total</b>		3,522		1,940		3,522		2,033
	129,008			113,694		129,008		111,121
Unrealised loss from marked to market valuation		(15,314)				(17,887)		
<b>Total quoted shares - Bank</b>		113,694		113,694		111,121		111,121

**30 (b) Government of Sri Lanka Treasury Bills Held by the Bank**

As at 31st December	2023		2022	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
<b>Year of maturity</b>				
2023		-	-	500 496
2024		2,000	1,933	- -
Unrealised loss from marked to market valuation		(67)		(4)
<b>Total Government of Sri Lanka treasury bills - Bank</b>		1,933	1,933	496 496

**30 (c) Government of Sri Lanka Treasury Bonds Held by the Bank**

As at 31st December	2023		2022	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
<b>Year of maturity</b>				
2028		16	14	- -
Unrealised loss from marked to market valuation		(2)		-
<b>Total Government of Sri Lanka treasury bonds - Bank</b>		14	14	- -

**30 (d) Quoted shares Held by Subsidiaries**

As at 31st December	2023				2022			
	No of Ordinary Shares	Cost of Investment	% of Total	Fair Value	No of Ordinary Shares	Cost of Investment	% of Total	Fair Value
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Banks, Finance and Insurance</b>								
Central Finance Company PLC	142,285	17,088	12	14,975	142,285	17,088	12	8,893
Nations Trust Bank PLC	103,080	6,909	5	11,081	97,177	6,578	5	4,489
Peoples Leasing and Finance PLC	615,201	10,008	7	6,583	615,201	10,008	7	3,076
Sampath Bank PLC	547,951	34,133	23	38,631	318,048	19,747	14	10,877
Seylan Bank PLC - (Non-Voting)	803,731	28,112	19	28,532	744,066	26,848	18	12,054
<b>Sector Total</b>	<b>96,250</b>			<b>99,802</b>			<b>80,269</b>	<b>39,389</b>
<b>Beverage Food and Tobacco</b>								
Distilleries Company of Sri Lanka PLC	33,935	-	-	950	33,935	-	-	448
<b>Sector Total</b>	<b>-</b>			<b>950</b>			<b>-</b>	<b>448</b>
<b>Diversified Holdings</b>								
Hemas Holdings PLC	173,000	12,671	9	11,539	-	-	-	-
John Keells Holdings PLC	29,670	3,679	3	5,667	29,670	3,679	3	4,013
Melstacorp PLC	94,532	5,603	4	7,969	94,532	5,603	4	4,367
Richard Peiris and Company PLC	312,851	4,351	3	6,413	312,851	4,351	3	7,540
Vallibel One PLC	209,638	4,000	3	8,050	209,638	4,000	3	6,310
<b>Sector Total</b>	<b>30,304</b>			<b>39,638</b>			<b>17,633</b>	<b>22,230</b>
<b>Land and Property</b>								
Overseas Realty (Ceylon) PLC	486,679	12,453	9	7,300	486,679	12,453	9	7,252
<b>Sector Total</b>	<b>12,453</b>			<b>7,300</b>			<b>12,453</b>	<b>7,252</b>
<b>Manufacturing</b>								
ACL Cables PLC	190,400	3,016	2	13,100	190,400	3,016	2	13,347
Chevron Lubricants Lanka PLC	112,821	10,422	7	10,188	-	-	-	-
Dipped Products PLC	324,000	7,255	5	9,040	334,000	10,355	7	9,719
Royal Ceramic Lanka PLC	680,000	9,172	6	17,952	680,000	9,172	6	19,244
Tokyo Cement Company (Lanka) PLC	431,057	12,824	9	19,828	391,871	12,824	9	12,932
<b>Sector Total</b>	<b>42,689</b>			<b>70,108</b>			<b>35,367</b>	<b>55,242</b>
	<b>181,696</b>			<b>217,798</b>			<b>145,722</b>	<b>124,561</b>
Unrealised gain / (loss) From marked to market valuation		36,102					(21,161)	
<b>Total quoted shares - Subsidiaries</b>	<b>217,798</b>			<b>217,798</b>			<b>124,561</b>	<b>124,561</b>

**30 (e) Unquoted Units in Unit Trusts Held by Subsidiaries**

As at 31st December	2023				2022			
	No of Units	Cost of Investment	Fair Value	No of Units	Cost of Investment	Fair Value	No of Units	No of Units
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Capital Alliance Investment Grade Fund	4,043,306	120,000	128,493	-	-	-	-	-
JB Vantage Money Market Fund	1,942,552	80,000	83,788	-	-	-	-	-
NDB Wealth Money Fund	4,006,651	120,000	126,963	-	-	-	-	-
Senfin Money Market Fund	5,503,229	120,000	128,382	-	-	-	-	-
Unrealised gain from marked to market valuation		27,626					-	-
<b>Total quoted units - Subsidiaries</b>	<b>467,626</b>		<b>467,626</b>				<b>-</b>	<b>-</b>

# NOTES TO THE FINANCIAL STATEMENTS

30 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Contd.)

## 30 (f) Analysis

As at 31st December	Bank		Group	
	2023	2022	2023	2022
	Fair Value Rs 000	Fair Value Rs 000	Fair Value Rs 000	Fair Value Rs 000
<b>By currency</b>				
Sri Lankan Rupee	115,641	111,617	801,065	236,178
	115,641	111,617	801,065	236,178

## 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.

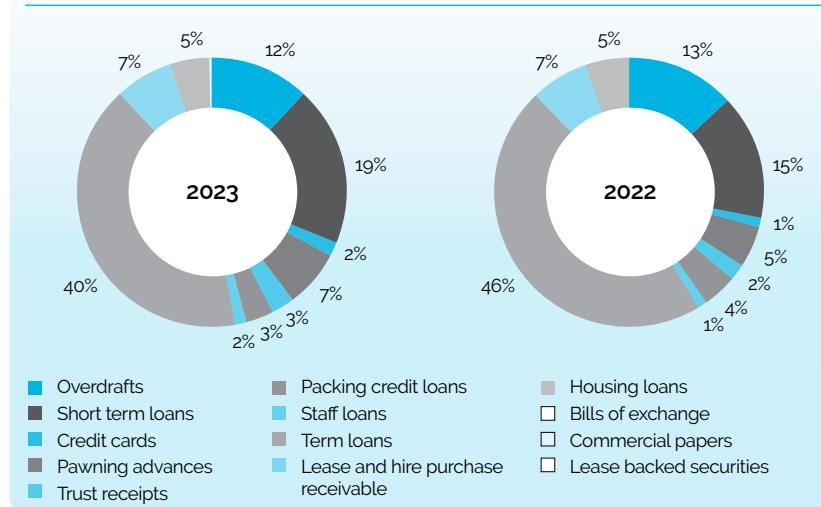
After initial measurement, loans and receivables are subsequently measured at amortised cost using the Effective Interest

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. (Note 15)

As at 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Gross loans and advances</b>	1,041,990,203	1,061,371,654	1,081,186,166	1,107,500,061
Stage 1	816,389,120	790,590,235	839,427,758	821,011,410
Stage 2	111,013,262	168,456,347	118,245,535	176,596,183
Stage 3	114,587,821	102,325,072	123,512,873	109,892,468
<b>Less : Accumulated impairment under:</b>				
Stage 1 [Note 31 (e)]	10,653,265	12,477,377	12,960,050	14,914,751
Stage 2 [Note 31 (e)]	10,333,747	16,235,373	10,659,837	16,799,238
Stage 3 [Note 31 (e)]	66,122,875	58,527,652	68,965,082	61,267,133
<b>Net loans and advances</b>	954,880,316	974,131,252	988,601,197	1,014,518,939

**31(a) Analysis of Loans and Advances****31(a)i By Product**

As at 31st December	Bank		Group	
	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000
Overdrafts	124,434,049	141,393,778	123,961,991	140,892,245
Bills of exchange	1,335,781	1,905,532	1,335,781	1,905,532
Commercial papers	185,812	156,664	185,812	156,664
Short term loans	201,429,018	154,418,226	201,870,941	154,839,140
Credit cards	17,009,417	15,318,167	17,009,417	15,318,167
Pawning advances	73,339,142	53,678,626	78,230,271	59,517,414
Trust receipts	28,400,641	23,842,855	28,400,641	23,842,855
Packing credit loans	33,013,309	37,385,421	33,013,309	37,385,421
Staff loans	16,050,668	14,619,004	16,523,156	15,169,226
Term loans	424,512,657	491,630,198	444,498,100	516,321,644
Lease receivable	70,355,503	70,802,779	84,232,541	85,931,349
Housing loans	51,924,206	55,496,541	51,924,206	55,496,541
Lease backed securities	-	723,863	-	723,863
<b>Total gross loans and advances [Note 31(a) ii]</b>	<b>1,041,990,203</b>	<b>1,061,371,654</b>	<b>1,081,186,166</b>	<b>1,107,500,061</b>

**Analysis of Loans and Advances****31(a)ii By Currency**

As at 31st December	Bank		Group	
	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000
Sri Lankan Rupees	886,030,518	888,439,422	925,226,481	934,567,829
United States Dollars	153,612,140	170,245,428	153,612,140	170,245,428
Great Britain Pounds	970,057	973,237	970,057	973,237
Euros	1,269,973	1,541,758	1,269,973	1,541,758
Other currencies	107,515	171,809	107,515	171,809
<b>Total gross loans and advances [Note 31(a) i]</b>	<b>1,041,990,203</b>	<b>1,061,371,654</b>	<b>1,081,186,166</b>	<b>1,107,500,061</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

### 31 (b) Staging Classification of Loans and Advances

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 assesses significantly increase in credit risk primarily based on whether customer contractual payments are over 30 days past due, in line with the rebuttable presumption under SLFRS 9. Additionally, to determine if an ISL customer shows signs of significant credit risk increase, the Group considers following criteria beyond the initial assessment.

- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments.
- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/group of customers or an instrument;
- When the value of collateral is significantly reduced and/or realisability of collateral is doubtful.
- When a customer is subject to litigation, that significantly affects the performance of the credit facility.
- Frequent changes in the senior management of an institutional customer.

- Delay in the commencement of business operations/projects by more than two years from the originally agreed date.
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants.
- When the customer is deceased/insolvent.
- When the bank is unable to contact or find the customer.
- A fall of 50% or more in the turnover and/or profit before tax of the customer when compared to the previous year
- Erosion in net-worth by more than 25% when compared to the previous year

Credit facilities/exposures which have one or more of the above indicators are treated as facilities with significant increase in credit risk and assessed accordingly in ECL computations. The Group regularly monitors, the effectiveness of the criteria used to identify significant increase in credit risk to confirm that the criteria is capable of identifying significant increase in credit risk before an exposure is in default.

- Economic conditions

Bank takes into consideration the impact of any uncertainties relating to the current economic conditions on

the credit worthiness of the borrowers when assessing cash flow projections for future recoveries.

#### 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 realising 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..

#### 31 (c) iii Modified Financial Assets

The Group sometimes makes concessions or modifications to the original terms of loans as response to the borrower's financial difficulties.

rather than taking possession or to otherwise enforce collection of collateral. 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".

- 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.

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, that 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 (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

#### **31 (e) Movement in Impairment during the year**

	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Stage 1</b>				
Balance as at 1st January	12,477,377	6,494,958	14,914,751	7,653,405
Effect of exchange rate fluctuations	(123,338)	198,044	(123,338)	198,044
Net impairment (reversal)/charge for the year [Note 15]	(1,700,774)	5,784,375	(1,831,363)	7,063,302
<b>Balance as at 31st December [Note 31]</b>	<b>10,653,265</b>	<b>12,477,377</b>	<b>12,960,050</b>	<b>14,914,751</b>
<b>Stage 2</b>				
Balance as at 1st January	16,235,373	10,188,641	16,799,238	10,754,926
Effect of exchange rate fluctuations	(213,781)	707,420	(213,781)	707,420
Net impairment (reversal) /charge for the year [Note 15]	(5,687,845)	5,339,312	(5,925,620)	5,336,892
<b>Balance as at 31st December [Note 31]</b>	<b>10,333,747</b>	<b>16,235,373</b>	<b>10,659,837</b>	<b>16,799,238</b>
<b>Stage 3</b>				
Balance as at 1st January	58,527,652	36,033,438	61,267,133	39,245,578
Effect of exchange rate fluctuations	(1,655,367)	5,298,566	(1,655,367)	5,298,566
Net impairment charge for the year [Note 15]	10,941,566	17,895,359	13,244,742	17,864,736
Write-offs during the year	(1,690,976)	(699,711)	(3,891,426)	(1,141,747)
<b>Balance as at 31st December [Note 31]</b>	<b>66,122,875</b>	<b>58,527,652</b>	<b>68,965,082</b>	<b>61,267,133</b>
<b>Total impairment allowance for financial assets measured at amortised cost - Loans and advances to customers</b>				
	<b>87,109,887</b>	<b>87,240,402</b>	<b>92,584,969</b>	<b>92,981,122</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

### 31 (f) i Product wise Movement in Allowance for Impairment Losses - Bank

	2023				2022
	Lease Receivable	Loans and Receivables	Pawning	Total	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January	2,456,289	84,694,272	89,841	87,240,402	52,717,037
Effect of exchange rate fluctuations	(1,223)	(1,991,263)	-	(1,992,486)	6,204,030
Net impairment charge for the year	(359,630)	3,899,853	12,724	3,552,947	29,019,046
Write-offs during the year	(130,453)	(1,560,523)	-	(1,690,976)	(699,711)
<b>Balance as at 31st December</b>	<b>1,964,983</b>	<b>85,042,339</b>	<b>102,565</b>	<b>87,109,887</b>	<b>87,240,402</b>

### 31 (f) ii Product wise Movement in Allowance for Impairment Losses - Group

	2023				2022
	Lease Receivable	Loans and Receivables	Pawning	Total	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January	3,737,483	89,118,149	125,490	92,981,122	57,653,909
Effect of exchange rate fluctuations	(1,223)	(1,991,263)	-	(1,992,486)	6,204,030
Net impairment charge for the year	120,874	5,363,638	3,247	5,487,759	30,264,930
Write-offs during the year	(374,302)	(3,517,124)	-	(3,891,426)	(1,141,747)
<b>Balance as at 31st December</b>	<b>3,482,832</b>	<b>88,973,400</b>	<b>128,737</b>	<b>92,584,969</b>	<b>92,981,122</b>

The details of the amortised cost of the portfolio modified (restructured or rescheduled) as at reporting date and the losses recognised on modifications are recorded under Note 5.3.3 (f)

### 31 (g) 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 (c) to the financial statements.	

As at 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Total lease rentals receivable	85,949,428	84,912,133	105,435,531	105,044,928
Unearned lease income	(15,593,925)	(14,109,354)	(21,202,990)	(19,113,579)
<b>Gross lease receivable</b>	<b>70,355,503</b>	<b>70,802,779</b>	<b>84,232,541</b>	<b>85,931,349</b>
Impairment allowance for lease receivable	(1,964,983)	(2,456,289)	(3,718,202)	(3,737,483)
<b>Net lease receivable</b>	<b>68,390,520</b>	<b>68,346,490</b>	<b>80,514,339</b>	<b>82,193,866</b>
Net lease receivables within one year [Note 31 (g) (i)]	28,815,450	27,026,605	29,663,366	31,121,193
Net lease receivables from one to five years [Note 31 (g) (ii)]	39,316,180	40,996,015	50,592,083	50,747,054
Net lease receivables after five years [Note 30 (g) (iii)]	258,890	323,870	258,890	325,619
	<b>68,390,520</b>	<b>68,346,490</b>	<b>80,514,339</b>	<b>82,193,866</b>

**31(g) i Net Lease Receivables within one year**

As at 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Total lease rentals receivable within one year from the reporting date	37,700,420	34,933,505	39,388,705	41,066,147
Unearned lease income	(8,057,050)	(6,935,597)	(8,774,802)	(7,984,487)
Less: Impairment allowance for lease receivables	(827,920)	(971,303)	(950,537)	(1,960,467)
	28,815,450	27,026,605	29,663,366	31,121,193

**31(g) ii Net Lease Receivables from one to five years**

As at 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Total lease rentals receivables from one to five years from the reporting date	47,964,637	49,614,973	65,762,455	63,613,096
Unearned lease income	(7,518,832)	(7,145,611)	(12,410,145)	(11,100,843)
Less: Impairment allowance for lease receivables	(1,129,625)	(1,473,347)	(2,760,227)	(1,765,199)
	39,316,180	40,996,015	50,592,083	50,747,054

**31(g) iii Net Lease Receivables after five years**

As at 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Total lease rentals receivable after five years from the reporting date	284,371	363,655	284,371	365,685
Unearned lease income	(18,043)	(28,146)	(18,043)	(28,249)
Less: Impairment allowance for lease receivables	(7,438)	(11,639)	(7,438)	(11,817)
	258,890	323,870	258,890	325,619

Impairment allowance for lease receivables are included in the stage wise movement for impairment presented in Note 31(e) to the financial statements.

**31(h) 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 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 (c) 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	2023 Rs 000	2022 Rs 000
Government of Sri Lanka treasury bills held by the Bank [Note 32 (c)]	327,967,593	216,516,708
Government of Sri Lanka treasury bonds held by the Bank [Note 32 (d)]	118,365,594	56,366,129
Sri Lanka development bonds held by the Bank [Note 32 (e)]	-	32,110,047
Sri Lanka sovereign bonds held by the Bank [Note 32 (f)]	196,305,095	209,640,516
Foreign government bonds held by the Bank [Note 32 (g)]	112,827	123,417
Quoted debentures held by the Bank [Note 32 (h)]	10,491,062	10,495,484
<b>Total financial assets at amortised cost - debt and other financial instruments - Bank [Note 32 (a)]</b>	<b>653,242,171</b>	<b>525,252,301</b>
<b>Less : Allowance for impairment on financial assets at amortised cost - debt and other financial instruments Bank [Note 32 (b)]</b>	<b>103,470,016</b>	<b>76,460,427</b>
Stage 1	740,093	3,324
Stage 2	102,078,763	75,795,353
Stage 3	651,160	661,750
<b>Net financial assets at amortised cost - debt and other financial instruments - Bank</b>	<b>549,772,155</b>	<b>448,791,874</b>

#### Government of Sri Lanka Treasury bills and Treasury Bonds

On 1st July 2023, the Sri Lankan Parliament approved the Government's policy on Domestic Debt Optimisation (DDO) strategy. Accordingly, only the local currency denominated Treasury Bill holding of Central Bank of Sri Lanka and the Treasury bonds holding of superannuation funds were subject to this Domestic Debt Optimisation (DDO)

program. The said DDO program has been completed as at reporting date with the specified portfolio referred to above.

Accordingly, the DDO has not restricted the government's ability to continue to repay the principal and interest on local currency-denominated Treasury bills and Bonds.

Further, the Banking Act Direction No. 14 of 2021, Classification, Recognition, and Measurement of Financial Assets Other than Credit Facilities in Licensed Banks, issued by the Monetary Board, Central Bank of Sri Lanka requires LGD of zero to be applied to these Government securities.

Accordingly, the Bank's overall Expected Credit Loss (ECL) on these instruments has been considered to be effectively zero.

Considering the above, the local currency denominated T bonds/ bills continue to be classified under Stage 1.

Note 32 (e) (i) provides the basis of classification and accounting treatment adopted by the Bank for Sri Lanka Development Bonds and the local currency bonds issued in exchange of Sri Lanka Development Sovereign bonds in August 2023.

Note 32 (f) (i) provides the basis of classification of Sri Lanka International Sovereign bonds and assessment of expected credit loss carried out by Bank as at reporting date.

As at 31st December	2023 Rs 000	2022 Rs 000
Government of Sri Lanka treasury bonds held by subsidiaries [Note 32 (i)]	12,463,103	10,094,935
Government of Sri Lanka treasury bills held by subsidiaries [Note 32 (j)]	13,067,655	13,645,488
Quoted debentures held by subsidiaries [Note 32 (k)]	7,454,543	6,394,976
Unquoted debentures held by subsidiaries [Note 32 (l)]	1,375,442	860,750
Other loans and receivables held by subsidiaries [Note 32 (m)]	773,091	773,091
<b>Total financial assets at amortised cost - debt and other financial instruments - Subsidiaries</b>	<b>35,133,834</b>	<b>31,769,240</b>
<b>Total financial assets at amortised cost - debt and other financial instruments - Group</b>	<b>688,376,005</b>	<b>557,021,541</b>
<b>Less : Allowance for impairment on financial assets at amortised cost debt and other financial instruments Group [Note 32 (b)]</b>	<b>104,244,742</b>	<b>77,234,526</b>
Stage 1	741,729	4,333
Stage 2	102,078,763	75,795,353
Stage 3	1,424,250	1,434,840
<b>Net financial assets at amortised cost – debt and other financial instruments - Group</b>	<b>584,131,263</b>	<b>479,787,015</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	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>By Collateralisation</b>				
Pledged as collateral	65,592,995	8,864,761	65,592,995	8,864,761
Unencumbered	587,649,176	516,387,540	622,783,010	548,156,780
	653,242,171	525,252,301	688,376,005	557,021,541
<b>By Currency</b>				
Sri Lankan Rupee	456,824,249	283,378,321	491,958,083	315,147,561
United States Dollar	196,305,095	241,750,563	196,305,095	241,750,563
Euros	112,827	123,417	112,827	123,417
	653,242,171	525,252,301	688,376,005	557,021,541

# NOTES TO THE FINANCIAL STATEMENTS

## 32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS (Contd.)

<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</b>	Banks policy on haircuts for repurchase and reverse repurchase transactions are explained below.	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.
Bank has allocated government securities amounting to Rs 65.59 Bn (2022 - Rs 8.8 Bn) in respect of securities sold under repurchase agreements.	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	

### 32 (b) Movement in Impairment during the year

As at 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Stage 1</b>				
Balance as at 1st January	3,324	10,732,207	4,333	10,732,609
Net impairment charge for the year/ Movement between Stages [Note 15]	799,949	(10,728,883)	800,576	(10,728,276)
Effect of exchange rate fluctuations and other movements	(63,180)	-	(63,180)	-
<b>Balance as at 31st December</b>	<b>740,093</b>	<b>3,324</b>	<b>741,729</b>	<b>4,333</b>
<b>Stage 2</b>				
Balance as at 1st January	75,795,353	-	75,795,353	-
Net impairment charge for the year/ Movement between Stages [Note 15]	35,255,105	69,641,596	35,255,105	69,641,596
Effect of exchange rate fluctuations	(8,971,695)	6,153,757	(8,971,695)	6,153,757
<b>Balance as at 31st December</b>	<b>102,078,763</b>	<b>75,795,353</b>	<b>102,078,763</b>	<b>75,795,353</b>
<b>Stage 3</b>				
Balance as at 1st January	661,750	610,799	1,434,840	1,383,889
Net impairment charge for the year [Note 15]	(10,590)	50,951	(10,590)	50,951
<b>Balance as at 31st December</b>	<b>651,160</b>	<b>661,750</b>	<b>1,424,250</b>	<b>1,434,840</b>
<b>Total impairment allowance for financial assets measured at amortised cost - Debt and other financial instruments</b>	<b>103,470,016</b>	<b>76,460,427</b>	<b>104,244,742</b>	<b>77,234,526</b>

### 32 (c) Government of Sri Lanka treasury bills held by the Bank

As at 31st December	2023 Rs 000	2022 Rs 000
<b>Year of Maturity</b>		
2023	-	216,516,708
2024	327,967,593	-
<b>Total Government of Sri Lanka treasury bills - Bank</b>	<b>327,967,593</b>	<b>216,516,708</b>

**32 (d) Government of Sri Lanka treasury bonds held by the Bank**

As at 31st December	2023 Rs 000	2022 Rs 000
<b>Year of Maturity</b>		
2023	-	8,629,674
2024	14,822,412	11,184,587
2025	28,232,144	25,202,875
2026	32,150,416	1,358,320
2027	8,888,867	4,976,332
2028	21,469,996	1,204,018
2029	3,047,047	-
2031	3,047,047	-
2032	3,660,618	3,810,323
2033	3,047,047	-
<b>Total Government of Sri Lanka treasury bonds - Bank</b>	<b>118,365,594</b>	<b>56,366,129</b>

The treasury bonds received in exchange of SLDBs have been recognised in Stage 1 as at the reporting date. Further, a fair value loss of Rs 0.8 Bn has been recognised in respect of these bonds at initial recognition and Expected Credit Loss (ECL) provisions have not been recognised on local currency denominated government securities, in line with Banking Act Direction No 14 of 2021 "Classification, Recognition and Measurement of Financial Assets other than Credit Facilities in Licensed Banks" as explained in Note no 32.

**32 (e) Sri Lanka development bonds held by the Bank**

As at 31st December	2023 Rs 000	2022 Rs 000
<b>Year of Maturity</b>		
2023	-	32,110,047
<b>Total Sri Lanka development bonds - Bank</b>	<b>-</b>	<b>32,110,047</b>

**32 (e) i Impairment - Sri Lanka Development Bonds**

On 01st July 2023, the Sri Lankan Parliament approved the Government's policy on domestic public debt optimisation strategy. The Sri Lanka Development Bonds (SLDBs) held by the Bank were subject to this Domestic Debt Optimisation (DDO) strategy. Consequently, on 15th August 2023 the Bank exchanged its outstanding SLDBs, valued at USD 50 Mn, for local currency denominated treasury bonds. These treasury bonds comprised of five new instruments with variable coupons (SLFR + 1%).

This exchange resulted in reversal of related impairment provisions amounting to Rs 3 Bn and the local currency denominated treasury bonds received in lieu of SLDBs have been classified along with investments in Government of Sri Lanka treasury bonds in Note 32 (d).

**32 (f) Sri Lanka sovereign bonds held by the Bank**

As at 31st December	2023 Rs 000	2022 Rs 000
<b>Year of Maturity</b>		
2022	31,935,968	45,163,845
2023	33,280,623	36,627,357
2024	63,001,824	52,188,327
2025	26,905,810	29,753,457
2026	20,538,758	23,061,642
2027	12,654,398	13,949,047
2028	7,372,674	8,204,898
2029	615,040	692,243
<b>Total Sri Lanka sovereign bonds - Bank</b>	<b>196,305,095</b>	<b>209,640,516</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS (Contd.)

### 32 (f) i Sri Lanka International Sovereign Bonds

Government of Sri Lanka (GoSL) announced its plans to restructure the external public debt in April 2022 and the negotiations are ongoing with the lenders as of 31st December 2023. The GoSL announcement of its restructuring plans was considered to be a Significant Increase in Credit Risk indicator and accordingly, the Sri Lanka International Sovereign Bonds (ISBs) were classified under Stage 2 by the Bank in 2022. As the negotiations are ongoing, and no further changes have taken place in relation to these ISBs, whilst the macro economic environment have improved

relatively to that of last year, the ISBs are continued to be reported under Stage 2 as of 31st December 2023.

As the final outcome of the negotiations is yet to be known, the Bank has carried out a worst-case scenario assessment of expected credit loss on the ISBs upon conclusion of the negotiations, based on the assumptions on possible haircut, features of the new instrument that may be issued and resultant fair value loss as well as the expected credit losses on new instrument that may be issued. Considering these uncertainties the Bank has made a worst-case scenario provision of 52%

on the outstanding as at reporting date which amounted to Rs 102 Bn. Accordingly, the Bank has recognised an impairment loss charge of Rs 38 Bn during the year to arrive at the said 52% provision cover. This impairment charge has been included under Note 15 to the financial statements.

The above assessment has been carried out based on the facts and circumstances as of 31st December 2023 and the Bank will continue reassess the judgments and assumptions used on an ongoing basis based on facts and circumstances prevailing as of future reporting dates.

### 32 (g) Foreign Government bonds held by the Bank

As at 31st December	2023 Rs 000	2022 Rs 000
Year of Maturity		
2042*	112,827	123,417
<b>Total foreign government bonds - Bank</b>	<b>112,827</b>	<b>123,417</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 112.83 Mn (2022 - Rs 123.41 Mn) in respect of this investment.

### 32 (h) Quoted debentures held by the Bank

As at 31st December	2023		2022	
	No of Debentures Rs 000	Amortised Cost Rs 000	No of Debentures Rs 000	Amortised Cost Rs 000
<b>Brown &amp; Company PLC</b> (15.42% debentures redeemable on 31st March 2027)	15,000,000	1,558,300	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	526,594	5,000,000	547,303
<b>Lanka Orix Leasing Company PLC</b> (15% debentures redeemable on 27th September 2024)	5,000,000	519,521	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	5,283,438	50,000,000	5,267,151
<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>		10,491,062		10,495,484

\* 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	2023 Rs 000	2022 Rs 000
<b>Year of Maturity</b>		
2025	1,305,502	1,265,351
2026	1,768,778	587,267
2027	1,163,555	951,599
2028	2,463,615	2,437,632
2029	1,494,879	1,486,553
2030	1,175,593	1,176,780
2031	565,375	563,251
2032	1,474,799	576,965
2033	488,589	486,517
2034	198,776	198,467
2044	137,455	138,036
2045	226,187	226,517
<b>Total Government of Sri Lanka treasury bonds - subsidiaries</b>	<b>12,463,103</b>	<b>10,094,935</b>

**32 (j) Government of Sri Lanka treasury bills held by subsidiaries**

As at 31st December	2023 Rs 000	2022 Rs 000
<b>Year of Maturity</b>		
2023	-	13,645,488
2024	13,067,655	-
<b>Total Government of Sri Lanka treasury bills - subsidiaries</b>	<b>13,067,655</b>	<b>13,645,488</b>

**32 (k) Quoted debentures held by subsidiaries**

As at 31st December	2023		2022	
	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
(12.25% debentures redeemable on 27th October 2026)	135,700	13,861	135,700	13,861
(28.00% Debentures redeemable on 11th December 2027)	5,000,000	510,797	5,000,000	507,288
(12.50% debentures redeemable on 22nd July 2028)	1,192,800	125,857	1,192,800	125,857
(15.00% Debentures redeemable on 19th December 2028)	3,000,000	301,356	-	-
(14.25% Debentures redeemable on 19th December 2030)	1,500,000	150,644	-	-
(14.00% Debentures redeemable on 19th December 2033)	2,500,000	251,055	-	-
		1,353,570		707,844
<b>Commercial Leasing and Finance PLC</b>				
(10.50% debentures redeemable on 23rd September 2025)	-	-	2,700,000	277,612
				277,612

# NOTES TO THE FINANCIAL STATEMENTS

32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS (Contd.)

As at 31st December	2023		2022	
	No of Debentures	Amortised Cost Rs 000	No of Debentures	Amortised Cost Rs 000
<b>DFCC Bank PLC</b>				
(12.60% debentures redeemable on 29th March 2023)	-	-	1,400,000	153,435
(12.75% debentures redeemable on 09th June 2023)	-	-	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
		973,835		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
(13.00% debentures redeemable on 26th August 2024)	282,300	29,517	282,300	29,517
		29,517		376,921
<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
(13.95% debentures redeemable on 30th March 2024)	1,700,000	187,966	1,700,000	188,217
(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	507,531	5,000,000	506,031
		809,771		829,938
<b>Nations Trust Bank PLC</b>				
(13.00% debentures redeemable on 20th April 2023)	-	-	1,550,000	169,133
(12.80% debentures redeemable on 23rd December 2024)	3,000,000	302,867	3,000,000	300,947
(12.90% debentures redeemable on 23rd December 2026)	800,000	80,770	800,000	80,254
		383,637		550,334
<b>People's Leasing and Finance PLC</b>				
(12.80% debentures redeemable on 18th April 2023)	-	-	653,600	71,274
(8.00% debentures redeemable on 05th August 2024)	815,000	84,470	815,000	84,144
(9.00% debentures redeemable on 05th August 2026)	1,205,600	125,502	1,205,600	124,960
(9.00% debentures redeemable on 05th August 2026)	1,076,967	86,192	1,076,967	79,075
		296,164		359,453
<b>Sampath Bank PLC</b>				
(12.50% debentures redeemable on 20th March 2023)	-	-	2,000,000	207,055
(13.90% debentures redeemable on 28th February 2024)	2,800,000	312,735	2,800,000	312,735
(28.00% debentures redeemable on 09th February 2028)	9,000,000	1,124,384	-	-
		1,437,119		519,790

As at 31st December	2023		2022	
	No of Debentures	Amortised Cost Rs 000	No of Debentures	Amortised Cost Rs 000
<b>Seylan Bank PLC</b>				
(12.85% debentures redeemable on 29th March 2023)	-	-	2,500,000	258,273
(9.75% debentures redeemable on 12th April 2026)	973,100	104,146	973,100	104,146
(25.00% Debentures redeemable on 01st May 2028)	415,100	43,187	-	-
(28.00% Debentures redeemable on 01st May 2028)	4,500,000	533,886	-	-
		681,219		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>LOLC Finance PLC</b>				
(10.50% debentures redeemable on 23rd September 2025)	2,700,000	277,612	-	-
		277,612		-
<b>Total quoted debentures - Subsidiaries</b>		7,454,543		6,394,976

**32 (l) Unquoted debentures held by subsidiaries**

	2023		2022	
	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)	6,500,000	670,821	1,500,000	156,129
		670,821		156,129
<b>Total unquoted Debentures - Subsidiaries</b>		1,375,442		860,750

**32 (m) Other loans and receivables held by subsidiaries**

As at 31st December	2023		2022	
	Amortised Cost Rs 000	Amortised Cost Rs 000	Amortised Cost Rs 000	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 (n) 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 33 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

### ACCOUNTING POLICY

The accounting policy pertaining to financial assets measured at fair value through other comprehensive income has been given in Note 3.3 and 3.4 to the financial statements

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.

As at 31st December	Fair Value	
	2023 Rs 000	2022 Rs 000
Quoted shares held by Bank [Note 33 (b)]	5,501,697	2,134,875
Unquoted shares held by Bank [Note 33 (c)]	33,035	27,839
Unquoted units held by Bank [Note 33 (d)]	694,100	543,946
Government of Sri Lanka treasury bonds held by Bank [Note 33 (e)]	36,958,794	-
Government of Sri Lanka treasury bills held by Bank [Note 33 (f)]	146,138,332	-
<b>Total financial assets at fair value through other comprehensive income - Bank [Note 33 (a)]</b>	<b>189,325,958</b>	<b>2,706,660</b>
Government of Sri Lanka treasury bonds held by subsidiaries [Note 33 (g)]	6,643,869	3,352,823
Unquoted shares held by subsidiaries [Note 33 (h)]	5,480	2,712
<b>Total financial assets at fair value through other comprehensive income - Subsidiaries</b>	<b>6,649,349</b>	<b>3,355,535</b>
<b>Total financial assets at fair value through other comprehensive income - Group [Note 33 (a)]</b>	<b>195,975,307</b>	<b>6,062,195</b>

**33 (a) Analysis**

As at 31st December	Bank		Group	
	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000
<b>By collateralisation</b>				
Pledged as collateral	-	-	-	-
Unencumbered	189,325,958	2,706,660	195,975,307	6,062,195
	189,325,958	2,706,660	195,975,307	6,062,195
<b>By Currency</b>				
Sri Lankan Rupee	189,325,958	2,706,660	195,975,307	6,062,195
United States Dollar	-	-	-	-
	189,325,958	2,706,660	195,975,307	6,062,195

**33 (b) Quoted shares held by the Bank**

As at 31st December	2023			2022		
	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	52,629,168	2,120,590	4,274,663	50,224,072	2,178,579	1,607,170
National Development Bank PLC	11,073,010	1,226,941	742,687	10,536,091	1,247,439	337,155
Nations Trust Bank PLC	4,375,023	412,300	484,347	4,124,460	411,857	190,550
<b>Total quoted shares - Bank</b>	<b>3,759,831</b>	<b>5,501,697</b>			<b>3,837,875</b>	<b>2,134,875</b>

**33 (c) Unquoted shares held by the Bank**

As at 31st December	2023			2022		
	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	5,196	27	5,196	-
<b>Total unquoted shares - Bank</b>		<b>66,195</b>	<b>33,035</b>		<b>66,195</b>	<b>27,839</b>

# NOTES TO THE FINANCIAL STATEMENTS

33 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Contd.)

## 33 (d) Unquoted units in unit trusts held by the Bank

As at 31st December	2023			2022		
	No of Units	Cost of Investment	Fair Value	No of Units	Cost of Investment	Fair Value
		Rs 000	Rs 000		Rs 000	Rs 000
JB Vantage Value Equity Fund	19,455,327	400,000	694,100	19,455,327	400,000	543,946
<b>Total unquoted units in unit trust - Bank</b>		<b>400,000</b>	<b>694,100</b>		<b>400,000</b>	<b>543,946</b>

## 33 (e) Government of Sri Lanka treasury bonds held by the Bank

As at 31st December	2023			2022		
	Cost of Investment	Fair Value		Cost of Investment	Fair Value	
	Rs 000	Rs 000		Rs 000	Rs 000	
<b>Year of Maturity</b>						
2025	85	103		-	-	
2026	4,263,735	4,457,196		-	-	
2028	17,598,944	18,731,272		-	-	
2030	12,266,072	13,770,223		-	-	
<b>Total government of Sri Lanka treasury bonds - Bank</b>	<b>34,128,836</b>	<b>36,958,794</b>		-	-	

## 33 (f) Government of Sri Lanka treasury bills held by the Bank

As at 31st December	2023			2022		
	Cost of Investment	Fair Value		Cost of Investment	Fair Value	
	Rs 000	Rs 000		Rs 000	Rs 000	
<b>Year of Maturity</b>						
2024	146,084,618	146,138,332		-	-	
<b>Total government of Sri Lanka treasury bills - Bank</b>	<b>146,084,618</b>	<b>146,138,332</b>		-	-	

## 33 (g) Government of Sri Lanka treasury bonds held by subsidiaries

As at 31st December	2023			2022		
	Cost of Investment	Fair Value		Cost of Investment	Fair Value	
	Rs 000	Rs 000		Rs 000	Rs 000	
<b>Year of Maturity</b>						
2023	-	-		618,050	562,682	
2024	861,921	844,607		861,921	704,793	
2025	966,882	1,044,890		809,370	656,352	
2026	1,116,893	1,194,908		358,387	286,720	
2027	2,020,666	1,975,560		1,183,871	735,200	
2028	877,068	975,083		165,247	144,640	
2029	150,301	126,066		150,301	78,272	
2030	159,556	175,584		-	-	
2031	231,186	307,171		231,186	184,164	
<b>Total government of Sri Lanka treasury bonds - Subsidiaries</b>	<b>6,384,473</b>	<b>6,643,869</b>		<b>4,378,333</b>	<b>3,352,823</b>	

**33 (h) Unquoted shares held by subsidiaries**

As at 31st December	2023			2022		
	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	5,102	200	290	2,154
UB Finance	540,121	12,196	378	1,742,326	12,196	558
Standard Credit Lanka (Formerly Ceylinco investment and Reality Ltd)	38,458,474	38,458	-	38,458,474	38,458	-
<b>Total unquoted shares - Subsidiaries</b>	<b>50,944</b>	<b>5,480</b>		<b>50,944</b>	<b>5,480</b>	<b>2,712</b>

**33 (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.

**33 (j) 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 2023.

Had these investments continued to be carried at fair value though other comprehensive income, the fair value of same as at 31st December 2023 would have amounted to Rs 17 Bn (31st December 2022: Rs 22 Bn) and would have resulted in the recognition of a fair value loss of Rs 1.4 Bn (2022: Rs 6 Bn) (net of tax) in other comprehensive income statement during the period. There were no reclassification of financial instruments during 2023.

**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.

# NOTES TO THE FINANCIAL STATEMENTS

34 INVESTMENT IN JOINT VENTURE (Contd.)

**34 (a) Investment in unquoted joint venture - Bank**

As at 31st December	2023			2022		
	% Holding	Cost of Investment	Fair Value/ Directors' valuation	% Holding	Cost of Investment	Fair Value/ Directors' valuation
	Value	Rs 000	Rs 000	Value	Rs 000	Rs 000
Acuity Partners (Pvt) Ltd	50	755,000	4,586,927	50	755,000	3,762,492
		755,000			755,000	

Bank did not receive any dividend income from Acuity Partners (Pvt) Ltd for the year ended 31st December 2023 (2022: Nil)

**34 (b) Investment in Unquoted Joint Venture - Group**

	2023 Rs 000	2022 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	3,007,493	2,234,558
<b>Group's share of net assets of joint venture company as at 1st January</b>	<b>3,762,493</b>	<b>2,989,558</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>3,650,355</b>	<b>2,877,420</b>
Share of profit of joint venture (net of income tax) [Note 20]	1,140,769	331,973
Share of other comprehensive income of equity accounted joint venture	(316,335)	440,961
Dividend received during the year	-	-
<b>Group's share of net assets of joint venture company as at 31st December</b>	<b>4,474,789</b>	<b>3,650,354</b>

**34 (c) Summarised Financial Position of Joint Venture - Acuity Partners (Pvt) Ltd and its Subsidiaries**

As at 31st December	2023		2022	
	Rs 000	Rs 000	Rs 000	Rs 000
Cash and cash equivalents	1,034,595		835,376	
Trade and other receivables	2,074,928		2,598,098	
Other current assets	22,726,083		10,807,208	
Non-current assets	29,788,563		14,351,970	
Trade and other payables	(1,272,944)		(605,712)	
Other current liabilities	(38,549,716)		(13,109,095)	
Non-current liabilities	(3,312,575)		(3,003,876)	
Non controlling interest	(3,315,081)		(4,348,985)	
Share holder's equity of Joint Venture	9,173,853		7,524,984	
Group's carrying amount of the investment	4,586,927		3,762,492	
Share of unrealised profit on disposal of investments	(112,138)		(112,138)	
<b>Group's carrying amount of the investment - Net</b>	<b>4,474,789</b>		<b>3,650,354</b>	

**34 (d) Summarised Statement of Profit or Loss of Joint Venture - Acuity Partners (Pvt) Ltd and its Subsidiaries**

For the year ended 31st December	2023 Rs 000	2022 Rs 000
Interest income	4,341,420	2,410,130
Other Income	296,230	173,120
Revenue	4,637,650	2,583,250
Depreciation and amortisation expenses	(140,426)	(130,875)
Administration and distribution expenses	(882,080)	(473,586)
Finance cost	(734,240)	(802,774)
Profit from operations	2,880,904	1,176,015
VAT on financial services	(589,207)	(18,418)
Profit before tax	2,291,697	1,157,597
Income tax expenses	(275,246)	(344,665)
Profit for the year	2,016,451	812,932
Other comprehensive income	(1,416,015)	1,961,384
Total comprehensive income for the year	600,436	2,774,316
Non controlling interest	1,048,432	(1,228,448)
<b>Total comprehensive income for the year</b>	<b>1,648,868</b>	<b>1,545,868</b>
<b>Group's share of :</b>		
Profit or loss for the year	1,140,769	331,973
Other comprehensive income for the year	(316,335)	440,961
Comprehensive income for the year	824,434	772,934

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.

**35****INVESTMENT IN SUBSIDIARIES****ACCOUNTING POLICY**

Subsidiaries are entities that are controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect the returns of those investees through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee
- exposure or rights to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption 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

# NOTES TO THE FINANCIAL STATEMENTS

## 35 INVESTMENT IN SUBSIDIARIES (Contd.)

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.

#### 35 (a) Investment in Subsidiaries - Quoted

As at 31st December	2023			2022		
	% Holding	Cost of Investment	Fair Value/ Directors' valuation	% Holding	Cost of Investment	Fair Value/ Directors' valuation
		Rs 000	Rs 000		Rs 000	Rs 000
HNB Assurance PLC (89,979,000 ordinary shares)	60.00	384,285	5,092,811	60.00	384,285	3,860,099
HNB Finance PLC [Note 35 (b) i] (724,904,118 ordinary shares)	42.16	660,000	3,624,521	42.16	660,000	3,117,088
<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	2023			2022		
	% Holding	Cost of Investment	Fair Value/ Directors' valuation	% Holding	Cost of Investment	Fair Value/ Directors' valuation
		Rs 000	Rs 000		Rs 000	Rs 000
Sithma Development (Pvt) Ltd (206,000,000 ordinary shares)	100	1,973,000	9,043,230	100	1,973,000	8,464,588
<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	2023		2022	
	% Holding	Cost of Investment Rs 000	% Holding	Cost of Investment Rs 000
HNB General Insurance PLC (115,000,000 ordinary shares)	100	1,150,000	100	1,150,000
		1,150,000		1,150,000

**35 (d) Subsidiary Held through HNB Finance PLC**

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.

**35 (e) Summarised Financial Position of Subsidiaries**

As at 31st December	HNB Assurance PLC		Sithma Development (Pvt) Ltd		HNB Finance PLC	
	2023	2022	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Assets	51,737,402	41,698,294	11,643,471	10,970,479	49,246,593	52,961,257
Liabilities	41,015,942	33,306,924	2,600,241	2,505,891	44,158,311	48,103,075
Equity	10,721,460	8,391,370	9,043,230	8,464,588	5,088,282	4,858,182

**35 (f) Summarised Financial Performance of Subsidiaries**

For the year ended 31st December	HNB Assurance PLC		Sithma Development (Pvt) Ltd		HNB Finance PLC	
	2023	2022	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Revenue	23,284,730	18,247,007	1,443,207	1,257,486	15,524,354	11,097,674
Profit after tax	1,796,633	1,810,134	580,725	510,136	281,040	(526,263)
Total comprehensive income	2,222,861	2,217,832	574,051	124,548	308,776	(366,083)

For the year ended 31st December	HNB Assurance PLC		Sithma Development (Pvt) Ltd		HNB Finance PLC	
	2023	2022	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cash flows from operating activities	1,669,131	2,156,635	539,600	34,081	(6,988,274)	3,077,562
Cash flows from Investing activities	(1,042,621)	(715,210)	140,623	991,563	(3,476,255)	(3,201,534)
Cash flows from financing activities	(742,545)	(642,654)	(26,776)	-	(1,795,825)	(359,940)

**Assessment of Impairment**

The Board of Directors has assessed the potential impairment loss on investments in subsidiaries as at 31st December 2023. 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	
	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Cost</b>				
Balance as at 1st January	507,684	507,684	1,209,059	1,209,059
Transferred from other Assets	-	-	7,654	-
Additions and improvements	-	-	-	-
<b>Balance as at 31st December</b>	<b>507,684</b>	<b>507,684</b>	<b>1,216,713</b>	<b>1,209,059</b>
<b>Accumulated depreciation</b>				
Balance as at 1st January	43,245	37,910	273,510	244,205
Charge for the year [Note 18 (b)]	5,335	5,335	29,281	29,305
<b>Balance as at 31st December</b>	<b>48,580</b>	<b>43,245</b>	<b>302,791</b>	<b>273,510</b>
<b>Carrying value as at 31st December</b>	<b>459,104</b>	<b>464,439</b>	<b>913,922</b>	<b>935,549</b>

**36 (a) Valuation of Investment Properties - Bank**

	Cost/Carrying Amount As at 31st December 2023					Fair Value As at 31st December 2023			Fair Value As at 31st
	Building sq.ft	Land	Land	Building	Total	Land	Building	Total	December
		Perches	(Cost)	(Net Book Value)	Rs 000	Rs 000	Rs 000	Rs 000	2022
									Total
									Rs 000
23 & 23 1/1, Independence Avenue, Colombo 7 [Note 36 (b) i]	10,645	105.10	37,081	35,739	72,820	-	-	1,061,000	1,045,000
479, T B Jayah Mawatha, Colombo 10 [Note 36 (b) iii]		Land	112.96	126,480	-	126,480	2,654,560	-	2,654,560
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 1 [Note 36 (b) ii]		Land	26.62	34,889	-	34,889	758,670	-	758,670
451, Kandy Road, Kegalle [Note 36 (b) iii]		Land	61.70	83,400	-	83,400	205,495	-	205,495
181, High Level Road, Nugegoda.	11,096	16.50	82,500	59,015	141,515	193,875	123,925	317,800	296,200
			364,350	94,754	459,104	3,812,600	123,925	4,997,525	4,818,938

**36 (b) Valuation of Investment Properties - Group**

	Cost/Carrying Amount As at 31st December 2023					Fair Value As at 31st December 2023			Fair Value As at 31st
	Building sq.ft	Land	Land	Building	Total	Land	Building	Total	December
		Perches	(Cost)	(Net Book Value)	Rs 000	Rs 000	Rs 000	Rs 000	2022
									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	35,739	72,820	-	-	1,061,208	1,045,000
181, High level Road, Nugegoda	11,096	16.50	82,500	59,015	141,515	193,875	123,924	317,799	296,200
<b>Through the Subsidiary -Sithma Development (Pvt) Ltd</b>									
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 1 [Note 36 (b) ii]	41,688	-	-	51,571	51,571	-	484,330	484,330	468,900
451, Kandy Road, Kegalle [Note 36 (b) iii]	16,000	-	-	94,656	94,656	-	215,346	215,346	197,111

# NOTES TO THE FINANCIAL STATEMENTS

36 INVESTMENT PROPERTIES (Contd.)

	Cost/Carrying Amount As at 31st December 2023						Fair Value As at 31st December 2023			Fair Value As at 31st
	Building sq.ft	Land Perches	Land (Cost)	Building (Net Book Value)	Total	Land	Building	Total	December 2022	
					Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
									Total	
<b>Through the Subsidiary -HNB Finance PLC [Note 36 (b) iii]</b>										
249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda	21,930	39.60	151,063	275,568	426,631	440,569	499,431	940,000	900,000	
Vihara Road, Rankewatte, Matale	-	15.00	9,000	-	9,000	16,500	-	16,500	15,000	
465/1, Old Police Station Road, Kahathuduwa, Polgasowita	3,967	182.59	49,008	47,067	96,075	78,687	127,813	206,500	192,000	
Adampodaivayal, Adampodaimalaikadu,Trincomalee	-	724.00	14,000	-	14,000	41,000	-	41,000	29,000	
Siyabalawalana Village, Katugampola, Giriulla	-	218.00	3,712	-	3,712	5,500	-	5,500	-	
Kalupahana Village, Horana	-	18.00	3,942	-	3,942	5,140	-	5,140	-	
			350,306	563,616	913,922	781,271	1,450,844	3,293,323	3,143,211	

**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 realisability of investment properties of the Group other than as specified in Note 36 (b) iii to the financial statements.

**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	Investment Method approach - Estimated rent per month - Years since purchase - Outgoing expenses as a percentage of gross annual rent	Rs 5,300,000 22.22 25%
479, T.B. Jayah Mawatha, Colombo 10	Mr G. W. G. Abeygunawardene	Market comparable method - Rate per perch for land	Rs 23,500,000
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 01	Mr G. W. G. Abeygunawardene	Market comparable method - Rate per perch for land	Rs 28,500,000
451, Kandy Road, Kegalle	Mr W.M. S.K. Walisundara	Contractor's method - Rate per perch for land	Rs 3,650,000
181, High Level Road, Nugegoda	Mr G. W. G. Abeygunawardene	Comparison approach - Rate per perch for land - Rate per Sq.ft.	Rs 11,750,000 Rs 8,500 to Rs 10,500

**36 (c) ii Group**

Property	Name of professional Valuer	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs
<b>Through the Bank -</b>			
23 &23 1/1, Independence Avenue, Colombo 07	Mr G.W.G. Abeyagunawardene	Investment Method approach - Estimated rent per month - Years since purchase - Outgoing expenses as a percentage of gross annual rent	Rs 5,300,000 22.22 25%
<b>Through the subsidiary -</b>			
<b>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 -</b>			
<b>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

# NOTES TO THE FINANCIAL STATEMENTS

## 36 INVESTMENT PROPERTIES (Contd.)

### 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 2023 while the fair valuation of investment properties held through the subsidiary, HNB Finance PLC was carried out in 2023.

Fair value of the investment properties is determined using the income

approach, market comparable method and depreciated replacement cost basis as appropriate.

#### 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	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Rental income derived from the investment properties [Note 14]	142,904	103,737	215,084	197,160
Direct operating expenses (including repair and maintenance generating rental income [Note 18])	-	-	48,781	19,400

## 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.

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.

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.

#### 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

#### 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.

#### **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.

#### **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.

#### **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

# NOTES TO THE FINANCIAL STATEMENTS

37 PROPERTY, PLANT AND EQUIPMENT (Contd.)

Bank	Improvements	Freehold	Computer	Equipment	Motor	Capital	2023 Total	2022 Total
	to	Land and	Equipment	Furniture	Vehicles	Work-in		
	Leasehold	Buildings		and		Progress		
	Buildings			Fixtures				
	Note 37 (b)	Note 37 (a)						
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Cost/valuation as at 1st January</b>	2,052,725	21,870,894	6,481,120	7,013,800	144,622	7,870	<b>37,571,031</b>	36,466,698
Additions and improvements	138,245	147,983	654,241	1,098,781	-	43,038	<b>2,082,288</b>	1,173,458
Disposals during the year	(559)	-	(72,842)	(211,438)	(1,740)	-	<b>(286,579)</b>	(69,125)
Transferred from capital work-in-progress	24,343	-	-	18,211	-	(42,554)	-	-
<b>Cost/valuation as at 31st December</b>	<b>2,214,754</b>	<b>22,018,877</b>	<b>7,062,519</b>	<b>7,919,354</b>	<b>142,882</b>	<b>8,354</b>	<b>39,366,740</b>	<b>37,571,031</b>
<b>Accumulated depreciation as at 1st January</b>	1,819,735	257,499	4,976,992	5,540,104	140,972	-	<b>12,735,302</b>	11,512,960
Charge for the year [Note 18 (b)]	133,850	251,950	588,629	520,036	2,729	-	<b>1,497,194</b>	1,287,867
Disposals during the year	(559)	-	(72,672)	(209,304)	(1,741)	-	<b>(284,276)</b>	(65,525)
<b>Accumulated depreciation as at 31st December</b>	<b>1,953,026</b>	<b>509,449</b>	<b>5,492,949</b>	<b>5,850,836</b>	<b>141,960</b>	<b>-</b>	<b>13,948,220</b>	<b>12,735,302</b>
<b>Carrying value as at 31st December 2023</b>	<b>261,728</b>	<b>21,509,428</b>	<b>1,569,570</b>	<b>2,068,518</b>	<b>922</b>	<b>8,354</b>	<b>25,418,520</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>-</b>	<b>24,835,729</b>
Group	Improvements	Freehold	Computer	Equipment	Motor	Capital	2023 Total	2022 Total
	to	Land and	Equipment	Furniture	Vehicles	Work-in		
	Leasehold	Buildings		and		Progress		
	Buildings			Fixtures				
	Note 37 (b)	Note 37 (a)						
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Cost/valuation as at 1st January</b>	2,052,725	45,756,287	7,262,010	10,227,637	184,988	31,815	<b>65,515,462</b>	64,035,160
Accumulated depreciation adjustment on revaluation	-	-	-	-	-	-	-	(69,539)
Revaluation surplus	-	-	-	-	-	-	-	200,070
Additions and improvements	138,245	147,983	941,756	1,309,364	-	43,038	<b>2,580,386</b>	1,471,498
Disposals during the year	(559)	-	(101,547)	(227,127)	(1,741)	-	<b>(330,974)</b>	(121,727)
Transferred from capital work-in-progress	24,343	-	-	18,211	-	(42,554)	-	-
<b>Cost/valuation as at 31st December</b>	<b>2,214,754</b>	<b>45,904,270</b>	<b>8,102,219</b>	<b>11,328,085</b>	<b>183,247</b>	<b>32,299</b>	<b>67,764,874</b>	<b>65,515,462</b>
<b>Accumulated depreciation as at 1st January</b>	1,819,735	1,133,312	5,470,122	7,300,860	175,095	-	<b>15,899,124</b>	14,310,687
Accumulated depreciation adjustment on revaluation	-	-	-	-	-	-	-	(69,539)
Charge for the year [Note 18 (b)]	133,850	496,851	709,165	679,371	7,896	-	<b>2,027,133</b>	1,782,933
Disposals during the year	(559)	-	(104,158)	(219,882)	(1,741)	-	<b>(326,340)</b>	(124,957)
<b>Accumulated depreciation as at 31st December</b>	<b>1,953,026</b>	<b>1,630,163</b>	<b>6,075,129</b>	<b>7,760,349</b>	<b>181,250</b>	<b>-</b>	<b>17,599,917</b>	<b>15,899,124</b>
<b>Carrying value as at 31st December 2023</b>	<b>261,728</b>	<b>44,274,107</b>	<b>2,027,090</b>	<b>3,567,736</b>	<b>1,997</b>	<b>32,299</b>	<b>50,164,957</b>	
<b>Carrying value as at 31st December 2022</b>	<b>232,990</b>	<b>44,622,975</b>	<b>1,791,888</b>	<b>2,926,777</b>	<b>9,893</b>	<b>31,815</b>	<b>-</b>	<b>49,616,338</b>

**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	Buildings	Cost/	Cost/	Total	Accumulated	As at 31st	As at 31st
	Perches	Sq.ft.	Valuation of Land	Valuation of Buildings	Value	Depreciation	December 2023	December 2022
			Rs 000	Rs 000	Rs 000	Rs 000	Carrying Value Rs 000	Carrying Value Rs 000
<b>Akkaraipattu Branch</b>								
14, Main Street, Akkaraipattu.	19.32	9,142	135,000	37,741	172,741	4,207	168,534	170,585
<b>Ambalangoda Branch</b>								
94/1, New Galle Road, Ambalangoda.	29.90	4,959	150,000	27,003	177,003	2,888	174,115	174,554
<b>Anuradhapura Branch</b>								
30, Maithripala Senanayake Mawatha, Anuradhapura.	57.01	9,440	143,647	73,392	217,039	8,188	208,851	212,925
<b>Badulla Branch</b>								
15, 15 1/1, Udayaraja Mawatha, Badulla.	28.44	5,715	127,890	20,110	148,000	2,244	145,756	146,872
<b>Bambalapitiya Branch</b>								
285, Galle Road, Colombo 04.	20.00	19,018	450,000	103,050	553,050	11,482	541,568	547,117
<b>Boralesgamuwa Branch</b>								
24, Maharagama Road, Boralesgamuwa.	30.34	6,250	176,000	38,500	214,500	4,297	210,203	212,340
<b>Borella Branch</b>								
53/1, D S Senanayake Mawatha, Colombo 08.	28.00	10,950	392,000	123,270	515,270	13,755	501,515	508,356
<b>Centre of Aspirations</b>								
90, Vinayalankara Mawatha, Colombo 10.	249.00	10,270	4,233,000	86,040	4,319,040	9,600	4,309,440	4,314,215
<b>Centralised Operations</b>								
10, Sri Uttarananda Mawatha, Colombo 3	40.00	70,240	1,080,000	579,729	1,659,729	60,930	1,598,799	1,626,488
<b>City Office</b>								
16, Janadhipathi Mawatha, Colombo 1.	84.00	48,350	2,184,000	289,906	2,473,906	30,456	2,443,450	2,456,574
<b>Chavakachcheri Branch</b>								
170, Kandy Road, Chavakachcheri .	35.31	5,387	49,500	23,797	73,297	1,290	72,007	71,682
<b>Dambulla Branch</b>								
700B, Anuradhapura Road, Dambulla.	87.00	7,486	224,600	56,674	281,274	5,896	275,378	275,223
<b>Fruithill Bungalow</b>								
No 295/6, Dimbula Road, Hatton.	53.08	4,530	26,900	20,100	47,000	2,243	44,757	45,872
<b>Galle Branch</b>								
3, Wakwella Road, Galle.	13.28	7,920	117,300	52,200	169,500	5,825	163,675	166,572
<b>Gampaha Branch</b>								
148, Colombo Road, Gampaha.	25.00	16,626	121,250	161,120	282,370	17,879	264,491	273,005
<b>Gampola Branch</b>								
142, Kandy Road, Gampola.	17.05	13,340	76,725	136,275	213,000	8,577	204,423	208,689
<b>Grandpass Branch</b>								
182, St Joseph Street, Colombo 14.	24.00	11,240	216,000	125,548	341,548	13,866	327,682	334,184
<b>Gunasinghapura Stores</b>								
11, Mohandiram's Road, Colombo 12.	48.30	6,030	458,900	32,059	490,959	3,564	487,395	489,105
<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	18,249	651,434	660,536

# NOTES TO THE FINANCIAL STATEMENTS

37 PROPERTY, PLANT AND EQUIPMENT (Contd.)

Bank	Land	Buildings	Cost/	Cost/	Total	Accumulated	As at 31st	As at 31st
	Perches	Sq.ft.	Valuation of Land	Valuation of Buildings	Value	Depreciation	December	December
			Rs 000	Rs 000	Rs 000	Rs 000	2023	2022
<b>Kahawatte Branch</b>								
772 A, Main Street, Kahawatte.	16.14	15,139	36,315	49,685	86,000	5,545	80,455	83,213
<b>Kalmunai Branch</b>								
30A, Batticaloa Road, Kalmunai.	25.10	6,396	113,000	31,232	144,232	1,891	142,341	142,962
<b>Kandy Branch</b>								
1, Dalada Veediya, Kandy.	57.65	27,705	1,153,000	266,401	1,419,401	27,927	1,391,474	1,403,067
<b>Kuliyapitiya Branch</b>								
225, Main Street, Kuliyapitiya.	25.30	4,500	41,745	31,255	73,000	3,488	69,512	71,247
<b>Kurunegala Branch</b>								
6, St. Anne's Street, Kurunegala.	26.00	17,970	150,800	164,320	315,120	18,203	296,917	305,789
<b>Mount Bungalow</b>								
16, Mount Road, Hatton.	160.09	4,728	48,027	24,627	72,654	2,470	70,184	68,852
<b>Mannar Branch</b>								
68, Main Street, Mannar.	23.00	6,490	40,000	23,195	63,195	2,508	60,687	61,507
<b>Marawila Branch</b>								
534, Colombo Road, Marawila.	42.00	7,217	58,800	52,200	111,000	5,825	105,175	108,072
<b>Maskeliya Branch</b>								
7/11, New Town, Maskeliya.	20.32	8,231	44,704	51,296	96,000	5,724	90,276	93,122
<b>Matara Branch</b>								
58D, Esplanade Road, Matara.	22.50	10,377	90,000	59,381	149,381	6,580	142,801	145,690
<b>Minuwangoda Branch</b>								
41, Samarakkody Road, Minuwangoda.	20.51	5,155	51,275	33,892	85,167	3,768	81,399	83,108
<b>Managers' Bungalow</b>								
295, Dimbula Road, Hatton.	42.20	2,060	20,045	7,355	27,400	821	26,579	26,987
<b>Mount Lavinia Branch</b>								
605, Galle Road, Mount Lavinia.	22.60	14,730	192,100	102,028	294,128	10,448	283,680	284,676
<b>Nawalapitiya Branch</b>								
68, Gampola Road, Nawalapitiya.	9.77	4,600	67,032	53,360	120,392	904	119,488	-
<b>Negombo Branch</b>								
18, Rajapakse Broadway, Negombo.	8.88	5,490	32,000	30,351	62,351	3,278	59,073	60,317
<b>Negombo Metro</b>								
201, Colombo Road, Negombo.	51.98	21,495	170,000	240,208	410,208	26,771	383,437	396,585
<b>Nittambuwa Branch</b>								
22, Kandy Road, Nittambuwa.	55.69	11,603	155,932	172,079	328,011	19,101	308,910	318,461
<b>Nochchiyagama Branch*</b>								
10, Puttalam Road, Nochchiyagama.	-	8,280	-	50,667	50,667	5,649	45,018	47,830
<b>Nuwar Eliya Branch/Bungalow</b>								
42, Queen Elizabeth Drive, Nuwara Eliya.	149.03	13,815	865,150	54,170	919,320	5,860	913,460	916,448
<b>Nugegoda Branch</b>								
190, 190/1, Highlevel Road (New), Nugegoda.	39.70	20,160	416,300	226,324	642,624	12,286	630,338	636,424
<b>Panchikawatte Branch</b>								
168, Panchikawatta Road, Colombo 10.	22.55	16,030	281,800	136,552	418,352	15,214	403,138	410,706

Bank	Land	Buildings	Cost/	Cost/	Total	Accumulated	As at 31st	As at 31st
	Perches	Sq.ft.	Valuation of Land	Valuation of Buildings	Value	Depreciation	December 2023	December 2022
			Rs 000	Rs 000	Rs 000	Rs 000	Carrying Value	Carrying Value
<b>Pettah Branch</b>								
149-151, Main Street, Colombo 11.	13.03	12,480	390,900	122,156	513,056	13,532	499,524	506,281
<b>Pettah Metro **</b>								
88, Main Street, Colombo 11.	-	3,708	-	130,489	130,489	14,201	116,288	120,792
<b>Polonnaruwa Branch *</b>								
467, Main Street, Kaduruwela, Polonnaruwa.	-	9,882	-	80,317	80,317	8,955	71,362	75,783
<b>Pussellawa Branch</b>								
510, Nuwara Eliya Road, Pussellawa.	14.30	6,590	39,325	59,223	98,548	6,609	91,939	95,226
<b>Ratnapura Branch</b>								
21 & 23, Senanayake Mawatha, Ratnapura.	43.40	18,970	206,150	78,906	285,056	4,260	280,796	282,926
<b>Sea Street Branch</b>								
60, Sea Street, Colombo 11.	6.90	9,625	191,500	65,897	257,397	7,329	250,068	253,675
<b>Trincomalee Branch</b>								
59, Ehamparam Road, Trincomalee.	31.75	9,103	111,000	38,149	149,149	4,240	144,909	146,977
<b>Vavuniya Branch</b>								
43, Inner Circular Road, Vavuniya.	-	9,571	-	37,135	37,135	4,040	33,095	34,964
<b>Wattala Branch</b>								
270, 270/1, Negombo Road, Wattala.	53.00	8,770	318,000	57,282	375,282	6,226	369,056	372,032
<b>Wellimada Branch</b>								
35, Nuwara Eliya Road, Wellimada.	14.37	12,832	71,850	49,493	121,343	5,252	116,091	118,831
<b>Wellawaya Branch</b>								
70, Kumaradasa Mawatha, Wellawaya.	25.50	10,525	31,560	45,621	77,181	4,621	72,560	70,781
<b>Wellawatte Branch</b>								
100 & 102, Galle Road, Colombo 06.	36.10	16,280	739,000	185,412	924,412	20,487	903,925	913,170
			16,924,522	5,094,355	22,018,877	509,449	21,509,428	21,613,395

\* Buildings constructed on state land given on lease

\*\* Condominium property

Bank has 53 freehold buildings as at 31st December 2023.

# NOTES TO THE FINANCIAL STATEMENTS

## 37 PROPERTY, PLANT AND EQUIPMENT (Contd.)

### 37 (a) Information on Freehold Land and Buildings of the Group - Extents and Locations

Group	Land	Buildings	Cost/	Cost/	Total	Accumulated	As at 31st	As at 31st
	Perches	Sq.ft.	Valuation	Valuation	Value	Depreciation	December	December
			of	of	Land	Buildings	Net Book	Net Book
			Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Through the subsidiary - Sithma Development (Pvt) Ltd.</b>								
479, T B Jayah Mawatha, Colombo 10	112.96	549,890	2,485,100	18,868,113	21,353,213	1,069,899	20,283,314	20,499,179
21, Janadhipathi Mawatha, Colombo 1	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, Kurunagela	7.05	5,755	36,504	74,496	111,000	3,523	107,477	109,490
46/A, Tangalle Road, Hambanthota	14.20	2,113	6,322	15,678	22,000	741	21,259	21,682
677, William Gopallawa Mawatha, Kandy	9.26	5,400	32,101	62,399	94,500	2,951	91,549	93,235
168, Nawala Road, Nugegoda	25.90	30,887	249,062	684,938	934,000	32,395	901,605	920,116
67/1, Mahinda Place, Kirulapone , Colombo 5	8.00	5,786	45,695	104,105	149,800	4,923	144,877	147,690
10/11, Galle Road, Katubedda, Moratuwa	23.00	-	57,500	-	57,500	-	57,500	57,500
56, Puttalam Service Mawatha, Puttalam	25.60	7,888	44,692	54,308	99,000	2,375	96,625	97,982
06 , Abaya Place,7th Lane , Anuradapura.	13.52	11,239	53,713	89,287	143,000	3,907	139,093	141,326
<b>Total freehold land and buildings</b>								
<b>-Subsidiaries</b>			3,932,069	19,953,324	23,885,393	1,120,714	22,764,679	23,009,580
<b>Total freehold land and buildings - Group</b>			20,856,591	25,047,679	45,904,270	1,630,163	44,274,107	44,622,975

Group has 64 freehold buildings as at 31st December 2023.

### 37 (b) Improvements to Leasehold Buildings

As at 31st December	Bank			Group				
	2023		2022	2023		2022		
	Cost of Buildings	Accumulated Depreciation	Net Book Value	Net Book Value	Cost of Buildings	Accumulated Depreciation	Net Book Value	Net Book Value
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
01 - 05 years	1,083,145	1,019,723	63,422	70,480	1,083,145	1,019,723	63,422	70,480
06 - 10 years	1,069,358	881,822	187,536	136,915	1,069,358	881,822	187,536	136,915
11 - 15 years	51,134	44,898	6,236	9,333	51,134	44,898	6,236	9,333
16 - 20 years	11,117	6,583	4,534	16,262	11,117	6,583	4,534	16,262
	2,214,754	1,953,026	261,728	232,990	2,214,754	1,953,026	261,728	232,990

**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	Buildings	Land	Buildings	Land	Buildings
			Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Akkaraipattu 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

# 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
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
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 3,565 p.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 9,000 p.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
Nuwar 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 9,800 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)

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
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)
Wellimada 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)
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 Bank's freehold land and buildings were determined by independent valuers while the fair values of freehold land and buildings held through the subsidiary, HNB Finance PLC were determined in 2022.

# NOTES TO THE FINANCIAL STATEMENTS

## 37 PROPERTY, PLANT AND EQUIPMENT (Contd.)

<b>37 (e) Temporarily Idle Property, Plant and Equipment - Bank</b>	<b>37 (g) Capitalisation of Borrowing Costs</b>	<b>37 (i) Property plant and equipment pledged as security for liabilities - Bank</b>
There was no temporarily idle property, plant and equipment as at 31st December 2023.	Borrowing costs were not capitalised in the acquisition of property plant and equipment during the year 2023 (2022 - Nil)	There were no item of property, plant and equipment pledged as securities for liabilities as at the reporting date in the Bank.
<b>37 (f) Compensation from Third Parties for Property, Plant and Equipment - Bank</b>	<b>37 (h) Title restriction on property plant and equipment</b>	
No compensation was received from third parties for items of property, plant and equipment that were impaired, lost or given up.		
<b>37 (j) Fully Depreciated Property, Plant and Equipment</b>		

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	
	2023 Rs 000	2022 Rs 000
Leasehold building	1,656,176	1,546,463
Computer equipment	3,688,528	3,246,804
Office equipment, furniture and fixtures	4,423,449	4,097,515
Motor Vehicle	139,041	120,377
	9,907,194	9,011,159

## 37(k) Assessment of Impairment

The Board of Directors has assessed the potential impairment loss on property, plant and equipment as at 31st December 2023. 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.

## 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 the 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.

# NOTES TO THE FINANCIAL STATEMENTS

38 RIGHT-OF-USE ASSETS (Contd.)

## 38 (a) Movement in Right-of-use Assets

	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Cost</b>				
Balance as at 1st January	8,535,253	7,711,675	5,246,019	4,156,914
Additions/renewals of operating leases during the year	594,375	908,985	929,274	1,205,658
Expiration of operating lease agreements during the year	(87,731)	(85,407)	(148,004)	(116,553)
<b>Balance as at 31st December</b>	<b>9,041,897</b>	<b>8,535,253</b>	<b>6,027,289</b>	<b>5,246,019</b>
<b>Accumulated amortisation</b>				
Balance as at 1st January	3,137,519	2,272,291	2,782,231	1,979,012
Amortisation for the year [Note 18 (b)]	823,040	865,228	820,805	871,892
Amortisation of expiring operating lease agreements during the year	-	-	(49,197)	(68,673)
<b>Balance as at 31st December</b>	<b>3,960,559</b>	<b>3,137,519</b>	<b>3,553,839</b>	<b>2,782,231</b>
<b>Carrying value as at 31st December</b>	<b>5,081,338</b>	<b>5,397,734</b>	<b>2,473,450</b>	<b>2,463,788</b>

The operating lease liabilities are presented under Note 51 to the financial statements. Given below is the movement of the operating lease liability during the period.

## 38 (b) Movement in lease liabilities

	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Balance as at 1st January	6,453,141	6,252,865	2,817,258	2,429,736
Additions/renewal of operating lease agreements during the year	594,375	908,985	929,274	1,224,432
Accretion of interest [Note 8 (b)]	862,480	859,672	385,875	341,159
Payments to lease creditors	(1,479,916)	(1,482,974)	(1,106,656)	(1,088,399)
Expiration of operating lease agreements during the year	(87,731)	(85,407)	(148,004)	(89,670)
<b>Balance as at 31st December (Note 51)</b>	<b>6,342,349</b>	<b>6,453,141</b>	<b>2,877,747</b>	<b>2,817,258</b>

## 38 (c) Future Minimum Lease Payments under Non-cancellable Operating Leases

	Bank	
	2023 Rs 000	2022 Rs 000
<b>Maturity analysis of contractual undiscounted cash flows</b>		
Less than one year	1,416,850	1,367,561
Between one and five years	4,587,996	4,489,560
More than five years	5,584,441	6,320,715
<b>Total undiscounted lease liabilities</b>	<b>11,589,287</b>	<b>12,177,836</b>

## 38 (d) Sensitivity of Right-of-Use Assets/Lease Liability to Key Assumptions

Rs 246.35 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 2.92 Mn and Rs 7.72 Mn respectively.

### Sensitivity to Incremental Borrowing Rate

Increase/(decrease) in incremental borrowing rate as at 31st December 2023 by 1% would have (decreased)/ increased the lease liability by approximately Rs 231.47 Mn and

**38 (e) Amounts Recognised in Profit or Loss**

For the year ended 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Interest expense on operating lease liabilities	862,480	859,672	385,875	341,159
Amortisation of right-of-use assets	823,040	865,228	820,805	871,892
	1,685,520	1,724,900	1,206,680	1,213,051

**38 (f)** Amounts recognised in statement of cash flows in respect of operating lease liabilities during the year ended 31st December 2023 amounts to Rs 1,491 Mn (2022 - Rs 1,438 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.

The estimated amortisation rates are as follows

# NOTES TO THE FINANCIAL STATEMENTS

## 39 INTANGIBLE ASSETS AND GOODWILL (Contd.)

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	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Cost</b>				
Balance as at 1st January	5,405,888	5,176,004	6,604,649	6,319,136
Additions and improvements during the year	760,637	229,884	812,659	285,513
Impairment of Goodwill	-	-	(33,941)	-
<b>Balance as at 31st December</b>	<b>6,166,525</b>	<b>5,405,888</b>	<b>7,383,367</b>	<b>6,604,649</b>
<b>Accumulated amortisation</b>				
Balance as at 1st January	4,155,734	3,746,460	4,833,557	4,330,002
Amortisation for the year [Note 18 (b)]	450,692	409,274	539,914	503,555
<b>Balance as at 31st December</b>	<b>4,606,426</b>	<b>4,155,734</b>	<b>5,373,471</b>	<b>4,833,557</b>
<b>Carrying value as at 31st December</b>	<b>1,560,099</b>	<b>1,250,154</b>	<b>2,009,896</b>	<b>1,771,092</b>

#### 39 (a) Analysis of Intangible Assets

As at 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Computer Software	1,560,099	1,250,154	1,762,711	1,489,966
Goodwill *	-	-	147,185	181,126
License	-	-	100,000	100,000
	<b>1,560,099</b>	<b>1,250,154</b>	<b>2,009,896</b>	<b>1,771,092</b>

\*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.

Based on the impairment assessment carried out by HNB Finance PLC as at 31st December 2023, Rs 33.9 Mn impairment loss has been recognised in respect of goodwill recognised on acquisition of Prime Finance PLC.

#### **39 (a) i Assessment of Impairment**

As at 31st December 2023, 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 31st December 2023. Based on the assessment, the bank provided an impairment provision of Rs 33.9 Mn during the reporting period

#### **39 (a) ii Title Restriction on Intangible Assets**

There are no restrictions on the title of the intangible assets of the Group as at the reporting date.

#### **39 (a) iii Intangible Assets pledged as Security**

None of the intangible assets have been pledged as security as at the reporting date.

#### **39 (a) iv Acquisition of Intangible Assets During the Year**

During the financial year, the Bank and Group acquired intangible assets to the aggregate value of Rs 761 Mn and Rs 813 Mn respectively (2022 - Rs 229 Mn and Rs 285 Mn respectively). Cash payments amounting to Rs 761 Mn and Rs 813 Mn respectively (2022 - Rs 229 Mn and Rs 285 Mn) were made for purchase of intangible assets by the Bank and Group respectively, during the year.

#### **39 (a) v Fully Amortised Intangible Assets in Use**

Intangible assets include fully amortised computer software amounting Rs 3.2 Bn (2022 - Rs 2.9 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 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.

	<b>Bank</b>		<b>Group</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
	<b>Rs 000</b>	<b>Rs 000</b>	<b>Rs 000</b>	<b>Rs 000</b>
Net deferred tax liabilities [Note 40 (a)]	-	-	6,552,515	6,465,029
Net deferred tax assets [Note 40 (b)]	33,944,563	30,471,351	33,967,277	30,763,166
	<b>33,944,563</b>	<b>30,471,351</b>	<b>27,414,762</b>	<b>24,298,137</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 40 DEFERRED TAX ASSETS AND LIABILITIES (Contd.)

### 40 (a) Net Deferred Tax Liabilities

	Bank		Group	
	2023	2022	2023	2022
	Tax Effect Rs 000	Tax Effect Rs 000	Tax Effect Rs 000	Tax Effect Rs 000
<b>Balance as at 1st January</b>	<b>7,172,809</b>	<b>5,612,197</b>	<b>14,145,933</b>	<b>11,241,706</b>
<b>Recognised in profit or loss</b>				
Originating during the year				
Recognised/(realised) in the income statement	335,829	(425,790)	443,613	(178,642)
Effect of change in tax rate	-	362,723	-	261,026
	<b>335,829</b>	<b>(63,067)</b>	<b>443,613</b>	<b>82,384</b>
<b>Recognised in OCI</b>				
Originating during the year				
Recognised in the Other Comprehensive Income	971,511	466,439	1,079,170	442,517
Effect of change in tax rate	-	1,157,240	-	2,379,326
<b>Balance as at 31st December</b>	<b>8,480,149</b>	<b>7,172,809</b>	<b>15,668,716</b>	<b>14,145,933</b>
Offset against deferred tax assets	(8,480,149)	(7,172,809)	(9,116,201)	(7,680,904)
<b>Net deferred tax liabilities (Note 40)</b>	<b>-</b>	<b>-</b>	<b>6,552,515</b>	<b>6,465,029</b>

### 40 (b) Net Deferred Tax Assets

	Bank		Group	
	2023	2022	2023	2022
	Tax Effect Rs 000	Tax Effect Rs 000	Tax Effect Rs 000	Tax Effect Rs 000
<b>Balance as at 1st January</b>	<b>37,644,160</b>	<b>10,073,758</b>	<b>38,444,070</b>	<b>11,024,833</b>
Originating during the year				
Recognised/(realised) in the income statement	4,780,552	25,051,962	4,628,487	25,018,563
Effect of change in tax rate	-	2,518,440	-	2,373,210
	<b>4,780,552</b>	<b>27,570,402</b>	<b>4,628,487</b>	<b>27,391,773</b>
Originating during the year Recognised in OCI	-	-	10,921	27,464
<b>Balance as at 31st December</b>	<b>42,424,712</b>	<b>37,644,160</b>	<b>43,083,478</b>	<b>38,444,070</b>
Offset against deferred tax liabilities	(8,480,149)	(7,172,809)	(9,116,201)	(7,680,904)
<b>Net deferred tax assets (Note 40)</b>	<b>33,944,563</b>	<b>30,471,351</b>	<b>33,967,277</b>	<b>30,763,166</b>

**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	
					2023 Rs 000	2023 Rs 000	2022 Rs 000	2022 Rs 000
<b>Accelerated depreciation for tax purposes</b>								
Property, plant and equipment	(3,987,490)	(1,196,247)	(2,159,283)	(647,785)	(548,979)	(115,118)	-	-
Intangible assets	(563,107)	(168,932)	(369,007)	(110,702)	(58,230)	10,962	-	-
Assets on leasing business	(1,196,523)	(358,957)	(2,097,790)	(629,337)	271,380	167,223	-	-
Revaluation of government securities	(3,238,370)	(971,511)	-	-	-	-	(971,511)	(466,439)
Revaluation surplus on freehold lands	(15,780,037)	(4,734,011)	(15,780,037)	(4,734,011)	-	-	-	(946,802)
Revaluation surplus on freehold buildings	(3,507,297)	(1,052,189)	(3,507,297)	(1,052,189)	-	-	-	(210,438)
	(28,272,824)	(8,481,847)	(23,913,414)	(7,174,024)	(335,829)	63,067	(971,511)	(1,623,679)
Operating lease rights	1,261,010	378,303	1,059,447	317,834	60,469	121,386	-	-
Temporary difference on allowance for impairment	140,160,357	42,048,107	124,425,137	37,327,541	4,720,083	27,449,016	-	-
	141,421,367	42,426,410	125,484,584	37,645,375	4,780,552	27,570,402	-	-
	113,148,543	33,944,563	101,571,170	30,471,351	4,444,723	27,633,469	(971,511)	(1,623,679)

# NOTES TO THE FINANCIAL STATEMENTS

## 40 DEFERRED TAX ASSETS AND LIABILITIES (Contd.)

### 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	
	2023 Rs 000	2023 Rs 000	2022 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Accelerated depreciation for tax purposes</b>								
Property, plant and equipment	(5,680,697)	(1,704,209)	(3,745,253)	(1,123,576)	(569,959)	(405,048)	-	-
Intangible assets	(563,250)	(168,975)	(369,127)	(110,738)	(58,237)	10,926	-	-
Assets on leasing business	(1,196,523)	(358,957)	(2,097,790)	(629,337)	271,380	225,786	-	-
Revaluation of government securities	(3,597,233)	(1,079,170)	-	-	-	-	(1,079,170)	(467,702)
Revaluation surplus on freehold lands	(29,771,170)	(8,931,351)	(29,771,170)	(8,931,351)	-	-	-	(2,206,176)
Revaluation surplus on freehold buildings	(10,374,753)	(3,112,426)	(10,374,753)	(3,112,426)	-	-	-	(176,566)
Undistributed profits of subsidiaries and joint ventures	(1,270,407)	(381,122)	(981,087)	(294,326)	(86,796)	(66,695)	-	-
	(52,454,033)	(15,736,210)	(47,339,180)	(14,201,754)	(443,612)	(235,031)	(1,079,170)	(2,850,444)
Unutilised tax losses	-	-	-	-	-	(273,543)	-	-
Operating lease rights	1,226,533	367,960	1,042,483	312,745	55,215	139,736	-	-
Temporary difference on allowance for impairment and retirement benefits	142,610,040	42,783,012	127,290,487	38,187,146	4,573,270	27,678,227	10,921	20,257
	143,836,573	43,150,972	128,332,970	38,499,891	4,628,485	27,544,420	10,921	20,257
	91,382,540	27,414,762	80,993,790	24,298,137	4,184,873	27,309,389	(1,068,249)	(2,830,187)

### 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 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 and comparative period.

**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	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Un-amortised cost on staff loans	11,596,824	10,907,185	11,715,335	11,003,181
Other debtors	2,684,072	1,815,034	7,371,105	5,835,577
Reimbursement under special senior citizen deposit scheme	6,870,224	6,764,470	6,870,224	6,764,470
Receivable from pension fund	4,158,958	3,479,578	4,158,958	3,479,578
Deposits and prepayments	2,647,450	3,293,958	3,160,668	3,486,051
Stationary and other consumables	198,312	129,548	198,312	129,548
Allowance for impairment [Note 41 (a)]	(59,619)	(108,655)	(59,619)	(125,033)
	28,096,221	26,281,118	33,414,983	30,573,372

As at 31st December 2023 other assets includes Rs 11,029 Mn (2022 - Rs 10,959 Mn) financial assets in the Bank and Rs 14,269 Mn (2022 - Rs 13,772 Mn) in the Group.

**41 (a) Movement in Impairment Allowance**

	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Balance as at 1st January	108,655	108,655	125,033	125,033
Net impairment reversal for the year	(49,036)	-	(65,414)	-
<b>As at 31st December</b>	<b>59,619</b>	<b>108,655</b>	<b>59,619</b>	<b>125,033</b>

Impairment provision of Rs 59.6 Mn in the Bank/Group has been recognised in respect of non financial assets as at 31st December 2023 (2022 - 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.

# NOTES 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	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Local bank borrowings	-	-	-	-
Foreign bank borrowings	1,937,620	2,298,113	1,937,620	2,298,113
Refinance borrowings	2,131,420	1,868,875	2,131,420	1,868,875
Other balances	4,950,542	1,937,590	4,950,542	1,937,590
	9,019,582	6,104,578	9,019,582	6,104,578

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). Haircuts for security sold under repurchase agreements comply with direction No. 01 of 2019 dated 20th November 2019.

As at 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Securities sold under repurchase agreements				
- With banks	52,237,933	-	52,237,933	-
- With customers	9,555,761	6,540,014	9,555,761	6,540,014
	61,793,694	6,540,014	61,793,694	6,540,014

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

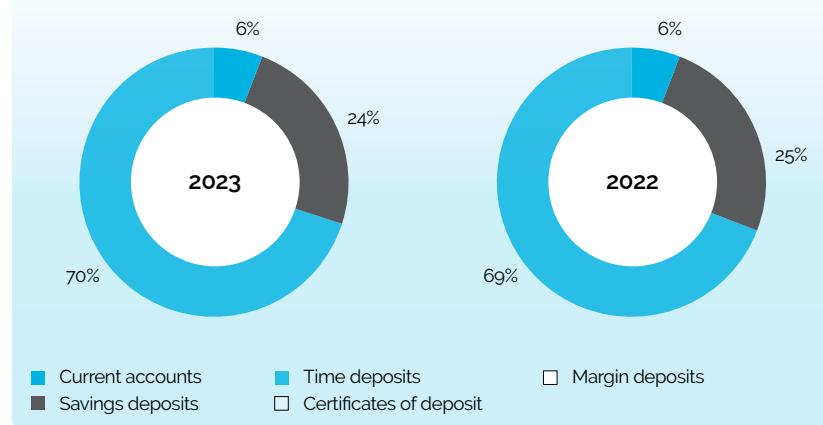
are measured at their amortised cost using the Effective Interest Rate (EIR) method, except where the Group designates liabilities as measured at fair value through profit or loss. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral 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.

	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Local currency deposits	1,218,532,954	1,038,635,871	1,248,490,701	1,074,681,115
Foreign currency deposits	361,247,274	369,164,621	360,662,984	368,498,006
	1,579,780,228	1,407,800,492	1,609,153,685	1,443,179,121

**Analysis of Due to Customers****44 (a) i By Product**

	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Current account deposits	91,111,847	79,901,172	88,272,897	79,530,635
Savings deposits	381,475,208	356,052,620	384,039,187	358,670,096
Time deposits	1,105,328,890	968,669,141	1,134,977,318	1,001,800,831
Certificates of deposit	270,265	305,891	270,265	305,891
Margin deposits	1,594,018	2,871,668	1,594,018	2,871,668
	1,579,780,228	1,407,800,492	1,609,153,685	1,443,179,121

**Analysis of deposits- Bank**

# NOTES TO THE FINANCIAL STATEMENTS

44 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - DUE TO DEPOSITORS (Contd.)

## 44 (a) ii By Currency

As at 31st December	Bank		Group	
	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000
Sri Lankan Rupees	1,218,532,954	1,038,635,871	1,248,490,701	1,074,681,115
United States Dollars	323,695,081	323,462,965	323,110,791	322,799,153
Great Britain Pounds	13,919,936	17,451,026	13,919,936	17,451,026
Euros	11,066,737	13,536,909	11,066,737	13,534,105
Australian Dollars	9,989,444	11,607,107	9,989,444	11,607,107
Other currencies	2,576,076	3,106,614	2,576,076	3,106,615
	1,579,780,228	1,407,800,492	1,609,153,685	1,443,179,121

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	
	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January	1,008,325	989,212	1,038,542	1,013,629
Final cash dividends declared in the prior year	-	3,418,380	219,000	3,616,180
Unclaimed dividends transferred to retained earnings	(29,270)	(20,022)	(29,270)	(20,022)
Dividends paid during the year	(4,265)	(3,379,245)	(237,491)	(3,571,245)
<b>Balance as at 31st December</b>	<b>974,790</b>	<b>1,008,325</b>	<b>990,781</b>	<b>1,038,542</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	
	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000
Refinance borrowings	7,820,770	8,080,861	7,820,770	8,080,861
Foreign borrowings	17,112,445	24,269,733	17,112,445	24,269,733
Local borrowings	-	-	98,569	1,035,004
	24,933,215	32,350,594	25,031,784	33,385,598

The maturity analysis of financial liabilities at amortised cost – other borrowings is given in Note 61 to the financial statements.

**47****DEBT SECURITIES ISSUED****ACCOUNTING POLICY**

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	Fixed / floating interest rate	Interest rate of comparable government securities (Gross) (p.a)	Repayment Terms	Issue Date	Maturity Date	Bank		Group	
									As at 31.12.2023	As at 31.12.2022	As at 31.12.2023	As at 31.12.2022
Rs 000												
2013/2023	Listed	Annually Semi	2,000,000	Fixed 8.00%	-	10 Years	30th Aug 2013	29th Aug 2023	-	1,978,910	-	1,951,606
2014/2024	Listed	Annually	84,040	Fixed 8.33% 1 Year Average	13.40%	10 Years	15th Dec 2014	15th Dec 2024	87,569	84,040	66,729	63,201
2011/2040*	Not Listed	Monthly	665,000	Fixed rate	T-bill rate	20 Years	01st Apr 2011	31st Mar 2040	-	-	483,431	540,302
<b>Total debt securities issued</b>												
<b>Analysis of total debt securities issued</b>												
Due within one year									87,569	1,978,910	72,882	2,014,630
Due after one year									-	84,040	477,278	540,479
									87,569	2,062,950	550,160	2,555,109

HNB Assurance PLC, subsidiary of the Bank has invested Rs 20.8 Mn (2022 - Rs 48.1 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 2023.

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 2023.

**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	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Balance as at 1st January	30,025,919	10,051,689	30,460,242	10,518,569
Provision for the year	16,780,300	26,627,382	17,857,412	26,968,465
Over provision in previous years	-	(1,053,500)	(60,856)	(987,055)
Payments during the year	(22,757,981)	(5,599,652)	(23,454,531)	(6,026,123)
Withholding tax/other credits	(94,415)	-	(94,588)	(13,614)
<b>Balance as at 31st December</b>	<b>23,953,823</b>	<b>30,025,919</b>	<b>24,707,679</b>	<b>30,460,242</b>

# NOTES TO THE FINANCIAL STATEMENTS

48 CURRENT TAX LIABILITIES (Contd.)

## 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.

## 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.

As at 31st December	Group	
	2023 Rs 000	2022 Rs 000
<b>Insurance Contract Liabilities</b>		
Life Insurance Fund [Note 49 (a)]	30,705,584	24,373,392
Claims Outstanding	269,676	219,011
<b>Total Insurance Contract Liabilities - Life Insurance</b>	<b>30,975,260</b>	<b>24,592,403</b>

**49 (a) Life Insurance Fund**

	Group	
	2023 Rs 000	2022 Rs 000
<b>Balance as at 01st January</b>	<b>24,373,392</b>	20,097,793
Surcharge tax	-	(21,966)
<b>Adjusted balance as at 1st January</b>	<b>24,373,392</b>	20,075,827
Change in contract liabilities - life fund		
Increase in life insurance fund before surplus distribution to shareholders	7,667,521	5,594,607
Surplus distributed to shareholders	(1,315,000)	(1,280,000)
Increase in life insurance fund	6,352,521	4,314,607
Effect of taxation on surplus/bonus transferred to policyholders	(20,329)	(17,042)
Change in contract liabilities - life fund (after tax)	6,332,192	4,297,565
<b>Balance as at 31st December</b>	<b>30,705,584</b>	24,373,392

The valuation of the life insurance business as at 31st December 2023 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 30,975 Mn (2022 : Rs 24,592 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 (b) Sensitivity of the Value of Insurance Liabilities**

As at 31st December	Change in assumptions	Impact on gross liabilities	
		2023 %	2022 %
Mortality	10%	0.21	0.13
	-10%	(0.20)	(0.22)
Discount rate	+50% basis points	(0.92)	(0.13)
	-50% basis points	0.92	0.13
Expense	10%	0.51	0.29
	-10%	(0.63)	(0.37)

**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 2023 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 2023. No additional provision was required against the LAT as at 31st December 2023.

# NOTES TO THE FINANCIAL STATEMENTS

## 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.

### ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

#### Valuation of Non Life Insurance Contract Liabilities of Subsidiary, HNB General Insurance Limited (HNBGL)

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	Group	
	2023	2022
	Rs 000	Rs 000
Unearned premium		
Gross	3,952,973	3,428,085
Reinsurance	(992,827)	(692,584)
<b>Net</b>	<b>2,960,146</b>	<b>2,735,501</b>
Reserve for title insurance	48,980	57,059
	3,009,126	2,792,560
<b>Claims outstanding - Gross</b>	<b>1,158,910</b>	<b>1,006,371</b>
Claims incurred but not reported - Gross	526,267	382,657
	4,694,303	4,181,588

**Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER)**

IBNR and IBNER claims Reserves as at 31st December 2023 have been actuarially computed by the consultant actuary, Ms Sipika Tandon Mathur, FIA, for and on behalf of Willis Towers Watson India Private Limited (2022 - 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 2023	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 2023	+/- 10%	1,158,910	+/-115,891	+/-76,585	+/-76,585	-/+53,609

**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 2023 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 2023. No additional provision was required against the LAT as at 31st December 2023.

**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	
	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000
Bills payable	1,200,536	1,048,783	1,200,536	1,048,783
Employee benefit obligations [Note 51 (a)]	281,289	269,106	920,008	834,878
Impairment allowance for off-balance sheet credit exposures [Note 51 (b)]	4,639,869	4,410,515	4,639,869	4,410,515
Operating lease liability [Note 38 (b)]	6,342,349	6,453,141	2,877,747	2,817,258
Other creditors	5,139,264	4,868,080	9,044,143	8,404,507
Payable to lease creditors	1,722,645	328,645	2,013,913	525,854
	19,325,952	17,378,270	20,696,216	18,041,795

As at 31st December 2023 other liabilities include Rs 7.2 Mn (2022 - Rs 4.2 Mn) financial liabilities in the Bank and Rs 2,869 Mn (2022 - Rs 2,435 Mn) in the Group.

# NOTES TO THE FINANCIAL STATEMENTS

## 51 OTHER LIABILITIES (Contd.)

### 51 (a) Employee Benefit Obligations

As at 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Liability for EPF interest rate guarantee [Note 53 (d)]	95,615	88,294	95,615	88,294
Liability for leave accrual plan [Note 53 (e)]	185,674	180,812	185,674	180,812
Provision for gratuity benefits [Note 53 (g)]	-	-	638,719	565,772
	281,289	269,106	920,008	834,878

### 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.

	Bank/Group	
	2023 Rs 000	2022 Rs 000
<b>Stage 1</b>		
Balance as at 1st January	2,567,514	789,147
Net impairment charge for the year [Note 15]	458,740	1,778,367
<b>Balance as at 31st December</b>	<b>3,026,254</b>	<b>2,567,514</b>
<b>Stage 2</b>		
Balance as at 1st January	517,350	154,772
Net impairment charge/(reversal) for the year [Note 15]	(169,397)	362,578
<b>Balance as at 31st December</b>	<b>347,953</b>	<b>517,350</b>
<b>Stage 3</b>		
Balance as at 1st January	1,325,651	1,249,055
Net impairment charge/(reversal) for the year [Note 15]	(59,989)	76,596
<b>Balance as at 31st December</b>	<b>1,265,662</b>	<b>1,325,651</b>
<b>Total impairment allowance for off balance sheet credit exposures</b>	<b>4,639,869</b>	<b>4,410,515</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	
	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000
Subordinated debentures [Note 52 (a)]	18,961,556	22,914,299	22,255,164	26,151,300
	18,961,556	22,914,299	22,255,164	26,151,300

**52 (a) Subordinated Debentures**

Year of issuance	Colombo Stock Exchange Listing	Interest Payment Frequency	Face Value	Fixed / floating interest	Interest rate	Interest Rate of Comparable Government Securities (Gross) (p.a)	Repayment Terms	Issue Date	Maturity Date	Bank		Group	
										As at 31.12.2023	As at 31.12.2022	As at 31.12.2023	As at 31.12.2022
			Rs 000							Rs 000	Rs 000	Rs 000	Rs 000
2006	Listed	At maturity	1,362,800	Fixed	11.25%	13.46%	18 Year	1st Apr 2006	31st Mar 2024	1,327,463	1,193,302	1,327,463	1,176,474
2016	Listed	Annually	4,000,000	Fixed	13.00%	-	7 Year	1st Nov 2016	1st Nov 2023	-	4,086,904	-	4,086,904
2019	Listed	Annually	1,922,570	Fixed	12.30%	13.46%	5 Year	23rd Sep 2019	22nd Sep 2024	1,987,358	1,987,358	1,970,530	1,987,358
2019	Listed	Annually	8,077,430	Fixed	12.80%	13.58%	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%	-	5 Year	30th Dec 2019	30th Dec 2024	-	-	1,169,647	1,037,534
2021	Listed	Annually	7,000,000	Fixed	9.50%	13.54%	10 Year	28th Jul 2021	29th Jul 2031	7,286,042	7,286,042	7,172,242	7,172,241
					1 year T Bill rate	1 year T Bill							
2022	Unlisted	Annually	2,000,000	Floating	+ 3%	rate 3%	5 Year	25th April 2022	25th April 2027	-	-	2,318,101	2,393,608
<b>Total subordinated debentures</b>										18,961,556	22,914,299	22,255,164	26,151,300
<b>Analysis of subordinated debentures</b>													
Due within one year										3,884,126	4,720,996	5,053,774	4,920,463
Due after one year										15,077,430	18,193,303	17,201,390	21,230,837
										18,961,556	22,914,299	22,255,164	26,151,300

HNB Assurance PLC has invested Rs 194 Mn in (2022 - 194 Mn) subordinated debentures issued by the Bank and Rs 141.6 Mn (2022 - 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 2023.

**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.

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.

#### **ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

##### **Defined Benefit Obligation**

The defined benefit obligation is determined using an actuarial valuation. The actuarial valuation involves making

#### **53 (a)**

	<b>Bank</b>		<b>Group</b>	
	<b>2023</b> Rs 000	<b>2022</b> Rs 000	<b>2023</b> Rs 000	<b>2022</b> Rs 000
Unfunded defined benefit plan asset [Note 53 (a) i]	<b>281,289</b>	269,106	<b>281,289</b>	269,106
Funded defined benefit plan asset [Note 53 (c) i]	(4,158,959)	(3,479,579)	(4,158,959)	(3,479,579)
<b>Total employee benefit obligations</b>	<b>(3,877,670)</b>	(3,210,473)	<b>(3,877,670)</b>	(3,210,473)

#### **53 (a) i Unfunded defined benefit plans**

Liability for EPF interest rate guarantee plan [Note 53 (d)]	<b>95,615</b>	88,294	<b>95,615</b>	88,294
Liability for leave accrual plan [Note 53 (e)]	<b>185,674</b>	180,812	<b>185,674</b>	180,812
	<b>281,289</b>	269,106	<b>281,289</b>	269,106

# NOTES TO THE FINANCIAL STATEMENTS

## 53 EMPLOYEE BENEFIT OBLIGATIONS (Contd.)

### 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

### 53 (c) Funded defined benefit plan

#### Pension Fund - Bank

An actuarial valuation of the pension fund was carried out as at 31st December 2023 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 9 % out of the pensionable salary, to the pension fund in 2023 (2022 - 13.96%).

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	
	2023 Rs 000	2022 Rs 000
Present value of funded obligation [Note 53 (c) iii]	20,394,553	16,352,743
Total present value of obligations	20,394,553	16,352,743
Fair value of plan assets [Note 53 (c) ii]	(24,553,512)	(19,832,322)
(Surplus)/deficit on funded defined benefit plan - pension fund	(4,158,959)	(3,479,579)
Recognised (asset)/liability for defined benefit obligations - pension fund	(4,158,959)	(3,479,579)

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 2023 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 4,158 Mn as a net receivable in respect of pension fund (2022 – Rs 3,479 Mn).

#### 53 (c) ii Fair Value of Plan Assets consists of the following

As at 31st December	Bank/Group	
	2023 Rs 000	2022 Rs 000
Equity securities and debentures	3,861,113	2,940,540
Government securities	9,587,977	7,755,140
Balances with banks	46,383	20,779
Fixed deposits	9,766,517	9,281,270
Others	1,291,522	(165,407)
	24,553,512	19,832,322

**53 (c) iii Movement in the Present Value of Defined Benefit Obligations**

As at 31st December	Bank/Group	
	2023 Rs 000	2022 Rs 000
Liability for defined benefit obligations as at 1st January	16,352,743	17,725,989
Current service cost [Note 16 (a)]	652,947	746,605
Interest on obligation [Note 53 (c) v]	3,025,258	1,949,859
Actuarial (gain)/loss	1,246,570	(3,253,330)
Benefits paid by the plan	(882,965)	(816,380)
<b>Liability for defined benefit obligations as at 31st December</b>	<b>20,394,553</b>	<b>16,352,743</b>

**53 (c) iv Movement in the Present Value of Plan Assets**

	Bank/Group	
	2023 Rs 000	2022 Rs 000
Fair value of plan assets as at 1st January	19,832,322	18,974,697
Expected return on plan assets	3,668,980	2,087,216
Contributions paid into plan	685,098	983,066
Benefits paid by the plan	(882,965)	(816,379)
Actuarial loss	1,250,077	(1,396,278)
<b>Fair value of plan assets as at 31st December</b>	<b>24,553,512</b>	<b>19,832,322</b>

**53 (c) v Net Interest on Defined Benefit Asset/(Liability)**

For the year ended 31st December	Bank/Group	
	2023 Rs 000	2022 Rs 000
Interest on obligation	3,025,258	1,949,859
Expected return of plan assets	(3,668,980)	(2,087,216)
<b>Net interest on defined benefit (asset)/liability [Note 16 (a)]</b>	<b>(643,722)</b>	<b>(137,357)</b>

**53 (c) vi Actuarial Gains and Losses Recognised in Other Comprehensive Income**

For the year ended 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Actuarial gain/(loss) on present value of funded defined benefit obligations	(1,246,570)	3,253,330	(1,246,570)	3,253,330
Actuarial gain/(loss) on provision for gratuity benefits	-	-	(34,190)	54,013
Actuarial gain/(loss) on fair value of plan assets	1,250,077	(1,396,278)	1,250,077	(1,396,278)
<b>Actuarial gain/(loss) recognised during the year</b>	<b>3,507</b>	<b>1,857,052</b>	<b>(30,683)</b>	<b>1,911,065</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 53 EMPLOYEE BENEFIT OBLIGATIONS (Contd.)

### 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 (go) Annuities table (Males and Females) issued by the Institute of Actuaries, London
	Staff turnover	The withdrawal rate at an age 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 withdrawal rates were revisited as at 31st December 2023 to reflect the latest trends when determining the liability on account of the active employees in the funded scheme.
	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 [Note 53 (b)]
	Rate of discount	A long-term Treasury Bond rate of 12.00% p.a. (2022 – 18.50% p.a.) has been used to discount future liabilities taking into consideration remaining working life of eligible employees.
	Salary increases	A salary increment rate of 10.50% p.a. (2022 – 17% p.a.) has been used in respect of the active employees.
	Post-retirement pension increase rate	Nil (2022 - Nil)

The average duration of the pension fund obligation is 12.9 years as at 31st December 2023 (2022 - 12.1 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 2023.

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	Sensitivity Effect on Pension Fund Surplus Increase/ (decrease)
		Rs 000	Rs 000
1%		1,924,721	1,924,721
-1%		(2,303,866)	(2,303,866)
	1%	(1,568,635)	(1,568,635)
	-1%	1,389,941	1,389,941

**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	2023	2022
	Rs 000	Rs 000
Less than one year	806,074	506,621
1 - 3 years	1,396,717	1,092,018
3 - 5 years	1,956,342	1,865,908
5 - 10 years	4,920,856	3,818,350
Above 10 years	9,183,721	6,735,586
	18,263,710	14,018,483

**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	
	2023	2022
Discount rate	12.00%	18.50%
Long term interest rate to credit the fund	12.00%	18.50%
<b>Liability for EPF interest rate guarantee</b>		
	Bank/Group	
	2023	2022
	Rs 000	Rs 000
Present value of obligation as at 1st January	88,294	84,614
Provision made during the year (Note 16)	7,321	3,680
<b>Present value of obligation as at 31st December [Note 53 (a) i]</b>	<b>95,615</b>	<b>88,294</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.

As at 31st December	Bank/Group	
	2023	2022
Discount rate	12.00%	18.50%
Future salary increase	10.50%	17.00%

# NOTES TO THE FINANCIAL STATEMENTS

## 53 EMPLOYEE BENEFIT OBLIGATIONS (Contd.)

### Liability for leave accrual plan

	Bank/Group	2023	2022
		Rs 000	Rs 000
Present value of obligation as at 1st January		180,812	154,216
Provision made during the year (Note 16)		4,862	26,596
<b>Present value of obligation as at 31st December [Note 53 (a) i]</b>		<b>185,674</b>	<b>180,812</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 2,060 Mn and that the fair value of the fund assets is Rs 3,211 Mn resulting in a past service surplus of Rs 115 Mn (2022 : Rs 1,871 Mn) in the Widows', Widowers' and Orphans' Pension Scheme as at 31st December 2023.

No contribution is made by the Bank and the members' contribution during the period amounted to Rs 123.9 Mn. (2022 - Rs 129 Mn)

### 53 (g) Provision for gratuity benefits

	Group	2023	2022
		Rs 000	Rs 000
<b>Balance as at 1st January</b>		<b>565,772</b>	<b>557,706</b>
Provision during the year [Note 16]		115,611	111,649
Actuarial (gain)/loss recognised in OCI		34,190	(54,013)
Payments during the year		(76,854)	(49,570)
<b>Balance as at 31st December</b>		<b>638,719</b>	<b>565,772</b>

	Group	2023	2022
		2023	2022
<b>As at 31st December</b>		<b>2023</b>	<b>2022</b>
<b>Actuarial Assumptions</b>			
Discount rate		12.5 % - 17.75%	8% - 18.5%
Future salary increment rate		9% - 12.5%	6% - 12%

Actuarial valuations for HNB Assurance PLC and HNB Finance PLC as at 31st December 2023 and 31st March 2023 respectively were carried out by actuary, Mr Pushpakumar Gunasekara, Associate of the Institute of Actuaries Australia (AIAA).

**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**

	2023		2022	
	Number of shares	Value Rs 000	Number of shares	Value Rs 000
<b>Voting ordinary shares</b>				
Balance as at 1st January	428,442,985	31,732,741	420,859,924	30,680,591
Issue of shares through scrip dividend [Note 54 (b)]	18,208,826	1,820,883	7,583,061	1,052,150
Balance as at 31st December	446,651,811	33,553,624	428,442,985	31,732,741
<b>Non-voting ordinary shares</b>				
Balance as at 1st January	107,112,457	6,946,264	105,044,649	6,683,653
Issue of shares through scrip dividend [Note 54 (b)]	5,974,119	455,228	2,067,808	262,611
Balance as at 31st December	113,086,576	7,401,492	107,112,457	6,946,264
	559,738,387	40,955,116	535,555,442	38,679,005

**54 (b) Issue of Shares through Scrip Dividends**

Bank issued 18,208,826 voting shares in the form of scrip dividend at a price of Rs 100.00 and 5,974,119 non-voting shares at a price of Rs 76.20 on 17th April 2023.

**55 STATUTORY RESERVE FUND**

	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Balance as at 1st January	9,310,000	8,560,000	9,310,000	8,560,000
Transfers during the year	1,100,000	750,000	1,100,000	750,000
Balance as at 31st December	10,410,000	9,310,000	10,410,000	9,310,000

**Nature and purpose of reserve**

Statutory reserve fund is maintained as per the statutory requirements in terms of Section 20 (1) and (2) of the Banking Act No 30 of 1988.

This fund is built up by transferring a sum equivalent to not less than 5% of the profit after tax before any dividend is declared or any profits are transferred until the fund equals 50% of the Bank's stated capital. Thereafter, a further sum equal to 2% of profit after tax is transferred until the fund equals to the stated capital of the Bank.

# NOTES TO THE FINANCIAL STATEMENTS

## 56 RETAINED EARNINGS

	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Balance as at 1st January</b>	<b>40,706,963</b>	<b>35,186,607</b>	<b>50,247,360</b>	<b>43,643,800</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>40,706,963</b>	<b>31,574,982</b>	<b>50,247,360</b>	<b>39,730,900</b>
Profit for the year	<b>20,353,118</b>	<b>14,033,493</b>	<b>22,770,791</b>	<b>15,328,572</b>
Other comprehensive income for the year	-	1,561,607	(17,950)	1,590,675
Transfer to other reserves	(2,100,000)	(1,750,000)	(2,100,000)	(1,750,000)
Transfer of unclaimed dividends	29,270	20,022	29,270	20,022
Dividends to equity holders	(2,677,777)	(4,733,141)	(2,677,777)	(4,733,141)
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>56,311,574</b>	<b>40,706,963</b>	<b>68,251,694</b>	<b>50,247,360</b>

This represents cumulative net earnings, inclusive of final dividend proposed amounting to Rs 4,478 Mn. The balance is retained and reinvested in the business of the Bank/Group.

## 57 OTHER RESERVES

### 57 (a)

	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
As at 31st December				
Capital reserve [Note 57 (b)]	13,927,316	13,927,316	28,493,417	28,493,417
General reserve [Note 57 (c)]	59,100,000	58,100,000	59,100,000	58,100,000
Fair value reserve [Note 57 (d)]	4,273,171	(1,395,906)	4,069,473	(1,182,630)
Life policy holder reserve fund [Note 57 (e)]	-	-	10,983	(1,347,731)
Restricted regulatory reserve [Note 57 (f)]	-	-	381,156	381,156
Exchange equalisation reserve [Note 57 (g)]	-	-	568,207	611,253
	<b>77,300,487</b>	<b>70,631,410</b>	<b>92,623,236</b>	<b>85,055,465</b>

### 57 (b) Capital Reserve

	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Balance as at 1st January	13,927,316	15,084,556	28,493,417	30,816,980
Other comprehensive income for the period, net of tax	-	(1,157,240)	-	(2,323,563)
<b>Balance as at 31st December</b>	<b>13,927,316</b>	<b>13,927,316</b>	<b>28,493,417</b>	<b>28,493,417</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	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Balance as at 1st January	58,100,000	57,100,000	58,100,000	57,100,000
Transfer during the year	1,000,000	1,000,000	1,000,000	1,000,000
<b>Balance as at 31st December</b>	<b>59,100,000</b>	<b>58,100,000</b>	<b>59,100,000</b>	<b>58,100,000</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	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Balance as at 1st January	(1,395,906)	(1,254,053)	(1,182,630)	(1,258,039)
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	5,669,077	(1,618,910)	5,252,103	(2,105,633)
<b>Balance as at 31st December</b>	<b>4,273,171</b>	<b>(1,395,906)</b>	<b>4,069,473</b>	<b>(1,182,630)</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	
	2023 Rs 000	2022 Rs 000
Balance as at 1st January	(1,347,731)	(103,302)
Transfer to / (from) life policy holder reserve fund	1,358,714	(1,244,429)
<b>Balance as at 31st December</b>	<b>10,983</b>	<b>(1,347,731)</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.

**57 (f) Restricted Regulatory Reserve**

	Group	
	2023 Rs 000	2022 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>

# NOTES TO THE FINANCIAL STATEMENTS

## 57 OTHER RESERVES (Contd.)

### 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 EQUALISATION RESERVE

	Group	
	2023 Rs 000	2022 Rs 000
Balance as at 1st January	611,253	163,202
Transfer to/(from) exchange equalisation reserve	(43,046)	448,051
<b>Balance as at 31st December</b>	<b>568,207</b>	<b>611,253</b>

### Nature and purpose of reserve

Exchange equalisation 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:

	Group	
	2023 Rs 000	2022 Rs 000
As at 31st December		
<b>Subsidiaries</b>		
HNB Assurance PLC	4,284,190	3,895,645
HNB Finance PLC	3,032,545	2,899,451
	<b>7,316,735</b>	<b>6,795,096</b>
	<b>HNB Assurance PLC</b>	
	<b>HNB Finance PLC</b>	
NCI percentage	40.00%	57.84%
<b>As at 31st December 2023</b>	<b>Rs 000</b>	<b>Rs 000</b>
Non-current assets	36,710,347	44,062,850
Current assets	15,027,055	5,183,743
Non-current liabilities	(35,669,563)	(42,243,361)
Current liabilities	(5,346,379)	(1,914,950)
<b>Net assets</b>	<b>10,721,460</b>	<b>5,088,282</b>
Other adjustments	(10,983)	154,708
<b>Net assets</b>	<b>10,710,477</b>	<b>5,242,990</b>
<b>Net assets attributable to NCI</b>	<b>4,284,190</b>	<b>3,032,545</b>

For the year ended 31st December 2023	Rs 000	Rs 000	Rs 000
Revenue	23,284,730	15,524,354	38,809,084
Profit	1,796,633	281,040	2,077,673
Other Comprehensive Income	2,222,861	308,776	2,531,637
<b>Total comprehensive income</b>			
Profit allocated to NCI	718,653	117,047	835,700
Other comprehensive income allocated to NCI	889,144	133,089	1,022,233
	HNB Assurance PLC	HNB Finance PLC	Total
<b>NCI percentage</b>	40.00%	57.84%	
As at 31st December 2022	Rs 000	Rs 000	Rs 000
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>	8,391,371	4,858,182	13,249,553
Other adjustments	1,347,741	154,700	1,502,441
<b>Net assets</b>	9,739,112	5,012,882	14,751,994
<b>Net assets attributable to NCI</b>	3,895,645	2,899,451	6,795,096
For the year ended 31st December 2022	Rs 000	Rs 000	Rs 000
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	(211,743)	675,390

# 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	2023 Rs 000	2022 Rs 000
Documentary credit	26,964,874	21,226,810
Guarantees	114,927,736	109,352,321
Acceptances	11,270,528	6,758,569
Bills for collection	27,185,901	30,593,348
Forward exchange contracts		
Forward exchange sales	31,440,180	2,310,116
Forward exchange purchases	122,106,261	16,891,372
Cheques sent on clearing	5,712,132	5,549,168
Commitments for unutilised facilities - direct	269,445,259	250,332,701
Commitments for unutilised facilities - indirect	273,980,241	366,314,552
	883,033,112	809,328,957

**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 1,327 Mn.

As at 31st December	Bank/Group	
	2023 Rs 000	2022 Rs 000
Approved and contracted but not provided for	1,068,928	721,488
Approved and not contracted for	258,141	933,708
	1,327,069	1,655,196

**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 as at 31st December 2023, 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 213.8Mn on VAT and NBT on financial services (relating to 2014, 2015, 2016, 2017, 2018 and 2019), assessments to the value of Rs 396.2 Mn on VAT assessments to the value of Rs 1,838 Mn on Income tax (relating to Y/A 2011/12, 2012/13, 2013/14, 2014/15, 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20) received by HNBA are outstanding and have been duly appealed.

**59 (d) iii Tax assessments against Group entity - HNB Finance PLC (HNBF)**

An assessment to the value of Rs 222.8Mn on Income tax relating to Y/A 2019/20 received by HNBF is outstanding and have been duly appealed.

**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.

# NOTES TO THE FINANCIAL STATEMENTS

60 RELATED PARTY DISCLOSURES (Contd.)

## 60 (b) i Compensation to KMP

For the year ended 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
Short term employee benefits	198,590	192,219	199,960	196,289
Post-employment benefits	2,967	2,766	2,967	2,766
	201,557	194,985	202,927	199,055

## 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	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Assets</b>				
Financial assets measured at amortised cost - loans and advances to customers	257,861	358,464	325,025	232,073
	257,861	358,464	325,025	232,073
<b>Liabilities</b>				
Securities sold under repurchase agreements	-	-	-	124,430
Financial liabilities measured at amortised cost - due to depositors	867,530	1,448,703	1,427,039	1,122,207
	867,530	1,448,703	1,427,039	1,246,637

### Commitments and Contingencies

As at 31st December	Closing Balance	
	2023 Rs 000	2022 Rs 000
<b>Commitments for unutilised facilities</b>		
Direct	296,630	365,199
	296,630	365,199

### Income Statement - Bank

For the year ended 31st December	2023		2022	
	Rs 000	Rs 000	Rs 000	Rs 000
Interest income		36,161		20,843
Interest expenses		121,721		92,849
Fee and commission income/(expenses)		349		416

### Number of shares held by KMP

As at 31st December	2023		2022	
	Rs 000	Rs 000	Rs 000	Rs 000
Voting		137,983		140,921
Non-Voting		62,786		65,237

No cash dividends were paid to KMP in 2023 (2022 - Rs 1.256 Mn)

**6o (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	
	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000

**Assets**

Financial assets measured at amortised cost - loans and advances to customers	-	150,907	58,800	132,992
	-	150,907	58,800	132,992

**Liabilities**

Financial liabilities measured at amortised cost - due to depositors	-	6,472	4,569	5,670
	-	6,472	4,569	5,670

**Commitments and Contingencies**

As at 31st December	Closing Balance	
	2023	2022
	Rs 000	Rs 000
<b>Commitments for unutilised facilities</b>		
Direct	-	20,240
Indirect	-	50,000
	-	70,240

**Income Statement - Bank**

For the year ended 31st December	2023		2022	
	Rs 000	Rs 000	Rs 000	Rs 000
Interest income		6,836		28,098
Interest expenses		58		37
Fee and commission income/(expenses)		2,520		8,251

**6o (c) Transactions with Group Entities**

The group entities include subsidiaries and joint venture of the Bank.

**6o (c) i Transactions with Subsidiaries**

**Statement of Financial Position - Bank**

As at 31st December	Closing Balance		Average Balance	
	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>				
Financial assets measured at amortised cost- loans and advances to customers	500,000	1,234,263	175,140	1,009,855
Other assets	205,628	266,273	69,718	441,090
	705,628	1,500,536	244,858	1,450,945
<b>Liabilities</b>				
Securities sold under repurchase agreements	-	-	-	1,644,000
Debt securities issued and subordinated term debt	207,000	233,618	207,000	233,618
Financial liabilities measured at amortised cost - due to depositors	6,968,175	4,225,036	5,673,844	3,876,623
	7,175,175	4,458,654	5,880,844	5,754,241

# NOTES TO THE FINANCIAL STATEMENTS

## 60 RELATED PARTY DISCLOSURES (Contd.)

### **Commitments and Contingencies**

As at 31st December	Closing Balance	
	2023 Rs 000	2022 Rs 000
Guarantees	232,334	227,410
Letter of credit	12,474	-
<b>Commitments for unutilised facilities</b>		
Direct	1,550,360	818,180
	<b>1,795,168</b>	<b>1,045,590</b>

### **Income Statement - Bank**

For the year ended 31st December	2023		2022	
	Rs 000	Rs 000	Rs 000	Rs 000
Interest income	49,986		269,609	
Interest expenses	1,041,884		612,295	
Fee and commission income/(expenses)	605,089		522,239	
Other income	380,729		320,625	
Other expenses	1,057,269		906,634	
<b>Other transactions</b>				
Expenses reimbursed to the bank	47,496		44,562	
Expenses reimbursed by the bank	165,167		88,112	
Insurance claims received	93,147		35,261	

### **60 (c) ii Transactions with the Joint Venture**

#### **Statement of Financial Position - Bank**

As at 31st December	Closing Balance		Average Balance	
	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>				
Financial assets measured at amortised cost - loans and advances to customers	263,366	296,772	481,302	521,534
	<b>263,366</b>	<b>296,772</b>	<b>481,302</b>	<b>521,534</b>
<b>Liabilities</b>				
Financial liabilities measured at amortised cost - due to depositors	79,807	129,746	90,820	305,118
Securities sold under repurchase agreements	39,600	194,200	107,840	217,910
	<b>119,407</b>	<b>323,946</b>	<b>198,660</b>	<b>523,028</b>

#### **Commitments and Contingencies**

As at 31st December	Closing Balance	
	2023 Rs 000	2022 Rs 000
Letter of Guarantees	33,481	29,000
<b>Commitments for unutilised facilities</b>		
Direct	5,579,763	3,969,500
Indirect	24,015	38,200
	<b>5,637,259</b>	<b>4,036,700</b>

**Income Statement - Bank**

For the year ended 31st December	2023 Rs 000	2022 Rs 000
Interest income	108,466	107,340
Interest expenses	15,062	42,620
Fee and commission income/(expenses)	11,005	14,403
Other expenses	-	1,791
Expenses reimbursed to the bank	4,242	83

**6o (d) Transactions with Post Employment Benefit Plans of the Bank**

As at 31st December	Closing Balance		Average Balance	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Liabilities</b>				
Financial liabilities measured at amortised cost - due to depositors	7,763,974	16,620,892	14,912,883	8,730,114
Debt securities issued and subordinated term debts	53,860	130,159	104,726	130,159
Securities sold under repurchase agreements	864,000	854,000	1,384,530	2,578,810
	8,681,834	17,605,051	16,402,139	11,439,083
<b>Equity</b>				
Stated capital	63,227	61,550	61,575	60,464
	63,227	61,550	61,575	60,464

**Income Statement - Bank**

For the year ended 31st December	2023 Rs 000	2022 Rs 000
Interest expenses	3,888,935	2,598,658
<b>Other transactions</b>		
Dividends paid	3,965	8,238
Contributions made	2,269,110	2,496,520

**Number of shares held by post employment benefit plans of the Bank**

As at 31st December	2023	2022
Voting	169,124	162,230
Non voting	813,789	770,799

**6o (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 25.14% of the voting rights of the Bank as at 31st December 2023 (2022 - 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 2023, 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 60 RELATED PARTY DISCLOSURES (Contd.)

### Statement of Financial Position - Bank

As at 31st December	Closing Balance		Average Balance	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Balances with Central Bank of Sri Lanka</b>	<b>12,234,361</b>	<b>32,344,341</b>	<b>13,231,977</b>	<b>28,613,126</b>
Financial assets measured at amortised cost- -debt and other financial instruments	547,167,740	446,166,752	564,172,305	379,549,578
Financial assets measured at fair value through other comprehensive income	183,097,126	-	99,787,647	48,697,783
Financial assets measured at fair value through profit or loss	1,947	496	490	2,713
Financial assets measured at amortised cost-loans and advances to customers	66,684,353	65,104,081	63,888,654	60,334,266
	<b>809,185,527</b>	<b>543,615,670</b>	<b>741,081,073</b>	<b>517,197,466</b>
<b>Liabilities</b>				
Financial liabilities measured at amortised cost - due to depositors	9,276,819	14,412,390	11,281,631	14,975,831
Due to banks	7,321,207	9,029,991	7,423,509	11,604,699
Debt securities issued/Subordinated term debts	8,945,200	10,464,091	8,945,200	10,464,091
Securities sold under repurchase agreements	54,042,860	718,210	22,830,200	203,980
Current tax liabilities	23,953,823	30,025,919	28,292,737	23,183,496
	<b>103,539,909</b>	<b>64,650,601</b>	<b>78,773,277</b>	<b>60,432,097</b>

### Commitments and Contingencies

As at 31st December	Closing Balance	
	2023 Rs 000	2022 Rs 000
<b>Forward foreign exchange contracts</b>		
Purchases	60,183,000	10,400,143
Documentary credit	2,252,284	7,565,650
Guarantee	1,438,672	1,846,960
<b>Commitments for unutilised facilities</b>		
Direct	7,162,226	8,732,084
Indirect	22,235,144	10,351,970

## 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	2023		2022	
	Rs 000	Rs 000	Rs 000	Rs 000
Interest income		132,981,008		71,906,093
Interest expenses		6,698,694		2,913,094
Fee and commission income/(expenses)		415,077		338,189
Impairment charge/(reversal) for loans and other losses		(1,934,704)		272,500
Tax expenses (income tax, financial services VAT, crop insurance levy, local taxes and stamp duty)		27,220,941		30,880,002

**Number of Shares held by Government**

As at 31st December	2023	2022
Voting	115,330,785	110,928,493
Non voting	1,496,703	1,609,933

No cash dividends were paid to government related entities in 2023 (2022 - Rs 718.53 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 2023 was Rs 1,074Mn (2022 - Rs 741.40 Mn).

**60 (g) Disclosure Requirement under Section 9.14.8(1) and section 9.14.8(2) of the Listing Rules of Colombo Stock Exchange (CSE)**
**• Recurrent related party transactions**

In accordance with rule No. 9.14.8(2) 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. 9.14.8(1) 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 2023**

	Bank			Group		
	Within 12 months	More than 12 months	Total	Within 12 months	More than 12 months	Total
<b>ASSETS</b>						
Cash and cash equivalents	73,148,596	-	73,148,596	73,758,907	-	73,758,907
Placements with banks	55,991,134	-	55,991,134	57,000,143	4,836,239	61,836,382
Balances with Central Bank of Sri Lanka	-	12,234,361	12,234,361	-	12,234,361	12,234,361
Reverse repurchase agreements	-	-	-	1,830,461	-	1,830,461
Derivative financial instruments	452,193	-	452,193	452,193	-	452,193
Financial assets measured at fair value through profit or loss	115,627	14	115,641	702,106	98,959	801,065
Financial assets measured at amortised cost - loans and advances to customers	502,138,601	452,741,715	954,880,316	520,263,941	468,337,256	988,601,197
Financial assets measured at amortised cost - debt and other financial instruments	407,286,396	142,485,759	549,772,155	421,866,990	162,264,273	584,131,263
Financial assets measured at fair value through other comprehensive income	146,138,332	43,187,626	189,325,958	146,982,939	48,992,368	195,975,307
Investment in joint venture	-	755,000	755,000	-	4,474,789	4,474,789
Investment in subsidiaries	-	3,017,285	3,017,285	-	-	-
Investment properties	-	459,104	459,104	-	913,922	913,922
Property, plant and equipment	-	25,418,520	25,418,520	-	50,164,957	50,164,957
Right-of-use assets	743,501	4,337,837	5,081,338	534,899	1,938,551	2,473,450
Intangible assets and goodwill	-	1,560,099	1,560,099	-	2,009,896	2,009,896
Deferred tax assets	-	33,944,563	33,944,563	-	33,967,277	33,967,277
Other assets	11,620,888	16,475,333	28,096,221	16,870,074	16,544,909	33,414,983
<b>Total assets</b>	<b>1,197,635,268</b>	<b>736,617,216</b>	<b>1,934,252,484</b>	<b>1,240,262,653</b>	<b>806,777,757</b>	<b>2,047,040,410</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 61 MATURITY ANALYSIS (Contd.)

	Bank			Group		
	Within 12 months	More than 12 months	Total	Within 12 months	More than 12 months	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>LIABILITIES</b>						
Due to banks	7,873,303	1,146,279	9,019,582	7,873,303	1,146,279	9,019,582
Derivative financial instruments	1,365,523	-	1,365,523	1,365,523	-	1,365,523
Securities sold under repurchase agreements	60,843,694	950,000	61,793,694	60,843,694	950,000	61,793,694
Financial liabilities measured at amortised cost - due to depositors	1,507,042,853	72,737,375	1,579,780,228	1,519,864,555	89,289,130	1,609,153,685
Dividends payable	974,790	-	974,790	990,781	-	990,781
Financial liabilities measured at amortised cost - other borrowings	9,536,787	15,396,428	24,933,215	9,538,835	15,492,949	25,031,784
Debt securities issued	87,569	-	87,569	72,882	477,278	550,160
Current tax liabilities	23,953,823	-	23,953,823	24,707,679	-	24,707,679
Deferred tax liabilities	-	-	-	-	6,552,515	6,552,515
Insurance provision - life	-	-	-	269,676	30,705,584	30,975,260
Insurance provision - non-life	-	-	-	4,645,323	48,980	4,694,303
Other provisions	9,079,375	-	9,079,375	9,393,312	303,971	9,697,283
Other liabilities	12,170,009	7,155,943	19,325,952	16,755,731	3,940,485	20,696,216
Subordinated term debts	3,884,126	15,077,430	18,961,556	5,053,774	17,201,390	22,255,164
Total shareholders' equity	-	184,977,177	184,977,177	-	212,240,046	212,240,046
Non-controlling interests	-	-	-	-	7,316,735	7,316,735
<b>Total equity and liabilities</b>	<b>1,636,811,852</b>	<b>297,440,632</b>	<b>1,934,252,484</b>	<b>1,661,375,068</b>	<b>385,665,342</b>	<b>2,047,040,410</b>
Maturity gap	(439,176,584)	439,176,584	-	(421,112,415)	421,112,415	-
Cumulative gap	(439,176,584)	-	-	(421,112,415)	-	-

### 61 (b) As at 31st December 2022

	Bank			Group		
	Within 12 months	More than 12 months	Total	Within 12 months	More than 12 months	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>ASSETS</b>						
Cash and cash equivalents	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 Bank of Sri Lanka	-	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 measured at fair value through profit or loss	111,617	-	111,617	236,178	-	236,178
Financial assets measured at amortised cost - loans and advances to customers	542,404,109	431,727,143	974,131,252	568,947,561	445,571,378	1,014,518,939
Financial assets measured at amortised cost - debt and other financial 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>

	Bank			Group		
	Within 12 months	More than 12 months	Total	Within 12 months	More than 12 months	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>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 measured 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 measured at amortised cost						
- other borrowings	8,733,367	23,617,227	32,350,594	9,768,371	23,617,227	33,385,598
Debt securities issued	1,978,910	84,040	2,062,950	1,981,380	573,729	2,555,109
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 - non-life	-	-	-	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	21,426,500	26,151,300
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)		

**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**

The 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 NBFI 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.

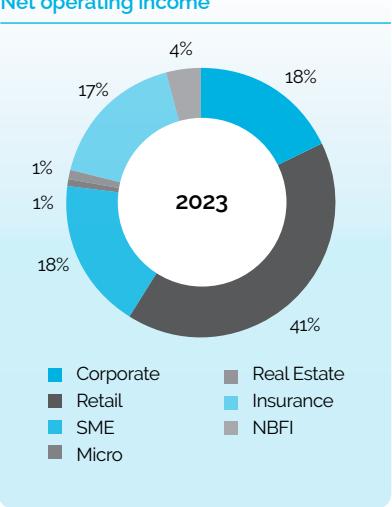
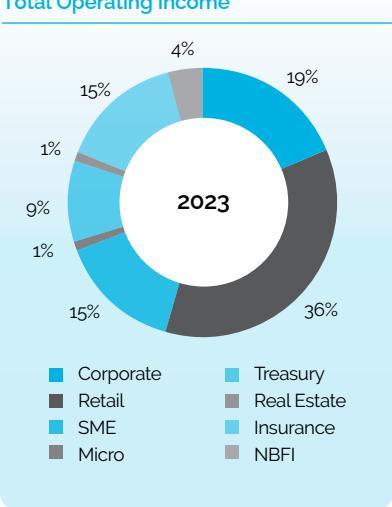
**62 (b) Information about reportable segments**

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

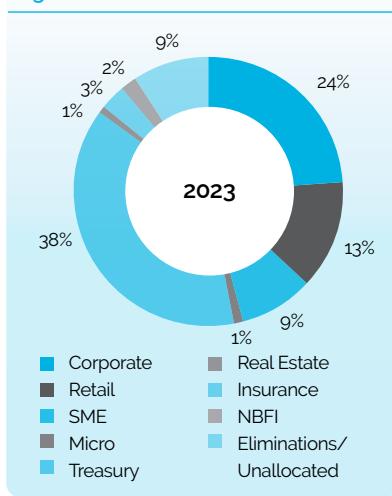
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## SEGMENT REPORTING (Contd.)

For the year ended 31st December	Corporate		Retail		SME		Micro	
	2023	2022	2023	2022	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000					
Net interest income	22,045,429	9,242,018	49,578,270	35,986,295	19,337,186	10,427,177	1,267,020	862,155
Foreign exchange income	3,008,229	(4,705,790)	614,220	269,586	837,589	(6,513)	4,450	3,263
Net fee and commission income	4,765,840	5,283,473	7,205,344	5,712,717	3,871,812	3,990,060	240,737	194,038
Other operating income	-	-	-	-	-	-	-	-
<b>Total operating income</b>	<b>29,819,498</b>	<b>9,819,701</b>	<b>57,397,834</b>	<b>41,968,598</b>	<b>24,046,587</b>	<b>14,410,724</b>	<b>1,512,207</b>	<b>1,059,456</b>
Impairment charge for loans and other losses	4,747,389	19,724,214	587,042	3,539,098	(599,956)	7,960,907	(186,357)	410,403
<b>Net operating income</b>	<b>25,072,109</b>	<b>(9,904,513)</b>	<b>56,810,792</b>	<b>38,429,500</b>	<b>24,646,543</b>	<b>6,449,817</b>	<b>1,698,564</b>	<b>649,053</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>
 <b>As at 31st December</b>	 <b>2023</b>	 <b>2022</b>	 <b>2023</b>	 <b>2022</b>	 <b>2023</b>	 <b>2022</b>	 <b>2023</b>	 <b>2022</b>
	Rs 000	Rs 000	Rs 000					
Segment assets	491,562,701	551,729,193	268,939,707	274,656,111	190,061,192	228,894,215	27,092,840	26,116,133
Investment in joint venture	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>491,562,701</b>	<b>551,729,193</b>	<b>268,939,707</b>	<b>274,656,111</b>	<b>190,061,192</b>	<b>228,894,215</b>	<b>27,092,840</b>	<b>26,116,133</b>
Segment liabilities	267,234,522	258,174,870	936,575,823	835,246,480	280,887,374	260,588,569	27,274,451	15,851,101
<b>Total liabilities</b>	<b>267,234,522</b>	<b>258,174,870</b>	<b>936,575,823</b>	<b>835,246,480</b>	<b>280,887,374</b>	<b>260,588,569</b>	<b>27,274,451</b>	<b>15,851,101</b>
 <b>For the year ended 31st December</b>	 <b>2023</b>	 <b>2022</b>	 <b>2023</b>	 <b>2022</b>	 <b>2023</b>	 <b>2022</b>	 <b>2023</b>	 <b>2022</b>
	Rs 000	Rs 000	Rs 000					
<b>Information on cash flows</b>								
Cash flows from operating activities	46,631,583	11,777,702	130,966,616	75,779,664	56,560,857	55,411,307	7,444,116	8,967,277
Cash flows from investing activities	-	(1,500,000)	-	-	-	-	-	-
Cash flows from financing activities	-	-	-	-	-	-	-	-
<b>Net cash flow generated during the year</b>	<b>46,631,583</b>	<b>10,277,702</b>	<b>130,966,616</b>	<b>75,779,664</b>	<b>56,560,857</b>	<b>55,411,307</b>	<b>7,444,116</b>	<b>8,967,277</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>
 <b>Geographic information</b>								
The Group functions in one geographic location. Accordingly, geographic information is not presented in these financial statements.								
 <b>Net operating income</b>								
								
 <b>Total Operating Income</b>								
								

Treasury		Real Estate		Insurance		NBFI*		Eliminations/Unallocated		Consolidated	
2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
17,208,435	44,744,360	311,203	165,334	7,159,312	4,484,745	5,652,291	3,415,972	(4,484,584)	2,238,488	118,074,562	111,566,544
(2,282,712)	4,167,927	-	-	-	-	-	-	(4,483,285)	19,418,284	(2,301,509)	19,146,757
32,166	3,921	-	-	317,622	272,222	413,696	455,272	(274,564)	(9,958)	16,572,653	15,901,745
245,500	73,794	1,090,141	1,038,607	15,749,807	13,441,723	960,113	571,735	(891,606)	(865,814)	17,153,955	14,260,045
15,203,389	48,990,002	1,401,344	1,203,941	23,226,741	18,198,690	7,026,100	4,442,979	(10,134,039)	20,781,000	149,499,661	160,875,091
36,090,229	58,823,539	-	-	(34,460)	31,354	1,969,078	1,246,157	(49,036)	-	42,523,930	91,735,672
(20,886,840)	(9,833,537)	1,401,344	1,203,941	23,261,201	18,167,336	5,057,022	3,196,822	(10,085,003)	20,781,000	106,975,731	69,139,419
-	-	-	-	-	-	-	-	-	-	36,077,406	14,088,284
-	-	-	-	-	-	-	-	-	-	1,140,769	331,973
-	-	-	-	-	-	-	-	-	-	(13,611,684)	1,327,978
-	-	-	-	-	-	-	-	-	-	835,700	419,663
-	-	-	-	-	-	-	-	-	-	22,770,791	15,328,572
2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
771,434,547	573,212,402	11,643,471	10,970,479	51,737,402	41,698,294	49,246,593	52,961,257	180,847,168	34,386,713	2,042,565,621	179,462,479
-	-	-	-	-	-	-	-	-	4,474,789	3,650,354	4,474,789
771,434,547	573,212,402	11,643,471	10,970,479	51,737,402	41,698,294	49,246,593	52,961,257	185,321,957	38,037,067	2,047,040,410	179,827,515
85,438,776	7,028,292	11,643,471	10,970,479	51,737,402	41,698,294	49,246,593	52,961,257	337,001,998	315,755,809	2,047,040,410	179,827,515
85,438,776	7,028,292	11,643,471	10,970,479	51,737,402	41,698,294	49,246,593	52,961,257	337,001,998	315,755,809	2,047,040,410	179,827,515
2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
76,978,433	15,940,347	539,600	34,081	1,669,131	2,156,635	(6,988,275)	3,077,562	4,419,713	(31,163,288)	318,221,774	141,981,287
(311,452,319)	(33,860,569)	140,623	991,563	(1,042,621)	(715,210)	(3,476,255)	(3,201,534)	1,047,447	(9,846,767)	(314,783,125)	(48,132,517)
-	-	(26,776)	-	(742,545)	(642,654)	(1,795,825)	(359,940)	(4,079,958)	(1,316,077)	(6,645,104)	(2,318,671)
(234,473,886)	(17,920,222)	653,447	1,025,644	(116,035)	798,771	(12,260,355)	(483,912)	1,387,202	(42,326,132)	(3,206,455)	91,530,099
-	-	-	-	400,565	218,651	97,531	79,389	2,082,288	1,173,458	2,580,384	1,471,498
-	-	-	-	45,998	17,706	6,024	37,923	760,637	229,884	812,659	285,513
-	-	-	-	446,563	236,357	103,555	117,312	2,842,925	1,403,342	3,393,043	1,757,011

## Segment Assets



## Segment Liabilities



# NOTES TO THE FINANCIAL STATEMENTS

## 63 NET ASSETS VALUE PER ORDINARY SHARE

As at 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
<b>Amount used as the numerator:</b>				
Equity holders funds (Rs 000)	184,977,177	159,327,378	212,240,046	183,291,830
<b>Number of ordinary shares used as the denominator:</b>				
Total number of shares* ('000) [Note 22 (c)]	559,738	559,738	559,738	559,738
<b>Net assets value per ordinary share (Rs)</b>	<b>330.47</b>	<b>284.65</b>	<b>379.18</b>	<b>327.46</b>

\*Number of shares used in net assets value per ordinary share calculation of 2022 has been adjusted by the number of shares issued as scrip dividends in 2023.

## 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 material events that took place 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 2022 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 232 to 233 for the statement of the directors' responsibility for financial reporting.

# SUPPLEMENTARY INFORMATION

## SUPPLEMENTARY INFORMATION

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- Market Discipline-Disclosure Requirements  
Under Pillar III [412](#)
- Income Statement in US Dollars [436](#)
- Statement of Profit or Loss and Other Comprehensive Income in US Dollars [437](#)
- Statement of Financial Position  
in US Dollars [438](#)
- Sources and Utilisation of Income [439](#)
- Value Added Statement [440](#)
- Value Created to Stakeholders [441](#)
- Ten Year Statistical Summary [442](#)
- Quarterly Statistics [443](#)
- Investor Relations [444](#)
- Our Branch & Smart Self-service Machine (SSM) Network [472](#)
- Notice of Meeting [474](#)
- Form of Proxy (Voting) [477](#)
- Form of Proxy (Non-Voting) [479](#)
- Investor Feedback Form [481](#)

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 1

### Key regulatory ratios - Capital and liquidity

As at 31st December	Bank		Group	
	2023	2022	2023	2022
<b>Regulatory Capital</b>				
Common Equity (Rs 000)	126,926,615	110,339,128	148,881,729	125,236,381
Tier 1 Capital (Rs 000)	126,926,615	110,339,128	148,881,729	125,236,381
Total Capital (Rs 000)	159,254,920	139,614,626	181,877,481	155,160,353
<b>Regulatory Capital Ratios</b>				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 2023-8% ; 2022-8%)	13.66%	11.06%	14.70%	11.42%
Tier 1 Capital Ratio (Minimum Requirement - 2023-9.5% ; 2022-9.5%)	13.66%	11.06%	14.70%	11.42%
Total Capital Ratio (Minimum Requirement - 2023-13.5% ; 2022-13.5%)	17.13%	14.00%	17.95%	14.15%
Leverage Ratio (Minimum Requirement - 3%)	5.61%	6.22%	6.27%	6.65%
Net stable funding ratio (minimum requirement : 2023-100% , 2022-100%)	150.19%	130.85%		
<b>Regulatory Liquidity</b>				
Statutory Liquid Assets (Rs 000)	784,703,658	494,462,429		
Statutory Liquid Assets Ratio (Minimum Requirement – 20%)				
Bank (%)	48.17%	33.95%		
Domestic Banking Unit (%)	46.53%	31.04%		
Off-Shore Banking Unit (%)	34.06%	29.10%		
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement - 2023-100% ; 2022-100%)	387.17%	255.83%		
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement - 2023-100% ; 2022-100%)	445.92%	519.47%		

**TEMPLATE 2****Basel III computation of capital ratios**

As at 31st December	Bank		Group	
	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Common equity Tier 1 (CET1) Capital after Adjustments</b>	126,926,615	110,339,128	148,881,729	125,236,381
<b>Total common equity Tier 1 (CET1) Capital</b>	170,009,255	148,633,241	191,079,377	163,216,182
Equity Capital (Stated Capital)/Assigned Capital	40,955,116	38,679,005	40,955,116	38,679,005
Reserve fund	10,410,000	9,310,000	10,410,000	9,310,000
Published retained earnings/(Accumulated retained losses)	56,305,768	40,600,740	68,245,890	50,141,139
Published accumulated other comprehensive income (OCI)	3,238,371	1,943,496	4,470,635	994,315
General and other disclosed reserves	59,100,000	58,100,000	59,399,407	57,296,627
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	-	-	7,598,329	6,795,096
<b>Total adjustments to CET1 Capital</b>	43,082,640	38,294,113	42,197,648	37,979,801
Goodwill (net)	-	-	247,185	181,396
Intangible assets (net)	1,391,167	1,139,451	1,593,779	1,589,696
Deferred tax assets (net)	33,944,568	30,471,351	33,967,277	30,763,166
Defined benefit pension fund assets	4,158,958	3,479,578	4,158,958	3,479,578
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	344,997	499,670	238,823	443,345
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	2,618,180	2,704,063	1,366,856	1,522,620
Shortfall of capital in financial subsidiaries	624,770	-	624,770	-
<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	-	-	-	-
Total adjustments to AT1 capital	-	-	-	-
Investment in Own Shares	-	-	-	-
Others (specify)	-	-	-	-
<b>Tier 2 capital after adjustments</b>	32,328,305	29,275,498	32,995,753	29,923,972
<b>Total Tier 2 Capital</b>	32,328,305	29,275,498	32,995,753	29,923,972
Qualifying Tier 2 capital instruments	12,496,465	16,104,275	12,160,734	15,785,044
Revaluation gains	9,019,057	2,090,479	9,019,057	2,090,479
General provision/eligible impairment	10,812,784	11,080,745	11,815,963	12,048,450
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-	-	-
<b>Total adjustments to Tier 2 capital</b>	-	-	-	-

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

As at 31st December	Bank		Group	
	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000
Investment in own shares	-	-	-	-
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>	<b>126,926,615</b>	<b>110,339,128</b>	<b>148,881,729</b>	<b>125,236,381</b>
<b>Total Tier 1 capital</b>	<b>126,926,615</b>	<b>110,339,128</b>	<b>148,881,729</b>	<b>125,236,381</b>
<b>Total capital</b>	<b>159,254,920</b>	<b>139,614,626</b>	<b>181,877,481</b>	<b>155,160,353</b>
<b>Total risk weighted amount (RWA)</b>	<b>929,502,175</b>	<b>997,470,892</b>	<b>1,013,065,509</b>	<b>1,096,482,202</b>
RWAs for Credit Risk	865,022,689	886,459,570	945,277,000	963,875,964
RWAs for Market Risk	534,316	14,398,617	765,987	14,566,345
RWAs for Operational Risk	63,945,171	96,612,704	67,022,522	118,039,893
<b>CET1 capital ratio (including capital conservation buffer, countercyclical capital buffer &amp; surcharge on D-SIBs) (%)</b>	<b>13.66%</b>	<b>11.06%</b>	<b>14.70%</b>	<b>11.42%</b>
Of which: capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%
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>	<b>13.66%</b>	<b>11.06%</b>	<b>14.70%</b>	<b>11.42%</b>
<b>Total capital ratio (including capital conservation buffer, countercyclical capital buffer &amp; surcharge on D-SIBs) (%)</b>	<b>17.13%</b>	<b>14.00%</b>	<b>17.95%</b>	<b>14.15%</b>
Of which: capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%
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 31st December	Bank		Group	
	2023	2022	2023	2022
	Rs 000	Rs 000	Rs 000	Rs 000
Tier 1 capital	126,926,615	110,339,128	148,881,729	125,236,381
Total exposures	2,260,649,225	1,775,343,805	2,374,322,143	1,883,394,300
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	1,884,626,278	1,642,069,382	1,998,299,196	1,750,119,877
Derivative exposures	215,793,812	30,458,098	215,793,812	30,458,098
Securities financing transaction exposures	67,885,068	11,344,982	67,885,068	11,344,982
Other off-balance sheet exposures	92,344,067	91,471,343	92,344,067	91,471,343
Basel III leverage ratio (Tier 1/Total Exposure) (minimum requirement 3%)	5.61%	6.22%	6.27%	6.65%

**TEMPLATE 4****Liquidity coverage ratio (LCR) - All currency**

As at 31st December	2023		2022	
	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)	671,333,413	662,093,727	331,494,802	323,526,317
Total adjusted level 1 assets	613,076,466	613,076,466	279,336,065	279,336,065
Level 1 assets	609,928,071	609,928,071	278,545,799	278,545,799
Total adjusted level 2A assets	61,322,813	52,124,391	52,874,333	44,943,183
Level 2A assets	61,322,813	52,124,391	52,874,333	44,943,183
Total adjusted level 2B assets	82,529	41,264	74,670	37,335
Level 2B assets	82,529	41,264	74,670	37,335
Total cash outflows	1,724,246,714	264,256,668	1,470,420,144	236,178,117
Deposits	1,232,269,148	123,226,915	1,069,409,787	106,940,979
Unsecured wholesale funding	232,043,461	99,548,714	243,495,449	92,090,974
Secured funding transactions	58,047,643	-	4,124,652	-
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	173,941,554	13,536,131	130,077,854	13,833,763
Additional requirements	27,944,908	27,944,908	23,312,402	23,312,402
Total cash inflows	212,567,005	115,778,746	315,131,003	173,897,663
Maturing secured lending transactions backed by collateral	-	-	-	-
Committed facilities	-	-	3,000,000	-
Other inflows by counterparty which are maturing within 30 days	166,070,878	104,266,174	202,682,130	132,795,609
Operational deposits	23,751,225	-	32,495,733	-
Other cash inflows	22,744,902	11,512,572	76,953,140	41,102,054
Liquidity coverage ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100		445.92%		519.47%

**TEMPLATE 5****Net stable funding ratio (NSFR)**

As at 31st December	Bank	
	2023 Rs 000	2022 Rs 000
Total available stable funding (ASF)	1,400,762,424	1,243,182,006
Required stable funding – On balance sheet assets	897,935,193	931,918,978
Required stable funding – Off balance sheet items	34,750,231	18,132,061
Total required stable funding (RSF)	932,685,424	950,051,040
NSFR (minimum requirement - 2023 - 100%, 2022 - 100%)	150.19%	130.85%

## **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	
Issuer	HNB PLC	HNB PLC	
Unique identifier			
Governing law(s) of the instrument	Sri Lanka	Sri Lanka	
Original date of issuance	Not Applicable	April 1, 2006	
Par value of instrument		LKR 100/-	
Perpetual or dated	Perpetual	Dated	
Original maturity date, if applicable	Not Applicable	March 31, 2024	
Amount recognised in regulatory capital (in Rs 000 as at the reporting date)	40 955.116	265.493	
Accounting classification (equity/liability)	Equity	Liability	
Issuer call subject to prior supervisory approval			
Optional call date, contingent call dates and redemption amount (Rs '000)	Not Applicable	Not Applicable	
Subsequent call dates, if applicable	Not Applicable	Not Applicable	
Coupons/dividends:			
Fixed or floating dividend/coupon	Not Applicable	Fixed	
Coupon rate and any related index		11.25% p.a.	
Non-cumulative or cumulative	Non-cumulative	Cumulative	
Convertible or non-convertible	Not Applicable	Not Applicable	
If convertible, conversion trigger (s)			
If convertible, fully or partially	Not Applicable	Not Applicable	
If convertible, mandatory or optional	Not Applicable	Not Applicable	
If convertible, conversion rate	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
384.514	4,846,458	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.(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 tier I and total capital adequacy ratios stood at 13.66% and 17.13% respectively as at end of 2023, against the regulatory requirements of 9.5% and 13.5% indicating the comfortable leeway of 416bps and 363bps available to the Bank. In addition, the Bank has the option to draw down up to 250bps on the capital conservation buffer as per the guidelines issued by the Central Bank of Sri Lanka.

The Bank has already provided 52% for impairment on its investments in international sovereign bonds on a prudent basis.

Bank has announced the plans to raise Rs 12Bn by way of tier II capital and will continue to look at other options to raise capital based on the need going forward.

**TEMPLATE 8****Credit risk under standardised approach****Credit risk exposures and credit risk mitigation (CRM) effects - Bank**

As at 31st December 2023	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	785,502,493	-	750,851,375	-	18,845,266	2.51%
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	92,746,806	-	92,746,806	-	25,364,880	27.35%
Claims on financial institutions	28,726,366	1,682,021	28,726,366	1,682,021	16,204,708	53.29%
Claims on corporates	431,933,590	453,141,780	423,000,827	77,061,263	465,565,153	93.10%
Retail claims	374,286,477	110,366,351	313,379,039	16,671,712	202,183,234	61.26%
Claims secured by residential property	54,659,504	-	54,659,504	-	34,391,965	62.92%
Claims secured by commercial real estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)(i)	48,262,023	-	48,262,023	-	51,187,246	106.06%
Higher-risk categories	1,301,696	-	1,301,696	-	3,254,239	250.00%
Cash items and other assets	90,422,819	-	90,422,819	-	48,025,998	53.11%
Total	1,907,841,774	565,190,153	1,803,350,456	95,414,996	865,022,689	

# 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 31st December 2023	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	800,400,609	-	765,749,491	-	18,845,266	2.46%
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	104,583,821	-	104,583,821	-	30,477,036	29.14%
Claims on financial institutions	31,398,346	1,682,021	31,398,346	1,682,021	17,540,698	53.02%
Claims on corporates	453,124,843	453,141,780	444,192,080	77,061,263	486,658,736	93.36%
Retail claims	408,250,852	110,366,351	347,343,414	16,671,712	227,656,515	62.54%
Claims secured by residential property	54,659,504	-	54,659,504	-	34,391,965	62.92%
Claims secured by commercial real estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)(i)	48,262,023	-	48,262,023	-	51,187,246	106.06%
Higher-risk categories	1,508,734	-	1,508,734	-	3,771,834	250.00%
Cash items and other assets	117,781,543	-	117,781,543	-	74,747,704	63.46%
Total	2,019,970,275	565,190,153	1,915,478,956	95,414,996	945,277,000	

**TEMPLATE 9****Credit risk under standardised approach****Exposures by asset classes and risk weights (Post CCF & CRM) - Bank**

As at 31st December 2023	Bank										Total credit exposures amount
	0%	10%	20%	35%	50%	60%	75%	100%	150%	>150%	
	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	656,625,046	-	94,226,329	-	-	-	-	-	-	-	750,851,375
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	-	-	74,563,079	-	15,603,066	-	-	2,440,519	140,142	-	92,746,806
Claims on financial institutions	-	-	554,916	-	27,519,494	-	-	2,333,978	-	-	30,408,388
Claims on corporates	-	-	18,457,083	-	39,462,540	-	-	442,142,466	-	-	500,062,090
Retail claims	-	-	-	-	-	-	221,838,375	35,804,453	-	-	257,642,828
Claims secured by gold	72,407,923	-	-	-	-	-	-	-	-	-	72,407,923
Claims secured by residential property	-	-	-	31,180,829	-	-	-	23,478,675	-	-	54,659,504
Claims secured by commercial real estate	-	-	-	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	-	-	212,066	-	-	41,987,445	6,062,512	-	48,262,023
Higher-risk categories	-	-	-	-	-	-	-	-	-	1,301,696	1,301,696
Cash items and other assets	42,396,821	-	-	-	-	-	-	48,025,998	-	-	90,422,819
Total	771,429,790	-	187,801,408	31,180,829	82,797,167	-	221,838,375	596,213,533	6,202,653	1,301,696	1,898,765,451

# 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 31st December 2023	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	671,523,162	-	94,226,329	-	-	-	-	-	-	-	765,749,491
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	-	-	77,250,917	-	24,752,243	-	-	2,440,519	140,142	-	104,583,821
Claims on financial institutions	-	-	554,916	-	30,191,474	-	-	2,333,978	-	-	33,080,368
Claims on corporates	-	-	18,486,600	-	39,610,652	-	-	463,156,090	-	-	521,253,343
Retail claims	-	-	-	-	-	-	255,802,750	35,804,453	-	-	291,607,203
Claims secured by gold	72,407,923	-	-	-	-	-	-	-	-	-	72,407,923
Claims secured by residential property	-	-	-	31,180,829	-	-	-	23,478,675	-	-	54,659,504
Claims secured by commercial real estate	-	-	-	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	-	-	212,066	-	-	41,987,445	6,062,512	-	48,262,023
Higher-risk categories	-	-	-	-	-	-	-	-	-	1,508,734	1,508,734
Cash items and other assets	43,033,839	-	-	-	-	-	-	74,747,704	-	-	117,781,543
Total	786,964,924	-	190,518,763	31,180,829	94,766,436	-	255,802,750	643,948,863	6,202,653	1,508,734	2,010,893,952

**TEMPLATE 10****Market risk under standardised measurement method**

As at 31st December	Bank		Group	
	2023 Rs 000	2022 Rs 000	2023 Rs 000	2022 Rs 000
(a) Capital charge for interest rate risk	14	1	14	1
General interest rate risk				
(i) Net long or short position	14	1	14	1
(ii) Horizontal disallowance	-	-	-	-
(iii) Vertical disallowance	-	-	-	-
(iv) Options	-	-	-	-
Specific interest rate risk				
(b) Capital charge for equity	29,810	20,161	61,086	42,804
(i) General equity risk	14,905	10,080	30,835	21,579
(ii) Specific equity risk	14,905	10,080	30,251	21,225
(c) Capital charge for foreign exchange & gold	42,308	1,923,651	42,308	1,923,651
<b>Capital charge for market risk [(a) + (b) + (c)] * CAR</b>	<b>534,316</b>	<b>14,398,617</b>	<b>765,987</b>	<b>14,566,345</b>

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 11

### Operational Risk- Bank

#### Operational Risk under 'Alternative Standardised Approach'

As at 31st December 2023	Capital Charge Factor	Fixed Factor	Gross Income			Capital Charges		
			1st Year	2nd Year	3rd Year	1st Year	2nd Year	3rd Year
	%	Rs 000	Rs 000	Rs 000				
The Alternative Standardised Approach			1,301,384,615	1,563,321,998	1,819,434,859	7,016,987	9,204,128	9,676,679
Sub Total			3,681,664	8,499,065	3,338,205	660,918	1,529,619	599,504
Corporate Finance	18%	-	-	-	-	-	-	-
Trading and Sales	18%	2,628,236	6,546,302	1,096,835	473,083	1,178,334	197,430	
Payment and Settlement	18%	994,047	1,945,679	2,195,593	178,929	350,222	395,207	
Agency Services	15%	59,380	7,085	45,777	8,907	1,063	6,866	
Asset Management	12%	-	-	-	-	-	-	
Retail Brokerage	12%	-	-	-	-	-	-	
Sub Total		1,297,702,951	1,554,822,932	1,816,096,655	6,356,069	7,674,509	9,077,175	
Retail Banking	12%	0.035	435,115,722	465,058,309	435,554,640	1,827,486	1,953,245	1,829,329
Commercial Banking	15%	0.035	862,587,230	1,089,764,623	1,380,542,015	4,528,583	5,721,264	7,247,846
Capital Charges for Operational Risk								8,632,598
The Alternative Standardised Approach								8,632,598
Risk-Weighted Amount for operational Risk								63,945,171
The Alternative Standardised Approach								63,945,171

#### Operational Risk under 'Basic Indicator Approach'

As at 31st December 2022	Capital Charge Factor	Fixed Factor	Gross Income			Capital Charges		
			1st Year	2nd Year	3rd Year	1st Year	2nd Year	3rd Year
	%	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
The Basic Indicator Approach	15%		56,578,162	66,006,125	138,270,013	8,486,724	9,900,919	20,740,502
Capital Charges for Operational Risk								13,042,715
The Basic Indicator Approach								13,042,715
Risk-Weighted Amount for operational Risk								96,612,704
The Basic Indicator Approach								96,612,704

## Operational Risk- Group

### Operational Risk under 'Alternative Standardised Approach'

As at 31st December 2023			Gross Income			Capital Charges		
	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
The Alternative Standardised Approach			1,352,913,409	1,636,060,526	1,900,310,836	7,308,804	9,705,738	10,129,580
Sub Total			4,011,959	9,445,954	3,755,393	720,211	1,700,035	674,426
Corporate Finance	18%		-	-	-	-	-	-
Trading and Sales	18%		2,864,025	7,275,631	1,233,910	515,524	1,309,614	222,104
Payment and Settlement	18%		1,083,227	2,162,448	2,469,985	194,981	389,241	444,597
Agency Services	15%		64,708	7,875	51,497	9,706	1,181	7,725
Asset Management	12%		-	-	-	-	-	-
Retail Brokerage	12%		-	-	-	-	-	-
Sub Total			1,348,901,450	1,626,614,572	1,896,555,443	6,588,592	8,005,703	9,455,154
Retail Banking	12%	0.035	469,657,535	508,593,993	477,868,908	1,972,562	2,136,095	2,007,049
Commercial Banking	15%	0.035	879,243,914	1,118,020,579	1,418,686,535	4,616,031	5,869,608	7,448,104
Capital Charges for Operational Risk								9,048,040
The Alternative Standardised Approach								9,048,040
Risk-Weighted Amount for operational Risk								67,022,522
The Alternative Standardised Approach								67,022,522

### Operational Risk under 'Basic Indicator Approach'

As at 31st December 2022			Gross Income			Capital Charges		
	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
The Basic Indicator Approach	15%		72,447,965	84,765,100	161,494,645	10,867,195	12,714,765	24,224,197
Capital Charges for Operational Risk								15,935,386
The Basic Indicator Approach								15,935,386
Risk-Weighted Amount for operational Risk								118,039,893
The Basic Indicator Approach								118,039,893

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 12

**Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank only**

As at 31st December 2023	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
<b>Assets</b>	<b>1,934,252,484</b>	<b>1,934,252,484</b>	<b>1,907,841,774</b>	<b>115,641</b>	<b>145,555,097</b>
Cash and cash equivalents	73,148,596	73,148,596	73,148,596	-	-
Placements with banks	55,991,134	55,991,134	55,991,134	-	-
Balances with Central Bank of Sri Lanka	12,234,361	12,234,361	12,234,361	-	-
Reverse repurchase agreements	-	-	-	-	-
Derivative financial instruments	452,193	452,193	452,193	-	-
Financial assets measured at fair value through profit or loss	115,641	115,641	-	115,641	-
Financial assets at amortised cost - Loans and advances to banks	-	-	-	-	-
Financial assets measured at amortised cost - loans and advances to customers	954,880,316	954,880,316	969,649,026	-	104,491,319
Financial assets measured at amortised cost - debt and other instruments	549,772,155	549,772,155	549,772,155	-	-
Financial assets measured at fair value through other comprehensive income	189,325,958	189,325,958	185,566,127	-	3,759,831
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	459,104	459,104	459,104	-	-
Property, plant and equipment	25,418,520	25,418,520	25,418,520	-	-
Right-of-use assets	5,081,338	5,081,338	5,081,338	-	-
Intangible assets and goodwill	1,560,099	1,560,099	-	-	1,560,099
Deferred tax assets	33,944,563	33,944,563	-	-	33,944,563
Other assets	28,096,221	28,096,221	28,096,221	-	-
<b>Liabilities</b>	<b>1,749,275,307</b>	<b>1,749,275,307</b>	-	-	-
Due to banks	9,019,582	9,019,582	-	-	-
Derivative financial instruments	1,365,523	1,365,523	-	-	-
Securities sold under repurchase agreements	61,793,694	61,793,694	-	-	-
Financial liabilities measured at amortised cost - due to depositors	1,579,780,228	1,579,780,228	-	-	-
Dividends payable	974,790	974,790	-	-	-
Financial liabilities measured at amortised cost - other borrowings	24,933,215	24,933,215	-	-	-
Debt securities issued	87,569	87,569	-	-	-
Current tax liabilities	23,953,823	23,953,823	-	-	-
Deferred tax liabilities	-	-	-	-	-

As at 31st December 2023	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	9,079,375	9,079,375	-	-	-
Other liabilities	19,325,952	19,325,952	-	-	-
Due to subsidiaries	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-
Subordinated term debts	18,961,556	18,961,556	-	-	-
<b>Off-Balance Sheet Liabilities</b>	<b>883,033,112</b>	<b>883,033,112</b>	<b>565,190,153</b>	<b>-</b>	<b>-</b>
Guarantees	46,529,666	46,529,666	43,321,221	-	-
Performance Bonds	68,398,070	68,398,070	61,487,141	-	-
Letters of Credit	26,964,874	26,964,874	26,574,160	-	-
Other Contingent Items	197,715,002	197,715,002	164,362,372	-	-
Undrawn Loan Commitments	543,425,500	543,425,500	269,445,259	-	-
Other Commitments	-	-	-	-	-
<b>Shareholders' Equity</b>	<b>184,977,177</b>	<b>184,977,177</b>	<b>-</b>	<b>-</b>	<b>-</b>
Equity Capital (Stated Capital)/Assigned Capital of which Amount Eligible for CET1	40,955,116	40,955,116	-	-	-
Of which Amount Eligible for AT1	-	-	-	-	-
Retained Earnings	56,311,574	56,311,574	-	-	-
Accumulated Other Comprehensive Income	4,273,171	4,273,171	-	-	-
Other Reserves	83,437,316	83,437,316	-	-	-

### Explanation of Significant Differences between Accounting and Regulatory Exposure Amounts

#### (a) Derivative financial instruments

Derivatives are financial instruments which derive values in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices.

The fair value of these derivative financial instruments are determined using forward pricing models. The positive fair value changes of these financial instruments as at the balance sheet date are reported as assets while the negative fair value changes are reported as liabilities. The details of derivative financial instruments have been disclosed in Note 29 to the financial statements.

#### (b) Loans and receivables to other customers

The loans and receivables to customers considered in regulatory reporting differs with the published financial statements since CBSL time based provisions were netted off when arriving at loans and receivables for regulatory reporting purposes, while impairment allowances based on incurred losses have been netted off in loans and receivables for publication purposes. The impairment allowance has been computed using established processes with judgments being exercised when determining the presence of objective evidences of impairment. The process used in determining the impairment provision has been described in detail in Note 31 (c) to the financial statements.

#### (c) Financial assets measured at fair value through OCI

Financial assets at fair value through OCI have been measured at fair value in published financial statements while these investments have been measured at cost for regulatory reporting purpose. The details of financial investments - available for sale have been disclosed in Note 33 to the financial statements.

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 13 : BANK RISK MANAGEMENT APPROACH

The Risk Report from pages 186 to 227 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 Pages 429 to 430
Section II (b) Equity Position Risk	Refer Page 431
Section II (c) Foreign Exchange	Refer Page 431
<b>Section III Liquidity Risk</b>	
Section III (a) Key Ratios	Refer Page 432
Section III (b) Currency Wise	Refer Pages 433 to 434
Section IV Operational Risk	Refer page 209
Section V Interest Rate Risk in Banking Book (IRRBB)	Refer page 435

**TEMPLATE 14 - SECTION II MARKET RISK -(A) INTEREST RATE RISK****Interest Rate Sensitivity Gap Analysis as at 31st December 2023-LKR**

(Values are in Millions LKR)

			1M	3M	6M	1Y	3Y	5Y	>5Y
Account Type	Product	Product Name Level 18							
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	203.03	15.05	0.00	0.00	0.00	0.00	0.00
		Cash on hand	42,350.82	0.00	0.00	0.10	0.00	0.00	0.00
		Deposits with CBSL	0.00	0.00	0.00	0.00	0.00	0.00	10,733.25
		Investments (Net of provisions)	37,016.32	114,024.18	223,441.50	121,946.92	76,655.07	49,591.60	33,109.11
		Loans and Advances	307,561.95	31,022.25	44,160.09	102,002.64	103,888.38	42,259.81	55,518.66
		NPLs	0.03	0.03	0.00	4,820.47	0.00	0.00	14,461.40
		Net Inter-Branch Transactions	0.00	0.00	0.00	0.00	0.00	0.00	-49.43
		Other Assets	1,402.35	5,666.99	192.09	8,769.40	0.00	3,479.58	13,660.45
		Overdraft	71,564.48	10,884.14	6,859.65	10,748.28	2,946.12	2,823.51	2,473.47
		Accrued Interest	3,249.00	1,584.17	1,608.53	2,046.92	2.49	0.99	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	27,429.37
			463,347.98	163,196.81	276,261.87	250,334.72	183,492.05	98,155.48	161,108.85
Rate Sensitive Liabilities	Outflows	Balances due to Other Banks	0.00	0.00	0.00	0.00	0.00	0.00	4,159.79
		Bills Payable	873.79	0.00	0.00	0.00	0.00	0.00	0.00
		Demand Deposits	16,221.96	16,221.96	12,166.47	16,221.95	17.77	17.77	20,289.29
		Interest Payable	7,608.19	30,074.08	16,361.44	8,438.08	3,357.85	3,408.20	154.41
		Other Liabilities	142.67	0.00	413.09	6,662.79	6,539.98	569.92	15,895.80
		Savings Deposits	20,455.34	35,483.92	14,467.98	19,271.35	72,341.35	72,339.90	72,339.90
		Time Deposits	98,114.39	261,381.94	185,438.36	170,398.33	26,636.48	21,359.10	1,041.84
		Bonds Issued	0.00	1,327.46	0.00	2,006.61	8,077.43	0.00	7,000.00
		Borrowings	252.27	351.25	1,077.12	713.02	2,109.97	1,309.18	95.75
		Capital & Reserves	0.00	0.00	0.00	0.00	0.00	0.00	40,619.16
		Repo	58,047.64	1,797.31	609.46	3.00	950.00	0.00	0.00
		Reserves	0.00	0.00	0.00	53.71	0.00	2,829.96	186,886.74
Net Gap			201,716.24	346,637.91	230,533.92	223,768.85	120,030.82	101,834.05	348,482.69
Cumulative Gap			261,631.75	(183,441.10)	45,727.95	26,565.87	63,461.23	(3,678.56)	(187,373.84)
Rate Sensitive Assets total		(Excl- Cash on hand, Deposits with CBSL)	420,997.17	163,196.81	276,261.87	250,334.62	183,492.05	98,155.48	150,375.60
Rate Sensitive Liabilities total		(Excl- Demand Deposits, Capital)	185,494.28	330,415.95	218,367.45	207,546.90	120,013.05	101,816.28	287,574.24
Net Gap			235,502.89	(167,219.15)	57,894.42	42,787.72	63,479.00	(3,660.79)	(137,198.63)
Cumulative Gap			235,502.89	68,283.74	126,178.16	168,965.89	232,444.88	228,784.09	91,585.46

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## Interest Rate Sensitivity Gap Analysis as at 31st December 2023-USD

(Values are in Thousands USD)

			1M	3M	6M	1Y	3Y	5Y	>5Y
Account Type	Product	Product Name Level18							
Rate Sensitive Assets	Inflows	Bills of Exchange	2,102.24	1,216.83	0.00	0.00	0.00	0.00	0.00
		Cash on hand	5,550.30	0.00	0.00	0.00	0.00	0.00	0.00
		Investments (Net of provisions)	0.00	102,265.00	44,000.00	0.00	152,671.00	57,199.62	2,000.00
		Loans and Advances	252,908.87	107,154.95	3,608.72	268.13	1,815.72	2,865.94	-6,775.64
		NPLs	0.00	0.00	0.00	1,551.13	0.00	0.00	4,653.39
		Other Assets	819.48	1,648.84	0.00	243,448.63	0.00	0.00	0.00
		Overdraft	16,155.88	80.17	33.92	334.80	5.25	5.25	5.25
		Accrued Interest	1,735.91	494.89	72.95	0.00	0.00	0.00	0.00
		Balances due from Other Banks	152,792.15	0.00	0.00	0.00	0.00	0.00	0.00
			432,064.82	212,860.68	47,715.59	245,602.69	154,491.96	60,070.81	-117.00
Rate Sensitive Liabilities	Outflows	Balances due to Other Banks	0.00	0.00	52,923.08	0.00	0.00	0.00	0.00
		Demand Deposits	6,195.57	6,195.58	4,646.66	6,195.47	258.69	258.69	7,916.89
		Interest Payable	4,385.75	9,423.36	5,597.09	4,809.46	961.23	866.56	0.00
		Other Liabilities	194.62	317.46	572.79	678.25	729.53	729.52	16,897.00
		Savings Deposits	12,810.33	12,811.29	9,603.67	12,792.09	48,019.30	48,018.34	48,018.34
		Time Deposits	82,396.34	183,248.25	176,805.43	251,157.86	21,109.80	32,050.89	0.00
			105,982.62	211,995.95	250,148.71	275,633.13	71,078.56	81,923.99	72,832.22
Net Gap			326,082.21	864.73	-202,433.12	-30,030.43	83,413.40	-21,853.18	-72,949.22
Cumulative Gap			326,082.21	326,946.93	124,513.81	94,483.38	17,896.78	156,043.59	83,094.37
Rate Sensitive Assets total (Excl - Cash on Hand)			426,514.53	212,860.68	47,715.59	245,602.69	154,491.96	60,070.81	-117.00
Rate Sensitive Liabilities total (Excl- Demand Deposit)			99,787.05	205,800.38	245,502.05	269,437.65	70,819.87	81,665.30	64,915.33
Net Gap			326,727.48	7,060.30	-197,786.46	-23,834.96	83,672.09	-21,594.49	-65,032.34
Cumulative Gap			326,727.48	333,787.78	136,001.32	112,166.36	195,838.45	174,243.96	109,211.62

### 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 II MARKET RISK -(B) EQUITY POSITION RISK**

Equity (Rs Mn)	Carrying Value	Fair Value
Investment Portfolio	12,860	22,273
Trading Portfolio	129	114

**TEMPLATE 14 - SECTION II MARKET RISK -(C) FOREIGN EXCHANGE RISK****Report on Liquidity Gap Summary as at 31st December 2023 (Consolidated Foreign Currency)**

(Amounts are in Thousands USD)

		1M	3M	6M	1Y	3Y	5Y	>5Y
Particulars	Product							
Total Inflows	Bills of Exchange	2,102.24	1,224.08	0.00	0.00	0.00	0.00	0.00
	Cash on hand	7,608.84	0.00	0.00	0.00	0.00	0.00	0.00
	Investments (Net of provisions)	2,234.50	105,846.07	50,533.97	7,453.06	176,079.85	61,432.27	2,426.73
	Loans and Advances	52,815.74	70,860.50	58,333.39	31,900.05	153,251.43	24,474.48	18,167.17
	NPLs	0.00	0.00	0.00	1,864.33	0.00	0.00	5,592.99
	Other Assets	819.48	1,236.97	0.00	243,434.80	0.00	0.00	(14,520.49)
	Other	0.00	0.00	2,631.57	5,263.92	0.00	0.00	0.00
	Overdraft	1,315.50	1,363.06	1,400.61	2,768.04	4,271.56	3,944.24	3,624.84
	Accrued Interest	1,742.58	494.89	73.02	0.00	0.00	0.00	0.00
	Balances due from Other Banks	254,682.50	0.00	0.00	0.00	0.00	0.00	0.00
	Forward Contracts	141,702.61	190,154.52	22,721.10	0.00	53.44	0.00	0.00
		465,024.00	371,180.09	135,693.66	292,684.20	333,656.28	89,850.99	15,291.23
Total Outflows	Balances due to Other Banks	0.00	0.00	2,240.07	5,384.75	13,457.20	37,840.25	0.00
	Demand Deposits	6,616.18	6,616.19	4,962.11	6,616.08	282.59	282.59	8,458.58
	Interest Payable	4,588.64	9,971.00	5,928.64	5,169.27	972.30	920.02	0.00
	Letters of Credit/Guarantees/ Acceptances	0.00	2,633.44	2,633.44	2,634.23	0.00	0.00	0.00
	Other Liabilities	204.68	0.00	605.49	760.11	767.22	767.21	2,400.75
	Savings Deposits	15,732.83	16,056.84	12,507.89	17,209.97	63,510.54	61,076.10	58,689.83
	Time Deposits	95,752.20	216,963.03	200,876.32	300,925.27	28,136.14	42,599.44	0.00
	Forward Contracts Payable	30,139.35	31,462.19	14,721.10	0.00	53.27	0.00	0.00
		153,033.88	283,702.69	244,475.06	338,699.68	107,179.28	143,485.62	69,549.16
Net Liquidity Gap		311,990.13	87,477.40	(108,781.40)	(46,015.48)	226,477.00	(53,634.63)	(54,257.93)
Net Gap as % of Total Outflows		203.87	30.83	(44.50)	(13.59)	211.31	(37.38)	(78.01)
Cumulative Gap		311,990.13	399,467.53	290,686.13	244,670.65	471,147.65	417,513.02	363,255.09

## 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 III LIQUIDITY RISK - KEY LIQUIDITY RATIOS

Ratio	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
SLAR	37.27%	38.67%	39.30%	41.80%	43.56%	45.44%	43.78%	47.80%	48.02%	46.72%	47.15%	48.17%
LCR (For LKR)	220.42%	232.45%	244.39%	272.23%	276.23%	284.76%	290.36%	390.53%	375.19%	390.68%	410.40%	387.17%
LCR (For All CCY)	323.18%	412.96%	353.42%	324.49%	342.79%	347.07%	369.99%	496.85%	504.75%	557.39%	526.62%	445.92%
Net Loans to Total Assets	53.84%	52.70%	51.52%	49.96%	49.37%	47.66%	47.44%	47.63%	47.72%	47.66%	46.85%	46.71%
Loans to Customer Deposits	78.04%	77.23%	75.81%	74.04%	73.49%	71.74%	71.06%	71.69%	71.82%	72.00%	71.68%	71.21%
Liquid Assets to Short Term Liabilities	131.62%	133.18%	137.97%	136.89%	139.13%	142.61%	143.61%	144.52%	146.41%	145.55%	139.82%	138.35%
Commitments to Liquid Assets	31.87%	36.78%	33.98%	36.25%	38.63%	32.20%	36.50%	42.55%	39.13%	48.92%	54.83%	56.42%
Commitments to Total Loans	23.75%	28.68%	27.77%	30.49%	33.64%	30.33%	34.47%	40.72%	37.16%	46.29%	53.74%	55.76%



**TEMPLATE 14 - SECTION III (B) LIQUIDITY RISK- CURRENCY WISE****Report on Liquidity Gap Summary as at 31st December 2023 (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	203.03	15.85	0.00	0.00	0.00	0.00	0.00
	Cash on hand	42,350.82	0.00	0.00	0.10	0.00	0.00	0.00
	Deposits with CBSL	0.00	0.00	0.00	0.00	0.00	0.00	10,733.25
	Investments (Net of provisions)	45,126.61	127,140.11	254,918.03	148,657.90	103,524.25	62,869.70	36,594.08
	Loans and Advances	86,443.76	118,079.01	105,019.38	137,033.93	205,613.96	109,605.51	139,315.96
	NPLs	0.03	0.03	0.00	4,820.47	0.00	0.00	14,461.40
	Net Inter-Branch Transactions	0.00	0.00	0.00	0.00	0.00	0.00	(49.43)
	Other Assets	1,402.35	5,666.99	192.09	8,769.40	0.00	3,479.58	13,660.45
	Other	0.00	0.00	592.53	1,185.23	0.00	0.00	0.00
	Overdraft	8,602.97	10,593.79	11,493.10	22,156.78	39,668.03	32,803.20	26,106.67
	Accrued Interest	3,249.00	1,584.17	1,608.53	2,046.92	2.49	0.99	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	27,429.37
	Forward Contracts	6,789.00	9,313.03	4,734.49	0.00	0.00	0.00	0.00
	Reverse Repo	1,501.11	0.00	0.00	0.00	0.00	0.00	0.00
		195,668.68	272,392.99	378,558.15	324,670.73	348,808.72	208,758.98	272,024.32
Total Outflows	Balances due to Other Banks	0.00	0.00	0.00	0.00	0.00	0.00	4,159.79
	Bills Payable	873.79	0.00	0.00	0.00	0.00	0.00	0.00
	Demand Deposits	16,221.96	16,221.96	12,166.47	16,221.95	17.77	17.77	20,289.29
	Interest Payable	7,608.19	30,074.08	16,361.44	8,438.08	3,357.85	3,408.20	154.41
	Letters of Credit/Guarantees/ Acceptances	0.00	592.53	592.53	592.71	0.00	0.00	0.00
	Other Liabilities	142.67	0.00	413.09	6,662.79	6,539.98	569.92	15,895.80
	Savings Deposits	21,676.88	22,679.74	18,476.39	26,322.04	95,404.74	87,824.03	80,391.30
	Time Deposits	106,736.21	299,051.40	213,365.08	190,846.57	37,392.37	39,160.19	2,793.30
	Bonds Issued	0.00	4,009.86	3.48	3,944.55	10,142.42	0.00	11,655.00
	Borrowings	276.60	417.18	1,144.09	842.77	2,443.97	1,409.09	102.66
	Capital	0.00	0.00	0.00	0.00	0.00	0.00	40,619.16
	Forward Contracts Payable	44,486.44	63,974.67	7,562.27	0.00	0.00	0.00	0.00
	Repo	58,513.35	1,912.07	677.95	3.33	1,072.45	0.00	0.00
	Reserves	0.00	0.00	0.00	53.71	0.00	2,829.96	186,886.74
		256,536.09	438,933.49	270,762.79	253,928.50	156,371.56	135,219.16	362,947.46
Net Liquidity Gap		(60,867.41)	(166,540.51)	107,795.36	70,742.23	192,437.16	73,539.82	(90,923.13)
Net Gap as % of Total Outflows		(23.73)	(37.94)	39.81	27.86	123.06	54.39	(25.05)
Cumulative Gap		(60,867.41)	(227,407.92)	(119,612.56)	(48,870.33)	143,566.83	217,106.65	126,183.52
Adjustments for Behavioural Maturities	Time Deposits	85,388.97	239,241.12	170,692.06	152,677.25	29,913.90	31,328.15	2,234.64
	Unutilised O/D	(16,368.02)	(16,368.02)	(16,368.02)	(32,736.03)	0.00	0.00	0.00
	Undisbursed Loans	(1,430.64)	(1,430.64)	(1,430.64)	(2,861.28)	(2,384.40)	0.00	0.00
	Pawning Rollovers	(1,013.74)	(2,472.14)	(5,197.77)	(23,218.74)	31,902.39	0.00	0.00
Total Adjustments		66,576.58	218,970.33	147,695.63	93,861.20	59,431.89	31,328.15	2,234.64
Adjusted Net Liquidity Gap		5,709.17	52,429.82	255,490.99	164,603.44	251,869.05	104,867.97	(88,688.49)
Adjusted Net Gap as % of Total Outflows		3.01	23.84	207.60	102.83	259.82	100.94	(24.59)
Adjusted Cumulative Gap		5,709.17	58,138.99	313,629.97	478,233.41	730,102.46	834,970.43	746,281.94

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 14 - SECTION III (B) LIQUIDITY RISK- CURRENCY WISE

### Report on Liquidity Gap Summary as at 31st December 2023 (USD/ Behavioural)

(Amounts are in Thousands USD)

		1M	3M	6M	1Y	3Y	5Y	>5Y
Particulars	Product							
Total Inflows	Bills of Exchange	2,102.24	1,224.08	0.00	0.00	0.00	0.00	0.00
	Cash on hand	5,550.30	0.00	0.00	0.00	0.00	0.00	0.00
	Investments (Net of provisions)	2,234.51	105,846.08	50,533.97	7,453.06	176,079.87	61,432.27	2,078.50
	Loans and Advances	52,797.30	70,176.01	57,873.31	31,443.45	152,191.84	24,027.57	16,159.61
	NPLs	0.00	0.00	0.00	1,551.13	0.00	0.00	4,653.39
	Other Assets	819.48	1,648.84	0.00	243,448.63	0.00	0.00	0.00
	Other	0.00	0.00	2,250.87	4,502.41	0.00	0.00	0.00
	Overdraft	1,315.50	1,363.06	1,400.61	2,768.03	4,271.55	3,944.23	3,624.83
	Accrued Interest	1,735.91	494.89	72.95	0.00	0.00	0.00	0.00
	Balances due from Other Banks	153,394.36	0.00	0.00	0.00	0.00	0.00	0.00
	Forward Contracts	133,257.29	189,049.03	22,500.00	0.00	53.44	0.00	0.00
		353,206.87	369,801.98	134,631.71	291,166.72	332,596.69	89,404.06	26,516.33
Total Outflows	Balances due to Other Banks	0.00	0.00	2,240.07	5,384.75	13,457.21	37,840.26	0.00
	Demand Deposits	6,195.57	6,195.58	4,646.66	6,195.47	258.69	258.69	7,916.89
	Interest Payable	4,385.75	9,423.36	5,597.09	4,809.46	961.23	866.56	0.00
	Letters of Credit/Guarantees/ Acceptances	0.00	2,252.05	2,252.05	2,252.72	0.00	0.00	0.00
	Other Liabilities	194.62	318.47	586.51	695.58	729.53	729.52	16,897.00
	Savings Deposits	13,164.96	13,456.62	10,511.75	14,496.39	53,433.05	51,241.19	49,092.62
	Time Deposits	87,174.14	195,623.49	187,120.32	268,422.17	27,711.08	41,244.54	0.00
	Forward Contracts Payable	27,048.32	29,969.77	14,500.00	0.00	0.00	0.00	0.00
		138,163.36	257,239.34	227,454.44	302,256.54	96,550.81	132,180.76	73,906.51
Net Liquidity Gap		215,044	112,563	(92,823)	(11,090)	236,046	(42,777)	(47,390)
Net Gap as % of Total Outflows		155.64	43.76	(40.81)	(3.67)	244.48	(32.36)	(64.12)
Cumulative Gap		215,044	327,606	234,783	223,694	459,739	416,963	369,573
Adjustments for Behavioural Maturities	Time Deposits	69,739.31	156,498.79	149,696.25	214,737.74	22,168.87	32,995.63	0.00
	Unutilised O/D	(1,393.11)	(1,393.11)	(1,393.11)	(2,786.22)	0.00	0.00	0.00
	Undisbursed Loans	(474.51)	(474.51)	(474.51)	(474.51)	(790.85)	0.00	0.00
Total Adjustments		67,871.69	154,631.17	147,828.63	211,477.00	21,378.01	32,995.63	0.00
Adjusted Net Liquidity Gap		282,915.20	287,193.82	55,005.90	200,387.18	257,423.90	(9,781.06)	(47,390.17)
Adjusted Net Gap as % of Total Outflows		402.49	260.40	69.08	220.74	342.44	(9.86)	(64.12)
Adjusted Cumulative Gap		282,915.20	550,109.02	605,114.93	805,502.11	1,062,926.01	1,053,144.95	1,005,754.78

#### 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 (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	420,997.17	163,196.81	276,261.87	250,334.62	183,492.05	98,155.48	150,375.60
Rate Sensitive Liabilities total	185,494.28	330,415.95	218,367.45	207,546.90	120,013.05	101,816.28	287,574.24
Net Gap	235,502.89	(167,219.15)	57,894.42	42,787.72	63,479.00	(3,660.79)	(137,198.63)
Cumulative Gap	235,502.89	68,283.74	126,178.16	168,965.89	232,444.88	228,784.09	91,585.46
Duration weight	0.08	0.25	0.50	1.00	3.00	5.00	30.00
Market Rates	13.05	14.81	14.45	13.19	13.90	14.02	13.77
Present Value at market rates	233,108	161,545	54,117	37,800	42,962	1,900	2,865
Present Value at market rates + 50 basis pt	233,022	161,370	53,999	37,634	42,401	1,858	2,511
Change in Market value for 50 basis point interest movement	(86)	(175)	(118)	(166)	(561)	(41)	(353)

**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	426,514.53	212,860.68	47,715.59	245,602.69	154,491.96	60,070.81	(117.00)
Rate Sensitive Liabilities total	99,787.05	205,800.38	245,502.05	269,437.65	70,819.87	81,665.30	64,915.33
Net Gap	326,727.48	7,060.30	(197,786.46)	(23,834.96)	83,672.09	(21,594.49)	(65,032.34)
Cumulative Gap	326,727.48	333,787.78	136,001.32	112,166.36	195,838.45	174,243.96	109,211.62
Duration weight	0.08	0.25	0.50	1.00	3.00	5.00	10.00
Market Rates	5.47	5.59	5.59	5.66	4.66	4.20	3.86
Present Value at market rates	325,281	6,965	192,483	22,558	72,977	17,579	44,542
Present Value at market rates + 10 basis pt	325,255	6,963	192,392	22,536	72,769	17,494	44,116
Change in Market value for 10 basis point interest movement	(26)	(2)	(91)	(21)	(209)	(84)	(427)

**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	
	2023 US\$ 000	2022 US\$ 000	2023 US\$ 000	2022 US\$ 000
<b>Gross income</b>	<b>923,270</b>	<b>659,625</b>	<b>1,039,007</b>	<b>736,080</b>
Interest income	876,845	563,318	940,056	600,221
Less : Interest expenses	554,801	283,381	575,628	296,639
<b>Net interest income</b>	<b>322,044</b>	<b>279,937</b>	<b>364,428</b>	<b>303,582</b>
Fee and commission income	50,336	42,231	53,110	44,956
Less: Fee and commission expenses	1,443	941	1,960	1,686
<b>Net fee and commission income</b>	<b>48,893</b>	<b>41,290</b>	<b>51,150</b>	<b>43,270</b>
<b>Net interest, fee and commission income</b>	<b>370,937</b>	<b>321,227</b>	<b>415,578</b>	<b>346,852</b>
Net gains/(losses) from trading	(36,888)	13,330	(36,577)	13,131
Net gain from financial investments at fair value through other comprehensive income	838	61	959	63
Net insurance premium income	-	-	47,066	34,695
Net gains arising on de-recognition of financial assets	-	-	-	-
Net other operating income	32,139	40,685	34,393	43,014
<b>Total operating income</b>	<b>367,026</b>	<b>375,303</b>	<b>461,419</b>	<b>437,755</b>
Less: Impairment charge for loans and other losses	125,276	246,153	131,247	249,621
<b>Net operating income</b>	<b>241,750</b>	<b>129,150</b>	<b>330,172</b>	<b>188,134</b>
<b>Less : Operating expenses</b>				
Personnel expenses	52,297	40,887	64,612	50,314
Benefits, claims and underwriting expenditure	-	-	46,971	31,878
Other expenses	57,283	41,800	74,760	53,327
<b>Total operating expenses</b>	<b>109,580</b>	<b>82,687</b>	<b>186,343</b>	<b>135,519</b>
<b>Operating profit before taxes on financial services</b>	<b>132,170</b>	<b>46,463</b>	<b>143,829</b>	<b>52,615</b>
Less: Taxes on financial services	31,279	13,881	32,479	14,279
<b>Operating profit after taxes on financial services</b>	<b>100,891</b>	<b>32,582</b>	<b>111,350</b>	<b>38,336</b>
Share of profit of joint venture (net of income tax)	-	-	3,521	903
<b>PROFIT BEFORE INCOME TAX</b>	<b>100,891</b>	<b>32,582</b>	<b>114,871</b>	<b>39,239</b>
Less: Income tax expense	38,073	(5,604)	42,011	(3,614)
<b>PROFIT FOR THE YEAR</b>	<b>62,818</b>	<b>38,186</b>	<b>72,860</b>	<b>42,853</b>
Profit attributable to:				
Equity holders of the Bank	62,818	38,186	70,281	41,711
Non-controlling interests	-	-	2,579	1,142
<b>PROFIT FOR THE YEAR</b>	<b>62,818</b>	<b>38,186</b>	<b>72,860</b>	<b>42,853</b>
<b>Earnings per share</b>				
Basic earnings per ordinary share (\$)	0.11	0.07	0.13	0.08
Diluted earnings per ordinary share (\$)	0.11	0.07	0.13	0.08
<b>Dividend per share</b>				
Dividend per share: Gross (\$) *	* 0.02	0.01	* 0.02	0.01

Exchange rate of US\$ 1 was Rs 324 as at 31st December 2023 (Rs 367.50 as at 31st December 2022)

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

	Bank		Group	
	2023 US\$ 000	2022 US\$ 000	2023 US\$ 000	2022 US\$ 000
<b>PROFIT FOR THE YEAR</b>	<b>62,818</b>	<b>38,186</b>	<b>72,860</b>	<b>42,853</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	10,490	(4,405)	10,492	(4,405)
Remeasurement of post-employment benefit obligations	11	5,054	(95)	5,200
Revaluation gain on freehold land and buildings	-	-	-	544
Share of other comprehensive income of joint venture that will not be reclassified to profit or loss	-	-	(133)	1,219
Less: Tax expense relating to items that will not be reclassified to profit or loss including the effect of rate change	-	(3,149)	34	(6,646)
<b>Total other comprehensive income that will not be reclassified to profit or loss</b>	<b>10,501</b>	<b>(2,500)</b>	<b>10,298</b>	<b>(4,088)</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	9,995	(9,889)	13,798	(14,387)
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
Net change in expected credit losses of debt securities measured at fair value through other comprehensive income	-	(804)	-	(804)
Transfer (to)/from life policy holder reserve fund	-	-	(2,021)	3,386
Share of other comprehensive income of joint venture that will be reclassified to profit or loss	-	-	(843)	(19)
Less: Tax expense relating to items that will be reclassified to profit or loss including the effect of rate change	(2,999)	(1,269)	(3,331)	(1,055)
<b>Total other comprehensive income that will be reclassified to profit or loss</b>	<b>6,996</b>	<b>3,215</b>	<b>7,603</b>	<b>4,214</b>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<b>17,497</b>	<b>715</b>	<b>17,901</b>	<b>126</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<b>80,315</b>	<b>38,901</b>	<b>90,761</b>	<b>42,979</b>
Total comprehensive income attributable to:				
Equity holders of the Bank	80,315	38,901	87,606	41,141
Non-controlling interests	-	-	3,155	1,838
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>80,315</b>	<b>38,901</b>	<b>90,761</b>	<b>42,979</b>

Exchange rate of US\$ 1 was Rs 324 as at 31st December 2023 (Rs 367.50 as at 31st December 2022)

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	
	2023 US\$ 000	2022 US\$ 000	2023 US\$ 000	2022 US\$ 000
<b>ASSETS</b>				
Cash and cash equivalents	225,767	218,337	227,651	219,400
Placements with banks	172,812	147,948	190,853	158,291
Balances with Central Bank of Sri Lanka	37,760	88,012	37,760	88,012
Reverse repurchase agreements	-	-	5,650	3,757
Derivative financial instruments	1,396	14,614	1,396	14,614
Financial assets measured at fair value through profit or loss	357	304	2,473	643
Financial assets measured at amortised cost - loans and advances to customers	2,947,162	2,650,697	3,051,238	2,760,596
Financial assets measured at amortised cost - debt and other financial instruments	1,696,828	1,221,202	1,802,874	1,305,543
Financial assets measured at fair value through other comprehensive income	584,339	7,365	604,862	16,496
Investment in joint venture	2,330	2,055	13,811	9,933
Investment in subsidiaries	9,313	8,210	-	-
Investment properties	1,417	1,264	2,821	2,546
Property, plant and equipment	78,452	67,580	154,830	135,010
Right-of-use assets	15,683	14,688	7,634	6,704
Intangible assets and goodwill	4,815	3,402	6,203	4,819
Deferred tax assets	104,767	82,915	104,837	83,709
Other assets	86,717	71,513	103,133	83,193
<b>Total assets</b>	<b>5,969,915</b>	<b>4,600,106</b>	<b>6,318,026</b>	<b>4,893,266</b>
<b>LIABILITIES</b>				
Due to banks	27,838	16,611	27,838	16,611
Derivative financial instruments	4,214	70	4,214	70
Securities sold under repurchase agreements	190,721	17,796	190,721	17,796
Financial liabilities measured at amortised cost - due to depositors	4,875,865	3,830,750	4,966,524	3,927,018
Dividends payable	3,009	2,744	3,058	2,826
Financial liabilities measured at amortised cost - other borrowings	76,954	88,029	77,259	90,845
Debt securities issued	270	5,613	1,698	6,953
Current tax liabilities	73,932	81,703	76,258	82,885
Deferred tax liabilities	-	-	20,224	17,592
Insurance provision - life	-	-	95,603	66,918
Insurance provision - non-life	-	-	14,488	11,379
Other provisions	28,023	13,607	29,930	14,877
Other liabilities	59,648	47,288	63,877	49,093
Subordinated term debts	58,523	62,352	68,689	71,160
<b>Total liabilities</b>	<b>5,398,997</b>	<b>4,166,563</b>	<b>5,640,381</b>	<b>4,376,023</b>
<b>EQUITY</b>				
Stated capital	126,405	105,249	126,405	105,249
Statutory reserve fund	32,130	25,333	32,130	25,333
Retained earnings	173,801	110,767	210,653	136,728
Other reserves	238,582	192,194	285,874	231,443
<b>Total shareholders' equity</b>	<b>570,918</b>	<b>433,543</b>	<b>655,062</b>	<b>498,753</b>
Non-controlling interests	-	-	22,583	18,490
<b>Total equity</b>	<b>570,918</b>	<b>433,543</b>	<b>677,645</b>	<b>517,243</b>
<b>Total equity and liabilities</b>	<b>5,969,915</b>	<b>4,600,106</b>	<b>6,318,026</b>	<b>4,893,266</b>
Contingent liabilities and commitments	2,725,411	2,202,256	2,725,411	2,202,256
Net assets value per ordinary share (\$)	1.02	0.77	1.17	0.89

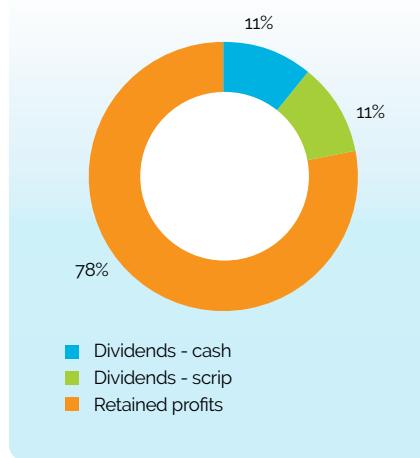
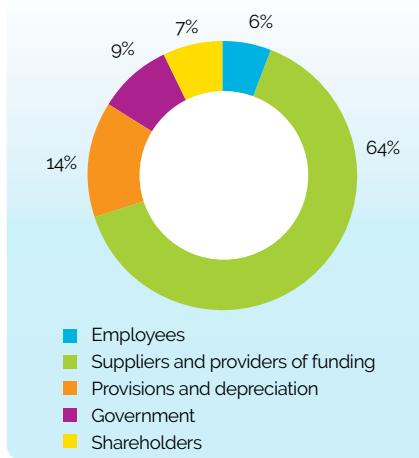
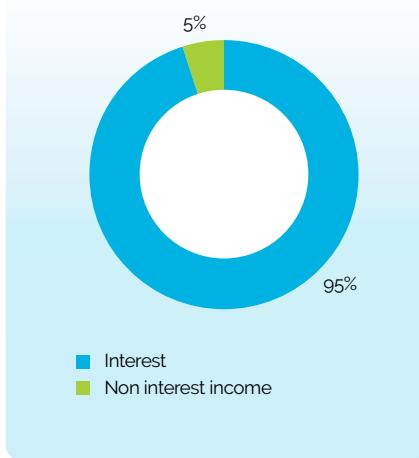
Exchange rate of US\$ 1 was Rs 324 as at 31st December 2023 (Rs 367.50 as at 31st December 2022)

The statement of financial position given on this page is solely for the convenience of the stakeholders of financial statements and does not form part of the audited financial statements

# SOURCES AND UTILISATION OF INCOME

	2018 Rs 000	2019 Rs 000	2020 Rs 000	2021 Rs 000	2022 Rs 000	2023 Rs 000
<b>Sources of income</b>						
Interest	108,104,923	115,210,769	103,944,602	98,600,557	207,019,354	284,097,697
Non interest income	13,251,166	10,787,317	11,869,016	16,446,768	35,393,137	15,041,650
<b>Total</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>299,139,347</b>
<b>Utilisation of income</b>						
<b>Employees</b>						
Salaries and other payment to staff	10,717,978	11,444,259	11,459,352	10,757,563	15,025,888	16,944,206
<b>Suppliers and providers of funding</b>						
Interest paid	60,525,342	65,997,133	59,235,456	49,041,200	104,142,478	179,755,441
Other expenses	9,963,875	10,091,780	8,376,595	9,505,351	12,935,090	15,944,793
	<b>70,489,217</b>	<b>76,088,913</b>	<b>67,612,051</b>	<b>58,546,551</b>	<b>117,077,568</b>	<b>195,700,234</b>
<b>Provisions and depreciation</b>						
Depreciation and amortisation	1,354,762	2,246,114	2,359,326	2,442,964	2,567,704	2,776,261
Impairment for loans and other losses	9,292,421	9,656,010	15,258,468	18,778,047	90,461,305	40,589,311
	<b>10,647,183</b>	<b>11,902,124</b>	<b>17,617,794</b>	<b>21,221,011</b>	<b>93,029,009</b>	<b>43,365,572</b>
<b>Net income before government taxes and levies</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>43,129,335</b>
<b>Government</b>						
Income tax, VAT, SSCL, Crop Insurance	16,466,502	13,399,141	9,788,490	10,699,838	30,880,002	27,220,941
<b>Shareholders</b>						
Dividends - cash	2,463,253	2,251,830	2,303,891	3,418,380	-	2,238,954
Retained through scrip dividend	1,724,277	1,751,423	1,791,915	1,314,761	2,672,884	2,238,954
Retained profits	11,330,673	10,028,999	7,366,832	12,566,626	11,360,609	15,875,210
Deferred taxation	-2,482,994	-868,603	-2,126,705	-3,477,405	-27,633,469	-4,444,723
<b>Total</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>299,139,347</b>

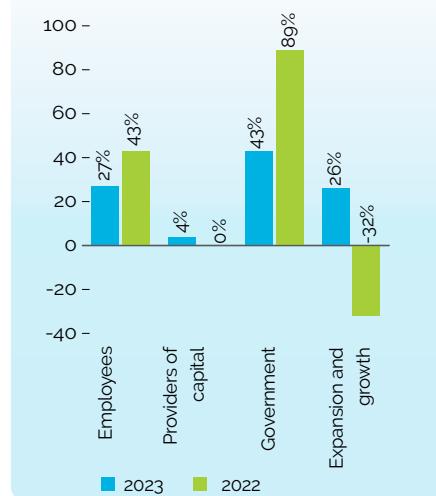
## Sources and Utilisation of Income 2023



# VALUE ADDED STATEMENT

	2023		2022	
	Rs 000	%	Rs 000	%
<b>Value added</b>				
Income earned by providing banking services	310,274,684		237,001,785	
Cost of services	195,700,233		117,077,568	
Value added by banking services	114,574,451		119,924,217	
Non-banking income	544,753		489,368	
Net gain/(loss) from trading and financial investment	(11,680,090)		4,921,338	
Impairment for loans and other losses	(40,589,311)		(90,461,305)	
	62,849,803		34,873,618	
<b>Value allocated to employees</b>				
Salaries,wages and other benefits	16,944,206	26.96	15,025,888	43.09
<b>To providers of capital</b>				
Dividends to shareholders - cash	2,238,954	3.56	-	-
<b>To the government</b>				
Income tax	16,780,300		25,573,882	
Value added tax on financial services	8,898,597		4,932,774	
Social security contribution levy	1,286,490		168,598	
Crop insurance levy	206,000		150,000	
Local taxes	24,467		21,205	
Stamp duty	25,087	43.31	33,543	30,880,002
	27,220,941		88.55	
<b>For expansion and growth</b>				
Retained income	15,875,211	25.26	11,360,609	32.58
Retained through scrip dividend	2,238,954	3.56	2,672,884	7.66
Depreciation and amortisation	2,776,261	4.42	2,567,704	7.36
Deferred taxation	(4,444,723)	-7.07	(27,633,469)	-79.24
	62,849,803	100.00	34,873,618	100.00

## Analysis of Value Additions



# VALUE CREATED TO STAKEHOLDERS

For the year ended 31st December	2023 Rs 000	2022 Rs 000
<b>Direct economic value generated</b>		
Interest income	284,097,697	207,019,354
Fee commission income	16,308,907	15,520,113
Net gain/ (loss) from trading and financial investment	(11,680,090)	4,921,338
Other operating income	10,412,833	14,951,686
<b>Total direct economic value generated</b>	<b>299,139,347</b>	<b>242,412,491</b>
<b>Economic value distributed</b>		
To depositors/ debenture holders as interest	179,755,441	104,142,478
To employees as emoluments	16,944,206	15,025,888
Depreciation/ amortisation set aside	2,776,261	2,567,704
Impairment charge for loans and other losses	40,589,311	90,461,305
To providers of supplies and services	14,413,251	11,629,186
To government as taxation	27,220,941	30,880,002
- Income tax	16,780,300	25,573,882
- VAT and SSCL on financial services	10,185,087	5,101,372
- Crop insurance levy	206,000	150,000
- Stamp duty and other local taxes	49,554	54,748
To Central Bank of Sri Lanka as deposit insurance premium	1,475,073	1,276,819
To shareholders as dividends	4,477,908	2,677,777
To community as donation/CSR	56,468	29,085
<b>Total economic value distributed</b>	<b>287,708,860</b>	<b>258,690,244</b>
Economic value retained	11,430,487	(16,277,753)

# TEN YEAR STATISTICAL SUMMARY

Year ended 31st December (Rs Mn)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>OPERATING RESULTS</b>										
Income	59,500	61,153	84,351	106,295	121,356	125,998	115,814	115,047	242,412	299,439
Interest income	51,868	52,615	75,608	96,175	108,105	115,211	103,945	98,601	207,019	284,098
Interest expense	26,967	26,280	41,237	56,526	60,525	65,997	59,235	49,041	104,142	179,755
Non interest income	7,633	8,538	8,743	10,120	13,251	10,787	11,869	16,447	35,393	15,042
Operating expenses (Incl. impairment financial VAT and SSCL)	20,470	19,824	22,968	27,719	37,879	41,538	41,497	46,181	126,296	86,695
Profit before income tax	12,064	15,050	20,146	22,050	22,952	18,463	15,081	19,825	11,974	32,689
Income tax on profit	3,059	4,601	6,002	5,583	7,433	4,431	3,619	2,525	(2,060)	12,336
Profit after taxation	9,005	10,449	14,143	16,467	15,518	14,032	11,463	17,300	14,033	20,353
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>										
Customer deposits	419,327	527,126	623,495	701,519	799,975	810,035	967,821	1,075,709	1,407,800	1,579,780
Refinance borrowings	4,889	4,227	4,140	5,244	5,639	6,364	15,089	14,270	9,950	9,952
Other liabilities	87,736	128,424	154,080	134,884	163,312	179,723	174,939	116,316	113,461	159,543
Deferred tax liabilities	-	379	231	5,083	1,809	1,382	-	-	-	-
Shareholders' funds	60,899	65,051	77,017	108,148	115,754	127,504	134,002	152,041	159,327	184,977
<b>Total</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>1,934,252</b>
<b>ASSETS</b>										
Loans and receivables to customers (net)	396,277	498,342	584,413	639,102	749,049	741,769	772,581	876,255	974,131	954,880
Cash, short term funds and statutory deposits with the Central Bank of Sri Lanka	33,838	35,033	52,042	63,533	62,342	59,487	41,336	64,006	112,583	85,383
Property, plant and equipment	9,305	11,474	13,945	17,905	21,304	21,077	20,705	24,954	24,836	25,419
Deferred tax assets	287	-	-	-	-	-	807	4,462	30,471	33,945
Other assets	133,144	180,360	208,564	234,337	253,794	302,676	456,423	388,661	548,517	834,626
<b>Total</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>1,934,252</b>
<b>RATIOS</b>										
Return on average shareholders funds (%)	16.0	16.6	19.9	17.8	13.9	11.5	8.8	12.1	9.0	11.8
Income growth (%)	(2.5)	2.8	37.9	26.0	14.2	3.8	(8.1)	(0.7)	110.7	23.4
Return on average assets (%)	1.7	1.6	1.8	1.8	1.5	1.3	0.9	1.3	0.9	1.1
Dividend cover (times)	2.6	3.0	4.0	4.0	3.7	3.5	2.8	3.7	5.3	4.6
Property, plant and equipment to shareholders' funds (%)	15.3	17.6	18.1	16.6	18.4	16.5	15.5	16.4	15.6	13.7
Total assets to shareholders' funds (times)	9.4	11.1	11.2	8.8	9.4	8.8	9.6	8.9	10.6	10.5
Liquid assets to liabilities (%)	22.8	23.9	23.5	24.1	24.4	29.6	39.6	28.0	34.0	48.2
<b>SHARE INFORMATION</b>										
Market value per share (Rs)										
- Voting	194.90	210.60	225.00	249.00	214.00	172.20	126.50	135.00	78.90	169.25
- Non voting	152.90	177.90	190.00	195.00	168.50	135.50	100.60	122.25	70.00	140.00
Group earnings per share (Rs)	24.50	26.09	34.99	35.50	35.25	29.32	25.58	36.18	28.62	40.68
'Group earnings per share (adjusted) (Rs)	17.54	18.85	26.36	28.49	31.51	26.21	23.40	33.99	27.39	40.68
Price earnings ratio	7.96	8.07	6.43	7.01	6.07	5.87	4.95	3.73	2.76	4.16
Group net assets per share (Rs)	168.67	186.20	220.61	247.79	269.28	290.78	301.28	335.93	342.25	379.18
''Group net assets per share (adjusted) (Rs)	121.31	135.00	163.10	217.98	237.01	259.96	275.57	315.63	327.46	379.18
Dividend per share (Rs)	8.50	8.50	8.50	8.50	8.50	8.00	8.00	9.00	5.00	8.00
Cash dividend per share (Rs)	8.50	5.00	5.00	6.50	5.00	4.50	4.50	6.50	-	4.00
Gross dividends (Rs Mn)	3,431	3,451	3,523	4,153	4,188	4,003	4,096	4,733	2,673	4,478
<b>OTHER INFORMATION</b>										
No. of employees	4,451	4,285	4,190	4,348	4,781	4,913	4,836	5,042	5,156	5,492
No. of customer centres	249	249	251	251	250	252	252	255	255	254
No. of student banking centres	168	168	150	152	155	156	162	162	162	162

\* Earnings per share has been adjusted for weighted average number of shares outstanding during the current year

\*\* Net assets per share has been computed for the current number of shares issued as at 31st December 2023

# QUARTERLY STATISTICS

For the three months ended	2023				*2022			
	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	1,934,252	1,857,538	1,834,992	1,746,583	1,690,539	1,632,094	1,597,327	1,505,748
Loans and advances to customers	954,880	930,909	899,329	926,849	974,131	973,929	991,284	948,088
Due to customers	1,579,780	1,531,801	1,477,206	1,437,240	1,407,800	1,346,076	1,292,900	1,216,530
Shareholders' funds	184,977	181,772	168,826	166,800	159,327	154,868	149,870	150,092
Average assets	1,843,341	1,782,413	1,757,371	1,718,561	1,606,427	1,523,376	1,487,137	1,432,042
<b>Income Statement (Rs 000)</b>								
Net interest income	21,117,895	23,898,946	27,763,862	31,561,553	31,799,463	30,918,265	23,295,356	16,863,792
Net fee and commission income	4,141,444	3,715,335	3,746,073	4,238,483	4,171,801	3,855,045	3,902,514	3,244,890
Net gain/(loss) from trading	(1,988,365)	(1,323,658)	(1,369,787)	(7,269,817)	(36,058)	(4,867,897)	2,303,227	7,499,447
Net gain from financial investments at fair value through other comprehensive income	30,785	117,291	-	123,461	12,720	-	9,899	-
Net other operating income	2,539,130	2,480,788	(98,837)	5,491,752	2,460,239	6,482,169	5,786,690	222,591
<b>Total operating income</b>	<b>25,840,889</b>	<b>28,888,702</b>	<b>30,041,311</b>	<b>34,145,432</b>	<b>38,408,165</b>	<b>36,387,582</b>	<b>35,297,686</b>	<b>27,830,720</b>
Less : Impairment charge for loans and other losses	8,218,133	4,119,429	16,871,891	11,379,858	30,185,979	20,181,418	26,740,331	13,353,576
<b>Net operating income</b>	<b>17,622,756</b>	<b>24,769,273</b>	<b>13,169,420</b>	<b>22,765,574</b>	<b>8,222,186</b>	<b>16,206,164</b>	<b>8,557,355</b>	<b>14,477,144</b>
Less : Operating expenses	9,009,065	8,887,782	8,740,244	8,866,724	7,570,897	7,960,566	7,837,496	7,018,612
Taxes on financial services	2,180,190	3,378,533	1,502,050	3,073,740	838,608	1,870,162	715,815	1,676,788
Income tax expenses	2,641,731	4,670,386	1,182,554	3,840,906	(3,935,742)	1,393,527	(641,204)	1,123,831
<b>Profit for the quarter ended</b>	<b>3,791,770</b>	<b>7,832,572</b>	<b>1,744,572</b>	<b>6,984,204</b>	<b>3,748,423</b>	<b>4,981,909</b>	<b>645,248</b>	<b>4,657,913</b>
<b>Other comprehensive income for the quarter ended</b>	<b>(593,904)</b>	<b>4,995,885</b>	<b>266,512</b>	<b>1,000,584</b>	<b>912,388</b>	<b>1,894</b>	<b>2,700,250</b>	<b>(3,352,018)</b>
<b>Total comprehensive income for the quarter ended</b>	<b>3,197,866</b>	<b>12,828,457</b>	<b>2,011,084</b>	<b>7,984,788</b>	<b>4,660,811</b>	<b>4,983,803</b>	<b>3,345,498</b>	<b>1,305,895</b>
<b>Ordinary share information</b>								
Market price per share (Rs)	V	NV	V	NV	V	NV	V	NV
High	175.00	149.00	203.50	169.75	141.00	110.00	138.00	114.00
Low	158.00	130.25	150.00	110.50	106.00	72.60	75.20	66.50
Closing	169.25	140.00	172.00	149.50	140.00	108.00	129.50	88.20
V - Voting NV - Non voting								
Net Asset Value per Share (Adjusted)	330.47	324.74	301.62	298.00	284.65	276.68	267.75	268.15
<b>Financial measures</b>								
<b>Profitability (Annualised)</b>								
Interest Margin	5.66	6.23	6.63	7.35	6.40	6.22	5.40	4.71
Return on Assets (before Tax), %**	1.77	1.96	1.52	2.49	0.75	1.08	0.81	1.66
Return on Equity**	11.59	13.05	10.26	16.83	9.14	9.22	7.31	12.75
<b>Productivity</b>								
Cost to Income Ratio	34.86	30.77	29.09	25.97	19.71	21.88	22.20	25.22
<b>BASEL III</b>								
<b>Risk weighted capital ratios</b>								
Common Equity Tier I Capital (%)	13.66	11.91	12.48	11.41	11.06	11.31	11.39	12.23
Tier I Capital (%)	13.66	11.91	12.48	11.41	11.06	11.31	11.39	12.23
Total Capital (%)	17.13	14.73	15.58	14.43	14.00	14.36	14.54	15.59
Leverage Ratio	5.61	5.51	5.62	5.78	6.22	6.36	6.59	7.14
<b>Asset quality</b>								
Impaired Loans (Stage 3) Ratio, %	3.76	4.90	4.77	3.82	3.40	3.34	2.46	2.41
Impairment (Stage 3) to Stage 3 loans Ratio, %	57.49	50.74	51.35	55.52	56.99	56.30	63.00	58.59

\* Quarterly information has been amended based on classification changes made in 2023.

\*\* Calculated based on quarterly average.

# 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 2023 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 voting shares is "HNB.Noooo". Reuters code of Hatton National Bank PLC is "HNB.CM"

## 2 ORDINARY SHAREHOLDERS

### SHARE INFORMATION - VOTING

There were 7,645 registered voting shareholders as at 31st December 2023 (2022 - 8,282) 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	4,858	1,004,271	0.26	45	12,974	0.02	4,903	1,017,245	0.23
1,001	- 10,000	1,872	6,011,977	1.55	43	165,398	0.30	1,915	6,177,375	1.39
10,001	- 100,000	620	20,147,959	5.18	27	860,351	1.52	647	21,008,310	4.71
100,001	- 1,000,000	132	36,316,287	9.33	10	2,737,322	4.84	142	39,053,609	8.76
Over	1,000,000	32	325,593,726	83.68	6	52,781,347	93.32	38	378,375,073	84.91
		7,514	389,074,220	100.00	131	56,557,392	100.00	7,645	445,631,612	100.00

### ANALYSIS OF SHAREHOLDERS

Resident / Non-resident

		31st December 2023			31st December 2022		
		No of share holders	No of shares	%	No of share holders	No of shares	%
Resident		7,514	389,074,220	87.31	8,155	369,445,428	86.43
Non-resident		131	56,557,392	12.69	127	58,018,948	13.57
<b>Total</b>		<b>7,645</b>	<b>445,631,612</b>	<b>100.00</b>	<b>8,282</b>	<b>427,464,376</b>	<b>100.00</b>

Individuals/Institutions

		31st December 2023			31st December 2022		
		No of share holders	No of shares	%	No of share holders	No of shares	%
Individuals		7,221	82,296,358	18.47	7,843	91,768,791	21.47
Institutions		424	363,335,254	81.53	439	335,695,585	78.53
<b>Total</b>		<b>7,645</b>	<b>445,631,612</b>	<b>100.00</b>	<b>8,282</b>	<b>427,464,376</b>	<b>100.00</b>

As at 31/12/2023 the average size of holding of ordinary shareholding was 58,424 voting shares, (31/12/2022 - 51,732 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 2023 was 69% approximately (69% as at 31st December 2022).

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 2023 - 7,622 (8,260 as at 31st December 2022).

1,020,199 shares remain unregistered arising from a direction given by the CBSL dated 26th August 2010 in terms of Sec. 12(1C)(c) of the Banking Act, and these unregistered shares are not included herein.

### **3 SHARE INFORMATION - NON VOTING**

There were 10,955 registered non voting shareholders as at 31st December 2023 (2022- 11,290) 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	6,796	2,263,605	2.03	40	13,788	1.08	6,836	2,277,393	2.01
1,001	- 10,000	3,374	11,026,532	9.86	37	135,819	10.63	3,411	11,162,351	9.87
10,001	- 100,000	625	16,495,267	14.75	14	416,259	32.58	639	16,911,526	14.96
100,001	- 1,000,000	59	16,965,150	15.17	4	711,940	55.71	63	17,677,090	15.63
Over	1,000,000	6	65,058,216	58.19	-	-	-	6	65,058,216	57.53
		10,860	111,808,770	100.00	95	1,277,806	100.00	10,955	113,086,576	100.00

#### **ANALYSIS OF SHAREHOLDERS**

Resident / non-resident

		31st December 2023			31st December 2022		
		No of share holders	No of shares	%	No of share holders	No of shares	%
Resident		10,860	111,808,770	98.87	11,194	105,876,904	98.85
Non-resident		95	1,277,806	1.13	96	1,235,553	1.15
<b>Total</b>		<b>10,955</b>	<b>113,086,576</b>	<b>100.00</b>	<b>11,290</b>	<b>107,112,457</b>	<b>100.00</b>

Individuals / Institutions

		31st December 2023			31st December 2022		
		No of share holders	No of shares	%	No of share holders	No of shares	%
Individuals		10,656	36,277,403	32.08	11,048	42,470,894	39.65
Institutions		299	76,809,173	67.92	242	64,641,563	60.35
<b>Total</b>		<b>10,955</b>	<b>113,086,576</b>	<b>100.00</b>	<b>11,290</b>	<b>107,112,457</b>	<b>100.00</b>

As at 31/12/2023 the average size of holding of ordinary shareholding was 10,323 non-voting shares, (31/12/2022 - 9,487 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 2023 was 99% approximately. (99% as at 31st December 2022).

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 2023 - 10,938 (11,274 as at 31st December 2022).

# INVESTOR RELATIONS

## 4 SHARE TRADING

VOTING	2023	2022
Number of transactions	21,571	13,373
Number of shares traded (Mn)	73	31
Value of shares traded (Rs Mn)	10,563	2,701
NON VOTING	2023	2022
Number of transactions	11,585	6,199
Number of shares traded (Mn)	11	4
Value of shares traded (Rs Mn)	1,369	479

## 5 DIVIDENDS

	2023	2022
Cash dividend (Rs)	4.00	Cash dividend (Rs) -
Scrip dividend (Rs)	4.00	Scrip dividend (Rs) 5.00
Cash dividend payout ratio (%)	9.83	Cash dividend payout ratio (%) -

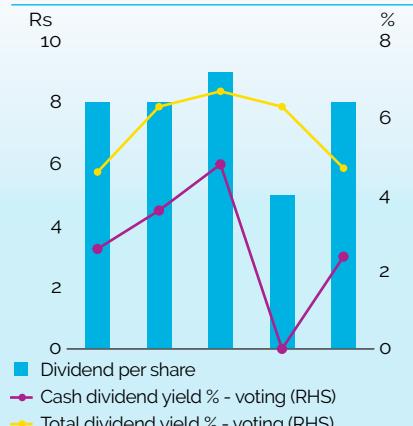
## 6 EARNINGS

VOTING	2023	2022
Group earnings per share (Rs)	40.68	28.62
Price earnings ratio (times) - voting shares	4.16	2.76

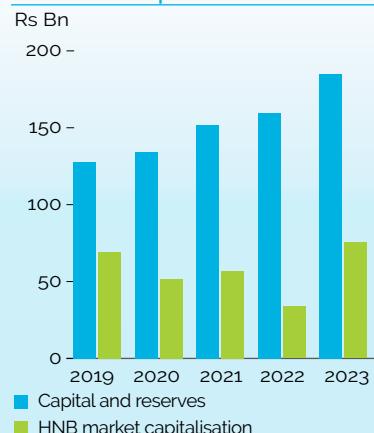
## 7 MARKET VALUES

	Highest Rs	Lowest Rs	Year End Rs
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	142.25	72.10	78.90
-Non voting	131.50	65.00	70.00
2023 - Voting	203.50	75.20	169.25
-Non voting	169.75	66.50	140.00

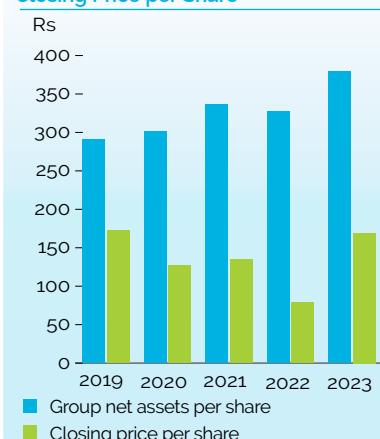
### Dividend Per Share and Dividend Yield



### Shareholder Funds and HNB Market Capitalisation



### Group Net Assets per Share and Closing Price per Share



## 8 MARKET CAPITALISATION (AS AT 31ST DECEMBER)

	Capital and reserves Rs Mn	*HNB market capitalisation Rs Mn	CSE market capitalisation Rs Mn	HNB market capitalisation as a % of CSE market capitalisation	Market capitalisation ranking
					%
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
<b>2023</b>	<b>184,977</b>	<b>75,596</b>	<b>4,248,935</b>	<b>1.78</b>	<b>12</b>

\*HNB market capitalisation include only voting shares

## 9 PUBLIC SHAREHOLDING

	2023 Number	%	2022 Number	%
Number of shareholders representing the public holding (voting)	7,622	69	8,260	69
Number of shareholders representing the public holding (non voting)	10,938	99	11,274	99
Complaint under option 1 - float adjusted market capitalisation (Rs Bn)	52.2		23.3	

# INVESTOR RELATIONS

## 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/-)	1:1	500,000
1982	Bonus	1:1	1,000,000
1988	Bonus	1:1	2,000,000
1990	Bonus	1:2	2,000,000
1993	Bonus	1:1	6,000,000
1996	Bonus	2:3	8,000,000
1998	Bonus	1:2	10,000,000
1999	Bonus	2:3	20,000,000
1999	Rights (non-voting @ Rs 70/-)	3:10	15,000,000
2002	Bonus	1:10	6,500,000
2004	Rights (voting @ Rs 55/- and non-voting @ Rs 33/-)	2:5	28,600,000
2005	Issue of underlying shares for GDR		17,664,700
2007	Bonus	1:1	117,764,700
2009	Shares issued under ESOP		240,747
2010	Shares issued under ESOP		2,198,875
2011	Sub division of shares	1:2	119,179,782
2011	Rights (voting @ Rs 219.50/- and non-voting @ Rs 119.50/-)	1:10	21,858,851
2011	Private placement of unsubscribed rights		8,975,700
2011	Shares issued under ESOP		613,488
2012	Scrip dividend		7,890,528
2012	Shares issued under ESOP		759,078
2013	Shares issued under ESOP		2,308,752
2014	Shares issued under ESOP		3,042,455
2015	Shares issued under ESOP		3,223,714
2016	Shares issued under ESOP		1,314,043
2016	Scrip dividend		6,680,061
2017	Shares issued under ESOP		1,201,044
2017	Scrip dividend	1:6	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
2023	Scrip dividend		24,182,945
	Total		559,738,387

11

**20 MAJOR SHAREHOLDERS (VOTING) OF THE BANK AS AT 31ST DECEMBER 2023**

	Name	% on total capital	% on total voting capital	No of shares 2023	No of shares 2022
1.	BROWNS INVESTMENTS PLC (CONSISTING OF SAMPATH BANK PLC/BROWNS INVESTMENTS PLC & BROWNS INVESTMENTS PLC ACCOUNTS)	7.97	9.99	44,599,422	42,781,221
2.	EMPLOYEE'S PROVIDENT FUND	7.78	9.75	43,535,266	41,760,448
3.	SRI LANKA INSURANCE CORPORATION LTD-LIFE FUND	6.60	8.27	36,926,034	35,420,657
4.	MILFORD EXPORTS (CEYLON) (PVT) LIMITED	6.31	**7.91	35,319,119	33,879,251
5.	STASSEN EXPORTS (PVT) LIMITED	5.47	**6.85	30,613,438	29,365,409
6.	SONETTO HOLDINGS LIMITED	3.92	4.91	21,952,479	21,057,534
7.	SRI LANKA INSURANCE CORPORATION LTD-GENERAL FUND	3.39	4.25	18,970,648	18,197,265
8.	CITIBANK NEWYORK S/A NORGE BANK ACCOUNT 2	3.11	3.89	17,389,562	12,648,965
9.	DISTILLERIES COMPANY OF SRI LANKA PLC	2.45	**3.07	13,696,840	13,138,456
10.	MR. S.E. CAPTAIN	2.34	2.93	13,099,264	27,893,390
11.	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)	2.34	2.93	13,096,256	11,612,806
12.	NATIONAL SAVINGS BANK	2.29	2.87	12,815,744	12,293,280
13.	MR. D.N.N. LOKUGE	1.66	2.08	9,288,560	8,909,890
14.	STANDARD CHARTERED BANK SINGAPORE S/A HL BANK SINGAPORE BRANCH	1.50	1.88	8,383,256	8,041,493
15.	FINCO HOLDINGS (PRIVATE) LIMITED	1.27	1.59	7,121,362	6,747,077
16.	MS. L.A. CAPTAIN	1.21	1.51	6,755,927	8,007,163
17.	SIMONAS TRUST SERVICE PVT LTD	0.81	1.02	4,545,906	4,360,582
18.	MR. Y.S.H.R.S. SILVA	0.69	0.86	3,860,684	-
19.	GALLE FACE CAPITAL PARTNERS PLC	0.63	0.79	3,520,359	-
20.	INVENCO CAPITAL PRIVATE LIMITED	0.58	0.72	3,223,758	-
	Sub total	62.30	78.07	348,713,884	336,114,887
	*Unregistered shares	0.18	0.23	1,020,199	978,609
	Balance held by 7,625* voting shareholders (Total voting shareholders - 7,645)	17.52	21.70	96,917,728	91,349,489
	Total voting shares	80.00	100.00	446,651,811	428,442,985
	Shares held by 10,955 non-voting shareholders	20.00		113,086,576	107,112,457
	Total No. of ordinary shares	100.00		559,738,387	535,555,442

\*1,020,199 shares remain unregistered arising from a direction given by the CBSL dated 26th August 2010 in terms of Sec. 12(1C)(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.

# INVESTOR RELATIONS

## 12 20 MAJOR SHAREHOLDERS (NON-VOTING) OF THE BANK AS AT 31ST DECEMBER 2023

	Name	% on total capital	% on total voting capital	No of shares 2023	No of shares 2022
1.	BROWNS INVESTMENTS PLC (CONSISTING OF SAMPATH BANK PLC/BROWNS INVESTMENTS PLC & BROWNS INVESTMENTS PLC ACCOUNTS)	9.27	45.87	51,871,980	49,131,696
2.	ACUITY PARTNERS (PVT) LIMITED/MR.ELAYATHAMBY THAVAGNANASOORIYAM/MR.ELAYATHAMBY THAVAGNANASUNDARAM	1.01	5.01	5,666,420	5,372,196
3.	AKBAR BROTHERS PVT LTD A/C NO 1	0.89	4.40	4,975,179	4,745,503
4.	EMPLOYEES TRUST FUND BOARD	0.26	1.30	1,466,366	1,581,198
5.	MR. S.E. CAPTAIN	0.19	0.95	1,078,271	1,658,622
6.	PEOPLE'S LEASING & FINANCE PLC/MR. I.D.R. PERERA	0.15	0.73	820,468	525,613
7.	HATTON NATIONAL BANK PLC A/C NO 2	0.15	0.72	813,789	770,799
8.	SABOOR CHATOOR (PVT) LTD	0.14	0.69	780,000	733,462
9.	MR. E. CHATOOR	0.13	0.65	733,097	694,370
10.	INVENCO CAPITAL PRIVATE LIMITED	0.13	0.62	705,519	-
11.	NATIONAL SAVINGS BANK	0.11	0.55	624,232	-
12.	E.W. BALASURIYA & CO. (PVT) LTD ACC NO 01	0.10	0.50	564,887	535,046
13.	MR. J.D. BANDARANAYAKE (JOINT - 1 : DR. V. BANDARANAYAKE & JOINT - 2 : MISS I. BANDARANAYAKE)	0.09	0.45	511,450	588,621
14.	MR. J.D. BANDARANAYAKE (JOINT - 1 : MISS N. BANDARANAYAKE & JOINT - 2 : DR. V. BANDARANAYAKE)	0.09	0.45	511,345	588,521
15.	DON AND DON HOLDINGS PRIVATE LIMITED	0.09	0.44	497,701	471,409
16.	MR. M.J. FERNANDO (DECEASED)	0.08	0.41	462,965	438,508
17.	DR. R.D. BANDARANAIKE	0.08	0.39	437,668	414,547
18.	MR. Y.H. ABDULHUSSEIN	0.08	0.38	435,000	380,768
19.	LANKA SYNTHETIC FIBRE CO LTD	0.07	0.36	411,963	390,200
20.	MISS R.H. ABDULHUSSEIN	0.07	0.36	408,095	461,334
	Sub total	13.18	65.23	73,776,395	69,482,413
	Balance held by 10,935 non-voting shareholders (Total non-voting shareholders - 10,955)	6.82	34.77	39,310,181	37,630,044
	Total non-voting shares	20.00	100.00	113,086,576	107,112,457
	Total voting shares	80.00		446,651,811	428,442,985
	Total no. of ordinary shares	100.00		559,738,387	535,555,442

\*1,020,199 shares remain unregistered arising from a direction given by the CBSL dated 26th August 2010 in terms of Sec. 12(1C)(c) of the Banking Act.

**13 DEBENTURE INFORMATION****HNB SUBORDINATED DEBENTURES 2006**i) **Market Value**

12 months ended 31st December 2023

These debentures have not traded during the year ended 31st December 2023

ii) **Interest Rate**

12 months ended 31st December.

	31st December 2023				31st December 2022			
	Amount	Coupon	Annual	Interest	Amount	Coupon	Annual	Interest
	Rs 000	Rate %	Effective	Rate of comparable	Rs 000	Rate %	Effective	Rate of comparable
18-year Fixed Rate (11.25% p.a.) (Zero Coupon)	1,327,463	-	11.25	13.46	1,193,302	-	11.25	25.72

**HNB SENIOR DEBENTURES 2013**i) **Market Value**

12 months ended 31st December 2023

These debentures have not traded during the year ended 31st December 2023

ii) **Interest Rate**

12 months ended 31st December.

	31st December 2023				31st December 2022			
	Amount	Coupon	Annual	Interest	Amount	Coupon	Annual	Interest
	Rs 000	Rate %	Effective	Rate of comparable	Rs 000	Rate %	Effective	Rate of comparable
10-year Fixed Rate (8.00% p.a.)	N/A	N/A	N/A	N/A	1,978,910	8.00	14.25	24.68

# INVESTOR RELATIONS

## HNB SENIOR DEBENTURES 2014

### i) Market Value

12 months ended 31st December 2023

These debentures have not traded during the year ended 31st December 2023

### ii) Interest Rate

12 months ended 31st December

	31st December 2023				31st December 2022			
	Amount	Coupon	Annual	Interest	Amount	Coupon	Annual	Interest
	Rs 000	Rate %	Effective	Rate of comparable	Rs 000	Rate %	Effective	Rate of comparable
				Govt.				Govt.
				Security %				Security %
10-year Fixed Rate (8.33% p.a.)	87,569	8.33	8.50	13.40	84,040	8.33	8.50	26.51

## HNB SUBORDINATED DEBENTURES 2016

### i) Market Value

12 months ended 31st December 2023

These debentures have not traded during the year ended 31st December 2023

### ii) Interest Rate

12 months ended 31st December

	31st December 2023				31st December 2022			
	Amount	Coupon	Annual	Interest	Amount	Coupon	Annual	Interest
	Rs 000	Rate %	Effective	Rate of comparable	Rs 000	Rate %	Effective	Rate of comparable
				Govt.				Govt.
				Security %				Security %
7-year Fixed Rate (13.00% p.a.)	N/A	N/A	N/A	N/A	4,086,904	13.00	13.00	24.99

**HNB SUBORDINATED DEBENTURES 2019**i) **Market Value**

12 months ended 31st December 2023

These debentures have not traded during the year ended 31st December 2023

ii) **Interest Rate**

12 months ended 31st December

	31st December 2023				31st December 2022			
	Amount	Coupon	Annual	Interest	Amount	Coupon	Annual	Interest
	Rs 000	Rate %	Effective	Rate of comparable	Rs 000	Rate %	Effective	Rate of comparable
			Govt.	Security %			Govt.	Security %
5-year Fixed Rate (12.30% p.a.)	1,987,358	12.30	12.30	13.46	1,987,358	12.30	12.30	26.61
7-year Fixed Rate (12.80% p.a.)	8,360,693	12.80	12.80	13.58	8,360,693	12.80	12.80	27.58

**HNB SUBORDINATED DEBENTURES 2021**i) **Market Value**

12 months ended 31st December 2023

These debentures have not traded during the year ended 31st December 2021

ii) **Interest Rate**

12 months ended 31st December.

	31st December 2023				31st December 2022			
	Amount	Coupon	Annual	Interest	Amount	Coupon	Annual	Interest
	Rs 000	Rate %	Effective	Rate of comparable	Rs 000	Rate %	Effective	Rate of comparable
			Govt.	Security %			Govt.	Security %
10-year Fixed Rate (9.5% p.a.)	7,286,042	9.50	9.50	13.54	7,286,042	9.50	9.50	25.91

Note 1: HNB Senior Debenture information is listed under Debt Securities issued, Note 47 of the Financial Position.

Note 2: HNB Subordinated Debenture information is listed under Subordinated Term Debts, Note 52 of the Financial Position.

Ratios	2023	2022
Debt to Equity Ratio (%) *	19.55	30.91
Interest Cover (Times) **	8.49	3.98
Liquidity Asset Ratio (LAR) (%)	48.17	33.95

\* Debt includes Borrowings and Debentures

\*\* Includes interest paid on Borrowings and Debentures

# INDEPENDENT ASSURANCE STATEMENT



## INTRODUCTION

DNV Business Assurance Lanka (Private) Limited represented by DNV Business Assurance India Private Limited ('DNV') was engaged by Hatton National Bank PLC ('HNB' or 'the Bank', Corporate Registration Number PQ 82) to undertake an independent assurance of the Bank's sustainability/non-financial performance disclosures in its Integrated Annual Report 2023 ('the Report'). The disclosures in the report are prepared in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Standards 2021 ('GRI Standards'). HNB has also considered other sustainability reporting initiatives such as Integrated Reporting <IR> framework of the International Integrated Reporting Council (IIRC) and United Nations Sustainable Development Goals (SDGs). The intended user of this Assurance Statement is the management of the Bank. Our assurance engagement was planned and carried out during the period January- February 2024.

## 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 and are responsible for all information disclosed in the Report as well as the processes for collecting, analyzing and reporting the information presented in the Report. HNB is also responsible for ensuring the maintenance and integrity of its website and any referenced disclosures on sustainability performance. In performing this assurance work, DNV's responsibility is to the Management of the Bank; however, this statement represents our independent opinion and is intended to inform the outcome of the assurance to the stakeholders of HNB.

We do not provide any services to the Bank which in our opinion, constitute a conflict of interest with this assurance work. Our assurance engagements assume that the data and information provided by the Bank to us as part of our review have been provided in good faith and are free from misstatements.

## SCOPE, BOUNDARY AND LIMITATIONS

The reporting scope and boundary encompasses environmental, social and governance performance of HNB operations as brought out in the section 'About the Report' of the report for the activities undertaken by the Bank during the year January - December 2023.

We planned and performed our work using DNV's assurance methodology VeriSustain<sup>TM1</sup>, to obtain the evidence we considered necessary to provide a basis for our assurance opinion for providing a limited level of assurance. DNV Verisustain<sup>TM</sup> is based on our professional experience and international assurance practice, and the international standard in Assurance Engagements, ISAE 3000 (revised) - Assurance Engagements other than Audits or Reviews of Historical Financial Information.

The agreed scope of work included information on non-financial performance which were disclosed in the Report prepared by HNB based on GRI Topic-specific Standards for the identified material topics for the activities undertaken by the Bank during the reporting period 1st January 2023 – 31st December 2023. The reported topic boundaries of non-financial performance is based on the internal and external materiality assessment covering HNB's operations as brought out in the sections 'About the Report' section of the report.

During the assurance process, we did not come across limitations to the scope of the agreed assurance engagement. The reported data on economic performance, expenditure towards Corporate Social Responsibility (CSR) activities, and other financial data are based on audited financial statements issued by the Bank's statutory auditors which is subject to a separate audit process. We were not involved in the review of financial information within the Report.

## BASIS OF OUR OPINION

As part of the assurance process, a multi-disciplinary team of sustainability specialists performed assurance work for selected sample sites of HNB. We adopted a risk-based approach, that is, we concentrated our assurance efforts on the issues of high material relevance to the Bank's business and its key stakeholders. We carried out the following activities:

- Review of HNB's approach to identification of material topics and the processes of stakeholder engagement, and HNB's responses as brought out in this Report. We did not have any direct engagement with external stakeholders.
- Interviews with selected senior managers responsible for management of sustainability issues and review of selected evidence to support topics disclosed in the Report. We were free to choose interviewees and interviewed those with overall responsibility to deliver the Bank's sustainability objectives.
- Sample based assessment of site-level sustainability performance data through on-site visits to HNB Head office in Colombo and Branch offices at Bambalapitiya, Homagama and remote assessments of Branch offices at Digana, Ekala, Embilipitiya, Ganemulla, Cinnamon Garden Branch, Mount Lavinia and Islamic banking Unit from Head office. We were free to choose the sites for conducting our assessment.
- Examined and reviewed sustainability performance documents and other information made available by the Company related to the non-financial disclosures and consolidating the sustainability performance information related to the identified GRI Topic-specific Standards.

<sup>1</sup> The VeriSustain protocol is based on the principles of various assurance standards including International Standard on Assurance Engagements 3000 (ISAE 3000) Revised (Assurance Engagements other than Audits or Reviews of Historical Financial Information) and the GRI Principles for Defining Report Content and Quality, international best practices in verification and our professional experience; and is available on request from [www.dnv.com](http://www.dnv.com)



### OPINION AND OBSERVATION

Based on the verification undertaken, nothing has come to our attention to suggest that the Report does not properly adhere to the GRI Standards 2021 and disclosures related to the following GRI Standards which have been chosen by HNB to bring out its performance against a set of identified material topics:

- GRI 201: Economic performance 2016 – 201-3;
- GRI 202: Market Presence 2016 – 202-2;
- GRI 203: Indirect economic impact 2016 – 203-1, 203-2;
- GRI 204: Procurement Practices 2016 – 204-1;
- GRI 205: Anti-corruption 2016 – 205-1, 205-2;
- GRI 302: Energy 2016 – 302-1; 302-2, 302-4;
- GRI 305: Emissions 2016 – 305-1, 305-2, 305-5;
- GRI 306: Waste 2020 – 306-1, 306-2, 306-3, 306-4, 306-5;
- GRI 308: Supplier Environmental Assessment 2016 – 308-1, 308-2;
- GRI 401: Employment 2016 – 401-1, 401-2, 401-3;
- GRI 403: Occupational Health and Safety 2018 – 403-1, 403-3, 403-4, 403-5, 403-6, 403-7, 403-8;
- GRI 404: Training and Education 2016 – 404-1, 404-2, 404-3;
- GRI 405: Diversity and Equal Opportunity 2016 - 405-1;
- GRI 406: Non-discrimination 2016 – 406-1;
- GRI 407: Freedom of Association and Collective Bargaining 2016 – 407-1;
- GRI 408: Child Labour 2016 – 408-1;
- GRI 409: Forced or Compulsory Labour 2016 – 409-1;
- GRI 413: Local Communities 2016 – 413-1;
- GRI 414: Supplier Social Assessment 2016 - 414-1, 414-2;
- GRI 417: Marketing and Labelling 2016 - 417-1, 417-2, 417-3;
- GRI 418: Customer Privacy 2016 – 418-1.

Without affecting our assurance opinion, we provided the following observations against the principles of VeriSustain™.

### STAKEHOLDER INCLUSIVITY

The participation of stakeholders in developing and achieving an accountable and strategic response to Sustainability.

The Report brings out the stakeholders who have been identified as significant to HNB, as well as the modes of engagement established by the Bank to interact with these stakeholder groups. HNB identifies and prioritizes its

formal and informal processes of engagement with its significant stakeholders based on significance of actual and potential impacts of the Bank's activities and this process are brought out within the Report.

*Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Stakeholder Inclusiveness.*

### MATERIALITY

The process of determining the issues that are most relevant to an organization and its stakeholders.

The Report explains out the materiality assessment process carried out by the Bank which has considered concerns of internal and external stakeholders, and inputs from peers and the industry, as well as issues of relevance in terms of impact for HNB's business. The list of topics has been prioritized, reviewed, and validated, and The Company has indicated that there is no significant change in material topics from the previous reporting period.

*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 adequately brings out the Bank's policies, strategies, management systems and governance mechanisms in place to respond to topics identified as material and significant concerns of key stakeholder groups using selected GRI Standards and other global standards which as of relevance to the Bank and its stakeholders.

*Nothing has come to our attention to believe that the Report does not meet the requirements related to the Principle of Responsiveness.*

### RELIABILITY & ACCURACY

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 systems and processes that the Bank has set in place to capture and report its performance related to identified material topics across its reporting boundary. The majority of information mapped with data verified through our remote assessments with HNB's management teams and process owners at the Head Office and sampled sites within the boundary of the Report were found to be fairly accurate and reliable. Some of the data inaccuracies identified in the report during the verification process were found to be attributable to transcription, interpretation, and aggregation errors. These data inaccuracies have been communicated for correction and the related disclosures were reviewed post correction.

*Nothing has come to our attention to believe that the Report does not meet the principle of Reliability and Accuracy.*

# INDEPENDENT ASSURANCE STATEMENT



## 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 the Bank's performance, strategies and approaches related to the environmental, social and governance issues that it has identified as material for its branch locations coming under the boundary of the report, for the chosen reporting period while applying and considering the requirements of the GRI's Principle of Completeness.

*Nothing has come to our attention to suggest that the Report does not meet 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 the disclosures related to HNB's performance during the reporting period in a neutral tone in terms of content and presentation, while considering the overall macroeconomic and industry environment.

*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, which are based on the principles enclosed within ISO IEC 17029:2019 – Conformity assessment – General principles are requirements for validation and verification bodies, 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 as required by relevant ethical requirements relevant ethical requirements including the ISAE 3000 (Revised) Code of Practice as set out in DNV Verisustain™. This engagement work was carried out by an independent team of sustainability assurance professionals. DNV was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement and Management Report for intern use of HNB. DNV maintains complete impartiality toward stakeholders interviewed during the assurance process.

For DNV Business Assurance India Private Limited,

 Anjana Sharma Lead Verifier, DNV Business Assurance India Private Limited, India <hr/> Ankita Parab - Verifier Goutam Banik - Verifier	 Prakash Tikare Country Manager- India & Sri Lanka, DNV Business Assurance Lanka (Private) Limited, India	 Karthik Ramaswamy Digitally signed by Karthik Ramaswamy Date: 2024.02.22 19:24:58 +05'30'
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22nd February 2024, Colombo, Sri Lanka.

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> The DNV Code of Conduct is available on request from [www.dnv.com](http://www.dnv.com) (<https://www.dnv.com/about/in-brief/corporate-governance.html>)

# 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 28-29 and our future plans are given in all business line reviews and the Chairman's and Managing Director/CEO's messages on pages 10-13 and 14-18 respectively.</p>
Connectivity of Information	<p>We have provided links to other reports for additional and supporting information related to identified material topics. The Business Model on page 30-31 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 24-25</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 26-27.</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 181-182, and non-financial disclosures related to the integrated reporting framework has been assured by DNV GL and their Independent assurance statement is given on page 454-456.</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 2023 to 31st December 2023.

## GRI 1 USED

GRI 1: Foundation 2021

GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	TCFD	Page No
<b>GRI 2: General Disclosures</b>						
2021						
2-1	Organisational details					Inner back cover
2-2	Entities included in the organisation's sustainability reporting					3-4
2-3	Reporting period, frequency and contact point					3-4
2-4	Restatements of information					231-233
2-5	External assurance					181-182 , 454-456
2-6	Activities, value chain and other business relationships					30-31
2-7	Employees	8	8.3			56-63
2-8	Workers who are not employees	8	8.3			56-63
2-9	Governance structure and composition	5 & 16	5.5.16.7			110-153
2-10	Nomination and selection of the highest governance body	5 & 16	5.5.16.7			166-168
2-11	Chair of the highest governance body	5 & 16	5.5.16.7			11-13
2-12	Role of the highest governance body in overseeing the management of impacts					117
2-13	Delegation of responsibility for managing impacts					110, 123
2-14	Role of the highest governance body in sustainability reporting					231-233
2-15	Conflicts of interest	16	16.6			120
2-16	Communication of critical concerns					127
2-17	Collective knowledge of the highest governance body					94-97
2-18	Evaluation of the performance of the highest governance body					119
2-19	Remuneration policies					164-165
2-20	Process to determine remuneration					164-165
2-21	Annual total compensation ratio					165
2-22	Statement on sustainable development strategy					28-29
2-23	Policy commitments					120
2-24	Embedding policy commitments					120
2-25	Processes to remediate negative impacts					120
2-26	Mechanisms for seeking advice and raising concerns					120
2-27	Compliance with laws and regulations					112.121.127.156
2-28	Membership associations					64
2-29	Approach to stakeholder engagement					24-25
2-30	Collective bargaining agreements					63
<b>MATERIAL TOPICS</b>						
GRI 3: Material Topics 2021						
3-1	Process to determine material topics					26-27
3-2	List of material topics					26-27

GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	TCFD	Page No
<b>ECONOMIC PERFORMANCES</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				45-51
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		30
	201-2	Financial implications and other risks and opportunities due to climate change	13	13.1		84
	201-3	Defined benefit plan obligations and other retirement plans				61
	201-4	Financial assistance received from government				11-13
<b>MARKET PRESENCE</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				56-63
GRI 202: Market Presence 2016	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	5	5.1		61
	202-2	Proportion of senior management hired from the local community	8	8.5		59
<b>INDIRECT ECONOMIC IMPACTS</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				412
GRI 203: Indirect Economic Impacts 2016	203-1	Infrastructure investments and services supported	9 & 11	9.1, 9.4, 11.2		70
	203-2	Significant indirect economic impacts	1, 3 & 8	1.2, 1.4, 3.8, 8.2, 8.3, 8.5		30
<b>PROCUREMENT PRACTICES</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				66
GRI 204: Procurement Practices 2016	204-1	Proportion of spending on local suppliers	8.17	8.3, 17.17		66, 74
<b>ANTI CORRUPTION</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				121
GRI 205: Anti-corruption 2016	205-1	Operations assessed for risks related to corruption				121
	205-2	Communication and training about anti-corruption policies and procedures				56-63
	205-3	Confirmed incidents of corruption and actions taken				63
<b>ANTI-COMPETITIVE BEHAVIOUR</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				124-125, 157
GRI 206: Anti-competitive Behaviour 2016	206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	16	16.3		157
<b>TAX</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				371-374
GRI 207: Tax 2019	207-1	Approach to tax	1, 10 & 17	1.1, 10.4, 17.1, 17.3		8, 124
	207-2	Tax governance, control, and risk management	1, 10 & 17	1.1, 10.4, 17.1, 17.3		371-374
	207-3	Stakeholder engagement and management of concerns related to tax	1, 10 & 17	1.1, 10.4, 17.1, 17.3		371-374
	207-4	Country-by-country reporting				6

# GRI INDEX

GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	TCFD	Page No
<b>ENERGY</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				76-85
GRI 302: Energy 2016	302-1	Energy consumption within the organisation	7.8 & 12	7.3, 8.4, 12.2		76
	302-2	Energy consumption outside of the organisation				76
	302-3	Energy intensity				Not relevant due to the nature of the operations of the bank
	302-4	Reduction of energy consumption	7, 8.12 & 13	7.3, 8.4, 12.2, 13.1		82
	302-5	Reductions in energy requirements of products and services				82
<b>BIODIVERSITY</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				83
GRI 304: Biodiversity 2016	304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	15	15.2		76-85
	304-2	Significant impacts of activities, products and services on biodiversity				Not relevant due to the nature of the operations of the bank
	304-3	Habitats protected or restored				
	304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations				
<b>EMISSIONS</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				76-85
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	81
	305-2	Energy indirect (Scope 2) GHG emissions	3, 15, 12 &13	3.9, 12.4, 13.1, 15.2	Metrics & Targets b	81
	305-3	Other indirect (Scope 3) GHG emissions				81
	305-4	GHG emissions intensity	13, 14 & 15	13.1, 14.3, 15.2		81
	305-5	Reduction of GHG emissions	13, 14 & 15	13.1, 14.3, 15.2	Strategy b	91
	305-6	Emissions of ozone-depleting substances (ODS)	3, 12	3.9, 12.4		76-85
	305-7	Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	3, 12	3.9, 12.4		76-85
<b>WASTE</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				76-85
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		81
	306-2	Management of significant waste-related impacts	3, 6 & 12	3.9.6.3.12.4.12.5		81
	306-3	Waste generated	3, 6.12, 14 & 15	3.9, 6.3, 6.4, 6.6, 12.4, 14.1, 15.1		81
	306-4	Waste diverted from disposal	8 & 12	8.4, 12.4		81
	306-5	Waste directed to disposal	6, 14 & 15	6.6, 14.2, 15.1,15.5		81

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				66
	308-2	Negative environmental impacts in the supply chain and actions taken				66
<b>EMPLOYMENT</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				56-63
GRI 401: Employment 2016	401-1	New employee hires and employee turnover	5, 8 & 10	5.1, 8.5, 8.6, 10.3		58-59
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	5 & 8	5.4, 8.5		58-59
	401-3	Parental leave	8	8.5		61
<b>OCCUPATIONAL HEALTH &amp; SAFETY</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				56-63
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	3, 8	3.4, 8.8		62
	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	3, 8	3.4, 8.8		62
	403-8	Workers covered by an occupational health and safety management system	3, 8	3.4, 8.8		62
	403-9	Work-related injuries	3	3.4		62
	403-10	Work-related ill health	3	3.4		62
<b>TRAINING AND EDUCATION</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				56-63
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		61
	404-3	Percentage of employees receiving regular performance and career development reviews	5, 8 & 10	5.1, 8.5, 10.3		61
<b>DIVERSITY AND EQUAL OPPORTUNITY</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				56-63
GRI 405: Diversity and Equal Opportunity 2016	405-1	Diversity of governance bodies and employees	5 & 8	5.1, 5.5, 8.5		60, 61
	405-2	Ratio of basic salary and remuneration of women to men				60, 61
<b>NON DISCRIMINATION</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				186-227
GRI 406: Non-discrimination 2016	406-1	Incidents of discrimination and corrective actions taken				128-142

# GRI INDEX

GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	TCFD	Page No
<b>Child labour</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				66-75
GRI 408: Child Labour 2016	408-1	Operations and suppliers at significant risk for incidents of child labour				66-75
<b>LOCAL COMMUNITIES</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				66-75
GRI 413: Local Communities 2016	413-1	Operations with local community engagement, impact assessments, and development programs				66-75
	413-2	Operations with significant actual and potential negative impacts on local communities				66-75
<b>SUPPLIER SOCIAL ASSESSMENT</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				67-68
GRI 414: Supplier Social Assessment 2016	414-1	New suppliers that were screened using social criteria				66
	414-2	Negative social impacts in the supply chain and actions taken				66
<b>PUBLIC POLICY</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				57-63
GRI 415: Public Policy 2016	415-1	Political contributions				57
<b>MARKETING AND LABELLING</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				86-89
GRI 417: Marketing and Labelling 2016	417-1	Requirements for product and service information and labelling	12	12.8		83, 86
	417-2	Incidents of non-compliance concerning product and service information and labelling	16	16.3		83, 86
	417-3	Incidents of non-compliance concerning marketing communications	16	16.3		66, 87
<b>CUSTOMER PRIVACY</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				78, 125
GRI 418: Customer Privacy 2016	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	16	16.3, 16.10		126

**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	72-73
<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	80-82
Provide relevant information and awareness for sustainable development and lifestyles in harmony with nature	12	12.2,12.8	70.83
Improve education, awareness raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning	13	13.3	Strategy c 84-85
Greater adoption of clean and environmentally sound technologies and industrial processes	9	9.4	80-81
<b>TRAINING AND EDUCATION</b>			
Support for education development in the country	4	4.1, 4.3	70
<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	72-74
Provide access to safe and affordable drinking water for all	6	6.1	72
Safe and affordable housing for all	11	11.1	72
Health care development in the country	3	3.3, 3.8	68-70
Reduce exposure and vulnerability to climate-related extreme events and other economic, social, and environmental shocks and disasters	1	1.5	68
Provide financial services focusing on women	5 & 10	5.a, 10.2	67-69,72
<b>REPORTING PRACTICE</b>			
Integrate sustainability information into reporting cycle	12	12.6	78
<b>PROCUREMENT PRACTICES</b>			
Promote public procurement practices that are sustainable, in accordance with national policies and priorities	12	12.7	66
<b>EMPLOYMENT</b>			
Policies and procedures to create friendly working environment	8, 5	8.7, 8.8, 5.1, 5.2, 5.c	62-63
<b>DIVERSITY AND EQUAL OPPORTUNITY</b>			
Support women's health and well-being, career advancement, education, access to finance or financial	5.8 &10	5.1.5,5.8.5,10.3	60
<b>CUSTOMER PRIVACY</b>			
Partnership with international and national organisations to promote sustainable development	17	17.9	78-79

# 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	212, 243
	Description of approach to identifying and addressing data security risks		Discussion and Analysis	FN-CB-230a.2	53
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	208-209
	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	24, 30, 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	190
	Description of approach to incorporation of environmental, social, and governance (ESG) factors in credit analysis	Discussion and Analysis	n/a	FN-CB-410a.2	127
Business Ethics	Total amount of monetary losses as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behaviour, market manipulation, malpractice, or other related financial industry laws or regulations	Quantitative	Reporting currency	FN-CB-510a.1	139-140
	Description of whistleblower policies and procedures	Discussion and Analysis	n/a	FN-CB-510a.2	120
Systemic Risk Management	Global Systemically Important Bank (G-SIB) score, by category	Quantitative	Basis points (bps)	FN-CB-550a.1	196
	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	169-172

## 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	Quantitative	Number, Reporting currency	FN-CB-000.B	408

# 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.

### ACCURAL 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

### ASSET AND LIABILITY MANAGEMENT COMMITTEE (ALCO)

The ALCO, in a bank is generally composed of members from the senior management. Its chief function is to scrutinize, oversee, and sanction policies concerning risks arising from disparities in the bank's capital structure. The committee takes into account various elements such as risks related to liquidity, interest rates, operations, and external occurrences that could influence the bank's projected balance sheet strategies and forecasts.

## 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) 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 organisation 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.

# GLOSSARY OF FINANCIAL/BANKING TERMS

## CASH GENERATING UNIT (CGU)

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

## CEDED INSURANCE ARRANGEMENTS

An arrangement where an insurance company passes the part or all of its risks from its insurance policy portfolio to a reinsurance firm.

## COLLECTIVELY ASSESSED LOAN IMPAIRMENT PROVISIONS

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically, assets within the consumer banking business are assessed on a portfolio basis.

## COMMERCIAL PAPER

An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

## COMMITMENT TO EXTEND CREDIT

Credit facilities available to clients either in the form of loans, bankers' acceptances and other on-balance sheet financing or through off -balance sheet products such as guarantees and letters of credit.

## 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.

## 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 (e.g. 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.

**DISCOUNT RATE**

The discount rate is a financial tool used to determine the present value of future cash flows, considering the time value of money.

**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 500 Bn as D-SIBs.

**DOMESTIC DEBT OPTIMISATION PROGRAM**

The Domestic Debt Optimisation (DDO) program in Sri Lanka is a government initiative to manage and reduce the country's domestic debt amidst a severe economic crisis. It includes restructuring the terms of government bonds, with options like extending the repayment period and reducing the interest rates, to make debt repayment more manageable.

**E****EARNINGS PER SHARE (EPS)**

Profit attributable to ordinary shareholders, divided by the number of ordinary shares in issue.

**ECONOMIC VALUE ADDED (EVA)**

A measure of productivity which takes into consideration cost of total invested equity.

**EFFECTIVE INTEREST RATE**

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

**EFFECTIVE TAX RATE**

Income tax expense for the year divided by the profit before tax.

**EQUITY INSTRUMENT**

Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

**EQUITY METHOD**

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

**EMBEDDED DERIVATIVES**

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

**ESOP (EMPLOYEE SHARE OPTION PLAN)**

A method of giving employees shares in the business for which they work.

**EX-DIVIDEND DATE**

The first date that a share trades without the (i.e. "ex") dividend

**EXERCISE PRICE**

The fixed price at which an option holder can buy or sell the underlying.

**EXPECTED CREDIT LOSSES (ECL)**

Expected credit losses are a probability - weighted estimate of credit losses over the expected life of the financial instrument.

**12 MONTH EXPECTED CREDIT LOSSES (12MECL)**

The portion of life time expected credit losses that represent the expected credit losses resulting from default events of a financial instrument that are possible within 12 months after the reporting date.

**EXPOSURE AT DEFAULT (EAD)**

Gross carrying amount of financial instruments subject to impairment calculation.

**F****FAIR VALUE**

The amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transactions. It is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

**FINANCE LEASE**

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of the asset under lease.

**FINANCIAL ASSET OR FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS**

Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as 'at fair value through profit or loss'.

# GLOSSARY OF FINANCIAL/BANKING TERMS

## 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 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

### JOINT CONTROL

Joint control is the contractually agreed sharing of the control over an economic activity and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

### JOINT VENTURE

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control

## K

### KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

## L

### LETTER OF CREDIT (L/C)

Written undertakings by a Bank on behalf of its customer (typically an importer), authorising a third party (e.g. an exporter) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

### 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 recognised 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 ADVANCES/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

### 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.

# GLOSSARY OF FINANCIAL/BANKING TERMS

## N

### NET ASSET VALUE PER SHARE

Shareholders' funds divided by the number of ordinary shares in issue.

### NET-INTEREST INCOME

The difference between what a Bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

### 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.t

## 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.

## O

### 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****TIER 1 CAPITAL - COMMON EQUITY TIER 1 (CET 1)**

Consists of stated capital, other capital, and revenue reserves. CET1 is the element of capital that has the highest quality and is the most effective in absorbing losses.

**TIER 1 CAPITAL - ADDITIONAL TIER 1 (AT 1)**

Additional tier 1 capital (at1) is a component of tier 1 capital, distinct from common equity tier 1 (cet1) capital. It comprises capital instruments that are not included in cet1. These at1 instruments are subordinated to most other types of debt and have characteristics such as no fixed maturity and the flexibility for the issuing bank to cancel dividends at any time without triggering a default. At1 plays a supplementary role in a bank's overall capital structure, providing additional financial resilience and capacity to absorb losses. 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 (both CET 1 and AT 1) 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****UNEARNED PREMIUM RESERVE**

The premium corresponding to the time period remaining on an insurance policy.

**UNIT TRUST**

An undertaking formed to invest in securities under the terms of a trust deed.

**V****VALUE ADDED**

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

**Y****YIELD TO MATURITY**

Discount rate which the present value of future cash flows would equal the security's current price.

**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



**254**

Branches



**310**

ATMs



**315**

CRMs



**160**

CDMs



**01**

NORTHERN PROVINCE - 21



24



28



8

**JAFFNA - 12**

Atchchuvevi  
Chankanai  
Chavakachcheri  
Chunnakam  
Jaffna  
Jaffna Metro  
Kaithady  
Kodikamam  
Manipay  
Nelliady  
Point Pedro  
Thirunelvelly

**KILINOCHCHI - 02**

Kilinochchi North  
Kilinochchi South

**MANNAR - 03**

Mannar  
Mallavi  
Nanattan

**MULLAITIVU - 02**

Mullaitivu  
Mulliyawalai

**VAVUNIYA - 02**

Kurumankadu  
Vavuniya

**02**

NORTH WESTERN PROVINCE - 18



19



24



14

**KURUNEGALA - 09**

Alawwa  
Galgamuwa  
Giriulla  
Hettipola  
Kuliyapitiya  
Kurunegala  
Kurunegala Metro  
Nikaweratiya  
Wariyapola

**PUTTALAM - 09**

Anamaduwa  
Chilaw  
Dankotuwa  
Madampe  
Marawila  
Norochchole  
Puttalam  
Udappuwa  
Wennappuwa

**03**

WESTERN PROVINCE - 106



141



140



80

**COLOMBO - 65**

Aluthkade  
Asiri Surgical Hospital  
Athurugiriya  
Avissawella  
Bambalapitiya  
Boralesgamuwa  
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 -IBU  
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

**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

## 04 CENTRAL PROVINCE - 26

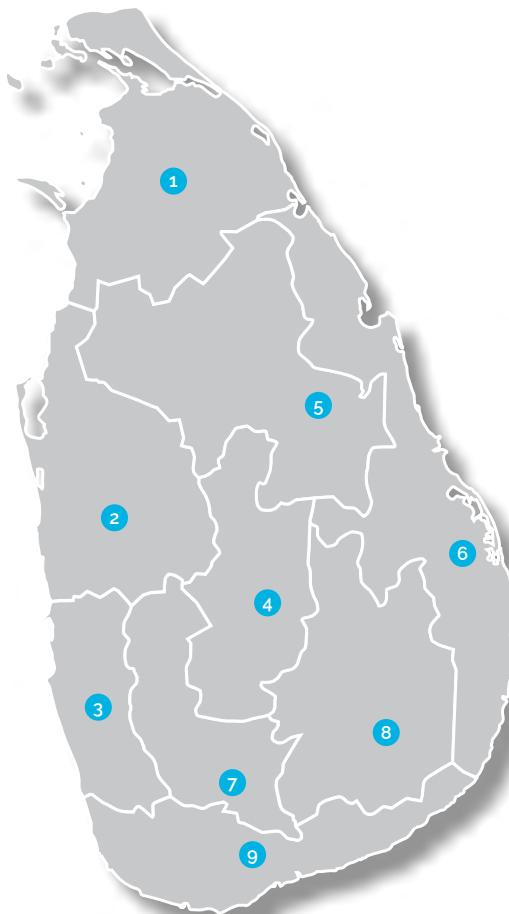
32 34 14

**KANDY - 15**  
 Akurana  
 Asiri Hospital  
 Digana  
 Galaha  
 Gampola  
 Gelioya  
 Kandy  
 Kandy City Centre  
 Katugastota  
 Kundasale

**MATALE - 03**  
 Dambulla  
 Galewela  
 Matale

**NUWARA ELIYA - 08**  
 Kurunduwatte  
 Nawalapitiya  
 Peradeniya  
 Pilimathalawa  
 Rikillagaskada

**MATALE - 03**  
 Bogawanthalawa  
 Ginigathenna  
 Hatton  
 Maskeliya  
 Nuwara Eliya  
 Pussellawa  
 Ragala  
 Thalawakele



## 05 NORTH CENTRAL PROVINCE - 10

13 12 5

**ANURADHAPURA - 07**  
 Anuradhapura  
 Anuradhapura Metro  
 Kekirawa  
 Medawachchiya  
 Nochchiyagama  
 Padavi Parakramapura  
 Thambuttegama

**POLONNARUWA - 03**  
 Aralaganwila  
 Medirigiriya  
 Polonnaruwa

## 06 EASTERN PROVINCE - 25

25 28 10

**AMPARA - 11**  
 Akkaraipattu  
 Ampara  
 Dehiatakkandiya  
 Kalunmai  
 Karaithivu  
 Ninhavur  
 Pottuvil  
 Samanthurai  
 Thandavenvelly  
 Thirukkovil  
 Uhana

**BATTICALOA - 05**  
 Batticaloa  
 Eravur  
 Valachchenai  
 Kaluwanachikudy  
 Kattankudy

**TRINCOMALEE - 09**  
 Kantale  
 Kinniya  
 Marathamunai  
 Mullipathana  
 Muttur  
 Trinco Metro  
 Serunuwara  
 Trincomalee  
 Uppuveli

## 08 UVA PROVINCE - 12

16 11 9

**BADULLA - 06**  
 Badulla  
 Bandarawela  
 Haputale  
 Mahiyanganaya  
 Passara  
 Wellimada

**MONARAGALA - 06**  
 Buttala  
 Bibile  
 Kataragama  
 Monaragala  
 Siyambalanduwa  
 Wellawaya

## 07 SABARAGAMUWA PROVINCE - 11

13 13 8

**KEGALLE - 04**  
 Mawanella  
 Kegalle  
 Rambukkana  
 Warakapola

**RATNAPURA - 07**  
 Balangoda  
 Embilipitiya  
 Godakawela  
 Kahawatta  
 Kalawana  
 Pelmadulla  
 Ratnapura

## 09 SOUTHERN PROVINCE - 25

27 25 12

**GALLE - 09**  
 Ambalangoda  
 Batapola  
 Elpitiya  
 Galle  
 Hikkaduwa  
 Karapitiya  
 Habaraduwa  
 Pitigala  
 Yakkalamulla

**HAMBANTOTA - 08**  
 Ambalantota  
 Angunakolapelessa  
 Hambantota  
 Middeniya  
 Sooriyawewa  
 Tangalle  
 Tissamaharama  
 Walasmulla

**MATARA - 08**  
 Akurella  
 Deniyaya  
 Devinuwara  
 Dickwella  
 Hakmana  
 Matara  
 Urubokka  
 Weligama

# NOTICE OF MEETING

## 1. NOTICE OF MEETING AND AGENDA

Notice is hereby given that the Fifty Fifth (55th) Annual General Meeting of Hatton National Bank PLC (the "Bank") is convened on Thursday, the Twenty Eighth (28th) day of March 2024 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 2023 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:

IT IS HEREBY RESOLVED:

- (a) THAT a final dividend of Rupees Eight (Rs 8.00) per share constituting a total sum of Rs 4,477,907,096.00 be paid on the issued and fully paid ordinary voting shares and ordinary non-voting shares of the Bank for the financial year ended 31st December 2023 based on the issued ordinary voting shares and ordinary non-voting shares as at the commencement of trading on 15th February 2024;
- (b) THAT the shareholders entitled to such dividend ('Entitled Shareholders') shall 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 Eight (Rs 8.00) per share be distributed and satisfied partly by the payment of cash and partly by the allotment and issue of new ordinary voting shares and ordinary non-voting shares (the "distribution scheme") based on the share prices of ordinary voting shares and ordinary non-voting shares as at the commencement of trading on 15th February 2024 in the following manner, subject however to any necessary revision being made to the amount of dividends to be distributed and the number of shares to be issued pursuant to any changes to the applicable law:

### i. By way of cash distribution:

A cash distribution of (A) a sum of Rs 1,786,607,244.00 be made to the holders of ordinary voting shares and (B) a sum of Rs 452,346,304.00 be made to the holders of ordinary non-voting shares respectively, on the basis of Rupees Four (Rs 4.00) per each share.

### ii. By way of the allotment of and issue of new shares:

#### A. For voting shares:

A sum of Rupees One Billion Five Hundred Eighteen Million Six Hundred Sixteen Thousand One Hundred Fifty Seven and Cents Forty (Rs 1,518,616,157.40) be distributed to the holders of ordinary voting shares in the form of a scrip dividend, at the rate of Rupees Four (Rs 4.00) per each share, by the issue of a total of 9,316,663 ordinary voting shares on the basis of one (1) ordinary voting share for every 47,941,792,612 ordinary voting shares held by such holders of ordinary voting shares (which computation is based on the consideration of Rupees One Hundred Sixty Three (Rs 163.00) per each new ordinary voting share being the share price of ordinary voting shares as at the commencement of trading on 15th February 2024).

#### B. For non-voting shares:

A sum of Rupees Three Hundred Eighty Four Million Four Hundred Ninety Four Thousand Three Hundred Fifty Eight and Cents Forty (Rs 384,494,358.40) be distributed to the holders of ordinary non-voting shares in the form of a scrip dividend, at the rate of Rupees Four (Rs 4.00) per each share, by the issue of 2,766,146 ordinary non-voting shares which is distributed on the basis of one (1) ordinary non-voting share for every 40,882,359,788.6 non-voting shares held by such holders of ordinary non-voting shares (which computation is based on the consideration of Rupees One Hundred Thirty Nine (Rs 139.00) per each new ordinary non-voting share being the share price of ordinary non-voting shares as at the commencement of trading on 15th February 2024)

- (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

Number of shares held by a shareholder as at end of trading on the Record Date x 1
47.9411792612

In the context of ordinary non-voting shares

Number of shares held by a shareholder as at end of trading on the Record Date x 1
40.8823597886

- (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 the new ordinary voting shares and ordinary non-voting shares to be so allotted and issued shall not be eligible for the payment of dividend declared hereby.
- (g) THAT accordingly, the Bank's management be and is hereby authorized to take all necessary steps to give effect to the aforesaid proposed issue of new ordinary voting shares and ordinary non-voting shares of the Bank.

**SPECIAL RESOLUTION – APPROVAL OF THE HOLDERS OF ORDINARY 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) 9,316,663 ordinary voting shares on the basis of one (1) ordinary voting share for every 47.9411792612 ordinary voting shares held by holders of ordinary voting shares and (b) 2,766,146 ordinary non-voting shares on the basis of one (1) ordinary non-voting share for every 40.8823597886 ordinary non-voting shares held by holders of ordinary non-voting shares, 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 Mututantrige Parakrama Devaka Cooray, who retires at the Annual General Meeting, as a Non-Executive Director of the Bank in terms of Article 34 of the Articles of Association of the Bank.
- iv. (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 2024 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  
15th February 2024

# 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 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.

# FORM OF PROXY (VOTING)

I/We ..... of .....

..... being \*a shareholder/shareholders of the Hatton National Bank PLC, hereby appoint

of .....

or failing him/her, Kuttikande Vidanelage Nihal Jayawardene or failing him, Antonio Jonathan Alles or failing him Wanniarachchi Mudiyanselage Madura Duminda Ratnayake or failing him Mututantrige Parakrama Devaka Cooray or failing him Osman Chandrawansa or failing him, Prawira Rimoe Saldin or failing him Goluhewage Bindu Rasitha Poojitha Gunawardana or failing him Kahandawela Arachige Kithsiri Perera Gunawardena 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 Fifth (55th) 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 Twenty Eighth (28th) day of March, 2024 at 10.00 in the forenoon and at any adjournment thereof.

\*I/we the undersigned hereby authorize \*my/our proxy to vote on \*my/our behalf in accordance with the preference\*\* indicated below:

(i)	To declare the recommended dividend of Rs 8.00 per share as the final dividend for the financial year ended 31st December 2023 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 ordinary 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 Mututantrige Parakrama Devaka Cooray as a Director of the Bank	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 2024 for charitable and other purposes	In favour <input type="checkbox"/>
		Against <input type="checkbox"/>

\* Delete inappropriate words \*\* Mark your preference with "✓" or "✗"

Signed this ..... day ..... 2024.

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](mailto:info@hnb.lk) or deposited with the Board Secretary, at the Registered Office of the Bank at No. 479, T B Jayah Mawatha, Colombo 10 ("HNB Towers", Level 18), not less than 24 hours before the time appointed for holding the Meeting.
3. The Proxy shall -
  - (a) in the case of an individual, be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney duly registered at the office of the Registrar General should be attached to the completed Proxy if it has not already been registered with the Bank.
  - (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of the company or corporate body in accordance with the Articles of Association or the Constitution of that company or corporate body. The Bank may but shall not be bound to, require evidence of the authority of any such attorney or officer.
  - (c) in the case of joint-holders, the first joint-holder has the power to sign the proxy without the concurrence of the other joint-holder/s.
4. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

## FORM OF PROXY (NON-VOTING)

I/We .....  
..... of.....

..... being \*a shareholder/shareholders of the Hatton National Bank PLC, hereby appoint

of .....

or failing him/her, Kuttikande Vidanelage Nihal Jayawardene or failing him, Antonio Jonathan Alles or failing him Wanniarachchi Mudiyanselage Madura Duminda Ratnayake or failing him Mututantrige Parakrama Devaka Cooray or failing him Osman Chandrawansa or failing him, Prawira Rimoe Saldin or failing him Goluhewage Bindu Rasitha Poojitha Gunawardana or failing him Kahandawela Arachige Kithsiri Perera Gunawardena 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 Fifth (55th) 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 Twenty Eighth (28th) day of March, 2024 at 10.00 in the forenoon and at any adjournment thereof.

\* Delete inappropriate words

Signed this ..... day ..... 2024.

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.**

# HATTON NATIONAL BANK PLC

## FORM OF PROXY [NON-VOTING]

### *Instructions to complete proxy*

1. The full name and the registered address of the shareholder appointing the Proxy should be legibly entered in the Form of Proxy, duly signed and dated.
2. The completed Proxy should be emailed to [info@hnb.lk](mailto:info@hnb.lk) or deposited with the Board Secretary, at the Registered Office of the Bank at No. 479, T B Jayah Mawatha, Colombo 10 ("HNB Towers", Level 18), not less than 24 hours before the time appointed for holding the Meeting.
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 duly registered at the office of the Registrar General 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 -

Assistant General Manager - Strategy,  
Hatton National Bank PLC,  
No. 479, T.B. Jayah Mawatha, Colombo 10.  
Sri Lanka

Email: investor.relations@hnb.lk

Name	.....			
Permanent Mailing Address	..... ..... .....			
Contact Numbers	(Tel)	Country Code	Area Code	Number
	(Fax)	Country Code	Area Code	Number
E-mail	..... .....			
Name of Company (If Applicable)	.....			
Designation (If Applicable)	..... .....			
Company Address (If Applicable)	..... .....			

Queries/Comments

Please tick "✓" the appropriate box

- |   | Yes                      | No                       |
|---|--------------------------|--------------------------|
| Would you like to receive soft copies of the HNB annual and interim reports via e-mail? | <input type="checkbox"/> | <input type="checkbox"/> |
| Would you like to receive news and press releases of HNB via e-mail?                    | <input type="checkbox"/> | <input type="checkbox"/> |
| Would you like to receive any information on our products/services?                     | <input type="checkbox"/> | <input type="checkbox"/> |



# CORPORATE INFORMATION

General		Board of Directors and Committees
<b>Name of Company</b> Hatton National Bank PLC	<b>Credit Ratings</b> The Bank has been assigned a national long term rating of A (lka) with a stable outlook by Fitch Ratings Lanka Limited	<b>Board of Directors</b> <i>(as at 15th February 2024)</i> Mr Nihal Jayawardene PC (Chairman) Mr Jonathan Alles (Managing Director / CEO) Mr Devaka Cooray- Senior Independent Director Mr Madura Ratnayake Mr Osman Chandrawansa Mr Rimoe Saldin Mr Rasitha Gunawardana Mr Kithsiri Gunawardena Dr Prasad Samarasinghe
<b>Legal Form</b> 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.	<b>Joint Venture Companies</b> <b>Acuity Partners (Pvt) Ltd</b> (Financial Services) Voting rights - 50%	<b>Board Secretary</b> Ms Shiromi Halloluwa <i>Attorney-at-Law</i>
<b>Company Registration Number</b> PQ 82 (Previous PBS 613)	<b>Subsidiary Companies</b> <b>HNB Assurance PLC</b> (Insurance Services) Voting rights - 60%	<b>Statutory Board Sub- Committees</b> <i>(as at 31st December 2023)</i>
<b>Accounting Year End</b> 31st December 2023	<b>Sithma Development (Pvt) Ltd</b> (Property Development) Voting rights - 100%	<b>Audit Committee</b> Mr Devaka Cooray – Chairman Mr Osman Chandrawansa Mr Rasitha Gunawardana <b>Invitee</b> Mr P R Saldin - Only on need basis
<b>Stock Exchange Listing</b> The ordinary shares and senior and subordinated debentures of the Bank are listed on the Colombo Stock Exchange in Sri Lanka.	<b>HNB Finance PLC</b> (Financial Services) Voting rights - 51%	<b>Nomination Committee</b> Mr Devaka Cooray – Chairman Mr Madura Ratnayake Mr Nihal Jayawardene PC
<b>Registered Office</b> "HNB Towers" No. 479, T B Jayah Mawatha, Colombo 10, Sri Lanka.	<b>Auditors</b> <b>KPMG Sri Lanka</b> Chartered Accountants 32A, Sir Mohamed Macan Markar Mawatha, Colombo 03, Sri Lanka.	<b>HR &amp; Remuneration Committee</b> Mr Madura Ratnayake - Chairman Mr Nihal Jayawardene PC Mr Kithsiri Gunawardena Mr Rasitha Gunawardana Mr Osman Chandrawansa
<b>Head Office</b> "HNB Towers" No. 479, T. B. Jayah Mawatha, Colombo 10, Sri Lanka.	<b>Investor Information</b> Institutional Investors, Stockbrokers and Security Analysts requiring financial information should contact the Assistant General Manager - Strategy	<b>Board Integrated Risk Management Committee</b> Mr Rimoe Saldin (Chairman) Mr Jonathan Alles (Managing Director / CEO) Dr Prasad Samarasinghe Mr Madura Ratnayake Mr Kithsiri Gunawardena Mr Ruwan Manatunga – Chief Risk Officer/DGM (Risk) Mr Neil Rasiah -AGM -Compliance <b>Invitee</b> Mr Devaka Cooray - Only on need basis
Telephone Nos : +94 11 266 4664 : +94 11 476 4764 : +94 11 246 2462 Fax              : +94 11 266 2832 Facebook       : HNBPLC Instagram      : @hnbsrilanka X (Twitter)    : @hnbplc Cable Address  : HATNABANK Swift/BIC Code : HBLILK LX E-mail          : hnbconnect@hnb.lk Web             : www.hnb.net	"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	

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#### **HATTON NATIONAL BANK PLC**

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