



YOUR PARTNER IN PROGRESS

## Interim Financial Statements

For the six months ended 30th June 2021

## FINANCIAL COMMENTARY FOR THE 06 MONTHS ENDED 30TH JUNE 2021

Hatton National Bank (HNB PLC) continued to demonstrate resilience amidst volatile conditions, posting a Profit Before Tax (PBT) of Rs 10.9 Bn and a Profit After Tax (PAT) of Rs 9.1 Bn. The Group profits also improved in line, with PBT and PAT at Rs 12 Bn and Rs 9.8 Bn respectively.

The loan book recorded a growth of 8.6% over the past 12 months to June 2021. Despite same, the reduction of over 280 bps in AWPLR over the same period resulted in a 10.6% YoY drop in 1H interest income, to Rs 48.1 Bn. Strong CASA mobilization efforts led to a 27.1% YoY growth in the CASA base which improved to Rs 405.5 Bn as at end of June 2021. This growth together with the low deposit rates, contributed to a 20.4% YoY drop in interest expenses to Rs 25 Bn. Accordingly, Net Interest Income for the first half 2021 exhibited a 3.2% YoY growth to Rs 23.2 Bn.

Fee and Commission income continued its uptrend in 2021 increasing to Rs 4.4 Bn, a 27.7% YoY growth over the corresponding six months in 2020, a period in which considerable disruption to business activities were witnessed. Card and Trade businesses were key contributors towards this growth, while fees from digital banking also improved significantly driven by higher level of adoption.

Bank recorded an exchange gain of Rs 3.4 Bn during 1H 2021 relative to Rs 1.5 Bn in the first six months of 2020 due to the depreciation of the Rupee and lower swap volumes.

The Gross NPA ratio of the Bank improved during the first six months of 2021 to 4.25% in comparison to a deterioration of nearly 50 bps witnessed during 1H 2020. The Bank made an impairment charge of Rs 6.3 Bn for the 1H 2021 compared to the impairment of Rs 9.1 Bn in the corresponding period of 2020. The higher impairment charge in the previous year was largely on account of the rising NPAs and the Sovereign downgrade in April 2020. The Bank reassessed the uncertainties in the operating environment, and continued to improve the Management Overlay in the impairment provisions for this period. HNB's total impairment against the NPA base remained over 100% as at end of 1H 2021.

The Bank was successful in containing the increase in Operating Expenses to 5.2% YoY, despite the Operating Expenses for 1H 2020 being 6% below the corresponding period of 2019. This together with the healthy growth of 13.3% YoY in Total Operating Income resulted in an improvement of 289 bps in Cost to Income ratio which stood at 37.4% as at end of June 2021.

In line with the reduction in Corporate Tax Rate to 24% from 28%, the current tax liability and the deferred tax asset as at end 2020 were reassessed. Accordingly, the effective tax rate for the period improved compared to the corresponding period of 2020. PAT of Rs 9.1 Bn translated to a Return on Assets of 1.4% and a Return on Equity of 13.2%.

Strong second quarter growth facilitated a 3% expansion in the loan book during the first half to Rs 839 Bn. Total deposits increased to Rs 1.032 Trillion as at end of 1H 2021 recording a growth of 6.7%. The Bank is also among the best capitalized and most liquid in the industry as demonstrated by a Tier I Capital Adequacy Ratio of 15.31%, Total Capital Adequacy Ratio of 18.42%, a Liquid Coverage Ratio of 273.7%, and a Loan to Deposit ratio 81.2%. The CASA ratio also stood at 39.3% as at end of 1H 2021. Total assets expanded by 3.5% in the six months ended June 2021 to Rs 1.337 Trillion, while Group assets grew to Rs 1.417 Trillion.

All Group companies complemented the Bank in enabling the Group to post a PAT of Rs 9.8 Bn and a profit attributable to shareholders of Rs 9.5 Bn. Accordingly, the Group recorded a ROA and ROE of 1.4% and 12% respectively.

HNB is rated AA-(LKA) by Fitch Ratings and was recently ranked among the Top 1000 Banks in the World for the fourth successive year by the acclaimed 'The Banker Magazine' UK. HNB is also recognized as the 'Best Retail Bank in Sri Lanka' by the 'Asian Banker magazine', on eleven occasions and is ranked amongst the Top 3 Companies in Sri Lanka by Business Today.

## INCOME STATEMENT

	BANK			BANK			GROUP			GROUP		
	For the 6 months ended 30th June			For the 3 months ended 30th June			For the 6 months ended 30th June			For the 3 months ended 30th June		
	2021 Audited Rs 000	2020 Restated Rs 000	% Increase / (Decrease)	2021 Rs 000	2020 Restated Rs 000	% Increase/ (Decrease)	2021 Rs 000	2020 Restated Rs 000	% Increase / (Decrease)	2021 Rs 000	2020 Restated Rs 000	% Increase/ (Decrease)
<b>Gross Income</b>	56,680,233	59,350,506	(4)	28,266,003	28,700,783	(2)	66,574,028	68,228,339	(2)	33,288,430	32,768,323	2
Interest income	48,117,652	53,802,318	(11)	24,424,947	26,571,119	(8)	52,703,144	58,542,005	(10)	26,830,540	28,744,191	(7)
Less : Interest expenses	24,956,132	31,361,996	(20)	11,862,994	15,554,739	(24)	26,015,545	32,679,841	(20)	12,368,823	16,185,655	(24)
<b>Net interest income</b>	23,161,520	22,440,322	3	12,561,953	11,016,380	14	26,687,599	25,862,164	3	14,461,717	12,558,536	15
Fee and commission income	4,537,949	3,567,124	27	2,191,234	1,422,717	54	4,921,519	3,829,011	29	2,293,567	1,486,102	54
Less : Fee and commission expenses	122,819	108,354	13	58,857	34,761	69	158,220	173,597	(9)	78,817	56,492	40
<b>Net fee and commission income</b>	4,415,130	3,458,770	28	2,132,377	1,387,956	54	4,763,299	3,655,414	30	2,214,750	1,429,610	55
<b>Net interest, fee and commission income</b>	27,576,650	25,899,092	6	14,694,330	12,404,336	18	31,450,898	29,517,578	7	16,676,468	13,988,146	19
Net gain/(loss) from trading	(647,011)	(1,140,709)	43	(704,025)	230,592	(405)	(585,222)	(1,166,314)	50	(678,766)	246,600	(375)
Net gain from financial investments at fair value through other comprehensive income	168,989	167,684	1	-	154,660	(100)	171,029	168,455	2	1,149	154,386	(99)
Net insurance premium income	-	-	-	-	-	-	4,883,102	3,873,416	26	2,390,425	1,904,944	25
Net gains arising on derecognition of financial assets	-	-	-	-	-	-	5,874	12,206	(52)	-	12,206	(100)
Net other operating income	4,502,654	2,954,089	52	2,353,847	321,695	632	4,474,582	2,969,560	51	2,451,515	219,894	1,015
<b>Total operating income</b>	31,601,282	27,880,156	13	16,344,152	13,111,283	25	40,400,263	35,374,901	14	20,840,790	16,526,176	26
Less : Impairment for loans and other losses	6,328,833	9,088,134	(30)	3,665,858	4,424,278	(17)	6,794,294	9,280,318	(27)	3,878,857	4,625,433	(16)
<b>Net operating income</b>	25,272,449	18,792,022	34	12,678,294	8,687,005	46	33,605,969	26,094,583	29	16,961,933	11,900,743	43
<b>Less : Operating expenses</b>												
Personnel expenses	6,179,009	5,704,738	8	3,086,421	2,835,083	9	7,589,932	6,899,734	10	3,826,922	3,478,577	10
Depreciation and amortisation	1,166,328	1,086,081	7	584,961	537,538	9	1,388,318	1,349,776	3	700,161	666,421	5
Benefits, claims and underwriting expenditure	-	-	-	-	-	-	4,539,104	3,272,114	39	2,108,817	1,561,337	35
Other expenses	4,469,632	4,439,816	1	2,347,307	2,001,487	17	5,493,608	5,576,268	(1)	2,874,872	2,511,335	14
<b>Total operating expenses</b>	11,814,969	11,230,635	5	6,018,689	5,374,108	12	19,010,962	17,097,892	11	9,510,772	8,217,670	16
<b>Operating profit before taxes on financial services</b>	13,457,480	7,561,387	78	6,659,605	3,312,897	101	14,595,007	8,996,691	62	7,451,161	3,683,073	102
Less : Value Added Tax (VAT) on financial services	2,525,867	1,705,242	48	1,277,750	793,713	61	2,646,418	1,858,146	42	1,326,694	822,392	61
<b>Operating profit after taxes on financial services</b>	10,931,613	5,856,145	87	5,381,855	2,519,184	114	11,948,589	7,138,545	67	6,124,467	2,860,681	114
Share of profit of joint venture (net of income tax)	-	-	-	-	-	-	65,372	250,755	(74)	35,387	215,143	(84)
<b>PROFIT BEFORE INCOME TAX</b>	10,931,613	5,856,145	87	5,381,855	2,519,184	114	12,013,961	7,389,300	63	6,159,854	3,075,824	100
Less : Income tax expense	1,854,760	1,392,965	33	1,000,216	694,063	44	2,210,725	1,912,145	16	1,162,649	875,365	33
<b>PROFIT FOR THE PERIOD</b>	9,076,853	4,463,180	103	4,381,639	1,825,121	140	9,803,236	5,477,155	79	4,997,205	2,200,459	127
<b>Profit attributable to:</b>												
Equity holders of the Bank	9,076,853	4,463,180	103	4,381,639	1,825,121	140	9,476,136	5,169,172	83	4,748,183	2,121,427	124
Non-controlling interests	-	-	-	-	-	-	327,100	307,983	6	249,022	79,032	215
<b>PROFIT FOR THE PERIOD</b>	9,076,853	4,463,180	103	4,381,639	1,825,121	140	9,803,236	5,477,155	79	4,997,205	2,200,459	127
<b>Earnings per share</b>												
Basic earnings per ordinary share (Rs)	17.26	8.49	103	8.33	3.47	140	18.02	9.83	83	9.03	4.03	124
Diluted earnings per ordinary share (Rs)	17.26	8.49	103	8.33	3.47	140	18.02	9.83	83	9.03	4.03	124

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	BANK			BANK			GROUP			GROUP		
	For the 6 months ended 30th June			For the 3 months ended 30th June			For the 6 months ended 30th June			For the 3 months ended 30th June		
	2021 Audited Rs 000	2020 Restated Rs 000	% Increase/ (Decrease)	2021 Rs 000	2020 Restated Rs 000	% Increase/ (Decrease)	2021 Rs 000	2020 Restated Rs 000	% Increase/ (Decrease)	2021 Rs 000	2020 Restated Rs 000	% Increase/ (Decrease)
<b>PROFIT FOR THE PERIOD</b>	9,076,853	4,463,180	103	4,381,639	1,825,121	140	9,803,236	5,477,155	79	4,997,205	2,200,459	127
<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	(198,081)	(1,386,539)	(86)	(42,883)	(815,103)	(95)	(198,081)	(1,386,539)	(86)	(42,883)	(815,103)	(95)
Re-measurement of post-employment benefit obligations	-	-	-	-	-	-	25,720	(7,507)	443	-	-	-
Share of other comprehensive income of joint venture that will not be reclassified to profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Less: Tax expense relating to items that will not be reclassified to profit or loss	578,862	-	-	-	-	-	1,247,233	2,102	59,240	2,065	-	-
<b>Total other comprehensive income that will not be reclassified to profit or loss</b>	380,781	(1,386,539)	127	(42,883)	(815,103)	(95)	1,074,872	(1,391,944)	177	(40,817)	(815,103)	(95)
<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	(318,598)	3,181,199	(110)	22,366	3,071,921	(99)	(545,362)	4,031,005	(114)	(24,870)	3,534,890	(101)
Reclassification of net gains on de-recognition of debt instruments at fair value through other comprehensive income to statement of profit or loss	-	-	-	-	-	-	(5,874)	(12,206)	(52)	-	(12,206)	(100)
Net change in expected credit losses of debt securities measured at fair value through other comprehensive income	11,000	(583,023)	102	5,128	(583,023)	(101)	11,000	(583,023)	102	5,129	(906,981)	101
Transfer from life policy holder reserve fund	-	-	-	-	-	-	204,885	(742,451)	128	39,270	(685,974)	106
Share of other comprehensive income of joint venture that will be reclassified to profit or loss	-	-	-	-	-	-	77,656	37,418	108	15,829	887	1,686
Less: Tax expense relating to items that will be reclassified to profit or loss	117,621	(890,736)	113	(5,368)	(769,430)	(99)	127,007	(899,388)	114	(4,740)	(777,406)	(99)
<b>Total other comprehensive income that will be reclassified to profit or loss</b>	(189,977)	1,707,440	(111)	22,127	1,719,468	(99)	(130,688)	1,831,355	(107)	30,618	1,153,210	(97)
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	190,804	320,901	(41)	(20,756)	904,365	(102)	944,184	439,411	115	(10,200)	338,107	(103)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	9,267,657	4,784,081	94	4,360,883	2,729,486	60	10,747,420	5,916,566	82	4,987,005	2,538,566	96
<b>Total comprehensive income attributable to:</b>												
Equity holders of the Bank	9,267,657	4,784,081	94	4,360,883	2,729,486	60	10,411,141	5,577,110	87	4,735,698	2,427,225	95
Non-controlling interests	-	-	-	-	-	-	336,279	339,456	(1)	251,307	111,341	126
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	9,267,657	4,784,081	94	4,360,883	2,729,486	60	10,747,420	5,916,566	82	4,987,005	2,538,566	96

## STATEMENT OF FINANCIAL POSITION

	BANK			GROUP		
	As at 30.06.2021 Audited Rs 000	As at 31.12.2020 Audited Rs 000	% Increase / (Decrease)	As at 30.06.2021 Rs 000	As at 31.12.2020 Audited Rs 000	% Increase / (Decrease)
<b>ASSETS</b>						
Cash and cash equivalents	61,586,443	34,123,562	80	61,980,676	34,898,957	78
Placements with banks	3,800,367	-	-	11,263,462	12,126,434	(7)
Balances with Central Bank of Sri Lanka	9,202,312	7,212,395	28	9,202,312	7,212,395	28
Reverse repurchase agreements	2,500,340	-	-	6,178,731	2,827,050	119
Derivative financial instruments	849,952	1,032,318	(18)	849,952	1,032,318	(18)
Financial assets measured at fair value through profit or loss	81,413	84,499	(4)	1,129,424	1,094,827	3
Financial assets measured at amortised cost - loans and advances to customers	790,228,877	772,580,720	2	819,284,433	800,815,971	2
Financial assets measured at amortised cost - debt and other instruments	176,086,548	186,605,516	(6)	186,479,753	193,349,496	(4)
Financial assets measured at fair value through other comprehensive income	249,695,431	249,271,658	-	256,468,487	256,394,644	-
Investment in joint venture	755,000	755,000	-	2,664,838	2,521,811	6
Investments in subsidiaries	3,017,285	3,017,285	-	-	-	-
Investment properties	472,441	475,109	(1)	1,013,136	1,028,956	(2)
Property, plant and equipment	20,298,316	20,705,056	(2)	41,375,125	41,827,384	(1)
Right-of-use assets	5,030,557	5,356,868	(6)	1,620,825	1,827,832	(11)
Intangible assets and goodwill	1,410,869	1,309,172	8	1,933,294	1,749,994	10
Deferred tax assets	1,890,053	806,539	134	2,654,580	1,728,958	54
Other assets	9,925,067	8,515,839	17	12,602,368	11,045,479	14
<b>Total assets</b>	<b>1,336,831,271</b>	<b>1,291,851,536</b>	<b>3</b>	<b>1,416,701,396</b>	<b>1,371,482,506</b>	<b>3</b>
<b>LIABILITIES</b>						
Due to banks	70,461,371	89,746,709	(21)	70,563,794	89,746,709	(21)
Derivative financial instruments	608,644	337,014	81	608,644	337,014	81
Securities sold under repurchase agreements	14,638,986	10,361,383	41	14,638,986	10,361,383	41
Financial liabilities measured at amortised cost - due to depositors	1,032,194,376	967,821,404	7	1,056,454,586	994,948,912	6
Dividends payable	999,997	962,185	4	1,016,484	980,507	4
Financial liabilities measured at amortised cost - other borrowings	24,358,887	30,526,261	(20)	24,358,887	30,526,261	(20)
Debt securities issued	1,997,306	1,875,042	7	2,534,798	2,411,408	5
Current tax liabilities	8,017,152	7,725,731	4	8,420,610	8,093,584	4
Deferred tax liabilities	-	-	-	4,703,313	5,371,390	(12)
Insurance Provision - life	-	-	-	19,092,200	17,073,033	12
Insurance Provision - non-life	-	-	-	3,321,045	3,309,150	-
Other provisions	3,470,627	3,917,784	(11)	3,687,915	4,266,262	(14)
Other liabilities	17,923,329	16,278,033	10	17,360,941	15,451,997	12
Subordinated term debts	21,195,205	28,298,365	(25)	22,209,096	28,945,457	(23)
<b>Total liabilities</b>	<b>1,195,865,880</b>	<b>1,157,849,911</b>	<b>3</b>	<b>1,248,971,313</b>	<b>1,211,823,067</b>	<b>3</b>

STATEMENT OF FINANCIAL POSITION						
	BANK			GROUP		
	As at 30.06.2021 Audited Rs 000	As at 31.12.2020 Audited Rs 000	% Increase / (Decrease)	As at 30.06.2021 Audited Rs 000	As at 31.12.2020 Audited Rs 000	% Increase / (Decrease)
<b>EQUITY</b>						
Stated capital	37,364,244	35,572,329	5	37,364,244	35,572,329	5
Statutory reserve fund	7,660,000	7,660,000	-	7,660,000	7,660,000	-
Retained earnings	27,657,274	22,665,227	22	34,764,576	29,361,200	18
Other reserves	68,283,873	68,104,069	-	82,363,020	81,655,946	1
<b>Total shareholder's equity</b>	<b>140,965,391</b>	<b>134,001,625</b>	<b>5</b>	<b>162,151,840</b>	<b>154,249,475</b>	<b>5</b>
<b>Non-controlling interests</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,578,243</b>	<b>5,409,964</b>	<b>3</b>
<b>Total equity</b>	<b>140,965,391</b>	<b>134,001,625</b>	<b>5</b>	<b>167,730,083</b>	<b>159,659,439</b>	<b>5</b>
<b>Total equity and liabilities</b>	<b>1,336,831,271</b>	<b>1,291,851,536</b>	<b>3</b>	<b>1,416,701,396</b>	<b>1,371,482,506</b>	<b>3</b>
<b>Contingent liabilities and commitments</b>	<b>670,741,247</b>	<b>631,948,229</b>	<b>6</b>	<b>670,741,247</b>	<b>631,948,229</b>	<b>6</b>
<b>Net Assets Value per Share (Rs.)</b>	<b>268.04</b>	<b>254.80</b>	<b>5</b>	<b>308.33</b>	<b>293.30</b>	<b>5</b>
<b>Memorandum Information</b>						
Number of Employees	5,007	4,836				
Number of Customer Centers	253	252				

## CERTIFICATION

I certify that the above financial statements are in compliance with the requirements of the Companies Act No. 7 of 2007 and give a true and fair view of the state of affairs of Hatton National Bank PLC and the Group as at 30th June 2021 and its profit for the six months ended 30th June 2021.

(Sgd.)

**Rajive Dissanayake**  
Chief Financial Officer  
13th August 2021

We the undersigned, being the Managing Director / Chief Executive Officer and the Director of Hatton National Bank PLC certify jointly that :

- the above statements have been prepared in compliance with the formats and definitions prescribed by the Central Bank of Sri Lanka;
- the information contained in these statements have been extracted from the unaudited financial statements of the Bank, its Joint Venture and Subsidiary Companies unless indicated as audited.

(Sgd.)

**Jonathan Alles**  
Managing Director / Chief Executive Officer  
13th August 2021

(Sgd.)

**Devaka Cooray**  
Director  
13th August 2021

## STATEMENT OF CHANGES IN EQUITY - BANK

	Stated Capital		Statutory Reserve Fund	Other Reserves			Retained Earnings	Total
	Voting Shares	Non-Voting Shares		Capital Reserve	Fair value Reserve	General Reserve		
	Rs000	Rs000	Rs000	Rs000	Rs000	Rs000	Rs000	Rs000
<b>For the 6 months ended 30th June 2021</b>								
<b>Balance as at 1st January 2021</b>	29,244,472	6,327,857	7,660,000	10,782,706	1,221,363	56,100,000	22,665,227	134,001,625
<b>Total comprehensive income for the period</b>								
Net profit for the period	-	-	-	-	-	-	9,076,853	9,076,853
Other Comprehensive Income for the period, net of tax	-	-	-	578,862	(399,058)	-	11,000	190,804
<b>Total comprehensive income for the period</b>	-	-	-	578,862	(399,058)	-	9,087,853	9,267,657
<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 2020 - Scrip	1,436,119	355,796	-	-	-	-	(1,791,915)	-
Final dividend 2020 - Cash	-	-	-	-	-	-	(2,303,891)	(2,303,891)
<b>Total contributions by and distributions to equity holders</b>	1,436,119	355,796	-	-	-	-	(4,095,806)	(2,303,891)
Transfers during the period	-	-	-	-	-	-	-	-
<b>Balance as at 30th June 2021</b>	30,680,591	6,683,653	7,660,000	11,361,568	822,305	56,100,000	27,657,274	140,965,391
<b>For the 6 months ended 30th June 2020</b>								
<b>Balance as at 1st January 2020</b>	27,839,768	5,981,137	7,060,000	10,790,994	2,752,097	55,100,000	17,980,160	127,504,156
<b>Total comprehensive income for the period</b>								
Net profit for the period	-	-	-	-	-	-	4,463,180	4,463,180
Other Comprehensive Income for the period, net of tax	-	-	-	-	903,924	-	(583,023)	320,901
<b>Total comprehensive income for the period</b>	-	-	-	-	903,924	-	3,880,157	4,784,081
<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 2019 - Scrip	1,404,704	346,720	-	-	-	-	(1,751,423)	-
Final dividend 2019 - Cash	-	-	-	-	-	-	(1,751,423)	(1,751,423)
<b>Total contributions by and distributions to equity holders</b>	1,404,704	346,720	-	-	-	-	(3,502,846)	(1,751,423)
Transfers during the period	-	-	-	-	-	-	-	-
<b>Balance as at 30th June 2020</b>	29,244,472	6,327,857	7,060,000	10,790,994	3,656,021	55,100,000	18,357,471	130,536,814

## STATEMENT OF CHANGES IN EQUITY - GROUP

	Stated Capital			Other Reserves									
	Voting Shares	Non-Voting Shares	Statutory Reserve Fund	Capital Reserve	Fair value Reserve	General Reserve	Life policy holder Reserve fund	Restricted Regulatory Reserve	Exchange Equalization Reserve	Retained Earnings	Shareholders' Funds	Non Controlling Interests	Total Equity
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs. 000	Rs 000	Rs 000
For the 6 months ended 30th June 2021													
Balance as at 1st January 2021	29,244,472	6,327,857	7,660,000	23,054,710	1,270,055	56,100,000	748,391	381,156	101,634	29,361,200	154,249,475	5,409,964	159,659,439
Total comprehensive income for the period													
Net profit for the period	-	-	-	-	-	-	-	-	-	9,476,136	9,476,136	327,100	9,803,236
Other Comprehensive Income for the period (net of tax)	-	-	-	1,244,382	(332,423)	-	-	-	-	23,046	935,005	9,179	944,184
Total comprehensive income for the period	-	-	-	1,244,382	(332,423)	-	-	-	-	9,499,182	10,411,141	336,279	10,747,420
Transactions with equity holders, recognised directly in equity													
Contributions by and distributions to equity holders													
Dividends to equity holders													
Final dividend 2020 - Scrip	1,436,119	355,796	-	-	-	-	-	-	-	(1,791,915)	-	-	-
Final dividend 2020 - Cash	-	-	-	-	-	-	-	-	-	(2,303,891)	(2,303,891)	(168,000)	(2,471,891)
Total contributions by and distributions to equity holders	1,436,119	355,796	-	-	-	-	-	-	-	(4,095,806)	(2,303,891)	(168,000)	(2,471,891)
Transfer from life policy holder reserve fund	-	-	-	-	-	-	(204,885)	-	-	-	(204,885)	-	(204,885)
Balance as at 30th June 2021	30,680,591	6,683,653	7,660,000	24,299,092	937,632	56,100,000	543,506	381,156	101,634	34,764,576	162,151,840	5,578,243	167,730,083
For the 6 months ended 30th June 2020													
Balance as at 1st January 2020	27,839,768	5,981,137	7,060,000	23,062,998	2,759,863	55,100,000	172,297	381,156	78,378	23,072,623	145,508,220	4,962,318	150,470,538
Total comprehensive income for the period													
Net profit for the period	-	-	-	-	-	-	-	-	-	5,169,172	5,169,172	307,983	5,477,155
Other comprehensive income for the period (net of tax)	-	-	-	-	972,491	-	-	-	20,749	(585,302)	407,938	31,473	439,411
Total comprehensive income for the period	-	-	-	-	972,491	-	-	-	20,749	4,583,870	5,577,110	339,456	5,916,566
Transactions with equity holders, recognised directly in equity													
Contributions by and distributions to equity holders													
Final dividend 2019 -Scrip	1,404,704	346,720	-	-	-	-	-	-	-	(1,751,424)	-	-	-
Final dividend 2019 -Cash	-	-	-	-	-	-	-	-	-	(1,751,424)	(1,751,424)	(120,000)	(1,871,424)
Total contributions by and distributions to equity holders	1,404,704	346,720	-	-	-	-	-	-	-	(3,502,848)	(1,751,424)	(120,000)	(1,871,424)
Transfer to life policy holder reserve fund	-	-	-	-	-	-	742,451	-	-	-	742,451	-	742,451
Balance as at 30th June 2020	29,244,472	6,327,857	7,060,000	23,062,998	3,732,354	55,100,000	914,748	381,156	99,127	24,153,645	150,076,357	5,181,774	155,258,131



## STATEMENT OF CASH FLOWS

	BANK		GROUP	
For the 6 months ended 30th June	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
<b>Cash flows from operating activities</b>				
Interest receipts	45,914,513	57,691,820	50,483,818	62,269,609
Interest payments	(26,606,415)	(32,698,419)	(28,294,376)	(34,393,634)
Net commission receipts	4,620,934	3,355,627	4,943,554	3,659,623
Trading income	(633,869)	(392,851)	(618,526)	(378,975)
Payments to employees	(6,142,003)	(6,300,007)	(7,649,299)	(7,754,475)
Taxes on financial services	(2,602,933)	(1,925,470)	(3,065,475)	(1,981,841)
Receipts from other operating activities	2,832,849	2,422,437	8,271,393	6,549,281
Payments on other operating activities	(5,826,991)	(4,079,258)	(8,701,301)	(7,180,424)
<b>Operating profit before change in operating assets and liabilities</b>	<b>11,556,085</b>	<b>18,073,879</b>	<b>15,369,788</b>	<b>20,789,164</b>
<b>(Increase)/decrease in operating assets</b>				
Balances with Central Bank of Sri Lanka	(1,989,917)	16,180,575	(1,989,917)	16,180,575
Financial assets measured at amortised cost - loans and advances to customers	(23,200,871)	3,191,417	(24,469,632)	3,963,745
Reverse repurchase agreements	(2,500,340)	(35,895,128)	(3,351,681)	(35,287,707)
Other assets	(39,599)	210,369	(420,513)	689,834
	(27,730,727)	(16,312,767)	(30,231,743)	(14,453,553)
<b>Increase / (decrease) in operating liabilities</b>				
Financial liabilities measured at amortised cost - due to depositors	66,228,497	56,831,796	63,712,079	55,869,349
Financial liabilities measured at amortised cost - other borrowings	(25,260,198)	(2,102,085)	(25,137,052)	(2,199,024)
Securities sold under repurchase agreements	4,332,226	(12,035,863)	4,332,226	(12,035,863)
Other liabilities	1,425,852	1,027,903	1,370,809	1,078,154
	46,726,378	43,721,751	44,278,061	42,712,616
<b>Net cash generated from operating activities before income tax</b>	<b>30,551,736</b>	<b>45,482,864</b>	<b>29,416,106</b>	<b>49,048,227</b>
Income tax paid	(1,588,314)	(1,641,602)	(1,743,860)	(1,763,383)
<b>Net cash generated from operating activities</b>	<b>28,963,422</b>	<b>43,841,262</b>	<b>27,672,246</b>	<b>47,284,844</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant & equipment	(249,411)	(249,307)	(329,709)	(340,685)
Proceeds from the sale of property, plant & equipment	8,617	4,683	9,340	5,111
Net proceeds from the purchase, sale and maturity of financial investments	12,116,250	(47,116,625)	8,610,466	(47,459,524)
Net purchase of intangible assets	(286,110)	(2,338)	(292,564)	(14,072)
Dividends received from investment in subsidiaries	251,941	-	-	-
Dividends received from other investments	32,117	11,334	34,881	11,334
<b>Net cash generated from / (used in) from investing activities</b>	<b>11,873,404</b>	<b>(47,352,253)</b>	<b>8,032,414</b>	<b>(47,797,836)</b>
<b>Cash flows from financing activities</b>				
Repayment of subordinated debt	(7,307,500)	-	(7,050,000)	-
Dividend paid to non controlling interest	-	-	(169,835)	-
Dividend paid to shareholders of the parent company	(2,266,079)	(2,183,683)	(2,266,079)	(2,183,683)
<b>Net cash used in financing activities</b>	<b>(9,573,579)</b>	<b>(2,183,683)</b>	<b>(9,485,914)</b>	<b>(2,183,683)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>31,263,248</b>	<b>(5,694,675)</b>	<b>26,218,746</b>	<b>(2,696,677)</b>
Cash and cash equivalents at the beginning of the period	34,123,562	36,691,732	47,025,392	45,753,921
<b>Cash and cash equivalents at the end of the period</b>	<b>65,386,810</b>	<b>30,997,057</b>	<b>73,244,138</b>	<b>43,057,245</b>
<b>Cash and cash equivalents at the end of the period</b>				
Cash and cash equivalents	61,586,443	29,737,017	61,980,676	30,711,843
Placements with banks	3,800,367	1,260,041	11,263,462	12,345,402
	<b>65,386,810</b>	<b>30,997,058</b>	<b>73,244,138</b>	<b>43,057,245</b>

## ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS - BANK

As at 30th June 2021	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
<b>ASSETS</b>				
Cash and cash equivalents	-	61,586,443	-	61,586,443
Placements with banks	-	3,800,367	-	3,800,367
Balances with Central Bank of Sri Lanka	-	9,202,312	-	9,202,312
Reverse repurchase agreements	-	2,500,340	-	2,500,340
Derivative financial instruments	849,952	-	-	849,952
Financial assets measured at fair value through profit or loss	81,413	-	-	81,413
Financial assets measured at amortised cost	-	790,228,877	-	790,228,877
- loans and advances to customers	-	-	-	-
Financial assets measured at amortised cost	-	176,086,548	-	176,086,548
- debt and other instruments	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	249,695,431	249,695,431
Other financial assets	-	4,141,977	-	4,141,977
<b>Total financial assets</b>	<b>931,365</b>	<b>1,047,546,864</b>	<b>249,695,431</b>	<b>1,298,173,660</b>
<b>LIABILITIES</b>				
Due to banks	-	70,461,371	-	70,461,371
Derivative financial instruments	608,644	-	-	608,644
Securities sold under repurchase agreements	-	14,638,986	-	14,638,986
Financial liabilities measured at amortised cost - due to depositors	-	1,032,194,376	-	1,032,194,376
Dividends payable	-	999,997	-	999,997
Financial liabilities measured at amortised cost - other borrowings	-	24,358,887	-	24,358,887
Debt securities issued	-	1,997,306	-	1,997,306
Other financial liabilities	-	2,400,447	-	2,400,447
Subordinated term debts	-	21,195,205	-	21,195,205
<b>Total financial liabilities</b>	<b>608,644</b>	<b>1,168,246,575</b>	<b>-</b>	<b>1,168,855,219</b>
<b>As at 31st December 2020</b>				
	Rs 000	Rs 000	Rs 000	Rs 000
<b>ASSETS</b>				
Cash and cash equivalents	-	34,123,562	-	34,123,562
Placements with banks	-	-	-	-
Balances with Central Bank of Sri Lanka	-	7,212,395	-	7,212,395
Derivative financial instruments	1,032,318	-	-	1,032,318
Financial assets measured at fair value through profit or loss	84,499	-	-	84,499
Financial assets measured at amortised cost - loans and advances to customers	-	772,580,722	-	772,580,722
Financial assets measured at amortised cost - debt and other instruments	-	186,605,518	-	186,605,518
Financial assets measured at fair value through other comprehensive income	-	-	249,271,658	249,271,658
Other financial assets	-	413,501	-	413,501
<b>Total financial assets</b>	<b>1,116,817</b>	<b>1,000,935,698</b>	<b>249,271,658</b>	<b>1,251,324,173</b>
<b>LIABILITIES</b>				
Due to banks	-	89,746,709	-	89,746,709
Derivative financial instruments	337,014	-	-	337,014
Securities sold under repurchase agreements	-	10,361,383	-	10,361,383
Financial liabilities measured at amortised cost - due to depositors	-	967,821,404	-	967,821,404
Dividends payable	-	962,185	-	962,185
Financial liabilities measured at amortised cost - other borrowings	-	30,526,261	-	30,526,261
Debt securities issued	-	1,875,042	-	1,875,042
Other financial liabilities	-	2,377,854	-	2,377,854
Subordinated term debts	-	28,298,365	-	28,298,365
<b>Total financial liabilities</b>	<b>337,014</b>	<b>1,131,969,203</b>	<b>-</b>	<b>1,132,306,217</b>

## ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS - GROUP

As at 30th June 2021	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
<b>ASSETS</b>				
Cash and cash equivalents	-	61,980,676	-	61,980,676
Placements with banks	-	11,263,462	-	11,263,462
Balances with Central Bank of Sri Lanka	-	9,202,312	-	9,202,312
Reverse repurchase agreements	-	6,178,731	-	6,178,731
Derivative financial instruments	849,952	-	-	849,952
Financial assets measured at fair value through profit or loss	1,129,424	-	-	1,129,424
Financial assets measured at amortised cost - loans and advances to customers	-	819,284,433	-	819,284,433
Financial assets measured at amortised cost - debt and other instruments	-	186,479,753	-	186,479,753
Financial assets measured at fair value through other comprehensive income	-	-	256,468,487	256,468,487
Other financial assets	-	5,654,873	-	5,654,873
<b>Total financial assets</b>	<b>1,979,376</b>	<b>1,100,044,240</b>	<b>256,468,487</b>	<b>1,358,492,103</b>
<b>LIABILITIES</b>				
Due to banks	-	70,563,794	-	70,563,794
Derivative financial instruments	608,644	-	-	608,644
Securities sold under repurchase agreements	-	14,638,986	-	14,638,986
Financial liabilities measured at amortised cost - due to depositors	-	1,056,454,586	-	1,056,454,586
Dividends payable	-	1,016,484	-	1,016,484
Financial liabilities measured at amortised cost - other borrowings	-	24,358,887	-	24,358,887
Debt securities issued	-	2,534,798	-	2,534,798
Other financial liabilities	-	4,558,386	-	4,558,386
Subordinated term debts	-	22,209,096	-	22,209,096
<b>Total financial liabilities</b>	<b>608,644</b>	<b>1,196,335,017</b>	<b>-</b>	<b>1,196,943,661</b>
<b>As at 31st December 2020</b>				
	Rs 000	Rs 000	Rs 000	Rs 000
<b>ASSETS</b>				
Cash and cash equivalents	-	34,898,957	-	34,898,957
Placements with banks	-	12,126,434	-	12,126,434
Balances with Central Bank of Sri Lanka	-	7,212,395	-	7,212,395
Reverse repurchase agreements	-	2,827,050	-	2,827,050
Derivative financial instruments	1,032,318	-	-	1,032,318
Financial assets recognised through profit or loss	1,094,827	-	-	1,094,827
Financial assets at amortised cost - loans and advances	-	800,815,971	-	800,815,971
Financial assets at amortised cost - debt and other instruments	-	193,349,496	-	193,349,496
Financial assets measured at fair value through other comprehensive income	-	-	256,394,644	256,394,644
Other financial assets	-	3,851,392	-	3,851,392
<b>Total financial assets</b>	<b>2,127,145</b>	<b>1,055,081,695</b>	<b>256,394,644</b>	<b>1,313,603,484</b>
<b>LIABILITIES</b>				
Due to banks	-	89,746,709	-	89,746,709
Derivative financial instruments	337,014	-	-	337,014
Securities sold under repurchase agreements	-	10,361,383	-	10,361,383
Financial liabilities at amortised cost - due to depositors	-	994,948,912	-	994,948,912
Dividends payable	-	980,507	-	980,507
Financial liabilities at amortised cost - other borrowings	-	30,526,261	-	30,526,261
Debt securities issued	-	2,411,408	-	2,411,408
Other financial liabilities	-	4,652,548	-	4,652,548
Subordinated term debts	-	28,945,457	-	28,945,457
<b>Total financial liabilities</b>	<b>337,014</b>	<b>1,162,573,185</b>	<b>-</b>	<b>1,162,910,199</b>

## SEGMENT REPORTING

As at 30th June	Corporate		Retail		SME		Micro		Treasury		Real Estate		Insurance		NBT*		Eliminations / Unallocated		Consolidated	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Net interest income	2,837,788	5,479,672	6,681,978	6,702,190	3,841,767	5,664,446	420,211	624,415	8,170,368	6,068,200	(10,341)	(13,934)	1,205,269	1,205,294	2,019,444	1,912,008	1,521,115	(1,780,127)	26,687,599	25,862,165
Foreign exchange income	138,996	79,502	80,211	49,504	133,282	121,362	827	1,344	2,874,000	1,294,603	-	-	-	-	-	-	-	-	3,227,316	1,546,315
Net fee and commission income	1,500,275	881,818	2,007,715	821,536	1,057,714	929,758	65,534	49,549	65	162	-	-	124,594	97,213	223,575	99,431	(216,173)	775,948	476,329	3,655,415
Other operating income	-	-	-	-	-	929,758	65,534	49,549	5,158	27,866	500,710	500,714	5,059,096	3,880,156	122,650	78,048	34,435	(175,597)	572,049	4,311,007
Total operating income	4,477,059	6,440,992	8,769,904	7,573,230	5,032,763	6,715,566	486,572	675,308	11,049,591	7,390,651	490,369	486,780	6,388,959	5,182,663	2,365,669	2,089,487	1,339,377	(1,179,776)	40,400,263	35,374,902
Impairment charge for loans and other losses	2,707,429	5,073,142	1,394,039	1,949,549	1,993,777	1,478,609	457,596	316,300	(224,007)	270,535	-	-	2,294	79,913	463,166	112,270	-	-	67,942,94	92,803,318
Net operating income	1,769,630	1,367,850	7,375,865	5,623,681	3,038,986	5,236,957	28,976	359,008	11,273,598	7,120,116	490,369	486,780	6,386,665	5,102,750	1,902,503	1,977,217	1,339,377	(1,179,776)	33,605,969	26,094,583
Profit from operations																			11,948,589	7,138,545
Share of profit of joint venture																			65,372	250,755
Income tax expenses																			(221,072)	(1,912,146)
Non-controlling interests																			(327,100)	(307,983)
Net Profit for the year attributable to equity holders of the parent																				
Segment assets	390,794,326	372,877,110	212,105,801	184,622,295	216,141,501	196,927,152	27,576,046	26,442,123	464,346,965	359,819,982	10,701,975	10,380,703	33,769,200	29,531,812	34,582,862	38,767,695	24,017,882	21,965,470	1,414,036,558	1,241,334,342
Investment in joint venture																			2,664,838	2,425,838
Total assets	390,794,326	372,877,110	212,105,801	184,622,295	216,141,501	196,927,152	27,576,046	26,442,123	464,346,965	359,819,982	10,701,975	10,380,703	33,769,200	29,531,812	34,582,862	38,767,695	26,682,720	24,391,308	1,416,701,396	1,243,760,180
Segment liabilities	171,234,824	122,500,907	661,688,040	566,696,639	184,372,690	156,943,113	9,233,351	6,756,433	71,128,663	88,589,636	10,701,975	10,380,703	33,769,200	29,531,812	34,582,862	38,767,695	23,989,791	22,359,242	1,416,701,396	1,243,760,180
Total liabilities	171,234,824	122,500,907	661,688,040	566,696,639	184,372,690	156,943,113	9,233,351	6,756,433	71,128,663	88,589,636	10,701,975	10,380,703	33,769,200	29,531,812	34,582,862	38,767,695	23,989,791	22,359,242	1,416,701,396	1,243,760,180
<b>Information on cash flows</b>																				
Cash flows from operating activities	2,979,037	25,778,877	49,476,640	38,374,505	6,628,936	16,263,172	637,792	88,898	(10,614,143)	1,094,702	330,239	256,709	1,168,667	756,760	(3,199,896)	2,047,580	(19,735,026)	(37,376,359)	27,672,246	47,284,844
Cash flows from investing activities	-	1,200,000	-	-	-	-	-	-	9,802,457	(41,454,772)	-	-	(719,479)	(349,728)	(163,375)	423,492	(890,189)	(7,616,828)	8,032,414	(47,797,836)
Cash flows from financing activities	-	-	-	-	-	-	-	-	-	-	-	(193,560)	(480,208)	(71,635)	(61,324)	(195,959)	(8,944,382)	(1,722,529)	(9,485,914)	(2,183,683)
<b>Net cash flow generated during the period</b>	2,979,037	26,978,877	49,476,640	38,374,505	6,628,936	16,263,172	637,792	88,898	(808,686)	(40,360,070)	330,239	63,149	(31,020)	335,397	(3,424,595)	2,275,113	(29,569,598)	(46,715,716)	26,218,746	(2,696,675)
Capital expenditure																				
- Property, plant and equipment	-	-	-	-	-	-	-	-	-	-	-	-	(56,353)	(30,622)	(23,949)	(66,984)	(249,407)	(243,079)	(329,709)	(340,685)
- Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	(6,453)	(11,734)	-	7,064	(286,111)	(9,402)	(292,564)	(14,072)
<b>Total Capital Expenditure</b>	-	-	-	-	-	-	-	-	-	-	-	-	(62,806)	(42,356)	(23,949)	(59,920)	(535,518)	(252,481)	(622,273)	(354,757)

\* Business of HNB Finance PLC

## EXPLANATORY NOTES

- There are no changes in accounting policies and methods of computation since the publication of annual accounts for the year 2020.
- There are no material changes during the period in the composition of assets, liabilities and contingent liabilities and use of funds raised through debentures. All known expenditure items have been provided for.

### 3. Impact of COVID – 19

The Covid 19 outbreak in March 2020 followed by the second and the third waves continues to pose challenges to businesses and industries both locally and globally due to uncertainties, restrictions and limitations associated with the pandemic. This in turn continues to impact the operations of the Bank/Group. Required adjustments have been made for the potential implications in these financial statements based on the available information and application of judgment as at Reporting date. The Board will continue to monitor the implications and make adjustments, if required.

### ECL Assessment and computation

The Bank reassessed the Probabilities of Default (PD) as at June 2021 and in respect of the exposures to the industries where the moratoriums have been extended till 31st August 2021 or 30th September 2021, the stage assessments have been made through stress testing to address potential significant increase in credit risk (SICR) based on the conditions which prevailed prior to granting of the moratorium unless specific information were available indicating subsequent increase in credit risk. Bank continued to apply the basis adopted in December 2020 in relation to assessment of SICR using qualitative, quantitative and industry specific factors and the measurement of overlay based on stress testing of exposures in the risk elevated sectors. The actual losses may differ from the assessment due to the uncertainty. Bank has made adequate provisions for expected credit losses in the financial statements as at 30th June 2021 to ensure that the potential impact to its loan portfolio is adequately covered.

- These interim financial statements are presented in accordance with Sri Lanka Accounting Standard (LKAS 34) "Interim Financial Reporting" and provide the information as required in terms of Rule 7.4 of the Colombo Stock Exchange.
- Where required, figures on the audited annual financial statements have been reclassified to conform to Central Bank of Sri Lanka publication requirements.
- The consolidated financial statements of the Bank cover the Bank and its subsidiaries HNB Assurance PLC, Sithma Development (Pvt) Ltd, HNB Finance PLC & the Group's interest in Joint Venture Acuity Partners (Pvt) Ltd.
- Acting Chairman Dr. Harsha Cabral PC, resigned from his post w.e.f. 5th July 2021 and Mr. A H D A N De Silva was appointed as Chairman of the Bank w.e.f. 5th July 2021.

### 8. Corporate income tax rate

The Inland Revenue (Amendment) Act was passed in Parliament on 4th May 2021 and certified by the Hon. Speaker on 13th May 2021. Accordingly, the income tax rate of 28% was reduced to 24%. Both income tax and deferred tax provisions for the year ended 31st December 2020 were calculated at the rate of 28% on the basis that the said amendment was not considered to be "substantially enacted" as per LKAS 12 as at 31st December 2020.

Accordingly, the Bank/ Group has applied 24% for the computation of current and deferred tax for the period ended 30th June 2021. Further the current tax liability for 2020 and the net deferred tax asset outstanding as at 31st December 2020 were also reassessed at 24%.

### 9. Debenture issue 2021/2031

The Bank issued 50,000,000 Basel III Compliant - Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable 10 year debentures (2021/2031) on 15th July 2021 with a Non-Viability Conversion, with an option to issue up to a further Twenty Million (20,000,000) of said Debentures at the discretion of the Bank in the event of an over subscription of the initial issue. The debentures issue was fully subscribed and the allotment took place on 28th July 2021.

Objective number	Objective as Per Prospectus	Amount allocated as Per prospectus in LKR	Proposed date of Utilization as Per prospectus	Amount allocated from proceeds in LKR (A)	% of total proceeds	Amounts utilized in LKR (B)	% of utilization against allocation (B/A)	Clarification if not fully utilized including where the funds are invested (eg: whether lent to related party)
1	Refinancing the debentures maturing in 2021	LKR 4 Bn	LKR 2 Bn – 04th Sept 2021 LKR 2 Bn – 01st Nov. 2021	LKR 4 Bn	57.1%	-	-	Debentures were allotted on 28th July 2021 and the funds to be utilized in line with the timelines specified
2	Strengthen the balance sheet to support the demand for credit	LKR 3 Bn	Within 12 months from the date of Allotment	LKR 3 Bn	42.9%	-	-	

As indicated under the objectives of the debenture issue in the prospectus, the Rs 7 Bn raised through the said debenture issue would form part of tier II capital of the bank w.e.f. the date of allotment.

- The funds raised through debentures previously issued were fully utilized for the objectives mentioned in the respective prospectuses.
- There are no material events that took place after the balance sheet date which require adjustment or disclosure in the financial statements other than the above.

## SELECTED PERFORMANCE INDICATORS (AS PER REGULATORY REPORTING)

	As at 30.06.2021	As at 31.12.2020	As at 30.06.2021	As at 31.12.2020
	BANK		GROUP	
<b>BASEL III</b>				
<b>Regulatory Capital</b>				
Common Equity Tier 1. Rs. Mn	124,525	117,243	138,836	130,836
Tier 1 Capital. Rs. Mn	124,525	117,243	138,836	130,836
Total Capital. Rs. Mn	149,765	143,172	164,756	157,269
<b>Regulatory Capital Ratios</b>				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 2021 - 7.00%; 2020 - 7.00%)	15.31%	14.73%	15.58%	14.99%
Tier 1 Capital Ratio (Minimum Requirement - 2021 - 8.50%; 2020 - 8.50%)	15.31%	14.73%	15.58%	14.99%
Total Capital Ratio (Minimum Requirement 2021 - 12.50%; 2020 - 12.50%)	18.42%	17.98%	18.49%	18.02%
Leverage Ratio (Minimum Requirement- 3.00%)	8.03%	7.73%	8.52%	8.20%
<b>Assets Quality (Quality of Loan Portfolio)</b>				
Gross Non-Performing Advances Ratio,% (net of Interest in Suspense)	4.25%	4.31%		
Net Non-Performing Advances Ratio,% (net of Interest in Suspense and provisions)	0.64%	0.90%		
<b>Profitability (Annualised)</b>				
Interest Margin, %	3.53%	3.68%		
Return on Assets (before Tax), %	1.67%	1.24%		
Return on Equity, %	13.23%	8.68%		
<b>Regulatory Liquidity</b>				
Statutory Liquid Assets, Rs. Mn				
Domestic Banking unit	437,988	407,527		
Off-Shore Banking Unit	28,015	31,283		
Statutory Liquid Assets Ratio (Minimum requirement 20%)				
Domestic Banking unit	40.30%	38.95%		
Off-Shore Banking Unit	32.17%	35.92%		
Total Stock of High-Quality Liquid Assets, Rs. Mn	336,242	314,678		
Liquidity Coverage Ratio (%) - Rupee	284.26%	285.50%		
(Minimum Requirement - 2021 - 100%, 2020 - 100%)				
Liquidity Coverage Ratio (%) - All Currency	273.71%	290.29%		
(Minimum Requirement - 2021 - 100%, 2020 - 100%)				
Net Stable Funding Ratio(Minimum Requirement - 2021 - 100%, 2020 - 100%)	118.95%	112.61%		

## LISTED DEBENTURE INFORMATION

Quarter ended 30th June	Market Value				Last Traded		Interest Yield as at Last Trade Done (%)		
	2021		2020		2021	2020	Quarter ended 30th June	2021	2020
	Highest Rs.	Lowest Rs.	Highest Rs.	Lowest Rs.	Rs.	Rs.	HNB DEBENTURES 2006		
HNB DEBENTURES 2006							15 year Fixed Rate (11.00% p.a.)	N/A	N/T
15 year Fixed Rate (11.00% p.a.)	N/A	N/A	N/T	N/T	N/A	N/T	18 year Fixed Rate (11.25% p.a.)	N/T	N/T
18 year Fixed Rate (11.25% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T	HNB DEBENTURES 2007		
							15 year Fixed Rate (16.75% p.a.)	N/T	N/T
HNB DEBENTURES 2007							HNB DEBENTURES 2011		
15 year Fixed Rate (16.75% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T	10 year Fixed Rate (11.50% p.a.)	N/T	N/T
HNB DEBENTURES 2011							HNB DEBENTURES 2013		
10 year Fixed Rate (11.50% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T	10 year Fixed Rate (8.00% p.a.)	N/T	12.12
HNB DEBENTURES 2013							HNB DEBENTURES 2014		
10 year Fixed Rate (14.25% p.a.)	N/T	N/T	89.4	89.4	N/T	89.4	10 year Fixed Rate (8.33% p.a.)	N/T	N/T
HNB DEBENTURES 2014							HNB DEBENTURES 2016		
10 year Fixed Rate (8.33% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T	5 year Fixed Rate (11.25% p.a.)	N/A	14.05
HNB DEBENTURES 2016							5 year Fixed Rate (11.75% p.a.)	N/T	N/T
5 year Fixed Rate (11.25% p.a.)	N/A	N/A	100.00	98.00	N/A	98.00	7 year Fixed Rate (13.00% p.a.)	N/T	N/T
5 year Fixed Rate (11.75% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T	HNB DEBENTURES 2019		
7 year Fixed Rate (13.00% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T	5 year Fixed Rate (12.30% p.a.)	N/T	N/T
HNB DEBENTURES 2019							7 year Fixed Rate (12.80% p.a.)	N/T	N/T
5 year Fixed Rate (12.30% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T	N/T – Not Traded as at 30th June,		
7 year Fixed Rate (12.80% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T	N/A – Not Applicable as at 30th June.		

N/T – Not Traded as at 30th June, N/A – Not Applicable as at 30th June,

RATIOS OF DEBT		
	30.06.2021	31.12.2020
Debt Equity Ratio (%)	54.42	67.56
	30.06.2021	30.06.2020
Interest Cover (Times)	5.12	3.12
	30.06.2021	30.06.2020
Yield of Comparable Govt. Security for the following HNB Debentures (% p.a.)		
2006 series 15 year maturity	N/A	5.33
2006 series 18 year maturity	6.47	6.36
2007 series 15 year maturity	5.43	5.75
2011 series 10 year maturity	5.01	5.40
2013 series 10 year maturity	6.13	6.09
2014 series 10 year maturity	6.68	6.44
2016 series 5 year maturity	N/A	5.33
2016 series 5 year maturity	5.09	5.52
2016 series 7 year maturity	6.26	6.18
2019 series 5 year maturity	6.62	6.44
2019 series 7 year maturity	7.43	6.71

Yield to Maturity of Last Trade Done (% p.a)		
Quarter ended 30th June	2021	2020
<b>HNB DEBENTURES 2006</b>		
15 year Fixed Rate (11.00% p.a.)	N/A	N/T
18 year Fixed Rate (11.25% p.a.)	N/T	N/T
<b>HNB DEBENTURES 2007</b>		
15 year Fixed Rate (16.75% p.a.)	N/T	N/T
<b>HNB DEBENTURES 2011</b>		
10 year Fixed Rate (11.50% p.a.)	N/T	N/T
<b>HNB DEBENTURES 2013</b>		
10 year Fixed Rate (8.00% p.a.)	N/T	8.00
<b>HNB DEBENTURES 2014</b>		
10 year Fixed Rate (8.33% p.a.)	N/T	N/T
<b>HNB DEBENTURES 2016</b>		
5 year Fixed Rate (11.25% p.a.)	N/A	11.25
5 year Fixed Rate (11.75% p.a.)	N/T	N/T
7 year Fixed Rate (13.00% p.a.)	N/T	N/T
<b>HNB DEBENTURES 2019</b>		
5 year Fixed Rate (12.30% p.a.)	N/T	N/T
7 year Fixed Rate (12.80% p.a.)	N/T	N/T
N/T – Not Traded as at 30th June,		
N/A – Not Applicable as at 30th June,		

## SHARE INFORMATION

As at	30-Jun-21	31-Dec-20
<b>Number of Shares</b>		
Voting	420,859,924	410,319,604
Non-voting	105,044,649	101,656,112
<b>Last Traded Price per share</b>		
Voting	134.00	126.50
Non-voting	107.25	100.60

For the Quarter Ended	30-Jun-21	30-Jun-20
<b>Highest price per share</b>		
Voting	139.00	120.00
Non-voting	111.75	91.00
<b>Lowest price per share</b>		
Voting	123.00	90.00
Non-voting	91.50	74.50

## PUBLIC SHAREHOLDING PERCENTAGE

	30-Jun-21	
	Number	%
Number of shareholders representing the public holding (Voting)	8,743	68% approx.
Number of shareholders representing the public holding (Non Voting)	12,524	99% approx.
Compliant under Option 1 - Float Adjusted Market Capitalization	Rs. 38 Bn	

## DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S SHAREHOLDING

	Number of shares	
	30-Jun-21	31-Dec-20
1. Dr.L.J.S.H.Cabral	-	-
2. Mr.D.S.Weerakkody *	N/A	2,143
3. Mr.A.J.Alles **	131,855	128,355
4. Mr.R.S. Captain ***	N/A	7,544
5. Mr.D.A. Cabraal	-	-
6. Mr.E.D.P.Soosaipillai ****	N/A	-
7. Mr.A.H.D.A.N. De Silva	106	104
8. Mr.L.U.D.Fernando	91	637
9. Mr.W.M.M.D.Ratnayake	-	-
10. Mr.M.P.D.Coaray	8,607	8,330
11. Mr.D.P.N.Rodrigo*****	25,702	153,759
12. Mrs.Aruni Goonetilleke *****	-	N/A
13. Mr.O.H.S.Chandrawansa *****	-	N/A
14. Mr.P.R. Saldin*****	3,180	3,078
Dr.T.K.D.A.P.Samarasinghe*****	-	-

\* Resigned w.e.f. 30th March 2021

\*\* Chief Executive Officer

\*\*\* Resigned w.e.f. 2nd April 2021

\*\*\*\* Resigned w.e.f. 30th March 2021

\*\*\*\*\* Chief Operating Officer

\*\*\*\*\* Appointed w.e.f 1st April 2021

\*\*\*\*\* Appointed w.e.f 30th April 2021 (Alternate Director to Mr. R.S. Captain as at 31st December 2020)

\*\*\*\*\* Alternate Director to Mr. L.U.D. Fernando w.e.f. 5th July 2019



## 20 MAJOR SHAREHOLDERS (VOTING) AS AT 30TH JUNE 2021

	Name	No. of shares	% on total voting capital
1.	Browns Investments PLC	42,024,032	9.99
2.	Employees Provident Fund	41,021,326	9.75
3.	Sri Lanka Insurance Corporation Ltd-Life Fund	37,089,622	8.81
4.	Milford Exports (Ceylon) (Pvt) Limited	33,279,619	* 7.91
5.	Stassen Exports (Pvt) Limited	28,845,668	* 6.85
6.	Mr.S.E. Captain	27,399,702	6.51
7.	Sonetto Holdings Limited.	20,684,835	4.91
8.	Sri Lanka Insurance Corporation Ltd-General Fund	18,940,190	4.50
9.	Distilleries Company of Sri Lanka PLC	12,905,917	* 3.07
10.	National Savings Bank	12,075,700	2.87
11.	Citibank Newyork S/A Norges Bank Account 2	10,152,688	2.41
12.	SSBT-AI Mehwar Commercial Investments L.L.C.	9,252,816	2.20
13.	Standard Chartered Bank Singapore S/A HL Bank Singapore Branch	7,899,166	1.88
14.	Ms.L.A. Captain	7,865,444	1.87
15.	RBC Investor Services Trust-RBC Emerging Markets Small-CAP Equity Fund	7,447,653	1.77
16.	BNYM SANV Re-LF Ruffer Total Return Fund	6,154,128	1.46
17.	Employees Trust Fund Board	4,238,846	1.01
18.	BNYM SA NV Re-First State Investments ICVC-First State Asia All-Cap Fund	3,443,272	0.82
19.	Hatton National Bank PLC - NDB Wealth Growth and Income Fund	2,975,000	0.71
20.	BBH-RWC Frontier Markets Equity Master Fund Limited	2,310,895	0.55

\* Pursuant to the provisions of the Banking Act Directions No. 1 of 2007, the total collective voting rights in the Bank, of Milford Exports (Ceylon) Limited, Stassen Exports Limited and Distilleries Company of Sri Lanka (who collectively hold 17.83% of the voting shares of the Bank) are limited to 10% of the total voting rights of the Bank with effect from 15th March 2012 as the voting rights in excess of such percentage is deemed invalid from that date.

## 20 MAJOR SHAREHOLDERS (NON-VOTING) AS AT 30TH JUNE 2021

	Name	No. of shares	% on total non-voting capital
1.	Browns Investments PLC	20,864,701	19.86
2.	Akbar Brothers Pvt Ltd A/c No 1	4,653,891	4.43
3.	Employees Trust Fund Board	2,803,992	2.67
4.	Janashakthi Insurance PLC - Shareholders	1,882,310	1.79
5.	Commercial Bank of Ceylon PLC/Andaradeniya Estate (Pvt) Ltd	1,634,999	1.56
6.	Mr. S.E. Captain	1,626,603	1.55
7.	Rubber Investment Trust Limited a/c # 01	1,492,053	1.42
8.	First Capital Limited	1,317,499	1.25
9.	Acuity Partners (Pvt) Limited / Mr. E Thavagnanasooriyam	1,210,095	1.15
10.	Deutsche Bank AG as trustee for JB Vantage value equity fund	1,117,419	1.06
11.	Citi Bank Newyork S/A Norges Bank Account 2	884,337	0.84
12.	Deutsche Bank AG as trustee to Assetline income plus Growth Fund	826,666	0.79
13.	Hatton National Bank PLC A/c No 2	755,919	0.72
14.	Saboor Chatoor (pvt) Ltd	719,303	0.68
15.	Mr. E Chatoor	680,966	0.65
16.	Central Finance Company PLC A/c No.03	654,181	0.62
17.	Commercial Bank of Ceylon PLC/ G S N Peiris	640,666	0.61
18.	Commercial Bank of Ceylon PLC/Janashakthi Capital Limited	619,999	0.59
19.	The Ceylon Investment PLC A/c # 02	587,598	0.56
20.	Deutsche Bank AG as trustee to Capital Alliance Quantitative Equity Fund	586,264	0.56

## ANALYSIS OF LOANS & ADVANCES AND IMPAIRMENT

As at	BANK		GROUP	
	30.06.2021	31.12.2020	30.06.2021	31.12.2020
	Rs.000	Rs.000	Rs.000	Rs.000
<b>1) Gross loans and advances to customers</b>	838,578,132	814,543,456	871,474,390	846,720,969
Less: Accumulated impairment under stage 1	3,858,814	3,091,724	5,032,338	3,799,787
Accumulated impairment under stage 2	11,315,285	8,058,780	11,541,128	8,284,622
Accumulated impairment under stage 3	33,175,156	30,812,232	35,616,491	33,820,590
<b>Net loans and advances</b>	<b>790,228,877</b>	<b>772,580,720</b>	<b>819,284,433</b>	<b>800,815,971</b>
<b>Product-wise gross loans and advances to customers</b>				
<b>By product - Domestic currency</b>				
Overdrafts	100,489,340	91,586,773	100,348,990	91,460,567
Bills of exchange	221,127	380,375	221,128	380,375
Commercial papers	153,456	153,821	153,456	153,821
Short term loans	98,541,420	96,655,676	98,930,997	97,039,374
Credit cards	10,053,706	9,155,433	10,053,706	9,155,433
Trust receipts	22,928,082	19,864,641	22,928,082	19,864,641
Packing credit loans	3,528,447	2,563,792	3,528,447	2,563,792
Staff loans	18,138,879	17,208,143	18,444,064	18,065,918
Term loans	358,169,790	356,319,811	379,524,282	374,995,217
Lease rentals receivable	62,228,057	60,277,415	73,215,411	71,204,307
Housing loans	42,336,781	39,441,387	42,336,781	39,441,387
Pawning advances	24,503,761	22,947,790	24,503,761	24,407,738
Securitized notes	1,682,513	2,146,677	1,682,513	2,146,677
<b>Sub total</b>	<b>742,975,360</b>	<b>718,701,734</b>	<b>775,871,618</b>	<b>750,879,247</b>
<b>By product-Foreign Currency</b>				
Overdrafts	2,544,790	2,061,130	2,544,790	2,061,130
Bills of exchange	1,050,845	1,665,353	1,050,845	1,665,353
Short term loans	1,054,479	1,742,502	1,054,479	1,742,502
Trust receipts	3,718,900	3,903,480	3,718,900	3,903,480
Packing credit loans	13,699,113	14,954,506	13,699,113	14,954,506
Term loans	70,928,295	68,778,089	70,928,295	68,778,089
Lease rentals receivable	162,758	204,113	162,758	204,113
Housing loans	2,443,592	2,532,549	2,443,592	2,532,549
<b>Sub total</b>	<b>95,602,772</b>	<b>95,841,722</b>	<b>95,602,772</b>	<b>95,841,722</b>
<b>Total</b>	<b>838,578,132</b>	<b>814,543,456</b>	<b>871,474,390</b>	<b>846,720,969</b>
<b>Movements in stage-wise impairment of loans &amp; advances during the period</b>				
	Bank			
	Stage 1	Stage 2	Stage 3	Total
	Rs.000	Rs.000	Rs.000	Rs.000
<b>Opening balance as at 1st January 2020</b>	3,343,678	4,827,329	21,998,921	30,169,928
Net impairment charge for the period	1,691,390	1,921,931	4,619,823	8,233,144
Write-offs during the period	-	-	-	-
Other movements	-	-	102,084	102,084
<b>Closing balance as at 30th June 2020</b>	<b>5,035,068</b>	<b>6,749,260</b>	<b>26,720,828</b>	<b>38,505,156</b>
<b>Opening balance as at 1st January 2021</b>	3,091,724	8,058,780	30,812,232	41,962,736
Net impairment charge for the period	767,090	3,256,505	2,089,485	6,113,081
Write-offs during the period	-	-	-	-
Other movements	-	-	273,439	273,439
<b>Closing balance as at 30th June 2021</b>	<b>3,858,814</b>	<b>11,315,285</b>	<b>33,175,156</b>	<b>48,349,256</b>
	Group			
	Stage 1	Stage 2	Stage 3	Total
	Rs.000	Rs.000	Rs.000	Rs.000
<b>Opening balance as at 1st January 2020</b>	4,063,983	5,210,363	24,040,578	33,314,924
Net impairment charge for the period	1,808,206	1,921,931	4,619,823	8,349,960
Write-offs during the period	-	-	-	-
Other movements	-	-	102,084	102,084
<b>Closing balance as at 30th June 2020</b>	<b>5,872,189</b>	<b>7,132,294</b>	<b>28,762,485</b>	<b>41,766,968</b>
<b>Opening balance as at 1st January 2021</b>	3,799,787	8,284,622	33,820,590	45,904,999
Net impairment charge for the period	1,232,551	3,256,506	2,089,485	6,578,542
Write-offs during the period	-	-	(567,023)	(567,023)
Other movements	-	-	273,439	273,439
<b>Closing balance as at 30th June 2021</b>	<b>5,032,338</b>	<b>11,541,128</b>	<b>35,616,491</b>	<b>52,189,957</b>

## ANALYSIS OF COMMITMENTS, CONTINGENCIES AND IMPAIRMENT

As at	BANK		GROUP	
	30.06.2021 Rs.000	31.12.2020 Rs.000	30.06.2021 Rs.000	31.12.2020 Rs.000
<b>2) Gross commitments and contingencies</b>	670,741,247	631,948,229	670,741,247	631,948,229
Less : Accumulated impairment under stage 1	889,203	810,503	889,203	810,503
Accumulated impairment under stage 2	177,093	201,327	177,093	201,327
Accumulated impairment under stage 3	1,456,918	1,123,884	1,456,918	1,123,884
	668,218,034	629,812,515	668,218,033	629,812,515
<b>Product-wise commitments and contingencies</b>				
<b>By Product - Domestic Currency</b>				
Documentary credit	594,515	831,794	594,515	831,794
Guarantees	68,476,229	55,658,375	68,476,229	55,658,375
Acceptances	332,671	227,023	332,671	227,023
Bills for collection	449,910	494,881	449,910	494,881
Forward exchange contracts				
Forward exchange sales	-	-	-	-
Forward exchange purchases	34,791,904	40,848,058	34,791,904	40,848,058
Cheques sent on clearing	3,472,758	3,851,339	3,472,758	3,851,339
Undrawn credit lines	361,032,905	334,295,507	361,032,905	334,295,507
<b>Sub total</b>	469,150,892	436,206,977	463,112,899	436,206,977
<b>By Product - Foreign Currency</b>				
Documentary credit	36,246,670	27,502,654	36,246,670	27,502,654
Guarantees	49,216,339	48,811,988	49,216,339	48,811,988
Acceptances	35,148,240	25,986,688	35,148,240	25,986,688
Bills for collection	18,801,828	15,633,015	18,801,828	15,633,015
Forward exchange contracts				
Forward exchange sales	10,785,428	28,293,790	10,785,428	28,293,790
Forward exchange purchases	25,223,525	22,911,210	25,223,525	22,911,210
Cheques sent on clearing	-	-	-	-
Undrawn credit lines	26,168,326	26,601,907	26,168,326	26,601,907
<b>Sub total</b>	201,590,356	195,741,252	207,628,348	195,741,252
<b>Total</b>	670,741,247	631,948,229	670,741,247	631,948,229
<b>Movements in stage-wise impairment of commitments and contingencies during the period</b>				
	BANK / GROUP			Total
	Stage 1 Rs.000	Stage 2 Rs.000	Stage 3 Rs.000	Total Rs.000
<b>Opening balance as at 1st January 2020</b>	810,503	201,327	1,123,884	2,135,714
Net impairment charge for the period	255,375	24,267	169,782	449,424
Write-offs during the period	-	-	-	-
Other movements	-	-	-	-
<b>Closing balance as at 30th June 2020</b>	1,065,878	225,594	1,293,666	2,585,138
<b>Opening balance as at 1st January 2021</b>	735,571	256,104	1,218,571	2,210,246
Net impairment charge for the period	153,632	(79,011)	238,347	312,968
Write-offs during the period	-	-	-	-
Other movements	-	-	-	-
<b>Closing balance as at 30th June 2021</b>	889,203	177,093	1,456,918	2,523,214

ANALYSIS OF DEPOSITS				
As at	BANK		GROUP	
	30.06.2021 Rs.000	31.12.2020 Rs.000	30.06.2021 Rs.000	31.12.2020 Rs.000
<b>3) Due to Customers</b>				
<b>By product-Domestic Currency</b>				
Current account deposits	58,667,242	59,483,315	58,452,590	58,785,686
Savings deposits	294,781,182	276,530,585	297,223,220	278,833,827
Time deposits	444,243,279	446,100,129	466,541,086	471,916,612
Certificates of deposit	340,207	338,098	340,207	338,098
Margin deposits	2,127,429	1,532,608	2,127,429	1,532,608
<b>Sub total</b>	<b>800,159,339</b>	<b>783,984,735</b>	<b>824,684,532</b>	<b>811,406,831</b>
<b>By product- Foreign Currency</b>				
Current account deposits	4,742,337	4,515,956	4,742,337	4,515,956
Savings deposits	47,317,702	43,134,411	47,275,372	43,134,411
Time deposits	179,792,382	136,047,089	179,569,729	135,752,501
Margin deposits	182,616	139,213	182,616	139,213
<b>Sub total</b>	<b>232,035,037</b>	<b>183,836,669</b>	<b>231,770,054</b>	<b>183,542,081</b>
<b>Total</b>	<b>1,032,194,376</b>	<b>967,821,404</b>	<b>1,056,454,586</b>	<b>994,948,912</b>

## FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

The Group measures the fair values of financial instruments using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

### Level 1: Fair value measurement using unadjusted quoted market prices

When available, the fair values of financial instruments are determined using quoted market prices (unadjusted) in active markets for identical instruments. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. Accordingly, the fair values of treasury bills and bonds have been derived using the market yields and market prices published by Central Bank of Sri Lanka while fair value of quoted equity securities and Sri Lanka Sovereign Bonds have been valued using the quoted market prices as at the reporting date.

### Level 2: Fair value measurement using significant observable inputs

In the absence of an active market for a financial instrument, the fair value is determined using quoted market prices in active markets for similar instruments or quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques in which all significant inputs are directly or indirectly observable from market data. The spot and forward premiums available as at the reporting date have been used to estimate the fair value of derivative financial instruments while the fair value of unquoted units have been measured using manager's selling prices. The fair values of financial assets and financial liabilities carried at amortised cost have been estimated by comparing the interest rates when they were first recognised with the current market rates of similar instruments.

### Level 3: Fair value measurement using significant unobservable inputs

Financial instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation.

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 2020. The Group has not changed the valuation models and assumptions used to measure the fair values of Level 3 financial instruments during the period ended 30th June 2021.

## FINANCIAL ASSETS & LIABILITIES MEASURED AT FAIR VALUE - FAIR VALUE HIERARCHY

As at 30th June 2021	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	-	849,952	-	849,952	-	849,952	-	849,952
Financial assets measured at fair value through profit or loss	81,413	-	-	81,413	259,609	869,816	-	1,129,425
Financial assets measured at fair value through other comprehensive income	249,199,363	468,229	27,839	249,695,431	255,969,763	468,229	30,495	256,468,487
<b>Total financial assets measured at fair value</b>	<b>249,280,776</b>	<b>1,318,181</b>	<b>27,839</b>	<b>250,626,796</b>	<b>256,229,372</b>	<b>2,187,997</b>	<b>30,495</b>	<b>258,447,864</b>
<b>Financial liabilities measured at fair value</b>								
Derivative financial instruments	-	608,644	-	608,644	-	608,644	-	608,644
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>608,644</b>	<b>-</b>	<b>608,644</b>	<b>-</b>	<b>608,644</b>	<b>-</b>	<b>608,644</b>

As at 31st December 2020	BANK				GROUP			
	Level 1 Rs.000	Level 2 Rs.000	Level 3 Rs.000	Total Rs.000	Level 1 Rs.000	Level 2 Rs.000	Level 3 Rs.000	Total Rs.000
<b>Financial assets measured at fair value</b>								
Derivative financial instruments	-	1,032,318	-	1,032,318	-	1,032,318	-	1,032,318
Financial assets measured at fair value through profit or loss	84,499	-	-	84,499	252,133	842,694	-	1,094,827
Financial assets measured at fair value through other comprehensive income	248,801,119	442,700	27,839	249,271,658	255,921,450	442,700	30,494	256,394,644
<b>Total financial assets measured at fair value</b>	<b>248,885,618</b>	<b>1,475,018</b>	<b>27,839</b>	<b>250,388,475</b>	<b>256,173,583</b>	<b>2,317,712</b>	<b>30,494</b>	<b>258,521,789</b>
<b>Financial liabilities measured at fair value</b>								
Derivative financial instruments	-	337,014	-	337,014	-	337,014	-	337,014
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>337,014</b>	<b>-</b>	<b>337,014</b>	<b>-</b>	<b>337,014</b>	<b>-</b>	<b>337,014</b>

## FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT AMORTISED COST

As at 30th June 2021	BANK					GROUP				
	Carrying Value Rs.000	Fair Value			Total Rs.000	Carrying Value Rs.000	Fair Value			Total Rs.000
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
		Rs.000	Rs.000	Rs.000			Rs.000	Rs.000	Rs.000	
<b>Financial Assets</b>										
<b>Financial assets measured at amortised cost</b>										
Loans and advances to customers	790,228,877	-	796,110,424	-	796,110,424	819,284,433	-	826,558,634	-	826,558,634
Debt and other instruments	176,086,548	103,934,623	50,799,309	-	154,733,932	186,479,753	104,118,361	59,194,397	-	163,312,758
<b>Total financial assets measured at amortised cost</b>	<b>966,315,425</b>	<b>103,934,623</b>	<b>846,909,733</b>	<b>-</b>	<b>950,844,356</b>	<b>1,005,764,186</b>	<b>104,118,361</b>	<b>885,753,031</b>	<b>-</b>	<b>989,871,392</b>
<b>Financial Liabilities</b>										
<b>Financial liabilities measured at amortised cost</b>										
Due to depositors	1,032,194,376	-	1,033,528,891	-	1,033,528,891	1,056,454,586	-	1,057,380,308	-	1,057,380,308
Other borrowings	24,358,887	-	24,358,887	-	24,358,887	24,358,887	-	24,358,887	-	24,358,887
Debt securities issued	1,997,306	-	2,380,571	-	2,380,571	2,534,798	-	2,911,149	-	2,911,149
Subordinated term debts	21,195,205	-	24,696,040	-	24,696,040	22,209,096	-	25,962,438	-	25,962,438
<b>Total financial liabilities measured at amortised cost</b>	<b>1,079,745,774</b>	<b>-</b>	<b>1,084,964,389</b>	<b>-</b>	<b>1,084,964,389</b>	<b>1,105,557,367</b>	<b>-</b>	<b>1,110,612,782</b>	<b>-</b>	<b>1,110,612,782</b>

As at 31st December 2020	BANK					GROUP				
	Carrying Value Rs.000	Fair Value			Total Rs.000	Carrying Value Rs.000	Fair Value			Total Rs.000
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
		Rs.000	Rs.000	Rs.000			Rs.000	Rs.000	Rs.000	
<b>Financial Assets</b>										
<b>Financial assets measured at amortised cost</b>										
Loans and advances to customers	772,580,720	-	779,658,245	-	779,658,245	800,815,971	-	809,129,736	-	809,129,736
Debt and other instruments	186,605,516	85,006,457	71,807,181	-	156,813,638	193,349,496	86,677,526	77,564,609	-	164,242,135
<b>Total financial assets measured at amortised cost</b>	<b>959,186,236</b>	<b>85,006,457</b>	<b>851,465,426</b>	<b>-</b>	<b>936,471,883</b>	<b>994,165,467</b>	<b>86,677,526</b>	<b>886,694,346</b>	<b>-</b>	<b>973,371,871</b>
<b>Financial Liabilities</b>										
<b>Financial liabilities measured at amortised cost</b>										
Due to depositors	967,821,404	-	969,378,444	-	969,378,444	994,948,912	-	997,913,620	-	997,913,620
Other borrowings	30,526,261	-	30,526,261	-	30,526,261	30,526,261	-	30,526,261	-	30,526,261
Debt securities issued	1,875,042	-	2,158,836	-	2,158,836	2,411,408	-	2,690,447	-	2,690,447
Subordinated term debts	28,298,365	-	30,422,356	-	30,422,356	28,945,457	-	31,186,685	-	31,186,685
<b>Total financial liabilities measured at amortised cost</b>	<b>1,028,521,072</b>	<b>-</b>	<b>1,032,485,897</b>	<b>-</b>	<b>1,032,485,897</b>	<b>1,056,832,038</b>	<b>-</b>	<b>1,062,317,013</b>	<b>-</b>	<b>1,062,317,013</b>

The carrying values of assets and liabilities listed below are reasonable approximation of their fair values since, those are short term in nature or re-priced to current market rates frequently:

Assets	Liabilities
Cash and cash equivalents	Due to banks
Balances with Central Bank of Sri Lanka	Securities sold under repurchase agreements
Placements with banks	Other borrowings
Securities purchased under resale agreements	Dividends payable
Other assets	Other liabilities