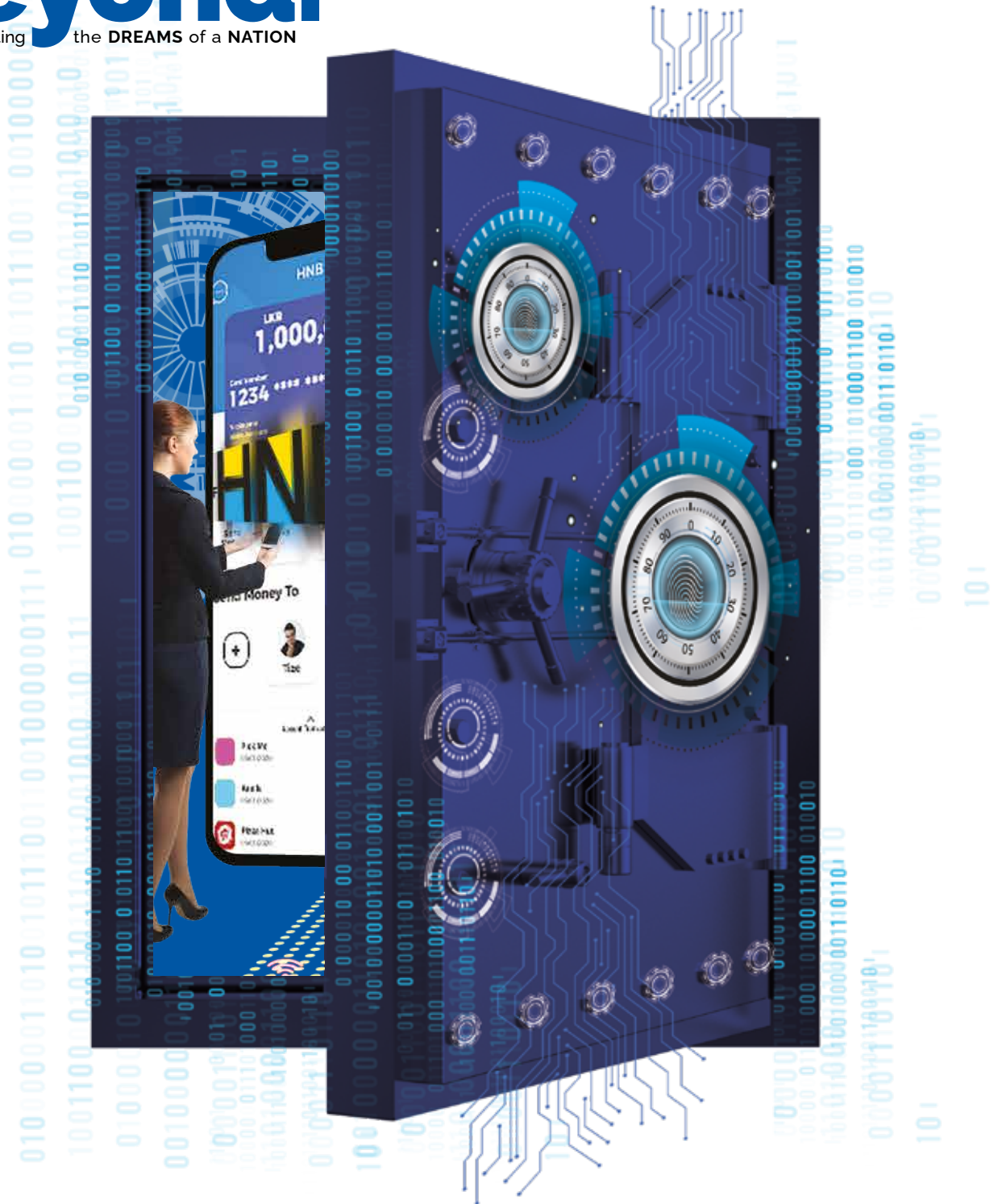


Here, Now, Beyond.

HNB, supporting the DREAMS of a NATION



Here,

Here at HNB, we're proud of the achievements we have made in helping individuals, and businesses across the country reach their visions of success and build for a better tomorrow. From supporting higher education, to assisting entrepreneurs, and enabling seniors to plan for their futures, we've built a legacy of dedication, compassion, and purpose.

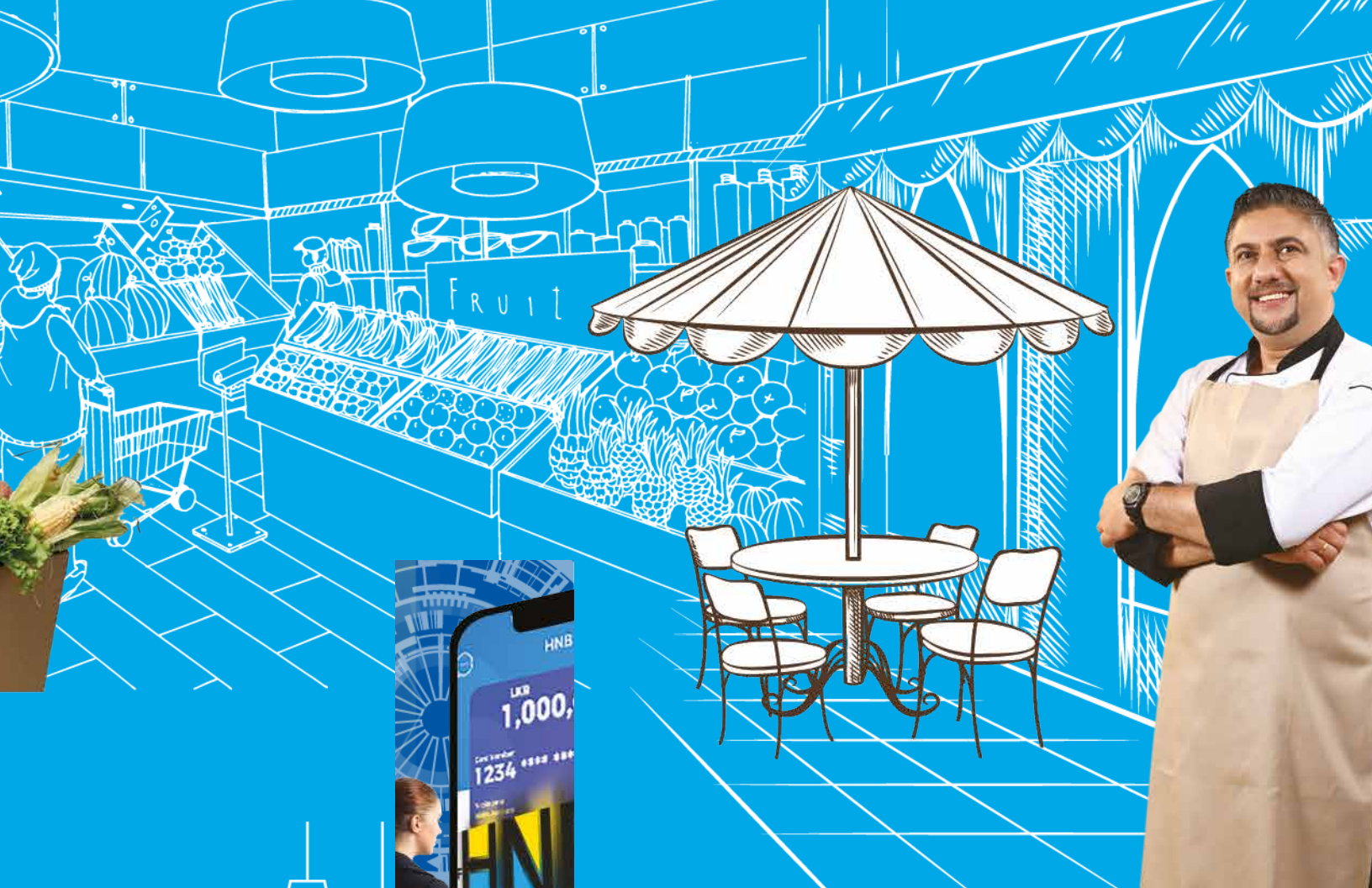






Now,

Now, over 130 years later, we're leading the way in shaping the face of banking as a catalyst of hope and resilience during unprecedented times. We are empowering people and businesses to revive and thrive, enabling access to essential services, building sustainable livelihoods, creating change for the environment and building a brighter future for all.



Beyond.

Beyond what we have already accomplished, we envision a digital landscape where our bank delivers sustainable value and wealth creation to all stakeholders. Our future will be driven by the digitalisation of our core services to serve everyone better; we will foster the prospects of our nation by promoting a greener future through green financing and minimising our carbon footprint. We're immensely honoured by the hard work and dedication of our teams in building the future ready operations we have today, setting the foundation for a transformative banking experience that will continue to add value for generations to come.





HNB

LKR 1,000,000

Card number 1234 5678 9010 *123

HNB

Send Money To

Name	Amount
Pradeep	-200 LKR
Rash	-500 LKR
Pradeep	-500 LKR

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Value Delivered to our Communities



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



Read our HNB Corporate Governance and Risk Management Report 2021.

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About the Report

This is the 9th Integrated Annual Report of Hatton National Bank PLC (the Bank) which has been prepared in accordance with the Integrated Reporting Framework. It is also the 15th year of reporting in accordance with GRI Standards which reflects our commitment to integrated thinking. The report seeks to provide a balanced review of how the Bank and its subsidiaries created value during the financial year ending 31st December 2021.

PERFORMANCE: INTEGRATED ANNUAL REPORT 2021

This report is primarily prepared for providers of financial capital. It is acknowledged that it may be of interest to other stakeholders due to the holistic nature of the information provided. Care has been taken to ensure that information provided is comprehensive, complete and comparable.

Frameworks Applied

- » Companies Act No.7 of 2007
 - » Sri Lanka Financial Reporting Standards issued by the Institute of Chartered Accountants of Sri Lanka
 - » IR Framework issued by the International Integrated Reporting Council
 - » GRI Standards
 - » Communicating Sustainability issued by the Colombo Stock Exchange
 - » Sustainability Disclosure Topics & Accounting Metrics
- Assurance has been provided by KPMG on the Financial Statements including the Notes to the Accounts.
- DNV has provided assurance that the report is in compliance with the IR Framework

FINANCIAL STABILITY: CORPORATE GOVERNANCE, RISK & CAPITAL MANAGEMENT REPORT

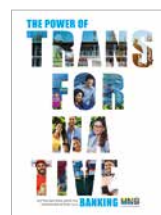
Provides deeper insights for providers of financial capital and regulators on the Bank's approach to managing risk and financial capital.

Frameworks Applied

- » Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka
 - » Banking Act Direction No.11 of 2007 and subsequent amendments thereto
 - » Directions issued by Central Bank of Sri Lanka on Risk Management including the Basel Capital Accord (III)
 - » Sri Lanka Financial Reporting Standards issued by the Institute of Chartered Accountants of Sri Lanka
 - » Companies Act No.7 of 2007
- Assurance has been provided by KPMG to Central Bank of Sri Lanka on Compliance with the Banking Act Direction No.11 of 2007 and subsequent amendments.

REPORT EVOLUTION

We have changed the structure of the report this year, adopting an approach that allows readers to readily assess the value created for stakeholders which is different to the capitals approach used in the previous years. Information relating to the business lines and the capitals are retained in summarised form enabling readers to assess performance through multiple lenses while minimising repetition.



What Changed	2021	2020
Approach	Value Created to Stakeholders	Nurturing Capitals
Business Line Performance	Summarised from page 41 - 43	Described fully from page 74 to 101
Overall Length of Narrative Report	124 pages	140 pages

SCOPE & BOUNDARIES

Financial information is presented in accordance with regulatory requirements and presents a view of both the Bank and the Group including all subsidiaries. Non-financial information presented within the report, unless explicitly stated, refers to information relating only to the Bank and excludes the subsidiaries as the Bank accounts for over 85% Group PAT, Total Assets & Total Liabilities.

	2021 Rs Mn	Bank %	2020 Rs Mn	Bank %
Total Operating Income	84,404	78%	72,074	78%
PAT	20,084	86%	13,662	84%
Total Assets	1,453,651	93%	1,371,483	94%
Total Liabilities	1,270,383	95%	1,211,823	96%

FORWARD LOOKING STATEMENTS

The report contains forward looking statements which are based on our perceptions, opinions and views based on external and internal information available to us at present. These are provided to facilitate assessment of the Group's ability to create value in the future. Such statements, assessments and estimates have varying degrees of uncertainty associated with them which can be confirmed only with the benefit of hindsight as they relate to future events, outcomes and impacts which are beyond our control. The unprecedented stresses of the past three years and their impact have been wide ranging, impacting multiple variables and highlighting the fallibility of forecasts issued by even the most renowned think tanks of the world.

As countries 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 and the fluidity of markets and key economic indicators which remain extremely volatile. Users are advised to make their own judgements using the latest information available at the time of assessment. 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

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

The Board acknowledges its responsibility to ensure that the Annual Integrated Report provides a balanced view of its performance in 2021 and is of the opinion that it addresses all material issues that it believes may have a bearing on the Group's capacity to create value over the short term.

The reports were unanimously approved by the Board on 18th February 2022 and is signed on its behalf by



Aruni Goonetilleke
Chairperson

Colombo, Sri Lanka
18th February 2022



Devaka Cooray
Chairman
Board Audit Committee



Jonathan Alles
Managing Director / CEO

About HNB Group

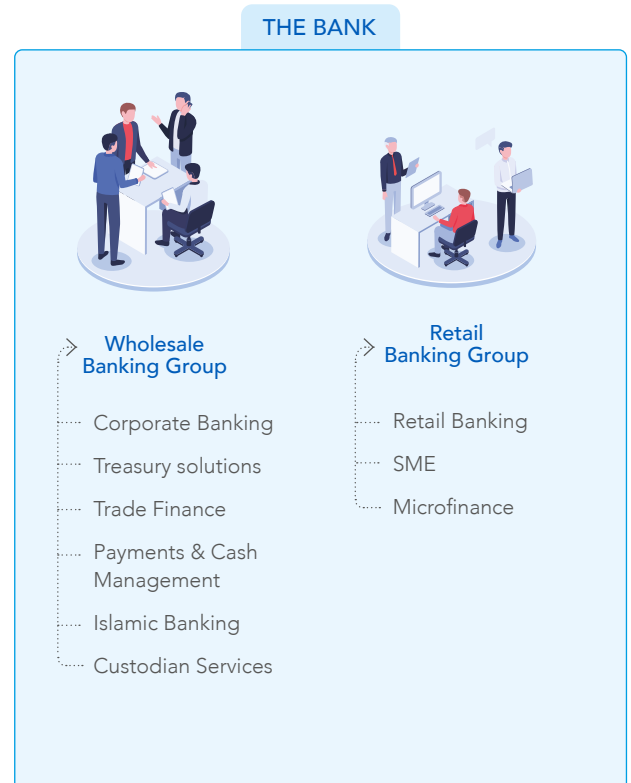
Hatton National Bank PLC is an innovative bank, continuously evolving to set new benchmarks in the country's banking sector. It is a domestically significant bank in Sri Lanka with a track record of inclusive banking for over 133 years. Consistent investments in digitalisation have strengthened our value proposition to customers and enhanced the appeal to an increasingly tech savvy youth. A comprehensive portfolio of innovative financial products catering to customer lifecycles across diverse customer segments supports our growth. Diversification within the financial services sector enables realisation of group synergies, making the HNB Group the largest and the most diversified financial services powerhouse in the country.

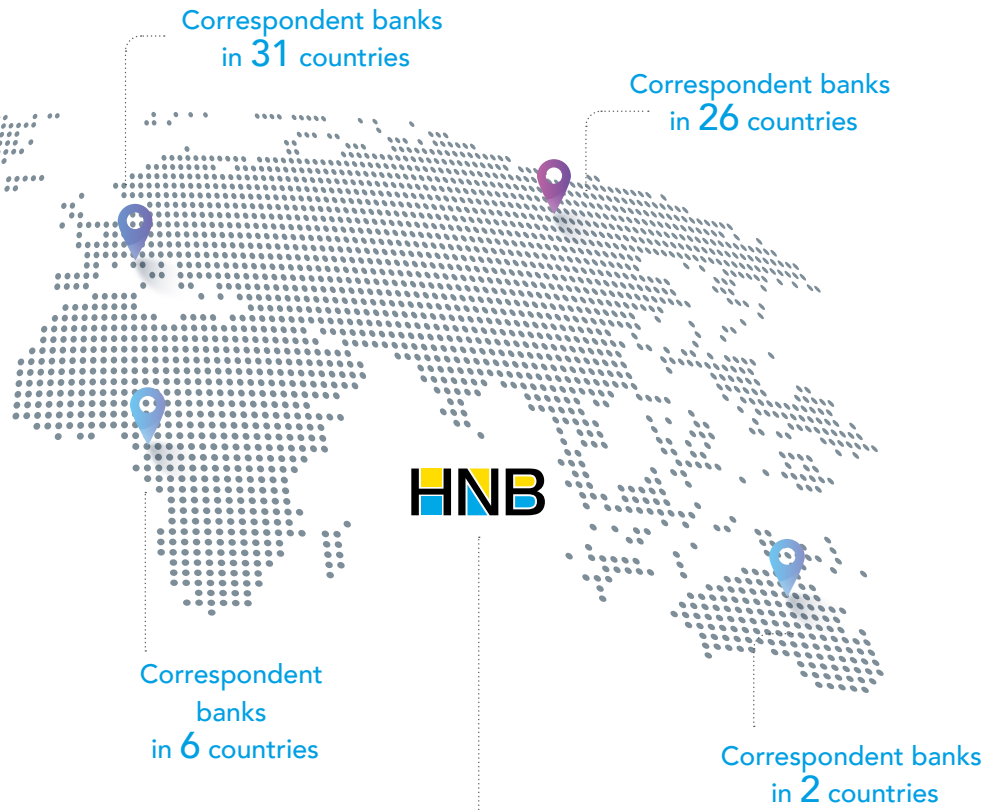
HNB Group consists of a 60% owned insurance group, fully fledged joint venture investment bank, 51% voting rights in a Non-Bank Financial Institution (NBFI) and a 100% owned real estate arm.

The listed insurance subsidiary HNB Assurance PLC offers life insurance while its fully owned subsidiary HNB General Insurance Ltd offers general insurance.

The NBFI, HNB Finance PLC was acquired in 2014 and in 2021, it acquired a 97% stake in Prime Finance PLC.

The fully fledged investment bank comprises of corporate finance, stock brokering, primary dealership, asset management and venture capital.





KEY BANK NUMBERS

5,042

EMPLOYEES

2.4 Mn

CUSTOMERS

255
CUSTOMER TOUCHPOINTS

TOTAL ASSETS
Rs Bn

1,358

LOANS & ADVANCES
Rs Bn

929

CUSTOMER DEPOSITS
Rs Bn

1,076

SUBSIDIARIES AND JOINT VENTURE



RELEVANCE TO ECONOMY

9.5%

OF TOTAL ASSETS

9.6%

OF LOANS & ADVANCES

9.7%

CUSTOMER DEPOSITS

8.7%

OF BRANCHES

12%

ATMS

A Comprehensive Product Portfolio

FOR INDIVIDUALS



FOR BUSINESS

	Micro Finance	SME	Emerging Corporates and Corporates
Working Capital	[Service Available]		
Project Finance	[Service Available]		
Leasing	[Service Available]		
Trade Finance	[Service Available]		
Treasury	[Service Available]		
PCM	[Service Available]		
Custody and Trustee	[Service Available]		
Value Chain Financing	[Service Available]		
Syndicated Loans	[Service Available]		
Insurance	[Service Available]		
Capacity Building	[Service Available]		
Channels	Branches, SSMS, Internet Banking		
Payment Solutions	Point of Sale (POS), Mobile POS, Payment App – SOLO, IPG		



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



VALUES

- ▶ Treasure professional and personal integrity at all times.
- ▶ Demonstrate mutual respect in all our interactions.
- ▶ Passionate about everything we do.
- ▶ Committed to being customer centric
- ▶ Courage to change, challenge and be different.
- ▶ Demonstrate unity in diversity.

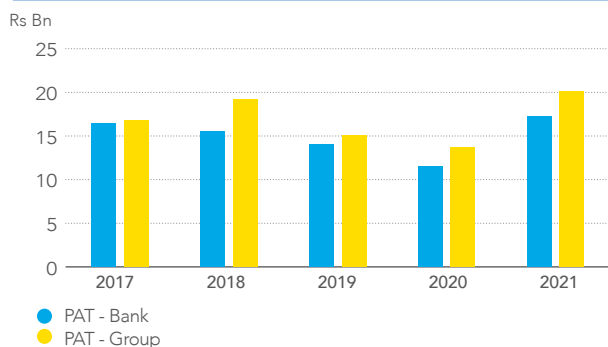
Performance Highlights



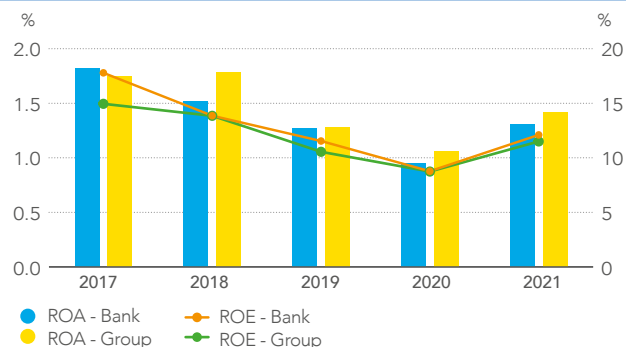
FINANCIAL

For the year ended 31st December	Bank			Group		
	2021	2020	Change	2021	2020	Change
	Rs Mn	Rs Mn	%	Rs Mn	Rs Mn	%
Financial Performance						
Income	115,047	115,814	(0.7)	135,710	134,436	0.9
Net interest income	49,559	44,709	10.8	56,462	50,837	11.1
Net fee and commission income	9,623	7,545	27.5	10,316	8,026	28.5
Total operating income	65,735	56,328	16.7	84,404	72,074	17.1
Profit Before VAT & Tax	24,324	18,951	28.4	27,521	21,222	29.7
Taxation (Incl. VAT, NBT & DRL on Financial Services, Deferred tax)	7,024	7,488	(6.2)	7,729	7,967	(3.0)
Net profit after taxation	17,300	11,463	50.9	20,084	13,662	47.0
Profit Attributable to equity holders of the Bank	17,300	11,463	50.9	19,025	13,095	45.3
Financial Position						
Shareholders' funds (Capital and Reserves)	152,041	134,002	13.5	176,668	154,249	14.5
Deposits from customers	1,075,709	967,821	11.1	1,107,066	994,949	11.3
Gross loans and receivables to customers	928,972	814,543	14.0	968,907	846,721	14.4
Total assets	1,358,337	1,291,852	5.1	1,453,651	1,371,483	6.0
Profitability						
Return on assets (%)	1.31	0.95	37.6	1.42	1.06	33.7
Return on equity (%)	12.10	8.77	38.0	11.50	8.74	31.6
Cost to income ratio (%)	34.43	39.27	(12.3)	44.25	48.29	(8.4)
Investor Information						
Earnings per share (Rs)	32.90	21.80	50.9	36.18	24.90	45.3
Net assets per share (Rs)	289.10	254.80	13.5	335.93	293.30	14.5
Total Dividend per Share (Rs)	9.00	8.00	12.5			
Cash Dividend per Share (Rs)	6.50	4.50	44.4			
Regulatory Ratios						
Core capital ratio (%) (Minimum Req. - 2021 - 8.50%; 2020 - 8.50%)	14.53	14.73	(1.4)	14.45	14.99	(3.6)
Total capital ratio (%) (Minimum Req. - 2021 - 12.50%; 2020 - 12.50%)	18.16	17.98	1.0	17.80	18.02	(1.2)

PROFITABILITY



ROA & ROE





SOCIAL PERFORMANCE

KEY INDICATORS		UNIT	2021	2020
Customers	Customer Centres	No	255	252
	Self Service Units	No	794	787
	Branches outside Western Province	%	58%	59%
	No of Digital transactions	Mn	31.3	16.6
	Value of digital transactions	Rs Bn	2,488	815
	Investments in technology	Rs Mn	870	1,014
Employees	No of Employees	No	5,024	4,836
	Retention Rate	%	91	94
	Training Hours	Hours	111,976	107,461
	Gender Diversity	Male : Female	57 : 43	57 : 43
Community	Lending to Micro Entrepreneuers (Rs Bn)	Rs Bn	29.1	25.9
	Moratoria granted as a % of loan book	%	9	15
	Taxes paid	Rs Mn	7,024	7,488
	Strategic CSR spend	Rs Mn	12.3	25.1



ENVIRONMENTAL IMPACT

KEY INDICATORS		UNIT	2021	2020
Environmental Impact	Loans screened for E&S by ESMS unit	No	83	75
	Energy Consumption	MWh	14,793	14,949
	Solar Power Generated	MWh	2,638	2,946
	Solar Power Generated as a % of Energy Consumption	%	17.8	19.7
	Carbon Footprint	tCO ₂ e	9,592	5,238
	Paper Reused/Recycled	%	100	100
	Renewable Energy Portfolio	Rs Bn	7.31	8.03

Chairperson's Message



**Here,
Now,
Beyond.**
HNB, supporting the DREAMS of a NATION

Our journey from inception amongst the tea plantations to being one of the top 1,000 banks in the world has been a story of shared prosperity, a legacy that continues to shape our corporate values and long-term strategy.

Dear Stakeholders,

2021 was a test of endurance and agility as the COVID-19 pandemic continued to disrupt lives and economic activity. While the rollout of vaccines paved the way for a return to work and schools, supply chain and macroeconomic stresses deepened creating divergent paths for recovery for industries and economies. Building resilience, balancing stakeholder needs and allocating resources were key priorities as the operating environment remained fluid. We were deeply saddened by the untimely demise of Mr. Nilanth De Silva, our former Chairman and two dedicated members of the Bank. Some of you would have lost your loved ones and friends due to COVID-19 and I would like to extend my deepest sympathies to everyone who has suffered during the pandemic.

During the tumultuous year, our 5,042 colleagues around the country, led by our Managing Director/CEO Jonathan Alles and the Management Team have focused on protecting the interests of shareholders, while ensuring the wellbeing of colleagues, supporting our customers and showing solidarity with our communities. The resilient performance recorded by the HNB Group during 2021 is testimony to the people, structures, policies and processes of this 133-year-old institution that I am honoured to lead as Chairperson of the Board of Directors. It is with great pride that I have witnessed the commitment, determination, agility and drive of the people across our network as we weathered the challenges, working together to move forward with optimism.

FULFILLING OUR PURPOSE

A business model based on channeling domestic savings to productive sectors of the economy and facilitating trade and transaction banking are focus areas to drive profitability and sustainable growth. All this must deliver value to its key stakeholders, engaging them effectively to share prosperity and growth. Our journey from inception amongst the tea plantations to being one of the top 1,000 banks in the world has been a story of shared prosperity, a legacy that continues to shape our corporate values and long-term strategy.

Customer deposits comprise 79% of our funding base and enhancing their value proposition has been a strategic priority for the Bank. By rallying resources and efforts around the key strategic pillar of Customer Experience, HNB has significantly enhanced its offering with the goal of making banking enjoyable for customers. The Net Promoter Score of 56% affirms that we moved beyond mere convenience in banking to deliver positive banking experiences. We were able to grow our advances by 14% and deposits by 11%.

Shareholder funds account for 11% of funding and the HNB Group delivered 47% earnings growth to record Rs 20 Bn as profit after tax despite macroeconomic stress and uncertainty. The statistics presented below reflect our commitment to delivering sustainable returns to shareholders. In total, our shareholders received Rs 6.50 as cash dividends during the year while market capitalisation increased by 12% to Rs 70 Bn. The transformation within the Bank refined our business model, diversifying revenue streams and ensuring we stay ahead of the curve to compete effectively in the era of the digital consumer. We also streamlined our processes and improved turnaround times, enhancing capacity, scalability and operational efficiencies which will support future profitability, customer experience and growth.

RISK & RESILIENCE

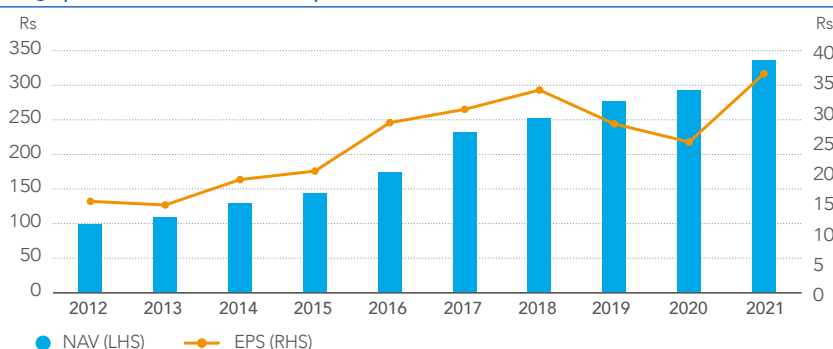
Balancing the fine line between profitability and stability is both a science and an art that must consider the quantitative and qualitative impacts of potential threats, which then need to be stress-tested for the unknown. Strong

Total Dividend per share
Rs **9.00**

Total Market Capitalisation
Rs **70 Bn** **12%** increase

Group PAT
Rs **20 Bn**

Earnings per share and Net Assets per share



Chairperson's Message

risk management frameworks and processes supported by a prudent risk appetite, built resilience. De-risking the loan portfolio was a key area of focus as extended moratoria and continuing stressed conditions increased default risk. Cybersecurity was strengthened in view of increased digitalisation, remote working arrangements and external threat levels. Foreign exchange liquidity stress increased exponentially throughout the year as the Country's foreign exchange reserves declined sharply. Increased regulation to address the issue continued to be a challenge for the industry in catering to customers' requirements and curtailed trade flows.

Capital adequacy ratios remain well above regulatory requirements at 14.53% for Tier I and 18.16% for total capital indicating sufficient headroom for growth and to sustain further shocks.

ALIGNING PRIORITIES & RESOURCES

The Banking industry is transforming to counter competitive threats from other industries which are making inroads into allied areas, leveraging technology. We continue to work in collaboration with Telcos and FinTechs to extend our reach and transform in the digital space.

The Bank has continued to support impacted clients with debt moratoria and working capital funding whilst managing the impact on revenues and balance sheet. We are also living in a time of heightened uncertainties and social pressures that impact our clients encompassing all segments of society. Consequently, the allocation of resources to respond effectively to competitive threats, regulatory measures and stakeholder concerns will be a priority in the immediate term.

HNB Group continues to invest in digitalisation, infrastructure, capacity building and our people. The digital transformation of the Bank has underpinned our transformation as a future ready bank. We are now focusing on strengthening our team to deliver on the capabilities put in place, nurturing talent and supporting their transition to a new era of banking. Collectively, these investments enhance our insights with sharper analytics, enabling continuous refinement, recalibration of strategic priorities and resource allocation in a dynamic operating environment.

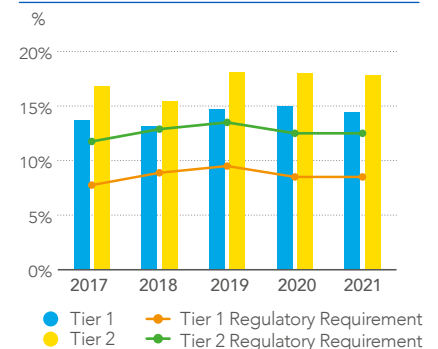
Inclusive financing is vital to the economic progress of any community and an island wide footprint reflects HNB's relevance and the role it plays in the Country. We are a large investor in the SME and Microentrepreneur segments of Sri Lanka, supporting their growth in line with their aspirations. HNB continues to invest in this sector leveraging a large field force, specialised knowledge, tailored products and capacity building initiatives, offering a comprehensive value proposition to tomorrow's corporates.

COMMITTED TO COMMUNITIES

Inclusive financing is vital to the economic progress of any community and an island wide footprint reflects HNB's relevance and the role it plays in the Country. We are a large investor in the SME and Microentrepreneur segments of Sri Lanka, supporting their growth in line with their aspirations. HNB continues to invest in this sector leveraging a large field force, specialised knowledge, tailored products and capacity building initiatives, offering a comprehensive value proposition to tomorrow's corporates. More recently, we have focused on the integration of these segments into the digital marketplace with promising results. We are committed to investing in building relevant products and platforms to promote the growth of these two vital segments that are essential building blocks of communities. Similarly, we are committed to supporting the integration of our customers and communities into a digital era of banking and transacting, which is key to, their integration into a global marketplace, creating opportunities for communities and people.

Our work with farmers and renewable energy has heightened awareness of the impact of climate change on our own portfolios. HNB

Capital Adequacy



is putting together its own climate agenda to drive meaningful change as we seek to invest for good, driving meaningful change towards a carbon neutral economy. We will also continue to invest in reducing our own carbon footprint in our journey to be carbon neutral. Admittedly, this is a journey, and we are at the stage of charting a suitable course for the Bank which will then be rolled out across the Group.

GOVERNANCE MATTERS

The Board was expanded to ensure that, collectively, we had the requisite skills and governance structure to navigate an increasingly volatile economic and changing business landscape. The composition of the Board changed with the resignations of Mr. Dinesh Weerakkody who served as Chairman until 30th March 2021, Mr. Harsha Cabraal who served as Acting Chairman until 5th July 2021, Mr. Duliksha Soosaipillai on 30th March 2021, and Mr. Rusi Captain who retired in April 2021 having completed nine years as a member of the Board. Mr. Osman Chandrawansa and I were appointed to the Board as Non-Executive Directors on 1st April 2021 and Mr. Saldin who previously served as alternate director to Mr. Rusi Captain was appointed as a Non-Executive Director. Mr. Nihal Jayawardene, joined the Board in August 2021 and I was appointed as Chairperson following the demise of Mr. Nilanth De Silva on 29th September 2021. We welcomed to the Board Mr. Rasitha Gunawardana and Mr. Kithsiri Gunawardana in January 2022 further enhancing the skills and experience of the Board.

NAVIGATING BEYOND 2021

Progress on vaccinations, launch of effective therapeutics and the reduced severity of the Omicron variant have given hope to a pandemic-weary world that COVID-19 is reaching endemicity. The lifting of travel restrictions in several countries point to the revival of the tourism industry. For HNB Group, reaping the dividends of our investments in digitalisation and our people will be a key differentiator as industry disruption continues. We have built resilience to face downside risks with adequate buffers but remain vigilant to potential shocks which may require recalibration of resource allocations.

Heightened risk awareness across all three lines of defense, robust engagement with internal and external stakeholders combined with sharp analytics to enable early identification of potential threats would be key to driving sustainable performance.

ACKNOWLEDGEMENTS

I wish to thank the Chief Executive Officers of the HNB Group and our teams for rallying together to deliver a commendable performance amidst personal and work related challenges. The Board joins me in expressing our sincere appreciation of your commitment and loyalty and count on your support in the year ahead. I also wish to record our appreciation of the officials of the Central Bank of Sri Lanka for their advice and cooperation on regulatory matters. I conclude by thanking our customers, business partners and investors for the trust and confidence placed in HNB over the past year.



Aruni Goonetilleke
Chairperson

Colombo, Sri Lanka
18th February 2022

Managing Director/CEO's Message



**Here,
Now,
Beyond.**
HNB, supporting the DREAMS of a NATION

HNB has demonstrated remarkable resilience. Although our journey over the past 133 years has been through many peaks and troughs, we have continuously strengthened our risk management, compliance and governance, thereby enhancing our processes, which in the past year have helped us overcome the challenges and are testament to our stable performance.

To Our Shareholders,

HERE, NOW

Humanity faced the crisis of a generation. The Covid-19 pandemic continues to pummel the economy, taking its toll on lives and livelihoods. 2021 was a year in which we observed increased stress in the operating environment. Having barely recovered from the 2019 Easter Sunday terror attack, the prolonged pandemic has wreaked carnage on the local economy. Pressure built up with disruptions to economic activity, while the impact on tourism sector, sovereign downgrades and policy uncertainty placed Sri Lanka at a critical juncture.

Against this backdrop, HNB has demonstrated remarkable resilience. Although our journey over the past 133 years has been through many peaks and troughs, we have continuously strengthened our risk management, compliance and governance, thereby enhancing our processes, which in the past year have helped us overcome the challenges and are testament to our stable performance.

A FRAGILE RECOVERY

Year 2021 saw a fragile economic recovery as the country and the world moved out of a recession wrought by the COVID-19 pandemic. By the end of the year, it was apparent that global recovery was divergent as developing countries with high levels of debt were impacted by access to vaccines, dwindling foreign exchange reserves and limited policy options to support recovery. Sri Lanka is estimated to have grown by 4.0% in 2021 as per Central Bank of Sri Lanka, supported by a strong vaccination programme.

We witnessed a sharp decline in interest rates in 2020, as central banks adopted accommodative monetary policy to support businesses and people through the pandemic. However, as the duration of the pandemic lengthened, many central banks including the Central Bank of Sri Lanka, commenced quantitative tightening in 2021. While policy rates moved up a mere 0.5% during 2021, a further 50 bps increase was witnessed in January 2022 indicating that there is head room for interest rates to move up further.

Depreciation of the Sri Lankan rupee was curtailed to 7.5% in 2021 through intervention as foreign currency reserves declined sharply with debt repayments coupled with low foreign currency inflows. This had a significant impact on foreign currency and the ability of the banking sector to support foreign trade.

Moratoria, some of which have been extended from 2019, are scheduled to end in June 2022. A significant portion of the moratoria outstanding is in the tourism industry. Given that it is a major source of foreign exchange income for the country, we need strategies and policies that will enable tourism industry as well as other sustainable sources of foreign exchange income such as education, agriculture, healthcare, IT, KPO and BPO to thrive.

LENDING COVID-19 SUPPORT

We believe that as constructive members of society, banks have an integral role in supporting real people, real lives, real economies, and sharing the pain in a downturn. Amid the trying times, HNB was quick to provide cashflow support, lower the cost of lending, provide new kinds of lending to marginal borrowers, and help customers do their banking digitally.

THINKING LIKE A STARTUP, IGNITING NEW AREAS OF GROWTH

We partnered our stakeholders to make people and institutions financially resilient. In the past three years, we drove a strategy of helping SME and Microfinance customers - two of the most important but vulnerable sectors of the economy - get back on their feet. Significant support was provided in the form of moratoria, working capital finance and capacity building, with HNB entering into a partnership with USAID to strengthen the MSME sector through funding and technical assistance.

Our partnerships with Telco operators and Fintechs have supported growth of our POS, mobile payment solutions and ecommerce. These partnerships have supported our customers transition to digital platforms, integrating them to an increasingly vibrant local digital market with exposure and opportunity to a global marketplace. During the year, HNB partnered with Cord360.com, the first ever digital marketplace to enable

local exporters and manufacturers to engage with global supply chains, extending the work undertaken to support growth aspirations of local entrepreneurs.

PERFORMANCE

HNB Group recorded a profit after tax of Rs 20.1 Bn in 2021, an increase of 47% over the previous year. The moderate growth of 11% in NII of the Group to Rs 56.5 Bn is largely attributable to advances growth of 14% as interest rates remained well below 2020 levels until the policy rate hike in August. Fee based income increased by 27% to Rs 10.7 Bn as the Bank recorded healthy growth in trade flows while card revenues increased due to higher consumption levels. Impairment charges increased by 21.7% to Rs 19.5 Bn compared to the previous year, largely on account of the impact on the dollar denominated government securities portfolio with the sovereign downgrade to CC by Fitch Ratings. Operating Income increased by 17% to Rs 84.4 Bn as we maintained controls over rising costs due to the pandemic and inflation. The extension of retirement age to 60 years resulted in a reversal of Rs 2.3 Bn in provision for pension and retirement benefits, while other overheads were maintained below 2019's pre-pandemic levels. Group cost to income ratio improved by 404bps to 44.3% while the Bank's cost income ratio for 2021 was 34.4% compared to 39.3% in 2020.

Group assets recorded modest growth of 6% to Rs 1.45 Trillion as excess liquidity was utilised to fund important sectors of the economy. The balance sheet remains strong with capital adequacy ratios comfortably above regulatory requirements at 14.53% for Tier I and 18.16% for Total Capital. The Net Advances grew by 14% to Rs 911 Bn and accounted for 63% of Total Assets. Deposit growth moderated to 11%, crossing the Rs1 Trillion mark to close the year at Rs 1.1 Trillion accounting for 76% of Total Liabilities & Equity.

Retail Banking

The Retail Banking Group recorded a Net Operating Profit of Rs 24.7 Bn largely due to healthy growth in loan book and improved fee income through cards, trade and loan disbursements. Strong CASA and deposit mobilisation efforts yielded deposit growth of 12%. Impairment charges for the Retail Banking business reduced by Rs 1.9 Bn due to

Managing Director/CEO's Message

greater focus on NPA management. However, impairment on SME and Micro finance verticals increased on account of the stressed market conditions. Retail Banking Group which encompasses, personal, Micro and SME businesses continues to be the most profitable business line for the HNB Group accounting for 38% of Group Net Operating Income.

Wholesale Banking

The Wholesale Banking Group delivered steady growth of 17% in assets and 5% in liabilities during the year supported by a proactive team that worked together to provide effective solutions to changing customer needs. Clients were supported throughout the crisis with insights and knowledge with many reducing dependency on moratoria, regularising performance and building resilience. Growing the export portfolio was one key focus during the year.

Treasury

Foreign Exchange Income from Treasury operations recorded a stellar year amidst significant challenges. Overall, Operating Income improved by 50% to Rs 21.3 Bn. Net operating income was impacted by the impairment charges on foreign currency sovereign holdings.

Insurance

Insurance business recorded growth in both Life and General Insurance business, outpacing the industry. Group synergies played a key role in driving volumes as well as the digital transformation underway to drive engagement with customers and business partners. The HNBA Group recorded a profit of Rs1.2 Bn, an increase of 4% over the previous year supported by an optimal sales mix and cost efficiencies throughout the supply chain. The rating also improved for both HNB Assurance and HNB General Insurance from A(Ika) to A+(Ika) with stable outlooks reflecting the improved capital positions.

Finance

HNB Finance recorded a profit of Rs 513 Mn in 2021 recovering from the loss of Rs 273 Mn in 2020. HNB Finance purchased a controlling interest in Prime Finance PLC and has made a mandatory offer to purchase the balance.

Integration of Prime Finance will follow a similar strategy to the successful integration of Prime Grameen, which is now HNB Finance.

Investment Banking

The Acuity Partners Group delivered a strong performance as markets remained buoyant. Strong investor interest supported the performance of Acuity Stockbrokers while issuer interest strengthened the Corporate Finance pipeline for debt and equity. However, the share of profit from the joint venture decreased by 28% to Rs 293 Mn as 2020 saw exceptional growth in primary dealership business due to the drop in interest rates.

CREATING AN ENJOYABLE BANKING EXPERIENCE

We believe in offering an enjoyable banking experience to our customers through all our touch points. In 2021, the 'Committed to Serve' initiative was launched at 40 selected branches to upgrade knowledge, skill and resources required to deliver an unparalleled experience. The initiative was rolled out to the entire network in January 2022.

The down-payment we made in digital transformation in recent years and the focus on being a future ready bank, position us well to ride these challenging times. Our mobile banking solution and digital payment app SOLO are rated the highest among peers and we continue to enrich the value proposition to

our customers through enhanced features and user experience.

SHARPER INSIGHTS

Managing asset quality was a key priority and increased rigour of processes enabled the Bank to record the lowest NPA among peers as per the latest published information. We were also successful in minimising new entrants into the NPA portfolio affirming the effectiveness of the strengthened credit evaluation processes.

Overall, risk management dashboards supported sharper insights as we worked within approved parameters. Volatile conditions led to minimising market risk exposures in line with a prudent risk appetite aligned to the operating environment.

INVESTING IN OUR PEOPLE

Building a talent pipeline for leadership and investing time to understand the skills required in a future fit organisation were needs that we embarked on. We developed an aggressive succession plan and would be assessing the current skill set, performance and potential vis-a-vis the role and tailoring training, based on gap analysis. We've adopted a structured approach to this with coaching for Corporate Management team with industry experts, Catalyst programme for C-1, Acumen programme for next level and Aspire programme to develop the next layers of leaders.

Our brand is one of the most trusted brands in the country, evolving with the times to ensure that it remains relevant to a new generation of stakeholders. Our brand must appeal to people from all walks of life with a portrayal of the Bank's personality. We have spent a significant amount of time with the internal transformation to ensure that our systems support our promise and that our team is onboard with the brand values and promise.

The Bank has focused on training to align employee capabilities with the Bank's strategic goals, the evolution of the industry and a digitalised workplace. We have also embedded client experience into the performance management system, making it a performance objective. Creating a happy and bright team is a key goal and we have undertaken a 'Great Place To Work' assessment to understand areas for improvement.

We are committed to investing in our people and creating a great place to work to attract and retain talent. It's critical that we understand the mindset of millennials and changing aspirations. This year also saw the extension of the retirement age to 60 enabling us to retain our trained talent at the highest levels. While this has provided a buffer, we need to recruit and develop the next generation of employees to man the frontlines.

BRAND EVOLUTION

Our brand is one of the most trusted brands in the country, evolving with the times to ensure that it remains relevant to a new generation of stakeholders. Our brand must appeal to people from all walks of life with a portrayal of the Bank's personality. We have spent a significant amount of time with the internal transformation to ensure that our systems support our promise and that our team is onboard with the brand values and promise. The internal work is nearing completion and the new brand will be unveiled in 2022 as we commence the external transformation which will reflect the new HNB personality.

& LOOKING BEYOND, ADVANCING THE SUSTAINABILITY AGENDA

Sustainable solutions need to be developed fast to ease the prevailing situation in the country. It is also important to look ahead with positivity and capitalise on the opportunities. The rapid vaccination drive is expected to minimise disruptions as a result of the pandemic and support increased economic activity.

Our plans are aligned towards our country's economic growth. We are encouraging entrepreneurs to export and have collaborated to create relevant products and platforms to empower them and connect them to markets.

We have also strengthened our efforts to encourage Sri Lankans living overseas to place funds with us.

The revival of business post moratorium has been a key concern and we reduced the affected portfolio considerably down to 9% of the total portfolio from over 40% at the beginning of the pandemic. Approximately 30% of the remaining portfolio on moratorium is related to tourism and we expect the sector to recover as more countries reduce travel restrictions to kickstart this vital industry.

Retail banking will continue to thrive as we leverage our knowledge, reach and strong customer value proposition, to drive growth. SMEs and Microfinance portfolios will continue to expand and are expected to add significantly to our value proposition. The Wholesale Banking Group will continue to support priority sectors of the economy as we stay committed to playing a pivotal role in the economic resurgence of our Country. Our continuous focus on being future ready will support onboarding clients and growth in digital transactions, as we enhance our capabilities, solutions and platforms to provide a greater experience to our customers. We will also continue to enhance the stability and security of our systems and digital channels given the increased level of risks and threats with higher usage.

Insurance is also on an encouraging growth trajectory and will be supported by a digital transformation which will drive customer experience and efficiency. Investment Banking has a strong pipeline as issuer interest increased with the vibrancy of the stock market and attractive valuations. HNB Finance will adopt an approach of cautious growth, and we will see the integration of Prime Finance as the NBFIs sector goes through a consolidation amidst uncertain economic conditions.

We will look back at 2021 as a seminal year and COVID-19 as a major inflection point. For one, the pandemic dramatically accelerated digital consumption demand.

In addition, it has underlined the importance of the environmental, social and governance agenda. Issues around inequity, the rich-and-poor-divide and climate change will be on the minds of governments and people in the next five to 10 years. All businesses, including financial institutions, will be under pressure to

focus more on stakeholder capitalism and not just shareholder capitalism.

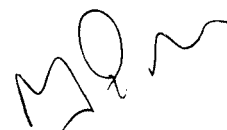
At the same time, we must continue to invest in building digital capabilities, championing the sustainability agenda, and in finding new avenues of growth.

ACKNOWLEDGEMENTS

Staying on course in 2021 was possible only with the support, determination and commitment of the employees of the HNB Group and I thank everyone for pulling together in a difficult year. I commend the performance of the Group Chief Executives, Corporate Management and Heads of Departments for motivating and coaching their teams to deliver on the strategic goals. I thank the Board for their visionary guidance and counsel in charting our course and overcoming multiple challenges during the year.

I wish to express my appreciation of the contribution over the years of late Mr. Nilanth De Silva who served on the Board and was appointed Chairman of the Bank in July 2021, shortly before his untimely demise in September 2021. We were also deeply saddened by the demise of two of our colleagues during the year who will be fondly remembered by the HATNA family.

I thank our customers for entrusting HNB Group to support their financial aspirations and commit to continuous improvement of our services. Our business partners have enabled us to explore new dimensions in banking and we count on their capabilities to transform banking together. We are also appreciative of the cooperation extended by the Governor and officials of the Central Bank of Sri Lanka. In closing, I thank our investors for their continued confidence in the HNB Group to deliver sustainable shareholder value.



Jonathan Alles
Managing Director / CEO

Colombo, Sri Lanka
18th February 2022

Operating Landscape

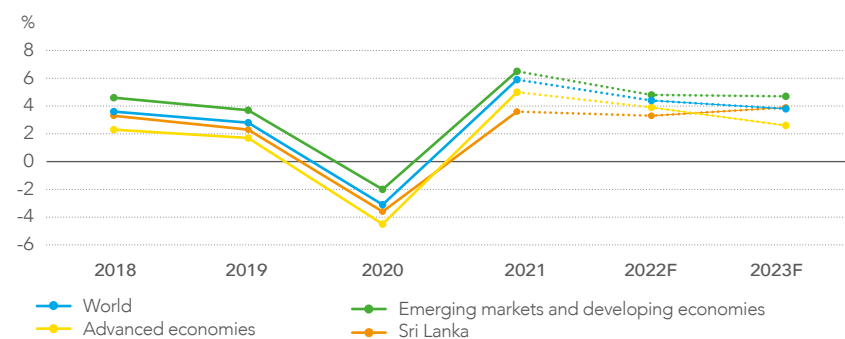
A MACRO PERSPECTIVE

Global economies continued to recover from the disruptions caused by the COVID-19 pandemic in 2020. IMF has estimated global growth at 5.9% in 2021 and forecasts moderation in growth to 4.4% in 2022 and 3.8% in 2023. Sri Lanka's economic growth is estimated around 4.0% for 2021 by the Central Bank of Sri Lanka.

Economic prospects have diverged across regions with inflation, roll out of the country's vaccines, the extent of policy support and supply chain disruptions emerging as the key factors driving the global economic recovery in this period. Most countries have experienced temporary price pressures due to supply-demand mismatches amidst the pandemic. Central banks commenced tightening monetary policy signalling the end of a period of extraordinary policy support.



Real GDP Growth

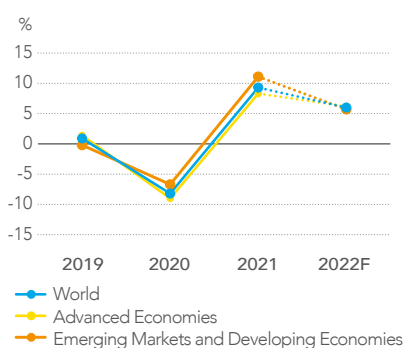


Source: World Economic Outlook (WEO)

Trade volumes regained strength, growing by 9.3% in 2021 after declining by 8.2% in 2020 due to the pandemic. Trade growth is projected to moderate to 6% in 2022 and 4.9% in 2023 as supply chain shocks abate.

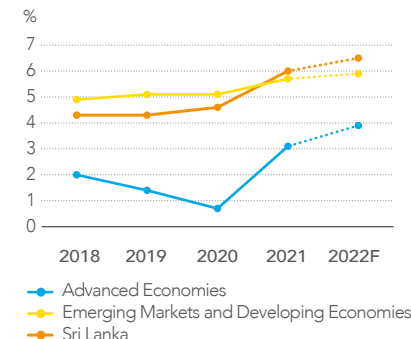
Inflation increased to 3.1% for advanced economies and 5.7% for emerging market economies in 2021 while Sri Lanka recorded 12.1% as measured by the CCPI. Inflation is expected to increase in 2022 as fuel and food prices are expected to rise. These conditions are expected to ease in 2023 with stronger demand for services.

Trade Volumes



Source: World Economic Outlook (WEO)

Consumer Prices



Source: World Economic Outlook (WEO)

KEY UNCERTAINTIES

- » The duration of the pandemic will have a significant impact on forecasts with a longer duration expected to worsen the outlook and have knock on impacts on social factors
- » The US has commenced tightening monetary policy as these changes impact market perceptions and reactions which, in turn, may have significant impacts on emerging market economies
- » A prolonged pandemic can continue to disrupt supply chains hindering growth and exerting pressure on inflation
- » Potential for tighter labour markets to increase pressure on wages which may also lead to persistently higher inflation
- » Other factors such as the slowdown in China's real estate sector, climate change, geopolitical tensions and social unrest could also pose downside risks to the forecast.

SRI LANKAN ECONOMY

Following the COVID-19 pandemic induced 3.6% GDP contraction recorded in 2020, the Sri Lankan economy saw a strong rebound at the start of this year. This was supported by unprecedented monetary and fiscal policy stimulus measures which included debt relief for pandemic-hit sectors from the government. Businesses also embraced digitalisation to adapt to the post-pandemic environment supporting economic recovery. All subsectors of the economy recorded an impressive growth compared to the same period last year, admittedly from a low base.

However, the re-emergence of the COVID-19 pandemic and related preventive measures dampened the growth momentum to some extent during the second half of the year. The sovereign rating of the country was downgraded to Caa2 from Caa1 by Moody's, amidst concerns that the country would not be able to meet its debt obligations. While Standard and Poor's also followed suit, Fitch Ratings downgraded the sovereign by another notch to CC.

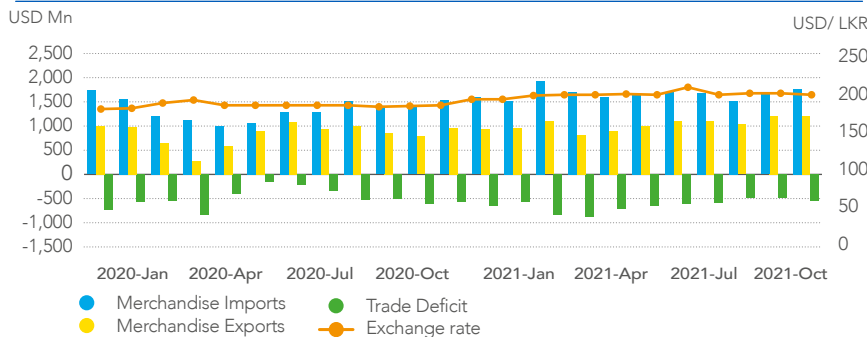
The successful rolling out of the national COVID-19 vaccination programme and the government's strategy to impose only selective mobility restrictions is expected to sustain the momentum of economic activity in the period ahead. However, the foreign currency liquidity crisis remains a critical issue as it has a significant impact on imports of fuel, essential goods and the country's supply chains across all sectors.

External Trade

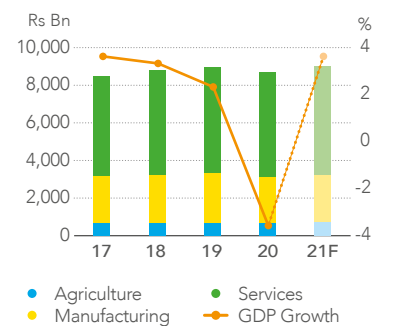
Sri Lanka's export sector commenced recovery during the latter part of 2020 recording a faster than expected recovery in almost all subsectors, including industrial, agricultural, and mineral exports. Leading garment manufacturers quickly adopted to manufacturing and exporting personal protective equipment which also contributed to the export sector reaching pre-pandemic levels at a good pace. However, export growth slowed down since May 2021 with the onset of the third wave of the pandemic, recovering in the 4th quarter due to the continuation of stimulus policies and a more targeted vaccination drive allowing workers of key sectors such as the apparel sector to be vaccinated.

To avoid an unfavourable balance of payments and foreign exchange reserve position, the government swiftly implemented import controls. Despite the import controls remaining in place in 2021, a rise in oil prices and a recovery in demand resulted in a considerable rise in the import bill. The trade deficit expanded to USD 7.0 Bn with the increase in expenditure on imports, compared to USD 5.4 Bn for the same period in 2020, leading to a widening of the external current account.

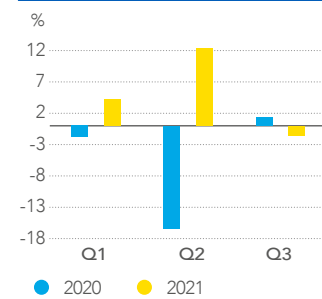
External Trade & Exchange Rate Movement



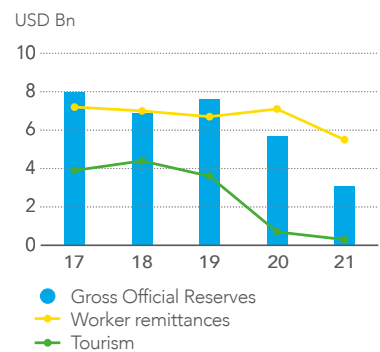
GDP



Quarterly GDP Growth



Foreign Currency Reserves & External Sector Indicators



Operating Landscape

Worker Remittances

Workers' remittances, which remained resilient amidst the pandemic moderated during the latter half of this year.

Inflation

The NCPI and CCPI accelerated during the year mainly driven by high food inflation and some acceleration in non-food Inflation. Supply chain disruptions, rise in the global commodity prices, depreciation of the exchange rate and import restrictions were the main causes of inflationary pressures on the economy. The envisaged improvements in aggregate demand conditions and the

likely increases in global energy and other commodity prices may generate further inflationary pressures in 2022, requiring preemptive policy measures to ensure the maintenance of Inflation in mid-single digit levels over the medium term

Interest Rates

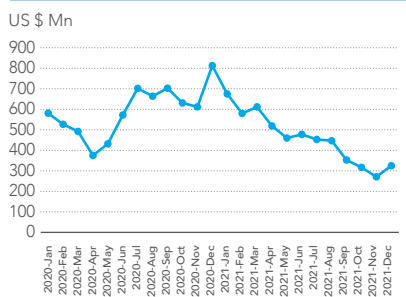
Policy rates edged upwards by 50 basis points in August 2021. AWPLR which was around 5.50% - 6% during the first eight months moved up to 8.61% as at end of the year. One year Treasury Bill rate moved faster increasing from 4.69% in January 2021 to 8.16% as at end of the year.

In January 2022, policy rates were increased by a further 0.5% to curtail the potential build up of pressure from underlying demand pressures in the economy.

Credit Growth

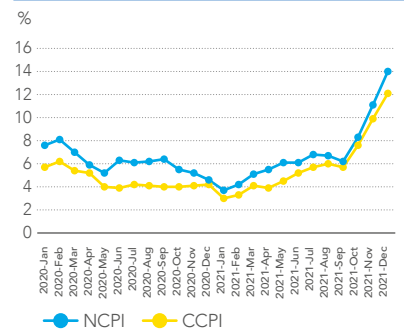
Credit to the private sector expanded to Rs 6,920.1 Bn by end November 2021 due to the low interest rates and surplus liquidity levels in the market. Credit obtained by the public sector from the banking system, particularly net credit to the government, also increased during the year to Rs 1,183.7 Bn by end November 2021.

Worker Remittances



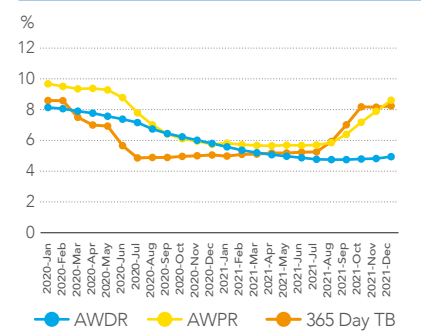
Source: Central Bank of Sri Lanka

Inflation- NCPI & CCPI



Source: Department of Census & Statistics

Interest rates



Source: Department of Census & Statistics

BANKING INDUSTRY

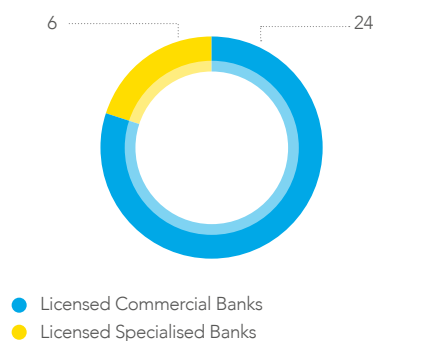
The Banking industry played a supportive role in 2021 with the extension of moratoria until end June 2022 and the implementation of wide-ranging policies to manage the foreign exchange liquidity crisis.

Growth

The Banking sector assets increased by 12.5% to Rs 16.49 Tn up to the end of the 3rd quarter of 2021 as economic activity picked up and low interest rates supported private sector credit growth. Accordingly, gross loans and advances of the Banking sector increased by 13.9% to Rs 10.36 Tn at the end of the third quarter 2021. The gross non-performing advances ratio improved marginally from 4.9% in 2020 to 4.8% by third quarter 2021 as asset quality improved due to increased vigilance over stressed assets.

Deposit growth recorded a 11.9% growth up to the 3rd quarter of 2021 compared to 21.6% recorded for 2020 with funds being utilised with the pick up in economic activity. CASA ratios improved to 33% by the 3rd quarter with balances growing by a healthy 22% while time deposits also recorded strong growth of 11%.

Banking sector of Sri Lanka



Earnings

Profitability of the sector improved up to third quarter supported by improved interest income, fee income and efficiencies. A number of players reaped the benefits of investments in digitalisation which was a necessity in a pandemic era, taking the banking sector towards a digital era.

Net Interest Income of the Banking Sector improved by 27.4% upto third quarter 2021 due to sound growth in assets. NIMs improved from 3.1% in 2020 to 3.4% by the close of the third quarter 2021 reflecting rise in interest rates and corrections in pricing of risk as market sentiments remained uncertain across a number of sectors. Non-Interest income also increased by 18.5% upto third quarter 2021 due to higher economic activity and foreign exchange income which increased by 59.2%.

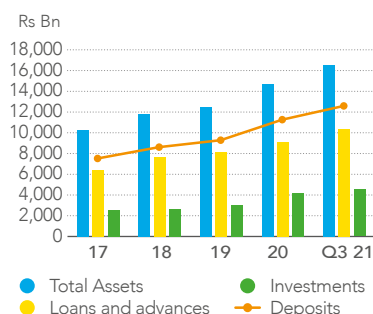
The Efficiency ratio improved from 51.8% in 2020 to 47.5% by third quarter 2021 supported by digitalizing of the sector and improved efficiencies as everyone adjusted to a socially distanced lifestyle. Impairments charges declined up to third quarter 2021 reflecting the improvement in economic activity and the measures taken by banks to manage asset quality. third quarter Profit Before and After Taxes of the Banking sector indicate favourable movements for the year which is reflected in the improvement of ROE from 11.4% in 2020 to 15.1% by third quarter 2021.

Stability

The banking sector continued to operate with adequate levels of capital, statutory liquid assets ratios and provision coverage ratios during the year. Despite the relaxation provided to drawdown the Capital Conservation Buffer (CCB) by 100 basis points for Domestic Systematically Important Banks (D-SIBs) and 50 basis points for non-D-SIBs, the banking sector was primarily in compliance with the required Capital Adequacy Ratios without drawing down the CCB.

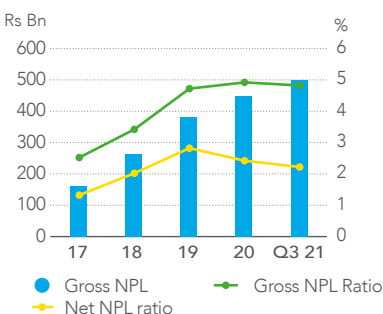
Capital ratios are expected to improve with the retention of profits and raising of new capital to meet the increased minimum capital requirements. The banking sector operated with an adequate liquidity buffer above the minimum regulatory requirement of 20%.

Growth of Banking Sector

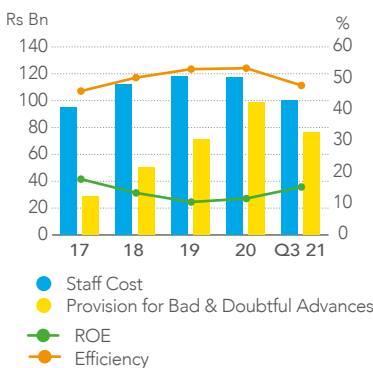


Source: CBSL

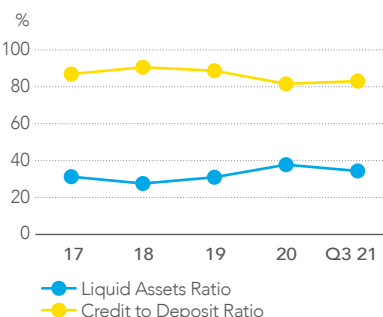
Asset Quality



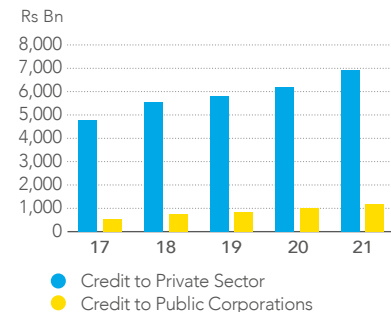
Key Expenses & Ratios



Liquidity

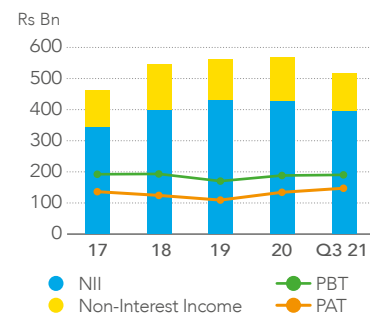


Credit Growth

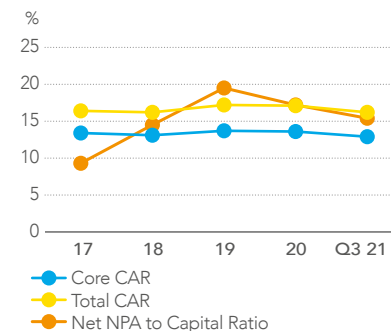


Source: CBSL *as at 2021 November

Profitability



Capital Adequacy Ratio



Operating Landscape

FUTURE OUTLOOK

Uncertainty regarding forecasts for 2022 are elevated with the prevailing foreign currency situation, which could impact sustainable growth of economic activity. Risks to global growth outlined above would also be applicable to the country's outlook. Sri Lanka, as a nation, holds immense potential in many sectors including exports, tourism, education, healthcare, IT, KPO, BPO etc. Growth in several export sectors in 2021 and the pickup in the tourism industry over the past few months has been encouraging. The relaxation of travel restrictions by several nations also augurs well for the tourism industry. We believe that sustainable solutions will be developed to revive the economy of Sri Lanka.

OPPORTUNITIES FOR HNB GROUP

Digital Dividends

The Bank commenced its digital transformation nearly a decade ago and was ready for the mass digitalisation of the industry. Onboarding customers to digital platforms was accelerated with the onset of the pandemic. It is vital for the Group to capitalise on the strength of its digital infrastructure already in place and increase the onboarding of clients to enhance customer experience and make banking more convenient, supporting digital revenue growth and operational efficiencies.

Grow Exports

The Bank's portfolio was weighted to importers and increasing restrictions on imports necessitated growth of the export portfolio urgently. Products such as Expo Credit provided a strategic advantage as well as the ISO certified trade finance department who were among the most knowledgeable professionals in the market. Combined with a comprehensive customer value proposition, 2021 was a year to grow the export

portfolio and strengthening this vital sector would be a key focus going forward.

Grow Renewable Energy Portfolio

Increased focus on renewable energy to mitigate climate change and reduce the country's reliance on imports of fossil fuels provided a lucrative opportunity for the Bank to formulate a strategy for climate action. Aside from reducing its own carbon footprint, the Bank has an opportunity to invest in renewable energy through its lending activities as well as through investments through Lanka Ventures PLC, its venture capital associate.

Deposit & CASA Growth

As the uncertainty about financial stability of institutions spilled over into 2021 and perhaps on to 2022, HNB had and has a strategic opportunity to grow its deposits and CASA as depositors favoured stability over returns. A 133 year heritage, a strong domestic franchise, 255 customer touchpoints and a portfolio of innovative digital products are key strengths to capitalise on this opportunity.

Deeper Client Relationships & Group Synergies

HNB's innovative and future forward range of products and digital platforms support deeper customer relationships, extending the customer lifecycle. Strong customer satisfaction scores provide further impetus to reap the dividend that cross selling can bring. Bancassurance has been a key success area as well as Investment Banking and Custodian Banking. The Payments and Cash Management platform will be a focus area in 2022

Create the Next Gen Team

The HATNA family is a tried and tested team that understands the corporate value well. We are now transforming this team to take banking to a new era with a multi faceted people transformation programme that encompasses creating the next generation of leaders, talent fitment to ensure people are happy doing what they do and to make banking enjoyable for our customers through positive interactions.

CHALLENGES FOR HNB GROUP

Foreign Currency Liquidity

The country's foreign currency crisis has constrained economic growth and stifled growth of trade finance income. The capacity of the Bank and the sector to support foreign trade flows would depend largely on how fast solutions are formulated to overcome the situation.

Tightening Monetary Policy

As monetary policy tightens and interest rates move up, the market dynamics can change and pose additional threats which include threats to increased default risk and moderating credit

growth. Strong risk management structures and asset and liability managements structures support management of various potential risk factors and we remain vigilant about developments in this regard.

End of Moratoria

Moratoria have been extended to customers since 2019, particularly those in the tourism sector, and these are scheduled to end in June 2022. The moratorium affected portfolio has been reduced from 40% of gross loans and advances to a mere 9 % as at end of 2021, with






moratoria to the tourism sector being under 3% of the gross loans. While, credit risk processes have been strengthened, this systemic impact requires careful management and the Bank is working closely with its affected clients to ease the transition.

Sovereign Rating Downgrade

A sovereign rating downgrade could have a negative impact on the profitability of the Bank as additional impairment charges will have to be booked on account of investments in foreign currency denominated government securities.

Listening to Stakeholders

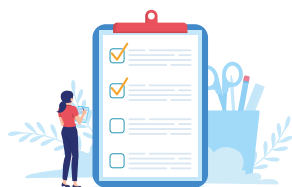
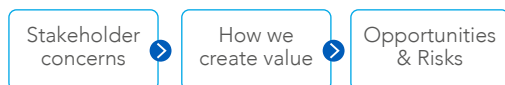
Listening to stakeholders has been institutionalised and is critical to our strategic formulation and performance management processes. Dedicated functions for monitoring Customer Experience, Employee Experience and Investor Relations have been in place for a few years and have matured to provide reliable and timely information on their concerns. These have formed the basis for several initiatives launched to address identified stakeholder concerns and monitor the effectiveness of these interventions and strategies.

STAKEHOLDER	EXPECTATIONS	MODE OF ENGAGEMENT	FREQUENCY						
			ANN	MON	QUA	DED	AREQ	ASPE	CON
Investors 	» Stable macro situation » Sound financial performance » Sustainable shareholder returns » Transparent reporting » Integrated risk management » Sound ESG practices	Investor Relations team				✓			
		Investor Forums					✓		
		Road shows					✓		
		One-on-one meetings					✓		
		Webinars			✓				
		Annual Report /Annual General Meeting	✓						
		Email communication					✓		
		Corporate Website							✓
		CSE announcements					✓		
		Customers 	» Excellence in service delivery » Innovative and relevant products » Supporting business revival » Ease of access » Privacy and security of information » Grievance handling mechanism	Call Centre				✓	
Relationship managers						✓			
One-on-one meetings							✓		
Public advertisements and press releases							✓		
Complaints							✓		
Corporate Website									✓
Social media									✓
Focus groups/surveys							✓		
Workshops							✓		
Employees 	» Fair remuneration & benefits » Career progression » Training and development » Conducive work environment » Health and safety at work place » Work life balance			Chief Employee Experience Officer				✓	
		CEO Newsletter		✓					
		Engagement Surveys					✓		
		Employee days		✓					
		Grievance mechanism					✓		
		Managers conference	✓						
		Regional review meetings		✓					
		Special events	✓						
		Hatna Magazine	✓						
		Community 	» Responsible lending » Financial inclusion » Climate action » Strategic philanthropy » Waste management	Press releases					✓
Public events							✓		
Social Media									✓
Corporate website									✓
Regulator / Government 	» Compliance with regulations » Partnering economic growth of the country » Stable financial performance » Supporting business revival			Formal communication					✓
		Periodic reporting					✓		
		CEO's meeting		✓					
		Meetings / discussions					✓		
		Feedback on draft papers and regulations					✓		

ANN Annual | MON Monthly | QUA Quarterly | DED Dedicated | AREQ As required | ASPE As specified | CON Continuous

Determining Materiality

The process for determining material issues has evolved over the years as our commitment to sustainability and understanding deepened.

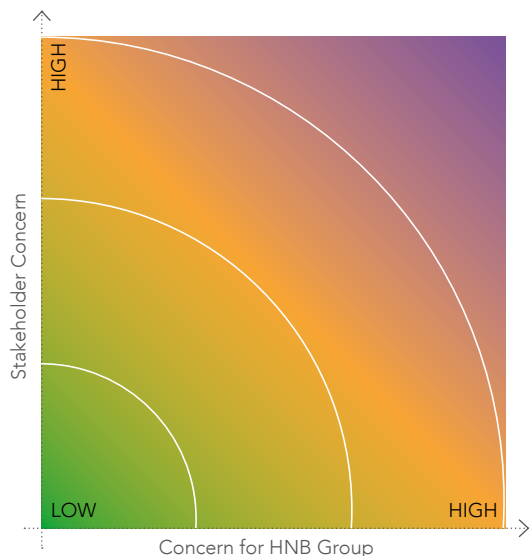


Long list of potential material matters



Materiality Test

- » Impact on strategic goals
- » Common Interests
- » Trade Offs
- » Managing accountability, oversight and reporting



2021 Rank

Our Material Matters

EXTREMELY HIGH

Economic and Policy Uncertainty

The impact of the pandemic has taken a toll on the economy leading to increased policy uncertainty.

Stakeholder Health and Safety

This remains a critical factor as banking is an essential service.

Customer Experience

Making banking enjoyable is key to our strategy.

Technology and Future Readiness

This is critical to service delivery and customer experience.

Integrated Risk Management

Key to ensuring stability and resilience and the level of priority is higher under volatile conditions.

HIGH

Brand and Reputation

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

Talent attraction, development and retention

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

Financial stability and profitability

A major concern for several stakeholders including the regulator

FUNDAMENTAL

Ethics, Governance and Compliance

A strong foundation for creating value

Inclusive growth and responsible lending

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

Innovation

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


























Business network relationships

Managing relationships with correspondent banks, franchise owners, merchants, agents and suppliers and other business partners is necessary for service delivery.

Climate Action



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

The level of priority of our material matters remained unchanged from 2020.

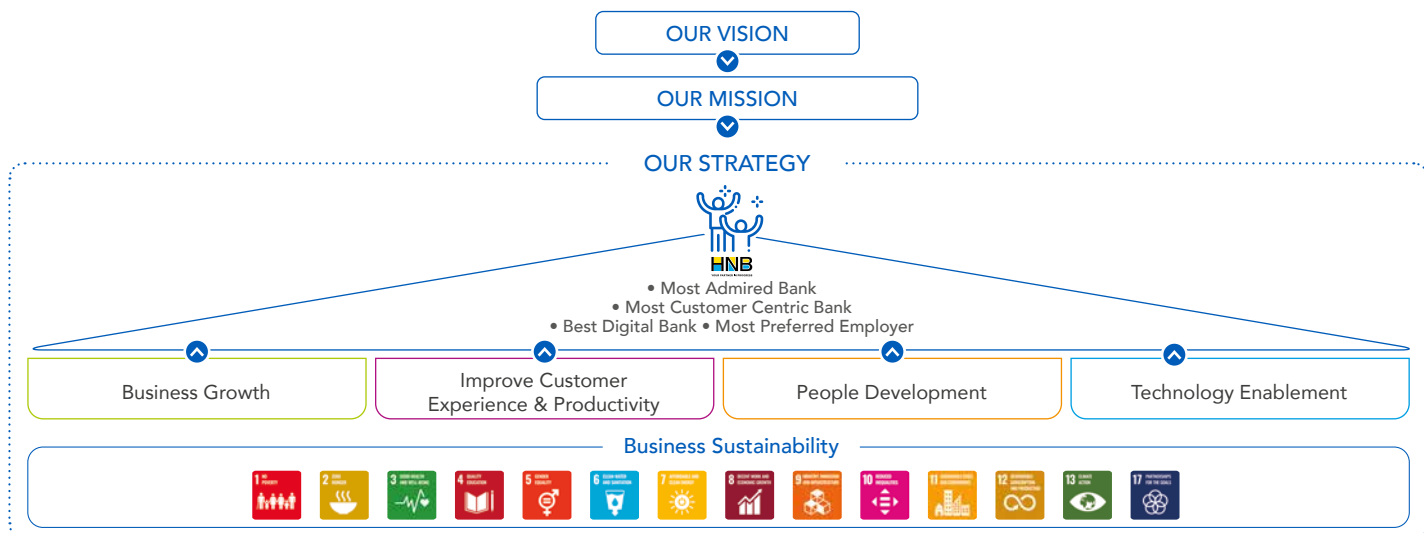
GRI Topic	UN SDG Goals	Sustainable Banking Principles
201-1, 201-4, 203-1, 203-2, 207-1, 207-2, 207-3		7, 9
403, 416		3
102-43, 102-44, 418-1		3
203-1, 203-2	 	4, 7, 8
102-15, 102-30	 	1, 5, 10
102-2		6, 10
404-1, 404-2, 404-3, 405-1, 405-2, 412-2	  	8
201-1	  	10, 11
102-16, 102-17, 102-18		1, 6, 10, 11
102-15, 201-1	   	1, 4, 5, 6, 11
201-2		9
102-12		9
201-2, 302-1, 302-2, 302-3, 302-4, 302-5, 304-3, 305-1, 305-2, 305-4, 305-5, 306-2	   	1, 2, 5, 7

A Transformative Strategy

The business strategy finalised in 2020 with the onset of the COVID-19 pandemic was revisited in 2021, as the operating environment continued to evolve. While the five key pillars of our strategy continue to remain relevant, we reset our medium-term goals in line with our objectives. We highlight below the progress towards our goals in 2021, and our short term, medium term and long term plans to realise our aspirations.

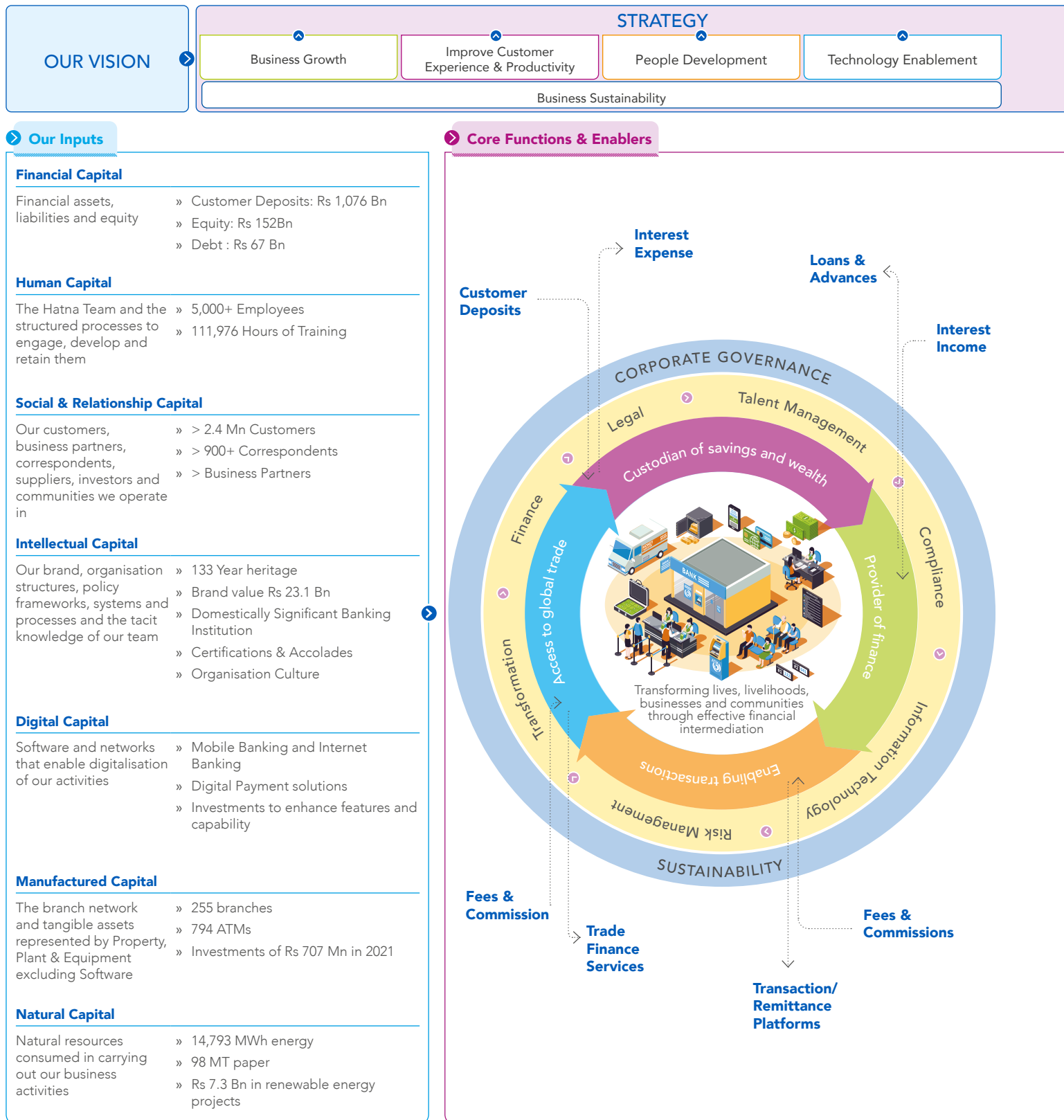
Pillar	 INVESTOR Business Growth	 SOCIETY Business Sustainability
Objectives	To be the No. 1 Bank among private sector banks in Sri Lanka	To be the most sustainable and resilient bank
Medium Term goals	» Most profitable Bank and Group among private sector banks	» Best among peers in terms of asset quality and capital » Operational losses < 1% of Profits » Zero regulatory fines » To be carbon neutral
Alignment to SDG targets	1.4, 2.3, 4.3, 6.1, 8.3, 9.1, 11.1	16.5, 16.6, 3.5, 3.9, 6b, 7.2, 8.7, 8.10, 10.1, 12.4, 1.2.5, 13.3
Plan 2021	» Capture new business opportunities » Relationship management » Improve sales culture	» Strengthen governance » Improve, credit, compliance and risk management culture » Enhance cyber and information security
Our Scores for 2021	» Loan growth : 14% » Deposit growth : 11% » CASA growth : 15% » Fee growth : 27% » ROA : 1.3% » ROE : 12.1% » Cards # 1 acquirer	» NPA : 3.38% (best amongst peers as at Sep 21) » CAR : 18.16% » LAR : 28% » LCR : 208% » Operational losses : 0.2% of profits » Regulatory fines : Zero » Carbon footprint : 9,592 tCO2e
Our Future Plans	» Support national growth by lending to priority sectors MSME, agriculture, exports, health, education, renewable energy etc. S M L » Continue the transformation journey S » Focus on optimising group returns through organic and inorganic means. M L	» Support business revival S » Drive a risk and compliance culture. S M » Strengthen governance framework M L » Refine the climate action plan S » Obtain carbon neutral certification S » Significantly grow the green portfolio S M » Focus on supporting micro entrepreneurs S M » Promote diversity S M

S Short term | **M** Medium Term | **L** Long Term



CUSTOMER Productivity Improvement and Customer Experience		Technology Enablement	EMPLOYEE People Development
To be the Most Customer Centric Bank in Sri Lanka		To be the Best Digital Bank in Sri Lanka	To be the Most Preferred Employer
» NPS > 65% » Cost to income <30%		» Additional income : Rs 1Bn » New customers to be on-boarded : 1 Million	» Employee Engagement Score of 70%
		8.2 17.8	5.1 8.5
» Continuous improvement of processes » Cost optimisation » Automation		» Stabilise core systems » Develop enabling systems » Improve analytic capabilities	» Capability development » Strategic workforce planning » Succession planning
» NPS : 56% » Cost to income : 34.4%		» Growth in digital transactions : 89% » Customers on boarded to digital channels : 20% » Investment in technology : Rs 870 Mn	» Retention : 91% » Training hours per employee : 22.2 » Increase in participants covered : 51.6%
» Continuous improvement of processes through re-engineering and automation S M » External rollout of the brand transformation S » Launch innovative products to suit all market segments M » Enhance capability of digital products and services S M » Drive digital usage S » Increase usage of data and analytics M » Enhance information security and system stability M			» Formulate development plans for succession M » Strategic Workforce planning S » Improve coverage on learning and development [M] » Implementation of remote/flexible working arrangements S » Revamping of performance management system and rewards mechanism S

How We Create Value for Stakeholders



VALUES

Outputs

Rs **929** Bn
Loans

Rs **1,076** Bn
Customer Deposits

Rs **49** Bn
Interest Paid

Rs **139** Bn
Imports

Rs **90** Bn
Exports

Rs **86** Bn
Moratoriums

Outcomes

Financial Capital

- + ROE increased to 12.1%
- + NBV per share increased to Rs 336/-
- + Cash Dividend increased to Rs 6.50 per share
- + Market Price increased by 7%

Human Capital

- + Rs 10.8 Bn in remuneration and benefits
- + Zero retrenchments or pay cuts
- + Attrition 9%

Social & Relationship Capital

- NPS reduced to 56% with improvement in measurement methodology
- + Grant to 200 Micro entrepreneurs
- + Strategic CSR investment of Rs 12.3 Mn
- + Taxes paid of Rs 7Bn

Intellectual Capital

- + Brand value maintained
- + Tacit knowledge

Digital Capital

- + 89% increase in digital transactions
- + Transactions of Rs 2.5 Trillion through digital channels
- + 205% growth in value of digital transactions

Manufactured Capital

- + 3 New branches
- + Rs 25 Bn of tangible assets

Natural Capital

- Carbon footprint 9,592 tCO₂e
- + 100% paper recycled
- + 2,638 MWh solar energy generated

Stakeholders impacted

Financial Capital



Human Capital



Social & Relationship Capital



Intellectual Capital



Digital Capital



Manufactured Capital



Natural Capital



Financial Review

EARNINGS

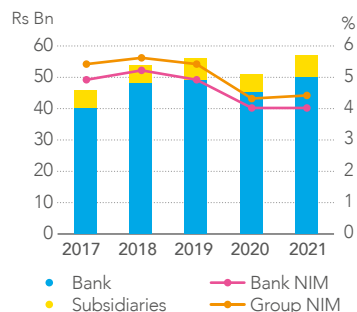
INCOME

Net Interest Income
Rs **56.5** Bn

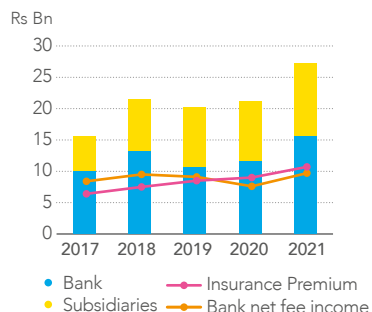
Non Interest Income
Rs **27.9** Bn

Total Operating Income
Rs **84.4** Bn

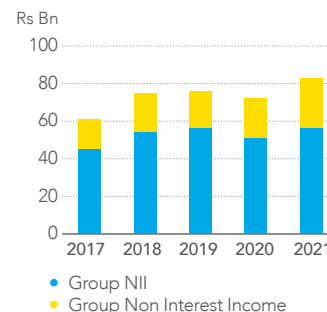
Net Interest Income



Non-Interest Income



Total Operating Income



NET INTEREST INCOME

Net Interest Income (NII) of the Group increased by 11.1% to Rs 56.5 Bn in 2021 driven by loans and advances growth of 14.4% and CASA growth of 14.9%. Net Interest margins also improved from 4.3% to 4.4% supported by strong CASA growth and increase in interest rates with the increase in policy rates.

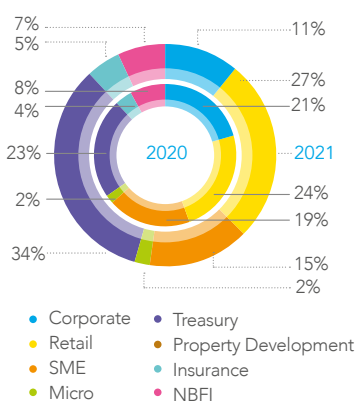
NON-INTEREST INCOME

Net Fee & Commission Income increased by 28.5% to Rs 10.3 Bn supported by increased transaction volumes in cards and trade, in comparison with 2020, which was a dull year for these two business segments. Net Other Operating Income was a key contributor to Non-Interest Income which was largely attributable to the position revaluations as the exchange rate depreciated by 7.5% in 2021. Net Insurance premiums increased by 19.5% to Rs 10.6 Bn as HNB Assurance, continued its steady growth trajectory as they completed two decades of business.

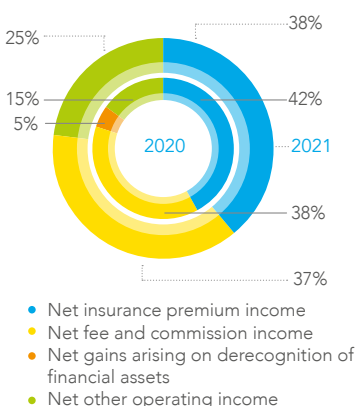
TOTAL OPERATING INCOME

Total Operating income increased by 17.1% to Rs 84.4 Bn supported by sound growth in NII complemented by increased Commission Income and Exchange Gains as economic activity picked up in 2021. The Bank accounted for 77.9% of Total Operating Income. The charts below reflect the NII and Total Operating Income from the Group's key business lines and also provide a view of the components of Non Interest Income.

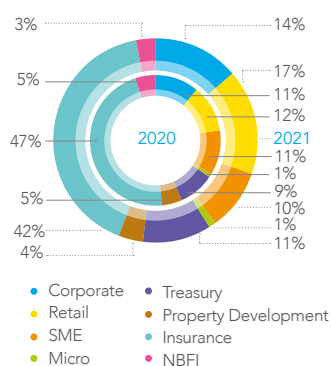
Segmental NII contribution



Composition of Non Interest Income



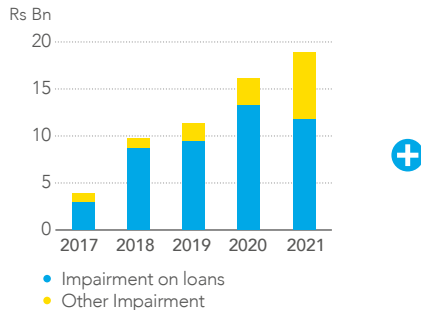
Segmental Non Interest Income Contribution



CHARGES AND EXPENSES

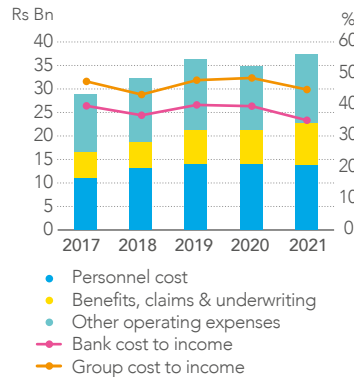
Impairments
Rs **19.5** Bn

Impairment



Operating Expenses
Rs **37.3** Bn

Operating expenses



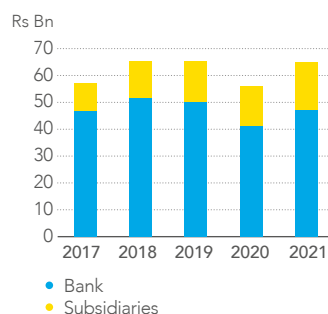
Group Impairment charge increased by 21.7% to Rs 19.5 Bn largely due to a sharp increase of 144.9% in impairment charge for debt instruments triggered by the downgrade in the sovereign rating by Fitch to CC. The Group made a total impairment of Rs 6.8 Bn on account of investments in dollar denominated government securities.

Taking in to account exposures to elevated risk industries and the impact on portfolios once the moratorium period ends, significant overlay was built in to the impairment charges on account of loans and advances in 2021 similar to 2020. Nevertheless, impairment charges for loans and advances declined 5.5% to Rs 12.4 Bn reflecting the reduction of loans under moratorium and the improvement in asset quality during the year. This was possible due to the focus and increased rigor placed on managing credit risk and recoveries.

Total Operating Expenses of the group increased by 7.3% with claims and benefits of the insurance group increasing by 21.4% compared to a subdued 2020. Although there were no staff outlays or salary cuts, personnel expenses declined by 2% YoY on account of a Rs 2.3 Bn reversal on provision for pension and retirement benefits in the Bank with the extension of retirement age to 60 years. Other overheads increased by 8.8% YoY however, this was still 3.9% less than pre-pandemic 2019 level, due to the drive on cost optimisation and operational efficiency.

Accordingly, Group cost efficiency ratio improved from 48.3% in 2020 to 44.3% in 2021, while Bank cost to income ratio improved from 39.3% to 34.4%. If adjusted for the one off reversal in the pension fund, the cost to income ratios would be 37.9% and 47% for the Bank and the Group respectively.

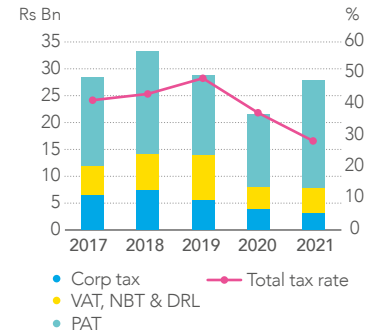
Net Operating income



PROFITS

PBT Rs **23.1** Bn
PAT Rs **20.1** Bn

Group

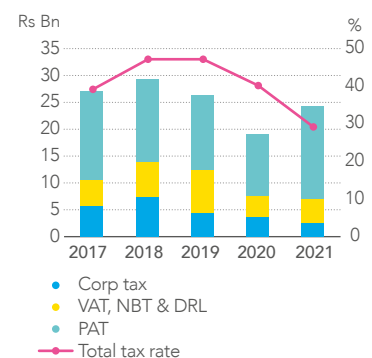


The share of profits from joint ventures declined by 28.1% to Rs 292.8 Mn as the primary dealership arm performed exceptionally well in 2020 due to the reduction in interest rates.

Group Taxation declined by 3% to Rs 7.7 Bn mainly due to the reduction in corporate tax rate to 24% and settlement of several assessments during the year resulting in the reversal of tax over provisions.

Profit After Tax improved by 47.0% at Group level to Rs 20.1 Bn driven by commendable performances of the Bank and the subsidiaries. Profit Attributable to Shareholders improved by 45% to Rs 19 Bn. Earnings per share increased from Rs 24.90 to Rs 36.18 in 2021.

Bank



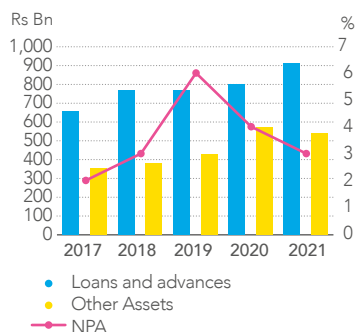
Financial Review

FINANCIAL POSITION

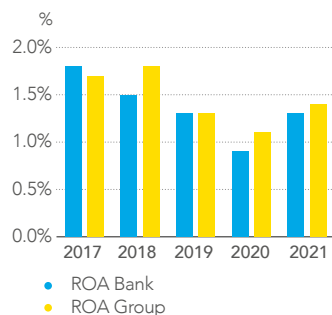
ASSETS

Group Total Assets
Rs **1,453.6** Bn

Group Total Assets



ROA



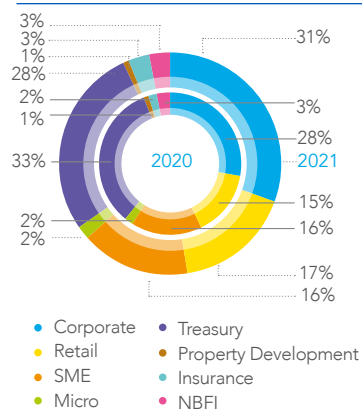
Having adopted a cautious approach towards credit growth over the previous two years, 2021 saw credit growth picking up with economic activity improving towards the latter part of 2021.

Group and Bank net loans and advances increased by 13.8% and 13.4% to Rs 911.3 Bn and Rs 876.3 Bn respectively in 2021. Accordingly, loans and advances portfolio accounted for 62.7% of Total Assets compared to 58.4% in 2020. Loan growth was funded largely by liquidating investments in GOSL securities which grew over the past couple years due to lackluster credit growth. Investment in sovereign bonds and Sri Lanka development bonds also reduced from 15% of total assets to 12% with the maturities in 2021.

Asset quality has remained a key focus for the HNB Group supporting a decrease in Stage 2 loans and advances by 24.7% while curtailing growth of Stage 3 to a mere 0.8%. These measures have enabled the Bank to manage NPA at 3.4% in 2021 compared to 4.3% in the previous year despite challenges within the economy. Accumulated impairment for the Bank increased across all three stages reflecting prudent provisioning while impairment cover against stage 3 loans improved from 48.4% in 2020 to 56.1%.

Total assets increased by 5.1% and 6.0% to Rs 1,358.3 Bn and Rs 1,453.6 Bn respectively for the Bank and the Group reflecting prudent growth strategies.

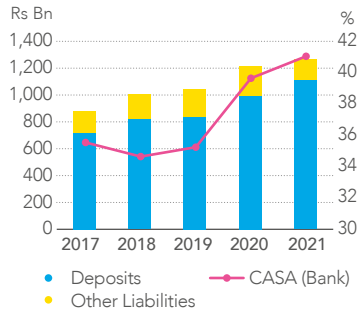
Segmental Assets



LIABILITIES

Group Liabilities Rs 1,270.4 Bn

Group Liabilities



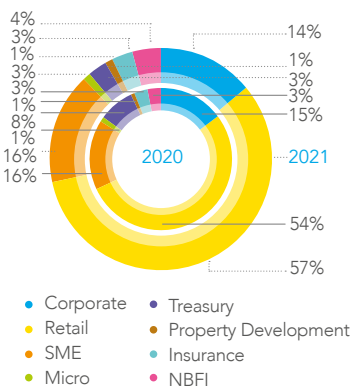
Deposit growth remained steady at 11.3% and 11.1% for Group and Bank respectively. During the year, the Bank surpassed Rs 1 Trillion mark in total deposits recording Rs 1.07 Trillion and Rs 1.1 Trillion for the Bank and the Group respectively as at 31st December 2021. CASA deposits grew at a much faster pace of 15% for both Bank and the Group. Accordingly, the CASA ratio improved to 41% for the Bank compared to 39.6% as at end of 2020.

Foreign currency deposits which account for nearly 21% of total deposits of the Bank grew by Rs 44.7 Bn, at a faster pace of 24.3% during the year due to the concerted efforts in mobilising foreign currency deposits during the year.

Accordingly, deposits now account for 76% and 79% of Group and Bank funding respectively at the balance sheet date, an increase over the 73% and 75% at the close of 2020 as it increased in significance.

Total Liabilities amounted to Rs 1,270.4 Bn recording a growth of 5% which was largely driven by deposit growth for the Group. The Bank accounts for 96% of Group Liabilities which were Rs 1,206.3 Bn at the close of the year.

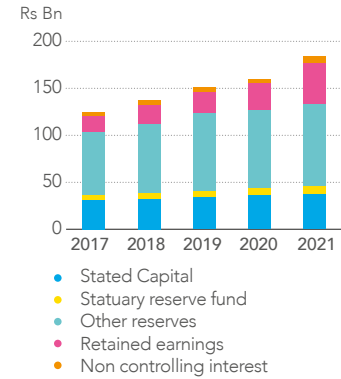
Segmental Liabilities



EQUITY

Shareholder's Equity Rs 183.3 Bn

Total Equity

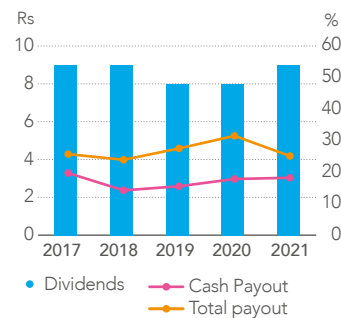


Equity accounted for 23.8% of Group and 23.1% of Bank funding as retained earnings increased by 48.6% to Rs 43.6 Bn. At the close of the year, Total Equity of the Group was Rs 183.3 Bn while the Bank recorded Rs 152.0 Bn for the same.

Group ROE improved from 8.7% to 11.5% while the Bank ROE improved from 8.8% to 12.1% as at end of 2021.

No interim dividends were paid during the year due to prudential concerns and the restrictions on discretionary payments which were in force until the close of the year. The Board of Directors of the Bank declared a final dividend of Rs 9.00 per share consisting of a cash dividend of Rs 6.50 per share and scrip dividend of Rs 2.50 per share.

Dividends

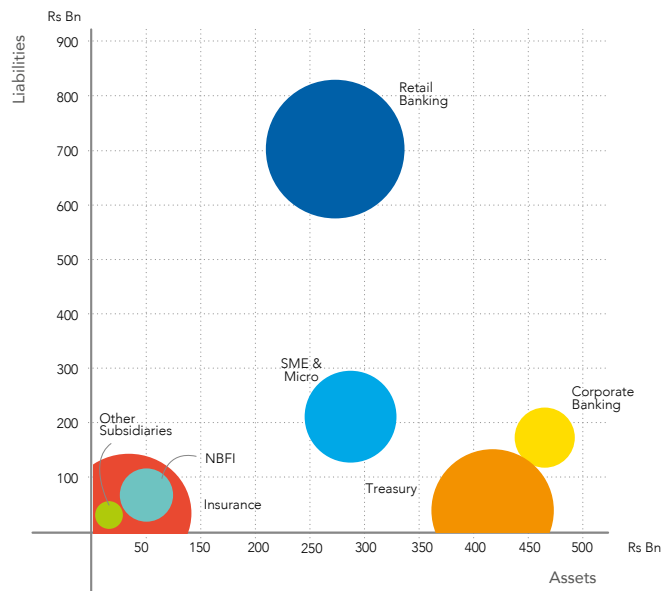


Financial Review

RATING

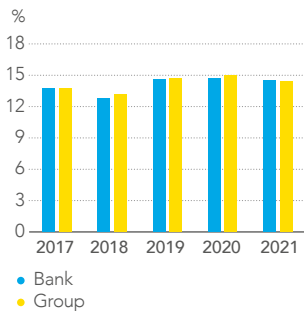
Our rating was affirmed at AA-(lka) by Fitch Rating Lanka Ltd with a stable outlook which is the highest rating among local licensed commercial banks in the country.

OVERVIEW OF SEGMENTS

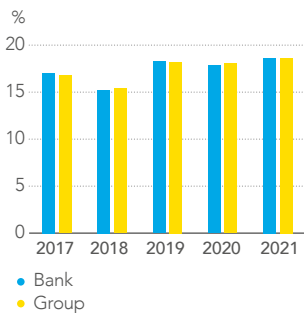


CAPITAL ADEQUACY

Tier I Capital



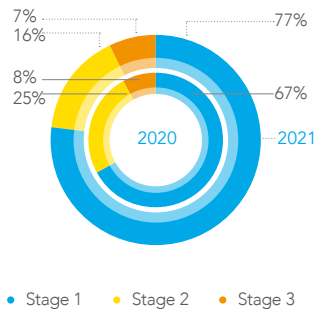
Total Capital



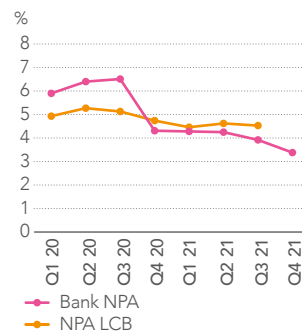
The regulatory requirement for Tier I is 8.5% and Tier II is 12.5%.

ASSET QUALITY

Stagewise Loans



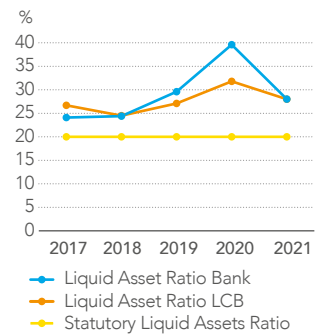
NPA



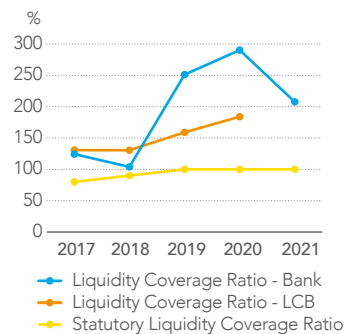
NPA 3.4% (2021) 4.3% (2020)
 Stage III loans 2.6% (2021) 3.4% (2020)
 Stage III provision 56.1% (2021) 48.4% (2020)

LIQUIDITY

Liquid Asset Ratio



Liquidity Coverage Ratio



LAR 28% (statutory requirement 20%)
 LCR 208% (statutory requirement 100%)

Business Line Review

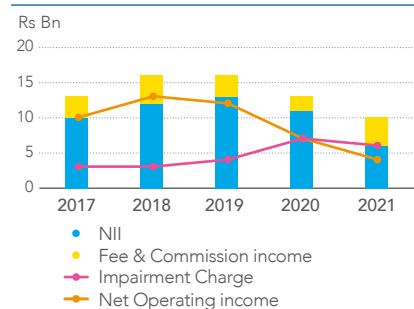
CORPORATE BANKING

Highlights 2021

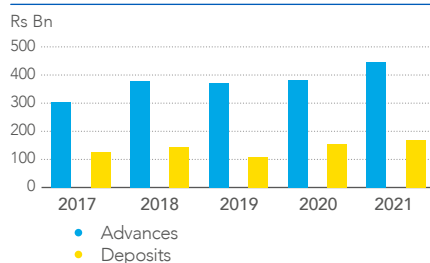
- » Intensified focus on driving exports and other defensive sectors of the economy
- » 17% growth in loan book
- » NII impacted due to relatively lower interest rates
- » Moratoria reduced by approximately 45% through proactive business rehabilitation
- » 93% increase in digital transaction volumes
- » The first WBG Impact programme to develop talent pipeline completed
- » New Payment and Cash Management Solution under implementation

Rs Mn	2021	2020	Change
NII	5,881	11,409	-48.5%
Fee & Commission income	3,691	2,190	68.5%
Impairment Charge	6,229	6,809	-8.5%
Net Operating income	3,343	6,790	-50.8%
Advances	445,909	382,561	16.6%
Deposits	169,176	155,485	8.8%

Earnings



Portfolio



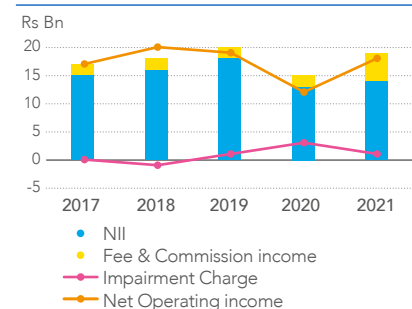
RETAIL BANKING

Highlights 2021

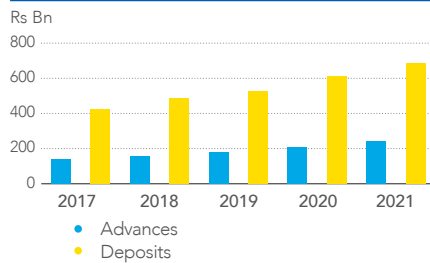
- » Best Retail Bank in 2021 by International Finance magazine
- » 20% growth in housing loans
- » 41% growth in income from cards through higher consumption and focussed drive
- » Launch of minor and major investments plans and premier current account
- » 18% CASA growth due to innovative, customer focused saving products
- » 148% increase in digital transaction volumes
- » 19% reduction in segment NPA base through prudent management

Rs Mn	2021	2020	Change
NII	14,298	13,163	8.6%
Fee & Commission income	4,515	2,423	86.3%
Impairment Charge	1,272	3,165	-59.8%
Net Operating income	17,541	12,422	41.2%
Advances	238,502	205,465	16.1%
Deposits	687,137	614,187	11.9%

Earnings



Portfolio



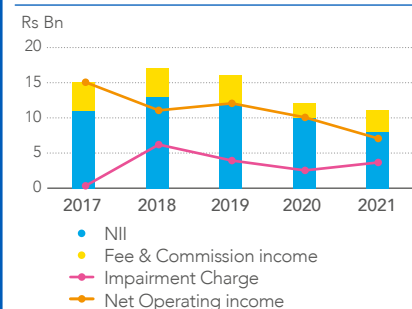
SME

Highlights 2021

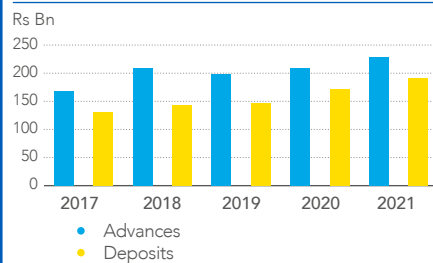
- » SME Bank in 2021 by International Finance Bank
- » Continuous support for business revival and approximately 20% reduction in loans under moratorium
- » 11% growth in deposits
- » Support to carry out business activity through digital platforms and payment solutions
- » 13% reduction in segment NPA base through concerted efforts
- » MOU with USAID to expand support to SME sector and assistance to SME through collaborations.

Rs Mn	2021	2020	Change
NII	7,773	10,284	-24.4%
Fee & Commission income	2,611	2,089	25.0%
Impairment Charge	3,588	2,460	45.9%
Net Operating income	6,796	9,913	-31.4%
Advances	228,282	208,950	9.3%
Deposits	190,505	171,963	10.8%

Earnings



Portfolio



Business Line Review

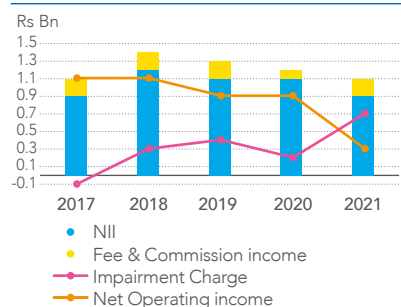
MICRO FINANCE

Highlights 2021

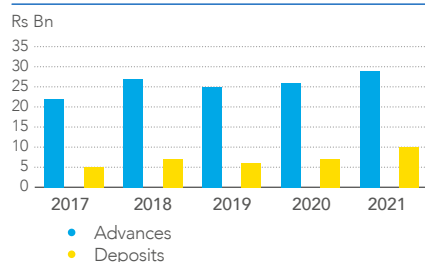
- » 40% growth in deposits
- » 11% reduction in segment NPA base through close monitoring and support
- » Comprehensive differentiated offering with value chain financing, micro leasing and micro insurance
- » Support to carry out business through digital payment solutions
- » Programmes for capacity building and financial literacy

Rs Mn	2021	2020	Change
NII	857	1,058	-19.0%
Fee & Commission income	162	106	52.7%
Impairment Charge	697	241	189.1%
Net Operating income	322	923	-65.1%
Advances	29,077	25,939	12.1%
Deposits	9,971	7,134	39.8%

Earnings



Portfolio



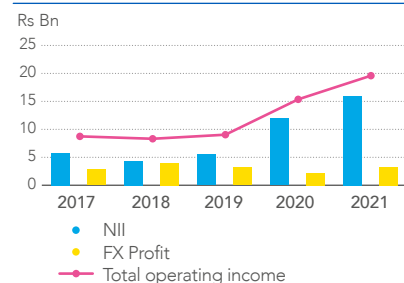
TREASURY

Highlights 2021

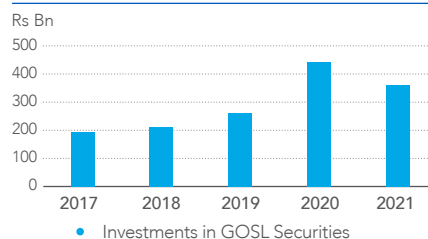
- » Continues to be one of the largest treasuries in the country providing unparalleled services to customers
- » 50% increase in operating income through higher NII and FX
- » 14% reduction in investments in SLDBs and SLSBs with the maturities during the year.
- » Approximately Rs 7 Bn impairment on account of sovereign downgrades

Rs Mn	2021	2020	Change
NII	16,045	11,933	34.5%
FX income	3,258	2,281	42.8%
Trading gains Income	12	1,062	-98.9%
Total operating income	19,547	15,276	28.0%

Earnings



Investment in GOSL Securities



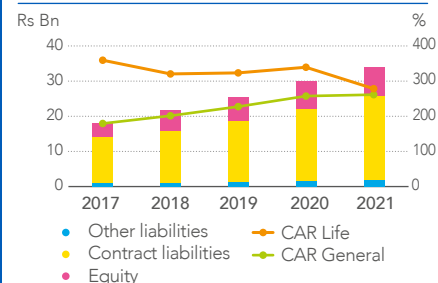
INSURANCE

Highlights 2021

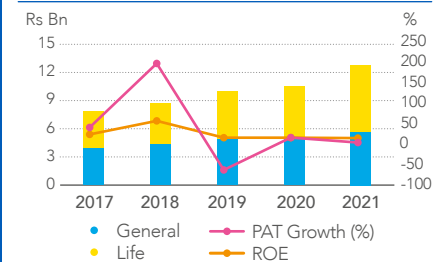
- » Growth of Life Insurance GWP by 29% outpacing industry growth
- » Growth of General Insurance GWP by 13% despite an overall decline in the general Insurance industry
- » PAT of Rs 1.2 Bn for the year
- » Rating improved from A(Ika) to A+(Ika) with a stable outlook in 2021
- » Continued the digital transformation journey, with approximately 75% of applications routed digitally.

Rs Mn	2021	2020	Change
Gross Written Premiums	12,740	10,485	21.5%
PAT	1,222	1,164	4.9%
Total Comprehensive Income	1,172	1,188	-1.4%
Total Assets	35,852	31,725	13.0%
Insurance Contract Liabilities			
Life	20,343	17,064	19.2%
General	3,736	3,309	12.9%
Equity	8,123	8,194	-0.9%
ROE	4%	16%	

Capital Adequacy Ratios & Capital Structure



Gross Written Premium



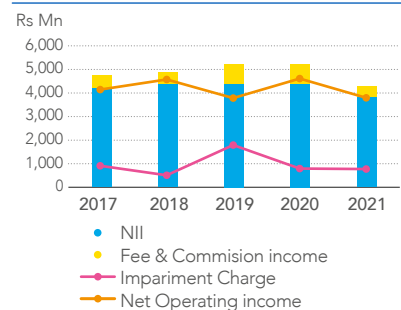
NBFI

Highlights 2021

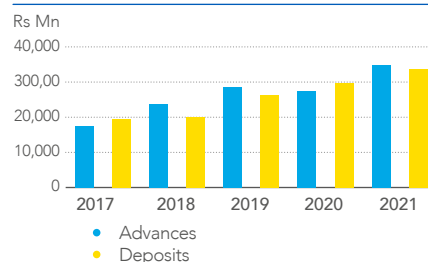
- » Listed among the top 50 most valuable consumer brands in Sri Lanka by LMD
- » PAT of Rs 513 Mn compared to a loss of Rs 273 Mn in 2020
- » Launch of a new Supply Chain Financing scheme
- » Moratoria of over Rs 8 Bn granted to more than 114,000 customers
- » Acquisition of a 97% stake in Prime Finance PLC

Rs Mn	2021	2020	Change
NII	3803	3,025	25.7%
Fee & Commission income	468	340	37.8%
PAT	514	(273)	288%
ROE	10.7%	-5.9%	
Advances	34,747	27,573	26.0%
Deposits	33,799	29,678	13.9%

Earnings



Portfolio



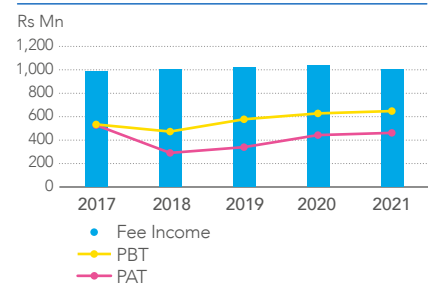
REAL ESTATE

Highlights 2021

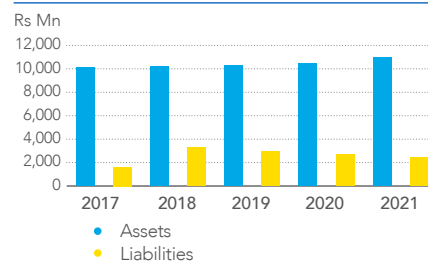
- » Owns A grade HNB Head Office building
- » Rental income dropped marginally by 3% due to the concessions granted to external tenants owing to the pandemic
- » 100% occupancy rate maintained in 2021
- » Rental agreements renewed despite industries moving in to new ways of working
- » PAT of Rs 464 Mn

Rs Mn	2021	2020	Change
Rental Income	965	997	-3.3%
Investment Income	37	38	-2.6%
PBT	648	628	3.1%
PAT	464	410	13.1%
ROE	5.6%	5.7%	

Earnings



Assets / Liabilities



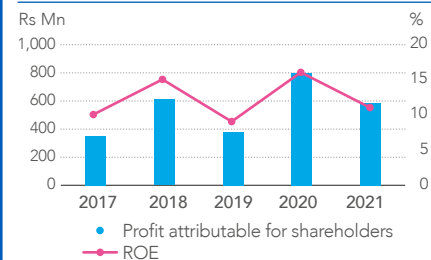
INVESTMENT BANKING (JOINT VENTURE)

Highlights 2021

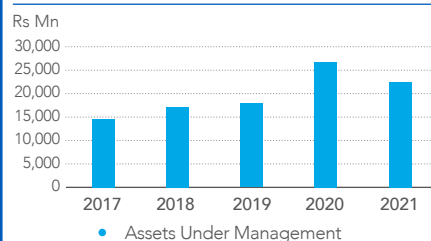
- » Raised Rs 11.9 Bn in capital for customers in 2021 through IPOs and rights issues
- » Assets Under Management of Rs 22.4 Bn
- » PAT of Rs 994Mn for year
- » Expansion of renewable energy portfolio to Bangladesh.

Rs Mn	2021	2020	Change
Fund based income	1,359	1,681	-17.0%
Fee based income	628	204	207.9%
Profit attributable to shareholders	945	1,188	-20.5%
Total Comprehensive Income	1,215	1,296	-6.3%
ROE	11%	16%	

Earnings



Assets Under Management



Value Delivered to Customers

As one of the most diversified financial services conglomerates in the country, we offer our customers the full gamut of financial services including retail banking, corporate finance, primary dealership, stock brokering, asset management, venture capital, life and general insurance.



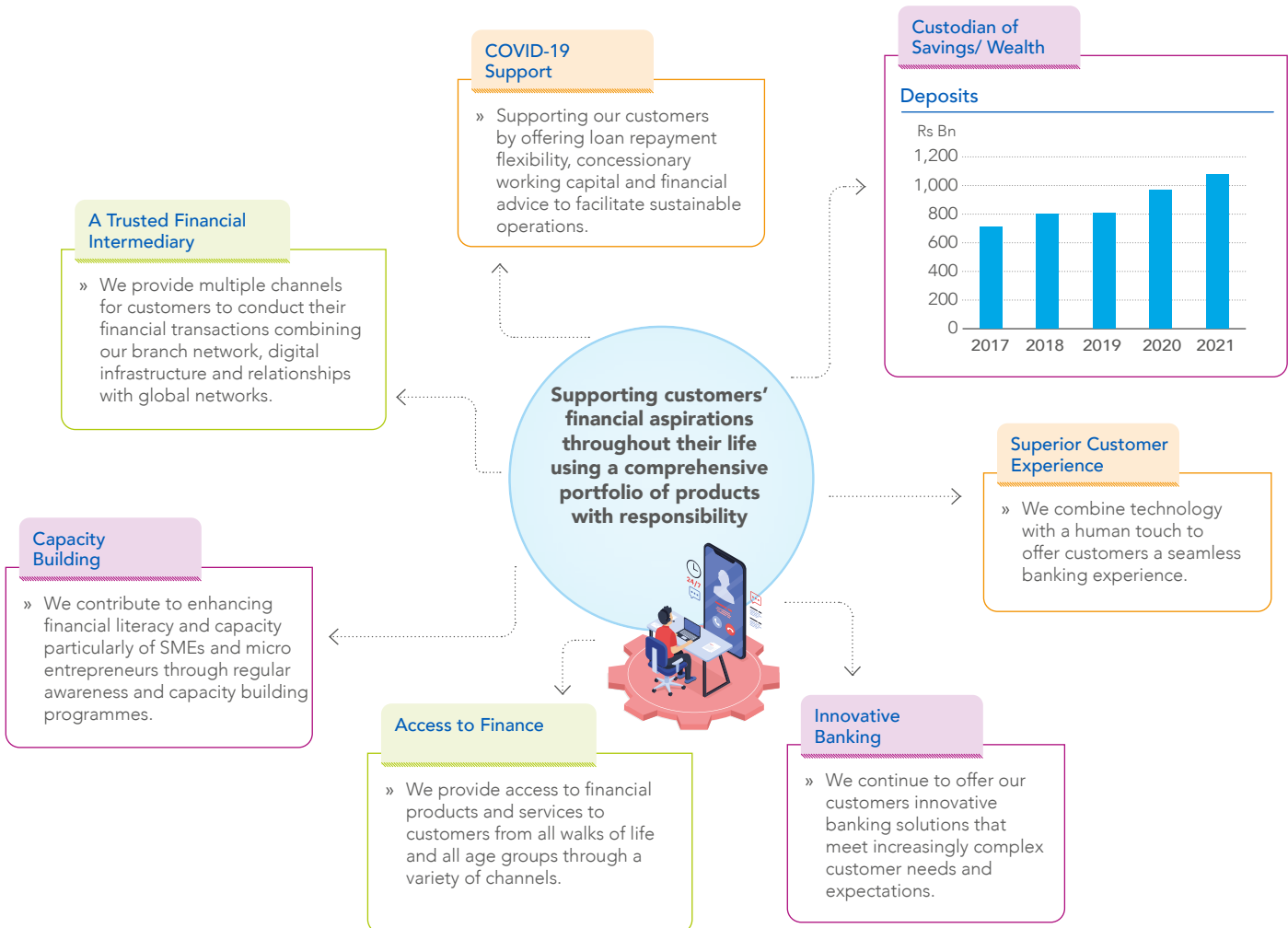
Our value proposition to customers however goes well beyond our comprehensive financial product portfolio and aims to empower our customers and support their financial aspirations by making our products more accessible, more convenient and more enjoyable.

2.4 Mn
Customers

Net Promoter Score
56%

20%
of customers onboarded to digital platforms

89%
increase in number of digital transactions

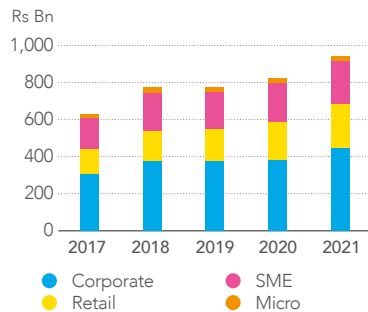


PREFERRED CUSTODIAN OF WEALTH AND FINANCIAL INTERMEDIARY

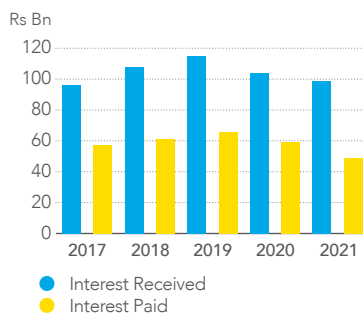
As a custodian of customer wealth, we are conscious of the need to maintain a prudent risk appetite to strengthen the resilience of the Bank. Our strong domestic franchise and the trust built over 130+ years standing strong, weathering many different challenges has been a key contributor. Deposits are the beginning of a mutually rewarding lifelong relationship with a customer and we are able to enhance the relationship by adding other services and products that empower customers to manage their finances. We are encouraged by the pace of growth as deposits grew by 11% in 2021, while CASA deposit grew by a higher rate of 15%. Customers earned interest of Rs 41 Bn from their deposits during the year.

Apart from offering conventional banking products and services, the Bank also facilitates Islamic Financing in compliance with Shariah Law.

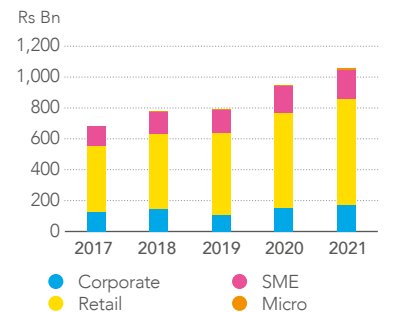
Advances



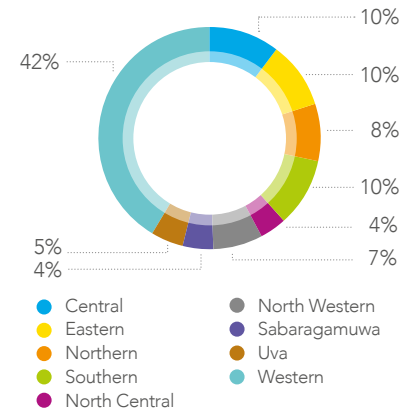
Interest Received and Interest Paid to Customers



Deposits



An Islandwide Domestic Franchise



ACCESS TO FINANCE

We provide access to financial capital for customers enabling realisation of their aspirations. A structured product portfolio enables retail customers to purchase their own vehicle, house and perhaps, set up their own business. Similarly, a relevant suite of products are available for businesses of all sizes across multiple industry sectors supporting their growth and connecting them to markets

through a variety of channels as set out on page 12.

During the year, the Bank opened three new branches in high foot fall locations. Two of these centres were aimed at serving customers visiting two key hospitals while the other was to support the immigrant workers.

As part of our efforts to support the MSME sector, the Bank entered into a MOU with USAID in 2021 to expand financing to MSME's and build SME capacity. We also launched a Rs 20 Mn grant fund to support 200 micro-finance customers affected by the COVID-19 pandemic and introduced micro-leasing to provide leasing facilities specifically for farmers.



Value Delivered to Customers

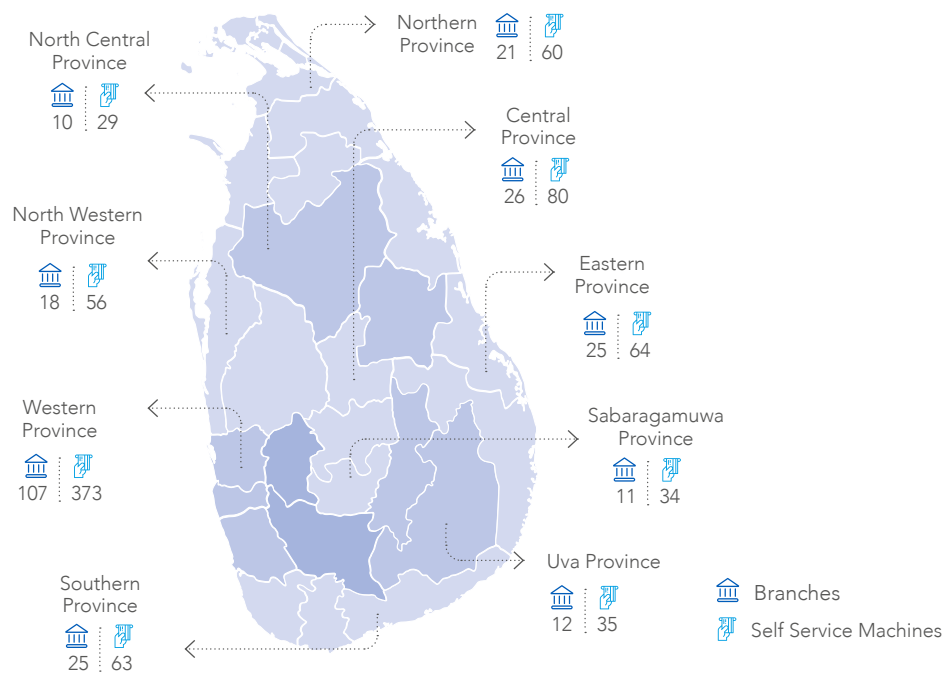
FACILITATING TRANSACTIONS

The Bank facilitates a range of specialised transactions which require high levels of professional knowledge, secure platforms and global and local networks that enable secure transfer of funds. Trade Services, Treasury and Custodian Services are some of the services offered to support the specialised needs of business customers, enabling them to structure transactions with adequate safeguards, facilitating economic growth. Facilitating Inward Remittances is another specialised area where the Bank is a dominant player enabling migrant workers to send money to their families.

Understanding the national priority to drive exports of the country, the Bank intensified

its focus in supporting exporters. During the year, HNB entered into a partnership with Cord 360 offering exporters a new online business to business platform connecting buyers with exporters. As part of our efforts to galvanise SME exporters in the country, we also revamped our SME Export Credit facility with a range of value-added services including market linkages to export markets.

HNB also partnered with the National Chamber of Exporters of Sri Lanka (NCE) as the exclusive banking partner of the 'Sri Lanka Export Brand' exhibition at the World Expo 2020 in Dubai, United Arab Emirates to attract foreign direct investments related to export oriented manufacturers.



For the 3rd consecutive year

- » Best Service in Trade Finance Euromoney
- » Best Service in Trade Finance

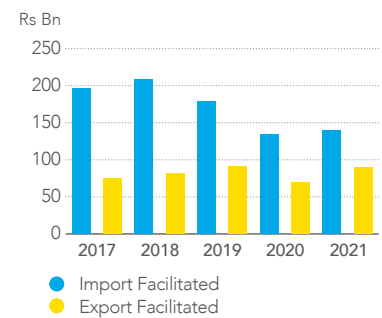
Asiamoney

Market Leader in Trade Finance for 2019 and 2020

Inward Remittances facilitated through:

- » Network of 147 agents in 42 countries
- » Three Franchise Partners
- » Over USD 1 Bn inward remittances facilitated in 2021

Import & Export Volumes



» EUROPE

- » Austria
- » Belgium
- » Bulgaria
- » Channel Islands
- » Cyprus
- » Czech Republic
- » Denmark
- » Finland
- » France
- » Germany
- » Greece
- » Hungary
- » Ireland
- » Isle of Man
- » Italy
- » Kosovo
- » Latvia
- » Liechtenstein
- » Luxembourg
- » Macedonia
- » Netherlands
- » Norway
- » Poland
- » Portugal
- » Romania
- » Slovakia
- » Spain
- » Sweden
- » Switzerland
- » Turkey
- » United Kingdom

» ASIA

- » Bahrain
- » Bangladesh
- » China
- » Hong Kong
- » Georgia
- » India
- » Indonesia
- » Israel
- » Japan
- » Jordan
- » Republic of Korea
- » Kuwait
- » Lebanon
- » Malaysia
- » Maldives
- » Nepal
- » Oman
- » Pakistan
- » Philippines
- » Qatar
- » Saudi Arabia
- » Singapore
- » Taiwan
- » Thailand
- » United Arab Emirates
- » Vietnam



» NORTH AMERICA

- » Canada
- » Mexico
- » United States of America

» SOUTH AMERICA

- » Argentina
- » Bolivia
- » Brazil
- » Chile
- » Colombia
- » Ecuador
- » Peru

» AFRICA

- » Egypt
- » Ethiopia
- » Kenya
- » Mauritius
- » Seychelles
- » South Africa

» AUSTRALIA

- » Australia
- » New Zealand

CUSTOMER CONFIDENCE

Our customers recognise the differentiated value we bring to them in terms of superior service delivery, innovative solutions and responsiveness to their needs.

The year 2020 saw our net promoter score improving to 76. Having reviewed the process, we made several improvements in 2021, by increasing the sample size and enhancing scope to cover five key customer journeys. With these changes, the score for 2021 was at 56 and we will continue to refine this process to understand our customers and their needs better.

A comprehensive product portfolio is aimed at meeting all our customers' personal and business needs, while an island-wide branch network, multiple digital channels and global correspondent banking network make our products and services easily accessible.

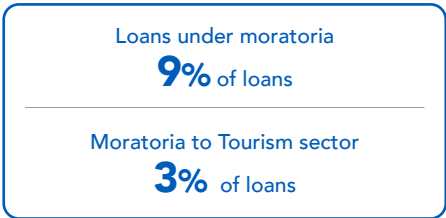


Value Delivered to Customers

COVID-19 SUPPORT

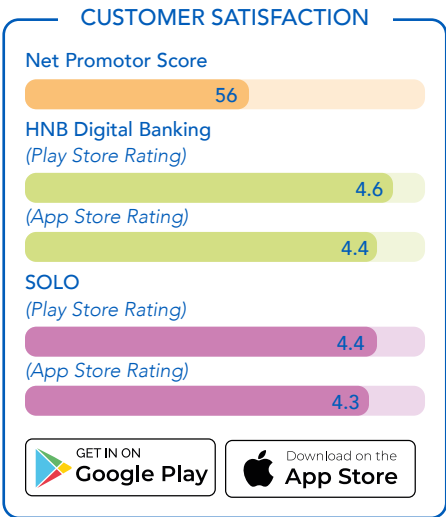
As a gazetted essential service, our priority during the year was to continue to provide banking services with minimal disruptions whilst proactively identifying areas in which we could support our customers to recover from the impact of the pandemic. Digital and online platforms were strengthened to enable more customers to carry out their banking transactions remotely. Meanwhile, key branches operated throughout the lockdown period and several mobile banking vehicles were operated across the country to support customers who did not have access to digital banking services.

Meanwhile, as the pandemic evolved during the year, we continued to extend our support to customers who were financially affected by the pandemic. During the first phase of the pandemic in 2020, approximately 40% of our loan book was under moratoria. Timely support by way of moratoria enabled majority of these clients to revive their businesses and as at end December 2021, this amount reduced to 9% of the loan book. Approximately 32% of these loans under moratoria are in the tourism sector, which is extended up to June 2022. The Bank will continue to work closely with the affected clients and provide necessary support to be back in businesses as a priority.



SUPERIOR CUSTOMER EXPERIENCE

Evolving market dynamics and rising expectations have made customer experience a key differentiator in an increasingly competitive market landscape. We therefore continue to strive to make banking with HNB an enjoyable experience by combining digital enablement with service excellence and efficient processes.



Superior Customer Experience



MAKING BANKING ENJOYABLE

A friendly staff, an extensive branch network, 24/7 call centres and a future ready digital infrastructure provide customers a number of options for conducting their transactions when banking with HNB. We have embarked on a holistic transformation of every aspect of banking to integrate customer centricity into all aspects of our operations with a view to making banking enjoyable for our customers.

24/7 Call Centres



Our call centre operated 24/7 despite disruptions during the year

Dedicated Customer Experience Team



Monitors the customer pulse through regular surveys and initiates remedial action for pressure points identified from surveys

Changing Our Culture



Articulating expected values, personality and behaviour to become more customer centric

Investing in Technology



Digital platforms to empower customers to new dimensions as we redefine banking

INNOVATIVE BANKING SOLUTIONS

We continue to push the boundaries of banking by offering our customers innovative banking solutions that meet the increasingly complex needs and expectations of a new generation of customers. We are increasingly using data analytics and artificial intelligence (AI) to gain deeper insights into our customers' needs, wants and aspirations in order to offer more meaningful financial solutions.

During 2021 the Bank introduced three new products. An education loan which considers the future repayment capacity of the student was launched, providing financial assistance to students to build their future. The Bank also launched investment plans for both children and adults enabling them to save according to their choice for future events. A premier current account was launched providing a variety of benefits to both personal and business clients.

Starting a new business 2025*

Your child's education. 2034*

***Your Conditions Apply with HNB Investment Plans for adults and children**

We understand you have aspirations when it comes to your goals as well as your children. At HNB, we offer you committed flexibility on your investments of attractive value so that you can make your dreams a reality on your terms.

With HNB Investment Plans:

- You decide on your monthly investment.
- You decide on the investment period.
- You decide on your investment goal.
- Cash-backed loan facility up to 50% of the deposit value.

*Start your Investment Plan with a minimum deposit of Rs. 500 for Children & Rs. 2000 for Adults.

HNB Investment Plans

0112 462 462

Risk Rating: All-Bid Pattern National Bank is a Licensed Commercial Bank regulated by the Central Bank of Sri Lanka. Pattern National Bank PLC - PG 02

Learn now. Pay when you earn.

No dream is too ambitious. HNB Education Loans have been crafted to meet aspirations, especially when you have a preferred loan repayment option based on your future earnings.

- No capital repayment during your period of study.
- Low interest rates.
- Long-term repayments.
- Applicable for selected universities and covers programs and courses on Medicine, Engineering, IT, Finance, Management, Law and many more in local and foreign universities.
- Loan can be utilized to purchase laptops as well.
- Special benefits for HNB Youth account holders.

HNB Education Loans

YOUR PARTNER IN PROGRESS

For more information call 011 2 462 462

*Conditions apply. Check with the bank for details. HNB is a Licensed Commercial Bank regulated by the Central Bank of Sri Lanka. Pattern National Bank PLC - PG 02



Value Delivered to Customers

DIGITAL BANKING

HNB's pivot to digitally-enabled products and services gathered momentum during the year, as customers increasingly sought to carry out their banking transactions remotely. The unprecedented adoption of digital banking services saw an exponential growth in users across our digital channels with the volume

of digital transactions growing by almost 89% during the year on mobile banking, internet banking, IPG, Payfast and SOLO. To support this growth, we continued to invest in our digital value proposition, by enhancing our capabilities and strengthening security controls. Key among these developments was

enhancing the capabilities of SOLO and the digital app. We also focused on fine-tuning our cyber security protocols to ensure the highest level of data security. There were no complaints concerning substantiated breaches of customer privacy or losses of customer data during the year.

Key value additions to our digital value proposition during the year are listed below.

Solutions	What we offer	Year on Year growth
SOLO	» The payment app facilitates bank or non-bank customers to make digital payments through a card or account at any bank. Utility bill payment, direct pay and biometric features were introduced during the year. The fully-fledged digital wallet is to be launched in 2022.	818%
IPG	» Enables local or international debit, credit, Visa and MasterCard payments through secure transaction channels.	80%
PAYFAST	» Enables customers to credit multiple beneficiaries at any bank. » Real-time payments to the Inland Revenue Department (IRD) were added during the year together with, enhanced security with two factor authentication	32%
Self Service Machines	» Includes 794 SSMs spread across the country comprising of dispensers, recyclers, cash deposit machines, cheque deposit machines and bill payment kiosks. Pay on ID and cash to mobile feature enabling cash payout to HNB Assurance customers was introduced during the year.	16%
E Banking (mobile and internet banking)	» The new digital app was launched towards the end of 2020 with improved user interface and experience. Many new features such as Pay on ID, Government payments, service requests, FD opening were introduced on the new app in 2021. » Plans are underway currently to migrate the existing Internet banking module also under the digital layer during 2022.	133%
Payment & Cash Management	» HNB became the first Sri Lankan bank to offer Open API banking enabling real time payments and high levels of connectivity through B2B2C and C2B business integrations. The new payment and cash management system is currently being implemented.	93%

Service Excellence

Service Excellence remains at the heart of our customer value proposition. A dedicated Customer Experience Unit continues to drive service excellence programmes across the Bank.

A key initiative during the year was the "Committed to Serve" programme, a multi-pronged service campaign, aimed at driving service excellence across the branch network based on the findings of the Customer Satisfaction survey carried out in 2020. A pilot project of the initiative was implemented across 40 high footfall branches during the year and rolled out across the network in January 2022.

While face to face interactions were impacted by the disruptions caused by the pandemic, we continued to leverage technology to

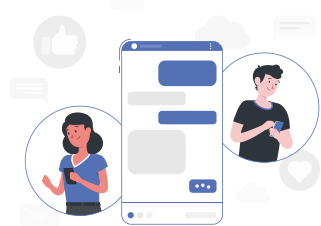
engage closely with our customers. Our 24x7, multilingual and Omni channel Contact Centre enabled customers to reach us any time of the day from any part of the world. The HNB Chatbot Habio meanwhile was implemented during the year for general inquiries, inquiries related to CASA, Credit Cards, other lending products as well as Value Added Services and e-Banking.

Meanwhile, customer surveys on products and service levels continue to provide invaluable insights and enable us to continue to improve service levels.

Efficient Processes

We continue to re-engineer and automate our processes with the aim of simplifying transactions and providing our customers a seamless banking experience. Robotic Process Automation (RPA) for ATM reimbursement

CUSTOMER ENGAGEMENT



Over **958,000** voice interactions

Over **66,000** non-voice interactions

Over **48,000** automated conversations via Chat-Bot

process, Bin Balancing, BDM/CRM error rectification and inward remittances was implemented during the year, resulting in reduced turn-around times and improved efficiencies. Continuous improvement of processes with the usage of robotics would be a key area of focus going forward.

Several processes including the home loan processes, mandatory savings buildup procedure and High Net worth Individual (HNI) servicing model were also re-vamped during the year.

Product Responsibility

Product responsibility and marketing integrity is key to gaining customer confidence. We ensure that our product offerings conform with applicable laws and regulations and meet our ethical standards. Information on fees and charges, product features, terms and conditions are clearly communicated to clients through branch staff and through our contact center, "HNB Connect". Product related information is also readily available through our corporate website. There were no instances of non-compliance concerning product and service information or marketing communications during the year.

CAPACITY BUILDING AND TECHNICAL SUPPORT

Empowering our customers lies at the heart of our customer value proposition. We therefore allocate significant resources towards capacity building and financial literacy programme for our customers. During the year, we entered into a MOU with USAID to expand financing to micro, small, and medium enterprises (MSMEs) in Sri Lanka. In addition to providing access to much needed capital for SME clients, the programme will also support advisory services and capacity building programmes.

Process Improvements Implemented During the Year

- » The Home Loan Process was redesigned to provide swift and more convenient service to home loan customers and was rolled out across the branch network.
- » Mandatory savings build up procedure has been developed and finalised.
- » Finalisation of HNI policy document that sets out service levels provided to HNI's

LISTENING TO CUSTOMER VOICES

Surveys Carried out During the year	Survey Population
Monthly mystery shopper surveys on staff product knowledge	1,936
Annual Independent customer satisfaction Survey	1,043
Corporate, SME, Priority customer survey	7,800
CSAT Surveys	11,280
Customer Suggestions and Feedback through HNB Connect	261

Evolve. Now.

Opening and closing your Fixed Deposits has evolved.

- Not required to visit the Customer Centre or fill any physical applications.
- Open real-time Fixed Deposits in LKR & FCY - Get an additional 0.25% interest rate on LKR FDs.
- Open multiple Fixed Deposits
- Receive e-Receipts on Fixed Deposits opened via the App.
- Close the FD at any time before its maturity without prior notice to the Bank, from anywhere.*

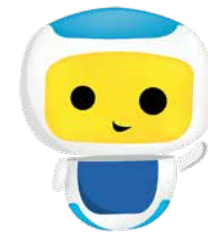
DOWNLOAD NOW

HNB Digital Banking

Available on the Google Play and App Store.

0112 462 462

*Fixed Deposits are Non-Reserve National Bank as Licensed Commercial Bank supervised by the Central Bank of Sri Lanka, National Financial Bank P.L.C. - HNB



SOLO appiGo

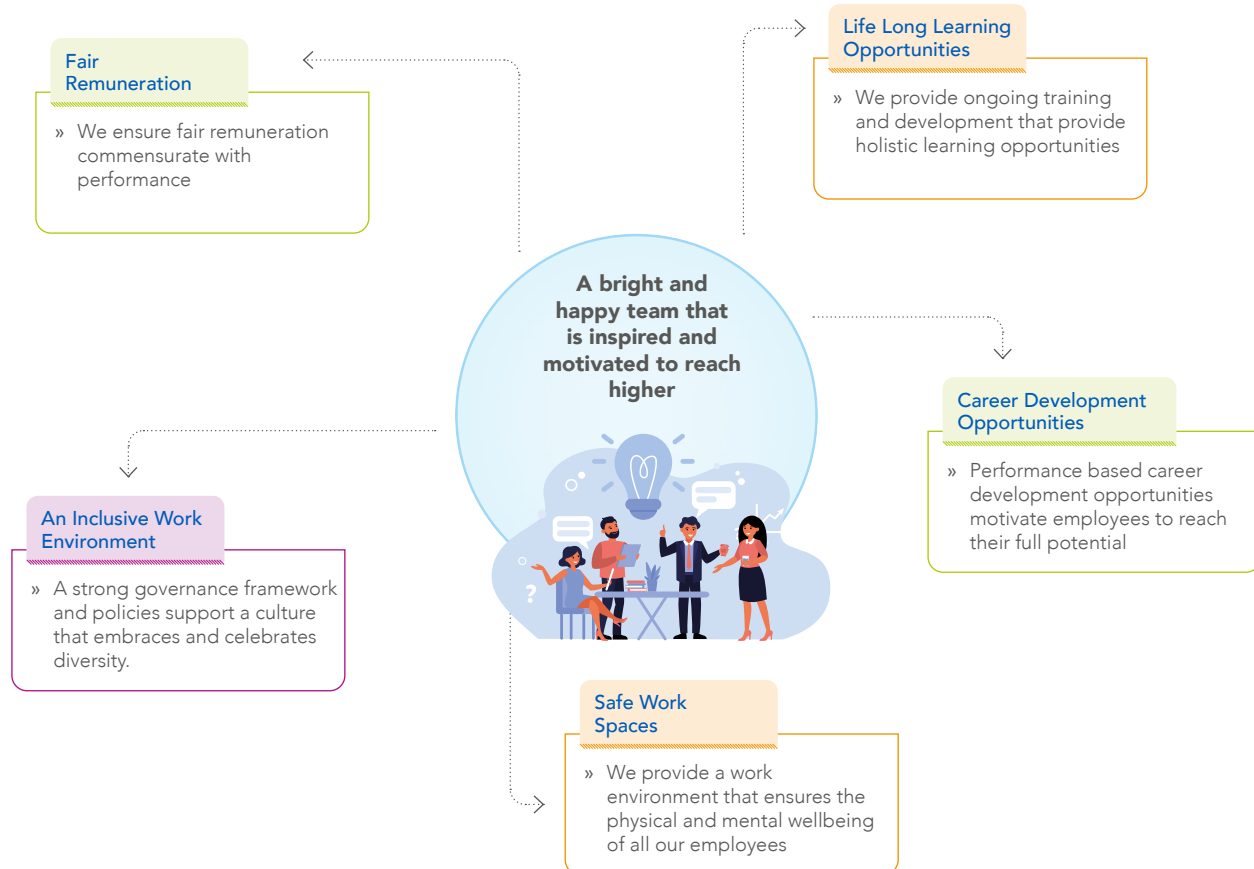
Value Delivered To Employees

We strive to foster a dynamic and supportive work environment that empowers our employees to reach their full potential. From exciting training and career development opportunities to an inclusive and open environment, our employee value proposition aims to create happy and bright employees well prepared to take on the future of banking.



VALUE DELIVERED
Payments to Employees Rs 10.8 Bn
Learning Opportunities 25,648
No. of Training Programmes 525
Training Investment Rs 15 Mn
Average Feedback Rating on Training 94%

Our Employee Value Proposition



HUMAN CAPITAL GOVERNANCE

Human Capital (HC) practices at HNB are governed by a comprehensive Human Capital policy framework and supported by robust processes and procedures. We continue to review and update our policies and processes in response to evolving dynamics, ensuring that our HC practices are relevant, up to date and address the changing business and workforce requirements. During the year, several key policies including Talent Acquisition policy, Prevention of Harassment policy, Anti-Corruption and Bribery policy and Whistle Blower policy were reviewed and updated further, strengthening Human Capital governance at HNB.

The Human Capital Department (HCD) is responsible for the Human Capital function of the Bank. The structure consists of the centre of expertise that design the human capital solutions, the operations vertical which manages the transactional element and the Human Capital Business Partners that provide the high touch experiential element of Human Capital Management and Development.

Data driven decision making is facilitated through a Human Capital MIS Dashboard which tracks key HC indices which provide the necessary insights to drive Human Capital strategies.

STRATEGIC WORKFORCE PLANNING

We strive to offer our employees fulfilling roles that match their individual talents, capabilities and personalities. Following the talent-fit exercise carried out last year which mapped employees to different roles based on their affinities and capabilities,

we are now in the process of implementing a scientific data driven approach towards evaluating the demand for resources and ensuring optimum deployment of resources with the required skills and traits.

We also implemented a revamped Talent Acquisition Policy during the year to streamline the hiring process and attract competent and culture fit candidates. Meanwhile, the comprehensive Talent Mobility policy introduced last year provides a greater balance in meeting organisation requirements and managing employee expectations.

LIFE LONG LEARNING OPPORTUNITIES AND CAREER DEVELOPMENT

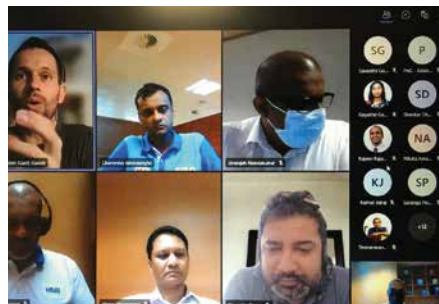
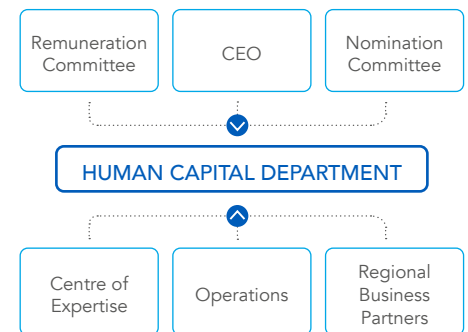
Training and Development is a key component of our People Development pillar. Amidst the unprecedented disruptions caused by the pandemic, we continued to provide uninterrupted learning and development opportunities by exploring innovative learning solutions such as bite-sized, virtual and gamified learning and by focusing on digital adoption in learning. Consequently, although total classroom learning hours were lower than in the past, we successfully increased the number of learning engagements in a safe and cost-effective manner.

Training

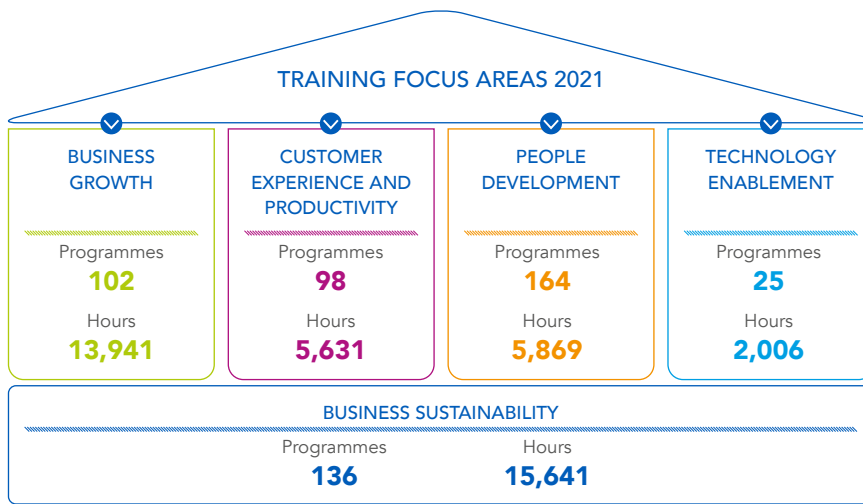
With the operating landscape and learning environment continuing to be disrupted by the pandemic, the Talent Centre adopted a more agile approach to training and development activities in 2021. The training focus during the year shifted from functionality-based core learning

Employee Profile

	Permanent	Fixed Term Contract
Male	2,616	243
Female	1,932	251
Below 30	1,168	410
30-50	2,953	59
Over 50	427	25
Western Province	2,901	489
Central Province	311	1
Eastern Province	220	1
North Central Province	126	-
Northern Province	227	1
North Western Province	240	1
Sabaragamuwa Province	142	-
Uva Province	100	-
Southern Province	281	1



Value Delivered To Employees



New Recruits **645** Talent Movements **836**

Employee Hires and Turnover

		New Recruits		Exits	
		No.	Rate	No.	Rate
Gender	Male	310	48%	226	51%
	Female	335	52%	213	49%
Age	Under 30	581	90%	256	58%
	30-50	55	9%	96	22%
	Over 50	9	1%	87	20%
Province	Western	559	87%	386	88%
	Central	15	2%	13	3%
	Eastern	16	2%	8	2%
	North Central	10	2%	5	1%
	Northern	13	2%	5	1%
	North Western	11	2%	2	0.5%
	Sabaragamuwa	6	1%	4	1%
	Uva	5	1%	3	1%
	Southern	10	2%	13	3%

modules to supporting employees navigate the pandemic and respond effectively and practically to the unprecedented challenges. Accordingly, business needs during the pandemic were revisited and virtual modules were created to specifically address these evolving business needs within the framework of our overall strategic pillars. (see Training Focus Areas diagram above). Among the key programmes conducted during the year was the "Committed to Serve" initiative aimed at enhancing service levels. The programme which was rolled out across 40 branches involved customised learning modules for each branch based on training areas identified by a cross functional team.

Training modalities also changed with "bite-size" virtual training and gamified learning substituting traditional classroom training sessions. Several innovative learning solutions were also introduced during the year to create an eco-system of learning in the new normal.

A total of 111,976 learning hours were offered through over 525 programmes to 25,648 participants during the year. 90% of these training hours were provided virtually through our e-learning platform "Talent Space" and virtual platforms. 83% of the programmes, usually delivered via classroom training, were delivered virtually but redesigned to be bite-sized and virtual friendly.

Performance Management

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

Leadership Development

During the year leadership development initiatives for senior management and senior middle level leaders were re-designed and re-launched to better reflect the evolving business requirements. Accordingly, a tailor-made coaching programme was carried out for C-suite while Catalyst 2 was launched for Senior Managers with Corporate Management potential. This was followed by 'Acumen for Leaders' and 'Acumen for Business' two separate leadership development programmes targeted at high potential Senior Managers. The 'Impact' programme was also launched for Wholesale Banking Group in line with current business needs.

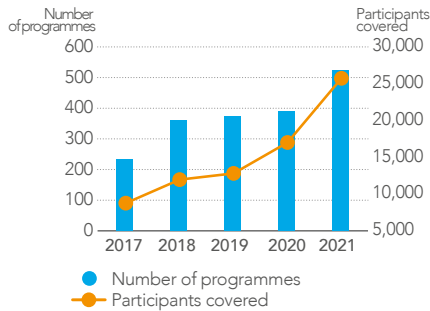
Innovative Learning Solutions introduced during the year

- » **#Learning Virus**
- Learning flyers circulated vis WhatsApp
- » **Future of Work** Animated Videos
- » **"Chau and How"** Animated Videos
- » **Gamified Learning**
- 6 new games launched on Talent Space
- » **Learning Premier League**
- A novel gamified learning intervention

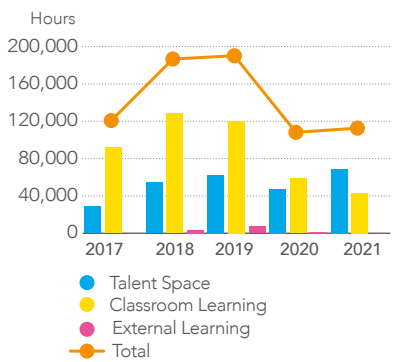


Training and Development

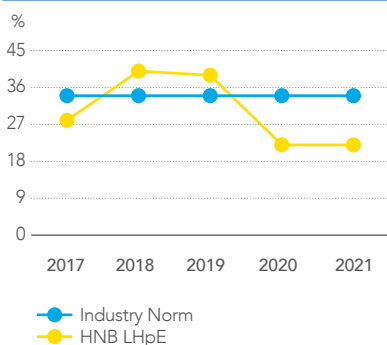
Learning Coverage



Learning Hours



Learning Hours per Employee (LHpE)



Safe Work Spaces

Ensuring both the physical and mental health of our employees remains a key priority as we navigate the challenges of the pandemic. A comprehensive Employee Health and Safety policy is in place to ensure a safe and secure working environment for all employees while a special cross functional COVID-19 Committee was formed at the onset of the pandemic to proactively monitor the threat of the contagion and formulate an action plan to support employees through the pandemic. The Human Capital Department which is in constant contact with Health Authorities and local PHI's has implemented stringent health and safety measures such as regular deep cleaning, socially distanced office seating, and rotation based shifts across the branch network. Meanwhile, ongoing engagement with employees enable health and safety information to be effectively communicated to employees and concerns to be raised with HCD.

All full-time employees are entitled to life insurance and healthcare benefits such as reimbursement of surgical and hospitalisation expenses for self and family. We also conduct periodic health and wellness programmes to promote better health among our employees. During the year, several virtual programmes were conducted to create awareness on non-communicable diseases and immunity boosting habits.

Fair Remuneration

We ensure that our remuneration and benefits are on par with industry standards and that our employees are adequately compensated for their efforts. In addition to a guaranteed fixed pay component, all permanent employees are entitled to a variable pay component that



Catalyst 2.0

To groom participants to successfully transition to a C-suite role in the short run

26 C-1 Leaders participated

Acumen for Leaders

To groom participants to successfully transition to a C-suite role in the medium to long term and become a transformational Change Agent,

30 C-1 and **C-2** Leaders participated

Acumen for Business

To support participants in excelling in their current role and groom them for future leadership roles.

24 Regional heads and

6 identified successors participated



Value Delivered To Employees

is linked to performance of the individual and the Bank. In addition to remuneration, permanent employees are offered a wide range of benefits including life insurance, medical allowances, disability and invalidity coverage, maternity leave, pension benefits, holiday allowances, reimbursement of professional subscriptions and stock options among others.

An Inclusive Work Environment

We are committed to fostering a work environment that celebrates diversity and provides a level playing field for all our employees. Our zero-tolerance policy on any form of discrimination and long standing commitment promoting diversity at the work place is indicative from our diverse employee base. Meanwhile we continue to create a culture of non-discrimination through awareness sessions and a robust grievance mechanism. There were no reported incidents of discrimination during the year.

Powering Women

We continue to strive towards gender parity at all levels and are proud of the significant strides we have taken to ensure a conducive work environment for our female colleagues.

Listening to our Employees Voices

We encourage our employees to make their voices heard by providing multiple channels of communication at all employee levels. Maintaining strong communication channels with employees was rendered even more important due to the restrictions on physical proximity. MS Teams, webinars, social media and e mail were used extensively to maintain constant dialogue with employees during the lockdown period. An employee opinion survey was launched in December and all staff were encouraged to provide candid feedback.

During the year, we also released the "Culture Book" a vibrant booklet that communicates the HNB Persona i.e. VALUES PERSONALITY and BEHAVIOURS that make us HNB. When we understand them, imbibe them and practice them, we would create and offer products and services that make customer experiences simple, easy, useful, profitable and memorable.

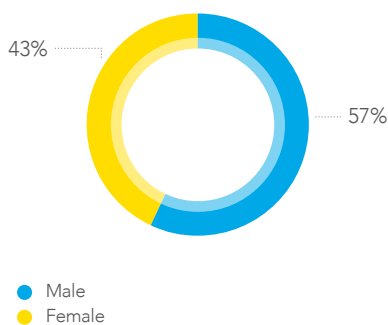
We also continue to engage closely with trade union representatives and maintain amicable relations with all unions. 72% of our staff were members of the Ceylon Bank Employees Union (CBEU) and the HNB Officers' Union as at the end of 2021. Notice period and provisions for consultation and negotiation are specified in the Collective Agreements with respective trade unions. There were no incidents of industrial action during the year.

ENSURING THE HEALTH AND SAFETY OF EMPLOYEES DURING COVID-19

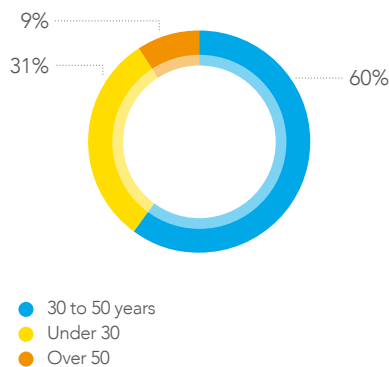
- » Two Vaccination Programmes were conducted at HNB Towers for over 400 staff members.
- » Provision of staff transportation facilities for staff required to report to work
- » Intermediate care facilities for COVID positive patients
- » Awareness programmes
- » Ambulance service for infected staff
- » Provision of food and essential items to COVID infected staff.
- » Provision of sanitizers, masks, gloves and glass shields to network staff.
- » Procuring emergency oxygen cylinders, oxygen concentration machines and essential drugs.
- » Work from Home Facilities with remote connectivity

OUR DIVERSE WORKFORCE

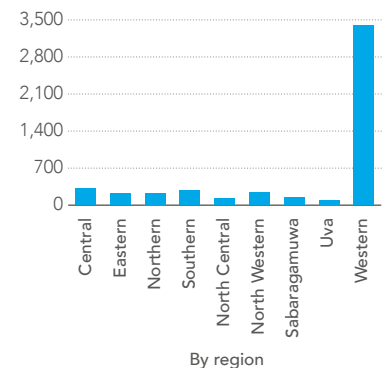
By Gender



Employees Age



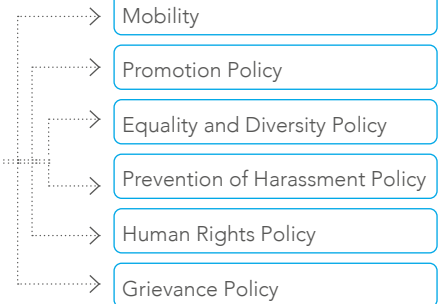
By Province



GENDER PARITY AT HNB

Enablers

Specific goals and strategies together with strong policies enables us to provide a conducive, empowering work environment for our female colleagues. Meanwhile, our branded female empowerment initiative "Woman at Work initiative" provides female employees career development opportunities, training opportunities and invaluable support throughout their career at HNB.



Composition

We continue to strive to archive greater gender equality in the workplace by providing equal opportunities for our female colleagues in all aspects including recruitment, promotions and management opportunities.

Percentage of Women in Senior Management

21%

Percentage of women received Promotions

28%

Percentage of Women in Middle Management

27%

Female labour turnover

10%

Percentage of Female New Recruits

52%

Gender Gap Indicators

We are proud of the significant strides we have made in reducing the gender gap as indicative from a consistent improvement in key Gender Gap Indicators

	2021
Percentage of Women who returned to work after parental leave and were still employed 12 months after returning to work	94%
Proportion of Females who Received a Performance Bonus	32%

Responsible Brand

Financial empowerment of women remains a key focus and we continue to find innovative ways of providing women of all walks of life access to finance.



Partnered with Pink Drives (Pvt) Ltd., Sri Lanka's first and only woman driven taxi service for woman and children to offer a bundled financial service.



Supporting the livelihoods of visually impaired women, through donations to the members of the Sri Lanka Welfare Society of the Blind Women.

Value to Investors

HNB has continued to provide stable and sustainable returns on equity to shareholders, although profitability inevitably moderated during 2019 and 2020 due to the Easter terror attacks and the pandemic. In 2021, we have improved ROE to 12%, as we strategised to regain the momentum while ensuring readiness for the next era of banking and a dynamic business landscape.



Total Dividend per Share	Rs 9.00
Cash Dividend per Share	Rs 6.50
Net Book Value per Share	Rs 335.93
Earning per Share	Rs 36.18

Enhance Value

Nurturing the value of the share price through performance, liquidity and sound governance

Market Capitalisation

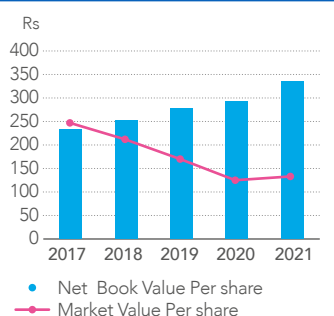
Rs **70** Bn

Net Book Value

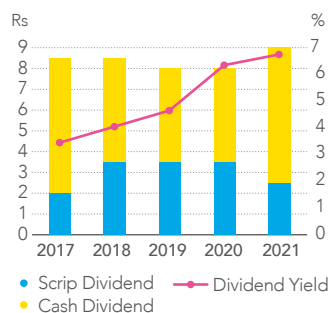
Rs **177** Bn



Valuation



Dividends



Returns	2021	2020
Market Price (Rs)	135.00	126.50
Earnings per Share (Rs)	36.18	24.90
Price Earnings (Times)	3.7	5.1
Net Book Value per Share (Rs)	335.93	293.30
Price to Book Value (Times)	0.40	0.43
Cash Dividend per Share (Rs)	6.50	4.50
Scrip Dividend per Share (Rs)	2.50	3.50
Cash Dividend Yield (%)	4.8	3.6
Total Dividend Yield (%)	6.7	6.3

Profitability

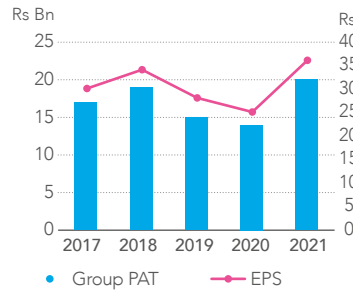
Delivering sustainable returns to shareholders

Profit After Tax

Rs **20** Bn



Group PAT

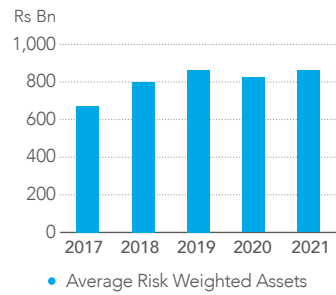


HNB Group recorded a ROA of 1.42% in 2021 compared to 1.06% in 2020 while Group ROE improved to 11.5% from 8.74% in 2020.

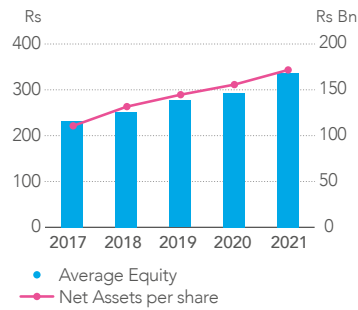
Bank ROA was 1.31% as at end of 2021 compared to 0.95% in the previous year and Bank ROE was 12.1% compared to 8.77% in 2020.



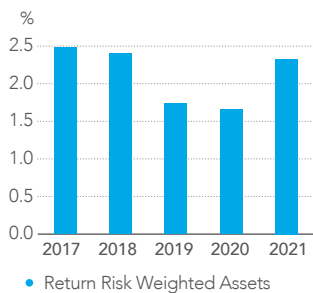
Risk Weighted Assets



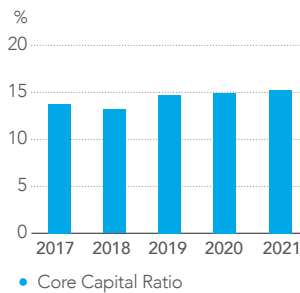
Average Equity



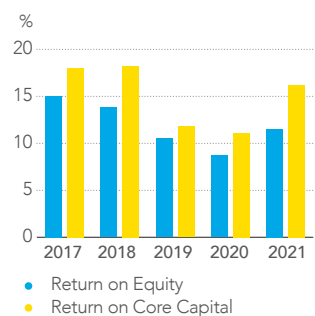
Return on Risk Weighted Assets



Core Capital Ratio

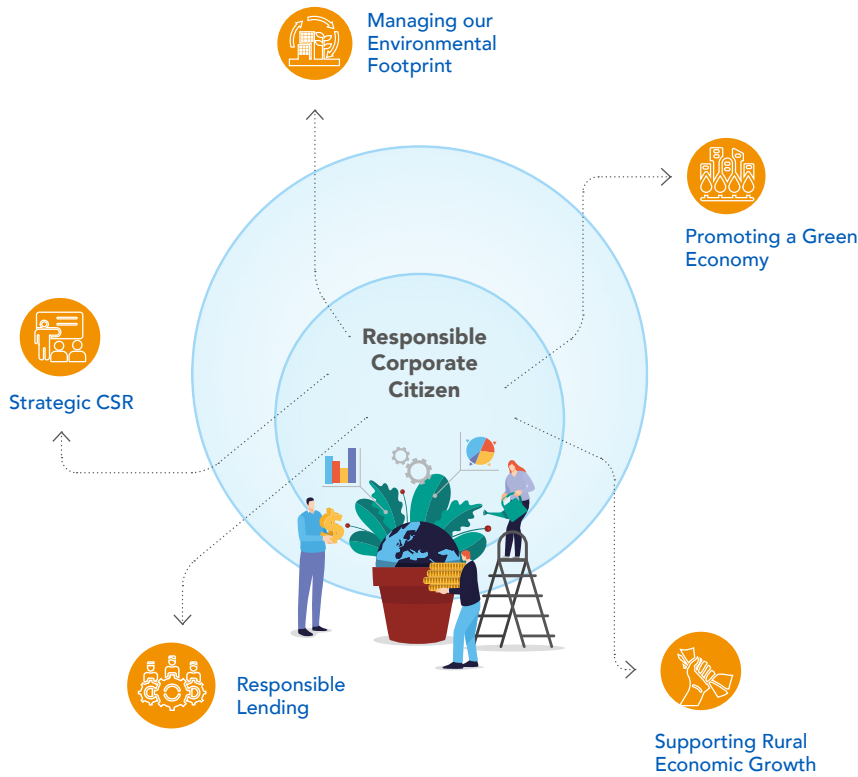


Return on Equity/ Return on Core Capital



Value Delivered to our Communities

We create value for our communities by setting the standards for responsible corporate behaviour and facilitating sustainable long-term socio-economic growth. The pandemic has highlighted the need for resilient economies, communities, organisations and individuals and we remain committed to building this resilience through sustainable economic growth.



VALUE DELIVERED

Grant funding to MSME sector

Rs **20** Mn

Renewable Energy projects funded

Rs **7.3** Bn

CSR Spend

Rs **12.3** Mn

WASTE MANAGEMENT

- » Paper Usage **98,154 kg**
- » Recycled **100%**
- » Increased online transactions **133%**
- » No of customers converted to e - statements **183,434**
- » Online customer migration increased **177%**

Our investment in paper recycling translate to the saving of

- » **1,576** trees
- » **162,689 litres** of oil
- » **370,800 kWh** of electricity
- » **2,946,006 litres** of water
- » **278 cubic meter** of landfill
- » **92,700 kg** of Co2 of GHG emission

(Estimated savings confirmed by our paper recycling partner)



MANAGING OUR ENVIRONMENTAL FOOTPRINT

We are committed to reducing our environmental footprint by incorporating sustainable business practices into all aspects of our operations. This commitment is inculcated into our organisational culture through the "Green Pledge"- a promise by every incoming HNB employee to integrate environmentally friendly practices into their daily activities at work and at home.

We strive to achieve greater energy efficiency by the gradual solarisation of branches and by investing in energy efficient technology such as LED lighting, energy efficient lifts and inverter air-conditioning. We also closely monitor the usage of key materials such as paper, electronic equipment and computer equipment and strive to ensure responsible consumption and disposal of these materials. Recycling is practiced extensively with contracted third-party recyclers to ensure the safe disposal of e-waste. Whilst the paper-less initiative which commenced in 2015 had made steady progress over the years, we experienced a negative impact during the year with total paper consumption increasing by 9 % due to the surge in documentation requirements of moratorium and restructuring of facilities offered to customers impacted by COVID-19.

Monitoring and reporting on our performance against sustainability KPIs is an important part of managing our environmental footprint and is systematically done through the CEO's sustainability dashboard. Progress on key E&S indicators such as carbon footprint, material

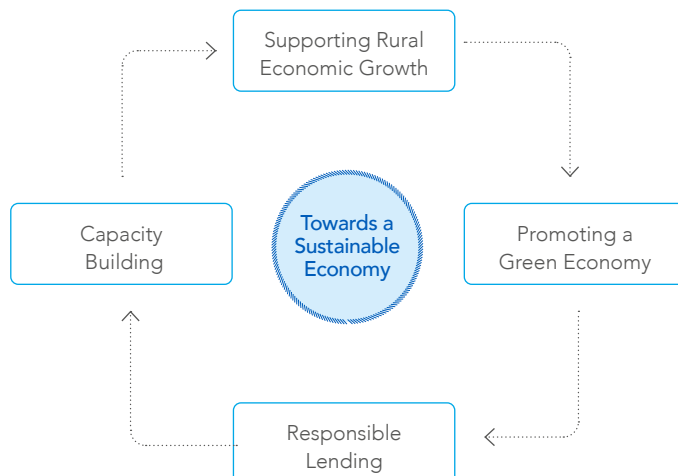
usage and disposal, supply chain assessments and risks etc are monitored on a quarterly basis and reported to the HNB Sustainability Foundation every two months. A sustainability assurance audit (external) is conducted annually by DNV-GL. There were no instances of non-compliance with environmental laws and/or regulations during the year.

PROMOTING A MORE SUSTAINABLE ECONOMY

As a key lender to the nation, we are aware of the significant role we can play in promoting a more equitable and sustainable economy for future generations.

Rural Sector Growth

We continue to drive growth in the rural economy through ongoing support for the MSME sector by addressing key barriers in the sector including access to finance, access to markets and access to technical knowledge. (Refer SME and Microfinance sector reviews). Meanwhile, ongoing awareness and capacity building programmes are carried out for underbanked segments of society with the aim of promoting financial inclusion. During the year, we also entered into an MOU with Gammadda Sri Lanka, the country's largest rural development movement to develop infrastructure facilities in the Yaya 6 Village, Mahawilachiya, Anuradhapura.



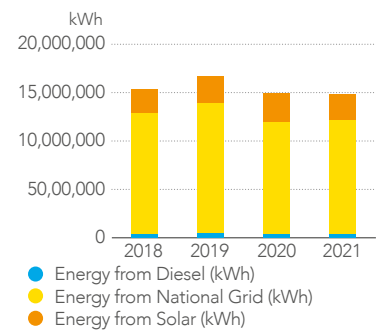
ESMS process

- Check against exclusion list ✓
- Initial inspection and E&S Risk categorisation into High/Medium and Low risk categories ✓
- E&S Due diligence process according to the risk category ✓
- Documentation – E&S reports and E&S loan covenants ✓
- Monitoring and Follow up through client visits and ongoing engagement

ENERGY EFFICIENCY

Investment in efficient inverter air conditioning technology

Rs 26.5 Mn



BRANCH SOLARISATION

No of Solarised Branches **95**

Solar Generation Capacity

2,637 kWh

(17.8% of Total Energy Consumption)



Value Delivered to our Communities

Responsible Lending

A comprehensive Environmental and Social Policy together with Environmental and Social Management System (ESMS) ensures that our lending activities and operations are environmentally and socially responsible and compatible with the applicable regulatory environmental and social standards, country regulations as well as globally accepted best practices and standards such as IFC Performance standards and ADB Safeguards as applicable. A total of 83 lending projects were evaluated by the central ESMS unit during the year, out of which three were rejected on the basis that they did not comply with our ESMS standards.

As part of our efforts to align the impacts of the Bank's lending with United Nation's Sustainable Development Goals, the ESMS unit evaluates the business outcomes in different sectors and identifies the challenges in these sectors due to climate change, negative impacts to the environment and the society. Based on the findings, necessary recommendations are proposed to avoid, minimise, mitigate or offset the negative impacts of specific industries whilst recommending how to respond to the climate related challenges.

Promoting a Greener Economy

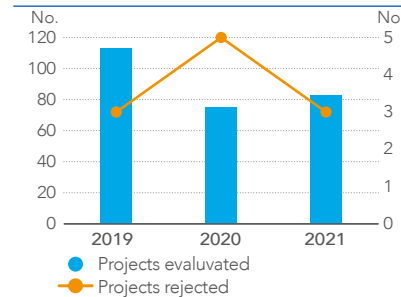
We remain committed to combating climate change by promoting projects and activities that contribute to a greener, more sustainable economy in Sri Lanka. We continue to lead the way in large scale renewable energy financing both locally and overseas whilst promoting sustainable energy options through our "solar energy system" personal loan scheme.

Capacity Building

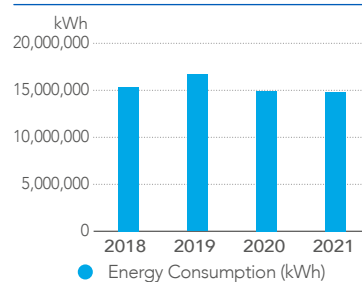
We are also actively engaged in educating and supporting our clients and partners to understand the benefits of a more environmentally and socially sustainable operation. Awareness and capacity building workshops are conducted for targeted groups periodically in addition to regular engagement with suppliers and customers.

Reflecting our industry leadership position in E&S Management, the Bank's E&S Coordinator was invited to conduct training programmes on E&S Risk Management by the Centre for Banking Studies of the Central Bank of Sri Lanka for the staff of banks handling credit evaluations and four such programmes have been completed during 2021.

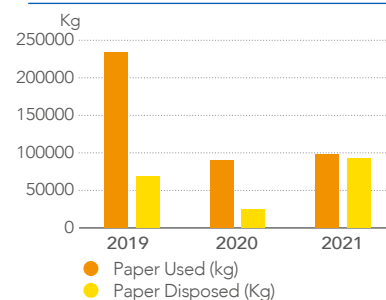
Projects Evaluated By ESMS Unit



Energy Consumption



Paper Usage and Disposed



ESMS CAPACITY BUILDING

No. of staff trained on ESMS **22***

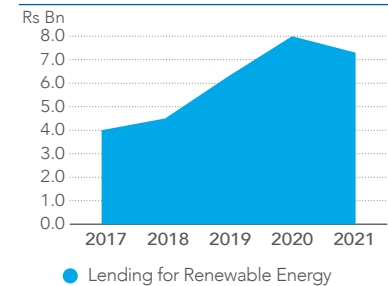
No. of projects evaluated by ESMS unit **83**

(*No of physical training)

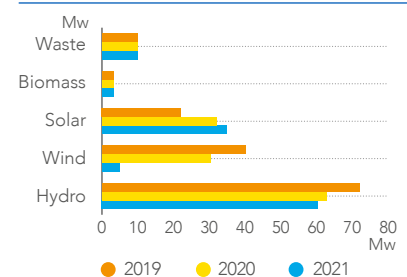
RESPONSIBLE SOURCING

No. of suppliers screened using environmental and social criteria **69**

Renewable Energy Portfolio



Renewable Energy Portfolio by Capacity



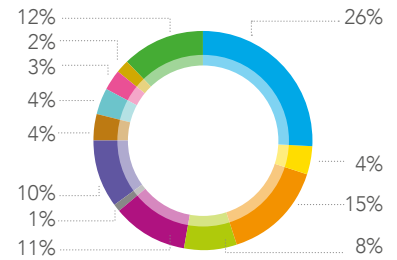
“HNB ඔබ වෙනුවෙන් අපි” MICROFINANCE GRANT PROJECT

“HNB ඔබ වෙනුවෙන් අපි” is an initiative launched by the HNB Sustainability Foundation in 2020 during the first wave of COVID-19 pandemic in the country. It exhibits a way of playing a supporting role during a global and national crisis to ensure the safety of the society we operate in. The project espouses HNB’s philosophy “Partner in Progress’ and aims at business revival amidst the pandemic.

This was also the time in which the value of engaging social sustainability into every aspect of organisational strategy in a manner that serves the needs of the many, is recognised unreservedly.

Bank provided Rs 20 Mn as a grant fund to support 200 microfinance customers affected by the ongoing COVID-19 pandemic across the country. The Bank incorporated from role of lender to benefactor in a landmark shift to support grass root level entrepreneur sustainability.

MF Grant Sector Distribution

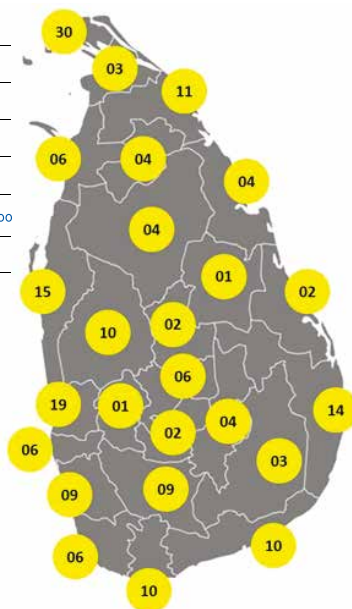
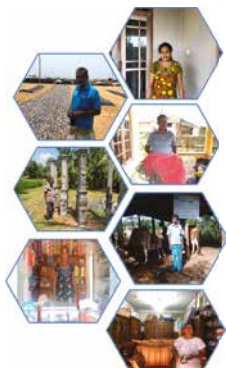


- Agriculture
- Construction
- Dairy and Poultry
- Fishery
- Food Processing
- Furniture and Other Manufacturing
- Garment Manufacturing
- Groceries shop
- Handicraft
- Restaurant
- Retail & Trading
- Services

**HNB ඔබ වෙනුවෙන් අපි
COVID-19 Business Support
Grant to Microfinance Customers**

Best Sustainability Projects Awards 2021

Total Number of MF Customers - 200
Grant Amount - 20 Mn
Districts / Provinces Covered - 25 / 9
Gender Diversity m M:F - 63 : 37
Number of people directly impacted - 1,000
Number of families impacted - 400



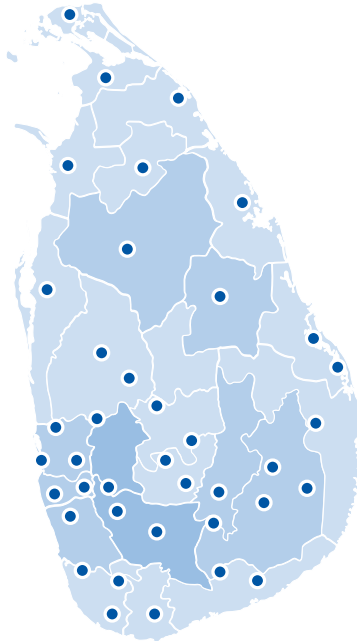
Value Delivered to our Communities

HNB'S 'HNB ඔබ වෙනුවෙන් අපි' INITIATIVE STRIVES TO ASSIST NATIONAL HEALTH SERVICE COMBAT COVID-19

The Bank has donated large amounts of medical and protective equipment, in an effort to save lives of COVID-19 patients and health workers across the country, with its timely 'ඔබ වෙනුවෙන් අපි' initiative.

One of the key donations made under the initiative was the provision of a state-of-the-art ultrasound scanning machine, to facilitate the diagnosis of serious conditions arising from COVID-19 and other infectious diseases, to the National Institute of Infectious Diseases Hospital (IDH).

The 'ඔබ වෙනුවෙන් අපි' initiative, funded by the generous contribution of a day's pay by HNB's staff members and a matching contribution by the Bank, also provided much-needed equipment to several other key hospitals. This is part of HNB Sustainability Foundation's focus on assisting healthcare services to combat the pandemic.



Through "the HNB ඔබ වෙනුවෙන් අපි" initiative, HNB employees donated medical equipment, to 39 Hospitals and MOH offices.

ඔබ වෙනුවෙන් අපි

As the deadly 3rd wave of the COVID-19 pandemic rages on, disrupting every aspect of life, we are taking the time to appreciate all our front liners, our customers and other stakeholders who have and continue to persevere the challenges brought on.

Click through the attachment to see how the Bank takes care of not just you, but provides our customers the best of service while caring for their health and safety too:

- Staff safety at Branch premises
- Customer safety at Branch premises
- Caring for our own
- Caring for our customers

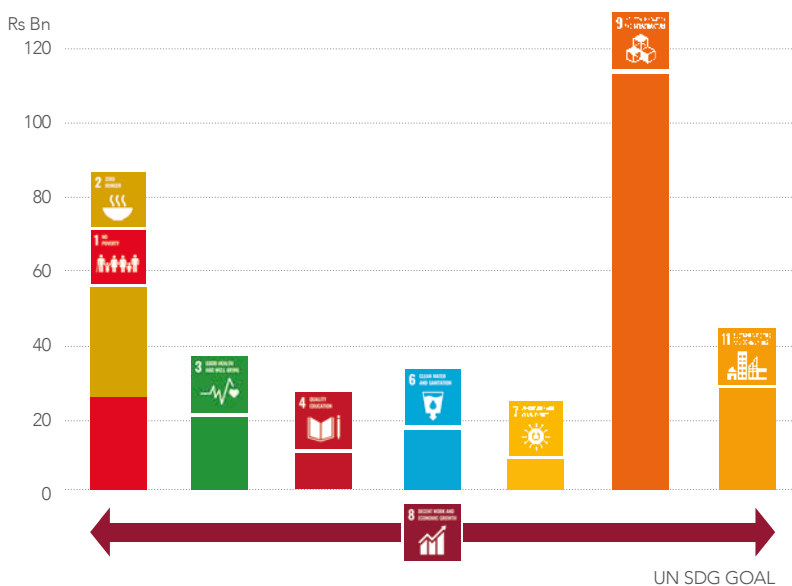
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#togethewesland
#eNTAmib>

CONTRIBUTION TO UNITED NATION'S SUSTAINABILITY DEVELOPMENT GOALS

Distribution of Funding by SDG

As a key lender to the nation, our lending activities contribute to the achievement of several of the United Nations Sustainable Development Goals.



STRATEGIC CSR

HNB's Sustainability Foundation was established in 2009 to drive the Bank's corporate citizenship agenda. Accordingly, the Foundation undertakes CSR projects in the key areas of education, healthcare, community, economic empowerment and the environment which also contribute to several of the United Nations Sustainable Development Goals. Key programmes carried out during the year are as follows,



Lending for paddy cultivation in poverty provinces

Income generation to the farmers and employment generation in poverty province through our lending for paddy cultivation in 2021

	Gross Income (Rs Mn)	Employment Generation (Man days)*
Northern	602	54,420
Eastern	1,830	165,580
Uva	164	14,820

*Hired Labour

- » Total lending to Micro Finance sector Rs 29.1 Bn

Total income and employment generation through our lending for paddy cultivation in 2021

Gross income generation to the farmers.	Rs 4,797 Mn
Employment generation	434,040 (man days)

Assumptions used for the above calculations

- Paddy cultivation in Sri Lanka under different water management (irrigation and rain-fed) in two seasons (Yala and Maha).
(Total cost and other figures considered under irrigation water management (large amount of commercial paddy cultivation occur under the IR)
- Total cost Including cost of farmer owned inputs
- For employment generation, only considered 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

Grant Funding for MSME's

The HNB Sustainability Foundation established a Rs 20 Mn grant fund in 9 regions to support 200 microfinance customers affected by the ongoing COVID -19 pandemic.

End poverty in all its forms everywhere

The Bank donated 300 dry ration packs and 300 white canes to Sri Lanka Welfare Society of the Blind Womens and the special event was hosted at HNB Towers. Funds were gathered through voluntary contributions from the Bank employees and sales of scrip dividend income utilised towards this initiative

ADB Funded credit lines

During the year 2021, we have provided financial grants to our MSME clients through the following ADB funded credit components.

- » SMELoC (Small & Medium Enterprises Line of Credit) – We-Fi grant (only for women entrepreneurs - ownership 100% or above 51%) Rs 15.575 Mn
- » SMELoC – Tea component – for small holder tea planting community (less than 10 acres)- Rs 5.460 Mn

Total Lending for poverty provinces in 2021

Eastern	Rs 15,370 Mn
Northern	Rs 19,593 Mn
Uva	Rs 11,186 Mn

Food production from our lending in 2021

	Area cultivated (ha)	Production (Mt)
Paddy	21,702	114,220
Minor foods*	1,819	9,095

79,874 Mt of Rice from paddy production. It could produce the equivalent of 272 million meals in 2021, or enough food to provide approximately 746.486 people for a year

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

Used information for calculations Cost per cultivation of one hectare of paddy

Average Yield per hectare

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

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

Assumption-Total rice production use only for human consumption

Used information for calculations

1 MT rice = 1.43 MT paddy (paddy conversion factor)

Source: Central Bank of Sri Lanka

Rice per capita consumption / Total Population in Sri Lanka

Source: Department of Census and Statistics Sri Lanka

Value Delivered to our Communities



Financial support for cancer patients and families

Over 15000 cancer patients and families identified by the Counselling Center at the Apeksha Hospital, Maharagama have been provided financial support through the HNB Sustainability Foundation. This supplement is afforded over a period of 6 months and renewed depending on need.

Bank felicitated Sri Lanka paralympic heroes as an inspiration to new generation of athletes

Recognising their outstanding performances which included securing Gold and Bronze medals and establishing a new world record, HNB's Sustainability Foundation felicitated the award-winning athletes, coaches and officials who were part of the delegation.



Medical equipment donations to hospitals

Through the "HNB ඔබ වෙනුවෙන් අපි" initiative, HNB employees donated medical equipment to 39 Hospitals and MOH offices.

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

Lending for health care services development projects	Rs 18,815 Mn
Pharmaceutical and healthcare product manufacturing	Rs 2,480 Mn
Pharmaceutical imports	Rs 1,006 Mn

Considering the social impacts, we do not finance for production or trade in alcoholic beverages (excluding beer and wine) and production or trade in tobacco for new customers engaged in these industries.

Supporting healthier lifestyles

HNB "Walk the Talk" campaign was re-launched to promote eco friendly commuting amongst staff members. Staff members at HNB Towers were requested to join this campaign by either walking or cycling to work.





✓ **Nenapubuduwa initiative**

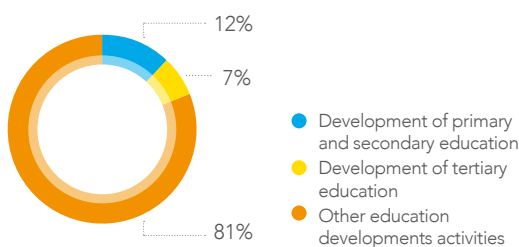
Recognizing the powerful ability of books and libraries to enrich and empower the lives of school children, HNB continued its groundbreaking work expanding the 'NenaPubuduwa' programme with over 200 Nenapubuduwa school libraries island-wide.

✓ **Contribution to industry knowledge**

As part of the Sustainable Banking Initiative, HNB facilitated the e-learning module of sustainable banking on the SLBA Website.

✓ **Quality education**

- » Facilitated SLBA Website for e-Learning for employees on sustainable banking
- » Total lending to quality education Rs 9.1 Bn



✓ **School uniform drive**

The drive sought to encourage underprivileged children from rural areas to continue their schooling amidst financial difficulties through the provision of uniforms.

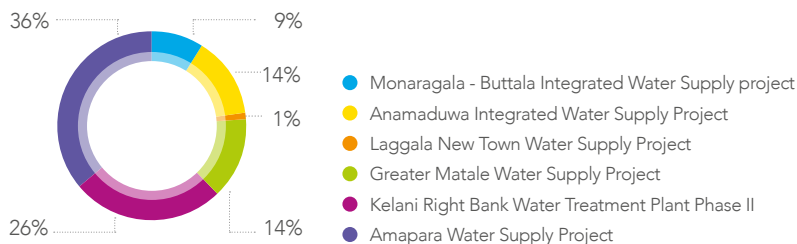


✓ **Ensure availability and sustainable management of water and sanitation for all**

Financing for drinking water supply projects in the country. In 2021, Rs 16,034 Mn disbursed to construction of water supply projects.

No. of Beneficiaries of Water Supply Projects Financed by the Bank

No of Beneficiries



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

Personal loan scheme to install solar panels on houses- 181

Investment of sustainable energy projects

We have financed sustainable energy projects with installed capacity of 61.1MW hydro power, 30.2 MW of wind power and 43 MW of solar power as at end 2021



Value Delivered to our Communities



Promote sustained, inclusive and sustainable economic growth full and productive employment and decent work for all

Employee wages and benefits Rs 10.7 Bn
Interest on deposits / debentures Rs 49 Bn

Dividend payments Rs 3.4 Bn
Paid to the government as Taxation Rs 10.7 Bn

Financing to main export crops

	Amount (Rs Mn) of Lending for Production	Production from Lending
Tea	11,889	24,576 Mt
Coconut	3,026	165 No Mn nuts
Rubber	3,539	11,917Mt

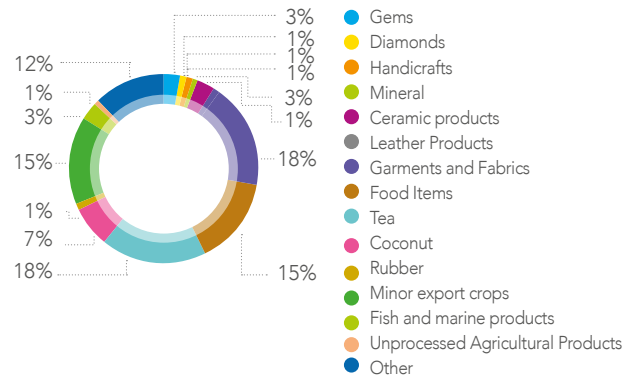
Tea: Used information for calculations, Total cost of production per one kg of tea (Sources: Sri Lanka Tea Board)

Coconut: Used information for calculations, Total cost of production per one nut (Sources: Coconut Development Authority)

Rubber: Used information for calculations, Total cost of production per one kg rubber (Sources: Sri Lanka Rubber research institute)

Lending to minor export crops production Rs 165 Mn
Lending to tourism sector development Rs 59,876 Mn

Financing Export of Production



Make cities and human settlements inclusive, safe, resilient and sustainable

- Value of Rs 16, 734 Mn Housing loans and Rs 4,619 Mn for residential property development.
- Improve passenger transport- Rs 549 Mn

Our Network

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



Infrastructure facilities for underserved communities

The Bank signed a Memorandum of Understanding with The Capital Maharaja Groups initiative Gammadda Sri Lanka, the country's largest rural development movement to develop infrastructure facilities of the Yaya 6 village Mahawilachchiya, in the Anuradhapura District.

Bank has funded for:
Road Development Projects Rs 28, 523 Mn
Telecommunication sector development Rs 1,557 Mn
Development of Information Technology and Communication sector Rs 9,613 Mn



Promote peaceful and inclusive societies

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



Protect, restore and promote sustainable use of terrestrial ecosystems

HNB does not finance commercial logging operations for use in primary tropical moist forest, production or trade in wood or other forestry products other than from sustainably managed forests and trade in wildlife or wildlife products regulated under CITES



Habitat Protection

The HNB Sustainability Foundation has undertaken to protect the catchment of Thundola (Galle) a conducive habitat for aquatic species.



Protecting marine life

HNB මබ වෙනුවෙන් අපි” initiative, donated Personal Protective Equipment (PPE) to Clean Ocean Force Lanka, as part of our efforts to reduce plastic pollution in beaches and waterways.

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

A robust ESMS policy

83 projects were evaluated for social and environmental criteria in line with the Bank's ESMS Policy to ensure there was no adverse impact on the environment. Meanwhile, we regularly review our restrictive sectors to ensure socially responsible lending.

Kanneliya conservation project

The Kanneliya Conservation Project initiated to develop a biodiversity credit accrual system for Sri Lanka continued during the year in partnership with Biodiversity Sri Lanka and in partnership with the Forest Department and IUCN Sri Lanka.



Measuring our impact

Continuing our commitment to the HNB Green Pledge, the Bank introduced Smart Carbon Calculator (SCC) system across the Bank including all branches to accurately quantify our usage of energy, resource consumption and carbon footprint. This system allows us to better understand our impact / contribution to climate change, identify where emissions are created, and understand which areas the Bank needs to address to reduce emissions.

In the past, we have only considered emissions attributed to electricity and diesel consumption. Standardization of the assessment and the inclusion of many additional sources have drastically increased the emissions attributed to the Bank.

ISO 14064 CERTIFICATE

The Bank's carbon footprint for 2021 has been accounted as 9,592 tCO2e by Climate Smart Initiatives (Pvt) in accordance with the ISO 14064-1-2018 standard. A total of nine emission sources covering both direct and indirect emission sources of the Bank were considered for this analysis. Further, the Sri Lanka Climate Fund operating under the Ministry of Environment performed an independent third-party verification in accordance with the ISO 14064- 3-2018 guidelines and awarded the prestigious ISO 14064 certificate to the Bank.



Board of Directors



MRS ARUNI GOONETILLEKE

Chairperson
(Non-Executive/Independent)



MR JONATHAN ALLES

Managing Director/Chief Executive Officer
(Executive Director)



MR DEVAKA COORAY

Director
(Non-Executive/Independent)



MR DILSHAN RODRIGO

Chief Operating Officer
(Executive Director)



MR OSMAN CHANDRAWANSA

Director
(Non-Executive/Independent)



DR PRASAD SAMARASINGHE

Alternate Director to
Mr Damien Fernando – Director
(Non-Executive/Non-Independent)



MRS K A L THUSHARI RANAWEERA

Company Secretary



MR AMAL CABRAAL

Director
(Non-Executive/Independent)



MR DAMIEN FERNANDO

Director
(Non-Executive/Non-Independent)



MR MADU RATNAYAKE

Director
(Non-Executive/Independent)



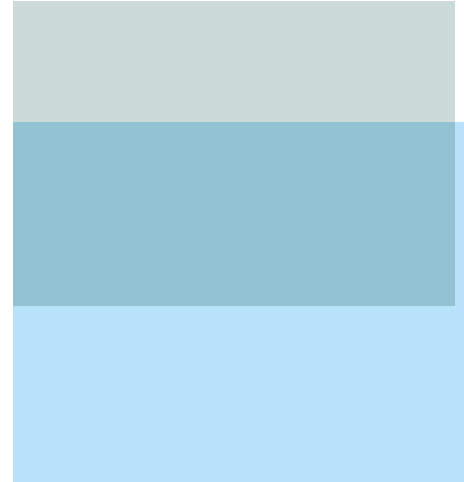
MR PRAWIRA RIMOE SALDIN

Director
(Non-Executive/Non-Independent)



MR NIHAL JAYAWARDENE

Director
(Non-Executive/Non-Independent)



Board of Directors

ARUNI GOONETILLEKE

Chairperson

Appointed Director : April 2021

Chairperson: September 2021

Skills & Experience:

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

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

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

Other Current Appointments:

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

Previous appointments

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

JONATHAN ALLES

Managing Director /Chief Executive Officer

Appointed: July 2013

Executive Director Appointed: May 2013

Skills & Experience:

An experienced banker counting over 35 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 of the Institute of Bankers of Sri Lanka.

Other Current Appointments:

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

Mr Alles is a dynamic Banker and a corporate leader; he has contributed to HNB's macro development with the Bank now operating through 255 customer centres, using cutting edge technological platforms and enabling a new paradigm in Sri Lanka's banking culture. Under his leadership, HNB has received recognition from numerous international and local institutions and continues to set new benchmarks in the Sri Lankan banking industry.

Previous appointments

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

Mr Alles was also a Director of Lanka Clear (Pvt) Ltd, HNB Assurance PLC, Sithma Development (Pvt) Ltd, HNB General Insurance Ltd, Acuity Stock Brokers (Pvt) Ltd and Prime Grameen Micro Finance Ltd.

He served as a member of the Main Committee of the Ceylon Chamber of Commerce and was also a member of the Advisory Committee of Sri Lanka Business & Biodiversity Platform.

AMAL CABRAAL

Independent / Non-Executive Director

Appointed: April 2014

Skills & Experience:

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

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

Other Current Appointments:

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

Previous Appointments:

Chairman and CEO of Unilever Sri Lanka.

DAMIEN FERNANDO

Non Independent / Non-Executive Director

Appointed : October 2018

Skills & Experience:

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

Other Current Appointments:

Mr. Fernando is a Director of Addison (Pvt) Ltd, HealthCey (Pvt) Ltd, HNB Assurance

PLC and HNB General Insurance Ltd. He has held Board and other positions in several sectors including Finance, Life & General Insurance, Assets Management & Unit Trusts, Management of healthcare, food & beverages, manufacturing and in retail.

Previous Appointments:

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

MADU RATNAYAKE

Independent/Non-Executive Director

Appointed : October 2018

Skills & Experience:

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

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

Other Current Appointments:

Mr Ratnayake is the Co-Founder and Chairman of Scybers (Pvt) Ltd, a global cybersecurity consulting and managed services company, an Independent/Non-Executive Director of Sri Lanka CERT (Pvt) Ltd, National Cybersecurity Agency, Director of Information

Communication Technology Agency (ICTA), the National Agency for Digital Government and Director of HSenid Business Solutions (Pvt) Ltd, first listed software technology company in Sri Lanka.

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

DEVAKA COORAY

Independent/Non-Executive Director

Appointed: July 2020

Skills & Experience:

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

Other Current Appointments:

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

Previous Appointments:

He has worked with Ernst & Young for over 40 years of which 30 years was as a Senior Assurance and Talent Partner. He functioned as the Deputy Managing Partner from 2016 to 2019 and served as a member of Ernst & Young's Management Committee from the time the Management Committee was established in 1998 until his retirement in 2019. He was instrumental in establishing the Ernst & Young Practice in the Republic of Maldives in 1995 and functioned as the Partner

responsible for the overall management of the Maldivian Practice from its inception. He represented Sri Lanka and Maldives for a number of years in the EY ASEAN Regional Partner Forum. He was seconded to EY USA for a year, where practical experience was gained by being part of assurance teams that performed audit engagements on several large enterprises.

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

DILSHAN RODRIGO

Executive Director / Chief Operating Officer

Appointed : July 2020

Skills & Experience:

Mr. Rodrigo possesses over two decades in banking experience and is the Executive Director / Chief Operating Officer of Hattton 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 centralization, automation, outsourcing and process improvement initiatives and is recognised for driving a performance culture through training, talent acquisition and introducing several break through cost optimization initiatives.

Other Current Appointments:

Mr Rodrigo has held many senior positions in multiple industries ranging from banking, insurance, investment banking and apparel. He presently functions as Chairman of HNB Finance PLC and holds Directorships in HNB Assurance PLC, Guardian Acquity Assets

Board of Directors

Management Limited, Lanka Financial Services Bureau and Credit Information Bureau. Mr Rodrigo serves on the councils of the Sri Lanka Institute of Directors (SLID) and was the Chairman Policy Advocacy Committee of Asian Bankers Association (Taiwan) during 2011/12 and 2019/20.

Previous Appointments:

He has served as a lecturer and examiner on various undergraduate and postgraduate programs (CIMA, ACCA, PIM and University of Wales MBA programs) and is a Guest Lecturer for SLID, Director Certification Program. He has presented various technical papers in various forums locally and overseas on Strategy, Business Transformation and Risk Management. Mr. Rodrigo has also served on local governing councils of CIMA, APB, ACCA and Risk Professional Forum and in the latter two as President.

OSMAN CHANDRAWANSA

Independent / Non-Executive Director

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 U K.

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

Previous Appointments:

Mr Chandrawansa had a long term service in the Central Bank starting from the year 1975. During his tenure he has held the positions in the Central Banks' EPF Department, Matara

Regional Office, International Operations Department, Economic Research Department as a Senior Economist, Domestic Operations Department, Financial System Stability Department, Department of Supervision on Non-Bank financial institutions and the Exchange Control Department. He had received extensive training in banking & finance both internationally and locally. Mr Chandrawansa also served in the Ex-officio office of the National Gem & Jewellery Authority as a Director ex-officio from August 2009 to September 2014.

PRAWIRA RIMO SALDIN

Non Independent / Non-Executive Director

Appointed: April 2021

Skills & Experience:

Appointed as a Director in April 2021. He is a fellow of the Institute of Chartered Accountants of Sri Lanka, an associate of Institute of Chartered Accountants of England and Wales, a fellow of the Chartered Institute of Management Accountants of London and a Certified Management Accountant, Australia.

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

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

Other Current Appointments:

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

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

Previous Appointments:

Mr. Saldin has served as the Commercial Director and Group Finance Director of CIC Holdings PLC for the period 1995-2005. He was the Country Controller & Group Finance

Director for Shell Sri Lanka for the period 2005-2010 and also the Group Chief Operating Officer, Browns Group of Companies PLC and the Managing Director of Browns Investments PLC from 2010-2014.

NIHAL JAYAWARDENE PC

Non- Independent / Non-Executive Director

Appointed: August 2021

Skills & Experience:

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

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

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

Mr Jayawardene also played a leading role in the process of drafting the Colombo Port City Economic Commissions Act.

Other Current Appointments:

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

Previous Appointments:

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

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

DR PRASAD SAMARASINGHE

Alternate Director to Mr Damien Fernando – Director, HNB PLC

Appointed: July 2019

Skills & Experience:

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

In addition, Dr Samarasinghe is a Licentiate of Part I and Part II of Institute of Chartered Accountants of Sri Lanka and the recipient of Best Achiever Status from the Institute in Financial Accounting, Business Mathematics Statistics and Data Processing in the year 1991.

Other Current Appointments:

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

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

He holds professional membership as a Board Director of TRACE, ICTSC and is the Chairman of FITIS.

Previous Appointments:

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

Dr Samarasinghe held the position as the Systems Engineer (Data Communications) at Electroteks (Pvt) Ltd from September 1996 to June 1998. Thereafter, he joined

the Commercial Bank of Ceylon and served as Manager/Communications Engineer till January 2001, Chief Manager IT from 2001 to May 2002, prior to becoming the Head of IT in May 2002 till September 2003. He was the Deputy General Manager (ICT) of Sri Lanka Insurance from 2003 to July 2005. Dr Samarasinghe had been a Director – E-Channelling (Pvt) Ltd from September 2004 to June 2009 and became the Chief Operating Officer (support services) of Sri Lanka Insurance in July 2005 and served till 2008 March. He was the Managing Director of Bellvantage (Pvt) Ltd from September 2008 to December 2011.

THUSHARI RANAWEERA (MRS)

Company Secretary

Appointed: January 2012

Skills & Experience:

She is an Attorney-at-Law and counts over 30 years of experience in Banking.

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

Other Current Appointments:

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

Previous Appointments:

Member of Board of Governors of Sri Lanka National Arbitration Centre (2012-2017) and was a Council Member of Association of Professional Bankers of Sri Lanka (APB).

Corporate Management



JONATHAN ALLES

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



DILSHAN RODRIGO

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



THUSHARI RANAWEERA

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



RUWAN MANATUNGA

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



CHIRANTHI COORAY

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



NIROSHANA SENEVIRATNE

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



SANJAY WIJEMANNE

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



DAMITH PALLEWATTE

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



ARJUNA ABEYGUNASEKARA

M.B.A. (Colombo), B.Sc. (Colombo), A.C.M.A. (UK), C.G.M.A., A.C.I.
Deputy General Manager - Treasury & Markets



NIROSH PERERA

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



TYRONE HANNAN

M.B.A (Australia)
Head of Custody and Trustee Services



ROHAN BUULTJENS

Master of Business in Information Technology -
RMIT University (Australia)
Chief Technology & Digital Officer



RAJIVE DISSANAYAKE

C.F.A. (USA), F.C.M.A.(UK), C.G.M.A., B.B.A. (Colombo)
Assistant General Manager / Chief Financial
Officer



JANATH ILANGANTILEKE

M.B.A. (Manipal), B.A. (Hons) - Northumbria (UK),
A.I.B. (Sri Lanka), F.C.M.A. (UK), C.G.M.A., C.P.A. (Australia)
Assistant General Manager - Compliance



HISHAM ALLY

M.I.M. (Sri Lanka)
Assistant General Manager - Islamic Banking



MAJELLA RODRIGO

A.C.M.A (UK), C.G.M.A., M.B.A. (Colombo), B.Sc. (Colombo)
Assistant General Manager - Corporate Banking



INDRAJITH SENADHIRA

M.B.A. (Sri J.), M.A.L.S. (Colombo), LLB (Sri Lanka),
Attorney-at-Law, Dip in Marketing (S.L.I.D.A.),
Dip in Credit Mgmt. (S.L.I.C.M.), A.M.C.I.P.M.
Assistant General Manager – Services



DRUVINDA VAIDYAKULARATNE

FB.C.S (UK)
Assistant General Manager – Information
Technology / Chief Information Officer



VINODH FERNANDO

Head of Micro Finance



Senior Management



CHAMMIKA WEERASINGHE

M.B.A. (Sri J), M.C.I.M. (UK)
Head of Digital Business



SISIRA ATAPATTU

Head of Recoveries



NEIL RASIAH

M.B.A. - Finance (USQ, Australia),
M.A - Financial Economics (Colombo), B.Sc. (Colombo),
A.I.B. (Sri Lanka), Dip. in Int. Trade (IBSL)
Regional Credit Head - Colombo Region



SAUMYA ARYASINGHA

Head of Institutional Solutions



KAILAVASAN INDRAVASAN

M.B.A. - Finance (Australia), C.M.A. (Australia),
A.I.B. (Sri Lanka)
Head of SME



SUPUN DIAS

M.C.I.M. (UK), M.S.L.I.M, Chartered Marketer,
Dip in Marketing (UK)
Head of Network Management



KANCHANA KARUNAGAMA

M.B.A. (Sri J), A.I.B. (SL), M.C.I.M. (UK), A.I.C.M. (SL)
Head of Personal Financial Services



VIJAYA VIDYASAGARA

M.B.A. - Finance (Colombo), A.I.B (Sri Lanka)
Deputy Head of Corporate Banking



EOMAL MUNASINHA

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



PRIYANTHA SENEVIRATNE

A.C.I.
Chief Manager - Treasury (Corporate Sales)



PRIYANKA WIJAYARATNE

M.B.A. (Sri J), A.C.M.A. (UK), C.G.M.A., B.Sc. (Colombo)
Head of Strategic Planning



SIVARAJAH NANDAKUMAR

M.B.A. (Sri J), A.I.B. (Sri Lanka)
Head of Operations



DILUNIKA JAYASINGHE

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

Chief Manager - Credit Risk Management



ANURADHI DELAGE

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

Head of Finance



SURESH EMMANUEL

M.B.A (Cardiff - UK), M.B.C.S. (UK), NCC-IDIC (UK), C.I.S.M (USA), C.I.S.A (USA), C.D.P.S.E. (USA), C.D.P.P, S.I.E.M 101, C.P.C.I.S.I., ITIL LV 3 (USA), ISO 27001 LA, ISO 9001 LA, DISSCA.

Chief Information Security Officer



THUSITHA EDIRIWEERA

M.B.A. (UK), LLB (Sri Lanka), Attorney-at-Law, Notary Public & Commissioner for Oaths, M.C.I.C.M. (UK), F.I.C.M. (Sri Lanka), M.I.M.S.L.

Chief Manager - Legal (Recoveries)



MURTAZA NORMANBHOJ

F.C.A. (Sri Lanka), F.C.M.A. (Sri Lanka)

Chief Manager - Internal Audit



SAMPATH KUKULEVITHANA

M.B.A. (Manipal), Dip. in Marketing (UK)

Regional Credit Head - North Western Region



SOTHERATNAM MATHANAN

M.B.A. (Australia), F.A.B.E. (UK)

Chief Manager - Credit Operations



RAJEEV RAJARATNAM

A.I.B. (Sri Lanka)

Head of IT Project Delivery & Portfolio Management



SOMASKANDASARMA NARENTHIRAN

M.B.A. (UK)

Regional Business Head - Colombo Region



VIRANGA GAMAGE

LL.B (Sri Lanka), M.B.A (Colombo), Attorney-at-law

Head of Deposits



SHIROMI HALLOLUWA

Attorney-at-Law & Nortary Public, Company Secretary

Head of Legal



THANGARAJAH THAYALAN

M.B.A. (Australia), A.I.B. (Sri Lanka), M.A.B.E.

Senior Manager - Foreign Exchange & Money Markets

Senior Management



ROSHANTHA JAYATUNGE

A.I.B. (Sri Lanka)

Senior Manager - Training Delivery



DEEPAL UDUKUMBURA

N. Dip. Technology (Hardy TTI),

P.G. Dip Management (Rajarata)

Regional Credit Head - North Central Region



ROSHAN FERNANDO

M.B.A. (Colombo), B.Sc. Eng (Hons) (Moratuwa), M.I.E.T. (UK)

Director/Chief Operating Officer
– Sithma Development (Pvt) Ltd /
Senior Manager – Services



RUKSHAN SENARATNE

M.B.A. (Malaysia)

Senior Manager - Centralized Credit Operations



SURANGA PEIRIS

M.B.A. - Finance (USQ, Australia), A.C.M.A. (UK),

C.G.M.A., A.I.B. (Sri Lanka)

Head of Emerging Corporates



DAMIAN RANJIT

PG. Dip. in Business & Financial Administration (ICASL),

A.I.B. (Sri Lanka)

Regional Credit Head - Greater Colombo Region



VINDHYA WIJEGUNAWARDANE

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

Head of Customer Experience



PASINDU DHARMASIRI

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

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

Head of Payment & Cash Management



ARUNA SUMANASINGHE

M.B.C.S. (UK)

Senior Manager - Application Management



ANGELINA DHARMARAJ

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

Head of Centralized Credit Administration



UDARA PATHINAYAKE

M.B.A. (Uni. of Preston - USA)

Head of Pawning



CHAMARA GUNAWARDENA

PG. Dip in Computer Science (Colombo), B.I.T. (Colombo)

Head of Application Development &
Maintenance



BANDULA MONNEKULAMA

N.D.T. - Agriculture (HTTI)
Regional Business Head - North Central Region



UPUL ADIKARI

*M.B.A. (Sri J.), Chartered Marketer, M.C.I.M. (UK),
M.S.L.I.M., P. Mkt (SL)*
Head of Marketing



RAJEEV PERERA

M.B.A. (UK)
Regional Business Head - North Western Region



DAPHNE GAMAGE

M.B.A. (UK)
Senior Manager - Inward Remittances/Swift



DILANKA DE SILVA

A.C.I.M. (UK)
Senior Manager - Head Office Branch



SUSITH PERERA

A.I.B. (Sri Lanka)
Regional Business Head - Uva/Sabaragamuwa Region



**SIVASARAVANABAWAN
SUNTHARESWARAN**

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



GAUTHAMI NIRANJANI

C.M.A. (Sri Lanka), M.B.A. (Edith Cowan University - Australia)
Head of Card Issuance



NILUKA AMARASINGHE

PhD. Management (MSU), M.B.A. (Peradeniya)
A.I.B. (Sri Lanka)
Head of Leasing



SIDDIQUE FALEEL

M.B.A. - Finance (USQ, Australia)
Senior Manager - Retail Recoveries



AMILA RANASINGHE

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



PRASANNA KUMARA

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

Senior Management



LALINDRA TISSERA

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

Senior Manager – Rajagiriya Branch



ROHANA AMARASIRI

B.Sc. in Physical Science (Sri J),

Senior Manager – Service Delivery (ITD)



SHALINDRA KARUNARATNE

Regional Credit Head - Southern Region



UNMEELA EKANAYAKE

Attorney at Law, Notary Public

Senior Manager – Legal Operations



MICHELLE DE SILVA

Senior Manager – Priority Banking
(Greenpath Branch)



RAJITHA WIJENAYAKE

N.D.E.S (Mechanical Engineering)

Regional Business Head - Southern Region



PRASAD TENNAKOON

M.B.A (Wales, UK), M.B.C.S. (UK), IT Diploma (Tech, SL)

Head of Security & Assurance (ITD)



MANOJ PITADENIYA

A.I.C.A (UK), A.I.C.M (UK), A.I.C.M (Sri Lanka),
Diploma In Credit Management

Senior Manager – Compliance



SOHAN FERNANDO

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

Senior Manager – City Office



MAHINDA SENEVIRATHNE

M.B.A (Cardiff Metropolitan, UK),
Diploma in Agri. (SLSA)

Regional Business Head – South Western Region



VATHULAN GANESHAN

Regional Business Head - Greater Colombo
Region



AJITH KANDARAMAGE

B.Sc. in Computer Networks & Systems Security
(NorthWest, USA), M.B.C.S. (UK)

Head of IT Operations



MEWAN GUNAWARDENA

C.F.A. (USA), A.C.M.A (UK), A.C.I. Diploma

Senior Manager - FI Trading & Customer Sales



VAJIRA ABEYSUNDERA

*A.C.M.A. (UK), C.G.M.A., B.A. (Hons) (Northumbria, UK),
Master of Financial Economics (Colombo), A.I.B. (Sri Lanka)*

Senior Manager - FX Trading & Customer Sales



VIRAJ MENDIS

A.I.B. (Sri Lanka)

Head of Credit Operations



SHERAN PERERA

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

Head of HR Operations



V T SAMPANTNER

Head of Centralized Credit Monitoring



TISSA NANAYAKKARA

Head of Card Operations



ROZANNE DE ALMEIDA

A.I.B. (Sri Lanka)

Head of Trade & Financial Institutions



SHANKAR DHARMARATNE

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

Head of Digital Services



NIMAALI DE MEL

A.I.B. (Sri Lanka)

Senior Manager - Outward Remittances



SUBRAM PARAMESHWARAN

M.B.C.S. (UK)

Senior Manager - Service Operations Centre

Corporate Governance: Annual Report of the Board of Directors on the Affairs of the Company

The Board of Directors of Hatton National Bank PLC (the 'Bank' or the 'Company') takes pleasure in presenting its Annual Report to the shareholders for the financial year ended 31st December 2021 together with the audited financial statements of the Bank, consolidated financial statements of the Group for the said year and the Auditor's Report on those financial statements, conforming to the requirements of the Companies Act No 7 of 2007, Banking Act Direction No 11 of 2007 (Corporate Governance for Licensed Commercial Banks and subsequent amendments thereto) and Listing Rules of the Colombo Stock Exchange ('CSE'). The Report is also guided by the recommended best practices on Corporate Governance.

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

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

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

The registered office and Head Office of the Bank is located at "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 18th February 2022.

OUR APPROACH TO CORPORATE GOVERNANCE

The Bank aspires to the highest standards of governance, integrity and professionalism. Our Governance Framework is benchmarked to global best practice and references the principles of the Banking Act Direction No.11 of 2007 on Corporate Governance and the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka in 2017. Details of compliance are set out on pages 26 to 41 of CG and RR Report, 2021.

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 7 to 25 of the CG and RR Report, 2021.

GOVERNANCE STRUCTURE



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 timeous 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 2021

2021 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

Corporate Governance: Annual Report of the Board of Directors on the Affairs of the Company

impacts of the pandemic unfold. The Board received regular updates supported by increased analysis and reporting on key issues affecting the Bank and its stakeholders. Compliance, Risk Management, Recoveries, and Internal Control remained key priorities. The Board, directly and through its sub-committees, considered actions to successfully face challenges, manage crisis and harness opportunities while recalibrating strategy, to protect and create value for the Bank and its stakeholders.

In deliberating strategy, the Board adopted an integrated approach to value creation, embracing stakeholder inclusivity while considering the Environmental, Social

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 – page 29 in IR.

The annual review of strategy for the year 2022, was conducted by the Board in November 2021, in consultation with the Corporate Management Team, and considered impacts of the pandemic, risk and opportunities in approving the Bank's business plan and setting revised short, medium and long-term targets.

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 BOARD

As at 31st December 2021

Non-Executive Independent Directors	Mrs. Aruni Goonetilleke Mr. Amal Cabraal Mr. Devaka Cooray Mr. Madu Ratnayake Mr. Osman Chandrawansa	Chairperson
Non- Executive Non- Independent Directors	Mr. Damien Fernando Mr. Rimoe Saldin Mr. Nihal Jayawardene PC	
Executive Directors	Mr. Jonathan Alles Mr. Dilshan Rodrigo	Managing Director / Chief Executive Officer Chief Operating Officer
Alternate Director	Dr. Prasad Samarasinghe	

The Board is considered to be of appropriate balance and mix of skills and experience. The Boards' diversity contributes to varied perspectives and objective evaluation of matters set before them. Non-Executive Directors are eminent professionals in their respective fields. Gender diversity improved with the appointment of Mrs. Aruni Goonetilleke to the Board in April 2021. Careful succession planning and deliberate processes ensure that the skills and experience of the Board remain relevant to the Bank's needs. The Board adopts a Skills Matrix to support director recruitment and succession planning.

Directors are appointed through a formal and transparent process, assessed for their independence and approved by the Central Bank of Sri Lanka. The nomination of Directors

has been delegated to the Nomination Committee (NC), which recommends the appointment of new Directors for approval by the Board having reviewed the combined knowledge, experience and diversity of the Board in relation to the Bank's strategic plans and any gaps thereof. During the year, four new Directors were appointed to the Board to fill vacancies that arose in 2021. The NC spent a considerable amount of time in identifying the most suitable candidates, to build the right team to steer the Bank into the future.

New Board members participate in an induction programme aimed at providing them with the information and support needed to be effective. Directors continue to keep abreast of changes in regulations and the business environment by attending seminars, workshops, conferences and formal training

Details of Directors' meetings are given below

Board Member	Date of Appointment to the Board	Board	Board Audit Committee	HR & Remuneration Committee	Nomination Committee	Board Integrated Risk Management Committee	Related Party Transaction Committee	Strategy & Investment Review Committee	Procurement & Assets Disposal Committee	Board Credit Committee	Board Recoveries Committee	Board Digital Banking Committee
Total Meetings Held		17	8	4	6	10	4	7	11	5	10	29
Mrs Aruni Goonetilleke	01st April 2021	☐12/12	*3	2/2	1/1	6/6		5/5		☐1/1	7/7	
Mr Nilanth De Silva (Until his demise on 29th September 2021)	30th April 2015	12/12	5/5	0/1	3/3		2/2			4/4	8/9	
Mr Dinesh Weerakkody (Retired w.e.f 30th March 2021)	29th June 2017	5/5		1/1	2/2							
Mr Jonathan Alles	01st May 2013	17/17	*4	*4	*5	3/3	**4/4	*7		*5		18/29
Mr Rusi Captain (Retired w.e.f 2nd April 2021)	02nd April 2012	**6/6	**3/3		**1/2	**2/2	**1/1					
Mr Amal Cabraal	01st April 2014	17/17		4/4	3/3			☐7/7		5/5	☐10/10	
Mr Duliksha Soosaipillai (Retired w.e.f 30th March 2021)	30th April 2015	4/4		1/1		2/2		1/2	2/2		3/3	
Mr Damien Fernando	25th October 2018	**17/17	**4/5			**10/10		**7/7	**11/11		**5/5	**27/29
Mr Madu Ratnayake	25th October 2018	17/17	3/3	☐3/3	1/1	*2,8/8		6/7	4/6			☐29/29
Dr Harsha Cabral (Resigned w.e.f 05th July 2021)	26th September 2019	8/8			5/5					2/2	6/6	
Mr Dilshan Rodrigo	01st July 2020	16/17	*8			*10		*6	*11	*5	*9	*14
Mr Devaka Cooray	03rd July 2020	17/17	☐8/8		☐1/1	*9	☐2/2		6/8	5/5		
Mr Osman Chandrawansa	01st April 2021	12/12	5/5				3/3			2/2		
Mr Rimoe Saldin	30th April 2021	11/11	4/4			☐7/7			☐*2,7/7			
Mr Nihal Jayawardene	17th August 2021	6/6					1/2		2/3	1/1	1/1	

* Meetings attended by invitation | ** Includes Meetings attended by an alternative Director | ☐ Chairman/Chairperson as at 31st December 2021

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 2021 are given in Note 18 to the financial statements in IR page 215.

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 2021 appraisal was held in January 2022. The outcome of the appraisal indicated that the performance of the Board met expectations. Areas identified for improvement were communicated to the Board.

Directors Interests and Related Party Transactions

The Board is committed to the highest standards of professional and ethical conduct. Directors declare their outside business interests on appointment and quarterly thereafter, details of which are recorded in the Directors' Interests Register, and available for inspection in terms of the Companies Act.

Directors have no direct or indirect interest in a contract or a proposed contract with the Bank other than those disclosed on page 114 to 117 in IR.

The Related Party Transactions Review Committee considers all transactions that require approval in line with the Bank's Related Party Transactions Policy and in compliance with the relevant regulations of CSE and Central Bank of Sri Lanka, ensuring transactions are fair and in the best interests of the Bank. Related party transactions are disclosed in Note 60 to the financial statements in IR page 318.

Corporate Governance: Annual Report of the Board of Directors on the Affairs of the Company

Independence

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

Compliance

During the year, the Bank met urgent and rapidly evolving regulatory requirements as the operating environment continued to be increasingly volatile. The Bank remained extra vigilant, expanding the scope and rigour of processes to mitigate emerging threats and ensure compliance. Continued investments in new systems, platforms and processes including the use of advanced analytics and Artificial Intelligence solutions and establishment of a Compliance Audit team, strengthened the compliance function and improved efficacy in prevention, detection, and reporting. The Bank is compliant with all relevant statutory and regulatory requirements, including the Listing Rules of the CSE and directions issued by the Central Bank of Sri Lanka. The Board is also guided in the conduct of business by the Bank's policies, values, standards and Code of Conduct & Ethics.

The Compliance Officer who reports to the Board Integrated Risk Management Committee, tables a report on compliance at the quarterly meetings of the Committee and where necessary, such non-compliant issues are escalated to the Board for necessary action.

The Board comprises five (5) Independent Non-Executive Directors, in compliance with regulatory requirements. However, the Bank remained non-compliant with this provision for a period of forty-three (43) days, following the sudden demise of Mr Nilanth De Silva, Independent Non-Executive Director on 29th September 2021 and until 11th November 2021. The number of Independent Directors on the Bank's Board fell to three, being less than one third of the total number of Directors. Subsequent to appropriate action being taken by Mrs Aruni Goonetilleke and Mr Amal Cabraal, the Board deemed them "Independent" based on the criteria specified in the Banking Act Direction No.11 of 2007. Consequently, the nature of the directorships of Mrs Goonetilleke and Mr Cabraal were amended to Independent/Non-Executive from Non-Independent/Non-Executive with effect from 12th November 2021 and 16th November 2021, respectively.

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 pandemic continued to weigh heavily on the economy and society. In response, the Bank enhanced its risk management capabilities to mitigate exposure as described in the Risk Review on pages 118 to 124.

Innovation and Technology Governance

The Board is cognizant of the benefits of agility, scalability, and innovation that digital platforms provide. Directors ensure implementation of an effective and properly resourced digital technology strategy that delivers exceptional client and employee experiences and is aligned to the Bank's overall business strategy.

The Board is equally committed to safeguarding the Bank's information assets and operational systems. Information and Cyber Security risk remains inherently high as a result of the increase in volumes of digital transactions and remote working vulnerabilities amid the pandemic. During the year, governance structures were strengthened, and surveillance and monitoring tools enhanced to meet the Bank's information and cyber security requirements.

Group Corporate Governance

The Board seeks to establish a common standard of corporate governance across group subsidiaries. Policies and procedures are aligned to that of the Bank and yet shaped to meet the intrinsic business structure and risks of each entity.

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	IR 10 - 11
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, 2021	IR 136 - 145 Signed on page IR 139
3	Auditor's report on the financial statements of the Bank and the Group	Section 168 (1) (c)	Independent Auditors' Report	IR 130 - 134
4	Any change in accounting policies made during the accounting period	Section 168 (1) (d)	Note 3.6 to the financial statements - Changes in Accounting Policies and Disclosures	IR 157
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	IR 114 - 117 CG&RR 22
6	Remuneration and other benefits of Directors during the accounting period	Section 168 (1) (f)	Note 18 to the financial statements - Other Expenses Corporate Governance Report - Fair and Responsible Remuneration, provides details of the remuneration framework	IR 215 CG&RR 23
7	Total amount of donations made by the Company during the accounting period	Section 168 (1) (g)	Note 18 to the financial statements - Other Expenses	IR 215
8	Names of the persons holding office as Directors of the Company as at the end of the accounting period and the names of any persons who ceased to hold office as Directors of the Company during the accounting period	Section 168 (1) (h)	Board Profiles	IR 72-75
9	Amounts payable by the Company to the person or firm holding office as auditor of the Company as audit fees and as a separate item, fees payable by the Company for other services provided by that person or firm	Section 168 (1) (i)	Note 18 to the financial statements – Other Expenses	IR 215

Corporate Governance: Annual Report of the Board of Directors on the Affairs of the Company

No.	Disclosure requirements	Reference to the Companies Act No 7 of 2007	Disclosure reference for compliance	Page
10	Particulars of any relationship (other than that of auditor) which the auditor has with or any interests which the auditor has in the Company or any of its subsidiaries	Section 168 (1) (j)	<p>The Bank's auditors during the period under review were Messrs. KPMG, Chartered Accountants.</p> <p>Independence and Objectivity of the External Auditor - CG & RR page 19, provides details of the Policy for the Engagement of the External Auditor for Audit and Non-Audit services.</p> <p>Based on the declaration provided by Messrs. KPMG, and as far as the Directors are aware, the auditors do not have any relationship or interest with the Bank that in our judgement, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), applicable on the date of this Report.</p> <p>A resolution re-appointing Messrs KPMG Sri Lanka as Auditors for the ensuing year and authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting.</p>	CG&RR 19
11	Signed on behalf of the Board by two Directors and the Company Secretary	Section 168 (1) (k)	Complied with	IR 95

Additional Disclosures

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

No.	Disclosure requirements	Note reference	Page
1	Vision, Mission and Corporate Conduct	Vision and Mission The Bank is committed to upholding high standards of business conduct and ethics in the work place at all times, paramount in retaining the trust of our stakeholders. All employees of the Bank abide by the Bank's Code of Conduct and Ethics, which has been communicated via electronic and visual mediums and been made available in three languages. The Code of Conduct and Ethics for Directors is embodied in the Board Charter.	IR 13
2	Principal Activities	About HNB Group	IR 10
3	Changes to the Group Structure	There were no changes to Group structure during the year, except for the transaction referred in Note 35 (d)	-
4	List of Directors of Subsidiaries and Joint Ventures of the Bank as at 31st December 2021	<p>Subsidiaries</p> <p>HNB Assurance PLC Mrs. M. A. R. C. Cooray Mr. D. P. N. Rodrigo Mrs. S. N. Wickramasinghe Dr. S. Selliah Mr. D. R. Abeysuriya Mr. L. U. Damien Fernando Mr. S. A. Chapman Mr. Ashok Goonesekere Dr. T. K. D. A. Prasad Samarasinghe (Alternate Director to Mr. L U D Fernando)</p> <p>HNB Finance PLC Mr. D.P.N Rodrigo Mr. B. M. D. C. Prabhath Mr. P. A. H. D. Wijesundara Mr. A. S. Wijesinha Dr. S. U. H. Fernando Mr. A. G. R. Dissanayake Mr. M. Perera Mr. D. K. G. Perera Mr. R.D. Manatunga Mr. P.L.P Withana</p> <p>Joint Ventures</p> <p>Acuity Partners (Pvt) Ltd Mr. Ray Abeywardena Mr. Thimal Perera Mr. Rajive Dissanayake Mr. Damith Pallewatte Mr. Lalith Withana Mr. Sachith Perera</p> <p>Sithma Development (Pvt) Ltd Mr. P R Saldin Ms. Anuradhi U Delage Mr. U A Roshan Fernando Dr. Rohan Karunaratne</p>	

Corporate Governance: Annual Report of the Board of Directors on the Affairs of the Company

No.	Disclosure requirements	Note reference	Page
		Other Group Companies	
		HNB General Insurance Ltd (Subsidiary of HNB Assurance PLC)	Lanka Ventures PLC
		Mrs. M. A. R. C. Cooray	Mr. P G D B Pallewatte
		Mr. M. O. F. Salieh	Mr. L H A L Silva
		Ms. M. A. Tharmaratnam	Mr. A R Munasinghe
		Mr. L. U. Damien Fernando	Mr. M R Abeywardena
		Mr. M. Sanjay Wijemanne	Mr. J D N Kekulawala
		Mr. A. V. Abeygunasekara	Mr. R A Dassanayaka
		Mrs. L. Chiranthi Cooray	Mr. A G R Dissanayake
		Dr. T. K. D. A Prasad Samarasinghe (Alternate Director to Mr. L U D Fernando)	
		Acuity Securities Ltd	Acuity Stockbrokers Ltd
		Mr. Ray Abeywardena	Mr. Ray Abeywardena
		Mr. Amal Fernando	Mr. Prashan Fernando
		Mr. Ravi Dassanayake	Mr. Thimal Perera
		Mr. P G D B Pallewatte	Mrs. K A L T Ranaweera
		Mr. Sachith Perera	Mr. M S Wijemanne
		Mr. A V Abeygunasekara	
		LVL Energy Fund PLC (Subsidiary of Lanka Ventures PLC)	
		Mr. P G D B Pallewatte	
		Mr. L H A L Silva	
		Mr. A M Wijetunge	
		Mr. A R Munasinghe	
		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	
5	Review of Operations	Chairperson's Message	IR 16 -19
		Managing Director/CEO's Message	IR 20 - 23
		Stakeholder Reports	IR 44 - 69
		Business Line Reviews	IR 41 - 43
6	Future Developments	Chairperson's Message	IR 16 - 19
		Managing Director/CEO's Message	IR 20 - 23
		Stakeholder Reports	IR 44 - 69
		Business Line Reviews	IR 41 - 43
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).	IR 136 - 145
		The financial statements of the Group and the Bank for the year ended December 31, 2021	
8	Directors' Responsibility for Financial Reporting	Directors' Responsibility for Financial Reporting	IR 128 - 129
9	Auditors' Report	Independent Auditor's Report	IR 130 - 134
10	Significant Accounting Policies	Note 2.1 and 3 to the financial statements - Basis of Preparation and Significant Accounting Policies, respectively	IR 147 - 157

No.	Disclosure requirements	Note reference	Page
11	Going Concern	Note 2.1.5 to the financial statements – Going Concern	IR 148
12	Income	Note 7 to the financial statements – Gross Income	IR 201
13	Financial Results and Appropriations	Statement of Profit or Loss and Other Comprehensive Income Statement of Changes in Equity	IR 137 IR 140 - 143
14	Reserves	Statement of Changes in Equity	IR 140 - 143
15	Corporate Donations	Note 18 to the financial statements - Other Expenses The Bank did not make any donations to Government approved charities	IR 215
16	Taxation	Note 21 to the financial statements - Income Tax Expense	IR 217
17	Statutory Payments	The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government and the employees have been made up to date.	-
18	Dividends on Ordinary Shares	Note 23 to the financial statements - Dividends Paid and Proposed	IR 221
19	(i) Capital Expenditure	The total capital expenditure on acquisition of investment property, property, plant and equipment and intangible assets of the Bank and the Group amounted to Rs 1,211,320,000/- and Rs 1,724,390,000/- respectively. (2020 Bank: Rs 1,397,380,000/- and Group: Rs 1,639,389,000/- Details are given in Note 36, 37 and 39 to the financial statements.	IR 264 - 288
	(ii) Capital commitments	Capital expenditure approved and contracted for and approved and not contracted for, as at balance sheet date are given in Note 59 (b) to the financial statements – Capital commitments.	IR 317
20	Property, Plant and Equipment	Note 37 to the financial statements - Property, Plant and Equipment	IR 270 - 281
21	Net Book Value of Freehold Properties	Note 37 to the financial statements - Property, Plant and Equipment.	IR 270 - 281
22	Outstanding Litigation	In the opinion of the Directors and the Bank's Lawyers, pending litigation against the Bank disclosed in Note 59 (c) of the financial statements, will not have a material impact on the financial position of the Bank or its future operations. Notes 59 (c) to the financial statements - Litigation against the Bank	IR 317
23	Events after the Reporting Date	Note 64 to the financial statements - Events Occurring After the Reporting Period	IR 330
24	Stated Capital and Debentures	Notes 54 and 52 to the financial statements – Stated Capital and Subordinated Term Debts, respectively	IR 311 and 302
25	Share Information	Investor Relations	339 - 350
26	Shareholdings	Investor Relations	339 - 350
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.	-

Corporate Governance: 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 2021 No of Shares</th> <th>As at 31st December 2020 No of Shares</th> </tr> </thead> <tbody> <tr> <td>Mr Dinesh Weerakkody *</td> <td>2,214</td> <td>2,143</td> </tr> <tr> <td>Dr Harsha Cabral **</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr A N de Silva ***</td> <td>106</td> <td>104</td> </tr> <tr> <td>Mrs Aruni Goonetilleke</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr Amal Cabraal</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr Jonathan Alles</td> <td>131,855</td> <td>128,355</td> </tr> <tr> <td>Mr Rusi Captain ****</td> <td>7,737</td> <td>7,544</td> </tr> <tr> <td>Mr Duliksha Soosaipillai *****</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr Damien Fernando</td> <td>3,480</td> <td>637</td> </tr> <tr> <td>Mr Madu Ratnayake</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr Devaka Cooray</td> <td>8,607</td> <td>8,330</td> </tr> <tr> <td>Mr D P N Rodrigo</td> <td>25,702</td> <td>153,700</td> </tr> <tr> <td>Mr Osman Chandrawansa</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr P R Saldin (Alternate Director upto 30th March 2021 and Director since 30th April 2021)</td> <td>3,180</td> <td>3,078</td> </tr> <tr> <td>Mr Nihal Jayawardene</td> <td>-</td> <td>-</td> </tr> <tr> <td>Dr Prasad Samarasinghe (Alternate Director to Mr L U D Fernando)</td> <td>-</td> <td>-</td> </tr> </tbody> </table>	Name	As at 31st December 2021 No of Shares	As at 31st December 2020 No of Shares	Mr Dinesh Weerakkody *	2,214	2,143	Dr Harsha Cabral **	-	-	Mr A N de Silva ***	106	104	Mrs Aruni Goonetilleke	-	-	Mr Amal Cabraal	-	-	Mr Jonathan Alles	131,855	128,355	Mr Rusi Captain ****	7,737	7,544	Mr Duliksha Soosaipillai *****	-	-	Mr Damien Fernando	3,480	637	Mr Madu Ratnayake	-	-	Mr Devaka Cooray	8,607	8,330	Mr D P N Rodrigo	25,702	153,700	Mr Osman Chandrawansa	-	-	Mr P R Saldin (Alternate Director upto 30th March 2021 and Director since 30th April 2021)	3,180	3,078	Mr Nihal Jayawardene	-	-	Dr Prasad Samarasinghe (Alternate Director to Mr L U D Fernando)	-	-	-
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31	Directors' Remuneration	Note 18 to the financial statements - Other Expenses	IR 215																																																			
32	Human Resources	Value Delivered To Employees	IR 52 - 57																																																			
33	Employee Share Option Plan	Note 54 to the financial statements - Stated Capital	IR 311																																																			
34	Environmental Protection	To the best of knowledge of the Board, the Bank has complied with the relevant environmental laws and regulations. The Bank has not engaged in any activity that is harmful or hazardous to the environment. Specific measures taken to protect the environment are found in the Stakeholder Reports.	IR 44 - 69																																																			
35	Risk Management and Internal Control	CG & RR - Risk & Capital Reviews	CG&RR 42 - 107																																																			
36	Directors' Statement on Internal Control	Directors' Statement on Internal Control Over Financial Reporting	IR 111 - 112																																																			
37	Corporate Governance	Corporate Governance Report	CG&RR 4 - 41																																																			
38	Insurance and Indemnity	Pursuant to a decision of the Board, the Bank obtained an Insurance Policy to cover Directors' and Officers' liability.	-																																																			

No.	Disclosure requirements	Note reference	Page
39	Material Foreseeable Risk Factors (As per Rule No 7.6 (VI) of the Listing Rules of the Colombo Stock Exchange)	Risk & Capital Reviews	CG&RR 42 - 107
40	Material Issues Pertaining to Employees and Industrial Relations Pertaining to the Bank (As per Rule No 7.6 (VII) of the Listing Rules of the Colombo Stock Exchange)	No material issues occurred during the year	-
41	Operational Excellence	Performance Highlights	IR 14 - 15

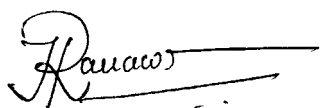
NOTICE OF ANNUAL GENERAL MEETING

The 53rd Annual General Meeting of the Bank is convened on 30th March 2022, 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 53rd Annual General Meeting is enclosed.


ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

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

For and on behalf of the Board of Directors,



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



Jonathan Alles
Managing Director/Chief Executive Officer



Aruni Goonetilleke
Chairperson

Colombo, Sri Lanka
18th February 2022

HR and Remuneration Committee Report



Mr Madu Ratnayake
Chairman
Human Resources & Remuneration Committee

Composition & Meetings

The HR & Remuneration Committee of the Board comprises three Non-Executive Independent Directors whose details are given below:

Chairman

- » Mr Madu Ratnayake (IND/NED) – (Member w.e.f. 5th April 2021/Chairman w.e.f. 5th October 2021)

Other Members

- » Mr Amal Cabraal (IND/NED)
- » Mrs Aruni Goonetilleke (IND/NED) appointed w.e.f. 5th October 2021
- » Mr Nilanth De Silva (IND/NED) Appointed as Chairman w.e.f. 30th July 2021 and demised on 29th September 2021
- » Mr Dinesh Weerakkody (IND/NED) Resigned w.e.f. 30th March 2021
- » Mr D Soosaipillai (IND/NED) Resigned w.e.f. from 30th March 2021

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

Brief profiles of the Directors are given on page 70 to 75 in IR.

Invitees of the Board

- » Mr. Jonathan Alles (MD/CEO) except when his remuneration or performance is discussed.

“A balanced approach to remuneration policy formulation considering both employee concerns and alignment to strategic goals is key to driving sustained growth and performance.”

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

POLICY

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

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

SCOPE

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

- » Practices that attract, develop and retain High-Performing Talent

- » Short and long-term incentives that are competitive and linked to the creation of sustainable performance and shareholder returns.
- » Learning and development strategy and annual training plan
- » Workforce representation
- » Leadership Talent Acquisition & Retention

To achieve these goals, the Committee

- » Sets targets and goals for the MD/CEO and the KMPs annually.
- » Reviews the Human Resource policies and interventions, salary structures and incentive schemes benefiting Senior Management. In this process, necessary information and recommendations are obtained from the MD/CEO and the Chief Human Resource Officer (CHRO)/Asst. General Manager - Services. 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

Management Participants

- » Mr. Indrajith Senadhira – CHRO / Assistant General Manager - Services

Secretary to the Committee

- » The Board Secretary functions as the Secretary to the committee

MEETINGS

The Committee met four (4) times during 2021.

Attendance details of meetings held during 2021 are as follows.

	Eligible to attend	/Attended
Mr Madu Ratnayake ©	3/3	
Mr Amal Cabraal	4/4	
Mrs Aruni Goonetilleke	2/2	
Mr D Soosaipillai	1/1	
Mr Dinesh Weerakkody	1/1	
Late Mr A N De Silva	1/0	
Mr Jonathan Alles	4*	

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

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 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 INITIATIVES IMPLEMENTED IN 2021

- » Approval was given to resource the critical talent gaps of the Bank.
- » Broadly reviewing the Talent Management process.
- » The recruitment of the Chief Information Officer.
- » Revised and Strengthened the Whistle Blowing Policy and reporting.
- » Adopted a new Policy on Talent Acquisition
- » Adopted new policies on Anti- Bribery and Corruption and Prevention on Harassment
- » Review of succession plans and readiness of the top 50 KMPs in the Bank.
- » Necessary advice & guidance was provided by the Committee on a proactive basis to ensure health and safety of all employees during the recurrence of pandemic.
- » Guidance on Wage negotiations
- » Implementation of the new Plan on Training and follow up on same

EMPLOYMENT REPORT

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

that are necessary to improve the overall performance of the Bank.

The table below reflects the employment report of the Company as at 31st December 2021.

Levels	Total
Top Management	16
Senior Management	62
Mid Management	787
Junior Management, Supervisors and Clerical Staff	3,375
Secretaries	176
Workers (Electricians, Drivers, Labourers, Peons, Lift Operators)	132
Total Permanent	4,548
Employees on Contract	494
Total	5,042

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 2022, the Bank will continue to focus on introducing and strengthening HR policies, practices and systems in the area of performance management, employee recognition, strategic workforce planning & productivity, capability development, employee engagement and succession management. Through these initiatives we expect to broaden our employment value proposition and thereby enhance the productivity of the Bank.



Madu Ratnayake
Chairman
Human Resources & Remuneration Committee

Colombo, Sri Lanka
18th February 2022

Nomination Committee Report



Mr Devaka Cooray
Chairman
Nomination Committee

Composition & Meetings

The following Directors serve/served on the Nomination Committee:

Chairman

Mr Devaka Cooray (IND/NED)

Other Members

- » Mr Madu Ratnayake (IND/NED) - member (appointed w.e.f. 4th October 2021)
- » Mrs Aruni Goonetilleke (IND/NED) - member (appointed w.e.f. 4th October 2021)
- » Mr Dinesh Weerakkody - (IND/NED) (Resigned w. e f 30th March 2021)
- » Dr Harsha Cabraal (IND/NED) (Appointed w.e.f. 23rd April 2020 / Chairman w.e.f. 5th April 2021 and resigned w.e.f. 5th July 2021)
- » Mr Nilanth De Silva - (IND/NED) (Appointed as a member w.e.f. 5th April 2021/ Chairman w.e.f. 30th July 2021 until demise on 29th September 2021)

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

Brief profiles of the Directors are given on page 70 to 75 in IR.

Invitees of the Board

- » Mr. Jonathan Alles - Managing Director/ Chief Executive Officer participated at the meetings on invitation as and when necessary.

“The Nomination Committee had an active year ensuring that succession plans were in place in a year that saw significant change. We also reviewed the Bank’s governance structures and policy frameworks which were revised to reflect regulatory and other external changes as well as changes to internal processes.”

ACTIVITIES IN 2021

Year 2021 saw many changes to the Board of Directors of the Bank.

During the year, the Committee reviewed the Bank’s adequacy of Corporate Governance Framework, policies, guidelines, principles and skills required to enable achievement of strategic goals at Board and Key Management levels. In doing so, it considered the balance of skills, experience, attributes, independence and diversity of the Board and Key Management Personnel (KMPs) to ensure that each leadership tier collectively has the requisite skills to implement the strategic plans and the Board has the ability to provide informed and constructive challenges to the Management.

The Committee reviewed succession-planning extensively for the Board and the Key Management Personnel (KMPs) to ensure continuity of operations and build strong talent pipelines.

Talent management and succession planning for roles below Board level have been a key topic for discussion and the Committee continued to monitor activities and initiatives to strengthen the Bank’s talent pipeline. Recommendations were also made to appoint KMPs to take on group Director positions on Group Company Boards to ensure alignment of corporate values, policies, processes and cultures.

In addition to the above, the fitness and propriety of the Directors and the new KMPs were examined during the year as and when required to ensure compliance with the CBSL requirements. At Board level, similar metrics were applied and all the vacancies on the Board during the year 2021 were filled with Directors with the requisite skills to meet its requirement under the skill matrix/diversity policy.

COMMITTEE RESPONSIBILITIES

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

- » Recommending to the Board the appointment of new Directors and Key Management Personnel (KMP) and ensuring the implementation of the approved procedure in selecting such Directors and Key Management Personnel;
- » Recommending the re-election of current Directors to the Board of Directors, taking into account the performance and contribution made by such Directors towards the overall discharge of responsibilities by the Board;
- » Reviewing criteria such as qualifications, experience and key attributes required to be considered for the appointment or promotion to the post of Managing Director/CEO and/or the Key Management positions;
- » Ensuring that the Directors, Managing Director/CEO and the Key Management Personnel are fit and proper persons to hold office as required by the Banking Act and other applicable statutes;
- » Assessing from time to time the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel with a view to providing advice and recommendations to the Board on any such appointment;
- » Overseeing the process by which the Board, its Committees and individual Directors assess their effectiveness, and report to the Board on findings and recommendations.

Secretary to the Committee

- » The Board Secretary functions as the secretary to the Committee.

Meetings

The Committee met six (06) times during the year under review. Attendance by the Committee members at the meetings is given in the table below.

	Eligible to attend /Attended
Mr. Dinesh Weerakkody	2/2
Mr. R S Captain	2/1**
Dr. Harsha Cabral	5/5
Mr. Amal Cabraal	3/3
Late Mr. A N De Silva	3/3
Mr. Devaka Cooray ©	1/1
Mr. Madu Ratnayake	1/1
Mrs. Aruni Goonetilleke	1/1
Mr. Jonathan Alles – MD / CEO	5*
Mr. P R Saldin (Alternate Director to Mr. Rusi Captain)	2/1

THE TERMS OF REFERENCE

The Terms of Reference (TOR) of the Nomination Committee, adopted by the Board in 2012, was further refined in 2013 and 2014. It was further reviewed and amended by the members at their meetings held on 19th January 2018 and 4th April 2020.

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 candidates to fill vacancies on the Board;
- » Assessed the fitness and propriety of the Directors holding office in terms of the provisions of the Banking Act and the directions of the Monetary Board relating to Corporate Governance;
- » Recommended the appointment of Directors to fill casual vacancies created by the resignation and retirement of certain Directors and further recommended that the Directors so appointed be formally appointed by the shareholders at the 53rd Annual General Meeting to be held on 30th March 2022 in terms of Article 36 of the Articles of Association of the Bank.

Succession Planning

The Committee:

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

Board Effectiveness

The Committee:

- » Reviewed the Appointment Process of the MD/CEO, KMPs and Directors;
- » Reviewed and recommended all new appointments to the Boards of subsidiaries and associate companies of the Bank.

HIGHLIGHTS 2021

During the year, the Committee's activities included:

- » Reviewing Board composition, including the process for the appointment of new Chairman and Directors. During the year, the Committee undertook a thorough process to identify and assess suitable candidates to fill the vacancies created at Board level;
- » Reviewing succession plans for Board and KMPs;
- » Overseeing the Board evaluations undertaken during the year;
- » Monitoring environmental, social and governance developments as well as implications for the group;
- » Assessing the Board's skill set and bench strength to ensure that the required balance of skills and experience, independence and knowledge is in place for the Board and its Committees to function effectively;
- » Appointing industry experts to the Boards of Group Companies to strengthen Board capacity;
- » Ensuring compliance with the Corporate Governance Code in the conduct of all affairs in the Committee;
- » Analysing the Organisation chart and skill gaps;
- » Overseeing succession planning for the incumbent MD/CEO and the Board Secretary.

Nomination Committee Report

Group Governance/Management Principles

- » Based on the established Group Governance Code of 2016, the Committee, on 19th January 2022 assessed the level of compliance by the Bank's Group Companies for the year 2021, and further recommended that the Compliance Department provide a report to the Committee that the governance principles prescribed in the code were complied with by the respective Group Companies.
- » Appointed suitable KMPs to Group Companies as HNB nominee Directors to ensure governance standards within the group are complied with.
- » Nominated industry experts to strengthen the Boards of the Group Companies

Training

The Committee ensured that the Bank carried out the induction programme for the newly appointed Directors during the year 2021 with sessions covering Board engagement, .

Opportunities for In-person directors' training were limited in 2021 as a result of social distance guidance. However, during the year, director training and developments were supported through Board deep dives, risk deep dives and functions reviews.

Re-election/Re-appointment of Directors at the 53rd Annual General Meeting

Two Directors namely Mr L U D Fernando (NID/NED) and Mr Madu Ratnayake (IND/NED) representing not more than 1/3rd of the Board and having served three years since their last re-election, are to retire by rotation and are eligible to be re-elected/re-appointed at the 53rd Annual General Meeting to be held on 30th March 2022, under Article 34 of the Articles of Association.

The Committee, taking into account their contribution recommended the above-mentioned names to the Board of Directors for approval. Accordingly, the Board at its meeting held on 16th December 2021, recommended that Mr L U D Fernando (NID/NED) and Mr Madu Ratnayake (IND/NED) should be re-elected/re-appointed as Directors of the Bank at the next Annual General Meeting.

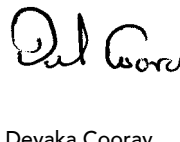
Directors - Mrs Aruni Goonetilleke, Mr Osman Chandrawansa, Mr Rimoe Saldin and Mr Nihal Jayawardena who were appointed during the year 2021 and Mr Rasitha Gunawardana and Mr Kithsiri Gunawardana who were appointed on 21st January 2022 to fill casual vacancies offered themselves for formal appointment under Article 36 of the Articles of Association. The re-appointment of Mrs Aruni Goonetilleke, Mr Osman Chandrawansa, Mr Rimoe Saldin and Mr Nihal Jayawardena were recommended by the Committee and the Board on 8th December 2021 and 16th December 2021 respectively. The re-appointment of Mr Rasitha Gunawardana and Mr Kithsiri Gunawardana was recommended by the Board on 18th February 2022.

COMMITTEE EFFECTIVENESS

The performance of the Committee is reviewed each year as part of the Board effectiveness review. The Committee completed its self-assessment for the year 2021, conducted by the Chairman and Committee Members and the review concluded that the Committee continues to operate effectively.

This year review highlights that the Committee continues to be well constituted and that the role and the responsibilities are clear and well understood. The Committee's Interaction with the Board, Board Sub Committees and the Management is considered effective despite the COVID-19 Pandemic situation.

The Committee noted the need to continuously review the process used in relation to appointments, the Committee's approach to succession planning and how best to attract a diverse pipeline of potential Non-Executive Directors.



Devaka Cooray
Chairman
Nomination Committee

Colombo, Sri Lanka
18th February 2022

Board Integrated Risk Management Committee Report



Mr. Rimoe Saldin

Chairman

Board Integrated Risk Management Committee

Composition & Attendees

The Board Integrated Risk Management Committee (BIRMC) comprised four (04) members throughout 2021, of which three (03) members were Non-Executive Directors as given below:

Chairpersons:

- » Mr. Duliksha Soosaipillai - until 30th March 2021
- » Ms. Aruni Goonetilleke from 5th April 2021 to 4th October 2021
- » Mr. Rimoe Saldin from 5th October 2021

Other Members:

- » Mr Madu Ratnayake (IND/NED)
- » Mr Damien Fernando (NIND/NED)
- » Mr Jonathan Alles (MD / CEO)
- » Mr Rusi Captain (NIND/NED) through Alternate Director Mr Rimoe Saldin
- » Mr Rimoe Saldin (NIND/NED, Alternate Director to Mr Rusi Captain till 30th March 2021 and Director since 30th April 2021)

Other invitees from Board

- » Mr Devaka Cooray – Chairman, Audit Committee

Brief profiles of the Directors are given on pages 70 to 75 in IR.

“Vulnerabilities and threats have increased both globally and locally due to the prolonged impact of the Covid-19 pandemic outbreak. The Bank adopted a more comprehensive approach towards navigating through these turbulences while enhancing the effectiveness of risk identification, monitoring and mitigation processes. Significant resources have been allocated to support the Bank and the Group delivering a resilient performance.”

MAJOR INITIATIVES IMPLEMENTED IN 2021

The risk of the Covid-19 pandemic impacted across the full spectrum of banking activities in 2021 and the Committee oversaw the implementation of the following initiatives supporting management of related risks:

INTEGRATED RISK MANAGEMENT

ICAAP was reviewed during the year to ensure capital adequacy was maintained well above minimum regulatory requirements. Stress testing was conducted for a number of variables including asset quality, asset concentrations, market risk factors etc., and the committee noted that the Bank capital adequacy levels were well above the regulatory requirement in these scenarios as well.

CREDIT RISK

- » Implemented a state-of-the-art solution for assessing Individually Significant Loans (ISL).
- » Review and update Bank's Credit and Collateral Framework policies including lending policies across Corporate Banking, SME, Microfinance, Retail Banking to ensure they are in line with Covid-19 market dynamics
- » Conducted periodic industry studies such as tourism, construction, agriculture and automobiles, which were significantly impacted by the pandemic and policy decisions.
- » Review of Credit Approval Structure against new NPAs, LRMs findings, Moratorium changes, Regulatory changes and other emerging credit risks to the loan book
- » Implemented RAROC across all business units in order to inculcate a risk-based

pricing mechanism to measure customer relationship returns.

- » Strengthened controls over Margin Trading products in view of the volatility of underlying market variables.

MARKET RISK

- » Increased review frequency of Treasury limits post the COVID-19 pandemic outbreak.

OPERATIONAL RISK

- » Reviewed Business Continuity Policy to incorporate COVID related risks.
- » Developed and implemented a COVID-19 Threat and Response Matrix to support the changing working arrangements and to enhance organisation readiness.
- » Enhanced monitoring of Operational resilience in all DR Drills and escalation of deficits in operational resiliency in DR Drills.
- » Strengthened the Bank's Operational Risk Management Framework in line with the current operating model and best practices.

IT & CYBER RISKS

- » Carried out systemic functionality reviews, Vulnerability Assessments and Penetration Testing (VAPT) towards mitigating increased Cyber Security risks.
- » Reviewed policies on Information and Cyber Security to deal with emerging risks and risk assessed with regard to Bank's Information and Cyber Security metrics against embedded and emerging risks.
- » Reviewed and risk assessed for Privilege Access Activities on Databases, Operating Systems and Applications of critical systems.

Board Integrated Risk Management Committee Report

Management Participants

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

Regular Attendees by Invitation

- » Mr Dilshan Rodrigo - Executive Director/ Chief Operating Officer
- » Mr Niroshana Seneviratne - DGM - Internal Audit/ Chief Internal Auditor
- » Mr Rohan Buultjens -Chief Technology and Digital Officer
- » Ms Dilunika Jayasinghe - Chief Manager - Credit Risk
- » Mr Kushan Jayasooriya - Head of operations and Market Risk (resigned w.e.f from 30th September 2021)
- » Mr Sampath Weerasinghe - Senior Manager Integrated Risk

Secretary to the Committee

- » Mr Ruwan Manatunga – DGM – Risk/ Chief Risk Officer

Eligible to attend
/Attended

Mr. D Soosaipillai	2/2
Mr. Madu Ratnayake	10/10
Mr. Rusi Captain	2/2
Mr. Damien Fernando through Alternate Director	
Dr Prasad Samarasinghe	10/10
Mr. Rimoe Saldin	7/7
Mrs. Aruni Goonetilleke	6/6
Mr. Jonathan Alles - MD/CEO	3/3
Mr. Dilshan Rodrigo	10/10
Mr. Devaka Cooray	10/9

COMPLIANCE RISK

- » Started using Data Analytics/AI tool to improve monitoring of alerts generated by the AML system.
- » Captured Purpose Code when performing transactions through Digital channels to enhance the monitoring process.
- » Strengthened review mechanisms and Compliance Audit carried out covering critical areas in branches and departments of the Bank.
- » Implemented quarterly group review on Risk, Compliance Finance and Audit to ensure regular monitoring of compliance risk of Group Subsidiaries

LOOKING AHEAD

The following initiatives have been identified for implementation in 2022:

Credit Risk

- » Rollout of second phase of Loan Origination System for SME and Corporate businesses.
- » Upgrading and integrating the IRR assessments across all businesses to their respecting loan origination modules.

Market Risk

- » Review caps, loss limits, measurement of volatility of Forex and Securities.

Liquidity Risk

- » Increase scope and rigour of stress testing to be better aligned with regulatory Liquid Coverage Ratio.

Operational Risk

- » Implement a Governance, Risk and, Compliance (GRC) system to strengthen operational risk monitoring.

IT & Cyber Risk

- » Strengthening Cyber Risk Assessment methodology.
- » Implement a Digital Right Management (DRM) to enforce granular level controls over data sharing with external parties

- » Implement an End Point Detection & Response (EDR) solution to enhance security of data and detect anomalous digital traffic and anomalous behavioural activity in the Bank's IT systems

Group Risk

- » Further Strengthen periodic assessment of Group Risk and Compliance monitoring.

Compliance Risk

- » Enhance monitoring of Trade Based Money Laundering by monitoring Dual Usage of goods and Vessel Tracking, by linking the Dow Jones data base to the Trade core banking system through API connections.
- » Implement ITRS project (International Transaction Reporting System) initiated by CBSL to automate various International, Trade and Treasury related reports.

SUMMARY OF BIRMC CHARTER

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

PRIMARY RESPONSIBILITIES OF BIRMC

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

- » To ensure that the Bank and its subsidiaries have an enterprise wide comprehensive risk management framework, appropriate compliance policies and risk management systems in place
- » To assess all risk types, including but not limited to: credit, market, liquidity, operational and strategic/reputational risks /information and cybersecurity risk to the Bank are managed through appropriate risk indicators and management information and mitigants established
- » To ensure risk assessments and mitigating actions are taken in accordance with

established delegated authorities and corrective actions are taken to manage risks taken beyond the risk tolerance set by the committee, based on the Bank's policies, the Board's Risk Appetite and regulatory and supervisory requirements

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

OTHER RESPONSIBILITIES OF THE COMMITTEE

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

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

COMPLIANCE

The BIRMC was established as a Committee of the Board, in compliance with Section 3 (6) of the Banking Act Direction No 11 of 2007, on corporate governance for licensed commercial banks in Sri Lanka. The composition and the scope of work of the Committee 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, BIRMC has adopted Basel III guideline issued under the Banking Act No 01 of 2016 as well and continues to improve the Bank's adherence to these guidelines.

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

ACTIVITIES IN 2021

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

Integrated Risk Management

- » Reviewed Risk Management Policies pertaining to Integrated Risk Framework, Model Risk and Stress Testing to ensure that they are in line with industry best practices.
- » Reviewed and revised the Risk Appetite Statement and Risk Goals to align with the new normal stemming from COVID-19.
- » Evaluated the effectiveness of the Management Committees including the review of their KPIs to enhance their contribution to the Bank.
- » Reviewed adequacy of Liquidity Management, Business Continuity Plans, Cybersecurity safeguards and Working from Home practices of Group businesses.

- » Conducted periodic industry studies covering many sectors including tourism, construction, automobile and agriculture, which were significantly impacted by the pandemic and policy decisions.
- » Commenced concept development and implementation of a new comprehensive risk rating models for all business segments and products of the Bank.
- » Risk adjusted return on capital (RAROC) assessment process was introduced for corporate and emerging corporate segments facilitating assessment of risk based pricing when evaluating return on customer relationships.
- » ICAAP was strengthened by introducing Concentration Risk assessments for product, geography and maturity concentrations as well as Group Risk assessment.

Credit Risk

- » Strengthened guidelines to capture customer behaviour analytics facilitating identification of early warning signs
- » Reviewed Credit Policies and Guidelines to ensure applicability to current market conditions.
- » Introduced additional credit evaluation criteria across all product portfolios aligning to the challenging business environment.
- » Completed the implementation of the new fully integrated Retail Loan Originating System (LOS) module across all branches in the network.
- » Introduced an enhanced TOD management process to identify and report on exceptions to the TOD approval guidelines.
- » Commenced circulation of credit bulletin to share organisation learnings on credit risk management to enhance credit underwriting and evaluation capabilities in the Bank
- » Introduced additional guidelines to strengthen identification of Watchlist and Management Review List (MRL) customers in order to take corrective action at the earliest instance.

Board Integrated Risk Management Committee Report

- » Monitored and reviewed the portfolios under moratoriums in order to proactively take steps to restructure facilities including identifying those that require greater credit supervision.
- » Reviewed large group exposures of the Bank with emphasis on exposures related to moratoria and elevated credit risk on quarterly basis.
- » Reviewed COVID-19 impacted industries to assess implications to Bank's lending portfolio.
- » Existing IRR assessment process was streamlined until the introduction of enhanced IRR Models.

Loan Review Mechanism (LRM)

- » Carried out the annual review of the LRM Policy aligning with the Bank's focus on increasing credit underwriting standards and quality of the lending portfolio given the current challenging business environment.
- » Enhanced the scope of LRM reviews to capture the learnings from new additions to NPA, Watch Listed and Management Review List, accounts approved for Parate Auctions and highlighted areas for improvement in credit underwriting and monitoring.
- » LRM findings were circulated to Corporate Management for remedial action and also followed up on these corrective measures taken to ensure effective implementation. Additionally, the LRM unit also followed up on the implementation of Internal Audit Review recommendations with relevant business and operational units.

Portfolio Risk Management

- » Provided valuable inputs to business units for decision making by making improvements to the monthly Portfolio Risk Dashboards that are circulated.
- » Introduced a new reporting process to effectively monitor and manage the temporary overdraft portfolio i.e. identifying and reporting exceptions to the new TOD approval guidelines.

- » Implemented state-of-the-art solution for Individually Significant Loan (ISL) assessments for measurement of expected credit loss.

Operation Risk

- » Strengthened the Bank's Operational Risk Management Framework in line with the current operating model and best practices.
- » Redefined Near- Miss items to facilitate improved measurement, monitoring and management.
- » Carried out Risk & Control Self-Assessment (RCSA) across the Branch Network and achieved 100% coverage of the entire Bank despite the business disruptions
- » Public Health Policy was enhanced in response to prolonged duration of pandemic
- » Reviewed the Business Continuity Policy to incorporate both embedded and emerging COVID related risks
- » Enhanced Operational resilience by monitoring all Disaster Recovery Drills and strengthening perceived areas for improvement
- » Identified risk vulnerabilities of outsourced business activities and formulated a more stringent / focused outsourced business policy model.
- » Launched online training programs aligned to the Bank's competency matrix.

Information & Cyber Security

- » Policies on information and cyber security were reviewed to assess the Bank's Information and Cyber security metrics against embedded and emerging risks to ensure that they are in line with industry best practices.
- » Guidelines were developed to strengthen the detection and prevention of supply chain related Cyber Attacks.
- » Conducted an independent review of limits assigned to core banking users by external consultants and implemented recommendations.

- » Digital Rights Management (DRM) solution was implemented to enhance security of data transfers with third party entities.
- » Implemented a Mobile Application Management (MAM) to provide secure email access via mobile devices.
- » Implemented Data Loss Prevention controls over the cloud email platform.
- » Conducted phishing simulations to test resilience of Bank and Bank staff to potential threats and assess Bank's readiness against phishing attacks.
- » Reviewed Privilege Access Management.
- » Implemented Security Operations Centre (SOC) in order to strengthen Bank's cyber security surveillance.
- » Conducted periodic reviews of the Bank's Internal IT/IS Management by Information & Cyber Security Risk Team in addition to independent reviews conducted by Internal audit and CISO.

Market Risk

- » Strengthened ALM Policy with improved risk assessment controls.
- » Reviewed Treasury Policy and supplementary policies related to Treasury such as Treasury Disputes Resolution Policy, Liquidity Policy and Contingency Funding Policy including changes to Treasury Limits in line with the current environment.
- » Reviewed appropriateness of current Delta limits in line with the Bank's planned investments in securities.
- » Strengthened controls over exposures to securities markets.
- » Strengthened liquidity stress testing by introducing additional sensitivity scenarios including increasing the number of variables.
- » Counterparty limits were reassessed to align new business environment.

Compliance Risk

- » Started using Data Analytics/AI tools to improve monitoring of alerts generated by the AML system.

- » Started capturing Purpose Code when performing transactions through Digital channels to enhance the monitoring process.
- » Strengthened review mechanisms and Compliance Audits carried out covering critical areas in branches and departments of the Bank.
- » Implemented quarterly group reviews on Risk, Compliance Finance and Audit to ensure regular monitoring of compliance risk of Group Subsidiaries.
- » Started capturing of the images of customers at the time of on-boarding.
- » Started identifying risk profile of customers based on their transaction patterns.
- » Started capturing NIC/ phone number for all deposits through CDMs / CRMs.
- » Commenced data cleansing projects covering beneficial ownership data collection, KYC data collection and Power of Attorney data collection as an ongoing exercise.

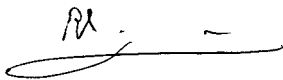
PROFESSIONAL ADVICE

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 February 2021 and the Committee agreed on a "satisfactory" rating score. Areas identified for improvement were addressed during the course of the year.



Rimoe Saldin
Chairman
Board Integrated Risk Management
Committee

Colombo, Sri Lanka
 18th February 2022

Board Audit Committee Report



Mr Devaka Cooray
Chairman
Board Audit Committee

Composition & Meetings

The Board Audit Committee comprises three Non-Executive Directors, of whom two including the Chairman are Independent Directors.

Chairman

- » Mr Devaka Cooray (IND/NED)

Other Members:

- » Mr Osmand Chandrawansa (IND/NED)
Appointed w.e.f. 05th April 2021
- » Mr Rimoe Saldin (NIND/NED) Appointed
w.e.f. 31st May 2021
- » Mr Nilanth de Silva (IND/NED)
Resigned w.e.f. 30th July 2021
- » Mr Damien Fernando (NIND/NED)
Resigned w.e.f. 30th July 2021
- » Mr Rusi Captain (NIND/NED)
Resigned w.e.f. 05th April 2021
- » Mr Madu Ratnayake (IND/NED)
Resigned w.e.f. 05th April 2021

Brief profiles of the Directors representing the committee are given on pages 70 to 75 in IR.

“ In a year of unprecedented challenges, we have focused on maintaining the rigour of our internal controls and deliberated in depth on matters requiring professional judgement to ensure the integrity of the financial reporting process and Financial Statements.”

SIGNIFICANT ACCOUNTING JUDGEMENTS CONSIDERED DURING 2021

Reviewed key assumptions and judgements including following areas

- » Loan Impairment Allowances and Charges and related management overlay
- » Basis for Debt Moratorium for COVID -19 affected Businesses and Individuals
- » Actuarial Valuation of Pension Liability
- » Tax Provisions
- » Going Concern
- » Carrying Value of Investments in Group Companies
- » Valuation of Financial Instruments

CHARTER OF THE COMMITTEE

The Board Audit Committee (BAC) assists the Board in the discharge of its responsibilities by exercising structured, systematic oversight over the Bank's financial reporting, internal audit, internal controls and external audit practices. The BAC Charter clearly defines the Terms of Reference (TOR) of the Committee and regulates the composition, role and responsibilities of the BAC. Approved by the Board, the Charter was last reviewed and updated in 2019.

KEY RESPONSIBILITIES OF THE AUDIT COMMITTEE

Key responsibilities include;

- » Monitor and review adequacy and effectiveness of accounting policies, financial and other internal control systems and financial reporting processes in order to provide accurate, appropriate and timely information to the Board, regulatory authorities, management and other stakeholders.

- » Review Bank's compliance with relevant legal, regulatory and accounting standards in the preparation and presentation of Financial Statements, external reports, providing independent oversight of the integrity thereof.
- » Exercise independent oversight of the Bank's assurance functions, including external & internal audit and ensure the independence and effectiveness of both external & internal audit functions.
- » Evaluate the adequacy, efficiency and effectiveness of the governance process.
- » Engagement of independent advisors for specialized functions where deemed necessary.
- » Reviewing the internal audit reports and liaising with the Bank's corporate management to ensure that precautionary measures are taken to minimize and control weaknesses, procedure violations, frauds and errors.

AUTHORITY OF THE AUDIT COMMITTEE

The BAC has investigative authority conferred upon it under the TOR. Members have unrestricted access to records, data and reports and to management and staff to obtain relevant information considered necessary in the discharge of duties and responsibilities. The BAC may also engage independent counsel and/or other advisors, if deemed necessary.

ACTIVITIES IN 2021

The Board Audit Committee (BAC) met eight (08) times during the year of which all meetings were held virtually through MS Teams due to the prevailing COVID -19 situation in the country. The Engagement Partner of the Bank's external audit normally attends Committee meetings. The Committee also invited members of the Bank's Senior Management

Regular Attendees by Invitation

- » Mr Jonathan Alles
Managing Director/Chief Executive Officer
- » Mr Dilshan Rodrigo
Executive Director/Chief Operating Officer
- » Dr Niroshana Seneviratne
Chief Internal Auditor/DGM (Internal Audit)
- » Mr Ruwan Manatunga
Chief Risk Officer/DGM (Risk)
- » Mr Rajive Dissanayake
Chief Financial Officer
- » Mr Janath Ilangantileke
AGM (Compliance)
- » Mr Rohan Buultjens
Chief Technology and Digital Officer
- » Mr Sivarajah Nandakumar
Head of Operations

The Engagement Partner of M/s KPMG (External Auditor) attended all meetings. The Chairman/ Chairperson of the BIRMC also attends meetings by invitation.

Secretary to the Committee

Chief Internal Auditor, Dr Niroshana Seneviratne functions as the Secretary to the Board Audit Committee.

Meetings

Membership attendance details of meetings held during 2021 are as follows.

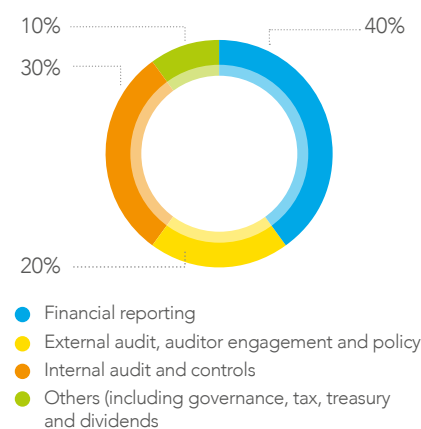
	Eligible to attend	/Attended
Mr Devaka Cooray (IND/NED)	8/8	
Mr Osmand Chandrawansa (IND/NED)	5/5	
Mr Rimoe Saldin (NIND/NED)	5/5	
Late Mr Nilanth de Silva (IND/NED)	5/5	
Mr Damien Fernando (NIND/NED)	5/4*	
Mr Rusi Captain (NIND/NED)	3/3**	
Mr Madu Ratnayake (IND/NED)	3/3	

* All meetings attended by his alternate Director, Dr Prasad Samarasinghe

** All the meetings attended by his alternate Director, Mr Rimoe Saldin

team to participate in meetings, on a needs basis. Proceedings of BAC meetings are periodically reported to the Board.

Activities of the Audit Committee in 2021 are summarised under the focus areas below.



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.

Reviewed the impact of the accounting treatment of significant risks and uncertainties and key estimates and judgements material to the Bank's financial reporting and whether disclosures made in the published Financial Statements were adequate, appropriate and fair.

During the year, the BAC placed additional focus on the assessment of adequacy of provision for Expected Credit Loss (ECL)

recognized in the Financial Statements based on the internal models which were refined during the year with updated underlying assumptions, management overlay computed outside the model based on stress testing the exposures to risk elevated sectors, to address the potential implications of the COVID -19 pandemic and the moratorium schemes introduced to support the recovery of the economy and adjustments made to economic factors.

BAC discussed the steps taken by the Management to align the internal processes and systems to comply with Direction No 13 and 14 of 2021 issued by the Central Bank of Sri Lanka on 14th September 2021 which has become effective from 1st January 2022 and will continue to focus on the internal control framework relating the new processes during the year 2022.

The BAC reviewed and recommended to the Board for approval, the annual and the quarterly Financial Statements, prior to their release.

The Committee assisted the Board on the selection of the Tax Consultant by providing required recommendations based upon its assessment and evaluation.

BAC assessed and monitored the adequacy, effectiveness and progress of Bank's reconciliation processes through both internal audit function as well as periodic updates provided by the finance team.

The Committee met with the Chief Financial Officer twice (02) during the year in the absence of Key Management Personnel to ensure the transparency and independence of the financial reporting function of the Bank.

EXTERNAL AUDIT

The Audit Committee assists the Board in assessing the independence, evaluating the performance of the External Auditors and making recommendations for engagement of the External Auditor. The Committee carried out the following activities in discharge of its duties in this regard:

- » Assisted the Board in engaging the External Auditor for audit services, in compliance with regulatory provisions.

Board Audit Committee Report

- » Monitored and assessed the independence, objectivity and effectiveness of the External Auditor during the year 2021.
- » Discussed the audit plan, scope and the methodology proposed to be adopted in conducting the audit with the external auditor prior to commencement of the annual audit.
- » Discussed all relevant matters arising from the interim and final audits together with the Management Letter and management responses thereto.
- » The Audit Committee met with the external auditors twice (2) during the year in the absence of Key Management Personnel to ensure that there were no limitations of scope in relation to the audit and to allow for full disclosure of any incidents which could have had a negative impact on the effectiveness of the external audit. The Committee concluded that there was no cause for concern.
- » The Policy on non-audit services provided by the External Auditor was reviewed during the year by the BAC and same was recommended to the Board for formal approval. The Committee also reviewed the non-audit services provided by the auditor against the policy, 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 2021, as required by the section 3(8)(ii)(b) of the Banking Act Direction No 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka and based on the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri

Lanka). Furthermore, External Auditor has issued an Assurance Report on Directors' Statement on Internal Control over Financial Reporting.

- » BAC is satisfied as to the reliability of the system as disclosed on page 111 and 112 in the IR, Directors' Statement on Internal Control over Financial Reporting. BAC confirms that the report given in IR page 113 does not suggest any fundamental concerns over the control framework or procedures.
- » Reviewed the processes for identification, recording, evaluation and management of all significant risks of the Bank. BAC receives regular reports from the Chief Internal Auditor on appraisal of systems of internal controls across these risk types and areas of operation of the Bank and setting out the internal audit function's view of the control environment. Reports also include summary highlights of the most significant matters being highlighted by the internal audit department.
- » The BAC periodically reviewed and discussed the key financial issues of group companies during the year, with a view of identifying and managing associated risks in order to maintain the smooth flow of operations.

INTERNAL AUDIT

- » Reviewed the independence, objectivity and performance of the internal audit function, the findings of the internal audits completed and their evaluation of the Bank's internal control system in its capacity as the third line of defence.
- » Reviewed the annual audit plan for the year, prepared on risk based planning methodology. Evaluated the adequacy and frequency of coverage.
- » Reviewed major findings of internal investigations and management's responses thereto.
- » Reviewed the internal audit reports, status of significant findings and their recommendations, management response and the status of the implementation on a regular basis.
- » Assessed the Internal Audit Department's resource requirements including succession planning.

- » Reviewed the performance appraisal of the Chief Internal Auditor and other senior staff members of Internal Audit Department.
- » Conducted two (02) independent discussions with the Chief Internal Auditor in the absence of the management team to ensure independence of the Internal Audit Department's operations.

WHISTLE-BLOWING

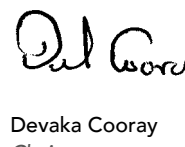
Reviewed issues relating to breach of ethics if any, and arrangements by which staff of the Bank may in confidence raise concerns about possible improprieties. The Committee ensures procedures for the independent investigations of such matters are appropriate and are in place.

TRAINING AND DEVELOPMENT OF COMMITTEE MEMBERS

Training and continuous professional development undertaken by BAC includes attending seminars, conferences, workshops, presentations done by external auditors on areas such as new accounting standards, tax and directions issued by the Central Bank of Sri Lanka.

COMMITTEE EVALUATION

The annual evaluation of the Committee was conducted by the Independent Non-Executive Chairman, with contributions from the individual assessments by the members of the Audit Committee, Managing Director/CEO, Executive Director/COO, Chief Financial Officer, Chief Internal Auditor, other regular invitees and the external auditor in accordance with international best practices and was deemed to be satisfactory.



Devaka Cooray
Chairman
Board Audit Committee

Colombo, Sri Lanka
18th February 2022

Related Party Transactions Review Committee Report



Devaka Cooray
Chairman
Related Party Transactions Review Committee

Composition & Meetings

The Bank's Related Party Transactions Review Committee - RPTRC (the "Committee") was established as a Board Sub Committee with effect from 1st January 2016. Its scope is to facilitate and monitor compliance with the requirements of the Code of Best Practices on Related Party Transactions (the "Code") issued by the Securities and Exchange Commission of Sri Lanka (SEC) and Section 9 of the Listing Rules of the Colombo Stock Exchange.

The present Committee comprises of the following Directors:

Chairman

- » Mr Devaka Cooray - (IND/NED)

Other Members:

- » Mr Jonathan Alles - (MD/CEO)
- » Mr Osman Chandrawansa - (IND/NED)
- » Mr. Nihal Jayawardene - (NIND/NED) (IND/NED) – Independent Non-Executive Director, (NIND) - Non Independent Director, (MD/CEO) - Managing Director and Chief Executive Officer.

Other Directors

- » Mr Dilshan Rodrigo – Executive Director/ Chief Operating Officer

Brief profiles of the Directors are given on pages 70 to 75 in IR.

"The Related Party Transactions Review Committee focused on increasing awareness of the Related Party Transactions guidelines and refining reporting processes to support discharge of its mandate"

KEY INITIATIVES IMPLEMENTED DURING 2021

- » A related party report was developed in the system to extract the related party transactions
- » Expanded training and awareness on Related Party Transactions (RPTs) guidelines by conducting training programmes for branch personnel.
- » The Related Party Transactions Policy Document was reviewed and revised taking into consideration changes which occurred since the previous revision.

SUMMARY OF THE 'TERMS OF REFERENCE' (TOR) OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

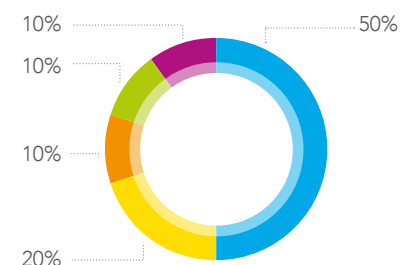
The Related Party Transactions Review Committee is governed by the 'Terms of Reference' approved by the Bank's Board of Directors. The Statutory and Fiduciary responsibilities of such Committee are those as envisaged in the 'Code of Best Practices on Related Party Transactions' published by the Securities and Exchange Commission of Sri Lanka (the "Code"), regulations promulgated by the Colombo Stock Exchange ("The CSE Rules"), Financial Reporting under LKAS 24, Banking Act Direction No: 11 of 2007 on Corporate Governance of Licensed Commercial Banks in Sri Lanka and 'Code of Best Practices on Corporate Governance 2017', issued by the Institute of Chartered Accountants of Sri Lanka.

The TOR also spells out the constitution and the composition of the Committee; that the Chairman should be a Non - Executive Independent Director, and the Committee should meet at least once in every Quarter. It also sets out the guidelines on Related Party Transactions and its reporting requirements. As per the TOR, the Committee can directly access required data and information in order to discharge its duties and responsibilities and

when necessary, the Committee has the right to obtain appropriate opinions from external specialists.

The TOR is subject to periodic review based on Regulatory as well as Operational requirements. During the year 2020, the TOR was amended to accommodate desired changes.

ALLOCATION OF AGENDA TIME OF THE RPTRC WAS AS FOLLOWS



- Review and verification of Internal Controls and Regulatory requirements for RPs Transactions
- Verification of CBSL Reporting
- Review and verification of Related Party identification process
- Review of System modifications
- Others

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 periodically

Related Party Transactions Review Committee Report

Management Participants

- » Ms K A L Thushari Ranaweera – DGM - (Legal)/Board Secretary
- » Ms Anuradhi Delage – Head of Finance/ Secretary to the Committee
- » Mr Janath Ilangantilake – AGM (Compliance)
- » Ms Angelina Dharmaraj – Senior Manager (Credit Admin)

In addition, the Committee summons other relevant Officials of the Bank to participate in Committee proceedings on a 'need basis'.

Secretary to the Committee

The Bank's Head of Finance functions as the Secretary to the Related Party Transactions Review Committee.

Meetings

In accordance with the Terms of Reference, the Committee meets whenever necessary, but not less than four (4) times a year, once in every three (3) months as stipulated in the Securities and Exchange Commission of Sri Lanka (SEC) Guidelines. During 2021, four (4) such meetings were held and the Minutes were circulated to the Board of Directors for their information and review.

Membership attendance details of meetings held during 2021 are as follows:

	Eligible to attend /Attended
Mr. Devaka Cooray	02/02
Late Mr. A N De Silva	02/02
Mr. Osman Chandrawansa	03/03
Mr. Nihal Jayawardena	02/01
Mr. Rusi Captain (Through Alt Director Mr. P R Saldin)	01/01
Mr. Jonathan Alles	04/04

reportable Related Party Transactions data sourced via the following:

- » Comprehensive list of Related Parties based on latest available declarations, signed by the responsible Directors/KMPs.
- » Related Party Transactions confirmed by the Business Heads to the Committee.
- » The quarterly reporting to RPTRC which is under the responsibility of Business heads, is in turn is further reviewed by the Head of Finance who is the ultimate reporting authority to the Committee as well as its Secretary. This review is carried out by comparing Related Party Transactions with bench - marked criteria applicable for comparable Non Related Party Transactions, to verify and determine that Related Parties have not received more favourable nor preferential consideration, based on the Reports submitted by the Business Heads to the Committee.

The Bank's Internal Audit Division is also mandated to periodically verify the integrity of reported data by carrying out Audit checks, to ensure greater transparency.

As stated previously, wherever necessary, the Committee is empowered to obtain independent legal, financial & technical advice from Specialists in such fields, to review and determine transactions. Apart from obtaining independent Specialists' advice wherever necessary, the Committee has access to data and information pertaining to Related Parties as well as the ability to call for clarifications from the Management & Auditors (External & Internal) on any allied matter.

The Committee has reviewed the Related Party Transactions reported by the Business Heads and the comments /observations made during such reviews if any, have been communicated to the Board of Directors.

In addition, the Committee shares information with the Board Audit Committee whenever necessary and appropriate to facilitate the Board Audit Committee to conduct its Statutory and Regulatory responsibilities with regard to Related Party Transactions.

SELF-APPRAISAL OF COMMITTEE FUNCTIONS

An annual self-evaluation of the effectiveness of the Committee is conducted by the Chairman of the Committee with contributions by way of individual assessments by the Members of the Committee, Managing Director/CEO, participating KMPs referred to at the outset of this Report and the review for 2021 concluded that the Committee continues to operate effectively and competently.

Note 60 to the Financial Statements on pages 318 to 324 set out the Information required on Related Party Transactions. In the opinion of the Committee, there were no transactions with Related Parties which were more favourable nor preferential during the period under review and the Bank had been compliant with the Code.



Devaka Cooray
Chairman
Related Party Transactions Review Committee

Colombo, Sri Lanka
18th February 2022

Directors' Statement On Internal Control Over Financial Reporting

RESPONSIBILITY

The Board of Directors present this statement on Internal Control Over Financial Reporting of the Bank in accordance with Section 3 (8) (ii) (b) of Banking Act Direction No: 11 of 2007, and principle D.1.5. of the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka.

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of Hatton National Bank PLC's ('the Bank') system of internal controls. It is designed to manage the Bank's key areas of risk within an acceptable risk profile and does not eliminate the risk of failure to achieve the business objectives and policies of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records against financial losses or fraud.

The Board has established an on-going process for identifying, evaluating, and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to the business environment or regulatory guidelines.

The process is regularly reviewed by the Board in accordance with the guidance for Directors of Banks on the Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). As per the said guidance, processes affecting significant accounts of the Bank were assessed along with the key risk areas.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced by the Bank, and in the design, operation, and monitoring of suitable internal controls to mitigate and control these risks.

The Board is of the view that the system of internal controls in place is sound and robust to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

KEY INTERNAL CONTROL PROCESSES

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

The Board Sub Committees are established to assist the Board in ensuring:

- » the effectiveness of the Bank's daily operations.
- » that the Bank's operations are in accordance with the Bank's declared objectives and strategies.
- » that the operations of the Bank are in line with the annual budget as well as the policies and business directions that have been approved by the Board.

Internal Audit Division of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. Audits are carried out on majority of units and branches, the frequency of which is determined by the level of risk assessed by the internal audit, to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Board Audit Committee and the findings of the audits are submitted to the Board Audit Committee for review at their periodic meetings.

The Board Audit Committee of the Bank approves the annual audit plan, reviews internal control issues identified by the Internal Audit Division, the external auditors, regulatory authorities and management; and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit function with particular emphasis on the scope of audits and quality of same. The minutes of the Board Audit Committee meetings are tabled for the information of the Board on a periodic basis. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Board Audit Committee Report on page 106 to 108 in IR.

The Board Integrated Risk Management Committee (BIRMC) is established to assist the Board to oversee the overall management of principal areas of risk of the Bank. The

Executive Risk Management Committee which includes representation from all key business and operating units of the Bank, assists the Board with the implementation of policies advocated at BIRMC.

Operational committees have also been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Human Resource Management Committee, Assets and Liability Committee, the Information Technology Steering Committee, Executive Risk Management and Credit Policy Committee and the Operational Risk Steering Committee.

In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Bank. These, in turn, were observed and checked by the Internal Audit Division for suitability of design and effectiveness on an on-going basis. This assessment did not include Subsidiaries of the Bank.

The Bank adopted SLFRS 9 – "Financial Instruments" in 2018 which became applicable for financial reporting periods beginning on or after 1st January 2018. The Bank continued to refine the statistical models used in the computations of Expected Credit Loss (ECL) and the data extraction procedures pertaining to the calculations performed in respect of SLFRS 9. Since adoption of this standard, progressive improvements on processes to comply with new requirements of classification, estimation of expected credit losses and disclosures were made whilst, further strengthening of processes continued to support the estimation of expected credit loss and financial statement disclosures.

The existing models were further refined this year to validate the appropriateness of the underlying assumptions, incorporate the potential implications of COVID 19 Pandemic and the extended moratorium schemes introduced to support the recovery of the economy, based on stress testing the exposures to risk elevated sectors and adjustments made to economic factors.

Considering the complexity involved in the computation of ECL from Loans and

Directors' Statement On Internal Control Over Financial Reporting

Advances, the Bank will continue to strengthen the process with system supported procedures in order to minimize the manual intervention.

Adequate training and awareness sessions have been conducted for the Board and the Senior Management with regard to this standard. Further, the Board ensures that processes and controls are put in place for use of management information systems and validation of information extracted to comply with SLFRS 9.

The recommendations made by the external auditors in connection with the internal control system in previous years were reviewed during the year and appropriate steps have been taken to implement those.

The Management has made many changes to the internal processes and systems to comply with Direction No 14 of 2021 issued by the Central Bank of Sri Lanka on 14th September 2021 which has become effective from 1st January 2022 and will continue to strengthen the internal control framework relating the new processes during the year 2022.

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.

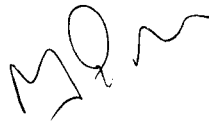
REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors, Messrs KPMG, have reviewed the above Directors' Statement on Internal Control Over Financial Reporting for the year ended 31st December 2021 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank. Their Report on the Statement of Internal Control is given in IR page 113.

By order of the Board



Devaka Cooray
Chairman
Board Audit Committee



Jonathan Alles
Managing Director/Chief Executive Officer



Aruni Goonetilleke
Chairperson

Colombo, Sri Lanka
18th February 2022

Independent Assurance Report



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
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Colombo 00300, Sri Lanka.

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TO THE BOARD OF DIRECTORS OF HATTON NATIONAL BANK PLC

We were engaged by the Board of Directors of Hatton National Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in this Annual Report for the year ended 31 December 2021.

Management's responsibility for the Statement on Internal Control

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Scope of the engagement in compliance with SLSAE 3050

Our responsibility is to issue a report to the Board on the statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka.

Summary of work performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for Directors and appropriately reflects

the process the Directors have adopted in reviewing the system of internal control for the Bank.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

- Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the Directors in the Annual Report.
- Reviewed the documentation prepared by the Directors to support their statement made.
- Related the statement made by the Directors to our knowledge of the Bank obtained during the audit of the Financial Statements.
- Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
- Attended meetings of the Audit Committee at which the Annual Report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.
- Considered whether the Directors' Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.

- Obtained written representations from Directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included on pages 111 to 112 of this annual report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.

Chartered Accountants

Colombo, Sri Lanka
18th February 2022

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M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara FCA
G.A.U. Karunaratne FCA
R.H. Rajan FCA
A.M.R.P. Alahakoon ACA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne FCA
R.M.D.B. Rajapakse FCA
M.N.M. Shameel FCA
Ms. P.M.K. Sumanasekara FCA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera ACA
Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, W.A.A. Weerasekera CFA, ACMA, MRICS

Directors' Interest in Contracts with the Bank

Related party transactions as required by LKAS 24 "Related Party Disclosures", are detailed in Note 60 to the financial statements. In addition, the Bank carries out transactions in the ordinary course of its business at commercial rates with entities in which a Key Management Personnel (KMP) of the Bank is the Chairman or a Director of such entities, the details of which are given below.

Also this complies with the requirements of section 168 of the Companies Act. No. 07 of 2007 and directions issued under section 47 (3), (4), (5) and (6) of the Banking Act No. 30 of 1988.

1. LENDING TRANSACTIONS WITH THE BANK

Director/Company	Name of the Director/Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2021		As at 31st December 2020		
			Limit	Outstanding	Limit	Outstanding	
			Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	
(A) Mr Amal Cabraal							
John Keells Holdings PLC	Director	Overdraft	200.00	200.00	200.00	200.00	Clean Commercial paper agreement, Cash Back
		Commercial paper	*(200.00)	-	*(200.00)	-	
		Short Term Loan	*(200.00)	-	*3,000.00	3,000.00	
		Overdraft/STL - II	3,000.00	3,000.00	*(3,200.00)	-	
		Short Term Loan	*(3,000.00)	-	6,000.00	6,000.00	
		Term Loan	6,000.00	6,000.00	6,000.00	6,000.00	
		LG	2,991.09	2,991.09	2,991.09	2,991.09	
Total		12,191.09	12,191.09	12,191.09	12,191.09		
Ceylon Beverage Holding PLC	Chairman	Term loan 1	2.50	2.50	32.50	32.50	Board Resolution
		Total	2.50	2.50	32.50	32.50	
Lion Brewery (Ceylon) PLC	Chairman	Overdraft	100.00	-	100.00	-	DPN LG Indemnity Loan Agreement OD Agreement Loan Agreement DPN/ Docs of Title DPN Docs of Title Import Loan Agreement
		Letter of guarantee	20.00	18.66	20.00	-	
		Money market loan	3,000.00	-	3,000.00	-	
		Overdraft	*(400.00)	-	*(400.00)	-	
		Term Loan 1	*(110.00)	110.00	*(614.00)	614.00	
		Letter of credit 1	50.00	-	50.00	-	
		Import loan 1	*(50.00)	-	*(50.00)	-	
		Letter of credit 2	*(2,000.00)	-	*(2,000.00)	-	
		Import loan 2	*(2,000.00)	-	*(2,000.00)	-	
Total		3,170.00	128.66	3,170.00	614.00		
Sunshine Holdings PLC	Director	Overdraft	50.00	-	50.00	-	Clean
		Total	50.00	-	50.00	-	
Sunshine Healthcare Lanka Ltd.	Chairman	Letter of Credit	1,200.00	130.49	1,200.00	130.49	Absolute ownership of leased vehicles, Duly Accepted usance Draft / Documents of Title, Forward Exchange Agreement, Clean, Overdraft Agreement, Letter of Indemnity, Concurrent Mortgage over Stocks/IL
		Overdraft	200.00	57.08	200.00	57.08	
		Letter of guarantee	*(100.00)	111.61	*(100.00)	111.61	
		Import loan	*(500.00)	-	*(500.00)	-	
		Forex Forward Booking	*(270.00)	-	*(270.00)	-	
		Block lease facility	*(40.00)	-	*(40.00)	-	
		Shipping guarantee	*(400.00)	66.20	*(400.00)	66.20	
		Corporate CC	2.00	-	2.00	-	
		Unadvised LC	-	-	-	-	
		Block lease facility	32.20	-	32.20	-	
Total		1,434.20	365.38	1,434.20	365.38		
Sunshine Consumer Lanka Ltd	Director	Overdraft	300.00	-	300.00	29.09	Overdraft Agreement, LG Agreement
		Letter of Guarantee	15.00	1.19	15.00	-	
		Total	315.00	1.19	315.00	29.09	

Director/Company	Name of the Director/Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2021		As at 31st December 2020		
			Limit	Outstanding	Limit	Outstanding	
			Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	
Healthguard Pharmacy Ltd.	Chairman	Short term loan 1	20.00	-	20.00	-	Mortgage over stock Letter of Guarantee indemnity Docs of title. duly accepted usance drafts, Board Resolution, Clean
		Letter of Guarantee	10.00	7.00	10.00	7.00	
		Overdraft 1	*(5.00)	-	*(5.00)	-	
		Overdraft 2	50.00	-	50.00	-	
		letter of credit	100.00	15.94	100.00	15.94	
		Import loan	*(100.00)	-	*(100.00)	-	
		Short term loan (Revolving)	5.00	-	5.00	-	
Total		185.00	22.94	185.00	22.94		
Akbar Pharmaceuticals (Pvt) Ltd	Chairman	LC	200.00	-	-	-	Document of Title / Duly Accepted Usance Draft, Corporate Guarantee
		Import Loan	*(200.00)	-	-	-	
		Export Bill Discounting	*(100.00)	-	-	-	
		MM Loans	*(100.00)	-	-	-	
		OD	50.00	-	-	-	
		LG	50.00	-	-	-	
Total		300.00	-	-	-		
Lina Manufacturing (Pvt) Ltd	Chairman	LC	200.00	-	-	-	Document of Title / Duly Accepted Usance Draft, Corporate Guarantee
		Import Loan	*(200.00)	-	-	-	
		MM Loans	*(50.00)	-	-	-	
		OD	125.00	-	-	-	
		LG	25.00	-	-	-	
Total		350.00	-	-	-		
(B) Mr W M M D Rathnayake							
Sri Lanka Institute of Information Technology (SLIIT)	Council Member	Term Loan	2,000.00	509.80	-	-	Clean
		Total	2,000.00	509.80	-	-	
Hsenid Business Solutions (Pvt) Ltd	Director	Bank Guarantee	6.00	6.00	-	-	Lien over Savings Account
		Total	6.00	6.00	-	-	
(C) Ms Aruni Goonetilleke							
Tea Small Holder Factories PLC	Non-Executive Director	Overdraft	50.00	-	-	-	Clean
		MM Loan	*(50.00)	-	-	-	
		Total	50.00	-	-	-	
Celcius Solutions (Pvt) Ltd	Spouse of Mrs.Aruni Goonetilleke is a Director	LC	100.00	41.86	-	-	Documents of Title, Mortgage over stock, Guarantee
		Import Loan	*(100.00)	57.09	-	-	
		Term Loan I	11.88	11.88	-	-	
		Term Loan II	22.50	22.50	-	-	
		Term Loan III	7.93	7.93	-	-	
		Total		142.31	141.26	-	
Softlogic Finance PLC	Director	Overdraft /LG	141.93	101.39	-	-	Clean / Indemnity Mortgage over Hire Purchase Receivables
		Term Loan	124.96	124.96	-	-	
		Total	266.89	226.35	-	-	

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 2021		As at 31st December 2020		
			Limit	Outstanding	Limit	Outstanding	
			Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	
(D) Mr L U D Fernando							
HNB Assurance PLC	Director	LG Corp CC	26.69 1.00	26.69 1.00	26.69 1.00	26.69 1.00	100% Cash Margin
		Total	27.69	27.69	27.69	27.69	
HNB General Insurance	Director	Corp CC	2.00	2.00	-	-	Clean
		Total	2.00	2.00	-	-	
(E) Mr Prawira Rimoe Saldin							
Sithma Development (Pvt) Ltd.	Chairman	Overdraft Term Loan	50.00 -	- -	50.00 258.02	- 258.02	Commercial Property
		Total	50.00	-	308.02	258.02	
(F) Mr Devaka Cooray							
United Motors Lanka PLC	Director	TOD	-	0.01	-	-	Clean
		Total	-	0.01	-	-	
Unimo Enterprises Ltd	Director	LC Import Loan LG	1,500.00 *(1,500.00)	159.09 -	- -	- -	Documents of Title, Duly Accepted Usance Drafts, CG of United Motors
		Total	1,500.00	479.34	-	-	Lanka PLC
(G) Mr D P N Rodrigo							
HNB Assurance PLC	Director	LG Corp CC	26.69 1.00	26.69 1.00	26.69 1.00	26.69 1.00	100% Cash back Margin, Board Resolution
		Total	27.69	27.69	27.69	27.69	
HNB Finance	Chairman	Overdraft MM Loan Corp CC	1,000.00 1,000.00 0.15	- 300.00 -	1,000.00 1,000.00 0.15	- -	Negative Pledge, Corp. Guarantee/STO for the Recovery of 100% of CC o/s on due date
		Total	2,000.15	300.00	2,000.15	-	
(H) Mr T K D P Samarasinghe							
HNB Assurance PLC	Alternate Director	LG Corp CC	26.69 1.00	26.69 1.00	- -	- -	100% cash margin Board Resolution
		Total	27.69	27.69	-	-	
HNB General Insurance PLC	Alternate Director	Corp CC	2.00	2.00	-	-	Clean
		Total	2.00	2.00	-	-	

* 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 (RsMn)	
			2021	2020
(A) Mr Amal Cabral				
John Keels Holdings PLC	Director	Repo (outstanding as at year end)	-	-
		Interest on repurchase agreements	-	-
		Merchant Commission	595.31	415.75
Healthguard Pharmacy Ltd.	Director	Merchant Commission	16.35	14.80
Sunshine Healthcare Lanka Ltd	Director	Merchant Commission	0.19	0.09
(B) Mr Prawira Rimoe Saldin				
Sithma Development (Pvt) Ltd.	Chairman	Repo (outstanding as at year end)	600.00	-
		Interest on repurchase agreements	1.60	-
		Rental paid	783.92	783.92
		Rental income	4.15	4.15
(C) Mr L U D Fernando				
HNB Assurance PLC and HNB General Insurance Limited	Director	Premium paid	84.12	10.88
		Interest on repo	3.60	-
		Merchant Commission	16.72	20.65
		Rental income	9.15	8.87
		Dividend income	251.94	180.00
		Commission received	390.09	334.21
		Claims paid	16.53	22.83
		Commission and others	13.87	-
(D) Mr D Rodrigo				
HNB Assurance PLC and HNB General Insurance Limited	Director	Premium paid	84.12	10.88
		Merchant Commission	16.72	20.65
		Rental income	9.15	8.87
		Dividend income	251.94	180.00
		Commission received	390.09	334.21
		Claims paid	16.53	22.83
		Interest on Repo	3.60	-
		Commission and others	13.87	-
Credit Information Bureau of Sri Lanka	Director	CRIB Charges	46.08	47.12
		Investment-shares	0.53	0.53
Lanka Financial Services Bureau Ltd	Director	Swift Charges	5.65	8.55
		Investment-shares	5.00	5.00
Guardian Acuity Asset Management		REPO	12.50	-
		Interest on repo	0.30	-
(E) Mr Devaka Cooray				
Management Systems Ltd	Director	Administration Expenses	6.37	6.14
(F) Dr T K D A P Samarasinghe				
Lanka Bell Limited	Alternate Director	Merchant Commission	5.88	0.10
		Data Line Expenses	15.93	13.96

Collateral details of facilities for each company are grouped together without Identifying collateral, facility- wise.

The above disclosure only pertains to the transactions carried out with directors who are holding office as at 31/12/2021.

The above entities also held customer deposits with the Bank totalling to 21,030.03 Mn. and interest paid was 1,074.62 Mn.

Interest income earned from loans and advances amounted to 712.63 Mn. & Net Fee Income totalling to 408.37 Mn. for the year ended 31/12/2021.

Risk Review 2021

The Bank continued to strengthen its risk management capabilities while refining the effectiveness of initiatives implemented in 2020 in response to elevated risks. Initiatives to strengthen the first line of defence through high levels of risk awareness gathered momentum in 2021 with activation of online training modules which enabled increased coverage and self paced learning.

The prolonged impact of the COVID-19 pandemic has resulted in elevated risk levels across the countries, businesses sectors and increased the vulnerability of entities and people. The quantitative easing measures adopted by countries across the world played a key role in containing corporate bankruptcies and maintaining financial stability across markets. Countries have experienced divergent economic recovery paths with advanced economies reflecting more resilience than the emerging market economies as access to vaccines, inflationary pressures and balance of payment deficits exacerbated vulnerabilities. A significant number of emerging market economies, including Sri Lanka, increased policy rates during the second half of 2021 as headroom for maintaining the accommodative policies diminished. It is also important to note the increase in crypto currency assets which surpassed US\$ 2 Trillion recording a 10-fold increase since the beginning of 2020, adding another dimension of risk to global financial markets due to its unregulated nature.

Work from home arrangements became an established norm for a number of roles as organisations focused on creating safe work environments for employees while in other areas challenges remained as physical presence was a necessity requiring formation of bubbles and additional precautions to manage the contagion. Digitalisation of

financial transactions increased significantly due to the prolonged pandemic elevating operational risks and cyber threats. Increased focus on prudent financial management coupled with low interest rates and tax rates supported the recovery of a number of businesses in sectors which were not adversely affected by COVID-19. However, overall recovery remains fragile with risks tilted to the downside.

Overall, corporate earnings increased and stock exchanges across the world recorded growth in market capitalisation as well as the amount of capital raised through IPOs. Supply chain disruptions including port congestion were key concerns for manufacturers and retailers alike during the year, exacerbated locally by wide-ranging import restrictions. Climate action remains a key concern as we witnessed significant climate events across the globe which contributed to supply chain woes and increased regulation over climate disclosures across geographies as well as investor actions.

In summary, as noted by the IMF in its October 2021 World Economic Outlook report, global recovery continues but momentum has weakened and uncertainty has increased as the pandemic resurges. Additionally, policy options have become more difficult with limited choices.



MAJOR RISK MANAGEMENT ACHIEVEMENTS IN 2021

- » Recorded the lowest Non-Performing Ratio among peers
- » Staff were supported on all health and safety matters thereby ensuring over 98% of the staff are fully vaccinated
- » Operational losses were an all-time low due to strengthened Operational Risk practices
- » The Bank was not exposed to any Cyber breaches during the year

 Refer the Governance & Risk Report, for a more detailed review of how the Bank manages risk and capital.



SOCIETAL EXPECTATIONS

Banks and financial Institutions are expected to play a key role in facilitating the post COVID-19 economic recovery of the country by providing essential financial relief to their customers across industries and geographies. Meanwhile with the rapid growth in digital platforms for banking services, higher customer expectations on convenience, reliability, availability and security are inevitable.



POLICY UNCERTAINTY

Recalibration of socioeconomic policies gave rise to a slew of policy measures to curtail imports, inflation and interest rates and support systemic financial stability.



HEALTH & SAFETY

Having in place the infrastructure and processes to implement health and safety protocols such as social distancing, tele-working arrangements are becoming a critical necessity as the country gradually opens up and adapts to the new normal post COVID-19.



TECHNOLOGY & CYBERSECURITY

Technology paved the way for customers to transition to digital platforms as society sought to minimise contact. Cyber threats escalated due to increased volumes of digital transactions and remain a concern, globally.



A GLOBAL PANDEMIC

Recurring waves of the COVID-19 pandemic throughout 2021 continued to strain health care systems and economies around the world, with emerging economies in particular continuing to face the economic repercussions of capital outflows, business lockdowns and a breakdown on key industries such as tourism.



PEOPLE & BEHAVIOURS

Behaviours of customers and staff continue to evolve in response to the unprecedented pressures brought about by the COVID-19 pandemic. Working from home, performance pressures, customer behaviours, pandemic related fears and financial stress have all combined to bring about increased and complex challenges for our customers and staff.



MONETARY POLICY

Governments are assessing the accommodative monetary policies implemented to support economic recovery with a view of gradually tightening of monetary policy, including ending moratoria and higher interest rates which will impact people and businesses and countries in 2022.



CLIMATE CHANGE

Although Sri Lanka has been fortunate in 2021, natural disasters and climate change impacts can exacerbate our woes with supply side shocks, straining already stretched reserves.



FOREIGN CURRENCY LIQUIDITY

The Central Bank of Sri Lanka introduced several regulations for Banks including the suspension of purchase of Sri Lanka International Sovereign Bonds, restrictions on entering into forward contracts of foreign exchange, revoking of short term foreign currency borrowing limits and the imposition of maximum interest rates on foreign currency deposits. These capital controls together with import restrictions and exchange controls have had a significant impact on the foreign currency operations of the banking sector.

Risk Review 2021

The HNB Board and BIRMC maintained high levels of oversight, closely monitoring the risk profile of the Bank and review the effectiveness of its systems, processes and tools. The Bank continued to strengthen its risk management capabilities while refining the effectiveness of initiatives implemented in 2020 in response to elevated risks. Initiatives to strengthen the first line of defence through high levels of risk awareness gathered momentum in 2021 with activation of online training modules which enabled increased coverage and self paced learning.

While licensed commercial banks have strengthened their capital adequacy, the strain on the advanced portfolio is evident in the increased Gross Non-performing Advances Ratio. The conservative approach adopted by the sector to navigate through the uncertainties is evinced by the higher liquid assets ratios and lower credit to deposits ratio. Efficiency ratios indicate the extent of business disruptions and the impact of import restrictions.

NAVIGATING UNCERTAINTY

COVID-19 added a new dimension to risk and the Bank established a COVID -19 Task Force to monitor developments and formulate coordinated responses across all aspects as deemed necessary. Health and safety risks remained elevated for most of 2021, necessitating closures of branches at times as the country experienced over 10 weeks of lockdown during the year. The Bank has now achieved a 98% coverage of employees who are double vaccinated reducing risks and continue to follow protocols set in place for social distancing.

We worked proactively with customers to support in their business revival through positive cashflow management and to the effective transition and use of digital platforms for transactions. Adversely affected sectors continue to be supported with extended moratoria in accordance with CBSL guidelines. Dollar liquidity issues posed a significant challenge to customers and the Bank during the year necessitating careful management of foreign exchange portfolios.

Cyber risk remained a key area of concern and increased safeguards against cyber attacks and hacking, upgrading of business continuity plans (BCP) and the IT infrastructure of the Bank supported the management of these risks. The appointment of a CISO has strengthened the Bank's IT governance and a greater focus on cyber threat management.

We continued to strengthen and harmonise risk management in Group companies. Quarterly submissions are reviewed by Group Risk and BIRMC to assess potential impacts at entity level and Group level. Particular areas of focus included management of credit risk, cyber risks and liquidity risk.

RISK GOVERNANCE

Ultimate responsibility for risk management lies with the Board of Directors who are assisted by the mandatory Board Integrated Risk Management Committee (BIRMC). CBSL Directions set out the duties of the BIRMC and the Bank supplements these where necessary to ensure that the rigour of oversight is aligned to the Bank's risk appetite which is approved by the Board. A dedicated Risk Management unit comprising 39 staff supports BIRMC led by the Chief Risk Officer

who reports independently to the BIRMC. Executive Committees comprising the CEO, CRO and other Key Management Personnel strengthen the first line of defence, fostering high levels of risk awareness throughout the Bank through vigilant risk monitoring and other related initiatives.

The Bank's risk management framework comprises a suite of Risk Management Policies and the Risk Appetite Statement supported by an organization structure based on the three lines of defence model.

Licensed Commercial Banks Industry Indicators	2017	2018	2019	2020	Q3 2021
Core Capital (Tier 1 Capital) Adequacy Ratio	13.4	13.0	12.3	13.6	12.9
Total Capital Adequacy Ratio	16.4	16.2	15.6	17.1	16
Gross Non-performing Advances Ratio	2.3	3.3	5.5	7.0	4.8
Return on Equity (ROE)	17.4	13.7	6.8	10.9	15.1
Efficiency Ratio	45.2	48.5	60.1	51.7	47.5
Interest Margin	3.5	3.7	3.4	3.1	3.4
Liquid Assets Ratio	27.2	25.7	27.8	33.8	34.4
Credit to Deposit Ratio	90.1	94.2	93.4	86.5	83.1

Source: CBSL

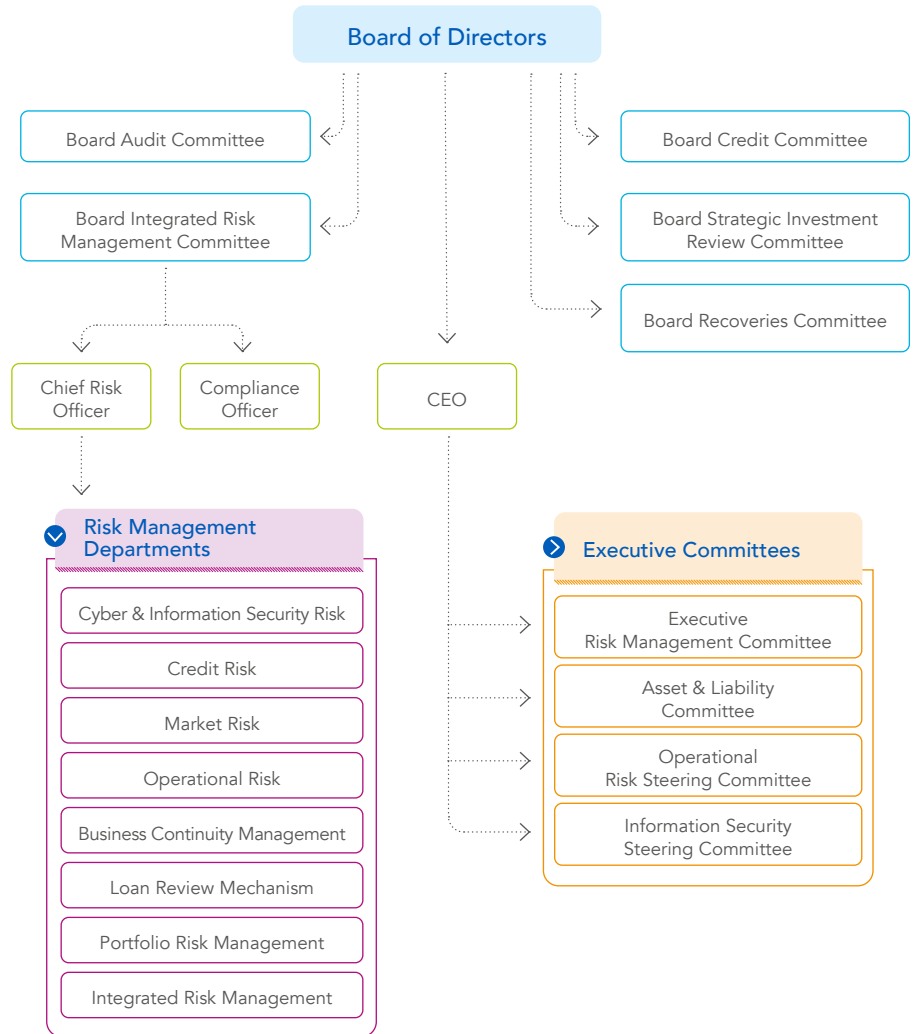
RISK CULTURE

The risk culture of the Bank is shaped by a comprehensive Risk Management Policy Framework and robust corporate and risk governance. High levels of risk awareness is key to the financial stability of the Bank and supports business line growth strategies. A culture of risk awareness and compliance is nurtured both within the Bank and across all entities in the Group through regular training of employees as an integral part of the training calendar. Employees in specialised roles are required to gain specified levels of skills and experience relevant to their roles which encompass a thorough understanding of the risks relevant to these roles. This is vital to strengthen the first line of defence, facilitating process efficiencies and overall resilience of the Bank. Despite challenges in rolling out the training as planned in 2020, we have continued to reinforce risk awareness through increased rigour of processes, analytics and feedback.

The Risk Management Department serves as the 2nd line of defence, implementing the Bank's Risk Management Framework and policies. Internal audit functions as the 3rd line defence, reviewing the effective functioning of internal controls set in place and providing feedback independently to the Board Audit Committee.

RISK APPETITE STATEMENT

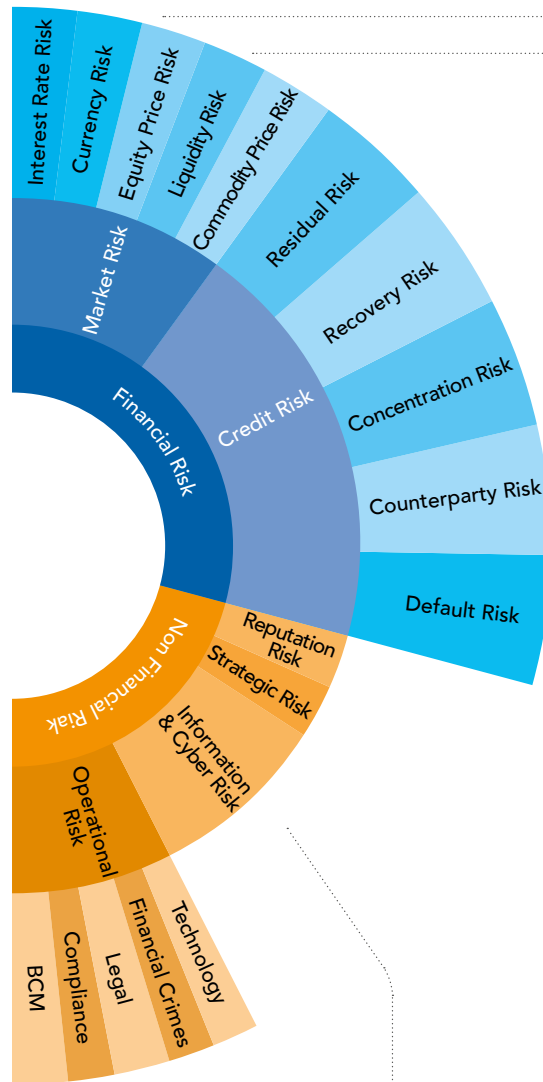
The Risk Appetite Statement and the underlying thresholds are established with the objective of defining risk boundaries for managing the business or other performance parameters of the Bank. Thus the Risk Appetite Statement serves to establish boundaries to form integrated and robust links between strategy, target setting and risk management process.



Risk Review 2021

» Fitch Ratings Lanka Ltd., has affirmed a Long Term rating of AA-(lka) with a stable outlook reflecting its financial strength, superior domestic franchise and high levels of capitalisation relative to domestic peers which has balanced the risk appetite. It is noteworthy that the rating is influenced by the outlook for Sri Lankan banks and the country, which remains negative.

» Recognised as the Best Managed Bank during the COVID-19 pandemic in Sri Lanka by The Asian Banker in 2020,

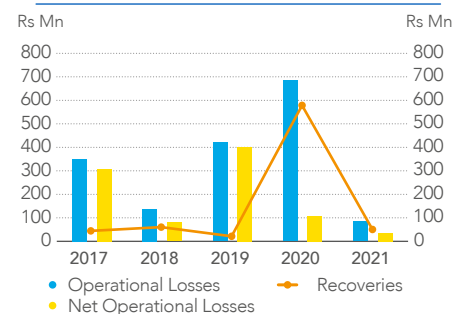


NON-FINANCIAL RISKS:

Operational risks can have a significant financial impact on the performance and stability of the Bank. Reputation Risk is managed through improved regulatory compliance and stakeholder engagement. Strategic Risk is being addressed through Project Everest and the digitization of the Bank with significant headway made on both despite the challenges in 2021. Information and Cyber risk threats escalated since 2020 affirming our decision to segregate this key risk from other operational risks in 2020.

Operational Risk is managed through sound governance, robust internal controls, dedicated compliance and legal functions and sound financial reporting processes. The three lines of defence model plays a key role in addressing this risk. Key risk indicators for operational risk are given alongside.

Operational Losses & Recoveries



MARKET RISK:

Interest rate risk and exchange rate risk are the most significant components of market risk to the Bank as exposure to equity risk is minimal.

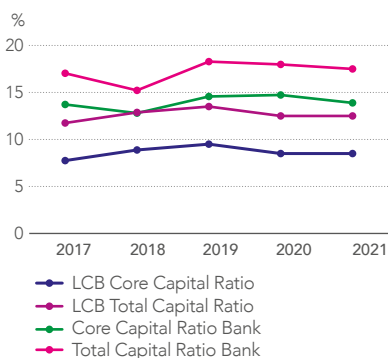
Rs Mn	Interest Rate Risk		Equity Price Risk		Currency Risk	
Exposure	2021	2020	2021	2020	2021	2020
Assets	1,060,349	979,456	26,834	22,705	527,192	539,085
Liabilities	1,043,638	914,335	-	-	525,798	538,140

Rs Mn	Yield Curve		Exchange Rate		Total	
	100 bps		50 bps			
Sensitivity	PBT	Equity	PBT	Equity	PBT	Equity
Increase/ Strengthening	-	3,193,914	6,971	-	6,971	3,193,914
Decrease/ Weakening	-	3,193,914	6,971	-	6,971	3,193,914

LIQUIDITY RISK:

This is carefully managed by the Assets & Liability Committee to maintain prudent capital buffers. Movement of trend-lines reflect the challenges during the year but remain well within the regulatory requirements.

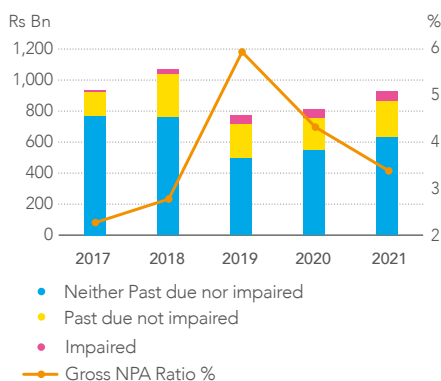
Liquidity Indicators



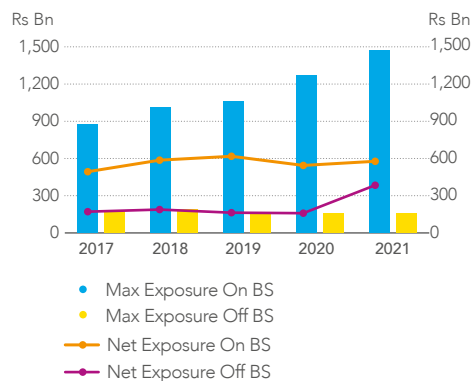
CREDIT RISK:

This is the largest exposure for the Bank and the following key risk indicators reflect the exposure and credit quality as at 31.12.2021.

Credit Quality



Credit Exposure



2021 AT A GLANCE

RISK GOVERNANCE

- » Reviewed Risk Appetite statement and Risk Goals based on the new normal
- » Reviewed and strengthened Risk related policies
- » Monitored and Reported Key Risks arising from group companies

CREDIT RISK

- » Processed moratoriums for over 8,000 customers
- » Rs 86 billion moratoriums as of end December 2021

MARKET RISK

- » Recalibrated Counterparty limits to capture Covid – 19 impact
- » Introduced Delta limits for investment in securities

OPERATIONAL RISK

- » Introduced Business Disruption Containment – Public Health Contagion Plan
- » Established Work from Home Security arrangements for staff
- » Conducted BCP drills and strengthened infrastructure at DR sites

INFORMATION & CYBER RISK

- » Implemented Data Loss Prevention (DLP) solution across all users
- » Reviewed Privilege Activities on Database, Operating Systems and Applications
- » Engaged external cyber security consultants to carry out systemic functionality reviews, Vulnerability Assessments and Penetration Testing

Risk Review 2021

Loan book grew by 14% and deposits growth also increased to 11%. Deposits of Rs 1,075Bn account for 89% of Total Liabilities.

Bank liquidity indicators improved in line with industry as depicted in the Liquidity Indicators graph above.

Key risks impacting our operations are summarised below as viewed through a prudent lens:

Risk	Assessment	Trend	Rationale/Description
External			
Economic growth and trade cycles	High	↗	While countries are recording economic growth, uncertainties remain elevated with risks tilted to the downside. While IMF forecasts global economic growth of 5.9 for 2021 and 4.9 for 2022, significant downside risks remain. Sri Lanka's growth is forecast at 4% for 2022 by CBSL. However, the country's debt repayment challenges, declining foreign exchange reserves, inflationary pressures and uncertainties on the tourism sector point to continued economic challenges for 2022.
Fiscal and monetary policy	Moderate	↗	The need to manage health, humanitarian and economic concerns continues to exacerbate challenges for policy makers. Accordingly, we expect the policy environment to remain dynamic in 2022 as well.
Regulation	Moderate	↗	Regulation is likely to focus on the need to maintain financial stability in a recessionary environment in contrast to the focus on the evolution of the industry.
Cyber threats	High	↗	Cyber threats have increased due to increasing volumes of digital transactions and HNB continues to increase its vigilance in order to manage this rapidly evolving threat.
Internal			
Credit Risk	Moderate	↗	While recoveries were strengthened, extensive moratoria were also extended to customers during the year through CBSL funded schemes and the Bank's own COVID fund. These moratoria which were originally scheduled to end in September 2020 have now been extended until June 2022 and may prove a drag on credit risk through 2022.
People & Operational Risk	Moderate	↗	Operational risk remains elevated despite strengthening of operational risk management frameworks and high levels of staff vaccinations due to socioeconomic stresses and innate people factors. High levels of operational risk awareness and a focus on building a culture of compliance, including continuous on the job training and improvements in effectiveness of internal controls are key mitigants.
Liquidity Risk	Moderate	↗	Liquidity indicators are well above the regulatory requirements and the Bank's risk appetite. Additionally, market liquidity has been comfortable due to lower credit demand.

The Bank has steered a steady course, shoring up its capital and liquidity while remaining active in supporting access to finance for large corporates, SME, microfinance and retail banking segments. We have remained responsive to stakeholder concerns, carefully balancing priorities as we navigate through a challenging economic landscape. The rigour of Board and BIRMC oversight coupled with enhanced capabilities of the Risk Management Team has supported strengthening of the Bank's risk profile which remains comfortably above regulatory requirements.

We expect 2022 to remain challenging with business disruptions, policy challenges and potential changes in capital flows. The moratoria scheduled to end will pose challenges for some customers and we expect credit risk to remain elevated until there are clear signs of sustainable recovery. Cyber threats are likely to remain at elevated levels too as the volume and value of transactions on

digital platforms continues to grow. Continued business disruptions and socioeconomic stresses are likely to exacerbate operational risk threat levels. Market risk factors are also expected to be volatile as policy makers recalibrate responses to emerging threats and tighten monetary to manage the countries economic challenges.

A strong risk governance framework, culture, policies, systems and processes support Risk and Capital Management at the Bank, strengthening resilience as evinced by our rating and key stability indicators. Continued investments in risk management tools have enhanced insights and enabled early detection of threats. The Bank will continue to be vigilant while strengthening the rigour of processes to manage the uncertainties in the year ahead.

SUSTAINING OUR PERFORMANCE

FINANCIAL REPORTS

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Financial Calendars

FINANCIAL CALENDAR - 2021	
52nd Annual General Meeting held on	30th March 2021
Rs. 8.00 per share Final Dividend for 2020 paid on	12th April 2021
Audited Financial Statements signed on	18th February 2022
53rd Annual General Meeting to be held on	30th March 2022
Rs. 9.00 per share Final Dividend for 2021 payable in (Cash Dividend Rs. 6.50 per share and Scrip Dividend Rs.2.50 per share)*	April 2022
Interim Financial Statements published in terms of Rule 8.3 of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka	
1st Quarter Interim Results released on	13th May 2021
2nd Quarter Interim Results released on	13th August 2021
3rd Quarter Interim Results released on	12th November 2021

FINANCIAL CALENDAR - 2022	
Interim Dividend for 2022 to be payable in **	December 2022
54th Annual General Meeting to be held in	March 2023
Final Dividend for 2022 payable in ***	April 2023
Interim Financial Statements published in terms of Rule 8.3 of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka	
1st Quarter Interim Results to be released in	May 2022
2nd Quarter Interim Results to be released in	August 2022
3rd Quarter Interim Results to be released in	November 2022

* Subject to confirmation by Shareholders

** Subject to confirmation by Directors

*** Subject to confirmation by Directors and Shareholders

Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The financial statements of Hatton National Bank PLC (the "Bank") and the consolidated financial statements of the Bank and its subsidiaries as at 31st December 2021 are prepared and presented in compliance with the requirements of the following:

- » Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka),
- » Companies Act No 7 of 2007,
- » Sri Lanka Accounting and Auditing Standards Act No 15 of 1995,
- » Banking Act No 30 of 1988 (as amended),
- » Listing Rules of the Colombo Stock Exchange,
- » Banking Act Direction No 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka (as amended from time to time) and
- » Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

The formats used in the preparation of the financial statements and disclosures made comply with the formats prescribed by the Central Bank of Sri Lanka.

The Accounting Policies used in the preparation of the financial statements are appropriate and are consistently applied by the Group. There are no departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation.

The significant accounting policies and estimates that involved a high degree of judgment and complexity were discussed with the Board Audit Committee and external auditors.

The Board of Directors and the management of the Bank accept responsibility for the integrity and objectivity of these financial statements. The estimates and judgments relating to the financial statements were made on a prudent and reasonable basis in order that the financial statements reflect a true and fair view, the form and substance of transactions and the Bank's state of affairs are reasonably presented. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which are reviewed, evaluated and updated on an on going basis. The Board of Directors has carried out an assessment on the ability of the Bank to continue as a going concern taking into consideration the potential implications of COVID 19 pandemic on Bank's operations and future financial performance. We confirm that the Bank has adequate resources to continue operations in the foreseeable future and have adopted the 'going concern' basis in preparing these financial statements.

The Board has established a framework of internal control as set out in the Directors' Statement of Internal Control Over Financial Reporting - ICOFR on page 111 to 112. 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 2021, as required by the Banking Act Direction No 11 of 2007, result of which is given on page 111 to 112 in IR, the 'Directors' Statement on Internal Control Over Financial Reporting - ICOFR'. External auditor's Assurance Report on the 'Directors' Statement on Internal Control Over Financial Reporting' is given in IR page 113.

The financial statements of the Group for the year 2021 were audited by Messrs KPMG, Chartered Accountants, the independent external auditors. Their report is given in IR pages 130 to 134.

The Board Audit Committee of the Bank meets periodically with the internal audit team and the independent external auditor to review their audit plans, assess the manner in which the auditors are performing their responsibilities and to discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the external auditor and the internal auditor have access to the members of the Board Audit Committee to discuss any matter of substance, details of which are given in the 'Board Audit Committee Report' on page 106 to 108 in IR.

The Board Audit Committee approves the audit and non-audit services provided by external auditor, Messrs KPMG, in order to ensure that the provision of such services does not impair KPMG's independence.

We confirm that,

- » the Bank and its subsidiaries have complied with all applicable laws, regulations and prudential requirements;
- » there are no material non compliances;
- » there are no material litigations that are pending against the Group other than those disclosed in the Note 59 (c) to the financial statements in this Annual Report; and
- » all taxes, duties, levies and all statutory payments payable by the Group and the Bank and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Group and the Bank as at December 31, 2021 have been paid, or where relevant provided for.



Jonathan Alles
Managing Director/Chief Executive Officer



Rajive Dissanayake
Chief Financial Officer

Colombo, Sri Lanka
18th February 2022

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 IR pages 130 to 134.

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 2021, 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 2021; and
- » the profit or loss of the Bank, its subsidiaries and joint venture company or 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 potential implications of COVID-19 Pandemic on the Group's business, operations and financial performance this year as well. Further, the Directors have a responsibility to ensure that the Companies within the Group maintain sufficient accounting records to disclose, with reasonable accuracy, the financial position of the Bank, its subsidiaries and joint venture company.

Financial statements prepared and presented in this report have been prepared based on Sri Lanka Accounting Standards (commonly referred as "SLFRS"/"LKAS") laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) consistent with the underlying books of accounts and are in conformity with the requirements of Companies Act No 7 of 2007, Sri Lanka Accounting and Auditing Standard Act No 15 of 1995, Banking Act No 30 of 1988 and amendments thereto, the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered

Accountants of Sri Lanka (CA Sri Lanka). In addition, these financial statements comply with the prescribed format issued by the Central Bank of Sri Lanka for the preparation of annual financial statements of Licensed Commercial Banks.

The Directors have also instituted effective and comprehensive systems of internal control for identifying, recording, evaluating and managing the significant risks faced by the Bank throughout the year which are regularly reviewed by the Board. This comprises internal reviews, internal audit and the entire system of financial and other controls required to carry on the business of banking in an orderly manner, safeguard its assets, prevent and detect frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31st December 2021 are given on pages 111 to 112 in IR, Directors' Statement on Internal Control Over Financial Reporting. External Auditor's Assurance Report on the Directors' Statement on Internal Control is given in IR page 113.

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 106 to 108 in IR. The Board of Directors also approves the interim and annual financial statements prior to their release based on review and recommendation by the Board Audit Committee.

The Board of Directors accepts responsibility for the integrity and objectivity of the financial statements presented in this Integrated Report.

Directors are required to prepare the financial statements and provide the Bank's external auditor, Messrs. KPMG, with every opportunity to carry out whatever reviews and checks on the system of internal control they may consider appropriate and necessary for expressing their independent audit opinion on the financial statements.

They have examined the financial statements made available to them by the Board of Directors of the Bank together with all the financial records, related data and minutes of shareholders' and Directors' meetings and expressed their opinion which appears as reported by them on pages 130 to 134 in IR.

The financial statements of the Bank and the Group have been certified by the Chief Financial Officer of the Bank, the officer responsible for their preparation, as required by Sections 150 (1) (b) and 152 (1) (b) of the Companies Act. Also the financial statements of the Bank and the Group have been signed by two Directors and the Company Secretary of the Bank on 18th February 2022 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 9.00 per share (in the form of Rs 6.50 cash and Rs. 2.50 scrip) for the year 2021.

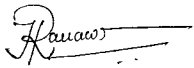
As required by Sections 166 (1) and 167 (1) of the Companies Act, the Board of Directors has prepared this Annual Report in time and the Annual Report will be published/hosted in the Bank's Website and Colombo Stock Exchange Website. The Link will be shared with the shareholders enabling them to access 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 (or a copy in pdf form in a CD-ROM containing the Annual Report) within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) on Continuing Listing Requirements of the Listing Rules of the CSE.

Further, all shareholders in each category have been treated equitably in accordance with the original terms of issue.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Bank and its subsidiaries as at the Statement of Financial Position date have been paid or where relevant provided for, except as provided in Note 59 to the financial statements covering contingent liabilities.

Accordingly, the Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board



K A L Thushari Ranaweera (Mrs)
*Deputy General Manager (Legal)/
Board Secretary*

Colombo, Sri Lanka
18th February 2022

Independent Auditor's Report



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
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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 2021, and the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 136 to 330 of this Annual Report.

In our opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at 31st December 2021, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Bank's financial statements and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the Bank's financial statements and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Allowances for Expected Credit Losses

Refer to Note 2.2 (Accounting Judgement, Estimates and Assumptions), Note 15 (Impairment charge for loans and other losses) and Note 31 (Financial assets measured at amortised cost - loans and advances to customers), to these financial statements

Risk Description

As disclosed in Note 31 & 15 to these financial statements, the Bank and the Group has recorded financial assets measured at amortised cost against loans and advances to customers, of Rs 928,972 Mn and Rs 968,907 Mn respectively as at 31st December 2021. High degree of complexity and judgment are involved in estimating Expected Credit Loss (ECL) (Bank Rs 52,717 Mn; Group Rs 57,654 Mn) as at the reporting date.

Allowance for expected credit losses is a key audit matter due to the significance of the loans and receivables balance to the financial statements and the inherent complexity of the Bank and Group's ECL models used to measure ECL allowances. These models are reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk (SICR).

Our Responses

Our audit procedures to assess the allowances for ECL included the following:

Testing key controls of the Bank and Group in relation to:

- Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems;
- IT system controls which record loans days past due, and non-performing loan classification.

Assessing impairment for individually significant customers

Selecting a sample (based on quantitative thresholds) of larger customers where impairment indicators have been identified by management and assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Bank and Group as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions and in particular considering the impacts of COVID-19).

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.

M.R. Mhitar FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara FCA	W.K.D.C. Abeyrathne FCA	S.T.D.L. Perera FCA
G.A.U. Kanunaratne FCA	R.M.D.B. Rajapakse FCA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan FCA	M.N.M. Shameel FCA	Ms. C.T.K.N. Perera ACA
A.M.R.P. Abahagoon ACA	Ms. P.M.K. Sumanasekara FCA	
Principals - S.R.I. Perera FCMA(UK), LL.B, Attorney-at-Law, H.S. Goonewardene ACA, W.A.A. Weerasekara CFA, ACMA, MRICS		

KPMG, a Sri Lankan Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.



SLFRS 9 Financial Instruments requires the Group to measure ECLs on a forward-looking basis reflecting a range of economic conditions. Post-model adjustments are made by the Bank and Group to address known ECL model limitations or emerging trends in the loan portfolios. We exercise significant judgements when evaluating the economic scenarios used and the judgmental post model adjustments the Bank and Group applies to the ECL results. The Bank and Group's criteria selected to identify a SICR are key areas of judgement within the Bank and Group's ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.

The COVID-19 pandemic has meant that assumptions regarding the economic outlook are more uncertain which, combined with varying government responses, increases the level of judgement required by the Bank and Group in calculating the ECL, and the associated audit risk.

Additionally, allowances for individually significant loans exceeding specific thresholds are individually assessed by the Bank. We exercise significant judgment in evaluating the assessment of specific allowances based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Bank and Group in respect of the loans.

The disclosures regarding the Group's application of SLFRS 9 are key to explaining the key judgements and material inputs to the SLFRS 9 ECL results.

This included the following procedures

- 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;
- Exercising our judgment, our procedures included using our understanding of relevant industries and the macroeconomic environment and comparing with the data and assumptions used by the Bank and Group in recoverability assessment. Where relevant we assessed the forecast timing of future cash flows in the context of underlying valuations and business plans and evaluating the key assumptions in the valuations;
- Testing the implementation of the Bank and Group's SICR methodology by re-performing the staging calculation for a sample of loans;
- For a sample of customer loans which were not identified as displaying indicators of impairment by management, we reassessed the conclusions made by the management by reviewing the historical performance of the customers and form our own view whether any impairment indicators were present.

Assessing the adequacy of collectively assessed provisions

We tested key controls of the Group in relation to:

- The ECL model governance and validation processes which involved assessment of model performance;
- The assessment and approval of the forward-looking macroeconomic assumptions and scenario weightings, trends in the credit risk concentration of specific portfolios and our understanding of economic conditions. As part of this work, we assessed the reasonableness of the Group's considerations of the economic uncertainty relating to COVID-19.

Our further audit procedures included;

- Assessing the ongoing effectiveness of the SICR criteria and independently calculating the loans' stage to determine whether a SICR event had occurred. In addition, we assessed the reasonableness of the Group's treatment of COVID-19 payment relief customers (moratorium/ debt concessionary) from a SICR perspective;
- 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 current COVID-19 pandemic and government responses;
- Working with our own risk consulting specialists, we assessed the reasonability of the adjustments made by the Group to the forward looking macro-economic factors and assumptions used in the ECL model;
- Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the loan portfolios against the Group's assessment;

Independent Auditor's Report



- Assessing the appropriateness of the Group's disclosures in the financial statements using our understanding obtained from our testing and against the requirements of the Sri Lanka Accounting Standards;
- Evaluating the approach taken by the management in identifying the risk elevated sectors and assessing the current market conditions and specific risks in the Bank and Group's loan portfolios due to exposure to risk elevated sectors;
- Assessing the impacts on the modelled ECL and the requirement for out of model adjustments to account for the expected increase in delinquencies;
- Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the loan portfolios against the Bank and Group's assessment;
- Reviewing the deliverables submitted by the component auditors (other KPMG audit teams) as per the Group Audit Instructions to assess any implications that could arise at the group level stemming from issues at subsidiary level including adequacy of allowances for ECL as at reporting date.

IT systems and controls over financial reporting

Risk Description

The Bank and Group's businesses utilise many complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of financial statements which provides a true and fair view of the Bank and Group's financial position and performance.

The IT systems and controls, as they impact the recording and reporting of financial transactions, is a key audit matter as our audit approach could significantly differ depending on the effective operation of the Bank and Group's IT controls.

Our Responses

We worked with our IT specialists to perform audit procedures to test the technology control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems which link the technology-enabled business processes.

Our further audit procedures included:

General IT controls design, observation and operation

- Assessing the governance and higher-level controls in place across the IT Environment, including those regarding policy design, review and awareness, and IT Risk Management practices;
- Obtaining an understanding and testing operating effectiveness of the sample of key controls operating over the information technology in relation to financial accounting and reporting systems, including system access and system change management, monitor system integrity, program development and computer operations;
- Data integrity of critical system reporting used by us in our audit to select samples and analyse data used by management to generate Financial statements.

Application controls

- On sample basis, re-performed selected automated computations and compared our results with those from the system and the general Ledger.

User access controls operation

- Assessing the management's evaluation of access rights granted to applications relevant to financial accounting and reporting systems and;
- Assessing the operating effectiveness of controls over granting, removal and appropriateness of access rights.



Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

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.

Independent Auditor's Report



We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is FCA 2294.

A handwritten signature in black ink, appearing to read 'KPMG', with a horizontal line underneath it.

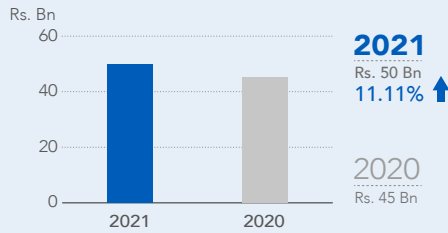
Chartered Accountants
Colombo, Sri Lanka

18 February 2022

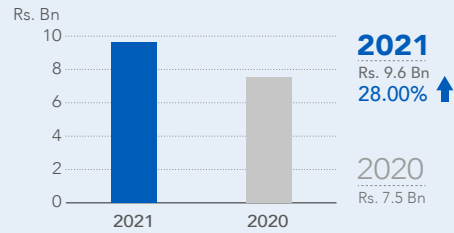
Financial Highlights - Bank

INCOME STATEMENT

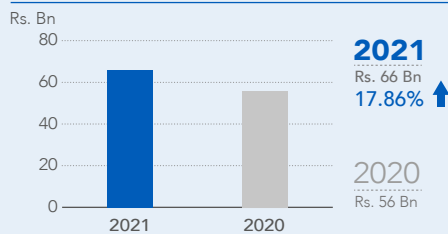
Net Interest Income



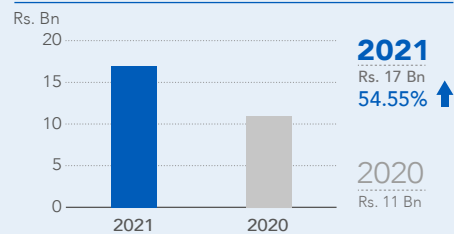
Net Fee and Commission Income



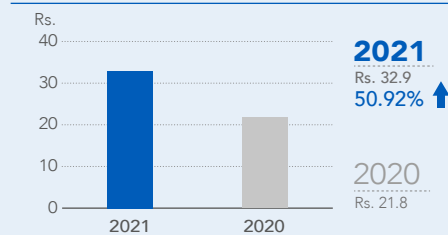
Total Operating Income



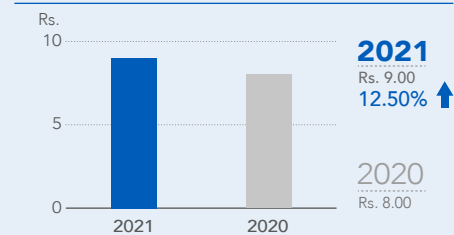
Profit after Tax



Earnings per Share - Basic

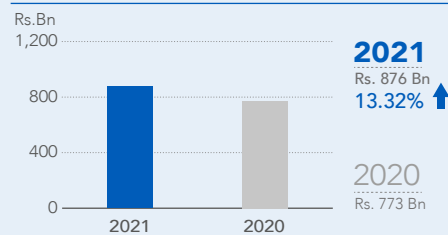


Dividend per Share

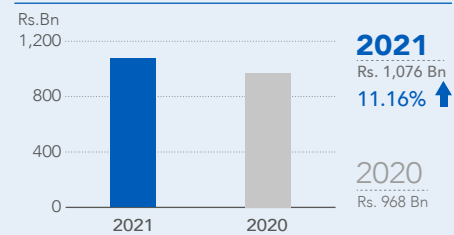


ASSETS AND LIABILITIES

Financial Assets measured at Amortised Cost - Loans and Advances to Customers

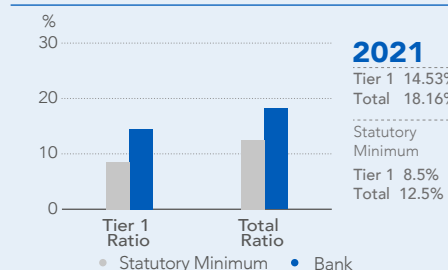


Financial Liabilities measured at Amortised Cost - Due to Depositors

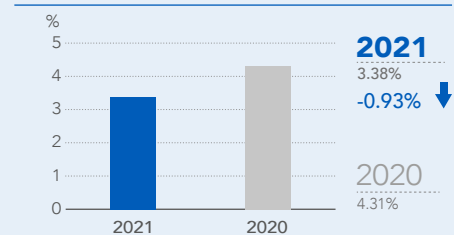


RATIOS

Capital Adequacy Ratio



Non Performing Advances Ratio - Gross



• Statutory Minimum • Bank

Income Statement

For the year ended 31st December	Note	Bank		Group	
		2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Gross income	7	115,047,325	115,813,618	135,710,455	134,436,232
Interest income		98,600,557	103,944,602	107,407,723	112,825,455
Less : Interest expenses		49,041,200	59,235,456	50,945,355	61,988,268
Net interest income	8	49,559,357	44,709,146	56,462,368	50,837,187
Fee and commission income		9,893,263	7,794,929	10,676,982	8,399,641
Less: Fee and commission expenses		270,702	249,880	360,771	374,084
Net fee and commission income	9	9,622,561	7,545,049	10,316,211	8,025,557
Net interest, fee and commission income		59,181,918	52,254,195	66,778,579	58,862,744
Net losses from trading	10	(522,039)	(837,108)	(383,772)	(816,896)
Net gain from financial investments at fair value through other comprehensive income	11	195,927	207,321	196,167	209,217
Net insurance premium income	12	-	-	10,641,842	8,907,731
Net gains arising on de-recognition of financial assets	13	-	1,053,543	5,874	1,106,649
Net other operating income	14	6,879,617	3,650,331	7,165,639	3,804,435
Total operating income		65,735,423	56,328,282	84,404,329	72,073,880
Less: Impairment charge for loans and other losses	15	18,778,047	15,258,468	19,534,309	16,046,578
Net operating income		46,957,376	41,069,814	64,870,020	56,027,302
Less : Operating expenses					
Personnel expenses	16	10,757,563	11,459,352	13,676,004	13,903,432
Benefits, claims and underwriting expenditure	17	-	-	8,955,217	7,374,868
Other expenses	18	11,875,964	10,659,633	14,718,170	13,527,427
Total operating expenses		22,633,527	22,118,985	37,349,391	34,805,727
Operating profit before taxes on financial services		24,323,849	18,950,829	27,520,629	21,221,575
Less: Taxes on financial services	19	4,498,822	3,869,649	4,759,882	4,048,466
Operating profit after taxes on financial services		19,825,027	15,081,180	22,760,747	17,173,109
Share of profit of joint venture (net of income tax)	20	-	-	292,837	407,215
PROFIT BEFORE INCOME TAX		19,825,027	15,081,180	23,053,584	17,580,324
Less: Income tax expense	21	2,525,260	3,618,544	2,969,222	3,918,061
PROFIT FOR THE YEAR		17,299,767	11,462,636	20,084,362	13,662,263
Profit attributable to:					
Equity holders of the Bank		17,299,767	11,462,636	19,024,882	13,095,420
Non-controlling interests		-	-	1,059,480	566,843
PROFIT FOR THE YEAR		17,299,767	11,462,636	20,084,362	13,662,263
Earnings per share	22				
Basic earnings per ordinary share (Rs)		32.90	21.80	36.18	24.90
Diluted earnings per ordinary share (Rs)		32.90	21.80	36.18	24.90
Dividend per share	23				
Dividend per share: Gross (Rs)		9.00*	8.00	9.00*	8.00

The notes to the financial statements from pages 146 to 330 form an integral part of these financial statements.

*Final dividend proposed, which is to be approved at the Annual General Meeting.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December	Note	Bank		Group	
		2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
PROFIT FOR THE YEAR		17,299,767	11,462,636	20,084,362	13,662,263
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		(257,524)	(1,372,363)	(257,524)	(1,372,363)
Remeasurement of post-employment benefit obligations	53(c)vi	1,030,928	(1,556,496)	1,100,788	(1,608,998)
Revaluation gain on freehold land and buildings		4,878,773	-	8,547,116	-
Share of other comprehensive income of joint venture that will not be reclassified to profit or loss	34 (b)	-	-	1,108	483
Less: Tax expense relating to items that will not be reclassified to profit or loss including the effect of rate change on the opening balance		(576,923)	-	(786,036)	2,102
Total other comprehensive income that will not be reclassified to profit or loss		5,075,254	(2,928,859)	8,605,452	(2,978,776)
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		(2,972,433)	833,584	(3,916,786)	1,528,985
Reclassification of net gains on de-recognition of debt instruments at fair value through other comprehensive income to income statement		-	(1,053,543)	(5,874)	(1,106,649)
Net change in expected credit losses of debt securities measured at fair value through other comprehensive income	15	186,758	(150,378)	186,758	(150,378)
Transfer to life policy holder reserve fund	57(e)	-	-	851,693	(576,094)
Share of other comprehensive income of joint venture that will be reclassified to profit or loss	34 (b)	-	-	61,665	26,448
Less: Tax expense relating to items that will be reclassified to profit or loss including the effect of rate change on the opening balance		754,541	61,588	763,270	54,565
Total other comprehensive income that will be reclassified to profit or loss		(2,031,134)	(308,749)	(2,059,274)	(223,123)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		3,044,120	(3,237,608)	6,546,178	(3,201,899)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		20,343,887	8,225,028	26,630,540	10,460,364
Total comprehensive income attributable to:					
Equity holders of the Bank		20,343,887	8,225,028	25,574,417	9,892,718
Non-controlling interests		-	-	1,056,123	567,646
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		20,343,887	8,225,028	26,630,540	10,460,364

The notes to the financial statements from pages 146 to 330 form an integral part of these financial statements.

Statement of Financial Position

As at 31st December	Note	Bank		Group	
		2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
ASSETS					
Cash and cash equivalents	25	38,185,254	34,123,562	40,900,372	34,898,957
Placements with banks	26	-	-	6,371,273	12,126,434
Balances with Central Bank of Sri Lanka	27	25,820,489	7,212,395	25,820,489	7,212,395
Reverse repurchase agreements	28	-	-	6,246,276	2,827,050
Derivative financial instruments	29	927,487	1,032,318	927,487	1,032,318
Financial assets measured at fair value through profit or loss	30	103,365	84,499	862,641	1,094,827
Financial assets measured at amortised cost - loans and advances to customers	31	876,254,693	772,580,720	911,253,345	800,815,971
Financial assets measured at amortised cost - debt and other financial instruments	32	160,677,520	186,605,516	171,930,640	193,349,496
Financial assets measured at fair value through other comprehensive income	33	203,426,433	249,271,658	210,804,487	256,394,644
Investment in joint venture	34	755,000	755,000	2,877,420	2,521,811
Investment in subsidiaries	35	3,017,285	3,017,285	-	-
Investment properties	36	469,774	475,109	964,854	1,028,956
Property, plant and equipment	37	24,953,738	20,705,056	49,724,473	41,827,384
Right-of-use assets	38	5,439,384	5,356,868	2,177,902	1,827,832
Intangible assets and goodwill	39	1,429,544	1,309,172	1,989,134	1,749,994
Deferred tax assets	40	4,461,561	806,539	4,941,105	1,728,958
Other assets	41	12,415,094	8,515,839	15,858,665	11,045,479
Total assets		1,358,336,621	1,291,851,536	1,453,650,563	1,371,482,506
LIABILITIES					
Due to banks	42	17,075,502	89,746,709	17,075,502	89,746,709
Derivative financial instruments	29	353,356	337,014	353,356	337,014
Securities sold under repurchase agreements	43	33,524,226	10,361,383	33,524,226	10,361,383
Financial liabilities measured at amortised cost - due to depositors	44	1,075,709,287	967,821,404	1,107,065,820	994,948,912
Dividends payable	45	989,212	962,185	1,013,629	980,507
Financial liabilities measured at amortised cost - other borrowings	46	24,747,869	30,526,261	25,555,834	30,526,261
Debt securities issued	47	1,962,749	1,875,042	2,465,085	2,411,408
Current tax liabilities	48	10,051,689	7,725,731	10,518,569	8,093,584
Deferred tax liabilities	40	-	-	5,157,978	5,371,390
Insurance provision - life	49	-	-	20,378,015	17,073,033
Insurance provision - non-life	50	-	-	3,735,921	3,309,150
Other provisions		3,928,598	3,917,784	4,550,802	4,266,262
Other liabilities	51	14,400,456	16,278,033	14,596,651	15,451,997
Subordinated term debts	52	23,552,323	28,298,365	24,391,912	28,945,457
Total liabilities		1,206,295,267	1,157,849,911	1,270,383,300	1,211,823,067

As at 31st December	Note	Bank		Group	
		2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
EQUITY					
Stated capital	54	37,364,244	35,572,329	37,364,244	35,572,329
Statutory reserve fund	55	8,560,000	7,660,000	8,560,000	7,660,000
Retained earnings	56	35,186,607	22,665,227	43,643,800	29,361,200
Other reserves	57	70,930,503	68,104,069	87,099,997	81,655,946
Total shareholders' equity		152,041,354	134,001,625	176,668,041	154,249,475
Non-controlling interests	58	-	-	6,599,222	5,409,964
Total equity		152,041,354	134,001,625	183,267,263	159,659,439
Total equity and liabilities		1,358,336,621	1,291,851,536	1,453,650,563	1,371,482,506
Contingent liabilities and commitments	59	676,242,350	631,948,229	676,242,350	631,948,229
Net assets value per ordinary share (Rs.)	63	289.10	254.80	335.93	293.30

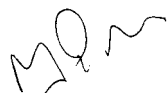
The notes to the financial statements from pages 146 to 330 form an integral part of these financial statements.
I certify that these financial statements are in compliance with the requirements of Companies Act No 7 of 2007.



Rajive Dissanayake
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Approved and signed for and on behalf of the Board.

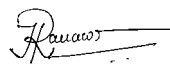


Jonathan Alles
Managing Director/Chief Executive Officer

18th February 2022
Colombo



Aruni Goonetilleke (Mrs)
Chairperson



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

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
Balance as at 1st January 2020	27,837,768	5,981,137	7,060,000	10,790,994	2,752,097	55,100,000	17,980,160
Total comprehensive income for the year	-	-	-	-	-	-	11,462,636
Net profit for the year 2020	-	-	-	-	-	-	11,462,636
Other comprehensive income, net of tax	-	-	-	-	(1,530,734)	-	(1,706,874)
Total comprehensive income for the year	-	-	-	-	(1,530,734)	-	9,755,762
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-
Contributions by and distributions to equity holders	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	(1,751,424)
Final dividend 2019 - Cash	23	-	-	-	-	-	(1,751,424)
Final dividend 2019 - Scrip	23	1,404,704	346,720	-	-	-	(1,751,424)
Total contributions by and distributions to equity holders	1,404,704	346,720	-	-	-	-	(3,502,848)
Transfer of unclaimed dividends	56	-	-	-	-	-	32,153
Transfers during the year 2020	-	-	600,000	(8,288)	-	1,000,000	(1,600,000)
Balance as at 31st December 2020	29,244,472	6,327,857	7,660,000	10,782,706	1,221,363	56,100,000	22,665,227
							134,001,625

Bank	Stated Capital					Other Reserves					Total	
	Voting Shares	Non Voting Shares	Statutory Reserve Fund	Capital Reserve	Fair value Reserve	General Reserve	Retained Earnings	Total				
								Rs 000	Rs 000	Rs 000		Rs 000
	29,244,472	6,327,857	7,660,000	10,782,706	1,221,363	56,100,000	22,665,227	134,001,625				
Balance as at 1st January 2021												
Total comprehensive income for the year												
Net profit for the year 2021	-	-	-	-	-	-	17,299,767	17,299,767				
Other comprehensive income, net of tax	-	-	-	4,301,850	(2,475,416)	-	1,217,686	3,044,120				
Total comprehensive income for the year	-	-	-	4,301,850	(2,475,416)	-	18,517,453	20,343,887				
Transactions with equity holders, recognised directly in equity												
Contributions by and distributions to equity holders												
Dividends to equity holders												
Final dividend 2020 - Cash	23	-	-	-	-	-	(2,303,891)	(2,303,891)				
Final dividend 2020 - Scrip	23	1,436,119	355,796	-	-	-	(1,791,915)	-				
Total contributions by and distributions to equity holders		1,436,119	355,796	-	-	-	(4,095,806)	(2,303,891)				
Transfer of/(subsequent settlement of) unclaimed dividends	56	-	-	-	-	-	(267)	(267)				
Transfers during the year 2021			900,000			1,000,000	(1,900,000)	-				
Balance as at 31st December 2021	30,680,591	6,683,653	8,560,000	15,084,556	(1,254,053)	57,100,000	35,186,607	152,041,354				

Statement of Changes in Equity

Group	Attributable to Equity Holders of the Bank												
	Stated Capital			Other Reserves							Shareholders' Funds		Total
	Voting Shares	Non-Voting Shares	Statutory Reserve Fund	Capital Reserve	General Reserve	Fair value Reserve	Life Policy Holder Reserve Fund	Restricted Regulatory Reserve	Exchange Equalization Reserve	Retained Earnings	Shareholders' Funds	Non Controlling	
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	
Balance as at 1st January 2020	27,839,768	5,981,137	7,060,000	23,062,998	55,100,000	2,759,863	172,297	381,156	78,378	23,072,623	145,508,220	4,962,318	150,470,538
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	13,095,420	13,095,420	566,843	13,662,263
Net profit for the year 2020	-	-	-	-	-	-	-	-	-	13,095,420	13,095,420	566,843	13,662,263
Other comprehensive income, net of tax	-	-	-	-	-	(1,489,808)	-	-	23,256	(1,736,150)	(3,202,702)	803	(3,201,899)
Total comprehensive income for the year	-	-	-	-	-	(1,489,808)	-	-	23,256	11,359,270	9,892,718	567,646	10,460,364
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-	-	-	-
Contributions by and distributions to equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	-	(1,751,424)	(1,751,424)	(120,000)	(1,871,424)
Final dividend 2019 - Scrip	1,404,704	346,720	-	-	-	-	-	-	-	(1,751,424)	(1,751,424)	(120,000)	(1,871,424)
Final dividend 2019 - Cash	-	-	-	-	-	-	-	-	-	-	-	-	-
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	57(e)	-	-	-	-	-	576,094	-	-	-	576,094	-	576,094
Transfer of unclaimed dividends	56	-	-	-	-	-	-	-	-	32,155	32,155	-	32,155
Transfers during the year 2020	-	-	600,000	(8,288)	1,000,000	-	-	-	-	(1,600,000)	(8,288)	-	(8,288)
Balance as at 31st December 2020	29,244,472	6,327,857	7,660,000	23,054,710	56,100,000	1,270,055	748,391	381,156	101,634	29,361,200	154,249,475	5,409,964	159,659,439

Group	Attributable to Equity Holders of the Bank											Total	
	Stated Capital			Other Reserves							Shareholders' Funds		Non Controlling
	Voting Shares	Non-Voting Shares	Statutory Reserve Fund	Capital Reserve	General Reserve	Fair value Reserve	Life Policy Holder Reserve Fund	Restricted Regulatory Reserve	Exchange Equalization Reserve	Retained Earnings			
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000		
	Note												
Balance as at 1st January 2021	29,244,472	6,327,857	7,660,000	23,054,710	56,100,000	1,270,055	748,391	381,156	101,634	29,361,200	154,249,475	5,409,964	159,659,439
Acquisition of subsidiary through HNB Finance PLC	-	-	-	-	-	-	-	-	-	-	-	301,135	301,135
Total comprehensive income for the year													
Net profit for the year 2021	-	-	-	-	-	-	-	-	-	19,024,882	19,024,882	1,059,480	20,084,362
Other comprehensive income, net of tax	-	-	-	7,762,270	-	(2,528,094)	-	-	61,568	1,253,791	6,549,535	(3,357)	6,546,178
Total comprehensive income for the year	-	-	-	7,762,270	-	(2,528,094)	-	-	61,568	20,278,673	25,574,417	1,056,123	26,630,540
Transactions with equity holders, recognised directly in equity													
Contributions by and distributions to equity holders													
Dividends to equity holders													
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	57 (e)	-	-	-	-	-	(851,693)	-	-	-	(851,693)	-	(851,693)
Transfer of (subsequent settlement of) unclaimed dividends	56	-	-	-	-	-	-	-	-	(267)	(267)	-	(267)
Transfers during the year 2021	-	-	900,000	-	1,000,000	-	-	-	-	(1,900,000)	-	-	-
Balance as at 31st December 2021	30,680,591	6,683,653	8,560,000	30,816,980	57,100,000	(1,258,039)	(103,302)	381,156	163,202	43,643,800	176,668,041	6,599,222	183,267,263

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	
		2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Cash flows from operating activities					
Interest receipts		99,044,623	103,914,685	107,874,546	112,847,904
Interest payments		(50,890,505)	(59,963,150)	(53,610,605)	(63,196,160)
Net commission receipts		9,948,665	7,326,950	10,727,319	7,823,066
Trading income		(600,577)	1,130,075	(608,174)	1,130,075
Payments to employees		(12,327,246)	(11,531,908)	(15,803,751)	(14,103,280)
Taxes on financial services		(4,824,723)	(3,466,833)	(5,069,260)	(3,683,378)
Receipts from other operating activities		4,974,996	1,886,621	16,396,591	11,398,266
Payments for other operating activities		(10,978,088)	(9,355,244)	(17,151,493)	(15,584,316)
Operating profit before changes in operating assets and liabilities		34,347,145	29,941,196	42,755,173	36,632,177
(Increase)/decrease in operating assets					
Balances with Central Bank of Sri Lanka		(18,608,094)	15,582,937	(18,608,094)	15,582,937
Financial assets measured at amortised cost					
- loans and advances to customers		(114,928,093)	(43,396,238)	(117,923,219)	(44,707,864)
Reverse repurchase agreements		-	-	(3,419,226)	(754,568)
Other assets		(1,266,482)	2,396,134	(1,215,835)	2,247,607
		(134,802,669)	(25,417,167)	(141,166,374)	(27,631,888)
Increase/(decrease) in operating liabilities					
Financial liabilities measured at amortised cost - due to depositors		108,560,558	158,515,740	109,856,977	160,540,508
Financial liabilities measured at amortised cost - other borrowings		(77,713,587)	5,763,038	(77,614,427)	4,946,372
Securities sold under repurchase agreements		23,193,118	(7,228,435)	23,193,118	(7,228,435)
Other liabilities		1,100,303	1,034,401	1,365,904	1,180,094
		55,140,392	158,084,744	56,801,572	159,438,539
Net cash (used in)/generated from operating activities before income tax		(45,315,132)	162,608,773	(41,609,629)	168,438,828
Income tax paid		(3,545,047)	(3,202,642)	(3,946,039)	(3,665,332)
Net cash (used in)/generated from operating activities		(48,860,179)	159,406,131	(45,555,668)	164,773,496
Cash flows from investing activities					
Purchase of property, plant and equipment	37	(706,891)	(890,286)	(1,063,001)	(1,088,528)
Proceeds from the sale of property, plant and equipment		12,801	6,188	10,622	31,596
Net proceeds from sale, maturity and purchase of financial investments		60,084,178	(158,797,770)	55,066,382	(159,791,890)
Net purchase of intangible assets	39	(504,339)	(507,094)	(661,046)	(550,861)
Net cash effect on acquisition of subsidiary through HNB Finance PLC	39 (a) i	-	-	(1,300,092)	-
Dividend received from joint venture	34 (b)	-	50,000	-	50,000
Dividends received from investment in subsidiaries		251,941	179,958	-	-
Dividends received from other investments		60,778	191,261	70,809	206,630

For the year ended 31st December	Note	Bank		Group	
		2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Net cash (used in)/generated from investing activities		59,198,468	(159,767,743)	52,123,674	(161,143,053)
Cash flows from financing activities					
Net proceeds from the issue of subordinated debt		7,000,000	-	7,000,000	-
Repayment of subordinated debt/debt securities issued		(11,000,000)	-	(10,883,250)	(33,250)
Dividend paid to non controlling interests		-	-	(161,905)	(119,164)
Dividend paid to shareholders of the parent company		(2,276,597)	(2,206,558)	(2,276,597)	(2,206,559)
Net cash used in financing activities		(6,276,597)	(2,206,558)	(6,321,752)	(2,358,973)
Net increase/(decrease) in cash and cash equivalents		4,061,692	(2,568,170)	246,254	1,271,470
Cash and cash equivalents at the beginning of the year		34,123,562	36,691,732	47,025,391	45,753,921
Cash and cash equivalents at the end of the year		38,185,254	34,123,562	47,271,645	47,025,391
Note [a] - Reconciliation of operating profit before changes in operating assets and liabilities					
Profit before income tax		19,825,027	15,081,180	23,053,584	17,580,324
Amortisation of intangible assets	18 (b)	383,967	274,563	481,038	368,947
Amortisation of right of use assets	18 (b)	744,142	830,540	660,093	757,405
Accretion of interest on right of use assets	8 (b)	730,245	907,093	192,856	354,456
Accrual for interest payable		(3,648,124)	(1,904,371)	(2,611,235)	(416,917)
Accrual for interest receivable		516,166	(1,023,114)	543,245	(970,916)
Accrual for other payables		(2,049,594)	610,333	(2,192,951)	(244,554)
Accrual for other receivable		(228,755)	741,023	(197,038)	749,277
Depreciation of investment property	18 (b)	5,335	5,335	31,645	31,640
Depreciation of property, plant and equipment	18 (b)	1,309,520	1,248,888	1,732,520	1,679,081
Dividend income		(449,591)	(443,172)	(207,681)	(218,900)
Gain on FCBU revaluation		(1,537,362)	(575,575)	(1,537,362)	(575,575)
Gain on disposal of property, plant and equipment	14	(12,661)	(5,495)	(13,199)	(9,326)
Impairment charge for loans and other losses	15	18,778,047	15,258,468	19,534,309	16,046,578
Increase in insurance contract liabilities - life		-	-	3,304,982	2,604,167
Movement in general insurance reserve fund		-	-	426,771	437,733
Net gain arising on de-recognition of financial assets	13	-	(1,053,543)	(5,874)	(1,106,649)
Net capital gain/(loss) from financial assets measured at fair value through profit or loss		(351)	18,345	(47,518)	18,004
Net gain from marked to market valuation on financial assets measured at fair value through profit or loss		(18,866)	(29,302)	(100,175)	(45,383)
Share of profits of joint venture	20	-	-	(292,837)	(407,215)
		34,347,145	29,941,196	42,755,173	36,632,177
Note [b] - Cash and cash equivalents at the end of the year					
Cash and cash equivalents	25	38,185,254	34,123,562	40,900,372	34,898,957
Placements with banks	26	-	-	6,371,273	12,126,434
		38,185,254	34,123,562	47,271,645	47,025,391

The notes to the financial statements from page 146 to 330 form an integral part of these financial statements.

Notes to the Financial Statements

1 REPORTING ENTITY

1.1 Corporate Information

Hatton National Bank PLC (the "Bank") is a public quoted company incorporated on 5th March 1970 with limited liability and domiciled in Sri Lanka. It is a licensed commercial bank registered under the Banking Act No. 30 of 1988 and amendments thereto. The Bank was re-registered under the Companies Act No. 07 of 2007. The registered office of the Bank is situated at No 479, T B Jayah Mawatha, Colombo 10. The shares of the Bank have a primary listing on the Colombo Stock Exchange. The unsecured subordinated debentures of the bank are also listed on the Colombo Stock Exchange.

The Bank does not have an identifiable parent of its own. The Hatton National Bank PLC is the ultimate parent of the Group.

The structure of the Group is given below.

The staff strength of the Group and the Bank was as follows:

As at 31st December	2021	2020
Bank	5,042	4,836
Group	8,294	7,869

Corporate information is presented in page number 372 of this Annual Report.

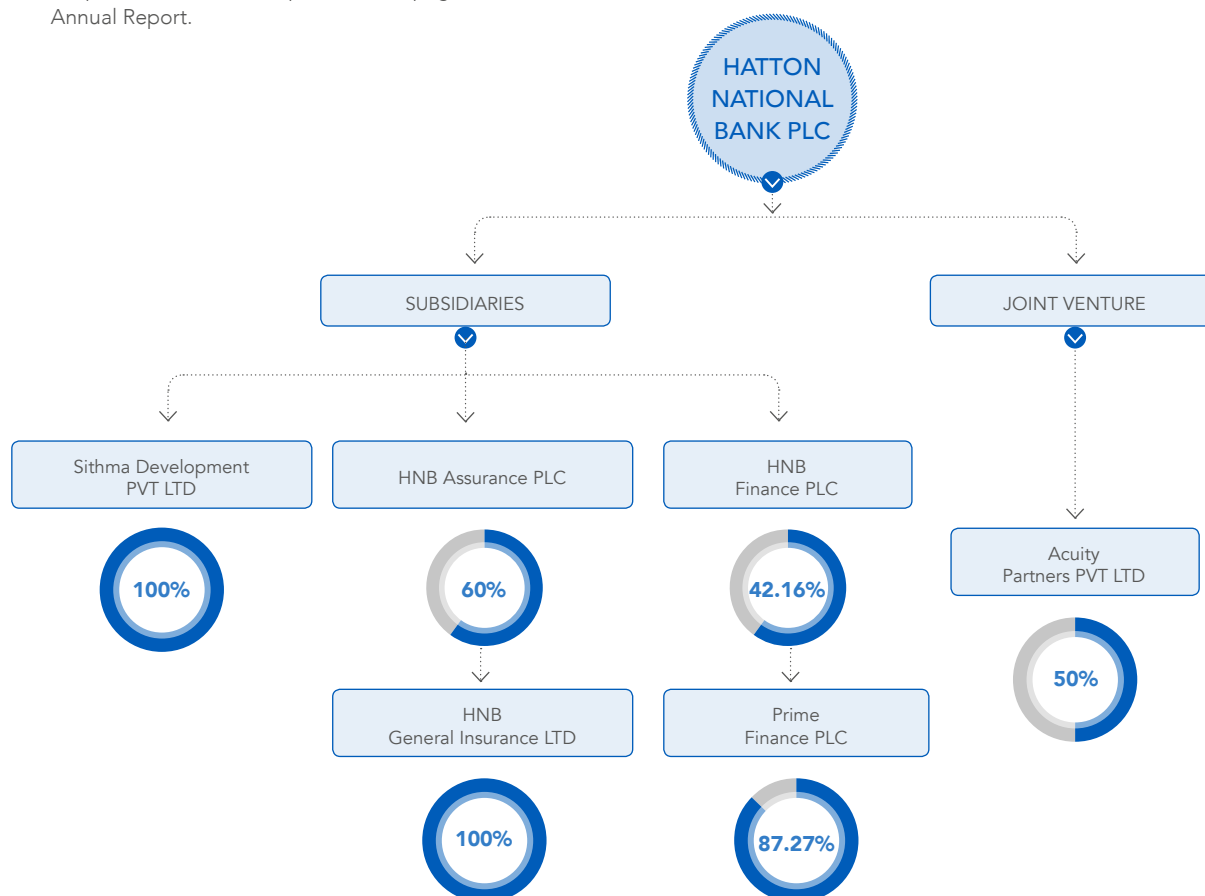
HNB Finance PLC, a subsidiary of the Bank acquired 87.27% stake in Prime Finance PLC on 23rd December 2021 for a purchase consideration of Rs 2.1 Bn.

1.2 Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended 31st December 2021 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, Prime Finance PLC, (subsidiary of 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.
Subsidiaries	
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
Prime Finance PLC (Subsidiary of HNB Finance PLC)	Provision of acceptance of deposits, granting lease facilities, hire purchase, mortgage loans and other credit facilities, real estate and related services.
Joint Ventures	
Acuity Partners (Pvt) Ltd	Investment banking and related activities such as corporate finance, debt structuring, and IPO's and margin trading facilities.

There were no significant changes in the nature of the principal activities of the Group during the financial year under review. The group companies are domiciled in Sri Lanka.

2 BASIS OF ACCOUNTING

2.1 Basis of Preparation

2.1.1 Statement of Compliance

The consolidated financial statements of the Group and the separate financial statements of the Bank have been prepared in accordance with Sri Lanka Accounting Standards (commonly referred as "SLFRS"/"LKAS") laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and comply with the requirements of Companies Act No 7 of 2007, Banking Act No 30 of 1988, Insurance Industry Act No 43 of 2000 and Finance Business Act No 42 of 2011 and amendment thereto and provide appropriate disclosures as required by the listing rules of the Colombo Stock Exchange (CSE)

The Group did not adopt any inappropriate accounting treatments, which are not in compliance with the requirement of the SLFRSs and LKASs, regulations governing the preparation and presentation of financial statements.

Details of the Group's significant accounting policies followed during the year are given in notes 03 to 62 on pages 150 to 329.

The formats used in the preparation and presentation of the Financial Statements and the disclosures made therein also complied with the specified formats prescribed by the Central Bank of Sri Lanka (CBSL) in circular No 2 of 2019 dated January, 18, 2019, on "Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks"

2.1.2 Responsibility for Financial Statements

The Board of Directors acknowledges their responsibility for financial statements as set out in the "Annual Report of the Board of Directors on the Affairs of the Company", "Directors' Responsibility for Financial Reporting" and the certification on the statement of financial position on pages 88, 129 and 139 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 18th February 2022.

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 136 and 137;
- a Statement of Financial Position (SOFP) providing the information on the financial position of the Group and the Bank as at the year end. Refer pages 138 and 139;
- 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 140 to 143;

Notes to the Financial Statements

- 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 144 and 145;
- notes to the financial statements comprising significant accounting policies and other explanatory information. Refer pages 146 to 330.

2.1.4 Basis of Measurement

The financial statements have been prepared on the historical cost basis and applied consistently except for the following items in the statement of financial position.

Item	Basis of measurement	Note Reference	Page Reference
Derivative financial instruments	Fair value	29	228
Financial assets measured at fair value through profit or loss	Fair value	30	229
Financial assets measured at fair value through other comprehensive income	Fair value	33	253
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	270
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	297
Incurred but not reported/ incurred but not enough reported liability	Actuarially determined values based on internationally accepted actuarial policies and methodologies	50	299
Defined benefit obligations	Liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the fair value of the plan assets	53	304

2.1.5 Going Concern

The directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. The assessment took into consideration the existing and potential implications of COVID 19 pandemic on the business operations, performance of the Group and the measures adopted by the government to support the recovery of the economy. The Board is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.1.6 Functional and Presentation Currency

The financial statements of the Group are presented in Sri Lankan Rupees (LKR), which is the currency of the primary economic environment in which the Group operates (Group's functional currency). Each entity in the Group determines its own functional currency and items included in the financial statements of each individual entity are measured using that functional currency. There was no change in the Group's presentation and functional currency during the year under review.

2.1.7 Presentation of Financial Statements

The assets and liabilities of the Group presented in the statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 61 to the financial statements.

No adjustments have been made for the inflationary factors affecting the financial statements.

2.1.8 Rounding

The amounts in the financial statements have been rounded-off to the nearest rupees thousands except where otherwise indicated, as permitted by the Sri Lanka Accounting Standard - LKAS 1 on "Presentation of Financial Statements".

2.1.9 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the income statement unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

2.1.10 Materiality and aggregation

Each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by

the Sri Lanka Accounting Standard - LKAS 1 - "Presentation of Financial Statements".

2.1.11 Comparative Information

The comparative information has been reclassified where ever necessary to conform with the current year's classification in order to provide a better presentation.

2.2 Accounting Judgements, Estimates and Assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets, liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Estimates and underlying 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 Corona virus (COVID-19) pandemic

The COVID-19 pandemic and its effect on the global economy have impacted the customers, operations and Group performance. The outbreak necessitated the government to respond at unprecedented levels to protect the health of the population, local economy and livelihoods. Thus the pandemic has significantly increased the estimation uncertainty in the preparation of these financial statements including, the extent and duration of the disruption to businesses, expected economic downturn, and subsequent recovery.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant notes of these financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

2.2.2 Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes.

Significant Judgements	Note Reference	Page Reference
Classification of financial assets and assessment of the business model within which the assets are held	3.4.3	154
Determination of fair value of financial instruments when there is no observable market data	6.2	198
Establishing the criteria for determination of whether credit risk on a financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of Expected Credit Losses(ECL) and the selection and approval of models used to measure Expected Credit Loss (ECL).	31 (f)	240
Determination of control over investees	34, 35	258, 261
Classification of investment properties	36	264

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 2021 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	157, 285
Measurement of the fair value of financial instruments with significant unobservable inputs	6.2	198
Impairment of financial instruments: determination of inputs into the Expected Credit Loss (ECL) measurement model including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information	31 (b)	235

Notes to the Financial Statements

Significant Assumptions and Estimation Uncertainties	Note Reference	Page Reference
Useful life time of property, plant and equipment, investment properties and intangible assets	37, 36, 39	270, 264, 285
Determination of the fair value of freehold land and buildings on the basis of significant unobservable inputs	37 (d)	280
Right-of-use assets and operating lease liability	38	282
Fair value of consideration transferred and fair value of asset acquired and liabilities assumed measured on provisional basis	39 (a) i	287
Recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used	40 (d)	291
Valuation of life insurance contract liabilities of subsidiary, HNB Assurance PLC (HNBA)	49	297
Valuation of non-life insurance contract liabilities of subsidiary, HNB General Insurance Limited	50	299
Measurement of defined benefit obligations: key actuarial assumptions	53 (c) vii	309
Recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources	59	316

3. SIGNIFICANT ACCOUNTING POLICIES

Application of Accounting Policies

The Group has consistently applied the accounting policies for all periods presented in the financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

Apart from the general accounting policies set out below, the specific accounting policies pertaining to each item in the financial statements have been presented within the respective notes to the financial statements. These significant accounting policies have been applied consistently to all periods presented in the financial statements of the Group, unless otherwise indicated. The accounting policies have been consistently applied by the Group entities where applicable and deviations if any have been disclosed accordingly. Further the changes in accounting policies due to adoption of new standards and interpretations have been presented in Note 3.6 to the financial statements.

Accounting policy	Note Reference	Page Reference
Significant accounting policies – General		
Basis of consolidation	3.1	151
Foreign currency	3.2	151
Financial instruments – Initial recognition, classification and subsequent measurement	3.3	152
Significant accounting policies – Recognition of assets and liabilities		
Investment in joint venture	34	258
Investment in subsidiaries	35	261
Investment properties	36	264
Property, plant and equipment	37	270
Right-of-use assets	38	282
Intangible assets and goodwill	39	285
Due to banks	42	293
Securities sold under repurchase agreements	43	294
Financial liabilities measured at amortised cost – Due to depositors	44	294
Financial liabilities at amortised cost – Other borrowings	46	295
Debt securities issued	47	296
Subordinated term debts	52	302
Insurance provision – Life	49	297
Insurance provision – Non-life	50	299
Employee benefit obligations	53	304
Contingent liabilities and commitments	59	316
Significant accounting policies – Recognition of income and expenses		
Gross income	7	201
Net interest income	8	202
Net fee and commission income	9	204
Net losses from trading	10	207
Net gain from financial investments at fair value through other comprehensive income	11	208
Net insurance premium income	12	208
Net gains arising on de-recognition of financial assets	13	209
Net other operating income	14	210
Impairment charge for loans and other losses	15	211
Personnel expenses	16	212

Accounting policy	Note Reference	Page Reference
Benefits, claims and underwriting expenditure	17	213
Other expenses	18	215
Income tax expenses	21	217

3.1 Basis of Consolidation

The Bank's financial statements comprise the amalgamation of the financial statements of the Domestic Banking Unit (DBU) and the Foreign Currency Banking Unit (FCBU). The Group's financial statements comprise the consolidation of the financial statements of the Bank, its subsidiaries in terms of the Sri Lanka Accounting Standard - SLFRS 10 on "Consolidated Financial Statements" and the proportionate share of the profit or loss and net assets of its joint venture (equity method) in terms of the Sri Lanka Accounting Standard - SLFRS 11 on "Joint Arrangements".

3.1.1 Business Combinations and Goodwill

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group.

From 1st January 2020, in determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in income statement.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in income statement.

3.1.2 Non-Controlling Interests (NCI)

The Details of non-controlling interest are given in Note 58 to the financial statements.

3.1.3 Subsidiaries

The details of the Bank's subsidiaries, how they are accounted in the financial statements of the Bank and their contingencies are set out in Notes 35 and 59 on pages 261 and 316 to the financial statements.

3.1.4 Joint Venture

The details of joint venture, the method of accounting for same in the financial statements of the Bank, together with summarized financial position and the Group's share of contingent liabilities of such joint venture are set out in Notes 34 and 59 on pages 258 and 316 to the financial statements.

3.1.5 Loss of Control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in income statement. Any interest retained in the former subsidiary is measured at fair value when control is lost. Subsequently, it is accounted for as an associate or in accordance with the Group's accounting policy for financial instruments.

3.1.6 Transactions Eliminated on Consolidation

Intra-group balances, transactions and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Un-realised gains arising from transactions with equity accounted investees are eliminated to the extent of the Group's interest in the investee. Un-realised losses are eliminated in the same way as un-realised gains, except that those are only eliminated to the extent that there is no evidence of impairment.

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).

Notes to the Financial Statements

The foreign currency gains or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period and the amortised cost in foreign currency translated at the middle rates of exchange prevailing at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in the income statement, except for differences arising on the retranslation of financial investments measured at fair value through other comprehensive income, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Sri Lankan Rupees at the exchange rates on the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in income statement. However, foreign currency differences arising from the translation of following items are recognised in Other Comprehensive Income (OCI):

- Equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI;
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- Qualifying cash flow hedges to the extent that the hedges are effective.

3.2.2 Foreign Currency Translations

The Group's consolidated financial statements are presented in Sri Lankan Rupees, which is also the Bank's functional currency. The financial statements of the foreign currency banking unit is translated into the Group's presentation currency as explained below.

3.2.3 Transactions of the Foreign Currency Banking Unit

These are recorded in accordance with above, except the application of the closing exchange rate for translation of the income statement and the statement of profit or loss and other comprehensive income.

3.3 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

3.3.1 Date of Recognition

All financial assets and liabilities with the exception of loans and advances to customers and balances due to customers are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes "regular way trades". Regular way

trades mean purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognises balances due to customers when funds are transferred to the Group.

3.3.2 Recognition and Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing instruments as described in Note 3.4 to the financial statements.

All financial instruments are measured initially at their fair value plus or minus the transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except in the case of financial assets and financial liabilities measured at fair value through profit or loss.

Trade receivables are measured at transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the bank accounts for the 'Day 1' profit or loss, as described below.

3.3.2 (a) "Day 1" Profit or Loss

The "Day 1 loss" arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rate (EIR) in "Interest Income" and "Personal Expenses" over the remaining service period of employee or tenure of the loan whichever is shorter.

3.4 Classification and Subsequent Measurement of Financial Instruments

The Group classifies all of its financial assets based on the business model for managing the asset and the asset's contractual terms.

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.

Notes to the Financial Statements

3.4.3 Classification and Subsequent Measurement of Financial Assets

A summary of the recognition and measurement criteria pertaining to different types of financial assets recognised within the statement of financial position are as follows.

Financial Asset Classification	Criteria	Type of Assets Measured as per the Specified Asset Classification	Note Reference
Financial assets measured at amortised cost	<p>A financial asset is measured at amortised cost if both of the following conditions are met and is not designated as at FVTPL:</p> <ul style="list-style-type: none"> - The financial asset is held within a business model with the objective to hold financial assets in order 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 (SPPI) on the principal amount outstanding. 	Cash and cash equivalents	Note 25
		Placements with banks	Note 26
		Balances with Central Bank of Sri Lanka	Note 27
		Reverse repurchase agreements	Note 28
		Financial assets measured at amortised cost - loans and advances to customers	Note 31
Financial assets measured at amortised cost - debt and other instruments			Note 32
Financial assets measured at fair value through other comprehensive income	<ul style="list-style-type: none"> • 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"> - 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 meet the SPPI test • 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. 	Financial assets measured at fair value through other comprehensive income	Note 33
Financial assets measured at fair value through profit or loss	<p>A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Group may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch) that would otherwise arise from measuring the assets and liabilities or recognising gains or losses on them on different basis.</p>	Derivative financial instruments	Note 29
		Financial assets measured at fair value through profit or loss	Note 30

3.4.4 Classification and Subsequent Measurement of Financial Liabilities

A summary of the recognition and measurement criteria pertaining to the different types of financial liabilities recognised within the statement of financial position are as follows

Financial Liability Classification	Criteria	Type of Liabilities Measured as per the Specified Liability Classification	Note Reference
Financial liabilities measured at amortised cost	Financial liabilities issued by the Group that are not designated at FVTPL are classified as financial liabilities measured at amortised cost	Due to banks	Note 42
		Securities sold under repurchase agreements	Note 43
		Financial liabilities measured at amortised cost - due to depositors	Note 44
		Financial liabilities measured at amortised cost - other borrowings	Note 46
		Debt securities issued	Note 47
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	Subordinated term debts	Note 52
		Derivative financial instruments	Note 29

Financial liabilities designated at fair value through profit or loss

Financial liabilities in this category are those that are not held for trading and have been either designated by the Group upon initial recognition or are mandatorily required to be measured at fair value under SLFRS 9. Group only designates a financial liability at FVTPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognising gains or losses on them on a different basis or
- The liabilities are part of a group of financial liabilities, which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

Changes in fair value are recorded in income statement with the exception of movements in fair value of liabilities designated

at FVTPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the own credit reserve through other comprehensive income and do not get recycled to the income statement. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the effective interest rate, taking into account any discount/premium and qualifying transaction costs being an integral part of the instrument.

3.4.5 Reclassifications of Financial Instruments

As per the requirement of SLFRS 9, the Group reclassifies its financial assets subsequent to the initial recognition when and only when the business model for managing such financial assets is changed. Such reclassifications are applied prospectively from the reclassification date. Financial liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

- If a financial asset is reclassified out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in income statement.

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- If the reclassification takes place out of the fair value through profit or loss category into the amortised cost measurement category, its fair value at the reclassification date becomes the new gross carrying amount.
- If the reclassification takes place out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.
- The details of reclassification related to previous year disclosed in Note 33 to the financial statements.

3.4.6 De-recognition of Financial Instruments

3.4.6(a) Derecognition due to substantial modification of terms and conditions

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be a Purchased or Originated Credit Impaired (POCI) asset.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

3.4.6 (b) Derecognition other than for substantial modification

3.4.6 (b)(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset

or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement. Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:
 - The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
 - The Group cannot sell or pledge the original asset other than as security to the eventual recipients
 - The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset
- or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original

carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Group would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

3.4.6 (b)(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in income statement.

3.5 Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in the income statement and disclosed in Note 15 to the financial statement, except for property previously revalued where the gain or loss on revaluation was taken to equity. In this case, the impairment is also recognised in equity up to the extent of any previously recognised revaluation gains. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.6 Changes in Accounting Policies and Disclosures

Interest Rate Benchmark Reform (IBOR) (Amendments to SLFRS 9, LKAS 39 and SLFRS 7)

A fundamental reform of major interest rate benchmarks is being undertaken globally, replacing certain interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as "IBOR reform"). Bank has exposure to certain IBORs on its financial instruments that are being reformed as part of these market-wide initiatives.

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 9, LKAS 39 and SLFRS 7 due to Interest Rate Benchmark Reform Phase 1 and Phase 2. The effective date of both IBOR reform Phase 1 and Phase 2 amendments is for annual reporting periods beginning on or after 1 January 2021 in the Sri Lankan context and the requirements under phase 2 amendments have to be applied retrospectively.

The main risks to which the Bank has been exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms and revision of operational controls related to the reform and regulatory risks. Financial risk is predominantly limited to interest rate risk.

Bank has commenced a process to evaluate the impact from this reform on its financial instruments. This process will

Notes to the Financial Statements

involve evaluating the extent to which loans advanced, loan commitments, liabilities and derivatives reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform, how to manage communication about IBOR reform with counterparties and the changes required for the existing credit policies.

As at 31st December 2021, the IBORs for certain key currencies to which the Bank has exposure to are in the process of reforming.

4. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The following new accounting standards and amendments/improvements to the existing standards were issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). A number of new standards are effective for annual periods beginning after 1st January 2022 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these financial statements.

4.1 Onerous contracts – Cost of Fulfilling a Contract (Amendments to Sri Lanka Accounting Standard LKAS 37 – “Provisions, Contingent Liabilities and Contingent Assets”)

These amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1st January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated.

4.2 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to Sri Lanka Accounting Standard LKAS 12 – “Income Taxes”)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decommissioning liabilities. The amendments apply for annual reporting periods beginning on or after 1st January 2023. For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other types of transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented. There will be no impact on retained earnings on adoption of the amendments

4.3 Sri Lanka Accounting Standard - SLFRS 17 “Insurance Contracts” effective from 1st January 2023 - Applicable for Subsidiary, HNB Assurance PLC (HNBA) and HNB General Insurance Ltd (HNBG)

SLFRS 17 requires liabilities for insurance contracts to be recognised as the present value of future cash flows, incorporating an explicit risk adjustment, which is updated at each reporting date to reflect current conditions, and a Contractual Service Margin (CSM) that is equal and opposite to any “Day 1” gain arising on initial recognition. Losses are recognised directly into the income statement. For measurement purposes, contracts are grouped together into contracts of similar risk, profitability profile and issue year, with further divisions for contracts that are managed separately.

SLFRS 17 introduces a new measure of insurance revenue, based on the delivery of services to policyholders and excluding any premiums related to the investment elements of policies, which will be significantly different from existing premium revenue measures, currently reported in the income statement. In order to transition to SLFRS 17, the amount of deferred profit, being the CSM at transition date, needs to be determined.

SLFRS 17 is expected to have a significant impact on HNBA and HNBG, as the requirements of the new standard are complex and requires a fundamental change to accounting for insurance contracts as well as the application of significant judgement and new estimation techniques. HNBA and HNBG have assessment and an implementation programme underway to implement SLFRS 17 and SLFRS 9.

4.4 Sri Lanka Accounting Standard - SLFRS 9 “Financial Instruments”

Temporary Exemption from SLFRS 9 for Subsidiary, HNB Assurance PLC

SLFRS 9 addresses the accounting for financial instruments and is effective for annual periods beginning on or after 1st January 2018. However, for an insurer that meets the criteria in paragraph 20B of SLFRS 9, it provides a temporary exemption that permits, but does not require, the insurer to apply LKAS 39 rather than SLFRS 9 for annual periods beginning before 1st January 2023.

An insurer may apply the temporary exemption from SLFRS 9 if, and only if:

- (a) it has not previously applied any version of SLFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss in paragraphs 5.7.1(c), 5.7.7 – 5.7.9, 7.2.14 and B5.7.5 – B5.7.20 of SLFRS 9; and
- (b) its activities are predominantly connected with insurance, as described in paragraph 20D, at its annual reporting date that immediately precedes 1st April 2016, or at a subsequent annual reporting date as specified in paragraph 20G of SLFRS 9.

Since HNB Assurance PLC and HNB General Insurance Limited are predominantly connected with Insurance activities, having considering the above criteria, both the companies may continue to apply LKAS 39 rather than SLFRS 9 for annual periods beginning before 1st January 2023.

However, the financial statements of HNB Assurance PLC has been prepared in line with SLFRS 9 when preparing the consolidated financial statements.

4.5 Other New Accounting Pronouncements

The following new and amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- COVID-19 related rent concessions beyond 30th June 2021 (Amendment to SLFRS 16) – effective for annual reporting periods beginning on or after 1st April 2021.
- Annual improvements to SLFRS Standards 2018 – 2020 - effective for annual reporting periods beginning on or after 1st January 2022.
- Property, plant and equipment: Proceeds before intended use (Amendments to LKAS 16) - effective for annual reporting periods beginning on or after 1st January 2022.
- Reference to conceptual framework (Amendments to SLFRS 3) - effective for annual periods beginning on or after 1st January 2022.
- Classification of liabilities as current or non-current (Amendments to LKAS 1) - effective for annual periods beginning on or after 1st January 2023.
- Disclosure of accounting policies (Amendments to LKAS 1 and SLFRS Practice Statement 2) - effective for annual periods beginning on or after 1st January 2023.
- Definition of accounting estimates (Amendments to LKAS 8) - effective for annual periods beginning on or after 1st January 2023.

Notes to the Financial Statements

5 FINANCIAL RISK MANAGEMENT

This note presents information about the Bank/Group exposure to financial risks and the Bank/Group's management of capital.

5.1 Introduction and Overview

Bank/Group has exposure to the following key risks from financial instruments:

- credit risk;
- liquidity risk;
- market risk and
- operational risks

The following chart provides a link between the Bank/Group business units and the principal risks that they are exposed to. The significance of risk is assessed within the context of the Bank/Group as a whole and is measured based on allocation of the regulatory capital within the Bank/Group.

This note presents information about the Bank/Group exposure to each of the above risks, the objectives, policies and processes for measuring and managing such risk.

5.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board discharges its governance responsibility through seven board sub committees with oversight responsibility for risk management viz. Board Integrated Risk Management Committee (BIRMC), Board Audit Committee (BAC), Board Credit Committee (BCC), Board Strategic and

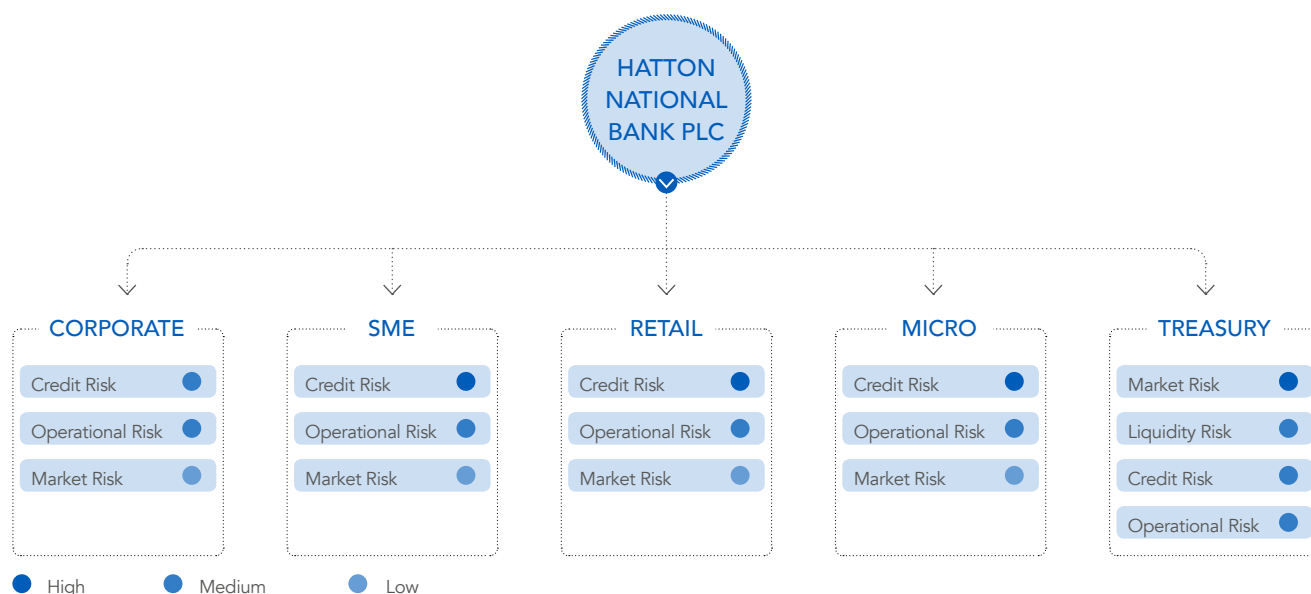
Investment Review Committee (BSIRC), Board Digital Banking Committee (BDBC), Board Procurement and Asset Disposal Committee and Board Recoveries Committee (BRC).

The BIRMC provides the Board, the assurance that risk management strategies, policies and processes are in place to manage events/outcomes that have the potential to impact significantly on earnings performance, reputation and capital. The approach entails active monitoring of the level of risk exposure against the parameters set in the risk appetite and risk goals. The BCC and BRC also assists the Board by assessing significant credit and other transactions beyond the discretion of executive management.

Executive management committees, each with specialised focus, have been established to support the BIRMC and are responsible for the co-ordination of risk matters for each of the areas pertaining to risk management. Those are Executive Risk Management and Credit Policy Committee (ERMCP), Operational Risk Steering Committee, Asset and Liability Committee and IT Steering Committee.

The BAC provides its assessment on the effectiveness of internal audit and external disclosure of accounting policies and financial reporting, to the Board. Internal Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the BAC.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.



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5.3 Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers and investments in debt securities.

In addition to loans, the Bank makes available to its customers, guarantees which may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to risks similar to loans and are mitigated by the same control processes and policies.

For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, industry risk and geographical risk etc.). The methodology adopted by the Bank in determining the expected credit losses is detailed in Note 31 to the financial statements.

COVID-19 consideration on credit risk

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 shifting assessment of elevated risk industries. The spread of COVID – 19 in Sri Lanka stressed the importance of diversification of the Bank's loan book across a wide range of industries which in turn would ensure the resilience of the Bank in an economic shock of this nature. The Bank is comfortable with the existing composition of its loan book and continuous monitoring activities are being carried out to avoid accumulation of exposures to risky economic segments.

5.3.1 Settlement Risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. "Settlement risk" is the risk of loss due to the failure of a customer or a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Notes to the Financial Statements

5 FINANCIAL RISK MANAGEMENT (Contd.)

5.3.2 Management of Credit Risk

Board Credit Committee has oversight responsibility for the management of credit. Risk Management Division (RMD) is a separate vertical independent of business units, established to assess the credit risk of credit proposals and submit independent observations to all approving authorities.

Other responsibilities of RMD are as follows:

- Formulating credit policies and guidelines in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
Formalize approval of such policies and guidelines from the Board of Directors upon clearance by relevant Board Sub-committees.
- Establishing the credit approval structure with delegated authority limits for the approval and renewal of credit facilities. The delegated authority limits are assigned to identified individuals. Larger credit facilities require approval by the Board Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk: credit risk unit of RMD assesses all credit exposures in excess of designated limits, before facilities are approved. Renewals of facilities are subject to the same review process.
- Setting the risk appetite for exposures to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.
- Identification of elevated risk industries and the adequacy of any overlay adjustment made outside the ECL model to address the potential implication of COVID-19 pandemic and resultant moratorium schemes introduced by Government.

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	2021		2020	
	Maximum exposure to credit risk Rs 000	Net exposure to credit risk Rs 000	Maximum exposure to credit risk Rs 000	Net exposure to credit risk Rs 000
Balances with banks	7,316,562	7,316,562	7,775,703	7,775,703
Placements with banks	-	-	-	-
Derivative financial instruments	927,487	927,487	1,032,318	1,032,318
Financial assets measured at fair value through profit or loss	103,365	103,365	84,499	84,499
Financial assets measured at amortised cost				
- loans and advances to customers (gross)	928,971,730	380,445,266	814,543,456	328,972,999
Financial assets measured at amortised cost - debt and other financial instruments	172,020,524	169,980,111	191,161,883	191,161,883
Financial assets measured at fair value through other comprehensive income	203,426,433	7,354,788	249,271,658	8,390,563
Other financial assets	6,123,181	1,718,031	2,279,834	413,501
	1,318,889,282	567,845,610	1,266,149,351	537,831,466
Guarantees, letters of credit and acceptances	155,679,119	153,445,897	159,018,522	157,346,701

Group

As at 31st December	2021		2020	
	Maximum exposure to credit risk Rs 000	Net exposure to credit risk Rs 000	Maximum exposure to credit risk Rs 000	Net exposure to credit risk Rs 000
Balances with banks	7,316,562	7,316,562	8,418,731	8,418,731
Placements with banks	6,371,624	6,371,624	12,126,910	12,126,910
Reverse repurchase agreement	6,246,276	-	2,827,050	-
Derivative financial instruments	927,487	927,487	1,032,318	1,032,318
Financial assets measured at fair value through profit or loss	862,641	515,416	1,094,827	1,078,603
Financial assets measured at amortised cost				
- loans and advances to customers (gross)	968,907,254	405,491,802	846,720,969	344,642,943
Financial assets measured at amortised cost - debt and other financial instruments	184,047,137	181,051,425	198,679,345	197,023,587
Financial assets measured at fair value through other comprehensive income	210,804,487	213,513,885	256,404,418	8,393,218
Other financial assets	8,034,880	3,629,730	3,851,392	413,501
	1,393,518,348	181,817,931	1,331,155,960	573,129,811
Guarantees, letters of credit and acceptances	155,679,119	153,445,897	159,018,522	157,346,701

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				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	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	
As at 31st December 2021													
Financial Assets													
Cash and cash equivalents	1,464,931	-	-	31,124,322	5,014,799	-	-	-	590,081	-	-	-	
Balances with Central Bank of Sri Lanka	25,820,489	-	-	-	-	-	-	-	-	-	-	-	
Derivative financial instruments	-	-	-	-	-	-	-	660,675	-	-	-	36,235	
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	3,124	
Financial assets measured at amortised cost - loans and advances to customers (gross)*	71,352,488	22,691,242	4,583,438	-	178,759,493	13,558,640	3,011,971	-	92,669,508	44,833,754	11,790,220	-	
Financial assets measured at amortised cost - debt and other financial instruments	168,314,125	-	-	-	3,095,601	-	-	-	-	-	72,466	-	
Financial assets measured at fair value through other comprehensive income	199,100,863	-	-	-	-	-	-	3,762,986	-	-	-	-	
Other financial assets	-	-	-	-	-	-	-	-	-	-	-	-	
	466,052,896	22,691,242	4,583,438	31,124,322	186,869,893	13,558,640	3,011,971	4,423,661	93,259,589	44,833,754	11,862,686	39,359	
Off balance sheet exposures													
Contingent liabilities and commitments*	54,619,896	343,473	120,833	-	151,735,757	3,268,005	265,778	-	39,847,893	8,251,109	2,252,491	-	
As at 31st December 2020													
Financial Assets													
Cash and cash equivalents	2,251,619	-	-	26,611,235	4,859,453	-	-	-	418,831	-	-	-	
Balances with Central Bank of Sri Lanka	7,212,395	-	-	-	-	-	-	-	-	-	-	-	
Derivative financial instruments	-	-	-	-	-	-	-	686,979	-	-	-	313,511	
Financial assets measured at fair value through profit or loss	-	-	-	3,539	-	-	-	-	-	-	-	-	
Financial assets measured at amortised cost - loans and advances to customers (gross)*	55,737,818	36,781,153	5,709,305	-	153,226,239	36,910,188	9,227,376	-	65,529,534	54,833,234	13,183,625	-	
Financial assets measured at amortised cost - debt and other financial instruments	189,207,757	-	-	-	1,343,100	-	-	-	-	-	72,694	-	
Financial assets measured at fair value through other comprehensive income	245,059,017	-	-	3,742,102	-	-	-	-	-	-	-	-	
Other financial assets	-	-	-	-	-	-	-	-	-	-	-	-	
	499,468,606	36,781,153	5,709,305	30,356,876	159,428,792	36,910,188	9,227,376	686,979	65,948,365	54,833,234	13,256,319	313,511	
Off balance sheet exposures													
Contingent liabilities and commitments*	48,192,942	631,675	12,109	-	112,339,607	6,940,254	632,263	-	51,085,561	15,796,231	3,780,870	-	

*Categorisation based on Bank's internal risk rating. Accordingly, AAA to AA- considered as "High grade", A+ to BBB- as "Standard grade", BB+ to B- as "Sub Standard grade", CCC+ and below as "Low grade".

	Low Grade				Unrated				Exposures not Subject to Rating				Total	Note
	Stage 1	Stage 2	Stage 3	Exposures not subject to ECL	Stage 1	Stage 2	Stage 3	Exposures not subject to ECL	Stage 1	Stage 2	Stage 3	Exposures not subject to ECL		
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000		
-	-	-	-	-	-	-	-	-	-	-	-	-	38,194,133	25
-	-	-	-	-	-	-	-	-	-	-	-	-	25,820,489	27
-	-	-	124,833	-	-	-	105,744	-	-	-	-	-	927,487	29
-	-	-	-	-	-	-	100,241	-	-	-	-	-	103,365	30
24,715,471	10,160,762	18,557,055	-	289,995,172	58,552,125	24,668,823	-	57,618,100	429,892	1,023,576	-	-	928,971,730	31
-	-	538,332	-	-	-	-	-	-	-	-	-	-	172,020,526	32
-	-	-	-	-	-	-	562,584	-	-	-	-	-	203,426,433	33
-	-	-	-	-	-	-	-	6,123,181	-	-	-	-	6,123,181	41
24,715,471	10,160,762	19,095,387	124,833	289,995,172	58,552,125	24,668,823	768,569	63,741,281	429,892	1,023,576	-	-	1,375,587,344	
11,387,762	1,186,808	318,088	-	318,644,841	1,959,664	613,597	-	-	-	-	-	-	594,815,994	5.3.6 (c)
-	-	-	-	-	-	-	-	-	-	-	-	-	34,141,138	25
-	-	-	-	-	-	-	-	-	-	-	-	-	7,212,395	27
-	-	-	-	-	-	-	31,828	-	-	-	-	-	1,032,318	29
-	-	-	-	-	-	-	80,960	-	-	-	-	-	84,499	30
22,166,952	20,523,746	19,257,403	-	222,757,122	54,913,221	14,973,097	-	27,461,644	666,710	685,089	-	-	814,543,456	31
-	-	538,332	-	-	-	-	-	-	-	-	-	-	191,161,883	32
-	-	-	-	-	-	-	470,539	-	-	-	-	-	249,271,658	33
-	-	-	-	-	-	-	-	2,279,834	-	-	-	-	2,279,834	41
22,166,952	20,523,746	19,795,735	-	222,757,122	54,913,221	14,973,097	583,327	29,741,478	666,710	685,089	-	-	1,299,727,181	
9,731,516	1,568,445	1,307,690	-	246,105,502	966,456	199,650	-	20,625,166	-	-	-	-	519,915,937	5.3.6 (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 stage due to other criteria (eg: customer facilities which are classified as non performing advances in accordance with CBSL directions).

Bank As at 31st December 2021	Stage 2		Stage 3		Total	
	Gross carrying amount Rs 000	Expected credit losses Rs 000	Gross carrying amount Rs 000	Expected credit losses Rs 000	Gross carrying amount Rs 000	Expected credit losses Rs 000
Less than :						
30 DPD	116,010,199	3,481,729	-	-	116,010,199	3,481,729
90 DPD	-	-	30,807,389	15,459,411	30,807,389	15,459,411
More than :						
30 DPD	34,216,215	6,706,911	-	-	34,216,215	6,706,911
90 DPD	-	-	32,827,694	20,574,027	32,827,694	20,574,027
	150,226,414	10,188,640	63,635,083	36,033,438	213,861,497	46,222,078

Bank As at 31st December 2020	Stage 2		Stage 3		Total	
	Gross carrying amount Rs 000	Expected credit losses Rs 000	Gross carrying amount Rs 000	Expected credit losses Rs 000	Gross carrying amount Rs 000	Expected credit losses Rs 000
Less than :						
30 DPD	165,975,601	4,303,425	-	-	165,975,601	4,303,425
90 DPD	-	-	28,204,992	10,298,735	28,204,992	10,298,735
More than :						
30 DPD	38,652,651	3,755,355	-	-	38,652,651	3,755,355
90 DPD	-	-	34,830,903	20,513,497	34,830,903	20,513,497
	204,628,252	8,058,780	63,035,895	30,812,232	267,664,147	38,871,012

5.3.3 (e) Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. With gross-settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the Bank honours its obligation, but the counterparty fails to deliver the counter value.

The following table shows an analysis of counterparty credit exposures arising from derivative transactions. Derivative transactions of the Bank are generally collateralised.

As at 31st December 2021	Derivative Type							
	Forward		SWAP		Spot		Total	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Derivative financial assets								
By counterparty ;								
- with banks	471,250	40,433	37,919,048	780,190	621,506	1,120	39,011,804	821,743
- with other customers	1,150,250	105,744	-	-	-	-	1,150,250	105,744
Total derivative financial assets	1,621,500	146,177	37,919,048	780,190	621,506	1,120	40,162,054	927,487
Derivative financial liabilities								
By counterparty ;								
- with banks	-	-	15,603,655	352,092	598,446	1,251	16,202,101	353,343
- with other customers	111,650	14	-	-	-	-	111,650	14
Total derivative financial liabilities	111,650	14	15,603,655	352,092	598,446	1,251	16,313,751	353,357

As at 31st December 2020	Derivative Type							
	Forward		SWAP		Spot		Total	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Derivative financial assets								
By counterparty ;								
- with banks	2,126,609	24,829	42,117,637	974,806	813,385	855	45,057,631	1,000,490
- with other customers	2,253,648	31,828	-	-	-	-	2,253,648	31,828
Total derivative financial assets	4,380,257	56,657	42,117,637	974,806	813,385	855	47,311,279	1,032,318
Derivative financial liabilities								
By counterparty ;								
- with banks	3,228,072	27,660	35,652,498	260,942	862,010	555	39,742,580	289,157
- with other customers	4,999,206	47,857	-	-	-	-	4,999,206	47,857
Total derivative financial liabilities	8,227,278	75,517	35,652,498	260,942	862,010	555	44,741,786	337,014

Notes to the Financial Statements

5 FINANCIAL RISK MANAGEMENT (Contd.)

5.3.3 (f) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in 31 (c) iii.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan 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. Under the forbearance policy, loan forbearance is 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. Both retail and corporate loans are subject to the forbearance policy. The management regularly reviews reports on forbearance activities.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that it falls within the 12 month PD ranges 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.

As at 31st December	2021 Rs 000	2020 Rs 000
Financial assets modified during the year		
Amortised cost before modification	1,123,145	776,599
Net modification loss	121,188	232,308
Financial assets modified since initial recognition		
Gross carrying amount of financial assets previously modified for which loss allowance has changed during the period to an amount equal to 12month ECL from lifetime	-	-

5.3.4 Credit exposure and expected credit loss (ECL) provision movement - Stage wise

Bank - 2021	Stage 1		Stage 2		Stage 3		Exposures not subject to ECL	Total		
	Gross carrying amount Rs 000	ECL Rs 000	Gross carrying amount Rs 000	ECL Rs 000	Gross carrying amount Rs 000	ECL Rs 000		Gross carrying amount Rs 000	Gross carrying amount Rs 000	ECL Rs 000
Cash and cash equivalents										
As at 1st January 2021	7,775,703	17,576	-	-	-	-	26,365,435	34,141,138	17,576	
Transfer to stage 1	-	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-	-
New assets originated or purchased and effect of remeasurement	1,305,619	2,246	-	-	-	-	4,512,136	5,817,755	2,246	
Financial assets derecognised or repaid (excluding write offs)	(1,764,760)	(10,943)	-	-	-	-	-	(1,764,760)	(10,943)	
Write offs	-	-	-	-	-	-	-	-	-	-
As at 31st December 2021	7,316,562	8,879	-	-	-	-	30,877,571	38,194,133	8,879	
Financial assets measured at amortised cost - debt and other financial instruments										
As at 31st December 2021	190,550,857	3,945,340	-	-	611,027	611,027	-	191,161,884	4,556,367	
Transfer to stage 1	-	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-	-
New assets originated or purchased and effect of remeasurement	6,852,020	6,787,026	-	-	-	-	-	6,852,020	6,787,026	
Financial assets derecognised or repaid (excluding write offs)	(25,993,150)	(161)	-	-	(228)	(228)	-	(25,993,378)	(389)	
Write offs	-	-	-	-	-	-	-	-	-	-
As at 31st December 2021	171,409,727	10,732,205	-	-	610,799	610,799	-	172,020,526	11,343,004	
Financial assets measured at amortised cost - Loans and advances										
As at 1st January 2021	546,879,310	3,091,724	204,628,252	8,058,780	63,035,895	30,812,232	-	814,543,456	41,962,736	
Transfer to stage 1	39,437,433	1,867,086	(38,650,913)	(1,561,431)	(786,520)	(305,655)	-	-	-	-
Transfer to stage 2	(24,563,063)	(231,210)	33,485,603	2,799,302	(8,922,540)	(2,568,093)	-	-	-	-
Transfer to stage 3	(3,244,904)	(33,055)	(10,291,117)	(478,176)	13,536,021	511,231	-	-	-	-
New assets originated or purchased and effect of remeasurement	429,647,042	4,462,178	34,556,814	6,973,891	12,280,977	15,104,414	-	476,484,833	26,540,483	
Financial assets derecognised or repaid (excluding write offs)	(273,045,585)	(2,661,765)	(73,502,225)	(5,603,725)	(14,267,919)	(6,279,860)	-	(360,815,729)	(14,545,350)	
Write offs*	-	-	-	-	(1,240,831)	(1,240,831)	-	(1,240,831)	(1,240,831)	
As at 31st December 2021	715,110,233	6,494,958	150,226,414	10,188,641	63,635,083	36,033,438	-	928,971,730	52,717,037	

* The contractual amount outstanding on financial assets that were written off during the year ended 31st December 2021 and that are still subject to enforcement activity is Rs 729 Mn (2020 - Rs 25 Mn)

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 - 2021	Stage 1		Stage 2		Stage 3		Exposures not subject to ECL	Total	
	Gross carrying amount Rs 000	ECL Rs 000	Gross carrying amount Rs 000	ECL Rs 000	Gross carrying amount Rs 000	ECL Rs 000		Gross carrying amount Rs 000	ECL Rs 000
Financial assets measured at fair value through other comprehensive income									
As at 1st January 2021	245,086,855	108,687	-	-	-	-	4,184,803	249,271,658	108,687
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated/purchased or increase in fair value	2,724,856	186,758	-	-	-	-	244,206	2,969,062	186,758
Financial assets derecognised/repaid (excluding write offs) and reductions in fair value	(48,683,010)	-	-	-	-	-	(131,277)	(48,814,287)	-
Write offs	-	-	-	-	-	-	-	-	-
As at 31st December 2021	199,128,701	295,445	-	-	-	-	4,297,732	203,426,433	295,445
Financial assets recognised through profit or loss measured at fair value									
As at 1st January 2021	-	-	-	-	-	-	84,499	84,499	-
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated/purchased or increase in fair value	-	-	-	-	-	-	18,866	18,866	-
Financial assets derecognised/repaid (excluding write offs) and reductions in fair value	-	-	-	-	-	-	-	-	-
Write offs	-	-	-	-	-	-	-	-	-
As at 31st December 2021	-	-	-	-	-	-	103,365	103,365	-

Bank - 2020	Stage 1		Stage 2		Stage 3		Exposures not subject to ECL	Total		
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL		Gross carrying amount	Gross carrying amount	ECL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
Cash and cash equivalents										
As at 1st January 2020	1,198,942	4,796	-	-	-	-	27,895,043	29,093,985	4,796	
Transfer to stage 1	-	-	-	-	-	-	-	-	-	
Transfer to stage 2	-	-	-	-	-	-	-	-	-	
Transfer to stage 3	-	-	-	-	-	-	-	-	-	
New assets originated or purchased and effect of remeasurement	7,542,130	12,844	-	-	-	-	-	7,542,130	12,844	
Financial assets derecognised or repaid (excluding write offs)	(965,369)	(64)	-	-	-	-	(1,529,608)	(2,494,977)	(64)	
Write offs	-	-	-	-	-	-	-	-	-	
As at 31st December 2020	7,775,703	17,576	-	-	-	-	26,365,435	34,141,138	17,576	
Placements with banks										
As at 1st January 2020	7,651,612	49,069	-	-	-	-	-	7,651,612	49,069	
Transfer to stage 1	-	-	-	-	-	-	-	-	-	
Transfer to stage 2	-	-	-	-	-	-	-	-	-	
Transfer to stage 3	-	-	-	-	-	-	-	-	-	
New assets originated or purchased and effect of remeasurement	-	-	-	-	-	-	-	-	-	
Financial assets derecognised or repaid (excluding write offs)	(7,651,612)	(49,069)	-	-	-	-	-	(7,651,612)	(49,069)	
Write offs	-	-	-	-	-	-	-	-	-	
As at 31st December 2020	-	-	-	-	-	-	-	-	-	
Financial assets measured at amortised cost - debt and other financial instruments										
As at 1st January 2020	150,903,782	1,182,947	-	-	602,398	602,398	-	151,506,179	1,785,345	
Transfer to stage 1	-	-	-	-	-	-	-	-	-	
Transfer to stage 2	-	-	-	-	-	-	-	-	-	
Transfer to stage 3	-	-	-	-	-	-	-	-	-	
New assets originated or purchased and effect of remeasurement	107,317,304	3,346,779	-	-	8,628	8,628	-	107,325,932	3,355,406	
Financial assets derecognised or repaid (excluding write offs)	(67,670,229)	(584,387)	-	-	-	-	-	(67,670,229)	(584,387)	
Write offs	-	-	-	-	-	-	-	-	-	
As at 31st December 2020	190,550,857	3,945,340	-	-	611,027	611,027	-	191,161,883	4,556,367	

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5 FINANCIAL RISK MANAGEMENT (Contd.)

Bank - 2020	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
Financial assets measured at amortised cost									
Loans and advances									
As at 1st January 2020	588,956,909	3,343,679	123,985,432	4,827,329	58,996,845	21,998,921	-	771,939,186	30,169,929
Transfer to stage 1	14,656,548	737,122	(13,980,919)	(563,838)	(675,629)	(173,284)	-	-	-
Transfer to stage 2	(93,679,341)	(560,231)	106,200,936	1,013,318	(12,521,595)	(453,087)	-	-	-
Transfer to stage 3	(7,613,344)	(52,352)	(18,352,584)	(871,005)	25,965,928	923,357	-	-	-
New assets originated or purchased and effect of remeasurement	322,442,220	1,679,760	54,456,789	5,705,964	16,927,157	19,158,418	-	393,826,166	26,544,142
Financial assets derecognised or repaid (excluding write offs)	(277,883,683)	(2,056,254)	(47,681,402)	(2,052,988)	(24,964,157)	(9,949,438)	-	(350,529,242)	(14,058,680)
Write offs	-	-	-	-	(692,654)	(692,654)	-	(692,654)	(692,654)
As at 31st December 2020	546,879,309	3,091,724	204,628,252	8,058,780	63,035,895	30,812,232	-	814,543,456	41,962,736
Financial assets measured at fair value through other comprehensive income									
As at 1st January 2020	122,170,308	259,065	-	-	-	-	5,524,674	127,694,982	259,065
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated/purchased or increase in fair value	150,011,642	-	-	-	-	-	71,419	150,083,061	-
Financial assets derecognised/repaid (excluding write offs) and reductions in fair value	(27,122,934)	(150,378)	-	-	-	-	(1,383,451)	(28,506,385)	(150,378)
Write offs	-	-	-	-	-	-	-	-	-
As at 31st December 2020	245,059,016	108,687	-	-	-	-	4,212,642	249,271,658	108,687
Financial assets recognised through profit or loss measured at fair value									
As at 1st January 2020	-	-	-	-	-	-	1,013,374	1,013,374	-
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated/purchased or increase in fair value	-	-	-	-	-	-	-	-	-
Financial assets derecognised/repaid (excluding write offs) and reductions in fair value	-	-	-	-	-	-	(928,875)	(928,875)	-
Write offs	-	-	-	-	-	-	-	-	-
As at 31st December 2020	-	-	-	-	-	-	84,499	84,499	-

5.3.4 (a) Sensitivity of factors used to determine impairment provisions

COVID-19 introduced significant estimation uncertainty in relation to measurement of Bank's allowance for expected credit losses.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Bank should be considered as a best estimate within a range of possible estimates.

As at 31st December 2021	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	Stage 2	Stage 3	Total	
	Rs.000	Rs.000	Rs.000	Rs.000	
Change in Property realisation period of individually significant impaired customers					
- Advanced by one year	-	-	(479,637)	(479,637)	(479,637)
- Deferred by one year	-	-	436,773	436,773	436,773
Change in Probability of Default (PD)					
- Increase existing PD by 10% across all age buckets	452,989	589,130	-	1,042,119	1,042,119
- Decrease existing PD by 10% across all age buckets	(452,989)	(675,627)	-	(1,128,616)	(1,128,616)
Change in Loss Given Default (LGD)					
- 1% increase	45,299	58,913	86,353	190,565	190,565
- 1% decrease	(45,299)	(58,913)	(86,353)	(190,565)	(190,565)
Change in deemed loss period					
- Deemed loss period increase by 1 year	(117,610)	(172,598)	(283,676)	(573,884)	(573,884)
- Deemed loss period decrease by 1 year	216,436	334,088	520,018	1,070,542	1,070,542
Change in Economic Factor Adjustment (EFA)					
- worse case 5% increase, best case % decrease, base case constant	53,420,454	69,939,906	-	123,360,360	123,360,360
- worse case 5% decrease, best case % increase, base case constant	(53,420,454)	(69,939,906)	-	(123,360,360)	(123,360,360)

Notes to the Financial Statements

5 FINANCIAL RISK MANAGEMENT (Contd.)

As at 31st December 2020	Sensitivity effect on Statement of Financial Position				Sensitivity effect on Income Statement [Increase/(Decrease) in impairment charge Rs.000
	[Increase/(Decrease) in impairment provision]				
	Stage 1	Stage 2	Stage 3	Total	
	Rs.000	Rs.000	Rs.000	Rs.000	
Change in Property realisation period of individually significant impaired customers					
- Advanced by one year	-	-	(677,202)	(677,202)	(677,202)
- Deferred by one year	-	-	737,166	737,166	737,166
Change in Probability of Default (PD)					
- Increase existing PD by 10% across all age buckets	378,233	675,627	-	1,053,860	1,053,860
- Decrease existing PD by 10% across all age buckets	(378,233)	(675,627)	-	(1,053,860)	(1,053,860)
Change in Loss Given Default (LGD)					
- 1% increase	116,992	222,089	358,805	697,887	697,887
- 1% decrease	(116,992)	(222,089)	(358,805)	(697,887)	(697,887)
Change in deemed loss period					
- Deemed loss period increase by 1 year	(163,824)	(162,011)	(313,913)	(639,749)	(639,749)
- Deemed loss period decrease by 1 year	200,598	215,993	403,365	819,956	819,956
Change in Economic Factor Adjustment (EFA)					
- worse case 5% increase, best case % decrease, base case constant	(38,390)	(65,604)	-	(103,994)	(103,994)
- worse case 5% decrease, best case % increase, base case constant	38,390	65,367	-	103,757	103,757

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	2021	
	Gross loan balance Rs 000	Security value Rs 000
Stage 1		
Cash Collateral	57,074,771	60,686,223
Property, plant and machinery	273,461,607	365,262,675
Treasury Guarantee	14,856,985	14,856,985
Others	217,713,742	256,397,143
Unsecured	152,003,125	-
	715,110,232	697,203,028
Stage 2		
Cash collateral	3,029,614	3,711,953
Property, plant and machinery	102,800,741	138,795,606
Treasury Guarantee	20,988,958	20,988,958
Others	18,766,094	24,190,746
Unsecured	4,641,004	-
	150,226,414	187,687,265
Stage 3		
Cash collateral	1,161,055	1,482,702
Property, plant and machinery	37,747,180	47,324,887
Treasury Guarantee	-	-
Others	14,846,451	18,112,774
Unsecured	9,880,391	-
	63,635,078	66,920,365

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.

	2021 Rs 000
Property	1,165,000
Debt securities	-
Other	-

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank does not generally use the non-cash collateral for its own operations.

Notes to the Financial Statements

5 FINANCIAL RISK MANAGEMENT (Contd.)

5.3.6 Concentration of Credit Risk

The Bank monitors concentration of credit risk by sector.

5.3.6 (a) Concentration by Sector

Bank	Agriculture and fishing	Manufacturing	Tourism	Transport and Storage	Construction and Infrastructure	Wholesale and Retail
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
As at 31st December 2021						
Financial Assets						
Cash and cash equivalents	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	-	-	33,485	3,108	6	-
Financial assets measured at amortised cost						
- loans and advances to customers (gross)	63,850,296	101,518,565	49,170,201	13,262,719	135,880,409	153,153,301
Financial assets measured at amortised cost						
- debt and other financial instruments	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
	63,850,296	101,518,565	49,203,686	13,265,827	135,880,415	153,153,301
As at 31st December 2020						
Financial Assets						
Cash and cash equivalents	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	-	-	27,483	2,638	4	-
Financial assets measured at amortised cost						
- loans and advances to customers (gross)	57,393,821	81,604,140	41,465,929	13,529,468	118,427,899	134,944,021
Financial assets measured at amortised cost						
- debt and other financial instruments	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
	57,393,821	81,604,140	41,493,412	13,532,106	118,427,903	134,944,021

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	Rs 000
-	38,194,133	-	-	-	-	-	-	-	38,194,133
-	25,820,489	-	-	-	-	-	-	-	25,820,489
-	927,487	-	-	-	-	-	-	-	927,487
-	43,816	-	-	-	-	-	22,950	-	103,365
7,240,456	123,046,609	11,187,113	368,144	3,073,415	7,313,087	9,728,805	235,528,029	14,650,581	928,971,730
-	171,501,003	-	-	-	-	-	519,521	-	172,020,526
-	203,426,433	-	-	-	-	-	-	-	203,426,433
-	6,123,181	-	-	-	-	-	-	-	6,123,181
7,240,456	569,083,151	11,187,113	368,144	3,073,415	7,313,087	9,728,805	236,070,500	14,650,581	1,357,587,344
-	34,141,138	-	-	-	-	-	-	-	34,141,138
-	7,212,395	-	-	-	-	-	-	-	7,212,395
-	1,032,318	-	-	-	-	-	-	-	1,032,318
-	38,276	-	-	-	-	-	16,098	-	84,499
4,945,554	92,483,415	6,683,693	242,267	2,007,442	3,087,780	6,330,410	233,204,098	18,193,520	814,543,456
-	191,161,883	-	-	-	-	-	-	-	191,161,883
-	249,271,658	-	-	-	-	-	-	-	249,271,658
-	2,279,834	-	-	-	-	-	-	-	2,279,834
4,945,554	577,620,917	6,683,693	242,267	2,007,442	3,087,780	6,330,410	233,220,195	18,193,520	1,299,727,181

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
As at 31st December 2021						
Financial Assets						
Cash and cash equivalents	-	-	-	-	-	-
Placements with banks	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-
Reverse repurchase agreements	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	-	113,140	33,485	3,108	9,350	-
Financial assets measured at amortised cost						
- loans and advances to customers (gross)	74,219,461	108,487,899	49,503,861	13,899,710	137,001,254	159,106,763
Financial assets measured at amortised cost						
- debt and other financial instruments	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
	74,219,461	108,601,039	49,537,346	13,902,818	137,010,604	159,106,763
As at 31st December 2020						
Financial Assets						
Cash and cash equivalents	-	-	-	-	-	-
Placements with banks	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-
Reverse repurchase agreements	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	-	-	27,483	2,638	4	-
Financial assets measured at amortised cost						
- loans and advances to customers (gross)	67,646,910	87,457,274	41,531,714	13,686,538	118,756,492	139,525,229
Financial assets measured at amortised cost						
- debt and other financial instruments	-	376,870	-	-	-	82,499
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
	67,646,910	87,834,144	41,559,197	13,689,176	118,756,496	139,607,728

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	Rs 000
-	40,909,251	-	-	-	-	-	-	-	40,909,251
-	6,371,624	-	-	-	-	-	-	-	6,371,624
-	25,820,489	-	-	-	-	-	-	-	25,820,489
-	6,246,276	-	-	-	-	-	-	-	6,246,276
-	927,487	-	-	-	-	-	-	-	927,487
-	647,938	-	-	-	-	-	55,620	-	862,641
7,240,456	123,688,456	11,634,506	449,525	3,256,362	20,280,165	9,735,798	235,752,458	14,650,581	968,907,255
148,112	183,002,583	-	-	-	-	-	896,443	-	184,047,138
-	210,804,487	-	-	-	-	-	-	-	210,804,487
-	8,034,880	-	-	-	-	-	-	-	8,034,880
7,388,568	606,453,471	11,634,506	449,525	3,256,362	20,280,165	9,735,798	236,704,521	14,650,581	1,452,931,528
-	34,916,558	-	-	-	-	-	-	-	34,916,558
-	12,126,911	-	-	-	-	-	-	-	12,126,911
-	7,212,395	-	-	-	-	-	-	-	7,212,395
-	2,827,050	-	-	-	-	-	-	-	2,827,050
-	1,032,318	-	-	-	-	-	-	-	1,032,318
-	1,048,604	-	-	-	-	-	16,098	-	1,094,827
4,945,554	93,390,256	6,772,038	242,267	2,007,442	13,030,825	6,330,410	233,204,500	18,193,520	846,720,969
148,112	196,188,493	-	-	-	-	-	1,883,371	-	198,679,345
-	256,394,644	-	-	-	-	-	-	-	256,394,644
-	3,851,392	-	-	-	-	-	-	-	3,851,392
5,093,666	608,988,621	6,772,038	242,267	2,007,442	13,030,825	6,330,410	235,103,969	18,193,520	1,364,856,409

Notes to the Financial Statements

5 FINANCIAL RISK MANAGEMENT (Contd.)

5.3.6 (b) Significant foreign lending exposures

Gross and net carrying values of significant foreign lending are given below. All these loans have been considered as significant loans and analysed individually. When the Bank has identified objective evidence of impairment of these loans, future cash flows have been estimated giving due consideration for specific industry, country risk factors etc. and availability of collateral.

As at 31st December	Maldives		Uganda		Cambodia	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Gross carrying value	19,736,889	18,780,545	2,305,286	2,499,655	1,831,281	3,378,754
Impairment allowance	(353,443)	(921,726)	(41,701)	(7,500)	(3,741)	(8,155)
Net carrying value	19,383,446	17,858,819	2,263,585	2,492,155	1,827,540	3,370,599

Total unutilised overdrafts approved to above customers as at 31st December 2021 amounts to Rs 544.55 Mn (2020 : Rs 407.72 Mn).

5.3.6 (c) Commitments and Guarantees

The Bank enters into various irrevocable commitments and assumes contingent liabilities in order to meet the financial needs of the customer. These obligations contain credit risk and form part of the overall risk of the Bank even though those are not recognised on the statement of financial position.

As at 31st December	2021 Rs 000	2020 Rs 000
Documentary credit	32,567,799	28,334,449
Guarantees	100,774,436	104,470,363
Acceptances	22,336,884	26,213,711
Commitment for unutilised facilities - Direct	193,057,343	152,404,973
Commitment for unutilised facilities - Indirect	246,079,532	208,492,441
	594,815,994	519,915,937

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.

5.4 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 impact from COVID – 19 on the Bank's operations and forecast cash flows and is of the view that the negative impacts from same would not pose any additional stress on the Bank's ability to maintain its regulatory capital margins which is well above the regulatory requirements. Further, the Bank has increased its liquidity buffers on a prudent basis and maintained a strong excess liquidity position.

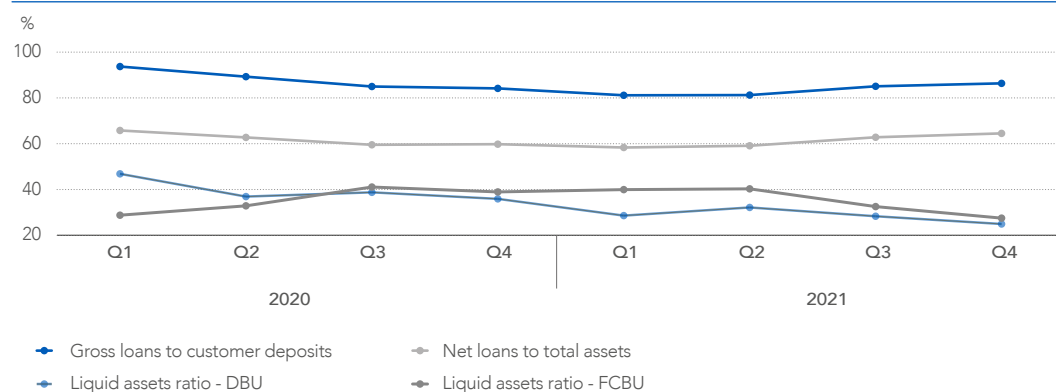
5.4.2 Exposure to Liquidity Risk

The Bank monitors the following key liquidity ratios to assess funding requirements.

As at 31st December		2021	2020
		%	%
Liquid Assets ratio (LAR)			
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	27.51	38.94
	Off shore Banking Unit	24.95	35.92
Liquidity Coverage Ratio (LCR)			
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	191.38	285.50
	All Currency Liquidity Requirement	207.99	290.29
Net Stable Funding Ratio (NSFR)			
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.		117.57	112.61

As at 31st December	DBU		FCBU	
	2021	2020	2021	2020
	%	%	%	%
Liquid Asset Ratio (LAR)				
As at 31st December	27.51	38.95	24.95	35.92
Average for the year	35.98	34.83	29.05	39.56
Maximum for the year	40.58	41.09	32.91	52.39
Minimum for the year	27.51	27.27	24.95	33.18

Liquidity Ratios



Notes to the Financial Statements

5 FINANCIAL RISK MANAGEMENT (Contd.)

5.4.3 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of undiscounted cash flows of the Bank's financial assets and liabilities as at 31st December. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

Contractual maturities of undiscounted cash flows of financial assets and financial liabilities

Bank	Up to	3 - 12	1 - 3	3 - 5	More than	Total
As at 31st December 2021	3 months	months	years	years	5 years	
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets						
Derivative assets						
Derivative financial instruments held for risk management	918,019	9,468	-	-	-	927,487
Non-derivative assets						
Cash and cash equivalents	38,194,133	-	-	-	-	38,194,133
Balances with Central Bank of Sri Lanka	-	-	-	-	25,820,489	25,820,489
Financial assets measured at fair value through profit or loss	103,365	-	-	-	-	103,365
Financial assets measured at amortised cost - loans and advances to customers (gross)	340,301,920	259,567,528	254,691,262	130,746,016	136,289,942	1,121,596,668
Financial assets measured at amortised cost - debt and other financial instruments	48,677,782	23,881,525	72,254,604	42,375,262	17,697,469	204,886,642
Financial assets measured at fair value through other comprehensive income	169,603,705	6,382,678	21,108,788	7,996,230	10,993,173	216,084,574
Other financial assets	6,123,181	-	-	-	-	6,123,181
Total undiscounted financial assets	603,922,105	289,841,199	348,054,654	181,117,508	190,801,073	1,613,736,539
Financial Liabilities						
Derivative liabilities						
Derivative financial instruments held for risk management	258,878	94,479	-	-	-	353,357
Non-derivative liabilities						
Due to banks	6,050,989	6,262,755	3,041,281	2,084,682	83,252	17,522,959
Securities sold under repurchase agreements	33,350,209	223,535	-	-	-	33,573,744
Financial liabilities measured at amortised cost - due to depositors	687,506,906	363,827,496	37,101,967	8,113,501	29,186	1,096,579,056
Dividends payable	989,212	-	-	-	-	989,212
Financial liabilities measured at amortised cost - other borrowings	5,889,972	2,903,335	6,900,771	7,424,656	1,941,680	25,060,414
Financial liabilities at amortised cost - debt securities issued	-	167,000	2,257,715	-	-	2,424,715
Other financial liabilities	9,346	-	-	-	-	9,346
Subordinated term debts	-	3,282,408	11,676,144	11,475,252	10,325,000	36,758,804
Total undiscounted financial liabilities	734,055,512	376,761,008	60,977,878	29,098,090	12,379,118	1,213,271,607
Net undiscounted financial assets/(liabilities)	(130,133,407)	(86,919,809)	287,076,776	152,019,417	178,421,955	400,464,932

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

Bank As at 31st December 2021	Up to 3 months Rs 000	3 - 12 months Rs 000	1 - 3 years Rs 000	3 - 5 years Rs 000	More than 5 years Rs 000	Total Rs 000
Documentary credit	24,149,348	5,843,906	2,574,545	-	-	32,567,799
Guarantees	25,718,038	46,601,604	22,795,051	2,674,113	2,985,630	100,774,436
Acceptances	16,286,190	6,050,694	-	-	-	22,336,884
Commitment for unutilised facilities - Direct	193,057,343	-	-	-	-	193,057,343
Commitment for unutilised facilities - Indirect	246,079,532	-	-	-	-	246,079,532
	505,290,451	58,496,204	25,369,596	2,674,113	2,985,630	594,815,994

Contractual maturities of undiscounted cash flows of financial assets and financial liabilities

Bank As at 31st December 2020	Up to 3 months Rs 000	3 - 12 months Rs 000	1 - 3 years Rs 000	3 - 5 years Rs 000	More than 5 years Rs 000	Total Rs 000
Financial Assets						
Derivative assets						
Derivative financial instruments held for risk management	789,470	242,848	-	-	-	1,032,318
Non-derivative assets						
Cash and cash equivalents	34,141,138	-	-	-	-	34,141,138
Balances with Central Bank of Sri Lanka	-	-	-	-	7,212,395	7,212,395
Financial assets measured at fair value through profit or loss	84,499	-	-	-	-	84,499
Financial assets measured at amortised cost - loans and advances to customers (gross)	306,531,646	214,132,231	241,463,432	119,669,721	82,906,545	964,703,575
Financial assets measured at amortised cost - debt and other financial instruments	13,394,885	47,563,565	92,919,891	50,684,256	28,312,817	232,875,414
Financial assets measured at fair value through other comprehensive income	66,160,747	159,486,010	17,151,647	9,824,014	9,729,032	262,351,450
Other financial assets	2,279,834	-	-	-	-	2,279,834
Total undiscounted financial assets	423,382,219	421,424,654	351,534,970	180,177,991	128,160,789	1,504,680,623
Financial Liabilities						
Derivative liabilities						
Derivative financial instruments held for risk management	203,210	133,804	-	-	-	337,014
Non-derivative liabilities						
Due to banks	27,829,267	56,469,670	3,918,357	3,160,729	187,450	91,565,473
Securities sold under repurchase agreements	10,176,790	192,797	-	-	-	10,369,587
Financial liabilities measured at amortised cost - due to depositors	607,295,210	339,313,894	32,824,675	9,477,508	-	988,911,287
Dividends payable	962,185	-	-	-	-	962,185
Financial liabilities measured at amortised cost - other borrowings	3,418,492	9,677,957	7,906,857	8,459,916	3,716,027	33,179,249
Financial liabilities at amortised cost - debt securities issued	-	167,000	2,334,001	90,715	-	2,591,716
Other financial liabilities	2,371,854	-	-	-	-	2,371,854
Subordinated term debts	8,295,371	6,298,280	8,407,795	5,589,668	9,111,341	37,702,455
Total undiscounted financial liabilities	660,552,379	412,253,402	55,391,685	26,778,536	13,014,818	1,167,990,820
Net undiscounted financial assets/(liabilities)	(239,036,493)	9,171,252	296,143,285	153,399,455	115,145,971	334,823,470

Notes to the Financial Statements

5 FINANCIAL RISK MANAGEMENT (Contd.)

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

Bank As at 31st December 2020	Up to 3 months Rs 000	3 - 12 months Rs 000	1 - 3 years Rs 000	3 - 5 years Rs 000	More than 5 years Rs 000	Total Rs 000
Documentary credit	24,914,222	3,388,167	32,059	-	-	28,334,449
Guarantees	33,929,726	48,206,862	17,393,203	1,284,748	3,655,824	104,470,363
Acceptances	20,215,002	5,986,304	12,405	-	-	26,213,711
Commitment for unutilised facilities - Direct	152,404,972	-	-	-	-	152,404,973
Commitment for unutilised facilities - Indirect	208,492,440	-	-	-	-	208,492,441
	439,956,363	57,581,333	17,437,667	1,284,748	3,655,824	519,915,937

The amounts in the table above have been compiled as follows.

Type of financial instrument	Basis on which amounts are compiled
Non-derivative financial liabilities and financial assets	Undiscounted cash flows, which include estimated interest payments.
Issued financial guarantee contracts and unrecognised loan commitments	In respect of issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The Bank's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are as follows:

- demand deposits from customers are expected to remain stable or increase;
- unrecognised loan commitments are not all expected to be drawn down immediately;

5.4.4 Liquidity reserves

Components of the Bank's liquid assets portfolio used for the purpose of calculating statutory liquid asset ratio in December 2020 and December 2021 (average balance for the month) is given below.

December	2021 Rs 000	2020 Rs 000
Cash	29,606,448	22,991,556
Balances with licensed commercial banks	1,036,786	210,389
Money at call in Sri Lanka	2,318,065	10,990,548
Treasury bills and securities issued or guaranteed by the Government of Sri Lanka which have a maturity not exceeding one year	285,152,968	379,992,038
Goods Receipts/Liquid assets permitted under extraordinary policy measures due to COVID-19	-	10,985,808
Import bills	3,028	-
Export bills	1,199,973	1,645,313
Cash items in the process of collection	303,139	342,191
Balances with banks abroad	6,459,173	8,995,271
Total average liquid assets for the month of December	326,079,580	436,153,114

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 2021 is presented in Note 32 and 33 to the financial statements.

5.4.5 Financial assets available to support future funding

Financial assets are pledged as collateral as part of sales and repurchases, securities borrowing and securitisation transactions under terms that are usual and customary for such activities. In addition, as part of these transactions, the Bank has received collaterals that it is permitted to sell or repledge in the absence of default.

The total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities as at 31st December 2021 and 2020 is shown in the following tables.

As at 31st December 2021	Encumbered		Unencumbered		Total Rs 000
	Pledged as collateral	Other	Available as collateral	Other	
	Rs 000	Rs 000	Rs 000	Rs 000	
Cash and cash equivalents	-	-	38,194,133	-	38,194,133
Balances with Central Banks	-	25,820,489	-	-	25,820,489
Derivative financial assets	-	-	-	927,487	927,487
Financial assets recognised through profit or loss measured at fair value	-	-	103,365	-	103,365
Financial assets measured at amortised cost					
- Loans and advances to customers	-	-	928,971,730	-	928,971,730
Financial assets measured at amortised cost					
- Debt and other financial instruments	-	-	172,020,526	-	172,020,526
Financial assets measured at fair value through other comprehensive income	34,873,733	-	168,552,700	-	203,426,433
Other assets	-	-	-	6,123,181	6,123,181
	34,873,733	25,820,489	1,307,842,454	7,050,688	1,375,587,344

As at 31st December 2020	Encumbered		Unencumbered		Total Rs 000
	Pledged as collateral	Other	Available as collateral	Other	
	Rs 000	Rs 000	Rs 000	Rs 000	
Cash and cash equivalents	-	-	34,141,138	-	34,141,138
Balances with Central Banks	-	7,212,395	-	-	7,212,395
Derivative financial assets	-	-	-	1,032,318	1,032,318
Financial assets recognised through profit or loss measured at fair value	-	-	84,499	-	84,499
Financial assets measured at amortised cost					
- Loans and advances to customers	-	-	814,543,456	-	814,543,456
Financial assets measured at amortised cost					
- Debt and other financial instruments	-	-	191,161,883	-	191,161,883
Financial assets measured at fair value through other comprehensive income	12,134,269	-	237,137,389	-	249,271,658
Other assets	-	-	-	2,279,834	2,279,834
	12,134,269	7,212,395	1,277,068,365	3,312,152	1,299,730,181

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 holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters in order to ensure the Bank's solvency while optimising the return on risk.

5.5.1 Management of Market Risk

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolio includes financial assets and liabilities that are managed on a fair value basis. All foreign exchange positions within the Bank are treated as part of the Bank's trading portfolios for risk management purposes. Non trading portfolio is managed in accordance with the purpose and strategic benefits of such investments, rather than purely on fair value basis.

The Bank has a board approved treasury policy. Treasury middle office monitors the Bank's compliance with the above policy and ensures that the Bank's market risk limits are in line with the level of risk acceptable to the Board. The Bank employs a range of tools to monitor and limit market risk exposures which are discussed below.

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 2021	Market Risk Measurement			
	Note	Carrying amount Rs 000	Trading Portfolio Rs 000	Non-Trading Portfolio Rs 000
Assets subject to market risk				
Cash and cash equivalents	25	38,194,133	-	38,194,133
Derivatives financial assets	29	927,487	927,487	-
Financial assets measured at fair value through profit or loss	30	103,365	103,365	-
Financial assets measured at amortised cost - Loans and advances to customers	31	928,971,730	-	928,971,730
Financial assets measured at amortised cost - Debt and other financial instruments	32	172,020,526	-	172,020,526
Financial assets measured at fair value through other comprehensive income	33	203,426,433	-	203,426,433
		1,343,643,674	1,030,852	1,342,612,822
Liabilities subject to market risk				
Due to banks	42	17,075,502	-	17,075,502
Derivatives financial liabilities	29	353,357	353,357	-
Financial liabilities measured at amortised cost - due to depositors	44	1,075,709,287	-	1,075,709,287
Financial liabilities measured at amortised cost - other borrowings	46	24,747,869	-	24,747,869
Debt securities issued	47	1,962,749	-	1,962,749
Subordinated term debt	52	23,552,323	-	23,552,323
		1,143,401,087	353,357	1,143,047,730

As at 31st December 2020	Note	Carrying amount Rs 000	Market Risk Measurement	
			Trading Portfolio Rs 000	Non-Trading Portfolio Rs 000
Assets subject to market risk				
Cash and cash equivalents	25	34,141,138	-	34,141,138
Placements with banks	26	-	-	-
Derivatives financial assets	29	1,032,318	1,032,318	-
Financial assets measured at fair value through profit or loss	30	84,499	84,499	-
Financial assets measured at amortised cost				
- Loans and advances to customers	31	814,543,456	-	814,543,456
Financial assets measured at amortised cost				
- Debt and other financial instruments	32	191,161,883	-	191,161,883
Financial assets measured at fair value through other comprehensive income	33	249,271,658	-	249,271,658
		1,290,234,952	1,116,817	1,289,118,135
Liabilities subject to market risk				
Due to banks	42	89,746,709	-	89,746,709
Derivatives financial liabilities	29	337,014	337,014	-
Financial liabilities measured at amortised cost - due to depositors	44	967,821,404	-	967,821,404
Financial liabilities measured at amortised cost - other borrowings	46	30,526,261	-	30,526,261
Debt securities issued	47	1,875,042	-	1,875,042
Subordinated term debt	52	28,298,365	-	28,298,365
		1,118,604,795	337,014	1,118,267,781

5.5.2 Exposure to equity price risk - Trading portfolio

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 and during the period is as follows:

As at 31st December	2021	2020
Marked-to-market value of the trading equity portfolio - Rs 000	103,365	84,499
Value-at-Risk (under 99% confidence level for 10 day period)	11.55%	10.10%
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	11,939	8,534

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).

Exposure to Equity price Risk - Non Trading Portfolio

Equity price risk is subject to regular monitoring by Market Risk, but is not currently significant in relation to the Bank's overall results and financial position.

5.5.3 Exposure to interest rate risk - Non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments due to changes in market interest rates. The Bank manages the interest rate risk against interest rate gap limits, which is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various rate scenarios. Net interest yields are also calculated for each product, to ensure that adequate margins are maintained.

The Bank holds treasury bills and bonds with shorter maturities, thus the impact of interest rate changes in prices of treasury bills and bonds are very insignificant. Modified duration of non-trading portfolios as at 31st December is given below.

As at 31st December	2021	2020
Non trading	1.0794	2.6623

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 2021	Carrying amount Rs 000	Less than 3 months Rs 000	3–6 months Rs 000	6–12 months Rs 000	1–5 years Rs 000	More than 5 years Rs 000
Financial assets measured at amortised cost						
- Loans and advances to customers	928,971,730	181,197,225	110,299,878	149,728,078	337,454,341	150,292,208
Financial assets measured at amortised cost - debt and other instruments	172,020,524	41,373,160	4,111,089	17,254,334	94,131,577	15,150,364
Financial assets measured at fair value through other comprehensive income	199,100,863	171,863,287	-	2,163,920	16,904,590	8,169,066
	1,300,093,117	394,433,672	114,410,967	169,146,332	448,490,508	173,611,638
Financial liabilities measured at amortised cost						
- due to depositors	1,075,709,287	330,181,633	174,423,878	238,705,131	221,065,229	111,333,416
Debt securities issued	1,962,749	-	-	-	1,962,749	-
Subordinated term debts	23,552,323	-	-	758,625	15,507,656	7,286,042
Borrowings	75,347,597	40,853,126	7,026,069	2,790,437	19,894,269	4,783,696
	1,176,571,956	371,034,759	181,449,947	242,254,193	258,429,903	123,403,154
	123,521,161	23,398,913	(67,038,980)	(73,107,861)	190,060,605	50,208,484

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 2021 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)	5,171,597	(5,478,992)	10,055,767	(11,286,755)
USD Portfolio (USD 000)	(7,674)	8,209	(14,856)	16,999

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; and

Aggregate non-trading interest rate risk positions are managed by Treasury, which uses investment securities, placements with banks, deposits from banks and derivative instruments to manage the positions. The use of derivatives to manage interest rate risk is described in Note 29 to the financial statements.

Notes to the Financial Statements

5 FINANCIAL RISK MANAGEMENT (Contd.)

5.5.4 Exposure to currency risks - Non-trading portfolios

Foreign exchange risk in Net Open Position (NOP)/unhedged position of Bank

The following table indicates the Bank's exchange rate risk exposure based on its size of the NOP/unhedged positions in the foreign currency assets/liabilities. By 31st December 2021, Bank carried a USD equivalent NOP/unhedged "Overbought" position of LKR 1.39 Bn. The impact of exchange rate risk is given below:

As at 31st December	2021	2020
Net exposure – USD equivalent	6,869,644	5,029,995
Value of position in Rs 000	1,394,366	945,387
Exchange rate (USD/LKR) as at 31 December	202.98	187.95
Possible potential gain to Bank		
- If exchange rate (USD/LKR) depreciates by 1% – Rs 000	13,944	9,454
- If exchange rate depreciates by 10% – Rs 000	139,437	94,539
- If exchange rate depreciates by 15% – Rs 000	209,155	141,808

5.6 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk in order to avoid financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. Bank's policy requires compliance with all applicable legal and regulatory requirements.

The following are included in the operational risk management process within the Bank.

- Monitoring of Key Risk Indicators (KRIs) for the departments/functions under the defined threshold limits. Development of Risk and Control Self-Assessments (RCSA) to identify the risk exposure of all processes.
- Operational risk incident reporting system and the independent analysis of the incidents by the integrated Risk Management Division (IRMD) and recognise necessary improvements in the systems, processes and procedures.
- Analyse downtime of the critical systems, attrition information, exit interview comments and complaints to identify operational risks and recommend mitigating controls. The key findings of the analysis are evaluated at the Operational Risk Steering Committee (ORSC) and the Board Integrated Risk Management Committee (BIRMC) meetings in an operational risk perspective.
- Ensuring Business Continuity Management and Operational Resilience by Business continuity planning (BCP) and testing Banks Disaster Recovery Drills and strengthening perceived areas for improvement.
- Risk Reviewing of New products and processes

The primary responsibility for the development of operational risk management framework and controls to address operational risk lies with IRMD whilst implementation is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for management of operational risk in the following areas

- Requirements for appropriate segregation of duties, including independent authorisation of transactions.
- Requirements for reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for periodic assessment of operational risks faced and the adequacy of controls and procedures to address the identified risks.
- Requirements for reporting of operational losses and propose remedial action.
- Development of contingency plans.
- Training and professional development to establish ethics and business standards.
- Insurance covering risk due to threats arising from external and other events.
- Risk based reviews on critical outsourced activities

Compliance with the Bank's standards is supported by a program of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the business unit to which they relate, with summaries submitted to the Board Audit Committee and senior management.

Notes to the Financial Statements

5 FINANCIAL RISK MANAGEMENT (Contd.)

5.7 Capital Management

The Bank is required to manage its capital taking in to account the need to meet the regulatory requirements as well as the current and future business needs, stakeholder expectation and available options for raising capital.

5.7.1 Regulatory capital

The Bank manages its capital considering regulatory capital requirements. The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for licensed banks in Sri Lanka based on the Basel Framework. Thus the Bank's operations are directly supervised by CBSL. The Bank is required to comply with the provisions of the Basel III framework in respect of regulatory capital and capital to cover any additional risk.

All banks in Sri Lanka need to maintain a minimum Common Equity Tier 1 ratio of 7%, Tier 1 ratio of 8.5% and a total capital ratio of 12.5%. In addition, the licensed banks which are determined as Domestic Systemically Important Banks (D-SIBs) shall maintain additional Higher Loss Absorbency (HLA) requirements as specified by the Monetary Board in the form of Common Equity Tier 1.

As per this requirement, the Bank should maintain a Common Equity Tier 1 ratio of 8% together with a Tier 1 ratio of 9.5% and a total capital ratio of 13.5% with effect from 31st December 2019.

However, subsequent to the extraordinary regulatory measures approved by the Monetary Board to assist affected parties due to COVID-19 outbreak, Domestic Systemically Important Banks (D-SIBs) are allowed to draw down Capital Conservation Buffers by 100 bps. Accordingly, the revised minimum Common Equity Tier 1 ratio of 7%, Tier 1 ratio of 8.5% and a total capital ratio of 12.5% is required to be maintained as at 31st December 2021.

As at 31st December	2021	2020
Common equity Tier 1 (CET1) capital after adjustments	122,797,863	117,243,040
Total common equity Tier 1 (CET1) capital	132,774,260	121,925,658
Equity capital (stated capital)/assigned capital	38,679,005	37,364,244
Reserve fund	8,560,000	7,660,000
Published retained earnings/(accumulated retained losses)	30,266,696	19,730,429
Published accumulated other comprehensive income (OCI)	(1,831,441)	(150,378)
General and other disclosed reserves	57,100,000	57,321,363
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	-	-
Total adjustments to CET1 capital	9,976,396	4,682,618
Goodwill (net)	-	-
Other intangible assets (net)	1,307,880	1,189,715
Revaluation losses of property, plant and equipment	-	-
Defined benefit pension fund assets	1,248,708	-
Investments in the capital of banking and financial institutions where the bank does not own more than 10% of the issued ordinary share capital of the entity	377,538	194,159
Significant investments in the capital of financial institutions where the Bank owns more than 10% of the issued ordinary share capital of the entity	2,580,709	2,492,204
Deferred tax assets (net)	4,461,561	806,539

As at 31st December	2021	2020
Additional Tier 1 (AT1) capital after adjustments	-	-
Total additional Tier 1 (AT1) capital	-	-
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)	-	-
Tier 2 Capital after adjustments	30,685,749	25,928,773
Total Tier 2 Capital	30,685,749	25,928,773
Qualifying Tier 2 capital instruments	18,963,673	15,835,122
Revaluation gains	2,090,479	2,090,479
General provisions/Eligible impairment	9,631,598	8,003,173
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
Total adjustments to Tier 2 capital	-	-
Investment in own shares	-	-
Others (specify)	-	-
CET1 capital	132,774,260	121,925,658
Total Tier 1 capital	122,797,863	117,243,040
Total capital	153,483,612	143,171,814

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Total Risk Weighted Assets (RWA)	845,057,594	796,090,230	931,653,271	872,777,199
RWAs for credit risk	770,527,810	724,293,579	836,250,291	781,917,200
RWAs for market risk	1,495,688	832,706	1,770,833	974,642
RWAs for operational risk	73,034,096	70,963,945	93,632,147	89,885,357
Regulatory capital ratios (%)				
Common equity Tier 1 Capital ratio	14.53%	14.73%	14.45%	14.99%
Tier 1 capital ratio	14.53%	14.73%	14.45%	14.99%
Total capital ratio	18.16%	17.98%	17.80%	18.02%

5.7.2 Capital allocation

Management monitors the capital adequacy ratio on a regular basis to ensure that it operates well above the internal limit set by the Bank. The allocation of capital between specific operations and activities, to a large extent is driven by optimisation of return on capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases, the regulatory requirements do not fully reflect the varying degree of risks associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required level by the regulator.

Notes to the Financial Statements

6 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

ACCOUNTING POLICY

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market or, in its absence of which, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Group measures the fair value of an asset or a liability carried at fair value at bid price or ask price respectively. The long positions and short positions are measured using mid rates.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Valuation models

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models to determine the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for government securities such as treasury bills, treasury bonds and Sri Lanka sovereign bonds, listed equity securities and forward contracts. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Fair Value Hierarchy

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

- **Level 1 : Fair value measurement using unadjusted quoted market prices**

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

- **Level 2 : Fair value measurement using significant observable inputs**

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

- **Level 3 : Fair value measurement using significant unobservable inputs**

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

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third party market participant would take them into account in pricing a transaction.

Assets and Liabilities Recorded at Fair Value

A description of how fair values are determined for assets and liabilities that are recorded at fair value using valuation techniques is summarised below, which incorporates the bank's estimate of assumptions that a market participant would make when valuing the instruments.

- **Derivative financial instruments**

Derivative financial instruments such as forward foreign exchange contracts and currency swaps are valued using a valuation technique with market observable inputs (Level 2). The most frequently applied valuation technique is forward pricing model which incorporates various inputs, including foreign exchange spot and forward premiums.

- **Financial assets measured at fair value through other comprehensive income (FVOCI)**

Government debt securities classified as financial assets measured at fair value through other comprehensive income are valued using current yield rates or market rates published by the Central Bank of Sri Lanka. Quoted equities and units classified as FVOCI are valued using quoted market prices in the active markets as at the reporting date (Level 1). Unquoted units classified as FVOCI are valued using manager's selling price. Unquoted shares classified as FVOCI are valued at cost.

- **Financial assets measured at fair value through profit or loss (FVTPL)**

Government debt securities classified as financial assets measured at fair value through profit or loss are valued using current yield rates or market rates published by the Central Bank of Sri Lanka, while quoted equities classified as financial investments recognised through profit or loss are valued using quoted market prices in active markets as at the reporting date (Level 1). Unquoted units classified as financial assets measured at fair value through profit or loss are valued using manager's selling price.

Valuation framework

Control framework has been established for the measurement of fair values. The determination of fair value is carried out independently from front office management and reports to the Chief Financial officer, with the overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include verification of observable pricing and analysis and investigation of significant daily valuation movements for government securities. When the assistance of third party experts is obtained to determine the fair values, the reasonability of such valuation results are validated and significant valuation issues are reported to the Board Audit Committee.

Notes to the Financial Statements

6 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Contd.)

ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, those are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is exercised to establish fair values.

COVID 19 Considerations

The Group evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgement and estimation in determining the carrying values of financial assets and financial liabilities at the reporting date.

The majority of valuation models the Group uses only observable market data as inputs. This has not changed as a result of COVID-19, however the Group has considered the impact of related economic and market disruptions on fair value measurement assumptions and the appropriateness of valuation inputs, notably valuation adjustments, as well as the impact of COVID-19 on the classification of exposures in the fair value hierarchy.

For certain financial instruments, data that is not readily observable in current markets may be used. If unobservable market data is used, a higher degree of judgement is used to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, unobservable inputs are derived from other relevant market data and compared with the observed transaction prices where available.

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 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
Financial assets measured at fair value								
derivative financial instruments								
Currency swaps	-	357,549	-	357,549	-	357,549	-	357,549
Forward foreign exchange contracts	-	569,938	-	569,938	-	569,938	-	569,938
	-	927,487	-	927,487	-	927,487	-	927,487
Financial assets measured at fair value								
through profit or loss								
Quoted shares	103,365	-	-	103,365	321,831	-	-	321,831
Government Securities	-	-	-	-	347,225	-	-	347,225
Unquoted units	-	-	-	-	-	193,585	-	193,585
	103,365	-	-	103,365	669,056	193,585	-	862,641
Financial assets measured at fair value								
through other comprehensive income								
Quoted shares	3,762,986	-	-	3,762,986	3,762,986	-	-	3,762,986
Unquoted shares	-	-	27,839	27,839	-	-	30,551	30,551
Unquoted units	-	534,745	-	534,745	-	534,745	-	534,745
Government Securities	199,100,863	-	-	199,100,863	206,476,205	-	-	206,476,205
	202,863,849	534,745	27,839	203,426,433	210,239,191	534,745	30,551	210,804,487
Financial liabilities measured at fair value								
derivative financial instruments								
Currency swaps	-	189,159	-	189,159	-	189,159	-	189,159
Forward foreign exchange contracts	-	164,197	-	164,197	-	164,197	-	164,197
	-	353,356	-	353,356	-	353,356	-	353,356

As at 31st December 2020	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
Financial assets measured at fair value								
derivative financial instruments								
Currency swaps	-	974,806	-	974,806	-	974,806	-	974,806
Forward foreign exchange contracts	-	57,512	-	57,512	-	57,512	-	57,512
	-	1,032,318	-	1,032,318	-	1,032,318	-	1,032,318
Financial assets measured at fair value								
through profit or loss								
Quoted shares	84,499	-	-	84,499	235,909	-	-	235,909
Government Securities	-	-	-	-	16,224	-	-	16,224
Unquoted units	-	-	-	-	-	842,694	-	842,694
	84,499	-	-	84,499	252,133	842,694	-	1,094,827
Financial assets measured at fair value								
through other comprehensive income								
Quoted shares	3,742,102	-	-	3,742,102	3,742,102	-	-	3,742,102
Unquoted shares	-	-	27,839	27,839	-	-	30,494	30,494
Unquoted units	-	442,700	-	442,700	-	442,700	-	442,700
Government Securities	245,059,017	-	-	245,059,017	252,179,348	-	-	252,179,348
	248,801,119	442,700	27,839	249,271,658	255,921,450	442,700	30,494	256,394,644
Financial liabilities measured at fair value								
derivative financial instruments								
Currency swaps	-	131,957	-	131,957	-	131,957	-	131,957
Forward foreign exchange contracts	-	205,057	-	205,057	-	205,057	-	205,057
	-	337,014	-	337,014	-	337,014	-	337,014

Notes to the Financial Statements

6 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Contd.)

6.2 Fair Value Measurement of Assets Classified as Level 3 and Level 2

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values for financial instruments in the statement of financial position, as well as the significant unobservable inputs used.

Type	Valuation technique
Unquoted equity shares	The majority of unquoted equity investments of the Group include share investments that have been made primarily for regulatory purposes. Such investments have been recorded at cost which is comparable to computed fair value.
Forward exchange contracts/Currency swaps	Forward pricing: The fair value is determined using quoted forward exchange rates at the reporting date and present value calculations based on high credit quality yield curves in the respective currencies.
Unquoted units	Manager's selling prices [Rs 27.49 (2020 - Rs 22.75)]

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 2020. 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 2021.

Further, there were no transfers from Level 1 to Level 2 or Level 2 to Level 1 in 2021 and no transfers in either direction in 2020. There were no transfers out of Level 3 in 2021 or 2020.

6.2.1 Sensitivity of Significant unobservable inputs used to measure fair value of fixed rate financial instruments

A Significant increase / (decrease) in the market interest rate would result in lower/(higher) fair value being disclosed.

6.3 Level 3 recurring fair values

Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

	Equity securities			
	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Balance as at 1st January	27,839	22,530	30,494	34,960
Addition during the year	-	5,309	57	5,309
Net change in fair value (unrealised)	-	-	-	(9,775)
Balance as at 31st December	27,839	27,839	30,551	30,494

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 2021	Bank Fair Value					Group Fair Value				
	Carrying	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000	Carrying	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000
	Value Rs 000					Value Rs 000				
Financial Assets										
Cash and cash equivalents [Note 25]	38,185,254	-	38,185,254	-	38,185,254	40,900,372	-	40,900,372	-	40,900,372
Placements with banks [Note 26]	-	-	-	-	-	6,371,273	-	6,371,273	-	6,371,273
Balances with Central Bank of Sri Lanka [Note 27]	25,820,489	-	25,820,489	-	25,820,489	25,820,489	-	25,820,489	-	25,820,489
Reverse repurchase agreement [Note 28]	-	-	-	-	-	6,246,276	-	6,246,276	-	6,246,276
Financial assets at amortised cost										
- Loans and advances to customers [Note 31]	876,254,693	-	876,098,776	-	876,098,776	911,253,345	-	911,197,915	-	911,197,915
Financial assets at amortised cost										
- Debt and other financial instruments [Note 32]	160,677,520	70,059,563	48,960,905	-	119,020,468	171,930,640	74,513,315	54,992,275	814,264	130,319,854
Other financial assets [Note 41]	6,123,181	-	6,123,181	-	6,123,181	8,034,880	-	8,034,880	-	8,034,880
Total financial assets measured at amortised cost	1,107,061,137	70,059,563	995,188,605	-	1,065,248,168	1,170,557,275	74,513,315	1,053,563,480	814,264	1,128,891,059
Financial Liabilities										
Due to banks [Note 42]	17,075,502	-	17,075,502	-	17,075,502	17,075,502	-	17,075,502	-	17,075,502
Securities sold under repurchase agreements [Note 43]	33,524,226	-	33,524,226	-	33,524,226	33,524,226	-	33,524,226	-	33,524,226
Financial liabilities at amortised cost										
due to depositors [Note 44]	1,075,709,287	-	1,076,410,109	-	1,076,410,109	1,107,065,820	-	1,107,178,468	-	1,107,178,468
Dividends payable [Note 45]	989,212	-	989,212	-	989,212	1,013,629	-	1,013,629	-	1,013,629
Financial liabilities at amortised cost										
Other borrowings [Note 46]	24,747,869	-	24,747,869	-	24,747,869	25,555,834	-	25,555,834	-	25,555,834
Debt securities issued [Note 47]	1,962,749	-	2,067,803	-	2,067,803	2,465,085	-	2,565,609	-	2,565,609
Subordinated term debts [Note 52]	23,552,323	-	24,436,735	-	24,436,735	24,391,912	-	25,362,475	-	25,362,475
Other financial liabilities [Note 51]	9,346	-	9,346	-	9,346	2,329,388	-	2,329,388	-	2,329,388
Total financial liabilities measured at amortised cost	1,177,570,514	-	1,179,260,802	-	1,179,260,802	1,213,421,396	-	1,214,605,131	-	1,214,605,131

Notes to the Financial Statements

6 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Contd.)

As at 31st December 2020	Bank Fair Value					Group Fair Value				
	Carrying					Carrying				
	Value Rs 000	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000	Value Rs 000	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000
Financial Assets										
Cash and cash equivalents [Note 25]	34,123,562	-	34,123,562	-	34,123,562	34,898,957	-	34,898,957	-	34,898,957
Placements with banks [Note 26]	-	-	-	-	-	12,126,434	-	12,126,434	-	12,126,434
Balances with Central Bank of Sri Lanka [Note 27]	7,212,395	-	7,212,395	-	7,212,395	7,212,395	-	7,212,395	-	7,212,395
Reverse repurchase agreement [Note 28]	-	-	-	-	-	2,827,050	-	2,827,050	-	2,827,050
Financial assets at amortised cost										
- Loans and advances to customers [Note 31]	772,580,720	-	779,658,245	-	779,658,245	800,815,971	-	809,129,736	-	809,129,736
Financial assets at amortised cost										
- Debt and other financial instruments [Note 32]	186,605,516	85,006,457	71,807,181	-	156,813,638	193,349,496	86,677,526	77,564,609	-	164,242,135
Other financial assets	2,279,834	-	2,279,834	-	2,279,834	3,851,392	-	3,851,392	-	3,851,392
Total financial assets measured at amortised cost	1,002,802,027	85,006,457	895,081,217	-	980,087,674	1,055,081,695	86,677,526	947,610,574	-	1,034,288,099
Financial Liabilities										
Due to banks [Note 42]	89,746,709	-	89,746,709	-	89,746,709	89,746,709	-	89,746,709	-	89,746,709
Securities sold under repurchase agreements [Note 43]	10,361,383	-	10,361,383	-	10,361,383	10,361,383	-	10,361,383	-	10,361,383
Financial liabilities at amortised cost due to depositors [Note 44]	967,821,404	-	969,378,444	-	969,378,444	994,948,912	-	997,913,620	-	997,913,620
Dividends payable [Note 45]	962,185	-	962,185	-	962,185	980,507	-	980,507	-	980,507
Financial liabilities at amortised cost										
other borrowings [Note 46]	30,526,261	-	30,526,261	-	30,526,261	30,526,261	-	30,526,261	-	30,526,261
Debt securities issued [Note 47]	1,875,042	-	2,158,836	-	2,158,836	2,411,408	-	2,690,447	-	2,690,447
Subordinated term debts [Note 52]	28,298,365	-	30,422,356	-	30,422,356	28,945,457	-	31,186,685	-	31,186,685
Other financial liabilities [Note 51]	2,377,854	-	2,377,854	-	2,377,854	4,652,548	-	4,652,548	-	4,652,548
Total financial liabilities measured at amortised cost	1,131,969,203	-	1,135,934,028	-	1,135,934,028	1,162,573,185	-	1,168,058,160	-	1,168,058,160

Fair values of the following assets and liabilities are estimated for the purpose of disclosure as described below:

Financial assets measured at amortised cost - loans and advances to customers

The loans and receivables to customers comprise of both fixed rate loans and floating rate loans. Majority of the floating rate loans can be re-priced either quarterly or semi-annually while for fixed rate loans, the loan contract allows the Bank to change the contracted rate if there is a material difference between the contracted rate and the market rate. The carrying value of floating rate loans generally approximates the fair value due to the effect of re-pricing while the fair value of loans and receivables to customers with a residual maturity of less than one year generally approximates the carrying value, subject to any significant movement in credit spreads.

The estimated fair value of loans and receivables with a residual maturity of more than one year, is the present value of future cash flows expected to be received from such loans and receivables calculated based on interest rates at the reporting date for similar types of loans and receivables.

Financial assets measured at amortised cost - debt and other instruments

These comprise of investments in Sri Lanka development bonds, Sri Lanka sovereign bonds, quoted and unquoted debentures.

Sri Lanka development bonds are variable rate instruments where the re-pricing happens semi-annually. Thus the carrying value of these bonds approximates their fair value as at the reporting date. The fair values of Sri Lanka sovereign bonds are valued using quoted market

prices while the fair value of unquoted debentures are estimated at the present value of future cash flows expected to be received from such investments calculated based on interest rates at the reporting date for similar instruments.

Financial liabilities measured at amortised cost - due to depositors

The fair value of customer deposits which are repayable on demand or have a remaining contractual maturity of less than one year, approximates to the carrying value of such deposits.

The fair value of customer deposits with a contractual maturity of more than one year, is estimated as the present value of future cash flows expected from such deposits calculated based on interest rates at the reporting date for similar types of deposits.

Debt securities issued

The fair value of debt securities issued has been determined by discounting the future cash flows by the interest rates prevailing as at the reporting date for similar instruments.

Subordinated term debts

The fair value of fixed rate subordinated debentures has been determined by discounting the future cash flows by the interest rates prevailing as at the reporting date for similar instruments.

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

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

7 GROSS INCOME

ACCOUNTING POLICY

Gross revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The specific recognition criteria, for each type of gross income, are given under the respective income notes.

For the year ended 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Interest income [Note 8 (a)]	98,600,557	103,944,602	107,407,723	112,825,455
Fee and commission income [Note 9(b)]	9,893,263	7,794,929	10,676,982	8,399,641
Net losses from trading (Note 10)	(522,039)	(837,108)	(383,772)	(816,896)
Net gain from financial investments at fair value through other comprehensive income (Note 11)	195,927	207,321	196,167	209,217
Net insurance premium income (Note 12)	-	-	10,641,842	8,907,731
Net gains arising on de-recognition of financial assets (Note 13)	-	1,053,543	5,874	1,106,649
Net other operating income (Note 14)	6,879,617	3,650,331	7,165,639	3,804,435
	115,047,325	115,813,618	135,710,455	134,436,232

Notes to the Financial Statements

8 NET INTEREST INCOME

ACCOUNTING POLICY

Interest income and expenses under SLFRS 9 is recorded using the effective interest rate method for all financial instruments measured at amortised cost and financial instruments designated at FVTPL and FVOCI. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The effective interest rate (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the effective interest rate. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. The calculation includes all fees and points received or paid between parties to the contract, that are an integral part of effective interest rate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

For the year ended 31st December	Bank		Group	
	2021	2020	2021	2020
	Rs 000	Rs 000	Rs 000	Rs 000
Interest income [Note 8 (a)]	98,600,557	103,944,602	107,407,723	112,825,455
Interest expense [Note 8 (b)]	49,041,200	59,235,456	50,945,355	61,988,268
Net interest income	49,559,357	44,709,146	56,462,368	50,837,187

8 (a) Interest income

ACCOUNTING POLICY

The Group calculates interest income by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired (as set out in Note 31(c) ii to the financial statements) and is, therefore, regarded as Stage 3, the Group calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures (as outlined in Note 31 (c) ii to the financial statements) and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross amortised cost basis.

Group ceases the recognition of interest income on assets which are collectively impaired, (over 90 days past due) when it is probable that the economic benefits associated will not continue to flow to the Bank.

For Purchased or Originated Credit-Impaired (POCI) financial assets (as set out in Note 31 (b) ii to the financial statements), the Group calculates interest income by calculating the credit-adjusted effective interest rate and applying that rate to the amortised cost of the asset. The credit-adjusted effective interest rate is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVTPL is recognised using the contractual interest rate.

For the year ended 31st December	Bank		Group	
	2021	2020	2021	2020
	Rs 000	Rs 000	Rs 000	Rs 000
Cash and cash equivalents	1,584	7,995	22,384	34,553
Securities purchased under resale agreements	433,370	979,152	665,591	1,093,581
Placements with banks	280,475	215,867	994,835	1,099,644
Interest income accrued on impaired financial assets	171,414	807,836	171,414	807,836
Financial assets measured at fair value through profit or loss	3,913	212,130	4,289	213,570
Financial assets measured at amortised cost				
- Loans and advances to customers	68,095,835	77,212,300	74,259,970	83,555,191
- Debt and other instruments	15,784,213	12,451,233	16,906,089	13,346,396
Financial assets measured at fair value through other comprehensive income	13,773,930	12,008,906	14,383,151	12,674,685
Other interest income	55,823	49,183	-	-
	98,600,557	103,944,602	107,407,723	112,825,455

Interest Income from loans and advances to customers includes modifications made to loans due to moratorium/debt concessionary schemes implemented by the Government/Bank as a measure to support the recovery of businesses/customers affected by COVID 19 pandemic.

8 (b) Interest Expenses

For the year ended 31st December	Bank		Group	
	2021	2020	2021	2020
	Rs 000	Rs 000	Rs 000	Rs 000
Securities sold under repurchase agreements	770,336	306,624	767,454	306,624
Due to banks	2,636,152	3,969,205	2,636,152	3,969,205
Due to depositors (deposits from customers)	40,978,957	49,393,285	43,255,354	52,471,093
Debt securities issued	254,708	244,418	292,046	281,883
Other borrowings	809,625	960,834	832,209	1,039,494
Subordinated term debts	2,854,083	3,453,334	2,962,190	3,564,850
Interest expense on lease liabilities [Note 38 (b)]	730,245	907,093	192,856	354,456
Other interest expenses	7,094	663	7,094	663
	49,041,200	59,235,456	50,945,355	61,988,268

Notes to the Financial Statements

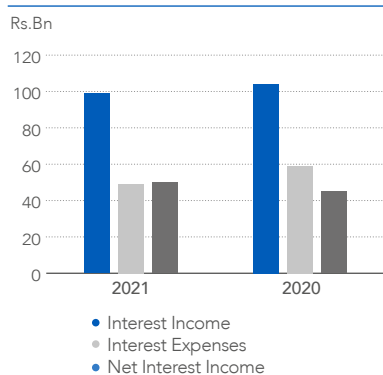
8 NET INTEREST INCOME (Contd.)

8 (c) Net Interest Income from Sri Lanka Government Securities

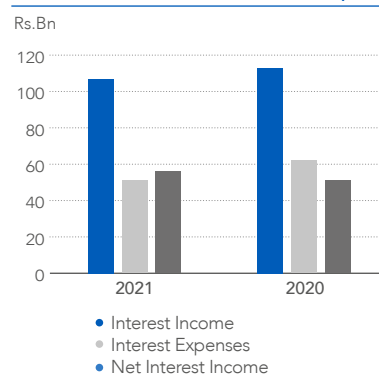
Interest income and interest expenses on investment in government securities are summarised below.

For the year ended 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Interest income				
Financial assets measured at fair value through profit or loss	3,913	212,130	3,913	212,130
Financial assets measured at amortised cost				
- Debt and other financial instruments	15,256,995	11,639,488	15,987,815	11,771,341
Financial assets measured at fair value through other comprehensive income	13,773,930	12,008,906	13,841,557	12,674,685
Securities purchased under resale agreements	433,370	979,152	668,473	1,093,242
Less : Interest expenses				
Securities sold under repurchase agreements	(770,336)	(306,624)	(767,454)	(306,624)
Net interest income from Sri Lanka Government Securities	28,697,872	24,533,051	29,734,304	25,444,774

Analysis of Interest Income - Bank



Analysis of Interest Income - Group



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.

For the year ended 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Fee and commission income [Note 9 (b)]	9,893,263	7,794,929	10,676,982	8,399,641
Less: Fee and commission expenses	270,702	249,880	360,771	374,084
Net fee and commission income	9,622,561	7,545,049	10,316,211	8,025,557

9 (a) Performance Obligations and Revenue Recognition Policies

Fee and commission income from contracts with customers is measured based on the consideration specified in the contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under SLFRS 15
Retail and corporate banking services	The Bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees.	Revenue from account service and servicing fees is recognised over time as the services are provided.
	Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates on a periodic basis.	Fees for guarantees and trade related commissions are recognised on a straight-line basis over the period of contract.
	Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
	Servicing fees are charged on a monthly basis.	Revenue related to transactions is recognised at the point in time when the transaction takes place.

Notes to the Financial Statements

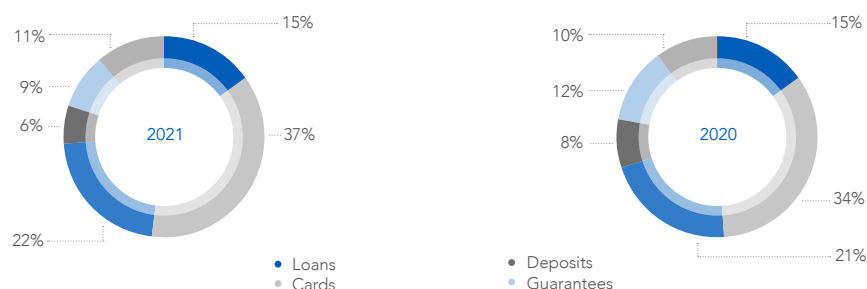
9 NET FEE AND COMMISSION INCOME (Contd.)

9 (b) Disaggregation of fee and commission income

In the following table, fee and commission income from contracts with customers in the scope of SLFRS 15 is disaggregated by major types of services.

For the year ended 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Loans and advances related services	1,450,264	1,200,580	2,008,243	1,664,449
Credit and debit cards related services	3,676,301	2,615,691	3,676,301	2,615,691
Trade and remittances related services	2,197,844	1,662,107	2,197,844	1,662,107
Deposits related services	562,309	595,560	562,309	595,560
Guarantees related services	911,749	914,874	911,749	914,874
Other financial services	1,094,796	806,117	1,320,536	946,960
Gross fee and commission income	9,893,263	7,794,929	10,676,982	8,399,641

Analysis of Net Fee and Commission Income - Bank



10 NET LOSSES FROM TRADING

ACCOUNTING POLICY

Results arising from trading activities include all gains and losses from unrealised fair value changes, related capital gains and losses, dividend income from financial assets held for trading and gains/(losses) from revaluation of derivative financial instruments.

Dividend income is recognised when the Group's right to receive the dividend is established.

Derivative financial instruments are fair valued at each reporting date. Gains and losses arising from changes in fair value are included in the income statement in the period in which they arise.

For the year ended 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Financial assets - Held for trading				
Fixed income				
Net marked to market gain/(loss)	-	2,479	485	2,479
Net capital gain/(loss)	351	(19,582)	471	(19,582)
Equities				
Net marked to market gain	18,866	26,823	99,690	42,904
Net capital gain	-	1,237	47,047	1,578
Dividend income	1,723	5,893	11,514	9,683
Derivative financial instruments				
Gain/(loss) on revaluation of foreign currency derivatives				
- With banks	(648,709)	(837,929)	(648,709)	(837,929)
- With customers	105,730	(16,029)	105,730	(16,029)
	(522,039)	(837,108)	(383,772)	(816,896)

11 NET GAIN FROM FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

ACCOUNTING POLICY

Net gain from financial investments includes dividend income from financial investments measured at fair value through other comprehensive income.

Dividend income is recognised when the Group's right to receive the dividend is established.

For the year ended 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Equities				
Dividend income	195,927	207,321	196,167	209,217
	195,927	207,321	196,167	209,217

Notes to the Financial Statements

12 NET INSURANCE PREMIUM INCOME

ACCOUNTING POLICY

- Life insurance business

Gross written premium on life insurance contracts are recognised as revenue when a premium is due from a policyholder (policies within the 30-day grace period are considered as due). Premiums received in advance are not recorded as revenue but recorded as 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.

Similarly reinsurance premiums attached to those policies are also deferred over the policies risk attached period using the same basis as mentioned above. Further, title insurance reserve is maintained based on the net transfer of net written premium after deducting acquisition cost and profit recognised during that period.

For the year ended 31st December	Group	
	2021 Rs 000	2020 Rs 000
Gross insurance premium income	12,532,955	10,379,966
Premium ceded to reinsurers	(1,648,861)	(1,307,978)
Net written premium	10,884,094	9,071,988
Net change in reserve for unearned premium	(242,252)	(164,257)
Net insurance premium income [Note 12 (a)]	10,641,842	8,907,731

12 (a) Net Insurance Premium income

For the year ended 31st December	Gross insurance premium income		Premium ceded to insurers		Net insurance premium income	
	2021	2020	2021	2020	2021	2020
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Life Insurance						
Individual policies	6,962,284	5,422,151	192,520	139,368	6,769,764	5,282,783
Corporate policies	74,417	16,692	140,832	118,225	(66,415)	(101,533)
Single premium	-	-	22,185	7,571	(22,185)	(7,571)
Gross written premium - life insurance	7,036,701	5,438,843	355,537	265,164	6,681,164	5,173,679
General Insurance						
Fire	758,242	647,789	732,462	632,873	25,780	14,916
Motor	3,865,133	3,583,061	175,612	152,229	3,689,521	3,430,832
Marine	81,874	54,682	76,423	52,840	5,451	1,842
Miscellaneous	791,005	655,591	308,827	204,872	482,178	450,719
Gross written premium - general insurance	5,496,254	4,941,123	1,293,324	1,042,814	4,202,930	3,898,309
Net change in reserves for unearned premium	-	-	-	-	(242,252)	(164,257)
	12,532,955	10,379,966	1,648,861	1,307,978	10,641,842	8,907,731

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	
	2021	2020	2021	2020
	Rs 000	Rs 000	Rs 000	Rs 000
Financial assets measured at fair value through other comprehensive income				
- Government Securities				
Net capital gain	-	1,053,543	5,874	1,106,649
	-	1,053,543	5,874	1,106,649

Notes to the Financial Statements

14 NET OTHER OPERATING INCOME

ACCOUNTING POLICY

Other operating income includes rental income, dividend income from group entities, gains on disposal of property, plant and equipment and foreign exchange gains and losses.

- **Rental income**

Rental income is recognised on an accrual basis.

- **Dividend income from subsidiaries and joint venture**

Dividend income from subsidiaries and joint venture is recognised when the Bank's right to receive the dividend is established.

- **Gains and losses on disposal of assets**

Net gains and losses arising from the disposal of property, plant and equipment and other non-current assets including investments in subsidiaries, joint ventures and associates are recognised in the income statement after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

- **Foreign exchange gain**

Foreign currency positions are revalued at each reporting date. Gains and losses arising from changes in fair value are included in the income statement in the period in which they arise.

For the year ended 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Auditorium hire income	138	686	138	686
Dividend income from subsidiaries and joint venture	251,941	229,958	-	-
Foreign exchange gain *				
- With banks	5,510,992	2,397,401	5,535,611	2,403,839
- With customers	810,876	856,109	810,876	856,109
Gain on disposal of property, plant and equipment (net)	12,661	5,495	13,199	9,326
Rental income	11,709	12,235	226,222	178,241
Rental income from investment properties	66,834	63,455	162,907	158,372
Recovery of loans written off in prior years	172,162	69,821	186,619	76,040
Recovery of operational losses provided for in prior years	7,895	6,795	7,895	6,795
Miscellaneous	34,409	8,376	222,172	115,027
	6,879,617	3,650,331	7,165,639	3,804,435

* Foreign exchange gain/(loss) represents both revaluation gain/(loss) on the Bank's net open position and gain/(loss) on foreign exchange contracts. Losses on revaluation of foreign currency derivatives amounting to Rs 543 Mn (2020 : 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 income of the Bank and the Group for the year ended 31st December 2021 amounted to Rs 5,779 Mn and Rs 5,804 Mn respectively (2020 : Bank Rs 2,399 Mn and Group Rs 2,406 Mn).

15 IMPAIRMENT CHARGE FOR LOANS AND OTHER LOSSES

ACCOUNTING POLICY

The Group recognises impairment provisions for financial assets in accordance with Sri Lanka Accounting Standard SLFRS 9 - "Financial Instruments". The accounting policy adopted in determining same is given in Note 31 (b) to the financial statements. These financial assets include cash and cash equivalents, placements with banks, financial assets measured at amortised cost - loans and advances to customers, debt and other financial assets carried at amortised cost, debt instruments and other financial assets carried at fair value through other comprehensive income and loan commitments and financial guarantee contracts. The methodology adopted for impairment assessment is explained in Note 31 (b) ii to the financial statements. Further, Group recognises an impairment loss when the carrying amount of a non-financial asset exceeds the estimated recoverable amount from that asset. No impairment loss is recognised on equity investments.

The table below shows the expected credit loss charges on financial assets and impairment charges on non financial assets recorded in the income statement:

Bank

For the year ended 31st December	2021					2020				
	Stage 1	Stage 2	Stage 3	Other	Total	Stage 1	Stage 2	Stage 3	Other	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Impairment charge/(reversal) on financial assets measured at amortised cost										
Cash and cash equivalents	(8,697)	-	-	-	(8,697)	12,780	-	-	-	12,780
Placements with banks	-	-	-	-	-	(49,069)	-	-	-	(49,069)
Loans and advances*	3,403,234	2,129,861	6,149,015	-	11,682,110	(251,954)	3,231,451	9,381,709	-	12,361,206
Debt instruments	6,786,867	-	(228)	-	6,786,639	2,762,393	-	8,628	-	2,771,021
Impairment charge/(reversal) on other financial assets measured at fair value through other comprehensive income										
Debt instruments	186,758	-	-	-	186,758	(150,378)	-	-	-	(150,378)
Loan commitments and financial guarantee contracts	53,352	(101,494)	30,870	-	(17,272)	(74,708)	54,939	94,301	-	74,532
Impairment charge on property plant and equipment, intangible assets and prepayments	-	-	-	27,321	27,321	-	-	-	6,067	6,067
Other impairment charges	-	-	-	121,188	121,188	-	-	-	232,309	232,309
	10,421,514	2,028,367	6,179,657	148,509	18,778,047	2,249,064	3,286,390	9,484,638	238,376	15,258,468

* Impairment charges recognised against loans and advances include the overlay adjustments made outside ECL model using various stress testing techniques in order to address the potential implications of COVID 19 outbreak and the resultant moratorium schemes introduced by the government / Bank.

Notes to the Financial Statements

15 IMPAIRMENT CHARGE FOR LOANS AND OTHER LOSSES (Contd.)

Group

For the year ended 31st December	2021					2020				
	Stage 1	Stage 2	Stage 3	Other	Total	Stage 1	Stage 2	Stage 3	Other	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Impairment charge/(reversal) on financial assets measured at amortised cost										
Cash and cash equivalents	(8,697)	-	-	-	(8,697)	12,755	-	-	-	12,755
Placements with banks	(126)	-	-	-	(126)	(49,085)	-	-	-	(49,085)
Loans and advances	3,784,649	2,425,593	6,224,164	-	12,434,406	(264,196)	3,074,259	10,348,410	-	13,158,473
Debt instruments	6,786,877	-	(228)	-	6,786,649	2,762,151	-	8,628	-	2,770,779
Impairment charge/(reversal) on other financial assets measured at fair value through other comprehensive income										
Debt instruments	186,758	-	-	-	186,758	(150,378)	-	-	-	(150,378)
Loan commitments and financial guarantee contracts	53,352	(101,494)	30,870	-	(17,272)	(74,708)	54,939	94,301	-	74,532
Impairment charge on property plant and equipment, intangible assets and prepayments	-	-	-	27,321	27,321	-	-	-	6,067	6,067
Other impairment charges	-	-	-	125,270	125,270	11,381	-	-	212,054	223,435
	10,802,813	2,324,099	6,254,806	152,591	19,534,309	2,247,920	3,129,198	10,451,339	218,121	16,046,578

16 PERSONNEL EXPENSES

ACCOUNTING POLICY

Personnel expenses include salaries and bonus, terminal benefit charges and other related expenses. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans, if the Group has a present legal or constructive obligation to pay this amount, as a result of past service provided by the employee and the obligation can be estimated reliably.

Employees are eligible for Employees' Provident Fund (EPF) contributions and Employees' Trust Fund (ETF) contributions in accordance with the respective statutes and regulations.

Defined benefit plan contributions and changes in the liabilities for EPF interest guarantee and accumulated leave are recognised in the income statement based on actuarial valuations carried out in accordance with Sri Lanka Accounting Standard - LKAS 19 on "Employee Benefits".

The Group's net obligation to the pension fund, gratuity, EPF interest guarantee and unutilized accumulated annual leave are disclosed under Note 53 to the financial statements.

For the year ended 31st December	Bank		Group	
	2021	2020	2021	2020
	Rs 000	Rs 000	Rs 000	Rs 000
Salaries and bonus	10,807,458	9,129,024	13,330,885	11,176,379
Contributions to Employees' Provident Fund (EPF)	808,412	759,160	1,039,462	978,115
Contributions to Employees' Trust Fund (ETF)	202,103	189,790	259,880	244,316
Provision for defined benefit plan (reversal)/charge - funded [Note 16 (a)]	(1,398,710)	920,879	(1,398,710)	920,879
Increase in liability for EPF interest guarantee [Note 53 (d)]	1,975	2,347	1,975	2,347
Increase/(decrease) in liability for accumulated leave [Note 53 (e)]	27,621	(10,369)	27,621	(10,369)
Provision for defined benefit plan - unfunded [Note 53 (g)]	-	-	106,187	97,597
Others	308,704	468,521	308,704	494,168
	10,757,563	11,459,352	13,676,004	13,903,432

16 (a) Provision for Defined Benefit Plan - Funded

For the year ended 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Current service cost [Note 53 (c) iii]	680,370	844,754	680,370	844,754
Net interest on defined benefit liability [Note 53 (c) v]	212,429	76,125	212,429	76,125
Past service benefit [Note 53 (c) iii]	(2,291,509)	-	(2,291,509)	-
	(1,398,710)	920,879	(1,398,710)	920,879

16 (b) Past Service Benefit

With the implementation of the provisions of Minimum Age of Workers Act No 28 of 2021, Bank revised the minimum retirement age of its employees as follows.

Age of employee (As at 17th November 2021)	Minimum Retirement Age
54 or above and below 55 years	57 Years
53 or above and below 54 years	58 Years
52 or above and below 53 years	59 Years
Below 52 years	60 Years

The above revision was captured as planned amendment in accordance with LKAS-19 in the actuarial valuation as at 31st December 2021 and resulted in a past service benefit of Rs.2,292 Mn which is recognised in the income statement during the year.

17 BENEFITS, CLAIMS AND UNDERWRITING EXPENDITURE

ACCOUNTING POLICY

Benefits and claims for insurance contracts include the cost of all claims arising during the year including internal and external claims handling costs that are directly related to the processing and settlement of claims and are recorded net of recoveries from reinsurance on claims.

- **Benefits and claims paid - Life insurance**

Claims on accident, hospitalisation, death and maturity are charged on notification of death or on expiry of the term. The interim payments and surrenders are accounted for only at the time of settlement.

- **Benefits and claims paid - Non life insurance**

General insurance claims include all claims occurred during the year, whether reported or not together with claims handling costs that are directly related to the processing and settlement of claims, reductions for the value of salvage and other recoveries.

- **Reinsurance claims**

Reinsurance claims are recognised when the related gross insurance claims are recognised according to the terms of the relevant contract.

- **Underwriting and net acquisition cost**

Expenses for acquisition and maintenance of life and general insurance business are accounted for net of reinsurance commission on accrual basis. Reinsurance commission income is accrued according to the agreed terms with the reinsurers.

Notes to the Financial Statements

17 BENEFITS, CLAIMS AND UNDERWRITING EXPENDITURE (Contd.)

ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Deferred acquisition expenses

Acquisition expenses, representing commissions, which vary with and are directly related to the production of business, are deferred and amortised over the period in which the related written premiums are earned. Reinsurance commission is also treated in the same manner with deferred acquisition costs.

For the year ended 31st December	Group	
	2021 Rs 000	2020 Rs 000
Net insurance benefits and claims paid [Note 17(a)]	4,095,720	3,398,239
Net change in insurance claims outstanding	127,570	160,402
Change in contract liabilities - life fund	3,275,670	2,580,781
Underwriting and net acquisition costs	1,456,257	1,235,446
	8,955,217	7,374,868

17 (a) Net insurance benefits and claims paid

For the year ended 31st December	Group					
	2021			2020		
	Gross Claims Paid Rs 000	Recovery from Reinsurers	Net Claims Paid	Gross Claims Paid Rs 000	Recovery from Reinsurers	Net Claims Paid
Life Insurance						
Claims - deaths, disability and hospitalisation	374,574	(163,159)	211,415	233,547	(92,500)	141,047
Surrenders	392,077	-	392,077	290,293	-	290,293
Annuity payments	13,621	-	13,621	13,574	-	13,574
Policy maturities	1,021,791	-	1,021,791	983,435	-	983,435
Net life insurance claims	1,802,063	(163,159)	1,638,904	1,520,849	(92,500)	1,428,349
Non-life Insurance						
Fire	175,826	(151,934)	23,892	282,914	(246,467)	36,447
Motor	1,857,467	(16,389)	1,841,078	1,694,429	(27,123)	1,667,306
Marine	12,575	(10,219)	2,356	15,361	(13,179)	2,182
Miscellaneous	622,537	(33,047)	589,490	290,778	(26,823)	263,955
Net non-life insurance claims	2,668,405	(211,589)	2,456,816	2,283,482	(313,592)	1,969,890
Total net insurance benefits and claims paid	4,470,468	(374,748)	4,095,720	3,804,331	(406,092)	3,398,239

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	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Directors' emoluments	94,675	92,234	142,574	140,948
Advertising and related expenses	276,412	180,631	393,728	294,675
Auditors' remuneration [Note 18 (a)]	24,563	20,723	36,363	33,795
Business promotion and product expenses	569,668	516,258	569,668	516,258
Crop insurance levy	165,000	134,255	181,010	141,365
Debenture issue expenses	22,994	-	22,994	-
Deposit insurance premium	987,001	823,771	1,027,132	864,815
Depreciation and amortisation [Note 18 (b)]	2,442,964	2,359,326	2,905,296	2,837,073
Direct operating expenses on investment property	763	84	15,562	11,238
Donations	12,352	25,069	13,102	25,574
Legal expenses and professional fees	191,041	133,166	202,548	150,849
Office administration and establishment expenses	6,062,797	5,514,157	7,128,817	6,278,771
Operational risk event losses	36,056	30,899	36,056	30,899
Other overhead expenses	989,678	829,060	2,043,320	2,201,167
	11,875,964	10,659,633	14,718,170	13,527,427

18 (a) Auditors' Remuneration

For the year ended 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Audit fees and expenses	15,493	14,616	23,774	22,484
Audit related fee and expenses	2,994	3,661	5,085	5,817
Non-audit expenses	6,076	2,446	7,504	5,494
	24,563	20,723	36,363	33,795

18 (b) Depreciation and amortisation expenses

For the year ended 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Depreciation of investment property (Note 36)	5,335	5,335	31,645	31,640
Depreciation of property, plant and equipment (Note 37)	1,309,520	1,248,888	1,732,520	1,679,081
Amortisation of right-of-use assets (Note 38)	744,142	830,540	660,093	757,405
Amortisation of intangible assets (Note 39)	383,967	274,563	481,038	368,947
	2,442,964	2,359,326	2,905,296	2,837,073

Notes to the Financial Statements

19 TAXES ON FINANCIAL SERVICES

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 2021 was 15% (2020 - 15%).

For the year ended 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Value Added Tax on financial services	4,498,822	3,869,649	4,759,882	4,048,466
	4,498,822	3,869,649	4,759,882	4,048,466

20 SHARE OF PROFIT OF JOINT VENTURE (NET OF INCOME TAX)

ACCOUNTING POLICY

The policy adopted in accounting for joint venture investments is given in Note 34 to the financial statements.

The aggregate of the Group's share of profit or loss of the joint venture is shown on the face of the income statement outside operating profit and represents Group's share of profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

For the year ended 31st December	Group	
	2021 Rs 000	2020 Rs 000
Share of profit of joint venture before income tax	376,288	376,851
Income tax on share of operating results of joint venture [(charge)/reversal]	(83,451)	30,364
Share of profit of joint venture (net of income tax) [Note 34 (b)]	292,837	407,215

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 the 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 are those that are enacted or substantively enacted on the reporting date.

Current income tax relating to items recognised directly in equity, is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns, with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Management has used its judgement on the application of tax law including transfer pricing regulation involving identification of associated undertaking, estimation of respective arm's length prices and selection of appropriate pricing mechanism.

Deferred Tax

Deferred tax is recognised on temporary differences at the reporting date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
- Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses (if any), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the unused tax credits and unused tax losses carried forward can be utilised except;
- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction, that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax asset is reviewed at each reporting date, and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates, that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised directly in equity are also recognised in equity, through other comprehensive income and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Temporary differences in relation to a right- of- use assets and lease liability for leases are regarded as net package (operating lease rights) for the purpose of recognising deferred tax.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the applicable Inland Revenue Act. In estimating the provision for taxation, the Group had applied the provisions of Inland Revenue Act No. 24 of 2017 and the amendments thereto.

Notes to the Financial Statements

21 INCOME TAX EXPENSE (Contd.)

ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Current Taxation

The Group is subject to income tax and judgement is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to interpretation of the applicability of tax laws, at the time of preparation of these financial statements.

Uncertainties also exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and the long term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense amounts that were initially recorded and deferred tax amounts in the period in which the determination is made. Group has evaluated these uncertainties in terms of IFRIC 23 "Uncertainty Over Income Tax Treatment".

The deferred tax liabilities/assets are disclosed under Note 40 to the financial statements.

21 (a) Current Income Tax Expense

For the year ended 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Current tax on profit for the year	7,374,515	5,745,249	7,932,077	6,307,827
Effect of changes in tax rate	(820,750)	-	(869,702)	-
Over provision in previous years	(551,100)	-	(611,984)	(4,439)
	6,002,665	5,745,249	6,450,391	6,303,388

21 (b) Deferred Tax Expense

For the year ended 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Deferred Tax Liability				
Origination / (reversal) of temporary difference during the year	(411,070)	106,468	(835,158)	(415,571)
Effect of changes in tax rate	(310,327)	-	(367,407)	-
	(721,397)	106,468	(1,202,565)	(415,571)
Deferred Tax Asset				
Reversal / (origination) of temporary difference during the year	(3,801,401)	(2,233,173)	(3,522,815)	(1,969,756)
Effect of changes in tax rate	1,045,393	-	1,244,211	-
	(2,756,008)	(2,233,173)	(2,278,604)	(1,969,756)
	(3,477,405)	(2,126,705)	(3,481,169)	(2,385,327)
Total income tax expense [Note 21 (e)]	2,525,260	3,618,544	2,969,222	3,918,061
Effective tax rate	12.74%	23.99%	12.88%	22.29%
Effective tax rate (excluding deferred tax)	30.28%	38.10%	27.98%	35.85%

21 (c) Current Tax on Profit for the year - Subsidiaries

For the year ended 31st December	Group	
	2021 Rs 000	2020 Rs 000
Sithma Development (Pvt)Ltd	188,247	219,072
HNB Assurance PLC	99,902	191,155
HNB Finance PLC	269,414	152,351
	557,563	562,578

21 (d) Applicable Tax Rates

Ministry of Finance proposed changes to the current tax rate as noted below on 31st January 2020, pending formal amendments being made to the Act and to be implemented with effect from 1st January 2020. The Inland Revenue (Amendment) Act No. 10 of 2021 was passed in Parliament and certified by the Speaker on 13th May 2021. 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 "substantively enacted" as per LKAS 12 as at 31st December 2020. The new tax rates disclosed below have been considered to be substantively enacted as at the reporting date for the computation of current and deferred tax for the year ended 31st December 2021. Further, the Group reassessed the current tax liability for 2020 and the net deferred tax asset outstanding as at 31st December 2020 at 24% during the year 2021. The said reassessment resulted in a reversal of Rs 820 Mn from the income tax provision for the year 2020. Further, the reversal of net deferred tax asset as at 31st December 2020 resulted in a charge of Rs 735 Mn to the income statement and a reversal of Rs 620 Mn to the other comprehensive income.

Company	New tax rate	Previous tax rate
Hatton National Bank PLC	24%	28%
HNB Assurance PLC and its subsidiary HNB General Insurance Limited	24%	28%
HNB Finance PLC	24%	28%
Sithma Development (Pvt) Ltd	24%	28%

21 (e) Reconciliation of Effective Tax Rate

For the year ended 31st December	Bank				Group			
	2021		2020		2021		2020	
	%	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000
Profit before income tax	-	19,825,027		15,081,180	-	23,053,584	-	17,580,324
Tax using the corporate tax rate	24.00	4,758,006	28.00	4,222,729	24.00	5,532,861	28.00	4,922,491
Disallowable expenses	14.55	2,885,102	20.56	3,101,145	14.06	3,242,440	21.64	3,804,686
Tax effects on:								
Allowable expenses	(0.02)	(4,510)	(0.04)	(6,333)	(0.14)	(31,854)	(0.10)	(17,858)
Tax exempt income	(22.58)	(4,476,554)	(24.53)	(3,698,997)	(20.58)	(4,744,297)	(23.88)	(4,198,781)
Effect of change in tax rate	3.71	735,066	-	-	3.80	876,804	-	-
Undistributable profits of subsidiaries and joint venture	-	-	-	-	(1.84)	(425,046)	(3.34)	(588,038)
	19.66	3,897,110	23.99	3,618,544	19.31	4,450,908	22.31	3,922,500
Over provision in previous years and effect of change in tax rate	(6.92)	(1,371,850)	-	-	(6.43)	(1,481,686)	(0.03)	(4,439)
Income tax expense [Note 21 (b)]	12.74	2,525,260	23.99	3,618,544	12.88	2,969,222	22.29	3,918,061

Notes to the Financial Statements

21 INCOME TAX EXPENSE (Contd.)

21 (f) Amounts Recognised in Other Comprehensive Income

For the year ended 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Remeasurement of post-employment benefit obligations	-	-	(10,213)	2,102
Revaluation of freehold land and buildings	(576,923)	-	(775,823)	-
Net gains/(losses) on investments in government securities	754,541	61,588	763,270	54,565
	177,618	61,588	(22,766)	56,667

21 (g) Tax Losses Brought Forward and Utilised during the Year

	Group	
	2021 Rs 000	2020 Rs 000
Balance as at 1st January	2,590,197	3,573,832
Adjustment for brought forward tax losses	(891)	693
Tax losses utilised during the year	(1,449,543)	(984,328)
Balance as at 31st December	1,139,763	2,590,197

The details on tax losses utilized 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 by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees as per Sri Lanka Accounting Standard - LKAS 33 on "Earnings per Share".

22 (a) Basic Earnings per Share

For the year ended 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Amount used as the numerator				
Profit attributable to equity holders of the Bank (Rs 000)	17,299,767	11,462,636	19,024,882	13,095,420
Number of ordinary shares used as the denominator				
Weighted average number of ordinary shares outstanding during the year used as the denominator for basic EPS (Rs '000) [Note 22 (c)]	525,905	525,905	525,905	525,905
Basic earnings per ordinary share (Rs)	32.90	21.80	36.18	24.90

22 (b) Diluted Earnings per Share

For the year ended 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Amount used as the numerator				
Profit attributable to equity holders of the Bank (Rs 000)	17,299,767	11,462,636	19,024,882	13,095,420
Number of ordinary shares used as the denominator				
Weighted average number of ordinary shares outstanding during the year used as the denominator for diluted EPS (Rs '000) [Note 22 (c)]	525,905	525,905	525,905	525,905
Diluted earnings per ordinary share (Rs)	32.90	21.80	36.18	24.90

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 2021 Rs 000
Number of shares in issue as at 1st January	511,976
Number of shares satisfied in the form of issue and allotment of new shares for final dividend 2020	13,929
Weighted average number of ordinary shares as at 31st December	525,905

23 DIVIDENDS PAID AND PROPOSED

For the year ended 31st December	2021			2020		
	Gross Dividend Rs 000	Dividend Tax Rs 000	Net Dividend Rs 000	Gross Dividend Rs 000	Dividend Tax Rs 000	Net Dividend Rs 000
Rs 3.50 scrip dividend per share declared in 2019 and paid in 2020	-	-	-	1,751,424	-	1,751,424
Rs 3.50 cash dividend per share declared in 2019 and paid in 2020	-	-	-	1,751,424	-	1,751,424
Rs 3.50 scrip dividend per share declared in 2020 and paid in 2021	1,791,915	-	1,791,915	-	-	-
Rs 4.50 cash dividend per share declared in 2020 and paid in 2021	2,303,891	-	2,303,891	-	-	-

23 (a) Proposed Dividends

The Directors recommend that a final dividend of Rs. 9.00 per share by way of Rs. 6.50 per share, cash and Rs. 2.50 per share, scrip dividend (2020: Rs. 4.50 per share, cash and Rs. 3.50 per share, scrip) on both voting and non-voting shares of the Bank, be paid for the financial year ended 31st December 2021.

The final dividend is to be approved at the Annual General Meeting to be held on 30th March 2022. 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 2021. Final dividend proposed amounts to Rs 4,733 Mn (2020 final dividend : Rs 4,096 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 18th, 2022 has been audited by external auditor, Messrs. KPMG.

Notes to the Financial Statements

24 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

The accounting policies adopted in measurement of financial instruments are given in Notes 3.3, 3.4 to the financial statements

The carrying amounts of financial instruments by category as defined in Sri Lanka Accounting Standard - SLFRS 9 "Financial Instruments" under headings of the statement of financial position are summarised below.

24 (a) Analysis of Financial Instruments by Measurement Basis - Bank

As at 31st December 2021	Fair Value through Profit or Loss Rs 000	Amortised Cost Rs 000	Fair Value through Other Comprehensive Income Rs 000	Total Carrying Amount Rs 000
Assets				
Cash and cash equivalents	-	38,185,254	-	38,185,254
Balances with Central Bank of Sri Lanka	-	25,820,489	-	25,820,489
Derivative financial instruments	927,487	-	-	927,487
Financial assets measured at fair value through profit or loss	103,365	-	-	103,365
Financial assets measured at amortised cost				
- loans and advances to customers	-	876,254,693	-	876,254,693
Financial assets measured at amortised cost				
- debt and other financial instruments	-	160,677,520	-	160,677,520
Financial assets measured at fair value through other comprehensive income	-	-	203,426,433	203,426,433
Other financial assets	-	6,123,181	-	6,123,181
Total financial assets	1,030,852	1,107,061,137	203,426,433	1,311,518,422
Liabilities				
Due to banks	-	17,075,502	-	17,075,502
Derivative financial instruments	353,356	-	-	353,356
Securities sold under repurchase agreements	-	33,524,226	-	33,524,226
Financial liabilities measured at amortised cost - due to depositors	-	1,075,709,287	-	1,075,709,287
Dividends payable	-	989,212	-	989,212
Financial liabilities measured at amortised cost - other borrowings	-	24,747,869	-	24,747,869
Debt securities issued	-	1,962,749	-	1,962,749
Other financial liabilities	-	9,346	-	9,346
Subordinated term debts	-	23,552,323	-	23,552,323
Total financial liabilities	353,356	1,177,570,514	-	1,177,923,870

24 (a) Analysis of Financial Instruments by Measurement Basis - Bank

As at 31st December 2020	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
Assets				
Cash and cash equivalents	-	34,123,562	-	34,123,562
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	-	772,580,720	-	772,580,720
Financial assets measured at amortised cost				
- debt and other financial instruments	-	186,605,516	-	186,605,516
Financial assets measured at fair value through other comprehensive income	-	-	249,271,658	249,271,658
Other financial assets	-	2,279,834	-	2,279,834
Total financial assets	1,116,817	1,002,802,027	249,271,658	1,253,190,502
Liabilities				
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
Total financial liabilities	337,014	1,131,969,203	-	1,132,306,217

Notes to the Financial Statements

24 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (Contd.)

24 (b) Analysis of Financial Instruments by Measurement Basis - Group

As at 31st December 2021	Fair Value through Profit or Loss Rs 000	Amortised Cost Rs 000	Fair Value through Other Comprehensive Income Rs 000	Total Carrying Amount Rs 000
Assets				
Cash and cash equivalents	-	40,900,372	-	40,900,372
Placements with banks	-	6,371,273	-	6,371,273
Balances with Central Bank of Sri Lanka	-	25,820,489	-	25,820,489
Reverse repurchase agreements	-	6,246,276	-	6,246,276
Derivative financial instruments	927,487	-	-	927,487
Financial assets measured at fair value through profit or loss	862,641	-	-	862,641
Financial assets measured at amortised cost - loans and advances to customers	-	911,253,345	-	911,253,345
Financial assets measured at amortised cost - debt and other financial instruments	-	171,930,640	-	171,930,640
Financial assets measured at fair value through other comprehensive income	-	-	210,804,487	210,804,487
Other financial assets	-	8,034,880	-	8,034,880
Total financial assets	1,790,128	1,170,557,275	210,804,487	1,383,151,890
Liabilities				
Due to banks	-	17,075,502	-	17,075,502
Derivative financial instruments	353,356	-	-	353,356
Securities sold under repurchase agreements	-	33,524,226	-	33,524,226
Financial liabilities measured at amortised cost - due to depositors	-	1,107,065,820	-	1,107,065,820
Dividends payable	-	1,013,629	-	1,013,629
Financial liabilities measured at amortised cost - other borrowings	-	25,555,834	-	25,555,834
Debt securities issued	-	2,465,085	-	2,465,085
Other financial liabilities	-	2,329,388	-	2,329,388
Subordinated term debts	-	24,391,912	-	24,391,912
Total financial liabilities	353,356	1,213,421,396	-	1,213,774,752

24 (b) Analysis of Financial Instruments by Measurement Basis - Group

As at 31st December 2020	Fair Value through Profit or Loss Rs 000	Amortised Cost Rs 000	Fair Value through Other Comprehensive Income Rs 000	Total Carrying Amount Rs 000
Assets				
Cash and cash equivalents	-	34,898,957	-	34,898,957
Placements with banks	-	12,126,434	-	12,126,434
Balances with Central Bank of Sri Lanka	-	7,212,395	-	7,212,395
Reverse repurchase agreements	-	2,827,050	-	2,827,050
Derivative financial instruments	1,032,318	-	-	1,032,318
Financial assets measured at fair value through profit or loss	1,094,827	-	-	1,094,827
Financial assets measured at amortised cost				
- loans and advances to customers	-	800,815,971	-	800,815,971
Financial assets measured at amortised cost				
- debt and other financial 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
Total financial assets	2,127,145	1,055,081,695	256,394,644	1,313,603,484
Liabilities				
Due to banks	-	89,746,709	-	89,746,709
Derivative financial instruments	337,014	-	-	337,014
Securities sold under repurchase agreements	-	10,361,383	-	10,361,383
Financial liabilities measured at amortised cost - due to depositors	-	994,948,912	-	994,948,912
Dividends payable	-	980,507	-	980,507
Financial liabilities measured at amortised cost - other borrowings	-	30,526,261	-	30,526,261
Debt securities issued	-	2,411,408	-	2,411,408
Other financial liabilities	-	4,652,548	-	4,652,548
Subordinated term debts	-	28,945,457	-	28,945,457
Total financial liabilities	337,014	1,162,573,185	-	1,162,910,199

Notes to the Financial Statements

25 CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

Cash and cash equivalents include cash in hand and balances with banks. These are subject to an insignificant risk of changes in fair value and are used by the Group in the management of its short term commitments. These are brought to the financial statements at the face values or gross values. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Local currency in hand	30,252,225	25,849,903	32,396,901	25,982,296
Foreign currency in hand	625,346	515,532	669,677	515,532
Balances with banks	7,316,562	7,775,703	7,842,673	8,418,705
	38,194,133	34,141,138	40,909,251	34,916,533
Less : Allowance for impairment losses [Note 25 (a)]	(8,879)	(17,576)	(8,879)	(17,576)
	38,185,254	34,123,562	40,900,372	34,898,957

All cash and cash equivalent balances held by the group entities were available for use by the Group.

25 (a) Movement in Impairment during the year

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Stage 1				
Balance as at 1st January	17,576	4,796	17,576	4,821
Net impairment (reversal)/charge during the year	(8,697)	12,780	(8,697)	12,755
Balance as at 31st December	8,879	17,576	8,879	17,576

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 and fixed deposits that are subject to an insignificant risk of changes in the fair value, and are used by the Group in the management of its short term commitments. These are brought to the financial statements at the face values or gross values. Placements with banks are carried at amortised cost in the statement of financial position.

As at 31st December	Group	
	2021 Rs 000	2020 Rs 000
Placements - within Sri Lanka	6,371,624	12,126,911
Less : Allowance for impairment losses [Note 26 (a)]	(351)	(477)
	6,371,273	12,126,434

26 (a) Movement in Impairment during the year

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Stage 1				
Balance as at 1st January	-	49,069	477	49,562
Net impairment reversal during the year	-	(49,069)	(126)	(49,085)
Balance as at 31st December	-	-	351	477

26 (b) Credit and Market risk

Information about the Group's credit and market risks for financial assets are included in Note 5 to the financial statements.

27 BALANCES WITH CENTRAL BANK OF SRI LANKA

Balances with Central Bank of Sri Lanka represent the cash balance that is required to be maintained as per the provisions of Section 93 of the Monetary Law Act. The minimum cash reserve requirement on rupee deposit liabilities was 4% as at 31st December 2021 (2020 : 2%).

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	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Statutory balance with Central Bank of Sri Lanka	25,820,489	7,212,395	25,820,489	7,212,395
	25,820,489	7,212,395	25,820,489	7,212,395

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	
	2021 Rs 000	2020 Rs 000
Securities purchased under reverse repurchase agreements		
with banks	3,527,823	-
with customers	2,718,453	2,827,050
	6,246,276	2,827,050

Notes to the Financial Statements

29 DERIVATIVE FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

The accounting policy pertaining to derivative financial instruments has been given in Note 3.3 and 3.4 to the financial statements.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e. the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank uses derivatives such as forward foreign exchange contracts and currency swaps. Bank has not designated any derivative as a hedging instrument and has not followed hedge accounting as at the reporting date. All derivatives are initially recognised and subsequently measured at fair value, with revaluation gains or losses recognised in the income statement under "Net gain/(loss) from trading" (Note 10). Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fair value is determined using the forward market rates ruling on the reporting date.

ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Judgement is required when the Bank/Group selects the valuation techniques used to determine the fair value of derivatives, particularly the selection of valuation inputs that are not readily observable, and the application of valuation adjustments to certain derivatives.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities.

As at 31st December	Bank/Group			
	2021		2020	
	Assets Rs 000	Liabilities Rs 000	Assets Rs 000	Liabilities Rs 000
Currency swaps				
Sales	263,490	81,645	31,217	139,927
Purchases	516,700	270,447	943,589	121,015
	780,190	352,092	974,806	260,942
Forward foreign exchange contracts				
Sales	105,773	1,227	29,893	69,115
Purchases	41,524	37	27,619	6,957
	147,297	1,264	57,512	76,072
	927,487	353,356	1,032,318	337,014

ACCOUNTING POLICY

The accounting policy pertaining to financial assets measured at fair value through profit or loss has been given in Note 3.3 and 3.4 to the financial statements.

A financial asset is classified as measured at fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss.

Financial assets held for trading

The Group classifies financial assets as held for trading in the following circumstances.

- Those have been purchased or acquired primarily for short-term profit making through trading activities; or
- Those form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking

Financial assets held for trading are measured and recorded at fair value in the statement of financial position. Changes in fair value are recognised in "net gain/(loss) from trading" (Note 10). Interest income from financial assets held for trading is recorded in "Interest income" and dividend income is recorded in "net gain/(loss) from trading" (Note 10) according to the terms of the contract, or when the right to receive the payment has been established.

Financial assets held for trading include instruments such as government securities, equity instruments etc. that have been acquired principally for the purpose of selling or repurchasing in the near term.

Further as per SLFRS 9, financial assets measured at fair value through profit or loss include all financial assets other than those classified as fair value through other comprehensive income and financial assets measured at amortised cost.

Financial assets designated at fair value through profit or loss

The Group has not designated any financial asset at fair value through profit or loss.

ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Judgement is required when applying the valuation techniques used to determine the fair value of trading securities not valued using quoted market prices.

As at 31st December	2021 Fair Value Rs 000	2020 Fair Value Rs 000
Quoted shares - Bank [Note 30 (a)]	103,365	84,499
Total financial assets measured at fair value through profit or loss - Bank [Note 30 (e)]	103,365	84,499
Quoted shares - Subsidiaries [Note 30 (b)]	218,466	151,410
Government of Sri Lanka treasury bonds - Subsidiaries [Note 30 (c)]	347,225	16,224
Unquoted units in unit trusts - Subsidiaries [Note 30 (d)]	193,585	842,694
Total financial assets measured at fair value through profit or loss - Subsidiaries	759,276	1,010,328
Total financial assets measured at fair value through profit or loss - Group [Note 30 (e)]	862,641	1,094,827

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	2021				2020			
	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
Banks, Finance and Insurance								
Ceylinco Insurance PLC	34,000	23,035	18	40,698	34,000	23,035	18	34,741
National Development Bank PLC	45,254	10,903	8	3,118	45,254	10,903	8	3,535
Sector Total		33,938		43,816		33,938		38,276
Construction and Engineering								
Access Engineering PLC	175	6	-	6	175	6	-	4
Sector Total		6		6		6		4
Diversified Holdings								
Aitken Spence PLC	278,515	30,625	24	22,950	278,515	30,625	24	16,098
Sector Total		30,625		22,950		30,625		16,098
Hotels and Travels								
Aitken Spence Hotel Holdings PLC	575,301	45,999	36	24,335	575,301	45,999	36	18,582
Asian Hotels and Properties PLC	207,476	14,918	12	9,150	207,476	14,918	12	8,901
Sector Total		60,917		33,485		60,917		27,483
Motors								
United Motors Lanka PLC	33,385	3,522	2	3,108	33,385	3,522	2	2,638
Sector Total		3,522		3,108		3,522		2,638
		129,008		103,365		129,008		84,499
Unrealised loss from marked to market valuation		(25,643)				(44,509)		
Total quoted shares - Bank		103,365		103,365		84,499		84,499

30 (b) Quoted shares Held by Subsidiaries

As at 31st December	2021				2020			
	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
Banks, Finance and Insurance								
Central Finance Company PLC	142,285	17,088	12	13,233	140,201	16,921	12	11,637
Nations Trust Bank PLC	91,471	6,258	4	5,031	91,471	6,258	4	5,488
Peoples Leasing & Finance PLC	543,212	9,452	7	5,812	513,583	9,067	6	6,368
Sampath Bank PLC	318,048	19,747	14	16,570	106,016	19,747	14	14,376
Seylan Bank PLC - (Non-Voting)	680,652	24,806	17	22,666	656,402	23,821	17	22,318
Sector Total		77,352		63,312		75,814		60,187
Diversified Holdings								
John Keells Holdings PLC	29,670	3,679	3	4,450	29,670	3,679	3	4,439
Melstacorp PLC	94,532	5,603	4	5,303	94,532	5,603	4	4,916
Richard Peiris and Company PLC	312,851	4,351	3	7,696	312,851	4,351	3	4,661
Vallibel One PLC	209,638	4,000	3	15,220	200,000	3,600	3	5,200
Sector Total		17,633		32,669		17,233		19,216
Beverage Food and Tobacco								
Distilleries Company of Sri Lanka PLC	33,935	-	-	577	33,935	-	-	696
Sector Total		-		577		-		696
Land and Property								
Overseas Realty (Ceylon) PLC	486,679	12,454	9	9,344	486,679	12,454	9	7,008
Sector Total		12,454		9,344		12,454		7,008
Manufacturing								
ACL Cables PLC	190,400	3,016	2	19,088	95,200	3,016	2	7,292
Dipped Products PLC	334,000	10,354	7	16,934	38,400	11,903	8	13,336
Royal Ceramic Lanka PLC	680,000	9,172	6	53,108	78,000	10,385	7	13,814
Tokyo Cement Company (Lanka) PLC	391,871	12,824	9	23,434	391,871	12,824	9	29,861
Sector Total		35,366		112,564		38,128		64,303
		142,805		218,466		143,629		151,410
Unrealised gain from marked to market valuation		75,661		-		7,781		-
Total quoted shares - Subsidiaries		218,466		218,466		151,410		151,410

Notes to the Financial Statements

30 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Contd.)

30 (c) Government of Sri Lanka Treasury Bonds Held by Subsidiaries

As at 31st December	2021		2020	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
Year of maturity				
2022	346,740	347,225	16,490	16,224
Unrealised gain/(loss) from marked to market valuation	485	-	(266)	-
Total Government of Sri Lanka treasury bonds - Subsidiaries	347,225	347,225	16,224	16,224

30 (d) Unquoted Units in Unit Trusts Held by Subsidiaries

As at 31st December	2021			2020		
	No of Units	Cost of Investment Rs 000	Fair Value Rs 000	No of Units	Cost of Investment Rs 000	Fair Value Rs 000
NDB Wealth Money Plus Fund	-	-	-	9,026,249	210,000	211,674
JB Vantage Money Market Fund	2,189,530	60,000	64,339	7,665,171	210,000	210,303
Capital Alliance Investment Grade Fund	3,043,832	60,000	64,453	10,665,914	210,000	210,347
Capital Alliance Income Fund	2,934,718	60,000	64,793	10,274,098	210,000	210,370
Unrealised gain from marked to market valuation		13,585	-		2,694	-
Total unquoted units - Subsidiaries		193,585	193,585		842,694	842,694

30 (e) Analysis

As at 31st December	Bank		Group	
	2021 Fair Value Rs 000	2020 Fair Value Rs 000	2021 Fair Value Rs 000	2020 Fair Value Rs 000
By currency				
Sri Lankan Rupee	103,365	84,499	862,641	1,094,827
	103,365	84,499	862,641	1,094,827

30 (f) Credit and Market risk

Information about the Group's credit and market risks for financial assets are included in Note 5 to the financial statements.

31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS

ACCOUNTING POLICY

The accounting policy pertaining to financial assets measured at amortised cost - loans and advances to customers has been given in Note 3.3 and 3.4 to the financial statements.

Financial assets measured at amortised cost - loans and advances to customers include loans and advances and lease receivables of the Group.

As per SLFRS 9, loans and advances to customers are assets that are;

- Held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows, that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.

After initial measurement, loans and receivables are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less allowance for impairment except when the Group designates loans and receivables at fair value through profit or loss. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the income statement. The losses arising from impairment are recognised in 'impairment charge for loans and other losses' in the income statement.

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Gross loans and advances	928,971,730	814,543,456	968,907,254	846,720,969
stage 1	715,110,233	546,879,309	741,920,173	569,201,364
stage 2	150,226,414	204,628,252	155,690,342	206,770,819
stage 3	63,635,083	63,035,895	71,296,739	70,748,786
Less : Accumulated impairment under:	52,717,037	41,962,736	57,653,909	45,904,998
stage 1 [Note 31 (g)]	6,494,958	3,091,724	7,653,405	3,799,786
stage 2 [Note 31 (g)]	10,188,641	8,058,780	10,754,926	8,284,622
stage 3 [Note 31 (g)]	36,033,438	30,812,232	39,245,578	33,820,590
Net loans and advances	876,254,693	772,580,720	911,253,345	800,815,971

Notes to the Financial Statements

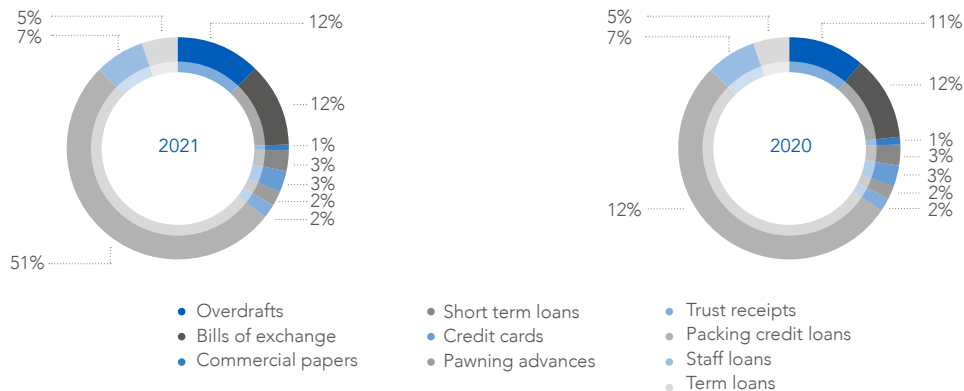
31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

31 (a) Analysis of Loans and Advances

31 (a) i By Product

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Overdrafts	116,026,873	93,647,903	115,907,874	93,521,697
Bills of exchange	1,328,855	2,045,728	1,328,855	2,045,728
Commercial papers	153,705	153,821	153,705	153,821
Short term loans	116,022,030	98,398,178	116,425,532	98,781,876
Credit cards	12,136,458	9,155,433	12,136,458	9,155,433
Pawning advances	28,085,905	22,947,790	30,146,476	24,407,738
Trust receipts	23,576,849	23,768,121	23,576,849	23,768,121
Packing credit loans	21,082,668	17,518,298	21,082,668	17,518,298
Staff loans	18,504,857	17,208,143	19,087,913	18,065,918
Term loans	472,506,074	425,097,900	496,472,196	443,773,306
Lease and hire purchase receivable	67,835,623	60,481,528	80,876,895	71,408,420
Housing loans	50,360,273	41,973,936	50,360,273	41,973,936
Lease backed securities	1,351,560	2,146,677	1,351,560	2,146,677
Total gross loans and advances [Note 31 (a) ii]	928,971,730	814,543,456	968,907,254	846,720,969

Analysis of Loans and Advances - Bank



31 (a) ii By Currency

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Sri Lankan Rupees	827,386,958	718,701,733	867,322,482	750,879,246
United States Dollars	99,642,964	93,535,727	99,642,964	93,535,727
Great Britain Pounds	619,700	683,106	619,700	683,106
Euros	1,166,282	1,436,630	1,166,282	1,436,630
Other currencies	155,826	186,260	155,826	186,260
Total gross loans and advances [Note 31 (a) i]	928,971,730	814,543,456	968,907,254	846,720,969

COVID-19 Repayment Deferral Packages Offered to Customers

The Group has offered various forms of assistance to customers since March 2020, to counteract the impact of COVID-19 on the ability of customers to meet their loan obligations based on the guidelines given by Central Bank of Sri Lanka and as part of Bank's own initiatives. The details of the impact of deferrals when determining whether there has been a Significant Increase in Credit Risk (SICR) has been discussed in key judgements and assumptions section in Note 31 (f) to the financial statements .

The loan repayment deferral package/moratorium is considered to be a loan modification under SLFRS 9. In addition, the Bank offered working capital loan arrangements under concessionary rates as per the circulars issued by Central Bank of Sri Lanka (CBSL).

Identification and Measurement of Impairment of Financial Assets

Overview of the Expected Credit Loss (ECL) Principles

ACCOUNTING POLICY

The Group records an Expected Credit Loss (ECL) allowance for all loans and other debt securities not measured at fair value through profit or loss (FVTPL), together with loan commitments and financial guarantee contracts which are commonly referred to as "financial instruments" in accordance with SLFRS 9.

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents
- Placements with banks
- Financial assets measured at amortised cost - loans and advances to customers
- Financial assets measured at amortised cost - debt and other financial instruments
- Financial assets measured at fair value through other comprehensive income
- Loan commitments and financial guarantee contracts

Equity instruments are not subject to impairment losses under SLFRS 9.

31 (b) Overview of the Expected Credit Loss Principles

The Group measures, Expected Credit Loss (ECL) allowances based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months expected credit loss (12mECL). The 12mECL is the portion of LTECLs that represent the ECLs resulting from default events of a financial instrument that are possible within the 12 months after the reporting date.

The Group's policies for determining whether there has been a significant increase in credit risk are set out in Note 31 (c) i to the financial statements.

LTECLs and 12mECLs are calculated either on an individual basis or on collective basis, depending on the nature of the underlying portfolio of financial instruments.

Notes to the Financial Statements

31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

31 (b) i Grouping of Financial Assets for Impairment Assessment

The Group's policy for grouping financial assets for impairment assessment are as follows.

• Individually assessed loans and advances and debt instruments

These are exposures that are individually significant meriting individual assessment for objective evidence of impairment and computation of impairment allowance. The Group calculates ECL on an individual basis for corporate and SME exposures identified as individually significant loans and investments in debt instruments. In respect of all loans that are considered individually significant, Bank assesses on a case by case basis, whether there is any objective evidence of impairment.

The criteria used by the Bank to determine that there is such objective evidence include the following inter alia;

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the absence of an active market for a security

• Collective Impairment assessment

Loans and advances that have been assessed individually and not attracting individual impairment provisions and all individually insignificant loans and advances are then assessed collectively, by categorising those into groups of assets with similar credit risk characteristics, to determine whether a provision should be made due to expected loss events.

These exposures are grouped into smaller homogeneous portfolios, based on product type and customer segment etc.

31 (b) ii The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have a low credit risk at the reporting date; and
- other financial instruments of which credit risk has not increased significantly since their initial recognition

The Group has an established policy in place to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in risk of default occurring over the remaining life of the financial instrument.

As per SLFRS 9, a three stage model is adopted for impairment measurement based on changes in credit quality since initial recognition.

Stage	Classification Criteria	ECL measurement
Stage 1	Financial assets that are not originally credit impaired on initial recognition	12 months expected credit loss
Stage 2	Financial assets where a significant increase in credit risk is observed since origination	Life time expected credit loss
Stage 3	Financial assets which are credit impaired	Life time expected credit loss with probability of default at 100%
POCI	Purchased or Originated Credit Impaired assets (POCI) are financial assets which are credit impaired on initial recognition.	These assets are categorised within stage 3 and expected credit loss is only recognised or released to the extent that there is a subsequent change in expected credit loss

31 (c) **Factors considered in the Assessment of Expected Credit Losses**

31 (c) i **Significant Increase in Credit Risk (SICR)**

The Group considers an exposure to have a significantly increased credit risk when contractual payments of a customer are more than 30 days past due in accordance with rebuttable presumption in SLFRS 9.

The Group individually reviews at each reporting date, loans and advances above a predefined threshold to identify whether the credit risk has increased significantly since origination, before an exposure is in default. Such indicators include the following inter alia:

- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments.
- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/group of customers or an instrument;
- When the value of collateral is significantly reduced and/or realisability of collateral is doubtful.
- When a customer is subject to litigation, that significantly affects the performance of the credit facility.
- Frequent changes in the senior management of an institutional customer.
- Delay in the commencement of business operations/projects by more than two years from the originally agreed date.
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants.
- When the customer is deceased/insolvent.
- When the bank is unable to contact or find the customer.
- A fall of 50% or more in the turnover and/or profit before tax of the customer when compared to the previous year
- Erosion in net-worth by more than 25% when compared to the previous year

Credit facilities/exposures which have one or more of the above indicators are treated as facilities with significant increase in credit risk and assessed accordingly in ECL computations. The Group regularly monitors, the effectiveness of the criteria used to identify significant increase in credit risk to confirm that the criteria is capable of identifying significant increase in credit risk before an exposure is in default.

• **COVID-19 initiatives**

In respect of facilities subject to the COVID-19 repayment deferral arrangements, an assessment of SICR has been carried out based on various factors such as the customer's current financial position, future earnings capacity, whether the customer has availed the COVID-19 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.

31 (c) ii **Definition of Default and Credit Impaired Assets**

The Group generally considers financial assets as defaulted and therefore assessed in Stage 3 (as credit-impaired) for ECL calculations when:

- The borrower is unlikely to pay its obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or

The borrower becomes 90 days past due on its contractual payments.

In addition, the Group classifies the financial investments 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 indicators set out in Note 31 (c) i as credit impaired. Further as per Guidelines to Licensed Banks on the Adoption of Sri Lanka Accounting Standard - SLFRS 9 : "Financial Instruments" issued by Central Bank of Sri Lanka, all the credit facilities/customers classified as non-performing as per Central Bank of Sri Lanka Directions are assessed as Stage 3 exposures.

Notes to the Financial Statements

31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

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. The Group considers a loan to be rescheduled when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. De-recognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 asset until it is collected or written off.

When the loan has been renegotiated or modified but not de-recognised, a reassessment is made whether there has been a significant increase in credit risk, as set out in Note 31 (d) i to the financial statements. Accordingly, all rescheduled loans are classified as Stage 3 unless upgraded due to satisfactory performing period as specified in the Banking Act Directions. Further loans which have been restructured up to two times unless upgraded due to satisfactory performing period as specified in "Guidelines to Licensed Banks on the Adoption of Sri Lanka Accounting Standard - SLFRS 9 : Financial Instruments" issued by Central Bank of Sri Lanka are classified as Stage 2 while such loans which have been restructured more than two times are classified as Stage 3.

31 (d) Movement between the Stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative change in credit risk since initial recognition. Financial instruments are transferred out of Stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessment described above. Financial instruments are transferred out of Stage 3 when they no longer exhibit any evidence of credit impairment as described above. Further restructured facilities are considered as "cured" once a satisfactory performing period of a minimum 90 days subsequent to the first capital and/or interest instalment post-restructure is in place, while upgrading of rescheduled facilities are carried out in accordance with the Banking Act Directions No 3/4 of 2008 on "Classification of Loans and Advances, Income Recognition and Provisioning".

31 (e) Assessment of Expected Credit Losses on Financial Assets

The Group calculates ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

The key elements of ECL computations are, as follows:

Probability of Default (PD): The probability of default is an estimate of the likelihood of a borrower defaulting on its financial obligations. A default may only happen at a certain time over the assessed period, if the facility has not been previously de-recognised and is still in the portfolio. The Group estimates the Probability of Default (PD) based on historical information with regard to delinquency of loans and advances. In this process historical information pertaining to 3-6 years have been used depending on the nature of the product.

Exposure at Default (EAD): The exposure at default represents the expected exposure in the event of a default. The Group estimates EAD, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdowns of committed facilities. To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

Loss Given Default (LGD): The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The Group segments its lending portfolio into homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The loss given default is estimated based on historically collected loss data and is usually expressed as a percentage of the EAD.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made on an individual basis for individually significant loans and on a collective basis for other loans. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

- **Revolving facilities**

The Group's product offering includes a variety of corporate, SME and retail overdraft and credit card facilities. The Group reviews the sanction limits at least annually and therefore has the right to cancel and/or reduce the limits. Group calculates only the 12 month ECL (12mECL) allowance on these facilities to reflect the Group's expectations of the customer behaviour, likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. The EAD is arrived by taking the maximum of either sanctioned limit adjusted for Credit Conversion Factor (CCF) and the gross carrying amount of the loan (utilised amount).

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's delinquency

- **Undrawn loan commitments**

When estimating life time ECL (LTECLs) for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then assessed based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. The ECL component for loan commitments, letters of credit and acceptances is recognised within "other liabilities".

- **Financial guarantee contracts**

The Group estimates ECLs for financial guarantee contracts based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk adjusted interest rate relevant to the exposure. The ECL component related to the financial guarantee contracts are recognised within "other liabilities".

- **Recognition of expected credit loss provisions on government securities**

Bank does not recognise impairment provisions in respect of Rupee denominated government securities while recognition of impairment on foreign currency denominated government securities is determined based on the applicable exposure at default, probability of default and loss given default.

- **Debt instruments measured at fair value through OCI**

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment charge, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit or loss upon de-recognition of the assets. Forward looking information

- **Forward Looking Information**

The Group incorporates forward looking information into both its assessment as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. When estimating the ECLs, the Group considers three economic scenarios (base case, best case and worse case). Quantitative economic factors are based on economic data and forecasts published by Central Bank of Sri Lanka. In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

Quantitative factors	Qualitative factors
GDP growth	Government policies
Inflation	Status of industry/business
Interest rate	Regulatory impact
Unemployment rates	
Exchange rate	

Notes to the Financial Statements

31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

- **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.

- **Regulation issued by the Central Bank of Sri Lanka (CBSL)**

Since the outbreak of COVID – 19, CBSL issued various circulars relating to moratorium/debt relief credit support to customers and industries through schemes offered by the Government to support recovery of the economy. Bank has taken into account these circulars in the recognition of interest income, stage wise classification of facilities and computation of expected credit loss.

31 (f) ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The measurement of impairment losses under Sri Lanka Accounting Standard SLFRS 9 - "Financial Instruments" (SLFRS 9) requires judgement across all categories of financial assets, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes of which can result in different levels of impairment allowances.

The Group's Expected Credit Loss (ECL) calculations are the outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered for accounting judgements and estimates include:

- the Group's criteria for assessing whether there has been a significant increase in credit risk as a result of which allowances for financial assets should be measured on a Life Time Expected Credit Loss (LTECL) basis
- the segmentation of financial assets when their ECL is assessed on a collective basis.
- the selection of an estimation technique or modelling methodology, noting that the modelling of the Group's ECL estimates are complex; and
- the selection of inputs for those models, and the interdependencies between those inputs.

The judgements and associated assumptions have been made within the context of the impact of COVID-19 and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. Accordingly, the Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

The following table summarises the key judgements and assumptions used by the Bank in relation to the ECL model inputs, and the interdependencies between those inputs.

Judgement/ Assumption	Description	Considerations for the year ended 31st December 2021
Determining when a Significant Increase in Credit Risk (SICR) has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from Stage 1 to Stage 2. This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from 12 month ECL to life time ECL.	In response to the impacts of COVID-19, various moratorium/debt concessionary schemes have been offered to eligible customers. When a customer is first provided with assistance the Group does not consider that it automatically results in a SICR and a consequent impact on ECL when assessing provisions. Subsequent to take-up, assessments have been carried out based on the discussions with the customers on the future business cash flows, financial position, the sectors in which the businesses operate and ability to recommence loan repayments at the end of the moratorium/debt concessionary period to conclude whether there is a SICR.
Measuring 12 month expected credit losses and lifetime expected credit losses	<p>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.</p> <p>In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.</p>	<p>The PD, EAD and LGD models are subject to the Group's policy on impairment assessment.</p> <p>There were no material changes to the policies during the year ended 31st December 2021. Due to the implications of moratorium/debt concessionary schemes on PDs and LGDs (due to limited movements to Stage 2 and Stage 3), adjustments have been made as overlays based on stress testing and historic patterns to better reflect the adequacy of ECL.</p> <p>There were no material changes to behavioural lifetime estimates during the year ended 31st December 2021.</p>
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 2021, the base case assumptions have been updated to reflect the evolving situation with respect to COVID-19 and economic forecasts provided by the Central Bank of Sri Lanka.
Probability weighting of each economic scenario (base case, best case and worse case scenarios)	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario at each measurement date.	<p>The key consideration for probability weightings in the current period is the continuing impact of COVID-19.</p> <p>In addition to the base case forecast which reflects the negative economic consequences of COVID-19, greater weightage has been applied to the worse case scenario given the Group's assessment of downside risks. The assigned probability weightages are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.</p>

Notes to the Financial Statements

31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

Management overlay	<p>Temporary adjustments to the ECL allowance are used in circumstances where it is judged that the existing inputs, assumptions and model techniques do not capture all the risk factors relevant to Group's lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into the current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management overlay may impact the amount of ECL recognised.</p> <p>The uncertainty associated with COVID-19 pandemic, and the extent to which the actions of governments, businesses and consumers mitigate the potentially adverse credit outcomes are not fully incorporated into existing ECL models. Accordingly, management overlays have been applied to ensure credit provisions are appropriate.</p>	<p>Management has applied a number of adjustments to the modelled ECL primarily due to the uncertainty associated with COVID-19 and the debt concessions that have been provided.</p> <p>Management overlays which were add to the modelled ECL provision have been made for risks particular for risk elevated sectors identified by the Group</p>
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31 (g) Movement in Impairment during the year

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Stage 1				
Balance as at 1st January	3,091,724	3,343,678	3,799,786	4,063,982
Acquisition of subsidiary through HNB Finance PLC	-	-	68,970	-
Net impairment (reversal)/charge for the year	3,403,234	(251,954)	3,784,649	(264,196)
Balance as at 31st December [Note 31]	6,494,958	3,091,724	7,653,405	3,799,786
Stage 2				
Balance as at 1st January	8,058,780	4,827,329	8,284,622	5,210,363
Acquisition of subsidiary through HNB Finance PLC	-	-	44,711	-
Net impairment charge for the year	2,129,861	3,231,451	2,425,593	3,074,259
Balance as at 31st December [Note 31]	10,188,641	8,058,780	10,754,926	8,284,622
Stage 3				
Balance as at 1st January	30,812,232	21,998,921	33,820,590	24,040,578
Acquisition of subsidiary through HNB Finance PLC	-	-	675,812	-
Net impairment charge for the year	6,149,015	9,381,709	6,224,164	10,348,410
Write-offs during the year	(1,240,831)	(692,654)	(1,788,010)	(692,654)
Other movements	313,022	124,256	313,022	124,256
Balance as at 31st December [Note 31]	36,033,438	30,812,232	39,245,578	33,820,590
Total impairment allowance for financial assets measured at amortised cost	52,717,037	41,962,736	57,653,909	45,904,998

Although the credit quality of the loans and advances portfolio of the Bank demonstrated a steady improvement during the year, the Bank continued to apply a number of adjustments to the modelled ECL, primarily due to the uncertainty associated with COVID-19 and the debt concessions that have been provided and the exposures to risk elevated sectors identified by the Bank.

31 (g) i Product wise Movement in Allowance for Impairment Losses - Bank

	2021				2020
	Lease and Hire Purchases	Loans and Receivables	Pawning	Total	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January	1,956,268	39,959,912	46,556	41,962,736	30,169,928
Net impairment charge for the year	(402,825)	12,061,494	23,441	11,682,110	12,361,206
Write-offs during the year	(39,318)	(1,201,514)	-	(1,240,831)	(692,654)
Other movement	-	313,022	-	313,022	124,256
Balance as at 31st December	1,514,125	51,132,916	69,997	52,717,037	41,962,736

31 (g) ii Product wise Movement in Allowance for Impairment Losses - Group

	2021				2020
	Lease and Hire Purchases	Loans and Receivables	Pawning	Total	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January	2,871,183	42,995,396	38,417	45,904,996	33,314,922
Acquisition of subsidiary through HNB Finance PLC	129,156	660,339	-	789,495	-
Net impairment charge for the year	(436,371)	12,847,336	23,441	12,434,406	13,158,473
Write-offs during the year	(39,318)	(1,748,693)	-	(1,788,010)	(692,654)
Other movement	-	313,022	-	313,022	124,256
Balance as at 31st December	2,524,650	55,067,460	61,858	57,653,909	45,904,998

31 (h) Lease and Hire Purchase Receivables

ACCOUNTING POLICY

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Amounts receivable under finance leases are classified as lease and hire purchase receivables and presented within loans and receivables to customers in the statement of financial position after deduction of unearned lease income and the impairment for rentals doubtful of recovery. Lease receivables are collectively assessed for impairment in accordance with the policy for allowance for impairment losses as given in Note 31 (b) to the financial statements.

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Total lease and hire purchase rentals receivable	78,226,295	71,509,790	95,082,134	86,018,229
Unearned lease income	(10,390,672)	(11,028,262)	(14,205,239)	(14,609,809)
Gross lease and hire purchase receivable	67,835,623	60,481,528	80,876,895	71,408,420
Impairment allowance for lease and hire purchase receivable	(1,514,125)	(2,012,485)	(2,524,650)	(2,799,480)
Net lease and hire purchase receivable	66,321,498	58,469,043	78,352,245	68,608,940
Net lease and hire purchase receivables within one year [Note 31 (h) (i)]	23,815,909	20,110,219	28,724,359	23,923,080
Net lease and hire purchase receivables from one to five years [Note 31 (h) (ii)]	42,093,165	37,944,805	49,215,462	44,269,294
Net lease and hire purchase receivables after five years [Note 30 (h) (iii)]	412,424	414,019	412,424	416,566
	66,321,498	58,469,043	78,352,245	68,608,940

Notes to the Financial Statements

31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

31 (h) i Net Lease and Hire Purchase Receivables within one year

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Total lease and hire purchase rentals receivable within one year from the reporting date	29,481,316	26,120,290	35,795,442	31,954,425
Unearned lease and hire purchase income	(5,121,687)	(5,317,884)	(6,404,337)	(7,013,338)
Less: Impairment allowance for lease and hire purchase receivables	(543,720)	(692,187)	(666,746)	(1,018,007)
	23,815,909	20,110,219	28,724,359	23,923,080

31 (h) ii Net Lease and Hire Purchase Receivables from one to five years

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Total lease and hire purchase rentals receivables from one to five years from the reporting date	48,297,027	44,929,721	58,838,740	53,600,429
Unearned lease and hire purchase income	(5,242,872)	(5,678,868)	(7,774,788)	(7,564,824)
Less: Impairment allowance for lease and hire purchase receivables	(960,990)	(1,306,048)	(1,848,490)	(1,766,311)
	42,093,165	37,944,805	49,215,462	44,269,294

31 (h) iii Net Lease and Hire Purchase Receivables after five years

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Total lease and hire purchase rentals receivable after five years from the reporting date	447,953	459,779	447,953	463,375
Unearned lease and hire purchase income	(26,113)	(31,510)	(26,113)	(31,647)
Less: Impairment allowance for lease and hire purchase receivables	(9,416)	(14,250)	(9,416)	(15,162)
	412,424	414,019	412,424	416,566

Impairment allowance for lease and hire purchase receivables are included in the stage wise movement for impairment presented in Note 31 (g) to the financial statements.

31 (i) Credit and Market risk

Information about the Group's credit and market risks for financial assets are included in Note 5 to the financial statements.

31 (j) Banking Act Direction No 13 of 2021 on "Classification, Recognition and Measurement of Credit Facilities in Licensed Banks", Banking Act Direction No 14 of 2021 on "Classification, Recognition and Measurement of Financial Assets other than Credit Facilities in Licensed Banks" and Banking Act Direction No 11 of 2021 on "Supplementary Circular to Banking Act Direction On Classification, Recognition and Measurement of Credit Facilities and Other Financial Assets in Licensed Banks"

Central Bank of Sri Lanka on 14th and 30th September 2021 issued the above Directions with a view to further strengthening and harmonising the regulatory framework on classification, recognition and measurement of credit facilities and other financial assets with the Sri Lanka Accounting Standard SLFRS 9 – "Financial Instruments" and establishing consistent and prudent practices in the banking industry. These Directions became effective from 1st January 2022 and the previous Directions issued by Central Bank of Sri Lanka pertaining to classification, income recognition and provisioning on of loans and advances and investment portfolios were revoked from such date.

32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

The accounting policy pertaining to financial assets measured at amortised cost - debt and other financial instruments has been given in Note 3.3 and 3.4 to the financial statements

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding. These conditions are explained in detail in Note 3.4.1 and 3.4.2 to the financial statements.

After initial measurement, financial assets measured at amortised cost - debt and other financial instruments are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less allowance for impairment except when the Group designates a financial asset as measured at fair value through profit or loss. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the income statement. The losses arising from impairment are recognised in 'impairment charge for loans and other losses' in the income statement.

These assets are tested for impairment in accordance with the criteria given in Note 31 (b) to the financial statements.

ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Impairment of financial assets measured at amortised cost - debt and other financial instruments

The Group assesses impairment for financial assets measured at amortised cost - debt and other financial instruments in line with the same principles used for assessment of impairment of loans and receivables.

The impairment loss on financial assets measured at amortised cost - debt and other financial instruments is disclosed in Note 32 (b) to the financial statements.

As at 31st December	2021 Rs 000	2020 Rs 000
Government of Sri Lanka treasury bonds - Bank [Note 32 (c)]	2,040,413	-
Sri Lanka development bonds - Bank [Note 32 (d)]	51,546,518	72,285,996
Sri Lanka sovereign bonds - Bank [Note 32 (e)]	109,636,330	114,890,002
Foreign government bonds - Bank [Note 32 (f)]	72,466	72,694
Quoted debentures - Bank [Note 32 (g)]	8,724,799	3,913,191
Total financial assets at amortised cost – debt and other financial instruments - Bank [Note 32 (a)]	172,020,526	191,161,883
Allowance for impairment on financial assets at amortised cost – debt and other financial instruments - Bank [Note 32 (b)]	(11,343,006)	(4,556,367)
Stage 1	(10,732,207)	(3,945,340)
Stage 2	-	-
Stage 3	(610,799)	(611,027)
Net financial assets at amortised cost - debt and other financial instruments - Bank	160,677,520	186,605,516

Notes to the Financial Statements

32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS (Contd.)

As at 31st December	2021 Rs 000	2020 Rs 000
Government of Sri Lanka treasury bonds - Subsidiaries [Note 32 (h)]	313,465	-
Government of Sri Lanka treasury bills - Subsidiaries [Note 32 (i)]	3,918,251	1,655,758
Sri Lanka development bonds - Subsidiaries [Note 32 (j)]	182,209	33,470
Quoted debentures - Subsidiaries [Note 32 (k)]	5,978,846	4,638,038
Unquoted debentures - Subsidiaries [Note 32 (l)]	860,750	417,105
Other loans and receivables held by subsidiaries [Note 32 (m)]	773,091	773,091
Total financial assets at amortised cost - debt and other financial instruments - Subsidiaries	12,026,612	7,517,462
Total financial assets at amortised cost - debt and other financial instruments - Group [Note 32 (a)]	184,047,138	198,679,345
Allowance for impairment on financial assets at amortised cost - debt and other financial instruments - Group [Note 32 (b)]	(12,116,498)	(5,329,849)
Stage 1	(10,732,609)	(3,945,732)
Stage 2	-	-
Stage 3	(1,383,889)	(1,384,117)
Net financial assets at amortised cost – debt and other financial instruments - Group	171,930,640	193,349,496

32 (a) Analysis

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
By Collateralisation				
Unencumbered	172,020,526	191,161,883	184,047,138	198,679,345
	172,020,526	191,161,883	184,047,138	198,679,345
By Currency				
Sri Lankan Rupee	10,765,212	3,913,191	22,609,615	11,430,653
United States Dollar	161,182,848	187,175,998	161,365,057	187,175,998
Euros	72,466	72,694	72,466	72,694
	172,020,526	191,161,883	184,047,138	198,679,345

32 (b) Movement in Impairment during the year

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Stage 1				
Balance as at 1st January	3,945,340	1,182,947	3,945,732	1,183,581
Net impairment charge for the year	6,786,867	2,762,393	6,786,877	2,762,151
Balance as at 31st December	10,732,207	3,945,340	10,732,609	3,945,732
Stage 2				
Balance as at 1st January	-	-	-	-
Transfer to Stage 3	-	-	-	-
Balance as at 31st December	-	-	-	-
Stage 3				
Balance as at 1st January	611,027	602,399	1,384,117	1,375,489
Net impairment charge for the year	(228)	8,628	(228)	8,628
Transfer from Stage 2	-	-	-	-
Balance as at 31st December	610,799	611,027	1,383,889	1,384,117
Total impairment allowance for financial assets measured at amortised cost	11,343,006	4,556,367	12,116,498	5,329,849

32 (c) Government of Sri Lanka treasury bonds Held by the Bank

As at 31st December	2021 Rs 000	2020 Rs 000
Year of Maturity		
2022	45,194	-
2027	1,995,219	-
Total Government of Sri Lanka treasury bonds - Bank	2,040,413	-

32 (d) Sri Lanka Development Bonds Held by the Bank

As at 31st December	2021 Rs 000	2020 Rs 000
Year of Maturity		
2021	-	30,936,996
2022	39,368,033	30,072,000
2023	12,178,485	11,277,000
Total Sri Lanka development bonds - Bank	51,546,518	72,285,996

Notes to the Financial Statements

32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS (Contd.)

32 (e) Sri Lanka Sovereign Bonds Held by the Bank

As at 31st December	2021 Rs 000	2020 Rs 000
Year of Maturity		
2021	-	18,943,650
2022	24,923,701	19,197,878
2023	16,082,945	14,166,367
2024	27,589,981	25,181,159
2025	16,073,147	14,599,135
2026	12,624,291	11,598,484
2027	7,507,767	6,791,786
2028	4,454,876	4,062,321
2029	379,622	349,222
Total Sri Lanka sovereign bonds - Bank	109,636,330	114,890,002

32 (f) Foreign Government Bonds Held by the Bank

As at 31st December	2021 Rs 000	2020 Rs 000
Year of Maturity		
2042*	72,466	72,694
Total foreign government bonds - Bank	72,466	72,694

*These bonds were issued by the Government of Greece and have been classified as stage 3 for Expect Credit Loss (ECL) computation. Bank has recognised an ECL provision amounting to Rs.72.46 Mn (2020 - Rs. 72.69 Mn) in respect of this investment.

32 (g) Quoted Debentures Held by the Bank

As at 31st December	2021		2020	
	No of Debentures	Amortised Cost Rs 000	No of Debentures	Amortised Cost Rs 000
Commercial Leasing & Finance PLC (6 months T bill rate + 4.25% debentures redeemable on 24th September 2025)	5,000,000	511,207	5,000,000	512,057
Lanka Orix Leasing Company PLC (15% debentures redeemable on 27th September 2024)	5,000,000	519,521	5,000,000	519,726
MTD Walkers PLC (10.25% debentures redeemed on 30th September 2020) *	5,000,000	538,332	5,000,000	538,332
People's Leasing and Finance PLC (12.60% debentures redeemed on 16th November 2021)	-	-	20,000,000	2,031,758
(8% debentures redeemable on 29th July 2024)	20,000,000	2,064,877	-	-
Siyapatha Finance PLC (13.5% debentures redeemed on 20th September 2021)	-	-	3,000,000	311,318
National Savings Bank (6 months AWPLR + 1% debentures redeemable on 24th September 2026)	50,000,000	5,090,862	-	-
Quoted Debentures - Bank		8,724,799		3,913,191

* 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 (h) Government of Sri Lanka Treasury Bonds Held by Subsidiaries

As at 31st December	2021 Rs 000	2020 Rs 000
Year of Maturity		
2027	106,397	-
2028	207,068	-
Total Government of Sri Lanka treasury bonds - subsidiaries	313,465	-

32 (i) Government of Sri Lanka Treasury Bills Held by Subsidiaries

As at 31st December	2021 Rs 000	2020 Rs 000
Year of Maturity		
2021	-	1,655,758
2022	3,918,251	-
Total Government of Sri Lanka treasury bills - subsidiaries	3,918,251	1,655,758

32 (j) Sri Lanka development bonds Held by Subsidiaries

As at 31st December	2021 Rs 000	2020 Rs 000
Year of Maturity		
2021	-	3,776
2022	182,209	29,694
Total Government of Sri Lanka development bonds - subsidiaries	182,209	33,470

Notes to the Financial Statements

32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS (Contd.)

32 (k) Quoted Debentures Held by Subsidiaries

As at 31st December	2021		2020	
	No of Debentures	Amortised Cost Rs 000	No of Debentures	Amortised Cost Rs 000
Bank of Ceylon				
(12.25% debentures redeemed on 29th December 2021)	-	-	400,000	40,044
				40,044
Commercial Bank of Ceylon PLC				
(12.00% debentures redeemed on 27th October 2021)	-	-	289,500	29,559
(12.00% debentures redeemable on 22nd July 2023)	577,800	60,838	577,800	60,838
(12.25% debentures redeemable on 27th October 2026)	135,700	13,861	135,700	13,861
(12.50% debentures redeemable on 22nd July 2028)	1,192,800	125,857	1,192,800	125,857
		200,556		230,115
Commercial Leasing and Finance PLC				
(10.50% debentures redeemable on 23rd September 2025)	2,700,000	277,612	2,700,000	277,612
		277,612		277,612
DFCC Bank PLC				
(12.15% debentures redeemed on 09th June 2021)	-	-	100,000	10,176
(12.60% debentures redeemable on 29th March 2023)	1,400,000	153,435	1,400,000	153,435
(12.75% debentures redeemable on 09th June 2023)	700,000	71,296	700,000	71,296
(13.50% debentures redeemable on 28th March 2024)	1,000,000	110,282	1,000,000	110,282
(13.00% debentures redeemable on 29th March 2025)	500,000	54,951	500,000	54,951
(9.00% debentures redeemable on 23rd October 2025)	2,700,000	274,594	2,700,000	274,594
(13.75% debentures redeemable on 28th March 2026)	1,298,100	143,404	1,298,100	143,404
(13.90% debentures redeemable on 28th March 2029)	3,532,100	390,604	3,532,100	390,604
		1,198,566		1,208,742
First Capital Holdings PLC				
(10.00% debentures redeemable on 07th February 2026)	2,903,200	316,250	-	-
		316,250		-
Hayleys PLC				
(12.50% debentures redeemable on 31st July 2023)	3,300,000	347,404	3,300,000	347,357
(13.00% debentures redeemable on 26th August 2024)	282,300	29,517	282,300	29,513
		376,921		376,870
LB Finance PLC				
(12.75% debentures redeemable on 11th December 2022)	170,000	17,125	170,000	17,124
		17,125		17,124
LOLC Holdings PLC				
(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	-	-
		731,189		290,932

As at 31st December	2021		2020	
	No of Debentures	Amortised Cost Rs 000	No of Debentures	Amortised Cost Rs 000
National Development Bank PLC				
(13.90% debentures redeemable on 19th December 2023)	187,500	21,416	187,500	21,416
(13.95% debentures redeemable on 30th March 2024)	1,700,000	188,431	1,600,000	176,878
(09.50% debentures redeemable on 24th September 2025)	1,114,600	114,274	1,114,600	114,274
(11.90% debentures redeemable on 23rd November 2026)	5,000,000	506,031	-	-
		830,152		312,568
Nations Trust Bank PLC				
(12.65% debentures redeemed on 08th December 2021)	-	-	357,400	36,409
(12.80% debentures redeemed on 08th December 2021)	-	-	210,200	21,418
(13.00% debentures redeemable on 20th April 2023)	1,550,000	169,133	1,550,000	169,133
(12.80% debentures redeemable on 23rd December 2024)	3,000,000	300,947	3,000,000	300,947
(12.90% debentures redeemable on 23rd December 2026)	800,000	80,254	800,000	80,254
		550,334		608,161
People's Leasing and Finance PLC				
(12.60% debentures redeemed on 16th November 2021)	-	-	500,000	50,794
(12.80% debentures redeemable on 18th April 2023)	653,600	71,274	653,600	71,274
(8.00% debentures redeemable on 05th August 2024)	815,000	84,144	-	-
(9.00% debentures redeemable on 05th August 2026)	1,205,600	124,960	-	-
(9.00% debentures redeemable on 05th August 2026)	1,076,967	72,546	-	-
		352,924		122,068
Sampath Bank PLC				
(12.50% debentures redeemable on 21st December 2022)	800,000	80,348	800,000	80,348
(12.50% debentures redeemable on 20th March 2023)	2,000,000	207,055	2,000,000	207,055
(13.90% debentures redeemable on 28th February 2024)	2,800,000	312,735	2,800,000	312,735
		600,138		600,138
Seylan Bank PLC				
(13.00% debentures redeemed on 15th July 2021)	-	-	215,800	22,883
(12.85% debentures redeemable on 29th March 2023)	2,500,000	258,273	2,500,000	258,272
(9.75% debentures redeemable on 12th April 2026)	973,100	104,146	-	-
		362,419		281,155
Singer (Sri Lanka) PLC				
(12.00% debentures redeemed on 28th September 2021)	-	-	800,000	82,499
				82,499
Siyapatha Finance PLC				
(13.50% debentures redeemed on 20th September 2021)	-	-	244,200	25,350
(13.33% debentures redeemable on 08th August 2024)	157,100	16,548	157,100	16,548
		16,548		41,898
Sri Lanka Telecom PLC				
(12.75% debentures redeemable on 19th April 2028)	1,443,800	148,112	1,443,800	148,112
		148,112		148,112
Total quoted Debentures - Subsidiaries		5,978,846		4,638,038

Notes to the Financial Statements

32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS (Contd.)

32 (l) Unquoted Debentures Held by Subsidiaries

	2021		2020	
	No of Debentures	Amortised Cost Rs 000	No of Debentures	Amortised Cost Rs 000
DFCC Bank PLC				
(11.00% debentures redeemable on 12th June 2025)	2,460,000	260,976	2,460,000	260,976
		260,976		260,976
Peoples Bank				
(9.50% debentures redeemable on 27th July 2025)	1,500,000	156,129	1,500,000	156,129
		156,129		156,129
Nations Trust Bank PLC				
(09.15% debentures redeemable on 9th July 2026)	4,250,000	443,645	-	-
		443,645		-
Total unquoted Debentures - Subsidiaries		860,750		417,105

32 (m) Other loans and receivables held by subsidiaries

As at 31st December	2021 Amortised Cost Rs 000	2020 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.

ACCOUNTING POLICY

The accounting policy pertaining to financial assets measured at fair value through other comprehensive income has been given in Note 3.3 and 3.4 to the financial statements

Financial assets are classified as Fair Value through Other Comprehensive Income (FVOCI) when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.

Debt instruments measured at FVOCI

Debt instruments measured at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses on account of such investments are recognised in profit or loss. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On de-recognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The Expected Credit Loss for debt instruments measured at fair value through other comprehensive income do not reduce the carrying amount of these assets in the statement of financial position, which remains at fair value. Instead an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount with a corresponding charge to income statement.

The accumulated loss recognised in other comprehensive income is recycled to the profit upon derecognition of the assets.

Equity instruments measured at FVOCI

Upon initial recognition, the Group occasionally makes an irrevocable election to classify some of its equity investments as equity instruments measured at FVOCI when those meet the definition of equity under Sri Lanka Accounting Standard - LKAS 32 "Financial Instruments - Presentation" and are not held for trading. Such classification is determined on an instrument by instrument basis.

The FVOCI designation was made because the investments are expected to be held for long term strategic purposes and regulatory nature of investments. None of these investments were disposed during the year.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments measured at FVOCI are not subject to an impairment assessment.

ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**Impairment of financial assets measured at fair value through other comprehensive income**

The group assesses impairment for financial assets measured at fair value through other comprehensive income in line with the same principal used for assessment of impairment of loans and receivables.

Notes to the Financial Statements

33 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Contd.)

As at 31st December	Fair Value	
	2021 Rs 000	2020 Rs 000
Quoted shares - Bank [Note 33 (b)]	3,762,986	3,742,102
Unquoted shares - Bank [Note 33 (c)]	27,839	27,839
Unquoted units - Bank [Note 33 (d)]	534,745	442,700
Government of Sri Lanka treasury bonds - Bank [Note 33 (e)]	27,951,852	48,269,855
Government of Sri Lanka treasury bills - Bank [Note 33 (f)]	168,119,793	192,611,240
Government of Sri Lanka sovereign bonds - Bank [Note 33 (g)]	3,029,218	4,177,922
Total financial assets at fair value through other comprehensive income - Bank [Note 33 (a)]	203,426,433	249,271,658
Government of Sri Lanka treasury bonds - Subsidiaries [Note 33 (h)]	7,375,342	7,120,331
Unquoted shares - Subsidiaries [Note 33 (i)]	2,712	2,655
Total financial assets at fair value through other comprehensive income - Subsidiaries	7,378,054	7,122,986
Total financial assets at fair value through other comprehensive income - Group [Note 33 (a)]	210,804,487	256,394,644

Reclassification of financial instruments

The Bank re-classified its International Sovereign Bond Portfolio consequent to the changes in the business model of managing such assets with effect from 1st April 2020 as per the Guidance Notes issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) on Accounting Consideration of the Covid 19 Outbreak (updated on May 11, 2020). Accordingly, International Sovereign Bond investments amounting to Rs 47 Bn which were previously classified as financial assets measured at Fair Value Through Other Comprehensive Income (FVOCI) were re-classified as financial assets measured at amortised cost. There was no change to the effective interest rate used and interest revenue recognised in respect of the reclassified assets for the year ended 31st December 2020.

33 (a) Analysis

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
By collateralisation				
Pledged as collateral	34,873,733	12,134,269	34,873,733	12,134,269
Unencumbered	168,552,700	237,137,389	175,930,754	244,260,375
	203,426,433	249,271,658	210,804,487	256,394,644
By Currency				
Sri Lankan Rupee	200,397,215	245,093,736	207,775,269	252,216,722
United States Dollar	3,029,218	4,177,922	3,029,218	4,177,922
	203,426,433	249,271,658	210,804,487	256,394,644

33 (a) (i) Disclosure as per Registered Stock and Securities Ordinance and Local Treasury Bills Ordinance Direction No 01 of 2019 on Repurchase and Reverse Repurchase transactions of Dealer Direct Participants in Scripless Treasury Bonds and Scripless Treasury Bills

Bank has allocated government securities amounting to Rs 34.8 Bn (2020 - Rs 12.13 Bn) in respect of securities sold under repurchase agreements.

Banks policy on haircuts for repurchase and reverse repurchase transactions are explained below.

Board approved policy guideline outlines the allocation of securities and haircut rules for repurchase and reverse repurchase agreements and valuation process. The policy has been formulated in line with the Direction No.01 of 2019 on Registered Stock and Securities Ordinance and Local Treasury Bills Ordinance issued by the Monetary Board of the Central Bank of Sri Lanka taking in to consideration the market practices. Securities are allocated/obtained as per the set guidelines. No penalties were levied on the Bank during the year, for any non-compliance with the said Direction.

33 (b) Quoted Shares Held by the Bank

As at 31st December	2021			2020		
	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	47,789,949	2,035,210	2,867,397	45,624,242	1,898,337	2,979,263
National Development Bank PLC	9,899,341	1,202,892	682,065	6,784,942	969,312	529,904
Nations Trust Bank PLC	3,882,252	398,269	213,524	3,882,252	398,269	232,935
Total quoted shares - Bank		3,636,371	3,762,986		3,265,918	3,742,102

33 (c) Unquoted Shares Held by the Bank

As at 31st December	2021			2020		
	No of Ordinary Shares	Cost of Investment Rs 000	Fair Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	Fair Value Rs 000
Credit Information Bureau of Sri Lanka	5,300	530	530	5,300	530	530
Lanka Clear (Pvt) Ltd	2,214,521	24,559	24,559	2,214,521	24,559	24,559
Lanka Financial Services Bureau	500,000	5,000	2,750	500,000	5,000	2,750
Lanka Rating Agency Limited	1,379,182	16,550	-	1,379,182	16,550	-
Magpek Exports Ltd	359,000	14,360	-	359,000	14,360	-
S.W.I.F.T	27	5,196	-	27	5,196	-
Total unquoted shares - Bank		66,195	27,839		66,195	27,839

33 (d) Unquoted Units in Unit Trusts Held by the Bank

As at 31st December	2021			2020		
	No of Units	Cost of Investment Rs 000	Fair Value Rs 000	No of Units	Cost of Investment Rs 000	Fair Value Rs 000
JB Vantage Value Equity Fund	19,455,327	400,000	534,745	19,455,327	400,000	442,700
Total unquoted units in unit trusts - Bank		400,000	534,745		400,000	442,700

33 (e) Government of Sri Lanka Treasury Bonds

As at 31st December	2021		2020	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
Year of Maturity				
2021	-	-	25,659,667	25,663,297
2022	2,494,325	1,518,990	1,078,073	1,080,391
2023	8,374,310	8,485,532	8,422,856	9,100,935
2024	5,995,731	6,177,717	5,991,348	6,759,731
2025	6,768,828	6,766,913	1,734,820	2,000,068
2028	1,156,974	1,177,387	-	-
2032	3,668,096	3,825,313	3,670,792	3,665,433
Total government of Sri Lanka treasury bonds - Bank	28,458,264	27,951,852	46,557,556	48,269,855

Notes to the Financial Statements

33 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Contd.)

33 (f) Government of Sri Lanka Treasury Bills Held by the Bank

As at 31st December	2021		2020	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
Year of Maturity				
2021	-	-	192,303,670	192,611,240
2022	168,144,851	168,119,793	-	-
Total government of Sri Lanka treasury bills - Bank	168,144,851	168,119,793	192,303,670	192,611,240

33 (g) Government of Sri Lanka Sovereign Bonds Held by the Bank

As at 31st December	2021		2020	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
Year of Maturity				
2021	-	-	1,404,871	1,275,545
2022	2,045,680	1,566,119	1,684,487	1,342,873
2023	1,682,658	1,035,661	1,464,263	1,097,358
2024	712,906	427,438	629,359	462,146
Total government of Sri Lanka sovereign bonds - Bank	4,441,244	3,029,218	5,182,980	4,177,922

33 (h) Government of Sri Lanka Treasury Bonds Held by Subsidiaries

As at 31st December	2021		2020	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
Year of Maturity				
2021	-	-	874,161	907,496
2022	869,875	883,426	607,398	661,122
2023	618,051	627,956	453,213	514,672
2024	861,922	885,196	861,921	964,988
2025	359,096	358,919	163,190	177,965
2026	211,966	214,980	211,966	250,770
2027	1,026,677	1,012,076	385,157	432,634
2028	482,455	486,910	208,053	256,673
2029	960,331	908,866	775,822	892,967
2030	1,189,129	1,141,340	1,044,036	1,237,544
2031	235,251	238,483	-	-
2033	102,404	102,857	102,404	130,939
2034	192,025	185,899	192,025	244,724
2044	143,435	114,609	143,435	157,151
2045	222,303	213,825	222,302	290,686
Total government of Sri Lanka treasury bonds - Subsidiaries	7,474,920	7,375,342	6,245,083	7,120,331

33 (i) Unquoted Shares Held by Subsidiaries

As at 31st December	2021			2020		
	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	234	2,154	100	234	2,098
UB Finance	1,742,326	12,196	558	1,742,326	12,196	557
Standard Credit Lanka (Formerly Ceylinco investment and Reality Ltd)	38,458,474	38,692	-	38,458,474	38,692	-
Total unquoted shares - Subsidiaries		51,122	2,712		51,122	2,655

33 (j) Movement in Impairment during the year - Government of Sri Lanka sovereign bonds

As at 31st December	Fair Value	
	2021 Rs 000	2020 Rs 000
Stage 1		
Balance as at 1st January	108,687	259,065
Impairment charge for the year	186,758	108,687
Transfers related to reclassification adjustments	-	(259,065)
Balance as at 31st December	295,445	108,687

33 (k) Credit and Market risk

Information about the Group's credit and market risks for financial assets are included in Note 5 to the financial statements.

Notes to the Financial Statements

34 INVESTMENT IN JOINT VENTURE

ACCOUNTING POLICY

Joint venture is a type of joint arrangement, whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group determines joint control, by taking into account similar considerations necessary, to determine control over subsidiaries.

The Group's investment in a joint venture is accounted for, using the equity method and is recognised initially at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to a joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The income statement reflects Group's share of the results of operations of the joint venture. Any change in "other comprehensive income" of the joint venture is presented as part of the Group's "other comprehensive income". In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any such change, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the income statement outside operating profit.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

At each reporting date, the Group determines whether there is an objective evidence that the investment in joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognises the loss in impairment for loans and other losses in the income statement.

The Group discontinues the use of equity method from the date that it ceases to have joint control over the joint venture and accounts for the investment in accordance with the Group's accounting policy for financial instruments. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal, is recognised in income statement. The Bank's investment in joint venture is carried at cost.

34 (a) Investment in unquoted joint venture - Bank

As at 31st December	2021			2020		
	% Holding Value	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000	% Holding Value	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000
Acuity Partners (Pvt) Ltd	50	755,000	2,989,600	50	755,000	2,634,000
		755,000			755,000	

Bank did not receive any dividend income from Acuity Partners (Pvt) Ltd for the year ended 31st December 2021 (2020 : Rs 50 Mn).

34 (b) Investment in Unquoted Joint Venture - Group

As at 31st December	2021 Rs 000	2020 Rs 000
Investment in joint venture (at cost) as at 1st January	755,000	755,000
Group's share of joint venture profit as at 1st January	1,878,949	1,494,803
Group's share of net assets of joint venture company as at 1st January	2,633,949	2,249,803
Share of unrealised profit on disposal of investments	(112,138)	(112,138)
Group's share of net assets of joint venture company as at 1st January (net of unrealised profit)	2,521,811	2,137,665
Share of profit of joint venture (net of income tax) (Note 20)	292,837	407,215
Share of other comprehensive income of equity accounted joint venture	62,773	26,931
Dividend received during the year	-	(50,000)
Group's share of net assets of joint venture company as at 31st December	2,877,420	2,521,811

34 (c) Summarised Financial Position of Joint Venture - Acuity Partners (Pvt) Ltd and its Subsidiaries

As at 31st December	2021 Rs 000	2020 Rs 000
Cash and cash equivalents	399,528	317,478
Trade and other receivables	3,436,204	1,508,272
Other current assets	4,807,418	5,845,574
Non-current assets	13,770,951	19,132,445
Trade and other payables	(613,335)	(483,195)
Other current liabilities	(9,561,384)	(15,398,148)
Non-current liabilities	(3,100,309)	(2,854,630)
Non controlling interest	(3,159,957)	(2,799,899)
Share holder's equity of Joint Venture	5,979,116	5,267,897
Group's carrying amount of the investment	2,989,558	2,633,949
Share of unrealised profit on disposal of investments	(112,138)	(112,138)
Group's carrying amount of the investment - Net	2,877,420	2,521,811

Notes to the Financial Statements

34 INVESTMENT IN JOINT VENTURE (Contd.)

34 (d) Summarised Statement of Profit or Loss of Joint Venture - Acuity Partners (Pvt) Ltd and its Subsidiaries

For the year ended 31st December	2021 Rs 000	2020 Rs 000
Interest income	902,841	1,166,947
Other Income	1,121,869	718,574
Revenue	2,024,710	1,885,521
Depreciation and amortisation expenses	(102,555)	(96,429)
Administration and distribution expenses	(553,930)	(427,696)
Finance cost	(303,896)	(309,673)
Profit from operations	1,166,884	1,148,152
VAT on financial services	46,923	(37,887)
Profit before tax	1,213,807	1,110,265
Income tax expenses	(269,193)	91,968
Profit for the year	944,614	1,202,233
Other comprehensive income	270,437	107,547
Total comprehensive income for the year	1,215,051	1,309,780
Non controlling interest	(503,833)	(441,488)
Total comprehensive income for the year	711,218	868,292
Group's share of :		
Profit or loss for the year	292,837	407,215
Other comprehensive income for the year	62,772	26,931
Comprehensive income for the year	355,609	434,146

There are no restrictions on the ability of the joint venture company to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances.

The Bank has neither contingent liabilities nor capital and other commitments towards its joint venture company.

ACCOUNTING POLICY

Subsidiaries are entities that are controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect the returns of those investees through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee
- exposure or rights to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with other vote holders of the investee
- rights arising from other contractual arrangements
- the Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the above.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences, until the date that control ceases. Where subsidiaries have been sold or acquired during the year, assets, liabilities, income and expenses of the said subsidiary are included in the consolidated financial statements, from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of Group are eliminated in full on consolidation.

Non-controlling interests represent the portion of profit or loss and net assets of the subsidiaries, not owned directly or indirectly by the Bank. The non-controlling interest is presented in the consolidated statement of financial position within equity, separately from the equity attributable to the equity holders of the Bank. Non-controlling interests in the profit or loss of the Group, is disclosed separately in the consolidated income statement.

A change in the ownership interest of a subsidiary without a loss of control, is accounted for as an equity transaction. Upon the loss of control, the Group de-recognises the assets (including goodwill) and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control, is recognised in the statement of changes in equity. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

There are no significant restrictions on the ability of the subsidiaries to transfer funds to the Bank in the form of cash dividends or repayment of loans and advances. All subsidiaries of the Bank as at the reporting date, have been incorporated in Sri Lanka.

The Bank's investments in subsidiaries are carried at cost.

ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Impairment of Investments in Subsidiaries

The Bank follows the guidance of Sri Lanka Accounting Standard - LKAS 36 - "Impairment of Assets" in determining whether an investment in subsidiary is impaired. This determination requires significant judgement. The Bank evaluates, among other factors, the duration and extent to which the fair value of a subsidiary is less than its cost and the financial health of the near-term business outlook of the investment or the financial asset, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Notes to the Financial Statements

35 INVESTMENT IN SUBSIDIARIES (Contd.)

35 (a) Investment in Subsidiaries - Quoted

As at 31st December	2021			2020		
	% Holding Value	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000	% Holding Value	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000
HNB Assurance PLC (29,993,000 ordinary shares)	60.00	384,285	4,354,984	60.00	384,285	5,236,778
HNB Finance PLC [Note 35 (b) i (724,904,118 ordinary shares)]	42.16	660,000	7,539,003	42.16	660,000	7,249,041
Total quoted subsidiaries		1,044,285			1,044,285	

35 (b) Investment in Subsidiary - Unquoted

As at 31st December	2021			2020		
	% Holding Value	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000	% Holding Value	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000
Sithma Development (Pvt) Ltd (206,000,000 ordinary shares)	100	1,973,000	8,517,536	100	1,973,000	7,811,000
Total unquoted subsidiaries		1,973,000			1,973,000	
Total for the Bank [35 (a) and 35 (b)]		3,017,285			3,017,285	

35 (b) i HNB Finance PLC

Bank holds a stake of 51% in the voting rights of HNB Finance PLC. Accordingly, the said investment is accounted for as an investment in subsidiary. Since the Bank does not hold non-voting shares of HNB Finance PLC, Bank's holding in the said company is 42.16%.

35 (c) Subsidiary Held through HNB Assurance PLC

As at 31st December	2021		2020	
	% 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

As at 31st December	2021		
	% Holding	Cost of Investment Rs 000	Fair Value Rs 000
Prime Finance PLC (105,602,251 ordinary shares)	87.27	2,122,605	2,122,605
		2,122,605	2,122,605

HNB Finance PLC, subsidiary of the Bank, acquired 87.27% of the ordinary shares of Prime Finance PLC on 23rd December 2021, by way of a crossing transaction on the Colombo Stock Exchange consequent thereto, a mandatory offer at a price of LKR 20.10 per share will be made by the company to the remaining shareholders of Prime Finance PLC in terms of Rule 31(1)(a) of the company Takeovers and Mergers code 1995 as amended in 2003 to acquire the ordinary shares held by such shareholders in Prime Finance PLC. The above noted mandatory offer was closed on 8th February 2022 and the holding of HNB Finance PLC on Prime Finance PLC amounted to 96.64% as at that date.

When preparing the consolidated financial statements effective date of acquisition of Prime Finance PLC has been considered as 31st December 2021.

35 (e) Summarised Financial Information of Subsidiaries

As at 31st December	HNB Assurance PLC		Sithma Development (Pvt) Ltd		HNB Finance PLC	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Assets	35,851,889	31,725,478	10,954,224	10,461,958	44,386,340	37,414,117
Liabilities	27,781,434	23,555,379	2,439,120	2,683,873	39,003,774	32,900,189
Equity	8,070,456	8,170,099	8,515,104	7,778,085	5,382,566	4,513,928

35 (f) Summarised Financial Information of Subsidiaries

For the year ended 31st December	HNB Assurance PLC		Sithma Development (Pvt) Ltd		HNB Finance PLC	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Revenue	13,657,458	11,598,725	1,001,951	1,035,520	3,775,179	7,389,810
Profit after tax	1,221,758	1,164,457	464,293	410,345	513,584	(273,165)
Total comprehensive income	1,172,052	1,188,414	723,860	410,345	542,156	(288,344)

For the year ended 31st December	HNB Assurance PLC		Sithma Development (Pvt) Ltd		HNB Finance PLC	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Cash flows from Operating activities	3,141,494	2,371,954	647,987	550,225	507,632	2,047,581
Cash flows from Investing activities	(1,176,386)	(2,058,169)	(900,454)	(505)	(3,379,328)	423,492
Cash flows from financing activities	(550,835)	(461,317)	-	(258,020)	(311,253)	(195,960)

Assessment of Impairment

The Board of Directors has assessed the potential impairment loss on investments in subsidiaries as at 31st December 2021. 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	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Cost				
Balance as at 1st January	507,684	507,684	1,241,516	1,241,516
Transferred to property, plant and equipment	-	-	(32,800)	-
Additions and improvements	-	-	343	-
Balance as at 31st December	507,684	507,684	1,209,059	1,241,516
Accumulated depreciation				
Balance as at 1st January	32,575	27,240	212,560	215,466
Adjustment made by subsidiary	-	-	-	(34,546)
Charge for the year [Note 18 (b)]	5,335	5,335	31,645	31,640
Balance as at 31st December	37,910	32,575	244,205	212,560
Carrying value as at 31st December	469,774	475,109	964,854	1,028,956

Notes to the Financial Statements

36 INVESTMENT PROPERTIES (Contd.)

36 (a) Valuation of Investment Properties - Bank

	Cost/Carrying Amount As at 31st December 2021					Fair Value As at 31st December 2021			Fair Value As at 31st December 2020 Total Rs 000
	Building sq.ft	Land Perches	Land (Cost) (Rs 000)	Building (Net Book Value) (Rs 000)	Total (Rs 000)	Land (Rs 000)	Building (Rs 000)	Total (Rs 000)	
23 & 23 1/1, Independence Avenue, Colombo 7 [Note 36 (b) i]	10,645	105.10	37,081	39,030	76,111	-	-	1,015,000	942,000
479, T B Jayah Mawatha, Colombo 10 [Note 36 (b) ii]	Land	112.96	126,480	-	126,480	2,485,100	-	2,485,100	2,428,640
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 1 [Note 36 (b) ii]	Land	26.62	34,889	-	34,889	718,700	-	718,700	665,500
451, Kandy Road, Kegalle [Note 36 (b) ii]	Land	61.70	83,400	-	83,400	202,680	-	202,680	178,750
181, High Level Road, Nugegoda.	11,096	16.50	82,500	66,394	148,894	189,800	95,500	285,300	188,874
			364,350	105,424	469,774	3,596,280	95,500	4,706,780	4,403,764

36 (b) Valuation of Investment Properties - Group

	Cost/Carrying Amount As at 31st December 2021					Fair Value As at 31st December 2021			Fair Value As at 31st December 2020 Total Rs 000
	Building sq.ft	Land Perches	Land (Cost) (Rs 000)	Building (Net Book Value) (Rs 000)	Total (Rs 000)	Land (Rs 000)	Building (Rs 000)	Total (Rs 000)	
Through the Bank									
23 & 23 1/1, Independence Avenue, Colombo 7 [Note 36 (b) i]	10,645	105.10	37,081	39,030	76,111	1,015,000	-	1,015,000	942,000
181, High level Road, Nugegoda	11,096	16.50	82,500	66,394	148,894	189,800	95,500	285,300	188,874
Through the Subsidiary -Sithma Development (Pvt) Ltd									
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 1 [Note 36 (b) ii]	41,688	-	-	58,140	58,140	468,900	-	468,900	463,590
451, Kandy Road, Kegalle [Note 36 (b) ii]	16,000	-	-	100,301	100,301	197,111	-	197,111	153,316
Through the Subsidiary -HNB Finance PLC [Note 36 (b) iii]									
249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda	-	39.60	151,063	302,740	453,803	296,503	543,497	840,000	840,000
Vihara Road, Rankewatte, Matale	-	15.00	9,000	-	9,000	10,500	-	10,500	10,500
465/1, Old Police Station Road, Kahathuduwa, Polgasowita	-	182.59	49,008	55,597	104,605	69,689	85,311	155,000	155,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee	-	724.00	14,000	-	14,000	18,000	-	18,000	18,000
			342,652	622,202	964,854	584,492	724,308	2,989,811	2,771,280

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 (b) iv Lands situated at No 44/1, Service Road, Puttalam and No 6, Abaya Place , 7Th Lane , Anuradhapura held by HNB Finance PLC have been transferred from Investment property to Property Plant and Equipment during the year ended 31st December 2021 since the building constructed in the said location are being used by Company.

36 (c) Valuation details of Investment Properties

In determining fair value, the current condition of the properties, future usability and associated development requirements have been considered. Further, the valuers have made reference to market evidence of transaction prices for similar properties with appropriate adjustments for size and locations.

36 (c) i Bank

Property	Name of professional Valuer	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs
23 & 23 1/1, Independence Avenue, Colombo 07	Mr. G. W. G. Abeygunawardene	Income approach - Estimated rent per month - Years since purchase - Outgoing expenses as a percentage of gross annual rent	Rs 5,076,449 22.22 25%
479, T.B. Jayah Mawatha, Colombo 10	Mr. G. W. G. Abeygunawardene	Market comparable method - Rate per perch for land	Rs 22,000,000
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 01	Mr. G. W. G. Abeygunawardene	Market comparable method - Rate per perch for land	Rs 27,000,000
451, Kandy Road, Kegalle	Mr. W.M. S.K. Walisundara	Market comparable method - Rate per perch for land	Rs. 3,600,000
181, High Level Road, Nugegoda	Mr.G.W.G.Abeygunawardene	Market comparable method and income approach - Rate per perch for land - Rate per Sq.ft.	Rs. 11,500,000 Rs. 6,250 to Rs.8,000

Notes to the Financial Statements

36 INVESTMENT PROPERTIES (Contd.)

36 (c) ii Group

Property	Name of professional Valuer	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs
Through the Bank -			
23 & 23 1/1, Independence Avenue, Colombo 07	Mr. G.W.G. Abeyagunawardene	Income approach - Estimated rent per month - Years since purchase - Outgoing expenses as a percentage of gross annual rent	Rs 5,076,449 22.22 25%
Through the subsidiary - Sithma Development (Pvt) Ltd			
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
Through the subsidiary - HNB Finance PLC			
No.249, Stanley Thilekerathna Mawatha, Pagoda, Nugegoda	Mr. R.S. Wijesuriya	Income approach - Estimated rent per month - Discount Rate	Rs. 2,922,250 20%
Vihara Road, Rakewatta, Matale	Mr. R.S. Wijesuriya	Market comparable method - Rate per perch for land	Rs. 700,000
No.465/1, Old Police Station Road, Kahathduwa, Polgasowita	Mr. R.S. Wijesuriya	Income approach - Estimated rent per month - Discount rate	Rs. 576,875 20%
Adampodaivayal, Adampodaimlaikadu, Trincomalee	Mr. R.S. Wijesuriya	Market comparable method - Rate per perch for land	Rs. 25,000

36 (c) iii Fair Valuation of Investment properties

Fair valuation of investment properties held through the Bank and through the subsidiary, Sithma Development (Pvt) Ltd was carried out in 2021 while the fair valuation of investment properties held through the subsidiary, HNB Finance PLC was carried out in 2021.

Fair value of the investment properties is determined using the income approach, market comparable method and depreciated replacement cost basis.

Unobservable inputs used in measuring fair value

- Depreciated replacement cost basis/Market comparable method

Significant increase/(decrease) in estimated price per perch, price per sq.ft and depreciation rate would result in a significantly higher/(lower) fair value.

- Income approach

Significant increase/(decrease) in rent per sq.ft, outgoing expenses and number of years since purchase would result in a significantly higher/(lower) fair value.

36 (d) Statement of Income and Expenditure of investment properties

For the year ended 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Rental income derived from the investment properties	66,834	63,455	162,907	158,372
Direct operating expenses (including repair and maintenance generating rental income)	6,097	5,419	20,896	42,878

Notes to the Financial Statements

37 PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICY

Basis of Recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Group and cost of the asset can be reliably measured.

Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of, or service it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which those are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment.

When parts of an item of property or equipment have different useful lives, those are accounted for as separate items (major components) of property, plant and equipment.

Cost Model

The Group applies cost model to property, plant and equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

Revaluation Model

The Group applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment loss. Freehold land and buildings of the Group are revalued at least once in every three years on a roll over basis, to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in other comprehensive income and accumulated in equity, under capital reserve, or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the income statement. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the income statement or debited in the other comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset, is transferred directly to retained earnings on retirement or disposal of the asset.

Reclassification as Investment Property

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified as an investment property. Any gain arising on re-measurement, is recognised in the income statement to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in revaluation reserve in equity. Any loss is recognised immediately in the income statement.

Subsequent Costs

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be reliably measured. The costs of day to day servicing of property, plant and equipment are charged to the income statement as incurred. Costs incurred in using or redeploying an item, is not included under carrying amount of an item.

De-recognition

The carrying amount of an item of property, plant and equipment is de-recognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property, plant and equipment which is calculated as the difference between the carrying amount and the net disposal proceeds, is included in the income statement when the item is de-recognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is de-recognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is de-recognised.

Depreciation

The Group provides depreciation from the date the assets are available for use up to the date of disposal. The assets are depreciated at the following rates on a straight line basis over the periods appropriate to the estimated useful lives, based on the pattern in which the asset's future economic benefits are expected to be consumed by the Group other than disclosed separately. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is de-recognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

Hatton National Bank PLC and its Subsidiary Companies (except for Sithma Development (Pvt) Ltd)

Class of Asset	% per annum
Freehold buildings	2.50
Motor vehicles	25.00
Computer equipment	16.67
Office equipment	20.00
Furniture and fittings	10.00
Fixtures	10.00

Sithma Development (Pvt) Ltd

Class of Asset	% per annum
Generators, generator panels and associated power cables	2.00
Chillers, cooling towers and associated equipment	4.00
Lifts and escalators	4.00
Building management systems	4.00
Plant and machinery	20.00
Equipment	20.00
Furniture and fittings	10.00

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of buildings and major plant and machinery awaiting capitalisation. Capital work-in-progress would be transferred to the relevant asset when it is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard - LKAS 23 on "Borrowing Costs". A qualifying asset is an asset which takes substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Other borrowing costs are recognised in the income statement in the period in which they incur.

Notes to the Financial Statements

37 PROPERTY, PLANT AND EQUIPMENT (Contd.)

ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

Fair value of freehold land and buildings

The freehold land and buildings of the Group are reflected at fair value. The Group engages independent valuers to determine the fair value of freehold land and buildings in terms of Sri Lanka Accounting Standard - SLFRS 13 on "Fair Value Measurement".

The methods used to determine the fair value of the freehold land and buildings, are further explained in Note 37 (d) to the financial statements.

Useful Life Time of Property, Plant and Equipment

The Group reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Management exercises judgement in the estimation of these values, rates, methods and hence those are subject to uncertainty.

Bank	Improvements to Leasehold Buildings Note 37 (b) Rs 000	Freehold Land and Buildings Note 37 (a) Rs 000	Computer Equipment Rs 000	Equipment Furniture and Fixtures Rs 000	Motor Vehicles Rs 000	Capital Work-in- Progress Rs 000	2021 Total Rs 000	2020 Total Rs 000
Cost/valuation as at 1st January	1,915,774	17,559,049	5,696,854	6,253,512	151,827	7,820	31,584,836	30,824,126
Accumulated depreciation adjustment on revaluation	-	(570,494)	-	-	-	-	(570,494)	-
Revaluation surplus	-	4,878,773	-	-	-	-	4,878,773	-
Additions and improvements	49,659	15,445	365,692	272,390	-	3,705	706,891	890,286
Disposals during the year	(1,535)	-	(27,604)	(69,641)	(7,205)	-	(105,985)	(117,166)
Net impairment charge	-	(27,321)	-	-	-	-	(27,321)	(12,410)
Transferred from capital work-in-progress	6,821	-	-	953	-	(7,774)	-	-
Cost/valuation as at 31st December	1,970,719	21,855,450	6,034,942	6,457,214	144,622	3,751	36,466,698	31,584,836
Accumulated depreciation as at 1st January	1,657,427	382,501	3,948,074	4,773,311	118,467	-	10,879,780	9,747,365
Accumulated depreciation adjustment on revaluation	-	(570,494)	-	-	-	-	(570,494)	-
Charge for the year [Note 18 (b)]	93,239	190,753	541,185	467,823	16,520	-	1,309,520	1,248,888
Disposals during the year	(1,535)	-	(27,603)	(69,501)	(7,207)	-	(105,846)	(116,473)
Accumulated depreciation as at 31st December	1,749,131	2,760	4,461,656	5,171,633	127,780	-	11,512,960	10,879,780
Carrying value as at 31st December 2021	221,588	21,852,690	1,573,286	1,285,581	16,842	3,751	24,953,738	-
Carrying value as at 31st December 2020	258,347	17,176,548	1,748,780	1,480,201	33,360	7,820	-	20,705,056

The Bank / Group revalued its freehold land and buildings during 2021. The details relating to revaluation of freehold land and buildings are given in Note 37 (c) to the financial statements.

Group	Improvements to Leasehold Buildings Note 37 (b) Rs 000	Freehold Land and Buildings Note 37 (a) Rs 000	Computer Equipment Rs 000	Equipment Furniture and Fixtures Rs 000	Motor Vehicles Rs 000	Capital Work-in Progress Rs 000	2021 Total Rs 000	2020 Total Rs 000
Cost/valuation as at 1st January	1,915,774	37,632,004	6,185,611	9,167,191	175,871	164,936	55,241,387	54,326,085
Accumulated depreciation adjustment on revaluation	-	(799,139)	-	-	-	-	(799,139)	-
Revaluation surplus	-	8,547,117	-	-	-	-	8,547,117	-
Acquisition of subsidiary through HNB Finance PLC	-	-	-	89,971	11,940	-	101,911	-
Additions and improvements	49,659	84,084	533,275	380,681	4,000	11,302	1,063,001	1,088,528
Net Impairment charge	-	(27,322)	-	-	-	-	(27,322)	(12,410)
Disposals during the year	(1,535)	-	(29,192)	(86,490)	(7,378)	-	(124,595)	(160,816)
Transferred from investment properties	-	32,800	-	-	-	-	32,800	-
Transferred from capital work-in-progress	6,821	140,768	-	953	-	(148,542)	-	-
Cost/valuation as at 31st December	1,970,719	45,610,312	6,689,694	9,552,306	184,433	27,696	64,035,160	55,241,387
Accumulated depreciation as at 1st January	1,657,427	1,108,006	4,292,813	6,221,260	134,497	-	13,414,003	11,873,468
Accumulated depreciation adjustment on revaluation	-	(799,139)	-	-	-	-	(799,139)	-
Acquisition of subsidiary through HNB Finance PLC	-	-	-	74,942	10,377	-	85,319	-
Charge for the year [Note 18 (b)]	93,239	394,989	653,554	571,009	19,729	-	1,732,520	1,679,081
Disposals during the year	(1,535)	-	(29,169)	(83,934)	(7,380)	-	(122,018)	(138,546)
Accumulated depreciation as at 31st December	1,749,131	703,858	4,917,198	6,783,277	157,223	-	14,310,687	13,414,003
Carrying value as at 31st December 2021	221,588	44,906,454	1,772,496	2,769,029	27,210	27,696	49,724,473	-
Carrying value as at 31st December 2020	258,347	36,523,998	1,892,798	2,945,931	41,374	164,936	-	41,827,384

Notes to the Financial Statements

37 PROPERTY, PLANT AND EQUIPMENT (Contd.)

37 (a) Information on Freehold Land and Buildings of the Bank - Extents and Locations

As required by Rule 7.6 (viii) of the Listing Rules of Colombo Stock Exchange.

Bank	Land Perches	Buildings Sq.ft.	Cost/Valuation of Land Rs 000	Cost/Valuation of Buildings Rs 000	Total Value Rs 000	Accumulated Depreciation Rs 000	As at 31st December 2021 Carrying Value Rs 000	As at 31st December 2020 Carrying Value Rs 000
Akkaraipattu Branch								
14, Main Street, Akkaraipattu.	19.32	9,142	135,000	37,700	172,700	22	172,678	136,327
Ambalangoda Branch								
94/1, New Galle Road, Ambalangoda.	29.90	4,959	150,000	26,000	176,000	15	175,985	148,429
Anuradhapura Branch								
30, Maithripala Senanayake Mawatha, Anuradhapura.	57.01	9,440	143,647	73,353	217,000	44	216,956	143,322
Badulla Branch								
15, 15 1/1, Udayaraja Mawatha, Badulla.	28.44	5,715	127,890	20,110	148,000	12	147,988	144,862
Bambalapitiya Branch								
285, Galle Road, Colombo 04.	20.00	19,018	450,000	102,800	552,800	61	552,739	459,443
Boralesgamuwa Branch								
24, Maharagama Road, Boralesgamuwa.	30.34	6,250	176,000	38,500	214,500	23	214,477	155,703
Borella Branch								
53/1, D S Senanayake Mawatha, Colombo 08.	28.00	10,950	392,000	123,000	515,000	73	514,927	412,124
Centre of Aspirations								
90, Vinayalankara Mawatha, Colombo 10.	249.00	10,270	4,233,000	86,000	4,319,000	19	4,318,981	3,403,463
Centralised Operations								
10, Sri Uttarananda Mawatha, Colombo 3	40.00	70,240	1,080,000	578,000	1,658,000	345	1,657,655	1,288,858
City Office								
16, Janadhipathi Mawatha, Colombo 1.	84.00	48,350	2,184,000	286,700	2,470,700	171	2,470,529	1,940,076
Chavakachcheri Branch								
170, Kandy Road, Chavakachcheri .	35.31	5,387	49,500	22,800	72,300	7	72,293	59,087
Dambulla Branch								
700B, Anuradhapura Road, Dambulla.	87.00	7,486	224,600	53,400	278,000	32	277,968	240,209
Fruithill Bungalow								
No 295/6, Dimbula Road, Hatton.	53.08	4,530	26,900	20,100	47,000	12	46,988	38,103
Galle Branch								
3, Wakwella Road, Galle.	13.28	7,920	117,300	52,200	169,500	31	169,469	126,763
Gampaha Branch								
148, Colombo Road, Gampaha.	25.00	16,626	121,250	160,750	282,000	96	281,904	245,935
Gampola Branch								
142, Kandy Road, Gampola.	17.05	13,340	76,725	136,275	213,000	46	212,954	161,296
Grandpass Branch								
182, St Joseph Street, Colombo 14.	24.00	11,240	216,000	125,200	341,200	75	341,125	260,509

Bank	Land Perches	Buildings Sq.ft.	Cost/ Valuation of Land Rs 000	Cost/ Valuation of Buildings Rs 000	Total Value Rs 000	Accumulated Depreciation Rs 000	As at 31st December 2021 Carrying Value Rs 000	As at 31st December 2020 Carrying Value Rs 000
Gunasinghapura Stores								
11, Mohandiram's Road, Colombo 12.	48.30	6,030	458,900	32,000	490,900	51	490,849	325,416
Ja-Ela Branch								
73, Old Negombo Road, Kanuwana, Ja-Ela.	19.00		62,000		62,000		62,000	30,400
Jaffna Metro Branch								
177 & 179, Ponnampalam Road, Jaffna.	62.09	30,988	372,500	296,500	669,000	97	668,903	669,525
Kahawatte Branch								
772 A, Main Street, Kahawatte.	16.14	15,139	36,315	49,685	86,000	30	85,970	55,518
Kalmunai Branch								
30A, Batticaloa Road, Kalmunai.	25.10	6,396	113,000	30,000	143,000	10	142,990	122,823
Kandy Branch								
1, Dalada Veediya, Kandy.	57.65	27,705	1,153,000	263,000	1,416,000	157	1,415,843	919,421
Kuliyapitiya Branch								
225, Main Street, Kuliyapitiya.	25.30	4,500	41,745	31,255	73,000	19	72,981	40,641
Kurunegala Branch								
6, St. Anne's Street, Kurunegala.	26.00	17,970	150,800	164,200	315,000	98	314,902	263,833
Mount Bungalow								
16, Mount Road, Hatton.	160.09	4,728	48,027	20,973	69,000	13	68,987	65,310
Mannar Branch								
68, Main Street, Mannar.	23.00	6,490	40,000	22,700	62,700	14	62,686	30,905
Marawila Branch								
534, Colombo Road, Marawila.	42.00	7,217	58,800	52,200	111,000	31	110,969	58,523
Maskeliya Branch								
7/11, New Town, Maskeliya.	20.32	8,231	44,704	51,296	96,000	31	95,969	84,563
Matara Branch								
58D, Esplanade Road, Matara.	22.50	10,377	90,000	59,000	149,000	35	148,965	119,362
Minuwangoda Branch								
41, Samarakkody Road, Minuwangoda.	20.51	5,155	51,275	33,725	85,000	20	84,980	72,847
Managers' Bungalow								
295, Dimbula Road, Hatton.	42.20	2,060	20,045	7,355	27,400	4	27,396	25,026
Mount Lavinia Branch								
605, Galle Road, Mount Lavinia.	22.60	14,730	192,100	97,100	289,200	58	289,142	203,626
Negombo Branch								
18, Rajapakse Broadway, Negombo.	8.88	5,490	32,000	30,000	62,000	18	61,982	38,632
Negombo Metro								
201, Colombo Road, Negombo.	51.98	21,495	170,000	240,000	410,000	143	409,857	331,524
Nittambuwa Branch								
22, Kandy Road, Nittambuwa.	55.69	11,603	155,932	172,068	328,000	103	327,897	266,456
Nochchiyagama Branch *								
10, Puttalam Road, Nochchiyagama.	-	8,280	-	50,500	50,500	30	50,470	23,375

Notes to the Financial Statements

37 PROPERTY, PLANT AND EQUIPMENT (Contd.)

Bank	Land Perches	Buildings Sq.ft.	Cost/Valuation of Land Rs 000	Cost/Valuation of Buildings Rs 000	Total Value Rs 000	Accumulated Depreciation Rs 000	As at 31st December 2021 Carrying Value Rs 000	As at 31st December 2020 Carrying Value Rs 000
Nuwara Eliya Branch/Bungalow								
42, Queen Elizabeth Drive, Nuwara Eliya.	149.03	13,815	865,150	51,850	917,000	31	916,969	750,543
Nugegoda Branch								
190, 190/1, Highlevel Road (New), Nugegoda.	39.70	20,160	416,300	226,300	642,600	66	642,534	466,424
Panchikawatte Branch								
168, Panchikawatta Road, Colombo 10.	22.55	16,030	281,800	136,500	418,300	81	418,219	335,881
Pettah Branch								
149-151, Main Street, Colombo 11.	13.03	12,480	390,900	120,200	511,100	72	511,028	383,956
Pettah Metro **								
88, Main Street, Colombo 11.	-	3,708	-	127,700	127,700	76	127,624	96,431
Polonnaruwa Branch *								
467, Main Street, Kaduruwela, Polonnaruwa.	-	9,882	-	80,000	80,000	48	79,952	52,058
Pussellawa Branch								
510, Nuwara Eliya Road, Pussellawa.	14.30	6,590	39,325	59,175	98,500	35	98,465	63,644
Ratnapura Branch								
21 & 23, Senanayake Mawatha, Ratnapura.	43.40	18,970	206,150	78,850	285,000	23	284,977	312,144
Sea Street Branch								
60, Sea Street, Colombo 11.	6.90	9,625	191,500	65,800	257,300	39	257,261	181,367
Trincomalee Branch								
59, Ehamparam Road, Trincomalee.	31.75	9,103	111,000	38,000	149,000	23	148,977	131,139
Vavuniya Branch*								
43, Inner Circular Road, Vavuniya.	-	9,571	-	36,850	36,850	22	36,828	30,548
Wattala Branch								
270, 270/1, Negombo Road, Wattala.	53.00	8,770	318,000	57,000	375,000	34	374,966	324,475
Welimada Branch								
35, Nuwara Eliya Road, Welimada.	14.37	12,832	71,850	48,150	120,000	29	119,971	122,580
Wellawaya Branch								
70, Kumaradasa Mawatha, Wellawaya.	25.50	10,525	31,560	41,440	73,000	25	72,975	43,767
Wellawatte Branch								
100 & 102, Galle Road, Colombo 06.	36.10	16,280	739,000	183,700	922,700	110	922,590	769,356
Total freehold land and buildings - Bank			16,857,490	4,997,960	21,855,450	2,760	21,852,690	17,176,548

* Buildings constructed on state land given on lease

** Condominium property

Bank has 52 freehold buildings as at 31st December 2021.

37 (a) Information on Freehold Land and Buildings of the Group - Extents and Locations

Group	Land Perches	Buildings Sq.ft.	Cost/Valuation of Land	Cost/Valuation of Buildings	Total Value	Accumulated Depreciation	As at 31st December 2021 Net Book Value Rs 000	As at 31st December 2020 Net Book Value Rs 000
Through the subsidiary - Sithma Development (Pvt) Ltd.								
479 T B Jayah Mawatha, Colombo 10	113.00	549,890	2,485,100	18,868,114	21,353,214	640,753	20,712,461	17,309,400
Janadhipathi Mawatha, Colombo 1	26.62	-	718,700	-	718,700	-	718,700	665,500
Through the subsidiary - HNB Finance PLC								
451, Kandy Road, Kegalle	61.70	-	202,680	-	202,680	-	202,680	154,250
94 96/1, Kandy Rd, Kurunagela	7.05	5,755	24,187	65,813	90,000	4,524	85,476	87,121
46/A, Tangalle Rd, Hambanthota	9.26	2,113	11,667	13,333	25,000	917	24,083	24,417
677, William Gopallawa Mw, Kandy	9.26	5,400	24,305	56,695	81,000	3,898	77,102	78,520
168, Nawala Rd, Nugegoda	25.90	30,887	193,785	678,215	872,000	46,627	825,373	842,328
No 67/1, Mahinda Place, Kirulapone, Colombo 5	8.00	5,786	40,777	103,223	144,000	4,086	139,914	139,914
No 10/11, Galle Road, Katubedda, Moratuwa	23.00	-	46,000	-	46,000	-	46,000	46,000
No.44/1, Service Road, Puttlam	-	-	31,500	54,290	85,790	113	85,677	-
No.06, Abaya Place, 7th Lane, Anuradapura.	-	-	50,000	86,478	136,478	180	136,298	-
Total freehold land and buildings - Subsidiaries			3,828,701	19,926,161	23,754,862	701,098	23,053,764	19,347,450
Total freehold land and buildings - Group			20,686,191	24,924,121	45,610,312	703,858	44,906,454	36,523,998

37 (b) Improvements to Leasehold Buildings

As at 31st December	Bank				Group			
	2021		2020		2021		2020	
	Cost of Buildings Rs 000	Accumulated Depreciation Rs 000	Net Book Value Rs 000	Net Book Value Rs 000	Cost of Buildings Rs 000	Accumulated Depreciation Rs 000	Net Book Value Rs 000	Net Book Value Rs 000
01 - 05 years	973,871	893,299	80,572	167,791	973,871	893,299	80,572	167,791
06 - 10 years	932,188	812,627	119,561	84,453	932,188	812,627	119,561	84,453
11 - 15 years	38,901	30,004	8,897	433	38,901	30,004	8,897	433
16 - 20 years	25,759	13,201	12,558	5,670	25,759	13,201	12,558	5,670
	1,970,719	1,749,131	221,588	258,347	1,970,719	1,749,131	221,588	258,347

Notes to the Financial Statements

37 PROPERTY, PLANT AND EQUIPMENT (Contd.)

37 (c) The Details of Freehold Land and Buildings Which are Stated at Valuation

As required by Rule 7.6 (viii) of Listing Rules of Colombo Stock Exchange.

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. 6,200 p.sq.ft	106,837	36,058	127,890	20,110	21,053	(15,948)
Bambalapitiya Branch	Mr. G.W.G. Abeygunawardene	Rs.22,500,000 p.p/Rs.3,000 p. sq.ft to Rs. 6,200 p.sq.ft	380,000	75,413	450,000	102,800	70,000	27,387
Boralesgamuwa Branch	Mr. G.W.G. Abeygunawardene	Rs.5,800,000 p.p/Rs.6,000 to Rs.6,250 p. sq.ft	125,587	28,557	176,000	38,500	50,413	9,943
Borella Branch	Mr. G.W.G. Abeygunawardene	Rs.14,000,000 p.p/Rs.3,000 to Rs.12,500 p. sq.ft	315,000	94,865	392,000	123,000	77,000	28,135
Centre of Aspiration	Mr. G.W.G. Abeygunawardene	Rs.17,000,000 p.p/Rs.8,000 to Rs.8,750 p. sq.ft	3,311,700	87,844	4,233,000	86,000	921,300	(1,844)
Chavakachcheri Branch	Mr. S. Suresh	Rs.1,400,000 p.p/Rs.4,235 p. sq.ft	31,670	27,049	49,500	22,800	17,830	(4,249)
City Office	Mr. G.W.G. Abeygunawardene	Rs.26,000,000 p.p/Rs.3,500 to Rs.6,500 p. sq.ft	1,848,000	89,583	2,184,000	286,700	336,000	197,117
Dambulla Branch	Mr. W.M. S.K.Walisundara	Rs.1,800,000 to Rs.3,500,000 p.p/ Rs.9,000 to Rs.10,000 p. sq.ft	200,000	38,315	224,600	53,400	24,600	15,085
Fruithill Bungalow	Mr. A. Senevirathne	Rs.500,000 p.p/Rs.4,400 p. sq.ft	20,175	16,999	26,900	20,100	6,725	3,101
Galle Branch	Mr. G.K.D.K. Abayathunga	Rs.8,500,000 p.p/Rs.11,000 p. sq.ft	95,000	30,207	117,300	52,200	22,300	21,993
Gampaha Branch	Mr. D.C. Sosa	Rs.4,850,000 p.p/Rs.6,500 to Rs.14,000 p. sq.ft	93,750	144,315	121,250	160,750	27,500	16,435
Gampola Branch	Mr. A. Senevirathne	Rs.4,500,000 p.p/Rs. 10,200 p. sq.ft	65,642	93,502	76,725	136,275	11,083	42,773
Grandpass Branch	Mr. G.W.G. Abeygunawardene	Rs.9,000,000 p.p/Rs.9,000 to Rs. 12,500 p. sq.ft	168,000	87,719	216,000	125,200	48,000	37,481
Gunasinghepura Stores	Mr. G.W.G. Abeygunawardene	Rs.9,500,000 p.p/Rs.5,000 to Rs.5,750 p. sq.ft	301,000	23,151	458,900	32,000	157,900	8,849
Ja-Ela Branch	Mr. D.C. Sosa	Rs.3,300,000 p.p	30,400	-	62,000	-	31,600	-
Jaffna Metro Branch	Mr. S. Suresh	Rs.6,000,000 p.p/Rs.9,570 p. sq.ft	276,000	382,209	372,500	296,500	96,500	(85,709)
Kahawatte Branch	Mr. E.P.P.Jayaratne	Rs.2,250,000 p.p/Rs.2,000 to Rs.6,000 p. sq.ft	32,000	22,609	36,315	49,685	4,315	27,076
Kalmunai Branch	Mr. S. Suresh	Rs.4,500,000 p.p/Rs.4,715 p. sq.ft	80,320	41,234	113,000	30,000	32,680	(11,234)
Kandy Branch	Mr. A. Senevirathne	Rs.20,000,000 p.p/Rs.4,000 to Rs.12,750 p.sq.ft	720,625	189,753	1,153,000	263,000	432,375	73,247
Kuliypitiya Branch	Mr. W.M. S.K.Walisundara	Rs.1,650,000 /Rs.8,500 p. sq.ft to Rs.9,000 p. sq.ft	25,560	14,525	41,745	31,255	16,185	16,730

Bank	Name of Professional Valuer	Range of Estimates for Unobservable Inputs	Carrying Value before Revaluation of		Revalued Amount of		Revaluation Gain/ (Loss) recognised on	
			Land	Buildings	Land	Buildings	Land	Buildings
			Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Kurunegala Branch	Mr. W.M. S.K.Walisundara	Rs.5,800,000 p.p/Rs.10,000 to Rs.13,000 p. sq.ft	163,125	95,557	150,800	164,200	(12,325)	68,643
Mount Bungalow	Mr. A. Senevirathne	Rs.300,000 p.p/Rs.3,450 p. sq.ft	44,025	20,198	48,027	20,973	4,002	775
Mannar Branch	Mr. S. Suresh	Rs.1,750,000 p.p/Rs.3,500 to p. sq.ft	12,650	19,661	40,000	22,700	27,350	3,039
Marawila Branch	Mr. W.M. S.K.Walisundara	Rs.1,400,000 p.p/Rs.9,500 to Rs.10,000 p. sq.ft	34,800	22,530	58,800	52,200	24,000	29,670
Maskeliya Branch	Mr. A. Senevirathne	Rs.2,200,000 p.p/Rs.2,700 to Rs.8,250 p. sq.ft	32,512	49,356	44,704	51,296	12,192	1,940
Matara Branch	Mr. G.K.D.K. Abayathunga	Rs.4,000,000 p.p/Rs.9,500 p. sq.ft	78,000	39,700	90,000	59,000	12,000	19,300
Minuwangoda Branch	Mr. D.C. Sosa	Rs.2,500,000 p.p/Rs.8,000 p. sq.ft	45,000	26,408	51,275	33,725	6,275	7,317
Manager Bungalow	Mr. A. Senevirathne	Rs.475,000 p.p/Rs.3,565p. sq.ft	15,825	8,725	20,045	7,355	4,220	(1,370)
Mount Lavinia Branch	Mr. G.W.G. Abeygunawardene	Rs.8,500,000 p.p/Rs.5,500 to Rs.7,500 p. sq.ft	124,300	76,104	192,100	97,100	67,800	20,996
Negombo Branch	Mr. D.C. Sosa	Rs.3,500,000 p.p/Rs.1500 to Rs.9,000p. sq.ft	19,536	18,230	32,000	30,000	12,464	11,770
Negombo Metro Building	Mr. D.C. Sosa	Rs.3,250,000 p.p/Rs.4,400 to Rs.11,000 p. sq.ft	133,029	188,240	170,000	240,000	36,971	51,760
Nittambuwa Branch	Mr. D.C. Sosa	Rs.2,800,000 p.p/Rs.8,000 to Rs.20,000 p. sq.ft	139,225	120,658	155,932	172,068	16,707	51,410
Nochchiyagama Branch*	Mr. W.M. S.K.Walisundara	Rs 7,000 to Rs.7,500 p. sq.ft	-	22,168	-	50,500	-	28,332
Nugegoda Branch	Mr. G.W.G. Abeygunawardene	Rs 10,500,000 p.p/Rs.6,500 to Rs.11,500 p. sq.ft	297,375	164,671	416,300	226,300	118,925	61,629
Nuwara Eliya Branch/ Bungalow	Mr. A. Senevirathne	Rs.5,000,000 to Rs.7,000,000 p.p/ Rs.3,600 to Rs.3,750 p. sq.ft	656,508	89,405	865,150	51,850	208,642	(37,555)
Panchikawatta Branch	Mr. G.W.G. Abeygunawardene	Rs.12,500,000 p.p/Rs.4,500 p. sq.ft to Rs.9800 p. sq.ft	225,500	104,698	281,800	136,500	56,300	31,802
Pettah Branch	Mr. G.W.G. Abeygunawardene	Rs.30,000,000 p.p/Rs.5,500 p. sq.ft to Rs.10,500 p. sq.ft	293,175	86,126	390,900	120,200	97,725	34,074
Pettah Metro**	Mr. G.W.G. Abeygunawardene	Rs.230 p.sq.ft to Rs.250 p.sq.ft	-	91,438	-	127,700	-	36,262
Polonnaruwa Branch*	Mr. W.M. S.K.Walisundara	Rs.9,000 to Rs.12,000 p. sq.ft	-	49,362	-	80,000	-	30,638
Pussellawa Branch	Mr. A. Senevirathne	Rs.2,750,000 p.p/Rs.9,000 p. sq.ft	30,030	31,894	39,325	59,175	9,295	27,281
Ratnapura Branch	Mr. E.P.P. Jayaratne	Rs.4,750,000 p.p/Rs.2,000 to Rs.6,500 p. sq.ft	140,000	167,784	206,150	78,850	66,150	(88,934)
Sea Street Branch	Mr. G.W.G. Abeygunawardene	Rs.27,500,000 p.p/Rs.5,500 p. sq.ft to Rs.7,500 p. sq.ft	129,937	49,202	191,500	65,800	61,563	16,598
Trincomalee Branch	Mr. S. Suresh	Rs.3,500,000 p.p/ Rs.4,200 p. sq.ft	82,550	46,126	111,000	38,000	28,450	(8,126)
Vavuniya Branch*	Mr. S. Suresh	Rs. 3,850 p. sq.ft	-	30,394	-	36,850	-	6,456
Wattala Branch	Mr. D.C. Sosa	Rs.6,000,000 p.p/Rs.7,500 p. sq.ft	265,000	57,432	318,000	57,000	53,000	(432)
Welimada Branch	Mr. E.P.P.Jayarathne	Rs.5,000,000 p.p/Rs.2,000 to Rs.6,000 p. sq.ft	51,732	67,179	71,850	48,150	20,118	(19,029)

Notes to the Financial Statements

37 PROPERTY, PLANT AND EQUIPMENT (Contd.)

Bank	Name of Professional Valuer	Range of Estimates for Unobservable Inputs	Carrying Value before Revaluation of		Revalued Amount of		Revaluation Gain/ (Loss) recognised on	
			Land	Buildings	Land	Buildings	Land	Buildings
			Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Wellawaya Branch	Mr. E.P.P. Jayaratne	Rs.400,000 p.p to Rs.2,000,000 p.p/Rs.1,500 to Rs.6,000 p. sq.ft	22,500	20,166	31,560	41,440	9,060	21,274
Wellawatte Branch	Mr. G.W.G. Abeygunawardene	Rs.20,500,000 p.p/Rs.7,500 to Rs.12,000 p. sq.ft	630,875	131,208	739,000	183,700	108,125	52,492
Centralised Operations Building	Mr. G.W.G. Abeygunawardene	Rs.27,000,000 p.p/Rs.6,500 p. sq.ft to Rs.9,500 p. sq.ft	880,000	388,811	1,080,000	578,000	200,000	189,189
			13,078,425	3,925,573	16,857,491	4,997,959	3,779,066	1,072,386

* Buildings constructed on the state land given on lease

** Condominium property

37 (d) Fair value measurement of Freehold land and buildings

Given below are the valuation techniques used in measuring freehold land and buildings;

Type	Valuation technique	Inter-relationship between significant unobservable inputs and fair value measurement
Freehold land and buildings	Depreciated replacement cost basis	This method involves the capitalisation of expected cost of construction at appropriate remaining life time of the building. Significant increase/(decrease) in estimated price per perch, price per sq.ft and depreciation rate would result in a significantly higher/(lower) fair value.
	Market comparable method	Market comparable method considers the selling price of a similar property within a reasonable period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustment for differences in size, nature, location and condition of the specific property. In this process, outlier transactions indicative of particularly motivated buyers or sellers are compensated for, since the price may not adequately reflect the fair market value.
	Investment method	This method involves the capitalisation of the expected rental income at an appropriate rate of years purchased currently characterised by the real estate market. Significant increase/(decrease) in rent per sq.ft, outgoing expenses and number of years since purchase would result in a significantly higher/ (lower) fair value.

The fair values of the Group's freehold land and buildings are determined by independent valuers at least once in every three years according to the Group's policy. During the year the fair values of the Group's freehold land and buildings were determined by independent valuers as per the Group's policy to revalue the freehold land and buildings at least once in every three years.

37 (e) Temporarily Idle Property, Plant and Equipment - Bank

There was no temporarily idle property, plant and equipment as at 31st December 2021.

37 (f) Compensation from Third Parties for Property, Plant and Equipment - Bank

No compensation was received from third parties for items of property, plant and equipment that were impaired, lost or given up.

37 (g) Capitalisation of Borrowing Costs

Borrowing costs were not capitalized in the acquisition of property plant and equipments during the year 2021 (2020 - Nil)

37 (h) Title Restriction on Property, Plant and Equipment

There were no restrictions on the title of the property plant and equipment of the Group/Bank as at the reporting date.

37 (i) Property, Plant and Equipment Pledged as Security for Liabilities - Bank

There were no item of property, plant and equipment of the Bank pledged as securities for liabilities as at the reporting date.

37 (j) Fully Depreciated Property, Plant and Equipment

The initial cost of fully depreciated property, plant and equipment which are still in use as at the reporting date is as follows;

As at 31st December	Bank	
	2021 Rs 000	2020 Rs 000
Leasehold building	1,413,183	1,258,881
Computer equipment	3,045,848	2,601,813
Office equipment, furniture and fixtures	3,524,618	3,290,057
Motor Vehicle	78,540	85,747
	8,062,189	7,236,498

37(k) Assessment of Impairment

The Board of Directors has assessed the potential impairment loss on property, plant and equipments as at 31st December 2021. Based on the assessment, no impairment provision is required to be made in the financial statements as at reporting date other than the impairment charge recognised through the revaluation of freehold land and buildings carried out in 2021.

37(l) Change in Classification from /(to) Investment Properties

Group did not reclassify any property, plant and equipment as investment properties during the year. Details of investment properties reclassified as property plant and equipment have been provided in 36 (b) iv.

Notes to the Financial Statements

38 RIGHT-OF-USE ASSETS

ACCOUNTING POLICY

In accordance with Sri Lanka Accounting Standard - SLFRS -16 "Lease" Group accounts for all lease hold rights except for short term leases, which are held for use in the provision of services. At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is a lease or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

• Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration of the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Group has elected not to separate non-lease component and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in the face of the "statement of financial position" and lease liabilities within "other liabilities" in the statement of financial position.

• Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

• Group acting as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The details of lease receivables which comprise of finance leases where the group acts as the lessor, are disclosed in note 31 of financial statements.

- **Leases as lessee**

The Bank leases a number of branch and office premises. For some leases, payments are renegotiated every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

The 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 below.

ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Right-of-Use Assets and Operating Lease Liability

The Group uses its judgment to determine whether an operating lease contract qualifies for recognition of right-of-use assets. The Group applies judgements in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic benefit for it to exercise either the renewal or termination. Further, the Group cannot readily determine the interest rate implicit in the lease. Therefore, it uses its incremental borrowing rate to measure operating lease liability. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in similar economic environment.

38 (a) Movement in Right-of-use Assets

	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Cost				
Balance as at 1st January	6,885,017	6,180,287	3,153,030	2,173,638
Acquisition of subsidiary through HNB Finance PLC	-	-	64,187	-
Additions/renewals of operating leases during the year	944,018	807,306	1,106,814	1,123,355
Expiration of operating lease agreements during the year	(117,360)	(102,576)	(167,117)	(143,963)
Balance as at 31st December	7,711,675	6,885,017	4,156,914	3,153,030
Accumulated amortisation				
Balance as at 1st January	1,528,149	697,609	1,325,198	602,319
Acquisition of subsidiary through HNB Finance PLC	-	-	40,819	-
Amortisation for the year [Note 18 (b)]	744,142	830,540	660,093	757,405
Depreciation on disposals	-	-	(47,098)	(34,526)
Balance as at 31st December	2,272,291	1,528,149	1,979,012	1,325,198
Carrying value as at 31st December	5,439,384	5,356,868	2,177,902	1,827,832

The operating lease liabilities are presented under Note 51 to the financial statements. Given below is the movement of the operating lease liability during the period.

Notes to the Financial Statements

38 RIGHT-OF-USE ASSETS (Contd.)

38 (b) Movement in lease liabilities

	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Balance as at 1st January	6,087,039	5,810,225	2,131,436	1,668,211
Acquisition of subsidiary through HNB Finance PLC	-	-	26,682	-
Additions/renewal of operating lease agreements during the year	944,018	807,306	1,084,676	1,053,899
Accretion of interest [Note 8 (b)]	730,245	907,093	192,856	354,456
Payments to lease creditors	(1,391,077)	(1,335,009)	(884,254)	(834,110)
Expiration of operating lease agreements during the year	(117,360)	(102,576)	(121,660)	(111,020)
Balance as at 31st December (Note 51)	6,252,865	6,087,039	2,429,736	2,131,436

38 (c) Future Minimum Lease Payments under Non-cancellable Operating Leases

As at 31 December	Bank	
	2021 Rs 000	2020 Rs 000
Maturity analysis of contractual undiscounted cash flows		
Less than one year	1,233,020	1,214,824
Between one and five years	4,186,365	3,963,316
More than five years	6,902,618	7,552,598
Total undiscounted lease liabilities	12,322,003	12,730,738

38 (d) Sensitivity of Right-of-Use Assets/Lease Liability to Key Assumptions

Sensitivity to Incremental Borrowing Rate

Increase/(decrease) in incremental borrowing rate as at 31st December 2021 by 1% would have (decreased)/ increased the lease liability by approximately Rs 51.97 Mn and Rs 49.58 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 40.32 Mn and Rs 47.51 Mn respectively.

38 (e) Amounts Recognised in Profit or loss

For the year ended 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Interest expense on operating lease liabilities	730,245	907,093	192,856	354,456
Amortisation of right-of-use assets	744,142	830,540	660,093	757,405
	1,474,387	1,737,633	852,949	1,111,861

38 (f) Amounts recognised in statement of cash flows in respect of operating lease liabilities during the year ended 31st December 2021 amounts to Rs 1,411 Mn (2020 - Rs 1,136 Mn)

38 (g) Extension Options

Some leases of office premises contain options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or a significant change in circumstances within its control.

38 (h) Leases as Lessor

The details of maturity analysis of finance lease receivables have been provided in Note 61 to the financial statements.

39 INTANGIBLE ASSETS AND GOODWILL

ACCOUNTING POLICY

Basis of Recognition

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. An intangible asset is initially measured at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

(a) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill is measured at initial recognition in accordance with Note 3.1.1 to the financial statements.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss in such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of equity accounted investee.

Any gain on bargain purchase is recognised immediately in the income statement.

(b) Software

All computer software costs incurred, licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that those will lead to future economic benefits, are included in the statement of financial position under the category "intangible assets" and are carried at cost less accumulated amortisation and any accumulated impairment losses

(c) License

The amount that would be required to obtain a license to operate a registered finance business is recognised as license in the financial statements

Subsequent expenditure

Expenditure incurred on software is capitalised, only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

Goodwill

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss in such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of equity accounted investee.

Amortisation

The useful lives of intangible assets are assessed as either finite or infinite.

Intangible assets, with finite lives, are amortised on a straight line basis in the income statement from the date when the asset is available for use, over the best estimate of the useful economic life based on a pattern in which the asset's economic benefits are consumed by the Bank/Group.

Notes to the Financial Statements

39 INTANGIBLE ASSETS AND GOODWILL (Contd.)

The estimated amortisation rates are as follows

Class of Asset	% per annum
Computer software	16.67

Those assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Expenditure on an intangible item that was initially recognised as an expense by the Group in previous annual financial statements or interim financial statements are not recognised as part of the cost of an intangible asset at a later date. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Goodwill and intangible assets with infinite useful lives are not amortised, but are assessed for impairment annually. The assessment of infinite life is reviewed annually to determine whether the infinite life continues to be supportable.

De-recognition

An intangible asset is de-recognised on disposal or when no future economic benefits are expected from its use and subsequent disposal. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement.

ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Impairment of Goodwill

The Group estimates the value in use of the Cash Generating Units (CGU) to which goodwill has been allocated in order to determine whether goodwill is impaired. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value.

Useful Life Time of Intangible Assets

The Group reviews the residual values, useful lives and methods of depreciation of intangible assets at each reporting date. Management exercises judgement in the estimation of these values, rates, methods and hence those are subject to uncertainty.

	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Cost				
Balance as at 1st January	4,671,665	4,164,571	5,589,419	5,038,558
Acquisition of subsidiary through HNB Finance PLC	-	-	10,486	-
Goodwill on acquisition [Note 39 (a) i]	-	-	58,185	-
Additions and improvements during the year	504,339	507,094	661,046	550,861
Balance as at 31st December	5,176,004	4,671,665	6,319,136	5,589,419
Accumulated amortisation				
Balance as at 1st January	3,362,493	3,087,930	3,839,425	3,470,478
Acquisition of subsidiary through HNB Finance PLC	-	-	9,539	-
Amortisation for the year [Note 18 (b)]	383,967	274,563	481,038	368,947
Balance as at 31st December	3,746,460	3,362,493	4,330,002	3,839,425
Carrying value as at 31st December	1,429,544	1,309,172	1,989,134	1,749,994

39 (a) Analysis of Intangible Assets

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Computer Software	1,429,544	1,309,172	1,707,739	1,527,053
Goodwill *	-	-	181,395	122,941
License	-	-	100,000	100,000
	1,429,544	1,309,172	1,989,134	1,749,994

*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.

39 (a) i Purchase consideration allocation

The acquisition of Prime Finance PLC had the following effect on the Group's assets and liabilities on acquisition date.

	Recognised values on Acquisition Rs 000
Cash and cash equivalents	822,513
Financial assets measured at amortised cost - loans and advances to customers	4,655,645
Financial assets measured at amortised cost - debt and other financial instruments	302,342
Financial assets measured at fair value through other comprehensive income	56
Property, plant and equipment	16,592
Intangible assets	948
Deferred tax Assets	731
Other assets	958,147
Due to banks	(708,805)
Financial liabilities measured at amortised cost - due to depositors	(3,242,068)
Current tax liabilities	(52,220)
Other liabilities	(388,326)
Identifiable assets and liabilities	2,365,555
Non Controlling Interest	(301,135)
Net identifiable assets and liabilities	2,064,420
Goodwill on acquisition	58,185
Consideration paid full in cash	2,122,605
Net cash effect on acquisition of subsidiary through HNB Finance PLC	1,300,092

Notes to the Financial Statements

39 INTANGIBLE ASSETS AND GOODWILL (Contd.)

39 (a) ii Assessment of Impairment

As at 31st December 2021, 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.

- Discount factor

The discount rate of 20% used is the risk free rate, adjusted by the addition of an appropriate risk premium.

- Inflation

The basis used to determine the value assigned to the budgeted cost inflation is the inflation rate based on projected economic conditions.

The Board of Directors has assessed the potential impairment loss of other intangible assets as at 31 December 2021. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date.

39 (a) iii Title Restriction on Intangible Assets

There are no restrictions on the title of the intangible assets of the Group as at the reporting date.

39 (a) iv Intangible Assets pledged as Security

None of the Intangible assets have been pledged as security as at the reporting date.

39 (a) v Acquisition of Intangible Assets During the Year

During the financial year, the Bank and Group acquired intangible assets to the aggregate value of Rs. 504 Mn and Rs. 730 Mn respectively (2020 - Rs. 507 Mn and Rs. 551 Mn respectively). Cash payments amounting to Rs. 504 Mn and Rs. 730 Mn respectively (2020 - Rs. 507 Mn and Rs. 551 Mn) were made for purchase intangible assets by the Bank and Group respectively, during the year.

39 (a) vi Fully Amortised Intangible Assets in Use

Intangible assets include fully amortised computer software amounting Rs. 2.6 Bn (2020 - Rs. 2.4 Bn) which are in use in the normal business activities of the Group.

40 DEFERRED TAX ASSETS AND LIABILITIES

ACCOUNTING POLICY

The policy adopted in accounting for deferred tax is given in Note 21 to the financial statements.

ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Deferred Tax Assets

Deferred tax assets are recognised in respect of loan impairment allowances which will be recovered in the foreseeable future and on tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Net deferred tax liabilities [Note 40 (a)]	-	-	5,157,978	5,371,390
Net deferred tax assets [Note 40 (b)]	4,461,561	806,539	4,941,105	1,728,958
	4,461,561	806,539	(216,873)	(3,642,432)

40 (a) Net Deferred Tax Liabilities

As at 31st December	Bank		Group	
	2021 Tax Effect Rs 000	2020 Tax Effect Rs 000	2021 Tax Effect Rs 000	2020 Tax Effect Rs 000
Balance as at 1st January	6,511,212	6,466,332	12,431,718	12,908,877
Originating during the year				
Recognised/(realised) in the income statement	(411,070)	106,468	(835,158)	(415,571)
Effect of change in tax rate	(310,327)	-	(367,407)	-
	(721,397)	106,468	(1,202,565)	(415,571)
Recognised in OCI				
Revaluation surplus recognised on buildings	576,923	-	775,823	-
Government securities	(754,541)	(61,588)	(763,270)	(61,588)
Balance as at 31st December	5,612,197	6,511,212	11,241,706	12,431,718
Offset against deferred tax assets	(5,612,197)	(6,511,212)	(6,083,728)	(7,060,328)
Net deferred tax liabilities (Note 40)	-	-	5,157,978	5,371,390

Notes to the Financial Statements

40 DEFERRED TAX ASSETS AND LIABILITIES (Contd.)

40 (b) Net Deferred Tax Assets

As at 31st December	Bank		Group	
	2021 Tax Effect Rs 000	2020 Tax Effect Rs 000	2021 Tax Effect Rs 000	2020 Tax Effect Rs 000
Balance as at 1st January	7,317,751	5,084,578	8,789,286	6,825,584
Originating during the year				
Recognised/(realised) in the income statement	3,801,399	2,233,173	3,489,971	1,969,756
Effect of change in tax rate	(1,045,392)	-	(1,244,211)	-
	2,756,007	2,233,173	2,245,760	1,969,756
Recognised in OCI		-	(10,213)	(6,054)
Balance as at 31st December	10,073,758	7,317,751	11,024,833	8,789,286
Offset against deferred tax liabilities	(5,612,197)	(6,511,212)	(6,083,728)	(7,060,328)
Net deferred tax assets (Note 40)	4,461,561	806,539	4,941,105	1,728,958

40 (c) Recognised Deferred Tax Assets and Liabilities

40 (c) i Recognised Deferred Tax Assets/(Liabilities) - Bank

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	
					2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Accelerated depreciation for tax purposes								
Property, plant and equipment	(2,219,446)	(532,667)	(3,012,771)	(843,576)	(310,909)	(104,816)	-	-
Intangible assets	(506,933)	(121,664)	(426,632)	(119,457)	2,207	(5,667)	-	-
Assets on leasing business	(3,319,000)	(796,560)	(4,318,768)	(1,209,255)	(412,695)	4,016	-	-
Revaluation of government securities	1,948,558	467,654	(1,024,600)	(286,888)	-	-	(754,542)	61,588
Revaluation surplus on freehold lands	(15,780,037)	(3,787,209)	(12,067,721)	(3,378,962)	-	-	408,247	-
Revaluation surplus on freehold buildings	(3,507,296)	(841,751)	(2,403,836)	(673,074)	-	-	168,677	-
	(23,384,154)	(5,612,197)	(23,254,328)	(6,511,212)	(721,397)	(106,467)	(177,618)	61,588
Operating lease rights	813,471	195,233	730,171	204,448	9,215	112,735	-	-
Temporary difference on allowance for impairment	41,160,521	9,878,525	25,404,657	7,113,303	(2,765,221)	2,120,438	-	-
	41,973,992	10,073,758	26,134,828	7,317,751	(2,756,006)	2,233,173	-	-
	18,589,838	4,461,561	2,880,500	806,539	(3,477,403)	2,126,706	(177,618)	61,588

40 (c) ii Recognised Deferred Tax Assets/(Liabilities) - Group

Bank	Temporary	Statement of	Temporary	Statement of	Statement of		Other	
	Difference	Financial	Difference	Financial	Profit or Loss		Comprehensive	
		Position		Position	For the year ended		Income	
		As at 31st		As at 31st	31st December		For the year ended	
	2021	2021	2020	2020	2021	2020	2021	2020
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Accelerated depreciation for tax purposes								
Property, plant and equipment	(2,993,867)	(718,528)	(3,692,196)	(1,033,815)	(315,287)	62,835	-	-
Intangible assets	(506,933)	(121,664)	(426,632)	(119,457)	2,207	(5,667)	-	-
Assets on leasing business	(3,563,013)	(855,123)	(4,712,721)	(1,319,562)	(464,439)	(73,686)	-	-
Revaluation of government securities	1,948,758	467,702	(1,055,600)	(295,568)	-	-	(763,270)	54,565
Revaluation surplus on freehold lands	(28,021,563)	(6,725,175)	(22,390,486)	(6,269,336)	-	-	455,839	-
Revaluation surplus on freehold buildings	(12,232,750)	(2,935,860)	(9,305,939)	(2,605,663)	-	-	330,197	-
Undistributed profits of subsidiaries and joint ventures*	(948,462)	(227,631)	(2,330,989)	(652,677)	(425,046)	588,040	-	-
	(46,317,830)	(11,116,279)	(43,914,563)	(12,296,078)	(1,202,565)	571,522	22,766	54,565
Unutilised tax losses	1,139,762	273,543	2,590,196	725,255	451,712	(275,418)	-	-
Operating lease rights	715,804	171,793	725,886	203,248	31,455	112,389	-	-
Temporary difference on allowance for impairment and retirement benefits	43,558,625	10,454,070	27,589,796	7,725,143	(2,728,927)	1,976,834	-	2,102
	45,414,191	10,899,406	30,905,878	8,653,646	(2,245,760)	1,813,805	-	2,102
	(903,639)	(216,873)	(13,008,685)	(3,642,432)	(3,448,325)	2,385,327	22,766	56,667

*During the year deferred tax liability recognised on undistributed profits from subsidiaries reduced based on the assessment carried out in accordance with LKAS-12.

40 (d) Tax losses - Subsidiaries

HNB Assurance PLC - Group

As per Section 67 of Inland Revenue Act No. 24 of 2017 ('the Act') which was effective from 1st April 2018, HNB Assurance PLC ("HNBA") commenced generation of a taxable income due to change in tax base. Further the Act allows to deduct 100% of taxable income against the tax losses incurred whereas in the previous Inland Revenue Act No. 10 of 2006, it was limited to 35% of the total statutory income. As at 31st December 2021, life insurance business had a cumulative tax loss of Rs. 1,140 Mn (2020 - Rs 2,590 Mn) which was incurred as per Section 92 Inland Revenue Act No. 10 of 2006. According to the transitional provisions of new Act, brought forward tax losses can be claimed against taxable income for a period of 6 years with effect from 1st April 2018. HNBA made an assessment of future taxable profits and identified that total tax losses can be claimed within the period specified in the transitional provisions. During the year, HNBA utilised a tax loss of Rs.1,499.5 Mn against the taxable income generated for the year ended 31st December 2021 (2020 - Rs. 984.3 Mn) which resulted in a reversal of deferred tax asset of Rs. 451.7 Mn for the year ended 31st December 2021 (2020 - Rs. 275.4 Mn).

The Group does not have unrecognised deferred tax asset on tax losses as at the reporting date.

Notes to the Financial Statements

40 DEFERRED TAX ASSETS AND LIABILITIES (Contd.)

40 (e) New Amendments to Income Tax Law Announced by the Government

As provided for in LKAS 12 - Income taxes, deferred tax assets and liabilities should be measured at the tax rates that are expected to be applied in the period in which the asset will be realised or the liability will be settled, based on the tax rate (and tax laws) that have been enacted or substantively enacted by the reporting date.

As instructed by the Ministry of Finance on 31st January 2020, changes to the current tax rate was proposed as disclosed in Note 21 (d), pending formal amendments being made to the Act and to be implemented with effect from 1st January 2020. The Inland Revenue (Amendment) Act No. 10 of 2021 was passed in Parliament and certified by the Speaker on 13th May 2021. Accordingly, the new tax rates disclosed in Note 21 (d) have been considered to be substantively enacted as at reporting date for the current and deferred tax computation as at 31st December 2021.

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	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Un-amortised cost on staff loans	2,765,605	3,507,696	2,823,876	3,597,683
Other debtors	1,473,924	1,428,648	4,442,650	3,522,072
Reimbursement under special senior citizen deposit scheme	4,405,150	1,866,333	4,405,150	1,866,333
Receivable from pension fund [Note 53 (c) i]	1,248,708	-	1,248,708	-
Inventories - Real Estate Stock	-	-	811,813	-
Deposits and prepayments	2,554,720	1,757,421	2,175,859	2,112,335
Stationary and other consumables	75,642	64,396	75,642	68,006
Allowance for impairment [Note 41 (a)]	(108,655)	(108,655)	(125,033)	(120,950)
	12,415,094	8,515,839	15,858,665	11,045,479

As at 31st December 2021 other assets includes Rs 6,123 Mn (2020 - Rs 2,279 Mn) financial assets in the Bank and Rs 8,034 Mn (2020 - Rs 3,851 Mn) in the Group.

41 (a) Movement in Impairment Allowance

	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Balance as at 1st January	108,655	106,734	120,950	106,734
Net impairment charge/(reversal) for the year	-	1,921	4,083	14,216
As at 31st December	108,655	108,655	125,033	120,950

Impairment provision of Rs 108 Mn in the Bank and Rs 125 Mn in the Group has been recognised in respect of non financial assets as at 31st December 2021 (2020 - Rs 108 Mn in Bank and Rs 120 Mn in Group).

41 (b) Credit and Market Risk

Information about the Group's credit and market risks for financial assets are included in Note 5 to the financial statements.

42 DUE TO BANKS

ACCOUNTING POLICY

The accounting policy pertaining to due to banks has been given in Note 3.4 to the financial statements.

Due to banks represents refinance borrowings, call and time deposits and borrowings from banks. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "interest expenses" in the Income Statement. Gains and losses are recognised in the Income Statement when the liabilities are de-recognised.

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Local bank borrowings	2,581,394	8,975,341	2,581,394	8,975,341
Foreign bank borrowings	6,695,883	68,028,599	6,695,883	68,028,599
Refinance borrowings	6,987,216	11,812,686	6,987,216	11,812,686
Other balances	811,009	930,083	811,009	930,083
Other balances	17,075,502	89,746,709	17,075,502	89,746,709

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.

Notes to the Financial Statements

43 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

ACCOUNTING POLICY

The accounting policy pertaining to securities sold under repurchase agreements has been given in Note 3.4 to the financial statements.

Securities sold under agreements to repurchase at a specified future date are not de-recognised from the statement of financial position, as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset and a corresponding obligation to return it with accrued interest, as "securities sold under repurchase agreements", reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase price is treated as interest expense and is accrued over the life of the agreement using the Effective Interest Rate (EIR).

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Securities sold under repurchase agreements				
With banks	9,215,426	6,000,750	9,215,426	6,000,750
With customers	24,308,800	4,360,633	24,308,800	4,360,633
	33,524,226	10,361,383	33,524,226	10,361,383

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 measured at fair value through profit or loss. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "interest expenses" in the Income Statement. Gains and losses are recognised in the Income Statement when the liabilities are de-recognised. Group has not designated any liabilities at fair value through profit or loss as at the reporting date.

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Local currency deposits	847,200,450	783,984,735	878,888,337	811,406,831
Foreign currency deposits	228,508,837	183,836,669	228,177,483	183,542,081
	1,075,709,287	967,821,404	1,107,065,820	994,948,912

Analysis of Due to Customers

44 (a) i By Product

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Current account deposits	73,204,038	63,999,271	72,951,564	63,301,642
Savings deposits	367,749,343	319,664,996	370,187,281	321,968,238
Time deposits	632,199,785	582,147,218	661,370,854	607,669,113
Certificates of deposit	322,715	338,098	322,715	338,098
Margin deposits	2,233,406	1,671,821	2,233,406	1,671,821
	1,075,709,287	967,821,404	1,107,065,820	994,948,912

44 (a) ii By Currency

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Sri Lankan Rupees	847,200,450	783,984,735	878,888,337	811,406,831
United States Dollars	202,588,420	159,028,401	202,258,694	158,735,434
Great Britain Pounds	11,689,047	10,699,629	11,689,047	10,699,629
Euros	5,375,398	5,769,782	5,373,770	5,768,161
Australian Dollars	7,240,959	6,822,056	7,240,959	6,822,056
Other currencies	1,615,013	1,516,801	1,615,013	1,516,801
	1,075,709,287	967,821,404	1,107,065,820	994,948,912

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".

	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Balance as at 1st January	962,185	1,449,472	980,507	1,466,959
Final cash dividends declared in the prior year	2,303,891	1,751,424	2,471,891	1,871,424
Transfer to retained earning	-	(32,153)	-	(32,153)
Dividends paid during the year	(2,276,864)	(2,206,558)	(2,438,769)	(2,325,723)
Balance as at 31st December	989,212	962,185	1,013,629	980,507

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	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Refinance borrowings	7,282,396	3,276,624	7,282,396	3,276,624
Foreign borrowings	17,465,473	27,249,637	17,465,473	27,249,637
Local borrowings	-	-	807,965	-
	24,747,869	30,526,261	25,555,834	30,526,261

The maturity analysis of financial liabilities at amortised cost – other borrowings is given in Note 61 to the financial statements.

Notes to the Financial Statements

47 DEBT SECURITIES ISSUED

ACCOUNTING POLICY

The accounting policy pertaining to debt securities issued has been given in Note 3.4 to the financial statements.

Debt securities issued represent funds borrowed for long term funding purposes. Subsequent to initial recognition debt securities are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "interest expenses" in the income statement. Gains and losses are recognised in the income statement when the liabilities are de-recognised.

Year of issuance	Colombo Stock Exchange Listing	Interest Payment Frequency	Face Value Rs 000	Fixed / floating interest rate	Interest rate	Interest rate of comparable government securities (Gross) (p.a)	Repayment Terms	Issue Date	Maturity Date	Bank		Group	
										As at 31.12.2021 Rs 000	As at 31.12.2020 Rs 000	As at 31.12.2021 Rs 000	As at 31.12.2020 Rs 000
2013/2023	Listed	Annually	2,000,000	Fixed	8.00%	8.58%	10 Years	30th Aug 2013	29th Aug 2023	1,878,709	1,791,002	1,852,737	1,766,243
	Listed	Semi Annually	84,040	Fixed	8.33%	8.58%	10 Years	15th Dec 2014	15th Dec 2024	84,040	84,040	64,040	64,040
2014/2024*	Not Listed	Monthly	665,000	Fixed	1 Year Average Tbill rate	8.24%	20 Years	01st Apr 2011	31st Mar 2040	-	-	548,308	581,125
Total debt securities issued										1,962,749	1,875,042	2,465,085	2,411,408
Analysis of total debt securities issued													
Due within one year										54,356	54,356	51,645	54,356
Due after one year										1,908,393	1,820,686	2,413,440	2,357,052

HNB Assurance PLC, subsidiary of the Bank has invested Rs 46 Mn (2020 - 47 Mn) in debt securities issued by the Bank.

* Debt securities issued by HNB Finance PLC. Capital repayment will commence from 2024.

* There were no debt securities designated at FVTPL as at 31st December 2021.

* 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 2021.

48 CURRENT TAX LIABILITIES

ACCOUNTING POLICY

The policy adopted in accounting for current tax liabilities is given in Note 21 (c) to the financial statements.

	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Balance as at 1st January	7,725,731	5,348,985	8,093,584	5,621,389
Acquisition of Subsidiary Company held through HNB finance	-	52,220	-	-
Provision for the year	7,374,514	5,745,249	7,932,077	6,307,827
Reversal of (over)/under provision	(1,371,850)	-	(1,481,686)	(4,439)
Payments during the year	(3,545,046)	(3,202,642)	(3,946,039)	(3,665,332)
Notional tax credits	-	-	-	(42,467)
Withholding tax/other credits	(131,660)	(165,861)	(131,587)	(123,394)
Balance as at 31st December	10,051,689	7,725,731	10,518,569	8,093,584

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	
	2021 Rs 000	2020 Rs 000
Insurance Contract Liabilities		
Life insurance fund	20,097,793	16,841,994
Claims outstanding	280,222	231,039
Total Insurance Contract Liabilities - Life Insurance	20,378,015	17,073,033

Notes to the Financial Statements

49 INSURANCE PROVISION - LIFE (Contd.)

	Group	
	2021	2020
	Rs 000	Rs 000
Balance as at 01st January	16,841,994	14,269,182
Change in contract liabilities - life fund		
Increase in life insurance fund before surplus distribution to shareholders	4,255,670	3,197,316
Surplus distributed to shareholders	(980,000)	(612,203)
Increase in life insurance fund	3,275,670	2,585,113
Effect of taxation on surplus/bonus transferred to policyholders	(19,871)	(12,301)
Change in contract liabilities - life fund (after tax)	3,255,799	2,572,812
Balance as at 31st December	20,097,793	16,841,994

The valuation of the life insurance business as at 31st December 2021 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. 20,378 Mn (2020 : Rs 17,073 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.

Sensitivity of the Value of Insurance Liabilities

As at 31st December	Change in assumptions	Impact on gross liabilities	
		2021	2020
		%	%
Mortality	+10%	0.22	0.21
	-10%	(0.22)	(0.21)
Discount rate	+50% basis points	(0.56)	(0.74)
	-50% basis points	0.58	0.76
Expense	+10%	0.44	0.40
	-10%	(0.43)	(0.40)

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 2021 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 2021. No additional provision was required against the LAT as at 31st December 2021.

50 INSURANCE PROVISION - NON LIFE

The insurance provision non life balance represents the non life fund of subsidiary HNB General Insurance Limited which is carrying out general insurance business.

ACCOUNTING POLICY

Insurance Provision – Non Life Insurance

Non life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities comprise claims liabilities and premium liabilities.

Claims Liabilities

Claims liabilities are recognised in respect of both with reinsurance and without reinsurance. Claims liabilities refer to the obligation by the insurance company, whether contractual or otherwise to make future payments in relation to all claims that have been incurred as at valuation date. These include provision for claims reported, claims Incurred But Not Reported (“IBNR”) together with related claims handling costs. Claims liabilities consist of the best estimate value of the claim liabilities and the Provision of Risk Margin for Adverse Deviation (PRAD) calculated at line of business level.

Premium Liabilities

Premium liabilities is the higher of the aggregate of the Unearned Premium Reserve (UPR) and the best estimate value of the insurer’s Unexpired Risk Reserves (URR) at the valuation date and the 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 (HNBGI)

The estimates of general insurance contracts have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims Incurred, But Not yet Reported and claims Incurred, But Not Enough Reported (IBNR/IBNER) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The main assumption underlying in estimating the amount of outstanding claims is the past claims development experience.

Large claims are usually addressed separately, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios.

Notes to the Financial Statements

50 INSURANCE PROVISION - NON LIFE (Contd.)

As at 31st December	2021 Rs 000	2020 Rs 000
Unearned premium		
Gross	2,826,784	2,505,096
Reinsurance	(483,311)	(397,076)
Net	2,343,473	2,108,020
Reserve for title insurance	63,531	56,731
	2,407,004	2,164,751
Claims outstanding - gross	1,145,463	950,112
Claims incurred but not reported - gross	183,454	194,287
	3,735,921	3,309,150

Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER)

IBNR and IBNER claims Reserves as at 31st December 2021 have been actuarially computed by the consultant actuary, Ms. Sipika Tandon Mathur, FIA, for and on behalf of Willis Towers Watson India Private Limited (2020 - valuation was carried by Mr. Matthew Kung-Chuong Tiong, FIAA, for and on behalf of NMG Consulting). 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 2021	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 2021	+/- 10%	950,111	+/- 95,011	+/- 58,833	+/- 58,833	+/- 42,144

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 2021 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 2021. No additional provision was required against the LAT as at 31st December 2021.

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	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Bills payable	1,665,885	1,416,957	1,665,885	1,416,957
Employee benefit obligations [Note 51 (a)]	238,829	2,569,551	796,535	3,116,239
Impairment allowance for off-balance sheet credit exposures [Note 51 (b)]	2,192,974	2,210,246	2,192,974	2,210,246
Operating lease liability [Note 38 (b)]	6,252,865	6,087,039	2,429,736	2,131,436
Other creditors	3,037,654	2,731,117	6,264,978	5,130,584
Payable to vendors for lease creditors	1,012,249	1,263,123	1,246,543	1,446,535
	14,400,456	16,278,033	14,596,651	15,451,997

As at 31st December 2021 other liabilities include Rs 9.3 Mn (2020 - Rs 2,377 Mn) financial liabilities for the Bank and Rs 2,329 Mn (2020 - Rs 4,652 Mn) for the Group.

51 (a) Employee benefit obligations

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Net pension liability (Note 53 (c) i)	-	2,360,318	-	2,360,318
Liability for EPF interest rate guarantee [Note 53 (d)]	84,614	82,639	84,614	82,639
Liability for leave accrual plan [Note 53 (e)]	154,215	126,594	154,215	126,594
Provision for gratuity benefits (Note 53 (g))	-	-	557,706	546,688
	238,829	2,569,551	796,535	3,116,239

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, letters of credit and undrawn commitments in line with expected credit loss principles as detailed in Note 31 (e) to the financial statements.

Notes to the Financial Statements

51 OTHER LIABILITIES (Contd.)

	Bank/Group	
	2021 Rs 000	2020 Rs 000
Stage 1		
Balance as at 1st January	735,795	810,503
Net impairment charge/(reversal) for the year	53,352	(74,708)
Balance as at 31st December	789,147	735,795
Stage 2		
Balance as at 1st January	256,266	201,327
Net impairment (reversal)/charge for the year	(101,494)	54,939
Balance as at 31st December	154,772	256,266
Stage 3		
Balance as at 1st January	1,218,185	1,123,884
Net impairment charge for the year	30,870	94,301
Balance as at 31st December	1,249,055	1,218,185
Total impairment allowance for off balance sheet credit exposures	2,192,974	2,210,246

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	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Subordinated debentures [Note 52 (a)]	23,552,323	28,298,365	24,391,912	28,945,457
	23,552,323	28,298,365	24,391,912	28,945,457

52 (a) Subordinated Debentures

Year of issuance	Colombo Stock Exchange Listing	Interest Payment Frequency	Face Value	Fixed / floating interest rate	Interest Rate	Interest Rate of Comparable Government Securities (Gross) (p.a)	Repayment Terms	Issue Date	Maturity Date	Bank		Group	
										As at 31.12.2021	As at 31.12.2020	As at 31.12.2021	As at 31.12.2020
										Rs 000	Rs 000	Rs 000	Rs 000
2006	Listed	At maturity	514,345	Fixed	11.00%	N/A	15 Year	1st Apr 2006	31st Mar 2021	-	501,428	-	466,403
	Listed	At maturity	1,362,800	Fixed	11.25%	9.13%	18 Year	1st Apr 2006	31st Mar 2024	1,072,701	964,288	1,072,701	964,288
2007	Listed	Annually	700,000	Fixed	16.75%	7.88%	15 Year	1st Aug 2007	31st Jul 2022	758,625	758,625	758,625	758,625
2011	Listed	Semi Annually	2,000,000	Fixed	11.50%	N/A	10 Year	5th Sep 2011	4th Sep 2021	-	2,000,000	-	2,000,000
2016	Listed	Annually	7,000,000	Fixed	11.25%	N/A	5 Year	28th Mar 2016	28th Mar 2021	-	7,599,795	-	7,328,525
	Listed	Annually	2,000,000	Fixed	11.75%	N/A	5 Year	1st Nov 2016	1st Nov 2021	-	2,039,274	-	2,039,274
	Listed	Annually	4,000,000	Fixed	13.00%	8.75%	7 Year	1st Nov 2016	1st Nov 2023	4,086,904	4,086,904	4,086,904	4,086,904
2019	Listed	Annually	1,922,570	Fixed	12.30%	9.32%	5 Year	23rd Sep 2019	22nd Sep 2024	1,987,358	1,987,358	1,845,439	1,970,530
	Listed	Annually	8,077,430	Fixed	12.80%	10.65%	7 Year	23rd Sep 2019	22nd Sep 2026	8,360,693	8,360,693	8,297,181	8,297,178
	Listed	Annually	1,033,820	Fixed	13.20%	9.32%	5 Year	30th Dec 2019	30th Dec 2024	-	-	1,158,820	1,033,730
2021	Listed	Annually	7,000,000	Fixed	9.50%	11.79%	10 Year	28th Jul 2021	29th Jul 2031	7,286,042	-	7,172,242	-
Total subordinated debentures										23,552,323	28,298,365	24,391,912	28,945,457
Analysis of subordinated debentures													
Due within one year										1,479,621	12,634,077	1,472,481	12,327,782
Due after one year										22,072,702	15,664,288	22,919,431	16,617,675

HNB Assurance PLC has invested Rs 194 Mn in (2020 - 224 Mn) subordinated debentures issued by the Bank and Rs 125 Mn (2020 - 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 2021.

BASEL III Compliant 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 statement of profit or loss in the period in which they arise. The Bank's liability towards the portion of the accumulated leave which is expected to be utilised beyond one year from the end of the reporting period is treated as other long term employee benefits.

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 statement of profit or loss as and when they are due.

(i) Employees' Trust Fund

The Bank and the Group contribute 3% of the salary of each employee to the Employees' Trust Fund.

(ii) Employees' Provident Fund – Group Companies

The Group entities and their employees contribute at 12% and 8% respectively on the salary of each employee to Employees' Provident Fund except for the Bank as explained above.

ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Defined Benefit Obligation

The defined benefit obligation is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, increase in cost of living allowances and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Government of Sri Lanka Treasury Bonds with maturities corresponding to the expected duration of defined benefit obligation. Future salary increases and pension increases are based on expected future inflation rates, expected future salary increment rates and expected future pension increases.

Notes to the Financial Statements

53 EMPLOYEE BENEFIT OBLIGATIONS (Contd.)

53 (a)	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
As at 31st December				
Unfunded defined benefit plans [Note 53 (a) i]	238,829	209,233	796,535	755,921
Funded defined benefit plan [Note 53 (c) i]	(1,248,707)	2,360,318	(1,248,707)	2,360,318
Total employee benefit obligations	(1,009,878)	2,569,551	(452,172)	3,116,238
53 (a) i Unfunded defined benefit plans				
Liability for EPF interest rate guarantee plan [Note 53 (d)]	84,614	82,639	84,614	82,639
Liability for leave accrual plan [Note 53 (e)]	154,215	126,594	154,215	126,594
Provision for gratuity benefits	-	-	557,706	546,688
	238,829	209,233	796,535	755,921

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 the Group extended the minimum retirement age of its employees as follows.

Age of Employee (As at 17th November 2021)	Minimum Retirement Age
54 or above and below 55 years	57 Years
53 or above and below 54 years	58 Years
52 or above and below 53 years	59 Years
Below 52 years	60 Years

Accordingly the amended minimum retirement age has been treated as a plan amendment and incorporated plan amendment in accordance with LKAS-19 in the assessment of actuarial valuation of defined benefit obligations. Impact from same is disclosed in Note 53 (c) iii to the financial statements as past service benefit.

53 (c) Funded Defined Benefit Plan

Pension Fund - Bank

An actuarial valuation of the pension fund was carried out as at 31st December 2021 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 18.26% out of the pensionable salary, to the pension fund in 2021 (2020 - 13.95%).

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 on funded defined benefit plan - pension fund

As at 31st December	Bank/Group	
	2021 Rs 000	2020 Rs 000
Present value of funded obligation [Note 53 (c) iii]	17,725,989	20,687,877
Total present value of obligations	17,725,989	20,687,877
Fair value of plan assets [Note 53 (c) ii]	(18,974,697)	(18,327,559)
(Surplus)/deficit on funded defined benefit plan - pension fund	(1,248,708)	2,360,318
Recognised (asset)/liability for defined benefit obligations - pension fund	(1,248,708)	2,360,318

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 2021 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 1,249 Mn as a net receivable in respect of pension fund (2020 – net payable of Rs 2,360 Mn).

53 (c) ii Fair Value of Plan Assets consists of the following

As at 31st December	Bank/Group	
	2021 Rs 000	2020 Rs 000
Equity securities and debentures	3,007,346	2,160,812
Government securities	10,533,220	1,856,720
Balance with Hatton National Bank PLC	23,897	171,118
Fixed deposits	5,464,844	14,188,728
Others	(54,610)	(49,819)
	18,974,697	18,327,559

53 (c) iii Movement in the Present Value of Defined Benefit Obligations

	Bank/Group	
	2021 Rs 000	2020 Rs 000
Liability for defined benefit obligations as at 1st January	20,687,877	17,765,531
Current service cost [Note 16 (a)]	680,370	844,754
Interest on obligation	1,861,909	1,918,677
Actuarial (gain)/loss	(1,987,849)	1,308,089
Past service benefit [Note 16 (a)]	(2,291,509)	-
Benefits paid by the plan	(1,224,809)	(1,149,174)
Liability for defined benefit obligations as at 31st December	17,725,989	20,687,877

Notes to the Financial Statements

53 EMPLOYEE BENEFIT OBLIGATIONS (Contd.)

53 (c) iv Movement in the Present Value of Plan Assets

	Bank/Group	
	2021	2020
	Rs 000	Rs 000
Fair value of plan assets as at 1st January	18,327,559	17,060,662
Expected return on plan assets	1,649,480	1,842,552
Contributions paid into plan	1,179,388	821,927
Benefits paid by the plan	(1,224,809)	(1,149,174)
Actuarial loss	(956,921)	(248,408)
Fair value of plan assets as at 31st December	18,974,697	18,327,559

53 (c) v Net Interest on Defined Benefit Liability

For the year ended 31st December	Bank/Group	
	2021	2020
	Rs 000	Rs 000
Interest on obligation	1,861,909	1,918,677
Expected return of plan assets	(1,649,480)	(1,842,552)
Net interest on defined benefit liability [Note 16 (a)]	212,429	76,125

53 (c) vi Actuarial Gains and Losses Recognised in Other Comprehensive Income

For the year ended 31st December	Bank		Group	
	2021	2020	2021	2020
	Rs 000	Rs 000	Rs 000	Rs 000
Actuarial (gain) / loss on present value of defined benefit obligations	1,987,849	(1,308,088)	2,057,709	(1,360,590)
Actuarial loss on fair value of plan assets	(956,921)	(248,408)	(956,921)	(248,408)
Actuarial gain/(loss) recognised during the year	1,030,928	(1,556,496)	1,100,788	(1,608,998)

53 (c) vii Actuarial Assumptions

Type of Assumption	Criteria	Description
Demographic assumptions	Mortality	
	- In service	A 1967-70 Mortality table issued by the Institute of Actuaries, London
	- After retirement	A (90) Annuities table (Males and Females) issued by the Institute of Actuaries, London
	Staff turnover	The withdrawal rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The same withdrawal rates which were used in the last valuation (as at 31st December 2020) to determine the liability on account of the active employees in the funded scheme, were used in the actuarial valuation carried out as at 31st December 2021.
	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 (2020 - 55 years)
	Rate of discount	A long-term interest rate of 11.00% p.a. (2020 – 9.00% p.a.) has been used to discount future liabilities.
	Salary increases	A salary increment of 9.80% p.a. (2020 – 8.50% p.a.) has been used in respect of the active employees.
	Post-retirement pension increase rate	Nil (2020 - Nil)

The average duration of the pension fund obligation is 14.5 years as at 31st December 2021 (2020 - 14 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 2021.

Increase/(decrease) in Discount Rate	Increase/(decrease) in Salary Increment Rate	Sensitivity Effect on Statement of Comprehensive Income Increase/(decrease) Rs 000	Sensitivity Effect on Pension Fund Surplus Increase/(decrease) Rs 000
1%		1,859,396	1,859,396
-1%		(2,263,649)	(2,263,649)
	1%	(1,546,468)	(1,546,468)
	-1%	1,349,932	1,349,932

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	2021 Rs 000
Less than one year	462,185
1 - 3 years	1,092,745
3 - 5 years	1,477,958
5 - 10 years	3,516,351
Above 10 years	9,111,716
	15,660,955

Notes to the Financial Statements

53 EMPLOYEE BENEFIT OBLIGATIONS (Contd.)

53 (d) Provision for EPF Interest Rate Guarantee Plan - Bank/Group

EPF is an approved provident fund which has been set up to meet the provident fund liabilities of the Bank. Staff members who are members of the fund are entitled to receive a minimum interest rate which is the higher of one year fixed deposit rate of HNB or National Savings Bank on their balance on a semi-annual basis. Accordingly, this obligation was treated as a defined benefit liability and an actuarial valuation was conducted by Mr. M. Poopalanathan, AIA of Messers Actuarial and Management Consultants (Pvt) Limited to value the Bank's obligation on same with the following actuarial assumptions.

As at 31st December	Bank/Group	
	2021	2020
Discount rate	11.00%	9.00%
Long term interest rate to credit the fund	11.00%	9.00%
Liability for EPF interest rate guarantee		
	Bank/Group	
	2021	2020
	Rs 000	Rs 000
Present value of obligation as at 1st January	82,639	80,292
Provision made during the year (Note 16)	1,975	2,347
Present value of obligation as at 31st December [Note 53 (a) i]	84,614	82,639

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 Messrs Actuarial and Management Consultants (Pvt) Limited on same with the following assumptions.

	Bank/Group	
	2021	2020
Discount rate	11.00%	9.00%
Future salary increase	9.80%	8.50%
Liability for leave accrual plan		
	Bank/Group	
	2021	2020
	Rs 000	Rs 000
Present value of obligation as at 1st January	126,594	136,963
Provision made during the year (Note 16)	27,621	(10,369)
Present value of obligation as at 31st December [Note 53(a) i]	154,215	126,594

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 1,361.2 Mn and that the fair value of the fund assets is Rs 2,546.7 Mn resulting in a past service surplus of Rs 1,185.4 Mn (2020 : Rs 985.3Mn) in the Widows', Widowers' and Orphans' Pension Scheme as at 31st December 2021.

No contribution is made by the Bank and the members' contribution during the period amounted to Rs 127.6 Mn.

53 (g) Provision for Defined Benefit Plan - Unfunded

	Group	
	2021	2020
	Rs 000	Rs 000
Balance as at 1st January	546,688	412,471
Provision during the year [Note 16]	106,187	97,597
Acquisition of subsidiary held through HNB Finance PLC	11,665	-
Actuarial (gain)/loss recognised in OCI	(69,860)	52,502
Payments during the year	(36,974)	(15,882)
Balance as at 31st December	557,706	546,688

As at 31st December	Group	
	2021	2020
Actuarial Assumptions		
Discount rate	8% - 11%	7% - 10%
Future salary increment rate	6% - 9.5%	8.5% - 8%

Actuarial valuations for HNB Assurance PLC and HNB Finance PLC as at 31st December 2021 and 31st March 2021 respectively were carried out by actuary, Mr. Pushpakumar Gunasekara, Associate of Institute of Australia of Messers Smiles Global (Pvt) Ltd .

54 STATED CAPITAL

Ordinary shares

Ordinary shares in the Bank are recognised at the amount paid per ordinary share net of directly attributable issue costs. The shares of the Bank are quoted on the Colombo Stock Exchange. The holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote per share at General Meetings of the Bank.

The non-voting shares rank pari passu in respect of all rights with the ordinary shares of the Bank except voting rights on resolutions passed at general meetings. If the Bank fails to pay dividends for three consecutive years, these shares will automatically be converted into voting ordinary shares.

54 (a) Stated Capital - Bank/Group

	2021		2020	
	Number of shares	Value Rs 000	Number of shares	Value Rs 000
Voting ordinary shares				
Balance as at 1st January	410,319,604	29,244,472	401,343,863	27,839,768
Issue of shares through scrip dividend [Note 54 (b)]	10,540,320	1,436,119	8,975,741	1,404,704
Balance as at 31st December	420,859,924	30,680,591	410,319,604	29,244,472
Non-voting ordinary shares				
Balance as at 1st January	101,656,112	6,327,857	99,062,844	5,981,137
Issue of shares through scrip dividend [Note 54 (b)]	3,388,537	355,796	2,593,268	346,720
Balance as at 31st December	105,044,649	6,683,653	101,656,112	6,327,857
	525,904,573	37,364,244	511,975,716	35,572,329

54 (b) Issue of Shares through Script Dividends

Bank issued 10,540,320 voting shares in the form of scrip dividend at a price of Rs 136.25 and 3,388,537 non-voting shares at a price of Rs.105 on 30th March 2021.

Notes to the Financial Statements

55 STATUTORY RESERVE FUND

	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Balance as at 1st January	7,660,000	7,060,000	7,660,000	7,060,000
Transfers during the year	900,000	600,000	900,000	600,000
Balance as at 31st December	8,560,000	7,660,000	8,560,000	7,660,000

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.

56 RETAINED EARNINGS

	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Balance as at 1st January	22,665,227	17,980,160	29,361,200	23,072,623
Profit for the year	17,299,767	11,462,636	19,024,882	13,095,420
Other comprehensive income for the year	1,217,686	(1,706,874)	1,253,791	(1,736,150)
Transfer to other reserves	(1,900,000)	(1,600,000)	(1,900,000)	(1,600,000)
Transfer of unclaimed dividends	(267)	32,153	(267)	32,155
Dividends	(4,095,806)	(3,502,848)	(4,095,806)	(3,502,848)
Balance as at 31st December	35,186,607	22,665,227	43,643,800	29,361,200

This represents cumulative net earnings, inclusive of final dividend proposed amounting to Rs 4,733 Mn. The balance is retained and reinvested in the business of the Bank/Group.

57 OTHER RESERVES

57 (a)

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Capital reserve [Note 57 (b)]	15,084,556	10,782,706	30,816,980	23,054,710
General reserve [Note 57 (c)]	57,100,000	56,100,000	57,100,000	56,100,000
Fair value reserve [Note 57 (d)]	(1,254,053)	1,221,363	(1,258,039)	1,270,055
Life policy holder reserve fund [Note 57 (e)]	-	-	(103,302)	748,391
Restricted regulatory reserve [Note 57 (f)]	-	-	381,156	381,156
Exchange equalization reserve [Note 57 (g)]	-	-	163,202	101,634
	70,930,503	68,104,069	87,099,997	81,655,946

57 (b) Capital Reserve

	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Balance as at 1st January	10,782,706	10,790,994	23,054,710	23,062,998
Other Comprehensive Income for the period, net of tax	4,301,850	-	7,762,270	-
Impairment charges	-	(8,288)	-	(8,288)
Balance as at 31st December	15,084,556	10,782,706	30,816,980	23,054,710

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	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Balance as at 1st January	56,100,000	55,100,000	56,100,000	55,100,000
Transfer during the year	1,000,000	1,000,000	1,000,000	1,000,000
Balance as at 31st December	57,100,000	56,100,000	57,100,000	56,100,000

Nature and purpose of reserve

General reserve comprises of the amounts appropriated by the Board of Directors as a general banking reserve.

57 (d) Fair Value Reserve

	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Balance as at 1st January	1,221,363	2,752,097	1,270,055	2,759,863
Transfer of fair value losses on debt instruments measured at FVOCI upon reclassification to amortised cost measurement category	-	17,292	-	17,292
Gains realised on derecognition of debt instruments	-	(1,053,543)	-	(1,106,649)
Net change in fair value during the year	(2,475,416)	(494,483)	(2,528,094)	(400,451)
Balance as at 31st December	(1,254,053)	1,221,363	(1,258,039)	1,270,055

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	
	2021 Rs 000	2020 Rs 000
Balance as at 1st January	748,391	172,297
Transfer to/(from) life policy holder reserve fund	(851,693)	576,094
Balance as at 31st December	(103,302)	748,391

Nature and purpose of reserve

The life policyholders' reserve fund includes the fair value gains/(losses) recorded under other comprehensive income arising from life insurance related financial assets categorised as measured at fair value through other comprehensive income.

Notes to the Financial Statements

57 OTHER RESERVES (Contd.)

57 (f) Restricted Regulatory Reserve

	Group	
	2021	2020
	Rs 000	Rs 000
Balance as at 1st January	381,156	381,156
Transfer to/(from) Restricted Regulatory Reserve	-	-
Balance as at 31st December	381,156	381,156

Nature and purpose of reserve

Restricted regulatory reserve – HNB Assurance PLC “Company”

As per Direction No. 16 issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL) all life insurance companies were allowed to transfer one - off surplus attributable to policyholders’ non participating fund to shareholders’ fund with the approval of the IRCSL. This transfer has been presented as a separate reserve as “Restricted Regulatory Reserve” under equity in accordance with the Direction.

57 (g) Exchange Equalization Reserve

	Group	
	2021	2020
	Rs 000	Rs 000
Balance as at 1st January	101,634	78,378
Transfer to/(from) exchange equalization reserve	61,568	23,256
Balance as at 31st December	163,202	101,634

Nature and purpose of reserve

Exchange equalization reserve comprises of all foreign currency differences arising from the translation of the financial statements of foreign operations within the joint venture group.

58 NON-CONTROLLING INTERESTS

ACCOUNTING POLICY

Non-Controlling Interest (NCI) are measured at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition. Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Accordingly, the Bank has non-controlling interest in two subsidiaries namely, HNB Assurance PLC (NCI of 40%) and HNB Finance (NCI of 49%) as at the reporting date as follows:

As at 31st December	Group	
	2021	2020
	Rs 000	Rs 000
Subsidiaries		
HNB Assurance PLC	3,269,503	2,829,695
HNB Finance PLC	3,329,719	2,580,269
	6,599,222	5,409,964

	HNB Assurance PLC	HNB Finance PLC	Total
NCI percentage	40.00%	57.84%	
As at 31st December 2021	Rs 000	Rs 000	Rs 000
Non-current assets	17,937,182	41,409,103	59,346,285
Current assets	17,914,707	2,977,237	20,891,944
Non-current liabilities	(24,113,936)	(36,668,857)	(60,782,793)
Current liabilities	(3,667,498)	(2,334,916)	(6,002,414)
Net assets	8,070,455	5,382,567	13,453,022
Other adjustments	103,302	(146,413)	(43,111)
Net asset	8,173,757	5,236,154	13,409,911
Net assets attributable to NCI	3,269,503	3,028,584	6,298,087
Acquisition of subsidiary through HNB Finance PLC	-	301,135	301,135
Net assets attributable to NCI	3,269,503	3,329,719	6,599,222
For the year ended 31st December	Rs 000	Rs 000	Rs 000
Revenue	13,708,255	7,279,424	20,987,679
Profit	1,221,758	513,584	1,735,342
OCI	1,172,052	542,156	1,714,208
Total comprehensive income			
Profit allocated to NCI	488,703	297,057	785,760
OCI allocated to NCI	468,821	313,583	782,404
	HNB Assurance PLC	HNB Finance PLC	Total
NCI percentage	40.00%	57.84%	
As at 31st December 2020	Rs 000	Rs 000	Rs 000
Non-current assets	15,757,102	32,727,051	48,484,153
Current assets	15,968,376	4,687,066	20,655,442
Non-current liabilities	(20,382,183)	(31,472,686)	(51,854,869)
Current liabilities	(3,173,196)	(1,427,504)	(4,600,700)
Net assets	8,170,099	4,513,927	12,684,026
Other adjustments	(1,095,861)	(52,868)	(1,148,729)
Net assets	7,074,238	4,461,059	11,535,297
Net assets attributable to NCI	2,829,695	2,580,269	5,409,964
For the year ended 31st December	Rs 000	Rs 000	Rs 000
Revenue	11,651,831	2,803,635	14,455,466
Profit	1,164,457	(273,165)	891,292
OCI	1,188,414	(288,344)	900,070
Total comprehensive income			
Profit allocated to NCI	465,783	(157,998)	307,785
OCI allocated to NCI	475,366	(166,778)	308,588

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 litigation and regulatory investigations and proceedings, arising in the ordinary course of the business. When the Group can reliably measure the outflow of economic benefits in relation to a specific case and such outflows are probable, the Group records a provision against the case. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the statement of financial position but are disclosed unless those are remote.

59 (a) Contingent Liabilities and Commitments - Bank/Group

As at 31st December	Bank/Group	
	2021 Rs 000	2020 Rs 000
Documentary credit	32,567,799	28,334,448
Guarantees	100,774,437	104,470,363
Acceptances	22,336,884	26,213,711
Bills for collection	20,880,918	16,127,896
Forward exchange contracts		
Forward exchange sales	12,150,970	28,293,790
Forward exchange purchases	44,324,835	63,759,268
Cheques sent on clearing	4,069,632	3,851,339
Commitments for unutilised facilities - direct	193,057,343	152,404,973
Commitments for unutilised facilities - indirect	246,079,532	208,492,441
	676,242,350	631,948,229

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 347 Mn.

As at 31st December	Bank/Group	
	2021 Rs 000	2020 Rs 000
Approved and contracted but not provided for	323,328	297,209
Approved and not contracted for	23,782	5,990
	347,110	303,199

59 (c) Litigation against the Bank

In the banking industry, litigation is a common incidence due to the nature of the transactions agreed between various stakeholders including the customers and the Bank.

The Bank has formal controls and policies in place for managing legal claims. Once professional advice has been obtained and the amount of loss is reasonably estimated, the Bank makes adjustments to account for any adverse effects of such claims on its financial standing.

Based on the assessment carried out, Bank is of the view that apart from three legal cases pertaining to guarantee related issues (viz HC (Civil) 657/2019 MR, M 5491 and HC (Civil) 143/2020) and one legal case pertaining to a LC related issue (HC (Civil) 663/2019 MR), the other legal cases filed against the Bank will not have a material impact on the financial position of the Bank.

59 (d) Tax Assessments

59 (d) i Tax assessments against the bank

Assessments to the value of Rs 230.9 Mn on VAT on financial services (relating to 2003,2004 and 2012) and assessment to the value of Rs 12.2 Mn on PAYE for the Y/A 2015/16 received by the Bank are outstanding and have been duly appealed.

59 (d) ii Tax assessments against Group entity - HNB Assurance PLC (HNBA)

Assessments to the value of Rs 21.99 Mn on VAT on reinsurance claims and commissions (relating to Y/A 2010/11), assessments to the value of Rs 109.66 Mn on VAT and NBT on financial services (relating to 2014, 2015 and 2016), assessments to the value of Rs 144.81n on VAT, assessments to the value of Rs 1,156 Mn on Income tax (relating to Y/A 2011/12, 2012/13, 2013/14, 2014/15, 2015/16 ,2016/17 and 2017/18) received by the HNBA are outstanding and have been duly appealed.

Notes to the Financial Statements

60 RELATED PARTY DISCLOSURES

The Group carries out transactions with parties who are defined as related parties in the Sri Lanka Accounting Standard - LKAS 24 on "Related party disclosures", in the ordinary course of its business. The details of such transactions are reported below. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Bank and is comparable with what is applied to transactions between the Bank and its unrelated customers.

60 (a) Parent and ultimate controlling party

The Bank does not have an identifiable parent of its own.

60 (b) Transactions with Key Management Personnel (KMP)

According to Sri Lanka Accounting Standard - LKAS 24 on "Related party disclosures", Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity.

Accordingly, the Bank's KMP include the Board of Directors (including executive and non-executive directors)

Key Management Personnel (KMP) of the Group

Bank is the ultimate parent of its subsidiaries listed out in Note 35 to the financial statements. Thus the KMPs of the Bank have the authority and responsibility for planning, directing and controlling the activities of the Group and have been identified as KMPs of the Group as well.

Close Family Members (CFMs) of KMPs are those family members who may be expected to influence, or be influenced by that KMP in their dealings with the entity. CFMs may include the domestic partner and children of KMP, the children of KMP's domestic partner and dependents of KMP and the KMP's domestic partner.

60 (b) i Compensation to KMP

For the year ended 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Short-term employee benefits	140,856	149,554	144,868	154,050
Post-employment benefits	2,485	2,450	2,485	2,450
	143,341	152,004	147,353	156,500

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	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Assets				
Financial assets measured at amortised cost - loans and advances to customers	122,541	112,505	111,316	173,772
	122,541	112,505	111,316	173,772
Liabilities				
Securities sold under repurchase agreements	10,000	-	10,000	-
Debt securities issued and subordinated term debts	-	10,000	2,356	10,000
Financial liabilities measured at amortised cost - due to depositors	674,541	539,322	674,721	609,457
	684,541	549,322	687,077	619,457

Commitments and Contingencies

As at 31st December	Closing Balance	
	2021 Rs 000	2020 Rs 000
Commitments for unutilised facilities		
Direct	125,172	80,537
	125,172	80,537

Direct and indirect accommodation – Bank

As at 31st December	2021 Rs 000	2020 Rs 000
Direct and indirect accommodation as a percentage of the Bank's regulatory capital	0.06%	0.02%

Income Statement - Bank

For the year ended 31st December	2021 Rs 000	2020 Rs 000
Interest income	6,132	10,632
Interest expenses	37,236	37,505
Fee and commission income/(expenses)	100	188

Number of shares held by KMP

As at 31st December	2021 Rs 000	2020 Rs 000
Voting	130,797	240,264
Non-Voting	40,027	63,686

Cash dividends paid to KMP amount to Rs. 741,875 in 2021 (2020 - Rs. 1,306,630)

60 (b) iii Transactions, Arrangements and Agreements with Entities which are Controlled and/or Jointly Controlled by the KMP or their Close Family Members (CFMs)

Statement of Financial Position - Bank

As at 31st December	Closing Balance		Average Balance	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Assets				
Financial assets measured at amortised cost - loans and advances to customers	99,408	-	133,261	30,990
	99,408	-	133,261	30,990
Liabilities				
Financial liabilities measured at amortised cost - due to depositors	8,203	335	15,983	22,959
	8,203	335	15,983	22,959

Notes to the Financial Statements

60 RELATED PARTY DISCLOSURES (Contd.)

Commitments and Contingencies

As at 31st December	Closing Balance	
	2021 Rs 000	2020 Rs 000
Commitments for unutilised facilities		
Direct	61,046	-
Indirect	91,860	-
	152,906	-

Income Statement - Bank

For the year ended 31st December	2021 Rs 000	2020 Rs 000
Interest income	9,181	2,687
Interest expenses	161	1,938
Fee and commission income/(expenses)	1,025	62

60 (c) Transactions with Group Entities

The group entities include subsidiaries and joint venture of the Bank.

60 (c) i Transactions with Subsidiaries

Statement of Financial Position - Bank

As at 31st December	Closing Balance		Average Balance	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Assets				
Financial assets measured at amortised cost				
- loans and advances to customers	301,000	-	182,568	778,795
Other assets	719,731	726,695	765,034	616,500
	1,020,731	726,695	947,602	1,395,295
Liabilities				
Securities sold under repurchase agreements	600,000	-	1,758,330	-
Debt securities issued and subordinated term debt	232,232	427,185	291,136	387,944
Financial liabilities measured at amortised cost - due to depositors	2,112,577	2,878,405	2,831,483	3,783,023
	2,944,809	3,305,590	4,880,949	4,170,967

Commitments and Contingencies

As at 31st December	Closing Balance	
	2021 Rs 000	2020 Rs 000
Guarantees	26,690	27,690
Commitments for unutilised facilities		
Direct	1,752,150	2,051,150
	1,778,840	2,078,840

Income Statement - Bank

For the year ended 31st December	2021 Rs 000	2020 Rs 000
Interest income	70,063	132,326
Interest expenses	145,342	243,625
Fee and commission income/(expenses)	390,670	355,617
Other income	291,476	196,051
Other expenses	868,042	749,840
Other transactions		
Expenses reimbursed to the bank	32,703	37,887
Expenses reimbursed by the bank	83,042	73,169
Insurance claims received	16,529	22,836

60 (c) ii Transactions with the Joint Venture

Statement of Financial Position - Bank

As at 31st December	Closing Balance		Average Balance	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Assets				
Financial assets measured at amortised cost				
- loans and advances to customers	552,372	761,231	383,240	447,638
	552,372	761,231	383,240	447,638
Liabilities				
Financial liabilities measured at amortised cost - due to depositors	57,293	242,322	72,023	70,761
Securities sold under repurchase agreements	55,300	-	96,960	-
	112,593	242,322	168,983	70,761

Notes to the Financial Statements

60 RELATED PARTY DISCLOSURES (Contd.)

Commitments and Contingencies

As at 31st December	Closing Balance	
	2021	2020
	Rs 000	Rs 000
Letter of Guarantees	31,800	30,190
Commitments for unutilised facilities		
Direct	3,899,450	3,408,650
Indirect	38,220	32,320
	3,969,470	3,471,160

Income Statement - Bank

For the year ended 31st December	2021	2020
	Rs 000	Rs 000
Interest income	30,466	43,715
Interest expenses	1,934	810
Fee and commission income/(expenses)	3,838	2,703
Other income	9,315	56,310
Other expenses	6,951	-
Expenses reimbursed to the bank	125	-

60 (d) Transactions with Post Employment Benefit Plans of the Bank

As at 31st December	Closing Balance		Average Balance	
	2021	2020	2021	2020
	Rs 000	Rs 000	Rs 000	Rs 000
Liabilities				
Financial liabilities measured at amortised cost - due to depositors	2,459,412	8,119,479	4,057,164	7,446,603
Debt securities issued and subordinated term debts	130,159	760,644	130,159	737,228
Securities sold under repurchase agreements	5,013,900	6,100	908,180	242,500
	7,603,471	8,886,223	5,095,503	8,426,331
Equity				
Stated capital	59,262	56,157	57,969	54,644
	59,262	56,157	57,969	54,644

Income Statement - Bank

For the year ended 31st December	2021	2020
	Rs 000	Rs 000
Interest expenses	376,502	655,471
Other transactions		
Dividends paid	7,095	6,887
Contributions made	2,538,714	2,101,529

Number of shares held by Post Employment Benefit Plans of the Bank

As at 31st December	2021	2020
Voting	159,359	155,368
Non voting	755,919	731,535

60 (e) Transactions with Government of Sri Lanka/Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka

The Government of Sri Lanka indirectly holds 25.88% of the voting rights of the Bank as at 31st December 2021 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 2021, the Bank has carried out transactions with the Government of Sri Lanka and other government related entities in the ordinary course of its business, the details of which are given below. The pricing applicable to such transactions was based on the assessment of risk and pricing model of the Bank and was comparable with what was applied to transactions between the Bank and its unrelated customers.

Statement of Financial Position - Bank

As at 31st December	Closing Balance		Average Balance	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Assets				
Balances with Central Bank of Sri Lanka	25,820,489	7,212,395	17,851,282	19,280,815
Reverse repurchase agreements	-	-	6,704,060	1,369,670
Financial assets measured at amortised cost - debt and other financial instruments	159,647,189	185,522,038	171,065,394	158,391,027
Financial assets measured at fair value through other comprehensive income	199,100,863	245,059,017	228,078,564	200,655,750
Financial assets measured at fair value through profit or loss	-	-	5,518	1,009,347
Financial assets measured at amortised cost - loans and advances to customers	57,588,792	55,503,605	53,771,534	53,559,438
	442,157,333	493,297,055	477,476,352	434,266,047
Liabilities				
Financial liabilities measured at amortised cost - due to depositors	12,877,122	8,123,437	9,484,487	6,346,501
Due to banks	11,601,283	12,565,962	11,909,792	13,295,677
Debt securities issued/Subordinated term debts	10,469,914	14,624,745	12,269,565	14,624,745
Securities sold under repurchase agreements	11,350,910	6,032,510	6,566,840	2,749,020
Current tax liabilities	10,051,689	7,725,731	8,504,241	6,681,649
	56,350,918	49,072,385	48,734,925	43,697,592

Commitments and Contingencies

As at 31st December	Closing Balance	
	2021 Rs 000	2020 Rs 000
Forward foreign exchange contracts		
Sales	-	189,000
Purchases	18,651,479	27,547,110
Documentary credit	5,724,780	396,925
Guarantee	9,817,056	8,193,340
Commitments for unutilised facilities		
Direct	7,978,560	14,859,880
Indirect	5,058,991	14,683,303

Notes to the Financial Statements

60 RELATED PARTY DISCLOSURES (Contd.)

60 (f) Transactions with Government of Sri Lanka/Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka

Income Statement - Bank

For the year ended 31st December	2021 Rs 000	2020 Rs 000
Interest income	33,307,171	29,308,262
Interest expenses	2,392,709	2,485,720
Fee and commission income/(expenses)	49,432	35,469
Other income	155,798	80,623
Impairment charge/(reversal) for loans and other losses	13,671	2,329
Tax expenses (income tax, financial services VAT, crop insurance levy, local taxes and stamp duty)	10,699,838	9,788,489

Number of Shares held by Government

As at 31st December	2021	2020
Voting	111,072,789	110,889,094
Non voting	1,578,854	2,351,113

Cash dividends paid to government related entities amounts to Rs. 510.26 Mn in 2021 (2020 - Rs. 470.02 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 2021 was Rs. 665.62 Mn (2020 - Rs. 483.24 Mn).

60 (g) Disclosure Requirement under Section 9.3.2 (a) and section 9.3.2 (b) of the Listing Rules of Colombo Stock Exchange (CSE)

• Recurrent related party transactions

In accordance with rule No. 9.3.2 (b) there are no recurrent related party transactions (loans and advances), which in aggregate exceeds more than 10% of the gross revenue of the Group.

• Non-recurrent related party transactions

In accordance with rule No. 9.3.2 (a) the Bank does not have any non-recurrent related party transactions carried out during the financial year under review with a value exceeding 10% of the equity or 5% of the total assets whichever is lower, as per the audited financial statements of the Group.

61 MATURITY ANALYSIS

61 (a) As at 31st December 2021

	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
ASSETS						
Cash and cash equivalents	38,185,254	-	38,185,254	40,900,372	-	40,900,372
Placements with banks	-	-	-	3,338,211	3,033,062	6,371,273
Balances with central banks	-	25,820,489	25,820,489	-	25,820,489	25,820,489
Reverse repurchase agreements	-	-	-	6,246,276	-	6,246,276
Derivative financial instruments	927,487	-	927,487	927,487	-	927,487
Financial assets recognised through profit or loss						
- Measured at fair value	103,365	-	103,365	862,641	-	862,641
Financial assets at amortised cost						
- loans and advances	447,148,494	429,106,199	876,254,693	467,800,657	443,452,688	911,253,345
Financial assets at amortised cost						
- debt and other financial instruments	61,179,018	99,498,502	160,677,520	65,362,033	106,568,607	171,930,640
Financial assets measured at fair value through						
other comprehensive income	171,204,902	32,221,531	203,426,433	172,088,328	38,716,159	210,804,487
Investment in joint venture	-	755,000	755,000	-	2,877,420	2,877,420
Investment in subsidiaries	-	3,017,285	3,017,285	-	-	-
Investment properties	-	469,774	469,774	-	964,854	964,854
Property, plant and equipment	-	24,953,738	24,953,738	-	49,724,473	49,724,473
Right-of-use assets	666,348	4,773,036	5,439,384	452,978	1,724,924	2,177,902
Intangible assets and goodwill	-	1,429,544	1,429,544	-	1,989,134	1,989,134
Deferred tax assets	-	4,461,561	4,461,561	-	4,941,105	4,941,105
Other assets	6,428,649	5,986,445	12,415,094	9,426,514	6,432,151	15,858,665
Total assets	725,843,517	632,493,104	1,358,336,621	767,405,497	686,245,066	1,453,650,563
LIABILITIES						
Due to banks	12,063,201	5,012,301	17,075,502	12,063,201	5,012,301	17,075,502
Derivative financial instruments	353,356	-	353,356	353,356	-	353,356
Securities sold under repurchase agreements	33,524,226	-	33,524,226	33,524,226	-	33,524,226
Financial liabilities at amortised cost						
- due to depositors	1,033,999,205	41,710,082	1,075,709,287	1,060,576,080	46,489,740	1,107,065,820
Dividends payable	989,212	-	989,212	1,013,629	-	1,013,629
Financial liabilities at amortised cost						
- other borrowings	8,236,601	16,511,268	24,747,869	8,894,598	16,661,236	25,555,834
Debt securities issued	54,356	1,908,393	1,962,749	54,356	2,410,729	2,465,085
Current tax liabilities	10,051,689	-	10,051,689	10,518,569	-	10,518,569
Deferred tax liabilities	-	-	-	-	5,157,978	5,157,978
Insurance provision - life	-	-	-	280,222	20,097,793	20,378,015
Insurance provision - general	-	-	-	3,672,388	63,533	3,735,921
Other provisions	3,928,598	-	3,928,598	4,550,802	-	4,550,802
Other liabilities	7,659,223	6,741,233	14,400,456	11,112,878	3,483,773	14,596,651
Subordinated term debts	1,479,621	22,072,702	23,552,323	1,479,621	22,912,291	24,391,912
Total shareholders' equity	-	152,041,354	152,041,354	-	176,668,041	176,668,041
Non-controlling interests	-	-	-	-	6,599,222	6,599,222
Total equity and liabilities	1,112,339,288	245,997,333	1,358,336,621	1,148,093,926	305,556,637	1,453,650,563
Maturity gap	(386,495,771)	386,495,771	-	(380,688,429)	380,688,429	-
Cumulative gap	(386,495,771)	-	-	(380,688,429)	-	-

Notes to the Financial Statements

61 MATURITY ANALYSIS (Contd.)

61 (b) As at 31st December 2020

	Bank			Group		
	Within	More than	Total	Within	More than	Total
	12 months	12 months		12 months	12 months	
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
ASSETS						
Cash and cash equivalents	34,123,562	-	34,123,562	34,898,957	-	34,898,957
Placements with banks	-	-	-	7,720,500	4,405,934	12,126,434
Balances with central banks	-	7,212,395	7,212,395	-	7,212,395	7,212,395
Reverse repurchase agreements	-	-	-	2,827,050	-	2,827,050
Derivative financial instruments	1,032,318	-	1,032,318	1,032,318	-	1,032,318
Financial assets recognised through profit or loss						
- Measured at fair value	84,499	-	84,499	1,094,827	-	1,094,827
Financial assets at amortised cost						
- loans and advances	393,184,055	379,396,665	772,580,720	410,080,231	390,735,740	800,815,971
Financial assets at amortised cost						
- debt and other financial instruments	51,201,487	135,404,029	186,605,516	53,176,376	140,173,120	193,349,496
Financial assets measured at fair value						
through other comprehensive income	219,550,082	29,721,576	249,271,658	220,457,578	35,937,066	256,394,644
Investment in joint venture	-	755,000	755,000	-	2,521,811	2,521,811
Investment in subsidiaries	-	3,017,285	3,017,285	-	-	-
Investment properties	-	475,109	475,109	-	1,028,956	1,028,956
Property, plant and equipment	-	20,705,056	20,705,056	-	41,827,384	41,827,384
Right-of-use assets	622,983	4,733,885	5,356,868	415,220	1,412,612	1,827,832
Intangible assets and goodwill	-	1,309,172	1,309,172	-	1,749,994	1,749,994
Deferred tax assets	-	806,539	806,539	-	1,728,958	1,728,958
Other assets	3,159,618	5,356,221	8,515,839	6,153,817	4,891,662	11,045,479
Total assets	702,958,604	588,892,932	1,291,851,536	737,856,874	633,625,632	1,371,482,506
LIABILITIES						
Due to banks	82,722,773	7,023,936	89,746,709	82,722,773	7,023,936	89,746,709
Derivative financial instruments	337,014	-	337,014	337,014	-	337,014
Securities sold under repurchase agreements	10,361,383	-	10,361,383	10,361,383	-	10,361,383
Financial liabilities at amortised cost						
- due to depositors	929,892,091	37,929,313	967,821,404	952,356,290	42,592,622	994,948,912
Dividends payable	962,185	-	962,185	980,507	-	980,507
Financial liabilities at amortised cost						
- other borrowings	12,192,693	18,333,568	30,526,261	12,192,693	18,333,568	30,526,261
Debt securities issued	54,356	1,820,686	1,875,042	58,453	2,352,955	2,411,408
Current tax liabilities	7,725,731	-	7,725,731	8,093,584	-	8,093,584
Deferred tax liabilities	-	-	-	-	5,371,390	5,371,390
Insurance provision - life	-	-	-	-	17,073,033	17,073,033
Insurance provision - general	-	-	-	3,309,150	-	3,309,150
Other provisions	3,917,784	-	3,917,784	4,266,262	-	4,266,262
Other liabilities	8,910,182	7,367,851	16,278,033	12,291,241	3,160,756	15,451,997
Subordinated term debts	12,634,077	15,664,288	28,298,365	12,490,450	16,455,007	28,945,457
Total shareholders' equity	-	134,001,625	134,001,625	-	154,249,475	154,249,475
Non-controlling interests	-	-	-	-	5,409,964	5,409,964
Total equity and liabilities	1,069,710,269	222,141,267	1,291,851,536	1,099,459,800	272,022,706	1,371,482,506
Maturity gap	(366,751,665)	366,751,665	-	(361,602,926)	361,602,926	-
Cumulative gap	(366,751,665)	-	-	(361,602,926)	-	-

62 SEGMENT REPORTING

ACCOUNTING POLICY

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Unallocated items comprise mainly of corporate assets, expenses, tax assets and liabilities.

62 (a) Basis for Segmentation

Group's activities have been segregated into eight different segments based on the business activities that each unit is engaged for the purpose of reviewing the operating results of the Group as well as to make decisions about resource allocation. The operating results of the Bank is split between corporate, retail, SME, micro and treasury. Real estate, insurance and 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

62 SEGMENT REPORTING (Contd.)

For the year ended 31st December	Corporate		Retail		SME		Micro	
	2021	2020	2021	2020	2021	2020	2021	2020
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Net interest income	5,881,015	11,408,567	14,298,239	13,162,875	7,772,862	10,284,251	857,464	1,058,418
Foreign exchange income	361,573	141,001	150,180	302,708	271,604	174,080	1,865	1,895
Net fee and commission income	3,329,351	2,049,347	4,365,300	2,120,768	2,339,534	1,914,798	159,806	103,971
Other operating income	-	-	-	-	-	-	-	-
Total operating income	9,571,939	13,598,915	18,813,719	15,586,351	10,384,000	12,373,129	1,019,135	1,164,284
Impairment charge for loans and other losses	6,228,846	6,809,032	1,272,391	3,164,742	3,587,920	2,459,902	696,707	240,984
Net operating income	3,343,093	6,789,883	17,541,328	12,421,609	6,796,080	9,913,227	322,428	923,300
Profit from operations	-	-	-	-	-	-	-	-
Share of profit of joint venture	-	-	-	-	-	-	-	-
Income tax expenses	-	-	-	-	-	-	-	-
Non - controlling interests	-	-	-	-	-	-	-	-
Net Profit for the year attributable to equity holders of the parent company	-	-	-	-	-	-	-	-

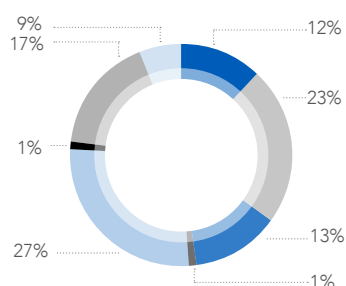
As at 31st December	2021	2020	2021	2020	2021	2020	2021	2020
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Segment assets	445,909,400	382,560,873	238,392,204	205,465,205	228,282,039	208,950,182	29,076,531	25,938,834
Investment in joint venture	-	-	-	-	-	-	-	-
Total assets	445,909,400	382,560,873	238,392,204	205,465,205	228,282,039	208,950,182	29,076,531	25,938,834
Segment liabilities	171,902,142	164,499,393	688,395,688	614,340,708	197,715,739	175,585,198	10,903,678	7,444,919
Total liabilities	171,902,142	164,499,393	688,395,688	614,340,708	197,715,739	175,585,198	10,903,678	7,444,919

For the year ended 31st December	2021	2020	2021	2020	2021	2020	2021	2020
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Information on cash flows								
Cash flows from operating activities	(41,673,839)	60,251,523	59,941,700	73,188,785	13,182,684	28,539,790	1,340,197	1,769,649
Cash flows from investing activities	(4,700,000)	5,500,000	-	-	-	-	-	-
Cash flows from financing activities	-	-	-	-	-	-	-	-
Net cash flow (used) / generated during the year	(46,373,839)	65,751,523	59,941,700	73,188,785	13,182,684	28,539,790	1,340,197	1,769,649
Capital expenditure								
- Property, plant and equipment	-	-	-	-	-	-	-	-
- Intangible assets	-	-	-	-	-	-	-	-
Total Capital Expenditure	-	-	-	-	-	-	-	-

Geographic information

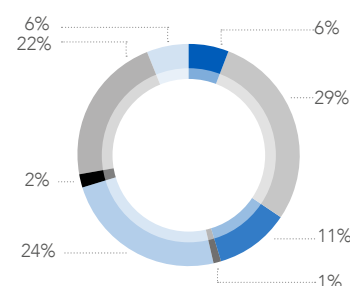
The Group functions in one geographic location. Accordingly, geographic information is not presented in the financial statements.

Total operating income



- Corporate
- Retail
- SME
- Micro
- Treasury
- Real Estate
- Insurance
- Finance

Net Operating Income



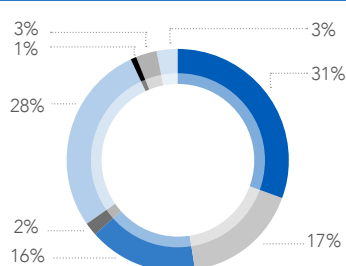
- Corporate
- Retail
- SME
- Micro
- Treasury
- Real Estate
- Insurance
- Finance

Treasury		Real Estate		Insurance		NBFI		Eliminations/Unallocated		Consolidated	
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
18,440,948	12,401,203	(15,209)	(24,071)	2,496,287	2,443,101	3,802,744	3,075,333	2,928,018	(2,972,490)	56,462,368	50,837,187
2,837,153	686,505	-	-	-	-	-	-	1,582,347	536,071	5,204,722	1,842,260
1,879	194	-	-	225,740	140,843	467,911	339,664	(573,310)	1,355,972	10,316,211	8,025,557
12,222	1,062,258	1,017,160	997,063	10,937,322	9,023,037	258,896	162,893	195,428	123,625	12,421,028	11,368,876
21,292,202	14,150,160	1,001,951	972,992	13,659,349	11,606,981	4,529,551	3,577,890	4,132,483	(956,822)	84,404,329	72,073,880
6,964,860	2,583,799	-	-	1,890	13,853	754,372	774,256	27,323	10	19,534,309	16,046,578
14,327,342	11,566,361	1,001,951	972,992	13,657,459	11,593,128	3,775,179	2,803,634	4,105,160	(956,832)	64,870,020	56,027,302
-	-	-	-	-	-	-	-	-	-	22,760,747	17,173,109
-	-	-	-	-	-	-	-	-	-	292,837	407,215
-	-	-	-	-	-	-	-	-	-	(2,969,222)	(3,918,061)
-	-	-	-	-	-	-	-	-	-	(1,059,480)	(566,843)
-	-	-	-	-	-	-	-	-	-	19,024,882	13,095,420

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
394,285,880	441,699,725	10,954,225	10,461,958	35,851,889	31,725,478	44,386,340	37,414,117	23,634,635	24,744,323	1,450,773,143	1,368,960,695
-	-	-	-	-	-	-	-	2,877,420	2,521,811	2,877,420	2,521,811
394,285,880	441,699,725	10,954,225	10,461,958	35,851,889	31,725,478	44,386,340	37,414,117	26,512,055	27,266,134	1,453,650,563	1,371,482,506
41,693,276	87,457,891	10,954,225	10,461,958	35,851,889	31,725,478	44,386,340	37,414,117	251,847,586	242,552,844	1,453,650,563	1,371,482,506
41,693,276	87,457,891	10,954,225	10,461,958	35,851,889	31,725,478	44,386,340	37,414,117	251,847,586	242,552,844	1,453,650,563	1,371,482,506

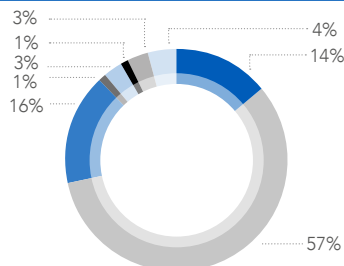
2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
(43,215,524)	28,267,700	647,986	550,225	3,141,494	2,371,954	494,123	2,047,581	(39,414,489)	(32,213,711)	(45,555,668)	164,773,496
59,766,382	(164,297,770)	(900,454)	(505)	(1,176,386)	(2,058,169)	(3,365,819)	423,492	2,499,951	(710,101)	52,123,674	(161,143,053)
-	-	-	(258,020)	(550,835)	(461,317)	(311,253)	(195,960)	(5,459,664)	(1,443,676)	(6,321,752)	(2,358,973)
16,550,858	(136,030,070)	(252,468)	291,700	1,414,273	(147,532)	(3,182,949)	2,275,113	(42,374,202)	(34,367,488)	246,254	1,271,470
-	-	(986)	(505)	(177,280)	(82,901)	(170,590)	(114,836)	(714,145)	(890,286)	(1,063,001)	(1,088,528)
-	-	-	-	(16,904)	(36,702)	(139,802)	(7,065)	(504,340)	(507,094)	(661,046)	(550,861)
-	-	(986)	(505)	(194,184)	(119,603)	(310,392)	(121,901)	(1,218,485)	(1,397,380)	(1,724,047)	(1,639,389)

Segment assets



- Corporate
- Retail
- SME
- Micro
- Treasury
- Real Estate
- Insurance
- Finance

Segment liabilities



- Corporate
- Retail
- SME
- Micro
- Treasury
- Real Estate
- Insurance
- Finance

Notes to the Financial Statements

63 NET ASSETS VALUE PER ORDINARY SHARE

As at 31st December	Bank		Group	
	2021 Rs 000	2020 Rs 000	2021 Rs 000	2020 Rs 000
Amount used as the numerator:				
Equity holders funds (Rs 000)	152,041,354	134,001,625	176,668,041	154,249,475
Number of ordinary shares used as the denominator:				
Total number of shares* ('000) [Note 22 (c)]	525,905	525,905	525,905	525,905
Net assets value per ordinary share (Rs)	289.10	254.80	335.93	293.30

*Number of shares used in net assets value per ordinary share calculation of 2020 has been adjusted by the number of shares issued as scrip dividends in 2021.

64 EVENTS OCCURRING AFTER THE REPORTING PERIOD

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date the financial statements are authorised for issue.

There are no events occurring after the reporting date which require adjustments to or disclosure in the financial statements, other than those disclosed below:

64 (a) Proposed Dividends

Refer Note 23 (a) to the financial statements.

64 (b) Proposed Surcharge Tax

The Government of Sri Lanka in its Budget for 2022 proposed a one-time tax, referred to as surcharge tax. The Bill governing the imposition and administration of the surcharge tax was published in the Gazette on 7th February 2022. Surcharge tax is payable by any individual, partnership, company or each company of a group of companies (holding and subsidiaries) whose taxable income exceeds Rs 2,000 Mn for the Y/A 2020/2021, at the rate of 25% on the taxable income for such year of assessment. The proposed surcharge tax has not been accounted for in the consolidated financial statements as at 31st December 2021 as the said Bill is not considered to be substantively enacted as per Sri Lanka Accounting Standard LKAS – 12 – “Income Taxes” as at the reporting date .

65 COMPARATIVE INFORMATION

The presentation and classification of the following items in these financial statements are amended to ensure the comparability with the current year.

Note	Bank			Group		
	As disclosed previously	Current Presentation Rs 000	Adjustment Rs 000	As disclosed previously	Current Presentation Rs 000	Adjustment Rs 000
Income Statement						
Net losses from trading	(74,890)	(837,108)	762,218	(54,678)	(816,896)	762,218
Net other operating income	2,888,113	3,650,331	(762,218)	3,042,217	3,804,435	(762,218)

Net other operating income of Rs 762 Mn previously classified as net losses from trading has been reclassified.

66 DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors of the Bank is responsible for the preparation and presentation of these financial statements.

Please refer to page 129 for the statement of the directors' responsibility for financial reporting.

Income Statement in US Dollars

For the year ended 31st December	Bank		Group	
	2021 US\$ 000	2020 US\$ 000	2021 US\$ 000	2020 US\$ 000
Gross income	566,805	616,194	668,606	715,277
Interest income	485,777	553,044	529,167	600,295
Less : Interest expenses	241,612	315,166	250,993	329,813
Net interest income	244,165	237,878	278,174	270,482
Fee and commission income	48,741	41,473	52,603	44,691
Less: Fee and commission expenses	1,334	1,330	1,777	1,990
Net fee and commission income	47,407	40,143	50,826	42,701
Net interest, fee and commission income	291,572	278,021	329,000	313,183
Net losses from trading	(2,572)	(4,454)	(1,891)	(4,346)
Net gain from financial investments at fair value through other comprehensive income	965	1,103	966	1,113
Net insurance premium income	-	-	52,429	47,394
Net gains arising on de-recognition of financial assets	-	5,606	29	5,888
Net other operating income	33,894	19,422	35,303	20,242
Total operating income	323,859	299,698	415,836	383,474
Less: Impairment charge for loans and other losses	92,514	81,184	96,240	85,377
Net operating income	231,345	218,514	319,596	298,097
Less : Operating expenses	-	-	-	-
Personnel expenses	53,000	60,970	67,378	73,974
Benefits, claims and underwriting expenditure	-	-	44,120	39,239
Other expenses	58,509	56,715	72,512	71,974
Total operating expenses	111,509	117,685	184,010	185,187
Operating profit before taxes on financial services	119,836	100,829	135,586	112,910
Less: Taxes on financial services	22,164	20,589	23,451	21,540
Operating profit after taxes on financial services	97,672	80,240	112,135	91,370
Share of profit of joint venture (net of income tax)	-	-	1,443	2,167
PROFIT BEFORE INCOME TAX	97,672	80,240	113,578	93,537
Less: Income tax expense	12,441	19,253	14,628	20,846
PROFIT FOR THE YEAR	85,231	60,987	98,950	72,691
Profit attributable to:				
Equity holders of the Bank	85,231	60,987	93,730	69,675
Non-controlling interests	-	-	5,220	3,016
PROFIT FOR THE YEAR	85,231	60,987	98,950	72,691
Earnings per share				
Basic earnings per ordinary share (\$)	0.16	0.12	0.18	0.13
Diluted earnings per ordinary share (\$)	0.16	0.12	0.18	0.13
Dividend per share				
Dividend per share: Gross (\$)	* 0.04	0.04	* 0.04	0.04

Exchange rate of US\$ 1 was Rs. 202.975 as at 31st December 2021 (Rs. 187.95 as at 31st December 2020)

The income statement given on this page is solely for the convenience of the stakeholders of financial statements and does not form part of the audited financial statements.

*Final dividend proposed, which is to be approved at the Annual General Meeting.

Statement of Profit or Loss and Other Comprehensive Income in US Dollars

For the year ended 31st December	Bank		Group	
	2021 US\$ 000	2020 US\$ 000	2021 US\$ 000	2020 US\$ 000
PROFIT FOR THE YEAR	85,231	60,987	98,950	72,691
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods				
Change in fair value of investments in equity instruments designated at fair value through other comprehensive income	(1,269)	(7,302)	(1,269)	(7,302)
Remeasurement of post-employment benefit obligations	5,079	(8,281)	5,423	(8,561)
Revaluation gain on freehold land and buildings	24,037	-	42,109	-
Share of other comprehensive income of joint venture that will not be reclassified to profit or loss	-	-	6	3
Less: Tax expense relating to items that will not be reclassified to profit or loss	(2,842)	-	(3,872)	11
Total other comprehensive income that will not be reclassified to profit or loss	25,005	(15,583)	42,397	(15,849)
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	(14,644)	4,435	(19,297)	8,135
Reclassification of net gains on de-recognition of debt instruments at fair value through other comprehensive income to income statement	-	(5,605)	(29)	(5,888)
Net change in expected credit losses of debt securities measured at fair value through other comprehensive income	920	(800)	920	(800)
Transfer to life policy holder reserve fund	-	-	4,196	(3,065)
Share of other comprehensive income of joint venture that will be reclassified to profit or loss	-	-	304	141
Less: Tax expense relating to items that will be reclassified to profit or loss	3,717	328	3,760	290
Total other comprehensive income that will be reclassified to profit or loss	(10,007)	(1,642)	(10,146)	(1,187)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	14,998	(17,225)	32,251	(17,036)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	100,229	43,762	131,201	55,655
Total comprehensive income attributable to:				
Equity holders of the Bank	100,229	43,762	125,998	52,635
Non-controlling interests	-	-	5,203	3,020
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	100,229	43,762	131,201	55,655

Exchange rate of US\$ 1 was Rs. 202.975 as at 31st December 2021 (Rs. 187.95 as at 31st December 2020)

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	
	2021 US\$ 000	2020 US\$ 000	2021 US\$ 000	2020 US\$ 000
ASSETS				
Cash and cash equivalents	188,128	181,557	201,504	185,682
Placements with banks	-	-	31,389	64,519
Balances with Central Bank of Sri Lanka	127,210	38,374	127,210	38,374
Reverse repurchase agreements	-	-	30,774	15,042
Derivative financial instruments	4,570	5,492	4,570	5,493
Financial assets measured at fair value through profit or loss	509	449	4,250	5,825
Financial assets measured at amortised cost - loans and advances to customers	4,317,057	4,110,565	4,489,486	4,260,793
Financial assets measured at amortised cost - debt and other financial instruments	791,612	992,846	847,053	1,028,728
Financial assets measured at fair value through other comprehensive income	1,002,224	1,326,266	1,038,574	1,364,164
Investment in joint venture	3,720	4,017	14,176	13,417
Investment in subsidiaries	14,865	16,054	-	-
Investment properties	2,314	2,528	4,754	5,475
Property, plant and equipment	122,940	110,163	244,978	222,545
Right-of-use assets	26,798	28,502	10,730	9,725
Intangible assets and goodwill	7,043	6,966	9,800	9,311
Deferred tax assets	21,981	4,291	24,343	9,199
Other assets	61,166	45,309	78,131	58,768
Total assets	6,692,137	6,873,379	7,161,722	7,297,060
LIABILITIES				
Due to banks	84,126	477,503	84,126	477,503
Derivative financial instruments	1,741	1,793	1,741	1,793
Securities sold under repurchase agreements	165,164	55,128	165,164	55,128
Financial liabilities measured at amortised cost - due to depositors	5,299,713	5,149,356	5,454,198	5,293,689
Dividends payable	4,873	5,120	4,994	5,217
Financial liabilities measured at amortised cost - other borrowings	121,926	162,417	125,906	162,417
Debt securities issued	9,670	9,976	12,145	12,830
Current tax liabilities	49,522	41,105	51,822	43,062
Deferred tax liabilities	-	-	25,412	28,579
Insurance provision - life	-	-	100,397	90,838
Insurance provision - non-life	-	-	18,406	17,607
Other provisions	19,355	20,845	22,420	22,699
Other liabilities	70,947	86,608	71,914	82,213
Subordinated term debts	116,036	150,563	120,172	154,006
Total liabilities	5,943,073	6,160,414	6,258,817	6,447,581
EQUITY				
Stated capital	184,083	189,265	184,083	189,265
Statutory reserve fund	42,173	40,756	42,173	40,756
Retained earnings	173,354	120,592	215,020	156,218
Other reserves	349,454	362,352	429,117	434,456
Total shareholders' equity	749,064	712,965	870,393	820,695
Non-controlling interests	-	-	32,512	28,784
Total equity	749,064	712,965	902,905	849,479
Total equity and liabilities	6,692,137	6,873,379	7,161,722	7,297,060
Contingent liabilities and commitments	3,331,653	3,362,321	3,331,653	3,362,321
Net assets value per ordinary share (\$)	1.42	1.36	1.66	1.56

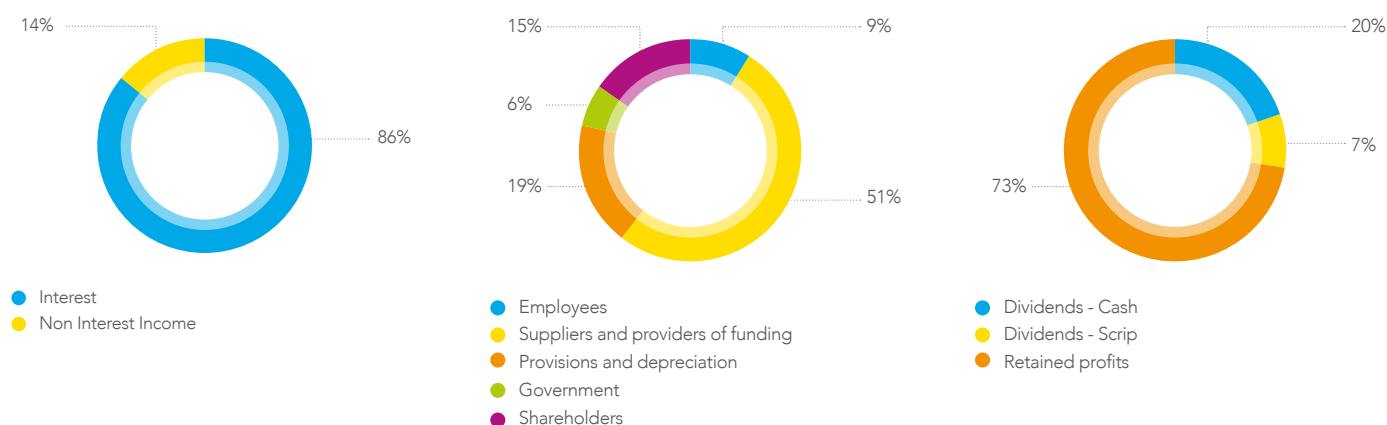
Exchange rate of US\$ 1 was Rs. 202.975 as at 31st December 2021 (Rs. 187.95 as at 31st December 2020)

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

	2016 Rs 000	2017 Rs 000	2018 Rs 000	2019 Rs 000	2020 Rs 000	2021 Rs 000
Sources of Income						
Interest	75,608,193	96,175,453	108,104,923	115,210,769	103,944,602	98,600,557
Non interest income	8,742,630	10,119,741	13,251,166	10,787,317	11,869,016	16,446,768
Total	84,350,823	106,295,194	121,356,089	125,998,086	115,813,618	115,047,325
Utilisation of Income						
Employees						
Salaries and other payment to staff	8,703,575	8,866,642	10,717,978	11,444,259	11,459,352	10,757,563
Suppliers and providers of funding						
Interest paid	41,236,605	56,526,138	60,525,342	65,997,133	59,235,456	49,041,200
Other expenses	8,501,199	9,419,591	9,963,875	10,091,780	8,376,595	9,505,352
	49,737,804	65,945,729	70,489,217	76,088,913	67,612,051	58,546,552
Provisions and depreciation						
Depreciation and amortisation	1,035,930	1,128,802	1,354,762	2,246,114	2,359,326	2,442,963
Impairment for loans and other losses	237,160	3,035,468	9,292,421	9,656,010	15,258,468	18,778,047
	1,273,090	4,164,270	10,647,183	11,902,124	17,617,794	21,221,010
Net Income before Government Taxes and Levies	24,636,354	27,318,553	29,501,711	26,562,790	19,124,421	24,522,200
Government						
Income Tax, VAT, SGT, NBT, Crop Insurance, DRL(Incl Deferred Tax)	10,492,948	10,851,763	13,983,508	12,530,538	7,661,785	7,222,433
Shareholders						
Dividends - Cash	2,071,683	3,175,513	2,463,253	2,251,830	2,303,891	3,418,380
Retained through scrip dividend	1,451,296	977,592	1,724,277	1,751,423	1,791,915	1,314,761
Retained profits	10,620,427	12,313,685	11,330,673	10,028,999	7,366,832	12,566,626
Total	84,350,823	106,295,194	121,356,089	125,998,086	115,813,618	115,047,325

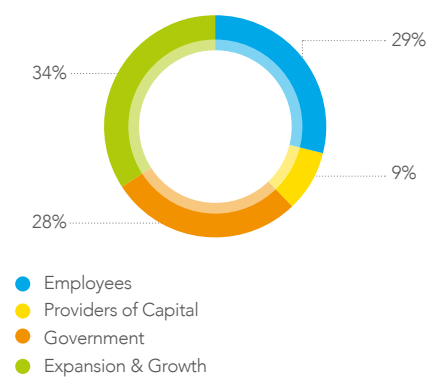
Sources and Utilisation of Income 2021



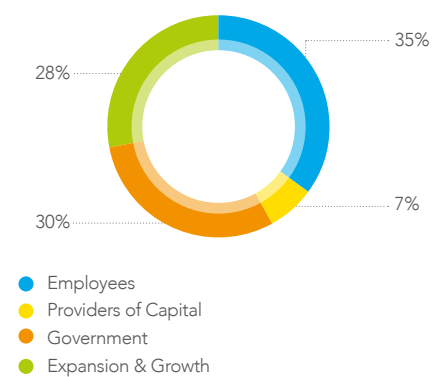
Value Added Statement

	2021		2020	
	Rs 000	%	Rs 000	%
Value Added				
Income earned by providing banking services	114,987,851		115,062,863	
Cost of services	58,546,552		67,612,052	
Value added by banking services	56,441,299		47,450,811	
Non-banking income	385,587		327,000	
Net Gain/(loss) from trading & Financial investment	(326,112)		423,756	
Impairment for loans and other losses	(18,778,047)		(15,258,468)	
	37,722,727		32,943,099	
Value allocated to employees				
Salaries, wages & other benefits	10,757,563	28.52	11,459,352	34.79
To providers of capital				
Dividends to shareholders - Cash	3,418,380	9.06	2,303,891	6.99
To Government				
Income tax	6,002,665		5,745,249	
Value Added tax on financial services	4,498,822		3,869,649	
Crop insurance levy	165,000		134,255	
Local Taxes	15,924		15,776	
Stamp Duty	17,428	10,699,838	23,561	9,788,489
		28.36		29.71
To expansion and growth				
Retained income	12,566,626	33.31	7,366,831	22.36
Retained through Scrip dividend	1,314,761	3.49	1,791,915	5.44
Depreciation & Amortization	2,442,964	6.48	2,359,326	7.16
Deferred Taxation	(3,477,405)	(9.22)	(2,126,705)	(6.46)
	37,722,727	100.00	32,943,099	100.00

Analysis of Value Addition 2021



Analysis of Value Addition 2020



Value Created to Stakeholders

For the year ended 31st December	2021	2020
	Rs 000	Rs 000
Direct Economic value generated		
Interest Income	98,600,557	103,944,603
Fee Commission Income	9,893,263	7,794,929
Net Gain/(loss) from trading & Financial investment	(326,112)	423,756
Other operating income	6,879,617	3,650,331
Total Direct Economic value generated	115,047,325	115,813,619
Economic value distributed		
To Depositors/Debenture Holders as Interest	49,041,200	59,235,456
To Employees as Emoluments	10,757,563	11,459,352
Depreciation/ Amortisation Set Aside	2,442,964	2,359,326
Impairment charge for loans and other losses	18,778,047	15,258,468
To providers of Supplies and services	8,505,997	7,527,756
To Government as Taxation	10,699,839	9,788,489
- Income tax	6,002,665	5,745,249
- VAT and NBT on Financial Services	4,498,822	3,869,649
- Crop Insurance Levy	165,000	134,255
- Stamp duty and Other Local taxes	33,352	39,336
To Central Bank of Sri Lanka as Deposit insurance premium	987,001	823,771
To Shareholders as Dividends	3,418,380	2,303,891
To Community as Donation/CSR	12,352	25,069
Total Economic value distributed	104,643,343	108,781,578
Economic value retained	10,403,982	7,032,041

Ten Year Statistical Summary

Year ended 31st December (Rs Mn)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
OPERATING RESULTS										
Income	51,539	61,006	59,500	61,153	84,351	106,295	121,356	125,998	115,814	115,047
Interest income	47,326	56,771	51,868	52,615	75,608	96,175	108,105	115,211	103,945	98,601
Interest expense	25,368	31,424	26,967	26,280	41,237	56,526	60,525	65,997	59,235	49,041
Non interest income	4,213	4,236	7,633	8,538	8,743	10,120	13,251	10,787	11,869	16,447
Operating expenses (Incl. financial VAT, NBT & DRL)	16,294	19,575	20,470	19,824	22,968	27,719	37,879	41,538	41,497	46,181
Profit before income tax	9,876	10,008	12,064	15,050	20,146	22,050	22,952	18,463	15,081	19,825
Income tax on profit	2,342	2,998	3,059	4,601	6,002	5,583	7,433	4,431	3,619	2,525
Profit after taxation	7,534	7,010	9,005	10,449	14,143	16,467	15,518	14,032	11,463	17,300
LIABILITIES AND SHAREHOLDERS' FUNDS										
Customer deposits	341,424	387,158	419,327	527,126	623,495	701,519	799,975	810,035	967,821	1,075,709
Refinance borrowings	6,429	5,615	4,889	4,227	4,140	5,244	5,639	6,364	15,089	14,270
Other liabilities	50,496	66,084	87,736	128,424	154,080	134,884	163,312	179,723	174,939	116,316
Deferred tax liabilities	1,111	-	-	379	231	5,083	1,809	1,382	-	-
Shareholders' funds	46,899	51,454	60,899	65,051	77,017	108,148	115,754	127,504	134,002	152,041
Total	446,358	510,310	572,851	725,208	858,963	954,878	1,086,489	1,125,009	1,291,852	1,358,337
ASSETS										
Loans and receivables to customers (Net)	302,761	351,965	396,277	498,342	584,413	639,102	749,049	741,769	772,581	876,255
Cash, short term funds and statutory deposits with the Central Bank of Sri Lanka	39,024	29,238	33,838	35,033	52,042	63,533	62,342	59,487	41,336	64,006
Property, plant and equipment	9,418	9,521	9,305	11,474	13,945	17,905	21,304	21,077	20,705	24,954
Deferred tax assets	-	768	287	-	-	-	-	-	807	4,462
Other assets	95,155	118,818	133,144	180,360	208,564	234,337	253,794	302,676	456,423	388,661
Total	446,358	510,310	572,851	725,208	858,963	954,878	1,086,489	1,125,009	1,291,852	1,358,337
RATIOS										
Return on average shareholders funds (%)	18	14	16	17	20	18	14	12	9	12
Income growth (%)	39	18	(2)	3	38	26	14	4	(8)	(1)
Return on average assets (%)	1.8	1.5	1.7	1.6	1.8	1.8	1.5	1.3	0.9	1.3
Dividend cover (Times)	2.2	2.1	2.6	3.0	4.0	4.0	3.7	3.5	2.8	3.7
Property, plant and equipment to shareholders' funds (%)	20	19	15	18	18	17	18	17	15	16
Total assets to shareholders' funds (Times)	10	10	9	11	11	9	9	9	9.64	8.93
Liquid assets to liabilities (%)	22	23	23	24	24	24	24	30	40	28
SHARE INFORMATION										
Market value per share (Rs)										
- Voting	148.00	147.00	194.90	210.60	225.00	249.00	214.00	172.20	126.50	135.00
- Non Voting	112.50	119.00	152.90	177.90	190.00	195.00	168.50	135.50	100.60	122.25
Group Earnings per share (Rs)	20.75	19.20	24.50	26.09	34.99	35.50	35.25	29.32	25.58	36.18
*Group Earnings per Share (Adjusted) (Rs)	15.10	14.55	18.67	20.07	28.06	30.32	33.53	27.89	24.90	36.18
Price earnings ratio	7.13	7.66	7.96	8.07	6.43	7.01	6.07	5.87	4.95	3.73
Group Net Assets per share (Rs)	129.96	144.06	168.67	186.20	220.61	247.79	269.28	290.78	301.28	335.93
**Group Net Assets per share (Adjusted) (Rs)	98.97	109.45	129.12	143.68	173.59	232.00	252.25	276.68	293.30	335.93
Dividend per share (Rs)	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.00	8.00	9.00
Cash dividend per share (Rs)	8.50	8.50	8.50	5.00	5.00	6.50	5.00	4.50	4.50	6.50
Gross dividends (Rs Mn)	3,379	3,400	3,431	3,451	3,523	4,153	4,188	4,003	4,096	4,733
OTHER INFORMATION										
No of employees	4,679	4,604	4,451	4,285	4,190	4,348	4,781	4,913	4,836	5,042
No of customer centres	247	250	249	249	251	251	250	252	252	255
No of student banking centres	166	168	168	168	150	152	155	156	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 2021

Quarterly Statistics

For the three months ended	2021				*2020			
	December 31st	September 30th	June 30th	March 31st	December 31st	September 30th	June 30th	March 31st
Statement of Financial Position								
(Rs. Mn)								
Total assets	1,358,337	1,352,781	1,336,831	1,307,981	1,291,852	1,248,149	1,169,789	1,146,079
Loans and advances to customers	876,255	849,751	790,229	763,240	772,581	743,048	734,019	753,995
Due to customers	1,075,709	1,060,054	1,032,194	996,065	967,821	922,448	865,313	841,078
Shareholders' funds	152,041	142,699	140,965	136,605	134,002	133,362	130,537	130,207
Average assets	1,338,982	1,322,361	1,312,221	1,299,917	1,213,967	1,172,256	1,146,959	1,135,544
Statement of Profit or Loss								
(Rs 000)								
Net interest income	13,980,187	12,417,650	12,561,953	10,599,567	10,895,870	11,372,954	11,016,380	11,423,942
Net fee and commission income	2,961,100	2,246,331	2,132,377	2,282,753	2,119,504	1,966,774	1,387,956	2,070,815
Net gain/(loss) from trading	886,863	(761,891)	(704,025)	57,014	580,103	(276,503)	230,592	(1,371,300)
Net gain from financial investments at fair value								
through other comprehensive income	12,720	14,218	-	168,989	-	39,637	154,660	13,024
Net gains arising on derecognition of financial assets	-	-	-	-	1,053,543	-	-	-
Net other operating income	433,206	1,943,757	2,353,847	2,148,807	123,459	572,783	321,695	2,632,394
Total operating income	18,274,076	15,860,065	16,344,152	15,257,130	14,772,479	13,675,645	13,111,283	14,768,875
Less : Impairment charge for loans and other losses	7,584,686	4,864,527	3,665,858	2,662,976	3,446,941	2,723,393	4,424,278	4,663,856
Net operating income	10,689,390	10,995,538	12,678,294	12,594,154	11,325,538	10,952,252	8,687,005	10,105,019
Less : Operating expenses	4,672,439	6,146,119	6,018,689	5,796,280	5,455,665	5,432,685	5,374,108	5,856,527
Taxes on financial services	929,654	1,043,301	1,277,750	1,248,117	1,096,466	1,067,941	793,713	911,529
Income tax expenses	22,321	648,179	1,000,216	854,544	1,049,728	1,175,851	694,063	698,902
Profit for the quarter ended	5,064,976	3,157,939	4,381,639	4,695,213	3,723,679	3,275,775	1,825,121	2,638,061
Other comprehensive income for the quarter ended	4,277,872	(1,424,556)	(20,756)	211,560	(3,116,299)	(442,209)	904,365	(583,465)
Total comprehensive income for the quarter ended	9,342,848	1,733,383	4,360,883	4,906,773	607,380	2,833,566	2,729,486	2,054,596
Ordinary share information								
Market price per share (Rs)	V	NV	V	NV	V	NV	V	NV
High	171.00	147.75	142.75	133.75	139.00	111.75	165.00	130.75
Low	133.00	120.25	128.00	105.50	123.00	91.50	125.00	96.00
Closing	135.00	122.25	141.00	133.75	134.00	107.25	126.00	97.20
V- Voting NV - Non Voting								
Net Asset Value per Share (Adjusted)	289.10	271.34	268.04	259.75	254.80	253.59	248.21	247.59
Financial measures								
Profitability (Annualised)								
Interest Margin	3.70	3.59	3.53	3.26	3.68	3.85	3.91	4.02
Return on Assets (before Tax), %	1.48	1.49	1.67	1.71	1.24	1.17	1.02	1.18
Return on Equity	12.09	11.77	13.23	13.88	8.68	7.91	6.90	8.19
Productivity								
Cost to Income Ratio	25.57	38.75	36.82	37.99	36.93	39.73	40.99	39.65
BASEL III								
Risk weighted capital ratios								
Common Equity Tier I Capital (%)	14.53	14.43	15.31	14.82	14.73	14.69	15.25	13.85
Tier I Capital (%)	14.53	14.43	15.31	14.82	14.73	14.69	15.25	13.85
Total Capital (%)	18.16	18.22	18.42	17.88	17.98	18.33	19.07	17.25
Leverage Ratio	7.97	7.86	8.03	7.67	7.73	7.84	8.46	7.90
Asset quality								
Gross NPA ratio (%)	3.38	3.92	4.25	4.28	4.31	6.51	6.40	5.90
Net NPA ratio (%)	0.15	0.42	0.64	0.78	0.90	3.03	3.16	3.13

* Quarterly information has been amended based on classification changes made in 2021.

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 2021 and the audited Balance Sheet of the Bank as at date have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

Stock Exchange code for Hatton National Bank PLC shares is "HNB". Reuter code of Hatton National Bank PLC is "HNBL"

2 ORDINARY SHAREHOLDERS

SHARE INFORMATION - VOTING

There were 7,675 registered Voting Shareholders as at 31st December 2021 (2020 - 8,517) 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	4,717	1,070,189	0.30	45	13,641	0.02	4,762	1,083,830	0.26
1,001	- 10,000	2,040	6,286,490	1.75	40	146,120	0.24	2,080	6,432,610	1.53
10,001	- 100,000	652	19,243,419	5.36	24	715,017	1.17	676	19,958,436	4.75
100,001	- 1,000,000	108	25,382,230	7.07	11	3,165,110	5.18	119	28,547,340	6.80
Over	1,000,000	30	306,811,233	85.51	8	57,065,186	93.39	38	363,876,419	86.66
		7,547	358,793,561	100.00	128	61,105,074	100.00	7,675	419,898,635	100.00

ANALYSIS OF SHAREHOLDERS

Resident / Non-Resident

	31st December 2021			31st December 2020		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Resident	7,547	358,793,561	85.49	8,356	313,231,601	76.51
Non-Resident	128	61,105,074	14.51	161	96,150,789	23.49
Total	7,675	419,898,635	100.00	8,517	409,382,390	100.00

ANALYSIS OF SHAREHOLDERS

Individuals/Institutions

	31st December 2021			31st December 2020		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Individuals	7,224	88,258,713	21.02	8,058	79,240,002	19.36
Institutions	451	331,639,922	78.98	459	330,142,388	80.64
Total	7,675	419,898,635	100.00	8,517	409,382,390	100.00

As at 31/12/2021 the average size of holding of ordinary shareholding was 54,835 voting shares. (31/12/2020 - 48,066 voting shares)

As per the rule No. 7.6 (iv) of the Listing Rules of the Colombo Stock Exchange, percentage of public holding of voting shares as at 31st December 2021 was 69% approximately. (68% as at 31st December 2020).

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 2021 - 7,661. (8,499 as at 31st December 2020).

An aggregate of 961,289 number of shares remain unregistered arising from a direction given by the CBSL dated 26th August 2010 in terms of Sec. 12(IC)(c) of the Banking Act, and these unregistered shares are not included herein.

Investor Relations

3 SHARE INFORMATION - NON VOTING

There were 11,307 registered Non Voting Shareholders as at 31st December 2021 (2020- 12,190) 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	6970	2,251,088	2.17	39	13,623	0.98	7009	2,264,711	2.15
1,001	- 10,000	3557	11,180,181	10.79	39	142,101	10.24	3596	11,322,282	10.78
10,001	- 100,000	623	16,142,117	15.57	15	577,783	41.65	638	16,719,900	15.92
100,001	- 1,000,000	54	14,280,908	13.78	4	653,840	47.13	58	14,934,748	14.22
Over	1,000,000	6	59,803,008	57.69	0	0	0	6	59,803,008	56.93
		11,210	103,657,302	100.00	97	1,387,347	100.00	11,307	105,044,649	100.00

ANALYSIS OF SHAREHOLDERS

Resident / Non-Resident

	31st December 2021			31st December 2020		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Resident	11,210	103,657,302	98.68	12,068	67,655,499	66.55
Non-Resident	97	1,387,347	1.32	122	34,000,613	33.45
Total	11,307	105,044,649	100.00	12,190	101,656,112	100.00

Individuals / Institutions

	31st December 2021			31st December 2020		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Individuals	10,996	36,247,592	34.51	11,812	43,581,313	42.87
Institutions	311	68,797,057	65.49	378	58,074,799	57.13
Total	11,307	105,044,649	100.00	12,190	101,656,112	100.00

As at 31/12/2021 the average size of holding of ordinary shareholding was 9,290 non-voting shares. (31/12/2020- 8,339 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 2021 was 99% approximately. (99% as at 31st December 2020).

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 2021 - 11,298. (12,179 as at 31st December 2020).

4 SHARE TRADING

VOTING	2021	2020
Number of Transactions	37,634	49,819
Number of Shares Traded (Mn)	151	142
Value of Shares Traded (Rs Mn)	20,648	16,286

NON VOTING	2021	2020
Number of Transactions	30,855	31,199
Number of Shares Traded (Mn)	102	48
Value of Shares Traded (Rs Mn)	11,458	4,205

5 DIVIDENDS

	2021		2020
Cash Dividend (Rs)	6.50	Cash Dividend	4.50
Scrip Dividend (Rs)	2.50	Scrip Dividend	3.50
Cash Dividend payout ratio (%)	20	Cash Dividend payout ratio (%)	20

6 EARNINGS

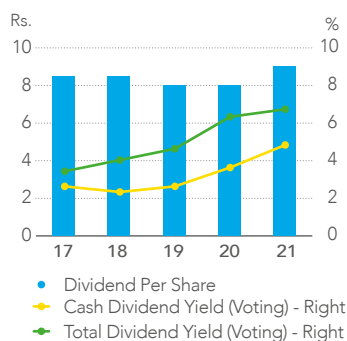
VOTING	2021	2020
Group Earnings Per Share (Rs)	36.18	24.90
Price Earnings ratio (Times)-Voting Shares	3.73	4.95

7 MARKET VALUES

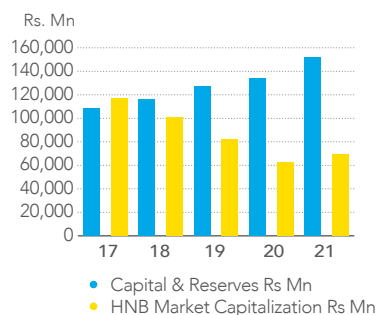
	Highest Rs.	Lowest Rs.	Year End Rs.
2016 - Voting	235.00	185.00	225.00
- Non Voting	202.00	165.50	190.00
2017 - Voting	271.00	220.00	249.00
- Non Voting	214.00	184.10	195.00
2018 - Voting	257.50	200.00	214.00
- Non Voting	200.00	150.00	168.50
2019 - Voting	214.90	130.50	172.20
- Non Voting	168.50	118.30	135.50
2020 - Voting	173.20	91.70	126.50
- Non Voting	136.20	74.70	100.60
2021 - Voting	170.00	123.50	135.00
- Non Voting	146.75	92.00	122.25

Investor Relations

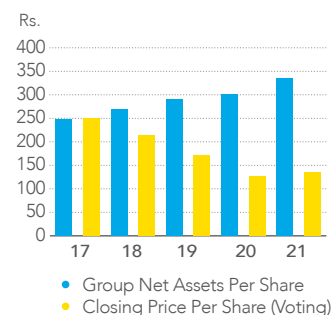
Dividend Per Share and Dividend Yield



Shareholder Funds and HNB Market Capitalization



Group Net Assets Per Share and Closing Price Per Share



8 MARKET CAPITALISATION (AS AT 31ST DECEMBER)

	Capital & Reserves	*HNB Market Capitalization	CSE Market Capitalization	HNB Market Capitalization as a % of CSE Market Capitalization	Market Capitalization Ranking
	Rs Mn	Rs Mn	Rs Mn	%	
2016	77,017	74,420	2,745,410	2.71	7
2017	108,148	97,684	2,899,290	3.37	5
2018	115,754	84,627	2,839,450	2.98	5
2019	127,504	69,111	2,851,310	2.42	9
2020	134,002	51,905	2,960,648	1.75	16
2021	152,041	56,816	5,489,168	1.04	22

*HNB Market Capitalisation include only Voting shares

9 PUBLIC SHAREHOLDING

	2021 Number	%	2020 Number	%
Number of shareholders representing the public holding (Voting)	7,661	69	8,499	68
Number of shareholders representing the public holding (Non Voting)	11,298	99	12,179	99
Complaint under Option 1 - Float Adjusted Market Capitalization (Rs Bn)	39.2		35.3	

10. INFORMATION ON MOVEMENT IN SHARE CAPITAL

Year	Issue	Basis	No. of Shares
	Prior to Public issue		50,000
1971	Public issue		220,000
1977	Rights issue (@ Rs 10/-)	42:50	230,000
1980	Rights issue (@ Rs 10/-)	1:1	500,000
1982	Bonus	1:1	1,000,000
1988	Bonus	1:1	2,000,000
1990	Bonus	1:2	2,000,000
1993	Bonus	1:1	6,000,000
1996	Bonus	2:3	8,000,000
1998	Bonus	1:2	10,000,000
1999	Bonus	2:3	20,000,000
1999	Rights (Non-Voting @ Rs 70/-)	3:10	15,000,000
2002	Bonus	1:10	6,500,000
2004	Rights (Voting @ Rs 55/- and Non-Voting @ Rs 33/-)	2:5	28,600,000
2005	Issue of underlying Shares for GDR		17,664,700
2007	Bonus	1:1	117,764,700
2009	Shares issued under ESOP		240,747
2010	Shares issued under ESOP		2,198,875
2011	Sub Division of Shares	1:2	119,179,782
2011	Rights (Voting @ Rs 219.50/- and Non-Voting @ Rs 119.50/-)	1:10	21,858,851
2011	Private placement of unsubscribed rights		8,975,700
2011	Shares issued under ESOP		613,488
2012	Scrip Dividend		7,890,528
2012	Shares issued under ESOP		759,078
2013	Shares issued under ESOP		2,308,752
2014	Shares issued under ESOP		3,042,455
2015	Shares issued under ESOP		3,223,714
2016	Shares issued under ESOP		1,314,043
2016	Scrip Dividend		6,680,061
2017	Shares issued under ESOP		1,201,044
2017	Scrip Dividend		5,830,259
2017	Rights Issue (Voting @Rs 220/- and Non-voting @Rs 190/-)	1:6	67,706,913
2018	Shares issued under ESOP		263,948
2018	Scrip Dividend		3,832,951
2019	Scrip Dividend		7,756,118
2020	Scrip Dividend		11,569,009
2021	Scrip Dividend		13,928,857
	Total		525,904,573

Investor Relations

11 20 MAJOR SHAREHOLDERS (VOTING) OF THE BANK AS AT 31ST DECEMBER 2021

	Name	% on total capital	% on total voting capital	No. of Shares 2021	No. of Shares 2020
1.	EMPLOYEE'S PROVIDENT FUND	7.80	9.75	41,021,326	39,993,959
2.	SRI LANKA INSURANCE CORPORATION LTD-LIFE FUND	6.62	8.27	34,793,743	36,310,723
3.	MILFORD EXPORTS (CEYLON) (PVT) LIMITED	6.33	**7.91	33,279,619	32,446,141
4.	STASSEN EXPORTS (PVT) LIMITED	5.48	**6.85	28,845,668	28,123,237
5.	MR. S.E. CAPTAIN	5.21	6.51	27,399,702	26,713,485
6.	LOLC FINANCE PLC/BROWNS INVESTMENTS PLC	4.00	5.00	21,043,977	-
7.	BROWNS INVESTMENTS PLC	3.99	4.99	20,980,055	-
8.	SONETTO HOLDINGS LIMITED.	3.93	4.91	20,684,835	20,166,790
9.	SRI LANKA INSURANCE CORPORATION LTD-GENERAL FUND	3.40	4.25	17,875,190	18,465,839
10.	DISTILLERIES COMPANY OF SRI LANKA PLC	2.45	**3.07	12,905,917	12,582,692
11.	CITIBANK NEWYORK S/A NORGES BANK ACCOUNT 2	2.36	2.95	12,425,090	19,374,800
12.	NATIONAL SAVINGS BANK	2.30	2.87	12,075,700	11,773,268
13.	PEOPLE'S LEASING & FINANCE PLC / DON AND DON HOLDINGS (PRIVATE) LIMITED	2.03	2.54	10,700,848	1,994,231
14.	RBC INVESTOR SERVICES TRUST-RBC EMERGING MARKETS SMALL-CAP EQUITY FUND	1.68	2.10	8,853,176	7,261,129
15.	MR. D.N.N. LOKUGE	1.66	2.08	8,752,193	-
16.	STANDARD CHARTERED BANK SINGAPORE S/A HL BANK SINGAPORE BRANCH	1.50	1.88	7,899,166	7,701,334
17.	MS. L.A. CAPTAIN	1.50	1.87	7,865,444	7,668,457
18.	EMPLOYEES TRUST FUND BOARD	0.59	0.74	3,106,188	4,254,621
19.	BNYMSANV RE-FIRST SENTIER INVESTORS ICVC - FSSA ASIA ALL-CAP FUND	0.58	0.72	3,036,462	3,817,988
20.	CEI PLASTICS LTD	0.43	0.54	2,278,390	2,221,329
	Sub total	63.86	79.79	335,822,689	280,870,023
	* Unregistered Shares	0.18	61.97	961,289	937,214
	Balance held by 7,661 voting shareholders (Total voting shareholders- 7,675)	15.99	19.98	84,075,946	128,512,367
	Total voting shares	80.03	161.74	420,859,924	410,319,604
	Shares held by 11,307 Non-voting shareholders	19.97		105,044,649	101,656,112
	Total No. of Ordinary shares	100.00		525,904,573	511,975,716

* 961,289 shares remain unregistered arising from a direction given by the CBSL dated 26th August 2010 in terms of Sec. 12(IC)(c) of the Banking Act.

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

12 20 MAJOR SHAREHOLDERS (NON-VOTING) OF THE BANK AS AT 31ST DECEMBER 2021

Name	% on total capital	% on total voting capital	No. of Shares 2021	No. of Shares 2020
1. BROWNS INVESTMENTS PLC	6.97	34.88	36,638,886	-
2. LOLC FINANCE PLC/BROWNS INVESTMENTS PLC	1.89	9.49	9,964,516	-
3. ACUITY PARTNERS (PVT) LIMITED/MR.ELAYATHAMBY THAVAGNANASOORIYAM/MR.ELAYATHAMBY THAVAGNANASUNDARAM	1.02	5.11	5,368,439	-
4. AKBAR BROTHERS PVT LTD A/C NO 1	0.88	4.43	4,653,891	4,080,215
5. MR. S.E. CAPTAIN	0.31	1.55	1,626,603	1,574,132
6. EMPLOYEES TRUST FUND BOARD	0.29	1.48	1,550,673	2,023,004
7. DEUTSCHE BANK AG AS TRUSTEE FOR JB VANTAGE VALUE EQUITY FUND	0.16	0.79	824,919	1,081,374
8. HATTON NATIONAL BANK PLC A/C NO 2	0.14	0.72	755,919	731,535
9. SABOOR CHATOOR (PVT) LTD	0.14	0.68	719,303	696,100
10. MR. E. CHATOOR	0.13	0.65	680,966	659,000
11. MR. J.D. BANDARANAYAKE (JOINT - 1 : DR. V. BANDARANAYAKE VASANTHA & JOINT - 2 : MISS I. BANDARANAYAKE ISHANI)	0.11	0.55	577,258	-
12. MR. J.D. BANDARANAYAKE (JOINT - 1 : MISS N. BANDARANAYAKE NILUKA & JOINT - 2 : DR. V. BANDARANAYAKE VASANTHA)	0.11	0.55	577,160	-
13. E.W. BALASURIYA & CO. (PVT) LTD	0.10	0.50	524,717	507,791
14. PEOPLE'S LEASING & FINANCE PLC/MR. I.D.R. PERERA	0.10	0.49	509,997	-
15. MISS R.H. ABDULHUSSEIN	0.09	0.43	452,428	423,318
16. MR. M.J. FERNANDO	0.08	0.41	430,043	416,171
17. SAM INNOVATORS (PVT) LTD	0.08	0.40	417,823	282,462
18. DR. R.D. BANDARANAIKE	0.08	0.39	406,545	393,431
19. LANKA SYNTHETIC FIBRE CO LTD	0.07	0.35	382,668	370,324
20. MR. Y.H. ABDULHUSSEIN	0.07	0.35	373,418	346,857
Sub total	12.82	64.20	67,436,172	13,585,714
Balance held by 11,298 Non-voting shareholders (Total Non-voting shareholders-11,307)	7.15	35.80	37,608,477	88,070,398
Total Non-voting shares	19.97	100.00	105,044,649	101,656,112
Shares held by 7,675 voting shareholders	59.87		314,853,986	409,382,390
* Unregistered voting Shares	0.18		961,289	937,214
Total voting shares	80.03		420,859,924	410,319,604
Total No. of Ordinary shares	100.00		525,904,573	511,975,716

* 961,289 aggregate of shares remain unregistered arising from a direction given by the CBSL dated 26th August 2010 in terms of Sec. 12(IC)(c) of the Banking Act.

Investor Relations

13 DEBENTURE INFORMATION

HNB SUBORDINATED DEBENTURES 2006

i) Market Value

12 months ended 31st December 2021

These debentures have not traded during the year ended 31st December 2021

ii) Interest Rate

12 months ended 31st December

	31st December 2021				31st December 2020			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
15 year Fixed Rate (11.00% p.a.) (Zero Coupon)	NA	-	NA	NA	501,428	-	11.00	4.69
18 year Fixed Rate (11.25% p.a.) (Zero Coupon)	1,072,701	-	11.25	9.13	964,288	-	11.25	6.24

HNB SUBORDINATED DEBENTURES 2007

i) Market Value

12 months ended 31st December 2021

These debentures have not traded during the year ended 31st December 2021

ii) Interest Rate

12 months ended 31st December

	31st December 2021				31st December 2020			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
15 year Fixed Rate (16.75% p.a.)	758,625	16.75	16.75	7.88	758,625	16.75	16.75	5.55

HNB SUBORDINATED DEBENTURES 2011

i) Market Value

12 months ended 31st December 2021

These debentures have not traded during the year ended 31st December 2021

ii) Interest Rate

12 months ended 31st December

	31st December 2021				31st December 2020			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
10 year Fixed Rate (11.50% p.a.)	NA	NA	NA	NA	2,000,000	11.50	11.83	4.85

HNB SENIOR DEBENTURES 2013

i) Market Value

12 months ended 31st December 2021

	Market Value			Traded Yield (%)		
	Highest Rs	Lowest Rs	Last Traded Rs	Highest	Lowest	Last Traded
10 year Fixed Rate (8.00% p.a.)	98.05	98.05	98.05	9.03	9.03	9.03

ii) Interest Rate

12 months ended 31st December

	31st December 2021				31st December 2020			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
10 year Fixed Rate (8.00% p.a.)	1,878,709	8.00	14.25	8.58	1,791,002	8.00	14.25	5.95

Investor Relations

HNB SENIOR DEBENTURES 2014

i) Market Value

12 months ended 31st December 2021

These debentures have not traded during the year ended 31st December 2021

ii) Interest Rate

12 months ended 31st December

	31st December 2021				31st December 2020			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
10 year Fixed Rate (8.33% p.a.)	84,040	8.33	8.50	9.50	84,040	8.33	8.50	6.45

HNB SUBORDINATED DEBENTURES 2016 - March

i) Market Value

12 months ended 31st December 2021

These debentures have not traded during the year ended 31st December 2021

ii) Interest Rate

12 months ended 31st December

	31st December 2021				31st December 2020			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
5 year Fixed Rate (11.25% p.a.)	NA	NA	NA	NA	7,599,795	11.25	11.25	4.69

HNB SUBORDINATED DEBENTURES 2016 - November

i) Market Value

12 months ended 31st December 2021

	Market Value			Traded Yield (%)		
	Highest Rs	Lowest Rs	Last Traded Rs	Highest	Lowest	Last Traded
7 year Fixed Rate (13.00% p.a.)	111.18	107.25	111.18	9.62	7.34	7.34

5 year debentures have not traded during the year ended 31st December 2021

ii) Interest Rate

12 months ended 31st December

	31st December 2021				31st December 2020			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
5 year Fixed Rate (11.75% p.a.)	NA	NA	NA	NA	2,039,274	11.75	11.75	4.98
7 year Fixed Rate (13.00% p.a.)	4,086,904	13.00	13.00	8.75	4,086,904	13.00	13.00	5.98

HNB SUBORDINATED DEBENTURES 2019

i) Market Value

12 months ended 31st December 2021

These debentures have not traded during the year ended 31st December 2021

ii) Interest Rate

12 months ended 31st December

	31st December 2021				31st December 2020			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
5 year Fixed Rate (12.30% p.a.)	1,987,358	12.30	12.30	9.32	1,987,358	12.30	12.30	6.42
7 year Fixed Rate (12.80% p.a.)	8,360,693	12.80	12.80	10.65	8,360,693	12.80	12.80	6.82

Investor Relations

HNB SUBORDINATED DEBENTURES 2021

i) Market Value

12 months ended 31st December 2021

These debentures have not traded during the year ended 31st December 2021

ii) Interest Rate

12 months ended 31st December

	31st December 2021				31st December 2020			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
10 year Fixed Rate (9.5% p.a.)	7,286,042	9.50	9.50	11.79	NA	NA	NA	NA

Note: HNB Senior Debenture information is listed under Debt Securities issued, Note 47 of the Financial Position.

Note: HNB Debenture information is listed under Subordinated Term Debts, Note 52 of the Financial Position.

Ratios	2021	2020
Debt to Equity Ratio (%) *	28.27	67.56
Interest Cover (Times) **	5.12	3.95
Liquidity Asset Ratio (LAR) (%)	28.02	39.57

* Debt includes Borrowings and Debentures

** Includes interest paid on Borrowings and Debentures

Independent Assurance Statement

DNV·GL

INTRODUCTION

DNV represented by DNV Business Assurance Lanka (Private) Limited ('DNV') has been commissioned by the management of Hatton National Bank PLC ('HNB' or 'the Bank', Corporate Registration Number PQ 82) to carry out an independent assurance engagement of its non-financial/sustainability performance disclosed in the Bank's Annual Report 2021 ('the Report') in its printed format. The non-financial performance in this Report covers the disclosures related to material topics for the reporting period 1 January 2021 – 31 December 2021.

The sustainability disclosures in this Report have been prepared by HNB on the Guiding Principles and Content Elements of the International <IR> Framework (December 2013, the '<IR> Framework') of the International Integrated Reporting Council ('IIRC') and the Global Reporting Initiative's (GRI's) Sustainability Reporting Standards ('GRI Standards') to bring out the various Content Elements of the <IR> Framework and performance trends related to identified material topics. The reporting topic boundaries for non-financial performance are based on the internal and external materiality assessment carried out by HNB and covers identified material topics for the Bank's operations as brought out in the Report in the section 'About the Report'.

We performed our assurance (Type 2, Moderate level) activities based on AccountAbility's AA1000 Assurance Standard v3, and DNV's assurance methodology VeriSustain™. In doing so, we evaluated the qualitative and quantitative disclosures presented in the Report, together with using the Guiding Principles of the <IR> Framework, together with HNB's protocols for how the non-financial performance was measured, recorded and reported. Our assurance engagement was planned and carried out in December 2021 – February 2022.

The intended user of this assurance statement is the Management of HNB. We disclaim any liability or responsibility to a third party for decisions, whether investment or otherwise, based on this Assurance Statement. We planned and performed our work to obtain the evidence we considered necessary to provide a basis for our assurance opinion and this process did not involve engagement with any external stakeholders.

RESPONSIBILITIES OF THE MANAGEMENT OF HNB AND OF THE ASSURANCE PROVIDER

The Management of the Bank has the sole responsibility for the preparation of the Report as well as the processes for collecting, analysing and reporting the information presented in the Report and also responsible for ensuring the maintenance and integrity of its website and any referenced disclosures on non-financial performance and management approach. In performing this assurance work, DNV's responsibility is to the Management of HNB; however, this statement represents our independent opinion and is intended to inform the outcome of the assurance to the stakeholders of the HNB.

¹The VeriSustain protocol is available on request from www.dnv.com and is based on our professional experience, international assurance best practices including the International Standard on Assurance Engagements 3000 (ISAE 3000) Revised (Assurance Engagements other than Audits or Reviews of Historical Financial Information) and GRI's Reporting Principles. GRI's Principles for defining Report Content and Quality.

Project Number: PRJN-332915-2021-AST-LKA

DNV's assurance engagements are based on the assumption that the data and information provided by the client to us as part of our review have been provided in good faith and free from material misstatements or errors. We were not involved in the preparation of any statements or data included in the Report except for this Assurance Statement.

We did not come across limitations to scope of the agreed assurance agreement during our assurance process. We understand that any reported data on financial performance of the Bank and the Group including its subsidiaries within the Report are based on financial disclosures and data which has been subjected to a separate independent statutory audit process and is not included in our scope of work.

BASIS OF OUR OPINION

We planned and performed our work to obtain the evidence considered necessary to provide a basis for our assurance opinion, and as part of the assurance engagement, a multi-disciplinary team of sustainability and assurance specialists conducted remote assessments and interactions with key internal stakeholders at the Bank's Head Office in Colombo and six (6) operational branches of the Bank in Sri Lanka based on DNV's sampling plan. We adopted a risk-based approach, that is, we concentrated our remote verification efforts on the issues of high material relevance to the Bank and its key stakeholders. Due to the COVID-19 pandemic and associated travel restrictions, we carried out remote assessments as in-person discussions and onsite assessments were not feasible. We undertook the following activities:

- Reviewed the Bank's approach to addressing the Guiding Principles and Content Elements of the <IR> Framework, including stakeholder engagement and its materiality determination process;
- Verified the value creation disclosures related to the capitals identified by the Bank (capitals of the <IR> Framework and Digital Capital) as well as claims made in the Report;
- Assessed the robustness of the data management system, data accuracy, information flow and controls for the reported disclosures;
- Examined and reviewed selected evidences including documents, data and other information made available by the Bank related to non-financial disclosures presented within the Report;
- Conducted interviews with top and senior management team of the Bank and other representatives, including data owners and decision-makers from different divisions and functions of the Bank to validate the non-financial disclosures. We were free to choose interviewees and interviewed those with overall responsibility to deliver the Bank's sustainability objectives;

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- Review of processes and systems for preparing site level sustainability/non-financial data and implementation of sustainability strategy through remote assessments and interviews with management teams at HNB's Head Office and six (6) branches at Kurunegala, Kurunegala Metro, Ragama, Negombo, Negombo Metro and Kegalle. We were free to choose the sites we sampled for our remote assessments;
- Performed sample-based reviews of the mechanisms for implementing the Bank's sustainability related policies, as described in the Report;
- Performed sample-based checks of the processes for generating, gathering and managing the quantitative data and qualitative information included in the Report based on the selected GRI Standards.

OPINION AND OBSERVATIONS

On the basis of our assurance work undertaken, nothing has come to our attention to suggest that the Report does not properly describe HNB's adherence to the criteria of reporting (Guiding Principles and Content Elements) related to the <IR> Framework, representation of the material topics, business model, disclosures on value creation through seven (7) identified capitals, related strategies and management approach and chosen topic-specific disclosures from the GRI Standards for identified material topics. Without affecting our assurance opinion, we also provide the following observations.

Principles of the AA1000 Accountability Principles Standard (2018)

Inclusivity

The participation of stakeholders in developing and achieving an accountable and strategic response to Sustainability.

The Report describes the modes and channels used towards engaging the Bank's key stakeholders, that is, investors, customers, employees, community and regulators/government, in line with their identified concerns. The key objectives and plans related to the pillars of the Bank's strategy are brought out within the Report in line with stakeholder expectations.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Inclusivity.

Materiality

The process of determining the issues that are most relevant to an organization and its stakeholders.

The Report brings out the process followed by the Bank towards identifying and prioritising its material matters, which includes

evaluations of impacts on HNB's strategic goals, key trade-offs, common interests and stakeholder concerns, opportunities and risks, as well as overall accountability and oversight. Thirteen (13) material matters are arrived at towards defining the Bank's ability towards value creation within the Report, and the Bank confirms that the levels of priorities of material matters remains unchanged 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 brings out descriptions of the Bank's policies, strategies, management approach and governance mechanisms related to the identified material matters along with responses to key stakeholder concerns including its incorporation into defining material matters. Key performance metrics related to the Bank's performance in the reporting period as well as medium-term goals and future plans are described within the Report.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Responsiveness.

Impact

The level to which an organisation monitors, measures and is accountable for how its actions affect its broader ecosystems.

The Report brings out the processes and metrics followed by HNB towards identifying, monitoring, measuring and evaluating the Bank's significant impacts related to its material matters and identified capitals on key stakeholder groups. The outputs of processes followed by the Bank as well as key outcomes are described within the Report, along with descriptions of how this contributes towards adapting business strategies and policies.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Impact.

Specific Evaluation of the Information on Sustainability Performance

We consider the methodology and the process for gathering information developed by HNB for its sustainability performance reporting to be appropriate, and the qualitative and quantitative data included in the Report was found to be identifiable and traceable; the personnel responsible were able to demonstrate the origin and interpretation of the data and its reliability. We observed that the Report presents a faithful description of the reported sustainability activities and goals achieved for the reporting period.

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Reliability

The accuracy and comparability of information presented in the report, as well as the quality of underlying data management systems.

The Report brings out the Bank's non-financial performance related to its identified material matters through chosen GRI topic-specific Standards. The majority of the data and information verified through our remote assessments at the Head Office and sampled operational sites were found to be fairly accurate and reliable. Some of the data inaccuracies identified during the verification process were found to be attributable to transcription, interpretation and aggregation errors and these errors have been corrected.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Reliability.

Additional principles as per DNV VeriSustain

Completeness

How much of all the information that has been identified as material to the organisation and its stakeholders is reported.

The Report describes the strategies, business model and management approach that the Bank has put in place towards creating value for its stakeholders using the <IR> Framework and its key requirements, and selected GRI topic-specific Standards for bringing out non-financial performance related to identified material matters for the chosen reporting scope and boundaries of the Bank's operations in Sri Lanka.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Completeness 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 Bank's non-financial performance during the reporting period in a neutral manner in terms of presentation so as to not unduly influence stakeholder opinions made on reported data and information. This includes descriptions of key challenges and responses of the Bank, overall macroeconomic environment and significant concerns related to stakeholders.

Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Neutrality.

STATEMENT OF COMPETENCE AND INDEPENDENCE

DNV applies its own management standards and compliance policies for quality control, in accordance with ISO IEC 17021:2015 - Conformity Assessment Requirements for bodies providing audit and certification of management systems, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the DNV Code of Conduct during the assurance engagement and maintain independence where required by relevant ethical requirements including the AA1000AS v3 Code of Practice. This engagement work was carried out by an independent team of sustainability assurance professionals. We were not involved in the preparation of any statements or data included in the Report except for this Assurance Statement and Management Report. DNV maintains complete impartiality toward stakeholders interviewed during the assurance process. We did not provide any services to HNB or its subsidiaries in the scope of assurance for the reporting period that could compromise the independence or impartiality of our work.

For DNV

Kiran Radhakrishnan
Lead Assessor,
DNV Business Assurance India Private
Limited, India.

Rohitha Wickramasinghe
Operations Manager – Sri Lanka
DNV Business Assurance Lanka (Private)
Limited

Vadakepath Nandkumar
Assurance Reviewer,
DNV Business Assurance India Private
Limited, India

22 February 2022, Colombo, Sri Lanka.



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² The DNV Code of Conduct is available on request from www.dnv.com

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 30-31 and our future plans are given in all business line reviews and the Chairman's and Managing Director/CEO's messages on pages 16 and 20 respectively.</p>
Connectivity of Information	<p>We have provided links to other reports for additional and supporting information related to identified material topics. The value creation for stakeholders on page 34-35 provides an overview of our business operations and interactions between capitals, business lines, risks and opportunities and value delivered to Stakeholders.</p>
Stakeholder Relationships	<p>We have a process of stakeholder identification and engagement and details of stakeholder engagement and relationship management is discussed and signposted on page 29.</p>
Materiality	<p>The process for determining materiality is based on identifying relevant matters and evaluating importance based in <IR> framework and is described on page 30.</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 130-134, 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 351-353.</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>

APPLICATION OF <IR> GUIDING PRINCIPLES

This report is prepared in accordance with the <IR> Framework and has applied the following guiding principles:

GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	Page No
GRI 101 : FOUNDATION 2016					IR 8
GENERAL DISCLOSURES					
GRI 102 : General Disclosures 2016	ORGANISATIONAL PROFILE				
	GRI 102-01	Name of the organisation			IR 372
	GRI 102-02	Activities, brands, products and services			IR 10-12
	GRI 102-03	Location of headquarters			IR 372
	GRI 102-04	Location of operations			IR 11, 46, 370-371
	GRI 102-05	Ownership and legal form			IR 372
	GRI 102-06	Markets served			IR 46, 48-51
	GRI 102-07	Scale of the organisation			IR 14-15
	GRI 102-08	Information on employees and other workers	Goal 8 & 10	8.5,10.3	IR 52-57
	GRI 102-09	Supply chain			IR 61-62
	GRI 102-10	Significant changes to the organisation and its supply chain			IR 24, 118, 34-35
	GRI 102-11	Precautionary principle or approach			IR 30-31, 118-121
	GRI 102-12	External initiatives			IR 58-69
	GRI 102-13	Membership of associations			IR 8
	STRATEGY				
	GRI 102-14	Statement from senior decision-maker			IR 16-19
	GRI 102-15	Key impacts, risks and opportunities			IR 118-124
	ETHICS AND INTEGRITY				
	GRI 102-16	Values, principles, standards and norms of behavior			IR 13, 52-57/ CG & RMR 20-25
	GRI 102-17	Mechanisms for advice and concerns about ethics			IR 84
	GOVERNANCE				
	GRI 102-18	Governance structure			IR 85, CG & RMR 6, 47, 81
	GRI 102-19	Delegating authority			IR 85, 88-95
	GRI 102-20	Executive-level responsibility for economic, environmental and social topics			IR 87, CG & RMR 8
	GRI 102-22	Composition of the highest governance body and its committees	Goal 5 & 16	5.5, 16.7	IR 85-86/ CG & RMR 8-9
	GRI 102-23	Chair of the highest governance body	Goal 5 & 16	5.5, 16.7	IR 94-95, CG & RMR 4-5
	GRI 102-24	Nominating and selecting the highest governance body	Goal 5 & 16	5.5, 16.7	IR 98-100, CG & RMR 9, 12
	GRI 102-25	Conflicts of interest	Goal 16	16.6	CG & RMR 22

GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	Page No
	GRI 102-26	Role of highest governance body in setting purpose, values and strategy			IR 32-33
	GRI 102-27	Collective knowledge of highest governance body			CG & RMR 8-10
	GRI 102-28	Evaluating the highest governance body's performance			IR 86-88
	GRI 102-29	Identifying and managing economic, environmental and social impacts	Goal 16	16.7	IR 61-62, CG & RMR 7
	GRI 102-30	Effectiveness of risk management processes			CG & RMR 49, 59-60
	GRI 102-31	Review of economic, environmental and social topics			IR 61-62, CG & RMR 7
	GRI 102-32	Highest governance body's role in sustainability reporting			IR 16-19, CG & RMR 17
	GRI 102-33	Communicating critical concerns			IR 30-31
	GRI 102-34	Nature and total number of critical concerns			CG & RMR 67
	GRI 102-35	Remuneration policies			IR 55, 87 CG & RMR 23
	GRI 102-36	Process for determining remuneration			IR 96-97
	GRI 102-37	Stakeholders involvement in remuneration	Goal 16	16.7	IR 96-97
STAKEHOLDER ENGAGEMENT					
	GRI 102-40	List of stakeholder groups			IR 29
	GRI 102-41	Collective bargaining agreements	Goal 8	8.8	IR 56
	GRI 102-42	Identifying and selecting stakeholders			IR 34-35
	GRI 102-43	Approach to stakeholder engagement			IR 7, 34-35
	GRI 102-44	Key topics and concerns raised			IR 29
REPORTING PRACTICE					
	GRI 102-45	Entities included in the consolidated financial statements			IR 146
	GRI 102-46	Defining report content and topic boundaries			IR 351-353
	GRI 102-47	List of material topics			IR 30-31
	GRI 102-48	Re-statements of information			IR 127
	GRI 102-49	Changes in reporting			IR 8-9
	GRI 102-50	Reporting period			IR 127, 372
	GRI 102-52	Reporting cycle			IR 372
	GRI 102-53	Contact point for questions regarding the report			IR 372
	GRI 102-54	Claims of reporting in accordance with the GRI standards			IR 8-9
	GRI 102-55	GRI content index			IR 355-362
	GRI 102-56	External assurance			IR 130-134, 351-353

GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	Page No
ECONOMIC PERFORMANCE					
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23, 36-40
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 201 : Economic Performance 2016	GRI 201-1	Direct economic value generated and distributed	Goal 8 & 9	8.1, 8.2, 9.1, 9.4, 9.5	IR 14
	GRI 201-2	Financial implications and other risks and opportunities due to climate change	Goal 13	13.1	IR 62, 119
	GRI 201-3	Defined benefit plan obligation and other retirement plans			IR 304-311
MARKET PRESENCE					
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23, 96-97
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 202 : Market Presence 2016	GRI 202-2	Proportion of senior management hired from the local community	Goal 8	8.5	IR 52-57
INDIRECT ECONOMIC IMPACTS					
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23, 32-33
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 203 : Indirect Economic Impact 2016	GRI 203-1	Infrastructure investment and services supported	Goal 9 & 11	9.1, 9.4, 11.2	IR 34-35
	GRI 203-2	Significant indirect economic impacts	Goal 1, 3 & 8	1.2, 1.4, 3.8, 8.2, 8.3, 8.5	IR 335-336
PROCUREMENT PRACTICES					
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23, CG & RMR 15
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 204 : Procurement Practices 2016	GRI 204-1	Proportion of spending on local suppliers	Goal 8,17	8.3, 17.17	IR 62

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GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	Page No
ANTI-COMPETITIVE BEHAVIOUR					
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23, CG & RMR 80
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 206 : Anti-competitive Behaviour 2016	GRI 206-1	Legal action for anti-competitive behaviour, anti-trust and monopoly practices	Goal 16	16.3	IR 316, CG & RMR 21
TAX 2019					
GRI 103 : Management Approach 2019	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23, 217-220
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 207 : Tax 2019	GRI 207-1	Approach to tax	Goal 1, 10 &17	1.1, 10.4, 17.1, 17.3	IR 217-220
	GRI 207-2	Tax governance, control and risk management	Goal 1, 10 &17	1.1, 10.4, 17.1, 17.3	IR 217-218
	GRI 207-3	Stakeholder engagement and management of concerns related to tax	Goal 1, 10 &17	1.1, 10.4, 17.1, 17.3	IR 219
MATERIALS					
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 301 : Materials 2016	GRI 301-1	Materials used by weight or volume	Goal 8 & 12	8.4, 12.2	IR 60
	GRI 301-2	Recycled input materials used	Goal 8 & 12	8.4, 12.2, 12.5	IR 60
ENERGY					
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 302 : Energy 2016	GRI 302-1	Energy consumption within the organisation	Goal 7,8 & 12	7.3, 8.4, 12.2	IR 61-62, 69
	GRI 302-3	Energy intensity	Goal 7, 8,12 & 13	7.3, 8.4, 12.2, 13.1	IR 61-62, 69
	GRI 302-4	Reduction of energy consumption	Goal 7, 8,12 & 13	7.3, 8.4, 12.2, 13.1	IR 61-62, 69
BIODIVERSITY					
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 304 : Biodiversity 2016	GRI 304-2	Significant impact of activities, products and services on biodiversity	Goal 6,14 &15	6.6, 14.2, 15.1, 15.5	IR 69
	GRI 304-3	Habitats protected or restored	Goal 6,14 &15	6.6, 14.2, 15.2, 15.5	IR 69

GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	Page No
EMISSIONS					
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23, 58-62
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 305 : Emissions 2016	GRI 305-1	Direct (Scope 1) GHG emissions	Goal 3,12, 13 &- 15	3.9, 12.4, 13.1, 15.2	IR 61-62
	GRI 305-2	Energy indirect (Scope 2) GHG emission	Goal 3, 15, 12 &13	3.9, 12.4, 13.1, 15.2	IR 61-62
	GRI 305-4	GHG emissions intensity	Goal 13, 14 & 15	13.1, 14.3, 15.2	IR 61-62
	GRI 305-5	Reduction of GHG emissions	Goal 13, 14 & 15	13.1, 14.3, 15.2	IR 61-62
WASTE 2020					
GRI 103 : Management Approach 2020	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23, 58-62
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 306 : Waste 2020	GRI 306-1	Waste generation and significant waste-related impacts	Goal 3, 6, 12 & 14	3.9, 6.3, 6.4, 6.6, 12.4, 14.1	IR 60, 62
	GRI 306-2	Management of significant waste-related impacts	Goal 3, 6 & 12	3.9,6.3,12.4,12.5	IR 60, 62
	GRI 306-3	Waste generated	Goal 3, 6,12, 14 & 15	3.9, 6.3, 6.4, 6.6, 12.4, 14.1, 15.1	IR 60, 62
	GRI 306-4	Waste diverted from disposal	Goal 8 & 12	8.4, 12.4	IR 60, 62
	GRI 306-5	Waste directed to disposal	Goal 6, 14 & 15	6.6, 14.2, 15.1,15.5	IR 60, 62
ENVIRONMENTAL COMPLIANCE					
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23, CG & RMR 1-3
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 307 : Environmental Compliance 2016	GRI 307-1	Non-compliance with environmental laws and regulations	Goal 16	16.3	IR 61
EMPLOYMENT					
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23, 52-57
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 401 : Employment 2016	GRI 401-1	New employee hires and employee turnover	Goal 5, 8 & 10	5.1, 8.5, 8.6, 10.3	IR 54
	GRI 401-2	Benefits provided to full time employees that are not provided to temporary or part-time employees	Goal 5 & 8	5.4, 8.5	IR 55-56, CG & RMR 23

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GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	Page No
LABOUR MANAGEMENT RELATIONS					
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23, 52-57
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 402 : Labour Management Relations 2016	GRI 402-1	Minimum notice periods regarding operations changes			IR 56
OCCUPATIONAL HEALTH AND SAFETY					
GRI 103 : Management Approach 2018	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23, 52-57
	GRI 103-3	Evaluation of the management approach			IR 32-33, CG & RMR 1-3
GRI 403 : Occupational Health and Safety 2018	GRI 403-1	Occupational health and safety management system	Goal 3, 8 & 16	3.3, 3.4, 3.9, 8.8, 16.1	IR 55-56
	GRI 403-2	Hazard identification, risk assessment, and incident investigation			CG & RMR 42-43
	GRI 403-3	Occupational health services			IR 55-56
	GRI 403-4	Worker participation, consultation, and communication on occupational health and safety			IR 55-56
	GRI 403-5	Worker training on occupational health and safety			IR 55-56
	GRI 403-6	Promotion of worker health			CG & RMR 42-43
	GRI 403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships			IR 119
	GRI 403-8	Workers covered by an occupational health and safety management system			IR 120
	GRI 403-9	Work-related injuries			IR 55
	GRI 403-10	Work-related ill health			IR 56
TRAINING AND EDUCATION					
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23, 52-57
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 404 : Training and Education 2016	GRI 404-1	Average hours of training per year per employee	Goal 4, 5, 8 & 10	4.3, 4.4, 4.5, 5.1, 8.2, 8.5 & 10.3	IR 53-54
	GRI 404-2	Programs for upgrading employees skills and transition assistance programs	Goal 8	8.2, 8.5	IR 53-54
	GRI 404-3	Percentage of employees receiving regular performance and career development reviews	Goal 5, 8 & 10	5.1, 8.5, 10.3	IR 53-54

GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	Page No
DIVERSITY AND EQUAL OPPORTUNITY					
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The Management approach and its components			IR 16-23, 52-57
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 405 : Diversity and Equal Opportunity 2016	GRI 405-1	Diversity of governance bodies and employees	Goal 5 & 8	5.1, 5.5, 8.5	IR 56-57
FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING					
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23, 58-69
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 407 : Freedom of Association and Collective Bargaining 2016	GRI 407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Goal 8	8.8	IR 62
HUMAN RIGHTS ASSESSMENT					
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23, 52-57
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 412 : Human Rights Assessment 2016	GRI 412-2	Employee training on human rights policies or procedures			IR 57, 96-97
LOCAL COMMUNITIES					
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23, 58-69
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 413 : Local Communities 2016	GRI 413-1	Operations with local community engagement, impact assessments and development programs			IR 65-69

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GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	Page No
MARKETING AND LABELING					
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23, 51
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 417 : Marketing and Labeling 2016	GRI 417-1	Requirements for product and service Information and labeling	Goal 12	12.8	IR 51
	GRI 417-2	Incidents of non-compliance concerning product and services information and labeling	Goal 16	16.3	IR 51
	GRI 417-3	Incidents of non-compliance concerning marketing communication	Goal 16	16.3	IR 29, 51
CUSTOMER PRIVACY					
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the material topic and it's boundary			IR 30-31
	GRI 103-2	The management approach and its components			IR 16-23, 44-51
	GRI 103-3	Evaluation of the management approach			IR 32-33
GRI 418 : Customer Privacy 2016	GRI 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Goal 16	16.3, 16.10	IR 50

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	IR 50
	Description of approach to identifying and addressing data security risks	Discussion and Analysis	n/a	FN-CB-230a.2	IR 50
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	IR 328
	(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	IR 41
	Number of no-cost retail checking accounts provided to previously unbanked or underbanked customers	Quantitative	Number	FN-CB-240a.3	IR 39
	Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers	Quantitative	Number	FN-CB-240a.4	IR 42, 44, 51
Incorporation of Environmental, Social, and Governance Factors in Credit Analysis	Commercial and industrial credit exposure, by industry	Quantitative	Reporting currency	FN-CB-410a.1	IR 328
	Description of approach to incorporation of environmental, social, and governance (ESG) factors in credit analysis	Discussion and Analysis	n/a	FN-CB-410a.2	IR 61
Business Ethics	Total amount of monetary losses as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behavior, market manipulation, malpractice, or other related financial industry laws or regulations	Quantitative	Reporting currency	FN-CB-510a.1	CG & RMR 63
	Description of whistleblower policies and procedures	Discussion and Analysis	n/a	FN-CB-510a.2	IR 53, 108
Systemic Risk Management	Global Systemically Important Bank (G-SIB) score, by category	Quantitative	Basis points (bps)	FN-CB-550a.1	IR 27, CG & RMR 54
	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	CG & RMR 50

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	IR 39
(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	IR 328

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.

B

BILLS SENT FOR COLLECTION

A Bill of Exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his Bank with a request to collect the proceeds.

BONUS ISSUE

The issue of new shares to existing shareholders in proportion to their shareholdings. It is a process for converting a company's reserves (in whole or part) in to issued capital and hence does not involve an infusion of cash.

C

CAPITAL ADEQUACY RATIO

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

CAPITAL RESERVE

Capital reserves consist of revaluation reserves arising from revaluation of properties owned by the Bank.

CASH EQUIVALENTS

Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

CASH GENERATING UNIT (CGU)

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

CEDED INSURANCE ARRANGEMENTS

An arrangement where an insurance company passes the part or all of its risks from its insurance policy portfolio to a reinsurance firm.

COLLECTIVELY ASSESSED LOAN IMPAIRMENT PROVISIONS

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically,

assets within the consumer banking business are assessed on a portfolio basis.

COMMERCIAL PAPER

An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

COMMITMENT TO EXTEND CREDIT

Credit facilities available to clients either in the form of loans, bankers' acceptances and other on-balance sheet financing or through off-balance sheet products such as guarantees and letters of credit.

COMPREHENSIVE INCOME

The change in equity of a business enterprise during a period from non-owner sources. This includes all changes in equity during a period except those resulting from investments by owners and distributions to the owners. Comprehensive income equals net income plus other comprehensive income.

CONTINGENCIES

Conditions or situations at the reporting date, the financial effect of which are to be determined by the future events which may or may not occur.

CONTRACTUAL MATURITY

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

CORPORATE GOVERNANCE

The system of internal controls and procedures by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

CORRESPONDENT BANK

A Bank in a foreign country that offers banking facilities to the customers of a Bank in another country.

COST INCOME RATIO

Operating expenses excluding loan loss provision as a percentage of total operating income.

COST METHOD

Cost method is a method of accounting for an investment whereby the investment is recognised at cost. The investor recognises income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

COST-PUSH INFLATION

A continuous increase in average price levels due to an increase in production costs.

CREDIT RATINGS

An evaluation of a corporate's ability to repay its obligations or likelihood of not defaulting, carried out by an independent rating agency.

CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and other banks and investment in debt/equity securities.

CURRENCY RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

CURRENCY SWAPS

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of same currency for forward settlement.

D

DEBT RESTRUCTURING/RESCHEDULING

This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment

schedule as well as debt or interest charge reduction.

DEFERRED TAX

Sum set aside in the financial statements for taxation that may become payable in a financial year other than the current financial year.

DELINQUENCY

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed.

DERECOGNITION

Removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

DERIVATIVES

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (eg. an interest rate), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

DEMINIMIS

Features that could impact the cash flows of a financial asset by a de minimis amount both on a period by period basis and cumulatively.

DEPRECIATION

The process of systematically allocating the cost of long - lived (tangible) assets to the periods during which the assets are expected to provide economic benefits.

DILUTED EARNINGS PER SHARE

The earnings per share that would result if all dilutive securities were converted into common shares.

DIVIDEND COVER

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by the current year's distributable profits.

DIVIDEND YIELD

Dividend earned per share as a percentage of its market value.

DIVIDEND PAYOUT RATIO

It is the percentage of earnings paid to shareholders in dividends.

DOCUMENTARY LETTERS OF CREDIT

Written undertakings by a Bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

E

EARNINGS PER SHARE (EPS)

Profit attributable to ordinary shareholders, divided by the number of ordinary shares in issue.

ECONOMIC VALUE ADDED (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

EFFECTIVE INTEREST RATE

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

EFFECTIVE TAX RATE

Income tax expense for the year divided by the profit before tax.

EQUITY INSTRUMENT

Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

EQUITY METHOD

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Glossary of Financial/Banking Terms

EMBEDDED DERIVATIVES

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

ESOP (EMPLOYEE SHARE OPTION PLAN)

A method of giving employees shares in the business for which they work.

EX-DIVIDEND DATE

The first date that a share trades without the (i.e. "ex") dividend

EXERCISE PRICE

The fixed price at which an option holder can buy or sell the underlying.

EXPECTED CREDIT LOSSES (ECL)

Expected credit losses are a probability – weighted estimate of credit losses over the expected life of the financial instrument.

12 MONTH EXPECTED CREDIT LOSSES (12MECL)

The portion of life time expected credit losses that represent the expected credit losses resulting from default events of a financial instrument that are possible within 12 months after the reporting date.

EXPOSURE AT DEFAULT (EAD)

Gross carrying amount of financial instruments subject to impairment calculation.

F

FAIR VALUE

The amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transactions. It is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

FINANCE LEASE

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of the asset under lease.

FINANCIAL ASSET OR FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as 'at fair value through profit or loss'.

FINANCIAL INSTRUMENT

Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

FINANCIAL RISK

The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates or credit rating or credit index.

FOREIGN EXCHANGE INCOME

The gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the reporting date at prevailing rates which differ from those rates in force at inception or on the previous reporting date. Foreign exchange income also arises from trading in foreign currencies.

FORWARD EXCHANGE CONTRACT

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

FORWARD-LOOKING INFORMATION

Incorporation of macroeconomic scenarios into the impairment calculations.

G

GOODWILL

An intangible asset that represents the excess of the purchase price of an acquired company over the value of the net assets acquired.

GROSS DIVIDENDS

The portion of profit inclusive of tax withheld distributed to shareholders.

GROUP

A group is a parent and all its subsidiaries.

GUARANTEES

Primarily represent irrevocable assurances that a bank will make payments in the event that its customer cannot meet his/her financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

H

HEDGING

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rate, foreign exchange rate, commodity prices, etc.). A hypothetical combination of the derivative and its underlying that eliminates risk.

HELD TO MATURITY INVESTMENTS

Non derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

I

IMPAIRED LOANS

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

IMPAIRMENT

This occurs when recoverable amount of an asset is less than its carrying amount.

IMPAIRMENT ALLOWANCES

Impairment allowances are provisions held on the statement of financial position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio) respectively.

INCREMENTAL COST

Costs that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

INCURRED BUT NOT ENOUGH REPORTED (IBNER)

The reserves for claims that become due with the occurrence of the events covered under the insurance policy, but have not been reported yet.

INCURRED BUT NOT REPORTED (IBNR)

An estimate of the liability for claim-generating events that have taken place but have not yet been reported to the insurer or self-insurer.

INDIVIDUALLY SIGNIFICANT LOANS

Exposures which are above a certain threshold decided by the Bank's management which should be assessed for objective evidence, measurement, and recognition of impairment on an individual basis.

INDIVIDUALLY SIGNIFICANT LOAN IMPAIRMENT PROVISIONS

Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically, assets within the corporate banking business of the Group are assessed individually.

IRREVOCABLE COMMITMENT

A loan amount that may be drawn down, or is due to be contractually funded in the future.

INTANGIBLE ASSET

An identifiable non-monetary asset without physical substance held for use in the production/supply of goods/services or for rental to others or for administrative purposes.

INTEREST MARGIN

Net interest income as a percentage of average interest earning assets.

INTEREST RATE SWAP

An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified principal amount.

INTEREST RATE RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

INTEREST SPREAD

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

INSURANCE RISK

Risk, other than financial risk, transferred from the holder of a contract to the issuer.

INVESTMENT PROPERTIES

Investment property is property (land or a building - or part of a building - or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

INTEREST COVER

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

J

JOINT CONTROL

Joint control is the contractually agreed sharing of the control over an economic activity and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

JOINT VENTURE

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

K

KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L

LETTER OF CREDIT (L/C)

Written undertakings by a Bank on behalf of its customer (typically an importer), authorising a third party (e.g. an exporter) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

LIABILITY ADEQUACY TEST (LAT)

Assessment on each reporting date whether the recognized insurance liabilities are adequate, using current estimates of future cash flows under the insurance contract.

LIFE TIME EXPECTED CREDIT LOSSES (LTECL)

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

LIQUID ASSETS

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other Banks, Bills of Exchange and Treasury Bills.

LIQUIDITY RISK

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

LOANS AND RECEIVABLES

Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intended to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

LOSS GIVEN DEFAULT (LGD)

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

M

MARKET CAPITALISATION

Number of ordinary shares in issue multiplied by the market value of each share at the year end.

MARKET RISK

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

MATERIALITY

The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of financial statements.

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.

NON CONTROLLING INTEREST

Equity in a subsidiary not attributable, directly or indirectly to a parent.

NON – GENUINE

A cash flow characteristic that affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

NET PREMIUM METHOD

A Net Premium Valuation is an actuarial calculation, used to place a value on the liabilities of a life insurer.

O

OFF BALANCE SHEET TRANSACTIONS

Transactions that are not recognised as assets or liabilities in the statement of financial position, but which give rise to contingencies and commitments.

ONEROUS CONTRACT

A type of contract where the costs involved with fulfilling the terms and conditions of the contract are higher than the amount of economic benefits received.

OPERATIONAL RISK

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

P

PARENT

A parent is an entity that has one or more subsidiaries.

PAST DUE

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

PRICE EARNINGS RATIO (P/E RATIO)

Market price of an ordinary share divided by earnings per share (EPS).

PROBABILITY OF DEFAULT (PD)

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

PRUDENCE

Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

R

REGULAR WAY TRADES

A type of trade that is settled through the regular settlement cycle required for the particular investment being traded. The settlement cycle is the time that the regulations of the securities market allows for the buyer to complete payment and for the seller to deliver the goods being purchased.

REPURCHASE AGREEMENT

This is a contract to sell and subsequently repurchase government securities at a given price on a specified future date.

RETURN ON AVERAGE ASSETS (ROAA)

A profitability ratio calculated as profit after tax expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

RETURN ON AVERAGE EQUITY (ROAE)

Profit after tax less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

REVENUE RESERVE

Reserves set aside for future distribution and investment.

REVERSE REPURCHASE AGREEMENT

Transaction involving the purchase of government securities by a Bank or dealer and resale back to the seller at a given price on a specific future date.

RIGHTS ISSUE

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

RIGHT OF USE ASSETS

The Right of use asset is a lessee's right to use an asset over the life of a lease.

RISK-WEIGHTED ASSETS

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per rupee among all types of assets. The risk inherent in off - balance sheet instruments is also recognised, first by adjusting notional values to balance sheet (or credit) equivalents and then by applying appropriate risk weighting factors.

S

SEGMENT REPORTING

Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealings, property and insurance.

SHAREHOLDERS' FUNDS

Shareholders' funds consist of stated capital, statutory reserves, capital and revenue reserves.

SOLELY PAYMENTS OF PRINCIPAL AND INTEREST TEST (SPPI)-

Classification decision for non- equity financial assets under SLFRS 9.

SPECIFIC IMPAIRMENT PROVISIONS

Impairment is measured individually for loans that are individually significant to the Bank.

STATE-OWNED ENTERPRISE

A state-owned enterprise is a legal entity that is created by a government in order to partake in commercial activities on the government's behalf.

STATUTORY RESERVE FUND

Reserve created as per the provisions of the Banking Act No. 30 of 1988.

SUBSIDIARY

A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

SUBSTANCE OVER FORM

The consideration that the accounting treatment and the presentation in financial statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

T

TIER I CAPITAL

Consists of the sum total of paid up ordinary shares, non cumulative, non redeemable preference shares, share premium, statutory reserve fund, published retained profits, general and other reserves, less goodwill.

TIER II CAPITAL

Consists of the sum total of revaluation reserves, general provisions, hybrid capital instruments and approved subordinated debentures.

TOTAL CAPITAL

Total capital is the sum of Tier I capital and Tier II capital.

TRANSACTION COSTS

Incremental cost that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

U

UNEARNED PREMIUM RESERVE

The premium corresponding to the time period remaining on an insurance policy.

UNIT TRUST

An undertaking formed to invest in securities under the terms of a trust deed.

V

VALUE ADDED

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Y

YIELD TO MATURITY

Discount rate which the present value of future cash flows would equal the security's current price.

Branch Network 2021

CENTRAL PROVINCE - 26

KANDY - 15

- » Akurana
- » Asiri Hospital
- » Digana
- » Galaha
- » Gampola
- » Geliya
- » Kandy
- » Kandy City Centre
- » Katugastota
- » Kundasale
- » Kurunduwatte

- » Nawalapitiya
- » Peradeniya
- » Pilimathalawa
- » Rikillagaskada

MATALE - 03

- » Dambulla
- » Galewela
- » Matale

NUWARA ELIYA - 08

- » Bogawanthalawa
- » Ginigathhena
- » Hatton
- » Maskeliya
- » Nuwara Eliya
- » Pussellawa
- » Ragala
- » Thalawakele

EASTERN PROVINCE - 25

AMPARA - 11

- » Akkaraipattu
- » Ampara
- » Dehiattakandiya
- » Kalmunai
- » Karaitivu
- » Ninthavur
- » Pottuvil
- » Samanthurai
- » Thandavenvely
- » Thirukkivil
- » Uhana

BATTICALOA - 05

- » Batticaloa
- » Eravur
- » Valachchenai
- » Kaluwanchikudy
- » Kattankudy

TRINCOMALEE - 09

- » Kantale
- » Kinniya
- » Marathamunai
- » Mullipathana
- » Muttur
- » Trinco Metro
- » Serunuwara
- » Trincomalee
- » Uppuveli

NORTHERN PROVINCE - 21

JAFFNA - 12

- » Atchchuveli
- » Chankanai
- » Chavakachcheri
- » Chunnakam
- » Jaffna
- » Jaffna Metro
- » Kaithady
- » Kodikamam
- » Manipay
- » Nelliady
- » Point Pedro
- » Thirunelvely

KILINOCHCHI - 02

- » Kilinochchi North
- » Kilinochchi South

MANNAR - 03

- » Mannar
- » Mallavi
- » Nanattan

MULLAITIVU - 02

- » Mullaitivu
- » Mulliyawalai

VAVUNIYA - 02

- » Kurumankadu
- » Vavuniya

SOUTHERN PROVINCE - 25

GALLE - 09

- » Ambalangoda
- » Batapola
- » Elpitiya
- » Galle
- » Hikkaduwa
- » Karapitiya
- » Habaraduwa
- » Pitigala
- » Yakkalamulla

HAMBANTOTA - 8

- » Ambalantota
- » Angunakolapelessa
- » Hambantota
- » Middeniya
- » Sooriyawewa
- » Tangalle
- » Tissamaharama
- » Walasmulla

MATARA - 08

- » Akuressa
- » Deniyaya
- » Devinuwara
- » Dickwella
- » Hakmana
- » Matara
- » Urubokka
- » Weligama

NORTH CENTRAL PROVINCE - 10

ANURADHAPURA - 07

- » Anuradhapura
- » Anuradhapura Metro
- » Kekirawa
- » Medawachchiya
- » Nochchiyagama
- » Padavi Parakramapura
- » Thambuttegama

POLONNARUWA - 03

- » Aralaganwila
- » Medirigiriya
- » Polonnaruwa

NORTH WESTERN PROVINCE - 18

KURUNEGALA - 09

- » Alawwa
- » Galgamuwa
- » Giriulla
- » Hettipola
- » Kuliypitiya
- » Kurunegala
- » Kurunegala Metro
- » Nikaweratiya
- » Wariyapola

PUTTALAM - 09

- » Anamaduwa
- » Chilaw
- » Dankotuwa
- » Madampe
- » Marawila
- » Norochcholle
- » Puttalam
- » Udappuwa
- » Wennappuwa

SABARAGAMUWA PROVINCE - 11**KEGALLE - 04**

- » Mawanella
- » Kegalle
- » Pinnawala
- » Warakapola

RATNAPURA - 07

- » Balangoda
- » Embilipitiya
- » Godakawela
- » Kahawatta
- » Kalawana
- » Pelmadulla
- » Ratnapura

UVA PROVINCE - 12**BADULLA - 06**

- » Badulla
- » Bandarawela
- » Haputale
- » Mahiyanganaya
- » Passara
- » Welimada

MONARAGALA - 06

- » Buttala
- » Bibile
- » Kataragama
- » Monaragala
- » Siyambalanduwa
- » Wellawaya

WESTERN PROVINCE - 107**COLOMBO - 66**

- » Aluthkade
- » Asiri Surgical Hospital
- » Athurugiriya
- » Avissawella
- » Bambalapitiya
- » Boralessgamuwa
- » Borella
- » Cinnamon Gardens
- » City Office
- » Dehiwela
- » Dematagoda
- » Department of Immigration and Emigration
- » Grandpass
- » Greenpath
- » Hanwella
- » Head Office Branch
- » Homagama
- » Hulftsdorp
- » International Water Management Institute
- » Jampettah
- » Sri Jayawardenapura Hospital
- » Kaduwela
- » Kirulapone
- » Kohuwela
- » Kollupitiya
- » Kolonnawa
- » Kotahena
- » Kottawa
- » Rajagiriya
- » Kothalawala Defence University (KDU)
- » Maharagama
- » Pettah Metro
- » Malabe
- » Maligawatte
- » Maradana
- » Mirihana
- » Moratumulla
- » Moratuwa
- » Mount Lavinia
- » Mutwal
- » Narahenpita
- » Nawala
- » Nawaloka
- » Nawam Mawatha
- » Nugegoda
- » Ninewells Hospital
- » One Galle Face Mall
- » Overseas School of Colombo
- » Padukka
- » Pamankada
- » Panchikawatte
- » Pettah
- » Piliyandala
- » Ratmalana
- » Sea Street

- » Sri Lanka Ports Authority
- » Thalangama
- » Thalawathugoda
- » Asiri Central Hospital
- » Thimbirigasyaya
- » Wellawatte
- » Wijerama
- » World Trade Centre
- » Orian City
- » Pension Department
- » Lanka Hospital PLC

GAMPAHA - 32

- » Airport Departure Counter
- » Biyagama
- » Delgoda
- » Divulapitiya
- » Ekala
- » Gampaha
- » Ganemulla
- » Hendala
- » Ja-Ela
- » Kadawatha
- » Kandana
- » Katunayake
- » Kelaniya
- » Kiribathgoda
- » Kirindiwela
- » Kochchikade
- » Marandagahamula
- » Minuwangoda
- » Mirigama
- » Negombo
- » Negombo Metro
- » Nittambuwa
- » Pamunugama
- » Peliyagoda
- » Pugoda
- » Ragama
- » Seeduwa
- » Sri Lankan Airlines
- » Veyangoda

- » Wattala
- » Weliweriya
- » Yakkala

KALUTARA - 09

- » Aluthgama
- » Bandaragama
- » Beruwala
- » Horana
- » Ingiriya
- » Kalutara
- » Mathugama
- » Panadura
- » Wadduwa

Corporate Information

GENERAL

Name of Company

Hatton National Bank PLC

Legal Form

A public limited company incorporated on 5th March 1970 under the Laws of the Republic of Sri Lanka. The Company was re-registered under the Companies Act No 7 of 2007 on 27th September 2007. It is a Licensed Commercial Bank under the Banking Act.

Company Registration Number

PQ 82 (Previous PBS 613)

Accounting Year End

31st December 2021

Stock Exchange Listing

The ordinary shares and senior and subordinated debentures of the Bank are listed on the Colombo Stock Exchange in Sri Lanka.

Registered Office

"HNB Towers"
No. 479, T B Jayah Mawatha,
Colombo 10,
Sri Lanka.

Head Office

"HNB Towers",
No. 479, T B Jayah Mawatha
Colombo 10,
Sri Lanka.

Cable Address : HATNABANK

Telephone Nos : +94 11 266 4664

: +94 11 246 2462

: +94 11 476 4764

Fax No : +94 11 266 2832

Swift : Bic Code - HBLILKLX

e-mail : hnbconnect@hnb.lk

Web : www.hnb.net

Facebook : HNBPLC

Instagram : hnbstrilanka

Twitter : @hnbplc

Credit Ratings

The Bank has been assigned a national long term rating of AA-(lka) by Fitch Ratings Lanka Limited

Joint Venture Companies

Acuity Partners (Pvt) Ltd

(Financial Services)

Voting rights - 50%

Subsidiary Companies

HNB Assurance PLC

(Insurance Services)

Voting rights - 60%

Sithma Development (Pvt) Ltd

(Property Development)

Voting rights - 100%

HNB Finance PLC

(Financial Services)

Voting rights - 51%

Auditors

KPMG Sri Lanka
Chartered Accountants
32A, Sir Mohamed Macan Markar
Mawatha,
Colombo 03,
Sri Lanka.

Investor Information

Institutional Investors, Stockbrokers and Security Analysts requiring financial information should contact the Chief Financial Officer

"HNB Towers"
Level 16, No. 479,
T B Jayah Mawatha,
Colombo 10,
Sri Lanka.

Telephone : +94 11 266 1178

Fax : +94 11 266 2815

e-mail : investor.relations@hnb.lk

BOARD OF DIRECTORS AND COMMITTEES

Board of Directors

(as at 18th February 2022)

Mrs. Aruni Goonetilleke (Chairperson)

Mr. Jonathan Alles (Managing Director / CEO)

Mr. Amal Cabraal

Mr. Damien Fernando

(Alternate Director Dr. Prasad Samarasinghe)

Mr. Madu Ratnayake

Mr. Devaka Cooray

Mr. Dilshan Rodrigo (Executive Director / COO)

Mr. Osman Chandrawansa

Mr. Rimoe Saldin

Mr. Nihal Jayawardene PC

Mr. Rasitha Gunawardana
(appointed with effect from 21.1.2022)

Mr. Kithsiri Gunawardana
(appointed with effect from 21.1.2022)

Board Secretary

Mrs. K A L Thushari Ranaweera
Attorney-at-Law, LL.M (Cambridge),
Dip in Int'l Affairs (BCIS)

Statutory Board Sub- Committees

(as at 31st December 2021)

Audit Committee

Mr. Devaka Cooray – Chairman

Mr. Osman Chandrawansa

Mr. Rimoe Saldin

Nomination Committee

Mr. Devaka Cooray – Chairman

Mr. Madu Ratnayake

Mrs. Aruni Goonetilleke

HR & Remuneration Committee

Mr. Madu Ratnayake - Chairman

Mr Amal Cabraal

Mrs. Aruni Goonetilleke

Board Integrated Risk Management Committee

Mr. Rimoe Saldin (Chairman)

Mr. Jonathan Alles (Managing Director / CEO)

Mr. Damien Fernando

Mr. Madu Ratnayake

Mr. Ruwan Manatunga – Chief Risk Officer/DGM (Risk)

Mr. Janath Ilangantilake – AGM (Compliance)

Invitee

Mr. Devaka Cooray - Only on need basis

Notice of Meeting

1. NOTICE OF MEETING AND AGENDA

Notice is hereby given that the Fifty Third (53rd) Annual General Meeting of Hatton National Bank PLC (the "Bank") is convened on Wednesday, the Thirtieth (30th) day of March 2022 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 2021 and the Auditor's Report thereon.
- ii. To declare a final dividend as recommended by the Board of Directors, to consider and if thought fit, to pass the following resolutions:

ORDINARY RESOLUTION

- DECLARATION OF DIVIDEND AND APPROVAL OF ITS METHOD OF SATISFACTION:

- (a) IT IS HEREBY RESOLVED THAT a final dividend of Rupees Nine (Rs 9/-) per share constituting a total sum of Rs 4,733,141,157.00 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 2021 based on the issued ordinary voting shares and ordinary non-voting shares as at the commencement of trading on 18th February 2022;
- (b) THAT the shareholders entitled to such dividend ("Entitled Shareholders") would be those shareholders (holders of both ordinary voting shares and ordinary non-voting shares), whose names have been duly registered in the Register of Shareholders and those shareholders whose names appear on the Central Depository Systems (Pvt) Ltd ('CDS') as at end of trading on the third (3rd) Market day from and excluding the date of the Annual General Meeting (the "Record Date");
- (c) THAT the said final dividend of Rs 9/- 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 18th February 2022 in the following manner, subject however to any necessary revision being made to the amount of dividends to be distributed and the number of shares to be issued pursuant to any changes to the applicable law:
 - i. By way of cash distribution:

A cash distribution (A) a sum of Rs 2,735,589,506.00 be made to the holders of ordinary voting shares and (B) a sum of Rs 682,790,218.50 be made to the holders of ordinary non-voting shares respectively, on the basis of Rupees six and cents fifty (Rs 6.50) per each share.
 - ii. By way of the allotment of and issue of new shares:
 - A. For voting shares:

A sum of Rs 1,052,149,810.00 be distributed to the holders of ordinary voting shares in the form of a scrip dividend at the rate of Rupees Two and cents Fifty (Rs 2.50) per each share, by the issue of a total of 7,583,061 ordinary voting shares computed on the basis of one (1) ordinary voting share for every 55.5000050771 ordinary voting shares currently in issue (which computation is based on a valuation of Rs. 138.75 per each ordinary voting share).
 - B. For non-voting shares:

A sum of Rs 262,611,622.50 be distributed to the holders of ordinary non-voting shares in the form of a scrip dividend at the rate of Rupees Two and cents Fifty (Rs 2.50) per each share, by the issue of 2,067,808 ordinary non-voting shares computed on the basis of one (1) ordinary non-voting share for every 50.8000012573 non-voting shares currently in issue (which computation is based on a valuation of Rs 127.00 per each ordinary non-voting share).
- (d) THAT the shares arising from the aggregation of the residual fractions consequent to the scrip dividend be issued to and disposed of in the market by the trustees to be nominated by the Board of Directors and the proceeds to be distributed for charitable purposes as may be approved by the Board of Directors.

Fractional shares/entitlement referred to herein will mean the fractions arising after applying the following formula:

In the context of ordinary voting shares

$$\frac{\text{Number of shares held by a shareholder as at end of trading on the Record Date} \times 1}{55.5000050771}$$

In the context of ordinary non-voting shares

$$\frac{\text{Number of shares held by a shareholder as at end of trading on the Record Date} \times 1}{50.8000012573}$$

Notice of Meeting

- (e) THAT (a) the new ordinary voting shares to be issued in pursuance of the distribution scheme shall, immediately consequent to the allotment thereof to the entitled Shareholders rank equal and pari passu in all respects with the existing issued and fully paid ordinary voting shares of the Bank and (b) the new ordinary non-voting shares to be issued in pursuance of the distribution scheme shall, immediately consequent to the allotment thereof to the entitled Shareholders rank equal and pari passu in all respects with the existing issued and fully paid ordinary non-voting shares of the Bank, and shall be listed on the Colombo Stock Exchange.
- (f) THAT the new ordinary voting shares and ordinary non-voting shares to be so allotted and issued shall not be eligible for the payment of dividend declared hereby.
- (g) THAT accordingly, the Bank's management be and is hereby authorized to take all necessary steps to give effect to the aforesaid proposed issue of new ordinary voting shares and ordinary non-voting shares of the Bank.

SPECIAL RESOLUTION – APPROVAL OF THE HOLDERS OF VOTING SHARES UNDER SECTION 99 OF THE COMPANIES ACT NO. 7 OF 2007, FOR THE ISSUE OF SHARES BY WAY OF A SCRIP DIVIDEND

IT IS HEREBY RESOLVED THAT the issue by the Bank of (a) 7,583,061 ordinary voting shares to the holders of ordinary voting shares on the basis of one (1) ordinary voting share for every 55.5000050771 ordinary voting shares currently in issue and (b) 2,067,808 ordinary non-voting shares to the holders of ordinary non-voting shares on the basis of one (1) ordinary non-voting share for every 50.8000012573 ordinary non-voting shares currently in issue, by way of a scrip dividend (subject to any necessary revision being made to the number of shares to be so issued pursuant to any changes to the applicable law) with the shares arising from the aggregation of the residual fractions consequent to the scrip dividend being issued to and disposed of in the market by the trustees to be nominated by the Board of Directors and the proceeds from such disposal being distributed to charitable purposes, be and is hereby approved.

APPOINTMENT OF DIRECTORS

- iii. To re-elect Mr. Lintotage Udaya Damien Fernando, who retires at the Annual General Meeting, as a Non- Executive Director of the Bank in terms of Article 34 of the Articles of Association of the Bank.
- iv. To re-elect Mr. Wanniarachchi Mudiyansele Madura Duminda Ratnayake, 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.
- v. To re-elect Mrs. Aruni Goonetilleke as a Non- Executive Director of the Bank in terms of Article 36 of the Articles of Association of the Bank.
- vi. To re-elect Mr. Osman Chandrawansa as a Non- Executive Director of the Bank in terms of Article 36 of the Articles of Association of the Bank.
- vii. To re-elect Mr. Prawira Rimoe Saldin as a Non- Executive Director of the Bank in terms of Article 36 of the Articles of Association of the Bank.
- viii. To re-elect Mr. Kuttikande Vidanelage Nihal Jayawardene as a Non- Executive Director of the Bank in terms of Article 36 of the Articles of Association of the Bank.
- ix. To re-elect Mr. Goluhewage Bindu Rasitha Poojitha Gunawardana as a Non- Executive Director of the Bank in terms of Article 36 of the Articles of Association of the Bank.
- x. To re-elect Mr. Kahandawela Arachige Kithsiri Perera Gunawardana as a Non- Executive Director of the Bank in terms of Article 36 of the Articles of Association of the Bank.
- xi. (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.
- xii. To authorize the Directors to determine payments for the year 2022 for charitable and other purposes.

2. MODALITIES OF CONDUCTING THE 53RD ANNUAL GENERAL MEETING

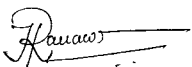
- (1) In the interest of protecting public health and facilitating compliance with the Health and Safety guidelines issued by the authorities, the 53rd Annual General Meeting of the Bank will be held by participants assembling physically and through audio or audio and visual means in the manner set forth below:
 - (i) The Chairman, certain members of the Board of Directors, the MD/CEO, the Company Secretary, the Bank's Auditor and the Legal Counsel will be assembled at the place/venue specified above;
 - (ii) A maximum of 50 shareholders or such number of shareholders together holding twenty percent (20%) of the issued shares of the Bank, whichever is higher (who registers with the Bank for participation in the Annual General Meeting on a first come first serve basis) will also be allowed to assemble physically and participate in the meeting at the place set out in Paragraph (1) above either in person or by proxy;

- (iii) All shareholders who, on registration as referred to (ii) above, do not get the opportunity to participate in the meeting by assembling physically at the place referred to in Paragraph (1) above and shareholders who wish to participate at the meeting remotely through audio or audio and visual means, may participate in the Annual General Meeting via MS Teams meeting platform. The shareholders referred to herein who wish to participate at the meeting through audio or audio and visual means should forward their e-mail address to info@hnb.lk not less than 24 hours prior to the time fixed for the meeting to enable the Bank to share the meeting login information.
- (2) All individuals participating at the meeting remotely through audio or audio and visual means are required to identify themselves at the time of voting. Further, Individuals must also identify themselves when speaking at the Annual General Meeting during the time allotted for comments by shareholders as directed by the Chairman. At that point, the individual will be required to give his/her name and address for purposes of identification as a shareholder or proxy.
- (3) If it is likely that the Bank will be unable to post this Notice due to any situation beyond its control, then, this Notice will be published in one issue of a daily newspaper in the Sinhala, Tamil and English languages and if the circumstances permit, in one issue of the Gazette. The Notice will also be published in the Website of the Colombo Stock Exchange (<https://www.cse.lk/home/market>) and the Bank Website (<https://www.hnb.net>) and the Facebook page of the Bank along with the separate proxy formats for voting and non- voting shareholders.
- (4) The shareholders who are unable to participate at the Meeting physically or via audio or audio and visual means could send their queries, if any, to email address info@hnb.lk any time before the meeting time and the responses to same will be included in the minutes of the meeting whilst publishing same in the Report that will be uploaded after the Annual General Meeting in the Bank Website (<https://www.hnb.net>) as well as Colombo Stock Exchange web site (<https://www.cse.lk/home/market>).

3. PROXIES

- (1) A member entitled to attend or attend and vote at the meeting, is entitled to appoint a proxy to attend or attend and vote as the case may be, in his stead.
- (2) A proxy need not be a member of the Company. The Form of Proxy is enclosed.
- (3) The completed Form of Proxy should be emailed to info@hnb.lk or deposited with the Board Secretary at the Registered Office of the Company at No. 479, T.B. Jayah Mawatha, Colombo 10 (at "HNB Towers", Level 18), not less than 24 hours before the time appointed for holding the meeting.
- (4) The Board of Directors encourages that the shareholders appoint an independent director in the Board as their proxy, having marked their preferences in respect of the agenda items. This is to avoid potential health issues which could arise if the shareholders are to participate at the meeting physically.

By order of the Board of Hatton National Bank PLC,



K A L Thushari Ranaweera (Mrs)

Deputy General Manager (Legal)/Board Secretary

Colombo, Sri Lanka
18th February 2022

Notice of Meeting

NOTICE OF MEETING

SUMMARY OF ARTICLE 22 OF THE ARTICLES OF ASSOCIATION OF HATTON NATIONAL BANK PLC PROCEDURE ON VOTING AND HOW A POLL IS TO BE TAKEN

1. Voting at a meeting of shareholders shall, unless a poll is demanded, be by a show of hands, or voting by voice as may be determined by the Chairman.
2. Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands or voting by voice as aforesaid every member who is present at the meeting shall have one (01) vote, and on a poll every member who is present in person at the meeting shall be entitled to one (01) vote for each voting share held by him/her.
3. A declaration by the Chairman of the meeting that a resolution is carried by the requisite majority is conclusive evidence of that fact, unless a poll is demanded.
4. At a meeting of shareholders, a poll may be demanded on a particular question as provided for in the Companies Act No.7 of 2007 by,
 - the Chairman;
 - not less than five (5) shareholders having the right to vote at the meeting; or
 - a shareholder or shareholders representing not less than ten per centum (10%) of the total voting rights of all shareholders having the right to vote at the meeting.
5. A poll may be demanded either before or after the vote is taken on a resolution. A demand for a poll may be withdrawn any time before the poll is taken.
6. If a poll is taken, votes shall be counted according to the votes attached to the shares of each shareholder present and voting.
7. In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting shall be entitled to a second or casting vote.
8. A declaration by the Chairman of the meeting that a resolution has been carried, or carried unanimously or by a particular majority, or lost, and an entry made to that effect in the minute book, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such a resolution.

Hatton National Bank PLC

Form of Proxy (Voting)

I/We
 of
 being *a shareholder/shareholders of the Hatton National Bank PLC, hereby appoint

 of

or failing him/her, (Mrs) Aruni Goonetilleke or failing her, Antonio Jonathan Alles or failing him, Damian Amal Cabraal or failing him, Lintotage Udaya Damien Fernando or failing him, Wanniarachchi Mudiyansele Madura Duminda Ratnayake or failing him, Mututantrige Parakrama Devaka Cooray or failing him, Dilshan Peter Nirosh Rodrigo or failing him, Osman Chandrawansa or failing him, Prawira Rimoe Saldin or failing him, Kuttikande Vidanelage Nihal Jayawardene or failing him, Goluhewage Bindu Rasitha Poojitha Gunawardana or failing him, Kahandawela Arachige Kithsiri Perera Gunawardana as *my/our proxy, to attend, vote and speak on *my/our behalf and to represent *me/us at the Fifty Third (53rd) Annual General Meeting of the Bank to be held at the Auditorium on Level 22 of "HNB Towers" at No. 479, T B Jayah Mawatha, Colombo 10, on the Thirtieth (30th) day of March, 2022 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. 9/- per share as the final dividend for 2021 and	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
	(a) to adopt Ordinary Resolution - Declaration of Dividend and approval of its method of satisfaction	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
	(b) to adopt Special Resolution – Approval of the holders of voting shares under section 99 of the Companies Act No. 7 of 2007, for the issue of shares by way of a scrip dividend	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(ii)	To re-elect Mr. Lintotage Udaya Damien Fernando as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(iii)	To re-elect Mr. Wanniarachchi Mudiyansele Madura Duminda Ratnayake as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(iv)	To re-elect Mrs. Aruni Goonetilleke as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(v)	To re-elect Mr. Osman Chandrawansa as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(vi)	To re-elect Mr. Prawira Rimoe Saldin as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(vii)	To re-elect Mr. Kuttikande Vidanelage Nihal Jayawardene as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(viii)	To re-elect Mr. Goluhewage Bindu Rasitha Poojitha Gunawardana as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(ix)	To re-elect Mr. Kahandawela Arachige Kithsiri Perera Gunawardana as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(x)	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"/>
(xi)	To authorize the Directors to determine payments for F/Y 2022 for charitable and other purposes	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>

* Delete inappropriate words ** Mark your preference with "✓" or "X"

Signed this day 2022.

Signature/s

Form of Proxy (Voting)

Please provide the following details:

Shareholder's NIC No/Company Registration No. :	.....
Folio No/Number of Shares held :	.....
Proxy holder's NIC No (if not a Director) :	.....

Instructions to complete proxy

1. The full name and the registered address of the shareholder appointing the Proxy should be legibly entered in the Form of Proxy, duly signed and dated.
2. The completed Proxy should be emailed to info@hnb.lk or deposited with the Board Secretary, at the Registered Office of the Bank at No. 479, T B Jayah Mawatha, Colombo 10 ("HNB Towers", Level 18), not less than 24 hours before the time appointed for holding the Meeting.
3. The Proxy shall -
 - (a) in the case of an individual, be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Bank.
 - (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of the company or corporate body in accordance with the Articles of Association or the Constitution of that company or corporate body. The Bank may but shall not be bound to, require evidence of the authority of any such attorney or officer.
 - (c) in the case of joint-holders, the first joint-holder has the power to sign the proxy without the concurrence of the other joint-holder/s.
4. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

Hatton National Bank PLC

Form of Proxy [Non-Voting]

I/We
..... of
..... being *a shareholder/shareholders of the Hatton National Bank PLC, hereby appoint
.....
of

or failing him/her, (Mrs) Aruni Goonetilleke or failing her, Antonio Jonathan Alles or failing him, Damian Amal Cabraal or failing him, Lintotage Udaya Damien Fernando or failing him, Wanniarachchi Mudiyansele Madura Duminda Ratnayake or failing him, Mututantrige Parakrama Devaka Cooray or failing him, Dilshan Peter Niros Rodrigo or failing him, Osman Chandrawansa or failing him, Prawira Rimoe Saldin or failing him, Kuttikande Vidanelage Nihal Jayawardene or failing him, Goluhewage Bindu Rasitha Poojitha Gunawardana or failing him, Kahandawela Arachige Kithsiri Perera Gunawardana as *my/our proxy, to attend, vote and speak on *my/our behalf and to represent *me/us at the Fifty Third (53rd) Annual General Meeting of the Bank to be held at the Auditorium on Level 22 of "HNB Towers" at No. 479, T B Jayah Mawatha, Colombo 10, on the Thirtieth (30th) day of March, 2022 at 10.00 in the forenoon and at any adjournment thereof.

* Delete inappropriate words

Signed this day 2022.

Signature/s
.....

Please provide the following details:

Shareholder's NIC No/Company Registration No. :	.....
Folio No/Number of Shares held :	.....
Proxy holder's NIC No (if not a Director) :	.....

Note - See reverse hereof for instructions to complete the proxy.

Form of Proxy [Non-Voting]

Instructions to complete proxy

1. The full name and the registered address of the shareholder appointing the Proxy should be legibly entered in the Form of Proxy, duly signed and dated.
2. The completed Proxy should be emailed to info@hnb.lk or deposited with the Board Secretary, at the Registered Office of the Bank at No. 479, T B Jayah Mawatha, Colombo 10 ("HNB Towers", Level 18), not less than 24 hours before the time appointed for holding the Meeting.
3. The Proxy shall -
 - (a) in the case of an individual, be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Bank.
 - (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of the company or corporate body in accordance with the Articles of Association or the Constitution of that company or corporate body. The Bank may but shall not be bound to, require evidence of the authority of any such attorney or officer.
 - (c) in the case of joint-holders, the first joint-holder has the power to sign the proxy without the concurrence of the other joint-holder/s.
4. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

Investor Feedback Form

To request information or submit a comment/query to the Company, please complete the following and return this page to -

Chief Financial Officer,
 Hatton National Bank PLC,
 No. 479, T.B. Jayah Mawatha, Colombo 10.
 Sri Lanka

Email: investor.relations@hnb.lk

Name	..... .....		
Permanent Mailing Address	..... ..... .....		
Contact Numbers	(Tel)			
		Country Code	Area Code	Number
	(Fax)			
		Country Code	Area Code	Number
E-mail	..... .....		
Name of Company (If Applicable)	..... .....		
Designation (If Applicable)	..... .....		
Company Address (If Applicable)	..... ..... .....		

Queries/Comments

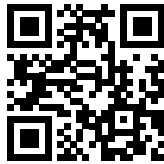
Please tick "✓" the appropriate box

- | | | |
|---|--------------------------|--------------------------|
| | 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"/> |
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