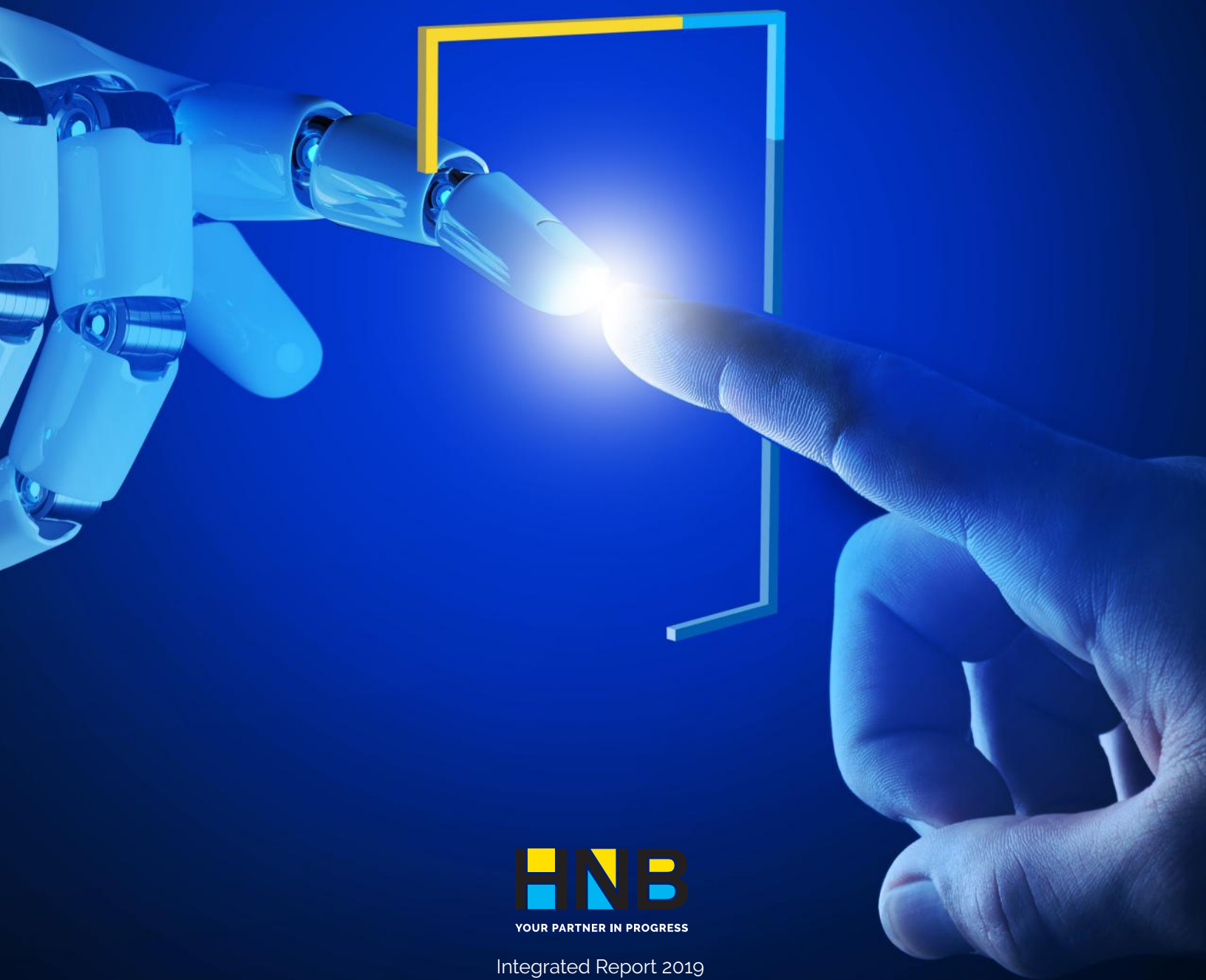


FRAMING THE FUTURE



YOUR PARTNER IN PROGRESS

Integrated Report 2019




FRAMING THE FUTURE

At HNB, we're taking a moment to look at all that we have achieved over the past few years and we find ourselves at the halfway mark of a corporate transformation that will perfectly position your Bank to exploit new opportunities and generate even better value in 2021 and beyond.

We want to examine what makes a bank like ours truly vibrant, purposeful and powerful and to this end we're literally re-inventing our business model; intensifying our continuous focus on good governance, smart technology, passionate employees and delighted customers in order to drive sustainable growth and quantifiable stakeholder returns.

We're transforming ourselves today to ensure that we will be agile, progressive and forward thinking in the years ahead; framing the future to be rich with opportunity, inspiration and value.



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



or download it @
<https://www.hnb.net/2019#integrated-report-2019>

Read our HNB Corporate Governance and Risk Management Report 2019.



or download it @
<https://www.hnb.net/2019#corporate-governance-risk-management-report-2019>

ABOUT OUR REPORT

The Strategic Report

This is our seventh Annual Report prepared in line with the Guiding Principles and Content Elements of the International <IR> Framework and the 13th report referencing GRI standards for bringing out non-financial performance. It comprises two key components as follows:

Integrated Annual Report 2019

Primarily for providers of financial capital, this report will also be of interest to other stakeholders as it summarises information on all material issues impacting our performance, reflecting our efforts to entrench integrated thinking.

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

Assurance has been provided by Ernst & Young on the Financial Statements including the Notes to the Accounts.

DNV-GL has provided assurance that the report is in line with the <IR> Framework.

Corporate Governance and Risk Review Report

Intended for providers of financial capital and regulators who require deeper insights in to 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 Basle Capital Accord (II)
- Baseline Security Standards
- Sri Lanka Financial Reporting Standards issued by the Institute of Chartered Accountants of Sri Lanka
- Companies Act No.7 of 2007
- PCIDSS – Payment card Industry Data Security Standards

Assurance has been provided by Ernst & Young to Central Bank of Sri Lanka on Compliance with the Banking Act Direction No.11 of 2007 and subsequent amendments.

Scope & Boundaries

Financial information is presented in accordance with regulatory requirements and present 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 80% of Total Operating Income, PAT, Total Assets & Total Liabilities.

	2019 Rs Bn	Bank %	2018 Rs Bn	Bank %
Total Operating Income	76.5	78%	75.1	81%
PAT	15.0	93%	19.1	81%
Total Assets	1,196.4	94%	1,148.6	95%
Total Liabilities	1,045.9	95%	1,011.3	96%

Management of the Hatton National Bank PLC have reviewed and approved the relevant content of all reports and recommended the report to the Group's Board Audit Committee and Board for their approval as per delegation of authority.

The Board Acknowledges its responsibility to ensure that the Annual Integrated Report provides a balanced view of its performance in 2019 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 20th February 2020 and is signed on its behalf by



Dinesh Weerakkody
Chairman



Asoka Pieris
Chairman
Board Audit Committee



Jonathan Alles
Managing Director/CEO

Colombo, Sri Lanka
20th February 2020



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

OUR 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

ABOUT US

The Strategic Report

Built on 131 years of trust, Hatton National Bank PLC is committed to fulfilling our purpose as a catalyst for socioeconomic progress in the country. Understanding that long term sustainable growth is dependent on careful balancing of stakeholder interests and profitability and stability, HNB has grown to become the most diversified financial services group in the country, relevant to all. An island-wide presence facilitates accessibility for our customers while our digital channels put banking literally in the customers' hands.



Retail Banking



SME Banking



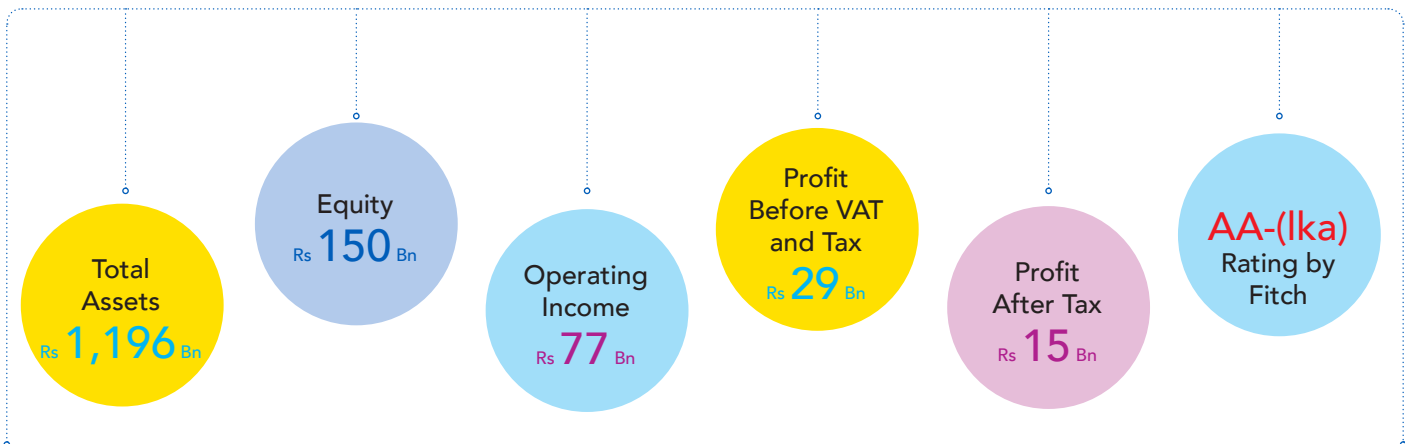
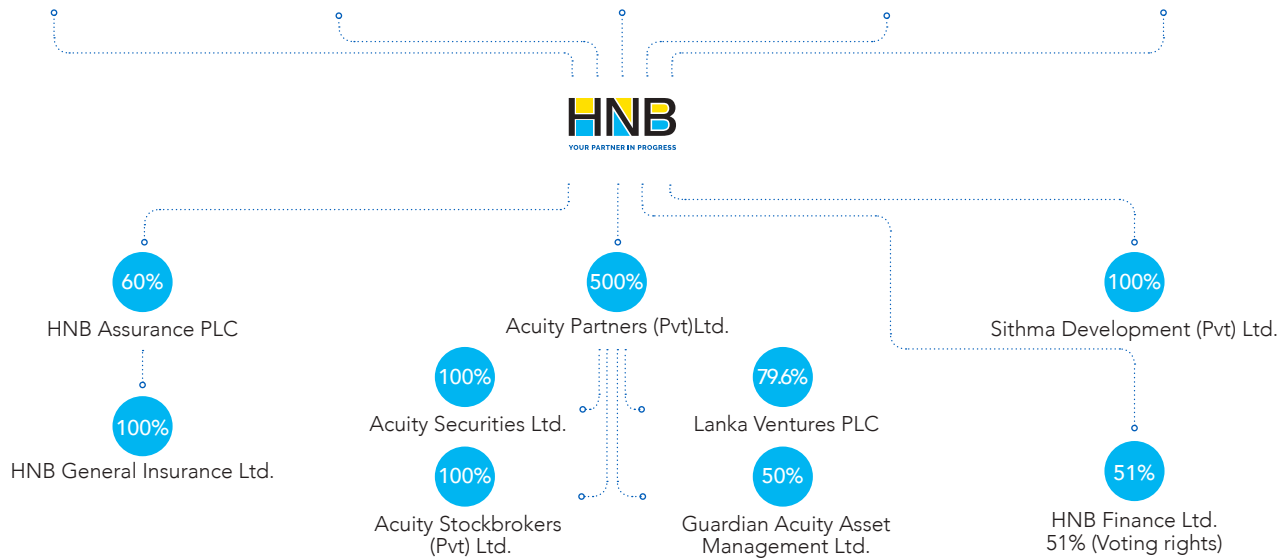
Micro Finance



Treasury



Corporate Banking



A Catalyst

The important role that Banks play in the country was evident as the sector worked together to support businesses impacted by terrorist attacks through moratoriums and supported implementation of several measures to reduce imports and moderate rising interest rates. We have also given below how we have supported the socioeconomic progress of the country through our normal business channels.

ACCESS TO FINANCIAL SERVICES

BANK

252 branches

(148 outside the Western Province)



780 ATMs

(408 outside the Western Province)

SUBSIDIARIES

124 branches

(94 outside the Western Province)



FACILITATING TRADE

Imports Facilitated

Rs 179 Bn



Exports Facilitated

Rs 91 Bn

CONTRIBUTION TO ECONOMY

Supporting Economic Growth



Infrastructure lending portfolio of

Rs 53 Bn



Rs 13.8 Bn

paid as Taxes

ACCESS TO FINANCE

Rs 200 Bn+

disbursements to SMEs and micro entrepreneurs



INWARD REMITTANCES

Rs 176 Bn

from migrant workers to their families



Access Points in

200+

countries



Rs 264 Bn

Investments in GOSL Securities

AFFIRMATION



Best Bank in Sri Lanka 2019 –
Euromoney Magazine



Top 1000 World Bank,
by The Banker Magazine UK



Ranked No. 1 in Business
Today Top 30 corporates
rankings 2018-2019



Second Runner up
Best Corporate Citizen
Sustainability Award 2019

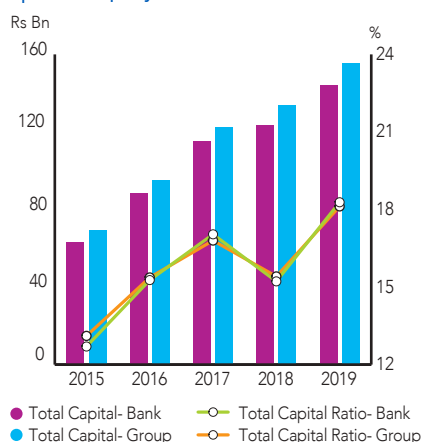
PERFORMANCE HIGHLIGHTS

The Strategic
Report

FINANCIAL

	Bank			Group		
	2019 Rs Mn	2018 Rs Mn	Change %	2019 Rs Mn	2018 Rs Mn	Change %
Financial Performance						
Income	125,998	121,356	3.8	145,401	138,251	5.2
Net Interest Income	49,214	47,580	3.4	56,356	53,636	5.1
Net Fee and Commission Income	8,993	9,399	(4.3)	9,977	10,098	(1.2)
Total Operating Income	59,788	60,689	(1.5)	76,511	75,114	1.9
Profit Before VAT and Tax	26,374	29,321	(10.1)	28,656	33,006	(13.2)
Taxation (Incl. VAT, NBT & DRL on Financial Services, Income Tax)	12,341	13,803	(10.6)	13,814	14,160	(2.4)
Net Profit After Taxation	14,032	15,518	(9.6)	15,029	19,149	(21.5)
Profit Attributable to Equity Holders of the Bank	14,032	15,518	(9.6)	14,670	17,636	(16.8)
Financial Position						
Shareholders' Funds (Capital and Reserves)	127,504	115,754	10.2	145,508	132,661	9.7
Deposits from Customers	810,035	799,975	1.3	835,060	818,042	2.1
Gross Loans and Receivables to Customers	771,939	771,693	0.0	802,707	794,186	1.1
Total Assets	1,125,009	1,086,489	3.5	1,196,384	1,148,614	4.2
Profitability						
Return on Assets (%)	1.27	1.52	(16.5)	1.28	1.78	(28.1)
Return on Equity (%)	11.54	13.86	(16.8)	10.55	13.85	(23.8)
Cost to Income Ratio (%)	39.74	36.38	9.2	47.61	43.03	10.6
Investor Information						
Earnings per Share (Rs)	28.04	31.01	(9.6)	29.32	35.25	(16.8)
Net Assets per Share (Rs)	254.80	231.32	10.2	290.78	269.28	8.0
Total Dividend per Share (Rs)	8.00	8.50				
Cash Dividend per Share (Rs)	4.50	5.00				
Regulatory Ratios						
Core Capital Ratio (%) (Minimum Req. - 2019 -9.5%; 2018 - 8.875%)	14.57	12.80		14.74	13.16	
Total Capital Ratio (%) (Minimum Req. - 2019 - 13.5%; 2018 - 12.875%)	18.28	15.22		18.12	15.41	

Capital Adequacy



GROUP PAT

Rs 15 Bn
2018: Rs 19.1 Bn

GROUP ASSETS

Rs 1.2 Tn
2018: Rs 1.1 Tn

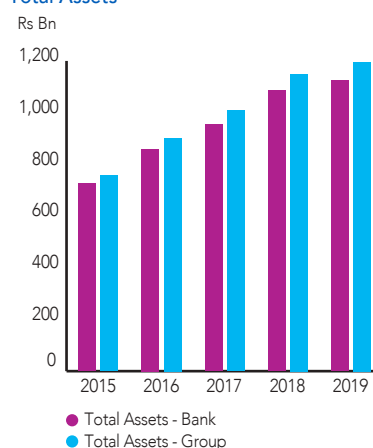
GROUP EPS

Rs 29.32
2018: Rs 35.25

GROUP NET ASSETS PER SHARE

Rs 290.78
2018: Rs 269.28


Total Assets



SOCIAL PERFORMANCE

Key Indicators		Unit	2019	2018
 Social & Network Capital	No. of Customers	Nos	2,623,038	2,510,357
	Branches per 1,000,00 population	Nos	11	11
	Correspondent Banks	Nos	970	950
	Exchange Houses/Global Remittance Partners	Nos	92	90
	Total Loans Disbursed	Nos	98,432	98,872
		Rs Mn	644,718	649,769
	Customer Satisfaction	NPS Score	64	41
	Strategic CSR Spend	Rs Mn	6.6	14.3
 Human Capital	No of Employees	Nos	4,913	4,781
	Retention Rate	%	93.1	93.6
	Investment in Training & Development	Rs Mn	48.2	49.1
	Training Coverage	%	80.2	94.5
	Gender Diversity Ratio	Male: Female	57:43	58:42
	Employee Productivity (Revenue per Employee)	Rs Mn	25.6	25.4
 Intellectual & Digital Capital	Investments in IT: Hardware	Rs Mn	478.7	879.4
	Investments in IT: Software	Rs Mn	499.1	382.5
	Applications launched	Nos	18	22
 Manufactured Capital	Branches	Nos	252	250
	Self Service Machines	Nos	780	684
	PPE (excluding IT infrastructure)	Rs Bn	19.4	19.6
	Branches outside Western Province	No of Branches	148	147

ENVIRONMENT IMPACT

Key Indicators		Unit	2019	2018
 Natural Capital	Online customer migration	No	85,800	79,000
	Online transactions	Rs Mn	290,264	172,426
	Loans screened for E&S by ESMS unit	No	113	76
	Energy Consumption	kWh	16,699,874	15,337,572
	Solar Power Generated	kWh	2,815,749	2,534,869
	Solar Power Generated as a % of Energy Consumption	%	16.8	16.5
	Carbon Footprint	kg/sqft	4.3	3.9
	Paper Reused/Recycled	%	100	100
	Loans disbursed to promote Renewable Energy (all customer segments)	Rs Bn	1.1	1.0

CHAIRMAN'S MESSAGE

The Strategic
Report

HIGHLIGHTS

Resilient in a
challenging
environment

Driving
transformation

Building a pool
of future ready
employees

Balancing
stakeholder
interests





Staying focused to our promises to all our stakeholders

The year that preceded us has been extremely challenging with global trade friction contributing to a sombre global economic outlook and the unexpected Easter Sunday attack in Sri Lanka precipitating a macro-economic downslide, locally. The year under review has been one of the most challenging years for the Bank in recent times due to the difficult economic outlook faced by the Country and the consequent negative impact it had on the banks as players in a key economic sector.

Despite these challenges in 2019, the HNB Group displayed noteworthy resilience. The Bank set the pace, implementing necessary changes in processes, procedures and policies in our journey to offer the best experience to our customers whilst reinforcing the 'Best Employer' brand image for our employees.

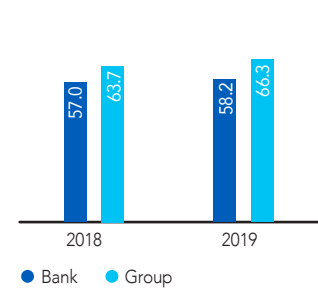
Today the Group stands out as a financial powerhouse, with committed and loyal employees standing shoulder to shoulder in delivering on our customer expectations. With a rich heritage of over 130 years, our own unique culture and the bonding 'Hatna Family' concept, HNB has become an outstanding Group that has contributed immensely to the socio economic development of the Country.

The World around us is changing rapidly, especially in its technology and economic paradigms in the industries and the society we operate in. These changes would have a profound impact on our own Industry. Technology trends like Cloud Computing, the Internet of Things, Big Data and Mobility, will not only significantly impact our daily lives but also create very challenging demands in customer expectations and 'Round the Clock' Service excellence.

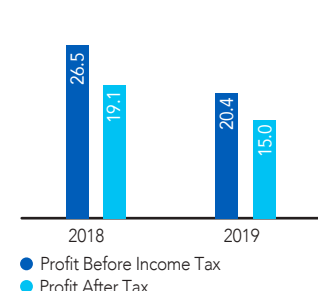
Continuing changes taking place in the Bank in key areas of Strategy, IT, Digital, Business Process re-engineering, Services and Human Capital Development are at the core of our drive to achieve our Vision in becoming the undisputed leader in the banking industry. These changes are driven through Project Everest, the Bank's holistic transformation project which is driving changes in all the above aspects including a new branch operating model which will support our growth and competitiveness in a digital era.

Despite these challenges in 2019, the HNB Group displayed noteworthy resilience. The Bank set the pace, implementing necessary changes in processes, procedures and policies in our journey to offer the best experience to our customers whilst reinforcing the 'Best Employer' brand image for our employees.

Net interest, fee and commission income
Rs. Bn



PBT & PAT (Group)
Rs Bn



CHAIRMAN'S MESSAGE

The Strategic Report

We start from a position of strength with a strong balance sheet, a trusted domestic franchise, time tested relationships and an affinity for enabling technology. Looking back on our journey, it is evident that we truly have been partners in growth with our customers, business partners and suppliers and it is this commitment to shared prosperity that will fuel our growth in the future as well.



Training and upskilling will therefore remain very relevant as the need for knowledge and competencies including technology continues to increase. Training in delivery related models will need to grow and expand with the ever increasing demand in volume, complexity, flexibility and speed of transactions.

The digital transformation of the Bank that commenced few years ago is key to realising our vision. Replacing legacy systems with state of the art fintech to take us into a new era of banking focused on empowering customers with efficient processes is a key component of Project Everest. Progress on this project has been a regular agenda item for the Board and we have enhanced the collective skills of the Board and the Board Sub Committees to facilitate deliberation, discussion and oversight of this subject.

We are seeing the new normal of technological excellence emerge around big data, analytics and the cloud. The interaction of these new technologies will affect the industry for many years to come. Board appointments during the year, reflect its strengthened capacity to make informed judgments in view of the significance of this transformation. Early deliverables have been on target and we will continue our vigilance to ensure that outcomes meet and exceed expectations.

Ensuring that all employees are fully engaged in the transformation journey and aligned to our vision is key to its success. The Human Resources and Remuneration Committee of the Board has been active in ensuring that rewards are aligned with the KPI's and that adequate resources have been allocated to upskilling legacy resources to realise our vision

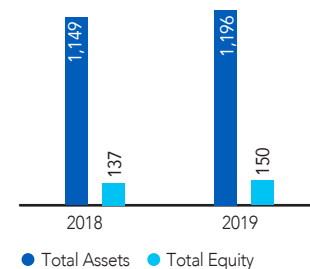
of building a pool of Future ready Employees. We understand that our market is exposed to technology driven disruption and that our employees too need to be agile to compete and cater to our clients needs to give them more choice over how well their funds work for them.

Reviewing the performance of the Bank, it is encouraging to note early signs of transformation such as the growth in digital transactions, improved turnaround times of a number of processes and the readiness of the leadership of the Bank to up their game.

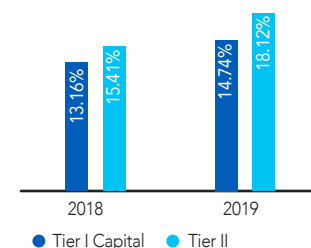
Sustainability and responsible banking are synonymous and support our goal of building a resilient bank. Delivering value to stakeholders is embedded in our business model as this is a sine qua non for long term sustainable value creation. Evidence of our commitment to the UN Sustainable Development Goals is clearly set out in this annual report, supporting high levels of awareness of these goals and inspiring our team to align their work accordingly. We continue to drive integrated thinking in our strategy, the final object of the Integrated Reporting Framework ensuring that we focus on delivering value to stakeholders while focusing on our material issues. Our commitment to GRI Standards is evidenced throughout this report with a complete reference index providing a holistic view of our compliance.

The foundation for responsible banking is sound corporate governance and HNB is committed to upholding the highest standards in this regard. During the year, we adopted the revised Code of Best Practice on Corporate Governance issued by the

Total Assets & Total Equity
Rs Bn



CAR (Group)



Institute of Chartered Accountants of Sri Lanka in December 2017 and have affected the necessary changes to facilitate full compliance. The Board also receives updates on changes in the regulatory requirements through a variety of sources including presentations by Corporate Management and facilitates compliance through resource allocation and oversight on progress. At its core, it is about balancing stakeholder interests which is the foundation for sustainability and integrated thinking. We have also now set up a Non-Executive Directors Forum to further strengthen this agenda.

Global forecasts for growth remain flat for 2020 and the outlook for the country is very challenging. It is important that we keep our eyes on our vision and our enabling strategies with more diligence and exercise more vigilant oversight on key initiatives for growth as headwinds from the operating environment are likely to be significant. As a domestic systemically important bank, HNB will continue to seek ways to foster inclusive growth, enhance productivity and build resilience to support growth of the country's financial sector while delivering value to stakeholders.

We start from a position of strength with a strong balance sheet, a trusted domestic franchise, time tested relationships and an affinity for enabling technology. Looking back on our journey, it is evident that we truly have been partners in growth with our customers,

business partners and suppliers and it is this commitment to shared prosperity that will fuel our growth in the future as well. Also there are more risks to global economic growth than this time last year, we remain alive and responsive to all possibilities.

Appreciations

I wish to convey my appreciation to Mr Palitha Pelpola who retired last month for his valuable contribution. On behalf of the Board, I thank the team of the HNB Group for their dedication and commitment to delivering the results set out in this annual report. I wish to convey my appreciation to the Managing Director and Chief Executive Officer the Bank and other Chief Executive Officers of the Group who have inspired their teams to reach higher standards in a very challenging and difficult year.

I close by thanking all our stakeholders for their continued confidence in us and look to your continued support in the future



Dinesh Weerakkody
Chairman

Colombo, Sri Lanka
20th February 2020

MANAGING DIRECTOR /CEO'S MESSAGE

The Strategic
Report

HIGHLIGHTS

—
Making the right
choices

—
Creating a future
ready organisation

—
Building future
leaders

—
Investing in
game changing
technologies





Dear Shareholders,

2019 was a year in which Hatton National Bank PLC devoted considerable resources in 'Framing the Future'. This was necessary as we needed our systems and people aligned to delight customers in the fourth industrial era characterised by disruptive technologies shaping the way we live and work. Inspired by our beginnings in the central hills of Ceylon in 1888 and the transformational journey set out under our ambitious road map, to reach the top, we dubbed it 'Project Everest' in May 2018. It has proved an apt analogy as the forces that shaped our business landscape were as uncertain and impactful as the mighty forces of nature on the mountain top. Leadership, confidence, passion, discipline and teamwork emerged as the critical success factors as we delivered multiple projects and made tough calls in recalibrating strategy to adapt to the forces at play. While the impact of many projects will become visible only next year, early signs of success serve to re-energise our team to deliver the remaining tasks, creating a 'future ready organisation'.

Managing Performance

High levels of uncertainty, a convergence of risks factors and the terror attacks on Easter Sunday combined to paint a bleak business landscape in 2019, necessitating a prudent revision of aggressive growth plans referred to in my 2018 message. Making the right choices became a key imperative and our strengthened analytical capabilities enabled us to seek opportunities that were a right fit with our long term strategic priorities. Within these operating conditions, HNB Group delivered a balanced performance with a Profit After Tax of Rs 15.0 Bn, and a strong balance sheet with capital adequacy ratios above industry average and regulatory requirements.

Net Interest Income increased by 5% for the Group as the Bank exercised a cautious approach towards loan growth and the interest rates declined during the year with the introduction of the deposit rate cap in April 2019 which was subsequently replaced by the lending rate cap in Sep 2019. Net Fee & Commission Income, which accounts for 15.3% of Net Operating Income, declined by 1.2% for the Group and 4.3% for the Bank as measures to curtail imports of motor vehicles and non-essential consumer goods impacted trade volumes. Consequently, Net Operating

"People do not decide to become extraordinary. They decide to accomplish extraordinary things."

Sir Edmund Hillary

Income remained almost flat at Rs. 65.1 Bn reflecting our recalibrated prudent growth strategy.

Impairment charges were curtailed to Rs 9.7 Bn by the Bank despite industry wide increase witnessed and accounted for 84.5% of the Group's credit cost. At Group level the impact from HNB Finance pushed the total impairment to Rs 11.4 Bn due to stresses on its operating model. The success at Bank level was achieved through implementation of the new branch operating model which facilitated specialisation, stronger focus on recoveries and increased rigour of credit monitoring processes. However, in compliance with CBSL directions the Bank classified an exposure of Rs 12.9 Bn to a State Owned Entity, as stage 3, due to an overdue of Rs 1.4 Bn. The full outstanding including interest relating to this exposure is secured by Treasury guarantees. This resulted in the NPA ratio increasing to 5.91% as at end of December 2019. Without this exposure the NPA ratio would have been 4.34%.

Increase in Operating Expenses by 12.9% to Rs 36.4 Bn reflect positioning of the Group for growth as a future fit financial powerhouse and an increased claims ratio in our insurance business. Operating Profit before taxes for the Group declined by 13.2% to Rs 28.7 Bn attributable to lower earnings and higher costs to support the transformation.

The introduction of the debt repayment levy of 7% on the VAT base in October 2018 for banks resulted in the total effective tax rate

Leadership, confidence, passion, discipline and teamwork emerged as the critical success factors as we delivered multiple projects and made tough calls in recalibrating strategy to adapt to the forces at play.

MANAGING DIRECTOR /CEO'S MESSAGE

The Strategic Report

Creating a future ready organisation was a key goal in 2019 and it relied on every vertical head delivering on initiatives entrusted to them on time. A new reporting structure, redefining our brand, developing our people and investing in technology were key initiatives that were delivered during the year.

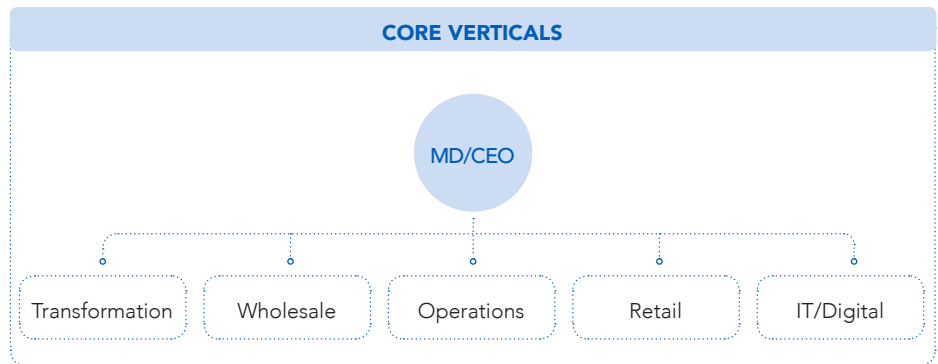


of approximately 58% for the industry until end of 3Q 2019. Nevertheless, the regulation issued by the Inland Revenue Department removing the tax applicable on SLDBs in February 2020, with retrospect effect from April 2018 and the relatively lower earnings, resulted in the total taxes for the period reducing by 2% for the Group. Accordingly, Group Taxation was Rs 13.8 Bn and amounted to 48.2% of Profit Before VAT and Tax.

Balance sheet growth also moderated during the year as Total Assets increased by a cautious 4.2%. This was largely attributable to growth in investments as the Bank loan book remained flat as we adopted a selective growth strategy in response to the business environment. Total Deposits improved marginally by 2.1% for the Group, while the Bank also raised Rs 10 Bn by way of a Basel III Compliant-Tier 2 Debenture. Equity increased by 9.6% due to retained earnings, strengthening the financial position of the Group. Accordingly, the Core capital and Total Capital ratios stood at 14.7% and 18.1% respectively for the Group, above regulatory requirements, industry average and the Bank's risk appetite.

Creating a Future Ready Organisation

Creating a future ready organisation was a key goal in 2019 and it relied on every vertical head delivering on initiatives entrusted to them on time. A new reporting structure, redefining our brand, developing our people and investing in technology were key initiatives that were delivered during the year as explained below.



Geared for Growth

During the year, it became apparent that we need an organisation structure that is fit for the organisation that we are building. After much deliberation, we launched our future fit structure on 1st January 2020. Operations vertical which is the core of business ensures that the Bank is on a strong platform in terms of risks management and compliance and on this platform the Bank would be driving business growth under the two verticals - Retail Banking and Wholesale Banking. Thereon the focus would be on business transformation including IT and Digital to ensure that the Bank is future ready.

Making Banking Enjoyable

Our brand has evolved over decades into a strong franchise that has won recognition both locally and internationally using wide ranging criteria that covered various aspects and overall excellence. In 2019, HNB was awarded the 'Strongest Sri Lankan Bank by Balance Sheet' by the prestigious Asian Banker Magazine while Euromoney Magazine named

us the 'Best Bank in Sri Lanka'. In addition to this, business verticals also received recognition for their specialisations which are set out in this report, reflecting the HNB spirit as we seek to push boundaries and shape the future of banking in Sri Lanka.

Framing our future also meant that we had to redefine our brand to reflect the new brand proposition, clearly articulating the key aspects that combine to differentiate HNB as we pursue our aspirations to be the leading private commercial bank by the year 2020. My Team and I are excited about where the journey can take us as we reimagine the future of banking.

Teamwork

We have worked as a team to deliver the transformation goals of Project Everest and maintain focus on delivering results in what proved to be a challenging year. I am honoured to lead this team through our journey as we test each other's mettle, forge strong bonds and rely on each other in innumerable ways to achieve common

goals. Our training and disciplined approach to accomplishing tasks has proven to be our strength as we delivered transformation that impacted everyone of us. Communication was key and a dedicated working group ensured that everyone was updated on initiatives and progress through multiple channels including structured meetings, newsletters, intranet and our own TV channel.

Over the years, HNB has invested in building capabilities of our team and creating a positive culture that supports realisation of career aspirations. A Talent Fitment exercise ensured that we had people in the roles that were best suited to their talents which was supported by the implementation of a Role Based Training framework. We continued our Leadership Programmes to develop a strong pipeline of leaders facilitating succession. These were on top of our regular training activities delivered both face to face and through e-learning which supported advancement of technical knowledge.

Being named Best Employer Brand at the Sri Lanka Best Employer Brand Awards in 2019 and included in the Top Workplaces in Asia at the Asia Corporate and Sustainability Awards and similar accolades prove that we have truly built a great place to work for a happy and bright team.

Delivering Digital Banking

This is the pivot for the bank of the future. Investing in game changing technologies that will disrupt banking as we know it and making banking more enjoyable for customers is the end goal. Our investments in digital capital in 2019 amounted to approximately Rs 1 Bn which illustrates our commitment to delivering on our vision. A team of IT professionals headed by the Chief Technology & Digital Officer ensure that we adopt cutting edge technology at an early stage to stay ahead of the curve. Launch of SOLO, the payment

"You do not climb a mountain like Everest by trying to race ahead on your own, or by competing with your comrades. You do it slowly and carefully, by unselfish teamwork."

Tenzing Norgay

app in 2019, was a step forward in our journey. Currently, the Bank is in the process of upgrading the Core Banking system and the Loan Origination system while also implementing a digital layer which will enable the Bank to improve customer experience through collaborations. IT Governance and cyber security were strengthened and will remain key focus areas. We will continue to invest in this key pillar to realise our vision of making banking enjoyable.

Agenda for 2020

At the top of the agenda is the deliverables of Project Everest. My team is fully committed to delivering these goals and we anticipate completion by the 1st half of 2021. Forecasts for 2020 point to a recovery of economic growth as fiscal and monetary policy measures announced are implemented. This is expected to provide opportunities for growth within the country as we nurture entrepreneurs to pursue their visions. We will also look beyond our shores for lucrative opportunities for growth with due diligence to ensure alignment with the Bank's long term strategy. HNB Assurance and HNB Finance are also positioned for growth and we are encouraged by the strengthened balance sheets and risk management capability which provide a strong launching pad for growth.

Appreciations

Like the journey to Everest, the performance set out in this report required co-ordinated teamwork. I thank the Board for their rigorous oversight of performance and constructive challenge of views which was key to delivering performance and key milestones in the transformation journey. I extend my sincere appreciation of the work done by the HNB Team who has given of themselves unreservedly to deliver commendable results in an extremely challenging year. I also wish to thank the officials of the Central Bank of Sri Lanka for their assistance in facilitating compliance with regulations.

I thank our loyal customers across all our business segments who have been enthusiastic supporters of our innovations and provided honest feedback of our service standards. This has strengthened our customer value proposition which has enabled us to differentiate ourselves as we aspire to re-imagine banking.

My sincere appreciation to our business partners who play an important part in enabling us to deliver services to our customers. I thank our shareholders for their continued confidence in a challenging year, as we 'frame our future'.



Jonathan Alles
Managing Director/CEO

Colombo, Sri Lanka
20th February 2020

BOARD OF DIRECTORS

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Mr Dinesh Weerakkody
(Chairman)

Mr Jonathan Alles
(Managing Director/CEO)

Mr Amal Cabraal

Mr A N de Silva

Mr Madu Ratnayake

Mr H Asoka Pieris

Dr L R Karunaratne



Mr R S Captain

Dr Prasad Samarasinghe

Mr Palitha Pelpola

Mr P R Saldin

Dr L J S Harsha Cabral, PC

Mr D Soosaipillai

Mr Damien Fernando

Ms K A L Thushari Ranaweera
(Board Secretary)

BOARD OF DIRECTORS

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DINESH WEERAKKODY

Chairman Appointed: May 2018

Independent, Non-Executive Director

Appointed: June 2017

Skills & Experience:

A former Chairman of Commercial Bank of Ceylon PLC, Chairman of the National Human Resources Development Council of Sri Lanka and the Employees' Trust Fund Board of Sri Lanka and also the Chairman of the Government-appointed Committee to review the Banking Sector and Non-Banking Sector consolidation and the Committee appointed to review the budgetary allocation for education. He was also a Director of DFCC Bank, an Adviser to the Prime Minister and the Ministry of National Policies and Economic Affairs. He was a member of the CIMA Asia Pacific Industry Advisory Body, Colombo Municipal City Development Committee and the National Health Development Fund.

Holds an MBA (University of Leicester, UK) and is a Fellow of the Chartered Institute of Management Accountants (UK) and of the Certified Management Accountants (Sri Lanka). Also holds a BTEC (UK) Certificate in Information Technology, an Advanced Diploma in Business Administration (ABE UK) and is a Professional Member of the Singapore Human Resource Institute, International Public Management Association -HR Certified Professional USA. He was conferred an honorary membership by the Institute of Personnel Management of Sri Lanka for his contribution to HR.

Current Appointments:

Chairman International Chamber of Commerce of Sri Lanka. Currently serves in a number of private sector and MNC boards and Chairs/Member of the Audit Committee and the Remuneration Committee in several of those Companies. He is a Council member of the Employers' Federation of Ceylon and the Institute of Directors of Sri Lanka. Advisory Board Member of Caritas Sri Lanka-SEDEC, HR Cornucopia India and Financial Advisory Committee of Sri Lanka Cricket.

He is a recipient of a Jaycees Ten Outstanding Young Persons Award in 1999 and an International Associations of Lions Clubs National Achievers Award in 2008 for the advancement of good governance in the public sector and was conferred National Honours of Sri Lanka in 2019.

Mr Weerakkody has published widely on economics, banking and finance, HR, leadership, management, international relations and development issues. He is an author of six books and is a regular business speaker/commentator.

JONATHAN ALLES

Managing Director/Chief Executive Officer

Appointed: July 2013 Executive Director

Appointed: May 2013

Skills & Experience:

An experienced banker counting over 33 years in the industry with experience in both international and Sri Lankan banks, within the country and overseas. Holds an MBA from the University of Stirling, UK and is an Associate Member of the Institute of Bankers of Sri Lanka.

Other Current Appointments:

Chairman of HNB Finance Ltd. and Acuity Partners (Pvt) Ltd. and a Director of Lanka Financial Services Bureau Ltd., Lanka Ventures PLC and LVL Energy Fund, Vice Chairman of the Banking, Financial & Insurance Services Group of the Employers' Federation of Ceylon and a Member of the Sri Lanka Institute of Directors. Appointed as the Chairman of Asian Bankers Association for the period 2018-2020.

Mr Alles is a dynamic banker and a corporate leader; he has contributed to HNB's macro development with the Bank now operating through 250 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.

ROHAN KARUNARATNE (DR)

Independent, Non-Executive Director

Appointed: October 2011

Skills & Experience:

Consultant Engineer, counts over 35 years of experience in civil engineering. Wide business experience gained from leadership roles held in a range of industries.

Holds a PhD in Management and an MBA from the Sussex University (UK). A Civil Engineering Graduate and advanced Diploma holder in HIET (Chennai – India), is a Fellow of the International Institute of Management

(HK) and a Fellow of the Ceylon Institute of Builders.

Other Current Appointments:

President of the Ceylon Institute of Builders (CIOB), Chairman of South Asian Lead Construction Institute and Oversees Training Academy, Advisory Panel Member of the Ministry of Megapolis & Western Development and Export Development Board.

Chairman of A.K.K Engineers (Pvt) Ltd., Associated Motor Finance Co Ltd., Hybrid Airports (Pvt) Ltd., Master Builders International (Pvt) Ltd., Arpico Finance PLC, S M S Engineering (Pvt) Ltd., Human Resource Development (Pvt) Ltd. and a Director of Helanko Hotels & Spa (Pvt) Ltd. He is the sole Proprietor of Pinthaliya Resorts.

Previous Appointments:

Past Chairman of the National Construction Association of Sri Lanka, inaugural Chairman of Human Resources Development (Pvt) Ltd. and Advance Construction Training Academy and a Director of Property Development Ltd., (BOC), Sino Lanka Hotels & Spa (Pvt) Ltd. and Canwill Holdings (Pvt) Ltd.

RUSI CAPTAIN

Non-Executive Director

Appointed: April 2012

Skills & Experience:

Experience gained in diverse business and leadership roles.

Secondary education at Millfield, U.K. and the University of Miami, Florida

Other Current Appointments:

Director of Polypak Secco Ltd., Paints & General Industries Ltd., Paints & General (Exports) Ltd., CIC Holdings PLC, Propertex Development Ltd., Austin Gloves (Ceylon) Ltd., CEI Plastics Ltd., Ranweli Ltd., Agriland Ltd., Polytex Properties & Investments Ltd., Forest Creek Park Ltd., Body Bar Ltd., Horahena Investments Ltd., Palmland Ltd., Parkland Ltd., Cisco Specialty Packaging (Pvt) Ltd., Randiya Farms Ltd., Link Natural Products (Pvt) Ltd. and Chacra Capital Holdings (Pvt) Ltd.

AMAL CABRAAL

Non-Executive Director

Appointed: April 2014

Skills & Experience:

Counts over 30 years of business experience in a multinational corporation in general management, marketing and sales in Sri Lanka and overseas.

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:

Non-Executive Chairman of Ceylon Beverage Holdings PLC, Lion Brewery (Ceylon) PLC, CIC Feeds Group and Silvermill Investment Holdings (Pvt) Ltd. Independent Non-Executive Director of John Keells Holdings PLC, Sunshine Holdings PLC and an advisor to a number of leading companies. Member of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka. Committee Member of the Ceylon Chamber of Commerce and Management Committee of the Mercantile Services Provident Society.

Previous Appointments:

Chairman and CEO of Unilever Sri Lanka.

PALITHA PELPOLA

Independent, Non-Executive Director

Appointed: April 2015

Skills & Experience:

Experience gained in diverse business and leadership roles.

Institute of Cost & Management Accountants Part III

Other Current Appointments:

Chairman, Ceybank Asset Management Limited.

Previous Appointments:

Mr Pelpola was the immediate past Chairman of Coconut Cultivation Board, Kapruka Fund Board Member, Tea Rubber & Coconut Fragmentation Board and Coconut Development Authority.

He has served the Government of Sri Lanka through various appointments including Private Secretary to the President, Private Secretary to the Minister of

Mahaweli Development and Lands & Land Development, Special Advisor to the Minister of Plantation Industries, Senior Advisor of the Ministry of Enterprise Development & Investment Promotion. Managing Director of Mahaweli Economic Agency.

Chief Executive Officer of Leader Publications Ltd. and Media Consultant of World Health Organization. Executive Director of Sri Lanka Foundation, Los Angeles, California, USA.

DULIKSHA SOOSAIPILLAI

Independent, Non-Executive Director

Appointed: April 2015

Skills & Experience:

Over 30 years of experience in finance, strategy, risk management and compliance in the financial services sector.

A Fellow of the Institute of Chartered Accountants of Sri Lanka and a Fellow of the Institute of Certified Management Accountants of Sri Lanka.

Other Current Appointments:

Independent Non-Executive Director of Commercial Credit and Finance PLC and serves on many of its board sub-committees. Independent Non-Executive Director of Udupussellawa Plantations PLC and Hapugastenne Plantations PLC and serves on many of its Board Sub- Committees.

Previous Appointments:

Was engaged by the World Bank as a Short Term Consultant on a Payables Assessment assignment in the Maldives as part of a wider Public Finance Management Project in 2012.

Managing Director of the Maldives Finance Leasing Company (Pvt) Ltd. for more than seven years and the Chief Executive Officer of Ceylease Financial Services Ltd., a subsidiary of the Bank of Ceylon.

Chief Operating Officer of Dunamis Capital PLC, the holding company of the First Capital Group of Companies and the Kelsey Group of Companies.

A N DE SILVA

Independent, Non-Executive Director

Appointed: April 2015

Skills & Experience:

Over 45 years experience in commercial banking and bank management and as a Director.

Elected an Associate of the Chartered Institute of Bankers, London, UK in December 1978, on successful completion of its professional examinations.

Received extensive training in banking and management both locally and overseas with Dresdner Bank, AG, Germany, National Institute of Bank Management, Pune, India, Centre for Financial Engineering in Development, Washington DC USA, Mt Eliza Campus-Monash University, Melbourne, Australia.

Team Member of HNB's User Group Heads who evaluated IT Systems in the U.K. and India.

Participated in a study tour of the South African Banking System organised by the Institute of Bankers, South Africa.

Played a key role in HNB's acquisitions of Indosuez Bank and Habib Bank AG Zurich.

Other Current Appointments:

Independent Non-Executive Director, Malwatte Valley Plantations PLC, Holco Ceylon (Private) Ltd. & Expo Industrial Engineering (Pvt) Ltd.

Previous Appointments:

Former Acting Chief Executive Officer and Chief Operating Officer, Union Bank of Colombo PLC, former Director, Lanka Clear Limited and former Alternate Director, Credit Information Bureau of Sri Lanka (CRIB).

Former Deputy General Manager (Corporate Banking), Hatton National Bank PLC.

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DAMIEN FERNANDO

Non-Executive Director

Appointed: October 2018

Skills & Experience:

Mr Fernando is a Fellow member of 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 on 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, Group CIO and the Centre Head for Virtusa Sri Lanka. He holds an MBA from the Postgraduate Institute of Management (Sri Jayawardenapura) and a First Class Honors Degree in Software Engineering from City University in London.

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:

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 former 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:

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

ASOKA PIERIS

Independent/Non-Executive Director

Appointed: April 2019

Skills & Experience:

Mr Pieris is a Fellow member of the Chartered Institute of Management Accountants (U.K.), a Chartered Global Management Accountant and an Associate member of the Institute of Chartered Accountants of Sri Lanka.

He has volunteered his services on many fronts – As an Active Rotarian since 1997 and a past president of the Rotary Club of Colombo North; as a member of the Council of Institute of Chartered Accountants of Sri Lanka; as a member of the Executive Council of the Sri Lanka Retailers Association; as a member of the Chamber Committee of the Ceylon Chamber of Commerce.

Other Current Appointments:

Mr Pieris is also a Non-Executive Director of Cargills (Ceylon) PLC.

Mr Pieris is a member of the Institute of Chartered Accountants of Sri Lanka and a fellow of the Chartered Institute of Management Accountants, UK.

Previous Appointments:

Mr Pieris was the Group Chief Executive Officer of the Singer Group of Sri Lanka, from July 2010 to October 2018. He was named as one of the top Corporate Front Runners/Business Leaders in Sri Lanka by LMD in 2012, 2015, 2016, 2017 & 2018. He was also a member of the Group Management

Committee of Hayleys PLC from October 2017 to October 2018. Mr Pieris served as the Vice President-Finance of Singer Asia Ltd. in Hong Kong for two years and was Finance Director of Singer Group in Sri Lanka for six years. He understudied marketing operations in Singer, Jamaica. He has been a Director of Public Quoted Companies in Sri Lanka, Bangladesh and Indonesia and a Director of Non Quoted Companies in India and Hong Kong.

DR HARSHA CABRAL PC

Independent/Non-Executive Director

Appointed: September 2019.

Skills & Experience:

Dr Cabral is a President's Counsel in Sri Lanka with 32 years experience in the field of Company Law, Intellectual Property Law, Commercial Law, Securities Laws, International Trade Law & Commercial Arbitration.

Dr Cabral commands an extensive practice in the Commercial High Courts and the Supreme Courts of Sri Lanka, being a President's Counsel for fourteen years. He holds a doctorate in Corporate Law from the University of Canberra, Australia. He is also a Fellow of the Institute of Chartered Secretaries & Administrators (UK).

Other Current Appointments:

Dr Cabral is also a visiting lecturer at several Universities (local and international) and a regular speaker at public seminars, author of several books and has presented several papers on Corporate Law, Intellectual Property Law, International Trade Law and Commercial Arbitration in Sri Lanka and abroad. In addition to his active practice in courts and lecturing, he has been a counsel in many an Arbitration and has served as Sole-Arbitrator, Co-Arbitrator and Chairman in a large number of Arbitrations, domestic and international.

He is a sitting member of the International Chamber of Commerce (ICC) International Court of Arbitration in Paris. He is also the Chairman of Tokyo Cement Group and a Director of Hayleys PLC, DIMO PLC, Alumex PLC, World Export Centre Ltd., Sri Lanka Institute of Information Technology (SLIIT), CCC-ICLP Alternative Dispute Resolution Centre (Guarantee) Ltd. and BOI.

He is a member of the Law Commission of Sri Lanka, the Intellectual Property Advisory Commission of Sri Lanka, a Council Member

of the University of Colombo, a member of the UGC Standing Committee on Legal Matters, UGC Nominee on the Post Graduate Institute of Medicine (PGIM) and a Member of the Board of Management of the NSBM Green University, Sri Lanka. Dr Cabral is a Council Member of the Institute for the Development of Commercial Law & Practice (ICLP) and the Course Director for the Diploma in Commercial Arbitration. He also served as a member of the Council of Legal Education in Sri Lanka, the Ministerial Committee appointed to reform Commercial Arbitration in Sri Lanka, the Corporate Governance Committee of the Institute of Chartered Accountants of Sri Lanka and the National Science Foundation. Apart from that, he is the current Vice President of BRIPASL (Business Recovery & Insolvency Practitioners Association of Sri Lanka).

Previous Appointments:

Dr Cabral was the immediate past Chairman of LOLC Finance PLC and a Senior Director of the Union Bank of Sri Lanka. Being a member of the Advisory Commission on Company Law in Sri Lanka, he was one of the architects of the Companies Act No. 7 of 2007, the current Act.

PRAWIRA RIMO E SALDIN

Alternate Director to Mr Rusi Captain – Director, HNB PLC

Appointed: July 2018

Skills & Experience:

Appointed as alternate Director in July 2018. He is a fellow of the Institute of Chartered Accountants of Sri Lanka, 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.

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 including Akzo Nobel Paints Lanka Ltd. Mr Saldin serves as the Chairman of the Audit Committee of CIC Holdings PLC.

Mr Saldin is an alumni of the Asia Institute of Management and serves as Chairman of Industrial Association of Sri Lanka.

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.

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 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 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 on its Board from September 2017.

He is holding a professional membership as a Board Director of TRACE, ICTSC and FITIS and as a Board member of the Engineering Faculty Board – University of Moratuwa.

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 was holding the position as the Head of IT of Commercial Bank of Ceylon from May 2002 till September 2003. He was the Deputy General manager (ICT) of Sri Lanka Insurance from 2003 to July 2005 and became the Chief Operating Officer (support services) of Sri Lanka Insurance in July 2005 and served till March 2008. Dr Samarasinghe had been a Director – E-Channelling (Pvt) Ltd. from September 2004 to June 2009. He was the Managing Director of Bell Vantage (Pvt) Ltd. from September 2008 to December 2011.

THUSHARI RANAWEERA (MRS)

Company/Board Secretary

Appointed: January 2012

Skills & Experience:

She is an Attorney-at-Law and counts over 28 years of experience in banking.

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

Other Current Appointments:

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

Previous Appointments:

Member of Board of Governors of Sri Lanka National Arbitration Centre (2012-2017).

CORPORATE MANAGEMENT

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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)
 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

F.C.M.A. (UK), C.G.M.A., A.C.A. (Sri Lanka)
 Deputy General Manager
 – Corporate Banking



CHIRANTHI COORAY

M.B.A. (Wales), S.C.P. SHRM (USA),
 I.P.M.A. – CP (USA)
 Chief Transformation Officer



JUDE FERNANDO

M.B.A. (Sri J), A.I.B. (Sri Lanka)
 Deputy General Manager
 (SME & Mid Market)



NIROSHANA SENEVIRATNE

F.C.A. (Sri Lanka), F.I.B. (Sri Lanka),
 C.P.A. (Sri Lanka), C.I.S.A (USA)
 Chief Internal Auditor/Deputy General
 Manager – Internal Audit



SANJAY WIJEMANNE

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



ASANGA UDUWELA

M.B.A. (Sri J), B.Sc. Special (Pera)
 Deputy General Manager
 – Operations



DAMITH PALLEWATTE

M.B.A. (PIM-SJP), B.Sc. Mgmt. (Hons.) London
 School of Economics, ACMA (UK),
 CGMA, F.R.M. (GARP), A.C.I
 Deputy General Manager – Risk/
 Chief Risk Officer/Chief Information
 Security Officer



TYRONE HANNAN

M.B.A. - Australia
 Head of Custody and
 Trustee Services



ROHAN BUULTJENS

Master of Business in
 Information Technology - RMI
 Chief Technology & Digital Officer



KALUM WIJESOORIYA

LL.B. (Sri Lanka)
Assistant General Manager - Deposits
& Remittances/Chief Employee
Experience Officer



ARJUNA ABEYGUNASEKARA

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



ANUSHA GALLAGE

*M.B.A. (Sri J), B.B.A.(Hons.) - Colombo,
F.C.M.A (UK), C.G.M.A., F.C.PA. (Australia), Dip.
in Commerce (Uni of PNG), I.C.A. - Licentiate*
Chief Financial Officer



NIROSH PERERA

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



RAJIVE DISSANAYAKE

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



JANATH ILANGANTILEKE

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



CHANDANA PANDITHARATNE

Assistant General Manager - Services



HISHAM ALLY

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



RUWAN BAKMEDENIYA

M.Sc. (IT), Uni. of Keele - UK
Assistant General Manager -
Information Technology/
Chief Information Officer

SENIOR MANAGEMENT

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CHAMMIKA WEERASINGHE

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



PRASAD BASTIANZ

M.B.C.S. (UK), C.I.T.P.
Head of IT Operations



INDRAJITH SENADHIRA

M.B.A. (Sri J), M.A.L.S. (Colombo), LL.B (Sri Lanka), Attorney-at-Law, Dip. in Marketing (S.L.I.D.A.), Dip. in Credit Mgmt. (S.L.I.C.M.)
Head of Human Capital Management



SISIRA ATAPATTU

Head of Recoveries



VINODH FERNANDO

Head of Network Management



MAJELLA RODRIGO

A.C.M.A. (UK), C.G.M.A., M.B.A. (Colombo), B.Sc. (Colombo)
Head of Project Finance



NEIL RASIAH

M.B.A. - Finance USQ (Aus), M.A. - Fin. Econ. (Colombo), B.Sc. (Colombo), A.I.B. (Sri Lanka), Dip. in Int. Trade (IBSL)
Chief Manager/Regional Credit Head - Colombo Region



SAUMYA ARYASINHA

Chief Manager / Regional Business Head - Colombo Region



KAILAVASAN INDRAVASAN

M.B.A. - Finance (Australia), C.M.A. (Australia), A.I.B. (Sri Lanka)
Chief Manager - Mid Market



SUPUN DIAS

Dip in Marketing (UK), M.C.I.M. (UK), M.S.L.I.M., Chartered Marketer
Chief Manager/Head of Business Development



KANCHANA KARUNAGAMA

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



VIJAYA VIDYASAGARA

M.B.A. - Finance (Colombo), A.I.B (Sri Lanka)
Chief Manager - Corporate Banking



EOMAL MUNASINHA

M.B.A. - Edith Cowan University - Australia
Chief Manager/Head of Talent Development



SHERAN PERERA

M.B.A. (UK), A.I.B. (Sri Lanka)
Chief Manager/Regional Credit
Head - North Western Region



**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)*
Chief Manager
- Strategic Planning



THUSITHA EDIRIWEERA

*M.B.A. (UK), LL.B (Sri Lanka),
Attorney-at-Law, Notary Public &
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SENIOR MANAGEMENT

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SENIOR MANAGEMENT

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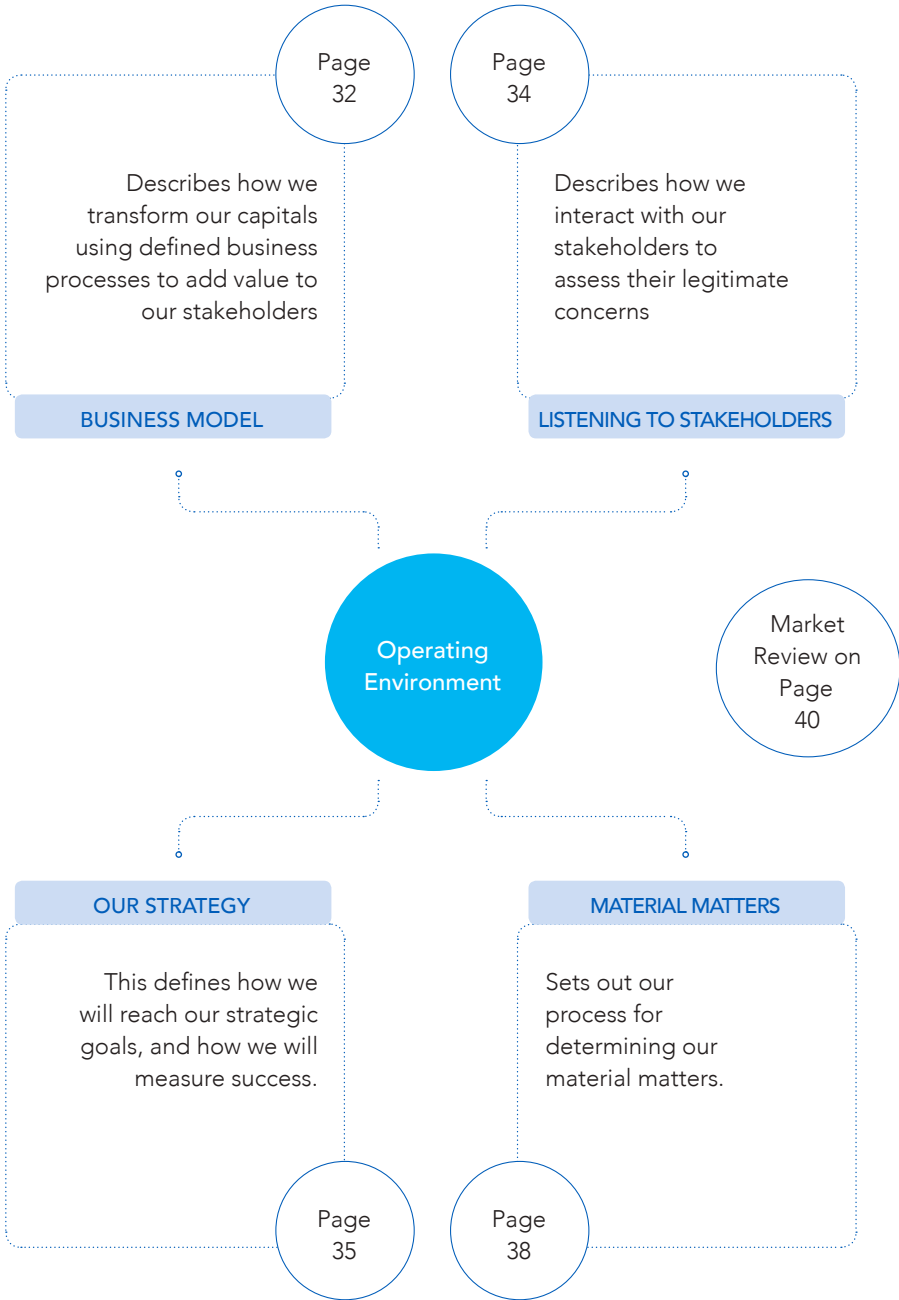


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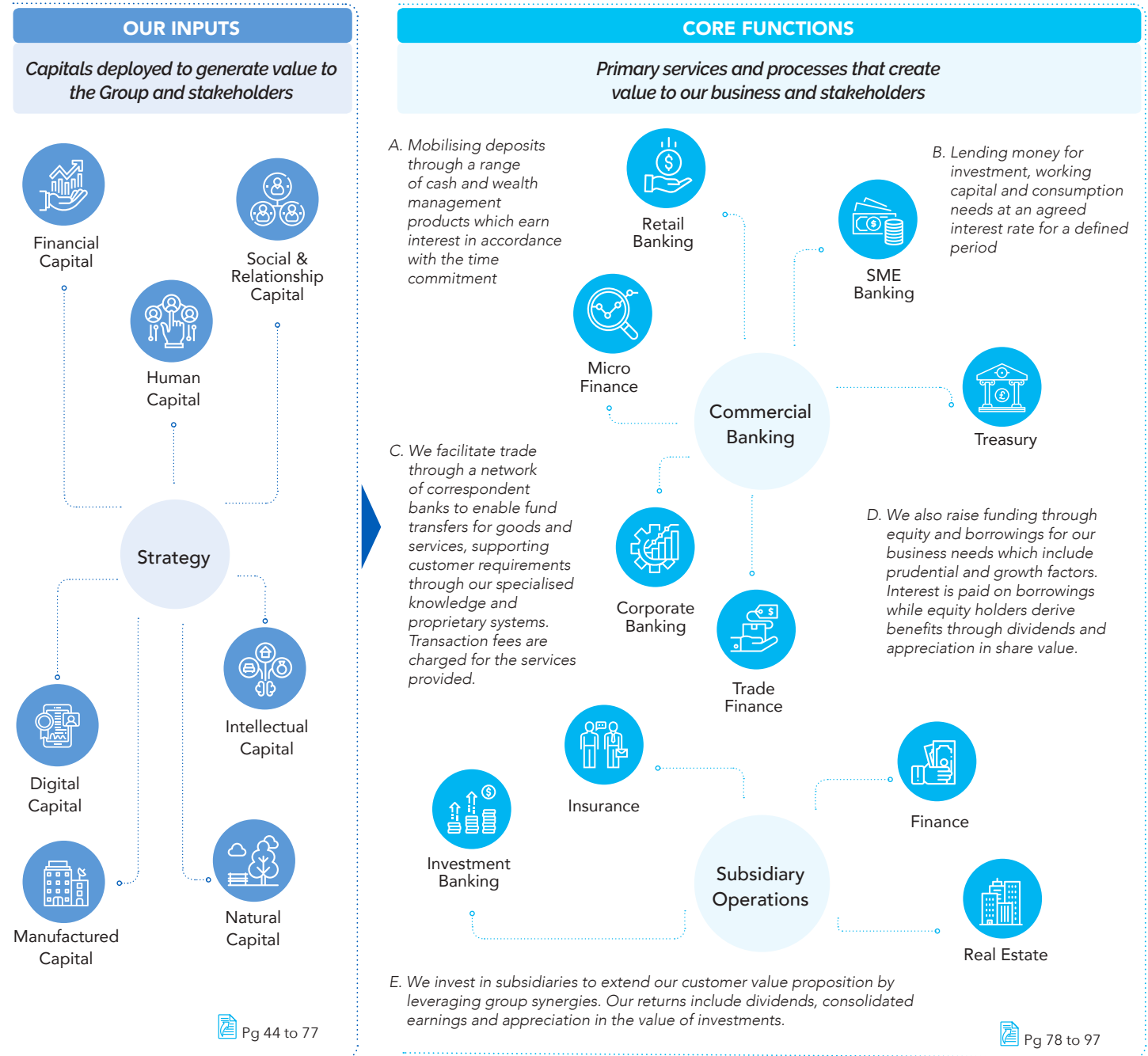
OVERVIEW OF OUR BUSINESS

The following reporting elements serve to demonstrate the links between key components of our strategic planning and reporting processes.



OUR BUSINESS MODEL

The Strategic Report



OUTPUTS

Products and services provided to our customers

Rs **645** Bn
Loans
disbursed

Rs **10** Bn
Payments



Rs **59** Bn
Interest
Paid




Rs **176** Bn
Remittances



Rs **179** Bn
Imports

Rs **91** Bn
Exports

 Pg 78 to 97

OUTCOMES

Impacts on our stakeholders

Customers

- Supporting growth
- Employment creation
- Wealth creation
- Granting moratoriums

Employees

- Rs 11.4 Bn Remuneration
- Rs 48.2 Mn in Training & Development
- Personal Growth

HNB Group

- Rs 56.4 Bn Net Interest Income
- Rs 10.0 Bn Net Fee & Commission Income
- Increased Brand Value

Business Partners

- Rs 10 Bn Purchases

Investors

- Rs 15.0 Bn PAT
- Cash Dividends Rs 2.3 Bn
- Total Dividends Rs 4 Bn

Community

- Access to finance
- 22,000 + benefited through 650+ capacity building programmes
- 37,344 loans disbursed to SME and micro finance sectors

GOSL

- Partnering growth of the economy
- Rs 13.8 Bn in taxes



Finance



Compliance



Talent
Management

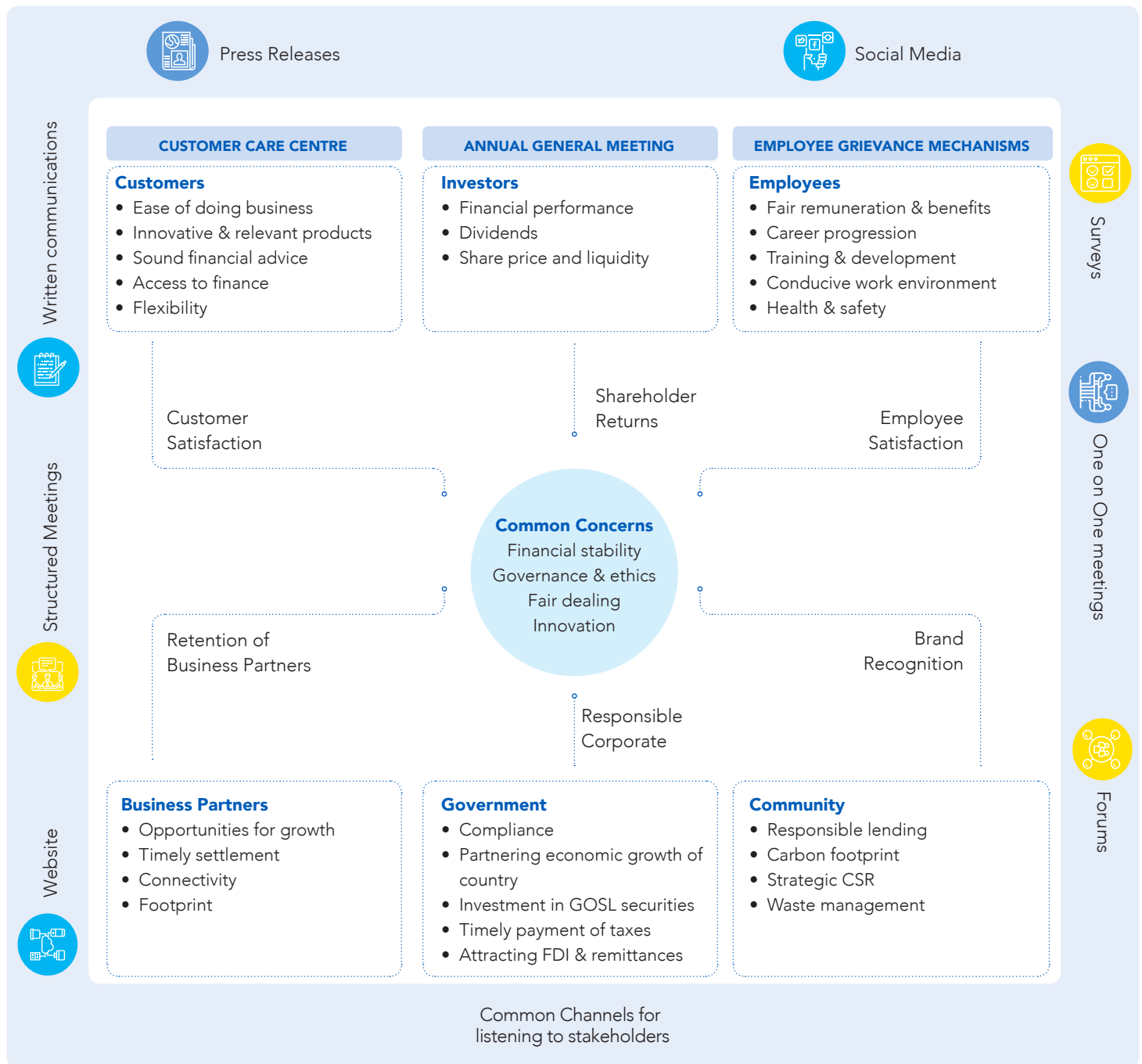


Legal

LISTENING TO STAKEHOLDERS

The Strategic Report

Our long term sustainability depends on strong relationships with our stakeholders and our evolution has been shaped by their expectations and changing lifestyles. We understand that listening to our shareholders is key to driving customer satisfaction and to competing effectively. Several mechanisms have been set in place to enable the leadership team and the Board to understand concerns of our customers which are a key input into our strategic planning process. The report highlights value delivered to stakeholders throughout the business line reviews and in the Human and Social & Relationship Capital Reports.



OUR STRATEGY

Our strategy to 2020/2021 has focused on transforming every aspect of our business to be future ready in a digital era. Visioning the Bank of the Future with a clear mandate that all stakeholders would benefit from the massive transformation of a traditional bank with a history of 130 years presented exciting opportunities and serious challenges as well. A people focus and strong project governance coupled with the expertise of leading global consultants enabled us to drive success in a number of key areas, moving forward towards realising our vision. Our transformation continues to gather momentum as we deliver milestones and outcomes, supporting hard work with lusty cheers and celebrations as we inspire and motivate our team to transition to new ways of working together in a high tech era.












Project Everest is our passion and reaching the summit, our dream. Formulated in May 2018, we spent the rest of 2018 in extensive communications within the Bank to ensure that all team members understood the rationale for the project, our ultimate goals and the impacts the journey would have on each and every one of us. 2019 was a year of implementation where we saw early results. As the year unfolded with convergent challenges, we were thankful for the foresight in embarking on the journey as we were in a much better position to recalibrate plans with objective analytics to support tough decisions.





The new Branch Operating Model (BOM) implemented as part of Project Everest serves to demonstrate this. Implementation of the new BOM segregated duties of branch staff, separating sales from underwriting credit proposals, documentation and recoveries driving high levels of specialisation with centralised processes for credit approvals, documentation and recoveries. As NPAs continued their industrywide upward trend, the new BOM proved to be effective facilitating portfolio management while supporting business growth as each pillar was functioning effectively with objective performance measurement criteria in place. This supported recalibration of growth targets to align with elevated macroeconomic risks.

OUR STRATEGY

The Strategic Report

Our detailed scorecard is set out below together with objective metrics for assessing our performance.

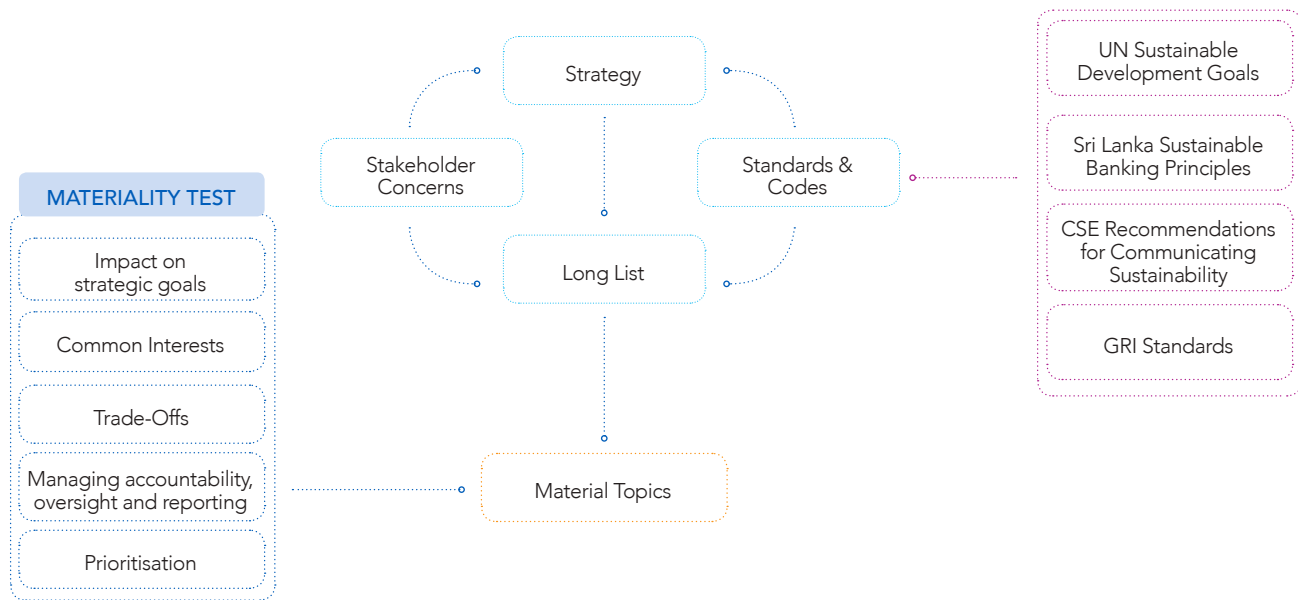
Key performance indicators tracked:	 Planned Deliverables	 Challenges	 Delivered in 2019
<p>Sustainability, Governance & Risk Management</p> <ul style="list-style-type: none"> CAR NPA LAR LCR 	<ul style="list-style-type: none"> Improve Credit Culture Strengthen credit policies and processes Enhance Governance Improve compliance culture 	<ul style="list-style-type: none"> Low economic growth High level of uncertainty Industry wide deterioration of NPAs Easter Sunday terror attack 	<ul style="list-style-type: none"> ✓ Rolled out the new branch operating model to the entire network ✓ Improved credit approval structures and segregated sales and credit underwriting functions under the BOM ✓ Raised Rs 10Bn through a Basel III compliant debenture issue.
<p>Business Growth</p> <ul style="list-style-type: none"> Loan growth Deposit growth ROA, ROE 	<ul style="list-style-type: none"> Building sales culture New Branch Operating Model Fit for purpose products 	<ul style="list-style-type: none"> Low economic growth Low demand for credit due to market uncertainty Low level of international trade 	<ul style="list-style-type: none"> ✓ Dedicated sales teams set up under the new branch operating model ✓ Launch of new products including SOLO, Savings Plus, Loan Against Property and a range of value additions for SME clients
<p>Improve Customer Experience</p> <ul style="list-style-type: none"> NPS No of complaints Complaint resolution CSAT, DSAT scores 	<ul style="list-style-type: none"> Reducing turnaround times and defining service standards Enhance mobile and internet banking propositions Leverage emerging technologies 	<ul style="list-style-type: none"> Access to technology Digital literacy of customers Cybersecurity Legacy systems Regulations not being geared for digital adoption 	<ul style="list-style-type: none"> ✓ Improving turnaround times of personal loan, credit card, CASA opening processes ✓ Missed call service ✓ Customer service audits in all branches
<p>Productivity Improvements</p> <ul style="list-style-type: none"> Cost to Income ratio Profit / Branch Profit / Employee 	<ul style="list-style-type: none"> The right structure Streamline processes 	<ul style="list-style-type: none"> Legacy processes People mindsets Regulations System limitations 	<ul style="list-style-type: none"> ✓ Setting up the right structure within the Bank ✓ Streamlining of centralised back office functions ✓ Enhanced cash deposit and recycler machine network
<p>People Development</p> <ul style="list-style-type: none"> Employee Engagement Score Training hours per employee Attrition rate 	<ul style="list-style-type: none"> Talent fitment Future ready leaders Enhance capabilities Digital workforce 	<ul style="list-style-type: none"> Large numbers Diversity of skills and competencies required Customising training to meet HNB requirements 	<ul style="list-style-type: none"> ✓ Rollout of the new organisational structure ✓ Refinement of job descriptions ✓ Talent fitment for branches ✓ Development programmes ✓ Digital mindset programme for the top team
<p>Technology Enablement</p> <ul style="list-style-type: none"> Systems upgraded / implemented System downtime ATM / POS downtime No of Information security breaches 	<ul style="list-style-type: none"> Stabilise core systems Develop enabling systems Proactive information and Cyber security management 	<ul style="list-style-type: none"> Rapid advances in technology Costs Realising the benefits 	<ul style="list-style-type: none"> ✓ Commenced the Core Banking upgrade ✓ Securing ISO 27001:2013 certification for information security

 Our Score	 Plans for 2020	 Link to Risk	 Link to Remuneration
<p>CAR – 18.3% (requirement - 13.5%) One of the best capitalised banks</p> <p>NPA – 5.91%</p> <p>LAR – 29.5% (requirement - 20%)</p> <p>LCR – 251% (requirement - 100%)</p>	<ul style="list-style-type: none"> • Focus on improving asset quality • Enhance Governance • Formulate proactive measures against impact from Climate change 	<p>This pillar is the foundation for the Bank and is described in: Corporate Governance Report Risk Review</p>	<p>Performance goals for all relevant employees include at least two goals relating to this key strategic pillar. Assessment of these goals impact the final rating which is a key determinant/linked to pay for performance and career progression.</p>
<p>Retail loan growth – 11.4%</p> <p>CASA – 35.2%</p> <p>ROA – 1.3%</p> <p>ROE – 11.5%</p>	<ul style="list-style-type: none"> • Launch effective new products • Drive cross sell • Refine sales models • Business partnerships 	<p>Growth is directly linked to risk as it shapes our risk profile through increased exposure to our principal risks</p> <p>See Business line reviews on pages 78 to 97 and Financial Capital on page 45.</p>	<p>Growth targets form part of the performance KPIs of the sales force with strong links to remuneration. This is balanced by the performance KPIs of the operations teams which are de-linked from growth, focusing entirely on prudential indicators which are linked to their remuneration.</p>
<p>Net Promoter Score (NPS) 64%</p> <p>Improvement from 41% in 2018</p> <p>Customer Satisfaction Score (CSAT) – 87%</p>	<ul style="list-style-type: none"> • Improving turnaround times of other business process • Review customer grievance handling mechanism • Reduce complaint resolution time • Enhance mobile & internet banking propositions 	<p>Enhancing customer experiences involves a trade-off of risk and managing this is key to sustainable growth</p> <p>See Social & Relationship Capital Report on page 64 for more information</p>	<p>Customer experience scores are included in performance objectives of relevant team members which are linked to variable remuneration and career progression</p>
<p>Cost to income - 39.7% compared to 36.4% in 2018 due to investments under transformation project and lower earnings.</p>	<ul style="list-style-type: none"> • Continuous improvement of processes • Cost optimisation • Drive alternate channel usage 	<p>Changes are likely to impact operational risk positively as control mechanisms improve due to technology advancement</p> <p>Financial Capital Report on page 45 provides additional insights.</p>	<p>The operations team has responsibility to deliver on these goals with strong links to remuneration through the performance management system</p>
<p>Attrition - 6.8% (total)</p> <p>Attrition - 3.3% (in permanent grades)</p> <p>Training hours / employee - 38.5</p>	<ul style="list-style-type: none"> • Refresh Performance Management • Capability development • Strategic Workforce planning 	<p>These initiatives are expected to have a positive impact on the Bank's risk profile through higher levels motivation and engagement.</p> <p>See Human Capital Report on page 58 for more information.</p>	<p>The entire group of initiatives are expected to have positive links to remuneration as it facilitates career progression and supports achievement of job related goals</p>
<p>ATM uptime - 99.5%</p>	<ul style="list-style-type: none"> • Complete implementation of Core Banking System and key systems. • Improve stability and reliability of systems • Enhance system/cyber security • Improve MI and analytics capability 	<p>These activities impact Information and cyber risks which have been carved out as a separate pillar given its importance. See Information & Cybersecurity on page 62 in Risk & Governance Report and Digital Capital on page 54.</p>	<p>Remuneration of the IT Team is directly linked to these goals while relevant business lines also will have a link to facilitate co-operation in project completion and achievement of operational goals.</p>

MATERIAL MATTERS

The Strategic Report

Material topics are the issues that affect our ability to create long term value. The process commences with the development of a long list of potential material matter using feedback from the stakeholder engagement processes, strategy, standards and codes. These are filtered and prioritised using a five part materiality test as graphically depicted below. These material topics are monitored to identify potential opportunities, risk and determine resource allocation. It also serves to determine the level of reporting required for these priorities as given below. The process is graphically depicted below.



2019 Rank	Material Topic	Standards/ Goal/ Principles	2018 Rank	Rationale for movement
#1	Macroeconomic Performance & Government Policy Prevailing economic conditions and policy changes to stimulate growth in 2019 make this the single most impactful variable in the reporting year. Refer Market Review on page 40	UNSDG 8, 17 SLSBP 7, 9 GRI; 201-1, 201-4, 203-1, 203-2, 207-1, 207-2, 207-3	Linked to socioeconomic impact ranked at #8 in 2018	Prioritised due to impacts on non-performing assets, low growth, interest rate caps and increased taxes and policy uncertainty
#2	Customer Satisfaction As we aspire to be recognised as the most customer centric bank, this is a high priority. Refer Social and Relationship Capital on page 64	UNSDG 1, 10 SLSBP 3, 7 GRI; 102-43, 102-44, 418-1	#1	Rank lowered due to the high impact of macroeconomic factors
#3	Brand & Reputation Our brand and reputation is critical as our growth is dependent on the trust of our stakeholders. Refer Intellectual Capital on page 72	UNSDG 16 SLSBP 5, 6, 7 GRI; 102-2	#2	
#4	Talent Attraction, Development and Retention Dedicated resources nurture our value creators who propel our growth Refer HR Capital on page 58	UNSDG 4, 5, 8 SLSBP 8 GRI; 404-1, 404-2, 404-3, 405-1, 405-2, 412-2	#3	
#5	Technology & Future Readiness Provides a platform for innovation and enhanced user experiences while facilitating scalability and cost efficiencies. Refer Digital Capital Report on page 54	UNSDG 9, 17 SLSBP 4, 7, 8 GRI; 203-1, 203-2	#4	

2019 Rank	Material Topic	Standards/ Goal/ Principles	2018 Rank	Rationale for movement
#6	<p>Inclusive Growth & Responsible Lending</p> <p>As custodians of wealth and providers of capital, we balance interests of depositors and lenders and manage risks associated with our business in a structured manner</p> <p>Refer Risk Review on page 128 and Value Delivered to Communities on page 68</p>	<p>UNSDG 3, 11, 12</p> <p>SLSBP 1, 4, 5, 6, 11</p> <p>GRI; 102-15</p>	Ranked at #5 in 2018.	Rephrased to better reflect the topic.
#7	<p>Financial Stability & Profitability</p> <p>This is critical to our ability to create value to all stakeholders and secure the trust of our customers who entrust management of their wealth to us.</p> <p>Refer Financial Capital on page 45</p>	<p>UNSDG 16, 17</p> <p>GRI; 201-1</p>	#6	Rank lowered due to the high impact of macroeconomic factors
#8	<p>Integrated Risk Management</p> <p>Risk management is key to understating potential impacts on our capitals, performance and financial stability and serves as the Bank's second line of defence.</p> <p>Refer Risk Review on page 128 and the Governance and Risk Review on page 41</p>	<p>UNSDG 11</p> <p>SLSBP 1, 5</p> <p>GRI; 102-15, 102-30</p>	Ranked higher than linked topic Responsible Banking which was ranked at #9	Previously part of Responsible Banking, Integrated Risk Management has been identified as a separate topic to better reflect its importance in value creation
#9	<p>Ethics, Governance & Compliance</p> <p>Sound governance, legal and regulatory compliance and ethics determine reporting lines, roles and responsibilities and shape our organisation culture</p> <p>Refer Corporate Governance: Annual report of the Board of Directors on the Affairs of the Company on page 98</p>	<p>UNSDG 16</p> <p>SLSBP 1, 5, 6, 10, 11</p> <p>GRI; 102-16, 102-17, 102-18</p>	#7	Moved down to higher impact of economic factors and elevated levels of risk
#10	<p>Business Innovation</p> <p>Product and channel innovation provides a key competitive advantage as we strive to cater to changing customer demands</p> <p>Refer Business Line Reviews on page 78 to 97.</p>	<p>UNSDG 8, 17</p> <p>SLSBP 7, 9</p> <p>GRI; 102-2</p>	#10	No change
#11	<p>Business Network Relationships</p> <p>Managing relationships with correspondent banks, franchise owners, merchants, agents and suppliers and other business partners enables us to provide a seamless service to our clients</p> <p>Refer Value Delivered to Business Partners on page 67</p>	<p>UNSDG 17, 9</p> <p>SLSBP 9</p> <p>GRI; 102-12</p>	#11	No change
#12	<p>Climate Action</p> <p>We screen investments for environmental compliance, manage our own consumption patterns and contribute positively to minimize impacts from climate change</p> <p>Refer Natural Capital on page 74</p>	<p>UNSDG 7, 12, 13, 14, 15</p> <p>SLSBP 1, 2, 7</p> <p>GRI; 201-2, 302-1, 302-3, 302-4, 302-5, 304-3, 305-1, 305-2, 305-4, 305-5, 306-2</p>	#12	No change

A Balancing Act

Our material topics need to be balanced and trade-offs between these are an inevitable business reality to deliver a balanced performance, managing the interests of our stakeholders, our outputs and outcomes. Our key areas of trade-offs are given below.

- Customer satisfaction and inclusive growth are balanced by governance and compliance, financial stability and profitability and responsible banking as we seek to price and manage risks associated with transactions in a responsible manner
- Technology and Infrastructure requires energy which impacts climate change. This is managed by investments in renewable and clean energy and improving energy efficiencies of plant and equipment.
- Precautionary approach: We believe sustainability management is an important precautionary approach to economic, social and environmental risk management. We are committed to serve all sections of society and through careful customer segmentation, provide financial access and services across all fields of socio-demographic groups.

MARKET REVIEW & OUTLOOK

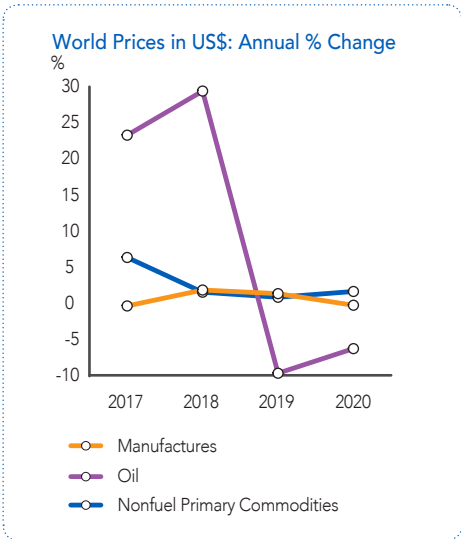
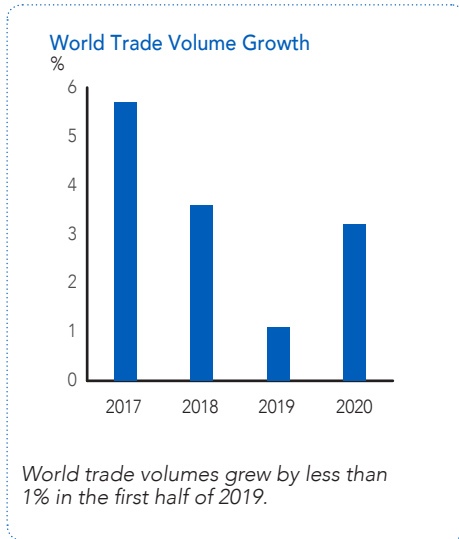
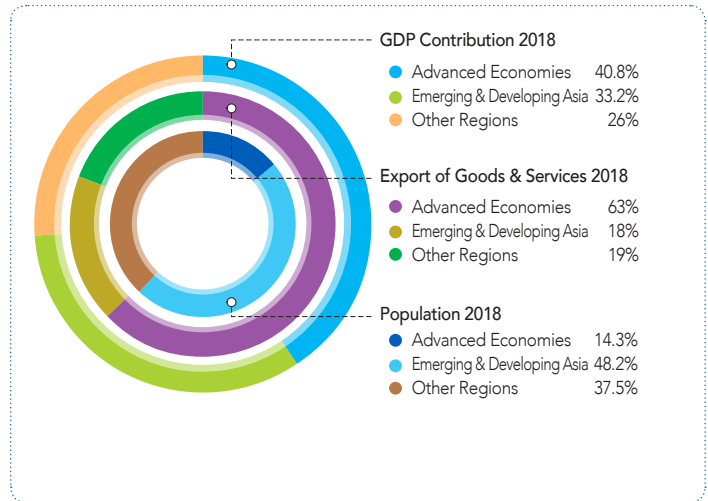
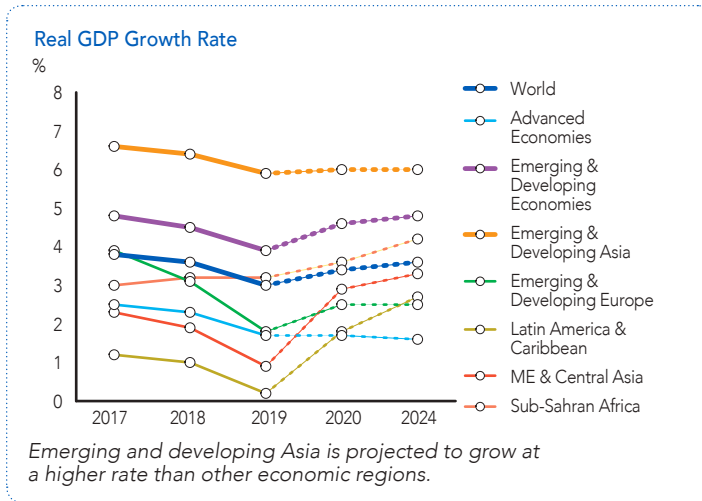
The Strategic Report

Global Economy

Global growth remains precarious with elevated risk levels as geopolitical turmoil, protectionist policies and climate change impacts continue to dominate headlines. The slowdown in growth was broadbased and synchronised as weakening in advanced economies affected other economies,

particularly major economies such as China and smaller Asian economies. A downturn in manufacturing and global trade was observed linked to growth in trade barriers, uncertainty and other factors such as new emission standards in Europe which impacted the automobile industry which declined by

3%. Low productivity growth and ageing demographics in developed markets also contributed to the lower growth rate. The Services sector remained buoyant, supporting employment and wage growth in advanced economies.



Central Bank Policy Rate Forecasts (%)

	Current	Q4 2019 (f)	Q4 2020 (f)
USD	1.50-1.75	1.50-1.75	1.50-1.75
EUR	0.00/-0.50	0.00/-0.50	0.00/-0.50
JPY	-0.10	-0.10	-0.10
GBP	0.75	0.75	0.50

Source: HSBC forecasts for Fed funds, Refi rate/ Deposit rate, Overnight call rate and Base rate.

Globally, 20 Central Banks cut policy rates in 2019 to promote growth and investment as global growth slowed down and inflation expectations lowered.

Source: World Economic Outlook October 2019 unless indicated otherwise.

Global growth is expected to recover to 3.4% in 2020 and the rate projected for 2021 -24 is 3.6% reflecting a major downturn and projected recovery in some emerging market economies. Growth in the US, Euro Area, China and Japan, which account for nearly

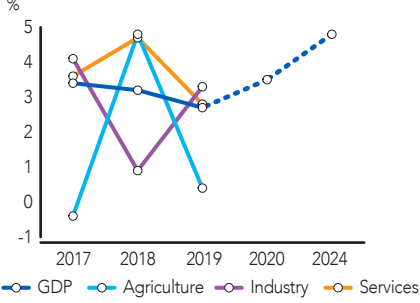
half of global GDP, is expected to moderate in 2020 and beyond.

Potential geopolitical crises are likely to result in a sharp increase in oil prices which have not been factored into the IMF forecasts dated October 2019. Additionally, we also see

increasing evidence of the socio economic and environmental impacts of climate change which will have supply side shocks with knock on effects on demand. Consequently, it is likely that the forecasts will be downgraded further in 2020 to adjust for significant events that took place since publication of the forecasts.

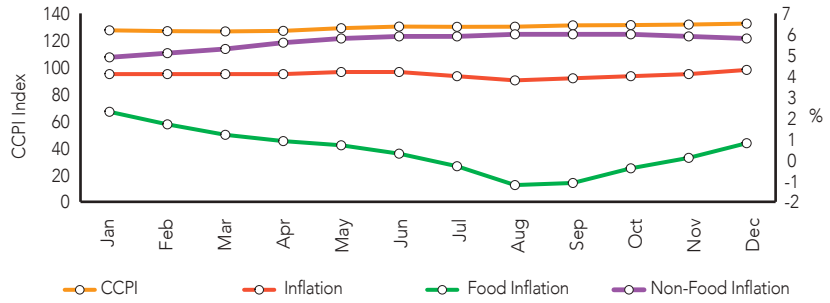
Sri Lankan Economy

GDP Growth

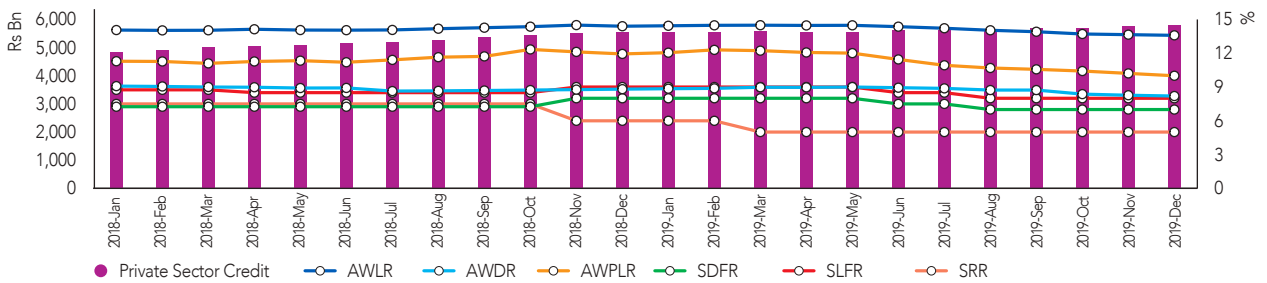


Source: CBSL & IMF World Economic Outlook October 2019. Numbers for 2019 and beyond are projections.

Inflation



Interest Rate and Private Sector Credit Growth



Measures to control import of motor vehicles

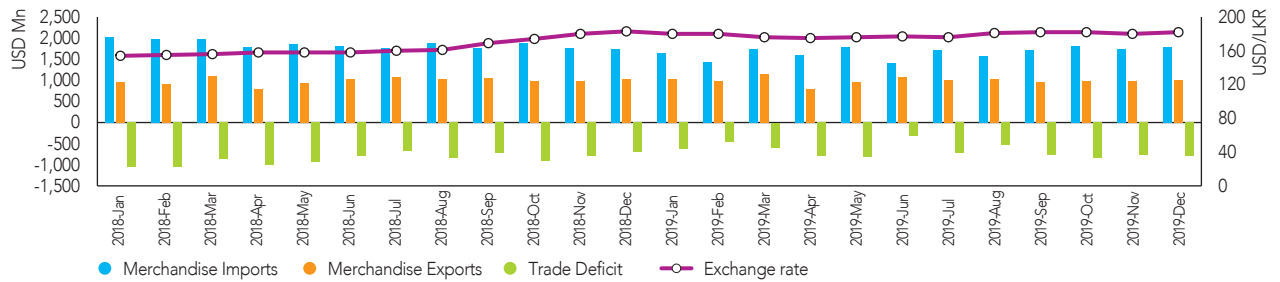
Measures to control import of non-essential consumer goods

Maximum interest rates for deposits

Measures to reduce lending rates

Concession to tourism sector

External Trade & Exchange Rate Movement



Top 5 Export Destinations (2018)

Source: CBSL

USA	USD 3.1 Bn
UK	USD 1.0 Bn
India	USD 0.8 Bn
Germany	USD 0.6 Bn
Italy	USD 0.6 Bn

Top 5 Countries of origin for Imports (2018)

Source: World Bank; CBSL

India	USD 4.2 Bn
China	USD 4.1 Bn
UAE	USD 1.8 Bn
Japan	USD 1.6 Bn
Singapore	USD 1.4 Bn

MARKET REVIEW & OUTLOOK

The Strategic Report

2019 was marked by political and policy uncertainty exacerbated by terror attacks on Easter Sunday. The country's GDP growth rate which stood at 3.2% in 2018, increased to 3.7% in Q1 buoyed by the strong performance of the agriculture and service sectors, declined sharply to 1.6% in the aftermath of the terror attacks in Q2. GDP growth of 2.7% in Q3 reflects a gradual recovery of the economy as the services and industry segments expanded by 2.8% and 3.3% respectively.

NCPI based Headline inflation increased during the year from 0.4% as at the end of December 2018 to 6.2% at the close of 2019 as volatile weather precipitated supply constraints drove food inflation upwards to 8.6%, offsetting the decline in the non-food category to 4.2% from 4.7%. Inflation was however contained within the 4-6% target range throughout much of the year and is expected to remain within the range in 2020.

Exports grew marginally by 0.4% to USD 11.9 Bn from January to December 2019 supported by 1.8% growth in industrial exports. Textiles and garments exports amounted to USD 5.6 Bn reflecting an increase of 5.2% over the same period in 2018. Agricultural exports amounted to USD 2.5 Bn, declining by 4.6% due to lower prices of tea, rubber and spices.

Imports declined by 10.3% to USD 19.9 Bn as imports in all categories (consumer goods, investments, intermediate and other) declined. Imports of consumer goods declined by 20.5% as measures were taken to curtail imports of motor vehicles and non-essential consumer goods which were removed at the end of the second quarter. Imports of personal vehicles declined by 48.2% from USD 1.6 Bn to USD 0.8 Bn and other consumer imports declined by 7.8% from USD 3.4 Bn to USD 3.1 Bn. Fuel accounted for 19.5% of imports amounting to USD 3.9 Bn. Accordingly, the trade deficit was contained to USD 8 Bn compared to USD 10.3 Bn as at 31st December 2018.

Tourist arrivals which had increased by 4.6% in the 1st quarter, declined by 18% for the period January to December 2019 against the same period in 2018 in the aftermath of the terror attacks on Easter Sunday. It is encouraging that tourist arrivals in December are almost in line with those in 2018 pointing to a faster than expected recovery. A moratorium was granted by banks to customers in the

tourism sector sanctioned by CBSL on loan repayments until March 2020 to support recovery of the sector.

Worker remittances declined by 4.3% during the year to USD 6.7 Bn, representing a worrying trend which has been witnessed in the recent past. Outflows of foreign investment were observed from the Government securities market and the equity market during the year. Despite this, the Sri Lankan rupee appreciated against the USD by 0.6 per cent during 2019, with mixed movements being recorded throughout the year due to implementation of several measures to curtail the trade deficit. Gross official reserves were reported at USD 7.6 Bn by end December 2019, which were sufficient to cover 4.5 months of imports.

Banking Sector

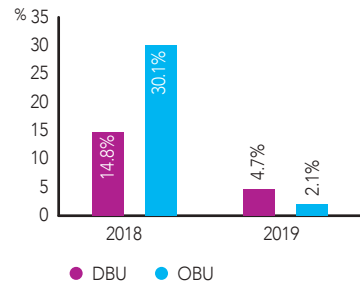
The Banking sector assets grew by a mere 6.2% to Rs 12.5 Tn as of end 2019, which is the lowest growth witnessed in decades, reflecting the convergence of multiple sources of stress ranging from regulatory challenges to weakening economic indicators.

Gross loans and advances of the Banking sector growth moderated sharply to 5.6% during 2019 due to high interest rates that prevailed during the first half of the year, weakening credit outlook and high levels of uncertainty on several factors which resulted in a wait and see approach by potential investors. Asset quality declined during the year as Gross Non-Performing Advances ratio increased from 3.42% at the close of 2018 to 4.7% by December 2019.

Deposit growth also moderated to 7.9% compared to 14.8% recorded for the same period in 2018. CASA ratios also declined for the 4th consecutive year despite rates reducing towards the latter part of the year. Declining disposable income, measures taken during the year to curtail deposit interest rates to stem rising lending rates and tightening liquidity contributed to the decline in deposits.

Net Interest Income of the Banking sector grew by 8.1% in 2019, which was affected by subdued growth as well as measures implemented to reduce interest rates on loans by 200 bps. Resulting Net Interest Margins in 2019 remained flat from 2018.

Private Sector Credit Growth: (Annual % Change)



Non-Interest income declined by 10.6% compared to 2018 due to lower import volumes which had a significant impact. Operating expense growth moderated during the year to 4.0% compared to 24.2% for the same period in 2018. Impairments charges in 2019 increased by 48.1% compared to the corresponding period in 2018 reflecting weakening asset quality due to economic stress. Accordingly, Operating Profits of the Banking sector for 2019 declined by 5.1% compared to 2018 reflecting multiple challenges faced by the sector. Profit after taxes declined by 11.8% during the year as VAT, NBT and DRL collectively increased by 19.2%, the effects being mitigated to some extent from reduction in corporate taxes by 11.9% owing to lower PBT.

Future Outlook

The outlook for global growth was downgraded, weighed down by looming tensions between Iran and USA, trade tensions between China and USA and severe impacts of climate change. Oil prices are expected to increase as oil dependent countries increase inventories in anticipation of supply disruptions. The accommodative

stance on monetary policy is likely to continue to stimulate investment. Capital flows from emerging markets may compound economic woes for these vulnerable markets. The outbreak of the deadly corona virus in January 2020 could have a significant impact on the global economy through disruption to manufacturing and global trade.

Downgrading of the country's outlook from Stable to Negative by Fitch and S&P following the new administration's significant shift in fiscal policy and the possibility of rolling back existing fiscal and economic reforms point to significant challenges in 2020. CBSL has highlighted several lacunas in the ratings downgrade issued by Fitch which include the rebuttal of assumptions of a shift from the revenue-based fiscal consolidation stance and the impact of proposed offsetting measures such as measures to curtail government expenditure. Realisation of this upside potential is expected to strengthen the country's current position. CBSL has also stated that the Government will continue

its engagement with multi-lateral lending agencies and that the current IMF programme will have its final review by February 2020 and the authorities are of the view that the

performance targets for 2019 will be met. Politics will remain very much in the driving seat for the first half of the year as we prepare for general elections and policy uncertainty is likely to be a feature of 2020 as well.

Sri Lanka's banking sector will continue to play a key role in stimulating economic growth and supporting financial stability. The moratorium in place for the tourism sector will be extended until December 2020 and there is optimism that recovery of this sector will be faster than expected given the country's high rankings in travel influencer ratings and the November 2019 arrivals climbing to equal the arrivals in November 2018. In January 2020, banks were called upon to provide a moratorium for SME customers to accelerate economic growth which will also provide stimulus to drive this important sector of the economy. The removal of taxes including Nations Buildings Tax, Debt Repayment Levy, interest income on investments in SLDBs as well as the reduction in Corporate Taxes from April 2020 will support internal capital generation of the banking sector thereby enhancing the capacity of the sector to support the development journey of the country

MANAGING OUR CAPITALS, OUTPUT & OUTCOMES

Management Discussion & Analysis

Our capitals represent stores of value that have to be managed to yield optimal value to both the HNB Group and our stakeholders. Long term value creation depends on balancing the value derived versus value delivered while minimising potential adverse impacts stemming from our value creation processes.



Financial Capital

A clearly measurable store of value, this is our inventory and funding source supporting delivery of value to stakeholders and management of other capitals.



Human Capital

Nurturing strong talent pipelines to support realisation of our strategic goals.



Social & Relationship Capital

Our relationships formed over 130+ years of existence are a key capital as we seek to connect Sri Lankans to global opportunities.



Digital Capital

Supporting our digital transformation, digital capital paves the way to empower customers and employees, making banking a seamless part of their lives.



Intellectual Capital

Comprises our proprietary systems, products, trade marks and the tacit knowledge of our people gathered over more than a century of operations.



Manufactured Capital

Our islandwide branch network encompassing buildings and installations, office equipment and vehicles etc., which enable us to forge relationships that drive our success.



Natural Capital

Comprises the materials and energy used in providing financial services of which the key items are energy, paper and toner cartridges.

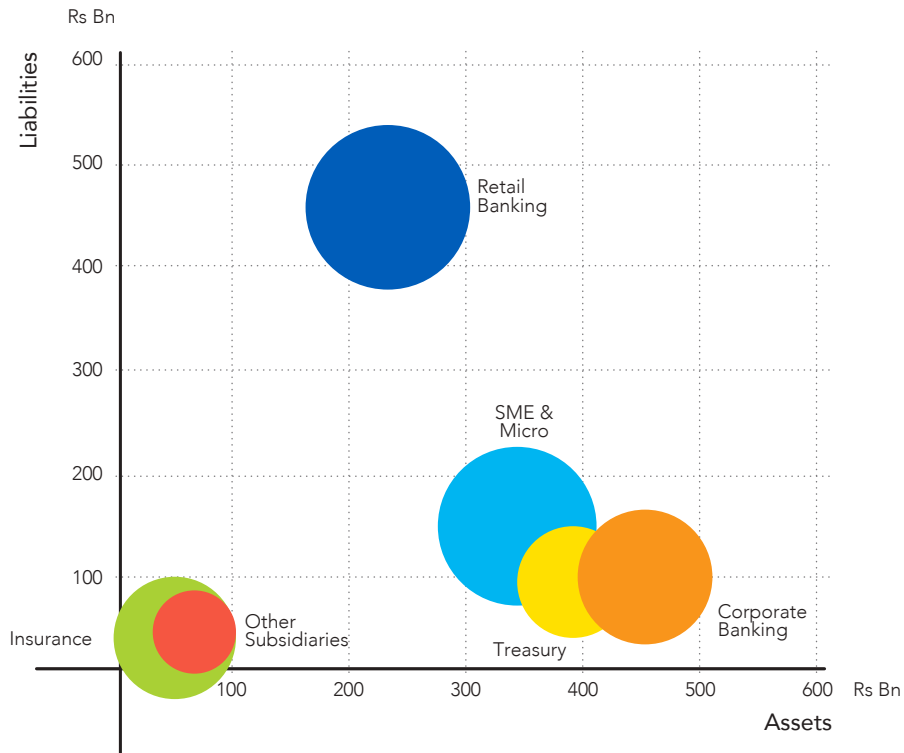
FINANCIAL CAPITAL



Hatton National Bank PLC recorded a Group profit after tax of Rs 15.0 Bn for the year ended 31st December 2019 and Total Asset growth of 4.2% in a challenging year with elevated levels of uncertainty in the operating environment. Earnings reflect focus on sustainable growth, investments in digital capital and impacts of monetary policy and weaker economic growth. We recalibrated our aggressive growth strategy to one of prudent, sustainable growth as we focused on qualitative factors to retain and grow business within our defined risk profile. Deriving group synergies and cost efficiencies was also a key focus to maintain profitability, as margins continued to decline. Total Tier I and Core capital ratios of 14.74% and 18.12% underscore our commitment to prudent growth, balancing the long term and short term needs of the Group.

How we make money

Segment Contribution to Total Operating Income relative to Assets & Liabilities



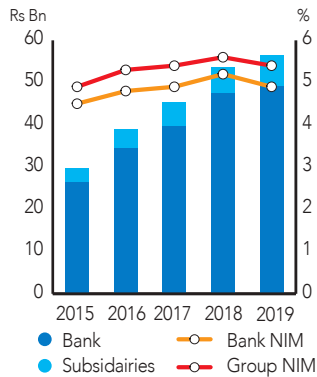
Note: The size of the sphere indicates the contribution to Total Operating Income while the positioning of the sphere indicates the asset liability mix in the business line

FINANCIAL CAPITAL

Management Discussion & Analysis

Performance Focus

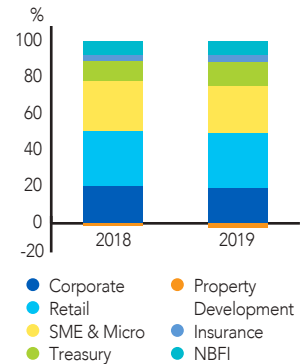
Net Interest Income Rs 56.4 Bn



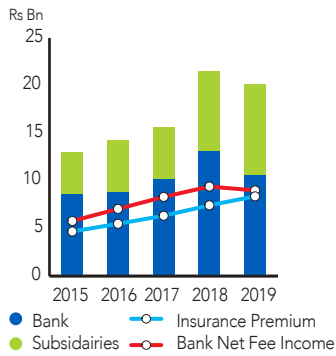
Bank and Group NII growth was relatively subdued at 3.4% and 5.1% respectively due to monetary policy measures imposed to reduce interest rates in Q3 and the moderating loan book growth due to sluggish economic environment. The deposit rate cap that was introduced in June 2019 was replaced by measures to reduce AWPLR by end September 2019. As a result AWPLR which increased from 12.09% at the beginning of the year to 12.24% in end April 2019, declined to 9.94% by the close of 2019. With interest rates declining the Bank's CASA ratio improved from 34.6% to 35.2% mainly during the latter part of the year.

Retail Banking and SME continue to be the largest contributors to NII while Retail Banking and Treasury increased contribution through growth of the asset book and management of assets and liabilities respectively.

Segmental NII Contribution



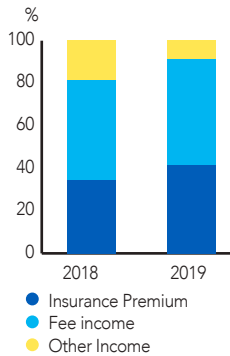
Non Interest Income Rs 20.2 Bn



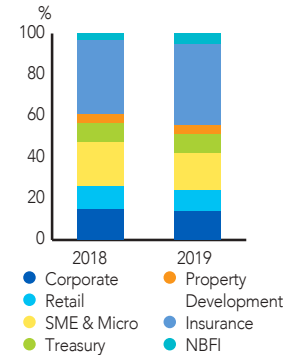
Bank net fee income declined by 4.3% due to policy measures implemented to curtail imports, and the overall sluggish market conditions. Group net fee income declined by only 1.2% with the healthy growth of 12.6% recorded in Insurance premium by HNB Assurance.

However, total Group Non-interest income declined by 6.2% due to the dip in fee income as well as due to the relatively lower volatility in the rupee in 2019. Bank's fee income accounted for 44.6% of all Non-interest income while Net Insurance Premiums accounted for 41.5%. SME & Corporate Banking are the largest contributors to Net Fee & Commission Income accounting for 35.9% and 28.5% respectively in 2019.

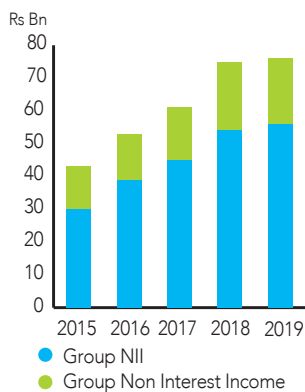
Composition of Non Interest Income



Segmental Non Interest Income

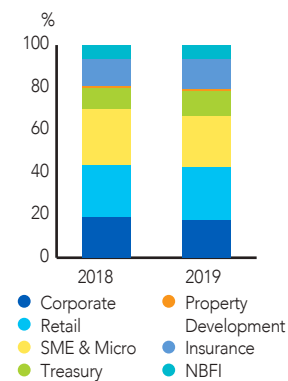


Total Operating Income Rs 76.5 Bn

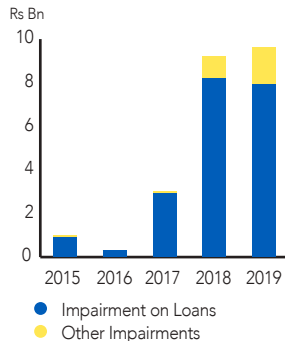


Bank Total Operating income declined marginally by 1.5% reflecting the convergence of moderating economic growth and monetary policy changes. Consequently, the contribution from Net Fee & Commission and other operating income was 17.7% in 2019 compared to 21.6% in 2018. Subsidiaries contributed 22.7% to Total Operating income in 2019 reflecting the resilient performance of HNB Assurance, and the Total Operating income for the Group rose by 1.9%

Segmental TOI Contribution



Impairment-Group Rs 11.4 Bn
-Bank Rs 9.7 Bn

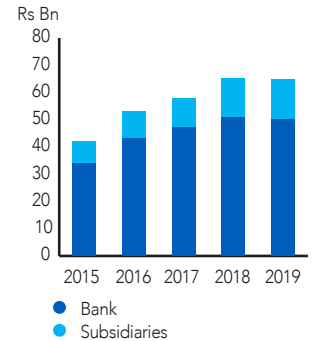


Impairment charge for the Bank increased marginally by 3.9% to Rs 9.7 Bn despite the straitened economic conditions that prevailed during the year and increasing NPAs across the Banking sector. In response to such adverse trends, Bank strengthened the credit approval, monitoring and recoveries processes during the year, with a new Board Sub - Committee appointed for recoveries intensifying the focus on recoveries. As a result of these measures, only a marginal increase is noted in impairment provisions related to loans and related commitments to Rs 8.7 Bn, while SLFRS 9 adopted in 2018 brought about an increase in

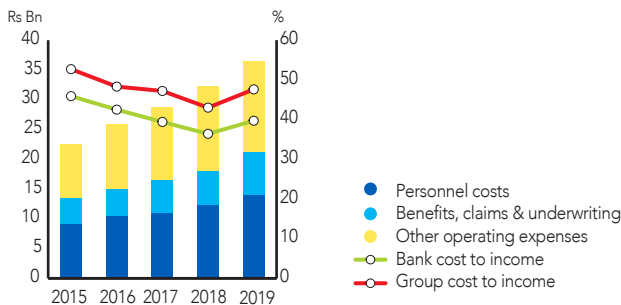
provisions relating to SLDB and other financial investments. The total of such other impairment charges rose by 18% over 2018 to Rs 809 Mn.

Accordingly, the Net operating income also declined marginally by 2.5% due to the impacts of moderate growth in earnings and higher impairment charges. The contribution from the Bank decreased marginally to 77% from 78.7% as subsidiary contributions increased by 7.3% resulting in Group Net operating income declining by only a negligible 0.4%.

Net Operating Income Rs 65.1 Bn



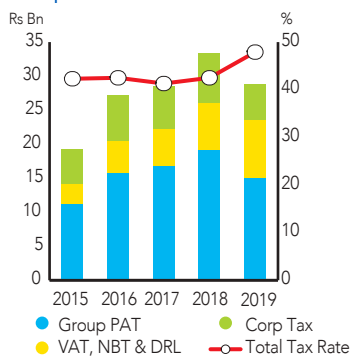
Operating Expenses Rs 36.4 Bn



Bank Operating expenses, which account for 65.2% of Group expenses, grew by 7.6% in 2019 and the Bank cost to income ratio increased from 36.38% in 2018 to 39.74% in 2019 due to lower earnings growth and increase in depreciation expense on account of investments under the Bank Transformation programme.

Benefits, Claims and Underwriting Expenses attributable to HNB Assurance increased by 24.9% for the period. Accordingly, the total operating expenses of the group increased 12.7% to Rs 36.4 Bn resulting in the Group Cost to income ratio increasing to 47.61% from 43.03% in 2018.

Group PBT Rs 20.4 Bn
Group PAT Rs 15.0 Bn

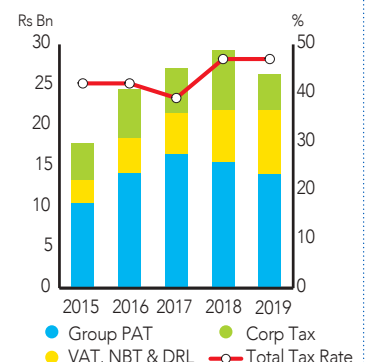


Group and Bank PBT decreased by 22.8% and 19.6% respectively reflecting the Group's response to a weaker economic climate in reigning growth, resultant impact on earnings and a strong focus on balancing risks and sustainable earnings.

Taxes on financial services increased by 22.7% for the Group and 24.2% for the Bank mainly due to the introduction of Debt Repayment Levy (DRL) with effect from the final quarter of 2018. However, DRL has been abolished w.e.f. 1st January 2020. As per the announcement made by the Department of Inland Revenue on 12th February 2020, income earned from SLDB investments is exempted from income tax with retrospective effect from 1st April 2018. Accordingly, the income tax liability of Rs 1.8 Bn on income earned from SLDB investments which was previously recognized (in 2018 and 2019), has been reversed.

Accordingly, the total effective tax rate of the Bank declined marginally to 46.8% from 47.1% recorded in 2018. However, the effective tax rate for the Group increased to 47.9% from 42.5% in 2018, since a deferred tax asset of Rs 1.2Bn was recognised by HNB Assurance in 2018. Accordingly, Group PAT declined by 21.5% to Rs 15 Bn and the Bank reported a PAT of Rs 14 Bn which was 9.6% lower than 2018.

Bank PBT Rs 18.5 Bn
Bank PAT Rs 14.0 Bn

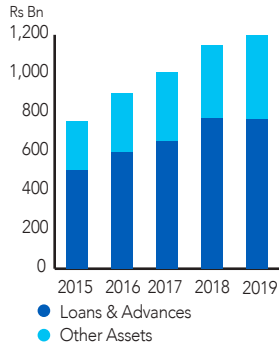


FINANCIAL CAPITAL

Management Discussion & Analysis

Right Growth

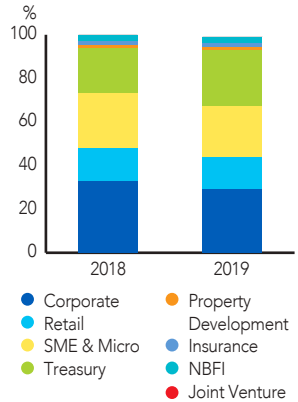
Group Total Assets Rs 1,196 Bn



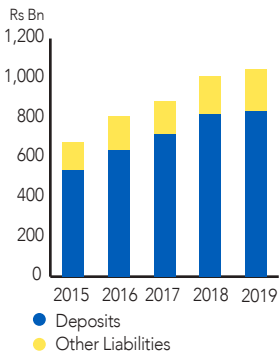
Total Assets of the Group grew by 4.2% to Rs 1,196 Bn while the Bank's asset base expanded by 3.6% to Rs 1,125 Bn as we reined in plans for aggressive growth due to the stressed business landscape, opting for selective growth to manage potential long term risks. The time was fruitfully used to strengthen all aspects of credit processes from governance to recoveries and to improve the efficiency of our processes without compromising internal controls. Consequently, the loan book remained flat and accounted for a reduced share of Bank total assets of 65.9% at the close of 2019 in comparison to 68.9% in 2018. Total Asset growth was driven by Investments in fixed income securities which increased by 21.3% to Rs 272.8 Bn, accounting for 24.2% of Total Assets.

Accordingly, the Treasury asset portfolio recorded 32.2% growth during the year. Corporate Banking recorded a negative growth of 4.9% while SME portfolio remained flat due to prudential concerns. Retail segment recorded a modest growth of 11.4%, in line with our prudent risk appetite while Insurance recorded a healthy growth of 19.5%.

Segmental Assets



Group Liabilities Rs 1,046 Bn

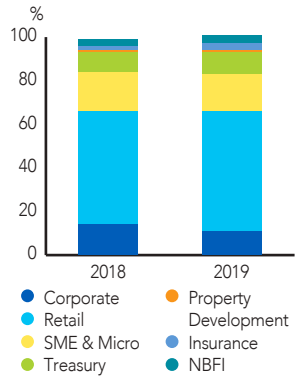


Group Total liabilities growth of 3.4% was driven by deposit growth, subordinated debt and dues to Banks. Group deposit grew by 2.1% to Rs 835.1 Bn which accounts for 79.8% of Total Liabilities. Retail and SME segment recorded modest growth in deposits with the CASA ratio for the Bank improving to 35.2% from 34.6% in 2018.

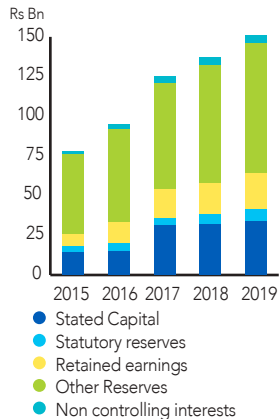
The Bank raised Rs10 Bn by way of a BASEL III compliant – Tier 2 during the year to strengthen Tier 2 Capital.

Overall, liability growth has been managed prudently to build a strong balance sheet that will support the future growth aspirations of the Group.

Segmentwise Liabilities



Total Equity Rs 150.5 Bn



Equity accounts for 12.6% of the funding of the Group and increased by 9.6% during the year to Rs150.5 Bn. Stated capital increased by Rs 1.5 Bn due to the scrip dividend which formed part of the final dividend for 2018.

Retained earnings improved to Rs 23.1 Bn as at end 2019 with the Net Profit After Tax for 2019. The Bank paid a total cash dividend of Rs 2.4 Bn in 2019 which included the final dividend for the year 2018 and the interim dividend for 2019.

The Group Balance Sheet remains strong with capitalisation levels well above regulatory requirements in line with the Group's Risk Appetite.

Right Growth

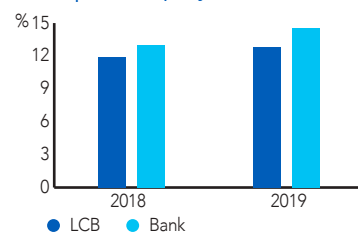
This segment reviews our performance vis a vis the industry averages from CBSL's statistical database.

Capital Adequacy

Capital ratios remain well above the regulatory requirements and industry average for Core Capital and Total Capital ratios reflecting prudent capital management as detailed in the CG&RR under Risk Review.

	Bank		LCB	
	2019	2018	2019	2018
Core Capital (Tier 1 Capital) Adequacy Ratio (%)	14.57	12.80	13.05	11.89
Total Capital Adequacy Ratio (%)	18.28	15.22	16.61	15.04

Core Capital Adequacy



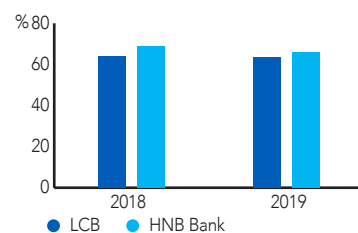
Asset Quality

HNB NPA ratio remained below industry for much of 2019 prior to peaking to 5.91% in the final quarter as the Bank classified a Rs.12.9 Bn exposure to a State Owned Entity as stage 3, due to an overdue of Rs 1.4 Bn in compliance with CBSL directions. Since the full outstanding including interest is secured by Treasury guarantees, there is no risk of a loss on default hence no impairment is required on this exposure.

Without this exposure the NPA ratio would have been 4.34%.

	Bank		LCB	
	2019	2018	2019	2018
Non-performing Loans to Total Loans and Advances (%)	5.91	2.78	4.61	3.28
Total Loans and Advances to Total Assets (%)	65.9	68.9	65.6	66.0
Investments to Total Assets (%)	24.7	21.1	21.7	20.5

Loans to Total Assets

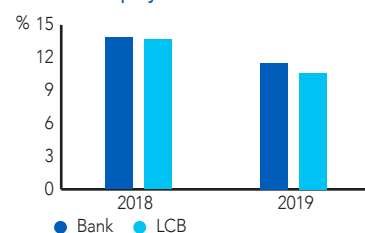


Earnings

The Bank's early move to undertake a holistic transformation addressing legacy issues has enabled it to maintain profitability and efficiency ratios above the industry.

	Bank		LCB	
	2019	2018	2019	2018
Return on Equity (%)	11.54	13.86	10.59	13.67
Return on Assets (%)	1.27	1.52	1.00	1.25
Net Interest Income to Gross Income (%)	39.06	39.21	32.50	32.30
Staff Expenses to Operating Expenses (%)	48.17	48.55	43.12	42.68
Total Cost to Total Income (%)	39.74	36.38	46.16	45.13

Return on Equity

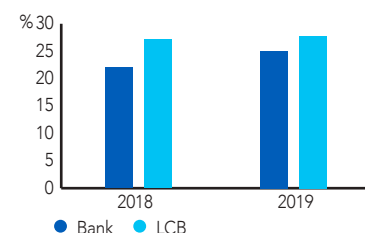


Liquidity

The liquidity levels of the Bank remained well above the statutory levels.

	Bank		LCB	
	2019	2018	2019	2018
Liquid Assets to Total Assets (%)	29.6	24.4	27.1	24.5
Statutory Liquid Assets Ratio - DBU (%)	27.1	22.0	27.8	25.0
Statutory Liquid Assets Ratio - OBU (%)	53.0	43.5	47.1	45.4
CASA to Total Deposits (%)	35.2	34.6	32.8	33.1

DBU LAR



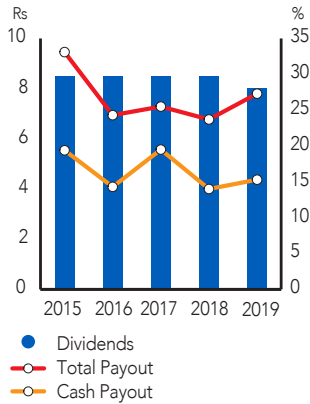
FINANCIAL CAPITAL

Management Discussion & Analysis

Value to Shareholders

HNB's dividend policy seeks to maximise shareholder wealth, whilst ensuring there is sufficient capital for planned business expansion. Accordingly, the Bank paid an interim dividend of Rs 1.00 per share in 2019 and propose a final dividend of Rs 7.00 per share for both voting and non-voting ordinary shareholders, consisting of a cash dividend of Rs 3.50 per share and a scrip dividend of Rs 3.50 per share. HNB has declared consistent dividends over the past 5 years, balancing needs of shareholders with business plans of the Bank and regulatory requirements to increase equity.

Dividends

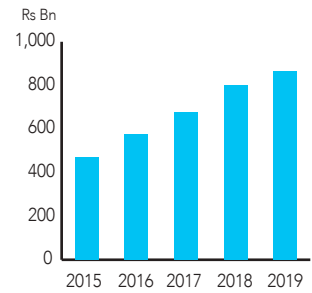


Return on Equity

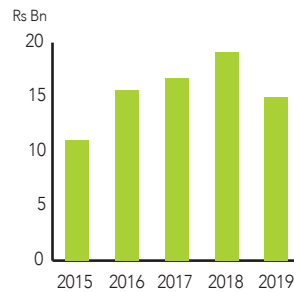
As ROE is the Bank's primary measure of value to shareholders we examine its components which all reflect aspects of our performance.



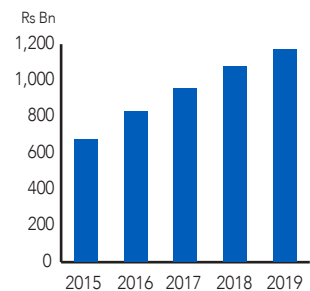
Average RWA

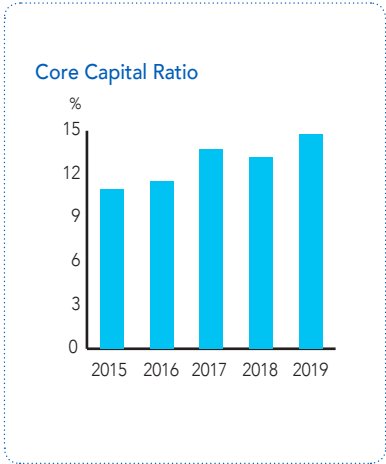
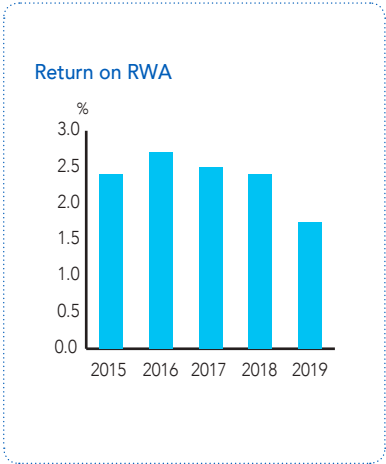


Group PAT

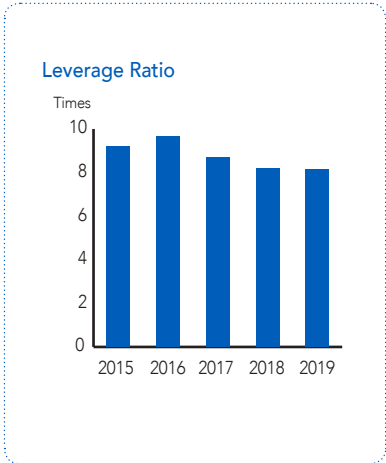
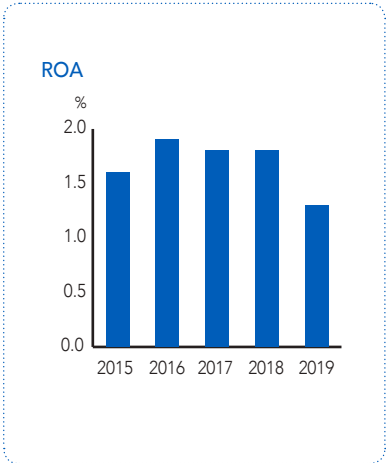
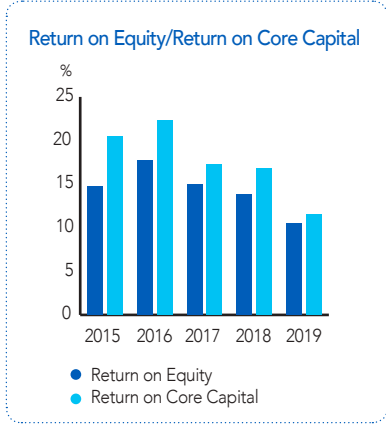


Average Assets





The ROE reflects the Bank's soft pedalling of growth in 2019 in response to weaker macroeconomic indicators and significant political and policy uncertainty. However, the shareholders will appreciate the investment of all capitals, monetised and non-monetised, into transforming as a future ready bank with aspirations to shift gears to a higher growth trajectory.



MANUFACTURED CAPITAL

Management Discussion & Analysis

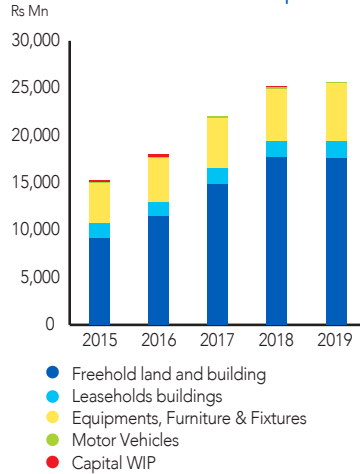


Manufactured capital comprises the Property, Plant & Equipment of the Bank excluding investments in information technology, which is defined as a separate capital following the practice commenced in 2018 in view of its strategic importance. The island-wide branch network is a key component of our manufactured capital, enabling us to be an integral part of the communities we operate in and serving as the place where relationships are formed and strengthened.

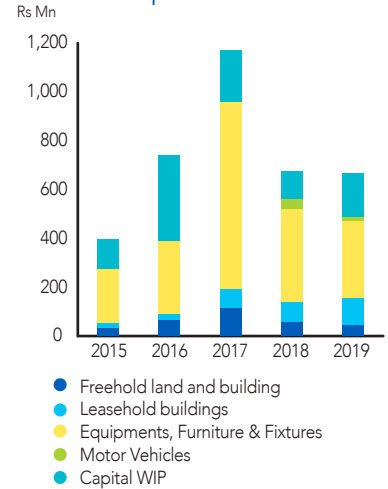
Components of Manufactured Capital

- Investment Property
- Property Plant & Equipment :
 - Leasehold Land & Buildings
 - Freehold Land & Buildings
 - Equipment, Furniture & Fixtures
 - Motor Vehicles
 - Capital Work in Progress

Investment in Manufactured Capital



Additions & Improvements



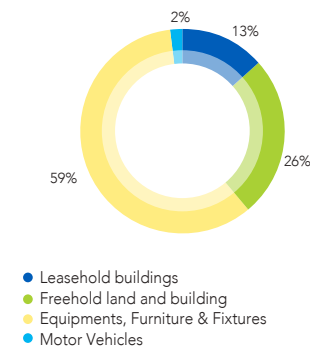
Forging Relationships

Team Strength in Branches



2,883 People
59% of Bank Employees

Depreciation & Amortisation



Opening of the customer centre at 'One Galle Face'

Overview

Our business model is supported by one of the largest branch networks among private sector banks, establishing an islandwide presence consisting of 252 branches. Of these, 46 branches are located in premises owned by the Bank while the remainder are leasehold premises. As the branches are in prime locations in bustling towns, their value continues to appreciate on an aggregate basis.

The Head Office of the Bank is owned by Sithma Development, the real estate subsidiary of the Group, which is reflected in the consolidated balance sheet at a net book value of Rs 9,610 Mn which includes the furniture and fittings.

Strategy

With the extensive network coverage we possess our strategy for expansion has been mainly through digital channels. Accordingly, during the year, we expanded our branch network by opening two branches in prime locations at One Galle Face Mall in Colombo and Asiri Hospital in Kandy, enhancing our brand visibility while facilitating customer convenience. The branch network remains core to delivery of strategy and we aligned our core processes to enhance customer experiences as we implemented a new Branch Operating Model as part of Project Everest. Recently upgraded to provide smart workspaces which maximise the use of natural light, the branch provides a pleasant environment to conduct business for our customers.

Managing Our Carbon Footprint

Energy costs are a key component of the operational costs and in alignment with our commitment to reduce our carbon footprint, solar panels were installed in 95 branches and at Head Office. At present, our installed solar power generation capacity is 2.58 Mwp and we generated 2,899.4 Mwh of electricity. Emissions reduced as a result amounted to 1,205.1 MT CO₂ equivalents while the operational cost savings amounted to Rs 63.8 Mn during the year.

Additionally, the use of natural light, installation of LED lighting, use of building management systems and energy efficient lifts and chillers are key initiatives that support this goal. Accordingly, the energy intensity ratio declined.

BRAND

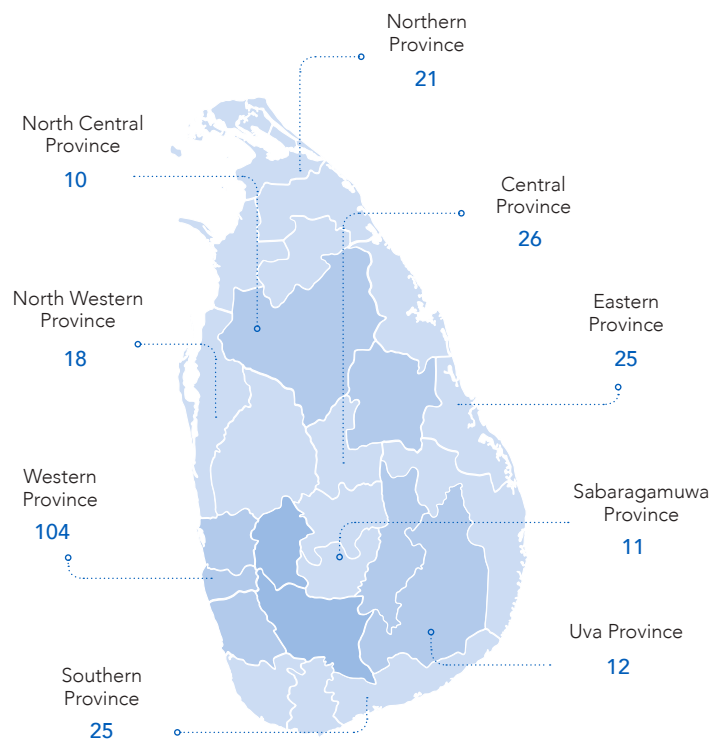
- Widespread branch network
- Reflect Brand
- Inspiring workspaces

FIT FOR THE FUTURE

- Solar energy to reduce emissions
- Disabled access
- Smart buildings

COST EFFICIENT

- Energy efficient lighting
- Increased use of natural light
- Group synergies

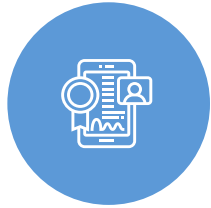


Outlook

A strong presence enhances the Bank's competitiveness and paves the way for Group synergies. As these house our team and serve our customers, it is also vital that these premises provide smart, future ready work environments for them. Efficient management of our manufactured capital is key to managing costs and we continue to pursue options that our environmentally responsible to manage the same.

DIGITAL CAPITAL

Management Discussion & Analysis



Technology is the game changer for the banking industry, empowering customers and enhancing their experiences while supporting innovation, scalability and analytics for the Bank. Digital capital underpins our transformation and has been a key focus of investment supporting our aspiration to become a truly digital bank.

Components of Manufactured Capital

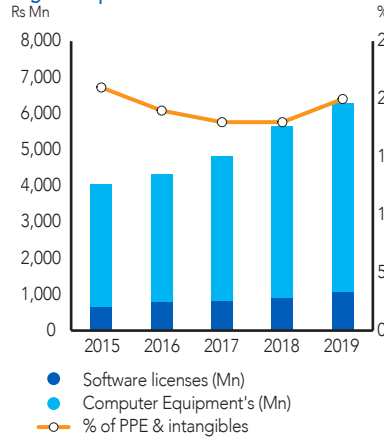
- Computer Equipment
- Software Licenses

Total Investment

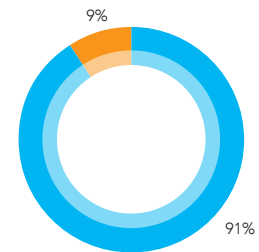


Rs. **6.3** Bn

Digital Capital



Depreciation & Amortisation



- Computer Equipments
- Software

Innovation Capability



Information Security



Our Digital Capital

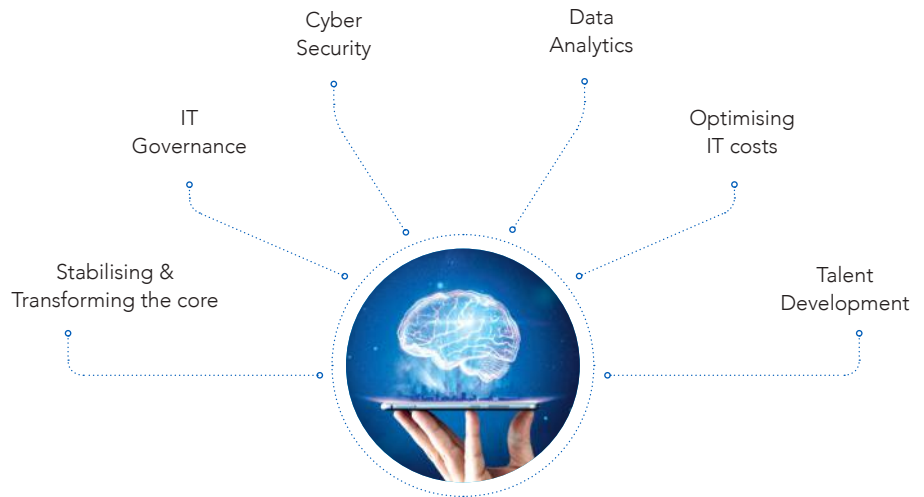
- 780 Self Service Machines
- Payment and card systems
- Internet Payment Gateway
- Payment tokenisation for merchant application development
- Internet banking systems
- 24x7 help desk
- Third party collaboration
- 24x7 security monitoring
- Over 96 business applications

IT Strategy

Our IT strategy was overhauled during the year to fully align with our vision of becoming a digital bank. Stabilising the core support functions was a necessary first step, addressing legacy issues including organisation culture and fully aligning front office and back office processes. This paved the way for the transformation of the core which is pivotal to successful implementation of Project Everest which is now in its final phase. Strengthening IT Governance was key to delivery of IT strategy as investments in IT and the number of projects that needed to be delivered on time and within budget grew exponentially during the year. Upgrading the core banking system and the loan origination system were two of the key projects in 2019 and are scheduled to be completed in 2020. The Bank also commenced implementation of a digital layer which would enable the Bank to provide a new experience to the customers.

Cyber security remains a high risk as the number of risk events and their audacity continue to grow. The IT Department works closely with the Risk Management function in this regard with responsibility for technology aspects of project implementation. ISO 27001:2013 Certification was obtained during the year affirming that information systems and protocols are maintained in accordance with global best practices, ensuring the highest levels of customer information security. Given HNB's own role leading the charge on digital innovation with products like our new mobile wallet, HNB SOLO, aligning with global best practices on information security was a key imperative. Furthermore the Bank is in the process of launching a data loss prevention solution and a privileged access management system to further enhance information security.

Data analytics provide invaluable inputs for formulating business line strategy and we have implemented a new systems architecture to enhance our predictive capabilities in several areas. Increased investments in capital and operating expenditure and increasing number of alternative technologies and systems available makes optimisation of IT costs a key imperative and a relentless focus on this has established a disciplined process to achieve this key objective. Talent development underpins the entire strategy as we move towards our vision.



Information Security Policy	Sets out a framework for classification and safeguarding of information assets of the Bank
Cyber Security Policy	Sets out the Bank's approach to cyber security and defines expected user behaviours
IT Recovery Policy	Sets clear plans for disaster recovery in line with the Bank's overall BCP
IT Service Management Policy	Implementing service standardisation with SLAs defined for service delivery

IT Governance

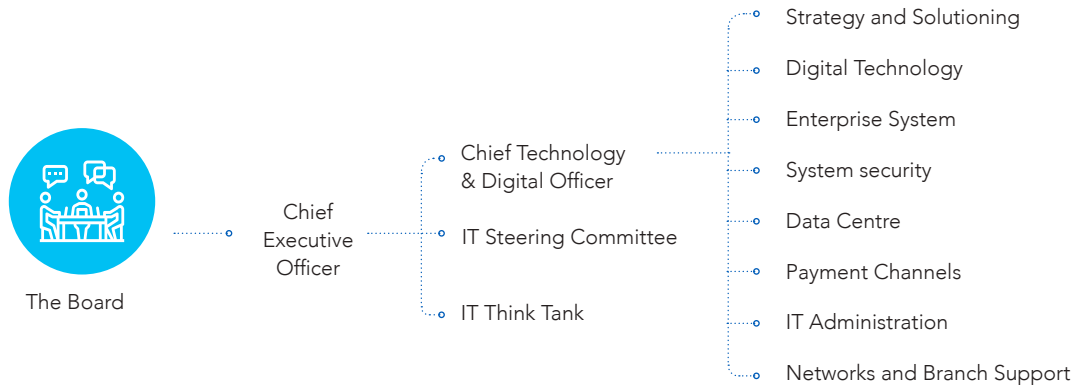
IT policies were reviewed and revised to ensure that it is fit for purpose by expanding the scope and establishing structures and processes to safeguard the Bank's digital capital.

The Board strengthened its IT capabilities with the appointment of Mr Madhu Ratnayake as a Non-Executive Independent Director in 2018 with an illustrious career in the field of IT. The Chief Technology & Digital Officer reports to the CEO who in turn reports to the Board. The CEO is also supported by the IT Steering Committee and the newly established IT Think Tank. The IT Steering Committee comprises heads of business verticals and IT vertical heads and is chaired

by the CEO. The mandate of the committee is to monitor the progress of the various IT projects and also review areas that require further enhancements and assess the related resources required. The IT Think Tank comprises Mr Madu Ratnayake, the CEO, the CTDO and the Head of Retail Banking who have a mandate to determine appropriate IT and digital strategies for the Bank.

DIGITAL CAPITAL

Management Discussion & Analysis



Nurturing Digital Capital

The Bank invested Rs 1 Bn in digital capital, implementing 18 projects during the year which enhanced customer experiences and our capabilities while engaging in collaborative relationships. Key initiatives on-going are summarised below.

Initiative	Impact
1. Mobile payment Application	Driving new payment mechanism and facilitate the creation of new business models.
2. Mobile and Internet banking	Bringing convenience to banking
3. Digital Bank	Enabling banking at the point of living and providing a new customer experience in transacting with the bank
4. Third party collaboration	Collaboration with FinTechs and universities for building capability and talent development
5. Exponential Technologies	Introducing RPA, Chatbot and blockchain to drive productivity and innovation
6. Strengthening core transactional systems	Bringing new capability to the organisation and strengthening stability, maintainability and reliability
7. Improving information security	This key initiative aligns HNB with the highest applicable standard for information security globally.
8. E and M(Mobile) commerce	Deliver new business models to our connected merchants and customers

Outlook

HNB will continue its digital transformation in 2020 with significant investments planned as at date of reporting. Areas of focus for these projects include core transactional solutions, enhancing payment platforms and use of robotic process automation. Collaborative partnerships with fintech companies are also expected to open new avenues of engagement with customers, supporting increased transaction flows to the Bank. Safeguarding our information assets will continue to be a priority as this is a sine qua non for the future of digital banking.

Realising Our Vision

Deliver superior customer experience

KPIs

- Increase customer usage of ATM network
- Increase digital transaction volumes
- Increase customer migration to digital channels
- Maximise uptime on ATM network

Delivery of KPIs

ATM Rs. 25.1 Bn Deposits per month	Online Transactions 68% ↑ in volumes	Reliability 99.5% Up Time on ATMs
Rs. 30.6 Bn Withdrawals per month	Rs. 290 Bn in Value	

Create a digital organisation culture & Build Futuristic Technical capability

KPIs

- High levels of IT literacy in the Bank
- User training on relevant applications
- Roll out of IT policies across the Bank
- Operate Help Desk to support users

Delivery of KPIs

IT Literacy 7,870 Training Hours on IT	Helpdesk 29,666 queries supported
62,382 Online Training Hours	95% resolved within the day

Design Personalised digital products

KPIs

- Life style products aimed at providing a personalised experience while appealing to a broad market segment
- New market development and digitisation via innovation
- Aligning towards the overall country strategy of digital payments and making the brand capable to accept new payment challenges

Delivery of KPIs

New Products



Establish complementing partnerships

KPIs

- Build partnerships with fintech companies to enhance relevance to customers
- Build payment volumes through payee partnerships
- Reliable service to partners

Delivery of KPIs

New Partnerships 21 University of Colombo	Existing Partnerships Value growth 28%	Total No of Payee Partnerships 122
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Cost optimisation

KPIs

- Technology standardisation
- Server consolidation
- Cyber source

Delivery of KPIs

- Enabled savings of over USD10 Mn on CAPEX and OPEX over the next five years
- Integrated the VISA IPG network and development was carried out internally with a saving of USD 80k

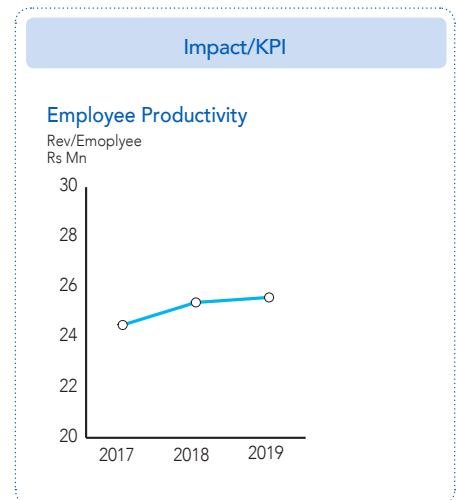
HUMAN CAPITAL - A FUTURE FIT TEAM

Management Discussion & Analysis



Creating a future-fit team is one of the core focus areas of project Everest. During the year, we continued to roll out initiatives aimed at building the right team, developing the right skills and creating the right culture. These initiatives whilst laying the foundation for a future-ready team have also resulted in more self-development and job enrichment opportunities for our people. During the year HNB was adjudged “Best Employer Brand “ at the Sri Lanka Best Employer Brand Awards 2019 while also receiving several regional awards. These awards and accolades together with sustained levels of employee satisfaction are a clear testament of the standards we continue to set in human capital management at HNB.

Human Capital	Key Initiatives during the year
Building the Right Team	<ul style="list-style-type: none"> Roll out of Branch Operating Model (BOM) and revamping of organisational structure. Recruiting a digital workforce Change the Human Capital structure for more efficient delivery
Developing the Right Skills	<ul style="list-style-type: none"> Talent Fitment Exercise Implementation of “Role - Based Training” framework Leadership Development Programs
Creating the Right Culture	<ul style="list-style-type: none"> A special communication and change management working group was formed during the year to specifically communicate Project Everest initiatives Review of several HR policies to reflect evolving needs of our employees

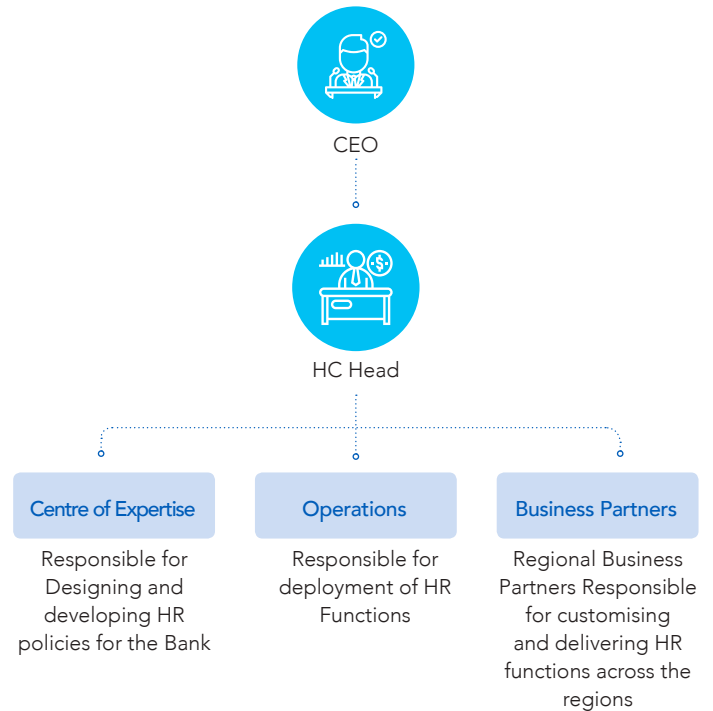


- Best Employer Brand - Sri Lanka Best Employer Brand Awards 2019
-
- Top Workplaces in Asia - Asia Corporate Excellence and Sustainability Awards 2019
-
- Ranked amongst Top 100 Employer Brands - Asia
-
- Winner Employee Relations Category Award - Best Corporate Citizen Sustainability Awards 2019

HR Governance

A comprehensive HR policy framework governs the Bank's HR Processes, ensuring our HR practices extend beyond legal requirements to adopt HR best practices in all aspects relating to our employees. We continued to strengthen our HR governance in 2019, reviewing and revamping several policies including our talent mobility policy, talent acquisition policy, promotion policy, whistle blowing and Anti-Harassment Policies. During the year we also consolidated several HR systems such as Performance Management, Time & Attendance and Absence Management into one HRIS system, bringing about significant efficiencies to the HR function.

We are also in the process of re-structuring our Human Capital Department in order to decentralise the HR function across the regions and develop Communities of Expertise (COEs). According to the new structure three separate verticals will ensure the design, customisation and delivery of HR functions across the branch network. A key development in this structure is the inclusion of HR Business Partners responsible for ensuring greater alignment between the centre and Regions when delivering HR functions. The HR Business Partners will be the drivers of business change and HR Strategy and be the main contact point between employees and the HC Department.



Team Profile

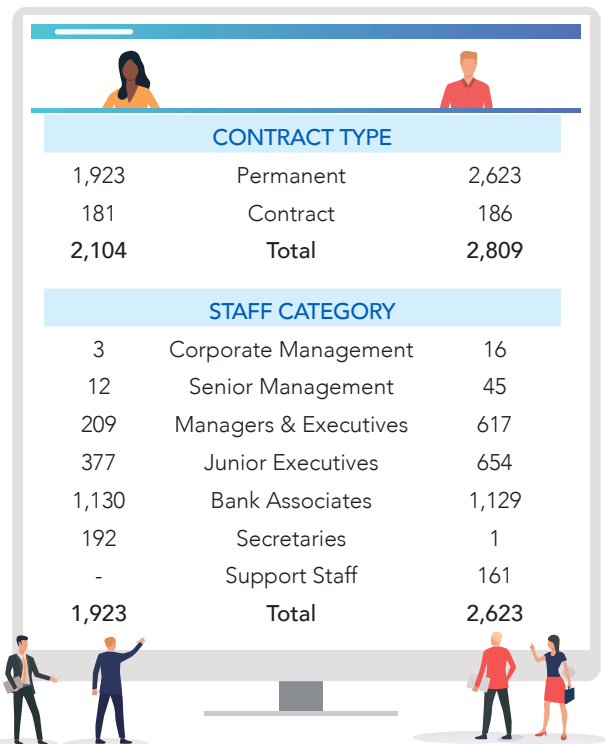
The strength of our team lies in the diversity our 4,913 employees bring in terms of gender, age, ethnicity, education and experience. Overall female representation is 42.8% while almost 24.9% of our management cadre is female, a clear indication of our commitment to maintaining gender diversity across all levels of our operation. With a significant branch presence outside of the Western Province, almost 29.3% of our employees are from outside of the Western Province.

Becoming Future Fit

Becoming Future Fit requires that we build the right team, develop the right skills and create the right culture to transform ourselves into a 'Bank for the Future'. Accordingly, HR initiatives during the year, revolved around these three core areas.

Building the Right Team

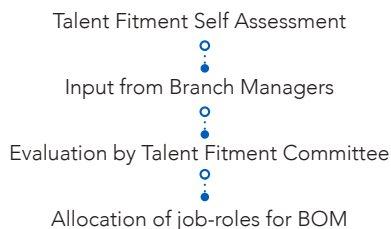
We believe that the right team consists of "Happy and Bright" people who are good at their jobs and enjoy it. Accordingly, our recruitment policies are aimed at attracting the right talent for the right job while the new Branch Operating Model (BOM) implemented during the year, also resulted in more clearly defined job roles that better fit individual capabilities. We are also focused on building a digital workforce to suit the requirements of an evolving banking operation. Retaining the right talent is also an important aspect of building the right team and we continue to hone our employee value proposition to retain the right talent.



HUMAN CAPITAL

Management
Discussion & Analysis

Role Allocation Process for BOM



Attracting and Retaining the Right Talent

Our recruitment policies and strategies are aimed at attracting the right talent for the right job. Cognisant of the evolving needs of the Bank, we continue to make a conscious effort to attract more individuals with backgrounds in emerging areas such as information technology, digital marketing communications, data analytics and cyber security. During 2019, the Bank recruited 466 new employees. 51.2% of new recruits during the year were female while 86.3% were below the age of 30. Employee attrition in the permanent grade in 2019 was 3.3%, a testament to the success of our employee value proposition. Attrition levels amongst women in the permanent grade was 2.2%, due to the bank proactively encouraging women at work.

Greater Job-Capability Alignment

The recently rolled out Branch Operating Model (BOM) and organisational restructure, aimed at separating sales and sourcing functions from operational and transactional functions, is expected to bring greater value to employees in terms of better role clarity and alignment between individual capabilities and job roles. One of the key Project Everest initiatives during the year was to support the BOM rollout by mapping employees to different roles based on their affinities and

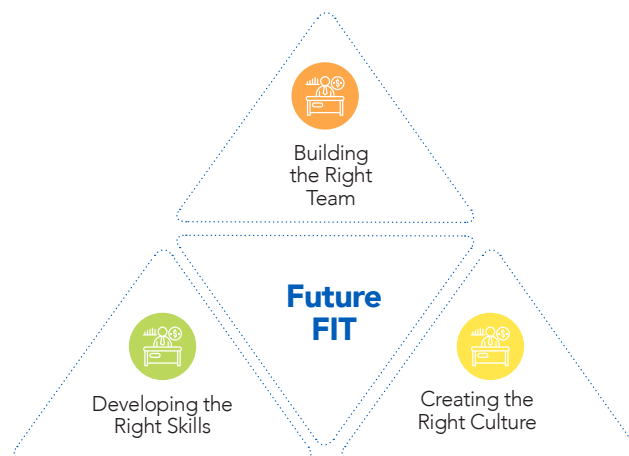
capabilities. The process involved several steps including a talent fitment self-assessment, obtaining input from Branch Managers and an assessment by the Talent Fitment Committee (please see process map alongside) to ensure a collaborative and mutually - accepted outcome.

Developing the Right Skills

We continue to inspire our people to learn, improve and grow by providing multiple opportunities to develop their skills through targeted training, leadership development, talent movement opportunities and continuous performance evaluation.

Enhancing Capabilities and Capacity

Supporting the Branch Operating Model rollout was a key focus of our training efforts during the year. Accordingly, a new "Role Based Training" (RBT) framework was developed with the aim of upskilling staff in line with the requirements of the new roles under BOM. Total learning hours delivered in 2019 was 189,515 which translates to an average of 38.51 training hours per employee.



EMPLOYMENT TYPE		
2,104	Full Time	2,809
-	Part Time	-
REGION		
89	Central Region	182
310	Colombo Region	217
49	Eastern Region	133
191	Greater Colombo Region	161
881	Head Office	1,150
65	North Central Region	192
168	North Western Region	185
80	Northern Region	120
155	South Western Region	122
65	Southern Region	184
51	Uva/Sabaragamuwa Region	163
2,104	Total	2,809
AGE GROUP		
834	Under 30	773
1,126	30 to 50 years	1,821
144	Over 50	215
2,104	Total	2,809

Details of key training programs conducted during the year are given below.

Core Training Areas	No. of Programs	No. of Beneficiaries
Sales Culture/Selling skills	59	1,081
Service culture/Customer service Excellence	30	899
Credit Culture	31	109
Leadership	20	222

We continue to adopt innovative learning modes, gradually increasing digital learning opportunities through our cloud-based knowledge solution "HNB Talent Space". Gamified learning has brought about greater engagement as indicative from the high number of participants in learning games such as "HNB Project Champion", a product knowledge game based on the hit show "Who Wants to be a Millionaire" and a digital banking related game based on the concept of snakes and ladders. 1,782 participants enjoyed gamified learning solutions during the year. During the year 120,019 training hours were delivered at our dedicated training (in house) facilities while 62,382 digital learning hours were delivered virtually through "HNB Talent Space". Total learning hours from external sources was 7,114 in 2019.

We continue to evaluate the impact of our training on our business by monitoring Net Promotor Scores (NPS) to gauge customer satisfaction levels, the acid test of our training efforts. The NPS for the year stands at an encouraging +53.36. We also strive to deliver higher value at a lower cost and achieved a value ratio of 182.92% indicating that the value of training provided in-house is significantly higher than the market value of programmes.

Nurturing Future Ready Leaders

Aligning the current leadership team to the strategic priorities of the bank and building a strong leadership pipeline are important aspects of the people development vertical under Project Everest. Our branded leadership development programmes, aimed at developing/enhancing people management capability, continued during the year. Meanwhile several targeted

training programmes were conducted for management cadre on different aspects of the Everest Project.

Opportunities for Talent Mobility

The Bank's talent mobility policy was re-vamped during the year facilitating structured role rotations across roles, regions and departments and offering employees more clearly defined career paths. During the year 875 talent movements were effected across the network.

Performance Evaluation

Performance appraisal of executives is based on competency framework and KRA/KPI model and conducted on a bi-annual basis. All other employees are evaluated on an annual basis. The competency framework for executives was fine-tuned during the year to reflect the separation of sales and servicing from operational and transaction services under the new BOM. Accordingly, separate KPIs have been developed for separate functions to support people development with clearer accountabilities and with KPIs aligned 100% of employees received performance evaluation reviews during the year.

Creating the Right Culture

Fostering a culture supportive of our growth journey is a critical component of our transformation process. As we strive towards becoming a more customer centric, innovative, employee friendly bank for the future, a more results oriented, open, caring and inclusive culture will provide the necessary guiding values.



Training

Learning Hours per Employee **38.5**
Total Learning Hours **189,515**



Leadership Programmes

20 Leadership Programmes



Talent Mobility Opportunities

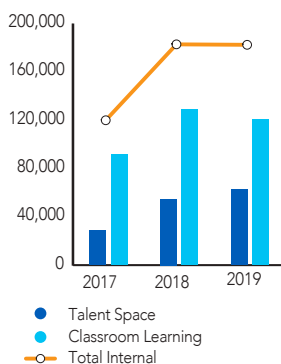
875 talent movements across network



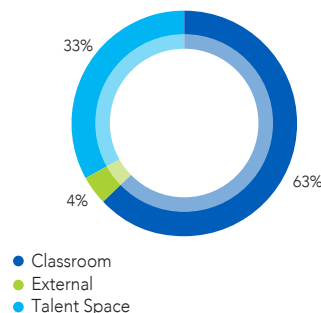
Performance Evaluation

100% of employees received performance evaluation

Internal Learning Hours



Learning Mode Composition



HUMAN CAPITAL

Management Discussion & Analysis

Results Orientation

We promote a result - oriented culture through our performance management process which links remuneration to specified KPIs. All permanent employees are entitled to a variable pay component in addition to a guaranteed fixed pay component. With effect from 2018, all employees including junior executives are entitled to a variable pay component which is linked to the performance of the individual and the Bank and is based on an annual performance appraisal linked to specific KPIs. In addition to remuneration, permanent employees are offered a wide range of benefits including loans at concessionary rates, medical allowances, holiday allowances and subscriptions among others.

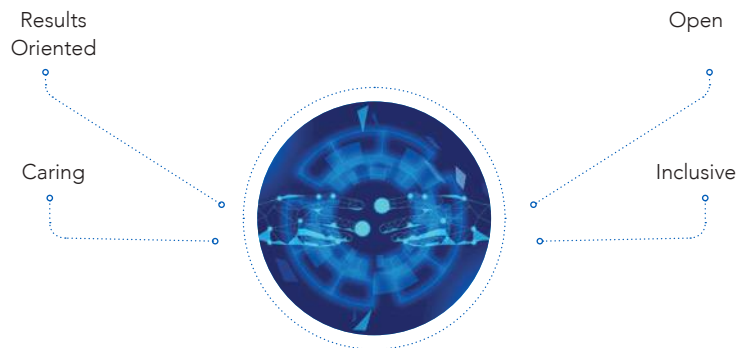
Open Communication

We firmly believe in a culture of open communication and continue to engage with our employees through multiple channels. Engaging with our employees has become even more important as we embark on our transformational journey, Project Everest. For us to truly reap the benefits of our transformation, we require all members of the HATNA family to be on the same page, to visualise the destination and understand the process and have the freedom to raise concerns or suggestions. To this end, a special communication and change management working group was formed during the year to specifically communicate Project Everest initiatives in an innovative and interactive manner. Latest updates on Project Everest initiatives are communicated through Hatnanet and CEO's News Letters while opportunities are provided for staff at all levels to communicate concerns, offer suggestions and obtain clarifications through regular question and answer sessions and a dedicated e-mail for Project Everest.

Meanwhile the Chief Employee Experience officer serves as an independent channel for suggestions and concerns to be aired and resolved outside HR processes and line management. Out of 66 cases received by CEEO in 2019 40 were successfully resolved.

A Culture of Caring

Our ethos of "banking beyond transactions" extends to our HATNA family and we are committed to providing a safe, secure and



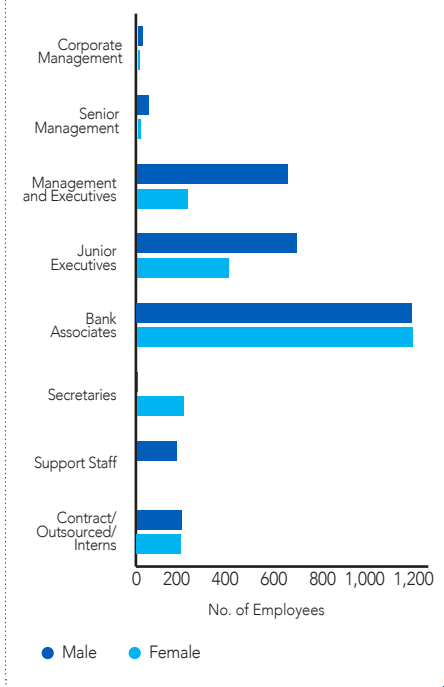
A Future-Fit Culture

healthy work environment for our employees. Health and wellness programs are conducted throughout the year as part of our efforts to promote a healthier workforce and greater work life balance. Meanwhile considering heightened security concerns in the country, security procedures were strengthened in all locations to ensure the security of our employees.

Dignity for All

We are committed to fostering a culture of inclusivity and dignity for all. Our governance framework and work practices include a zero-tolerance policy on sexual harassment, child labour and forced labour and stringent policies with regards to safeguarding human rights. 71% of our staff were members of the Ceylon Bank Employees Union (CBEU) and the HNB Officers Union as at the end of 2019. We respect the rights of workers to exercise freedom of association and collective bargaining and maintain constructive dialog with our trade unions on all material issues. There were no incidents of industrial action, discrimination or human rights violations during the year.

Training by Gender and Employee Category (Excluding online training)



Name of Health and Wellness Programme	No of Participants
"Introduction to Mindfulness Techniques" workshop	172
Free medical consultation in collaboration of Nawaloka hospital on a monthly basis	100
Free Eye Camp in collaboration with "Spex & Contacts"	125
A special training programme on First Aid	60
A special medical camp for employees in collaboration with HNB Assurance	95
Breast cancer awareness programme for employees in collaboration with Lanka Hospitals	75

EVEREST LEADERSHIP TRAINING

- Leadership Base Camp Training
- Vision, Clarity, Empathy Workshop
- Digital Mindset
- 'Leader as a Coach'

CAPACITY BUILDING FOR LEADERSHIP PIPELINE

- Management Trainees: Future Leaders
- Executives: One Minute Leader
- Women in Management Programme

Gender Parity

We encourage workplace gender parity as we believe it has a direct impact on business productivity and competitiveness. Robust policies are in place to ensure that women are provided every opportunity to succeed in their professional lives. (Please refer page 18 in Corporate Governance section for the full list of relevant policies). Meanwhile ongoing initiatives such as the "Women at Work Initiative" which includes programmes such as personal coaching sessions for women, tailor-made leadership programmes, etc. create an environment where women are supported and empowered to reach their full potential professionally and personally. We adopt a non-discriminatory policy in all our recruitment activities and are proud that we maintained a male to female ratio of 49:51 in

our recruitments during the year. We strive to ensure female representation across all levels of our organisation (Please see "team profile" above) by ensuring equal opportunities for all employees regardless of gender. Female representation in the categories of senior management and above was at 20% as at end of 2019.

Way Forward

We will continue to emphasise a sales-driven culture among our employees by further fine-tuning the Branch Operating Model in 2020. Meanwhile we will continue to improve our employee value proposition by reviewing our compensation strategy and introducing a strategic workforce planning vertical aimed at improving succession planning and career progression within the Bank.



SOCIAL AND RELATIONSHIP CAPITAL - BANKING BEYOND TRANSACTIONS

Management Discussion & Analysis



Changing customer demographics and a rapidly - evolving competitive landscape is increasingly requiring us to re-look at our social and relationship capital and how best we can nurture this capital to achieve our 2020 vision of being the “Bank of Choice in the hearts and minds of every Sri Lankan”. During the year we continued with our digitisation efforts and embarked on several process re-engineering initiatives with the aim of creating more value generating relationships with our customers, business partners and community.

Social and Relationship Capital	Key Initiatives during the year
Customers	<ul style="list-style-type: none"> • Launch of HNB SOLO • HNB mobile digital vehicle • BOM Rollout • Launch of Contact Centre customer satisfaction survey • E-banking enabled CASA opening • Process improvements to credit card issuance and personal loans process • Alternate channel migration • Missed call service
Business Partners	<ul style="list-style-type: none"> • Expanded network of exchange houses • Deployment of “Cybersource” payment gateway. • Opening of current accounts for POS merchants
Suppliers	<ul style="list-style-type: none"> • Streamlining of tender process
Community	<ul style="list-style-type: none"> • Launch of HNB E Commerce, a platform to connect SMEs to overseas buyers • Launch of SME equity funding platform aimed at matching investors and SMEs

IMPACT/KPI

Increased customer convenience and satisfaction
Avg. Customer Satisfaction Score
87% (CSAT)

Greater Market Access
Remittances increased by 11% during the year
Payments to Suppliers
Rs 10 Bn

Customer Satisfaction
NPS 64%

Greater access to finance, markets and technical knowledge for SMEs and micro entrepreneurs



“Modern banking customers expect experiences from us like they get from Amazon and Google. And we must provide them that experience here and now”

*Yair Seroussi,
Chairman Hapoalim Bank*

Value Delivered to Customers

Despite sluggish economic conditions and the low interest environment that prevailed throughout much of the year, total interest paid to depositors during the year amounted to Rs 58.9 Bn while total loans disbursed during the year amounted to Rs 645 Bn.

Meanwhile we continued to expand our service offering, introducing several new products and services during the year. A new tiered interest rate savings product “HNB Savings +” was launched during the year with additional services such as free debit card, free internet and mobile banking, cash backed facilities at concessionary rates. We also launched Sri Lanka’s first e-auction website “Bid N Buy” (BNB) giving our customers a secure online service to bid for and purchase vehicles, real estate and industrial equipment.

Creating a Banking Experience to Remember

Our customer value proposition revolves around offering a relevant product in a convenient and responsible manner. We continued to hone our customer value proposition, striving to make banking with us a more enjoyable experience through greater convenience, greater engagement and greater transparency and maintaining a fine balance between high tech and high touch.

Greater Convenience

During the year several new process, productivity and technology improvements were introduced with the aim of simplifying transactions and providing our customers a seamless banking experience. We continued to enhance our digital value proposition whilst increasingly moving towards branch automation. Meanwhile several process improvements were introduced through the new Branch Operating Model (BOM) rolled out during the year further increasing efficiency and productivity of our front-line staff.

HNB SOLO

HNB SOLO – our proprietary digital wallet and payment app launched this year is the latest step forward in our digitisation drive. SOLO is designed to provide our customers complete flexibility to handle cashless, digitally enabled transactions on the go, anywhere. Several new functions and features have been planned for the app going forward. The launch of HNB SOLO is the latest in a long series of innovations brought to market in Sri Lanka by the Bank, which over the recent past, also introduced Asia’s first ever fitness linked savings product in the form of HNB FIT Savings Account.

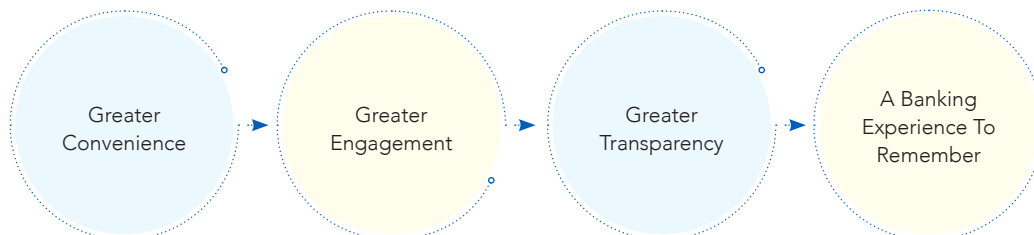
Branch Automation

Branch automation efforts continued during the year. All our branches are equipped with deposit enabled machines. Meanwhile we continue to expand our Self Service Machines (SSM) network and expand the range of services offered through SSMs. Our SSM network currently stands at 780, out of which 173 are at offsite locations. 68 offsite locations (40%) are equipped with a deposit enabled machines. SSMs offer a full range of services including cash withdrawal and deposits, real time fund transfers, credit card payments, utility payments, online cheque acceptance



Value Delivered to Customers

Interest Paid to Customers **58.9 Bn**



SOCIAL AND RELATIONSHIP CAPITAL

Management Discussion & Analysis

and card-less transactions. During the year we also installed dedicated bill payment kiosks in several of our high footfall branches in order to reduce waiting times at counters. A missed call service which enables customers to receive CASA or credit card balances through SMS after a missed call was also launched during the year.

HNB Mobile Digital Vehicle

The HNB Mobile Digital Vehicle equipped with a Cash Recycler Machine (CRM) and a Bulk Cash Deposit Machine (BDM) was commercialised during the year, yet another step in bringing banking to our corporate customer's doorstep.

Business Process Re-engineering (BPR)

BPR initiatives continued during the year, with several functions such as regional credit approvals, collection and recoveries being centralised to facilitate faster decision making and turnaround times. Several other process improvements (see alongside) were also rolled out during the year.

Greater Customer Engagement

Getting to know our customers better to understand their aspirations and pain points has always been a component of our customer strategy. "HNB Connect", our fully integrated 24-7 Omni channel Contact Centre introduced last year continues to be a key contact point and was instrumental in driving key customer engagement initiatives during the year.

Customer Satisfaction

During the year we launched a customer satisfaction survey to obtain feedback on interactions with our Contact Centre on a real-time basis. Customers were sent a quick, one question survey (via SMS) through which they would score recent interactions with our Contact Centre. A customer experience

audit was also conducted covering all branches to evaluate customer service levels at branch level. We also launched a customer engagement system to lodge all complaints from the time of initiation to closure to ensure that all complaints are tracked and monitored.

Customer Engagement Initiatives

We continue to engage with our customers through awareness programs, workshops, community projects and other functions which bring about greater interaction between staff and customers. Among some of the key events was a digital awareness programme carried out for high end SMEs in the North Western Region and a capacity building programme for SMEs on "Sustainable Development Empowering the SMEs" at Greater Colombo Region. During the year we also improved our customer onboarding protocol by introducing a CASA Welcome Kit and welcome call to all newly onboarded customers.

Superior Customer Service

The recently rolled out Branch Operating Model (BOM) and centralisation efforts have freed up client-facing staff to engage more with our customers on a day to day basis. A heavy focus is placed on customer service training at all levels to emphasise the importance of superior customer service.

Greater Transparency

We realise that our customer demographic is increasingly complex with a sophisticated understanding of both their own requirements as well as banking solutions available in the market. Providing reliable information for customers to enable to make informed decisions is a vital element of our competitive strategy.

Process improvements implemented during the year

- Branch Operating Model
- Credit Card Process Improvement
- New Personal Loans Process
- Consolidation of Balance Confirmation, Tax Certification and Duplicate Statement Requests forms
- Restructure of Credit Administration function to reduce time taken for facility disbursal



Product Responsibility

We ensure that our product offerings conform with applicable laws and regulations and meets 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 centre, "HNB Connect". Product related information is also readily available through our corporate website. The recently introduced welcome call for all newly on-boarded customers also provides information on banking products and tariffs. Meanwhile we continue to carry our financial literacy programmes to targeted beneficiary groups to promote greater financial awareness.

Securing Customer Information

We continue to invest in technology to ensure customer data security and privacy. We are currently in the process of implementing a data loss prevention solution and a privileged access management system within the year 2020. Latest security protocols including the use of Multi-level authentication and the use of a One-Time Passwords (OTP) SMS system are adopted to ensure complete security across every transaction.

Value Delivered to Business Partners

Our network of business partners consisting of 970 correspondent banks, 92 exchange houses, over 13,000 merchants and suppliers continues, to grow as we expand our operation locally and globally. We continue to develop these relationships deriving mutual value in terms of operational synergies, market access and new business opportunities.

Exchange Houses

We continue to expand our worker remittance operation, entering into agreements with several exchange houses across Australia, Seychelles and the Middle East. These tie-ups enable Sri Lankan expatriates to direct their remittances to any local bank account instantaneously or claim payments over the counter via the HNB Branch network island wide.

POS Merchants

Several IT investments were carried out during the year to add value to relationships with POS merchants. During the year we took a strategic decision to partner with Visa International for their World-class Internet Payment Gateway (IPG) solution "Cybersource". The solution provides 99.9% uptime and faster processing speed since it directly connects the merchant to the Visa authorisation system circumventing Bank's infrastructure. We also successfully rolled out a project to open Current Accounts for POS merchants, further easing the transaction process.

Supplier Relationships

Our supplier base consisting of utility service suppliers, material suppliers, transport providers and maintenance service providers play an integral role in carrying out a seamless operation. During the year total payments to suppliers amounted to Rs 10 Bn.

Our relationships with our suppliers are partnerships we invest in by ensuring transparent and sustainable procurement practices, regular engagement, and capacity building initiatives. We ensure strict

Worker Remittance Agreements were entered into during the year with the following exchange houses

- Fast Cash - Australia
- Malik Exchange - UAE
- Islamic Exchange - Qatar
- Yola Holdings (Best Exchange Services) - Australia
- Cash Plus Co Pty Ltd. - Republic of Seychelles



SOCIAL AND RELATIONSHIP CAPITAL

Management Discussion & Analysis

adherence to procurement guidelines as per our Board approved Procurement Policy and continuously monitor performance of suppliers to ensure compliance to service standards.

Value Delivered to Communities

Contributing to Sustainable Economic Growth

As a systematically important bank in the country we have a significant impact on the economy and our communities both directly through our own operation as well as indirectly through the individuals and businesses we support.

Sustainable Banking Initiative

We are a core member of the SLBA Sustainable Banking Initiative mandated to develop and promote industry best practices in sustainable banking and actively seek to incorporate the 11 social and environmental principles into our operation. Quantifiable impacts of our operation have been mapped alongside relevant UN Sustainable development goals.

Creating a Robust SME Sector

We firmly believe that a vibrant SME sector is vital for a resilient national economy and continue to go beyond mere providing financial assistance to actively supporting the sector by addressing some of its key constraints to growth. It is therefore with pride that note that HNB was crowned Best Small and Medium Enterprise (SME) Bank in Sri Lanka at the recently - concluded Asian Banker International Excellence in Retail Financial Services Awards 2019.

Our Impact



- 38.5 training hours per employee and a training coverage of 80.2%
- Continued financial support to nearly 200 school libraries established under the Nena Pubuduwa programmes
- 553 workshops covering 22,000 micro finance beneficiaries in collaboration with CBSL
- 48.2 Mn Investment in employee training & development



- Overall female representation is 42.8% while almost 24.9% of our management cadre is female



- 4.8 Bn of renewable energy portfolio consisting of waste to energy, biomass energy, hydro, wind and solar power.
- Solar power generation 16.8% of total energy consumption
- Investment of Rs 48.6 Mn on more efficient inverter air-conditioning technology across branches



- Direct employment to 4,913 employees
- 29.3% of our employees are from outside of the Western Province



- SME client base of 104,033 with a total portfolio of Rs 241 Bn as at 31.12.2019



- 553 financial literacy/awareness programmes conducted for over 22,000+ beneficiaries



- 16% of lending portfolio consists of loans to construction and infrastructure sectors
- Rs 1.1 Bn was granted for the financing of renewable energy projects and 135 loans were granted through our 'solar energy system' personal loan scheme



- 113 projects evaluated for social and environmental criteria in line with the Bank's ESMS Policy
- Launch a resourceful recycling campaign for PET bottles across 50 schools in the Colombo District

Our support for the sector revolves around addressing three key barriers to growth; Access to Finance, Access to Markets and Access to Technical Knowledge.

ACCESS TO FINANCE

- HNB SME cells have been set up in 10 regions across the country in order to provide easy access to SMEs.
- An MOU was signed to provide and equity financing option for SMEs. This is an equity crowd funding platform, which matches suitable investors in Sri Lanka or outside Sri Lanka to support/ assist SMEs.
- Concessionary funding to minor entrepreneurs through Enterprise Sri Lanka, Swashakthi and SAPP credit lines.

ACCESS TO MARKETS

- Launched HNB Appy, a B2C digital platform to connect SMEs to customers
- Launched HNB E-Commerce, a platform to connect SMEs to overseas buyers
- SME Unit jointly organised a SME networking session with Lanka business link at SSC for which 50 high end SMEs participated.
- The annual Gami Pubuduwa Avurudu Pola was organised for the third consecutive year

ACCESS TO TECHNICAL KNOWLEDGE

- Awareness programme in collaboration with 'Bio-mass' on building digital literacy and to introduce advanced technological platforms for food exporters
- A series of 'Sustainable Development: Empowering the SMEs workshops were conducted for SMEs across the country to provide technical knowledge on financial management, HR management, resolving business challenges, compliance, improving visibility and improving supply chain management
- Awareness programme in collaboration with Bio Diversity Sri Lanka to support SME's to align their businesses with the National Environmental Agenda.
- A programme on 'Financial Education' was organised for the vendors of the Good Market.
- Digital awareness programme for high end SMEs was organised by HNB in collaboration with Bileeta (Pvt)
- 553 workshops covering 22,000+ micro finance beneficiaries in collaboration with CBSL.

Strategic CSR

We take a holistic view of strategic CSR, committing our efforts and resources to areas in which we feel we can have the most impact in the long term. Accordingly, the Bank's strategic CSR activities revolve around the areas of education, health, entrepreneurship and environment; and are closely linked to the United Nations Sustainable Development Goals.

SOCIAL AND RELATIONSHIP CAPITAL

Management Discussion & Analysis



Commemoration of WED was held in June 2019 by organising events to reconfirm commitment to HNB Green Pledge. Staff were provided with fruit saplings encouraging tree planting and home gardening.



A sanitation and hygiene programme for six schools in Hattton adversely affected by the landslides were conducted jointly with Sri Lanka Water Partnership (SLWP). Also a workshop on improving access to education, better living and rain water harvesting was conducted for school students by SLWP.



The Kanneliya Conservation Project (long-term) initiated to develop a biodiversity credit accrual system for Sri Lanka with Biodiversity Sri Lanka and in partnership with the Forest Department and IUCN Sri Lanka.



The United Nations and the Ministry of Education, in partnership with the Bank launched the 'SDG Action Campaign' covering a broad range of environment, social and economic awareness. 25 schools in the island have undertaken different projects to achieve the SDGs.



In a bid to reduce carbon footprint at every level, staff at HNB Towers participated in an innovative project 'HNB Walks the Talk' by walking/cycling/using public transport or carpooling to work on the last Friday of every month since August 2018.



HNB PLC has partnered with the multinational enterprise software company IFS Sri Lanka and pioneering manufacturer of monofilaments and yarn, Eco Spindles Ltd., to launch a resourceful recycling campaign for PET bottles across the Colombo District.



A cash prize for the Yarl Geek Challenge 2019 was sponsored by the Bank, an event to promote innovation and entrepreneurship amongst youth.



Biodiversity Sri Lanka (BSL) commemorated the International Day for Bio-Diversity by organising a celebratory event together with the Embassy of France and the Maldives, in association with its Patron Member – HNB.



Continued to be the only private organisation supporting HIV/AIDS awareness walk and rapid testing kits in partnership with the Ministry of Health for the Sixth successive year.



Under the 'Care for Health – Care for Children' programme of the Bank, reverse osmosis water purification filters were handed over to three schools in Mahiyanganaya benefiting over 2,500 children to address Chronic Kidney Disease of unknown origin that has affected the over 40,000 individuals in the agricultural districts.



Continued financial support and counselling facilities to cancer patients. Approximately 10,000 patients counselled to date.



The Bank organised and sponsored a symposium titled 'Sustainable Banking - Considering Biodiversity as a Risk in Lending' at the Asia Pacific Conference of the Association for Tropical Biology and Conservation.



Continued financial support to nearly 200 school libraries established under the Nena Pubuduwa programme.



Thundola Conservation Project launched in partnership with Biodiversity Sri Lanka and Wild Life Society of Galle to restore the damaged ecosystem in the catchment area (long-term).



Donated medical equipment to Wayamba Cancer Society to upgrade cancer treatment unit at the Kurunegala Teaching Hospital.



A series of Sustainable Development Workshops on "Empowering SMEs" were conducted for SMEs across the country to provide technical knowledge on Financial Management, HR Management, resolving business challenges, Compliance, improving visibility and Supply Chain Management.



HNB through its Sustainability Foundation entered into a Memorandum of Understanding with The National Trust for Cultural and Natural Heritage commonly referred to as 'The National Trust – Sri Lanka'.



A donation of six sewing machines were distributed to deserving cancer patient families in order to uplift their income generation. The Branch Managers of Bandaragama, Dehiwala, Delgoda, Nittambuwa, Beruwela and Padukka handed over these machines to the respective families.



The Bank commemorated World Children's Day in collaboration with Lanka Hospital Wellness Club to improve the education facilities and standards of the students of Gamini Vidyalaya. The project consists of renovating the school music room, library, children's play area and providing safe drinking water facilities for the children.

INTELLECTUAL CAPITAL - PUSHING BOUNDARIES

Management Discussion & Analysis



Becoming a bank for the future requires that we continue to push boundaries, constantly re-imagining and reframing the future of banking. Our in-depth knowledge base and robust systems and processes continue to be key enablers in this journey whilst our strong brand value gives us the strength to push forward. During the year we continued to harness our collective knowledge to gain new insights, invested in future ready technology and refreshed our brand proposition as part of Project Everest.

Intellectual Capital	Key Initiatives during the year
Brand Equity	<ul style="list-style-type: none"> Rollout of renewed brand proposition
Knowledge and Skills	<ul style="list-style-type: none"> Introduction of Talent Fitment
Systems and Processes	<ul style="list-style-type: none"> Roll out of Branch Operating Model (BOM) Several process improvements were introduced during the year (Refer social and Relationship Capital for details)

IMPACT/KPI

Brand Equity
increased by **Rs 5.4 Bn**
(Brandfinance)

100%
Talent Fitment
in the branches

Brand

Our Brand is the frame through which our stakeholders view us. Therefore, as we embark on our transformational journey to be the “Bank of the Future”, we have realised the need to refresh our brand proposition to attract a new generation of stakeholders, whilst retaining the core values for which the HNB Brand has come to be respected over the years. We understand that although our customers basic banking needs remain the same, the way they interact with us is evolving. Its therefore not sufficient for the products and services we offer merely to be relevant, it also needs to be an enjoyable experience our customers are proud to be associated with. Accordingly, our refreshed brand proposition is to make Banking an enjoyable experience. We are in the process of gradually rolling out this concept through digital and physical mediums.

Knowledge and Skills

Right person doing the right job is the ultimate method of optimising intellectual capital. With this in mind, the Talent Fitment exercise which was implemented to support the Branch Operating Model, as a part of Project Everest engaged every single staff member of the branch network. The

knowledge, skill and experience of each staff were tabulated and cross referenced with their performance and a customised psychometric assessment which analysed their affiliation towards specific roles. Basis this analysis, each staff was assigned their new role which was their ‘best fit’ role in which they are competent and comfortable to perform at their optimum capacity.

The Talent Fitment was supported by the introduction of a Role Based Training (RBT) matrix where training modules and certification programs were identified for each unique role. This ensured that there was a focused knowledge and skill development based on each persons’ role not only ensuring a better return on investment but also ensuring that the learning is sustained as it can be put in to practice immediately.

We encourage of a culture of mentoring which ensures that knowledge is passed down both formally and informally. Leaders are encouraged to coach junior staff and several programs were conducted during the year to emphasise the importance of coaching and mentoring.

Meanwhile data analytics is increasingly playing an important role in our decision-making process.

Systems and Processes

Upgrading our systems and processes to better manage our risks, improve productivity and consistently exceed our client expectations is a key aspect of project Everest. One of the key process improvements during the year was the Branch operating Model (BOM) aimed at separating the sales function from the operation function. Meanwhile several other operational areas were reviewed with the aim of improving operational efficiency. Status of our process improvements are depicted below.

OUR PROCESS RE-ENGINEERING EFFORTS

PIPELINE

- Microfinance

ONGOING

- Home Loan Process
- SME Loans
- HNI Servicing Process

COMPLETED

- BOM
- New Credit Card Process
- New Personal Loan Process
- BPR of backoffice functions

Awards

We continue to set standards in the industry, as indicative from the numerous local and international awards and accolades we received during the year.



Mr Jonathan Alles, receiving the 'Best Managed Bank' award and 'CEO Leadership Award' from the Asian Banker



Recognised as the 'Best Bank in Sri Lanka 2019' by the Euromoney Magazine



Receiving the 'Strongest Bank in Sri Lanka' award from the Asian Banker



'Best Bank for Seamless back-end Operations' and Silver Award for 'Best Acquirer of US Dollar Online Payments' at the Technnovation awards



No 1 Bank in LMD's Club 100



Ranked among the Top 10 Most Admired Companies in Sri Lanka 2019 at the ICCSL, CIMA awards



Ranked in Top Workplaces in Asia Category of the Asia Corporate Excellence & Sustainability Awards



Overall Excellence – Bronze award, Banking Sector category – Silver award and Corporate Governance disclosure – Silver award at the CA Sri Lanka Annual Report awards



Ranked among the 10 Best Integrated Report for 2019 by CMA

NATURAL CAPITAL - LEADING THE WAY IN SUSTAINABLE BANKING

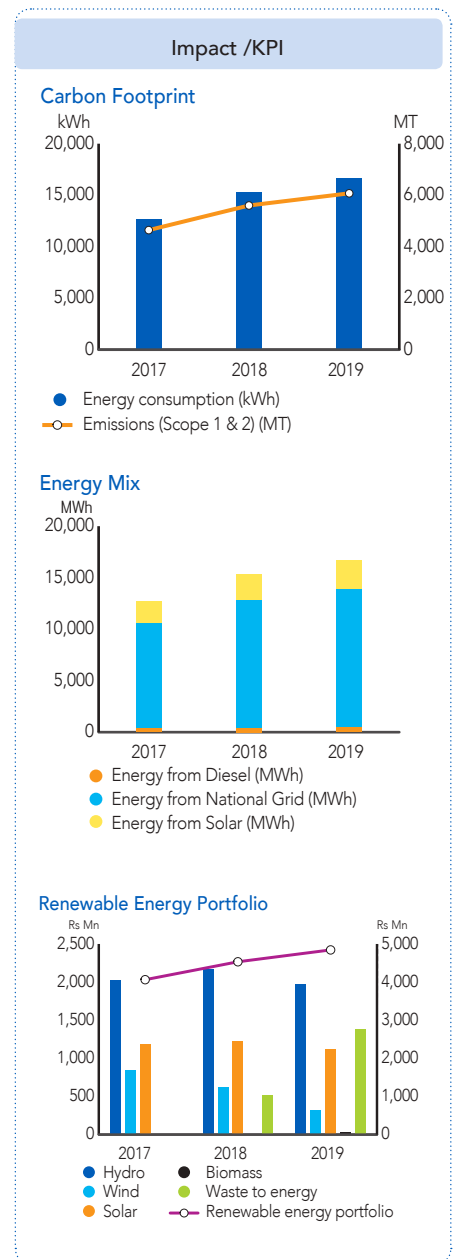
Management Discussion & Analysis



As a key lender to the nation we are aware of the significant impact we can have on promoting a more environmentally sustainable economy. Whilst actively incorporating environmental best practices across our operation we continue to be in the forefront of promoting the sustainable banking agenda in the industry through our involvement as a core member of the Sri Lanka Sustainable Banking Initiative launched in 2015.

Natural Capital	Key Initiatives during the year
Environmental Risk Management	<ul style="list-style-type: none"> Strengthening Environmental and Social Management System (ESMS) through greater staff and customer awareness and process improvements 113 projects screened by the ESMS Unit while other eligible projects are screened by the trained staff in the network 218 credit officers trained during the year
Managing our Environmental Impact	<ul style="list-style-type: none"> The environmental return on our paper recycle investment translates to reduction of Greenhouse Gas emission by 70,754 Kg of carbon equivalent 16.8% of solar energy consumption from total energy due to branch solarisation project Investment of Rs 48.6 Mn on more efficient inverter air-conditioning technology across branches
Promoting a green economy and ethical financing	<ul style="list-style-type: none"> Continued focus on lending to the renewable energy sector Rs 6.55 Mn spent on CSR projects with a positive impact on the environment.

Our environmental agenda revolves around the principles of the Sri Lanka Sustainable Banking initiatives (SLSBI) put forward by the Sri Lankan Bankers' Association (SLBA) in 2015. The overarching goal is to put in place responsible banking practices that avoid - minimise and mitigate the negative impact on the environment and promote sustainable economic development.



Environmental Risk Management (SLSBP 1)

We strive to ensure that environmental and social considerations are incorporated into the decision-making processes relating to all our business activities. Our Environmental and Social Management System (ESMS) is a comprehensive set of policies, procedures, tools and internal capacity to identify and manage our exposure to the environmental and social risks of our clients and investees. During the year 113 of our lending projects were screened through ESMS in order to assess the environmental and social risks of these projects. Three out of these projects were rejected on the basis that they did not comply with our ESMS standards. Meanwhile credit officers are provided ongoing training on ESMS with 218 credit officers being trained during the year. In order to ensure that environmental and social standards are maintained throughout the project life cycle we incorporate rigorous loan covenants and strictly monitor adherence through regular site visits.

Managing our Environmental and Social Footprint (SLSBP 2)

We continue to manage our carbon footprint by incorporating more environmentally friendly practices across our operation and inculcating a culture of responsible consumption amongst our employees. We ensure that our operations are fully compliant with all environmental laws and regulations in the country. There were no instances of non-compliance with environmental laws and regulations during the year.

During the year, our carbon footprint increased from 3.9 Kg/Sqft to 4.3 Kg/Sqft largely due to the aggressive expansion drive in our SSM network, higher consumption levels under the centralised operations and the increase in paper consumption as detailed below.

Paperless Initiative

Key among these initiatives is our 'Paperless Initiative'. The e-statement conversion project continued during the year with 129,934 customers being on boarded for e-statements during the year. Meanwhile our PCM team implemented the Bank's first - ever initiative to facilitate distributor financing recoveries through an electronic channel,

thereby eliminating the requirement for physical cheques. We are also increasingly looking at the standardisation of merchant statement printing with techniques such as duplex printing in order to reduce our paper consumption. The introduction of the "Green PIN" where customer PINs are sent via SMS instead of through a PIN mailers and the installation of deposit machines are key initiatives towards reduction in paper consumption. However, due to the various initiatives carried out during the year under Project Everest the paper consumption increased from 219,106 Kg to 233,819 Kg in 2019.

Branch Solarisation Project

We are committed to achieving greater energy efficiency by reducing our dependence on the national grid and managing our total energy consumption. The branch solarisation project which commenced in 2016 continued during the year with 26 branches being solarised. As a result, 95 branches of our network were powered by solar energy as at end of 2019. Consequently, our dependence on the national grid has decreased by 16.8 % since the start of the project. Meanwhile we continued to install LED lighting and gradually moved towards the use of more energy efficient equipment in all our premises.

Green Pledge

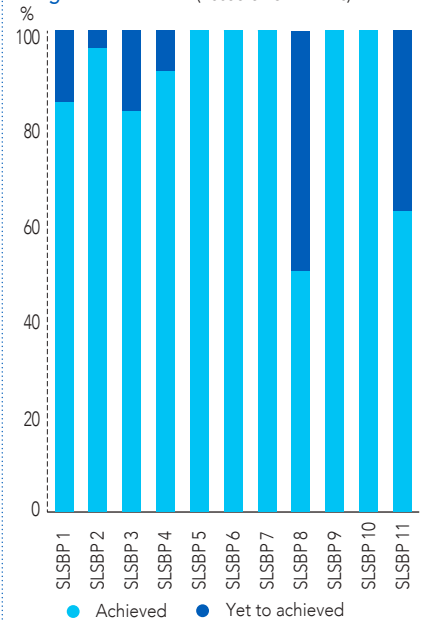
Our Green Pledge - a promise by every HNB employee to integrate environmentally friendly practices in to daily operations is now in its 11th year and continues to be a driving force behind inculcating a culture of responsible consumption at work and at home.

"HNB Walk the Talk" Initiative

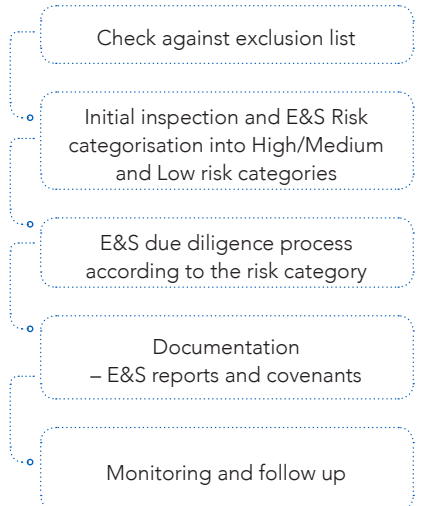
The HNB 'Walk the Talk' initiative which commenced in August 2018 continued throughout the year with staff opting to use greener commute options for one day each month. It is anticipated that over 600 litres of fuel could be saved per day at Head Office (HNB Towers) by using green commute options.



Progress of SLSBP (Based on SLBA KPIs)



ESMS PROCESS



NATURAL CAPITAL

Management Discussion & Analysis

Managing Our Outputs

Emissions

We continue to monitor carbon dioxide emissions generated by our day to day operations. Scope 1 and 2 emissions generated by the bank are tracked and reported on a quarterly basis. Meanwhile a total of Rs 48.6 Mn was spent on migrating to more efficient inverter air-conditioning technology across branches. The total number of replaced units during the year amounted to 153.

Waste Management

We ensure that e-waste generated is responsibly disposed of by approved third party recycling agents. Paper waste is minimised by encouraging re-use and recycling where possible.

Authorised Recyclers involved in the collection, shredding, recycling as well as collecting electronic waste, thereby providing a total recycling solution to our branch network.

Training on Human Rights (SLSBP 3)

The Bank recognises and respects stakeholder rights and concerns as well as human and labour rights in Bank's Business Operations and in its business activities.

Stakeholders in this context are those people and groups that are directly affected by the actions of a bank's business. These can include employees, suppliers, clients, community residents close to the business of clients.

(Please refer Human Capital and Social Capital section for more details)

Financial Inclusion (SLSBP 4)

Financial inclusion has several benefits for individuals and households and for the economy as a whole. Higher levels of financial inclusion increase both economic efficiency and equity. Furthermore, financial inclusion can help families and businesses manage their day-to-day needs, to better cope with unexpected shocks and emergencies, and to undertake investment opportunities that enable them to improve their income and assets. Financial inclusion is hence a key enabler to reducing poverty and boosting prosperity.

The Bank conducted training programmes for SME and micro finance clients encouraging

them on eco friendlier businesses through SME lending.

(Please refer Social Capital and Relationship capital for more details)

E&S Governance (SLSBP 5)

We consider governance to comprise the rules, norms and processes for running a business including how they are structured, sustained, regulated and held accountable. In addition, the Board of Directors and its responsibility for ensuring that these are fit for purpose and that there is accountability, fairness and transparency in a company's relationship with all its stakeholders.

The Bank has established sustainability audit procedures (internal, and where appropriate external) and covered 23 branch audits on sustainability during the year.

Staff training on ESMS and high risk project evaluations have been carried out by head office ESMS Officer. The Bank actively support key industry initiatives aiming at addressing E&S governance issues with clients operating in sensitive sectors.

The HNB Sustainability Foundation, which is chaired by the Managing Director, consists of a Board member, COO, CFO and heads of other key areas of the Bank. The Foundation monitors the activities of the Bank under the Green Pledge and the E&S policy of the Bank.

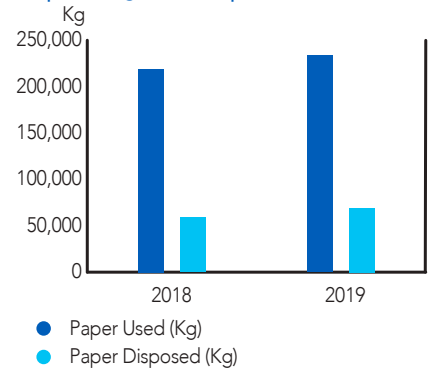
Promoting Ethical Finance (SLSBP 6)

All customers undergo a careful screening process ensuring that we do not finance environmentally or socially unacceptable operations. A comprehensive framework and policy which includes an exclusion list is strictly adhered to and incorporated into our credit decision. The exclusion list is regularly updated in accordance with our own environmental and social standards which are ahead of national regulations.

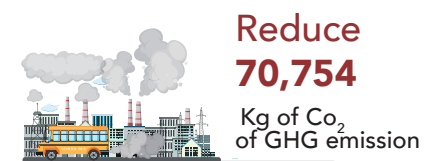
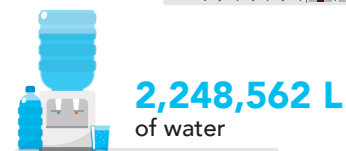
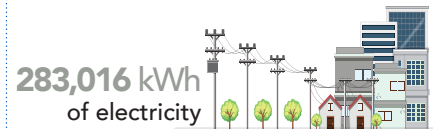
Promoting "Green Economy Growth" (SLSBP 7)

We continue to lead the way in large scale renewable energy financing both locally and overseas. During the year Rs 1.1 Bn was granted for the financing of renewable energy projects and 135 loans were granted through our 'solar energy system' personal loan scheme further contributing to the conversion to solar energy by households.

Paper Usage and Disposed



OUR INVESTMENT IN PAPER RECYCLING TRANSLATES TO THE SAVING OF



(Estimated savings confirmed by our paper recycling partner)

Our large infrastructure projects are properly assessed to minimise negative E&S impacts.

Capacity Building (SLSBP 8)

ESMS training continued during the year with the Bank investing Rs 48.2 Mn in overall training and 218 Executives/Junior Executives/Senior Bank Associates across the Bank in the tools and techniques required for effective environmental and social risk management. A special session on 'CSR and Sustainability' is included in the induction programmes for new recruits and all participants take the 'Green Pledge' as a commitment towards environmental sustainability.

Meanwhile we are actively engaged in educating and supporting our clients understand the benefits of a more environmentally and socially sustainable operation. 25 of our SME clients participated in the programmes "Providing support to SME sector in alignment with the National environmental agenda" conducted in collaboration with Biodiversity Sri Lanka.

Three executives of the Bank participated in overseas E&S training programmes during the year.

Collaborative Partnerships (SLSBP 9)

We continue to work closely with industry stakeholders to push the sustainability agenda in the banking sector of Sri Lanka. Meanwhile we continue to leverage our partnerships with multilateral institutions and development finance institutions to attract low cost funding which in turn is lent to sectors such as renewable energy, water and sanitation among others that further the countries environmental and social agenda. During the year we also partnered with several organisations to carry out strategic CSR programmes. Details of some of these projects are alongside.

Syndications to Waste to Energy Project to Address National Crisis

The Bank as the Lead Arranger of the Syndicated loan together with People's Bank, DFCC and Bank of Ceylon signed off Loan agreements to finance the setting up of Western Power Company's waste to energy plant, the first of its kind in Sri Lanka. A subsidiary of Aitken Spence PLC, Western Power Company has scheduled the commission of a 10 Mega Watt facility by 2020, in Kerawalapitiya, Muthurajawela, that

will consume all of Colombo Municipality's solid garbage.

Promote Transparency and Accountability (SLSBP 10)

We continue to monitor our progress by tracking key environmental and social indicators in a consistent manner. The CEO's sustainability dashboard introduced in 2016 reports on key E&S indicators such as carbon footprint, material usage and disposal, supply chain assessments and risks, etc. Progress is monitored on a quarterly basis and reported to the HNB Sustainability Foundation on a bi-monthly basis.

Assurance has been provided by Ernst & Young on the Financial Statements including the Notes to the Accounts. DNV-GL has provided assurance on non-financial sections of this report.

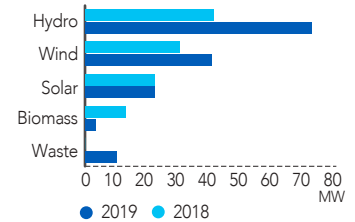
No "Race to the Bottom" (SLSBP 11)

Our staff members handling E&S conducted training programmes for the other Bank staff under SLBA SBI principles and E&S evaluation. We will not compete with other banks on E&S issues, i.e. undermine our competitor on E&S requirements towards the credit taker.

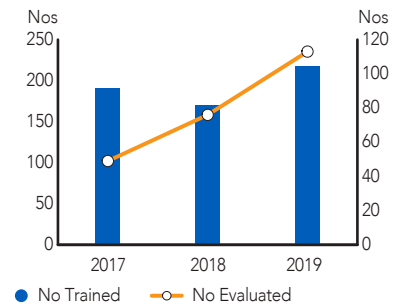
Way Forward

We will continue to push the sustainable banking agenda in the industry through greater stakeholder engagement. Meanwhile we will continue to avoid, minimise and mitigate our environmental impact through greater emphasis on green financing, by reviewing our environmental and social management system and by striving to reduce our carbon footprint through more responsible consumption of resources.

Renewable Energy by Capacity



No. of facilities evaluated by the ESMS Unit vs No. of Staff Trained



COLLABORATIVE PARTNERSHIPS FOR GREATER IMPACT

- HNB partnered with IFS and Eco Spindles to carry out a waste plastic bottle recycling campaign in selected schools across Colombo.
- HNB, with the support of the Wildlife Conservation Society - Galle, Biodiversity Sri Lanka and the Forest Department initiated a reforestation project in Kanneliya and Thoundola forest.
- HNB together with AIESEC - University of Moratuwa embarked on a project to provide safe drinking water to schools in areas known to have a high incidence of Chronic Kidney Disease.
- Bank has partnered with the UN and the Ministry of Education to improve island-wide awareness on UN Sustainable Development Goals.
- The Bank's ESMS officer represented a stakeholder consultation programme organised by the Ministry of Environment, Wildlife, Land and Land Development, on the subject "Climate Resilient Landscapes" and reviewed issues associated with climate change impacts in the upper watersheds of the country.

RETAIL BANKING

Management Discussion & Analysis

2019 has been a transformational year for Retail Banking with the transitioning to the new branch operating model, embedding customer centricity into our processes and culture to drive meaningful change. Our customer value proposition is now more vibrant and future forward with technology at its core, empowering customers to manage their money to fulfil their financial aspirations.

PERFORMANCE

Significance to Group

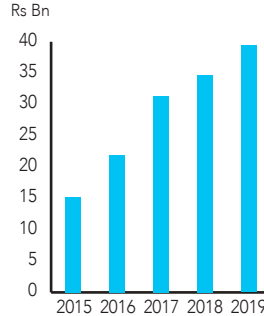
- 25%** of Operating Income
- 15%** of Total Assets
- 55%** of Total Liabilities



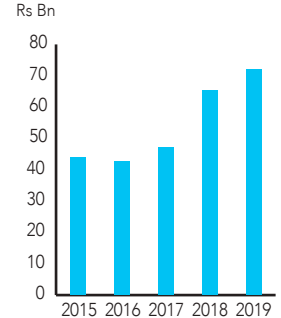
Best Retail Bank in Sri Lanka
International Finance Magazine

VALUE TO CUSTOMERS

Interest Paid to Customers



Disbursement



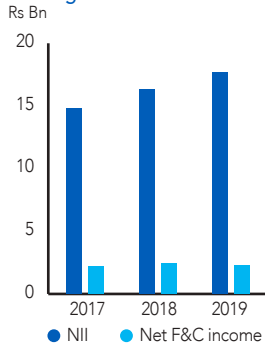
Highlights (Rs Mn)	2019	2018	Change
NII	17,680	16,308	8.4%
Fee & Commission Income	2,315	2,430	-4.7%
Total Operating Income	19,995	18,738	6.7%
Advances	177,166	158,968	11.4%
Deposits	528,228	484,511	9.0%
NPA	3.0%	2.6%	

New Products



Launch of digital payment solution
20,000+ customers

Earnings

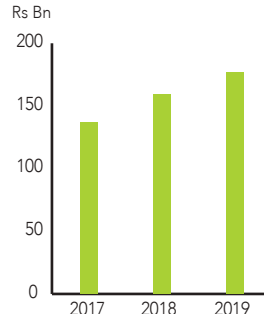


Net Promoter Score

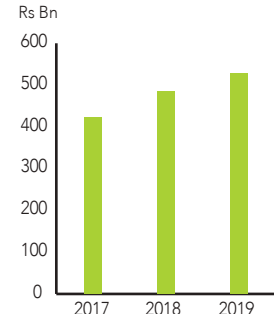


64%

Assets



Liabilities



Strengths, Opportunities & Challenges

The relationships we have built over 130 years are complemented by our infrastructure which gives us high levels of visibility throughout the country through 252 branches. These are strongly supported by electronic platforms, a comprehensive product portfolio and an ethos of caring for the customer by our dedicated team.

Sri Lanka enjoys relatively high levels of financial inclusion and the main opportunity is to drive high levels of customer satisfaction to gain market share and pursue opportunities to drive operating efficiencies to reap the dividend of sustained investments in technology. Project Everest has given HNB a head-start as we commenced a holistic digital transformation early, addressing legacy issues and investing in technology and our staff to support their digital migration as we differentiate ourselves in the market.

Performance

Project Everest deliverables were a key focus and we are pleased with the improvements in turnaround times achieved on credit cards, personal loans and numerous other processes, reducing customer waiting time. We also streamlined our processes to facilitate access to products and platforms through simplified and collated forms, easing customer pain points. The customer contact centre enhanced their operations to encompass voice, internet, social media and chatting with a live agent while also automating account and card balance. Innovation continues to be a key focus and HNB Solo is testimony of our ability to put smart technology in the hands of the customer, empowering them. We also refined our savings and housing loan products to build more flexibility to cater to customer requirements. As the leading merchant acquirer, we launched innovative promotions collaborating with merchants to delight customers, strengthening customer loyalty and moving towards a cashless economy. We launched Loans against Property to allow customers to borrow against assets for a wide range of needs. An innovative savings product HNB Savings + was launched during the year to support personal aspirations of our depositors.

The Retail Banking asset portfolio grew by 11.4% despite subdued economic conditions as we focused on increasing business volumes through targeted marketing. Liability growth



was also encouraging at 9% despite the ceilings imposed on deposits from April to September with CASA ratio improving towards the close of the year. Non-performing assets were a key concern reflecting economic strain across products which is being addressed through the new branch operating model and dedicated recovery processes.

HOUSING LOANS

- Demand remained subdued
- Innovated to enhance flexibility around grace periods and ballooning

LEASING

- #1 Leasing portfolio among LCBs
- Decline in volumes due to import restrictions

PERSONAL LOANS

- 29% growth in portfolio
- NPA at 2% despite stressed market conditions
- Re-engineered process with improved turnaround times

CREDIT CARDS

- Market Leader in Merchant acquiring
- Improved turnaround times

PAWNING

- Highest portfolio growth over the past five years

INWARD REMITTANCES

- Expansion in Australia, Seychelles and Middle East

SME

Management Discussion & Analysis

HNB's SME operations span several economic cycles and this expertise supports customers throughout their lifecycle with many progressing to become corporates. This year's activities focused on transitioning to a new operating model with highly skilled specialists at regional centres and head office, enabling branch staff to focus on driving business growth and relationship management. Technology plays a key role in our transformation, empowering customers and supporting their digitisation journey as future ready businesses.

PERFORMANCE

Significance to Group

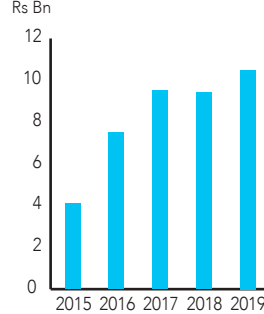
- 22%** of Operating Income
- 21%** of Total Assets
- 16%** of Total Liabilities



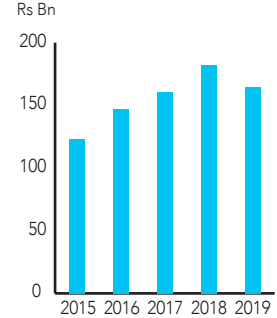
Best SME Bank in Sri Lanka by The Asian Banker

VALUE TO CUSTOMERS

Interest Paid to Customers



Disbursement



Highlights (Rs Mn)	2019	2018	Change
NII	13,784	14,059	-2.0%
Fee & Commission Income	3,919	4,476	-12.5%
Total Operating Income	17,703	18,535	-4.5%
Advances	241,037	239,989	0.4%
Deposits	156,279	144,452	8.2%
NPA	7.4%	5.6%	



40+

SME customers progressed to mid-market in 2019

13

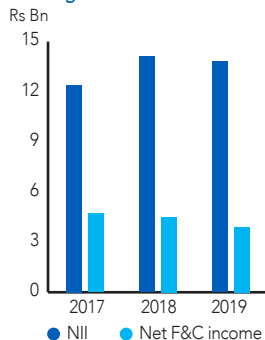
Capacity Building Programmes



490

Participants

Earnings

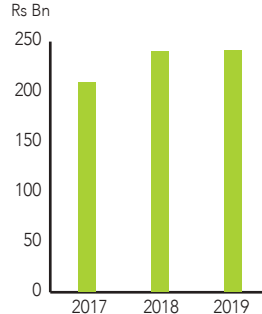


Disbursements from Refinance schemes

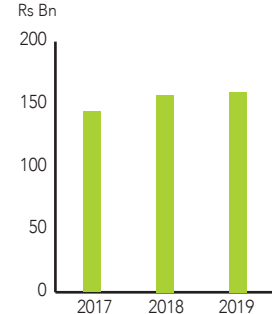


Rs. 1.2 Bn

Assets



Liabilities



Strengths, Opportunities & Challenges

As the leading SME bank in the country, HNB offers a unique value proposition for emerging corporates with a customer centric approach supported by a comprehensive portfolio of relevant products delivered through 252 branches and digital platforms. Our confidence in the potential of this sector and perceived gaps provided the impetus for transforming our branch operating model to service the needs of our clients better with improved turnaround times and deeper insights in to issues in this vital sector.

SMEs were impacted by the low economic growth rate, political uncertainty and the aftermath of the April terror attacks which crippled the tourism and related industries. These stressed market conditions resulted in subdued demand for credit and a deterioration in asset quality. Managerial capabilities within the sector remain a concern and we continue to invest in building financial management capabilities of the sector while also supporting their transition to a digital era.

Performance

HNB has been sensitive to the challenges of the sector leveraging decades of experience and continues to support SMEs through high levels of engagement to find innovative solutions. These included the roll out of an equity platform and e-commerce platform to add value to our customers.

Encouragingly, profitability of the Bank's SME operations improved as impairment charges declined due to proactive management of the portfolio, scrutiny to identify early warning signs and a structured approach to managing recoveries. Total operating income reflects the lacklustre economic conditions that prevailed during the year as both NII and Fee and Commission income declined by 2.0% and 12.5% respectively. The marginal increase in the portfolio was offset by decreasing net interest margins in response to market and policy measures to stimulate demand for private sector credit.

ROAD MAP TO 2020

The new branch operating model enables scaling up to expand SME operations with higher service standards and increased safeguards to manage asset quality. Our aim is to have happier customers and employees who are empowered to pursue their aspirations.

The SME sector is expected to pick up in 2020 in response to several initiatives launched by the Government and the banks which is evident in the tapering of NPAs. The initiative to grant credit support to SMEs in manufacturing, agriculture, services and construction sectors by way of a moratorium on capital repayments will further ease the NPAs and is expected to strengthen the outlook for this key customer segment.

INNOVATIONS IN 2019

HNB Ecommerce



A platform to connect export oriented SMEs to overseas buyers

SME Equity Platform

Working with a specialised fund to provide equity funding to SMEs

MICROFINANCE

Management Discussion & Analysis

HNB Microfinance is committed to creating opportunities for micro entrepreneurs and has in place an ecosystem to support their aspirations. We are the leading player in this vital segment with a portfolio of Rs 25.4 Bn, reflecting 30 years of focused attention to development of micro entrepreneurs, leveraging insights gained by listening to our customers.

PERFORMANCE

Significance to Group

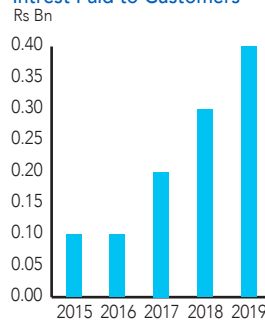
- 2% of Operating Income
- 2% of Total Assets
- 1% of Total Liabilities



Best Micro Finance Bank in Sri Lanka
The International Finance Magazine

VALUE TO CUSTOMERS

Interest Paid to Customers



250+
customers
progressed to
SMEs in 2019

Highlights (Rs Mn)	2019	2018	Change
NII	1,148	1,210	-5.1%
Fee & Commission Income	160	174	-8.2%
Total Operating Income	1,308	1,384	-5.5%
Advances	25,386	27,291	-7.0%
Deposits	5,811	6,674	-12.9%
NPA	8.1%	4.9%	

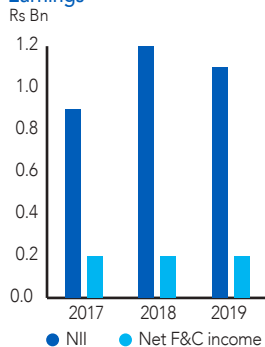
553

Development
Programmes



22,132
beneficiaries

Earnings

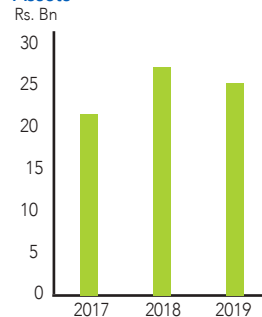


Disbursements from Refinance schemes

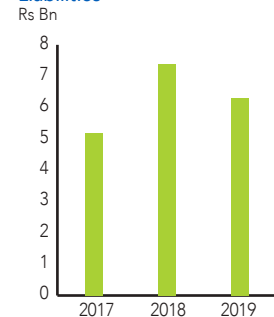


Rs. 382 Mn

Assets



Liabilities



Strengths, Opportunities & Challenges

HNB Microfinance has a multi-faceted presence in microfinance, engaging directly with micro entrepreneurs, other microfinance institutions that provide access to finance and with chambers of commerce and other organisations that facilitate capacity building or facilitate access to markets. A field force of 147 staff located islandwide proactively manage these relationships and are supported by a specialised team of experts located in regional offices and Head Office. These networks are a key strength as it enables us to have a holistic view of the issues relating to this vulnerable customer segment and support their journey in graduating to SMEs.

Focus on developing micro entrepreneurs by the Government, corporates and multilateral funding agencies provided opportunities for collaboration on capacity building and channelling concessionary funding. HNB's corporate relationships also provide opportunities for strengthening supply chains through value chain financing solutions.

Lack of financial safety nets, management skills, financial discipline, access to markets and climate change continue to be key challenges in developing this segment. These were exacerbated by the challenging economic and political conditions that prevailed during the year.

Performance

Project Everest had a positive impact, enabling the field force to focus on business development and relationship management while preparation of credit proposals became the work of specialists and processes become more efficient. This supported overall operational efficiencies and service excellence during the year, positioning us for growth with deeper insights supported by strong analytical and predictive capabilities.

Developing our team remains key to our growth and activities. In this regard training on value chain financing was conducted in addition to our regular training. Microfinance Field Officers' Conference and Awards Ceremony was held at the Auditorium of HNB Towers where those who excelled in the areas of both microfinance and agri lending during the years 2016, 2017 and 2018 were felicitated.

ROAD MAP TO 2020

As the leading player in microfinance in the country, we are well positioned for growth, leveraging a wide network of business partners who are committed to uplifting this customer segment. The policy environment is expected to remain favourable as microfinance is a key link in minimising inequalities which are now gaining prominence in local and global agendas including the Sustainability Development Goals. Implementation of the new branch operating model in 2019 is also expected to yield dividends in 2020 as new processes stabilise and economic conditions improve.

We continued our capacity building initiatives during the year, working with the Central Bank of Sri Lanka, USAID and chambers of commerce to facilitate the progression of micro entrepreneurs to SME categories as they grow and become more resilient with more formal structures and processes. Over Rs 8.5 Bn in concessionary funding was also channelled to them through the Enterprise Sri Lanka, Swashakthi and SAPP credit lines funded by GOSL and the International Fund for Agriculture Development.

We worked with large and medium scale companies and societies to support their out-growers and suppliers with value chain finance. Additionally, we identified progressive entrepreneurs to channel SME facilities to, preparing them for transition to higher levels of growth.

Portfolio growth and profitability remained flat reflecting the subdued economic conditions that prevailed during the year. Non-performing loans increased from 4.9% to 8.1% in 2019 as cashflows became straitened, necessitating focus on recoveries.

2019 HIGHLIGHTS

Financial Literacy

79 programmes covering 4,677 beneficiaries conducted across the country.

Access to Markets



Gami Pubuduwa Avurudu Pola conducted for the third consecutive year at BMICH enabling over 100 micro entrepreneurs to market their wares and establish market linkages

Strengthening Supply Chains

5000+

new micro entrepreneurs received financial support to grow their businesses with corporate customers.

Enterprise Sri Lanka

Participation in Enterprise Sri Lanka Exhibition in Anuradhapura

CORPORATE BANKING

Management Discussion & Analysis

HNB is the market leader in Corporate Banking among all Sri Lankan banks as affirmed by the awards received. A combination of excellence in relationship management, digital platforms and access to specialised knowledge underpin our success. Subdued economic growth and policy uncertainty resulted in a decline in private sector credit growth which was mitigated to a large extent by stronger relationships and strengthened credit processes.

PERFORMANCE

Significance to Group

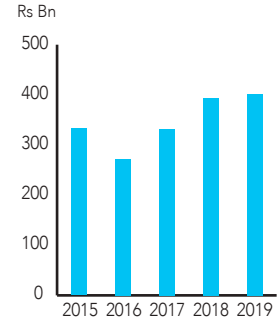
- 18%** of Operating Income
- 29%** of Total Assets
- 11%** of Total Liabilities



- Market Leader in Cash Management in Sri Lanka
 - Best Service in Cash Management in Sri Lanka
 - Sri Lanka Market Leader
 - Sri Lanka Best Service
- AsiaMoney Cash Management Survey 2019
- Euromoney Cash Management Survey 2019

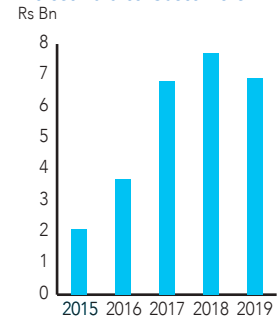
VALUE TO CUSTOMERS

Disbursement

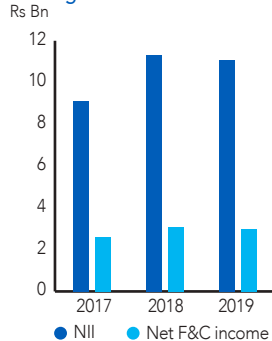


Highlights (Rs Mn)	2019	2018	Change
NII	11,142	11,302	-1.4%
Fee & Commission Income	3,019	3,134	-3.7%
Total Operating Income	14,161	14,435	-1.9%
Advances	331,246	346,427	-4.4%
Deposits	100,202	133,500	-24.9%
NPA	3.1%	1.7%	

Intrest Paid to Customers



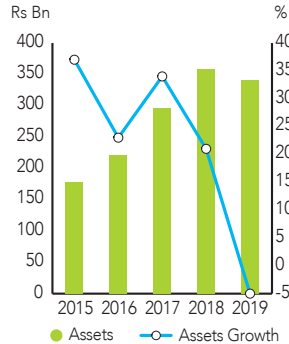
Earnings



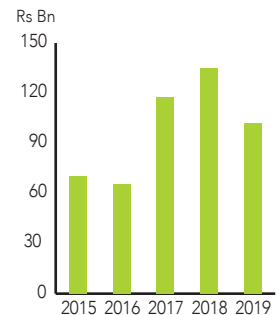
Best Sub Custodian Bank in Sri Lanka



Assets



Liabilities



Strengths, Opportunities & Challenges

As the largest Corporate Banking portfolio in the country, the Bank has developed significant knowledge and capabilities which is a considerable competitive edge. Consequently, our service offering is unparalleled as a comprehensive portfolio of products and digital platforms are supported by knowledgeable relationship managers and product specialists. Significant focus on processes and turnaround times during the year enhanced the offering as we launched several initiatives to embed customer centricity and service excellence as our key customer value propositions throughout the Bank.

Lacklustre demand for private sector credit, declining imports and the Easter Sunday terror attacks combined to make 2019 an extremely challenging year for corporates, necessitating a cautious approach to growth and enhanced scrutiny for early warnings.

Performance

Market conditions necessitated a cautious approach to growth resulting in a decline in the portfolio of 4.9% which stood at Rs 340.5 Bn at the close of the year. NII decreased marginally by 1.4% due to measures taken to reduce interest rates and the drop in the portfolio. Net Fee and Commission income decreased by 3.7% mainly due to low trade finance activity in the county.

Impairment charge for loan and other losses increased by 20.3% due to the challenging macroeconomic environment. Strengthened credit approval and recovery processes continue to support asset quality which was a key concern during the year due to the economic conditions that prevailed.

A comprehensive portfolio of products supported our performance during the year. The Bank's PCM Division became the market leader for printing dividends for corporates, serving as testimony to their service excellence. This key division of Corporate Banking supported CASA balances and Fee income. Custody and Trustee Services also had a stellar year, recording a fee income growth of 17.9% through securitisations and syndications. Selection as the custodian for leading payment gateway platforms such as WEBEXPAY, MYFEES and SHOPBOX also reflect recognition of the Bank as the market leader and alignment to



international best practice. Winning Best Sub Custodian awarded by Global Finance UK marked a milestone for this Custody & Trustee Services as this was the first time a local bank won this award.

TRADE SERVICES

Management Discussion & Analysis

Trade Services works together with Corporate and SME Banking to facilitate international trade through a global network of correspondent banks, leveraging their highly specialised knowledge to provide solutions for our customers. A comprehensive product portfolio including documentary credits and collections, entrepot trade, International Guarantees and open account transactions coupled with efficient processes, technology and a highly specialised team support the growth in market share.

PERFORMANCE

Significance to Group

4% of Operating Income

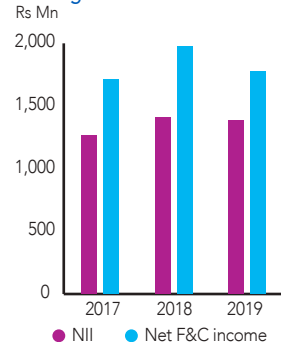
5% of Total Assets



Market Leader in Trade Finance' and 'Best Service in Trade Finance
Euro Money

Highlights (Rs Mn)	2019	2018	Change
NII	1,382	1,408	-1.9%
Fee & Commission Income	1,773	1,972	-10.0%
Advances	53,371	69,369	-23.1%

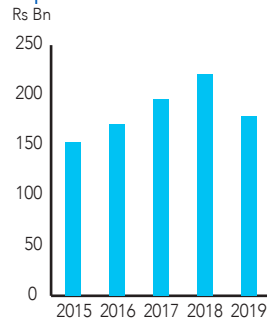
Earnings



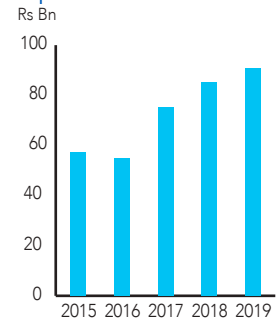
● NII ● Net F&C income

VALUE TO CUSTOMERS

Import Facilitated



Export Facilitated



99%



Customer Satisfaction

ISO 9001:2015



Certified Trade Finance Department



Market Leader in issuance of international guarantees



970

Correspondent Banking Relationships

TREASURY

Management Discussion & Analysis

HNB's Treasury is one of the largest treasuries in the country due to the volume of foreign exchange and money market transactions handled. As our actions impact the foreign exchange markets and interest rates, this key function of the Bank is monitored closely to ensure compliance with regulatory requirements and prudential guidelines.

PERFORMANCE

Significance to Group

- 12%** of Operating Income
- 26%** of Total Assets
- 10%** of Total Liabilities

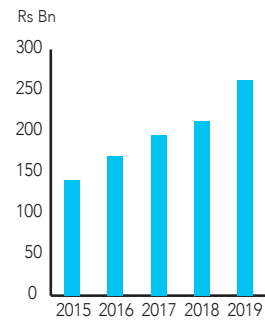
Raised
Rs 80.2 Bn



funding

VALUE TO STAKEHOLDERS

Investment in GOSL Securities



Highlights (Rs Mn)	2019	2018	Change
NII	5,569	4,254	30.9%
Forex Income	3,277	3,970	-17.5%
Investments	264,005	214,053	23.3%
Borrowing	104,900	97,300	7.8%
LAR	27.1%	22%	

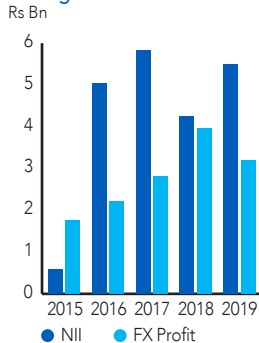
AWPR reduced by



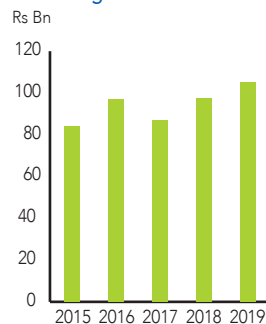
259

bps in accordance with CBSL requirements

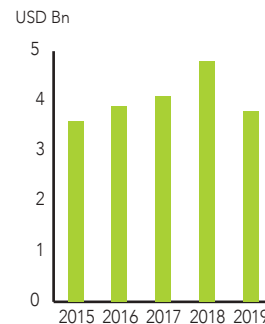
Earnings



Borrowing



Forex Transactions Handled



Strengths, Opportunities & Challenges

Robust and effective systems built over time, a comprehensive portfolio of products, the professionalism and experience of the Treasury staff and the ability to handle large transactions are the key strengths of this core function of the Bank. A strong rapport with the Corporate Banking, SME and the branches strengthens the value proposition for the customer who benefits from the expertise of the Treasury team in a seamless manner apart from the international relationships and connections the treasury maintains.

Challenges converged in 2019 as monetary policy changes were wide ranging. Measures to curtail imports of motor vehicles in place at the beginning of the year were made more stringent during the year resulting in declining trade volumes which was exacerbated by a curtailment of non-essential consumer goods. Maximum interest rates on deposits introduced in the second quarter were withdrawn to be replaced with directions to reduce lending rates by 200 bps for loans above 12.5% with a mandatory decrease in AWPR of 250 bps by each bank. These measures had an impact on Fixed Income operations of the Treasury and Net Interest Margins of the Bank which declined from 5.18% to 4.91% as a result.

Performance

Performance of the Treasury was significantly impacted by the confluence of restrictions on import volumes, interest rates and subdued economic growth in 2019. Restrictions on imports which prevailed for 9 months of the year impacted foreign exchange earnings which declined by 17.5% to Rs 3,277 Mn as trade volumes declined by 20%. While we focused on growing our export portfolios, the disparity between the country's imports and exports leaves little headroom for growth in the event of a decline in imports.

Fund based income increased by 30.9% to Rs 5.5 Bn despite measures to curtail rising interest rates as there was excess liquidity stemming from subdued demand for private credit. The Bank benefited from a strong portfolio of high yield instruments including investments in USD Sovereign bonds. Margins in the banking book narrowed in the 4th quarter as the Bank complied fully with the requirement to reduce lending rates.

Investments in GOSL securities increased by 23% to Rs 264 Bn during the year due to subdued demand for credit making the Bank one of the largest investors in GOSL securities in the country.

ROAD MAP TO 2020

As uncertainty becomes the norm both globally and locally, we have enhanced our understanding of the key drivers and remain on high levels of alertness having contemplated multiple scenarios based on geopolitical and economic risk factors. We will look to grow both our fee based and fund based income during the year but expect significant challenges to converge. Initiatives to hone our expertise and systems will continue in 2020 as these remain our key competitive advantages in challenging business landscape.

INSURANCE

Management
Discussion & Analysis

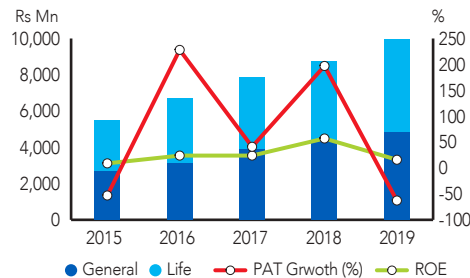
HNB Assurance PLC and its subsidiary HNB General Insurance Ltd., recorded strong growth and sustainable profits despite an extremely challenging industry landscape. HNBA marked a milestone in 2019 as it joined the parent company on the S&P20 during the year, gaining investor confidence and trading above its book value even during a low ebb in the Colombo bourse. Revision of the outlook for both HNBA and HNBGI from Stable to Positive and affirmation of our ratings at "A(lka)" bear testimony to our prudent management of our business.

PERFORMANCE

Significance to Group

- 14%** of Operating Income
- 2%** of Total Assets
- 3%** of Total Liabilities

Gross Written Premium



VALUE TO CUSTOMERS



Life Insurance

	Rs Mn
Maturity Claims	880
Surrenders	270
Death & Other Claims	298
Total Net Claims & Benefits	1,338
Claims Ratio	27%
Claims Ratio excluding Maturities	9%
Bonus to Life Policy Holders	116
Dividend to Policy Holders	80%

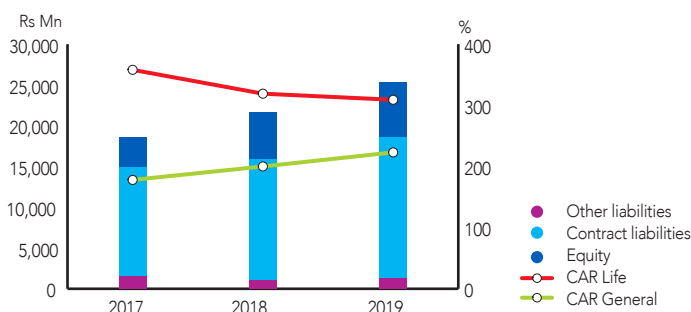


General Insurance

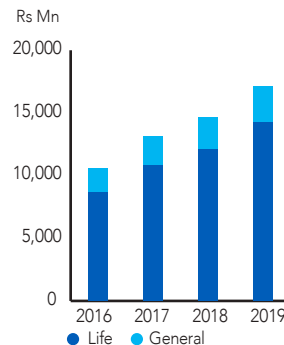
	Rs Mn
Claims	2,283
Claims Ratio	64%

Highlights (Rs Mn)	2019	2018	Change
Gross Written Premiums	9,943	8,725	14.0%
PAT	1,011	2,702	-62.6%
Total Comprehensive Income	1,041	2,672	-61.0%
Total Assets	26,621	22,274	19.5%
Insurance Contract Liabilities			
- Life	14,465	12,261	18.0%
- General	2,871	2,525	13.7%
Equity	6,706	5,744	16.7%
ROE	16%	57%	
Capital Adequacy Ratio			
- Life	309%	319%	
- General	223%	200%	
No. of Policyholders	306,532	295,411	3.8%
No. of Advisors	2,552	2,265	12.7%

Capital Adequacy Ratios & Capital Structure



Life & General Insurance Funds



Strengths, Opportunities & Challenges

Our strategies for profitable growth in 2019 were based on a forecast of subdued economic growth which played a key role in driving performance as it sharpened our focus on identifying lucrative business segments. It also strengthened the due diligence on evaluating alternative strategies which was supported by prudent risk management policies aligned to market forecasts. A strong brand backed by the strength of our parent, sound ratings and an agile team aligned to corporate values are our key strengths as evinced by our performance.

Insurance sector penetration continues to remain low providing an opportunity for growth. Challenges to growth of the sector vary from market structures, high cost distribution channels, relatively low financial literacy, low interest rates and rising healthcare costs.

The Insurance Regulatory Commission of Sri Lanka issued a mandatory Code on Corporate Governance during the year with which HNBA is fully compliant. We have also commenced an impact assessment and gap analysis of IFRS 17 which is scheduled to become effective in 2021 globally as well as in Sri Lanka.

Performance

HNBA Group recorded a resilient performance, recording 14% in Gross Written Premiums to Rs 9,943 Mn as the Group continued to outstrip industry growth rates. Profit after tax of Rs 1,011 Mn reported in 2019 is lower than corresponding figure reported for 2018. The reduction is attributable to the one-off surplus and recognition of the deferred tax asset in 2018. However, excluding the one-off surplus of Rs 381 Mn the profit before tax of the Company has grown by 17% compared to 2018 reflecting robustness of the prudent operational strategies.

Investment income which accounts for 21% of Net income continues to maintain returns above market, using mainly fixed income instruments. Asset allocations to the listed portfolio was reduced to less than 1% to reduce impact. The ceiling introduced on deposit rates did not have a significant impact and removal of the same proved timely as continued ceiling could have impacted investment income.

Life Insurance

The Life insurance sector recorded a GWP growth of 17% as we sought to enhance market penetration leveraging the strength of our network partnership with the parent company on bancassurance channel. This alignment to Group has been positive as the quality of referrals improved significantly compared to other channels. Despite the bancassurance channel demonstrating above benchmark performance, the Company's Agency channel also kept pace amidst challenging conditions associated with general economic downturn witnessed across many other segments of the society.

General Insurance

Intense competition within the industry led the company to further consolidate the GI business in profitable segments. Winning the confidence of market intermediaries was a key contributor, particularly the insurance brokers, lease and hire purchase providers who perceived HNBGI as fulfilling market expectations to the letter and spirit. The company's track record of settling claims in an efficient manner has been the key market differentiation strategy and payments on claims increased by 5% during the year. Growth continues to be challenged as low economic growth impacted the entire value chain including core activities such as transportation, construction and tourism.

ROAD MAP TO 2020

Widely expected General Election is likely to give rise to policies to stimulate spending on both consumption and investment which is likely to be countered by a cautious approach by customers. An uptick in economic growth would provide much needed boost to the industry going forward.

Preparation for IFRS 17 necessitates a review of our business model and has the potential to impact product design, business channels and performance. We will also address the gaps in the non-mandatory corporate governance code issued by the regulator.

We will continue to drive business growth through detailed analysis coupled with our insights of the industry to identify potential business propositions to enhance penetration of insurance services in the country. Focus on deriving synergies within the HNB Group will also be a key strategy as these channels are aligned to the overall vision of the Group. Prudent risk management will be the cornerstone of our strategy as we uphold our covenants to our key stakeholders.

INVESTMENT BANKING

Management
Discussion & Analysis

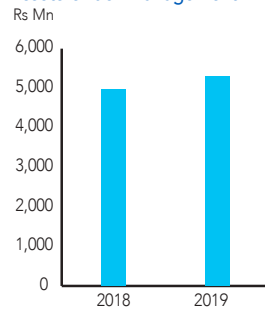
Acuity Partners Ltd provides a comprehensive range of investment banking services, supporting access to capital and wealth creation. It is a market leader across a range of products and is one of the largest investment banks in the country in terms of assets. A joint venture with DFCC Bank, Acuity Partners is a vital link in the Group's value chain.

PERFORMANCE

Significance to Group

0.2% of Total Assets

Assets Under Management



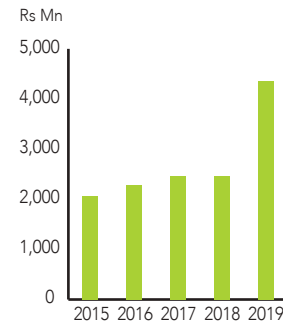
VALUE TO CUSTOMERS

Full Range of Investment Banking Services

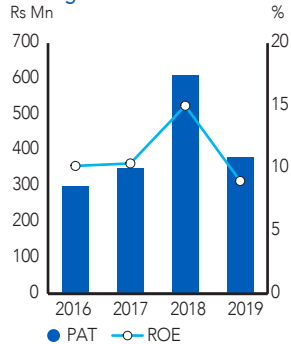
- Corporate Finance
- Stock Brokering
- Primary Dealership
- Asset Management
- Venture Capital

Highlights (Rs Mn)	2019	2018	Change
Fund based income	1,410	1,305	9%
Fee based income	81	81	0%
Profit attributable to shareholders	380	610	-38%
Total Comprehensive Income	593	1,172	-49%
ROE	9%	15%	
Debt:Equity	38%	19%	

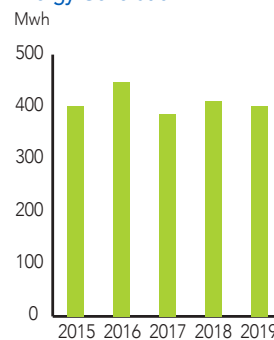
Investments in Renewable Energy



Earnings



Energy Generation



Strengths, Opportunities & Challenges

The investment banking industry in Sri Lanka is highly susceptible to political and economic factors, which is further compounded by the relatively small size and illiquidity of our capital markets. We have mitigated the potential adverse impact of political and economic factors on our profitability by diversifying our revenue streams facilitated by a full range of fee and fund based services. Income from our fund based and proprietary investment activities have enabled us to withstand downturns in trading and fee based activities which are more cyclical in nature and correlated with political and economic factors. Technological developments present both threats and opportunities which we mitigate by being ahead of the curve in adopting new technologies, particularly in the fintech space which we believe present potential growth opportunities in the future. Being part of an industry that is licensed and regulated by multiple regulatory bodies, Acuity adheres to highest levels of compliance to mitigate potential legal threats to our business. Changing environmental factors affect our business indirectly through their impact on the economic and business conditions in the country. We take pride in being a pioneering institutional investor in the renewable energy space in Sri Lanka, and endeavour to introduce and promote ESG compliant investment opportunities in Sri Lanka.

Performance

The year under review was a difficult year for the industry given the economic and political instability following the Easter bombings and the elections in November of 2019. Our main strategy as a group was to expand market share where possible, curtail costs in light of the poor business environment and to take calculated trading and investment decisions with regard to our proprietary portfolios. In this regard, significantly better contributions were made by both the Corporate Finance unit in terms of fee income and the Primary Dealer unit in terms of fund based and trading income, compared to the previous year. This enabled the group to improve its consolidated profitability before interest cost and taxation (EBIT) to Rs 1,109 Mn compared to Rs 677 Mn in the previous year. However, group profitability before tax was impacted by higher interest cost at Lanka Ventures, on account of short-term borrowings taken to fund new

ROAD MAP TO 2020

Economic and political risk remains the key PESTEL factors affecting our industry as noted above. Policy measures taken to decrease interest rates are likely to impact our fund based income negatively while it may support our non-fund based income.

Our main strategic initiatives to mitigate these risks will continue to focus on our diverse revenue streams and product lines. We will endeavour to further diversify our revenue streams beyond Sri Lanka and to introduce new products and services. We expect economic and political risks to alleviate somewhat in the current year with the likelihood that there will be a more stable government post General Elections in the second half 2020. We expect that this would lead to improved market sentiment and overall business conditions in 2020 and beyond.

investments, which we expect will reverse in the current financial year as the company implements its long term funding plans for its new investments. Despite the challenging business environment, Acuity group continued to deliver healthy consolidated ROE's surpassing the comparative financial KPIs of our peer group, when adjusted for the impact of short term items as mentioned above.

CORPORATE FINANCE

Delivered profit growth over 2018 supported by higher income from debt placement activities and M&A. IPOs and equity capital raising continued to be subdued in light of adverse market conditions.

PRIMARY DEALERSHIP

A commendable year with profit growth over the previous year supported primarily by significantly higher trading income.

STOCKBROKING

Depressed market conditions continued to inhibit performance of this subsidiary. However there was a marked improvement in market sentiments leading up to and in the aftermath of the elections in the last quarter of the financial year.

VENTURE CAPITAL

Investments in the Power & Energy Sector supported top line growth of Lanka Ventures. Profitability was dampened by higher interest costs on bridging finance taken as a short term measure to fund its investment commitments in new projects.

ASSET MANAGEMENT

Guardian Asset Management delivered a commendable performance in a challenging environment.

FINANCE BUSINESS

Management Discussion & Analysis

2019 was a year re-balancing the loan portfolio for HNB Finance Ltd., as it transitions its business model from a microfinance focus to a wider portfolio, embracing the needs of SME clientele. Accordingly, SME loans, leasing, education loans and gold loans were added to the portfolio which was also rationalised to support the new business model. This progressive finance company drives success through a focus on people as affirmed by its inclusion in the Top 25 of Great Place to Work in Asia in 2019.

PERFORMANCE

Significance to Group

7% of Operating Income
3% of Total Assets
4% of Total Liabilities



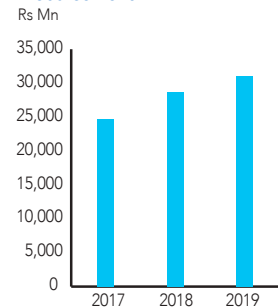
Great Place to Work
 Top 25 in Asia
 Top 10 in Sri Lanka



Gold Award for Best Rural
 Activation for Brand Awareness
 at 8th ACEF Asian Leaders
 Forum & Awards, India

VALUE TO CUSTOMERS

Disbursement



Highlights (Rs Mn)	2019	2018	Change
NII	4,418	4,364	1.2%
Fee & Commission Income	813	526	54.5%
Advances	28,619	23,667	20.9%
Deposits	26,455	20,124	31.5%
ROE	2.5%	19.7%	
NPA	11.1%	9.1%	

262,500+

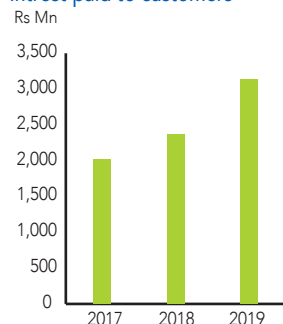
Customers engaged/week



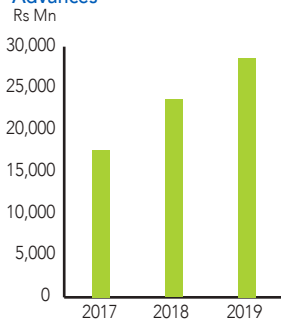
10,500 +

meetings/week

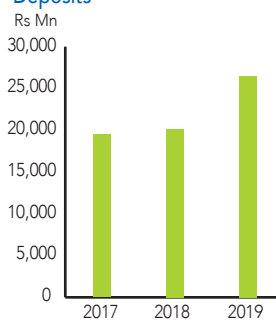
Interest paid to customers



Advances



Deposits



20

Capacity building
 programmes



1,363

Participants

Strengths, Opportunities & Challenges

Our main strength is the high level of customer engagement which underpinned our success as a microfinance institution and proves as valuable as we transition to serve the SME business segment. The change in the business model is our key opportunity to expand our presence, supporting customers throughout their growth phase with relevant products. The relationships and insights developed by a truly committed team is a critical success factor and we continue to invest in providing a conducive workplace and training aspiring professionals to nurture this intangible asset.

Declining macroeconomic indicators proved a significant challenge as many of our customers were adversely impacted resulting in portfolio stresses. Increased regulatory capital requirements adds to the challenges making rebalancing of the portfolio a key imperative.

The Micro Finance Act to a certain degree has addressed the issues in the market that still remains unregulated to a greater extent. We look forward to the enactment of the proposed credit regulatory authority that will level the playing field weeding out the unscrupulous and unethical practitioners in the market.

Performance

HNB Finance delivered asset growth of 23% during a year in which we sought to rebalance a high risk-high reward microfinance portfolio with a lower risk and reward SME portfolio, achieving the desired mix in terms of loans and advances. Interest income remains skewed towards microfinance due to the high risk-high reward nature of the product. We also focused on growing fee based income promoting island wide utility bill payments, and collaborating with the two leading mobile operators for digitalised cash collection systems. Profitability was impacted by both the deteriorating economic conditions and the impact of IFRS 9 implementation. Recoveries were further strengthened to minimise stresses on the loan portfolio. Operational and Service Excellence remain a core part of our value proposition and we focused on driving operational efficiencies to optimise resources and reduce turnaround times. Success areas included rationalisation of the



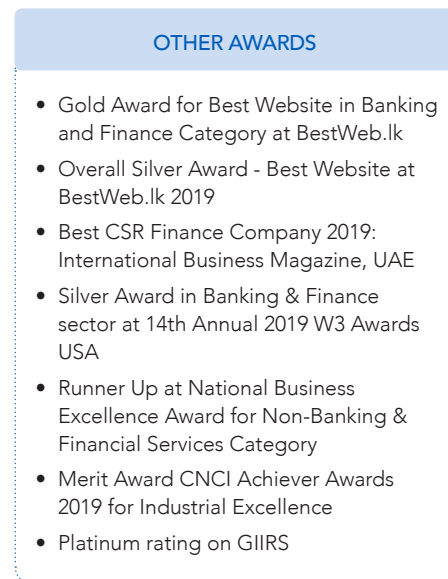
ROAD MAP TO 2020

Our focus will be to drive organic growth of the business while balancing risk and reward in a prudent manner in line with the market dynamics. We will fine tune our products further and continue to drive operational efficiencies to improve productivity and profitability. We expect NPAs to remain a concern across the entire industry and will continue to work with our customers to find workable solutions in a proactive manner.

HNB Finance has applied for a listing to the Colombo Stock Exchange and expect the process to be completed in 2020.

product portfolio, added features to successful products and significantly reduced paper usage. We have also taken steps to reduce interest cost by changing funding composition and issued debentures of Rs 1,159 Mn to improve Tier II capital.

We further strengthened our bonds with communities through our sustainability initiatives in the areas of empowering entrepreneurs, health, education and environment. We continued our capacity building programmes for customers, collaborating with partners to enhance the scope of the offering as we sought to improve financial and digital literacy. Accordingly, we partnered with ICTA's WiFi Suhuruliya and Smart Social Circle programmes to provide financial literacy and backup to entrepreneurs and community opinion leaders. USAID funded YouLead partnership facilitated workshops to better prepare our customers, especially women entrepreneurs and those in the MSME sector, to support and grow their businesses and eventually mentor and lead



OTHER AWARDS

- Gold Award for Best Website in Banking and Finance Category at BestWeb.lk
- Overall Silver Award - Best Website at BestWeb.lk 2019
- Best CSR Finance Company 2019: International Business Magazine, UAE
- Silver Award in Banking & Finance sector at 14th Annual 2019 W3 Awards USA
- Runner Up at National Business Excellence Award for Non-Banking & Financial Services Category
- Merit Award CNCI Achiever Awards 2019 for Industrial Excellence
- Platinum rating on GIIRS

other budding entrepreneurs to kick-start their own businesses.

We assisted sustainable drinking water solutions in two rural schools. Over 2,000 trees were planted during the year with 1,000 trees around Nikeweratiya tank, 1,000 at Tissamaharama where HNB Finance provided the water system. We also held three Yalu Daskam art workshops in three schools in remote villages, providing art materials and holding exhibitions. Yalu Minor Savings accounts were opened for all the children who participated with an initial deposit.

REAL ESTATE

Management Discussion & Analysis

Sithma Developers Ltd., which owns and manages the iconic building that serves as the Headquarters for HNB, delivered a stable performance in an uncertain business environment. The risk events that unfolded during the year highlighted the need for secure buildings along with intelligent solutions for managing impacts on climate change and we were proud to have been sought after by potential customers who understood our unique value proposition

PERFORMANCE

Significance to Group

- 1% of Operating Income
- 1% of Total Assets
- 1% of Total Liabilities

A GRADE
Smart Building



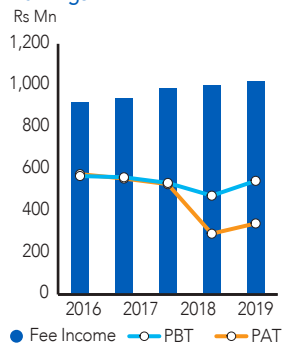
VALUE TO CUSTOMERS



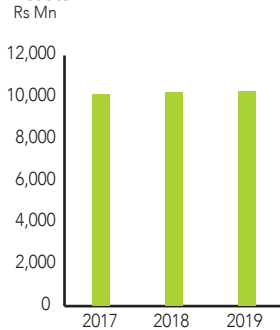
Adherence to **British Standards** on Fire and Air Conditioning

Highlights (Rs Mn)	2019	2018	Change %
Rental Income	987	983	0.4%
Investment Income	36	20	78.3%
PBT	544	473	15.0%
PAT	340	291	16.8%
ROE	4.6%	4.1%	
Debt Equity	0.3%	0.9%	

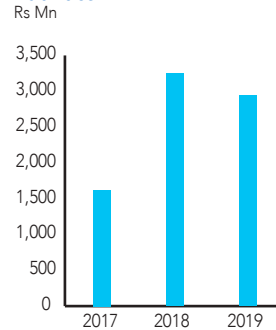
Earnings



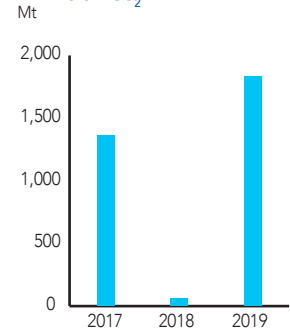
Assets



Liabilities



Emmision Co₂



Strengths, Opportunities & Challenges

Sithma's main asset is the Head Office Building which is located in the heart of Colombo's business district in close proximity to both the General Hospital and the Fire Department which are located within a 1km radius. It is also one of the key A Grade smart buildings in the country which enhances the value proposition for potential tenants.

Widening our business activities to manage key branch premises owned by the Bank in 2018 is testimony to our premises management capabilities which supported our growth. We now manage five branch premises, ensuring that the Bank has modern workspaces that reflect the brand, meeting the need for infrastructure, energy and communication technology requirements with environmentally responsible solutions.

Our main challenges continue to be increasing operational costs, the need to move to new technologies to proactively manage our carbon footprint and the need to handle significant upgrades within fully functional premises. Our success lies in setting benchmarks for safe, smart buildings that offer conducive business environments.

Performance

Revenue growth of 2% was driven by the rental increases. Rising operational costs was a key challenge as we invested in strengthening security of the premises in response to heightened security concerns in the country. We continue to benchmark British safety standards for fire prevention and detection and air conditioning systems to ensure that our premises are sufficiently secured to safeguard the lives of those who work and conduct business within them. As our lofty aspirations come at a cost, this year's profits remain flat as we stretched our resources to enhance security.

Regular fire drills ensure high levels of awareness and preparedness in the case of risk events for the safety of those who work within our premises.

ROAD MAP TO 2020

Fuel prices are expected to increase in view of the current fuel subsidies and geopolitical unrest impacting oil producing countries. This, in turn is likely to result in higher electricity costs and operational costs posing challenges to profitability. We will continue to pursue new technologies to reduce our carbon footprint and operational costs, setting benchmarks for premises management in the country.

CORPORATE GOVERNANCE: ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

Governance Reports

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 2019, 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 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 and a foreign currency issuer rating of B2 by Moody's Investors Service, which is on par with the sovereign rating. HNB is the first Sri Lankan Bank to obtain an international rating.

The registered office and Head Office of the Bank is located at No 479, T B Jayah Mawatha, Colombo 10, Sri Lanka.

The financial statements were reviewed and approved by the Board of Directors on 20th February 2020.

Corporate Governance Highlights

The stewardship exercised by the Board on behalf of the Bank's shareholders and other stakeholders, necessitates upholding high standards of Corporate Governance and ensuring accountability, fairness, and transparency throughout the Bank. The Board ensures that the Bank's Corporate Governance framework remains robust and relevant in a highly regulated industry and challenging business environment. Industry regulations and internal policies, underpin the governance framework, which is regularly reviewed to adapt to internal developments and benchmarked against international best practice.

Details of compliance with the Banking Act Direction No. 11 of 2007 and the Institute of Chartered Accountants of Sri Lanka (ICASL) Code of Best Practice are set out on pages 4 to 40 of our full Corporate Governance Report available online at www.hnb.lk.

The Board

The Board is made up of experienced professionals from diverse backgrounds, experience, expertise and age, contributing varied perspectives to boardroom deliberations and constructively challenging management on matters concerning the operations of the Bank. Directors are appointed through a formal and transparent process, assessed for their independence and approved by the Central Bank of Sri Lanka. New Board members are inducted thoroughly aimed at providing them with the information and support needed to be effective. Directors continue to keep abreast of changes in regulations and the business environment by attending seminars, workshops, conferences and formal training programmes to build their capability to guide the Bank through key challenges.

Board Meetings

Details of Directors' meetings are given below.

Attendance at Meetings

Board Member	Date of Appointment to the Board	Board	Board Audit Committee	HR & Remuneration Committee	Nomination Committee	Board Integrated Risk Management Committee	Related Party Transactions Review Committee	Strategy & Investment Review Committee	Procurement & Assets Disposal Committee	Board Credit Committee	Board Recoveries Committee
Total Meetings Held		17	9	3	5	12	4	10	9	6	9
Mr Dinesh Weerakkody	29th June 2017	■ 17/17		■ 3/3	■ 5/5						
Mr Jonathan Alles (MD/CEO)	01st May 2013	17/17	*4	*2	*1	4/12	**3/4	*6		*6	
Ms Rose Cooray (Retired w.e.f. 15th February 2019)	15th February 2010	2/2			*1,1/1	1/1		*1,1/1	*1,1/1		
Dr Rohan Karunaratne	06th October 2011	**16/17	**6/9						■ 8/9	5/6	
Mr Sujeewa Mudalige (Resigned w.e.f. 29th March 2019)	02nd April 2012	3/5	2/2	0/1		*2		3/3			
Mr Rusi Captain	02nd April 2012	**17/17	**8/9		**5/5	**9/9					
Mr Amal Cabraal	01st April 2014	17/17	*1	3/3		*1		■ 10/10		5/6	8/9
Mr Palitha Pelpola	30th April 2015	13/17		2/2	5/5		2/4			2/2	
Mr Duliksha Soosaipillai	30th April 2015	17/17	*6			■ 12/12		9/10	9/9		9/9
Mr Nilanth de Silva	30th April 2015	17/17	9/9				■ 4/4			■ 6/6	8/9
Mr Madu Ratnayake	25th October 2018	**15/17				8/12		7/9	5/9		
Mr Damien Fernando	25th October 2018	**17/17	**8/9					**8/10	**6/6		■ **9/9
Mr Asoka Pieris	01st April 2019	**11/11	■ 6/7			*7				3/4	6/7
Dr Harsha Cabraal	26th September 2019	**2/3									

* Meetings attended by invitation

** Includes Meetings attended by an alternative Director

■ Chairman

Chairman

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 Chairman 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.

Leadership

The Board collectively sets the risk appetite of the Bank, leads in formulating the Bank's strategy and monitors the achievement of goals and objectives set. The roles and responsibilities of the Chairman and Chief Executive Officer have been clearly separated and no one Director has unfettered power and authority on the Board. The Board has delegated specific oversight responsibilities that warrant greater attention, to nine (09) Board Sub-Committees. Of these, five are mandated and are compliant with the regulations. The reports of these five Committees are given on pages 107 to 119 in IR. Committee mandates are reviewed regularly.

Remuneration

The HNB 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. Furthermore, details of Directors' emoluments and other benefits paid in respect of the Group and the Bank during the financial year ended 31st December 2019 are given in Note 17 to the financial statements in IR page 197.

CORPORATE GOVERNANCE: ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

Governance Reports

Board Evaluation

A performance evaluation designed to improve the Board's effectiveness and that of its Committees, is conducted annually in line with good Corporate Governance practices. Each member of the Board carries out a self-assessment of his/her effectiveness as an individual as well as the effectiveness of the Board as a team.

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. The Directors have no direct or indirect interest in a contract or a proposed contract with the

Bank other than those disclosed on page 123 to 127 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. Related party transactions are disclosed in Note 60 to the financial statements in IR page 277.

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

The Board complies with all applicable laws and regulations including the Listing Rules of the CSE, and the directions issued by the Central Bank of Sri Lanka. The Board is also guided by the Bank's policies, its values, standards and its 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.

Group Corporate Governance

The Bank's Board is responsible for Corporate Governance across the Group, ensuring the consistent application of sound policies and procedures aligning the structure, business and risks of the Group to that 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 Us	IR 6
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, 2019	IR 140 - 288 Signed on page IR 142
3	Auditor's report on the financial statements of the Bank and the Group	Section 168 (1) (c)	Independent Auditors' Report	IR 137-139
4	Any change in accounting policies made during the accounting period	Section 168 (1) (d)	Note 2.2 to the financial statements - Changes in Accounting Policies and Disclosures	IR 150
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 - Conflicts of interests, provides details of management of Directors' Interests	IR 123 - 127 CG&RR 21
6	Remuneration and other benefits of Directors during the accounting period	Section 168 (1) (f)	Note 17 to the financial statements - Other Expenses Corporate Governance report - Fair and Responsible Remuneration, provides details of the remuneration framework	IR 197 CG&RR 22
7	Total amount of donations made by the Company during the accounting period	Section 168 (1) (g)	Note 17 to the financial statements - Other Expenses	IR 197

No.	Disclosure requirements	Reference to the Companies Act No 7 of 2007	Disclosure reference for compliance	Page
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 20 - 23
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 17 to the financial statements – Other Expenses	IR 197
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. Ernst & Young, Chartered Accountants.</p> <p>Corporate Governance Report - Independence and Objectivity of the External Auditor, provides details of the Policy for the Engagement of the External Auditor for Audit and Non-Audit services. Based on the declaration provided by Messrs. Ernst & Young, 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>As per its internal policy the Bank is proposing to rotate its Auditor. Accordingly, the Board of Directors has recommended the appointment of Messrs KPMG Sri Lanka, Chartered Accountants as the Bank's Auditor for the year 2020.</p> <p>A resolution 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 23
11	Signed on behalf of the Board by two Directors and the Company Secretary	Section 168 (1) (k)	Complied with	IR 106

CORPORATE GOVERNANCE: ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

Governance Reports

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	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 5
2	Principal Activities	About us	IR 6
3	Changes to the Group Structure	There were no changes to Group structure during the year	-
4	List of Directors of Subsidiaries and Joint Ventures of the Bank as at 31st December 2019	<p>Subsidiaries</p> <p>HNB Assurance PLC Ms Rose Cooray - Chairperson Mr D P Lokuarachchi - MD/CEO Mr L U Damien Fernando Mr Stuart A Chapman Mr Dilshan Rodrigo Ms S N Wickramasinghe Dr S Selliah Mr J A P M Jayasekera Mr D R Abeyesuriya Mr K L Wijesooriya (Alternate Director to Mr Dilshan Rodrigo)</p> <p>Sithma Development (Pvt) Ltd Mr P R Saldin - Chairman Mr Chandana Panditharatne - Director/CEO Mr Dilshan Rodrigo Ms Anuradhi Delage Mr Roshan Fernando Mr K L Wijesooriya (Alternate Director to Mr Dilshan Rodrigo)</p> <p>HNB Finance Ltd Mr Jonathan Alles - Chairman Mr B M D C Prabath - MD/CEO Mr B Premalal Mr A Wijesinha Mr S U H Fernando Mr P A H D Wijesundara Mr Rajive Dissanayake Mr Mahinda Perera</p> <p>Joint Ventures</p> <p>Acuity Partners (Pvt) Ltd Mr Jonathan Alles - Chairman Mr M R Abeywardena - MD Mr L H A L Silva Mr Rajive Dissanayake Mr Damith Pallewatte Mr N H T I Perera</p>	

No.	Disclosure	Note Reference	Page
		<p>Other Group Companies</p> <p>HNB General Insurance Ltd Ms Rose Cooray - Chairperson Mr D P Lokuarachchi - MD/CEO Ms M Tharmaratnam Mr M O F Salieh Mr Dilshan Rodrigo Mr Damien Fernando Mr Sanjay Wijemanne Mr Arjuna Abeygunasekara Mr K L Wijesooriya <i>(Alternate Director to Mr Dilshan Rodrigo)</i></p> <p>Lanka Ventures PLC Mr L H A L Silva – Chairman Mr M R Abeywardena Mr Jonathan Alles Mr A R Munasinghe Mr J D N Kekulawala Ms Anusha Gallage</p>	
		<p>Acuity Securities Ltd Mr M R Abeywardena - Chairman Mr I A S P Fernando Mr Damith Pallewatte Mr Ashok Goonesekere Mr Arjuna Abeygunasekara</p> <p>Acuity Stockbrokers Ltd Mr M R Abeywardena - Chairman Mr P P S Fernando Ms K A L Thushari Ranaweera Mr N H T I Perera Mr Ashok Goonesekere Mr Sanjay Wijemanne</p>	
		<p>LVL Energy Fund PLC <i>(Subsidiary of Lanka Ventures PLC)</i> Mr L H A L Silva - Chairman Mr Jonathan Alles Mr A R Munasinghe Mr M R Abeywardena Mr M A Wijetunge Mr M M Wijetunge Ms Anusha Gallage Mr J D N Kekulawala Mr K C S Dharmawardana</p>	
5	Review of Operations	Chairman’s Message Managing Director/CEO’s Message Managing Our Capitals, Output & Outcomes Business Line Review	IR 10 - 13 IR 14 - 17 IR 44 - 77 IR 78 - 97
6	Future Developments	Chairman’s Message Managing Director/CEO’s Message Managing Our Capitals, Output & Outcomes Business Line Review	IR 10 - 13 IR 14 - 17 IR 44 - 77 IR 78 - 97
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. The financial statements of the Group and the Bank for the year ended December 31, 2019	IR 140 - 288
8	Directors’ Responsibility for Financial Reporting	Directors’ Responsibility for Financial Reporting	IR 136
9	Auditors’ Report	Independent Auditors’ Report	IR 137 - 139
10	Significant Accounting Policies	Note 2 to the financial statements - Basis of Preparation and Other Significant Accounting Policies	IR 149
11	Going Concern	Note 2.3.1 to the financial statements – Going Concern	IR 151
12	Income	Note 7 to the financial statements – Gross Income	IR 188

CORPORATE GOVERNANCE: ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

Governance Reports

No.	Disclosure	Note Reference	Page
13	Financial Results and Appropriations	Statement of Profit or Loss Statement of Comprehensive Income Statement of Changes in Equity	IR 140 IR 141 IR 143 - 146
14	Reserves	Statement of Changes in Equity	IR 143 - 146
15	Corporate Donations	Note 17 to the financial statements - Other Expenses The Bank did not make any donations to Government approved charities	IR 197
16	Taxation	Note 20 to the financial statements - Income Tax Expense	IR 199
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 22 to the financial statements - Dividends Paid and Proposed	IR 203
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 1,647,531,000/- and Rs 2,043,617,000/- respectively (2018 Bank: 1,935,507,000/- and Group: Rs 2,205,288,000/-) Details are given in Note 35, 36 and 38 to the financial statements.	IR 238 - 255
(ii)	Capital commitments	Capital expenditure approved and contracted for and approved and not contracted for, as at balance sheet date are given in Note 58 (b) to the financial statements – Capital commitments.	IR 276
20	Property, Plant and Equipment	Note 36 to the financial statements - Property, Plant and Equipment	IR 243 - 252
21	Net Book Value of Freehold Properties	Note 36 to the financial statements - Property, Plant and Equipment.	IR 243 - 252
22	Outstanding Litigation	In the opinion of the Directors and the Bank's Lawyers, pending litigation against the Bank disclosed in Note 58 (c) of the financial statements, will not have a material impact on the financial position of the Bank or its future operations. Notes 58 (c) to the financial statements - Litigation against the Bank	IR 276
23	Events after the Reporting Date	Note 64 to the financial statements - Events Occurring After the Reporting Period	IR 288
24	Stated Capital and Debentures	Notes 53 and 46 to the financial statements – Stated Capital and Subordinated Term Debts, respectively	IR 270 & 259
25	Share Information	Investor Relations	IR 297 - 306
26	Shareholdings	Investor Relations	IR 297 - 306
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.	-

No.	Disclosure	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 2019 No of Shares</th> <th>As at 31st December 2018 No of Shares</th> </tr> </thead> <tbody> <tr> <td>Mr Dinesh Weerakkody</td> <td>2,089</td> <td>2,050</td> </tr> <tr> <td>Mr Jonathan Alles</td> <td>125,452</td> <td>123,504</td> </tr> <tr> <td>Ms Rose Cooray*</td> <td>7,203</td> <td>7,068</td> </tr> <tr> <td>Dr Rohan Karunaratne</td> <td>1,070</td> <td>1,055</td> </tr> <tr> <td>Mr Sujeewa Mudalige**</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr Rusi Captain</td> <td>7,379</td> <td>7,271</td> </tr> <tr> <td>Mr Amal Cabraal</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr Palitha Pelpola</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr Duliksha Soosaipillai</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr A N de Silva</td> <td>102</td> <td>101</td> </tr> <tr> <td>Mr Damien Fernando</td> <td>624</td> <td>615</td> </tr> <tr> <td>Mr Madu Ratnayake</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr Asoka Pieris</td> <td>-</td> <td>-</td> </tr> <tr> <td>Dr Harsha Cabral</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr P R Saldin (Alternate Director to Mr Rusi Captain)</td> <td>-</td> <td>-</td> </tr> <tr> <td>Dr Prasad Samarasinghe (Alternate Director to Mr Damien Fernando)</td> <td>-</td> <td>-</td> </tr> </tbody> </table>	Name	As at 31st December 2019 No of Shares	As at 31st December 2018 No of Shares	Mr Dinesh Weerakkody	2,089	2,050	Mr Jonathan Alles	125,452	123,504	Ms Rose Cooray*	7,203	7,068	Dr Rohan Karunaratne	1,070	1,055	Mr Sujeewa Mudalige**	-	-	Mr Rusi Captain	7,379	7,271	Mr Amal Cabraal	-	-	Mr Palitha Pelpola	-	-	Mr Duliksha Soosaipillai	-	-	Mr A N de Silva	102	101	Mr Damien Fernando	624	615	Mr Madu Ratnayake	-	-	Mr Asoka Pieris	-	-	Dr Harsha Cabral	-	-	Mr P R Saldin (Alternate Director to Mr Rusi Captain)	-	-	Dr Prasad Samarasinghe (Alternate Director to Mr Damien Fernando)	-	-	-
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30	Directors' Interest in Debentures	<table border="1"> <thead> <tr> <th>Name</th> <th>As at 31st December 2019 No of Debentures</th> <th>As at 31st December 2018 No of Debentures</th> </tr> </thead> <tbody> <tr> <td>Mr Amal Cabraal</td> <td>100,000</td> <td>100,000</td> </tr> </tbody> </table>	Name	As at 31st December 2019 No of Debentures	As at 31st December 2018 No of Debentures	Mr Amal Cabraal	100,000	100,000	-																																													
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31	Directors' Remuneration	Note 17 to the financial statements - Other Expenses	IR 197																																																			
32	Human Resources	Human Capital	IR 58 - 63																																																			
33	Employee Share Option Plan	Note 53 to the financial statements - Stated Capital	IR 270																																																			
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 report on Managing Our Capitals, Output & Outcomes.	IR 44 - 77																																																			
35	Risk Management and Internal Control	Corporate Governance Report - Risk Management and Internal Control	CG&RR 24																																																			
36	Directors' Statement on Internal Control	Directors' Statement on Internal Control Over Financial Reporting	IR 120 - 121																																																			
37	Corporate Governance	Corporate Governance Report	CG&RR 4 - 40																																																			
38	Insurance and Indemnity	Pursuant to a decision of the Board, the Bank obtained an Insurance Policy to cover Directors' and Officers' liability	-																																																			
39	Material Foreseeable Risk Factors (As per Rule No 7.6 (VI) of the Listing Rules of the Colombo Stock Exchange)	Risk and Capital Review	CG&RR 41 - 80																																																			

CORPORATE GOVERNANCE: ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

Governance
Reports

No.	Disclosure	Note Reference	Page
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 8 - 9
42	Shareholder Litigation	A Court action has been instituted by a constituent whose name had been removed from the register of shareholders with effect from 19th August 2010 on a direction given by the CBSL in terms of Sec. 12(1)(1c) of the Banking Act No 30 of 1988 (as amended from time to time), in the Court of Appeal under proceedings number CA (WRIT) 145/2018 praying for a mandate in the nature of Writ of Certiorari quashing the determinations of the Director of Bank Supervision of CBSL dated 11.12.2017 and 19.02.2018 relating to accumulated distribution rights of the Petitioner and for issuance of a mandate in the nature of a Writ of Mandamus directing the Monetary Board of Sri Lanka and the Director of Bank Supervision of CBSL to recognise the Petitioner's entitlement to the full economic benefit of the distribution rights accumulated in respect of the shares that were held by the Petitioner in the capital of HNB during the period its name had been removed from the register of shareholders as aforesaid and the shares it held have been categorized as 'un-registered'. HNB has been cited as a defendant in this case.	-

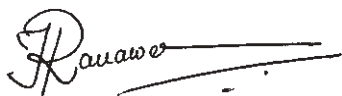
Notice of Annual General Meeting

The 51st Annual General Meeting of the Bank is convened on 30th March 2020, at 10.00 in the forenoon, at the Auditorium on Level 22 of "HNB Towers" (Registered Office), No 479, T B Jayah Mawatha, Colombo 10. The Notice of the 51st 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)/Company Secretary



Jonathan Alles
Managing Director/Chief Executive Officer

Colombo, Sri Lanka
20th February 2020



Dinesh Weerakkody
Chairman

HR AND REMUNERATION COMMITTEE REPORT



“The Bank is fully committed to invest in Human Capital Development to enhance the level of skills and also the acquisition of new skills and knowledge that are necessary to improve performance at work.”

*Dinesh Weerakkody
Chairman HRRC*

Composition & Meetings

The Committee appointed by the Board of Directors comprises three Non-Executive Directors, of whom two including the Chairman are Independent Directors. One member is Non-Independent. The members of the Committee have wide experience and knowledge of Finance, HR, Marketing and the Financial Industry. The following Directors serve/served on the HR & Remuneration Committee:

- Mr Dinesh Weerakkody (IND/NED) – (Member w.e.f. 20th February 2018, Chairman w.e.f. 1st June 2018)
- Mr Sujeewa Mudalige (IND/NED) (up to 29th March 2019)
- Mr Amal Cabraal (NIND/NED)
- Mr Palitha Pelpola (IND/NED) – (member w.e.f 5th April 2019)

(IND - Independent Director, NIND Non-Independent Director and NED - Non Executive Director)

Brief profiles of the Directors are given on page 20 to 23 in IR.

Meetings

The Committee met three (3) times during 2019.

Attendance details of meetings held during 2019 are as follows.

	Eligible to attend/ Attended
Mr Dinesh Weerakkody	3/3
Mr Sujeewa Mudalige	1/_
Mr Amal Cabraal	3/3
Mr Palitha Pelpola	2/2

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

Policy

The Bank's HR Remuneration Policy aims to attract, motivate and retain employees with the appropriate professional, managerial and operational expertise, necessary to achieve the objectives of the Bank in a competitive environment.

The focus of the Committee is to oversee and provide guidance 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 KMPs 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 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

KEY INITIATIVES IMPLEMENTED IN 2019

- With a view to future-proof the workforce a HR transformation road map was designed and approved
- Reviewed the Talent Management process that builds a pool of trained staff who are ready to fill key roles in the Bank to meet natural attrition and business expansion
- Approved a selection matrix for key leadership positions.
- Agreement with the CBEU was concluded successfully.
- Established a Social Media Policy
- Strengthened the Whistle Blowing Policy and process

- Short and long-term incentives that are competitive and linked to the creation of sustainable performance and shareholder returns.
- Workforce representation
- Leadership hires

To achieve these goals;

- Sets targets and goals for the MD/CEO and the KMPs annually.
- Reviews the Human Resource policies and interventions, salary structures, incentives schemes benefiting Senior Management. In this process, necessary information and recommendations are obtained from the MD/CEO and the Head of Human Capital Management. The Committee evaluates their performance, deliberates and recommends to the Board of Directors the remuneration packages, annual increments and bonuses of the MD/CEO, Chief Operating Officer (COO), members

HR AND REMUNERATION COMMITTEE REPORT

Governance
Reports

Meetings of the HR & Remuneration 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 were regularly reported to the Board of Directors.

Regular Attendees by Invitation

The Managing Director/Chief Executive Officer (MD/ CEO) who is responsible for the overall management of the Bank, attends meetings and participates in the Committee meetings by invitation. The MD/CEO does not take part in the Committee deliberations when his performance and remuneration is discussed or reviewed.

Secretary to the Committee:

The Board Secretary acts as the Secretary to the Committee.

- of the Corporate Management and Senior Management staff.
- c. The organisation structure is reviewed annually and changes are made in line with the Bank's strategic direction.
 - d. An on-going priority is to ensure proper succession for critical positions in the Bank.
 - e. Recruitment and promotions 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.
 - f. In respect of diversity, to review and recommend to the Board in relation to:
 - i. the Bank's diversity policy;
 - ii. establishment of measurable objectives for achieving diversity across the Group, and the annual assessment of both the objectives and progress in achieving them; and annually, to review and report on the relative proportion of women and men in the workforce at all levels and review remuneration by gender and consider whether any pay gap exists as a result of gender difference and where relevant, provide recommendations to the Board.

Employment Report

In order to achieve our mission, the Bank needs a workforce that is skilled and representative of the customers we serve. Therefore, the current and future success of the Bank is dependent on the knowledge and collective skills of our employees and in the face of new pressures 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 skills and also the acquisition of new skills and knowledge that are necessary to improve performance at work.

The table below reflects the employment report of the Company as at 31st December 2019.

Levels	Total
Top Management	19
Senior Management	57
Mid Management [Executive Officers I to III, Management, Management Trainee, Probationary Executives]	826

Junior Management, Supervisors and Clerical Staff [Junior Executives, Clerical]	3,290
Secretaries	193
Workers [Electricians, Technical Assistants, Drivers, Labourers, Peons]	161
Total Permanent	4,546
Employees on Contract	367
Total	4,913

* Women make up 43% and men make up 57% of our workforce.

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

The Bank will continue to focus on introducing and strengthening HR policies, practices and systems in the area of performance management, employee recognition, workforce productivity, key capabilities and employee engagement in 2020. Our results in diversity, equity, and inclusion don't meet our ambitions as yet. And with the scale and speed of growth in the banking industry, innovative recruitment alone will never fully solve this problem. To meet this challenge in 2020 we will challenge ourselves and others to think differently so that we widen pathways for our employees. Only then will we be able to reflect our consumer base, and truly elevate our ability to strengthen our value proposition to them.



Dinesh Weerakkody
Chairman

Human Resources & Remuneration
Committee

Colombo, Sri Lanka
20th February 2020

NOMINATION COMMITTEE REPORT



“Talent management and succession planning for roles below Board level has been a key topic for discussion and the Committee continued to monitor activities and initiatives to strengthen the Bank’s talent pipeline.”

*Dinesh Weerakkody
Chairman Nomination Committee*

Composition & Meetings

The following Directors serve/served on the Nomination Committee:

- Mr Dinesh Weerakkody (IND/NED) - Chairman
- Ms Rose Cooray (NIND /NED) – up to 24th January 2019
- Mr Rusi Captain (NIND/NED)
- Mr Palitha Pelpola (IND/NED)

(IND - Independent Director, NIND Non-Independent Director and NED - Non Executive Director)

The Committee met Five (05) 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	5/5
Ms Rose Cooray <i>(till 24th January 2019)</i> <i>(Attended one meeting as an invitee)</i>	1/1
Mr Rusi Captain <i>(four meetings through Alternate Representative)</i>	5/5
Mr Palitha Pelpola	5/5

Regular Attendees by Invitation:

Managing Director/Chief Executive Officer participated at the meetings on invitation as and when necessary.

Secretary to the Committee:

The Board Secretary functions as the secretary to the Committee.

Activities in 2019

The Committee mainly focused on reviewing the Bank’s corporate governance policies, guidelines and principles and skill gaps at Key Management level to ensure the balance of skills and experience with independence and knowledge of candidates to make sure that those who are best able to meet the challenges and opportunities facing the Group and to promote its success are appointed. The Committee continuously reviewed succession-planning efforts at the level of Key Management Personnel (KMPs). Talent management and succession planning for roles below Board level has 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 up group Director positions on group Company Boards to ensure alignment. 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 the similar metrics were applied and all the vacancies on the Board during the year 2019 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 terms of skills, experience and diversity. In addition, the Committee is entrusted with the responsibility of:

1. 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;

KEY ACTIVITIES IN THE 2019 FINANCIAL YEAR

During the year the Committee’s activities included:

- Reviewed Board composition, including the process for the appointment of new Directors;
- Reviewed succession plans for Board and KMPs;
- Oversight of the Board evaluations undertaken during the year;
- Monitoring environmental, social and governance developments and managed the implications for the group;
- Assessing the Board’s skill sets 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.
- Put in place a process for appointing Alternate Directors.
- Appointed industry experts to the Boards of Group Companies to strengthen Board capacity.

2. 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 of the Board;
3. Reviewing criteria such as qualifications, experience and key attributes required eligibility to be considered for appointment or promotion to the post of Managing Director/CEO and/or the Key Management positions;

NOMINATION COMMITTEE REPORT

Governance Reports

4. 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;
5. 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;
6. Oversee the process by which the Board, its Committees and individual Directors assess their effectiveness, and report to the Board on findings and recommendations.

The Terms of Reference

The Terms of Reference (TOR) of the Nomination Committee, adopted by the Board in 2012, was further refined in 2013 and 2014. It was further reviewed and amended by the members at their meeting held on 19th January 2018 as per the Code of Best Practice on Corporate Governance - 2017 published by The Institute of Chartered Accountants of Sri Lanka.

Duties discharged by the Committee

Board Composition

The Committee

- Identified the required skill gaps at Board level and recommended candidates to fill vacancies on the Board.
- Evaluated the TOR of the Board statutory and non-statutory Sub-Committees during the year and set out clear guidelines/principles on the responsibilities and conduct of such Committees;
- 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 two Directors to fill casual vacancies created by the resignations and further recommended that the Directors so appointed be formally appointed by the shareholders at the 51st Annual General Meeting to be held on 30th March 2020 in terms of Article 36 of the Articles of Association of the Bank.

Succession Planning

The Committee:

- Reviewed the Succession Plan – Policy Statement - 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 MD/CEO, KMPs and Directors;
- Formulated a Process for the appointment of Alternate Directors;
- Reviewed and recommended all new appointments to the Boards of subsidiary and associate companies of the Bank;
- Job Descriptions (the JDs) of the Key Management Personnel were reviewed in detail to ensure compliance with the criteria set by the Committee;

Group Governance/Management Principles

- Based on the established Group Governance Code of 2016, the Committee, on 22nd November 2019 assessed the level of compliance by the Bank's Group Companies for the year 2019, and further recommended that the Compliance Department provides a report to the Committee that the governance principles prescribed in the code have been 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

In addition to overseeing the rollout of an induction programme for the newly appointed Directors, the Committee proposed a comprehensive training programme for Non-Executive Directors, in coordination with Sri Lanka Institute of Directors (SLID).

Re-election/Re-appointment of Directors at the 51st Annual General Meeting

- One Director namely Mr D A Cabraal representing not more than 1/3rd of the Board and having served three years since last re-election, is to retire by rotation and is eligible to be re-elected/re-appointed at the 51st Annual General Meeting to be held on 30th March 2020, under Article 34 of the Articles of Association. The Committee, taking into account his contribution recommended the above-mentioned name to the Board of Directors for approval. Accordingly, the Board at its meeting held on 20th February 2020, recommended that Mr D A Cabraal should be re-elected/re-appointed a Director of the Bank at the next Annual General Meeting.
- Directors - Mr Asoka Pieris and Dr Harsha Cabral PC who were appointed to fill casual vacancies during the year 2019 have offered themselves for formal appointment under Article 36 of the Articles of Association. The re-appointment of Mr Asoka Pieris and Dr Harsha Cabral PC were recommended by the Committee.

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 2019, conducted by the Chairman and Committee Members and the review concluded that the Committee continues to operate effectively. The Committee however noted the need to continuously review the process used in relation to appointments, the Committee's approach to succession planning and how best to support developing a diverse pipeline of potential Non-Executive Directors.



Dinesh Weerakkody
Chairman

Nomination Committee

Colombo, Sri Lanka
20th February 2020

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT



"Our focus is towards a dynamic and engaged risk management function assessing and managing embedded and emerging risks the Bank encounters whilst maintaining the rigour of enterprise wide risk management and to serve as an enabler for sustainable business decisions."

Duliksha Soosaipillai
Chairman BIRMC

Composition & Meetings

During the year 2019, the Board Integrated Risk Management Committee (BIRMC) comprised four (04) members, where three (03) members were Non-Executive Directors.

Members

- Ms Rose Cooray (NIND/NED) - Chairperson - On completion of nine years of service on the Board, Chairperson retired on 15th February 2019.
- Mr Duliksha Soosaipillai (IND/NED) Appointed as a new Chairman w.e.f. 25th January 2019
- Mr Jonathan Alles (MD/CEO)
- Mr Madu Ratnayake (IND/NED)
- Mr Rusi Captain (NIND/NED) w.e.f. May 2019
- Mr Damith Pallewatte - DGM-Risk/Chief Risk Officer/Chief Information Security Officer
- Ms Mohini Seneviratne - Head of Compliance retired on 31st July 2019
- Mr Janath Ilangantileke - Chief Compliance Officer appointed w.e.f. 1st August 2019

Brief profiles of the directors representing the committee are given on pages 20 to 23 in IR.

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

The Primary Responsibilities of the Board Integrated Risk Management Committee

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

- To ensure that the Bank has a 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 cyber security 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 and 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 metric.
- Periodically assess performance against the defined risk appetite and risk goals set for the Bank.
- Review issues raised by internal audit that impact upon the risk management framework and refer in writing to the Board Audit Committee (BAC) any matters that have come to the attention of the committee that is relevant to the BAC.
- Review compliance on the Basel III guidelines and provide risk insights on SLFRS 9 implementations.

MAJOR INITIATIVES BY THE RISK MANAGEMENT UNIT DURING 2019

- Implementation of the Retail Loan Origination System (LOS)
 - Completion of risk model development project to be in line with SLFRS 9, Basel III and the validation of internal risk ratings
 - Recalibration and development of new rating models to suit target customer segments
 - Implementation of a DLP tool
 - Rolled out data classification solution across the Bank
 - Deployed a state of the art PAM solution to have a clear visibility over privileged user activities on critical systems
 - Aligned risk management team and functions to support the Bank's transformation strategy
- Examine any other matters referred to it by the Board.

Other Responsibilities of the Committee

The BIRMC also assists 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.

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

Governance
Reports**Meetings**

Twelve (12) meetings were held and at least one in each quarter. Attendances at the meetings are also given in table on page 99 in IR.

Discussions and conclusions reached at the meetings are recorded in minutes and circulated to the Board of Directors for information and advice. The Chairman of the committee also briefs the Board of Directors on the main findings of the committee at each Board meeting.

	Eligible to attend/ Attended
Ms Rose Cooray retired on 15th February 2019.	1/1
Mr Duliksha Soosaipillai	12/12
Mr Jonathan Alles (MD / CEO)	12/4
Mr Madu Ratnayake	12/8
Mr Rusi Captain	*9/9
Mr Sujeewa Mudalige (invitee)	3/2
Mr Asoka Pieris (invitee)	9/7
*Through Alternate Director	

Regular Attendees from the Management by Invitation:

Mr Dilshan Rodrigo
- Chief Operating Officer

Mr Niroshana Seneviratne
- Chief Internal Auditor/DGM - Internal Audit

Ms Anusha Gallage
- Chief Financial Officer/AGM-Finance

Mr Ruwan Bakmedeniya
- Chief Information Officer/AGM IT

Mr Rohan Buultjens
- Chief Technology and Digital Officer
appointed w.e.f 1st January 2019

Other invitees from Board

Mr Sujeewa Mudalige (IND/NED)
Resigned w.e.f March 2019

Mr Asoka Pieris (IND/NED)
Attended from May 2019

Secretary to the Committee:

Mr Damith Pallewatte
- DGM-Risk/Chief Risk Officer/Chief Information Security Officer.

Review and refer back for action to any subcommittee of the Board any matters that are either specifically referred to the attention of the committee or that come 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 emerging 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 are in conformity with the provisions of the aforementioned 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 subsequent amendments in Directions 10, 11 and 12 of 2019.

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 its 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 2019**Integrated Risk Management**

- Engaged an external expert to develop capabilities of the risk management function to align itself to regulatory requirement and risk management best practices. Accordingly, risk model development project was initiated during the year and following outcomes were delivered:
 - Comprehensive refinements were made to the existing Internal Capital Adequacy Assessment Process (ICAAP) of the Bank.
 - Developed a board approved policy to govern, set and review the Boards risk appetite for the Bank and formulated a framework to align the

LOOKING AHEAD

- Implement a Digital Right Management (DRM) solution to establish granular level security controls over sensitive data transfers.
- Engage an external expert to conduct a cyber-security gap assessment and advise the Board of Directors on areas of concern and perform security benchmarking on the Bank's cyber security strategy and framework.
- Establish a Security Operating Centre (SOC) in order to strengthen the cyber security surveillance and incident response process.
- Procure an IT System to Manage Operational Risk activities.
- Procure a state-of-the-art solution for Individually Significant Loan (ISL) assessments with business intelligence and advanced features for expected credit loss capturing and impairment determination.
- Rollout of second phase of LOS Go-Live i.e. SME and Corporate Modules.
- Implementation and full rollout of IRR corporate module through upgraded rating software integrated with LOS corporate module.
- Introduce a comprehensive cyber crisis management and incident response plan.
- Rollout of RAROC across all business units and embed the risk based pricing mechanism.
- Upgrade of Treasury Voice Recording system, to a state of the art system with better security and controls in place ensuring compliance of regulatory requirements and best practices.

risk monitoring limits with industry benchmarks.

- Reviewed and strengthened Pillar II qualitative risk assessment criteria to ensure that the most suitable parameters applicable are used in assessing through scorecards.
 - Improved overall stress-testing framework by expanding stress testing time horizons for the next three years in understanding its impact on available capital and impact on additional required capital.
 - Revised the existing credit risk stress testing framework with the addition of new scenarios incorporating SLFRS 9 elements
 - Introduced a model risk management framework in order to measure potentially adverse consequences from decisions based on incorrect or misused outputs and reports which form the model risk. Model risk was included as a part of ICAAP document as was assessing model risk by way of a qualitative scorecard.
 - As a part of the refined ICAAP, the Bank took initiatives to assess the aggregated risk arising from all the subsidiaries taking into consideration of the respective individual risk profiles and any associated contagion risk.
 - Introduced a disclosure policy establishing an industry best practice governance structure around financial and risk related material disclosures.
2. Carried out comprehensive industry and country risk analysis which were escalated to the BIRMC in order to provide an informed view on any Risk-Reward trade-offs.
 3. A process is being established to prepare a risk heat map in order to escalate enterprise wide key risks to the Board of Directors so that high level risks can be managed through a forward looking approach.

Credit Risk

1. Implemented a new branch operating model (BOM) enabling segregation of operations, Sales and Servicing,

relationship management, credit appraisals, approvals and security documentation functions enabling Credit underwriting to be independent of business development and relationship management.

2. Revised the Delegated Authority to facilitate the new credit vertical in order to expedite the credit approval process and be more focussed on the credit proposal underwritten.
3. Centralized the Credit Administration functions with the aim of standardising, improving the efficiency, compliance and control in preparing and safe custody of security documents which was previously carried out at branch level.
4. Reviewed following credit policies covering Personal Loans, Leasing, Credit Cards, Housing Loans and SME Lending in order to improve the credit culture of the Bank and in accordance with the Risk Appetite.
5. Introduced stringent credit guidelines and a new process for effective management of temporary overdraft facilities.
6. Continuous credit trainings were conducted by local and international trainers (Manipal University, India) for credit staff in view of improving the quality of the credit assessments and credit operations functions.
7. Launched a project to implement a next generation LOS consisting of both retail and corporate modules. Retail module has been moved to live operations in 4Q 2019 enabling superior customer service and efficient credit approval process.
8. Established a Special Asset Management (SAM) Unit to manage accounts with Early Warning Signals of stress with appropriate financial solutions to prevent further deterioration of credit quality.
9. Existing Internal Risk Rating models were validated and recalibrated i.e. large corporate, mid-market, SME and financial institutions by external experts.
10. New risk rating models were introduced to assess obligors covering retail, micro finance, small-SME and project finance business segments. Both models i.e. recalibrated and newly developed, are being hosted on an upgraded rating

system to interface with new LOS implementation.

11. Introduced a mechanism to implement a risk-based pricing model and a Risk Adjusted Return on Capital (RAROC) framework which will be fully rolled out during 2020.

Information & Cyber Security

1. Established a framework to strengthen the data security of the Bank by developing an information classification policy, defining roles and responsibilities of CIO & CISO.
2. Information Security Steering Committee (ISSC) was established to facilitate review of information and technology risk related policies, procedures and controls.
3. Information classification policy was implemented across the Bank and data classification solution was rolled out as a mandatory security control for employees who communicate with external entities.
4. Implemented a Data Loss Prevention (DLP) solution across all user end points to ensure monitoring and preventing sensitive data leakages. A second phase of a Digital Rights Management Tool is planned.
5. Engaged an external cyber security expert to carry out a review on system functionalities and Vulnerability Assessment & Penetration Testing (VAPT) in 11 identified mission critical systems.
6. Deployed a state of the art Privilege Access Management (PAM) solution to have a clear visibility over privileged user activities.

Loan Review Mechanism (LRM)

1. Provided valuable insights across the entire credit process.
2. Expanded the scope of LRM to provide analytical reports with regard to new accounts moving in to non-performing category and credits which have been proposed to be recovered through parate actions.
3. Reviewed the LRM Policy during the year and coverage was enhanced to match the current scope of the LRM.
4. Carried out continuous training sessions in creating awareness of LRM function and

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

Governance Reports

the use of LRM findings and early warning signals for better credit management.

Portfolio Risk Management

1. Engaged an external consultant for SLFRS 9 impairment modelling and advisory services to deliver Risk Estimates (PD, LGD & EAD) as inputs for impairment provision determination. The initiative also addressed development of macro-economic models, a policy framework for staging criteria, and the establishment of a SLFRS 9 governance structure etc. under the scope of SLFRS 9 ECL determination.
2. Provided valuable input to business units improving monthly slide decks circulated to manage risk-reward formulae among five separate PFS portfolios i.e. Personal loans, housing loans, credit cards, leasing and pawning.
3. Actively involved in the new TOD management process identifying the eligible customers for Pre-Approved Credit (PAC) Limits and close monitoring of exceptions to the new Guidelines.

Operational Risk

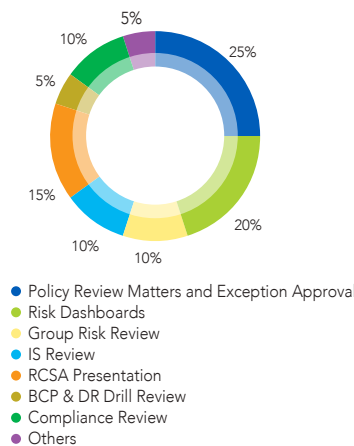
1. Conducted a comprehensive Business Impact Analysis (BIA) covering all the departments of the Bank and the results were used to complete a comprehensive Bank-wide BCP document.
2. Established the Recovery Time Objectives (RTO) and Recovery Point Objectives (RPO), of the critical bank processes and IT systems.
3. Enhanced the coverage of Risk Control Self-Assessment (RCSA) process by onboarding critical business units and support functions and covering all major units of the Bank. Operational controls in place and on-going remedial measures were assessed through RCSA findings and oversight of RCSA process has been mandated to the Operational Risk Steering Committee (ORSC).
4. Standardisation of the root cause analysis process, with recommendations for control improvements which would help the Bank to reduce repeat occurrences of loss events.
5. Conducted risk management training programme for the staff attached to the branch network and other Head Office

departments in order to create awareness of risk management activities.

Market Risk

1. Strengthened the Bank's market risk limit structure by establishing new limits to regulate the foreign borrowings in line with regulatory requirements and the Bank's risk appetite.
2. Improved counterparty credit risk monitoring based on currency exposures, secured and unsecured exposures to effectively manage the credit risks associated with treasury undertakings.
3. Revised the tolerance and hair cut limits to address market volatility and to ensure adequate margins are maintained.
4. Carried out stress testing under market risk for the Bank and treasury portfolios with more stringent shock levels to assess the resilience of the Bank under more rigorous stress scenarios.

Allocation of agenda time of the BIRMC was as follows



Summary of BIRMC Charter

Establishing a risk management framework that proactively support 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.

Professional Advice

The BIRMC is authorized to obtain legal or other professional advice internally and/ or from outside the Bank as and when it considers 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 maybe of relevance to their mandates.

Committee Evaluation

The committee completed the evaluation process with a self-assessment in January 2020 with the result "satisfactory".

Duliksha Soosaipillai
Chairman

Board Integrated Risk Management Committee

Colombo, Sri Lanka
20th February 2020

BOARD AUDIT COMMITTEE REPORT



"The role, skills and processes of the audit committee continue to evolve, keeping pace with technology, regulation and financial reporting developments to ensure that our obligations are discharged with due care."

Asoka Pieris
Chairman Audit Committee

Composition & Meetings

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

The following Directors serve/served on the Board Audit Committee:

- Mr Sujeewa Mudalige (IND/NED) - Chairman (Resigned w.e.f. 29th March 2019)
- Mr Asoka Pieris (IND/NED) - Chairman (Appointed w.e.f. 05th April 2019)
- Dr Rohan Karunaratne (IND/NED)
- Mr Rusi Captain (NIND/NED)
- Mr A N de Silva (IND/NED)
- Mr Damien Fernando (NIND/NED)

Membership attendance details of meetings held during 2019 are as follows.

	Eligible to attend/ Attended
Mr Sujeewa Mudalige - Chairman (Resigned w.e.f. 29th March 2019)	2/2
Mr Asoka Pieris - Chairman (Appointed w.e.f. 05th April 2019)	7/6
Dr Rohan Karunaratne (Appointed w.e.f. 25th January 2019)	**9/6
Mr Rusi Captain	*9/8
Mr A N de Silva	9/9
Mr Damien Fernando	***9/8

* Through Alternate Director, Mr P R. Saldin

** Includes one (01) meeting attended by Mr Duliksha Soosaipillai.

*** Includes two (02) meetings attended by Alternate Director, Dr Prasad Samarasinghe

Mr Amal Cabraal and Mr Duliksha Soosaipillai resigned from BAC w.e.f. 25th January 2019.

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 June 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.
- Exercise independent oversight of the Bank's assurance functions, including external, and internal audit and ensure the independence and effectiveness of both the external and internal audit functions.
- 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.

Authority of the Audit Committee

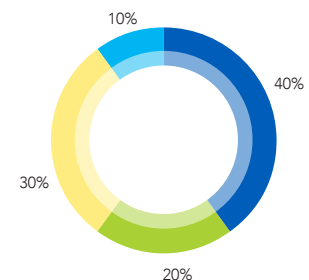
The BAC has investigative authority conferred upon it under the TOR. Members have unrestricted access to records, data, and reports and to management and staff, to obtain the relevant information considered necessary in the discharge of duties and responsibilities. The BAC may also engage independent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

SIGNIFICANT ACCOUNTING JUDGEMENTS CONSIDERED DURING 2019

Reviewed key assumptions and judgements including following areas:

- Loan impairment allowances and charges
- Actuarial valuation of Pension liability
- Tax Provisions
- Going Concern
- Carrying value of investments in group companies
- Valuation of financial instruments
- Operating lease rights

Focus of Attention in 2019



- Financial reporting
- External audit, auditor engagement and policy
- Internal audit and controls
- Others (including governance, tax, treasury and dividends)

BOARD AUDIT COMMITTEE REPORT

Governance
Reports**Regular Attendees by Invitation:**

Mr Duliksha Soosaipillai
- *IND/NED (As the Chairman of BIRMC)*

Mr Jonathan Alles
- *Managing Director/Chief Executive Officer*

Mr Dilshan Rodrigo
- *Chief Operating Officer*

Mr Niroshana Seneviratne
- *Chief Internal Auditor/DGM (Internal Audit)*

Mr Damith Pallewatte
- *Chief Risk Officer/DGM (Risk)/Chief Information Security Officer*

Ms Anusha Gallage
- *Chief Financial Officer*

Mr Janath Ilangantileke
- *AGM (Compliance)*

Mr Rohan Buultjens
- *Chief Technology and Digital Officer*

Secretary to the Committee:

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

Activities In 2019**Meetings**

BAC met nine (09) times during the year. The Engagement Partner of the Bank's external audit, Messrs Ernst & Young normally attends Committee meetings. The Committee also invited members of the Senior Management team to participate in meetings, on a need basis. Proceedings of BAC meetings are regularly reported to the Board.

Activities of the Audit Committee in 2019 are summarised under the focus areas below.

Financial Reporting

The Audit Committee 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.

- 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 adopting new accounting standards, 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.
- Reviewed and recommended to the Board for approval, the annual and the quarterly financial statements, prior to their release.

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 Auditors. The Committee carried out the following activities in discharge of its duties in this regard:

- Assisted the Board in engaging External Auditors for audit services, in compliance with regulatory provisions.
- Monitored and assessed the independence, objectivity and effectiveness of the external auditor during the year 2019. Overlooked the process adopted for selection of external auditor for year 2020 in line with the Bank's policy on rotation of external auditors. Recommended the appointment of new external auditors and their remuneration for the year 2020, for shareholder approval at the Bank's next AGM in March 2020.
- Discussed the audit plan, scope and the methodology proposed to be adopted in conducting the audit with the Auditors 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 three (03) times during the year in the absence of Key Management Personnel to ensure that there was no limitation 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.
- Reviewed non-audit services provided by the Auditors, ensuring such functions do not fall within the restricted services and provision of such services will not impair the External Auditors' independence and objectivity.

Risks and Internal Controls

- Continued to assess the adequacy, efficacy 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 who report directly to the Audit Committee, the effectiveness of the Bank's internal control over financial reporting as of 31st December 2019, as required by the Banking Act Direction No 11 of 2007, Corporate Governance for Licensed

Commercial Banks in Sri Lanka, Subsection 3(8)(ii)(b), 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 120 and 121 in IR, 'Directors' Statement on Internal Control Over Financial Reporting'. BAC confirm that the report given in IR page 122 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.

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
- Reviewed the annual audit plan for the year, prepared on risk based planning methodology. Evaluated the adequacy and frequency of coverage.
- 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.

- Reviewed the internal audit reports, their recommendations, management response and the status of the implementation on a regular basis.

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 auditor 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, Chief Operating Officer, Chief Financial Officer and Chief Internal Auditor in accordance with international best practices and was deemed to be satisfactory.



Asoka Pieris
Chairman

Board Audit Committee

Colombo, Sri Lanka
20th February 2020

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

Governance
Reports



"Our prime focus has been to ensure that our RPT monitoring mechanism properly and correctly identified all RP transactions and ensured that they were strictly compliant with the Regulatory Code."

A N de Silva
Chairman RPTRC 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 conform to 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).

The present Committee comprises of the following Directors: -

- Mr A N de Silva - (IND/NED) – Chairman
- Mr Palitha Pelpola - (IND/NED)
- Mr Jonathan Alles - (MD/CEO)

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

Brief profiles of the Directors representing the Committee are given in Pages 20 to 23 in IR.

Regular Attendees by Invitation:

The Committee is assisted by the following Management Officers of the Bank who attend sittings on a regular basis.

- Mr Dilshan Rodrigo – Chief Operating Officer
- Ms K A L Thushari Ranaweera – DGM - (Legal)/Board Secretary
- Ms Anusha Gallage – Chief Financial Officer/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'.

Summary of The 'Terms of Reference' (TOR) of The Related Party Transactions Review Committee

The Related Party Transactions Review Committee is governed by '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") and 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.

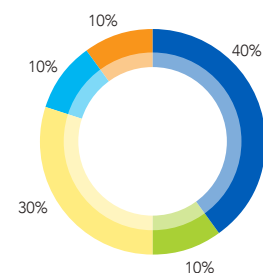
The TOR also spells out the constitution and the composition of the Committee; that the Chairman should be a Non - Executive Independent Director, and the Committee should meet at least once in every Quarter. It also sets out the guidelines on Related Party Transactions and its reporting. As per the 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, the TOR was amended to accommodate desired changes.

KEY INITIATIVES IMPLEMENTED DURING 2019 WERE

- Expanded training and awareness on Related Party Transactions (RPTs) guidelines by conducting training programmes for branch personnel.
- Customer Identification Fields (CIFs) of Related Parties were tagged to screen up at the System level.
- Refined RPT facility approval matrix.
- The Related Party Transactions Policy Document was reviewed and revised taking into consideration changes which occurred since the previous revision.

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

The Committee meets whenever necessary, but not less than four (4) times a year, once in every three (3) months. During 2019, four (4) such meetings were held and the Minutes were circulated to the Board of Directors for their information and review.

In the opinion of the Committee, there were no transactions with Related Parties which were more favourable or preferential during the period under review and the Bank had been compliant with the Code.

Membership attendance details of meetings held during 2019 are as follows:

	Eligible to attend/ Attended
Mr A N de Silva	4/4
Mr Palitha Pelpola	4/2
Mr Jonathan Alles	*4/3

**one meeting through Alternate Representative*

Secretary to the Committee:

The Bank's Chief Financial Officer functions as the Secretary to the Related Party Transactions Review Committee.

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 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 reportable Related Party Transactions data sourced via the following:

- A comprehensive list of Related Parties based on latest available declarations, signed off by the responsible Directors/KMPs.
- Related Party Transactions confirmed by the Business Heads to the Committee.
- The quarterly CBSL Reports on Related Party Transactions reported under the responsibility of Deputy General Manager-Operations, which in turn is further reviewed by the Chief Financial Officer 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 benchmarked 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 has the authority to obtain independent legal, financial & technical advice from competent authorities in such fields, to review transactions. Apart from obtaining Independent Specialists' advice wherever necessary, the Committee is empowered to access data and information pertaining to Related Parties as well as call for clarifications from the Management & Auditors (External & Internal) on any allied matter.

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 from 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 2019 concluded that the Committee continues to operate effectively.



A N de Silva
Chairman

Related Party Transactions Review Committee

Colombo, Sri Lanka
20th February 2020

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Governance
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Responsibility

As per Section 3 (8) (ii) (b) of Banking Act Direction No: 11 of 2007, the Board of Directors present this report on Internal Control mechanisms of the Bank.

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of Hatton National Bank PLC's ('the Bank') system of internal controls. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than eliminating the risk of failure to achieve the business objectives and policies of the Bank. Accordingly, the system of internal controls can only provide a 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 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, significant processes affecting significant accounts of the Bank were assessed along with the key risk areas of the Bank.

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 a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

Key Internal Control Processes

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

- The Board Sub Committees are established to assist the Board in ensuring:
 - the effectiveness of the Bank's daily operations.
 - that the Bank's operations are in accordance with the Bank's declared objectives and strategies.
 - that the operations of the Bank are in line with the annual budget as well as the policies and business directions that have been approved by the Board.
- The Internal Audit Division of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. Audits are carried out on majority of 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 115 to 117 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 Department 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. During the year the Bank continued to refine the statistical models used in the computations 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 disclosure were made whilst, further strengthening of processes will continue to take place pertaining to expected credit loss estimation and financial statement disclosures.

Adequate training and awareness sessions have been conducted for the Board and the Senior Management with regard to this new 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 Bank also adopted Sri Lanka Accounting Standard – SLFRS 16 “Leases” which became effective for financial reporting periods beginning on or after 1st January 2019.

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

Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide a 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 auditor, Messrs Ernst & Young, have reviewed the above Directors’ Statement on Internal Control Over Financial Reporting for the year ended 31st December 2019 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 122.

By order of the Board



Asoka Pieris
Chairman
Board Audit Committee



Jonathan Alles
Managing Director/Chief
Executive Officer



Dinesh Weerakkody
Chairman

Colombo, Sri Lanka
20th February 2020

INDEPENDENT ASSURANCE REPORT



Ernst & Young
Chartered Accountants
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Sri Lanka

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TO THE BOARD OF DIRECTORS OF HATTON NATIONAL BANK PLC

Report on the Directors' Statement on Internal Control

We were engaged by the Board of Directors of Hatton National Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2019.

Management's responsibility

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

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibilities and compliance with SLSAE 3050 (Revised)

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Bank.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

The procedures performed were limited primarily to inquiries of bank personnel and the existence of documentation on a sample

basis that supported the process adopted by the Board of Directors.

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

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Our conclusion

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

Colombo, Sri Lanka
20th February 2020

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principals: G B Goudian ACMA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

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 2019		As at 31st December 2018		
			Limit Rs.Mn	Outstanding Rs.Mn	Limit Rs.Mn	Outstanding Rs.Mn	
(A) Mr Amal Cabraal							
John Keells Holdings PLC	Director	Overdraft	-	-	200.00	-	Clean
		Commercial paper	-	-	*(200.00)	-	Commercial paper agreement
		Overdraft	-	-	*(200.00)	-	
		Term loan	-	-	*(200.00)	-	
		Total	-	-	200.00	-	
Ceylon Beverage Holding PLC	Director	Term loan 1	-	-	18.60	18.60	Board Resolution
		Term loan 2	62.50	62.50	92.50	92.50	
		Total	62.50	62.50	111.10	111.10	
Lion Brewery (Ceylon) PLC	Director	Overdraft	100.00	4.78	100.00	-	DPN, LG Indemnity,
		Letter of guarantee	20.00	-	20.00	-	OD agreement ,DPNs/
		Money market loan	3,000.00	2,000.00	5,000.00	-	Docs of title
		Term loan 1	(305.00)	54.80	(1,622.00)	1,622.00	
		Term Loan 2	(1,118.00)	1,118.00	(388.40)	388.40	
		Letter of credit1	50.00	-	50.00	-	
		Import loan1	(50.00)	-	(50.00)	-	
		Overdraft 2	(400.00)	-	(400.00)	-	
		Letter of credit11	(2,000)	-	-	-	
Import loan 11	(2,000)	-	-	-			
		Total	3,170.00	3,177.58	5,170.00	2,010.40	
Sunshine Holdings PLC	Director	Overdraft	50.00	43.69	50.00	19.72	Clean
		Total	50.00	43.69	50.00	19.72	
Sunshine Healthcare Lanka Ltd.	Director	L/C	1,200.00	711.91	1,200.00	254.98	Docs of title, Duly
		Overdraft	200.00	162.61	200.00	198.39	accepted usance
		Letter of guarantee	(100.00)	-	(100.00)	-	drafts, letter of
		Import loan	(500.00)	306.61	(500.00)	110.57	indemnity
		Forex forward contracts	(270.00)	-	(270.00)	-	Overdraft agreement
		Block lease facility	-	-	2.76	2.76	Concurrent
		Shipping guarantee	(400.00)	44.30	(400.00)	114.05	mortgage bond over
		Unadvised L/C	400.00	-	400.00	-	stock, import loan
		Total	1,800.00	1,225.43	1,802.76	680.75	agreement. forward exchange agreement, Absolute ownership of vehicle.
Healthguard Pharmacy Ltd.	Director	Short term loan 1	20.00	-	20.00	-	Mortgage over stock
		LG	10.00	-	25.00	-	LG indemnity
		Overdraft 1	(5.00)	-	(5.00)	-	Docs of title. duly
		Overdraft 2	50.00	4.88	50.00	24.41	accepted usance drafts
		letter of credit	100.00	15.64	100.00	12.71	Import loan agreement
		import loan	(100.00)	-	(100.00)	-	
		Short term loan 2	5.00	-	5.00	-	
		Total	185.00	20.52	200.00	37.12	
Watawala Tea Ceylon Ltd.	Director	Overdraft	300.00	-	275.00	2.05	Overdraft agreement
		LG	15.00	5.79	15.00	1.26	LG indemnity
		Total	315.00	5.79	290.00	3.31	

DIRECTORS' INTEREST IN CONTRACTS WITH THE BANK

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Director/Company	Name of the Director/Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2019		As at 31st December 2018		
			Limit Rs.Mn	Outstanding Rs.Mn	Limit Rs.Mn	Outstanding Rs.Mn	
(B) Mr Nilanth de Silva							
Malwatte Valley Plantations PLC	Director	Overdraft	375.00	284.86	254.00	186.67	Mortgage over stock, property, letter of Indemnity, absolute ownership of vehicles, counter Indemnity, clean,
		Commercial paper	40.00	40.00	-	-	
		Stand by overdraft	400.00	186.14	-	-	
		Money market Loan	(400.00)	76.73	40.00	40.00	
		packing credit loan	60.95	60.95	400.00	115.28	
		Export bill	0.30	-	(400.00)	205.00	
		Lease	5.00	3.22	64.00	64.00	
		Corporate C/C	125.00	-	-	-	
		LG	1,006.25	651.90	-	-	
		Total	2012.5	1303.80	758.00	610.95	
Expo Industrial Engineering (Pvt) Ltd.	Director	Lease	22.00	22.00	N/A	N/A	Motor vehicle machinery & personal guarantee Property DPN Mortgage of SIT
		Term Loan	154.40	68.00	N/A	N/A	
		Overdraft	16.00	13.00	N/A	N/A	
		Trade Loan	181.35	164.00	N/A	N/A	
		Development loan	50.00	45.00	N/A	N/A	
		Total	423.75	312.00			
(C) Mr D S Weerakkody							
Access Engineering PLC	Director	Letter of guarantee	-	-	7,000.00	3,240.62	LG Indemnity Documents of title/ Duly Accepted usance drafts
		Letter of Credit	-	-	500.00	110.15	
		Total	-	-	7,500.00	3,350.77	
Lanka Aluminium Industries PLC	Director	Letter of credit/ Import Loan 1-2	490.00	100.33	490.00	168.97	Documents of title/ Duly accepted usance drafts. Clean
		Overdraft	(65.00)	33.31	(65.00)	55.46	
		Overdraft	-	-	20.00	-	
		Short term loan	(490.00)	290.38	(275.00)	252.92	
		Term loan 1-5	57.12	57.12	112.82	112.82	
		Total	547.12	481.14	622.82	590.17	
Abans PLC	Director	LC	1,200.00	567.77	N/A	N/A	Docs of title Duly accepted usance drafts Mortgage over stocks Trust receipts Letter of indemnity Loan agreement Power of Attorney & Mortgage over receivables of NTB/ AMEX POS machines LG indemnity
		Import Loans	200.00	200.00	N/A	N/A	
		Import Loans	(1,000.00)	67.61	N/A	N/A	
		S/ Guarantee	(150.00)	-	N/A	N/A	
		Overdraft	25.00	-	N/A	N/A	
		TL	234.38	234.38	N/A	N/A	
		LG	300.00	192.17	N/A	N/A	
		Standby LC	-	-	N/A	N/A	
Total	1959.38	1261.93					
(D) Dr L R Karunarathna							
AKK Engineers	Director	Overdraft	41.00	38.91	41.00	21.57	Overdraft agreement Mortgage over property Against fixed deposits personal guarantee mortgage over property
		Letter of guarantee	161.30	53.06	161.30	68.45	
		finance facility	(10.00)	-	(10.00)	-	
		Total	202.30	91.97	202.30	90.02	
Arpico Finance PLC	Director	Term Loan	-	-	179.45	179.45	Lease Portfolio
		Total			179.45	179.45	
Pinthaliya Resort	Proprietor	Overdraft	1.80	1.61	1.80	0.48	Cash deposit

Director/Company	Name of the Director/Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2019		As at 31st December 2018		
			Limit Rs.Mn	Outstanding Rs.Mn	Limit Rs.Mn	Outstanding Rs.Mn	
(E) Mr A J Alles							
Acuity Partners (Pvt) Ltd.	Director	Overdraft	150.00	-	150.00	-	Board Resolution
		Term loan	-	-	107.81	107.81	
		LG	6.59	6.59	-	-	
		Total	156.59	6.59	257.81	107.81	
HNB Finance Ltd.	Director	Term loan 1-4	791.22	791.22	1,186.24	1,186.24	Absolute ownership of vehicles over movable & immovable assets
		Lease	-	-	2.77	2.77	
		Money M/Loan	1,000.00	500.00	1,000.00	1,000.00	
		Overdraft	500.00	-	500.00	202.39	
		Credit Card	0.15	0.10	0.15	0.06	
		Total	2,291.37	1,291.32	2,689.16	2,391.46	
LVL Energy Fund Ltd.	Director	Term loans	393.75	393.75	93.75	93.75	Clean
Lanka Venture PLC		Term loans	38.25	38.25	45.00	45.00	Clean
(F) Mr E D P Soosaipillai							
Commercial Credit & Finance PLC	Director	Overdraft	12.00	-	12.00	-	Property
		Securitisation Loan	1666.76	1666.76	666.80	666.80	Mortgage over
		Short T/Loan	680.00	680.00	-	-	securitisation of lease
		T/ Loan	113.04	113.04	156.77	156.77	Fixed deposit
		LG	2,104.00	2,104.00	2,104.00	2,104.00	DPN
		Total	4,575.80	4,563.80	2,939.57	2,927.57	Cash Buildup
(G) Mr L U D Fernando							
HNB Assurance PLC	Director	LG	-	18.85	-	18.79	100% Cash back
		Total	-	18.85	-	18.79	MMSA balance of Rs. 18,85Mn.
(H) Mr. L J S H Cabral							
Hayleys PLC	Director	Overdraft	250.00	-	N/A	N/A	Overdraft agreement
		MM Loan	260.00	-	N/A	N/A	Loan agreement
		Term Loan	1,125.00	1,125.00	N/A	N/A	LG Indemnity
		LG	1.50	-	N/A	N/A	
		Total	1,636.50	1,125.00			
Alumex PLC	Director	Overdraft	(50.00)	-	N/A	N/A	Document of title
		Term Loan	(500.00)	-	N/A	N/A	Duly accepted Usance
		Import Loan	(500.00)	41.48	N/A	N/A	Drafts
		F/E Contract	30.00	-	N/A	N/A	Simple Receipts
		LC	500.00	154.43	N/A	N/A	Board resolution
		LG	150.00	-	N/A	N/A	LG Indemnity
		Total	680.00	195.91			F/E agreement
Diesel & Motor Engineering PLC	Director	LC	3,000.00	1,102.46	N/A	N/A	Docs of title.
		Import Loan	(3,000.00)	927.75	N/A	N/A	Duly accepted usance
		M/M Loan	(3,000.00)	350.00	N/A	N/A	drafts
		Overdraft	(45.00)	24.89	N/A	N/A	Import loan agreement
		LG	(3,000.00)	-	N/A	N/A	Overdraft agreement
Total	3,000.00	2,405.10			Counter indemnity		
(I) Mr Prawira Rimoe Saldin							
Sithma Development (Pvt) Ltd.	Alternative Director for Mr Rusi Caption	Overdraft	50.00	-	50.00	-	Commercial Property
		Term Loan	258.02	258.02	645.14	645.14	
		Total	308.02	258.02	695.14	645.14	

DIRECTORS' INTEREST IN CONTRACTS WITH THE BANK

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Director/Company	Name of the Director/Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2019		As at 31st December 2018		
			Limit Rs.Mn	Outstanding Rs.Mn	Limit Rs.Mn	Outstanding Rs.Mn	
(J) Mr H A Pieris							
Cargills (Ceylon) PLC (Interchangeable with Cargills Foods Company (Pvt) Ltd.)	Director	MM Loan Overdraft	1,000.00 (500.00)	- -	N/A N/A	N/A N/A	Clean Clean
Cargills Foods Company (Pvt) Limited	Director	MM Loan Term Loan Term Loan Import Loan LC Total	(1,000.00) 1,250.00 500.00 (200.00) (200.00) 2,750.00	1,865.00 - 500.00 - - 2,365.00	N/A N/A N/A N/A N/A N/A	N/A N/A N/A N/A N/A N/A	Clean Usane drafts Doc. of title
(K) Mr T K D P Samarasinghe							
Hayleys Fibre PLC	Director	PCL Export Bill Discounting STL L/Cs Letter of Guarantee Overdraft Forward Exch. Contracts Total	75.00 (50.00) (75.00) (3.00) (5.00) 6.00 (14.66) 81.00	78.00 - - 0.79 - 0.88 4.53 84.20	N/A N/A N/A N/A N/A N/A N/A	N/A N/A N/A N/A N/A N/A N/A	Clean Board Resolution/ Letter of Indemnity Loan Agreement Docs of title, Duly accepted usance draft. Letter of Guarantee Indemnity Overdraft Agreement Board Resolution/ Forward Exchange agreement
(J) Mr R S Caption							
Paints and General Industries Ltd.	Director	Overdraft MML LC Total	- - - -	- - - -	560.31 (560.31) (100.00) 560.31	300.12 - - 300.12	Board resolution, Quoted Com Shares Board resolution, Quoted Com Shares Board resolution, Quoted Com Shares

* 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)	
			2019	2018
(A) Mr Jonathan Alles				
Acuity Partners (Pvt) Ltd.	Director	Bank charges	0.20	3.09
		Corporate Finance Fees	10.16	-
		Insurance premium	1.08	-
Lanka Venture PLC	Director	Bank charges	0.40	-
(B) Mr Amal Cabral				
John Keels Holdings PLC	Director	Repo (outstanding as at year end)	2,260.52	-
		Interest on repurchase agreements	15.89	-
Watawala Tea Ceylon Ltd.	Director	Merchant Commission	0.03	-
Healthguard Pharmacy Ltd.	Director	Merchant Commission	2.73	2.62
Lion Brewery (Ceylon) PLC	Director	Merchant Commission	0.04	-
(C) Mr Prawira Rimoe Saldin				
Sithma Development (Pvt) Ltd.	Alternative Director for Mr Rusi Caption	Repo (outstanding as at year end)	33.00	-
		Interest on repurchase agreements	0.42	-
		Rental paid	762.62	743.27
		Rental income	4.18	4.18
(D) Dr L R Karunarathna				
Pinthaliya Resort	Director	Merchant Commission	0.127	0.25
(E) Mr D S Weerakkody				
Galle Face Hotel Management Company (Pvt) Ltd.	Director	Merchant Commission	1.42	0.01
(F) Dr T K D A P Samarasinghe				
Lanka Bell Limited	Director	Merchant Commission	0.07	-
(G) Mr H A Pieris				
St. Josephs College Welfare	Director	Merchant Commission	0.04	-
Ceylon Chamber of Commerce	Director	Merchant Commission	0.03	-
Cargills Foods Company (Pvt) Ltd.		Merchant Commission	30.47	-
(H) Mr L U D Fernando				
HNB Assurance PLC and HNB General Insurance Limited	Director	Premium paid	77.82	10.21
		Merchant Commission	16.54	15.72
		Rental income	9.26	8.50
		Dividend income	269.93	179.96
		Commission received	323.74	254.44
(I) Mr Rusi Captain				
CIC Holding PLC	Director	Quoted Shares	47.90	47.90

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 31/12/2019.

The above entities also held customer deposits with the Bank totalling to 6,300.20 Mn. and interest paid was 813.40 Mn.

Interest income earned from loans and advances amounted to 2,064.58 Mn. for the year ended 31/12/2019.

RISK REVIEW

Governance
Reports

Superior Risk Management is pivotal to our business model and continues to increase in importance as the uncertainty dominates business landscape. The convergence of multiple factors serves to amplify downside risks and this summary provides an insight to how we navigated the year to strengthen the resilience of the Bank.



A Dynamic Risk Environment

A confluence of risk drivers made 2019 an extremely challenging year, the more significant of these are summarised below.



Impacts of political uncertainty, terrorism and moderate economic growth impacted all sectors of the economy with a significant downside impact on the financial services industry as the financier for all these economic sectors. Monetary policy measures were implemented to reduce the trade deficit, interest rates and exchange rates together with higher taxation. Consequently, growth moderated, asset quality deteriorated, NIM and profitability declined across the industry as revealed by the indicators shown.

Licensed Commercial Banks Industry Indicators	2015	2016	2017	2018	2019
Core Capital (Tier 1 Capital) Adequacy Ratio	12.8	12.5	13.4	13.0	13.0
Total Capital Adequacy Ratio	15.3	15.6	16.4	16.2	16.6
Gross Non-performing Advances Ratio	2.9	2.4	2.3	3.3	4.6
Return on Equity (ROE)	15.7	17.2	17.4	13.7	10.6
Efficiency Ratio	51.1	48.9	45.2	48.5	51.8
Interest Margin	3.5	3.6	3.5	3.7	3.6
Liquid Assets Ratio	28.7	25.4	27.2	25.0	27.8
Credit to Deposit Ratio	91.8	91.9	90.1	94.2	93.4

Risk Governance

The apex responsibility for managing risk lies with the Board of Directors who are assisted by BIRMC with delegated oversight responsibility for detailed review of matters related to Risk & Capital Management. A dedicated risk management unit comprising 30 staff supports the BIRMC led by the Chief Risk Officer. Executive Committees comprising the CEO, CRO and other Key Management Personnel foster high levels of risk awareness throughout the Bank through risk monitoring and other related initiatives.

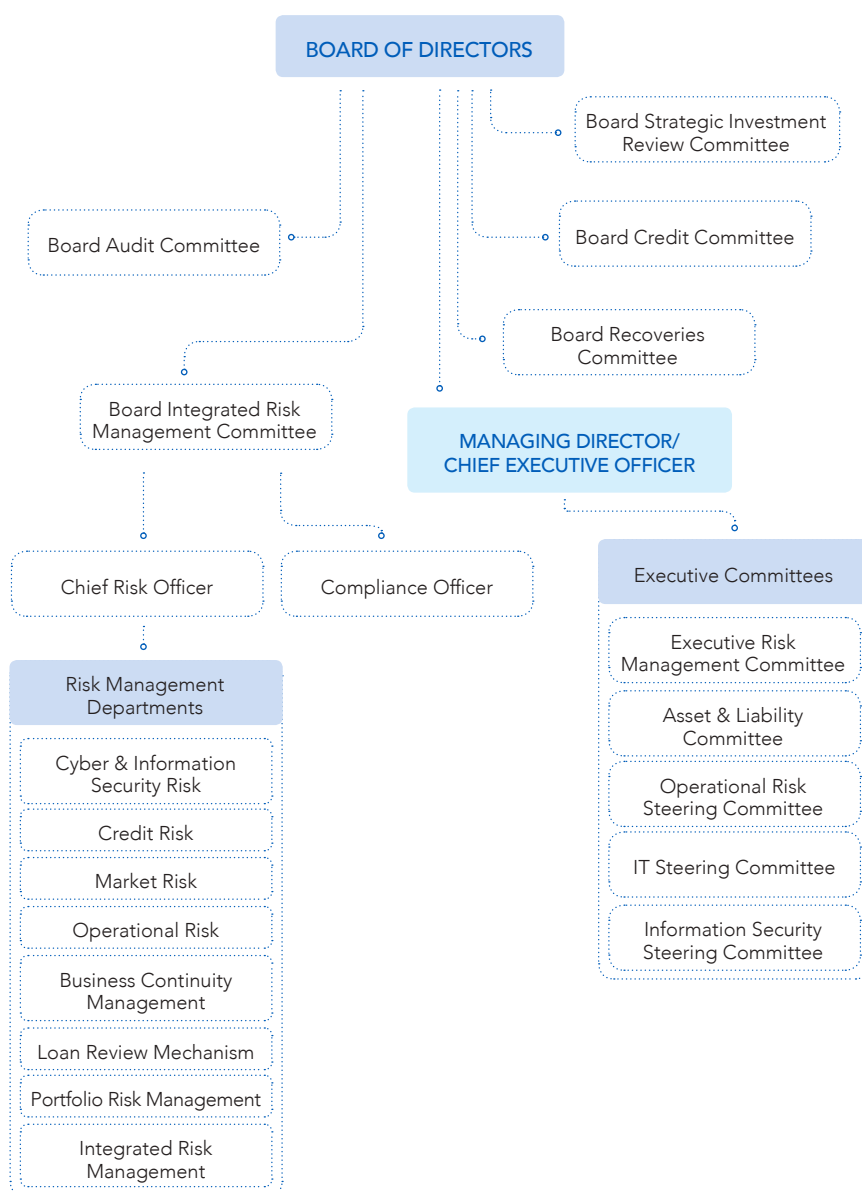
The Bank's risk management framework comprises a suite of Risk Management Policies and the Bank's Risk Appetite Statement supported by an organisation structure based on the three lines of defence model.

Risk Culture

As risk management is a strategic differentiator, the Bank nurtures a culture of risk awareness in the Bank and the Group. Regular training of employees on risk awareness forms part of the training calendar while employees in specialised roles are required to gain specified levels of skills and experience relevant to their roles. As the Risk Management Department serves as the second line of defence, constructively challenging risk assessments of business units, the culture is reinforced regularly and supported by the compliance function. Internal and external audit review the effective functioning of internal controls set in place and provide feedback to the Board Audit Committee forming the third line of defence.

Risk Appetite Statement

This key document defines the parameters for managing risk as we balance conflicting priorities to realise our strategic goals. It is reviewed and revised annually taking into account regulatory requirements and other prudential factors. It is also clearly aligned and linked to performance management systems shaping the risk culture of the Bank and encouraging employees to adopt appropriate risk behaviours.



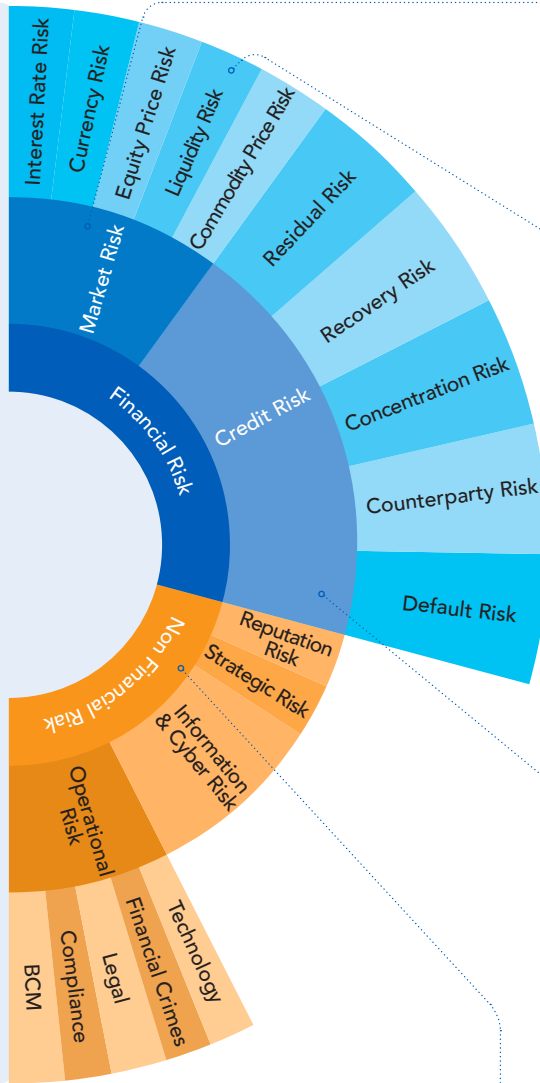
RISK REVIEW

Governance Reports

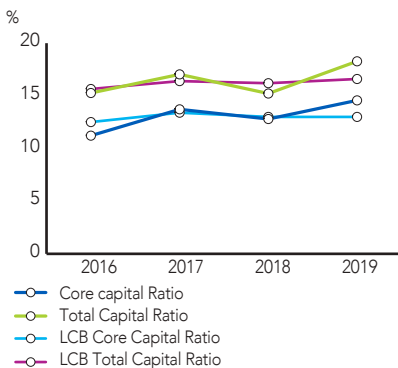
Key Risk Summary

Moody's Investors Service Inc., affirmed with a foreign currency issuer rating of B2 on par with the sovereign rating of Sri Lanka. HNB was the first local private sector commercial bank to obtain an international credit rating.

The credit rating affirmed by Fitch Ratings Lanka Ltd., as AA-(lka) Stable also indicates a stable risk profile despite marginal declines in risk indicators. It is noteworthy that the rating is also influenced by the outlook for Sri Lankan banks and the country, which remains negative.



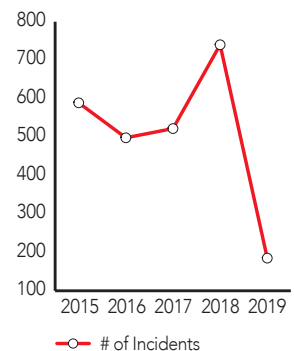
Capital Ratios



Non-Financial Risks

Although classified as non-financial risks, these risks can have a significant financial impact on the performance and stability of the Bank. Reputation Risk is guarded zealously through regulatory compliance and robust stakeholder engagement. Strategic Risk is being addressed through Project Everest and the digitisation of the Bank. Information and Cyber Risk has been segregated from the Basel classification in view of its pervasive nature and increasing sophistication of cyber criminals. Operational risk is managed through sound governance, robust internal controls, dedicated compliance and legal functions and sound financial reporting processes. The three lines of defense model plays a key role in addressing this risk.

Operational Risk - No. of Incidents



BUILDING RESILIENCE IN 2019

Market Risk

Exposure to interest rate risk and exchange rates are the most significant to the Bank as exposure to equity risk is minimal.

Rs.000's Exposure	Interest Rate Risk		Equity Price Risk		Currency Risk	
	2019	2018	2019	2018	2019	2018
Assets	803,828,718.14	792,354,734.53	22,399,114.00	23,776,713.00	468,232,422.00	496,553,531.00
Liabilities	809,182,769.01	770,244,432.57	-	-	467,572,982.00	495,488,499.00

Rs.000's Sensitivity	Yield Curve 100 bps		Exchange Rate 50 bps		Total	
	PBT	Equity	PBT	Equity	PBT	Equity
Increase/ Strengthening	8,503,620.00	510,016,045.50	3,297,212.91	-	11,800,832.91	510,016,045.50
Decrease/ Weakening	8,503,620.00	510,016,045.50	3,297,212.91	-	11,800,832.91	510,016,045.50

Liquidity risk:

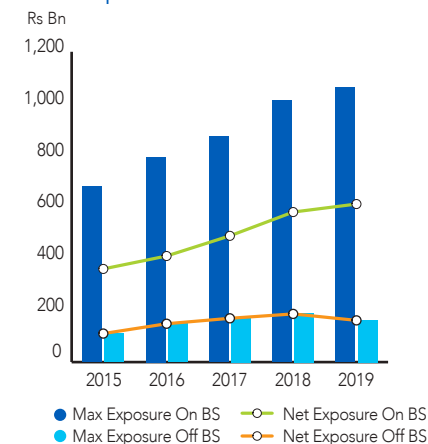
This is carefully managed by the Assets & Liability Committee to maintain prudent capital buffers.

Liquidity Ratios	2019	2018
SLAR	29.55%	24.40%
LCR	251.07%	103.85%
Net Loans to Total Assets	66.12%	69.16%
Loans to Customer Deposits	98.27%	99.50%

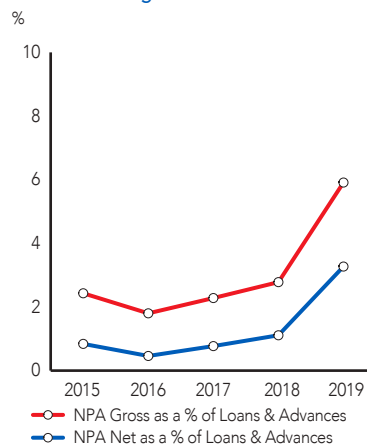
Credit Risk:

This is the largest exposure for the Bank and the following key risk indicators reflect the exposure and non-performing ratios as at 31.12.2019.

Credit Exposure



Non-Performing Advances



Risk Governance

- Strengthened Risk Management policies
- Strengthened risk assessment and governance process for real estate assets
- Initiation of dashboards to highlight and escalate high level risks to Board and BIRMC
- Refined existing ICAAP methodology

Credit Risk

- Separation of credit underwriting from relationship management
- Implementation of Loan Origination System
- Strengthened Portfolio Risk Management
- Refined risk models SLFRS 9
- Validation and Recalibration of Internal Risk Rating models
- Review of industry sectors and country risk assessments

Market Risk

- Treasury systems upgrade
- Monitoring and controls

Operational Risk

- Risk & Control Self-Assessment covering all mission critical units
- Streamlined root cause analysis of operational loss event including near misses
- Board approved policy document and Business Continuity Plan
- Strengthened monitoring of outsourced activities

Information & Cyber Risk

- Strengthened data management
- Reviewed system functionalities and Vulnerability Assessment & Penetration Testing (VAPT)
- Established an Information Security Steering Committee (ISSC)

RISK REVIEW

Governance
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Loan book growth moderated to 3% as the Bank adopted a cautious approach in response to stresses of the operating environment. Impairment charges increased by 4% due to the weak economic performance. Deposit growth also moderated to 1% due to reduced savings capacity and reduced interest rates. Deposits of Rs. 810 bn account for 81% of Total Liabilities.

Total Capital Ratio remains above industry levels and within regulatory requirements and the Bank's risk appetite.

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 forecast to gather momentum economic growth may suffer setbacks due to political uncertainty and other economic headwinds
Fiscal and monetary policy	Moderate	↗	Fiscal and monetary policy is expected to enhance the stability of financial markets in line with stated Government policy
Regulation	Moderate	↗	Regulation for LCBs is expected to maintain the status quo in line with stated policy
Cyber threats	High	↗	Cyber threats remain a key risk with artificial intelligence applications becoming more prevalent in the industry. HNB continues to monitor developments in the field and invest in enhancing cyber security.
Internal			
Credit Risk	High	↗	Measures implemented during the year are expected to result in improved credit risk indicators in 2020. However, the impact of moratoriums given during the year to tourism and SME sectors end in 2020 and the stresses of these sectors may prove a drag on credit risk.
People & Operational Risk	Moderate	↗	Trends in operational risk events have been maintained within the Bank's risk appetite. A focus on risk culture, continuous training and improvement in effectiveness of internal controls are key mitigants.
Liquidity Risk	Moderate	↗	Liquidity indicators are well above the regulatory requirements and that of the Bank's risk appetite.

HNB has steered a careful course in 2019, building resilience and strengthening processes in an operating environment not conducive to aggressive growth. Performance management has been key to navigating the turbulence in 2019 and higher levels of segregation of duties with KPIs aligned to the roles have supported specialisation and deeper understanding of risks associated with the operations. We are now ready to grow when the operating environment stabilises and we are optimistic on this as we are seeing early signs of stabilisation though significant vulnerabilities remain. We will continue to monitor both external and internal risks with the higher levels of rigour that has now become the new normal to drive long-term profitability and growth.

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FINANCIAL CALENDARS

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FINANCIAL CALENDAR - 2019

50th Annual General Meeting held on	29th March 2019
Rs. 7/00 per share Final Dividend for 2018 paid on	9th April 2019
Rs. 1/00 per share Interim Dividend for 2019 paid on	8th January 2020
Audited Financial Statements signed on	20th February 2020
51st Annual General Meeting to be held on	30th March 2020
Rs. 7/00 per share Final Dividend for 2019 payable in (Cash Dividend Rs. 3/50 per share and Scrip Dividend Rs.3/50 per share)*	April 2020
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 2019
2nd Quarter Interim Results released on	13th August 2019
3rd Quarter Interim Results released on	13th November 2019

FINANCIAL CALENDAR - 2020

Interim Dividend for 2020 to be payable in **	December 2020
52nd Annual General Meeting to be held in	March 2021
Final Dividend for 2019 payable in ***	April 2021
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 2020
2nd Quarter Interim Results to be released in	August 2020
3rd Quarter Interim Results to be released in	November 2020

- * 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 2019 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 jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of 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. It is confirmed that the Bank has adequate resources to continue its operations in the foreseeable future. Therefore, the Bank will continue to adopt the 'going concern' basis in preparing these financial statements.

Our internal auditor has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank were 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, your Board assessed the effectiveness of the Bank's internal controls over financial reporting during the year ended 31st December 2019, as required by the Banking Act Direction No 11 of 2007, result of which is given on page 120 to 121 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 122.

The financial statements of the Group for the year 2019 were audited by Messrs Ernst & Young, Chartered Accountants, the independent external auditors. Their report is given in IR pages 137 to 139.

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 these 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 115 to 117 in IR.

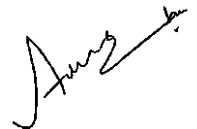
The Board Audit Committee approves the audit and non-audit services provided by external auditor, Messrs Ernst & Young, in order to ensure that the provision of such services does not impair Ernst & Young's independence.

We confirm that,

- the Bank and its subsidiaries have complied with all applicable laws, regulations and prudential requirements;
- there are no material non compliances; and
- there are no material litigations that are pending against the Group other than those disclosed in the Note 58 (c) to the financial statements in this Annual Report.



Jonathan Alles
Managing Director / Chief Executive Officer



Anusha Gallage
Chief Financial Officer

Colombo, Sri Lanka.
20th February 2020

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

Financial Reports

The responsibility of the Directors in relation to the financial statements of the Bank and its subsidiaries prepared in accordance with the provisions of the Companies Act No 7 of 2007 is set out in the following statement.

The responsibilities of the external auditor in relation to the financial statements are set out in the report of the auditors given in IR pages 137 to 139.

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 of the Statement of Financial Position as at 31st December 2019, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes thereto.

The financial statements of the Bank and its subsidiaries give a true and fair view of:

1. the state of affairs of the Bank and its subsidiaries as at 31st December 2019; and
2. the profit or loss of the Bank and its subsidiaries for the financial year then ended.

In preparing these financial statements, the Directors are required to ensure that:

1. appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
2. judgements and estimates have been made which are reasonable and prudent; and
3. all applicable accounting standards, as relevant, have been complied with;

The Directors are also required to ensure that the Bank and its subsidiaries have adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements.

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 and its subsidiaries.

Financial statements prepared and presented in this report have been prepared based on Sri Lanka Accounting Standards (SLFRS) which came in to effect from January 01, 2012 are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards, 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, Banking Act Direction No 11 of 2007 on

Corporate Governance for Licensed Commercial Banks in Sri Lanka (as amended from time to time), the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance 2017 issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC).

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 and it is being under regular review of the Board of Directors. This comprises internal reviews, internal audit and the whole 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 2019 are given on pages 120 to 121 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 122.

The Directors have taken appropriate steps to ensure that the Bank and Group maintain proper books of accounts and review the financial reporting system directly by them at their regular meetings and also through the Board Audit Committee. The report of the said Committee is given on pages 115 to 117 in IR. The Board of Directors also approves the interim financial statements prior to their release following a 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. Ernst & Young, 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 137 to 139 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 February 20th, 2020 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 7.00 per share (in the form of Rs 3.50 cash and Rs. 3.50 scrip) for the year 2019.

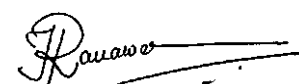
As required by the Sections 166 (1) and 167 (1) of the Companies Act, the Board of Directors has prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Bank, who expressed desire to receive a hard copy or to other shareholders a soft copy each in a CD 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, that 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 58 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) / Company Secretary

Colombo, Sri Lanka
20th February 2020

INDEPENDENT AUDITOR'S REPORT



Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
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Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

TO THE SHAREHOLDERS OF HATTON NATIONAL BANK PLC

Report on the audit of the consolidated 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 2019, and the statement of profit or loss, the statement of 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.

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 2019, 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 Auditor's 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") 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment allowance for loans and advances to customers:</p> <p>We considered the Impairment allowance for loans and advances to customers as a key audit matter. Significant judgments and assumptions were used by the management to determine the impairment allowance and complex manual calculations were involved in its estimation. The higher level of estimation uncertainty involved, materiality of the amounts reported in the Group's financial statements, underpinned our basis for considering it as a Key Audit Matter.</p> <p>As at 31st December 2019, loans and advances to customers, net of impairment amounted to Rs. 769.39 Bn. These collectively contributed 64% to the Group's total assets.</p>	<p>We designed our audit procedures to obtain sufficient appropriate audit evidence on the reasonableness of the impairment allowance; that included the following procedures</p> <ul style="list-style-type: none"> • Focusing on the oversight, review and approval of impairment policies by the board audit committee and management, we evaluated the design, implementation and operating effectiveness of controls over measurement of loans and advances to customers and impairment allowance for loans and advances to customers thereof, in the light of the requirements in SLFRS 9. • We test – checked the underlying calculations and data used in such calculations of impairment allowance. • For impairment allowance for loans and advances to customers individually assessed for impairment: <ul style="list-style-type: none"> - where impairment indicators existed, we evaluated the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries. - where impairment allowance for loans and advances to customers which were granted to customers with high risk of credit loss, we assessed the main criteria used by the management for determining whether an impairment event had occurred and reasonableness of management estimation of such additional impairment.

INDEPENDENT AUDITOR'S REPORT



Key audit matter	How our audit addressed the key audit matter
<p>The Note 30 to the financial statements describes the basis of impairment allowance for loans and advances to customers and significant judgements and assumptions used by the management in its calculation.</p>	<ul style="list-style-type: none"> • For impairment allowance for loans and advances to customers collectively assessed for impairment: <ul style="list-style-type: none"> - we assessed the completeness and relevance of the underlying information in loans and advances to customers used in the impairment calculations by agreeing details to the Group's source documents and information in IT systems. - we also considered reasonableness of macro-economic and other factors used by management in their judgemental overlays for various types of loan portfolios, by comparing them with publicly available data and information sources. • We assessed the adequacy of the related financial statement disclosures as set out in note 30 of the financial statements.
<p>Information Technology (IT) systems and controls related to Bank's financial reporting process:</p> <p>The Bank uses multiple and complex IT systems and relies significantly on automated and IT dependent manual controls for recording and reporting of financial information. Our audit procedures have a focus on Information technology systems and controls due to the above, and the controls implemented by the management during the year to improve the privileged user access management activities. Accordingly, we selected the Information technology systems and controls related to financial reporting as a key audit matter.</p>	<p>Our audit approach in this area was focused on the controls related to the information technology systems as set up by the Bank. Using our internal IT resources where relevant, we performed the following procedures, among others.</p> <ul style="list-style-type: none"> • We obtained an understanding of the Bank's IT related control environment that included identified IT applications, databases and operating systems that are relevant to our audit • Access rights over applications, operating systems and databases that management relied upon for financial reporting, were tested on a sample basis. Our audit procedures included appropriate tests to understand and determine whether: <ul style="list-style-type: none"> - appropriate review and authorization by management of new access requests are in place; - removal of user access on a timely basis are made throughout the period; - periodic monitoring by management for appropriateness of access rights; and authorization of privileged activities in applications, operating systems and databases are in place throughout the period; and - privilege access is limited to appropriate personnel. • In respect of the controls implemented by the management during the year in respect of privileged user access management : <ul style="list-style-type: none"> - we obtained an understanding of specific procedures carried out by the management with the assistance of an external consultant; and - we reviewed the reports prepared by the management personnel in the Risk division and Internal Audit which were presented to the Board Audit Committee that asserted the integrity of IT systems related to financial reporting. • We also test-checked the design and operating effectiveness of selected application controls critical to generation of financial reported amounts and disclosures
<p>Other information included in the Group's 2019 Annual Report</p> <p>Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.</p> <p>Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.</p>	<p>In connection with our audit of the financial statements, our responsibility is to read the other information 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.</p> <p>Responsibilities of management and those charged with governance for the financial statements</p> <p>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.</p>



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 Group's financial reporting process.

Auditor's 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 auditor's 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 internal controls of the Bank and the Group.
- 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 auditor's 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any

significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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 2199.

20th February 2020
Colombo

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulengamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principals: G B Goudian ACMA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

STATEMENT OF PROFIT OR LOSS

Financial
Reports

For the year ended 31st December	Note	Bank		Group	
		2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Gross income	7	125,998,086	121,356,089	145,400,508	138,250,551
Interest income		115,210,769	108,104,923	124,888,717	116,488,588
Less : Interest expenses		65,997,133	60,525,342	68,533,206	62,852,424
Net interest income	8	49,213,636	47,579,581	56,355,511	53,636,164
Fee and commission income		9,206,399	9,540,862	10,333,772	10,382,030
Less: Fee and commission expenses		213,176	141,592	356,642	284,080
Net fee and commission income	9	8,993,223	9,399,270	9,977,130	10,097,950
Net interest, fee and commission income		58,206,859	56,978,851	66,332,641	63,734,114
Net loss from trading	10	(2,280,969)	(356,594)	(2,263,453)	(396,918)
Net gain from financial investments at fair value through other comprehensive income	11	187,512	215,551	190,283	217,896
Net insurance premium income	12	-	-	8,365,756	7,431,823
Net gains on derecognition of financial assets		-	-	82,348	72,150
Net other operating income	13	3,674,375	3,851,347	3,803,085	4,054,982
Total operating income		59,787,777	60,689,155	76,510,660	75,114,047
Less: Impairment charge for loans and other losses	14	9,656,010	9,292,421	11,426,824	9,784,052
Net operating income		50,131,767	51,396,734	65,083,836	65,329,995
Less : Operating expenses					
Personnel expenses	15	11,444,259	10,717,978	14,025,540	13,008,646
Benefits, claims and underwriting expenditure	16	-	-	7,091,214	5,679,269
Other expenses	17	12,313,978	11,357,988	15,311,355	13,636,055
Total operating expenses		23,758,237	22,075,966	36,428,109	32,323,970
Operating profit before taxes on financial services		26,373,530	29,320,768	28,655,727	33,006,025
Less: Taxes on financial services	18	7,910,527	6,369,268	8,397,854	6,842,813
Operating profit after taxes on financial services		18,463,003	22,951,500	20,257,873	26,163,212
Share of profit of joint venture (net of income tax)	19	-	-	186,884	303,092
PROFIT BEFORE INCOME TAX		18,463,003	22,951,500	20,444,757	26,466,304
Less: Income tax expense	20	4,430,751	7,433,297	5,415,685	7,316,842
PROFIT FOR THE YEAR		14,032,252	15,518,203	15,029,072	19,149,462
Profit attributable to:					
Equity holders of the Bank		14,032,252	15,518,203	14,670,104	17,635,774
Non-controlling interests		-	-	358,968	1,513,688
PROFIT FOR THE YEAR		14,032,252	15,518,203	15,029,072	19,149,462
Earnings per share	21				
Basic earnings per ordinary share (Rs)		28.04	31.01	29.32	35.25
Diluted earnings per ordinary share (Rs)		28.04	31.01	29.32	35.25
Dividend per share					
Dividend per share: Gross (Rs)		*8.00	8.50	*8.00	8.50

The notes to the financial statements from pages 149 to 288 form an integral part of these financial statements.

*Calculated on interim dividends paid and final dividend proposed, which is to be approved at the Annual General Meeting.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
PROFIT FOR THE YEAR	14,032,252	15,518,203	15,029,072	19,149,462
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	80,480	(1,203,893)	80,480	(1,203,893)
Gains realised on derecognition of equity instruments reclassified to retained earnings	136,920	-	136,920	-
Remeasurement of post-employment benefit obligations	(1,457,551)	(100,911)	(1,449,854)	(77,042)
Revaluation gain on freehold land and buildings	-	2,868,546	225,622	7,468,816
Share of other comprehensive income of joint venture that will not be reclassified to profit or loss	-	-	1,025	1,171
Less: Tax expense relating to items that will not be reclassified to profit or loss	-	(803,094)	(65,923)	(3,913,040)
Total other comprehensive income that will not be reclassified to profit or loss	(1,240,151)	760,648	(1,071,730)	2,276,012
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	1,576,638	(1,799,123)	2,064,768	(2,188,112)
Reclassification of net gains on derecognition of debt instruments at fair value through other comprehensive income to statement of profit or loss	-	-	(79,393)	(72,150)
Net change in expected credit losses of debt securities measured at fair value through other comprehensive income	259,065	-	259,065	-
Transfer (to) / from life policy holder reserve fund	-	-	(370,100)	416,567
Share of other comprehensive income of joint venture that will be reclassified to profit or loss	-	-	(1,945)	66,368
Less: Tax expense relating to items that will be reclassified to profit or loss	(441,459)	503,754	(447,745)	512,042
Total other comprehensive income that will be reclassified to profit or loss	1,394,244	(1,295,369)	1,424,650	(1,265,285)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	154,093	(534,721)	352,920	1,010,727
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	14,186,345	14,983,482	15,381,992	20,160,189
Total comprehensive income attributable to:				
Equity holders of the Bank	14,186,345	14,983,482	14,912,884	18,651,179
Non-controlling interests	-	-	469,108	1,509,010
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	14,186,345	14,983,482	15,381,992	20,160,189

The notes to the financial statements from pages 149 to 288 form an integral part of these financial statements.

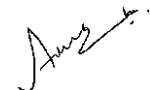
STATEMENT OF FINANCIAL POSITION

Financial Reports

As at 31st December	Note	Bank		Group	
		2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
ASSETS					
Cash and cash equivalents	24	29,089,189	25,141,890	30,263,654	24,966,831
Placements with banks	25	7,602,543	3,292,733	15,490,267	8,506,255
Balances with Central Bank of Sri Lanka	26	22,795,332	33,907,057	22,795,332	33,907,057
Reverse repurchase agreements	27	-	90,094	2,072,482	1,168,764
Derivative financial instruments	28	527,193	4,507,576	527,193	4,507,576
Financial assets measured at fair value through profit or loss	29	1,013,374	100,342	1,155,339	264,420
Financial assets measured at amortised cost - loans and advances to customers	30	741,769,073	749,048,820	769,392,169	770,263,000
Financial assets measured at amortised cost - debt and other instruments	31	149,720,834	160,145,680	156,511,277	165,821,983
Financial assets measured at fair value through other comprehensive income	32	127,694,982	69,436,989	133,953,117	76,005,258
Investment in joint venture	33	755,000	755,000	2,137,665	2,027,201
Investment in subsidiaries	34	3,017,285	3,017,285	-	-
Investment properties	35	480,444	325,818	1,026,050	1,107,472
Property, plant and equipment	36	21,076,762	21,304,370	42,452,617	42,417,126
Right-of-use assets	37	5,482,679	-	1,571,319	-
Intangible assets and goodwill	38	1,076,641	905,653	1,568,080	1,377,864
Other assets	39	12,907,234	14,509,951	15,467,912	16,273,512
Total assets		1,125,008,565	1,086,489,258	1,196,384,473	1,148,614,319
LIABILITIES					
Due to banks	40	86,396,304	77,492,582	87,212,970	77,976,010
Derivative financial instruments	28	573,365	2,519,172	573,365	2,519,172
Securities sold under repurchase agreements	41	17,569,394	16,678,946	17,569,394	16,678,946
Financial liabilities measured at amortised cost - due to depositors	42	810,035,114	799,975,357	835,060,146	818,041,962
Dividends payable	43	1,449,472	994,812	1,466,959	1,009,468
Financial liabilities measured at amortised cost - other borrowings	44	22,604,039	24,894,155	22,604,039	24,894,155
Debt securities issued	45	1,797,644	4,487,763	2,368,986	5,030,000
Current tax liabilities	47	5,348,985	9,184,814	5,621,389	9,559,852
Deferred tax liabilities	48	1,381,754	1,808,898	6,083,293	5,831,673
Insurance provision - life	49	-	-	14,468,866	12,256,686
Insurance provision - general	50	-	-	2,871,417	2,525,095
Other provisions		3,599,739	3,559,925	4,171,801	4,081,659
Other liabilities	51	14,053,378	6,908,911	12,495,406	8,944,789
Subordinated term debts	46	32,695,221	22,229,951	33,345,904	21,930,246
Total liabilities		997,504,409	970,735,286	1,045,913,935	1,011,279,713
EQUITY					
Stated capital	53	33,820,905	32,338,026	33,820,905	32,338,026
Statutory reserve fund	54	7,060,000	6,260,000	7,060,000	6,260,000
Retained earnings	55	17,980,160	15,728,513	23,072,623	20,181,416
Other reserves	56	68,643,091	61,427,433	81,554,692	73,881,954
Total shareholders' equity		127,504,156	115,753,972	145,508,220	132,661,396
Non-controlling interests	57	-	-	4,962,318	4,673,210
Total equity		127,504,156	115,753,972	150,470,538	137,334,606
Total equity and liabilities		1,125,008,565	1,086,489,258	1,196,384,473	1,148,614,319
Contingent liabilities and commitments	58	673,230,813	763,214,236	673,230,813	763,214,236
Net assets value per ordinary share (Rs.)	62	254.80	231.32	290.78	265.11

The notes to the financial statements from pages 149 to 288 form an integral part of these financial statements.

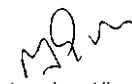
I certify that these financial statements are in compliance with the requirements of Companies Act No 7 of 2007.



Anusha Gallage
Chief Financial Officer

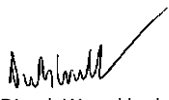
The Board of Directors is responsible for the preparation and presentation of these financial statements.

Approved and signed for and on behalf of the Board.

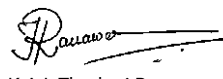


Jonathan Alles
Managing Director / Chief Executive Officer

20th February 2020
Colombo



Dinesh Weerakkody
Chairman



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	Capital Reserve	Available-for-Sale Reserve	Fair value Reserve	General Reserve		ESOP Reserve	Retained Earnings
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000		Rs 000	Rs 000
Balance as at 1st January 2018	25,900,025	5,509,094	5,460,000	8,725,542	4,166,167	-	43,100,000	93,186	15,193,585	108,147,599
Day 1 impact from the application of SLFRS 9	-	-	-	-	(4,166,167)	4,035,701	-	-	(4,042,519)	(4,172,985)
Restated balance as at 1st January 2018	25,900,025	5,509,094	5,460,000	8,725,542	-	4,035,701	43,100,000	93,186	11,151,066	103,974,614
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-
Net profit for the year 2018	-	-	-	-	-	-	-	-	15,518,203	15,518,203
Other comprehensive income, net of tax	-	-	-	2,065,452	-	(2,499,262)	-	-	(100,911)	(534,721)
Total comprehensive income for the year	-	-	-	2,065,452	-	(2,499,262)	-	-	15,417,292	14,983,482
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-
Contributions by and distributions to equity holders	-	-	-	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	(2,442,768)	(2,442,768)
Interim dividend 2017 - Cash	-	-	-	-	-	-	-	-	(977,592)	(977,592)
Final dividend 2017- Scrip	706,515	173,318	-	-	-	-	-	-	(738,976)	(738,976)
Interim dividend 2018 - Cash	-	-	-	-	-	-	-	-	-	-
Issue of shares under ESOP	31,442	4,708	-	-	-	-	-	-	-	36,150
Total contributions by and distributions to equity holders	737,957	178,026	-	-	-	-	-	-	(4,159,336)	(3,243,353)
Transfer of unclaimed dividends	-	-	-	-	-	-	-	-	39,229	39,229
Transfers during the year 2018	11,478	1,446	800,000	-	-	-	6,000,000	(93,186)	(6,719,738)	-
Balance as at 31st December 2018	26,649,460	5,688,566	6,260,000	10,790,994	-	1,536,439	49,100,000	-	15,728,513	115,753,972

STATEMENT OF CHANGES IN EQUITY

Financial
Reports

	Stated Capital		Other Reserves			Total		
	Voting Shares	Non-Voting Shares	Statutory Reserve	Capital Reserve	Fair value Reserve		General Reserve	Retained Earnings
	R\$ 000	R\$ 000	R\$ 000	R\$ 000	R\$ 000	R\$ 000	R\$ 000	
Balance as at 1st January 2019	26,649,460	5,688,566	6,260,000	10,790,994	1,536,439	49,100,000	15,728,513	115,753,972
Total comprehensive income for the year								
Net profit for the year 2019	-	-	-	-	-	-	14,032,252	14,032,252
Other comprehensive income, net of tax	-	-	-	-	1,352,578	-	(1,198,486)	154,092
Total comprehensive income for the year					1,352,578		12,833,766	14,186,344
Transactions with equity holders, recognised directly in equity								
Contributions by and distributions to equity holders								
Dividends to equity holders								
Final dividend 2018 - Cash	-	-	-	-	-	-	(1,724,277)	(1,724,277)
Final dividend 2018 - Scrip	1,190,308	292,571	-	-	-	-	(1,724,277)	(241,398)
Interim dividend 2019 - Cash	-	-	-	-	-	-	(500,407)	(500,407)
Total contributions by and distributions to equity holders	1,190,308	292,571	-	-	-	-	(3,948,961)	(2,466,082)
Realised gain from maturity of investment in units	-	-	-	-	(136,920)	-	136,920	-
Transfer of unclaimed dividends	-	-	-	-	-	-	-	-
Transfers during the year 2019	-	-	800,000	-	-	6,000,000	(6,770,078)	29,922
Balance as at 31st December 2019	27,839,768	5,981,137	7,060,000	10,790,994	2,752,097	55,100,000	17,980,160	127,504,156

Group

	Attributable to Equity Holders of the Bank													
	Stated Capital				Other Reserves					Total				
	Voting Shares	Non-Voting Shares	Statutory Reserve	Capital Reserve	Available-for-Sale Reserve	General Reserve	Fair Value Reserve	Life Policy Reserve	Restricted Regulatory Reserve	ESOP Reserve	Exchange Equalization Reserve	Retained Earnings	Non Controlling Interests	
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
Balance as at 1st January 2018	25,900,025	5,509,094	5,460,000	19,433,829	4,207,731	43,100,000	-	223,271	-	93,186	-	18,082,284	3,648,703	125,658,123
Day 1 impact from the application of SLFRS 9	-	-	-	-	(4,207,731)	-	4,058,756	(4,507)	-	-	-	(4,225,558)	(274,989)	(4,654,029)
Restated balance as at 1st January 2018	25,900,025	5,509,094	5,460,000	19,433,829	-	43,100,000	4,058,756	218,764	-	93,186	-	13,856,726	3,373,714	121,004,094
Total comprehensive income for the year														
Net profit for the year 2018	-	-	-	-	-	-	-	-	381,156	-	-	17,254,618	1,513,688	19,149,462
Other comprehensive income, net of tax	-	-	-	3,560,681	-	(2,521,033)	-	-	-	66,368	-	(90,611)	(4,678)	1,010,727
Total comprehensive income for the year	-	-	-	3,560,681	-	(2,521,033)	-	381,156	-	66,368	-	17,164,007	1,509,010	20,160,189
Transactions with equity holders, recognised directly in equity														
Contributions by and distributions to equity holders														
Dividends to equity holders														
Interim dividend 2017 - Cash	-	-	-	-	-	-	-	-	-	-	-	(2,442,768)	(209,514)	(2,652,282)
Final dividend 2017 - Scrip	706,515	173,318	-	-	-	-	-	-	-	-	-	(971,592)	-	(97,759)
Interim dividend 2018 - Cash	-	-	-	-	-	-	-	-	-	-	-	(738,976)	-	(738,976)
Issue of shares under ESOP	31,442	4,708	-	-	-	-	-	-	-	-	-	-	-	36,150
Total contributions by and distributions to equity holders	737,957	178,026	-	-	-	-	-	-	-	-	-	(4,159,336)	(209,514)	(3,452,867)
Transfer from life policy holder reserve fund	-	-	-	-	-	-	-	(416,567)	-	-	-	-	-	(416,567)
Deemed disposal gain through joint venture	-	-	-	-	-	-	-	-	-	-	-	528	-	528
Transfer of unclaimed dividends	-	-	-	-	-	-	-	-	-	-	-	39,229	-	39,229
Transfers during the year 2018	11,478	1,446	800,000	-	-	6,000,000	-	-	-	(93,186)	-	(6,719,738)	-	-
Balance as at 31st December 2018	26,649,460	5,688,566	6,260,000	22,994,510	-	49,100,000	1,537,723	(197,803)	381,156	-	66,368	20,181,416	4,673,210	137,334,606

STATEMENT OF CHANGES IN EQUITY

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Group	Attributable to Equity Holders of the Bank												
	Stated Capital			Other Reserves							Non Controlling Interests	Total	
	Voting Shares	Non-Voting Shares	Statutory Reserve	Capital Reserve	General Reserve	Fair value Reserve	Life Policy Holder Reserve Fund	Restricted 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	Rs 000	
Balance as at 1st January 2019	26,649,460	5,688,566	6,260,000	22,994,510	49,100,000	1,537,723	(197,803)	381,156	66,368	20,181,416	4,673,210	137,334,606	
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	14,670,104	358,968	15,029,072	
Net profit for the year 2019	-	-	-	-	-	-	-	-	-	14,670,104	358,968	15,029,072	
Other comprehensive income, net of tax	-	-	-	68,488	-	1,359,060	-	-	12,010	(1,196,778)	110,140	352,920	
Total comprehensive income for the year	-	-	-	68,488	-	1,359,060	-	-	12,010	13,473,326	469,108	15,381,992	
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-	-	-	
Contributions by and distributions to equity holders	-	-	-	-	-	-	-	-	-	-	-	-	
Dividends to equity holders	-	-	-	-	-	-	-	-	-	-	-	-	
Final dividend 2018 - Scrip	1,190,308	292,571	-	-	-	-	-	-	-	(1,724,277)	-	(241,398)	
Final dividend 2018 - Cash	-	-	-	-	-	-	-	-	-	(1,724,277)	(140,000)	(1,864,277)	
Interim dividend 2019 - Cash	-	-	-	-	-	-	-	-	-	(500,407)	(40,000)	(540,407)	
Total contributions by and distributions to equity holders	1,190,308	292,571	-	-	-	-	-	-	-	(3,948,961)	(180,000)	(2,646,082)	
Transfer from life policy holder reserve fund	-	-	-	-	-	-	370,100	-	-	-	-	370,100	
Realised gain from maturity of investment in units	-	-	-	-	-	(136,920)	-	-	-	136,920	-	-	
Transfer of unclaimed dividends	-	-	-	-	-	-	-	-	-	29,922	-	29,922	
Transfers during the year 2019	-	-	800,000	-	6,000,000	-	-	-	-	(6,800,000)	-	-	
Balance as at 31st December 2019	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	4,962,318	150,470,538	

The notes to the financial statements from pages 149 to 288 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

ACCOUNTING POLICY

The statement of cash flows has been prepared using the direct method of preparing cash flows in accordance with Sri Lanka Accounting Standard - LKAS 7 on "Statement of Cash Flows" whereby gross cash receipts and gross cash payments of operating activities, financing activities and investing activities have been recognised. Cash and cash equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

The cash and cash equivalents include cash in hand, balances with banks, placements with banks, money at call and short notice.

For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Cash flows from operating activities				
Interest receipts	111,784,834	105,939,151	121,530,536	114,385,642
Interest payments	(66,961,896)	(62,689,239)	(69,680,466)	(64,957,879)
Net commission receipts	8,914,171	9,330,648	9,947,911	10,087,205
Trading income	765,683	2,989,088	760,052	2,986,670
Payments to employees	(10,191,482)	(9,171,330)	(12,559,753)	(11,379,438)
Taxes on financial services	(7,765,237)	(6,244,330)	(8,314,417)	(6,590,515)
Receipts from other operating activities	3,586,902	1,935,073	12,588,445	9,861,573
Payments on other operating activities	(10,957,980)	(10,510,706)	(17,678,759)	(16,567,045)
Operating profit before change in operating assets and liabilities [Note (a)]	29,174,995	31,578,355	36,593,550	37,826,213
(Increase)/decrease in operating assets				
Balances with Central Bank of Sri Lanka	11,111,725	4,703,883	11,111,725	4,703,883
Financial assets measured at amortised cost - loans and advances to customers	608,737	(121,270,426)	(7,300,063)	(128,173,581)
Reverse repurchase agreements	90,000	(90,000)	(903,812)	(396,668)
Other assets	2,297,875	(5,048,453)	1,575,136	(4,874,360)
	14,108,337	(121,704,996)	4,482,986	(128,740,726)
Increase/(decrease) in operating liabilities				
Financial liabilities measured at amortised cost - due to depositors	8,992,084	96,961,771	15,566,180	97,766,339
Financial liabilities measured at amortised cost - other borrowings	6,837,511	13,069,681	7,170,750	13,552,214
Securities sold under repurchase agreements	859,696	11,626,013	859,696	11,626,013
Other liabilities	(391,694)	1,108,990	(261,256)	2,529,775
	16,297,597	122,766,455	23,335,370	125,474,341
Net cash generated from operating activities before income tax	59,580,929	32,639,814	64,411,906	34,559,828
Income tax paid	(9,084,423)	(4,305,953)	(9,587,000)	(4,871,157)
Net cash generated from operating activities	50,496,506	28,333,861	54,824,906	29,688,671
Cash flows from investing activities				
Purchase of property, plant and equipment	(1,148,451)	(1,553,961)	(1,443,788)	(1,708,263)
Proceeds from the sale of property, plant and equipment	21,530	4,803	28,928	8,171
Net proceeds from sale, maturity and purchase of financial investments	(46,300,862)	(16,147,250)	(46,790,203)	(18,392,639)
Net purchase of intangible assets	(499,080)	(382,545)	(599,991)	(497,025)
Dividend received from joint venture	75,500	33,220	75,500	33,220
Dividends received from investment in subsidiaries	236,794	221,095	-	-
Dividends received from other investments	148,843	187,905	154,008	192,639
Net cash used in investing activities	(47,465,726)	(17,636,733)	(48,575,546)	(20,363,897)

STATEMENT OF CASH FLOWS

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For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Cash flows from financing activities				
Net proceeds from the issue of ordinary shares	-	36,151	-	36,151
Net proceeds from the issue of subordinated debt	9,965,069	-	10,916,383	-
Repayment of subordinated debt / debt securities issued	(2,757,240)	(4,000,000)	(2,726,240)	(4,055,661)
Dividend paid to non controlling interest	-	-	(177,168)	(206,368)
Dividend paid to shareholders of the parent company	(1,981,500)	(3,220,833)	(1,981,500)	(3,220,833)
Net cash (used in) / generated from financing activities	5,226,329	(7,184,682)	6,031,475	(7,446,711)
Net increase in cash and cash equivalents	8,257,109	3,512,446	12,280,835	1,878,063
Cash and cash equivalents at the beginning of the year	28,434,623	24,922,177	33,473,086	31,595,023
Cash and cash equivalents at the end of the year	36,691,732	28,434,623	45,753,921	33,473,086
Note [a] - Reconciliation of operating profit before changes in operating assets and liabilities				
Profit before income tax	18,463,003	22,951,500	20,444,757	26,466,304
Amortisation of intangible assets	328,091	292,274	409,775	356,990
Amortisation of leasehold property	103,631	101,097	103,631	101,097
Amortisation of right of use assets	697,609	-	602,319	-
Accretion of interest on right of use assets	806,449	-	247,311	-
Accrual for interest payable	1,185,655	1,238,920	1,559,350	1,367,867
Accrual for interest receivable	(5,273,115)	(2,899,712)	(5,346,889)	(2,832,017)
Accrual for other payables	233,625	1,164,105	993,161	1,345,617
Accrual for other receivable	2,368,125	838,026	2,495,480	831,889
Debenture issue expenses	34,931	-	39,797	-
Depreciation of investment property	2,568	1,646	48,616	39,107
Depreciation of property, plant and equipment	1,114,215	959,745	1,537,987	1,329,274
Dividend income	(504,029)	(472,284)	(196,900)	(222,500)
Gain/(loss) on FCBU revaluation	108,476	(1,585,822)	108,476	(1,585,822)
Gain on disposal of property, plant and equipment	(19,805)	(3,040)	(24,605)	(3,407)
Impairment charge for loans and other losses	9,656,010	9,292,421	11,426,824	9,784,052
Increase in insurance contract liabilities - Life	-	-	2,212,180	1,721,984
Movement in general insurance reserve fund	-	-	346,322	140,187
Change in contract liability due to transfer of one - off surplus	-	-	-	(381,156)
Net capital gain / (loss) from financial assets measured at fair value through other comprehensive income	-	-	(82,348)	(72,150)
Net capital gain / (loss) from financial assets measured at fair value through profit or loss	(76,142)	(727)	(75,230)	(2,033)
Net gain/(loss) from marked to market valuation on financial assets measured at fair value through profit or loss	(3,541)	7,984	(18,819)	51,800
Notional tax credit and WHT credit	(50,761)	(307,778)	(50,761)	(307,778)
Share of profits of joint venture	-	-	(186,884)	(303,092)
	29,174,995	31,578,355	36,593,550	37,826,213
Note [b] - Cash and cash equivalents at the end of the year				
Cash and cash equivalents [Note 24]	29,089,189	25,141,890	30,263,654	24,966,831
Placements with banks [Note 25]	7,602,543	3,292,733	15,490,267	8,506,255
	36,691,732	28,434,623	45,753,921	33,473,086

The notes to the financial statements from pages 149 to 288 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 staff strength of the Bank as at 31st December 2019 was 4,912 (2018 - 4,781).

1.2 Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended 31st December 2019 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 Ltd and Lanka Ventures PLC, a subsidiary of Acuity Partners (Pvt) Limited, the joint venture, whose financial year end on March 31st.

Hatton National Bank PLC is the ultimate parent of the Group.

There were no significant changes in the nature of the principal activities of the Group during the financial year under review.

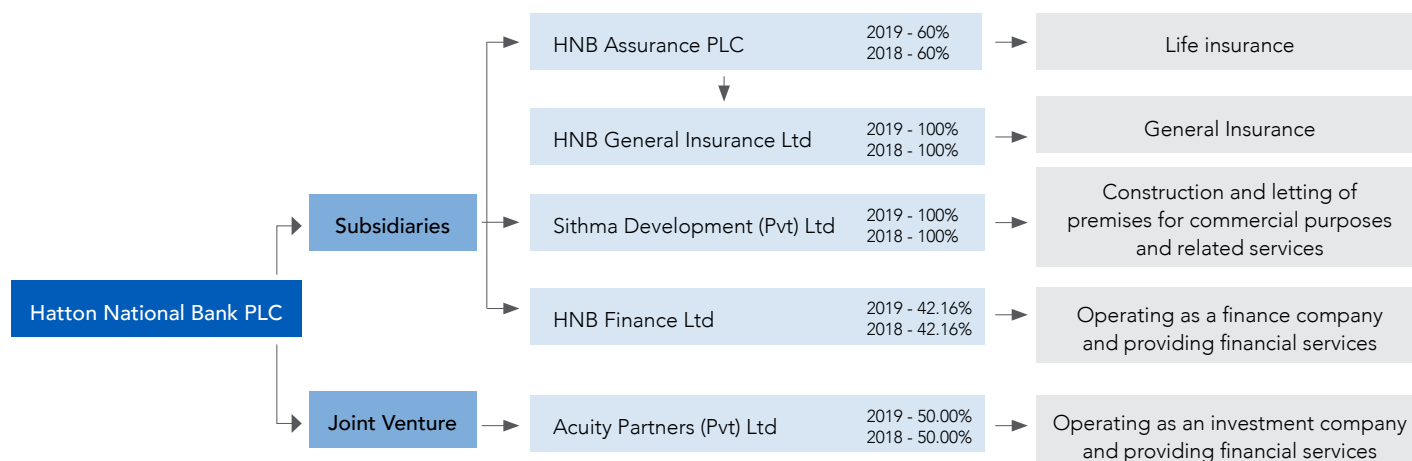
1.3 Principal Activities and Nature of Operations

Bank

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, dealing in government securities, leasing, Islamic banking etc.

Group

The principal activities of the group companies comprising of the subsidiaries and the joint venture company are summarised below.



2 BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

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 which comprise of the statement of financial position, statement of profit or loss, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto, 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.

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 page 98, 136 and 142 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 20th February 2020.

NOTES TO THE FINANCIAL STATEMENTS

Financial Reports

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
Derivative financial instruments	Fair value
Financial assets measured at fair value through profit or loss	Fair value
Financial assets measured at fair value through other comprehensive income	Fair value
Freehold land and buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts (except investment properties), which are the fair values on the date of revaluation
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.

2.1.5 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.

2.1.6 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 60 to the financial statements.

No adjustments have been made for the inflationary factors affecting the financial statements.

2.1.7 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".

2.1.8 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 statement of profit or loss unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

2.1.9 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".

2.2 Changes in Accounting Policies and Disclosures

In these financial statements, the Group has applied Sri Lanka Accounting Standard - SLFRS 16 on "Leases" and IFRIC Interpretation 23 - "Uncertainty over Income Tax Treatment" which became effective for the annual reporting periods beginning on or after 1st January 2019, for the first time. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not effective.

2.2.1 Sri Lanka Accounting Standard SLFRS 16 - "Leases"

Sri Lanka Accounting Standard SLFRS 16 - "Leases" (SLFRS 16) became effective for annual periods beginning on or after 1st January 2019. SLFRS 16 supersedes LKAS 17 "Leases", IFRIC interpretation 4 - "Determining whether an Arrangement contains a Lease", SIC - 15 "Operating Leases - Incentives" and SIC - 27 "Evaluating the Substance of Transactions involve in the legal form of a Lease". This standard replaced Sri Lanka Accounting Standard LKAS 17 - "Leases" (LKAS 17), sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet. Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17 where by lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17. Therefore, SLFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application as 1st January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised on the date of initial application. The Group elected to use the transitional practical expedient to not reassess whether a contract is or contains a lease at 1st January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying LKAS 17 at the date of initial application.

The Group recognised right of use of assets and lease liabilities for those leases previously classified as operating leases. The right of use of assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate on the date of initial application.

Based on the above, the financial statement impact of adopting SLFRS 16 as at 1st January 2019 are summarized below:

	Bank Rs Mn	Group Rs Mn
- Right- of use assets recognized and presented in the statement of financial position as "Right of use of assets"	6,164	2,039
- Additional lease liabilities recognised within "Other liabilities"	6,164	2,039

Right-of-use asset recognised as at 1st January 2019, varies from the same derived based on lease commitments disclosed in prior year, mainly due to revisions to lease terms under SLFRS 16.

The adoption of SLFRS 16 had no impact on Group's retained earnings and no material impact on its CET1 ratio. The details of right-of-use assets are given in note 37 to the financial statements.

2.2.2 IFRIC Interpretation 23 - "Uncertainty over Income Tax Treatment"

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of Sri Lanka Accounting Standard LKAS 12 - "Income Taxes". It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (or loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group applies significant judgement in identifying uncertainties over income tax treatments. The Group determined, based on its tax compliance, that it is probable that its tax treatments will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Bank.

2.2.3 Application of Accounting Policies

Apart from the changes mentioned above, 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.

2.2.4 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.

2.3 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the consolidated 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. 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.

2.3.1 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. Furthermore, Board is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Group. Therefore, the financial statements continue to be prepared on the going concern basis.

2.3.2 Fair Value of Financial Instruments

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 required to establish fair values. The valuation of financial instruments is described in more detail in Note 5 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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2.3.3 Impairment Losses on Loans and Advances**Individual impairment assessment**

The Group reviewed their individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of profit or loss. In particular, management judgement was required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates were based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance made.

Collective impairment assessment

Loans and advances that have been assessed individually and found not to be impaired 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.

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 in which can result in different levels of impairment allowances.

The Group's Expected Credit Loss (ECL) calculations are 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 if 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 and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macro economic scenarios and economic inputs, such as unemployment levels, GDP growth, inflation interest rates, exchange rates etc. and the effect on Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD)
- Selection of forward-looking macro economic scenarios and their probability weightings, to derive at the economic inputs to the ECL models

The Group's policy is to regularly review its models in the context of actual loss experience and adjust when necessary.

The impairment loss on loans and advances is disclosed in Note 30 to the financial statements.

2.3.4 Impairment of Financial Assets carried at Amortised Cost

The Group assesses impairment for financial assets carried at amortised cost in line with the same principles used for assessment of impairment of loans and receivables.

The impairment loss on financial assets carried at amortised cost is disclosed in Note 31 (b) to the financial statements.

2.3.5 Impairment for Financial Guarantees, Letters of Credit and Undrawn Loan Commitments

The Group assesses impairment for off balance sheet exposures such as financial guarantees, letter of credit and undrawn commitments in line with ECL principles as detailed in 2.3.3.

The impairment loss on financial guarantees, letters of credit and undrawn loan commitments is disclosed in Note 51 (a) to the financial statements.

2.3.6 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.

2.3.7 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. The carrying amount of goodwill as at 31st December 2019 is Rs 122.9 Mn (2018 :Rs 122.9 Mn).

The details on assessment of goodwill impairment is given in Note 38 to the financial statements.

2.3.8 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.

Details on deferred tax assets are disclosed in Note 48 to the financial statements.

2.3.9 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 and expected future salary increment rate of the Bank.

Details of the key assumptions used in the estimate are contained in Note 52 to the financial statements.

2.3.10 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 5.4.2 to the financial statements.

2.3.11 Useful Life Time of Property, Plant and Equipment, Investment Properties and Intangible Assets

The Group reviews the residual values, useful lives and methods of depreciation of property, plant and equipment, investment properties and intangible assets at each reporting date. Management exercises judgement in the estimation of these values, rates, methods and hence those are subject to uncertainty.

2.3.12 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.

2.3.13 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 life style, 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 life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation, if appropriate.

Lapse and surrender rates are based on HNBA's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates, adjusted for HNBA's own risk exposure.

2.3.14 Valuation of General Insurance Contract Liabilities of Subsidiary, HNB Assurance PLC (HNBA)

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 (IBNR), 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 estimating the amounts of outstanding claims is the past claims development experience.

Large claims are usually separately addressed, either by being reserved at the face value of loss adjusted 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.

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2.3.15 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.

2.3.16 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 interpretation 23 - "Uncertainty over Income Tax Treatment"

2.3.17 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 benefits for it to exercise either the renewal or termination. Further, the Group can not 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.

2.3.18 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 to be 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.

Details on commitments and contingencies are given in Note 58 to the financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

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 2.2 to the financial statements.

3.1 Basis of Consolidation

The Bank's financial statements comprise the amalgamation of the financial statements of the Domestic Banking Unit (DBU) and the Foreign Currency Banking Unit (FCBU). The Group's financial statements comprise the consolidation of the financial statements of the Bank, its subsidiaries in terms of the Sri Lanka Accounting Standard - SLFRS 10 on "Consolidated Financial Statements" and the proportionate share of the profit or loss and net assets of its joint venture (equity method) in terms of the Sri Lanka Accounting Standard - SLFRS 11 on "Joint Arrangements".

3.1.1 Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method as per the requirements of Sri Lanka Accounting Standard - SLFRS 3 on "Business Combinations". When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in the statement of profit or loss. Acquisition related costs are expensed as incurred and are included in other expenses. Goodwill is initially measured at cost and subsequently at cost less any accumulated impairment losses in accordance with the Sri Lanka Accounting Standard - SLFRS 3 on "Business Combinations".

Goodwill is reviewed for impairment annually or more frequently if events or circumstances indicate that the carrying value may be impaired.

The Group elects on a transaction by transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of identifiable net assets, at the acquisition date.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the statement of profit or loss.

3.1.2 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.

3.1.3 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 statement of profit or loss as foreign exchange gain/(loss).

The foreign currency gain 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 statement of profit or loss, 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 exchange differences arising on the settlement or reporting of monetary items at rates different from those which were initially recorded are dealt in the statement of profit or loss.

Forward exchange contracts are valued at the forward market rates prevailing on the reporting date. Resulting net unrealised gains or losses are dealt in the statement of profit or loss.

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 means 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 bank.

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, except in the case of financial assets and financial liabilities measured at fair value through profit or loss. They do not have a significant financing component as defined by SLFRS 15 plus or minus transaction costs that are directly attributable to its acquisition or issue.

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.

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3.3.2 (a) "Day 1" Profit or Loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is determined based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value derived is only recognised in the statement of profit or loss when the inputs become observable, or when the instrument is de-recognised. The "Day 1 loss" arising in the case of loans granted to the 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 employees or tenure of the loan whichever is shorter.

3.4 Classification and Subsequent Measurement of Financial Assets

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms.

These assets are measured at either:

- Amortised cost, as explained in Note 30 and Note 31 to the financial statements.
- Fair Value through Other Comprehensive Income (FVOCI), as explained in Note 32 to the financial statements.
- Fair Value through Profit or Loss (FVPL) as explained in Note 28 and Note 29 to the financial statements.

The Group classifies and measures its derivative and trading portfolio at FVPL as explained in Notes 28 and 29. The Group may designate financial instruments at FVPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 29.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL. The financial liabilities are measured at FVPL when they are either derivative instruments, held for trading or the fair value designation is applied, as explained in Note 28 to the financial statements.

The subsequent measurement of financial assets 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 to make 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 FVPL.

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 FVPL:</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. 	<p>Cash and cash equivalents</p> <p>Placements with banks</p> <p>Balances with Central Bank of Sri Lanka</p> <p>Reverse repurchase agreements</p> <p>Financial assets measured at amortised cost - loans and advances to customers</p> <p>Financial assets measured at amortised cost - debt and other instruments</p>	<p>Note 24</p> <p>Note 25</p> <p>Note 26</p> <p>Note 27</p> <p>Note 30</p> <p>Note 31</p>
Financial assets measured at fair value through other comprehensive income	<p>A debt instrument is measured at Fair Value through Other Comprehensive Income (FVOCI) when both of the following conditions are met:</p> <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 <p>Upon initial recognition, the Group elects 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.</p>	Financial assets measured at fair value through other comprehensive income	Note 32
Financial assets measured at fair value through profit or loss	<p>A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Group may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch) that would otherwise arise from measuring the assets and liabilities or recognising gains or losses on them on different basis.</p>	<p>Derivative financial instruments</p> <p>Financial assets measured at fair value through profit or loss</p>	<p>Note 28</p> <p>Note 29</p>

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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 at amortised cost	Due to banks	Note 40
		Securities sold under repurchase agreements	Note 41
		Financial liabilities measured at amortised cost - due to depositors	Note 42
		Financial liabilities measured at amortised cost - other borrowings	Note 44
		Debt securities issued	Note 45
		Subordinated term debts	Note 46
Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at fair value through profit or loss include; - Financial liabilities held for trading and - Financial liabilities designated at fair value through profit or loss	Derivative financial instruments	Note 28

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 an instrument at FVPL 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 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 profit and loss with the exception of movements in fair value of liabilities designated at FVPL 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 profit or loss. Interest earned or incurred on instruments designated at FVPL 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 statement of profit or loss.
- 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 Group did not reclassify any of its financial assets or liabilities in 2018 or in 2019.

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

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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 statement of profit or loss.

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 statement of profit or loss, 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.

4 FINANCIAL RISK MANAGEMENT

4.1 Introduction and Overview

Risk is inherent in the bank's activities which is managed through a process of proper risk identification, analysis, measurement and continuous monitoring. The process of risk management is critical to the Bank's continuous profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk which have been disclosed in this note as summarized below.

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4.2 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 five 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 Planning and Investment Committee (BSP & IC) and Board Recovery 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, has 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, Investment 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.

4.3 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.

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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 30 to the financial statements.

4.3.1 Credit Quality Analysis

4.3.1 (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.

4.3.1 (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 asset.

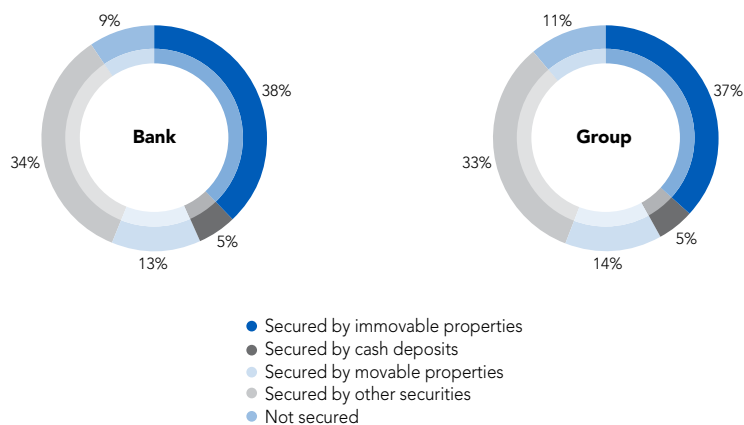
Bank

As at 31st December	2019		2018	
	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
Placements with banks	7,651,612	7,651,612	3,292,870	3,292,870
Reverse repurchase agreements	-	-	90,094	-
Derivative financial instruments	527,193	527,193	4,507,576	4,507,576
Financial assets measured at fair value through profit or loss	1,013,375	1,013,375	100,342	100,342
Financial assets measured at amortised cost - loans and advances to customers (gross)	771,939,001	321,419,306	771,692,625	340,295,895
Financial assets measured at amortised cost - debt and other instruments	151,506,180	151,506,180	161,430,692	161,430,692
Financial assets measured at fair value through other comprehensive income	127,694,982	127,694,982	69,436,989	69,436,989
Other assets	692,214	692,214	466,252	466,252
	1,061,024,557	610,504,862	1,011,017,440	579,530,616
Guarantees, letters of credit and acceptances	162,567,381	161,152,076	190,179,196	185,782,366

Group

As at 31st December	2019		2018	
	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
Placements with banks	15,539,828	15,539,828	8,506,725	8,506,725
Reverse repurchase agreements	2,072,482	-	1,168,764	-
Derivative financial instruments	527,193	527,193	4,507,576	4,507,576
Financial assets measured at fair value through profit or loss	1,155,339	1,155,339	264,419	264,419
Financial assets measured at amortised cost - loans and advances (gross)	802,707,091	338,001,506	794,715,100	353,679,570
Financial assets measured at amortised cost - debt and other instruments	158,296,621	158,296,621	167,625,146	167,625,146
Financial assets measured at fair value through other comprehensive income	133,953,117	133,953,115	76,005,258	76,005,258
Other assets	1,048,818	1,048,818	669,871	574,327
	1,115,300,489	648,522,420	1,053,462,859	611,163,021
Guarantees, letters of credit and acceptances	162,567,381	161,152,076	190,179,196	185,782,366

Maximum Exposure to Credit Risk - 2019



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4.3.1 (c) Maximum exposure to credit risk by risk rating

The Bank manages the credit quality of loans and receivables based on an internal credit rating system while the other financial assets are managed based on the external credit ratings of the counterparty. 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 As at 31st December 2019	High Grade				Standard Grade			
	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
Financial Assets								
Cash and cash equivalents	1,102,636	-	-	27,895,043	96,306	-	-	-
Placements with banks	7,651,612	-	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	22,795,332	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	381,046	-	-	-	116,837
Reverse repurchase agreements	-	-	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss								
Equity securities	-	-	-	4,318	-	-	-	-
Government securities	908,064	-	-	-	-	-	-	-
Financial assets measured at amortised cost loans and advances (gross)	103,092,077	3,825,947	13,879,978	-	150,227,030	34,677,337	11,597,063	-
Financial assets measured at fair value through other comprehensive income								
Government securities	122,170,308	-	-	-	-	-	-	-
Equity securities - quoted	-	-	-	5,125,554	-	-	-	-
Equity securities - unquoted	-	-	-	-	-	-	-	-
Unquoted units	-	-	-	-	-	-	-	-
Financial assets measured at amortised cost - debt and other instruments								
Government securities	141,835,301	-	-	-	-	-	-	-
Debt securities - quoted	8,762,603	-	-	-	305,877	-	-	-
Other assets	-	-	-	-	-	-	-	-
Total	408,317,933	3,825,947	13,879,978	33,405,961	150,629,213	34,677,337	11,597,063	116,837
Off balance sheet								
Contingent liabilities and commitments	102,494,465	643,238	8,753,775	12,952	174,870,111	12,852,705	1,488,787	253,418

Sub-Standard Grade				Low grade				Unrated				Exposures not Subject to Rating				Total	
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	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	Rs 000	Rs 000	Rs 000	Rs 000		
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29,093,985
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,651,612
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	22,795,332
-	-	-	-	-	-	-	-	-	-	-	-	8,028	-	-	-	21,282	527,193
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	100,992	-	-	-	-	105,310
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	908,064
83,646,061	35,397,876	11,814,683	-	25,921,662	18,144,848	7,973,066	-	202,568,741	31,222,212	13,260,545	-	23,501,338	717,031	471,506	-	771,939,001	
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	122,170,308
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,125,554
-	-	-	-	-	-	-	-	-	-	-	-	22,530	-	-	-	-	22,530
-	-	-	-	-	-	-	-	-	-	-	-	376,590	-	-	-	-	376,590
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	141,835,301
-	-	64,066	-	-	-	538,332	-	-	-	-	-	-	-	-	-	-	9,670,878
-	-	-	-	-	-	-	-	-	-	-	-	-	692,214	-	-	-	692,214
83,646,061	35,397,876	11,878,749	-	25,921,662	18,144,848	8,511,398	-	202,568,741	31,222,212	13,260,545	508,140	24,193,552	717,031	471,506	21,282	1,112,913,872	
46,043,399	8,096,308	159,311	64,912	48,098,457	2,884,789	1,648,514	796	225,432,470	1,106,871	289,494	617,603	37,418,439	-	-	-	673,230,813	

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4 FINANCIAL RISK MANAGEMENT (Contd.)

4.3.1 (c) Maximum exposure to credit risk by risk rating (Contd.)

Bank As at 31st December 2018	High Grade				Standard Grade			
	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
Financial Assets								
Cash and cash equivalents	2,065,323	-	-	22,856,794	147,539	-	-	-
Placements with banks	3,292,870	-	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	33,907,057	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	3,006,286	-	-	-	375,176
Reverse repurchase agreements	90,094	-	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss								
Equity securities	-	-	-	4,372	-	-	-	2,604
Government securities	1,286	-	-	-	-	-	-	-
Financial assets measured at amortised cost loans and advances (gross)	124,911,380	8,449,698	1,060,698	-	192,257,850	26,159,754	8,097,985	-
Financial assets measured at fair value through other comprehensive income								
Government securities	64,818,694	-	-	-	-	-	-	-
Equity securities - quoted	-	-	-	3,981,142	-	-	-	-
Equity securities - unquoted	-	-	-	-	-	-	-	-
Quoted units	-	-	-	-	-	-	-	-
Unquoted units	-	-	-	-	-	-	-	-
Financial assets measured at amortised cost - debt and other instruments	-	-	-	-	-	-	-	-
Government securities	149,234,396	-	-	-	-	-	-	-
Debt securities - quoted	10,221,539	-	-	-	1,395,948	-	-	-
Other assets	-	-	-	-	-	-	-	-
	388,542,639	8,449,698	1,060,698	29,848,594	193,801,337	26,159,754	8,097,985	377,780
Off balance sheet								
Contingent liabilities and commitments	132,908,093	5,610,606	139,316	-	194,362,995	12,469,137	5,242,188	-

Sub-Standard Grade				Low grade				Unrated				Exposures not Subject to Rating				Total
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	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	Rs 000	Rs 000	Rs 000	Rs 000	
76,052	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25,145,708
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,292,870
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	33,907,057
-	-	-	976,083	-	-	-	-	-	-	-	150,031	-	-	-	-	4,507,576
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	90,094
-	-	-	-	-	-	-	-	-	-	-	92,080	-	-	-	-	99,056
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,286
70,672,580	33,402,956	8,391,828	-	24,853,209	11,629,721	6,846,507	-	201,190,790	23,886,540	9,309,173	-	19,092,492	780,083	699,381	-	771,692,625
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	64,818,694
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,981,142
-	-	-	-	-	-	-	-	-	-	-	24,780	-	-	-	-	24,780
-	-	-	-	-	-	-	-	-	-	-	240,000	-	-	-	-	240,000
-	-	-	-	-	-	-	-	-	-	-	372,373	-	-	-	-	372,373
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	149,234,396
-	512,918	65,892	-	-	-	-	-	-	-	-	-	-	-	-	-	12,196,297
-	-	-	-	-	-	-	-	-	-	-	-	466,252	-	-	-	466,252
70,748,632	33,915,874	8,457,720	976,083	24,853,209	11,629,721	6,846,507	-	201,190,790	23,886,540	9,309,173	879,264	19,558,744	780,083	699,381	-	1,070,070,206
41,754,863	12,722,938	2,062,061	-	21,571,212	3,171,317	711,050	-	291,071,764	993,386	273,156	-	38,020,308	49,036	80,808	-	763,214,236

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4 FINANCIAL RISK MANAGEMENT (Contd.)

4.3.1 (d) Credit exposure and ECL provision movement - Stage wise

Bank	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 2019	2,288,914	3,818	-	-	-	-	22,856,794	25,145,708	3,818
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated or purchased and effect of remeasurement	316,089	1,851	-	-	-	-	5,038,249	5,354,338	1,851
Financial assets derecognised or repaid (excluding write offs)	(1,406,061)	(873)	-	-	-	-	-	(1,406,061)	(873)
Write offs	-	-	-	-	-	-	-	-	-
As at 31st December 2019	1,198,942	4,796	-	-	-	-	27,895,043	29,093,985	4,796
Placements with banks									
As at 1st January 2019	3,292,870	137	-	-	-	-	-	3,292,870	137
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated or purchased and effect of remeasurement	7,651,612	49,069	-	-	-	-	-	7,651,612	49,069
Financial assets derecognised or repaid (excluding write offs)	(3,292,870)	(137)	-	-	-	-	-	(3,292,870)	(137)
Write offs	-	-	-	-	-	-	-	-	-
As at 31st December 2019	7,651,612	49,069	-	-	-	-	-	7,651,612	49,069
Reverse repurchase agreements									
As at 1st January 2019	90,094	-	-	-	-	-	-	90,094	-
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)	(90,094)	-	-	-	-	-	-	(90,094)	-
Write offs	-	-	-	-	-	-	-	-	-
As at 31st December 2019	-	-	-	-	-	-	-	-	-
Financial assets measured at amortised cost - debt and other instruments									
As at 1st January 2019	160,851,883	1,130,825	512,918	88,296	65,892	65,892	-	161,430,693	1,285,013
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	(512,918)	(88,296)	512,918	88,296	-	-	-
New assets originated or purchased and effect of remeasurement	190,109	99,969	-	-	25,414	450,036	-	215,523	550,005
Financial assets derecognised or repaid (excluding write offs)	(10,138,211)	(47,847)	-	-	(1,826)	(1,826)	-	(10,140,037)	(49,673)
Write offs	-	-	-	-	-	-	-	-	-
As at 31st December 2019	150,903,782	1,182,947	-	-	602,398	602,398	-	151,506,179	1,785,345

Bank	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
Financial assets measured at amortised cost - Loans and advances									
As at 1st January 2019	632,978,301	3,336,650	104,308,752	3,714,854	34,405,572	15,592,301	-	771,692,625	22,643,805
Transfer to stage 1	17,804,757	830,289	(17,250,379)	(654,017)	(554,378)	(176,272)	-	-	-
Transfer to stage 2	(53,678,341)	(440,918)	55,344,849	829,436	(1,666,508)	(388,518)	-	-	-
Transfer to stage 3	(17,236,655)	(93,026)	(11,191,127)	(533,803)	28,427,782	626,829	-	-	-
New assets originated or purchased and effect of remeasurement	304,018,275	1,880,577	47,483,024	3,220,409	12,121,390	11,870,536	-	363,622,689	16,971,522
Financial assets derecognised or repaid (excluding write offs)	(294,929,428)	(2,169,894)	(54,709,868)	(1,749,550)	(13,373,857)	(5,162,795)	-	(363,013,153)	(9,082,239)
Write offs	-	-	-	-	(363,160)	(363,160)	-	(363,160)	(363,160)
As at 31st December 2019	588,956,909	3,343,678	123,985,251	4,827,329	58,996,841	21,998,921	-	771,939,001	30,169,928
Financial assets measured at fair value through other comprehensive income									
As at 1st January 2019	64,818,694	-	-	-	-	-	4,618,295	69,436,989	-
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated / purchased or increase in fair value	82,809,668	-	-	-	-	-	1,148,629	83,958,297	-
Financial assets derecognised / repaid (excluding write offs) and reductions in fair value	(25,458,054)	-	-	-	-	-	(242,250)	(25,700,304)	-
Write offs	-	-	-	-	-	-	-	-	-
As at 31st December 2019	122,170,309	-	-	-	-	-	5,524,674	127,694,982	-
Financial assets recognised through profit or loss measured at fair value									
As at 1st January 2019	1,287	-	-	-	-	-	99,056	100,343	-
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated / purchased or increase in fair value	907,703	-	-	-	-	-	6,254	913,957	-
Financial assets derecognised / repaid (excluding write offs) and reductions in fair value	(926)	-	-	-	-	-	-	(926)	-
Write offs	-	-	-	-	-	-	-	-	-
As at 31st December 2019	908,064	-	-	-	-	-	105,310	1,013,374	-

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4 FINANCIAL RISK MANAGEMENT (Contd.)

4.3.1 (e) Financial assets measured at amortised cost - loans and advances to customers - Analysis of Stage 2 and Stage 3 loans

The tables below summarise 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	Stage 2		Stage 3		Total	
As at 31st December 2019	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Less than :						
30 DPD	64,003,064	1,785,091	-	-	64,003,064	1,785,091
90 DPD	-	-	25,982,806	3,656,827	25,982,806	3,656,827
More than :						
30 DPD	59,982,187	3,042,238	-	-	59,982,187	3,042,238
90 DPD	-	-	33,014,035	18,342,094	33,014,035	18,342,094
Total	123,985,251	4,827,329	58,996,841	21,998,921	182,982,092	26,826,250

Bank	Stage 2		Stage 3		Total	
As at 31st December 2018	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Less than :						
30 DPD	56,946,906	1,580,632	-	-	56,946,906	1,580,632
90 DPD	-	-	12,693,657	4,038,701	12,693,657	4,038,701
More than :						
30 DPD	47,361,847	2,134,222	-	-	47,361,847	2,134,222
90 DPD	-	-	21,711,915	11,553,600	21,711,915	11,553,600
Total	104,308,753	3,714,854	34,405,572	15,592,301	138,714,325	19,307,155

4.3.1 (f) Rescheduled / restructured loans

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position, where the Bank has made concessions, by agreeing to terms and conditions that are more favourable to the borrower compared to the original contract. The Bank implements forbearance policy in order to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis in situations where the debtor is currently in default on its debt, or where there is a high risk of default, there is evidence that the debtor made all the reasonable efforts to pay under the original contractual terms and they are expected to be able to meet the revised terms. The revised terms usually include extending maturity, changing timing of interest payments and amendments to the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. Once the loan is rescheduled, it remains in this category independent of satisfactory performance after restructuring. At the time of rescheduling the loan, the Bank determines the fair value of the loan and carrying value is brought down to reflect the fair value charging the difference if any, to the statement of profit or loss under impairment for loans and other losses.

During the year ended 31st December 2019, the Bank rescheduled loans and advances with a carrying value of Rs 13,539.75 Mn (2018 - Rs 4,631.66 Mn) and recognised an impairment charge of Rs 38.6 Mn (2018 - impairment charge of Rs. 19.69 Mn) in the statement of profit or loss.

4.3.1 (g) Concentrations of Credit Risk

The Bank monitors concentration of credit risk by geographic location and by sector.

4.3.1 (g) i Concentration by Location

Concentration of loans and advances by location is given below.

As at 31st December	Bank				Group			
	2019		2018		2019		2018	
	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000	%
Western	572,385,388	74.15	570,631,727	73.94	581,473,379	72.44	576,652,469	72.56
Southern	33,853,218	4.39	33,209,835	4.30	36,310,856	4.52	35,355,553	4.45
Uva	9,612,417	1.25	9,757,054	1.26	11,465,223	1.43	11,199,292	1.41
North Central	10,792,679	1.40	10,624,236	1.38	13,418,114	1.67	12,686,333	1.60
North Western	34,702,476	4.50	36,000,796	4.67	39,539,926	4.93	39,627,553	4.99
Eastern	15,588,105	2.02	15,884,033	2.06	18,151,994	2.26	17,866,829	2.25
Northern	17,656,943	2.29	18,472,610	2.39	20,363,889	2.54	20,347,872	2.56
Sabaragamuwa	15,423,712	2.00	14,908,657	1.93	17,231,290	2.15	16,390,858	2.06
Central	40,729,165	5.25	38,317,969	4.97	43,557,522	5.43	40,702,634	5.12
Overseas	21,194,898	2.75	23,885,708	3.10	21,194,898	2.64	23,885,708	3.01
	771,939,001	100	771,692,625	100	802,707,091	100	794,715,102	100

Concentration by location for loans and advances is measured based on the location of the customer centre that granted the facility, which has a high correlation with the location of the borrower, except for loans granted by the Foreign Currency Banking Unit (FCBU).

4.3.1 (g) ii Significant foreign 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		Cambodia	
	2019	2018	2019	2018
	Rs 000	Rs 000	Rs 000	Rs 000
Gross carrying value	16,083,762	15,299,261	3,664,095	7,110,806
Impairment allowance	(199,806)	(209,092)	(8,809)	(13,632)
Net carrying value	15,883,956	15,090,169	3,655,286	7,097,174

Total unutilised overdrafts approved to above customers as at 31st December 2019 amounts to Rs 64.12 Mn (2018 : Rs 21.7 Mn).

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4.3.1 (g) iii Concentration by Sector

As at 31st December 2019	Agriculture and fishing	Manufacturing	Tourism	Transport and Storage	Construction and Infrastructure	Wholesale and Retail
Bank	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
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	-	33,384	23,993	2,103	4	-
Financial assets measured at amortised cost - loans and advances to customers (gross)	56,719,778	86,867,860	37,016,059	14,760,559	115,068,853	144,277,924
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
Financial assets measured at amortised cost - debt and other instruments	-	512,582	-	-	1,518,534	-
Other assets	-	-	-	-	-	-
	56,719,778	87,413,825	37,040,052	14,762,662	116,587,391	144,277,924

As at 31st December 2018	Agriculture and fishing	Manufacturing	Tourism	Transport and Storage	Construction and Infrastructure	Wholesale and Retail
Bank	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
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	-	22,033	24,434	2,604	2	-
Financial assets measured at amortised cost - loans and advances to customers (gross)	58,113,215	89,363,244	35,160,396	12,447,297	114,301,299	158,889,049
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
Financial assets measured at amortised cost - debt and other instruments	-	1,003,302	-	-	2,031,873	-
Other assets	-	-	-	-	-	-
	58,113,215	90,388,579	35,184,830	12,449,901	116,333,174	158,889,049

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
-	29,101,925	-	-	-	-	-	-	-	29,101,925
-	7,610,986	-	-	-	-	-	-	-	7,610,986
-	22,795,332	-	-	-	-	-	-	-	22,795,332
-	-	-	-	-	-	-	-	-	-
-	527,193	-	-	-	-	-	-	-	527,193
-	940,939	-	-	-	-	-	12,951	-	1,013,375
6,311,262	92,255,433	3,234,355	185,361	1,734,858	2,309,620	6,762,268	187,085,098	17,349,713	771,939,001
-	127,694,982	-	-	-	-	-	-	-	127,694,982
-	147,169,994	-	-	-	-	-	519,726	-	149,720,835
-	692,368	-	-	-	-	-	-	-	692,368
6,311,262	428,789,152	3,234,355	185,361	1,734,858	2,309,620	6,762,268	187,617,775	17,349,713	1,111,095,997

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
-	25,141,890	-	-	-	-	-	-	-	25,141,890
-	3,292,870	-	-	-	-	-	-	-	3,292,870
-	33,907,057	-	-	-	-	-	-	-	33,907,057
-	90,094	-	-	-	-	-	-	-	90,094
-	4,507,576	-	-	-	-	-	-	-	4,507,576
-	37,956	-	-	-	-	-	13,313	-	100,342
6,763,543	101,371,513	1,308,272	123,026	880,613	1,400,518	8,042,628	163,092,553	20,435,459	771,692,625
-	69,436,989	-	-	-	-	-	-	-	69,436,989
-	157,894,901	-	-	-	-	-	500,616	-	161,430,692
-	466,252	-	-	-	-	-	-	-	466,252
6,763,543	396,147,098	1,308,272	123,026	880,613	1,400,518	8,042,628	163,606,482	20,435,459	1,070,066,387

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4 FINANCIAL RISK MANAGEMENT (Contd.)

4.3.1 (g) iii Concentration by Sector

As at 31st December 2019	Agriculture and fishing	Manufacturing	Tourism	Transport and Storage	Construction and Infrastructure	Wholesale and Retail
Group	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
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	-	69,371	23,993	2,103	9,511	-
Financial assets measured at amortised cost - loans and advances to customers (gross)	63,159,806	93,829,855	37,081,512	14,930,822	115,359,800	149,677,954
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
Financial assets measured at amortised cost - debt and other instruments	-	554,465	-	-	1,645,366	126,509
Other assets	-	-	-	-	-	-
	63,159,806	94,453,690	37,105,505	14,932,925	117,014,677	149,804,463

As at 31st December 2018	Agriculture and fishing	Manufacturing	Tourism	Transport and Storage	Construction and Infrastructure	Wholesale and Retail
Group	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
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	-	51,179	24,434	2,604	10,846	-
Financial assets measured at amortised cost - loans and advances to customers (gross)	63,718,842	92,814,397	35,501,046	12,447,297	114,639,137	164,655,641
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
Financial assets measured at amortised cost - debt and other instruments	-	1,392,607	-	-	2,158,705	82,472
Other assets	-	-	-	-	-	-
	63,718,842	94,258,183	35,525,480	12,449,901	116,808,688	164,738,113

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
-	30,263,654	-	-	-	-	-	-	-	30,263,654
-	15,539,335	-	-	-	-	-	-	-	15,539,335
-	22,795,332	-	-	-	-	-	-	-	22,795,332
-	2,072,482	-	-	-	-	-	-	-	2,072,482
-	527,193	-	-	-	-	-	-	-	527,193
-	1,028,936	-	-	-	-	-	21,424	-	1,155,339
6,311,262	90,853,745	3,320,817	185,361	1,734,858	2,309,620	6,762,268	199,851,798	17,349,713	802,719,190
-	133,953,116	-	-	-	-	-	-	-	133,953,116
245,657	152,636,944	-	-	-	766,116	-	536,899	-	156,511,955
-	939,965	-	-	-	-	-	108,852	-	1,048,817
6,556,919	450,610,702	3,320,817	185,361	1,734,858	-	6,762,268	200,518,973	17,349,713	1,166,586,413

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
-	24,966,831	-	-	-	-	-	-	-	24,966,831
-	8,506,725	-	-	-	-	-	-	-	8,506,725
-	33,907,057	-	-	-	-	-	-	-	33,907,057
-	1,168,764	-	-	-	-	-	-	-	1,168,764
-	4,507,576	-	-	-	-	-	-	-	4,507,576
-	150,730	-	-	-	-	-	24,627.00	-	264,420
6,763,543	98,327,726	1,308,272.00	123,026.00	880,613.00	1,400,518.00	8,042,628.00	173,656,955.00	20,435,459.00	794,715,100
-	76,005,258	-	-	-	-	-	-	-	76,005,258
148,523	163,239,704	-	-	-	-	-	603,134.00	-	167,625,145
-	466,252	-	-	-	-	-	203,619.00	-	669,871
6,912,066	411,246,623	1,308,272	123,026	880,613	1,400,518	8,042,628	174,488,335	20,435,459	1,112,336,747

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4.3.1 (h) 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.

4.3.1 (i) 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	2019 Rs 000	2018 Rs 000
Acceptances	16,606,253	19,065,908
Documentary credit	25,006,460	29,760,771
Guarantees	120,954,668	141,352,517
Undrawn commitments to lend - direct facilities	156,159,365	175,446,454
Undrawn commitments to lend - indirect facilities	222,960,692	252,105,256
	541,687,438	617,730,906

4.4 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.

4.4.1 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 that market access remains cost effective. A Board approved liquidity policy to manage liquidity on a day-to-day basis and 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.

4.4.1 (a) Exposure to Liquidity Risk

The Bank monitors the following liquidity ratios to assess funding requirements.

	2019 Rs 000	2018 Rs 000
Net loans / total assets	65.93%	68.94%
Gross loans / customer deposits	95.30%	96.46%
Liquid Asset Ratio (LAR)		
As at 31st December	29.55%	24.40%
Average for the year	27.33%	24.88%
Maximum for the year	24.84%	27.47%
Minimum for the year	30.69%	22.99%

Components of the Bank's liquid assets portfolio used for the purpose of calculating statutory liquid asset ratio as at 31st December 2019 (average balance for the month of December) is given below.

As at 31st December	2019 Rs 000	2018 Rs 000
Cash	23,252,595	21,177,193
Balances with licensed commercial banks	177,329	413,473
Money at call in Sri Lanka	6,122,903	420,323
Treasury bills and securities issued or guaranteed by the Government of Sri Lanka which have a maturity not exceeding one year	245,054,521	197,328,491
Import Bills	-	2,398
Export bills	1,955,229	1,334,312
Cash items in the process of collection	777,223	888,895
Balances with banks abroad	4,181,538	3,979,875
Total average liquid assets for the month of December	281,521,338	225,544,960

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 2019 is presented under credit risk. No assets have been pledged as collateral for borrowings other than treasury bills and bonds which are pledged against repurchase transactions. Details of treasury bills and bonds pledged as collateral against repurchase transactions are disclosed under Note 32 (a) to the financial statements.

4.4.1 (b) 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

As at 31st December 2019	Up to 3 months	3 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Total
Bank	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets						
Cash and cash equivalents	29,093,985	-	-	-	-	29,093,985
Placements with banks	6,630,303	1,100,548	-	-	-	7,730,851
Balances with Central Bank of Sri Lanka	-	-	-	-	22,795,332	22,795,332
Derivative financial instruments	375,109	152,084	-	-	-	527,193
Financial assets measured at fair value through profit or loss	1,013,374	-	-	-	-	1,013,374
Financial assets measured at amortised cost - loans and advances to customers	339,535,218	171,715,650	222,204,095	109,043,582	93,568,170	936,066,715
Financial assets measured at amortised cost - debt and other instruments	14,210,591	62,816,714	60,467,184	19,779,146	11,044,355	168,317,990
Financial assets measured at fair value through other comprehensive income	20,407,744	42,096,590	32,153,505	30,805,394	22,391,248	147,854,481
Other assets	692,214	-	-	-	-	692,214
Total undiscounted financial assets	411,958,538	277,881,586	314,824,784	159,628,122	149,799,105	1,314,092,135
Financial Liabilities						
Due to banks	35,351,836	27,534,233	26,475,805	451,311	10,638	89,823,823
Derivative financial instruments	448,356	125,009	-	-	-	573,365
Securities sold under repurchase agreements	17,493,091	95,134	-	-	-	17,588,225
Financial liabilities measured at amortised cost - due to depositors	502,112,771	299,299,884	15,588,465	17,293,753	-	834,294,873
Dividends payable	1,449,472	-	-	-	-	1,449,472
Financial liabilities measured at amortised cost - other borrowers	9,461,239	3,725,776	9,638,644	1,291,293	421,456	24,538,408
Debt securities issued	-	167,001	334,001	2,257,716	-	2,758,718
Other liabilities	717,968	-	-	-	-	717,968
Operating lease liability	101,538	289,323	636,569	515,594	4,267,201	5,810,225
Subordinated term debts	789,658	7,049,878	17,211,061	10,346,144	10,145,252	45,541,993
Total undiscounted financial liabilities	567,925,929	338,286,238	69,884,545	32,155,810	14,844,547	1,023,097,070
Net undiscounted financial assets/(liabilities)	(155,967,391)	(60,404,652)	244,940,239	127,472,312	134,954,558	290,995,065

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Contractual maturities of undiscounted cash flows of financial assets and financial liabilities

As at 31st December 2019	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
Bank						
Acceptances	10,244,216	6,294,044	67,993	-	-	16,606,253
Documentary credit	22,366,995	2,639,465	-	-	-	25,006,460
Guarantees	33,187,425	59,044,548	25,954,065	1,038,915	1,729,715	120,954,668
Undrawn commitments to lend						
Direct facilities	156,159,365	-	-	-	-	156,159,365
Undrawn commitments to lend						
Indirect facilities	222,960,692	-	-	-	-	222,960,692
	444,918,693	67,978,057	26,022,058	1,038,915	1,729,715	541,687,439

Contractual maturities of undiscounted cash flows of financial assets and financial liabilities

As at 31st December 2018	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
Bank						
Financial Assets						
Cash and cash equivalents	25,141,890	-	-	-	-	25,141,890
Placements with banks	3,300,996	-	-	-	-	3,300,996
Balances with Central Bank of Sri Lanka	33,907,057	-	-	-	-	33,907,057
Reverse Repurchase Agreements	90,164	-	-	-	-	90,164
Derivative financial instruments	1,534,009	2,973,567	-	-	-	4,507,576
Financial assets measured at fair value through profit or loss	100,385	-	-	-	-	100,385
Financial assets measured at amortised cost						
- loans and advances to customers	349,328,972	172,186,665	226,900,627	110,019,122	86,270,525	944,705,911
Financial assets measured at amortised cost						
- debt and other instruments	9,224,406	9,479,031	109,444,201	49,143,834	11,731,472	189,022,944
Financial assets measured at fair value through other comprehensive income	3,104,451	36,501,601	25,840,598	7,209,675	9,333,963	81,990,288
Other assets	-	500,000	-	-	-	500,000
Total undiscounted financial assets	425,732,330	221,640,864	362,185,426	166,372,631	107,335,960	1,283,267,211
Financial Liabilities						
Due to banks	18,337,334	46,856,739	14,881,119	1,220,565	297,296	81,593,053
Derivative financial instruments	1,781,616	737,556	-	-	-	2,519,172
Securities sold under repurchase agreements	16,605,462	87,452	-	-	-	16,692,914
Financial liabilities measured at amortised cost						
- due to depositors	495,817,751	299,257,049	13,881,000	16,174,646	364	825,130,810
Dividends payable	994,812	-	-	-	-	994,812
Financial liabilities measured at amortised cost						
- other borrowers	3,308,813	5,673,542	14,569,317	2,455,035	2,012,906	28,019,613
Debt securities issued	-	3,127,974	334,001	2,334,001	90,715	5,886,691
Other liabilities	12,956	-	-	-	-	12,956
Subordinated term debts	787,500	1,433,675	19,954,658	5,867,021	1,362,800	29,405,654
Total undiscounted financial liabilities	537,646,244	357,173,987	63,620,095	28,051,268	3,764,081	990,255,675
Net undiscounted financial assets/(liabilities)	(111,913,914)	(135,533,123)	298,565,331	138,321,363	103,571,879	293,011,536

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

As at 31st December 2018	Up to 3 months	3 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Total
Bank	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Acceptances	15,381,063	3,519,386	165,460	-	-	19,065,909
Documentary credit	21,410,066	8,350,705				29,760,771
Guarantees	33,385,951	69,163,414	34,674,846	1,780,664	2,347,642	141,352,517
Undrawn commitments to lend						
Direct facilities	175,446,454	-	-	-	-	175,446,454
Undrawn commitments to lend						
Indirect facilities	252,105,256	-	-	-	-	252,105,256
	497,728,790	81,033,505	34,840,306	1,780,664	2,347,642	617,730,907

4.5 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.

4.5.1 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.

4.5.2 Exposure to Market Risk

The principal tool used to measure and control market risk exposure within the Bank is Value at Risk (VaR). The VaR of a portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model is used mainly based on historical simulation, by the Bank upon a 99 percent confidence level and assumes 1-day and a 10-day holding period. Taking account of market data from the previous two years and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

- Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:
 - The 1-day and 10-day holding periods assumes that it is possible to hedge or dispose of positions within those periods. This may not be the case for illiquid assets or in situations in which there is severe general market liquidity.
 - A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the VaR.
 - VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
 - The use of historical data as a basis for determining the possible range of future outcomes, may not always cover all possible scenarios, especially those of an exceptional nature.
 - The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if market price volatility declines and vice versa.
 - The Bank uses VaR limits for foreign exchange and equity risks. The overall structure of VaR limits is subject to review and approval by ALCO. VaR limits are allocated to portfolios. VaR is measured at least monthly and reported to ALCO.

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.

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4 FINANCIAL RISK MANAGEMENT (Contd.)

A summary of the VaR position of the Bank as at 31st December and during the period is as follows:

	As at 31st December	Average	Maximum	Minimum
	Rs 000	Rs 000	Rs 000	Rs 000
2019				
Foreign currency risk (USD NOP)*	3,158	5,725	8,511	1,514
Equity risk	4,644	3,893	4,644	3,146
2018				
Foreign currency risk (USD NOP)*	5,663	5,031	8,860	1,468
Equity risk	3,457	3,476	4,788	2,737

* Only USD exposure has been considered as it represents over 90% of the foreign currency transactions.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other risk measures. The Bank uses a wide range of stress tests to model the financial impact of a variety of 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 by ALCO.

4.5.3 Exposure to Interest Rate Risk

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 because of a change 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 adequate margins are kept.

The Bank holds treasury bills and bonds with shorter maturities, thus the impact of interest rate changes on treasury bill and bond prices are very minimal. Modified duration of both the trading and non-trading portfolios as at 31st December is given below.

As at 31st December	2019	2018
Trading	2.5704	0.9093
Non trading	2.9090	3.2269

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 2019 is as follows.

	Decrease of 100 bps	Decrease of 200 bps	Increase of 100 bps	Increase of 200 bps
LKR Portfolio (Rs 000)	(5,424,645)	(11,050,160)	5,207,963	10,191,357
USD Portfolio (USD 000)	8,355	17,372	(7,747)	(14,934)

4.6 Capital Management

The Bank's capital management objectives can be summarised as follows:

- Maintain sufficient capital to meet minimum regulatory capital requirements
- Hold sufficient capital to support the Bank's risk appetite
- Allocate capital to businesses to support the Bank's strategic objectives
- Ensure that the Bank maintains capital in order to achieve debt rating objectives and to withstand the impact of potential stress events

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, HNB 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.

5 FAIR VALUE OF ASSETS AND LIABILITIES

Valuation principles

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability or
- in the absence of a principal market, in the most advantageous market for the asset or liability

Financial instruments by fair value hierarchy and valuation techniques

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument or dealer price quotations (assets and long positions are measured at a bid price, liabilities and short positions are measured at an asking price), without any deduction for transaction costs.

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.

Level 2

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument, or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When a transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the

value initially obtained from a valuation model, is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument, but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Level 3

Certain financial instruments are recorded at fair value using valuation techniques, in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded (day-1 profit or loss) is deferred and recognised only when the inputs become observable or on de-recognition of the instrument.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. 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 a third-party market participant would take them into account in pricing a transaction.

5.1 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.

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5 FAIR VALUE OF ASSETS AND LIABILITIES (Contd.)

- Financial assets measured at fair value through profit or loss (FVPL)

Government debt securities classified as financial assets measured at fair value through profit or loss are valued using yield curves 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.

Freehold land and buildings

Fair value of freehold land and buildings (revalued amount) is determined using the depreciated replacement cost basis of valuation and market comparable method (Level 3), which as a basis of valuation is the sum of;

- The open market value of the land for its existing use plus
- The current gross replacement cost of the buildings and their site works less an allowance for all appropriate factors such as age, condition, functional and environmental

obsolescence which result in the existing property being worthless than a new replacement.

5.2 Valuation Model

The fair values are measured using the fair value hierarchy.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Bank uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

The fair values of the Bank's freehold land and buildings are determined by independent valuers at least once in every three years according to the Bank's policy. The Bank carried out a revaluation of its freehold land and buildings in 2018. The methods used to determine the fair value of freehold land and buildings are explained in Note 5.4.2 to the financial statements.

5.3 Assets and Liabilities Measured at Fair Value - Fair Value Hierarchy

The following table shows an analysis of assets and liabilities recorded at fair value by level of fair value hierarchy. The amounts are based on the values recognised in the statement of financial position.

As at 31st December 2019	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								
<i>Derivative financial instruments</i>								
Currency swaps	-	401,259	-	401,259	-	401,259	-	401,259
Forward foreign exchange contracts	-	125,934	-	125,934	-	125,934	-	125,934
	-	527,193	-	527,193	-	527,193	-	527,193
Financial assets measured at fair value through profit or loss								
Quoted shares	105,310	-	-	105,310	231,194	-	-	231,194
Government of Sri Lanka treasury bills	360	-	-	360	360	-	-	360
Government of Sri Lanka treasury bonds	907,704	-	-	907,704	923,785	-	-	923,785
	1,013,374	-	-	1,013,374	1,155,339	-	-	1,155,339
Financial assets measured at fair value through other comprehensive income								
Quoted shares	5,125,554	-	-	5,125,554	5,125,544	-	-	5,125,554
Unquoted shares	-	-	22,530	22,530	-	-	34,960	34,960
Unquoted units	-	376,590	-	376,590	-	376,590	-	376,590
Government of Sri Lanka treasury bills	51,514,389	-	-	51,514,389	51,514,389	-	-	51,514,389
Government of Sri Lanka treasury bonds	31,295,279	-	-	31,295,279	37,540,984	-	-	37,540,984
Government of Sri Lanka sovereign bonds	39,360,640	-	-	39,360,640	39,360,640	-	-	39,360,640
	127,295,862	376,590	22,530	127,694,982	133,541,567	376,590	34,960	133,953,117
Non-financial assets measured at fair value								
Freehold land and buildings	-	-	17,356,719	17,356,719	-	-	36,908,008	36,908,008
Right-of-use assets	-	-	5,482,679	5,482,679	-	-	1,571,319	1,571,319
	-	-	22,839,398	22,839,398	-	-	38,479,327	38,479,327
Financial liabilities measured at fair value								
<i>Derivative financial instruments</i>								
Currency swaps	-	407,282	-	407,282	-	407,282	-	407,282
Forward foreign exchange contracts	-	166,082	-	166,082	-	166,083	-	166,083
	-	573,365	-	573,365	-	573,365	-	573,365

As at 31st December 2018	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								
<i>Derivative financial instruments</i>								
Currency swaps	-	4,059,033	-	4,059,033	-	4,059,033	-	4,059,033
Forward foreign exchange contracts	-	448,543	-	448,543	-	448,543	-	448,543
	-	4,507,576	-	4,507,576	-	4,507,576	-	4,507,576
Financial assets measured at fair value through profit or loss								
Quoted shares	99,056	-	-	99,056	238,214	-	-	238,214
Quoted units	-	-	-	-	9,152	-	-	9,152
Government of Sri Lanka treasury bills	1,286	-	-	1,286	1,286	-	-	1,286
Government of Sri Lanka treasury bonds	-	-	-	-	15,768	-	-	15,768
	100,342	-	-	100,342	264,420	-	-	264,420
Financial assets measured at fair value through other comprehensive income								
Quoted shares	3,981,142	-	-	3,981,142	3,981,142	-	-	3,981,142
Quoted units	240,000	-	-	240,000	240,000	-	-	240,000
Unquoted shares	-	-	24,780	24,780	-	-	37,210	37,210
Unquoted units	-	372,373	-	372,373	-	372,373	-	372,373
Government of Sri Lanka treasury bills	18,382,857	-	-	18,382,857	18,382,857	-	-	18,382,857
Government of Sri Lanka treasury bonds	46,435,837	-	-	46,435,837	52,991,676	-	-	52,991,676
	69,039,836	372,373	24,780	69,436,989	75,595,675	372,373	37,210	76,005,258
Non-financial assets measured at fair value								
Freehold land and buildings	-	-	17,643,465	17,643,465	-	-	37,001,267	37,001,267
	-	-	17,643,465	17,643,465	-	-	37,001,267	37,001,267
Financial liabilities measured at fair value								
<i>Derivative financial instruments</i>								
Currency swaps	-	190,473	-	190,473	-	190,473	-	190,473
Forward foreign exchange contracts	-	2,328,699	-	2,328,699	-	2,328,699	-	2,328,699
	-	2,519,172	-	2,519,172	-	2,519,172	-	2,519,172

5.4 Fair Value Measurement of Assets Classified as Level 3

5.4.1 Property, Plant and Equipment

The reconciliation of property, plant and equipment is given in Note 36 to the financial statements.

5.4.2 Unobservable Inputs used in Measuring Fair Value

Significant unobservable inputs used in measuring non financial assets categorised as level 3 in the fair value hierarchy, are as follows.

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.

Investment method

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.

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5 FAIR VALUE OF ASSETS AND LIABILITIES (Contd.)

5.5 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 2019	Bank					Group				
	Carrying Value	Fair Value			Total	Carrying Value	Fair Value			Total
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
Assets										
Financial assets measured at amortised cost										
- loans and advances to customers	741,769,073	-	745,297,554	-	745,297,554	769,392,169	-	773,283,903	-	773,283,903
Financial assets measured at amortised cost										
- debt and other instruments	149,720,834	20,282,735	130,373,630	-	150,656,365	156,511,277	22,327,131	135,422,468	-	157,749,599
Investment properties	480,444	-	-	4,403,764	4,403,764	1,026,050	-	-	2,833,550	2,833,550
Liabilities										
Financial liabilities measured										
at amortised cost - due to depositors	810,035,114	-	810,162,845	-	810,162,845	835,060,146	-	834,806,957	-	834,806,957
Debt securities issued	1,797,645	-	1,920,059	-	1,920,059	2,368,986	-	2,496,165	-	2,496,165
Subordinated term debts	32,695,221	-	33,772,622	-	33,772,622	33,345,904	-	34,413,453	-	34,413,453

As at 31st December 2018	Bank					Group				
	Carrying Value	Fair Value			Total	Carrying Value	Fair Value			Total
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
Assets										
Financial assets measured at amortised cost										
- loans and advances to customers	749,048,820	-	745,343,270	-	745,343,270	770,263,000	-	767,031,069	-	767,031,069
Financial assets measured at amortised cost										
- debt and other instruments	160,145,680	25,104,197	134,331,868	-	159,436,065	165,821,983	26,950,843	138,046,459	-	164,997,302
Investment properties	325,818	-	-	3,879,750	3,879,750	1,107,472	-	-	2,687,051	2,687,051
Liabilities										
Financial liabilities measured										
at amortised cost - due to depositors	799,975,357	-	799,850,277	-	799,850,277	818,041,962	-	818,262,986	-	818,262,986
Debt securities issued	4,487,763	-	4,550,912	-	4,550,912	5,030,000	-	5,092,248	-	5,092,248
Subordinated term debts	22,229,951	-	22,432,225	-	22,432,225	21,930,246	-	22,139,443	-	22,139,443

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 to 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 subordinated loan has a variable interest rate, resulting in a carrying value approximating to fair value as at the reporting date. In respect of fixed rate subordinated debentures, fair value has been determined by discounting the future cash flows by the interest rates prevailing as at the reporting date for similar instruments.

Investment properties

Fair value of the investment properties is determined using the income approach, market comparable method and depreciated replacement cost basis.

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

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

Reclassification of financial assets

There have been no reclassifications during 2019 and 2018.

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6 NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

The following new accounting standards and amendments/improvements to existing standards were issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), which are not effective as at 31st December 2019. Accordingly, these accounting standards have not been applied in the preparation of financial statements for the year ended 31st December 2019.

6.1 Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Sri Lanka Accounting Standard - SLFRS 17 "Insurance Contracts" - Applicable for Subsidiary, HNB Assurance PLC

Sri Lanka Accounting Standard - SLFRS 17 "Insurance Contracts", is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosures. Once effective, SLFRS 17 replaces existing SLFRS 4 "Insurance contracts". The overall objective of SLFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

SLFRS 17 is effective for reporting periods beginning on or after 1st January 2021. Early application is permitted, if the entity is applying both Sri Lanka Accounting Standard - SLFRS 9 "Financial Instruments" and Sri Lanka Accounting Standard - SLFRS 15 "Revenue from Contracts with Customers" on or before the date on which it first apply SLFRS 17.

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 2021.

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 considered the above criteria, both the companies may continue to apply LKAS 39 rather than SLFRS 9 for annual periods beginning before 1st January 2021. However, the financial statements of HNB Assurance PLC has been prepared in line with SLFRS 9 when preparing the consolidated financial statements.

Amendments to Sri Lanka Accounting Standard - LKAS 1 "Presentation to Financial Statements" and Sri Lanka Accounting Standard - LKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"

The amendments LKAS 1 "Presentation of Financial Statements" and LKAS 8 "Accounting policies, Changes in accounting Estimates and Errors" align the definition of "material" across the standard and clarify certain aspects of the definition. The new definition states that, "information is material if omitting or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are applied prospectively for the annual periods beginning on or after 1st January 2020 with early application permitted. The Group will apply these amendments when they become effective.

Amendments to Sri Lanka Accounting Standard - SLFRS 3 "Business Combinations"

The amendments to the definition of a business in SLFRS 3 "Business Combinations" have been made to help the entities determine whether an acquired set of activities and assets is a business or not. These amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definition of a business and of outputs, and introduce an optional fair value concentration test.

The amendments are to be applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1st January 2020, with early application permitted. The Group will apply these amendments when they become effective.

Amendments to references to the conceptual framework in SLFRS standards

Revisions to the Conceptual Framework were made because some important issues were not covered and some guidance was unclear or out of date. The revised Conceptual Framework includes:

- a new chapter on measurement;
- guidance on reporting financial performance;
- improved definitions of an asset and a liability, and guidance supporting these definitions; and
- clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting

The amendments are effective for annual periods beginning on or after 1st January 2020, with early application is permitted. The Group will apply these amendments when they become effective.

Amendments to Sri Lanka Accounting Standard - SLFRS 10 "Presentation to Financial Statements" and Sri Lanka Accounting Standard - LKAS 28 "Investments in Associates and Joint Ventures"

Limited scope amendments have been made to SLFRS 10 "Consolidated Financial Statements" and LKAS 28 "Investments in Associates and Joint Ventures". These amendments clarify the accounting treatment for sale or contribution of assets between investor and its associate or joint ventures.

The amendments are applied prospectively. The effective date of the amendment is yet to be set by the CA Sri Lanka. However early application is permitted.

Group does not expect a material impact to its separate and consolidated financial statements, resulting from new and amended standards which are issued by ICASL with a future effective date other than SLFRS-17 "Insurance contracts" which may impact subsidiary, HNB Assurance PLC. Pending the completion of detailed impact assessment on the subsidiary, probable impact is yet to be quantified.

6.2 Amendments to Existing Accounting Standards Effective from 1st January 2019

Amendments to existing accounting standards effective from 1st January 2019 as published by the Institute of Chartered Accountants of Sri Lanka did not have any material impact on the financial statements of the Group.

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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	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Interest income [Note 8 (a)]	115,210,769	108,104,923	124,888,717	116,488,588
Fee and commission income (Note 9)	9,206,399	9,540,862	10,333,772	10,382,030
Net gain / (loss) from trading (Note 10)	(2,280,969)	(356,594)	(2,263,453)	(396,918)
Net gain from financial assets measured at fair value through other comprehensive income (Note 11)	187,512	215,551	190,283	217,896
Net gain on de-recognition of financial assets	-	-	82,348	72,150
Net insurance premium income (Note 12)	-	-	8,365,756	7,431,823
Net other operating income (Note 13)	3,674,375	3,851,347	3,803,085	4,054,982
	125,998,086	121,356,089	145,400,508	138,250,551

8 NET INTEREST INCOME

ACCOUNTING POLICY

Interest income and expenses under SLFRS 9 is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at FVPL and FVOCI. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (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 EIR. 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 EIR.

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	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Interest income [Note 8 (a)]	115,210,769	108,104,923	124,888,717	116,488,588
Interest expense [Note 8 (b)]	65,997,133	60,525,342	68,533,206	62,852,424
Net interest income	49,213,636	47,579,581	56,355,511	53,636,164

8 (a) Interest income

The Group calculates interest income by applying the EIR 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 30 (e) 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 assets cure (as outlined in Note 30 (e) to the financial statements) and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Group ceases the recognition of interest income on assets which are collectively impaired, when it is probable that the economic benefit associated will not continue to flow to the Bank.

For purchased or originated credit-impaired (POCI) financial assets (as set out in Note 30 (b) to the financial statements), the Group calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR 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 FVPL is recognised using the contractual interest rate in "Net trading income" and "Net gains/(losses) on financial assets at fair value through profit or loss", respectively.

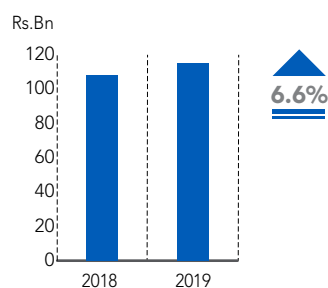
For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Cash and cash equivalents	34,129	25,221	85,904	36,378
Securities purchased under resale agreements	168,807	55,817	258,155	132,658
Placements with banks	442,385	146,535	1,181,487	759,427
Interest income accrued on impaired financials assets	983,029	285,770	983,029	285,770
Financial assets measured at fair value through profit or loss	169,915	3,441	171,355	4,921
Financial assets measured at amortised cost				
- Loans and advances to customers	93,841,493	90,639,156	101,295,835	97,184,483
- Debt and other instruments	10,395,324	9,463,467	11,058,788	9,980,012
Financial assets measured at fair value through other comprehensive income	9,119,586	7,423,655	9,854,164	8,103,895
Other interest income	56,101	61,861	-	1,044
	115,210,769	108,104,923	124,888,717	116,488,588

NOTES TO THE FINANCIAL STATEMENTS

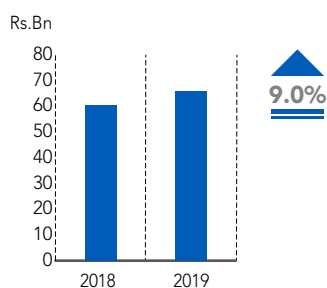
Financial
Reports**8 NET INTEREST INCOME (Contd.)****8 (b) Interest Expenses**

For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Securities sold under repurchase agreements	684,475	463,870	684,475	463,870
Due to banks	4,077,625	3,727,094	4,077,625	3,727,094
Due to depositors (deposits from customers)	55,922,791	51,793,156	58,870,222	54,030,026
Debt securities issued	439,027	439,440	432,227	526,607
Other borrowings	1,345,966	1,582,040	1,456,501	1,593,445
Subordinated term debts	2,701,366	2,518,720	2,745,410	2,510,360
Interest expense on lease liabilities [Note 37 (b)]	806,449	-	247,312	-
Other interest expenses	19,434	1,022	19,434	1,022
	65,997,133	60,525,342	68,533,206	62,852,424

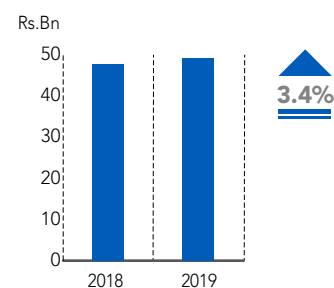
Interest Income - Bank



Interest Expenses - Bank



Net Interest Income - Bank

**8 (c) Net Interest Income from Sri Lanka Government Securities**

For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Interest income	18,747,126	15,639,302	19,642,774	16,547,056
Less : Interest expenses	684,475	463,870	684,475	463,870
Net interest income from Sri Lanka Government Securities	18,062,651	15,175,432	18,958,299	16,083,186

9 NET FEE AND COMMISSION INCOME

ACCOUNTING POLICY

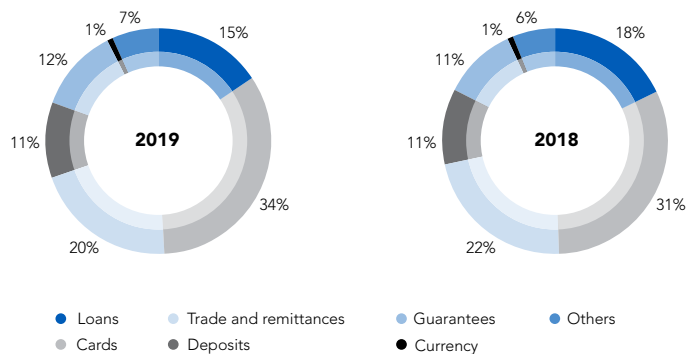
The Group earns fee and commission income from a diverse range of services it provides to its customers which can be divided in to the following two categories.

- (a) Fee and commission income earned from services that are provided over a certain period of time
Fee and commission earned for the provision of services over a period of time are accrued over that period.
- (b) Fee and commission income from providing transaction services
Fee and commission income arising from renegotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised as the related services are performed.

Fees and commission expenses relating to transaction and service fees are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Fee and commission income	9,206,399	9,540,862	10,333,772	10,382,030
Less: Fee and commission expenses	213,176	141,592	356,642	284,080
Net fee and commission income	8,993,223	9,399,270	9,977,130	10,097,950
Comprising :				
Loans	1,401,946	1,671,658	2,214,861	2,197,487
Cards	3,044,143	2,989,048	3,044,143	2,989,048
Trade and remittances	1,832,254	2,076,348	1,832,254	2,076,348
Deposits	989,690	1,024,047	989,690	1,024,047
Guarantees	1,056,973	997,176	1,056,973	997,176
Currency	72,893	84,437	72,893	84,437
Others	595,324	556,556	766,316	729,407
Net fee and commission income	8,993,223	9,399,270	9,977,130	10,097,950

Net Fee and Commission Income - Bank



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10 NET GAIN / (LOSS) FROM TRADING

ACCOUNTING POLICY

Results arising from trading activities include all gains and losses from realised and 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 statement of profit or loss in the period in which they arise.

For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Financial assets - Held for trading				
Fixed income				
Net marked to market loss	(2,476)	(3)	(2,164)	(3)
Net capital gain / (loss)	75,905	(913)	75,905	(913)
Equities				
Net marked to market gain / (loss)	6,017	(7,981)	20,983	(51,797)
Net capital gain / (loss)	237	1,640	(675)	2,946
Dividend income	3,466	2,418	6,616	4,604
Derivative financial instruments				
Gain / (loss) on revaluation of foreign currency derivatives				
- With banks	(2,366,685)	(478,822)	(2,366,685)	(478,822)
- With customers	2,567	127,067	2,567	127,067
Total net loss from trading	(2,280,969)	(356,594)	(2,263,453)	(396,918)

11 NET GAIN FROM FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

ACCOUNTING POLICY

Net gain from financial investments includes capital gains / (losses) and dividend income of 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	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Equities				
Dividend income	187,512	215,551	190,283	217,896
Total net gain from financial investments	187,512	215,551	190,283	217,896

12 NET INSURANCE PREMIUM INCOME

ACCOUNTING POLICY

(a) 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). Premium 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 premium 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.

(b) General Insurance Business

Gross Written Premium on General 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.

(c) 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.

For the year ended 31st December	Group	
	2019 Rs 000	2018 Rs 000
Gross insurance premium income	9,834,853	8,708,080
Reinsurers' share of gross insurance premium income	(1,312,881)	(1,059,269)
Net written premium	8,521,972	7,648,811
Net change in reserves for unearned premium	(156,216)	(216,988)
Net insurance premium income	8,365,756	7,431,823

13 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.

(a) Rental income

Rental income is recognised on an accrual basis.

(b) 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.

(c) Gains and losses on disposal of assets

Net gains and losses of a revenue nature arising from the disposal of property, plant and equipment and other non-current assets including investments in subsidiaries, joint ventures and associates are accounted for, in the statement of profit or loss after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

(d) 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 statement of profit or loss in the period in which they arise.

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13 NET OTHER OPERATING INCOME (Contd.)

For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Auditorium hire income	964	2,095	964	2,095
Dividend income from subsidiaries and joint venture	313,051	254,315	-	-
Foreign exchange gain / (loss)				
With banks	1,859,410	1,837,229	1,856,753	1,879,996
With customers	1,237,044	1,545,470	1,237,044	1,545,470
Gain on disposal of property, plant and equipment (net)	19,805	3,040	24,605	3,407
Rental income	13,489	9,696	197,600	217,326
Rental income from investment properties	57,242	53,059	126,451	114,268
Recovery of loans written off in prior years	108,169	109,630	120,951	125,308
Recovery of operational losses provided for in prior years	330	735	330	735
Miscellaneous	64,871	36,078	238,387	166,377
	3,674,375	3,851,347	3,803,085	4,054,982

14 IMPAIRMENT CHARGE FOR LOANS AND OTHER LOSSES

ACCOUNTING POLICY

The Group recognises impairment provisions for financial assets in accordance with SLFRS 9 - "Financial Instruments". These financial assets include cash and cash equivalents, placements with banks, loans and receivables, debt and other financial instruments carried at amortised cost, debt instruments and 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 30 (b) 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 ECL charges on financial instruments recorded in the statement of profit or loss:

Bank For the year ended 31st December	2019					2018				
	Stage 1 Rs. 000	Stage 2 Rs. 000	Stage 3 Rs. 000	Other Rs. 000	Total Rs. 000	Stage 1 Rs. 000	Stage 2 Rs. 000	Stage 3 Rs. 000	Other Rs. 000	Total Rs. 000
Impairment charge/(reversal) on financial assets measured at amortised cost										
- Cash and cash equivalents	978	-	-	-	978	(2,271)	-	-	-	(2,271)
- Placements with banks	48,932	-	-	-	48,932	(38,355)	-	-	-	(38,355)
- Loans and advances	7,028	1,112,475	6,801,030	-	7,920,533	732,234	1,269,310	6,242,192	-	8,243,736
- Debt instruments	52,122	-	448,211	-	500,333	632,769	88,296	8,053	-	729,118
Impairment charge/(reversal) on financial assets measured at fair value through other comprehensive income										
- Debt instruments	259,065	-	-	-	259,065	-	-	-	-	-
Loan commitments and financial guarantee contracts	38,923	(28,737)	849,604	-	859,790	147,613	127,450	93,891	-	368,954
Direct loan write offs	-	-	-	-	-	-	-	-	52	52
(Charge/Reversal) of impairment on property plant and equipment and prepayments	-	-	-	27,756	27,756	-	-	-	(40,501)	(40,501)
Other impairment charges	-	-	-	38,623	38,623	-	-	-	31,688	31,688
	407,048	1,083,738	8,098,845	66,379	9,656,010	1,471,990	1,485,056	6,344,136	(8,761)	9,292,421

Group For the year ended 31st December	2019					2018				
	Stage 1 Rs. 000	Stage 2 Rs. 000	Stage 3 Rs. 000	Other Rs. 000	Total Rs. 000	Stage 1 Rs. 000	Stage 2 Rs. 000	Stage 3 Rs. 000	Other Rs. 000	Total Rs. 000
Impairment charge/(reversal) on financial assets measured at amortised cost										
- Cash and cash equivalents	1,001	-	-	-	1,001	(2,271)	-	-	-	(2,271)
- Placements with banks	49,142	-	-	-	49,142	(38,355)	-	-	-	(38,355)
- Loans and advances	50,811	1,269,463	8,095,724	-	9,415,998	675,217	1,322,724	6,685,934	-	8,683,875
- Debt instruments	52,078	-	703,831	-	755,909	632,769	88,296	59,545	-	780,610
Impairment charge/(reversal) on financial assets measured at fair value through other comprehensive income										
- Debt instruments	259,065	-	-	-	259,065	-	-	-	-	-
Loan commitments and financial guarantee contracts	38,923	(28,737)	849,604	-	859,790	147,613	127,450	93,891	-	368,954
Direct loan write offs	-	-	-	-	-	-	-	-	52	52
Charge/(reversal) of impairment on property plant and equipment and prepayments	-	-	-	27,756	27,756	-	-	-	(40,501)	(40,501)
Other impairment charges	-	-	-	58,163	58,163	-	-	-	31,688	31,688
	451,020	1,240,726	9,649,159	85,919	11,426,824	1,414,973	1,538,470	6,839,370	(8,761)	9,784,052

15 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 statement of profit or loss based on actuarial valuations carried out in accordance with Sri Lanka Accounting Standard - LKAS 19 on "Employee Benefits".

The Group's net obligation to the pension fund, gratuity, EPF interest guarantee and unutilised accumulated annual leave is disclosed under Note 52 to the financial statements.

For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Salaries and bonus	8,925,410	8,515,202	11,147,602	10,420,306
Contributions to Employees' Provident Fund (EPF)	1,236,633	1,049,317	1,440,755	1,227,878
Contributions to Employees' Trust Fund (ETF)	183,483	154,208	234,298	198,637
Contribution to defined benefit plan [Note 15 (a)]	594,836	427,361	674,662	507,769
Increase in liability for EPF interest guarantee	10,122	11,218	10,122	11,218
Increase in liability for accumulated leave	10,515	7,885	10,515	7,885
Others	483,260	552,787	507,586	634,953
	11,444,259	10,717,978	14,025,540	13,008,646

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For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Current service cost	749,127	611,349	749,127	611,349
Net interest on defined benefit asset	(154,291)	(183,988)	(154,291)	(183,988)
Provision for gratuities	-	-	79,826	80,408
	594,836	427,361	674,662	507,769

16 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 recorded net of recoveries from reinsurance on claims.

(a) Benefits and Claims paid - Life Insurance

Claims by 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.

(b) Benefits and Claims Paid - General 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.

(c) Reinsurance Claims

Reinsurance claims are recognised when the related gross insurance claims are recognised according to the terms of the relevant contract.

(d) 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.

For the year ended 31st December	Group	
	2019 Rs 000	2018 Rs 000
Net insurance benefits and claims paid	3,524,768	3,123,585
Net change in insurance claims outstanding	96,007	112,904
Change in contract liabilities - Life fund	2,182,371	1,698,517
Change in contract liability due to transfer of one-off surplus	-	(381,156)
Underwriting and net acquisition costs	1,288,068	1,125,419
	7,091,214	5,679,269

17 OTHER EXPENSES

ACCOUNTING POLICY

Other operating expenses are recognised in the statement of profit or loss 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 statement of profit or loss 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	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Advertising and related expenses	259,574	197,660	416,340	325,942
Auditors' remuneration [Note 17 (a)]	27,841	22,156	37,863	34,112
Business promotion and product expenses	789,594	843,918	789,594	843,918
Crop insurance levy	147,012	157,000	168,882	192,192
Debenture issue expenses	34,931	-	34,931	-
Deposit insurance premium	730,121	692,980	764,272	719,378
Depreciation and amortisation [Note 17 (b)]	2,246,114	1,354,762	2,702,328	1,826,468
Direct operating expenses on investment property	87	-	3,297	2,713
Directors' emoluments	109,126	85,187	153,295	117,350
Donations	6,551	14,258	7,089	14,602
Legal expenses and professional fees	97,497	79,780	119,554	106,173
Office administration and establishment expenses	6,315,511	6,576,184	8,054,811	7,350,976
Operational risk event losses	179,908	73,530	179,908	73,530
Other overhead expenses	1,370,111	1,260,573	1,879,191	2,028,701
	12,313,978	11,357,988	15,311,355	13,636,055

17 (a) Auditors' Remuneration

For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Audit fees and expenses	13,211	12,500	19,207	18,197
Audit related fee and expenses	2,703	2,463	3,897	3,618
Non-audit expenses	11,927	7,193	14,758	12,297
	27,841	22,156	37,863	34,112

17 (b) Depreciation and amortization expenses

For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Depreciation of investment property (Note 35)	2,568	1,646	48,616	39,107
Depreciation of property, plant and equipment (Note 36)	1,217,846	1,060,842	1,641,618	1,430,371
Amortisation of right-of-use assets (Note 37)	697,609	-	602,319	-
Amortisation of intangible assets (Note 38)	328,091	292,274	409,775	356,990
	2,246,114	1,354,762	2,702,328	1,826,468

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18 TAXES ON FINANCIAL SERVICES

(a) Value Added Tax (VAT) and Nation Building Tax (NBT) on Financial Services

The base of the calculation of Value Added Tax (VAT) and Nation Building Tax (NBT) on financial services is the value addition attributable to financial services which includes operating profit before VAT and NBT on financial services adjusted for emoluments of employees and economic depreciation.

VAT rate applied during 2019 was 15% (2018 - 15%). The NBT rate applied until 1st December 2019 was 2% (2018 - 2%) which was abolished with effect from 1st December 2019.

(b) Debt Repayment Levy (DRL)

In accordance with Section 36 of Finance Act No 35 of 2018, DRL was levied on every financial institution at the rate of 7% on the value addition attributable to financial services which includes profit or loss prior to deducting the tax payable under the said section, the value added tax payable under section 25A of the Value Added Tax Act, No. 14 of 2002 and the Nation Building Tax payable under paragraph (iii) of subsection (2) of the Nation Building Tax Act, No. 9 of 2009 and subject to economic depreciation, emoluments payable to all the employees. This Levy was imposed from October 2018 and same has been abolished from 1st January 2020.

For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Value Added Tax on financial services	4,744,641	5,003,424	5,007,305	5,378,936
Nation Building Tax on financial services	579,061	667,123	608,006	715,376
Debt Repayment Levy	2,586,825	698,721	2,782,541	748,501
	7,910,527	6,369,268	8,397,854	6,842,813

19 SHARE OF PROFIT OF JOINT VENTURE (NET OF INCOME TAX)

ACCOUNTING POLICY

The aggregate of the Group's share of profit or loss of the joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

For the year ended 31st December	Group	
	2019 Rs 000	2018 Rs 000
Share of profit of joint venture before income tax	220,654	152,065
Income tax on share of operating results of joint venture [(charge)/reversal]	(33,770)	151,027
Share of profit of joint venture (net of income tax) [Note 33 (b)]	186,884	303,092

20 INCOME TAX EXPENSE

ACCOUNTING POLICY

As per Sri Lanka Accounting Standard - LKAS 12 on "Income taxes", tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognised in the statement of profit or loss, 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 Interpretation 23 "Uncertainty Over Income Tax Treatment" in determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates with effect from 1st January 2019, 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 Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior 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 statement of profit or loss. 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.

Economic Service Charge (ESC)

ESC was payable at 0.50% on total liable turnover of the Bank until 31st December 2019, which was deductible from the income tax payable. ESC is abolished from 1st January 2020.

Deferred Tax

Deferred tax is provided on temporary differences at the reporting date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes for all group entities.

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. Un-recognised 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. The rates applicable as at reporting date are given below.

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Deferred tax relating to items recognised directly in equity are also recognised in equity, through other comprehensive income and not in the statement of profit or loss deferred taxation.

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.

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 Bank had applied the provisions of Inland Revenue Act No 10 of 2006 and the amendments thereto until 31st March 2018 and the provisions of Inland Revenue Act No. 24 of 2017 and the amendments thereto, have been applied w.e.f. 1st April 2018.

The applicable income tax rates are as follows

Hatton National Bank PLC	28%
HNB Assurance PLC and its subsidiary HNB General Insurance Ltd	28%
HNB Finance Ltd	28%
Sithma Development (Pvt) Ltd	28%

The deferred tax liabilities / assets are disclosed under Note 48 to the financial statements.

20 (a) Current Income Tax Expense

For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Current tax on profit for the year	6,285,880	9,916,291	6,841,562	10,824,398
Under / (over) provision in previous years	(986,526)	-	(990,418)	100,010
	5,299,354	9,916,291	5,851,144	10,924,408

20 (b) Deferred Tax Expense

For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Recognition / (realisation) of deferred tax liability [Note 48 (a) i and 48 (a) ii]	(261,906)	(510,330)	63,124	(186,779)
(Recognition) / realisation of deferred tax asset [Note 48 (b)]	(606,697)	(1,972,664)	(498,583)	(3,420,787)
	(868,603)	(2,482,994)	(435,459)	(3,607,566)
Total income tax expense [Note 20 (d)]	4,430,751	7,433,297	5,415,685	7,316,842
Effective tax rate	24.00%	32.39%	26.48%	27.65%
Effective tax rate (excluding deferred tax)	28.70%	43.21%	28.62%	41.28%

20 (c) Current Tax on Profit for the year - Subsidiaries

For the year ended 31st December	Group	
	2019 Rs 000	2018 Rs 000
Sithma Development (Pvt)Ltd	205,627	180,661
HNB Assurance PLC	106,244	7,833
HNB Finance Ltd	243,811	719,613
Total	555,682	908,107

20 (d) Reconciliation of Effective Tax Rate

For the year ended 31st December	Bank				Group			
	2019		2018		2019		2018	
	%	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000
Profit before income tax		18,463,003		22,951,500		20,444,757		26,466,304
Tax using the corporate tax rate	28.00	5,169,641	28.00	6,426,420	28.00	5,724,532	28.00	7,410,565
Disallowable expenses	17.15	3,165,614	10.39	2,383,557	18.27	3,740,912	11.34	3,002,194
Tax effects on:								
allowable expenses	(0.07)	(13,378)	0.10	20,160	(0.18)	(37,505)	0.06	12,718
tax exempt income	(15.73)	(2,904,600)	(6.10)	(1,396,840)	(15.00)	(3,066,590)	(7.99)	(2,113,527)
Undistributable profits of subsidiaries and joint venture	-	-	-	-	1.64	334,694	0.52	137,379
Utilisation of previously recognised tax losses	-	-	-	-	(1.41)	(289,940)	(4.66)	(1,232,497)
	29.34	5,417,277	32.39	7,433,297	31.32	6,406,103	27.27	7,216,832
Under / (over) provision in prior years	(5.34)	(986,526)	-	-	(4.84)	(990,418)	0.38	100,010
Income tax expense [Note 20 (b)]	24.00	4,430,751	32.39	7,433,297	26.48	5,415,685	27.65	7,316,842

20 (e) Tax Losses Brought Forward and Utilised during the Year

For the year ended 31st December	Group	
	2019 Rs 000	2018 Rs 000
Balance as at 1st January	4,611,983	5,706,098
Adjustment for brought forward tax losses	(2,646)	(81,248)
Tax losses incurred during the year	-	170,709
Tax losses utilised during the year	(1,035,505)	(1,183,576)
Tax losses carried forward	3,573,832	4,611,983

20 (f) New amendments to Income Tax Law announced by the Government

Income tax treatment on income from SLDB investments

As per the announcement made by the Department of Inland Revenue on 18th February 2020, income earned from SLDB investments is exempted from income tax retrospectively, with effect from 1st April 2018. This is a further clarification to the Inland Revenue Act No. 24 of 2017. Accordingly, income tax liability already recognised on income from such investments was reversed from the financial statements for the year ended 31st December 2019.

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21 EARNINGS PER SHARE

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".

21 (a) Basic Earnings per Share

For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Amount used as the numerator				
Profit attributable to equity holders of the Bank (Rs 000)	14,032,252	15,518,203	14,670,104	17,635,774
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 ('000)	500,407	500,349	500,407	500,349
Basic earnings per ordinary share (Rs)	28.04	31.01	29.32	35.25

21 (b) Diluted Earnings per Share

For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Amount used as the numerator				
Profit attributable to equity holders of the Bank (Rs 000)	14,032,252	15,518,203	14,670,104	17,635,774
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 ('000)	500,407	500,349	500,407	500,349
Effect of dilution:				
Weighted average number of potential ordinary shares outstanding under ESOP ('000)	-	190	-	190
Weighted average number of potential ordinary shares that could have been issued at average market price ('000)	-	(119)	-	(119)
Weighted average number of potential ordinary shares that would have been issued for zero consideration under ESOP	-	71	-	71
Weighted average number of ordinary shares outstanding during the year used as the denominator for diluted EPS ('000)	500,407	500,420	500,407	500,420
Diluted earnings per ordinary share (Rs)	28.04	31.01	29.32	35.25

22 DIVIDENDS PAID AND PROPOSED

For the year ended 31st December	2019			2018		
	Gross Dividend Rs 000	Dividend Tax Rs 000	Net Dividend Rs 000	Gross Dividend Rs 000	Dividend Tax Rs 000	Net Dividend Rs 000
Interim dividends paid						
Rs 5.00 cash dividend per share declared for 2017 and paid in 2018	-	-	-	2,442,768	111,661	2,331,107
Rs 1.50 cash dividend per share declared for 2018 and paid in 2018	-	-	-	738,976	43,233	695,743
Rs 1.00 cash dividend per share declared for 2019 and paid in 2020	500,407	18,148	482,260	-	-	-
Final dividends paid						
Rs 2.00 scrip dividend per share declared in 2017 and paid in 2018	-	-	-	977,592	97,759	879,833
Rs 3.50 scrip dividend per share declared in 2018 and paid in 2019	1,724,277	241,398	1,482,879	-	-	-
Rs 3.50 cash dividend per share declared in 2018 and paid in 2019	1,724,277	236,748	1,487,529	-	-	-

22 (a) Proposed Dividends

The Directors recommend that a final dividend of Rs. 7.00 per share by way of Rs. 3.50 per share, cash and Rs. 3.50 per share, scrip dividend (2018 Rs. 3.50 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 2019.

The final dividend is to be approved at the Annual General Meeting to be held on 30th March 2020. In accordance with Sri Lanka Accounting Standard – LKAS 10 on “Events after the reporting period”, this final dividend have not been recognised as a liability as at 31st December 2019. The interim dividend of Rs 1.00 per share (2018 - Rs 1.50 per share) was paid to the shareholders on 8th January 2020. Final dividend proposed amounts to Rs 3,503 Mn (2018 final dividend proposed : Rs 3,449 Mn).

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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.

23 (a) Analysis of Financial Instruments by Measurement Basis - Bank

As at 31st December 2019	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	-	29,089,189	-	29,089,189
Placements with banks	-	7,602,543	-	7,602,543
Balances with Central Bank of Sri Lanka	-	22,795,332	-	22,795,332
Derivative financial instruments	527,193	-	-	527,193
Financial assets measured at fair value through profit or loss	1,013,374	-	-	1,013,374
Financial assets measured at amortised cost - loans and advances to customer	-	741,769,073	-	741,769,073
Financial assets measured at amortised cost - debt and other instruments	-	149,720,834	-	149,720,834
Financial assets measured at fair value through other comprehensive income	-	-	127,694,982	127,694,982
Other financial assets	-	692,214	-	692,214
Total financial assets	1,540,567	951,669,185	127,694,982	1,080,904,734
Liabilities				
Due to banks	-	86,396,304	-	86,396,304
Derivative financial instruments	573,365	-	-	573,365
Securities sold under repurchase agreements	-	17,569,394	-	17,569,394
Financial liabilities measured at amortised cost - due to depositors	-	810,035,114	-	810,035,114
Dividends payable	-	1,449,472	-	1,449,472
Financial liabilities measured at amortised cost - other borrowings	-	22,604,039	-	22,604,039
Debt securities issued	-	1,797,644	-	1,797,644
Other financial liabilities	-	717,968	-	717,968
Subordinated term debts	-	32,695,221	-	32,695,221
Total financial liabilities	573,365	973,265,156	-	973,838,521

23 (a) Analysis of Financial Instruments by Measurement Basis - Bank (Contd.)

As at 31st December 2018	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	-	25,141,890	-	25,141,890
Placements with banks	-	3,292,733	-	3,292,733
Balances with Central Bank of Sri Lanka	-	33,907,057	-	33,907,057
Reverse repurchase agreements	-	90,094	-	90,094
Derivative financial instruments	4,507,576	-	-	4,507,576
Financial assets measured at fair value through profit or loss	100,342	-	-	100,342
Financial assets measured at amortised cost				
- loans and advances to customers	-	749,048,820	-	749,048,820
Financial assets measured at amortised cost - debt and other instruments	-	160,145,680	-	160,145,680
Financial assets measured at fair value through other comprehensive income	-	-	69,436,989	69,436,989
Other financial assets	-	466,252	-	466,252
Total financial assets	4,607,918	972,092,526	69,436,989	1,046,137,433
Liabilities				
Due to banks	-	77,492,582	-	77,492,582
Derivative financial instruments	2,519,172	-	-	2,519,172
Securities sold under repurchase agreements	-	16,678,946	-	16,678,946
Financial liabilities measured at amortised cost - due to depositors	-	799,975,357	-	799,975,357
Dividends payable	-	994,812	-	994,812
Financial liabilities measured at amortised cost - other borrowings	-	24,894,155	-	24,894,155
Debt securities issued	-	4,487,763	-	4,487,763
Other financial liabilities	-	12,951	-	12,951
Subordinated term debts	-	22,229,951	-	22,229,951
Total financial liabilities	2,519,172	946,766,517	-	949,285,689

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As at 31st December 2019	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	-	30,263,654	-	30,263,654
Placements with banks	-	15,490,267	-	15,490,267
Balances with Central Bank of Sri Lanka	-	22,795,332	-	22,795,332
Reverse repurchase agreements	-	2,072,482	-	2,072,482
Derivative financial instruments	527,193	-	-	527,193
Financial assets measured at fair value through profit or loss	1,155,339	-	-	1,155,339
Financial assets measured at amortised cost				
- loans and advances to customers	-	769,392,169	-	769,392,169
Financial assets measured at amortised cost - debt and other instruments	-	156,511,277	-	156,511,277
Financial assets measured at fair value through other comprehensive income	-	-	133,953,117	133,953,117
Other financial assets	-	2,147,894	-	2,147,894
Total financial assets	1,682,532	998,673,075	133,953,117	1,134,308,724
Liabilities				
Due to banks	-	87,212,970	-	87,212,970
Derivative financial instruments	573,365	-	-	573,365
Securities sold under repurchase agreements	-	17,569,394	-	17,569,394
Financial liabilities measured at amortised cost - due to depositors	-	835,060,146	-	835,060,146
Dividends payable	-	1,466,959	-	1,466,959
Financial liabilities measured at amortised cost - other borrowings	-	22,604,039	-	22,604,039
Debt securities issued	-	2,368,986	-	2,368,986
Other financial liabilities	-	2,835,700	-	2,835,700
Subordinated term debts	-	33,345,904	-	33,345,904
Total financial liabilities	573,365	1,002,464,098	-	1,003,037,463

23 (b) Analysis of Financial Instruments by Measurement Basis - Group (Contd.)

As at 31st December 2018	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	-	24,966,831	-	24,966,831
Placements with banks	-	8,506,255	-	8,506,255
Balances with Central Bank of Sri Lanka	-	33,907,057	-	33,907,057
Reverse repurchase agreement	-	1,168,764	-	1,168,764
Derivative financial instruments	4,507,576	-	-	4,507,576
Financial assets measured at fair value through profit or loss	264,420	-	-	264,420
Financial assets measured at amortised cost				
- loans and advances to customers	-	770,263,000	-	770,263,000
Financial assets measured at amortised cost - debt and other instruments	-	165,821,983	-	165,821,983
Financial assets measured at fair value through other comprehensive income	-	-	76,005,258	76,005,258
Other financial assets	-	1,322,063	-	1,322,063
Total financial assets	4,771,996	1,005,955,953	76,005,258	1,086,733,207
Liabilities				
Due to banks	-	77,976,010	-	77,976,010
Derivative financial instruments	2,519,172	-	-	2,519,172
Securities sold under repurchase agreements	-	16,678,946	-	16,678,946
Financial liabilities measured at amortised cost - due to depositors	-	818,041,962	-	818,041,962
Dividends payable	-	1,009,468	-	1,009,468
Financial liabilities measured at amortised cost - other borrowings	-	24,894,155	-	24,894,155
Debt securities issued	-	5,030,000	-	5,030,000
Other financial liabilities	-	2,124,432	-	2,124,432
Subordinated term debts	-	21,930,246	-	21,930,246
Total financial liabilities	2,519,172	967,685,219	-	970,204,391

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24 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 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	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Local currency in hand	26,681,669	21,632,025	26,916,927	21,843,384
Foreign currency in hand	1,213,374	1,224,769	1,213,374	1,224,769
Balances with banks	1,198,942	2,288,914	2,138,174	1,902,498
Less : Allowance for impairment losses [Note 24 (a)]	(4,796)	(3,818)	(4,821)	(3,820)
	29,089,189	25,141,890	30,263,654	24,966,831

All cash and cash equivalent balances held by the group entities were available for use by the Group.

24 (a) Movement in Impairment during the year

	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Stage 1				
Opening balance as at 1st January	3,818	6,089	3,820	6,091
Net impairment charge/(reversal) for the year	978	(2,271)	1,001	(2,271)
Closing balance as at 31st December	4,796	3,818	4,821	3,820

25 PLACEMENTS WITH BANKS

Placements with banks include money at call and short notice that are subject to an insignificant risk of changes in the fair value, and are used by the Group and the Bank in the management of its short term commitments. These are brought to financial statements at the face values or gross values.

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Placements - within Sri Lanka	5,874,310	1,829,948	13,762,527	7,043,753
Placements - outside Sri Lanka	1,777,302	1,462,922	1,777,302	1,462,922
Less : Allowance for impairment losses [Note 25 (a)]	(49,069)	(137)	(49,562)	(420)
	7,602,543	3,292,733	15,490,267	8,506,255

25 (a) Movement in Impairment during the year

	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Stage 1				
Opening balance as at 1st January	137	38,492	420	38,775
Net impairment charge/(reversal) for the year	48,932	(38,355)	49,142	(38,355)
Closing balance as at 31st December	49,069	137	49,562	420

All cash and cash equivalent balances held by the group entities were available for use by the Group.

26 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 5% as at 31st December 2019 (2018 : 6%).

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	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Statutory balance with Central Bank of Sri Lanka	22,795,332	33,907,057	22,795,332	33,907,057
	22,795,332	33,907,057	22,795,332	33,907,057

27 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	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Securities purchased under reverse repurchase agreements				
With banks	-	-	-	-
With customers	-	90,094	2,072,482	1,168,764
	-	90,094	2,072,482	1,168,764

28 DERIVATIVE FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

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 derivatives as hedging instruments and has not followed hedge accounting as at the reporting date. All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains or losses recognised in the statement of profit or loss 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.

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28 DERIVATIVE FINANCIAL INSTRUMENTS (Contd.)

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities.

As at 31st December	Bank/Group		2018	
	Assets Rs 000	Liabilities Rs 000	Assets Rs 000	Liabilities Rs 000
Currency swaps				
Sales	11,368	4,876	10,706	6,171
Purchases	389,891	402,406	4,048,327	184,303
Forward foreign exchange contracts				
Sales	106,862	152,430	13,887	2,326,882
Purchases	19,072	13,653	434,656	1,816
	527,193	573,365	4,507,576	2,519,172

29 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS**ACCOUNTING POLICY**

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 at fair value are recorded and measured in the statement of financial position. Changes in fair value are recognised in "net gain / (loss) from trading" (Note 10). Interest income 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 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

As at 31st December	2019 Fair Value Rs 000	2018 Fair Value Rs 000
Quoted shares - Bank [Note 29 (a)]	105,310	99,056
Government of Sri Lanka treasury bills [Note 29 (b)]	360	1,286
Government of Sri Lanka treasury bonds [Note 29 (c)]	907,704	-
Total financial assets measured at fair value through profit or loss - Bank	1,013,374	100,342
Quoted shares - Subsidiaries [Note 29 (d)]	125,885	139,158
Government of Sri Lanka treasury bonds - Subsidiaries [Note 29 (e)]	16,080	15,769
Quoted units in unit trusts - Subsidiaries [Note 29 (f)]	-	9,152
Total financial assets measured at fair value through profit or loss - Subsidiaries	141,965	164,078
Total financial assets measured at fair value through profit or loss - Group [Note 29 (g)]	1,155,339	264,420

29 (a) Quoted Shares Held by the Bank

As at 31st December	2019				2018			
	No of Ordinary Shares	Cost of Investment Rs 000	% of Total Cost	Fair Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	% of Total Cost	Fair Value Rs 000
Banks, Finance and Insurance								
Ceylinco Insurance PLC	34,000	23,035	13	28,560	34,000	23,035	13	32,300
National Development Bank PLC	43,146	10,688	6	4,315	40,913	10,451	6	4,370
Sector Total		33,723		32,875		33,486		36,670
Chemicals and Pharmaceuticals								
CIC Holdings PLC	556,396	47,850	27	33,384	556,396	47,850	27	22,033
Sector Total		47,850		33,384		47,850		22,033
Construction and Engineering								
Access Engineering PLC	175	6	-	4	175	6	-	2
Sector Total	-	6		4		6		2
Diversified Holdings								
Aitken Spence PLC	278,515	30,625	17	12,951	278,515	30,625	17	13,313
Sector Total		30,625		12,951		30,625		13,313
Hotels and Travels								
Aitken Spence Hotel Holdings PLC	575,301	45,998	26	15,590	575,301	45,998	26	15,534
Asian Hotels & Properties PLC	207,476	14,918	8	8,403	207,476	14,918	8	8,901
Sector Total		60,916		23,993		60,916		24,435
Motors								
United Motors Lanka PLC	33,385	3,522	2	2,103	33,385	3,522	2	2,603
Sector Total		3,522		2,103		3,522		2,603
Total		176,642		105,310		176,405		99,056
Unrealised loss from marked to market valuation		(71,332)				(77,349)		
Total quoted shares - Bank		105,310		105,310		99,056		99,056

29 (b) Government of Sri Lanka Treasury Bills

As at 31st December	2019		2018	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
Year of maturity				
2019	-	-	1,289	1,286
2020	360	360	-	-
Unrealised loss from marked to market valuation	-	-	(3)	-
Total Government of Sri Lanka treasury bills	360	360	1,286	1,286

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29 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Contd.)

29 (c) Government of Sri Lanka Treasury Bonds

As at 31st December	2019		2018	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
Year of maturity				
2021	371,038	371,122	-	-
2022	52,539	53,369	-	-
2023	270,196	268,228	-	-
2024	216,412	214,985	-	-
Unrealised loss from marked to market valuation	(2,480)	-	-	-
Total Government of Sri Lanka treasury bonds	907,704	907,704	-	-

29 (d) Quoted shares Held by Subsidiaries

As at 31st December	2019				2018			
	No of Ordinary Shares	Cost of Investment Rs 000	% of Total Cost	Fair Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	% of Total Cost	Fair Value Rs 000
Banks, Finance and Insurance								
Central Finance Company PLC	138,104	16,756	12.76	14,363	153,075	11,464	7.81	13,578
National Development Bank PLC	3,594	384	0.29	359	3,408	364	0.25	364
Sampath Bank PLC	106,016	19,747	15.03	17,217	101,830	18,759	12.79	23,930
Nations Trust Bank PLC	91,471	6,258	4.77	7,318	89,529	6,083	4.15	7,986
Peoples Leasing & Finance PLC	490,414	8,773	6.68	8,778	721,543	12,988	8.85	11,761
Seylan Bank PLC - (Non-Voting)	635,826	23,185	17.65	21,491	538,707	21,066	14.36	23,972
Sector Total		75,103		69,526		70,724		81,591
Diversified Holdings								
John Keells Holdings PLC	29,670	3,679	2.8	4,973	38,274	5,622	3.83	6,112
Richard Peiris and Company PLC	312,851	4,351	3.31	3,692	312,851	4,351	2.97	3,285
Vallibel One PLC	200,000	3,600	2.74	3,500	305,925	5,521	3.76	5,201
Melstacorp PLC	55,000	3,260	2.48	2,393	124,532	7,381	5.03	6,264
Sector Total		14,890		14,558		22,875		20,862
Beverage Food and Tobacco								
Distilleries Company of Sri Lanka PLC	33,935	-	-	626	45,786	-	-	738
Sector Total		-	-	626	-	-	-	738
Construction & Infrastructure								
Access Engineering PLC	39,532	2,343	1.78	1,720	-	-	-	-
Sector Total		2,343		1,720	-	-	-	-
Land and Property								
Overseas Realty (Ceylon) PLC	486,679	12,454	9.48	7,788	657,205	16,702	11.38	10,844
Sector Total		12,454		7,788		16,702	11.38	10,844
Manufacturing								
Royal Ceramic Lanka PLC	78,000	10,385	7.91	6,903	78,000	10,385	7.08	5,819
ACL Cables PLC	95,200	3,016	2.3	5,474	126,400	3,053	2.08	4,675
Tokyo Cement Company (Lanka) PLC	401,871	13,164	10.02	19,290	580,471	22,970	15.66	14,628
Sector Total		26,565		31,667		36,408		25,122
Total		131,355		125,885		146,709		139,157
Unrealised loss From marked to market valuation		(5,470)				(7,552)		-
Total quoted shares - Subsidiaries		125,885		125,885		139,157		139,157

29 (e) Government of Sri Lanka Treasury Bonds Held by Subsidiaries

As at 31st December	2019		2018	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
Year of maturity				
2021	16,370	16,080	16,370	15,769
Unrealised loss from marked to market valuation	(290)	-	(601)	-
Total Government of Sri Lanka treasury bonds - Subsidiaries	16,080	16,080	15,769	15,769

29 (f) Quoted Units in Unit Trusts Held by Subsidiaries

As at 31st December	No of Units	2019		No of Units	2018	
		Cost of Investment Rs 000	Fair Value Rs 000		Cost of Investment Rs 000	Fair Value Rs 000
Namal Acuity Value Fund	-	-	-	114,400	7,203	9,152
Unrealised gain from marked to market valuation		-	-		1,949	-
Total quoted units - Subsidiaries	-	-	-		9,152	9,152

29 (g) Analysis

As at 31st December	Bank		Group	
	2019 Fair Value Rs 000	2018 Fair Value Rs 000	2019 Fair Value Rs 000	2018 Fair Value Rs 000
By collateralisation				
Unencumbered	1,013,374	100,342	1,155,339	264,420
Total	1,013,374	100,342	1,155,339	264,420
By currency				
Sri Lankan Rupee	1,013,374	100,342	1,155,339	264,420
Total	1,013,374	100,342	1,155,339	264,420

30 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS

ACCOUNTING POLICY

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 statement of profit or loss. The losses arising from impairment are recognised in 'impairment charge for loans and other losses' in the statement of profit or loss.

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30 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Gross loans and advances	771,939,001	771,692,625	802,707,092	794,715,102
Stage 1	588,956,909	632,978,301	610,779,346	648,046,138
Stage 2	123,985,251	104,308,752	127,785,955	102,451,205
Stage 3*	58,996,841	34,405,572	64,141,790	44,217,759
Less : Accumulated impairment under:	30,169,928	22,643,805	33,314,923	24,452,100
Stage 1 [Note 30 (j) (i)]	3,343,678	3,336,650	4,063,982	4,013,172
Stage 2 [Note 30 (j) (i)]	4,827,329	3,714,854	5,210,362	3,940,900
Stage 3 [Note 30 (j) (i)]	21,998,921	15,592,301	24,040,578	16,498,029
Net loans and advances	741,769,073	749,048,820	769,392,169	770,263,000

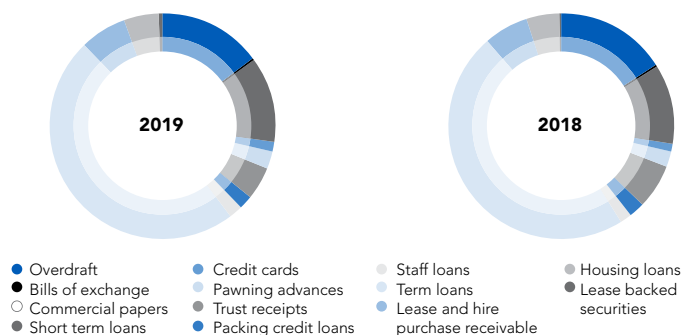
* The Bank classified Rs.12.9 Bn exposure to a State Owned Enterprise (SOE) as Stage 3, due to an overdue of Rs.1.4 Bn. Since the full outstanding including interest is secured by Treasury guarantees, there is no risk of a loss on default hence no impairment is required.

30 (a) Analysis of Loans and Advances

30 (a) i By Product

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Overdrafts	114,216,363	122,582,431	114,085,727	122,372,938
Bills of exchange	2,517,353	2,501,543	2,517,353	2,501,543
Commercial papers	154,658	154,193	154,658	154,193
Short term loans	94,889,179	87,921,676	95,214,486	88,164,789
Credit cards	9,365,055	7,926,448	9,365,055	7,926,448
Pawning advances	20,389,354	17,449,986	21,260,331	17,449,986
Trust receipts	35,483,486	49,026,148	35,483,486	49,026,148
Packing credit loans	16,090,676	18,607,105	16,090,676	18,607,105
Staff loans	14,713,352	13,139,967	15,679,793	13,830,322
Term loans	370,685,362	365,549,468	389,390,234	380,211,414
Lease and hire purchase receivable	52,634,930	49,924,690	62,666,060	57,561,246
Housing loans	38,417,543	36,303,859	38,417,543	36,303,859
Lease backed securities	2,381,690	605,111	2,381,690	605,111
Total gross loans and advances (Note 30)	771,939,001	771,692,625	802,707,092	794,715,102

Analysis of Loans and Advances



30 (a) Analysis of Loans and Advances (Contd.)

30 (a) ii By Currency

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Sri Lankan Rupees	683,765,443	677,463,768	714,533,534	700,486,245
United States Dollars	86,006,669	92,069,540	86,006,669	92,069,540
Great Britain Pounds	613,941	717,738	613,941	717,738
Euros	1,377,473	1,303,480	1,377,473	1,303,480
Other currencies	175,475	138,099	175,475	138,099
Total gross loans and advances (Note 30)	771,939,001	771,692,625	802,707,092	794,715,102

30 (b) 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, together with loan commitments and financial guarantee contracts which are commonly referred to as "financial instruments" in accordance with SLFRS 9. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is 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 Group's policies for determining whether there has been a significant increase in credit risk are set out in Note 30 (d) to the financial statements.

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.

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. The Group's policy for grouping financial assets measured on a collective basis is explained in Note 30 (c) to the financial statements.

The Group has established a policy 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 the risk of default occurring over the remaining life of the financial instrument.

As per SLFRS 9 a three stage model is adopted for impairment 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 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

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ECLs are calculated either on a collective or an individual basis. The Group calculates ECL on an individual basis for corporate and SME exposures identified as Individually Significant Loans (ISL) and investments in debt securities. All other exposures other than the above together with individually significant exposures not attracting an ISL provision are assessed for ECL on a collective basis. These exposures are grouped into smaller homogeneous portfolios, based on product type and customer segment.

30 (d) Significant Increase in Credit Risk

When determining whether the risk of default on a financial asset has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and expert credit assessment and including forward looking information.

The Group considers an exposure to have 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.

30 (e) Definition of Default and Credit Impaired Assets

The Group considers a financial instrument defaulted and therefore assessed in Stage 3 (as credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

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 non performing credit facilities/customers with one or more of the indicators set out in Note 30 (d) as credit impaired.

Further as per "CBSL Guidelines to Licensed Banks on the Adoption of Sri Lanka Accounting Standard - SLFRS 9 : "Financial Instruments", all the credit facilities/customers classified as non-performing as per Central Bank of Sri Lanka Directions are assessed as Stage 3 exposures.

30 (f) Rescheduled Loans

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. Derecognition 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 forborne asset until it is collected or written off.

When the loan has been renegotiated or modified but not derecognised, a reassessment is made whether there has been a significant increase in credit risk, as set out in Note 30 (d) 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.

30 (g) 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".

30 (h) 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 derecognised 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 3-5 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.

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The Group's product offering includes a variety of corporate 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 (utilized 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 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 recognized within "other liabilities".

Financial guarantee contracts

The Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and the ECL provision. For this purpose, the Group estimates ECLs 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 ECLs component related to the financial guarantee contracts are recognised within "other liabilities".

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 amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets.

30 (i) Forward looking information

The Group incorporates forward looking information into both its assessment as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. When estimating the ECLs, the Group considers three economic scenarios (base case, best case and worse case). Quantitative economic factors are based on economic data and forecasts published by Central Bank of Sri Lanka and supranational organisations such as International Monetary Fund (IMF). 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	Regulatory impact
Interest rate	
Unemployment rates	
Exchange rate	

30 (j) 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 statement of profit or loss by reducing the financial asset impairment allowance account accordingly.

30 (j) i Movement in Impairment during the year

	Bank		Group	
	2019	2018	2019	2018
	Rs 000	Rs 000	Rs 000	Rs 000
Stage 1				
Opening balance as at 1st January	3,336,650	-	4,013,171	-
Day 1 impact from the application of SLFRS 9	-	2,604,416	-	3,334,240
Restated opening balance as at 1st January	3,336,650	2,604,416	4,013,171	3,334,240
Net impairment charge for the year	7,028	732,234	50,811	678,931
Write-offs during the year	-	-	-	-
Other movements	-	-	-	-
Closing balance as at 31st December [Note 30]	3,343,678	3,336,650	4,063,982	4,013,171
Stage 2				
Opening balance as at 1st January	3,714,854	-	3,940,900	-
Day 1 impact from the application of SLFRS 9	-	2,445,544	-	2,616,773
Restated opening balance as at 1st January	3,714,854	2,445,544	3,940,900	2,616,773
Net impairment charge for the year	1,112,475	1,269,310	1,269,463	1,324,127
Write-offs during the year	-	-	-	-
Other movements	-	-	-	-
Closing balance as at 31st December [Note 30]	4,827,329	3,714,854	5,210,363	3,940,900
Stage 3				
Opening balance as at 1st January	15,592,301	-	16,498,029	-
Day 1 impact from the application of SLFRS 9	-	9,208,508	-	9,670,494
Restated opening balance as at 1st January	15,592,301	9,208,508	16,498,029	9,670,494
Net impairment charge for the year	6,801,030	6,242,192	8,095,724	6,685,934
Write-offs during the year	(363,160)	(475,069)	(521,925)	(475,069)
Other movements	(31,250)	616,670	(31,250)	616,670
Closing balance as at 31st December [Note 30]	21,998,921	15,592,301	24,040,578	16,498,029

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30 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

30 (j) ii Product wise Movement in Allowance for Impairment Losses - Bank

	2019				2018
	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	684,866	21,928,693	30,247	22,643,805	10,445,006
Day 1 impact from application of SLFRS 9	-	-	-	-	3,813,462
Restated balance as at 1st January	684,866	21,928,693	30,247	22,643,805	14,258,468
Net impairment charge for the year	495,951	7,428,922	(4,340)	7,920,533	8,243,736
Write-offs during the year	(92,383)	(270,777)	-	(363,160)	(475,069)
Other movement	-	(31,250)	-	(31,250)	616,670
Balance as at 31st December	1,088,434	29,055,588	25,907	30,169,928	22,643,805

30 (j) iii Product wise Movement in Allowance for Impairment Losses - Group

	2019				2018
	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	1,214,167	23,207,687	30,246	24,452,100	11,155,438
Day 1 impact from application of SLFRS 9	-	-	-	-	4,470,576
Restated balance as at 1st January	1,214,167	23,207,687	30,246	24,452,100	15,626,014
Net impairment charge for the year	868,038	8,544,220	3,740	9,415,998	8,684,485
Write-offs during the year	(195,593)	(326,332)	-	(521,925)	(475,069)
Other movement	-	(31,250)	-	(31,250)	616,670
Balance as at 31st December	1,886,612	31,394,324	33,986	33,314,923	24,452,100

30 (j) iv Sensitivity of factors used to determine impairment provisions

Increase /(decrease) in Property Realization Period of ISL Impaired Customers	Change in Loss Given Default (LGD)	Change in Economic Factor Adjustment (EFA)	Change in Deemed Loss Period	Sensitivity Effect on Impairment Provisions for the year Rs 000
Advanced by one year				(649,569)
Deferred by one year				553,695
	+ 1%			488,747
	- 1%			(488,747)
		Worst case degrades by 5%		61,953
		Worst case upgrades by 5%		(61,953)
			Reduction by 1 year	630,888
			Increase by 1 year	(451,005)

30 (k) 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 "allowance for impairment losses" policy as given in Note 30 (b) to the financial statements.

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Total lease and hire purchase rentals receivable	64,104,607	61,090,872	77,978,596	71,682,792
Unearned lease income	(11,469,677)	(11,166,182)	(15,312,536)	(14,121,545)
Gross lease and hire purchase receivable	52,634,930	49,924,690	62,666,060	57,561,247
Impairment allowance for lease and hire purchase receivable	(1,088,435)	(684,866)	(1,886,612)	(940,286)
Net lease and hire purchase receivable	51,546,495	49,239,824	60,779,448	56,620,961
Net lease and hire purchase receivables within one year [Note 30 (k) (i)]	19,117,730	18,127,154	22,095,384	20,213,819
Net lease and hire purchase receivables from one to five years [Note 30 (k) (ii)]	32,172,768	30,911,569	38,425,125	36,176,477
Net lease and hire purchase receivables after five years [Note 30 (k) (iii)]	255,997	201,101	258,939	230,664
	51,546,495	49,239,824	60,779,448	56,620,960

30 (k) i Net Lease and Hire Purchase Receivables within one year

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Total lease and hire purchase rentals receivable within one year from the reporting date	25,199,536	23,835,689	30,315,875	27,400,770
Unearned lease and hire purchase income	(5,678,124)	(5,423,811)	(7,403,529)	(6,646,807)
Impairment allowance for lease and hire purchase receivables	(403,682)	(284,724)	(816,962)	(540,144)
	19,117,730	18,127,154	22,095,384	20,213,819

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30 (k) ii Net Lease and Hire Purchase Receivables from one to five years

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Total lease and hire purchase rentals receivables from one to five years from the reporting date	38,621,662	37,034,577	47,375,541	44,029,757
Unearned lease and hire purchase income	(5,769,547)	(5,725,452)	(7,886,729)	(7,455,724)
Impairment allowance for lease and hire purchase receivables	(679,347)	(397,556)	(1,063,687)	(397,556)
	32,172,768	30,911,569	38,425,125	36,176,477

30 (k) iii Net Lease and Hire Purchase Receivables after five years

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Total lease and hire purchase rentals receivable after five years from the reporting date	283,409	220,606	287,179	252,265
Unearned lease and hire purchase income	(22,006)	(16,919)	(22,277)	(19,015)
Impairment allowance for lease and hire purchase receivables	(5,406)	(2,586)	(5,963)	(2,586)
	255,997	201,101	258,939	230,664

Impairment allowance for lease and hire purchase receivables are included in the stage wise movement for impairment presented in Note 30 (j) iii to the financial statement

31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS**ACCOUNTING POLICY**

The Group measures other 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, 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 statement of profit or loss. The losses arising from impairment are recognised in 'impairment charge for loans and other losses' in the statement of profit or loss.

These assets are tested for impairment in accordance with the criteria given in Note 30 (b) to the financial statements.

31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS (Contd.)

As at 31st December	2019 Rs 000	2018 Rs 000
Sri Lanka development bonds - Bank [Note 31 (c)]	122,014,129	123,137,095
Sri Lanka sovereign bonds - Bank [Note 31 (d)]	19,821,172	26,097,301
Foreign government bonds - Bank [Note 31 (e)]	64,066	65,892
Quoted debentures - Bank [Note 31 (f)]	9,606,812	12,130,405
Total financial assets at amortised cost – debt and other instruments - Bank Note 31(a)	151,506,179	161,430,693
Allowance for impairment assets at amortised cost – debt and other instruments - Bank Note 31 (b)	(1,785,345)	(1,285,013)
Stage 1	(1,182,947)	(1,130,825)
Stage 2	-	(88,296)
Stage 3	(602,398)	(65,892)
Net financial assets at amortised cost - debt and other instruments - Bank	149,720,834	160,145,680
Government of Sri Lanka treasury bills - Subsidiaries [Note 31 (g)]	2,022,869	1,861,790
Quoted debentures - Subsidiaries [Note 31 (h)]	4,768,208	3,559,571
Other loans and receivables held by subsidiaries [Note 31 (i)]	773,091	773,091
Total financial assets at amortised cost - debt and other instruments - Subsidiaries	7,564,168	6,194,452
Total financial assets at amortised cost - debt and other instruments - Group	159,070,347	167,625,144
Allowance for impairment on assets at amortised cost debt and other instruments - Group [Note 31 (b)]	(2,559,070)	(1,803,161)
Stage 1	(1,183,581)	(1,131,503)
Stage 2	-	(88,296)
Stage 3	(1,375,489)	(583,362)
Net financial assets at amortised cost – debt and other instruments - Group	156,511,277	165,821,983

31 (a) Analysis

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
By Collateralisation				
Unencumbered	151,506,179	161,430,693	159,070,347	167,625,144
Total	151,506,179	161,430,693	159,070,347	167,625,144
By Currency				
Sri Lankan Rupee	9,606,812	12,130,405	17,170,980	18,324,856
United States Dollar	141,835,301	149,234,396	141,835,301	149,234,396
Euros	64,066	65,892	64,066	65,892
Total	151,506,179	161,430,693	159,070,347	167,625,144

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	Bank 2019 Rs 000	Bank 2018 Rs 000	Group 2019 Rs 000	Group 2018 Rs 000
Stage 1				
Opening balance as at 1st January	1,130,825	498,056	1,131,503	498,056
Net impairment charge for the year	52,122	632,769	52,078	633,447
Write-offs during the year	-	-	-	-
Other movements	-	-	-	-
Closing balance as at 31st December	1,182,947	1,130,825	1,183,581	1,131,503
Stage 2				
Opening balance as at 1st January	88,296	-	88,296	-
Net impairment charge for the year	-	88,296	-	88,296
Write-offs during the year	-	-	-	-
Transfer to Stage 3	(88,296)	-	(88,296)	-
Other movements	-	-	-	-
Closing balance as at 31st December	-	88,296	-	88,296
Stage 3				
Opening balance as at 1st January	65,892	57,839	583,362	523,817
Net impairment charge for the year	448,211	8,053	703,831	59,545
Write-offs during the year	-	-	-	-
Transfer from Stage 2	88,296	-	88,296	-
Other movements	-	-	-	-
Closing balance as at 31st December	602,398	65,892	1,375,489	583,362

31 (c) Sri Lanka Development Bonds Held by the Bank

As at 31st December	2019 Rs 000	2018 Rs 000
Year of Maturity		
2020	63,156,176	63,731,602
2021	19,954,940	20,121,068
2022	27,758,934	28,030,947
2023	11,144,086	11,253,478
Total Sri Lanka development bonds - Bank	122,014,129	123,137,095

31 (d) Sri Lanka Sovereign Bonds Held by the Bank

As at 31st December	2019 Rs 000	2018 Rs 000
Year of Maturity		
2019	-	6,293,901
2021	4,153,512	4,124,112
2023	6,354,576	6,365,578
2025	2,222,953	2,213,628
2026	5,046,401	5,059,144
2028	2,043,730	2,040,938
Total Sri Lanka sovereign bonds - Bank	19,821,172	26,097,301

31 (e) Foreign Government Bonds Held by the Bank

As at 31st December	2019 Rs 000	2018 Rs 000
Year of Maturity		
2042*	64,066	65,892
Total foreign government bonds - Bank	64,066	65,892

*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. 64.06 Mn (2018 - Rs. 65.89 Mn) in respect of this investment.

31 (f) Quoted Debentures Held by the Bank

As at 31st December	2019		2018	
	No of Debentures	Carrying Value Rs 000	No of Debentures	Carrying Value Rs 000
Abans PLC				
(9% debentures redeemed on 26th December 2019)	-	-	5,000,000	500,616
Access Engineering PLC				
(10.25% debentures redeemable on 18th November 2020)	15,000,000	1,518,534	15,000,000	1,518,956
Alliance Finance Company PLC				
(9.35% debentures redeemed on 29th December 2019)	-	-	3,000,000	328,050
Central Finance PLC				
(9.52% debentures redeemable on 01st June 2020)	2,000,000	219,040	2,000,000	219,040
Commercial Leasing & Finance PLC				
(9.75% debentures redeemable on 21st July 2020)	10,000,000	1,097,500	10,000,000	1,097,500
DFCC Bank PLC				
(9.10% debentures redeemable on 10th June 2020)	5,000,000	525,430	5,000,000	525,430
Hayleys PLC				
(7.85% debentures redeemable on 06th March 2020)	5,000,000	512,582	5,000,000	512,582
Lanka Orix Leasing Company PLC				
(9% debentures redeemed on 24th November 2019)	-	-	5,000,000	511,342
Lion Brewery Ceylon PLC				
(7.85% debentures redeemed on 08th December 2019)	-	-	4,686,000	477,872
MTD Walkers PLC				
(10.25% debentures redeemable on 30th September 2020)	5,000,000	538,332	5,000,000	512,918
Orient Finance PLC				
(9.05% debentures redeemed on 26th December 2019)	-	-	2,500,000	261,405
People's Leasing and Finance PLC				
(9.95% debentures redeemable on 12th November 2020)	20,000,000	2,026,715	20,000,000	2,026,715
(12.60% debentures redeemable on 16th November 2021)	20,000,000	2,031,759	20,000,000	2,031,759
Sanasa Development Bank PLC				
(9.6% debentures redeemed on 31st December 2019)	-	-	9,433,700	989,024
Senkadagala Finance PLC				
(13.75% debentures redeemable on 09th November 2020)	3,000,000	305,877	3,000,000	305,877
Siyapatha Finance PLC				
(13.5% debentures redeemable on 20th September 2020)	3,000,000	311,318	3,000,000	311,319
Lanka Orix Leasing Company PLC				
(15% debentures redeemable on 26th September 2024)	5,000,000	519,725	-	-
Quoted Debentures - Bank		9,606,812		12,130,405

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As at 31st December	2019 Rs 000	2018 Rs 000
Year of Maturity		
2019	-	1,861,790
2020	2,022,869	-
	2,022,869	1,861,790

31 (h) Quoted Debentures Held by Subsidiaries

As at 31st December	2019		2018	
	No of Debentures	Carrying Value Rs 000	No of Debentures	Carrying Value Rs 000
Abans PLC				
(09.00% debentures redeemed on 26th December 2019)	-	-	450,000	45,168
				45,168
Access Engineering PLC				
(10.25% debentures redeemable on 18th November 2020)	1,250,000	126,509	1,250,000	126,835
		126,509		126,835
Bank of Ceylon				
(08.00% debentures redeemed on 21st September 2019)	-	-	140,000	14,310
(13.25% debentures redeemable on 29th December 2021)	400,000	45,329	400,000	45,329
		45,329		59,639
Commercial Bank of Ceylon PLC				
(12.00% debentures redeemable on 27th October 2021)	289,500	29,559	289,500	29,559
(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
(12.00% Debentures redeemable on 22nd July 2023)	577,800	60,838	577,800	60,838
		230,115		230,115
Commercial Credit and Finance PLC				
(10.50% debentures redeemable on 01st June 2020)	1,100,000	112,911	1,100,000	112,911
(10.40% debentures redeemable on 10th December 2020)	1,000,000	100,598	1,000,000	100,598
		213,509		213,509
Commercial Leasing and Finance PLC				
(9.75% debentures redeemable on 21st July 2020)	600,000	65,850	600,000	65,850
		65,850		65,850
DFCC Bank PLC				
(09.40% debentures redeemable on 10th June 2020)	405,500	42,680	405,500	42,680
(12.15% debentures redeemable on 09th June 2021)	100,000	10,173	100,000	10,173
(12.75% debentures redeemable on 09th June 2023)	700,000	71,272	700,000	71,272
(13.00% Debentures redeemable on 29th March 2025)	500,000	54,933	500,000	54,933
(12.60% Debentures redeemable on 29th March 2023)	1,400,000	153,387	1,400,000	153,387
(13.75% Debentures redeemable on 28th March 2026)	1,298,100	143,404	-	-
(13.90% Debentures redeemable on 28th March 2029)	3,532,100	390,603	-	-
(13.50% Debentures redeemable on 28th March 2024)	1,000,000	110,282	-	-
		976,734		332,445
Hemas Holdings PLC				
(11.00% debentures redeemed on 29th April 2019)	-	-	557,900	57,350
		-		57,350

As at 31st December	2019		2018	
	No of Debentures	Carrying Value Rs 000	No of Debentures	Carrying Value Rs 000
Hayleys PLC				
(12.50% Debentures redeemable on 31st July 2023)	3,300,000	347,291	3,300,000	347,291
(13.00% Debentures redeemable on 26th August 2024)	282,300	29,507		-
		376,798		347,291
Lanka Orix Leasing Company PLC				
(09.00% debentures redeemed on 26th November 2019)	-	-	550,000	56,248
(15.00% debentures redeemable on 27th September 2024)	2,800,000	290,932	-	-
		290,932		56,248
LB Finance PLC				
(12.75% debentures redeemable on 11th December 2022)	170,000	17,173	170,000	17,119
		17,173		17,119
Merchant Bank of Sri Lanka & Finance PLC				
(08.75% debentures redeemed on 12th November 2019)	-	-	150,000	15,660
(09.00% debentures redeemed on 12th November 2019)	-	-	410,000	44,690
		-		60,350
National Development Bank PLC				
(09.40% debentures redeemable on 24th June 2020)	217,200	19,754	217,200	18,030
(09.40% debentures redeemable on 24th June 2020)	253,000	27,678	253,000	28,099
(13.90% debentures redeemable on 19th December 2023)	187,500	21,409	187,500	21,409
(13.95% debentures redeemable on 30th March 2024)	1,600,000	176,816	-	-
		245,657		67,538
Nations Trust Bank PLC				
(12.65% debentures redeemable on 08th December 2021)	357,400	36,396	357,400	36,396
(12.80% debentures redeemable on 08th December 2021)	210,200	21,411	210,200	21,411
(13.00% Debentures redeemable on 20th April 2023)	1,550,000	169,077	1,550,000	169,077
(12.80% Debentures redeemable on 23rd December 2024)	3,000,000	300,842	-	-
(12.90% Debentures redeemable on 23rd December 2026)	800,000	80,226	-	-
		607,952		226,884
Pan Asia Banking Corporation PLC				
(09.52% debentures redeemed on 30th October 2019)	-	-	207,340	21,069
(09.75% debentures redeemed on 30th October 2019)	-	-	458,517	46,611
		-		67,680
People's Leasing & Finance PLC				
(09.60% debentures redeemed on 12th November 2019)	-	-	450,000	45,580
(09.95% debentures redeemable on 12th November 2020)	290,000	29,387	290,000	29,387
(12.60% Debentures redeemable on 16th November 2021)	500,000	50,777	500,000	50,777
(12.80% Debentures redeemable on 18th April 2023)	653,600	71,251	653,600	71,251
		151,415		196,995
Richard Pieris and Company PLC				
(11.25% debentures redeemed on 16th May 2019)	-	-	408,800	42,094
		-		42,094
Sampath Bank PLC				
(08.25% debentures redeemed on 14th December 2019)	-	-	750,000	81,187
(09.90% debentures redeemable on 18th November 2020)	1,642,200	166,179	1,642,200	166,400
(12.50% debentures redeemable on 21st December 2022)	800,000	80,321	800,000	80,525
(12.50% debentures redeemable on 20th March 2023)	2,000,000	206,986	2,000,000	207,615
(13.90% debentures redeemable on 28th February 2024)	2,800,000	312,629	-	-
		766,115		535,727

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Reports**31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS (Contd.)**

As at 31st December	2019 No of Debentures	Carrying Value Rs 000	2018 No of Debentures	Carrying Value Rs 000
Seylan Bank PLC				
(08.60% debentures redeemed on 22nd February 2019)	-	-	300,000	32,644
(08.75% debentures redeemable on 23rd December 2020)	500,000	54,483	500,000	54,483
(13.00% debentures redeemable on 15th July 2021)	215,800	22,879	215,800	22,879
(12.85% Debentures redeemable on 29th March 2023)	2,500,000	258,185	2,500,000	258,185
		335,547		368,191
Singer (Sri Lanka) PLC				
(12.00% debentures redeemable on 28th September 2021)	800,000	82,472	800,000	82,472
		82,472		82,472
Siyapatha Finance PLC				
(08.90% debentures redeemed on 24th December 2019)	-	-	1,000,000	108,900
(13.50% debentures redeemable on 20th September 2021)	244,200	25,341	244,200	25,341
(13.33% Debentures redeemable on 08th August 2024)	157,100	16,546	-	-
		41,887		134,241
Sri Lanka Telecom PLC				
(12.75% Debentures redeemable on 19th April 2028)	1,443,800	148,064	1,443,800	148,524
		148,064		148,524
Softlogic Finance PLC				
(10.00% debentures redeemed on 29th August 2019)	-	-	303,900	31,156
		-		31,156
Vallibel Finance PLC				
(10.25% debentures redeemable on 31st March 2020)	450,000	46,150	450,000	46,150
		46,150		46,150
Total quoted debentures - Subsidiaries		4,768,208		3,559,571

31 (i) Other loans and receivables held by subsidiaries

As at 31st December	2019 Carrying Value Rs 000	2018 Carrying Value 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 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

ACCOUNTING POLICY

With the adoption of SLFRS 9 - "Financial Instruments" 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 meet the SPPI test

Debt instruments measured at FVOCI

FVOCI debt instruments 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 derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

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 at FVOCI when those meet the definition of Equity under LKAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by instrument basis.

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 at FVOCI are not subject to an impairment assessment.

As at 31st December	Fair Value	
	2019 Rs 000	2018 Rs 000
Quoted shares - Bank [Note 32 (b)]	5,125,554	3,981,142
Quoted units - Bank [Note 32 (c)]	-	240,000
Unquoted shares - Bank [Note 32 (d)]	22,530	24,780
Unquoted units - Bank [Note 32 (e)]	376,590	372,373
Government of Sri Lanka treasury bonds - Bank [Note 32 (f)]	39,360,640	46,435,837
Government of Sri Lanka treasury bills - Bank [Note 32 (g)]	51,514,389	18,382,857
Government of Sri Lanka sovereign bonds - Bank [Note 32 (h)]	31,295,279	-
Total financial assets at fair value through other comprehensive income - Bank [Note 32 (a)]	127,694,982	69,436,989
Government of Sri Lanka treasury bonds - Subsidiaries [Note 32 (i)]	6,245,705	6,555,839
Unquoted shares - Subsidiaries [Note 32 (j)]	12,430	12,430
Total financial assets at fair value through other comprehensive income - Subsidiaries	6,258,135	6,568,269
Total financial assets at fair value through other comprehensive income - Group [Note 32 (a)]	133,953,117	76,005,258

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As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
By collateralisation				
Pledged as collateral	19,882,234	17,536,743	19,882,234	17,536,743
Unencumbered	107,812,748	51,900,246	114,070,883	58,468,515
Total	127,694,982	69,436,989	133,953,117	76,005,258
By Currency				
Sri Lankan Rupee	96,399,703	69,436,989	102,657,838	76,005,258
United States Dollar	31,295,279	-	31,295,279	-
Total	127,694,982	69,436,989	133,953,117	76,005,258

32 (b) Quoted Shares Held by the Bank

As at 31st December	2019			2018		
	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	45,354,596	1,875,660	4,168,088	32,396,140	942,651	3,012,841
National Development Bank PLC	6,468,864	936,968	646,886	6,133,969	901,502	656,335
Nations Trust Bank PLC	3,882,252	398,269	310,580	3,799,827	390,842	311,966
Total quoted shares - Bank		3,210,897	5,125,554		2,234,995	3,981,142

32 (c) Quoted Units in Unit Trusts Held by the Bank

As at 31st December	2019			2018		
	No of Units	Cost of Investment Rs 000	Fair Value Rs 000	No of Units	Cost of Investment Rs 000	Fair Value Rs 000
Namal Acuity Value Fund	-	-	-	3,000,000	150,000	240,000
Total quoted units in unit trusts - Bank	-	-	-	150,000	150,000	240,000

32 (d) Unquoted Shares Held by the Bank

As at 31st December	2019			2018		
	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	2,200,000	22,000	22,000	2,200,000	22,000	22,000
Lanka Financial Services Bureau	225,000	2,250	-	225,000	2,250	2,250
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	-
		60,886	22,530		60,886	24,780

32 (e) Unquoted Units in Unit Trusts Held by the Bank

As at 31st December	2019			2018		
	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	376,590	19,455,327	400,000	372,373
Total unquoted units in unit trusts - Bank		400,000	376,590		400,000	372,373

32 (f) Government of Sri Lanka Treasury Bonds

As at 31st December	2019		2018	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
Year of Maturity				
2019	-	-	16,376,141	16,313,567
2020	3,550,286	3,569,581	3,034,845	2,976,543
2021	22,638,514	23,486,737	17,438,724	17,561,979
2022	271,509	276,792	274,514	261,929
2023	5,250,970	5,355,776	5,281,088	5,012,742
2024	4,613,792	4,839,985	2,571,244	2,624,983
2025	1,779,713	1,831,769	1,777,171	1,684,094
Total government of Sri Lanka treasury bonds - Bank	38,104,784	39,360,640	46,753,727	46,435,837

32 (g) Government of Sri Lanka Treasury Bills Held by the Bank

As at 31st December	2019		2018	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
Year of Maturity				
2019	-	-	18,392,709	18,382,857
2020	51,379,942	51,514,389	-	-
Total government of Sri Lanka treasury bills - Bank	51,379,942	51,514,389	18,392,709	18,382,857

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As at 31st December	2019		2018	
	Cost of Investment Rs 000	Fair Value Shares	Cost of Investment Rs 000	Fair Value Rs 000
Year of Maturity				
2022	1,122,807	1,119,447	-	-
2023	970,146	982,340	-	-
2024	15,779,834	15,808,606	-	-
2025	5,766,879	5,741,442	-	-
2026	4,605,375	4,528,924	-	-
2027	2,463,603	2,408,657	-	-
2028	728,044	705,863	-	-
Total government of Sri Lanka treasury bills - Bank	31,436,688	31,295,279	-	-

32 (i) Government of Sri Lanka Treasury Bonds Held by Subsidiaries

As at 31st December	2019		2018	
	Cost of Investment Rs 000	Fair Value Shares	Cost of Investment Rs 000	Fair Value Rs 000
Year of Maturity				
2019	-	-	602,024	622,322
2020	303,517	331,487	303,517	322,661
2021	925,345	958,588	1,122,017	1,119,541
2022	554,344	583,389	600,125	592,627
2023	504,989	537,648	799,327	802,298
2024	431,900	462,402	531,280	549,056
2025	104,077	104,446	104,077	96,168
2026	261,574	277,223	461,154	455,993
2027	108,062	113,017	152,790	150,676
2028	313,285	335,895	363,440	354,249
2029	775,822	781,154	135,191	108,803
2030	1,044,036	1,075,981	1,044,036	960,725
2033	102,404	112,935	102,404	100,345
2034	192,025	207,475	-	-
2044	143,435	127,307	143,435	112,417
2045	222,302	236,758	222,302	207,958
Total government of Sri Lanka treasury bonds - Subsidiaries	5,987,117	6,245,705	6,687,119	6,555,839

32 (j) Unquoted Shares Held by Subsidiaries

As at 31st December	2019			2018		
	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	100	234	234	100	234	234
UB Finance	1,742,326	12,196	12,196	1,742,326	12,196	12,196
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	12,430		51,122	12,430

33 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 statement of profit or loss 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 statement of profit or loss 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 statement of profit or loss.

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 statement of profit or loss. The Bank's investment in joint venture is carried at cost.

33 (a) Investment in Unquoted Joint Venture - Bank

As at 31st December			2019			2018		
Principal Activity	Principal Place of Business	% Holding	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000	% Holding	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000	
Acuity Partners (Pvt) Ltd	Investment banking	Sri Lanka	50	755,000	2,249,804	50	755,000	2,139,339
Total			755,000		755,000			

Bank received Rs 75.50 Mn of dividend income from Acuity Partners (Pvt) Ltd for the year ended 31st December 2019 (2018 : Rs 33.22 Mn).

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As at 31st December	2019 Rs 000	2018 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	1,384,339	1,046,401
Group's share of net assets of joint venture company as at 1st January	2,139,339	1,801,401
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)	2,027,201	1,689,263
Additional investment during the year	-	-
Share of profit of joint venture (net of income tax) (Note 19)	186,884	303,092
Share of other comprehensive income of equity accounted joint venture	(920)	67,539
Deemed disposal gain through joint venture	-	527
Dividend received during the year	(75,500)	(33,220)
Group's share of net assets of joint venture company as at 31st December	2,137,665	2,027,201

33 (c) Summarised Financial Position of Joint Venture - Acuity Partners (Pvt) Ltd and its Subsidiaries

As at 31st December	2019 Rs 000	2018 Rs 000
Current assets	6,225,284	7,055,527
Non-current assets	11,648,835	10,133,199
Current liabilities	(8,259,696)	(9,450,958)
Non-current liabilities	(2,606,620)	(1,039,126)
Non controlling interest	(2,508,197)	(2,419,964)
Equity	4,499,606	4,278,678
Group carrying amount of the investment	2,249,803	2,139,339
Share of unrealised profit on disposal of investments	(112,138)	(112,138)
Group carrying amount of the investment - Net	2,137,665	2,027,201

33 (d) Summarised statement of profit or loss of Joint Venture - Acuity Partners (Pvt) Ltd and its Subsidiaries

For the year ended 31st December	2019 Rs 000	2018 Rs 000
Revenue	1,499,548	1,388,061
Administration and distribution expenses	(368,042)	(514,302)
Finance cost	(323,942)	(179,970)
Profit from operations	807,564	693,789
VAT and NBT on financial services	(26,789)	(20,116)
Profit before tax	780,775	673,673
Income tax expenses	(181,219)	222,753
Profit for the year	599,556	896,426
Other comprehensive income	(12,700)	303,198
Total comprehensive income for the year	586,856	1,199,624
Non controlling interest	(214,928)	(458,364)
Total comprehensive income for the year	371,928	741,260
Group's share of comprehensive income for the year	185,964	370,630

34 INVESTMENT IN SUBSIDIARIES

ACCOUNTING POLICY

Subsidiaries are entities that are controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect the returns of those investees through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee
- exposure or rights to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption 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 statement of profit or loss.

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.

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As at 31st December			2019			2018		
	Principal Activity	Principal Place of Business	% Holding	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000	% Holding	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000
HNB Assurance PLC								
(29,993,000 shares)	Insurance	Sri Lanka	60	384,285	4,139,034	60	384,285	3,959,076
Total quoted subsidiaries				384,285			384,285	

34 (b) Investment in Subsidiary - Unquoted

As at 31st December			2019			2018		
	Principal Activity	Principal Place of Business	% Holding	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000	% Holding	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000
Sithma Development (Pvt) Ltd (206,000,000 ordinary shares)								
	Property development	Sri Lanka	100	1,973,000	7,329,456	100	1,973,000	6,989,540
HNB Finance Ltd (724,904,118 ordinary shares)								
	Micro-finance	Sri Lanka	42.16	660,000	2,089,868	42.16	660,000	1,822,615
Total unquoted subsidiaries				2,633,000			2,633,000	
Total for the Bank [34 (a) and 34 (b)]				3,017,285			3,017,285	

HNB Finance Ltd

Bank holds a stake of 51% in the voting rights of HNB Finance Ltd. Accordingly, the said investment is accounted for as an investment in subsidiary. Since the Bank does not hold non-voting shares of HNB Finance Ltd, Bank's holding in the said company is 42.16%.

34 (c) Subsidiary Held through HNB Assurance PLC

As at 31st December			2019		2018	
	Principal Activity	Principal Place of Business	% Holding	Cost of Investment Rs 000	% Holding	Cost of Investment Rs 000
HNB General Insurance Limited (115,000,000 ordinary shares)						
	General Insurance	Sri Lanka	100	1,150,000	100	1,150,000
						1,150,000

34 (d) Non-Controlling Interests (NCI) in Subsidiaries

Subsidiary	% of Ownership Interest held by NCI	Share of % of Voting Rights held by NCI	Total Comprehensive Income of NCI for the Year Ended 31st December		NCI as at 31st December		Dividends Paid to NCI	
			2019	2018	2019	2018	2019	2018
			Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
HNB Assurance PLC	40.00	40.00	316,073	1,024,771	2,335,343	2,199,263	180,000	120,000
HNB Finance Ltd	57.84	49.00	153,035	484,239	2,626,975	2,473,947	-	89,514
			469,108	1,509,010	4,962,318	4,673,210	180,000	209,514

34 (e) Summarised Financial Information of Subsidiaries

As at 31st December	HNB Assurance PLC		Sithma Development (Pvt) Ltd		HNB Finance Ltd	
	2019	2018	2019	2018	2019	2018
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Assets	26,620,723	22,274,327	10,266,129	10,240,586	36,664,705	29,808,927
Liabilities	19,915,132	16,530,116	2,936,673	3,251,037	31,862,434	25,485,836
Equity	6,705,591	5,744,211	7,329,456	6,989,549	4,802,271	4,323,091

34 (f) Summarised Financial Information of Subsidiaries

For the year ended 31st December	HNB Assurance PLC		Sithma Development (Pvt) Ltd		HNB Finance Ltd	
	2019	2018	2019	2018	2019	2018
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Revenue	11,003,517	9,616,851	1,023,459	1,003,030	9,298,655	7,825,581
Profit after tax	1,011,047	2,702,302	339,908	291,056	114,856	847,776
Total comprehensive income	1,041,279	2,672,372	339,908	(1,526,155)	284,371	860,387

For the year ended 31st December	HNB Assurance PLC		Sithma Development (Pvt) Ltd		HNB Finance Ltd	
	2019	2018	2019	2018	2019	2018
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cash flows from operating activities	1,659,917	1,519,051	601,021	536,932	1,135,888	(3,992,953)
Cash flows from investing activities	(965,285)	(1,080,246)	(688)	(354,860)	(748,921)	2,232,353
Cash flows from financing activities	(667,520)	(300,000)	(387,120)	290,300	(27,967)	2,082,511

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35 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 Asset	% per annum
Hatton National Bank PLC	
freehold buildings (Refer Note 35 (a))	2.5
Sithma Development (Pvt) Ltd	
Freehold buildings	
HNB Tower	1
Others	2.5
Plant, Machinery and equipment integral to freehold buildings referred to above	20

De-recognition

Investment properties are de-recognised when disposed of, or permanently withdrawn from the 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 statement of profit or loss.

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.

Analysis

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Cost				
Balance as at 1st January	347,684	347,684	1,271,516	1,271,501
Transferred to property, plant and equipment	-	-	(190,000)	15
Transferred from property, plant and equipment [(Note 35 (b) (iv))]	160,000	-	160,000	-
Balance as at 31st December	507,684	347,684	1,241,516	1,271,516
Accumulated depreciation				
Balance as at 1st January	21,866	20,220	164,044	124,937
Transferred from property, plant and equipment	2,806	-	2,806	-
Charge for the year [Note 17 (b)]	2,568	1,646	48,616	39,107
Balance as at 31st December	27,240	21,866	215,466	164,044
Net book value as at 31st December	480,444	325,818	1,026,050	1,107,472

35 (a) Valuation of Investment Properties - Bank

As at 31st December	Cost / Carrying Amount			Fair Value			Fair Value		
	As at 31st December 2019			As at 31st December 2019			as at 31st December 2018		
	Building sq.ft	Land Perches	Land (Cost) (Net Book Value) Rs 000	Building (Net Book Value) Rs 000	Total Rs 000	Land Rs 000	Building Rs 000	Total Rs 000	Total Rs 000
23 & 23 1/1,									
Independence Avenue,									
Colombo 7 [Note 35 (b) i]	10,645	105.10	37,081	41,400	78,481	-	-	942,000	942,000
479, T B Jayah Mawatha,									
Colombo 10 [Note 35 (b) ii]	Land	112.96	126,480	-	126,480	2,428,640	-	2,428,640	2,118,000
21, 21A, 23 & 25,									
Janadhipathi Mawatha,									
Colombo 1 [Note 35 (b) ii]	Land	26.62	34,889	-	34,889	665,500	-	665,500	665,500
451, Kandy Road,									
Kegalle [Note 35 (b)ii]	Land	61.70	83,400	-	83,400	178,750	-	178,750	154,250
181, High Level Road,									
Nugegoda. [Note 35 (b) iv]	11,096	16.5	82,500	74,694	157,194	99,000	89,874	188,874	-
			364,350	116,094	480,444	3,371,890	89,874	4,403,764	3,879,750

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35 INVESTMENT PROPERTIES (Contd.)

35 (b) Valuation of Investment Properties - Group

As at 31st December	Building sq.ft	Land Perches	Cost / Carrying Amount			Fair Value			Fair Value as at 31st December 2018 Total Rs 000
			As at 31st December 2019			As at 31st December 2019			
			Land (Cost)	Building (Net Book Value)	Total	Land	Building	Total	
			Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
Through the Bank									
23 & 23 1/1, Independence Avenue, Colombo 7 [Note 35 (b) i]	10,645	105.10	37,081	41,400	78,481	-	-	942,000	942,000
181, High level Road, Nugegoda	11,096	16.5	82,500	74,694	157,194	99,000	89,874	188,874	-
Through the Subsidiary - Sithma Development (Pvt) Ltd									
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 1 [Note 35 (b) ii]	41,688	-	-	69,061	69,061	-	463,590	463,590	421,243
451, Kandy Road, Kegalle [Note 35 (b) ii]	16,000	-	-	71,402	71,402	-	153,316	153,316	143,658
Through the Subsidiary - HNB Finance Ltd [Note 35 (b) iii]									
249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda	24,952	39.60	151,063	329,914	480,977	296,503	543,497	840,000	819,000
Vihara Road, Rankewatte, Matale	Land	15.00	9,000	-	9,000	10,500	-	10,500	9,750
44/1, Service Road, Puttalam	Land	25.60	12,800	-	12,800	31,500	-	31,500	16,000
465/1, Old Police Station Road, Kahathuduwa, Polgasowita	20,494	182.59	49,008	64,127	113,135	69,689	85,311	155,000	121,800
06, Abaya Place, 7th Lane, Anuradhapura	Land	13.52	20,000	-	20,000	50,000	-	30,770	25,700
Adampodaivayal, Adampodaimalaikadu, Trincomalee	Land	724.00	14,000	-	14,000	18,000	-	18,000	16,500
10/11, Galle Road, Moratuwa	Land	23.00	-	-	-	-	-	-	41,400
67/1, Mahinda Place, Kirulapana, Colombo 05	5,786	8.00	-	-	-	-	-	-	130,000
			375,452	650,598	1,026,050	575,192	1,335,588	2,833,550	2,687,057

35 (b) i Valued as a condominium property

35 (b) ii Lands situated at No 479, T B Jayah Mw, Colombo 10 on which HNB Towers is built, and 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. Accordingly, these lands have been classified as investment properties in the statement of financial position of the Bank.

35 (b) iii These properties are held by the subsidiary of the Bank, HNB Finance Ltd. 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 Ltd for the financial facilities obtained by the company. The aggregate mortgage value amounts to Rs 665 Mn.

35 (b) iv Building situated at No 181, High level road, Nugegoda was classified as an investment property in the statement of Financial Position of the Bank in 2019 since it was leased out to an external party during the year.

35 (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.

35 (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. J.M.J. Fernando	Income approach - Estimated rent per month - Years since purchase - Outgoing expenses as a percentage of gross annual rent	Rs 4,188,000 25 25%
479, T.B. Jayah Mawatha, Colombo 10	Mr. J.M.J. Fernando	Market comparable method - Rate per perch for land	Rs 21,500,000
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 01	Mr. J.M.J. Fernando	Market comparable method - Rate per perch for land	Rs 25,000,000
451, Kandy Road, Kegalle	Mr. J.M.J. Fernando	Market comparable method - Rate per perch for land	Rs. 3,250,000
181, High Level Road, Nugegoda	Mr. J.M.J. Fernando	Market comparable method and income approach - Rate per perch for land - Rate per Sq.ft.	Rs. 6,000,000 Rs. 11,500

35 (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. J.M.J. Fernando	Income approach - Estimated rent per month - Years since purchase - Outgoing expenses as a percentage of gross annual rent	Rs 4,188,000 25 25%
Through the subsidiary - Sithma Development (Pvt) Ltd			
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 01	Mr. J.M.J. Fernando	Depreciated replacement cost basis - Rate per Sq.ft for building	Rs. 20,000
451, Kandy Road, Kegalle	Mr. J.M.J. Fernando	Depreciated replacement cost basis - Rate per Sq.ft for building	Rs. 5,000 - Rs 9,000
Through the subsidiary - HNB Finance Ltd			
No.249, Stanley Thilekerathna Mawatha, Pagoda, Nugegoda	Mr. R.S. Wijesuriya	Income approach - Estimated rent per month - Discount Rate	Rs. 2,922,250 20%

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35 INVESTMENT PROPERTIES (Contd.)

35 (c) ii Group

Property	Name of professional Valuer	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs
Vihara Road, Rakewatta, Matale	Mr. R.S. Wijesuriya	Market comparable method - Rate per perch for land	Rs. 700,000
No.44/1, Service Road, Puttalam	Mr. R.S. Wijesuriya	Market comparable method - Rate per perch for land	Rs. 800,000
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%
No. 06, Abaya Place, 7th Lane, Anuradhapura	Mr. R.S. Wijesuriya	Market comparable method - Rate per perch for land	Rs. 2,500,000
Adampodaivayal, Adampodaimlaikadu, Trincomalee	Mr. R.S. Wijesuriya	Market comparable method - Rate per perch for land	Rs. 25,000

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.

35 (d) Statement of income and Expenditure of the investment property

For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Rental income derived from the investment properties	57,242	53,059	126,451	114,268
Direct operating expenses (including repair and maintenance) generating rental income	2,655	1,646	51,913	41,820

36 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 statement of profit or loss. 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 statement of profit or loss 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 statement of profit or loss 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 statement of profit or loss.

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 statement of profit or loss as incurred. Costs incurred in using or redeploying an item, is not included under carrying amount of an item.

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36 PROPERTY, PLANT AND EQUIPMENT (Contd.)

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 statement of profit or loss 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	2.5
Motor vehicles	25
Computer equipment	16.67
Office equipment	20
Furniture and fittings	10
Fixtures	10

Improvements to leasehold buildings over the lease period

Depreciation is not provided for freehold land.

Sithma Development (Pvt) Ltd

Class of Asset	% per annum
Generators, generator panels and associated power cables	2
Chillers, cooling towers and associated equipment	4
Lifts and escalator	4
Building management systems	4
Plant and machinery	20
Equipment	20
Furniture and fittings	10

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 statement of profit or loss in the period in which they incur.

Bank	Leasehold Buildings	Freehold Land and Buildings	Computer Equipment	Equipment Furniture and Fixtures	Motor Vehicles	Capital Work-in Progress	2019 Total	2018 Total
	Note 36 (b) Rs 000	Note 36 (a) Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cost / valuation as at 1st January	1,717,396	17,643,465	4,727,989	5,589,571	169,747	86,421	29,934,589	26,000,915
Accumulated depreciation adjustment on revaluation	-	-	-	-	-	-	-	(170,910)
Revaluation surplus	-	-	-	-	-	-	-	2,868,193
Net impairment charge	-	-	-	-	-	-	-	40,501
Additions and improvements	112,569	44,170	478,656	312,514	20,407	180,135	1,148,451	1,552,961
Disposals during the year	(13,334)	-	(265)	(43,147)	(42,168)	-	(98,914)	(357,071)
Transferred to investment properties	-	(160,000)	-	-	-	-	(160,000)	-
Transferred from capital work-in-progress	32,202	22,145	-	207,680	-	(262,027)	-	-
Cost / valuation as at 31st December	1,848,833	17,549,780	5,206,380	6,066,618	147,986	4,529	30,824,126	29,934,589
Accumulated depreciation as at 1st January	1,461,150	-	3,047,255	3,990,568	131,246	-	8,630,219	8,095,595
Accumulated depreciation adjustment on revaluation	-	-	-	-	-	-	-	(170,910)
Charge for the year [Note 17 (b)]	103,631	195,867	452,047	452,513	13,789	-	1,217,846	1,060,842
Transferred to investment properties	-	(2,806)	-	-	-	-	(2,806)	-
Disposals during the year	(13,849)	-	(258)	(41,620)	(42,168)	-	(97,895)	(355,308)
Accumulated depreciation as at 31st December	1,550,932	193,061	3,499,044	4,401,461	102,867	-	9,747,365	8,630,219
Net book value as at 31st December 2019	297,901	17,356,719	1,707,336	1,665,157	45,119	4,529	21,076,762	
Net book value as at 31st December 2018	256,246	17,643,465	1,680,734	1,599,044	38,501	86,421		21,304,370

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36 PROPERTY, PLANT AND EQUIPMENT (Contd.)

Group	Leasehold Buildings	Freehold Land and Buildings	Computer Equipment	Equipment Furniture and Fixtures	Motor Vehicles	Capital Work-in- Progress	2019 Total	2018 Total
	Note 36 (b)	Note 36 (a)						
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cost / valuation as at 1st January	1,717,396	37,342,041	5,130,752	8,329,421	189,666	110,364	52,819,640	44,215,102
Accumulated depreciation adjustment on revaluation	-	(20,621)	-	-	-	-	(20,621)	(212,893)
Revaluation surplus	-	205,000	-	-	-	-	205,000	7,468,463
Net Impairment charge	-	-	-	-	-	-	-	40,501
Additions and improvements	112,569	44,170	547,676	451,493	21,736	265,982	1,443,626	1,708,263
Disposals during the year	(13,334)	-	(26,387)	(62,390)	(49,449)	-	(151,560)	(399,796)
Transferred from investment properties	-	190,000	-	-	-	-	190,000	-
Transferred to investment properties Note 35 (b) iv)	-	(160,000)	-	-	-	-	(160,000)	-
Transferred from capital work-in-progress	32,202	22,145	-	207,680	-	(262,027)	-	-
Cost / valuation as at 31st December	1,848,833	37,622,735	5,652,041	8,926,204	161,953	114,319	54,326,085	52,819,640
Accumulated depreciation as at 1st January	1,461,150	340,774	3,303,648	5,145,588	151,354	-	10,402,514	9,580,068
Accumulated depreciation adjustment on revaluation	-	(20,621)	-	-	-	-	(20,621)	(212,893)
Charge for the year [Note 17 (b)]	103,631	397,380	507,542	617,887	15,192	-	1,641,618	1,430,371
Transferred to investment properties	-	(2,806)	-	-	-	-	(2,806)	-
Disposals during the year	(13,849)	-	(25,257)	(58,696)	(49,449)	-	(147,237)	(395,032)
Accumulated depreciation as at 31st December	1,550,932	714,727	3,785,933	5,704,779	117,097	-	11,873,468	10,402,514
Net book value as at 31st December 2019	297,901	36,908,008	1,866,108	3,221,425	44,856	114,319	42,452,617	
Net book value as at 31st December 2018	256,246	37,001,267	1,827,104	3,183,833	38,312	110,364		42,417,126

36 (a) Information on Freehold Land and Buildings of the Bank - Extents and Locations

As required by the Rule 7.6 (viii) of the Company Listing Requirements of the Colombo Stock Exchange

	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 2019 Net Book Value Rs 000	As at 31st December 2018 Net Book Value Rs 000
Akkaraipattu Branch								
14, Main Street, Akkaraipattu.	17.50	9,000	72,450	70,611	143,061	3,396	139,665	143,000
Ambalangoda Branch								
94/1, New Galle Road, Ambalangoda.	29.90	5,340	119,500	30,802	150,302	1,469	148,833	150,000
Anuradhapura Branch								
30, Maithripala Senanayake Mawatha, Anuradhapura.	51.90	9,305	112,000	32,808	144,808	1,578	143,230	144,800
Badulla Branch								
15, 15 1/1, Udayaraja Mawatha, Badulla.	27.60	5,502	106,837	41,980	148,817	1,958	146,859	145,000
Bambalapitiya Branch								
285, Galle Road, Colombo 04.	20.00	16,170	380,000	87,621	467,621	4,200	463,422	467,000
Boralessgamuwa Branch								
24, Maharagama Road, Boralessgamuwa.	30.34	6,261	125,587	33,263	158,850	1,571	157,279	158,000
Borella Branch								
53/1, D S Senanayake Mawatha, Colombo 08.	28.00	10,934	315,000	107,385	422,385	5,150	417,235	422,000
Centre of Aspirations								
90, Vinayalankara Mawatha, Colombo 10.	236.55	10,250	3,311,700	99,675	3,411,375	4,002	3,407,373	3,383,000
Centralised Operations								
10, Sri Uttarananda Mawatha, Colombo 3	40.00	67,375	880,000	452,164	1,332,164	21,703	1,310,461	1,330,270
City Office								
16, Janadhipathi Mawatha, Colombo 1.	84.00	48,443	1,848,000	101,284	1,949,284	4,823	1,944,461	1,946,000
Chavakachcheri Branch								
170, Kandy Road, Chavakachcheri .	31.67	5,352	31,670	24,617	56,287	556	55,731	53,000
Dambulla Branch								
700B, Anuradhapura Road, Dambulla.	87.00	7,898	200,000	43,017	243,017	2,069	240,948	243,000
Fruithill Bungalow								
No 295/6, Dimbula Road, Hatton.	53.08	4,470	20,175	19,825	40,000	954	39,046	40,000
Galle Branch								
3, Wakwella Road, Galle.	13.80	8,230	95,000	35,008	130,008	1,684	128,324	130,000
Gampaha Branch								
148, Colombo Road, Gampaha.	23.50	19,035	93,750	168,283	262,033	8,095	253,938	262,000

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36 PROPERTY, PLANT AND EQUIPMENT (Contd.)

36 (a) Information on Freehold Land and Buildings of the Bank - Extents and Locations (Contd.)

As required by the Rule 7.6 (viii) of the Company Listing Requirements of the Colombo Stock Exchange

	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 2019 Net Book Value Rs 000	As at 31st December 2018 Net Book Value Rs 000
Gampola Branch 142, Kandy Road, Gampola.	12.06	12,670	65,642	101,381	167,023	2,930	164,093	167,000
Grandpass Branch 182, St Joseph Street, Colombo 14.	24.00	11,220	168,000	102,151	270,151	4,911	265,240	270,000
Gunasinghapura Stores 11, Mohandiram's Road, Colombo 12.	48.30	6,022	301,000	27,000	328,000	1,300	326,700	328,000
Ja-Ela Branch 73, Old Negombo Road, Kanuwana, Ja-Ela.	59.00	4,743	30,400	13,555	43,955	651	43,304	43,900
Jaffna Metro Branch 177 & 179, Ponnampalam Road, Jaffna.	61.36	30,716	276,000	416,658	692,658	11,550	681,108	691,000
Kahawatte Branch 772 A, Main Street, Kahawatte.	16.14	11,981	32,000	26,007	58,007	1,251	56,756	58,000
Kalmunai Branch 30A, Batticaloa Road, Kalmunai.	23.50	7,141	80,320	45,092	125,412	1,300	124,112	125,000
Kandy Branch 1, Dalada Veediya, Kandy.	57.65	27,573	720,625	217,182	937,807	10,380	927,427	935,000
Kuliyapitiya Branch 225, Main Street, Kuliyapitiya.	25.30	5,920	25,560	16,677	42,237	802	41,435	42,233
Kurunegala Branch 6, St. Anne's Street, Kurunegala.	29.25	19,600	163,125	108,513	271,638	5,197	266,441	276,138
Mount Bungalow 16, Mount Road, Hatton.	160.09	5,074	44,025	20,207	64,232	966	63,266	64,000
Mannar Branch 68, Main Street, Mannar.	23.00	6,335	12,650	20,024	32,674	962	31,712	32,650
Marawila Branch 534, Colombo Road, Marawila.	43.80	7,240	34,800	26,055	60,855	1,249	59,606	60,700
Maskeliya Branch 7/11, New Town, Maskeliya.	20.32	8,541	32,512	57,559	90,071	2,768	87,303	90,000

	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 2019 Net Book Value Rs 000	As at 31st December 2018 Net Book Value Rs 000
Matara Branch								
58D, Esplanade Road, Matara.	22.50	10,751	78,000	44,431	122,431	2,120	120,311	122,000
Minuwangoda Branch								
41, Samarakkody Road, Minuwangoda.	20.51	5,553	45,000	30,680	75,680	1,475	74,205	75,650
Managers' Bungalow								
295, Dimbula Road, Hatton.	42.20	2,115	15,825	10,175	26,000	489	25,511	26,000
Mount Lavinia Branch								
605, Galle Road, Mount Lavinia.	22.66	11,350	124,300	85,380	209,680	4,071	205,609	208,700
Negombo Branch								
18, Rajapakse Broadway, Negombo.	8.88	5,460	19,536	20,566	40,102	964	39,138	39,336
Negombo Metro								
201, Colombo Road, Negombo.	51.98	26,357	133,029	218,887	351,916	10,511	341,405	351,000
Nittambuwa Branch								
22, Kandy Road, Nittambuwa.	47.00	10,115	139,225	140,344	279,569	6,750	272,819	279,500
Nochchiyagama Branch *								
10, Puttalam Road, Nochchiyagama.	-	8,128	-	25,082	25,082	1,205	23,877	25,000
Nugegoda Branch***								
181, High Level Road, Nugegoda.	-	-	-	-	-	-	-	160,000
Nugegoda Branch								
190,190/1, High Level Road, Nugegoda.	39.65	16,973	297,375	177,977	475,352	4,491	470,861	475,000
Nuwara Eliya Branch / Bungalow								
42, Queen Elizabeth Drive, Nuwara Eliya.	220.94	13,705	656,508	103,975	760,483	4,990	755,493	760,000
Panchikawatte Branch								
168, Panchikawatta Road, Colombo 10.	22.55	16,123	225,500	121,617	347,117	5,719	341,398	344,963
Pettah Branch								
149-151, Main Street, Colombo 11.	13.03	11,460	293,175	100,035	393,210	4,807	388,403	393,000
Pettah Metro **								
88, Main Street, Colombo 11.		3,708		106,547	106,547	5,120	101,427	106,400

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36 PROPERTY, PLANT AND EQUIPMENT (Contd.)

36 (a) Information on Freehold Land and Buildings of the Bank - Extents and Locations (Contd.)

As required by the Role 7.6 (viii) of the Company Listing Requirements of the Colombo Stock Exchange

	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 2019 Net Book Value Rs 000	As at 31st December 2018 Net Book Value Rs 000
Polonnaruwa Branch * 467, Main Street, Kaduruwela, Polonnaruwa.		9,145		57,565	57,565	2,767	54,798	57,500
Pussellawa Branch 510, Nuwara Eliya Road, Pussellawa.	10.20	6,570	30,030	37,169	67,199	1,786	65,413	67,000
Ratnapura Branch 21 & 23, Senanayake Mawatha, Ratnapura.	40.00	18,777	140,000	182,555	322,555	4,454	318,101	315,325
Sea Street Branch 60, Sea Street, Colombo 11.	6.93	9,608	129,938	56,642	186,580	2,718	183,862	186,400
Trincomalee Branch 59, Ehamparam Road, Trincomalee.	31.75	9,156	81,120	53,714	134,834	2,568	132,266	135,000
Vavuniya Branch * 43, Inner Circular Road, Vavuniya.		9,335		32,869	32,869	1,261	31,608	26,000
Wattala Branch 270, 270/1, Negombo Road, Wattala.	53.00	8,779	265,000	65,752	330,752	3,147	327,605	330,000
Welimada Branch 35, Nuwara Eliya Road, Welimada.	12.50	9,485	51,732	78,343	130,075	3,766	126,309	130,000
Wellawaya Branch 70, Kumaradasa Mawatha, Wellawaya.	22.00	10,417	22,500	23,517	46,017	1,131	44,886	46,000
Wellawatte Branch 100 & 102, Galle Road, Colombo 06.	36.05	16,650	630,875	152,558	783,433	7,326	776,107	783,000
Total freehold land and buildings - Bank	648,064	2,314.44	13,076,996	4,472,784	17,549,780	193,061	17,356,719	17,643,465

* Buildings constructed on state land given on lease

** Condominium property

*** Transferred to investment property

The Bank has 52 freehold buildings as at 31st December 2019

36 (a) Information on Freehold Land and Buildings of the Group - Extents and Locations

	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 2019 Net Book Value Rs 000	As at 31st December 2018 Net Book Value Rs 000
479 T B Jayah Mawatha, Colombo 10 [Note 37 (b) ii]	112.96	535,147	2,118,000	15,881,331	17,991,331	500,593	17,490,738	17,675,052
Janadhipathi Mawatha, Colombo 1 [Note 37 (b) ii]	26.62	-	665,500	-	665,500	-	665,500	665,500
451, Kandy Road, Kegalle	61.70	-	154,250	-	154,250	-	154,250	154,250
94 96/1, Kandy Rd, Kurunagela	7.05	5,755	24,187	65,813	90,000	1,234	88,766	90,000
46/A, Tangalle Rd, Hambanthota	9.26	2,113	11,667	13,333	25,000	250	24,750	18,000
677, William Gopallawa Mw, Kandy	9.26	5,400	24,305	56,695	81,000	1,063	79,937	78,300
168, Nawala Rd, Nugegoda	25.90	30,887	193,785	678,215	872,000	12,717	859,283	676,700
No 67/1, Mahinda Place Kirulapone , Colombo 5	8.00	5,786	40,777	103,223	144,000	1,935	142,065	-
No 10/11, Galle Road, Katubedda, Moratuwa	23.00	-	46,000	-	46,000	-	46,000	-
Total freehold land and buildings - Subsidiaries	283.75	585,088	3,278,471	16,798,610	20,069,081	517,792	19,551,289	19,357,802
Total freehold land and buildings - Group			16,355,467	21,271,394	37,618,861	710,853	36,908,008	37,001,267

36 (b) Leasehold Buildings

As at 31st December	Bank				Group			
	2019 Cost of Buildings Rs 000	2019 Accumulated Depreciation Rs 000	Net Book Value Rs 000	2018 Net Book Value Rs 000	2019 Cost of Buildings Rs 000	2019 Accumulated Depreciation Rs 000	Net Book Value Rs 000	2018 Net Book Value Rs 000
01 - 05 years	820,394	718,841	101,553	23,108	820,394	718,841	101,553	23,108
06 - 10 years	992,428	807,356	185,072	230,614	992,428	807,356	185,072	230,614
11 - 15 years	34,440	23,318	11,122	2,464	34,440	23,318	11,122	2,464
16 - 20 years	1,571	1,417	154	60	1,571	1,417	154	60
Total	1,848,833	1,550,932	297,901	256,246	1,848,833	1,550,932	297,901	256,246

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36 PROPERTY, PLANT AND EQUIPMENT (Contd.)

36 (c) Temporarily Idle Property, Plant and Equipment - Bank

There was no temporarily idle property, plant and equipment as at 31st December 2019.

36 (d) 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.

36 (e) Capitalised Borrowing Costs - Bank

There were no capitalised borrowing costs pertaining to the acquisition of property plant and equipment during the year 2019 (2018- Nil)

36 (f) Title restriction on property plant and equipment

There were no restrictions existed on the title of the property plant and equipment of the Group/ Bank as at the reporting date.

36 (g) Property plant and equipment pledged as security for liabilities - Group

There were no item of property, plant and equipment pledged as securities for liabilities as at the reporting date in the Bank.

37 RIGHT-OF-USE ASSETS

ACCOUNTING POLICY

Basis of recognition

The Group applies Sri Lanka Accounting Standard SLFRS 16 "Leases" in accounting for all lease hold rights except for short term leases, which are held for use in the provision for services.

Basis of Measurement

The Group recognises right-of-use assets at the date of commencement of the lease, which is the present value of lease payments to be made over the lease term. Right-of-Use assets are measured at cost less any accumulated amortization and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of the right-of-use assets includes the amount of lease liabilities recognised, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right of use assets are amortised on the straight line basis over the lease term.

Lease Liability

At the commencement date of the lease, the bank recognises lease liabilities, measured at present value of lease payments to be made over the lease term.

The present value of lease commitments as at 1st January 2019 has been calculated using weighted average incremental borrowing rate of 13.39%.

The Group applied modified retrospective approach in accordance with SLFRS 16 when accounting for right - of use assets and operating lease liabilities.

37 (a) Movement in right-of-use assets

	Bank 2019 Rs 000	Group 2019 Rs 000
Cost		
Balance as at 1st January 2019	-	-
Day 1 impact from the application of SLFRS 16	6,163,805	2,039,090
Restated Balance as at 1st January 2019	6,163,805	2,039,090
Additions / renewal operating lease during the year	36,616	157,775
Expiration of operating lease agreements during the year	(20,134)	(23,227)
Balance as at 31st December	6,180,287	2,173,638
Accumulated amortisation		
Balance as at 1st January	-	-
Amortisation for the year	697,609	602,319
Balance as at 31st December	697,609	602,319
Net book value as at 31st December	5,482,679	1,571,319

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.

37 (b) Movement in operating lease liabilities

	Bank 2019 Rs 000	Group 2019 Rs 000
Balance as at 1st January 2019	-	-
Day 1 impact from the application of SLFRS 16	6,163,805	2,039,090
Restated Balance as at 1st January 2019	6,163,805	2,039,090
Additions/renewal of operating lease agreements during the year	36,616	122,504
Accretion of interest	806,449	247,312
Payments to lease creditors	(1,176,511)	(717,468)
Expiration of operating lease agreements during the year	(20,134)	(23,227)
As at 31st December 2019	5,810,225	1,668,211

37 (c) Sensitivity of Right-of-Use Assets/Lease Liability to Key Assumption**Sensitivity to Incremental Borrowing Rates**

Increase/(decrease) in incremental borrowing rate as at 31st December 2019 by 1% would have (decreased)/increased the lease liability by approximately Rs 260 Mn and Rs 281 Mn respectively. Had the Bank increased/(decreased) the discount rate by 1%, the Bank's profit before tax for the year would have (decreased)/increased by approximately Rs 21 Mn and Rs 24 Mn respectively.

NOTES TO THE FINANCIAL STATEMENTS

38 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 statement of profit or loss.

(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.

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 statement of profit or loss 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 Group, at 16.67% per annum.

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 statement of profit or loss.

	Bank		Group	
	2019	2018	2019	2018
	Rs 000	Rs 000	Rs 000	Rs 000
Cost				
Balance as at 1st January	3,665,492	3,282,946	4,438,567	3,941,542
Additions and improvements during the year	499,079	382,546	599,991	497,025
Balance as at 31st December	4,164,571	3,665,492	5,038,558	4,438,567
Accumulated amortisation				
Balance as at 1st January	2,759,839	2,467,565	3,060,703	2,703,713
Amortisation for the year [Note 17 (b)]	328,091	292,274	409,775	356,990
Balance as at 31st December	3,087,930	2,759,839	3,470,478	3,060,703
Net book value as at 31st December	1,076,641	905,653	1,568,080	1,377,864

38 (a) Analysis of Intangible Assets

	Bank		Group	
As at 31st December	2019	2018	2019	2018
	Rs 000	Rs 000	Rs 000	Rs 000
Computer Software	1,076,641	905,653	1,345,139	1,154,923
Goodwill *	-	-	122,941	122,941
License	-	-	100,000	100,000
	1,076,641	905,653	1,568,080	1,377,864

*Goodwill amounting to Rs 122.94 Mn has been recognised in respect of acquisition of HNB Finance Ltd.

As at 31st December 2018, the Bank carried out an impairment assessment on the goodwill recognised, on acquisition of HNB Finance Ltd.

38 (a) i Assessment of Goodwill Impairment

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 for the next five years was projected at Compound Annual Growth Rate (CAGR). This was based on a reasonable value growth, taking into account the anticipated growth in micro finance industry and the existing interest margin of the company. Beyond five years terminal growth was assumed to be 0%.

Discount factor

The discount rate of 21.8% 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.

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39 OTHER ASSETS

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Deposits and prepayments	1,911,927	1,403,156	1,839,044	1,204,283
Stationary and other consumables	132,045	191,269	132,045	191,269
Receivable from pension fund	-	1,347,519	-	1,347,519
Reimbursement under special senior citizen deposit scheme	3,649,155	2,402,735	3,649,155	2,402,735
Un-amortised cost on staff loans	4,882,708	4,776,496	4,981,846	4,866,069
Other debtors	2,438,133	4,460,500	4,973,356	6,333,361
Allowance for impairment	(106,734)	(71,724)	(106,734)	(71,724)
	12,907,234	14,509,951	15,467,912	16,273,512

40 DUE TO BANKS

ACCOUNTING POLICY

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 statement of profit or loss. Gains and losses are recognised in the statement of profit or loss when the liabilities are de-recognised.

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Local bank borrowings	39,106,423	19,119,913	39,923,089	19,603,341
Foreign bank borrowings	44,566,757	44,218,622	44,566,757	44,218,622
Refinance borrowings	2,148,326	4,912,513	2,148,326	4,912,513
Due to banks	574,798	9,241,534	574,798	9,241,534
	86,396,304	77,492,582	87,212,970	77,976,010

41 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

ACCOUNTING POLICY

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	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Securities sold under repurchase agreements				
With banks	13,225,068	11,085,279	13,225,068	11,085,279
With customers	4,344,326	5,593,667	4,344,326	5,593,667
	17,569,394	16,678,946	17,569,394	16,678,946

42 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - DUE TO DEPOSITORS

ACCOUNTING POLICY

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 statement of profit or loss. Gains and losses are recognised in the statement of profit or loss when the liabilities are de-recognised. Group has not designated any liabilities at fair value through profit or loss as at the balance sheet date.

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Local currency deposits	665,478,509	640,481,101	690,741,178	658,722,191
Foreign currency deposits	144,556,605	159,494,256	144,318,968	159,319,771
	810,035,114	799,975,357	835,060,146	818,041,962

42 (a) Analysis of Due to Customers

42 (a) i By Product

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Current account deposits	49,793,200	44,941,127	49,478,023	44,454,697
Savings deposits	234,998,308	231,640,593	237,744,174	233,914,101
Time deposits	523,443,105	518,589,325	546,037,448	534,868,852
Certificates of deposit	385,196	407,482	385,196	407,482
Margin deposits	1,415,305	4,396,830	1,415,305	4,396,830
	810,035,114	799,975,357	835,060,146	818,041,962

42 (a) ii By Currency

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Sri Lankan Rupees	665,478,509	640,481,101	690,741,178	658,722,191
United States Dollars	122,676,543	127,753,141	122,440,329	127,578,656
Great Britain Pounds	9,713,021	10,070,160	9,713,021	10,070,160
Euros	5,684,623	15,121,219	5,683,200	15,121,219
Australian Dollars	5,320,326	5,330,914	5,320,326	5,330,914
Other currencies	1,162,092	1,218,822	1,162,092	1,218,822
	810,035,114	799,975,357	835,060,146	818,041,962

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43 DIVIDENDS PAYABLE

Details of dividends declared for the year after the reporting date are given in Note 22 (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	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Balance as at 1st January	994,812	975,371	1,009,468	986,880
Final cash dividends declared in the prior year	-	-	-	209,514
Interim cash dividends declared during the year o/a of previous year	1,724,277	2,540,578	1,864,277	2,540,528
Interim cash dividends declared during the year	500,407	738,976	540,407	738,976
Transfer to retained earning	(29,922)	(39,229)	(29,922)	(39,229)
Dividends paid during the year	(1,740,102)	(3,220,884)	(1,917,271)	(3,427,201)
Balance as at 31st December	1,449,472	994,812	1,466,959	1,009,468

44 FINANCIAL LIABILITIES AT AMORTISED COST - OTHER BORROWINGS

ACCOUNTING POLICY

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 statement of profit or loss. Gains and losses are recognised in the statement of profit or loss when the liabilities are de-recognised.

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Refinance borrowings	4,216,046	726,203	4,216,046	726,203
Foreign borrowings	18,387,993	24,167,952	18,387,993	24,167,952
	22,604,039	24,894,155	22,604,039	24,894,155

45 DEBT SECURITIES ISSUED

ACCOUNTING POLICY

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 statement of profit or loss. Gains and losses are recognised in the statement of profit or loss when the liabilities are de-recognised.

	Colombo Stock Exchange Listing	Interest Payment Frequency	Face Value Rs 000	Interest Rate	Repayment Terms	Issue Date	Maturity Date	Bank		Group	
								As at 31.12.2019 Rs 000	As at 31.12.2018 Rs 000	As at 31.12.2019 Rs 000	As at 31.12.2018 Rs 000
(i) Year of issuance 2013	Listed	Annually	2,000,000	8.00%	10 Years	30th Aug 2013	29th Aug 2023	1,713,604	1,646,483	1,689,910	1,623,715
(ii) Year of issuance 2014	Listed	Semi Annually	2,757,240	7.75%	5 Years	15th Dec 2014	15th Dec 2019	-	2,757,240	-	2,725,993
		Semi Annually	84,040	8.33%	10 Years	15th Dec 2014	15th Dec 2024	84,040	84,040	63,998	63,999
			(1 Yr Avg)								
(iii) Year of issuance 2011	Not Listed	Monthly	665,000	TB rate)	20 Years	01st Apr 2011	31st Mar 2040	-	-	615,078	616,293
Total debt securities issued								1,797,644	4,487,763	2,368,986	5,030,000
Due within one year								54,208	2,811,596	54,003	2,776,314
Due after one year								1,743,436	1,676,167	2,314,983	2,253,686
Total debt securities issued								1,797,644	4,487,763	2,368,986	5,030,000

HNB Assurance PLC, subsidiary of the Bank has invested Rs 43.7 Mn in debt securities issued by the Bank.

* Debt securities issued by HNB Finance Ltd. Capital repayment will commence from 2024.

46 SUBORDINATED TERM DEBTS

ACCOUNTING POLICY

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 statement of profit or loss. Gains and losses are recognised in the statement of profit or loss when the liabilities are de-recognised.

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Subordinated debentures [Note 46 (a)]	28,150,861	17,670,496	28,801,544	17,370,791
Subordinated loan [Note 46 (b)]	4,544,360	4,559,455	4,544,360	4,559,455
	32,695,221	22,229,951	33,345,904	21,930,246

46 (a)

	Colombo Stock Exchange Listing	Interest Payment Frequency	Face Value Rs 000	Interest Rate	Repayment Terms	Issue Date	Maturity Date	Bank		Group	
								As at 31.12.2019 Rs 000	As at 31.12.2018 Rs 000	As at 31.12.2019 Rs 000	As at 31.12.2018 Rs 000
(i) Year of issuance 2006	Listed	At maturity	514,345	11.00%	15 Year	1st Apr 2006	31st Mar 2021	451,633	406,900	420,093	378,478
		At maturity	1,362,800	11.25%	18 Year	1st Apr 2006	31st Mar 2024	866,579	778,998	866,579	778,998
(ii) Year of issuance 2007	Listed	Annually	700,000	16.75%	15 Year	1st Aug 2007	31st Jul 2022	758,625	758,625	758,625	758,625
(iii) Year of issuance 2011	Listed	Semi Annually	2,000,000	11.50%	10 Year	5th Sep 2011	4th Sep 2021	2,000,000	2,000,000	2,000,000	2,000,000
(iv) Year of issuance 2016	Listed	Annually	7,000,000	11.25%	5 Year	28th Mar 2016	28th Mar 2021	7,599,795	7,599,795	7,328,512	7,328,512
	Listed	Annually	2,000,000	11.75%	5 Year	1st Nov 2016	1st Nov 2021	2,039,274	2,039,274	2,039,274	2,039,274
	Listed	Annually	4,000,000	13.00%	7 Year	1st Nov 2016	1st Nov 2023	4,086,904	4,086,904	4,086,904	4,086,904
(v) Year of issuance 2019	Listed	Annually	1,922,570	12.30%	5 Year	23rd Sep 2019	22nd Sep 2024	1,987,358	-	1,970,535	-
	Listed	Annually	8,077,430	12.80%	7 Year	23rd Sep 2019	22nd Sep 2026	8,360,693	-	8,297,202	-
	Listed	Annually	1,033,820	13.20%	5 Year	30th Dec 2019	30th Dec 2024	-	-	1,033,820	-
Total subordinated debentures								28,150,861	17,670,496	28,801,544	17,370,791
Due within one year								1,132,648	784,598	1,097,365	755,106
Due after one year								27,018,213	16,885,898	27,704,179	16,615,685
Total subordinated debentures								28,150,861	17,670,496	28,801,544	17,370,791

Subsidiaries of the Bank, HNB Assurance PLC and HNB Finance Ltd have invested Rs 220.4 Mn and Rs 162.7 Mn respectively, in Subordinated debentures issued by the Bank. Further HNB Assurance has invested Rs 125 Mn in the debentures issued by HNB Finance Ltd.

46 (b) Subordinated Loan

Subordinated loan represents eight year subordinated loan of USD 25 Mn from German Development Financial Institution (DEG).

47 CURRENT TAX LIABILITIES

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Current tax	5,348,985	9,184,814	5,621,389	9,559,852
	5,348,985	9,184,814	5,621,389	9,559,852

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48 DEFERRED TAX

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Deferred tax liabilities [Note 48 (a)]	6,466,332	6,286,779	12,908,877	12,353,486
Deferred tax assets [Note 48 (b)]	(5,084,578)	(4,477,881)	(6,825,584)	(6,521,813)
	1,381,754	1,808,898	6,083,293	5,831,673

48 (a) Deferred Tax Liabilities

48 (a) i Deferred Tax Liabilities on Other Temporary Differences

As at 31st December	Bank				Group			
	2019		2018		2019		2018	
	Temporary Difference Rs 000	Tax Effect Rs 000	Temporary Difference Rs 000	Tax Effect Rs 000	Temporary Difference Rs 000	Tax Effect Rs 000	Temporary Difference Rs 000	Tax Effect Rs 000
Balance as at 1st January	22,452,795	6,286,779	23,206,330	6,497,772	40,297,106	11,447,463	29,915,883	8,376,446
Originating during the year								
Recognised / (realised) in the statement of profit or loss	(935,379)	(261,906)	(1,822,607)	(510,330)	(969,893)	(271,570)	(1,157,707)	(324,158)
Recognised in OCI								
Revaluation surplus recognised on buildings	-	-	639,746	179,129	-	44,522	11,098,350	3,107,538
Revaluation surplus recognised on land	-	-	2,228,447	623,962	-	-	2,269,301	799,679
Government securities	1,576,639	441,459	(1,799,121)	(503,754)	1,599,089	447,745	(1,828,721)	(512,042)
Balance as at 31st December	23,094,055	6,466,332	22,452,795	6,286,779	40,926,300	11,668,160	40,297,106	11,447,463

48 (a) ii Deferred Tax Liabilities on Undistributed Profits of Subsidiaries

As at 31st December	Bank				Group			
	2019		2018		2019		2018	
	Temporary Difference Rs 000	Tax Effect Rs 000	Temporary Difference Rs 000	Tax Effect Rs 000	Temporary Difference Rs 000	Tax Effect Rs 000	Temporary Difference Rs 000	Tax Effect Rs 000
Balance as at 1st January	-	-	-	-	6,471,572	906,023	5,490,293	768,644
Originating during the year								
Recognised in the statement of profit or loss	-	-	-	-	1,195,336	334,694	981,279	137,379
Balance as at 31st December	-	-	-	-	7,666,908	1,240,717	6,471,572	906,023
Total deferred tax liabilities (Note 48)	23,094,055	6,466,332	22,452,795	6,286,779	48,593,208	12,908,877	46,768,678	12,353,486

48 (b) Deferred Tax Assets

As at 31st December	Bank				Group			
	2019		2018		2019		2018	
	Temporary Difference Rs 000	Tax Effect Rs 000	Temporary Difference Rs 000	Tax Effect Rs 000	Temporary Difference Rs 000	Tax Effect Rs 000	Temporary Difference Rs 000	Tax Effect Rs 000
Balance as at 1st January	15,992,432	4,477,881	5,054,057	1,415,136	23,292,928	6,521,813	6,556,456	1,835,808
Opening balance adjustment day 1	-	-	3,893,146	1,090,081	-	-	4,539,432	1,271,041
Originating during the year								
Recognised / (realised) in the statement of profit or loss	2,166,775	606,697	7,045,229	1,972,664	1,332,329	303,771	12,217,836	3,420,787
Recognised in OCI	-	-	-	-	-	-	(20,796)	(5,823)
Balance as at 31st December (Note 48)	18,159,207	5,084,578	15,992,432	4,477,881	24,625,257	6,825,584	23,292,928	6,521,813

48 (c) Recognised Deferred Tax Assets and Liabilities

48 (c) i Recognised Deferred Tax Assets / (Liabilities) - Bank

As at 31st December	Statement of Financial Position As at 31st December		Statement of Profit or Loss For the year ended 31st December		Other Comprehensive Income For the year ended 31st December	
	2019	2018	2019	2018	2019	2018
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Accelerated depreciation for tax purposes						
- Property, plant and equipment	(738,760)	(627,425)	(111,334)	(2,805)	-	-
- Intangible assets	(113,790)	(192,424)	78,634	(72,116)	-	-
- Assets on leasing business	(1,213,271)	(1,507,878)	294,607	585,251	-	-
Revaluation of government securities	(348,476)	92,983	-	-	(441,459)	503,754
Capital gain on land revaluation	(3,378,962)	(3,378,962)	-	-	-	(623,965)
Revaluation of freehold buildings	(673,074)	(673,074)	-	-	-	(179,129)
Operating lease rights	91,713	-	91,713	-	-	-
Temporary difference on allowance for impairment	4,992,866	4,477,882	514,984	1,972,664	-	-
	(1,381,754)	(1,808,898)	868,604	2,482,994	(441,459)	(299,340)

48 (c) ii Recognised Deferred Tax Assets / (Liabilities) - Group

As at 31st December	Statement of Financial Position As at 31st December		Statement of Profit or Loss For the year ended 31st December		Other Comprehensive Income For the year ended 31st December	
	2019	2018	2019	2018	2019	2018
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Accelerated depreciation for tax purposes						
- Property, plant and equipment	(1,096,650)	(902,745)	(207,335)	(58,694)	-	-
- Intangible assets	(113,790)	(192,424)	78,634	(72,116)	-	-
- Assets on leasing business	(1,245,876)	(1,675,082)	429,207	454,761	-	-
Revaluation of government securities	(354,763)	97,612	-	-	(447,745)	512,042
Capital gain on land revaluation	(6,269,336)	(6,269,336)	-	-	-	(799,679)
Revaluation of freehold buildings	(2,605,663)	(2,509,581)	-	-	(63,174)	(3,107,538)
Undistributed profits of subsidiaries and joint ventures	(1,240,717)	(906,021)	(334,694)	(137,379)	-	-
Unutilised tax losses	1,000,673	1,290,918	(289,940)	-	-	-
Operating lease rights	90,859	-	90,859	-	-	-
Temporary difference on allowance for impairment and retirement benefits	5,751,970	5,234,985	668,728	3,420,994	(2,748)	(5,823)
	(6,083,293)	(5,831,674)	435,459	3,607,566	(513,667)	(3,400,998)

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As per Section 67 of Inland Revenue Act No. 24 of 2017 which was effective from 1st April 2018, HNB Assurance PLC ('Company') incurred a taxable income. The Act allows to deduct 100% of taxable income against the tax losses incurred whereas in the previous Inland Revenue Act No. 10 of 2006, it was limited to 35% of the total statutory income. As at 31st December 2019, life insurance business had a cumulative tax loss of Rs. 3,574 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. The Company made an assessment of future taxable profits and identified that total tax losses can be claimed within the period specified in the transitional provisions. During the year, Company utilised a tax loss of Rs.1,035 Mn against the taxable income generated for the year ended 31st December 2019 which resulted in a reversal of deferred tax asset of Rs. 289.9 Mn for the year ended 31st December 2019.

The Group does not have unrecognised deferred tax asset as at the reporting date.

48 (e) New amendments to Income Tax Law announced by the Government**Corporate income tax rate to be reduced to 24%**

The Cabinet has approved the reduction of the income tax rate applicable to the Banking Sector to 24% from 28% with effect from 1st January 2020. The said amendment is yet to be approved by the Parliament and cannot be considered as a legislation. As such the Bank continued using 28% in calculating the deferred tax liabilities/assets as at 31st December 2019 as this amendment is not substantively enacted by the end of the reporting period.

The Bank has a cumulative net deferred tax asset of Rs 3,018.7 Mn recognized through the Statement of Profit or Loss and net deferred tax liability of Rs 4,400.5 Mn recognized through OCI.

Had the Bank applied the reduced income tax rate of 24% to calculate deferred tax assets/liabilities as at 31st December 2019, the net deferred tax liability would have been decreased by Rs 197.3 Mn and the resulting charge to Statement of Profit or Loss and the reversal to Other Comprehensive Income for the year would have been Rs 431.2 Mn and Rs 628.6 Mn respectively.

49. INSURANCE PROVISION - LIFE**ACCOUNTING POLICY****Insurance Provision - Life Insurance**

The insurance provision - life balance represents the life fund of the subsidiary HNB Assurance PLC, which is carrying out life insurance business.

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 on "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 flows, 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 insufficient to meet future benefits and expenses.

Insurance provision - life balance represents the amounts attributable to life policy holders included in the Group's net assets. The valuation of the Life Insurance business as at 31st December 2019 was carried out by Mr. Hassan Scott Odierno, of M/S Actuarial Partners Consulting Sdn Bhd.

The life fund stands at Rs14,468.87 Mn as at 31st December 2019 (2018 : Rs 12,256.68 Mn) and in the opinion of the actuary this amount is adequate to cover the liabilities pertaining to the long term insurance business of HNB Assurance PLC, as per the actuary's report dated 21st January 2020.

50 INSURANCE PROVISION - GENERAL

ACCOUNTING POLICY

Insurance Provision – General Insurance

General insurance contract liabilities are recognized when contracts are entered into and premiums are charged. These liabilities comprise claims liabilities and premium liabilities.

Claims liabilities

Claims liabilities are recognized 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 UPR and the best estimate value of the insurer's unexpired risk reserves ("URR") at the valuation date and the 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.

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 2nd 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 2nd year and thereafter it is periodically recognised.

As at 31st December	2019 Rs 000	2018 Rs 000
Unearned premium		
Gross	2,367,660	2,102,101
Reinsurance	(420,688)	(307,405)
Net	- 1,946,972	- 1,794,696
Deferred acquisition expenses		-
Reserve for title insurance	53,522	49,582
Unexpired risk reserve	-	-
	2,000,494	1,844,278
Claims outstanding - gross	716,945	550,126
Claims incurred but not reported - gross	153,978 870,923	130,691 680,817
Total	2,871,417	2,525,095

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51 OTHER LIABILITIES

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Bills payable	1,356,546	1,164,254	1,356,546	1,164,254
Balance held o/a of Widows', Widowers' and Orphans' Pension Fund (WW&OP)	4,311	4,168	4,311	4,168
Liability for EPF interest rate guarantee [Note 52 (b)]	80,292	70,170	80,292	70,170
Liability for leave accrual plan [Note 52 (c)]	136,962	126,448	136,962	126,448
Provision for gratuity benefits	-	-	412,471	358,161
Payable to vendors for lease creditors	698,467	816,619	870,745	1,039,542
Net pension liability	704,868	-	704,868	-
Impairment allowance for off-balance sheet credit exposures [Note 51 (a)]	2,135,714	1,275,924	2,135,714	1,275,924
Operating lease liability	5,810,225	-	1,668,211	-
Other creditors	3,125,993	3,451,328	5,125,286	4,906,122
	14,053,378	6,908,911	12,495,406	8,944,789

51 (a) Movement in Impairment for off balance sheet credit exposure during the year

	Bank/Group	
	2019 Rs 000	2018 Rs 000
Stage 1		
Opening balance as at 1st January	771,580	623,967
Net impairment charge for the year	38,923	147,613
Write-offs during the year	-	-
Other movements	-	-
Closing balance as at 31st December	810,503	771,580
Stage 2		
Opening balance as at 1st January	230,064	102,614
Net impairment charge for the year	(28,737)	127,450
Write-offs during the year	-	-
Other movements	-	-
Closing balance as at 31st December	201,327	230,064
Stage 3		
Opening balance as at 1st January	274,280	180,389
Net impairment charge for the year	849,604	93,891
Write-offs during the year	-	-
Other movements	-	-
Closing balance as at 31st December	1,123,884	274,280
Total impairment allowance for off balance sheet credit exposures	2,135,714	1,275,924

52 EMPLOYEE RETIREMENT BENEFITS

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.

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 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 (55 yrs), 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 pension fund are given in Note 52 (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.

(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 or by the use of gratuity formula. Provision for gratuity benefits of group companies is given in Note 51 to the financial statements.

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52 EMPLOYEE RETIREMENT BENEFITS (Contd.)

(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 52 (d) to the financial statements.

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.

(a) Employees' Trust Fund

The Bank and the Group contribute 3% of the salary of each employee to the Employees' Trust Fund.

(b) 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.

52 (a) Pension Fund - Bank

An actuarial valuation of the pension fund was carried out as at 31st December 2019 by Mr M Poopalanathan, AIA, M/s 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 did not contribute to the pension fund in 2019 with a view of realising the net surplus as at 31st December 2018, where as contributions amounting to 2.96% out of the pensionable salary was made to the pension fund in respect of all employees in 2018.

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.

52 (a) i Net Asset / (Liability) Recognised in the Statement of Financial Position

As at 31st December	2019 Rs 000	2018 Rs 000
Present value of funded obligation [Note 52 (a) iii]	17,765,531	15,076,495
Total present value of obligations	17,765,531	15,076,495
Fair value of plan assets [Note 52 (a) ii]	(17,060,662)	(16,424,014)
Present value of net (surplus) / deficit	704,869	(1,347,519)
Recognised (asset) / liability for defined benefit obligations	704,869	(1,347,519)

The Bank recognised a net payable of Rs. 705 Mn in respect of pension fund as at 31st December 2019 (2018 - net surplus Rs. 1,347.51 Mn).

52 (a) ii Fair Value of Plan Assets consists of the following

As at 31st December	2019 Rs 000	2018 Rs 000
Equity securities and debentures	1,805,909	1,930,294
Government securities	2,835,675	4,368,411
Balance with Hatton National Bank PLC	4,276	115,318
Fixed deposits	12,593,377	10,097,460
Others	(178,575)	(87,469)
	17,060,662	16,424,014

52 (a) iii Movement in the Present Value of Defined Benefit Obligations

	2019 Rs 000	2018 Rs 000
Liability for defined benefit obligations as at 1st January	15,076,495	14,338,923
Current service cost	749,127	611,349
Interest on obligation	1,726,259	1,534,265
Actuarial gains / (losses)	863,404	(422,043)
Benefits paid by the plan	(649,754)	(985,999)
Liability for defined benefit obligations as at 31st December	17,765,531	15,076,495

52 (a) iv Movement in Fair Value of Plan Assets

	2019 Rs 000	2018 Rs 000
Fair value of plan assets as at 1st January	16,424,014	16,058,433
Expected return on plan assets	1,880,550	1,718,253
Contributions paid into plan	-	156,281
Benefits paid by the plan	(649,754)	(985,999)
Actuarial gains / (losses)	(594,147)	(522,954)
Fair value of plan assets as at 31st December	17,060,662	16,424,014

52 (a) v Net Interest on Defined Benefit Asset

For the year ended 31st December	2019 Rs 000	2018 Rs 000
Interest on obligation	1,726,259	1,534,265
Expected return of plan assets	(1,880,550)	(1,718,253)
Net interest on defined benefit asset	(154,291)	(183,988)

52 (a) vi Actuarial Gains and Losses Recognised in Other Comprehensive Income

For the year ended 31st December	2019 Rs 000	2018 Rs 000
Actuarial gains / (losses) on present value of defined benefit obligations	(863,404)	422,043
Actuarial gains / (losses) on fair value of plan assets	(594,147)	(522,954)
Actuarial gains / (losses) recognised during the year	(1,457,551)	(100,911)

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For the year ended 31st December	2019 Rs 000	2018 Rs 000
Discount rate	10.80%	11.45%
Expected return on plan assets as at 1st January	11.45%	10.70%
Future salary increment rate	10.30%	10.50%
Future pension increments	Nil	Nil
Increase in cost of living allowance	10.30%	10.50%
Normal retirement age	55 years	55 years
Mortality	1967-70	1967-70
	Mortality Table issued by the Institute of Actuaries	Mortality Table issued by the Institute of Actuaries

The average duration of the pension fund obligation is 31 years as at 31st December 2019 (2018 - 30 years).

52 (a) viii Sensitivity of Assumptions Employed on 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 2019.

Increase/(decrease) in Discount Rate	Increase / (decrease) in Salary Increment Rate	Sensitivity Effect on Statement of Comprehensive Income Increase / (decrease) in results for the year Rs 000	Sensitivity Effect on Pension Fund Surplus Increase / (decrease) Rs 000
1%		1,614,511	1,614,511
-1%		(1,947,733)	(1,947,733)
	1%	(1,166,338)	(1,166,338)
	-1%	1,042,455	1,042,455

52 (b) Provision for EPF Interest Rate Guarantee Plan - Bank

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 to value the Bank's obligation on same with the following actuarial assumptions.

Actuarial assumptions

As at 31st December	2019 Rs 000	2018 Rs 000
Discount rate	9.50%	10.00%
Long term interest rate to credit the fund	9.50%	10.00%

Liability for EPF interest rate guarantee

	2019 Rs 000	2018 Rs 000
Present value of obligation as at 1st January	70,170	58,952
Provision made during the year (Note 15)	10,122	11,218
Present value of obligation as at 31st December (Note 51)	80,292	70,170

52 (c) Provision for Leave Accrual Plan - Bank

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 on same with the following assumptions.

Liability for EPF interest rate guarantee

As at 31st December	2019 Rs 000	2018 Rs 000
Discount rate	10.80%	11.45%
Future salary increase	10.30%	10.50%

Liability for leave accrual plan

	2019 Rs 000	2018 Rs 000
Present value of obligation as at 1st January	126,448	118,563
Provision made during the year (Note 15)	10,515	7,885
Present value of obligation as at 31st December (Note 51)	136,963	126,448

52 (d) Widows', Widowers' and Orphans' Pension Fund

The results of the actuarial valuation of the Widows', Widowers' and Orphans' Pension Fund indicate that the actuarial present value of the promised benefit is Rs 964 Mn and that the fair value of the fund assets is Rs 2,104 Mn resulting in a past service surplus of Rs 1,140 Mn (2018 : Rs 1,082 Mn) in the Widows', Widowers' and Orphans' Pension Scheme as at 31st December 2019.

No contribution is made by the Bank and the members' contribution during the period amounted to Rs 109.7 Mn.

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In accordance with Section 58 of Companies Act No 7 of 2007, which became effective from 3rd May 2007, share capital and share premium have been classified as stated capital.

53 (a) Stated Capital - Bank / Group

As at 31st December	2019 Rs 000	2018 Rs 000
Voting ordinary shares		
Balance as at 1st January	26,649,460	25,900,025
Issue of shares under ESOP	-	31,442
Transfer from ESOP reserve *	-	11,478
Issue of shares through scrip dividend	1,190,308	706,515
Balance as at 31st December	27,839,769	26,649,460
Non-voting ordinary shares		
Balance as at 1st January	5,688,566	5,509,094
Issue of shares under ESOP	-	4,708
Transfer from ESOP reserve *	-	1,446
Issue of shares through scrip dividend	292,571	173,318
Balance as at 31st December	5,981,137	5,688,566
Stated capital as at 31st December	33,820,905	32,338,026

53 (b) Reconciliation of Number of Shares

As at 31st December	2019	2018
Voting ordinary shares		
Balance as at 1st January	395,451,248	392,304,558
Issue of shares under ESOP	-	221,160
Issue of shares through scrip dividend	5,892,615	2,925,530
Balance as at 31st December	401,343,863	395,451,248
Non-voting ordinary shares		
Balance as at 1st January	97,199,341	96,249,132
Issue of shares under ESOP	-	42,788
Issue of shares through scrip dividend	1,863,503	907,421
Balance as at 31st December	99,062,844	97,199,341
Total number of shares as at 31st December	500,406,707	492,650,589

* Fair value of options on the grant date relating to options exercised during the year has been transferred from the ESOP reserve to stated capital.

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.

53 (c) Share-Based Payment Transactions

ACCOUNTING POLICY

Equity Settled Share Based Payment Transactions

Fair value of equity settled share based payment awards granted to employees on the grant date is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally became entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that, the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. For share based payment awards with non-vesting conditions, the grant date fair value of the share based payment is measured to reflect such conditions and there is no true-up for difference between expected and actual outcomes.

On 28th March 2008 the Bank established an employee share option scheme that entitled employees in the rank of management and above to purchase shares in the Bank. Holders of vested options were entitled to purchase shares at the given exercise prices. The total number of share options available to the eligible employees per year was 1.25% of shares issued by the Bank up to a maximum limit of 5% of the shares issued (both voting and non-voting) by the Bank in 4 years. The benefits under ESOP were accrued to eligible employees of the Bank in any particular year only if the conditions set out in the ESOP are met.

An eligible employee qualified to receive share options in a particular year by achieving a positive performance rating in the annual performance assessment. The amount of share options granted to each qualified eligible employee depended on his/her seniority in the Bank. This employee share option plan had potential dilutive effect on the earnings per share of the Bank.

The recognition and measurement principles in Sri Lanka Accounting Standard - SLFRS 2 on "Share based payment" were not applied to the grants made in 2008 and 2010 based on the transitional provisions available in SLFRS 2. The standard was applied for share options granted after 1st January 2012 and have not been vested on the effective date of SLFRS 2.

The Bank made two further grants under the employee share option scheme on 30th March 2012 and 05th June 2013, which were recognised and measured in terms of SLFRS 2.

All options were to be settled by physical delivery of shares.

	2019		2018	
	Weighted Average Exercise Price Rs	Number of Options	Weighted Average Exercise Price Rs	Number of Options
Exercised during the year	-	-	136.96	(263,948)
Expired during the year	-	-	135.08	(314,631)
Outstanding as at 31st December	-	-	-	-
Exercisable as at 31st December	-	-	-	-

The weighted average share prices at the date of exercise, for share options exercised during the year ended 31st December 2018 were Rs. 244.12 for voting shares and Rs. 187.51 for non-voting shares

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54 STATUTORY RESERVE FUND

	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Balance as at 1st January	6,260,000	5,460,000	6,260,000	5,460,000
Transfers during the year	800,000	800,000	800,000	800,000
Balance as at 31st December	7,060,000	6,260,000	7,060,000	6,260,000

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.

55 RETAINED EARNINGS

	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Balance as at 1st January	15,728,513	15,193,585	20,181,416	18,082,284
Day 1 impact from the application of SLFRS 9	-	(4,042,519)	-	(4,225,558)
Profit for the year	14,032,252	15,518,203	14,670,104	17,254,618
Other comprehensive income for the year	(1,198,486)	(100,911)	(1,196,778)	(90,611)
Transfer to other reserves	(6,770,078)	(6,680,509)	(6,770,078)	(6,680,509)
Dividends	(3,948,961)	(4,159,336)	(3,948,961)	(4,159,336)
Gains realised on derecognition of equity instruments reclassified to retained earnings	136,920	-	136,920	-
Deemed disposal gain through joint venture	-	-	-	528
Balance as at 31st December	17,980,160	15,728,513	23,072,623	20,181,416

56 OTHER RESERVES

56 (a) 2019

	Bank			Group		
	Opening Balance As at 1st January 2019 Rs 000	Movement/ Transfers Rs 000	Closing Balance As at 31st December 2019 Rs 000	Opening Balance As at 1st January 2019 Rs 000	Movement/ Transfers Rs 000	Closing Balance As at 31st December 2019 Rs 000
Capital reserve [Note 56 (c)]	10,790,994	-	10,790,994	22,994,510	68,488	23,062,998
General reserve [Note 56 (d)]	49,100,000	6,000,000	55,100,000	49,100,000	6,000,000	55,100,000
Fair value reserve [Note 56 (e)]	1,536,439	1,215,658	2,752,097	1,537,723	1,222,140	2,759,863
Life policy holder reserve fund [Note 56 (f)]	-	-	-	(197,803)	370,100	172,297
Restricted regulatory reserve [Note 56 (g)]	-	-	-	381,156	-	381,156
Exchange equalization reserve [Note 56 (h)]	-	-	-	66,368	12,010	78,378
	61,427,433	7,215,658	68,643,091	73,881,954	7,672,737	81,554,692

56 (b) 2018

	Bank			Group		
	Opening Balance As at 1st January 2018 Rs 000	Movement/ Transfers Rs 000	Closing Balance As at 31st December 2018 Rs 000	Opening Balance As at 1st January 2018 Rs 000	Movement/ Transfers Rs 000	Closing Balance As at 31st December 2018 Rs 000
Capital reserve [Note 56 (c)]	8,725,542	2,065,452	10,790,994	19,433,829	3,560,681	22,994,510
Available for sale reserve	4,166,167	(4,166,167)	-	4,207,731	(4,207,731)	-
General reserve [Note 56 (d)]	43,100,000	6,000,000	49,100,000	43,100,000	6,000,000	49,100,000
Fair value reserve [Note 56 (e)]	4,035,701	(2,499,262)	1,536,439	4,058,756	(2,521,033)	1,537,723
ESOP reserve [Note 56 (g)]	93,186	(93,186)	-	93,186	(93,186)	-
Life policy holder reserve fund [Note 56 (f)]	-	-	-	223,271	(421,074)	(197,803)
Restricted regulatory reserve [Note 56 (e)]	-	-	-	-	381,156	381,156
Exchange equalisation reserve [Note 56 (h)]	-	-	-	-	66,368	66,368
	56,084,895	5,342,538	61,427,433	67,058,017	6,823,937	73,881,954

56 (c) Capital Reserve

	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Balance as at 1st January	10,790,994	8,725,542	22,994,510	19,433,829
Revaluation during the year	-	2,868,546	68,488	7,468,816
Deferred tax effect on revaluation of freehold land and buildings	-	(803,094)	-	(3,908,135)
Balance as at 31st December	10,790,994	10,790,994	23,062,998	22,994,510

Capital reserve relates to revaluation surplus that resulted from the revaluation of freehold land and buildings carried out in 1989, 1993, 2007, 2012, 2015, 2016, 2017 and 2018.

56 (d) General Reserve

	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Balance as at 1st January	49,100,000	43,100,000	49,100,000	43,100,000
Transfer during the year	6,000,000	6,000,000	6,000,000	6,000,000
Balance as at 31st December	55,100,000	49,100,000	55,100,000	49,100,000

General reserve comprises of the amounts appropriated by the Board of Directors as a general banking reserve.

56 (e) Fair Value Reserve

	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Balance as at 1st January	1,536,439	-	1,537,723	-
Day 1 impact from the application of SLFRS 9	-	4,035,701	-	4,058,756
Balance as at 1st January - restated	1,536,439	4,035,701	1,537,723	4,058,756
Gains realised on derecognition of equity instruments reclassified to retained earnings	(136,920)	-	(136,920)	-
Net change in fair value during the year	1,352,578	(2,499,262)	1,359,060	(2,521,033)
Balance as at 31st December	2,752,097	1,536,439	2,759,863	1,537,723

The fair value reserve comprises of net change in fair value of financial assets - fair value through other comprehensive income.

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	Group	
	2019 Rs 000	2018 Rs 000
Balance as at 1st January	(197,803)	223,271
Day 1 impact from the application of SLFRS 9	-	(4,507)
Balance as at 1st January 2018 - restated	(197,803)	218,764
Transfer to / (from) life policy holder reserve fund	370,100	(416,567)
Balance as at 31st December	172,297	(197,803)

56 (g) Restricted Regulatory Reserve

	Group	
	2019 Rs 000	2018 Rs 000
Balance as at 1st January	381,156	-
Transfer to / (from) Restricted Regulatory Reserve	-	381,156
Balance as at 31st December	381,156	381,156

Restricted regulatory reserve – HNB Assurance PLC “Company”

The Insurance Regulatory Commission of Sri Lanka (IRCSL) will consider the distribution of One-Off Surplus when the RBC rules are revised. The distribution of one-off surplus to shareholders as dividends shall remain restricted until a Company develops appropriate policies and procedures for effective management of its business, as listed below, Further these policies should be approved by the Board of Directors of the Company and must also comply with any relevant guidance issued by IRCSL from time to time.

56 (h) Exchange Equalization Reserve

	Group	
	2019 Rs 000	2018 Rs 000
Balance as at 1st January	66,368	-
Transfer to / (from) exchange equalization reserve	12,010	66,368
Balance as at 31st December	78,378	66,368

57 NON-CONTROLLING INTERESTS

As at 31st December	Group	
	2019 Rs 000	2018 Rs 000
Subsidiaries		
HNB Assurance PLC	2,335,343	2,199,263
HNB Finance Ltd	2,626,975	2,473,947
Total	4,962,318	4,673,210

58 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 standby 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 statement of profit or loss, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. ECL provisions recognised for same are set out in Note 51 (a) to the financial statements.

Any increase in the liability relating to financial guarantees is recorded in the statement of profit or loss. The premium received is recognised in the statement of profit or loss 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.

58 (a) Contingent Liabilities and Commitments - Bank / Group

As at 31st December	2019 Rs 000	2018 Rs 000
Documentary credit	25,006,460	29,760,771
Guarantees	120,954,668	141,352,517
Acceptances	16,606,253	19,065,908
Bills for collection	13,476,994	14,407,921
Forward exchange contracts		
Forward exchange sales	43,950,802	38,199,566
Forward exchange purchases	68,878,649	85,271,103
Cheques sent on clearing	5,236,930	7,604,740
Commitments for unutilised facilities - direct	156,159,365	175,446,454
Commitments for unutilised facilities - indirect	222,960,692	252,105,256
Total	673,230,813	763,214,236

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Capital expenditure approved by the Board of Directors for which provision has not been made in the accounts amounts to approximately Rs 327 Mn.

As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Approved and contracted but not provided for	290,296	327,759	290,296	327,759
Approved and not contracted for	36,723	37,027	36,723	37,027
	327,019	364,786	327,019	364,786

58 (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 four legal cases pertaining to guarantee related issues (viz. H.C (Civil) 657/2019 MR, H.C (Civil) 753/2019 MR, 534 SPL, 5491M) the other legal cases filed against the Bank, will not have a material impact on the financial position of the Bank.

58 (d) Tax Assessments**58 (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), assessments to the value of Rs 914 Mn on VAT on non-financial turnover (relating to the taxable periods ended 31st March 2016, 30th June 2016, 30th September 2016 and 31st December 2016) 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.

58 (d) ii Tax assessments against Group entity - HNB Assurance PLC (Company)

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 9.58 Mn on VAT and assessments to the value of Rs 722 Mn on Income tax (relating to Y/A 2011/12, 2012/13, 2013/14, 2014/15, 2015/16 and 2016/17) received by the Company are outstanding and have been duly appealed.

The Group is of the view that the above assessments will not have any material impact on the financial statements.

59 RELATED PARTY DISCLOSURES

The Bank 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.

59 (a) Parent and ultimate controlling party

The Bank does not have an identifiable parent of its own.

59 (b) Transactions with Key Management Personnel (KMP)

According to Sri Lanka Accounting Standard - LKAS 24 on "Related party disclosures", Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity.

Accordingly, the Bank's KMP include the Board of Directors (including executive and non-executive directors) and selected key employees who meet the above criteria.

Key Management Personnel (KMP) of the Group

Bank is the ultimate parent of its subsidiaries listed out in Note 34 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.

59 (b) i Compensation to KMP

For the year ended 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Short term employment benefits				
Board of Directors and other KMP's	145,020	111,548	146,798	118,971

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59 RELATED PARTY DISCLOSURES (Contd.)

59 (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	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Assets				
Financial assets measured at amortised cost - loans and advances to customers	156,554	167,018	172,424	141,408
	156,554	167,018	172,424	141,408
Liabilities				
Debt securities issued and subordinated term debts	10,000	10,000	10,000	10,000
Financial liabilities measured at amortised cost - due to depositors	545,619	505,142	502,455	471,893
	555,619	515,142	512,455	481,893

Commitments and Contingencies

As at 31st December	Closing Balance	
	2019 Rs 000	2018 Rs 000
Commitments for unutilised facilities		
Direct	31,192	40,629
	31,192	40,629

Statement of Profit or Loss - Bank

For the year ended 31st December	2019	2018
	Rs 000	Rs 000
Interest income	16,912	13,427
Interest expenses	37,565	37,457

Details of ESOPs granted to KMP are given below

As at 31st December	2019	2018
	Rs 000	Rs 000
Number of options exercised during the year	-	53,415

Number of shares held by KMP

As at 31st December	2019	2018
	Voting	110,963
Non-Voting	28,061	55,007

Cash dividends paid to KMP amount to Rs. 860,004 in 2019 (2018 - Rs. 1,502,946)

59 (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	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Assets				
Financial assets measured at amortised cost - loans and advances to customers	40,521	22,066	29,029	21,168
	40,521	22,066	29,029	21,168
Liabilities				
Financial liabilities measured at amortised cost - due to depositors	26,968	24,324	25,964	24,863
	26,968	24,324	25,964	24,863

Commitments and Contingencies

As at 31st December	Closing Balance	
	2019 Rs 000	2018 Rs 000
Guarantees	53,060	68,450
Commitments for unutilised facilities		
Direct	2,279	20,735
Indirect	108,240	92,850
	163,579	182,035

Statement of Profit or Loss - Bank

For the year ended 31st December	2019	2018
	Rs 000	Rs 000
Interest income	3,550	2,781
Interest expenses	2,709	2,617

Number of shares held

As at 31st December	2019	2018
	Rs 000	Rs 000
Voting	-	1,847

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The Group entities include subsidiaries and joint venture of the Bank.

59 (c) i Transactions with Subsidiaries**Statement of Financial Position - Bank**

As at 31st December	Closing Balance		Average Balance	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Assets				
Financial assets measured at amortised cost - loans and advances to customers	1,549,352	3,036,597	2,485,430	2,240,923
Other assets	811,983	1,233,350	808,364	819,380
	2,361,335	4,269,947	3,293,794	3,060,303
Liabilities				
Debt securities issued and subordinated term debt	426,873	327,230	418,944	341,304
Financial liabilities measured at amortised cost - due to depositors	1,737,623	1,963,988	2,046,501	1,707,751
	2,164,496	2,291,218	2,465,445	2,049,055

Commitments and contingencies

As at 31st December	Closing Balance	
	2019 Rs 000	2018 Rs 000
Guarantees	18,850	18,790
Commitments for unutilised facilities		
Direct	1,050,050	347,700
	1,068,900	366,490

Statement of Profit or Loss - Bank

For the year ended 31st December	2019		2018	
	Rs 000		Rs 000	
Interest income	383,692		355,351	
Interest expenses	201,548		167,592	
Other income	624,707		530,684	
Other expenses	840,441		753,485	
Other transactions				
Expenses reimbursed to the bank	42,574		35,865	
Expenses reimbursed by the bank	77,163		77,056	
Insurance claims received	14,902		26,046	

59 (c) ii Transactions with the Joint Venture

Statement of Financial Position - Bank

As at 31st December	Closing Balance		Average Balance	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Assets				
Financial assets measured at amortised cost - loans and advances to customers	471,063	246,623	433,889	288,873
	471,063	246,623	433,889	288,873
Liabilities				
Financial liabilities measured at amortised cost - due to depositors	99,681	164,573	108,793	80,717
Securities sold under repurchase agreements	11,350	4,750	8,120	15,830
	111,031	169,323	116,913	96,547

Commitments and contingencies

As at 31st December	Closing Balance	
	2019 Rs 000	2018 Rs 000
Letter of Guarantees	12,480	1,150
Commitments for unutilised facilities		
Direct	3,785,050	3,630,000
	3,797,530	3,631,150

Statement of Profit or Loss - Bank

For the year ended 31st December	2019	2018
	Rs 000	Rs 000
Interest income	55,722	37,647
Interest expenses	5,712	2,072
Other income	80,545	39,855
Other expenses	10,164	-

59 (d) Transactions with Post Employment Benefit Plans of the Bank

Statement of Financial Position - Bank

As at 31st December	Closing Balance		Average Balance	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Liabilities				
Financial liabilities measured at amortised cost - due to depositors	6,395,821	7,908,686	7,012,373	6,275,164
Debt securities issued and subordinated term debts	707,289	683,429	737,228	683,429
Securities sold under repurchase agreements	409,000	-	216,855	180,010
	7,512,110	8,592,115	7,012,373	7,138,603
Equity				
Stated capital	53,131	50,574	53,131	50,574
	53,131	50,574	53,131	50,574

Statement of profit or loss - Bank

For the year ended 31st December	2019	2018
	Rs 000	Rs 000
Interest expenses	829,443	822,045
Other transactions		
Dividends paid	5,120	6,728
Contributions made	1,236,651	1,245,503

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59 RELATED PARTY DISCLOSURES (Contd.)

59 (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 25.58% of the voting rights of the Bank as at 31st December 2019 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 2019, 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	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Assets				
Balances with Central Bank of Sri Lanka	22,795,332	33,907,057	26,629,382	37,154,660
Reverse repurchase agreements	-	-	3,833,330	-
Financial assets measured at amortised cost - debt and other instruments	144,653,306	152,163,773	143,401,734	135,782,001
Financial assets measured at fair value through other comprehensive income	122,170,309	64,818,694	101,787,472	69,334,205
Financial assets measured at fair value through profit or loss	908,065	1,286	1,532,111	945
Financial assets measured at amortised cost - loans and advances to customers	57,008,492	61,087,504	56,908,978	57,861,600
Placements with banks	-	1,828,500	4,933,894	9,371,291
	347,535,504	313,806,814	339,026,901	309,504,702
Liabilities				
Financial liabilities measured at amortised cost - due to depositors	6,631,541	18,637,401	12,190,367	17,033,222
Due to banks	4,932,204	4,507,749	10,942,533	9,747,322
Debt securities issued	14,797,937	9,982,061	17,297,936	9,982,061
Securities sold under repurchase agreements	8,634,630	4,307,910	12,190,968	6,632,640
Financial liabilities measured at amortised cost - other borrowings	-	5,157,896	2,672,814	5,246,552
Taxation	5,348,985	9,184,814	8,394,790	772,641
	40,345,297	51,777,831	63,689,408	49,414,438

Commitments and contingencies

As at 31st December	Closing Balance	
	2019 Rs 000	2018 Rs 000
Forward foreign exchange contracts		
Sales	2,994,717	1,828,500
Purchases	15,536,750	14,536,575
Documentary credit	481,680	98,830
Guarantee	7,018,640	5,162,530
Commitments for unutilised facilities		
Direct	22,873,995	21,774,932
Indirect	4,634,860	4,209,870

59 (e) Transactions with Government of Sri Lanka/ Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka (Contd.)

Statement of profit or loss - Bank

For the year ended 31st December	2019 Rs 000	2018 Rs 000
Interest income	25,562,088	21,652,272
Interest expenses	3,335,402	2,234,710
Other income	59,428	68,529
Impairment charge / (reversal) for loans and other losses	(237,652)	(75,227)
Tax expenses (income tax, financial services VAT, NBT, DRL)	13,209,880	16,285,559

Number of Shares held by Government

As at 31st December	2019	2018
Voting	102,865,035	100,973,977
Non voting	2,006,430	1,755,411

Cash dividends paid to government related entities amounts to Rs. 310.57 Mn in 2019 (2018 - Rs. 626.74 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, deposit insurance payments, crib charges etc. The total of such payments made during the year ended 31st December 2019 was Rs. 630.19 Mn (2018 - Rs. 673.56 Mn).

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60 MATURITY ANALYSIS

60 (a) As at 31st December 2019

	Within 12 months Rs 000	Bank More than 12 months Rs 000	Total Rs 000	Within 12 months Rs 000	Group More than 12 months Rs 000	Total Rs 000
ASSETS						
Cash and cash equivalents	29,089,189	-	29,089,189	30,263,654	-	30,263,654
Placements with banks	7,602,543	-	7,602,543	12,374,564	3,115,703	15,490,267
Balances with central banks	-	22,795,332	22,795,332	-	22,795,332	22,795,332
Reverse repurchase agreements	-	-	-	2,072,482	-	2,072,482
Derivative financial instruments	527,193	-	527,193	527,193	-	527,193
Financial assets measured at fair value through profit or loss	131,702	881,672	1,013,374	273,667	881,672	1,155,339
Financial assets measured at amortised cost						
- loans and advances to customers	370,988,006	370,781,067	741,769,073	385,707,741	383,684,428	769,392,169
Financial assets measured at amortised cost - debt and other instruments	70,110,873	79,609,961	149,720,834	73,152,059	83,359,218	156,511,277
Financial assets measured at fair value through other comprehensive income	56,803,946	70,891,036	127,694,982	57,147,865	76,805,252	133,953,117
Investment in joint venture	-	755,000	755,000	-	2,137,665	2,137,665
Investment in subsidiaries	-	3,017,285	3,017,285	-	-	-
Investment properties	-	480,444	480,444	-	1,026,050	1,026,050
Property, plant and equipment	-	21,076,762	21,076,762	-	42,452,617	42,452,617
Intangible assets and goodwill	-	1,076,641	1,076,641	-	1,568,080	1,568,080
Other assets	6,905,039	11,484,874	18,389,913	9,905,298	7,133,933	17,039,231
Total assets	542,158,491	582,850,074	1,125,008,565	571,424,523	624,959,950	1,196,384,473
LIABILITIES						
Due to banks	60,729,184	25,667,120	86,396,304	60,521,267	26,691,703	87,212,970
Derivative financial instruments	573,365	-	573,365	573,365	-	573,365
Securities sold under repurchase agreements	17,569,394	-	17,569,394	17,569,394	-	17,569,394
Financial liabilities measured at amortised cost - due to depositors	784,210,276	25,824,838	810,035,114	800,274,736	34,785,410	835,060,146
Dividends payable	1,449,472	-	1,449,472	1,466,959	-	1,466,959
Financial liabilities measured at amortised cost - other borrowings	12,426,679	10,177,360	22,604,039	12,426,679	10,177,360	22,604,039
Debt securities issued	54,207	1,743,437	1,797,644	54,207	2,314,779	2,368,986
Current tax liabilities	5,348,985	-	5,348,985	5,621,389	-	5,621,389
Deferred tax liabilities	-	1,381,754	1,381,754	-	6,083,293	6,083,293
Insurance provision - life	-	-	-	195,352	14,273,514	14,468,866
Insurance provision - general	-	-	-	2,871,417	-	2,871,417
Other provisions	3,599,739	-	3,599,739	4,171,801	-	4,171,801
Other liabilities	8,345,339	5,708,039	14,053,378	11,261,674	1,233,731	12,495,405
Subordinated term debts	5,677,008	27,018,213	32,695,221	5,677,008	27,668,896	33,345,904
Total shareholders' equity	-	127,504,156	127,504,156	-	145,508,220	145,508,220
Non-controlling interests	-	-	-	-	4,962,318	4,962,318
Total liabilities	899,983,648	225,024,917	1,125,008,562	922,685,249	273,699,224	1,196,384,473
Maturity gap	(357,825,157)	357,825,157	-	(351,260,725)	351,260,725	-
Cumulative gap	(357,825,157)	-	-	(351,260,725)	-	-

60 (b) As at 31st December 2018

	Within 12 months Rs 000	Bank More than 12 months Rs 000	Total Rs 000	Within 12 months Rs 000	Group More than 12 months Rs 000	Total Rs 000
ASSETS						
Cash and cash equivalents	25,141,890	-	25,141,890	24,966,831	-	24,966,831
Placements with banks	3,292,733	-	3,292,733	6,276,715	2,229,540	8,506,255
Balances with central banks	-	33,907,057	33,907,057	-	33,907,057	33,907,057
Reverse repurchase agreements	90,094	-	90,094	1,168,764	-	1,168,764
Derivative financial instruments	4,507,576	-	4,507,576	4,507,576	-	4,507,576
Financial assets measured at fair value through profit or loss	100,342	-	100,342	264,420	-	264,420
Financial assets measured at amortised cost						
- loans and advances to customers	377,891,401	371,157,419	749,048,820	389,256,321	381,006,679	770,263,000
Financial assets measured at amortised cost - debt and other instruments	11,480,318	148,665,362	160,145,680	14,240,283	151,581,700	165,821,983
Financial assets measured at fair value through other comprehensive income	35,804,321	33,632,668	69,436,989	36,439,073	39,566,185	76,005,258
Investment in joint venture	-	755,000	755,000	-	2,027,201	2,027,201
Investment in subsidiaries	-	3,017,285	3,017,285	-	-	-
Investment properties	-	325,818	325,818	-	1,107,472	1,107,472
Property, plant and equipment	-	21,304,370	21,304,370	-	42,417,126	42,417,126
Intangible assets and goodwill	-	905,653	905,653	-	1,377,864	1,377,864
Other assets	7,648,451	6,861,500	14,509,951	9,309,836	6,963,676	16,273,512
Total assets	465,957,126	620,532,132	1,086,489,258	486,429,819	662,184,500	1,148,614,319
LIABILITIES						
Due to banks	59,584,261	17,908,321	77,492,582	59,684,355	18,291,655	77,976,010
Derivative financial instruments	2,519,172	-	2,519,172	2,519,172	-	2,519,172
Securities sold under repurchase agreements	16,678,946	-	16,678,946	16,678,946	-	16,678,946
Financial liabilities measured at amortised cost - due to depositors	776,660,753	23,314,604	799,975,357	786,054,955	31,987,007	818,041,962
Dividends payable	994,812	-	994,812	1,009,468	-	1,009,468
Financial liabilities measured at amortised cost - other borrowings	7,902,892	16,991,263	24,894,155	7,902,892	16,991,263	24,894,155
Debt securities issued	2,811,596	1,676,167	4,487,763	2,743,555	2,286,445	5,030,000
Current tax liabilities	9,184,814	-	9,184,814	9,559,852	-	9,559,852
Deferred tax liabilities	-	1,808,898	1,808,898	-	5,831,673	5,831,673
Insurance provision - life	-	-	-	149,366	12,107,320	12,256,686
Insurance provision - general	-	-	-	2,525,095	-	2,525,095
Other provisions	3,559,925	-	3,559,925	4,081,659	-	4,081,659
Other liabilities	6,577,486	331,425	6,908,911	8,216,618	728,171	8,944,789
Subordinated term debts	774,556	21,455,395	22,229,951	611,842	21,318,404	21,930,246
Total shareholders' equity	-	115,753,972	115,753,972	-	132,661,396	132,661,396
Non-controlling interests	-	-	-	-	4,673,210	4,673,210
Total liabilities	887,249,213	199,240,045	1,086,489,258	901,737,775	246,876,544	1,148,614,319
Maturity gap	(421,292,087)	421,292,087	-	(415,307,956)	415,307,956	-
Cumulative gap	(421,292,087)	-	-	(415,307,956)	-	-

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61 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.

Group's activities have been segregated into eight different segments (corporate, retail, SME, micro, treasury, real estate, insurance and NBF) 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 NBF represent the operating results and financial position of the subsidiaries, Sithma Development (Pvt) Ltd, HNB Assurance PLC and HNB Finance Limited respectively.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. 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.

No revenue from transactions with a single external customer or counter party amounted to 10% or more of the Bank's total revenue in 2019 or in 2018.

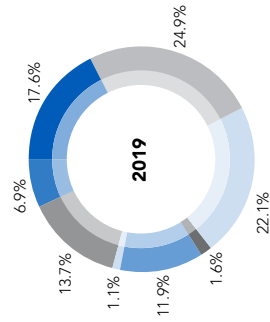
Segment information is presented in respect of the Group's business segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

As at 31st December	Corporate		Retail		SME		Micro		Treasury		Real Estate		Insurance		NBF*		Eliminations / Unallocated		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Net interest income	11,141,704	11,301,723	17,679,690	16,307,632	13,784,374	14,688,640	1,147,710	1,299,568	7,618,034	5,801,428	78,412	145,999	2,189,573	1,880,052	4,388,962	4,364,216	(1,151,612)	(1,144,096)	56,355,511	53,636,164
Foreign exchange income	177,756	199,172	133,065	211,757	339,238	404,667	2,714	3,462	341,585	609,283	-	-	-	-	-	-	(68,076)	1,602,603	926,282	3,030,944
Net fee and commission income	2,841,416	2,894,595	2,182,663	2,218,498	3,579,467	4,071,324	157,399	170,867	895,877	813,430	-	-	170,992	172,647	812,915	526,033	(663,049)	(809,444)	9,977,130	10,097,950
Other operating income	-	-	-	-	-	-	-	-	720,630	465,027	986,972	982,561	8,589,241	7,561,152	332,747	152,791	(1,377,853)	(812,542)	9,251,737	8,348,989
Total operating income	14,140,936	14,435,490	19,994,808	18,737,887	17,703,079	18,534,631	1,307,823	1,383,897	9,576,126	7,689,168	908,560	836,562	10,949,806	9,616,651	5,534,624	5,043,040	(3,625,102)	(1,163,479)	76,510,660	75,114,047
Impairment charge for loans and other losses	3,952,104	3,284,457	758,645	(1,067,700)	4,116,596	6,133,121	434,085	282,560	362,825	688,491	-	-	(224)	1,508	1,771,037	490,124	27,756	(28,509)	11,426,824	9,784,052
Net operating income	10,208,832	11,151,033	19,236,163	19,805,587	13,586,483	12,401,510	871,738	1,101,337	9,213,301	7,000,677	908,560	836,562	10,950,030	9,615,343	3,763,587	4,552,916	(3,652,858)	(1,134,970)	65,083,836	65,329,995
Profit from operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	20,257,873	26,163,212
Share of profit of joint venture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	186,884	300,092
Income tax expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,415,685)	(7,316,842)
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(358,948)	(1,513,688)
Net Profit for the year attributable to equity holders of the parent	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14,670,104	17,635,774

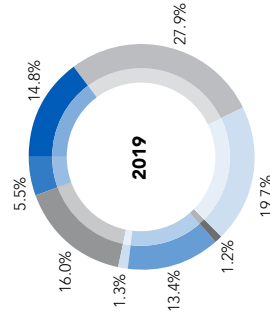
As at 31st December	Corporate		Retail		SME		Micro		Treasury		Real Estate		Insurance		NBF		Eliminations / Unallocated		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Segment assets	340,545,982	350,189,322	177,165,905	180,967,812	241,037,135	239,988,562	25,386,323	27,290,808	299,091,764	226,287,172	10,240,586	10,240,586	26,620,723	22,274,327	37,468,142	73,539,582	1,194,246,808	1,146,587,118		
Investment in joint venture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,137,665	2,027,201	2,137,665	2,027,201		
Total assets	340,545,982	350,189,322	177,165,905	180,967,812	241,037,135	239,988,562	25,386,323	27,290,808	299,091,764	226,287,172	10,240,586	10,240,586	26,620,723	22,274,327	39,605,807	75,566,783	1,196,384,473	1,148,614,319		
Segment liabilities	101,963,396	134,710,179	528,438,974	484,955,016	159,883,988	157,263,130	6,287,043	7,354,655	99,117,811	86,026,302	10,240,586	10,240,586	26,620,723	22,274,327	227,151,704	216,350,997	1,196,384,473	1,148,614,319		
Total liabilities	101,963,396	134,710,179	528,438,974	484,955,016	159,883,988	157,263,130	6,287,043	7,354,655	99,117,811	86,026,302	10,240,586	10,240,586	26,620,723	22,274,327	227,151,704	216,350,997	1,196,384,473	1,148,614,319		

* Business of HNB Finance Ltd.

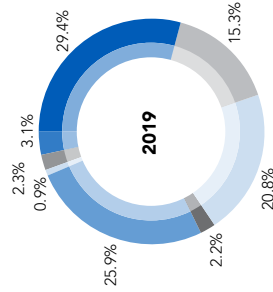
Total Operating Income



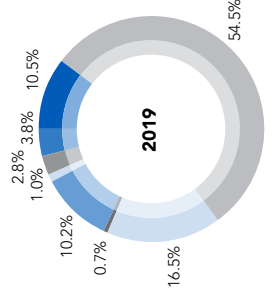
Net Operating Income



Segment Assets



Segment Liabilities



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As at 31st December	Bank		Group	
	2019 Rs 000	2018 Rs 000	2019 Rs 000	2018 Rs 000
Amount used as the numerator:				
Equity holders funds (Rs 000)	127,504,156	115,753,972	145,508,221	132,661,396
Number of ordinary shares used as the denominator:				
Total number of shares*	500,407	500,407	500,407	500,407
Net assets value per ordinary share (Rs)	254.80	231.32	290.78	265.11

*Number of shares used in net assets value per ordinary share calculation of 2018 has been adjusted by the number of shares issued as scrip dividends in 2019.

63 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:

63 (a) Proposed Dividends

Refer Note 22 (a) to the financial statements.

63 (b) New amendments to Income Tax Law announced by the Government

Refer Note 48 (e) to the financial statements.

63 (c) Listing of Subsidiary HNB Finance Limited

HNB Finance Limited, subsidiary of the Bank has applied for a listing to the Colombo Stock Exchange and expects the process to be completed in 2020.

64 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 Rs 000	Current Presentation Rs 000	Adjustment Rs 000	As disclosed previously Rs 000	Current Presentation Rs 000	Adjustment Rs 000
Statement of Profit or Loss							
Personnel expenses	15	10,000,083	10,717,978	(717,895)	12,290,751	13,008,646	(717,895)
Other expenses	17	12,075,883	11,357,988	717,895	14,353,950	13,636,055	717,895

Personnel expenses of Rs 718 Mn previously classified as other expenses have been reclassified.

65 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 136 for the statement of the Directors' Responsibility for Financial Reporting.

STATEMENT OF PROFIT OR LOSS IN US DOLLARS

For the year ended 31st December	Bank		Group	
	2019 US\$ 000	2018 US\$ 000	2019 US\$ 000	2018 US\$ 000
Gross income	694,778	663,691	801,767	756,088
Interest income	635,295	591,222	688,661	637,072
Less : Interest expenses	363,921	331,011	377,906	343,738
Net interest income	271,374	260,211	310,755	293,334
Fee and commission income	50,766	52,178	56,983	56,779
Less: Fee and commission expenses	1,175	774	1,967	1,554
Net fee and commission income	49,591	51,404	55,016	55,225
Net interest, fee and commission income	320,965	311,615	365,771	348,559
Net loss from trading	(12,578)	(1,950)	(12,481)	(2,171)
Net gain from financial investments at fair value through other comprehensive income	1,034	1,178	1,049	1,192
Net insurance premium income	-	-	46,130	40,644
Net gains on derecognition of financial assets	-	-	454	395
Net other operating income	20,261	21,063	20,971	22,177
Total operating income	329,682	331,906	421,894	410,796
Less: Impairment charge for loans and other losses	53,245	50,820	63,010	53,509
Net operating income	276,437	281,087	358,884	357,287
Less : Operating expenses				
Personnel expenses	63,106	58,616	77,339	67,218
Benefits, claims and underwriting expenditure	-	-	39,102	31,060
Other expenses	67,902	62,117	84,430	78,501
Total operating expenses	131,008	120,733	200,871	176,779
Operating profit before taxes on financial services	145,429	160,354	158,013	180,507
Less: Taxes on financial services	43,620	34,833	46,307	37,423
Operating profit after taxes on financial services	101,809	125,520	111,706	143,084
Share of profit of joint venture (net of income tax)	-	-	1,030	1,658
PROFIT BEFORE INCOME TAX	101,809	125,520	112,736	144,742
Less: Income tax expense	24,432	40,652	29,863	40,015
PROFIT FOR THE YEAR	77,377	84,868	82,873	104,727
Profit attributable to:				
Equity holders of the Bank	77,377	84,868	80,894	96,449
Non-controlling interests	-	-	1,979	8,278
PROFIT FOR THE YEAR	77,377	84,868	82,873	104,727
Earnings per share				
Basic earnings per ordinary share (\$)	0.15	0.17	0.16	0.20
Diluted earnings per ordinary share (\$)	0.15	0.17	0.16	0.20
Dividend per share				
Dividend per share: Gross (\$)	* 0.04	0.06	* 0.04	0.06

Exchange rate of US\$ 1 was Rs 181.35 as at 31st December 2019 (Rs 182.85 as at 31st December 2018)

The statement of profit or loss given on this page is solely for the convenience of the stakeholders of financial statements and do not form part of the audited financial statements.

*Calculated on interim dividend paid and final dividend proposed, which is to be approved at the Annual General Meeting.

STATEMENT OF COMPREHENSIVE INCOME IN US DOLLARS

Supplementary
Information

For the year ended 31st December	Bank		Group	
	2019 US\$ 000	2018 US\$ 000	2019 US\$ 000	2018 US\$ 000
PROFIT FOR THE YEAR	77,377	84,868	82,873	104,727
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	444	(6,584)	444	(6,584)
Gains realised on derecognition of equity instruments reclassified to retained earnings	755	-	755	-
Remeasurement of post-employment benefit obligations	(8,038)	(552)	(7,994)	(421)
Revaluation gain on freehold land and buildings	-	15,688	1,244	40,847
Share of other comprehensive income of joint venture that will not be reclassified to profit or loss	-	-	5	6
Less: Tax expense relating to items that will not be reclassified to profit or loss	-	(4,392)	(364)	(21,400)
Total other comprehensive income that will not be reclassified to profit or loss	(6,839)	4,160	(5,910)	12,448
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	8,694	(9,839)	11,386	(11,966)
Reclassification of net gains on derecognition of debt instruments at fair value through other comprehensive income to statement of profit or loss	-	-	(438)	(394)
Net change in expected credit losses of debt securities measured at fair value through other comprehensive income	1,428	-	1,429	-
Transfer (to) / from life policy holder reserve fund	-	-	(2,041)	2,278
Share of other comprehensive income of joint venture that will be reclassified to profit or loss	-	-	(10)	363
Less: Tax expense relating to items that will be reclassified to profit or loss	(2,434)	2,755	(2,469)	2,800
Total other comprehensive income that will be reclassified to profit or loss	7,688	(7,084)	7,857	(6,919)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	849	(2,924)	1,947	5,529
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	78,226	81,944	84,820	110,256
Total comprehensive income attributable to:				
Equity holders of the Bank	78,226	81,944	82,233	102,003
Non-controlling interests	-	-	2,587	8,253
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	78,226	81,944	84,820	110,256

Exchange rate of US\$ 1 was Rs 181.35 as at 31st December 2019 (Rs 182.85 as at 31st December 2018)

The statement of comprehensive income given on this page is solely for the convenience of the stakeholders of financial statements and do not form part of the audited financial statements.

STATEMENT OF FINANCIAL POSITIONS IN US DOLLARS

As at 31st December	Bank		Group	
	2019 US\$ 000	2018 US\$ 000	2019 US\$ 000	2018 US\$ 000
ASSETS				
Cash and cash equivalents	160,404	137,500	166,880	136,543
Placements with banks	41,922	18,008	85,416	46,520
Balances with Central Bank of Sri Lanka	125,698	185,436	125,698	185,436
Reverse repurchase agreements	-	493	11,428	6,392
Derivative financial instruments	2,907	24,652	2,907	24,652
Financial assets measured at fair value through profit or loss	5,588	549	6,371	1,446
Financial assets measured at amortised cost - loans and advances to customers	4,090,262	4,096,521	4,242,582	4,212,540
Financial assets measured at amortised cost - debt and other instruments	825,590	875,831	863,034	906,874
Financial assets measured at fair value through other comprehensive income	704,136	379,748	738,644	415,670
Investment in joint venture	4,163	4,129	11,788	11,087
Investment in subsidiaries	16,638	16,501	-	-
Investment properties	2,649	1,782	5,658	6,057
Property, plant and equipment	116,221	116,513	234,092	231,978
Right-of-use assets	30,233	-	8,664	-
Intangible assets and goodwill	5,937	4,953	8,647	7,536
Other assets	71,173	79,354	85,293	88,999
Total assets	6,203,521	5,941,970	6,597,102	6,281,730
LIABILITIES				
Due to banks	476,406	423,804	480,910	426,448
Derivative financial instruments	3,162	13,777	3,162	13,777
Securities sold under repurchase agreements	96,881	91,217	96,881	91,217
Financial liabilities measured at amortised cost - due to depositors	4,466,695	4,375,036	4,604,688	4,473,842
Dividends payable	7,993	5,441	8,089	5,521
Financial liabilities measured at amortised cost - other borrowings	124,643	136,145	124,643	136,145
Debt securities issued	9,913	24,543	13,063	27,509
Current tax liabilities	29,495	50,231	30,998	52,282
Deferred tax liabilities	7,619	9,893	33,544	31,893
Insurance provision - life	-	-	79,784	67,031
Insurance provision - general	-	-	15,834	13,810
Other provisions	19,850	19,469	23,004	22,322
Other liabilities	77,493	37,785	68,902	48,919
Subordinated term debts	180,288	121,575	183,876	119,936
Total liabilities	5,500,438	5,308,916	5,767,378	5,530,652
EQUITY				
Stated capital	186,495	176,855	186,495	176,855
Statutory reserve fund	38,930	34,236	38,930	34,236
Retained earnings	99,146	86,019	127,227	110,371
Other reserves	378,512	335,944	449,709	404,058
Total shareholders' equity	703,083	633,054	802,361	725,520
Non-controlling interests	-	-	27,363	25,558
Total equity	703,083	633,054	829,724	751,078
Total equity and liabilities	6,203,521	5,941,970	6,597,102	6,281,730
Contingent liabilities and commitments	3,712,329	4,173,991	3,712,329	4,173,991
Net assets value per ordinary share (\$)	1.41	1.28	1.60	1.47

Exchange rate of US\$ 1 was Rs 181.35 as at 31st December 2019 (Rs 182.85 as at 31st December 2018)

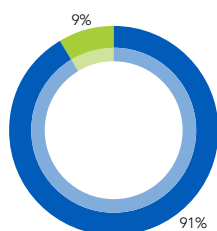
The statement of financial position given on this page is solely for the convenience of the stakeholders of financial statements and do not form part of the audited financial statements.

SOURCES AND UTILISATION OF INCOME

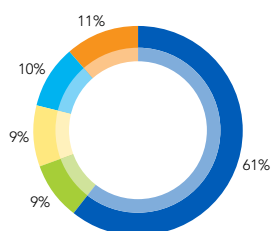
Supplementary Information

	2015 Rs 000	2016 Rs 000	2017 Rs 000	2018 Rs 000	2019 Rs 000
Sources of Income					
Interest	52,615,463	75,608,193	96,175,453	108,104,923	115,210,769
Non interest income	8,538,003	8,742,630	10,119,741	13,251,166	10,787,317
Total	61,153,466	84,350,823	106,295,194	121,356,089	125,998,086
Utilisation of income					
Employees					
Salaries and other payment to Staff	7,927,695	8,703,575	8,866,642	10,717,978	11,444,259
Suppliers and providers of funding					
Interest paid	26,279,934	41,236,605	56,526,138	60,525,342	65,997,133
Other expenses	6,967,804	8,501,199	9,419,591	9,963,875	10,091,780
	33,247,738	49,737,804	65,945,729	70,489,217	76,088,913
Provisions and depreciation					
Depreciation and amortisation	966,596	1,035,930	1,128,802	1,354,762	2,246,114
Impairment for loans and other losses	1,013,322	237,160	3,035,468	9,292,421	9,656,010
	1,979,918	1,273,090	4,164,270	10,647,183	11,902,124
Net Income before Government Taxes and Levies	17,998,115	24,636,354	27,318,553	29,501,711	26,562,790
Government					
Income Tax, VAT, SGT, NBT, Crop Insurance, DRL (Incl. Deferred Tax)	9,623,577	10,492,948	10,851,763	13,983,508	12,530,538
Shareholders					
Dividends - Cash	2,029,748	2,071,683	3,175,513	2,463,253	2,251,830
Retained through scrip dividend	1,421,200	1,451,296	977,592	1,724,277	1,751,423
Retained profits	4,923,590	10,620,427	12,313,685	11,330,673	10,028,999
Total	61,153,466	84,350,823	106,295,194	121,356,089	125,998,086

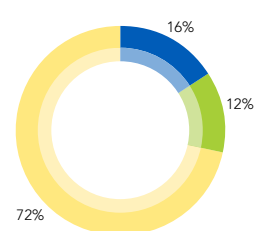
Sources and Utilisation of Income - 2019



- Interest
- Non interest income



- Suppliers and Providers of Funding
- Employees
- Provisions and Depreciation
- Government
- Shareholders

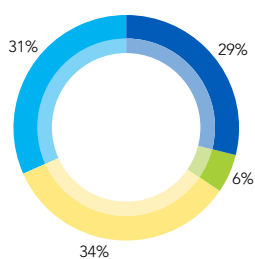


- Dividends - Cash
- Dividends - Scrip
- Retained profits

VALUE ADDED STATEMENT

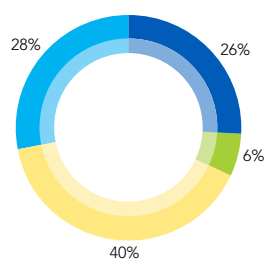
	2019	%	2018	%
	Rs 000		Rs 000	
Value Added				
Income earned by providing banking services	127,621,790		121,138,114	
Cost of services	76,786,521		70,490,499	
Value added by banking services	50,835,269		50,647,615	
Non-banking income	469,752		359,018	
Net Gain/(loss) from trading & Financial investment	(2,093,457)		(141,043)	
Impairment for loans and other losses	(9,656,010)		(9,292,421)	
	39,555,554		41,573,169	
Value allocated to employees				
Salaries,wages and other benefits	11,444,259	28.94	10,717,978	25.78
To providers of capital				
Dividends to shareholders - Cash	2,251,830	5.69	2,463,253	5.93
To Government				
Income Tax	5,299,353		9,916,291	
Value added tax on financial services	4,744,641		5,003,424	
Debt Repayment Levy	2,586,825		698,721	
Nation building tax on financial services	579,061		667,123	
Crop Insurance Levy	147,012		157,000	
Local taxes	18,195		14,835	
Stamp Duty	24,053	33.88	9,108	39.61
To expansion and growth				
Retained income	10,028,999	25.35	11,330,673	27.25
Retained through scrip dividend	1,751,423	4.43	1,724,277	4.15
Depreciation & amortization	1,548,505	3.91	1,353,480	3.26
Deferred taxation	(868,603)	(2.20)	(2,482,994)	(5.97)
	39,555,554	100.00	41,573,169	100.00

Analysis of Value Addition 2019



- Value allocated to employees
- To providers of capital
- To Government
- To expansion and growth

Analysis of Value Addition 2018



- Value allocated to employees
- To providers of capital
- To Government
- To expansion and growth

VALUE CREATED TO STAKEHOLDERS

Supplementary Information

	2019	2018
For the year ended 31st December	Rs 000	Rs 000
Direct Economic value generated		
Interest Income	115,210,769	108,104,923
Fee Commission Income	9,206,399	9,540,862
Net Gain/(loss) from trading & Financial investment	(2,093,457)	(141,043)
Other operating income	3,674,375	3,851,347
Total Direct Economic value generated	125,998,086	121,356,089
Economic value distributed		
To Depositors/Debenture Holders as Interest	65,997,133	60,525,342
To Employees as Emoluments	11,444,259	10,717,978
Depreciation/ Amortisation Set Aside	1,548,505	1,353,480
Impairment charge for loans and other losses	9,656,010	9,292,421
To providers of Supplies and services	10,052,717	9,257,919
To Government as Taxation	13,399,140	16,466,502
- Income tax	5,299,353	9,916,291
- VAT and NBT on Financial Services	5,323,702	5,670,547
- Debt Recovery Levy	2,586,825	698,721
- Crop Insurance Levy	147,012	157,000
- Stamp duty and Other Local taxes	42,248	23,943
To Central Bank of Sri Lanka as Deposit insurance premium	730,121	692,980
To Shareholders as Dividends	4,003,253	4,181,299
To Community as Donation/CSR	6,551	14,258
Total Economic value distributed	116,837,689	112,502,179
Economic Value Retained	9,160,397	8,853,910

TEN YEAR STATISTICAL SUMMARY

Year ended 31st December (Rs Mn)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
OPERATING RESULTS										
Income	34,870	37,066	51,539	61,006	59,500	61,153	84,351	106,295	121,356	125,998
Interest income	30,249	33,176	47,326	56,771	51,868	52,615	75,608	96,175	108,105	115,211
Interest expense	14,703	16,530	25,368	31,424	26,967	26,280	41,237	56,526	60,525	65,997
Non interest income	4,621	3,890	4,213	4,236	7,633	8,538	8,743	10,120	13,251	10,787
Operating expenses (Incl. financial VAT, NBT & DRL)	13,436	12,148	16,294	19,575	20,470	19,824	22,968	27,719	37,879	41,538
Profit before income tax	6,731	8,388	9,876	10,008	12,064	15,050	20,146	22,050	22,952	18,463
Income tax on profit	2,267	2,123	2,342	2,998	3,059	4,601	6,002	5,583	7,433	4,431
Profit after taxation	4,464	6,265	7,534	7,010	9,005	10,449	14,143	16,467	15,518	14,032
LIABILITIES AND SHAREHOLDERS' FUNDS										
Customer deposits	239,034	291,357	341,424	387,158	419,327	527,126	623,495	701,519	799,975	810,035
Refinance borrowings	6,435	7,045	6,429	5,615	4,889	4,227	4,140	5,244	5,639	6,364
Other liabilities	42,572	42,923	50,496	66,084	87,736	128,424	154,080	134,884	163,312	179,723
Deferred tax liabilities	891	1,175	1,111	-	-	379	231	5,083	1,809	1,382
Shareholders' funds	30,775	37,984	46,899	51,454	60,899	65,051	77,017	108,148	115,754	127,504
Total	319,708	380,484	446,358	510,310	572,851	725,208	858,963	954,878	1,086,489	1,125,009
ASSETS										
Loans and receivables to customers (Net)	202,253	257,198	302,761	351,965	396,277	498,342	584,413	639,102	749,049	741,769
Cash, short term funds and statutory deposits with the Central Bank of Sri Lanka	30,600	33,446	39,024	29,238	33,838	35,033	52,042	63,533	62,342	59,487
Property, plant and equipment	7,428	7,835	9,418	9,521	9,305	11,474	13,945	17,905	21,304	21,077
Deferred tax assets	506	314	-	768	287	-	-	-	-	-
Other assets	78,921	81,690	95,155	118,818	133,144	180,360	208,564	234,337	253,794	302,676
Total	319,708	380,484	446,358	510,310	572,851	725,208	858,963	954,878	1,086,489	1,125,009
RATIOS										
Return on average shareholders funds (%)	16	18	18	14	16	17	20	18	14	12
Income growth (%)	(10)	6	39	18	(2)	3	38	26	14	4
Return on average assets (%)	1.5	1.8	1.8	1.5	1.7	1.6	1.8	1.8	1.5	1.3
Dividend cover (Times)	2.7	2.1	2.2	2.1	2.6	3.0	4.0	4.0	3.7	3.5
Property, plant and equipment to shareholders' funds (%)	24	21	20	19	15	18	18	17	18	17
Total assets to shareholders' funds (Times)	10	10	10	10	9	11	11	9	9	9
Liquid assets to liabilities (%)	24	22	22	23	23	24	24	24	24	30
SHARE INFORMATION										
Market value per share (Rs)										
- Voting	399.90	151.30	148.00	147.00	194.90	210.60	225.00	249.00	214.00	172.20
- Non Voting	214.60	83.20	112.50	119.00	152.90	177.90	190.00	195.00	168.50	135.50
Earnings per share (Rs)	18.84	16.60	18.94	17.59	22.47	25.41	33.53	34.40	31.50	28.04
Earnings per share (Adjusted) (Rs) *	9.06	12.52	15.06	14.01	18.00	20.88	28.26	32.91	31.01	28.04
Price earnings ratio	21.23	9.11	7.81	8.36	8.67	8.29	6.71	7.24	6.79	6.14
Net assets per share (Rs)	129.33	97.75	118.06	128.78	151.26	160.29	186.11	221.36	234.96	254.80
Net assets per share (Adjusted) (Rs) **	62.47	75.91	93.72	102.82	121.70	130.00	153.91	216.12	231.32	254.80
Dividend per share (Rs)	7.00	7.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.00
Gross dividends (Rs Mn)	1,650	2,915	3,379	3,400	3,431	3,451	3,523	4,153	4,188	4,003
OTHER INFORMATION										
No of employees	4,352	4,584	4,679	4,604	4,451	4,285	4,190	4,348	4,781	4,913
No of customer centres	205	240	247	250	249	249	251	251	250	252
No of student banking centres	159	164	166	168	168	168	150	152	155	156

* Adjusted Earnings per share has been computed for weighted average number of shares outstanding during the current year.

** Adjusted Net Assets per share has been computed for the current number of shares issued as at 31st December 2019

QUARTERLY STATISTICS

Supplementary Information

For the three months ended	2019				*2018												
	December 31st	September 30th	June 30th	March 31st	December 31st	September 30th	June 30th	March 31st									
Statement of Financial Position																	
(Rs. Million)																	
Total assets	1,125,008	1,091,820	1,072,469	1,084,466	1,086,489	1,030,174	995,207	986,401									
Loans and advances to customers	741,769	709,803	724,884	749,827	749,049	713,066	691,063	669,044									
Due to customers	810,035	801,121	792,780	799,667	799,975	772,354	739,601	718,684									
Shareholders' funds	127,504	123,108	119,126	115,459	115,754	111,511	107,777	105,098									
Average assets	1,093,441	1,083,811	1,081,141	1,085,478	1,024,568	990,576	977,376	968,461									
Statement of Profit or Loss																	
(Rs 000)																	
Net interest income	11,380,973	11,960,733	12,898,625	12,973,305	13,509,746	12,118,555	11,324,042	10,627,238									
Net fee and commission income	2,304,301	2,240,422	2,219,502	2,228,998	2,606,754	2,351,775	2,226,280	2,214,461									
Net gain/(loss) from trading	497,370	(1,915,317)	(1,498,846)	635,824	877,656	204,113	(1,164,683)	(273,680)									
Net gain from financial investments at fair value through other comprehensive income	-	22,128	-	165,384	3,000	17,560	-	194,991									
Net other operating income	194,923	2,886,037	1,646,424	(1,053,009)	426,854	724,464	1,692,024	1,008,005									
Total operating income	14,377,567	15,194,003	15,265,705	14,950,502	17,424,010	15,416,467	14,077,663	13,771,015									
Less: Impairment charge for loans and other losses	1,543,714	1,859,490	2,131,904	4,120,902	4,498,157	1,450,007	1,999,251	1,345,006									
Net operating income	12,833,853	13,334,513	13,133,801	10,829,600	12,925,853	13,966,460	12,078,412	12,426,009									
Less: Operating expenses	5,774,272	6,040,536	6,024,909	5,918,520	6,059,716	5,486,208	5,510,111	5,019,931									
Taxes on financial services	2,007,206	2,142,135	2,109,411	1,651,775	2,080,606	1,580,295	1,322,523	1,385,844									
Income tax expenses	(932,787)	1,904,910	2,230,719	1,227,909	1,259,173	2,217,506	2,113,073	1,843,545									
Profit for the quarter ended	5,985,162	3,246,932	2,768,762	2,031,396	3,526,358	4,682,451	3,132,705	4,176,689									
Other comprehensive income for the quarter ended	(1,118,328)	734,985	897,689	(360,253)	1,416,304	(948,018)	(505,928)	(497,079)									
Total comprehensive income for the quarter ended	4,866,834	3,981,917	3,666,451	1,671,143	4,942,662	3,734,433	2,626,777	3,679,610									
Ordinary share information																	
	V	NV	V	NV	V	NV	V	NV	V	NV	V	NV	V	NV	V	NV	
Market price per share (Rs)																	
High	188.00	144.00	199.00	160.00	185.00	153.00	214.90	168.50	222.00	174.00	234.00	180.00	252.90	192.00	257.50	200.00	
Low	153.00	133.70	133.00	118.30	130.50	122.50	173.50	142.60	200.00	150.00	201.00	159.50	223.00	176.00	238.00	185.10	
Closing	172.20	135.50	153.90	135.00	134.50	124.90	175.00	147.00	214.00	168.50	210.00	159.50	225.00	178.50	245.00	186.40	
V- Voting NV - Non Voting																	
(Rs. Million)																	
Book value per ordinary share	254.80	246.02	238.06	230.73	231.32	226.35	218.77	213.34									
Financial measures																	
Profitability																	
Return on average shareholders' equity (annualised) (%) **	11.57	9.06	8.22	7.03	14.10	14.93	13.84	15.98									
Productivity																	
Non interest expenses to total operating income (%)	40.16	39.76	39.47	39.59	34.78	35.59	39.14	36.45									
Capital																	
Risk weighted capital ratios																	
Common Equity Tier I Capital (%)	14.57	13.84	13.02	12.56	12.80	13.02	12.48	12.78									
Tier I Capital (%)	14.57	13.84	13.02	12.56	12.80	13.02	12.48	12.78									
Total Capital (%)	18.28	17.86	15.57	14.79	15.22	15.62	15.22	15.77									
Asset quality																	
Gross NPA ratio (%)	5.91	4.71	4.69	4.63	2.78	3.10	2.91	2.72									
Net NPA ratio (%)	3.27	2.28	2.43	2.92	1.11	1.46	1.34	1.21									

* Bank presented the first three interim financial statements for 2018 based on LKAS 39 availing the option granted by CA Sri Lanka. Accordingly the cumulative impact for 2018 from the application of SLFRS 9 was adjusted in the fourth quarter. However, in 2019 the interim financial statement of 2018 were restated and the revised figures are presented above.

**This information has been compiled in accordance with the instructions issued by the Central Bank of Sri Lanka for interim publication which may differ from information in other disclosures.

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 2019 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 5,393 registered Voting Shareholders as at 31st December 2019 (2018 - 4,669) 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	3,234	758,439	0.29	44	15,200	0.01	3,278	773,639	0.19
1,001	- 10,000	1,386	4,443,303	1.69	41	138,475	0.10	1,427	4,581,778	1.14
10,001	- 100,000	512	15,205,447	5.79	26	734,734	0.53	538	15,940,181	3.98
100,001	- 1,000,000	82	20,917,811	7.96	22	7,919,290	5.75	104	28,837,101	7.20
Over	1,000,000	17	221,406,908	84.27	29	128,887,543	93.61	46	350,294,451	87.49
		5,231	262,731,908	100.00	162	137,695,242	100.00	5,393	400,427,150	100.00

ANALYSIS OF SHAREHOLDERS

Resident / Non-Resident

	31st December 2019			31st December 2018		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Resident	5,231	262,731,908	65.61	4,517	253,612,071	64.28
Non-Resident	162	137,695,242	34.39	152	140,935,923	35.72
Total	5,393	400,427,150	100.00	4,669	394,547,994	100.00

Individuals / Institutions

	31st December 2019			31st December 2018		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Individuals	5,002	67,765,863	16.92	4,343	64,760,535	16.41
Institutions	391	332,661,287	83.08	326	329,787,459	83.59
Total	5,393	400,427,150	100.00	4,669	394,547,994	100.00

As at 31/12/2019 the average size of holding of ordinary shareholding was 74,249 voting shares. (31/12/2018 - 84,504 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 2019 was 69% approximately. (69% as at 31st December 2018).

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 2019 - 5,369. (4,648 as at 31st December 2018).

*An aggregate of 916,713 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

Supplementary Information

3 SHARE INFORMATION - NON VOTING

There were 10,430 registered Non Voting Shareholders as at 31st December 2019 (2018 - 10,245) distributed as follows.

	No of Share holders	Resident			Non-Resident			Total		
		No of Share holders	No of Shares	%	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
1 - 1,000	6,377	2,065,581	3.85	44	15,117	0.03	6,421	2,080,698	2.10	
1,001 - 10,000	3,298	10,229,408	19.05	47	165,538	0.36	3,345	10,394,946	10.49	
10,001 - 100,000	567	15,462,191	28.79	18	643,505	1.42	585	16,105,696	16.26	
100,001 - 1,000,000	56	16,741,453	31.17	9	1,757,967	3.88	65	18,499,420	18.67	
Over 1,000,000	5	9,204,575	17.14	9	42,777,509	94.31	14	51,982,084	52.48	
	10,303	53,703,208	100.00	127	45,359,636	100.00	10,430	99,062,844	100.00	

4 ANALYSIS OF SHAREHOLDERS

Resident / Non-Resident

	31st December 2019			31st December 2018		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Resident	10,303	53,703,208	54.21	10,123	51,296,280	52.77
Non-Resident	127	45,359,636	45.79	122	45,903,061	47.23
Total	10,430	99,062,844	100.00	10,245	97,199,341	100.00

Individuals / Institutions

	31st December 2019			31st December 2018		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Individuals	10,120	34,157,639	34.48	9,981	32,655,031	33.60
Institutions	310	64,905,205	65.52	264	64,544,310	66.40
Total	10,430	99,062,844	100.00	10,245	97,199,341	100.00

As at 31/12/2019 the average size of holding of ordinary shareholding was 9,498 non-voting shares. (31/12/2018 - 9,487 non-voting shares)

As per the rule No. 7.6 (iv) of the Listing Rules of the Colombo Stock Exchange, percentage of public holding as at 31st December 2019 was 99% approximately. (99% as at 31st December 2018).

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 2019 - 10,418. (10,234 as at 31st December 2018).

5 SHARE TRADING

VOTING	2019	2018
Number of transactions	11,186	4,452
Number of shares traded (Mn)	29	53
Value of shares traded (Rs Mn)	5,056	12,339
NON VOTING	2019	2018
Number of transactions	4,927	2,923
Number of shares traded (Mn)	5	5
Value of shares traded (Rs Mn)	689	915

6 DIVIDENDS

	2019		2018	
1st Interim (Rs) - Cash Dividend	1.00	Paid in December 2019	1.50	Paid in December 2018
2nd Interim (Rs) - Cash Dividend	3.50	Propose to be paid in April 2020	3.50	Paid in April 2019
Final (Rs) - Scrip Dividend	3.50	Propose to be paid in April 2020	3.50	Paid in April 2019
Cash Dividend payout ratio (%)	16.05		15.87	

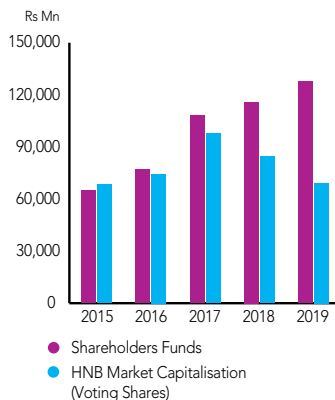
7 EARNINGS

Earnings per share (Rs)	28.04	31.50
Price earnings ratio (Times)-Voting Shares	6.14	6.79

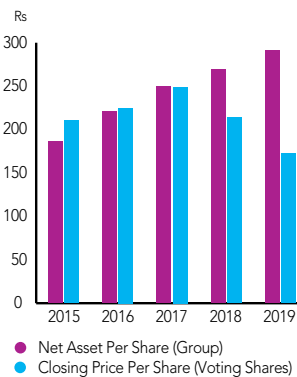
8 MARKET VALUE

	Highest Rs.	Lowest Rs.	Year End Rs.
2015 - Voting	242.00	192.00	210.60
- Non Voting	187.00	150.00	177.90
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

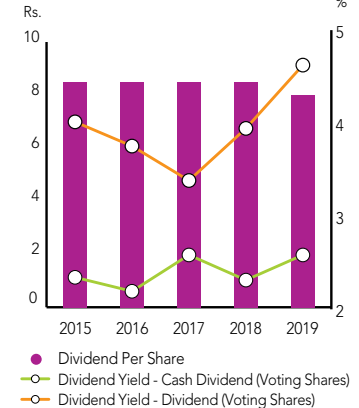
Shareholders Funds and HNB Market Capitalisation



Net Asset Per Share and Closing Price Per Share



Dividend Per Share and Dividend Yield



9 MARKET CAPITALISATION (AS AT 31ST DECEMBER)

	Capital & Reserves Rs Mn	HNB Market Capitalization Rs Mn	CSE Market Capitalization Rs Mn	HNB Market Capitalization as a % of CSE Market Capitalization	Market Capitalization Ranking
2015	65,051	68,320	2,937,998	2.33	9
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

* HNB Market Capitalization includes only Voting shares

INVESTOR RELATIONS

Supplementary Information

10 PUBLIC SHAREHOLDING

	2019	%	2018	%
Number of shareholders representing the public holding (Voting)	5,369	69%	4,648	69%
Number of shareholders representing the public holding (Non Voting)	10,418	99%	10,234	99%
Compliant under Option 1 - Float Adjusted Market Capitalization (Rs.Bn)	47.7		58.4	

11 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
	Total		500,406,707

12 20 MAJOR SHAREHOLDERS (VOTING) OF THE BANK AS AT 31ST DECEMBER 2019

Name	% on total capital	% on total voting capital	No. of Shares 2019	No. of Shares 2018
1. Employees Provident Fund	7.82	9.75	39,119,092	38,544,738
2. Sri Lanka Insurance Corporation - Life Fund	6.63	8.27	33,180,391	32,693,132
3. Milford Exports (Ceylon) Limited	6.34	**7.91	31,736,382	31,270,422
4. Stassen Exports Ltd	5.50	**6.85	27,508,042	27,104,164
5. Mr.Sohli Edelji Captain	5.22	6.51	26,129,128	25,745,495
6. Sonetto Holdings Limited	3.94	4.91	19,725,642	19,436,026
7. Sri Lanka Insurance Corporation - General Fund	3.40	4.23	16,989,898	16,740,449
8. Distilleries Company of Sri Lanka PLC	2.46	**3.07	12,307,446	12,126,746
9. JPMLU-Franklin Templeton Investment	2.36	2.94	11,799,126	18,716,484
10. National Savings Bank	2.30	2.87	11,515,728	11,346,652
11. Standard Chartered Bank Singapore S/A HL Bank Singapore	1.51	1.88	7,532,868	7,422,269
12. Ms.Leesha Anne Captain	1.50	1.87	7,500,710	7,390,583
13. SSBT-AI Mehwar Commercial Investments LLC	1.46	1.82	7,292,350	5,322,971
14. RBC Investor Services Bank - RBC Emerging Markets Small-CAP Equity Fund	1.42	1.77	7,102,292	6,193,418
15. HSBC Intl Nom Ltd-CMG First state global umbrella fun Plc - CMG First State Indian Subcontinent Fund	1.28	1.59	6,386,194	5,638,975
16. BNYM SANV-IF Ruffer Total Return Fund	1.26	1.57	6,313,648	6,220,950
17. JPMCB-Scottish Orl SML TR GTI 6018	1.08	1.34	5,382,872	3,150,232
18. RBC Investor Services Bank - COELI SICAV I - Frontier Market	1.00	1.24	4,991,023	6,937,459
19. CitiBank Newyork S/A Norges Bank Account 2	0.99	1.23	4,945,634	4,646,142
20. BNYM SA/NV Re-IF Ruffer Absolute Return Fund	0.85	1.06	4,237,905	4,175,684
Sub total	58.29	72.68	291,696,371	290,822,991
* Unregistered Shares	0.18	0.23	916,713	903,254
Balance held by 5,373 voting shareholders (Total voting shareholders- 5,393)	21.73	27.09	108,730,779	103,725,003
Total voting shares	80.20	100.00	401,343,863	395,451,248
Shares held by 10,430 Non-voting shareholders	19.80		99,062,844	97,199,341
Total No. of Ordinary shares	100.00		500,406,707	492,650,589

*916,713 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.

INVESTOR RELATIONS

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13 20 MAJOR SHAREHOLDERS (NON-VOTING) OF THE BANK AS AT 31ST DECEMBER 2019

Name	% on total capital	% on total non-voting capital	No. of Shares 2019	No. of Shares 2018
1. CITI Bank Newyork S/A Norges Bank Account 2	2.00	10.08	9,987,885	10,094,610
2. UBS AG Zurich	1.75	8.86	8,781,597	8,616,404
3. JPMLU-Franklin Templeton Invest	1.25	6.33	6,270,268	7,010,860
4. BNYM SA/NV-Frontaura Global Frontier Fund LLC	1.10	5.53	5,480,087	5,377,000
5. Akbar Brothers Pvt Ltd A/c No. 01	0.78	3.95	3,915,474	3,493,293
6. BNYM SA/NV-Neon Liberty Lorikeet Master Fund LP	0.73	3.71	3,670,992	3,601,936
7. BNYM SA/NV-IF Ruffer Total Return Fund	0.63	3.20	3,171,728	3,112,064
8. BNYM SA/NV-IF Ruffer Absolute Return Fund	0.42	2.13	2,112,783	2,073,039
9. CB Europe Plc LUX S/A Dunross & Co. AB	0.41	2.07	2,048,024	2,018,848
10. Mr. Sohli Edelji Captain	0.31	1.55	1,533,976	1,505,120
11. Rubber Investment Trust Limited A/c # 01	0.29	1.47	1,453,990	1,318,708
12. BNYM SANV Re-IF Ruffer Investment Funds:IF Ruffer Pacific Fund	0.25	1.27	1,254,145	1,230,553
13. Employees Trust Fund Board	0.25	1.26	1,247,347	1,137,429
14. Deutsche Bank AG as Trustee for JB Vantage Value Equity Fund	0.21	1.06	1,053,788	1,033,965
15. Union Assurance PLC - Universal Life Fund	0.19	0.94	927,041	-
16. Union Assurance PLC A/c No. 5 (Unit-linked life insurance fund-equity fund)	0.18	0.91	899,601	976,802
17. Hatton National Bank PLC A/c No. 2	0.14	0.72	712,874	699,464
18. Saboor Chatoor (Pvt) Ltd	0.13	0.68	671,124	658,500
19. Mr. E Chatoor	0.13	0.65	641,131	502,000
20. The Ceylon Investment PLC A/c No. 2	0.12	0.59	586,085	580,065
Sub total	11.27	56.95	56,419,940	55,040,660
Balance held by 10,410 Non-voting shareholders (Total Non-voting shareholders-10,430)	8.52	43.05	42,642,904	42,158,681
Total Non-voting shares	19.80	100.00	99,062,844	97,199,341
Shares held by 5,393 voting shareholders	80.02		400,427,150	394,547,994
* Unregistered voting Shares	0.18		916,713	903,254
Total voting shares	80.20		401,343,863	395,451,248
Total No. of Ordinary shares	100.00		500,406,707	492,650,589

* 916,713 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.

14 DEBENTURE INFORMATION

HNB SUBORDINATED DEBENTURES 2006

i) Market Value

12 months ended 31st December 2019

These debentures have not traded during the year ended 31st December 2019

ii) Interest Rate

12 months ended 31st December

	2019				2018			
	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)	451,633	-	11.00	8.49	406,901	-	11.00	11.31
18 year Fixed Rate (11.25% p.a.) (Zero Coupon)	886,579	-	11.25	9.57	778,998	-	11.25	11.59

HNB SUBORDINATED DEBENTURES 2007

i) Market Value

12 months ended 31st December 2019

These debentures have not traded during the year ended 31st December 2019

ii) Interest Rate

12 months ended 31st December

	2019				2018			
	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	8.86	758,625	16.75	16.75	11.51

INVESTOR RELATIONS

Supplementary Information

HNB SUBORDINATED DEBENTURES 2011

i) Market Value

12 months ended 31st December 2019

These debentures have not traded during the year ended 31st December 2019

ii) Interest Rate

12 months ended 31st December

	2019				2018			
	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.)	2,000,000	11.50	11.83	8.57	2,000,000	11.50	11.83	11.35

HNB SENIOR DEBENTURES 2013

i) Market Value

12 months ended 31st December 2019

These debentures have not traded during the year ended 31st December 2019

ii) Interest Rate

12 months ended 31st December

	2019				2018			
	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 (14.25% p.a.)	1,713,605	8.00	14.25	9.41	1,646,483	8.00	14.25	11.51

HNB SENIOR DEBENTURES 2014

i) Market Value

12 months ended 31st December 2019

	Market Value			Traded Yield		
	Highest Rs	Lowest Rs	Last Traded Rs	Highest %	Lowest %	Last Traded %
10 year Fixed Rate (8.33% p.a.)	75.00	75.00	75.00	15.18	15.18	15.18

ii) Interest Rate

12 months ended 31st December

	2019				2018			
	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	9.64	84,040	8.33	8.50	11.60

HNB SUBORDINATED DEBENTURES 2016 - March

i) Market Value

12 months ended 31st December 2019

	Market Value			Traded Yield		
	Highest Rs	Lowest Rs	Last Traded Rs	Highest %	Lowest %	Last Traded %
5 year Fixed Rate (11.25% p.a.)	100.00	94.00	97.00	15.67	11.14	13.85

ii) Interest Rate

12 months ended 31st December

	2019				2018			
	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.)	7,599,795	11.25	11.25	8.49	7,599,795	11.25	11.25	11.31

HNB SUBORDINATED DEBENTURES 2016 - November

i) Market Value

12 months ended 31st December 2019

	Market Value			Traded Yield		
	Highest Rs	Lowest Rs	Last Traded Rs	Highest %	Lowest %	Last Traded %
7 year Fixed Rate (13.00% p.a.)	100.00	100.00	100.00	12.95	12.94	12.94

5 year debentures have not traded during the year ended 31st December 2019

INVESTOR RELATIONS

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ii) Interest Rate

12 months ended 31st December

	2019				2018			
	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.)	2,039,274	11.75	11.75	8.64	2,039,274	11.75	11.75	11.49
7 year Fixed Rate (13.00% p.a.)	4,086,904	13.00	13.00	9.41	4,086,904	13.00	13.00	11.54

HNB SUBORDINATED DEBENTURES 2019

i) Market Value

12 months ended 31st December 2019

These debentures have not traded during the year ended 31st December 2019

ii) Interest Rate

12 months ended 31st December

	2019				2018			
	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	9.55	-	-	-	-
7 year Fixed Rate (12.80% p.a.)	8,360,693	12.80	12.80	9.75	-	-	-	-

Note: HNB Senior Debenture information is listed under Debt Securities issued, Note 45 of the Financial Position.

Note: HNB Debenture information is listed under Subordinated Term Debts, Note 46 of the Financial Position.

Ratios

	2019	2018
Debt to Equity Ratio (%) *	69.53	78.38
Interest Cover (Times) **	4.25	4.71
Liquidity Asset Ratio (LAR) (%)	29.55	24.40

* Debt includes Borrowings and Debentures

** Includes interest paid on Borrowings and Debentures

INDEPENDENT ASSURANCE STATEMENT

DNV·GL

Scope and Approach

DNV GL represented by DNV GL Business Assurance Lanka (Private) Limited ('DNV GL') was engaged by Hatton Bank Limited PLC ('HNB' or 'the Bank', Company Registration Number PQ 82) to undertake an independent assurance of the Company's Annual Report 2019 ('the Report') in its printed format. The Report is prepared based on the International <IR> Framework ('<IR>') of the International Integrated Reporting Council ('IIRC') that is, the Guiding Principles and Content Elements. The Report uses disclosures selected from the Global Reporting Initiative's (GRI's) Sustainability Reporting Standards (GRI Standards) to bring out the various Content Elements of <IR>. The intended user of this Assurance Statement is the management of the Company. Our assurance engagement was planned and carried out during December 2019 - February 2020, for the financial year ending 31st December 2019.

We performed a Type 2 Moderate Level of assurance using AccountAbility's AA1000 Assurance Standard 2008 (AA1000AS) with 2018 Addendum and DNV GL's assurance methodology VeriSustain™, which is based on our professional experience, international assurance best practices including International Standard on Assurance Engagements 3000 (ISAE 3000) Revised* and the GRI's Principles for Defining Report Content and Quality.

We planned and performed our work to obtain the evidence we considered necessary to provide a basis for our assurance opinion and the process did not involve engagement with external stakeholders. In doing so, we evaluated the qualitative and quantitative disclosures presented in the Report using the <IR> principles, together with HNB's protocols for how the data was measured, recorded and reported. The performance data in the agreed scope of work included the qualitative and quantitative information on non-financial performance which were disclosed in the Report prepared by HNB based on GRI Standards for the identified material topics and covering the non-financial performance related to activities undertaken by the Company during the reporting period 1st January 2019 to 31st December 2019.

The reporting topic boundaries of non-financial performance is based on the internal and external materiality assessment covering HNB's operations in Sri Lanka and is as set out in the Report in the section "About Our Report" and "Material Matters".

We understand that the reported data on economic and financial performance of the Bank and the Group including subsidiaries within the Report is not included in our scope of work, and is based on financial disclosures and data which has been subject to a separate independent statutory audit process.

Responsibilities of the Management of HNB and of the Assurance Provider

The Management team of the Company have the sole accountability for the preparation of the Report and are responsible for the information disclosed in the Report as well as the processes for collecting, analysing and reporting the information presented in the Report. In performing assurance work, our responsibility is to the management of HNB; however, this statement represents our independent opinion and is intended to inform the outcome of our assurance to the stakeholders of HNB.

DNV GL provides a range of other services to HNB, none of which constitute a conflict of interest with this assurance work. DNV GL was not involved in the preparation of any statement or data included in the Report except for this Assurance Statement and Management report highlighting our assessment findings for future reporting.

DNV GL'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 any misstatements. DNV GL expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Assurance Statement.

Basis of our Opinion

A multi-disciplinary team of sustainability and assurance specialists performed work at HNB's Head Office at Colombo, Sri Lanka and visited five (5) operational branches of the Bank. We adopted a risk-based approach, i.e. we concentrated our verification efforts on the issues of high material relevance to Company and its key stakeholders. We undertook the following activities:

- Reviewed the Company'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 seven (7) capitals identified by the Bank (ie. six (6) capitals of the <IR> and Digital Capital) and claims made in the Report, and assessed the robustness of the data management system, data accuracy, information flow and controls for the reported disclosures;
- Examined and reviewed documents, data and other information made available by the Company related to disclosures;
- Conducted in-person interviews with top and senior management team of Company and other representatives, including data owners and decision-makers from different divisions and functions of the Company to validate the disclosures. We were free to choose interviewees and interviewed those with overall responsibility to deliver the Company's sustainability objectives;

INDEPENDENT ASSURANCE STATEMENT

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- Site visits to HNB's Head Office and five (5) branches at Ingiriya, Hanwellla, Malabe, Mirihana and Nugegoda, to review processes and systems for preparing site level sustainability data and implementation of sustainability strategy. We were free to choose the sites we visited;
- Performed sample-based reviews of the mechanisms for implementing the Company'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.

During the assurance process, we did not come across limitations to the scope of the agreed assurance engagement.

Opinion and Observations

On the basis of the verification undertaken, nothing has come to our attention that causes us to believe 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.

AA1000 Accountability Principles Standard (2018)

Inclusivity

The participation of stakeholders in developing and achieving an accountable and strategic response to Sustainability

HNB recognizes the link between the Bank's long-term sustainability, being competitive and maintaining strong relationships with its key stakeholders, ie. investors, customers, employees, business partners, government and the community. The Report brings out how the Bank interacts with stakeholders on a regular basis through various channels to assess their concerns and respond to them. Various concerns and topics brought out by stakeholders are also used in the Bank's strategic planning process. 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 is most relevant to an organization and its stakeholders

The Report brings out the process of identifying material matters for the Bank's operations, which takes into account feedback from stakeholder engagement processes, strategies, and relevant standards and codes. Based on prioritisation, the degrees of reporting of these topics are decided, and twelve (12) topics were identified for reporting. 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 how the Bank transforms its capitals into value for its stakeholders. The various mechanisms which have been set in place for the Bank's Board and leadership teams to understand and respond to the key concerns and feedback of its stakeholders are adequately brought out within the Report through descriptions of the Bank's strategies and management approaches, policies, and governance mechanisms related to its identified material topics. 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

HNB evaluates its impacts on the various capitals from its operations and the processes it has in place for monitoring and measuring the effects of its performance on the environment, society, and key stakeholders. The Report adequately describes how various impacts due to the identified material topics create and change value for the Bank and its key stakeholders through appropriate performance metrics and information. 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 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; personnel responsible could demonstrate the origin and interpretation of the data and its reliability. Nothing has come to our attention to suggest that the Report does not present a faithful description of the reported non-financial disclosures for the reporting period.

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 HNB's non-financial performance using selected GRI Topic Specific Standards corresponding to the material topics the Bank has identified. The majority of data and information verified at the Head Office and sampled 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 GL VeriSustain

Completeness

How much of all the information that has been identified as material to the organisation and its stakeholders is reported

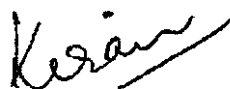
The Report fairly brings out the key disclosure requirements of the <IR> Framework including value creation through its seven (7) identified capitals, business model, strategy, management approach and monitoring systems considering the scope and boundary of reporting ie., the Bank's operations in Sri Lanka. Non-financial performance related to the material topics are brought out through chosen GRI Standards. Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Completeness.

Neutrality

The extent to which a report provides a balanced account of an organization's performance, delivered in a neutral tone

The Report discloses the Bank's performance, challenges, concerns of stakeholders and performance during the reporting period in a neutral tone, in terms of content and presentation. Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Neutrality.

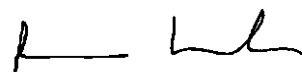
For and on behalf of DNV GL AS
Colombo, Sri Lanka
20th February 2020



KIRAN RADHAKRISHNAN
Lead Verifier,
DNV GL Business Assurance India
Private Limited, India.



ROHITHA WICKRAMASINGHE
Operations Manager – Sri Lanka
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PRASUN KUNDU
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DNV GL Business Assurance India Private Limited is part of DNV GL – Business Assurance, a global provider of certification, verification, assessment and training services, helping customers to build sustainable business performance. www.dnvgl.com

ANNEXURE

Supplementary Information

APPLICATION OF <IR> GUIDING PRINCIPLES

This report is prepared in accordance with the <IR> Framework and has applied the following guiding principles:

IR Guiding	How we have Complied
	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
Strategic Focus and Future Orientation	Our Bank strategy related to key material topics are presented on page 38-39 and our future plans are given in all business line reviews and the Chairman's and Managing Director/CEO's messages on pages 10-13 and 14-17 respectively.
Connectivity of Information	We have provided links to other reports for additional and supporting information related to identified material topics. The Business Model on page 32-33 provides an overview of our business operations and interactions between capitals, business lines, risks and opportunities and value delivered to Stakeholders.
Stakeholder Relationships	We have a process of stakeholder identification and engagement and details of stakeholder engagement and relationship management is discussed and signposted on page 34
Materiality	The process for determining materiality is based on identifying relevant matters and evaluating importance based in <IR> framework and is described on page 38.
Conciseness	We have made every effort to present relevant material information, including organisational context, strategy, governance, performance and prospects in a concise and effective manner.
Reliability & Completeness	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 137-139, 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 307-309
Consistency & Comparability	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

GRI INDEX

GRI Standard	Disclosures	Reference	Page No
GRI 101 : FOUNDATION 2016			
GENERAL DISCLOSURES			
GRI 102 : General Disclosures 2016	ORGANIZATIONAL PROFILE		
	GRI 102-01	Name of the Organization	IR 323
	GRI 102-02	Activities, Brands, Products and Services	IR 32-33
	GRI 102-03	Location of Headquarters	IR 323
	GRI 102-04	Location of Operations	IR 53, IR 321-322
	GRI 102-05	Ownership and Legal Form	IR 323
	GRI 102-06	Markets Served	IR 6-7 , 53
	GRI 102-07	Scale of the Organization	IR 7, 9
	GRI 102-08	Information on Employees and Other Workers	IR 58-63
	GRI 102-09	Supply Chain	IR 34
	GRI 102-10	Significant Changes to the Organization and its Supply Chain	IR 4, 52-53
	GRI 102-11	Precautionary Principle or Approach	IR 39
	GRI 102-12	External Initiatives	IR 64-71
	GRI 102-13	Membership of Associations	IR 70-71, 77
	STRATEGY		
	GRI 102-14	Statement from Senior Decision-Maker	IR 10-17
	GRI 102-15	Key Impacts, Risks and Opportunities	IR 111-114 /CG & RR 41-76
	ETHICS AND INTEGRITY		
	GRI 102-16	Values, Principles, Standards and Norms of Behaviour	CG & RR 3-40
	GRI 102-17	Mechanisms for Advice and Concerns about Ethics	IR 34
	GOVERNANCE		
	GRI 102-18	Governance Structure	CG & RR 8
	GRI 102-19	Delegating Authority	IR 98-106
	GRI 102-20	Executive-Level Responsibility for Economic, Environmental and Social Topics	CG & RR 7-9/ IR 98
	GRI 102-22	Composition of the Highest Governance Body and its Committees	IR 98-101 / CG & RR 4-5
	GRI 102-23	Chair of the Highest Governance Body	CG & RR 7-9
	GRI 102-24	Nominating and Selecting the Highest Governance Body	CG & RR 10 , 27
	GRI 102-25	Conflicts of Interest	CG & RR 35-36
	GRI 102-26	Role of Highest Governance Body in Setting Purpose, Values and Strategy	IR 10-17
	GRI 102 -27	Collective Knowledge of Highest Governance Body	CG & RR 3 , 17
	GRI 102-28	Evaluating the Highest Governance Body's Performance	CG & RR 7, 14-15
	GRI 102-29	Identifying and Managing Economic, Environmental and Social Impacts	CG & RR 26-27
	GRI 102-30	Effectiveness of Risk Management Process	CG & RR 41-50
	GRI 102-31	Review of Economic, Environmental and Social Topics	IR 111-114
	GRI 102-32	Highest Governance Bodys Role in Sustainability Reporting	IR 4, 38-39
	GRI 102-33	Communicating Critical Concerns	CG & RR 22 / IR 62

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GRI Standard	Disclosures	Reference	Page No
	GRI 102-34	Nature and Total Number of Critical Concerns	IR 62
	GRI 102-35	Remuneration Policies	IR 62 , 107-108
	GRI 102-36	Process for Determining Remuneration	IR 107-108
	GRI 102-37	Stakeholders Involvement in Remuneration	CG & RR 22
STAKEHOLDER ENGAGEMENT			
	GRI 102-40	List of Stakeholder Groups	IR 34
	GRI 102-41	Collective Bargaining Agreements	IR 62
	GRI 102-42	Identifying and Selecting Stakeholders	IR 34
	GRI 102-43	Approach to Stakeholder Engagement	CG & RR 17
	GRI 102-44	Key Topics and Concerns Raised	IR 34
REPORTING PRACTICE			
	GRI 102-45	Entities Included in the Consolidated Financial Statements	IR 149, 154-155
	GRI 102-46	Defining Report Content and Topic Boundaries	IR 309
	GRI 102-47	List of Material Topics	IR 38-39
	GRI 102-48	Re-statements of Information	IR 135
	GRI 102-49	Changes in Reporting	IR 4 ,150
	GRI 102-50	Reporting Period	IR 135, 323
	GRI 102-52	Reporting Cycle	IR 323
	GRI 102-53	Contact Point for Questions Regarding the Report	IR 323
	GRI 102-54	Claims of Reporting in Accordance with the GRI Standards	IR 4,307-309
	GRI 102-55	GRI Content Index	IR 311-315
	GRI 102-56	External Assurance	IR 137-139,307-309
ECONOMIC PERFORMANCE			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 45-51
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 201 : Economic Performance 2016	GRI 201-1	Direct Economic Value Generated and Distributed	IR 8
	GRI 201-2	Financial Implications and other Risks and Opportunities Due to Climate Change	IR 10-17, 74-77
	GRI 201-3	Defined Benefit Plan Obligation and Other Retirement Plans	IR 265-266
MARKET PRESENCE			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 40-43
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 202 : Market presence 2016	GRI 202-2	Proportion of Senior Management Hired from the Local Community	IR 60
INDIRECT ECONOMIC IMPACTS			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 64-71 , 74-77
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 203 : Indirect Economic Impact 2016	GRI 203-1	Infrastructure Investment and Services Supported	IR 7 ,52-53
	GRI 203-2	Significant Indirect Economic Impacts	IR 4 ,7

GRI Standard	Disclosures	Reference	Page No
PROCUREMENT PRACTICES			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 64-71
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 204 : Procurement Practices 2016	GRI 204-1	Proportion of Spending on Local Suppliers	IR 64
ANTI-COMPETITIVE BEHAVIOUR			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 135
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 206 : Anti-competitive Behaviour 2016	GRI 206-1	Legal Action for Anti-Competitive Behaviour, Anti-trust and Monopoly Practices	IR 135
TAX 2019			
GRI 103 : Management Approach 2019	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 198
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 207 : TAX 2019	GRI 207-1	Approach to Tax	IR 151-153
	GRI 207-2	Tax Governance, Control and Risk Management	IR 199-201 , 260-262
	GRI 207-3	Stakeholder Engagement and Management Concerns Related to Tax	IR 10-13 ,34
MATERIALS			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 64-71 ,74-77
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 301 : Materials 2016	GRI 301-1	Materials Used by Weight or Volume	IR 75
	GRI 301-2	Recycled Input Materials Used	IR 75-76
ENERGY			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 74-77
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 302 : Energy 2016	GRI 302-1	Energy Consumption within the Organisation	IR 74
	GRI 302-3	Energy Intensity	IR 74
	GRI 302-4	Reduction of Energy Consumption	IR 74
BIODIVERSITY			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 74-77
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 304 : Biodiversity 2016	GRI 304-2	Significant Impact of Activities, Products and Services on Biodiversity	IR 77
	GRI 304-3	Habitats Protected or Restored	IR 77
EMISSIONS			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 74-77
	GRI 103-3	Evaluation of the Management Approach	IR 35-37

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GRI Standard	Disclosures	Reference	Page No
GRI 305 : Emissions 2016	GRI 305-1	Direct (Scope 1) GHG Emissions	IR 74-76
	GRI 305-2	Energy Indirect (Scope 2) GHG Emission	IR 74-76
	GRI 305-3	Other Indirect (Scope 3) GHG Emissions	IR 74
	GRI 305-4	GHG Emissions Intensity	IR 74
	GRI 305-5	Reduction of GHG Emissions	IR 74-76
EFFLUENTS AND WASTE			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 74-77
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 306 : Effluents and waste 2016	GRI 306-2	Waste by Type and Disposal Method	IR 76
ENVIRONMENTAL COMPLIANCE			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 74-77
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 307 : Environmental Compliance 2016	GRI 307-1	Non-Compliance with Environmental Laws and Regulations	IR 75
EMPLOYMENT			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 58-63
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 401 : Employment 2016	GRI 401-1	New Employee Hires and Employee Turnover	IR 60
	GRI 401-2	Benefits Provided to Full time Employees that are not Provided to Temporary or Part-time Employees	IR 62
LABOUR MANAGEMENT RELATIONS			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 58-63
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 402 : Labour Management Relations 2016	GRI 402-1	Minimum Notice Periods Regarding Operations Changes	IR 60
OCCUPATIONAL HEALTH AND SAFETY			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 58-63
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 403 : Occupational Health and Safety 2016	GRI 403-1	Workers Representation in Formal Joint Management - Worker Health and Safety Committees	IR 62
TRAINING AND EDUCATION			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 58-63
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 404 : Training and Education 2016	GRI 404-1	Average Hours of Training per Year per Employee	IR 61
	GRI 404-2	Programs for Upgrading Employees Skills and Transition Assistance Programs	IR 60 , 77
	GRI 404-3	Percentage of Employees Receiving Regular Performance and Career Development Reviews	IR 61

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GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 58-63
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 405 : Diversity and equal opportunity 2016	GRI 405-1	Diversity of Governance Bodies and Employees	IR 59, 60 , 63
FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 58-63
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
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	IR 62
HUMAN RIGHTS ASSESSMENT			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 58-63
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 412 : Human Rights Assessment 2016	GRI 412-2	Employee Training on Human Rights Policies or Procedures	IR 76
LOCAL COMMUNITIES			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 64-71
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 413 : Local Communities 2016	GRI 413-1	Operations with Local Community Engagement, Impact Assessments and Development Programs	IR 67-68
MARKETING AND LABELING			
GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 78-89
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 417 : Marketing and Labelling 2016	GRI 417-1	Requirements for Product and Service Information and Labelling	IR 64
	GRI 417-2	Incidents of Non-compliance Concerning Product and Services Information and Labelling	IR 85
	GRI 417-3	Incidents of Non-compliance Concerning Marketing Communication	IR 78-79
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GRI 103 : Management Approach 2016	GRI 103-1	Explanation of the Material Topic and it's Boundary	IR 38-39
	GRI 103-2	The Management Approach and its Components	IR 64-71
	GRI 103-3	Evaluation of the Management Approach	IR 35-37
GRI 418: Customer Privacy 2016	GRI 418-1	Substantiated Complaints Concerning Breaches of Customer Privacy and Losses of Customer Data	IR 67

GLOSSARY OF FINANCIAL / BANKING TERMS

Supplementary Information

A

ACCEPTANCES

The signature on a Bill of Exchange indicates that the person on whom it is drawn accepts the conditions of the Bill. In other words a Bill of Exchange that has been accepted.

ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

ACCRUAL BASIS

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

ACTUARIAL GAIN/LOSS

Gain or loss arising from the difference between estimates and actual experience in a company's pension plan.

AMORTISATION

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

AMORTISED COST

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or uncollectability.

ASSOCIATE

An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

AVAILABLE FOR SALE FINANCIAL ASSETS

Available for sale financial assets are those non derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

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.

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.

GLOSSARY OF FINANCIAL / BANKING TERMS

Supplementary
Information**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.

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.

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).

GLOSSARY OF FINANCIAL / BANKING TERMS

Supplementary
Information**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 2019

CENTRAL PROVINCE - 26

Kandy - 15	Kundasale	Nuwara Eliya - 08
Akurana	Kurunduwatte	Bogawanthalawa
Asiri Hospital (Pay Office)	Nawalapitiya	Ginigathhena
Digana	Peradeniya	Hatton
Galaha	Pilimathalawa	Maskeliya
Gampola	Rikillagaskada	Nuwara Eliya
Gelioya	Matale - 03	Pussellawa
Kandy	Dambulla	Ragala
Kandy City Centre (Extension Office)	Galewela	Thalawakele
Katugastota	Matale	

EASTERN PROVINCE - 25

Ampara - 11	Batticaloa - 05	Trincomalee - 09
Akkaraipattu	Batticaloa	Kantale
Ampara	Eravur	Kinniya
Dehiattakandiya	Valachchenai	Marathamunai
Kalmunai	Kaluwanchikudy	Mullipathana
Karaitivu	Kattankudy	Muttur
Ninthavur		Trinco Metro
Pottuvil		Serunuwara
Samanthurai		Trincomalee
Thandavenvely		Uppuveli
Thirukkovil		
Uhana		

NORTHERN PROVINCE - 21

Jaffna - 12	Kilinochchi - 02	Mullaitivu - 02
Atchchuveli	Kilinochchi North	Mullaitivu
Chankanai	Kilinochchi South	Mulliyawalai
Chavakachcheri	Mannar - 03	Vavuniya - 02
Chunnakam	Mannar	Kurumankadu
Jaffna	Mallavi	Vavuniya
Jaffna Metro	Nanattan	
Kaithady		
Kodikamam		
Manipay		
Nelliady		
Point Pedro		
Thirunelvely		

SOUTHERN PROVINCE - 25

Galle - 09	Hambantota - 8	Matara - 08
Ambalangoda	Ambalantota	Akuressa
Batapola	Angunakolapelessa	Deniyaya
Elpitiya	Hambantota	Devinuwara
Galle	Middeniya	Dickwella
Hikkaduwa	Sooriyawewa	Hakmana
Karapitiya	Tangalle	Matara
Koggala	Tissamaharama	Urubokka
Pitigala	Walasmulla	Weligama
Yakkalamulla		

NORTH CENTRAL PROVINCE - 10

Anuradhapura - 07	Polonnaruwa - 03
Anuradhapura	Aralaganwila
Anuradhapura Metro	Medirigiriya
Kekirawa	Polonnaruwa
Medawachchiya	
Nochchiyagama	
Padavi	
Parakramapura	
Thambuttegama	

NORTH WESTERN PROVINCE - 18

Kurunegala - 09	Puttalam - 09
Alawwa	Anamaduwa
Galgamuwa	Chilaw
Giriulla	Dankotuwa
Hettipola	Madampe
Kuliyapitiya	Marawila
Kurunegala	Norochchole
Kurunegala Metro	Puttalam
Nikaweratiya	Udappuwa
Wariyapola	Wennappuwa

BRANCH NETWORK 2019

Supplementary
Information

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 - 104

Colombo - 66

Aluthkade
Asiri Surgical Hospital
(Pay Office)
Athurugiriya
Avisawella
Bambalapitiya
Boralesgamuwa
Borella
Cinnamon Gardens
City Office
Dehiwela
Dematagoda
Grandpass
Greenpath
Hanwella
Head Office Branch
Homagama
Hulftsdorp
International Water
Management Institute
(Pay Office)
Jampettah
Sri Jayawardenapura
Hospital (Pay Office)
Kaduwela
Kelaniya
Kiribathgoda

Kirulapone

Kohuwela
Kollupitiya
Kolonnawa
Kotahena
Kottawa
Maharagama
Pettah Metro
Malabe
Maligawatte
Maradana
Mirihana
Moratumulla
Moratuwa
Mount Lavinia
Mutwal
Narahenpita
Nawala
Nawaloka (Pay Office)
Nawam Mawatha
Nugegoda
One Galle Face Mall
(Pay Office)
Overseas School of
Colombo (Pay Office)
Padukka
Pamankada

Panchikawatte

Peliyagoda
Pettah
Piliyandala
Ratmalana
Sea Street
SLPA (Pay Office)
Thalangama
Thalawathugoda
Asiri Central Hospital
(Pay Office)
Thimbirigasyaya
Wellawatte
Wijerama
World Trade Centre
Orian City (Pay Office)
Pension Department
(Pay Office)
Lanka Hospital PLC
(Pay Office)

Gampaha - 29

Airport Departure
Counter (Pay Office)
Biyagama
Delgoda
Divulapitiya
Ekala
Gampaha
Ganemulla
Hendala
Ja-Ela
Kadawatha
Kandana
Katunayake
Kirindiwela
Kochchikade
Marandagahamula
Minuwangoda
Mirigama
Negombo
Negombo Metro
Nittambuwa
Pamunugama
Pugoda
Ragama
Seeduwa
Sri Lankan Airlines
(Pay Office)

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

Stock Exchange Listing

The ordinary shares and the unsecured subordinated redeemable debentures of the Bank are listed on the Colombo Stock Exchange in Sri Lanka.

Registered Office

"HNB Towers"
No. 479, T B Jayah Mawatha
(Darley Road),
P O Box 837,
Colombo 10,
Sri Lanka.

Head Office

"HNB Towers",
No. 479, T B Jayah Mawatha
(Darley Road),
P O Box 837,
Colombo 10,
Sri Lanka.

Cable Address : HATNABANK

Telephone Nos : +94 11 2664664

: +94 112662772

: +94 11 4764764

Fax No : +94 112662832

Swift : Bic Code - HBLILKLX

e-mail : hnbconnect@hnb.lk

Web : www.hnb.net

Credit Ratings

The Bank has been assigned a national long term rating of AA-(lka) by Fitch Ratings Lanka Limited and a Foreign Currency Issuer rating of B2 by Moody's Investors Service on par with the Sovereign rating.

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 Limited

(Financial Services)

Voting rights - 51%

Auditors

Ernst & Young

Chartered Accountants

201, De Saram Place

Colombo 10,

Sri Lanka.

Investor Information

Institutional Investors, Stockbrokers and Security Analysts requiring financial information should contact the Chief Strategy Officer

"HNB Towers"

Level 16, No. 479,

T B Jayah Mawatha,

Colombo 10,

Sri Lanka.

Telephone : +94 11 2661178

Fax : +94 11 2662815

e-mail : investor.relations@hnb.lk

BOARD OF DIRECTORS AND COMMITTEES

Board of Directors

Mr Dinesh Weerakkody (Chairman)

Mr Jonathan Alles (Managing Director/CEO)

Dr L R Karunaratne

Mr R S Captain (Alternate Director - Mr P R Saldin)

Mr Amal Cabraal

Mr Palitha Pelpola

Mr D Soosaipillai

Mr A N de Silva

Mr Damien Fernando (Alternate Director
- Dr Prasad Samarasinghe)

Mr Madu Ratnayake

Mr H Asoka Pieris

Dr L J S Harsha Cabral, PC

Ms M A R C Cooray

- Retired with effect from 15.02.2019

Mr Sujeewa Mudalige

- Resigned with effect from 29.03.2019

Board Secretary

Ms K A L Thushari Ranaweera
Attorney-at-Law, LL.M (Cambridge),
Dip in Int'l Affairs (BCIS)

Audit Committee

Mr H Asoka Pieris (Chairman)

Dr Rohan Karunaratne

Mr Rusi Captain

Mr A N de Silva

Mr Damien Fernando

Nomination Committee

Mr Dinesh Weerakkody (Chairman)

Mr R S Captain

Mr Palitha Pelpola

HR & Remuneration Committee

Mr Dinesh Weerakkody (Chairman)

Mr Amal Cabraal

Mr Palitha Pelpola

Board Integrated Risk Management Committee

Mr D Soosaipillai (Chairman)

Mr Rusi Captain

Mr Madu Ratnayake

Mr Jonathan Alles - Managing Director/CEO

Mr Damith Pallewatte - Chief Risk Officer/DGM
(Risk)/Chief Information Security Officer

Mr Janath Ilangantileke - Assistant General Manager
(Compliance)

NOTICE OF MEETING

Supplementary Information

Notice is hereby given that the Fifty First (51st) Annual General Meeting of Hatton National Bank PLC (the "Bank") is convened on Monday, the Thirtieth (30th) day of March 2020 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 2019 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 Seven (Rs 7/-) per share constituting a total sum of Rs 3,502,846,949/- 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 2019 based on the issued ordinary voting shares and ordinary non-voting shares as at February 20th, 2020;
- (b) THAT the shareholders entitled to such dividend 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 date on which the requisite resolution of the Shareholders in regard to the final dividend is passed ('entitled Shareholders');
- (c) THAT the said final dividend of Rs 7/- 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 February 19th, 2020 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 1,404,703,520/50 be made to the holders of ordinary voting shares and (B) a sum of Rs 346,719,954/- be made to the holders of ordinary non-voting shares respectively, on the basis of Rupees Three and Cents Fifty (Rs 3/50) per each share.
 - ii. By way of the allotment of and issue of new shares:
 - A. For voting shares:

A sum of Rs 1,404,703,520/50 be distributed to the holders of ordinary voting shares in the form of a scrip dividend at the rate of Rupees Three and Cents Fifty (Rs 3/50) per each share, by the issue of a total of 8,975,741 ordinary voting shares computed on the basis of one (1) ordinary voting share for every 44.7142874332 ordinary voting shares currently in issue (which computation is based on a valuation of Rs. 156/50 per each ordinary voting share).
 - B. For non-voting shares:

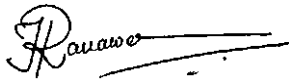
A sum of Rs 346,719,954/- be distributed to the holders of ordinary non-voting shares in the form of a scrip dividend at the rate of Rupees Three and Cents Fifty (Rs 3/50) per each share, by the issue of 2,593,268 ordinary non-voting shares computed on the basis of one (1) ordinary non-voting share for every 38.2000024679 non-voting shares currently in issue (which computation is based on a valuation of Rs 133/70 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.
- (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) 8,975,741 ordinary voting shares to the holders of ordinary voting shares on the basis of one (1) ordinary voting share for every 44.7142874332 ordinary voting shares currently in issue and (b) 2,593,268 ordinary non-voting shares to the holders of ordinary non-voting shares on the basis of one (1) ordinary non-voting share for every 38.2000024679 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.

- iii. To re-elect Damian Amal Cabraal, who retires at the Annual General Meeting, as a Director of the Bank in terms of Article 34 of the Articles of Association of the Bank.
- iv. To re-elect Mr Hiran Asoka Pieris as a Director of the Bank in terms of Article 36 of the Articles of Association of the Bank.
- v. To re-elect Dr Liyanamohottige Joseph Sri Harsha Cabral, as a Director of the Bank in terms of Article 36 of the Articles of Association of the Bank.
- vi. (a) To appoint Messrs KPMG - Sri Lanka (Chartered Accountants) as the Bank's Auditors for the ensuing year and to authorize the Directors to fix their remuneration.
(b) To authorize the Board of Directors to determine the remuneration of the auditor for the ensuing year.
- vii. To authorize the Directors to determine payments for the year 2020 for charitable and other purposes.

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. 20th February 2020

NOTICE OF MEETING

Supplementary
Information

Notes :

1. A member entitled to attend or attend and vote at the meeting, is entitled to appoint a proxy to attend or attend and vote as the case may be, in his stead.
2. A proxy need not be a member of the Company. The Form of Proxy is enclosed.
3. The completed Form of Proxy should be deposited with the Board Secretary at the Registered Office of the Company at No. 479, T.B. Jayah Mawatha, Colombo 10 (at "HNB Towers", Level 18), not less than 24 hours before the time appointed for holding the meeting.

SUMMARY OF ARTICLE 22 OF THE ARTICLES OF ASSOCIATION OF HATTON NATIONAL BANK PLC 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.
3. A declaration by the Chairman of the meeting that a resolution is carried by the requisite majority is conclusive evidence of that fact, unless a poll is demanded.
4. At a meeting of shareholders, a poll may be demanded on a particular question as provided for in the Companies Act No.7 of 2007 by,
 - the Chairman;
 - not less than five (5) shareholders having the right to vote at the meeting; or
 - a shareholder or shareholders representing not less than ten per centum (10%) of the total voting rights of all shareholders having the right to vote at the meeting.
5. A poll may be demanded either before or after the vote is taken on a resolution. A demand for a poll may be withdrawn any time before the poll is taken.
6. If a poll is taken, votes shall be counted according to the votes attached to the shares of each shareholder present and voting.
7. In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting shall be entitled to a second or casting vote.
8. A declaration by the Chairman of the meeting that a resolution has been carried, or carried unanimously or by a particular majority, or lost, and an entry made to that effect in the minute book, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such a resolution.

FORM OF PROXY [VOTING]

I/We
 of
 being *a member/members of the Hatton National Bank PLC,
 hereby appoint
 of

or failing him/her, Dinesh Stephen Weerakkody or failing him, Antonio Jonathan Alles or failing him, Lokuwithanage Rohan Karunaratne or failing him, Rusi Sohli Captain or failing him, Damian Amal Cabraal or failing him, Eugen Duliksha Pratharp Soosaipillai or failing him, Appu Hennadige Don Anthony Nilanth de Silva or failing him, Lintotage Udaya Damien Fernando or failing him Wanniarachchi Mudiyanseelage Madura Duminda Ratnayake or failing him, Hiran Asoka Pieris or failing him, Liyanamohottige Joseph Sri Harsha Cabral as *my/our proxy, to attend, vote and speak on *my/our behalf represent *me/us at the Fifty First (51st) 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, 2020 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. 7.00 per share as the final dividend for 2019 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 Damian Amal Cabraal as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(iii)	To re-elect Mr. Hiran Asoka Pieris as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(iv)	To re-elect Dr. Liyanamohottige Joseph Sri Harsha Cabral as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(v)	To appoint Messrs KPMG - Sri Lanka (Chartered Accountants) as the Bank's Auditors for the ensuing year/authorize the Directors to fix their remuneration	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(vi)	To authorize the Directors to determine payments 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 2020.

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 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.

FORM OF PROXY [NON-VOTING]

I/We
 of
 being *a member/members of the Hatton National Bank PLC,
 hereby appoint

..... of
 or failing him/her, Dinesh Stephen Weerakkody or failing him, Antonio Jonathan Alles or failing him, Lokuwithanage Rohan Karunaratne or failing him, Rusi Sohli Captain or failing him, Damian Amal Cabraal or failing him, Eugen Duliksha Pratharp Soosaipillai or failing him, Appu Hennadige Don Anthony Nilanth de Silva or failing him, Lintotage Udaya Damien Fernando or failing him Wanniarachchi Mudiyanseelage Madura Duminda Ratnayake or failing him Hiran Asoka Pieris or failing him, Liyanamohottige Joseph Sri Harsha Cabral as *my/our proxy, to attend, vote and speak on *my/our behalf represent *me/us at the Fifty First (51st) 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, 2020 at 10.00 in the forenoon and at any adjournment thereof.

* Delete inappropriate words

Signed this day 2020.

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.
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 - (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.
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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 Strategy 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
		Country Code	Area Code	Number
	(Fax)	Country Code	Area Code	Number
		Country Code	Area Code	Number
E-mail			
Name of Company (If Applicable)			
Designation (If Applicable)			
Company Address (If Applicable)			

Queries / Comments

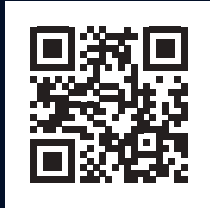
Please tick "✓" the appropriate box

- | | | |
|---|--------------------------|--------------------------|
| | Yes | No |
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| Would you like to receive news and press releases of HNB via e-mail? | <input type="checkbox"/> | <input type="checkbox"/> |
| Would you like to receive any information on our products / services? | <input type="checkbox"/> | <input type="checkbox"/> |

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