

# Rooted to Rise



YOUR PARTNER IN PROGRESS







# Rooted to Rise

At HNB we firmly believe that the stronger our roots, the higher we can rise. Over the past year, we have worked relentlessly to strengthen the foundations that have supported us for 136 years. As we prepare to usher our stakeholders into a new era of banking, we are confident that the solid, resilient roots we have reinforced will provide the stability we need for future growth.

We are poised for a period of exponential growth, firmly grounded in a strong foundation that will propel both our collective progress and the nation's development.

We are ready to overcome today's challenges and achieve new heights of excellence.

We are rooted to rise.

*The cover illustration features the Euphrates Poplar, or Desert Poplar, often referred to as 'the guardian of the desert.' For centuries, these trees have thrived by relying on a deep, interconnected root system that fosters collective growth through shared prosperity. Similarly, HNB is committed to building a robust and interconnected foundation that nurtures growth and prosperity, not just for the Bank, but for the communities we serve. By strengthening our core values and fostering partnerships, we aim to create a thriving ecosystem that supports sustainable development, enhances the well-being of our stakeholders, and ensures long-term success for future generations.*

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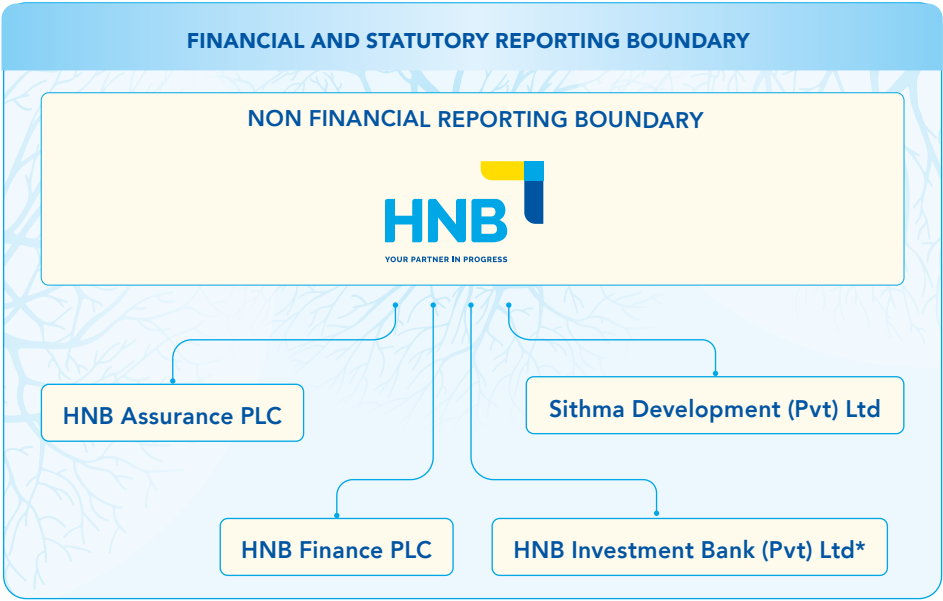
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# ABOUT THE REPORT

## Report Profile

This Integrated Annual Report presents a comprehensive overview of the performance of the Hatton National Bank PLC (HNB) Group. The Report offers a clear and concise account of the strategic initiatives undertaken to realise the Group’s long-term vision while effectively balancing the current and future expectations of all stakeholders.

This is the 11th Integrated Report prepared by HNB, since the Group commenced its integrated reporting journey in 2014. All previous integrated reports including the most recent Report for 2023 is available on the corporate website - [www.hnb.net](http://www.hnb.net) for viewing and download



\* Previously known as Acuity Partners (Pvt) Ltd.

## REPORTING BOUNDARY AND SCOPE

This report covers the period from 1st January 2024 to 31st December 2024 and includes post balance sheet events and information up to the date of Board approval on 21st February 2025. The financial information contained in the report relates to Hatton National Bank PLC and its Group Companies namely HNB Assurance PLC, HNB Finance PLC, HNB Investment Bank (Pvt) Ltd and Sithma Development (Pvt) Ltd. Non-financial information presented within the Report, unless explicitly stated, refers to information relating only to the Bank and excludes the Group Companies as the Bank accounts for over 92% of Group PAT and over 94% of total assets and total liabilities.

# ABOUT THE REPORT

## Integrated Reporting Process



### WHAT WE CONSIDER WHEN CREATING VALUE



#### 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 cutting-edge technology to constantly exceed stakeholder expectations.

#### OPERATING CONTEXT

Evaluating the latest developments impacting our operating environment and identifying the risks and opportunities that influence our decision making processes and the way we create value for our stakeholders. Refer Operating Environment - page 42

#### KEY RISKS

As a Bank we have identified principal risks that impact our business model and strategy, and we work proactively to manage these conditions. Refer Risk Report - page 231

#### STAKEHOLDER ENGAGEMENT

Build strong and meaningful relationships with our stakeholders in order to understand their needs and expectations and determine how best to respond to these. Refer Stakeholder Engagement - page 24

Our Identified Stakeholders

- Customers
- Employees
- Government and Regulators
- Communities
- Investors
- Business Partners

#### MATERIAL TOPICS

Determining material matters important to our stakeholders alongside an in-depth analysis of the internal and external environment to determine environmental, social and governance aspects that could potentially be material to HNB's business model as a Bank. Refer Materiality Assessment - page 31



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



[www.hnb.net/2024](http://www.hnb.net/2024)



- Chairman's Message - page 12
- Managing Director / CEO's Review - page 15
- HNB's Strategic Direction - page 36
- Business Line Review - page 47



CONCISENESS

CONNECTIVITY

TIMELINESS

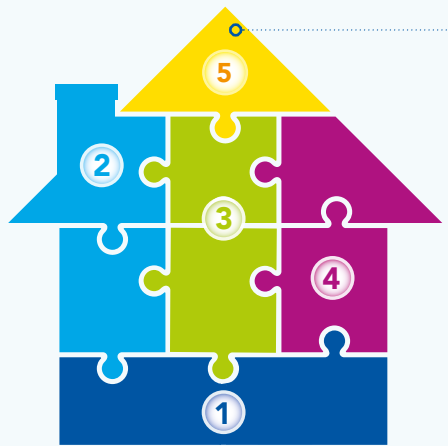
VERIFIABILITY

## HOW WE CREATE VALUE

### STRATEGIC PILLARS

An agile and iterative strategy that embeds material matters and sustainability considerations across five strategic pillars that represent HNB's efforts to consistently strengthen its core foundations to support business adaptability, scalability and resilience - Refer Strategic Direction - page 36

- 1 Business Sustainability
- 2 Business Growth
- 3 Customer Experience and Productivity
- 4 People Development
- 5 Technology Enablement



- o No 1 Bank in Sri Lanka
- o Most Customer Centric Bank
- o Most Preferred Employer
- o Best Digital Bank
- o Most Resilient and Sustainable Bank

### OUTCOMES

Quantitative and qualitative outcomes for stakeholders representing value enhancement or at a minimum value preservation, while minimising value erosion. Value Creation Model - page 22

### OUTLOOK AND PROSPECTS

Chairman's Message - page 12  
Managing Director / Chief Executive Officer's Review - page 15

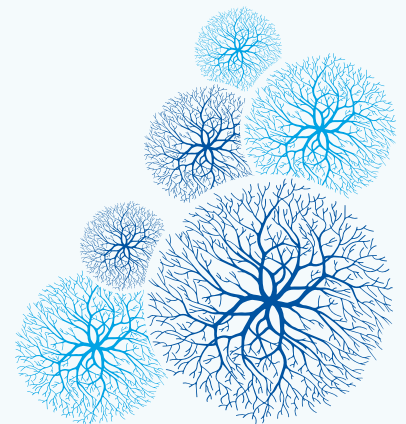


### LEADING THE TRANSITION TOWARDS BECOMING A FULLY SUSTAINABLE BANK

Allocation of financial and non-financial resources to facilitate the creation and delivery of stakeholder value - Refer Capital Management Reports - page 59

#### The Seven Capitals That We Use to Create Value:

- Financial Capital
- Human Capital
- Intellectual Capital
- Digital Capital
- Natural Capital
- Social and Relationship Capital
- Manufactured Capital





# ABOUT THE REPORT

## LEADING THE TRANSITION TOWARDS BECOMING A FULLY SUSTAINABLE BANK

Global sustainability best practices underscore our efforts to deliver stakeholder value and prove our commitment to lead by example in advocating for sustainability. Refer Leading the Transition Towards Becoming a Fully Sustainable Bank - page 98



## Reporting Frameworks

### INTEGRATED REPORTING (V)

- The International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC)

### SUSTAINABILITY REPORTING (V)

- In accordance with the Global Reporting Initiative (GRI) standards issued by the Global Sustainability Standards Board
- United Nations Sustainable Development Goals (SDGs)
- Sustainability Accounting Standards Board (SASB) - Sustainability Accounting Standard for Commercial Banks
- United Nations Global Compact (UNGC)
- SLFRS S1 and S2

### FINANCIAL REPORTING (M)

- Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka
- Companies Act No 07 of 2007
- Listing Rules of the Colombo Stock Exchange

### GOVERNANCE, COMPLIANCE AND RISK REPORTING

- Code of Best Practice for Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (V)
- Corporate Governance Requirements stipulated under the Listing Rules of the Colombo Stock Exchange (CSE) - (M)

M - Mandatory Requirements

V - Voluntary Adoption

## Assurance

All sections of the Integrated Report encompassing financial and non-financial information, including the narrative and supporting quantitative and qualitative data have been reviewed by the Board Audit Committee, with a view to providing assurances to the Board regarding the accuracy and completeness of the report content.

External auditors; KPMG have provided independent assurance reports regarding the financial statements for the year ending 31st December 2024. Independent assurance has also been obtained confirming that the Integrated Report for the year 2024 adheres to GRI Standards and complies with the <IR> Integrated Reporting Framework. These statements are on Page 508 and 510 respectively.

## Feedback

The Board values stakeholder feedback on this Integrated Annual Report and encourages readers to share their comments using the Investor Feedback Form available on page 537. We look forward to hearing from you.

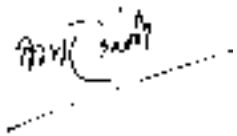
## Forward-Looking Statements

The report includes, where relevant, future plans that reflect the HNB Group's position and beliefs at the time of writing. However, given the dynamic and rapidly evolving environment in which the Group operates, unforeseen developments and uncertainties may lead to actual results or actions to be different from those outlined in these forward-looking statements. As such, the Group assumes no obligation to publicly update or revise these statements after the publication date. Readers are therefore advised to interpret forward-looking statements with caution.


The Board confirms that there are no restatements pertaining to previous annual reports published by HNB PLC.

## Board Responsibility Statement

The Board of Directors of HNB PLC takes full responsibility for the completeness, accuracy, and integrity of this report. The Board confirms that it has collectively reviewed its contents, supported by assurance reports from both internal and external providers. Based on this review, the Board is satisfied that the Integrated Report for 2024 effectively addresses all material issues impacting the Group's ability to create and sustain stakeholder value in the short, medium, and long term.



*Nihal Jayawardene PC*  
Chairman



*Devaka Cooray*  
Chairman,  
Board Audit Committee

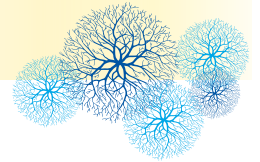


*Damith Pallewatte*  
Managing Director/CEO

Colombo, Sri Lanka  
21st February 2025

## KEY IMPROVEMENTS CAPTURED IN 2024

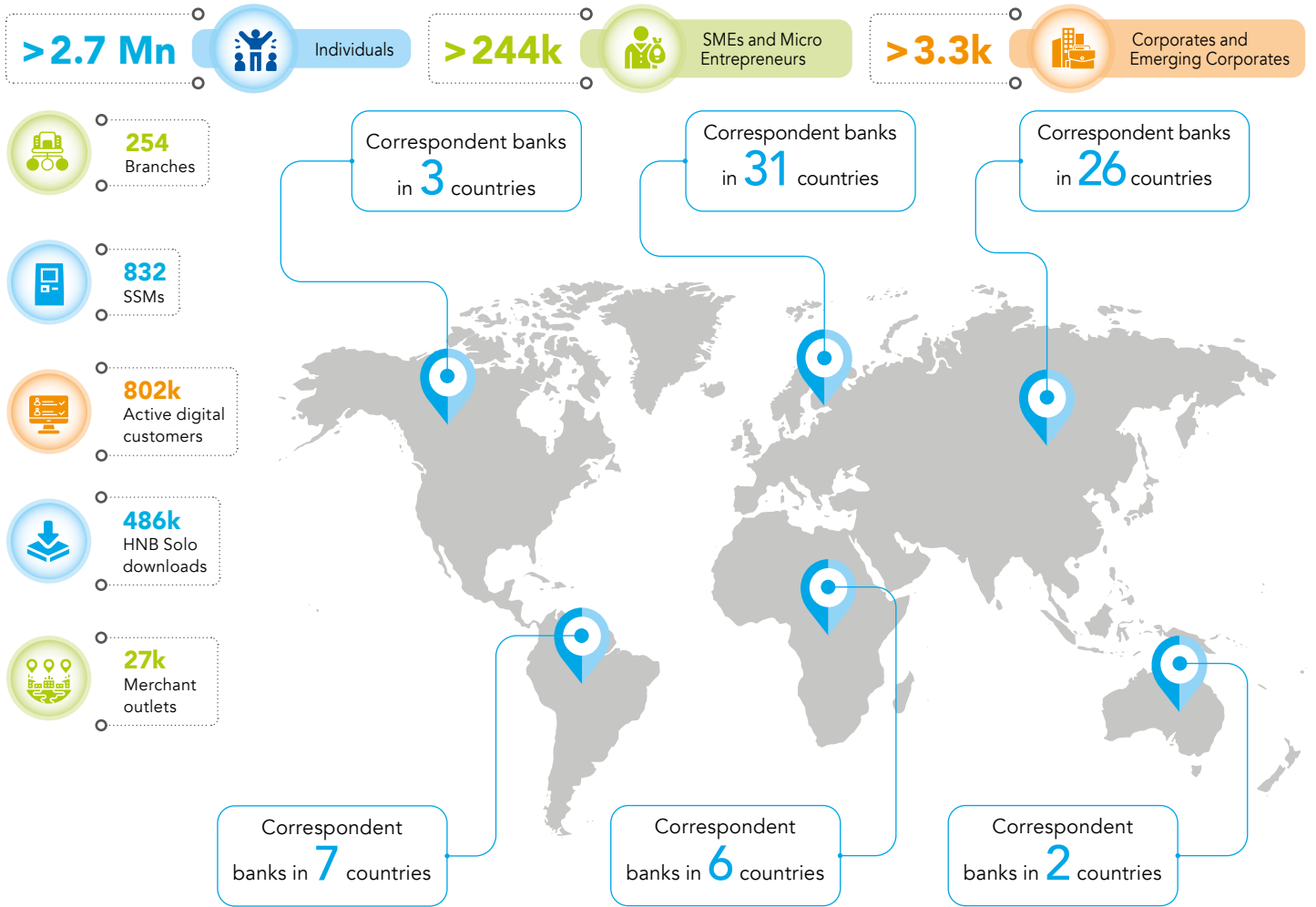
- » Enhanced screening of Material Topics using the double materiality filter
- » Strengthened disclosures in the Value Creation Model with the inclusion of stakeholders impacted (directly and indirectly), links to SDG's and Capital trade-offs during resource allocation
- » Enhanced disclosures for SLFRS S1 and S2
- » Improved governance disclosures across all capital reports
- » UNGC highlights



# ABOUT THE HNB GROUP

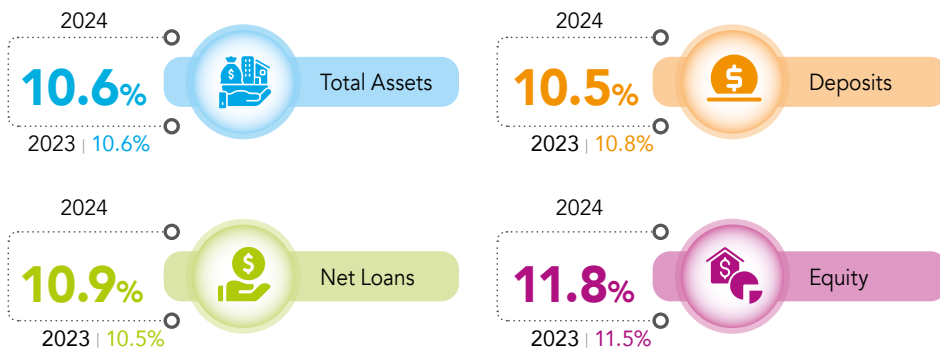
Hatton National Bank PLC (HNB) is one of Sri Lanka's most prominent private sector banks, with a legacy that spans over a century. Founded in the late 19th century to serve the financial needs of tea planters in the Hatton region, HNB has since grown into a leading financial institution, playing a pivotal role in the Country's economic development.

## Connecting Sri Lankans



## Domestically Significant

HNB's market share against Licensed Commercial Bank Assets and Liabilities (As at end of 2023 and Q3 2024)



## A Legacy of Excellence

HNB's journey began in 1888 as Hatton Bank, serving British planters in Sri Lanka's central highlands. Over the decades, the Bank evolved, adapting to the changing economic landscape and expanding its services to cater to a broader clientele. In 1970, Hatton National Bank was formally established, marking a significant milestone in its transformation into a full fledged commercial bank.

Today, backed by a National Long-Term Rating of 'AA- (lka)' by Fitch Ratings Lanka, the HNB brand stands out as a symbol of excellence in Sri Lanka's banking sector, known for its financial strength, customer-centric approach, and unwavering commitment to innovation and service excellence.

## Driving Economic Growth

Throughout its history, HNB has been a key player in Sri Lanka's financial sector, fostering financial inclusion and supporting businesses across all industries and sectors of the economy. With a strong physical footprint represented by a network of 254 branches and 832 SSMs across the country the Bank has earned the trust of millions across the nation to solidify its status as the preferred choice for individuals and businesses alike.

HNB is one of only two private banks in Sri Lanka to be declared a Domestic Systemically Important Bank (D-SIB) - a rank that underscores its critical role in safeguarding the stability of the Country's financial system. This recognition reflects HNB's financial resilience, prudent risk management, and strategic contributions to the nation's economic progress.

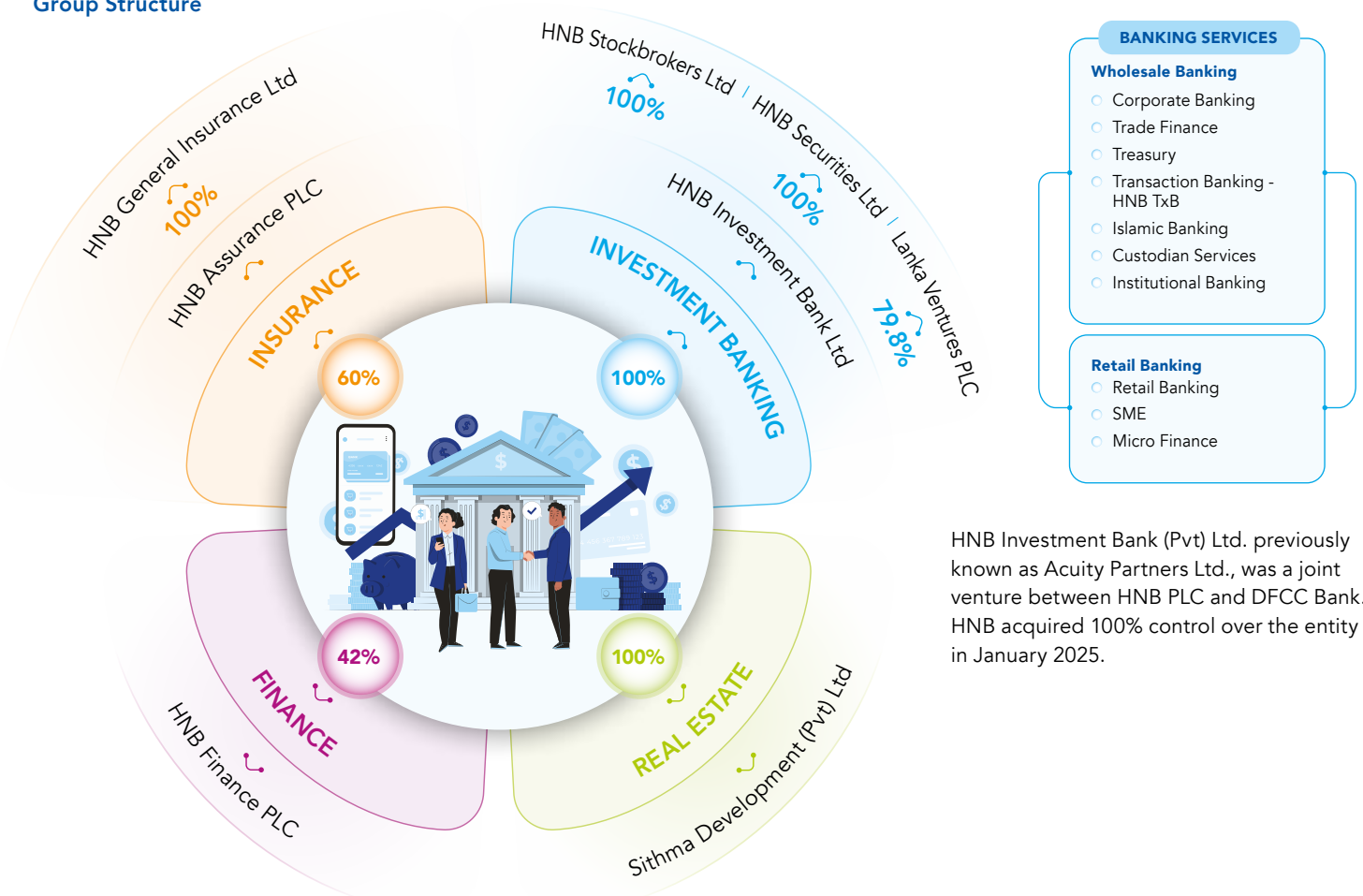
## Innovation and Digital Transformation

HNB has consistently been at the forefront of banking innovation through its pioneering endeavours to redefine the customer by leveraging cutting-edge solutions to enhance financial accessibility for all Sri Lankans. From introducing ATMs and mainstream internet banking to groundbreaking mobile banking apps, transaction banking solutions and cutting-edge digital payment platforms, HNB has embraced technology to stay ahead of the curve.

## Commitment to Sustainability and CSR

Beyond banking, HNB has upheld a strong commitment to sustainability and Corporate Social Responsibility (CSR). The Bank has championed financial inclusion, sustainable financing, and green initiatives, reinforcing its role as a responsible corporate citizen.

## Group Structure



HNB Investment Bank (Pvt) Ltd. previously known as Acuity Partners Ltd., was a joint venture between HNB PLC and DFCC Bank. HNB acquired 100% control over the entity in January 2025.

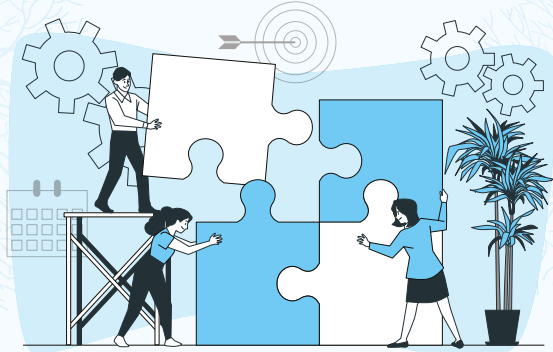
# PERFORMANCE HIGHLIGHTS

	Bank			Group		
	2024 Rs Mn	2023 Rs Mn	Change	2024 Rs Mn	2023 Rs Mn	Change
<b>Financial Capital</b>						
<b>A Resilient Performance</b>						
Gross income	190,870	299,139	-36.2%	228,945	336,638	-32.0%
Net interest income	96,288	104,342	-7.7%	109,765	118,075	-7.0%
Net fee and commission income	17,848	15,841	12.7%	19,149	16,573	15.5%
Total operating income	63,903	118,916	-46.3%	97,593	149,500	-34.7%
Impairment charge / (reversal)	(78,656)	40,589	-293.8%	(77,406)	42,524	-282.0%
Operating expenses	42,205	35,504	18.9%	71,129	60,375	17.8%
Operating profit before tax on financial services	100,355	42,823	134.3%	103,869	46,601	122.9%
Profit before income tax	79,821	32,689	144.2%	84,099	37,218	126.0%
Profit after tax	41,342	20,353	103.1%	44,840	23,606	89.9%
<b>Financial Stability</b>						
Shareholders' funds	231,479	184,977	25.1%	261,361	212,240	23.1%
Customer deposits	1,715,484	1,579,780	8.6%	1,750,259	1,609,154	8.8%
Gross loans and advances	1,159,740	1,041,990	11.3%	1,206,782	1,081,186	11.6%
Total assets	2,078,538	1,934,252	7.5%	2,209,174	2,047,040	7.9%
Total liabilities	1,847,059	1,749,275	5.6%	1,939,424	1,827,484	6.1%
<b>Profitability</b>						
Net interest margin (%)	5.24%	6.47%	-123 bps	5.69%	6.97%	-128 bps
Adjusted Cost to income ratio (%)	37.23%	29.86%	737 bps	48.37%	40.38%	799 bps
Return on assets (%)	2.06%	1.12%	94 bps	2.11%	1.23%	88 bps
Return on equity (%)	19.85%	11.82%	803 bps	18.39%	11.51%	688 bps
<b>Asset Quality</b>						
Impaired loans (stage 3) ratio (%)	1.88%	3.76%	-188 bps			
Impairment (stage 3) to stage 3 loans ratio (%)	74.42%	57.49%	1693 bps			
<b>Investor Information</b>						
Earnings per share (Rs)	72.30	35.59	103.1%	76.14	39.82	91.2%
Net assets per share (Rs)	404.81	323.49	25.1%	457.07	371.17	23.1%
Market value per voting share (Rs)	319.75	169.25	88.9%			
Total dividends per share (Rs)	15.00	8.00	87.5%			
Cash dividends per share (Rs)	15.00	4.00	275.0%			
<b>Regulatory Ratios</b>						
Core capital ratio (%)	19.59%	13.66%	593 bps	20.64%	14.70%	594 bps
Total capital ratio (%)	23.96%	17.13%	683 bps	24.70%	17.95%	675 bps
All currency liquidity coverage ratio (%)	331.49%	445.92%	-114 pps			





### INTELLECTUAL CAPITAL



Brand Value **Rs 25 Bn**      Brand Ranking **6<sup>th</sup>**      Credit Rating **AA-**



### SOCIAL AND RELATIONSHIP CAPITAL



Purchases from Local Suppliers **Rs 1.3 Bn**  
Tax Expense **Rs 59.0 Bn**

Customer Satisfaction Score **87.9%**      CSR Investments **Rs 14.3 Mn**



### HUMAN CAPITAL



Number of Employees **5,577**      Retention Rate **92.7%**      New Recruits **768**      Average Training Hours per Employee (hrs) **25.9**



### MANUFACTURED CAPITAL



Land and Building **Rs 26.1 Bn**      Branches Housed in Own Premises **50**      Invested in Capex (excluding Digital Capital) **Rs 979 Mn**



### DIGITAL CAPITAL



Capex **Rs 896 Mn**

Active Users **802k**

Digital Revenue **Rs 1.4 Bn**      Digital Transactions Volumes **46.6 Mn**



### NATURAL CAPITAL



Solar Energy Generated **1,982 (MWh)**      Plastic Waste Recycled **2,397 kg**      Reduction in Paper Disposal **45%**

# CHAIRMAN'S MESSAGE



**HNB has remained steadfast in its mission to drive national growth and uplift communities across the country. For 136 years, we have proven ourselves to be a trusted financial partner, empowering individuals and businesses to achieve their aspirations. Through more than a century of economic transformation and adversity, HNB has not only endured, but emerged stronger by adapting, evolving, and leading the way in shaping Sri Lanka's financial landscape.**



Dear Shareholder,

Having experienced five years of extreme volatility and unprecedented challenges, it was indeed a relief to see Sri Lanka inching its way towards achieving economic stabilisation in 2024. The numbers too, paint a promising picture.

According to available data, GDP growth for 2024 is expected to be between 4-5%. This was accompanied by low inflation throughout the year, on the back of sustained reductions in administered prices, strong currency appreciation, and improved supply conditions, globally. Interestingly, the widening trade deficit attributed to higher import demand, was arrested to a great extent by the significant rise in tourism earnings and inward remittances. Meanwhile, the suspension of external debt servicing contributed towards the surplus in the balance of payments, leading to improved foreign exchange reserves and a strengthening of the currency.

On the fiscal front, the primary surplus recorded in the previous year improved further, supported by higher tax revenues following adjustments to the VAT system. At the same time, controlled expenditures and lower borrowing costs were responsible for the reduction in the overall fiscal deficit.

## Building a Thriving Bank

With the improving economic landscape in 2024, providing the impetus for renewed business confidence and financial sector expansion, HNB leveraged its strong foundation to prove its leadership in the local banking industry.

HNB's solid capital position, strong liquidity, and digital-first strategy, enabled the Bank to respond swiftly to emerging opportunities for business expansion, culminating in an exceptional financial performance in 2024.

The Bank reported a robust 103.1% year-on-year growth in Profit After Tax, from Rs 20.4 Bn in 2023 to Rs 41.3 Bn in 2024. HNB's contribution to national development remained substantial, with taxes of Rs 59.0 Bn for the current financial year.

HNB continued to reinforce its position within the local banking industry, as the Bank's asset base surpassed Rs 2.0 Tn and customer deposits crossed the Rs 1.7 Tn mark as at 31st December 2024.

Meanwhile, bolstered by the strong performance for the year, ROA and ROE surged to 2.1% and 19.8% respectively in 2024, from 1.12% and 11.82% reported in 2023.

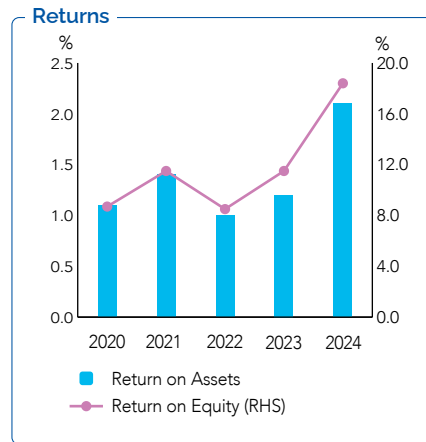
HNB's commitment to maintaining strong capital and liquidity buffers was evident with the Bank's Tier I and Total Capital Adequacy Ratios at 19.59% and 23.96% respectively by end-2024, well ahead of the regulatory minimum requirements of 9.50% and 13.50%, respectively.

To further augment the Bank's capital position in order to facilitate loan growth, and strengthen the balance sheet, HNB successfully raised Rs 12 Bn in Tier 2 capital through the issuance of Basel III-compliant subordinated debenture in August 2024.

Meanwhile, the Bank's liquidity position remained robust, with an all-currency Liquidity Coverage Ratio of 331.5% as at the year end, nearly three times more than the statutory requirement of 100%.

I am happy to note the upgrade in HNB's National Long-Term Rating to 'AA-(lka)', by Fitch Ratings in their latest review, subsequent to the sovereign upgrade post closure of the external debt restructuring programme of Sri Lanka. It was indeed another proud moment, when HNB was ranked Sri Lanka's No 1 Company by Business Today in its Top 40 rankings for 2023-24 and was adjudged the Best Retail Bank in Sri Lanka for the 15th time by the Asian Banker Magazine.

Meanwhile, bolstered by the Bank's financial results alongside strong performances by all subsidiaries, the HNB Group posted a Profit After Tax (PAT) of Rs 44.8 Bn for the year under review, denoting an impressive 89.9% year-on-year growth.



### Consolidating the HNB Legacy

As Sri Lanka's premier private sector retail bank, HNB has remained steadfast in its mission to drive national growth and uplift communities across the country. For 136 years, we have proven ourselves to be a trusted financial partner, empowering individuals and businesses to achieve their aspirations. Through more than a century of economic transformation and adversity, HNB has not only endured, but emerged stronger by adapting, evolving, and leading the way in shaping Sri Lanka's financial landscape.

In particular, we are immensely proud to see how our digital transformation journey over the past decade has redefined banking in Sri Lanka. Over the years, we have continued to rewrite the narrative, from revolutionising product offerings to creating an inclusive digital payment ecosystem, our focus has been to enhance customer experiences and improve financial accessibility for all Sri Lankans. Moreover, by harnessing technology and automation, we have re-engineered our infrastructure to deliver speed, agility, and precision never-before-seen in the local banking industry. These efforts have positioned HNB not just as Sri Lanka's premier private sector retail bank, but as a catalyst for change, helping to propel the nation forward.

### GROUP PROFIT AFTER TAX

Rs **44.8** Bn   
89.9%

### GROUP ASSETS

Rs **2.2** Tn   
7.9%

In 2024, we further consolidated this legacy, celebrating 136 years of resilience, innovation, and unwavering commitment to progress. As a heritage brand deeply woven into the fabric of the nation, HNB's vibrant brand identity and dynamic presence embodies a promise. The promise to honour our remarkable legacy by continuing to push the boundaries of excellence to deliver a future where financial empowerment and prosperity is within reach for every Sri Lankan.

### Empowering Shareholder Growth

Building on its track record of consistent dividends, the Board of Directors declared a final cash dividend of Rs 15.00 per share amounting to Rs 8.6 Bn, reflecting a substantial 87.5% increase over the previous year.

Our shareholders also continued to benefit from the performance of the HNB share. The HNB share performed exceptionally well in 2024, significantly outperforming the previous year. A high of Rs 324.00 and a low of Rs 151.00 in the voting share of HNB, reflects continued investor trust and confidence in the Bank. Furthermore, the average share price which is substantially higher than the previous year, I believe is a clear testament to the confidence investors have in the Bank's strategic direction and long-term growth prospects.

# CHAIRMAN'S MESSAGE

## Excellence in Leadership and Governance

HNB's reputation for trust, integrity, and innovation has always been firmly anchored to the vision of the Board as well as the aspirations of the Bank's executive leadership. In keeping with this principle approach, the year 2024 witnessed some notable changes across the Board and among the ranks of HNB's executive leadership.

The year 2024, saw the appointment of three new Non-Executive Directors to the HNB Board of Directors. Mr S. Renganathan and Mr Nanda Fernando, both distinguished bankers with several decades of expertise, joined the Board on April 2, 2024, while Mr Suresh Shah, a veteran corporate leader, was appointed to the HNB Board of Directors on May 10, 2024. Another notable appointment was that of Ms Dilani Alagaratnam, Attorney-at-law, to the HNB Board of Directors as an Independent and Non-Executive Director in January 2025.

Another key appointment was that of Mr Damith Pallewatte as Managing Director/ Chief Executive Officer of HNB PLC, further solidifying our executive leadership team. With a proven track record of success at the helm of HNB's fast growing Wholesale Banking Group (WBG), Damith was appointed as Acting Chief Executive Officer effective from April 2024, as part of the leadership transition phase before formally taking over the reins as Managing Director/ Chief Executive Officer, subsequent to the retirement of the long-standing Managing Director / Chief Executive Officer, Mr Jonathan Alles.

I also wish to announce the appointment of Mr Sanjay Wijemanne as HNB's Chief Operating Officer (COO) with effect from April 2024. Sanjay's appointment as COO underscores HNB's commitment to business excellence by adapting proactively to the evolving needs of our customers and the wider economic landscape.



**HNB will remain steadfast in its commitment to fostering financial inclusion, enhancing business agility, and driving forward initiatives that support the broader socio-economic landscape. With a clear vision for the future, we will leverage HNB's heritage as a Domestic Systemically Important Bank to lead from the front to shaping the nation's economic resurgence thereby leaving a legacy that future generations of Sri Lankans will take pride in.**



## Forging Ahead towards a Prosperous Future for All

With the general consensus being that the Sri Lankan economy is set for exponential growth in the coming years, I believe it is HNB's duty to forge ahead to create a prosperous future for all. As we navigate this critical juncture in Sri Lanka's history, the Bank will draw on its legacy as a partner in progress for generations of Sri Lankans, to unveil a new era of prosperity for every Sri Lankan.

During this crucial period of transformational change, HNB will remain steadfast in its commitment to fostering financial inclusion, enhancing business agility, and driving forward initiatives that support the broader socio-economic landscape. With a clear vision for the future, we will leverage HNB's heritage as a Domestic Systemically Important Bank, to lead from the front to shaping the nation's economic resurgence thereby leaving a legacy that future generations of Sri Lankans will take pride in.

## Appreciations

Before I conclude my review, I would like to extend my deep appreciation to my colleagues on the Board for their enthusiastic participation in all Board matters.

Let me also take this opportunity to thank Mr Jonathan Alles - the former Managing Director / Chief Executive Officer of

HNB for his visionary leadership that was instrumental in positioning HNB as a Domestic Systemically Important Bank.

My sincere appreciation also goes to the HATNA Family for their commitment to being true ambassadors of HNB at all times.

I would also like to express my sincere gratitude to all regulatory bodies, including the Central Bank of Sri Lanka, the Colombo Stock Exchange, the Securities and Exchange Commission and the Ministry of Finance for their guidance.

Furthermore, I would like to extend my heartfelt gratitude to all our shareholders for their trust and confidence in our vision. A special word of thanks to all our customers for their trust and confidence in the HNB brand. Thank you also to our business partners, suppliers, and all other stakeholders for their continued patronage.

I seek the support of all stakeholders as HNB forges ahead, towards constructing a prosperous future for all Sri Lankans.

**Nihal Jayawardene PC**  
Chairman

Colombo, Sri Lanka  
21st February 2025



## MANAGING DIRECTOR / CEO'S REVIEW



**HNB has a fundamental responsibility to adapt and align its strategy to support the Country in navigating both the challenges and opportunities of the economic recovery environment. This entails leveraging our expertise, resources and advanced digital capabilities to support key sectors and enhance customer resilience to contribute to the nation's long-term recovery.**



Dear Shareholder,

Emerging from one of the most challenging economic periods in decades, the Sri Lankan economy appeared to have reached a turning point, with key macroeconomic indicators continuing on a positive trajectory. Inflation remained well contained within the desired levels throughout the year, allowing the Central Bank of Sri Lanka to relax monetary policy measures culminating in the sharp decline in market interest rates.

Another notable development was the appreciation of the Sri Lankan Rupee against the US Dollar, in stark contrast to the significant depreciation experienced in the previous year. The combined effect of the currency stabilisation and lower interest rates together created a conducive environment to stimulate credit growth and improve debt serviceability for borrowers.

### Sustained Results

Against this backdrop, HNB's core focus remained on sustainable growth through responsible lending, low-cost deposit mobilisation, growing non-interest income and improving asset quality.

Fuelled by the improved demand for credit on the back of the steady decline in market lending rates, HNB's gross loans grew by Rs 117.8 Bn for the period, even though the first quarter saw a contraction of Rs 26.5 Bn. Similarly, the Bank's asset base expanded to Rs 2.1 Tn as of 31st December 2024, marking a 7.5% increase from the Rs 1.9 Tn recorded at the end of the previous year. Remarkably, despite the low interest rate environment, the Bank's CASA base grew by Rs 113.5 Bn in 2024, marking the highest level recorded in the last decade. I believe this stands as a testament to the public's trust in HNB. We were thus able to advance our LKR CASA ratio to 36.4% in 2024 from 31.8% in December 2023, bringing us significantly closer to our ideal 40% target.

Conversely, the steep drop in market rates negatively impacted yields from loans and advances as well as investments, exerting pressure on net interest margins. With the



# MANAGING DIRECTOR / CEO'S REVIEW

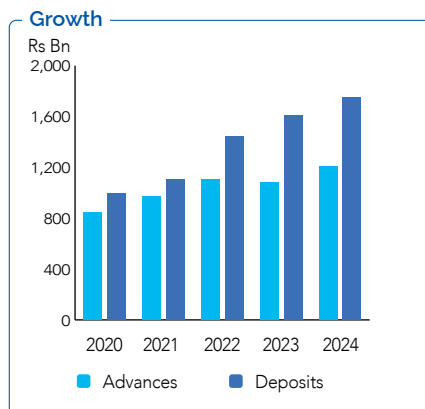
loan book repriced at lower rates, Interest Income for 2024 showed a 21.6% decline compared to 2023. On a positive note, Interest Expense recorded a 29.7% drop supported by the strong growth in CASA deposits. Nevertheless, the resultant NII for the period reflected a 7.7% YoY contraction.

In the meantime, our attempts to minimise the impact of interest was met with considerable success, with our aggressive campaign to promote non-fund based activities yielding a 12.7% year-on-year growth in Net Fee and Commission Income despite Fee Income from trade services being impacted as trade tariffs normalised to pre-COVID levels. The fact that the growth in Fee Income was largely driven by higher cards and digital transactions, further underscores HNB's commitment to promulgate a cashless economy.

Meanwhile, ongoing support by the Bank's Customer Rehabilitation Unit aimed at assisting customers revive their businesses, coupled with a renewed emphasis on collections, significantly contributed to achieving better-than-average results as denoted by the improvement in HNB's asset quality indicators. The Bank's Net Stage 3 ratio improved to 1.88% while the Stage 3 Provision Coverage ratio moved to 74.42%, from 3.76% and 57.49%, respectively, in the previous year. Following the completion of the external debt restructuring in December 2024, the Bank, in accordance with the industry practice, recognised a reversal against the provision of 52% made against investments in ISBs. This together with the positive movement in stage-wise loans, led to a significant reversal in the impairment charge for the period.

## Strategic Priorities

As a Domestic Systemically Important Bank, I believe HNB has a fundamental responsibility to adapt and align its strategy to support the Country in navigating both the challenges and opportunities of the economic recovery environment. This entails leveraging our expertise, resources and advanced digital capabilities to support key sectors and enhance customer resilience to contribute to the nation's long-term recovery.




## Revitalising the Country's Agricultural Base

At its core, Sri Lanka is an agricultural nation, with agriculture being a key driver of livelihood, employment, and rural development. However, recent years have seen the Country's agriculture sector, especially rural agriculture besieged by back to back challenges, resulting in a significant drop in productivity and output.

As a long-standing advocate of agriculture sector growth, HNB took a bold step towards revitalising the Country's agriculture sector with the launch of HNB Sarusara Programme in mid-2024. Sarusara embodies a comprehensive strategy to enhance financial inclusion, develop effective agricultural value chains, and introduce innovative technologies and productivity improvements. Our objective is not merely to provide financial assistance to grass-root level farmers but to go further by empowering a new generation of agripreneurs capable of leading the nation towards a more sustainable and resilient future. Ultimately, we envision Sarusara as a catalyst in supporting rural communities to achieve financial independence and strengthen their capacity to make sustained contributions to their respective regional economies.

Our commitment is clear: we have set an ambitious goal of creating 30,000 agripreneurs by the end of 2025. The efforts required to fulfil our commitment are multifaceted, involving not only reaching

## GROUP ADVANCES

Rs **1.2** Tn   
11.6%

## GROUP DEPOSITS

Rs **1.7** Tn   
8.8%

and assisting our valued clients but also upskilling and upgrading our own workforce, who bring barefoot banking to rural Sri Lanka. To support this endeavour, HNB tied up with the Institute of Bankers of Sri Lanka (IBSL) to introduce the Diploma in Microfinance. Designed to develop specialised in-house expertise, the IBSL Diploma in Microfinance, underscores our belief in the transformative power of education as the basis of driving financial inclusion and economic empowerment across Sri Lanka.

## Empowering the SME sector

It is no secret that the SME sector in Sri Lanka holds considerable economic clout serving as a critical driver of employment, industrialisation, and foreign exchange generation, collectively contributing to almost 52% to the Country's annual GDP. At HNB, we see ourselves as partners in national development and as such, have remained long standing champions of the SME sector growth.

Keen to further deepen our involvement in the SME sector transformation, we recalibrated our approach in 2024, to focus on facilitating the SME sector expansion into manufacturing, industrialisation, and export-oriented ventures. By prioritising businesses that contribute to local manufacturing and foreign exchange earnings, we are seeking not only to drive economic growth but also to enable SMEs to remain competitive in an evolving market.

Simultaneously, we also began paying close attention to the Emerging Corporate segment. Recognising the need for a systematic approach to nurture these high-potential SME businesses that are on the cusp of scaling into larger enterprises, we embarked on a broad-based programme to nurture these enterprises to seamlessly transition into the next tier of corporate success, thereby laying the foundation for a robust and thriving corporate ecosystem that will contribute towards enhancing the Country's global competitiveness.

### Redefining the Local Banking Landscape through Digital Disruption

Since commencing our digital transformation journey over a decade ago, HNB has made tremendous progress in transforming the local banking sector. Admittedly, our position as the vanguard of technology-integrated banking is further solidified by pioneering platforms such as HNB SOLO which offers seamless digital payment experiences and enhances merchant access to advanced digital payment options.

True to our reputation as a digital disruptor in the local banking sector we continued challenging conventional banking systems in 2024 with a view to accelerating the shift towards digital adoption. The launch of HNB TxB in September 2023 with a full blown production roll out from January 2024, represents a major step forward in providing fully fledged solutions for corporates, offering them 360-degree control and visibility across their value chain.

Meanwhile, the HNB Self Onboarding module rolled out in March 2024 represents a landmark achievement in our efforts to revolutionise the banking experience for our retail customers. Developed using the latest digital onboarding technology, the HNB Self Onboarding platform with its robust architecture, represents a paradigm shift in digital banking.



**It is no secret that the SME sector in Sri Lanka holds considerable economic clout serving as a critical driver of employment, industrialisation, and foreign exchange generation, collectively contributing to almost 52% to the Country's annual GDP. At HNB, we see ourselves as partners in national development and as such have remained long standing champions of the SME sector growth.**



### Performance of Business Segments

#### Retail Banking

2024 marked a significant milestone for HNB's Retail Banking segment. The segment which has long been the mainstay of HNB's business model registered a year-on-year growth of 6.6% driven by sound growth in Housing, Leasing, Cards and Pawning portfolios. Fee income attributed to the retail segment also witnessed a notable increase, amidst the strong performance of HNB cards and digital products.

Asset quality of our retail lending book improved significantly in 2024, reflecting the improving economic conditions and the concerted efforts.

Meanwhile, retail deposits saw a healthy growth driven by the expansion in retail CASA by 20.1% during the year.

#### Wholesale Banking

HNB's efforts to grow market share against the backdrop of heightened competitive pressure yielded good results with the Wholesale loan book as at 31st December 2024 recording a 11.7% expansion compared to the previous year. I am also very pleased to see a sizeable reduction in the stage 3 impairments attributed to the Wholesale Banking portfolio, which no doubt is due to the dual impact of our dedicated rehabilitation efforts over the past few years alongside improving economic conditions, collectively creating a

conducive environment for the resumption of loan servicing.

Corporate CASA targets for the year were successfully achieved, aided by a comprehensive campaign aimed at capturing a larger share of the transactional accounts of larger corporates and MNCs.

We were able to capture several offshore lending opportunities giving us a notable benefit to deploy excessive foreign currency liquidity. The healthy build-up of dollar liquidity over the past year allowed HNB to capitalise on the growing trend of local companies expanding their operations to new territories overseas.

It is also very rewarding to see that exposure received through these efforts opening up opportunities for HNB to engage in global syndications to further bolster its offshore lending book. Seeking additional avenues for growth, HNB seized the opportunity to enter the Indian market, supported by prudent risk strategies, and explored selective lending opportunities in low-risk sectors.

#### SME Banking

Driven by our ambition to empower the SME sector, we remained aggressive in funding its expansion with a higher proportion of funds allocated to the sector in 2024. An additional USD 3.0 Mn special SME credit line was also secured from USAID to further accelerate lending to SMEs. Consequently, the volume of credit granted to SMEs in

# MANAGING DIRECTOR / CEO'S REVIEW

2024 showed a substantial 16.8% increase compared to the previous year.

Asset quality of the SME loan book improved significantly in 2024 with the stage 3 ratio improving, resulting in an impairment reversal for the year.

## Microfinance

Cascading from the emphasis on SMEs, efforts to make inroads into Microfinance also gathered momentum in 2024. Credit expansion to the sector was driven largely through HNB's annual allocation through the New Comprehensive Rural Credit (NCRC) scheme provided by the Central Bank of Sri Lanka.

As outlined above, the launch of HNB Sarusara signifies HNB's conviction to support the sustainable growth of micro and rural businesses. The overall Microfinance portfolio grew by 24.8% year-on-year, with lending to agriculture accounting for a substantial share of the new microfinance volumes for the current financial year.

The improvement in asset quality was another important accomplishment, which I attribute to the success of our ongoing recovery camps and advisory services provided to customers.

## Treasury

With improved market sentiment, HNB's Treasury expanded its participation in both primary and secondary markets in 2024.

This was reflected in an increase in the Bank's local currency government securities portfolio, which grew by 16.6% year-on-year, supported by an 85.5% expansion in Treasury Bonds.

At the same time, following the appreciation of the Sri Lankan Rupee against the USD, the Treasury moved aggressively on the SWAP market, a strategy that added a considerable boost to foreign exchange income for 2024.

## Performance of Subsidiaries

### HNB Finance PLC

HNB Finance delivered a strong financial performance as at the end of December 2024, demonstrating resilience and growth notwithstanding uncertainties. The company's advances portfolio as at 31st December 2024 indicated a 21.0% growth over the previous year. The asset quality improved during the year, while the profit of the company grew by 233.6% to Rs 937.6 Mn for the year ended December 2024.

Prompted by the weakening demand for conventional Fixed Deposits (FDs), against the backdrop of declining interest rates, HNB Finance's targeted strategies aimed at growing retail and branch deposits produced the desired results as evidenced by the 8.2% growth in the deposit book between the twelve-month period from January and December 2024.

### HNB Assurance PLC

HNBA delivered exceptional growth in 2024, with Gross Written Premiums (GWP) increasing by 21.2% year-on-year to Rs 22.7 Bn, surpassing the industry average.

The improvement in insurance penetration in the Country, driven by economic recovery and stronger investor confidence, created a favourable environment for HNBA to achieve its strategic objectives and sustain its growth momentum.

### HNB Investment Bank (Pvt) Ltd

HNB Investment Bank (previously known as Acuity Partners (Pvt) Ltd.) further solidified its reputation as a premier investment bank, by delivering an outstanding performance and achieving several key milestones in 2024.

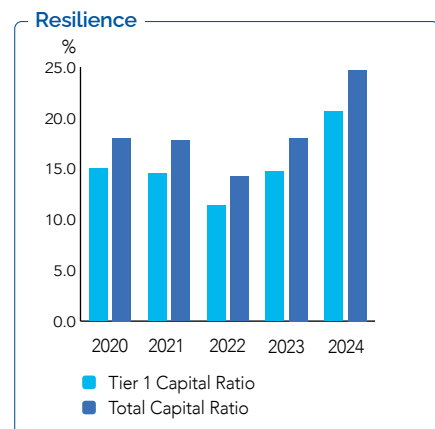
The company ranked No 1 for raising the highest volume of debt instruments among investment banks in Sri Lanka. Marking yet another notable milestone, then known as Acuity Partners was appointed as the co-manager for Sri Lanka's first listed green bond issued by DFCC Bank.

## Stakeholder Value Creation

### Customer Experience

Customer experience has always been a defining feature in HNB's unique value proposition. In 2024, we continued to set new benchmarks for the industry by enhancing accessibility, streamlining service delivery, and leveraging technology to simplify customer interactions across all touch-points.

Going further, our Customer Experience (CX) Unit infrastructure was upgraded to facilitate 24/7 connectivity while branch frontline teams were granted access to the state-of-the-art 360-degree Customer Relationship Management (CRM) system, enabling seamless tracking and resolution of customer concerns. We also rolled out the Queue Management System to minimise customer wait times at the branch-front. Another key effort was our ground-breaking Data Freedom Initiative launched in mid-2024, to provide customers seamless access



### NET STAGE 3 RATIO

**1.88%**  
3.76% in 2023



### ALL CURRENCY LCR

**331.5%**  
Minimum Requirement 100%

to HNB's entire digital ecosystem without incurring data charges, signalling a major step toward creating an omni-channel banking environment that would deliver a frictionless and integrated customer experience.

Towards the last quarter of 2024, we revamped our Branch Operating Model, which was piloted in one region with great success. I have no doubt that the recalibrated branch operating model will elevate the customer experience at our branches to an exceptional and unparalleled level.

### Employee Experience

At HNB, we greatly value the contributions of our employees. Known officially as the HATNA family, we acknowledge that creating positive experiences for our employees is the key to building a high functioning workforce capable of meeting the needs of a large bank such as HNB.

The launch of the Strategic Human Capital Project in May 2024 represents a major step towards enhancing the overall employee experience of every member of our rapidly expanding HATNA family. Developed for the purpose of strengthening the alignment between job roles and pay structures while fostering fairness and clarity in salary scales, the Strategic Human Capital Project is designed to reduce attrition, and retain top talent by positioning HNB as an employer of choice, in an increasingly competitive local banking industry.



**Looking ahead, I am filled with optimism for the future, especially with the Sri Lankan economy now poised for significant growth acceleration over the next few years. The completion of the external debt restructuring process, the resultant sovereign upgrade and progress on the reform agenda are also positive signals that will undoubtedly boost investor confidence, benefiting both the country and the banking sector in the years to come.**



### Championing Sustainability

HNB's holistic commitment to sustainability involves driving sustainable progress through ethical business practices, green financing, and impactful community initiatives that reduce inequalities and promote a thriving, resource-efficient economy.

HNB demonstrates its commitment to economic empowerment through structured entrepreneur development initiatives such as the HNB Gami Pubuduwa Micro finance Loan scheme that provides aspiring entrepreneurs with the necessary financial support and guidance to grow their businesses, in turn achieving financial independence and making sustained contributions to their regional economies. Furthermore, recently, we introduced an attractive scheme for freelance digital entrepreneurs, designed to support this thriving segment, which currently has limited access to financial assistance. This initiative will serve as a pillar of strength for them.

Beyond social and economic development, our commitment to sustainability extends to environmental conservation as well. We prioritise sustainable lending for green industries and renewable energy projects. Additionally, we continue to implement environmentally responsible business practices aimed at reducing resource consumption and minimising our carbon footprint. We also undertake impactful environmental projects that present long-term benefits. For instance, HNB's ongoing

commitment to the Kanneliya Conservation Project, in collaboration with IUCN, the Forest Department, and Biodiversity Sri Lanka, aims to enhance Sri Lanka's forest cover and create a sustainable mechanism to establish a biodiversity credit system.

### Awards and Accolades

I am proud to announce that the year 2024 witnessed HNB continuing its legacy of being one of the most awarded banks in Sri Lanka.

HNB received recognition at several prestigious international awards, including Euromoney Awards for Excellence 2024, where HNB was honoured with the titles of 'Sri Lanka's Best Bank' and 'Sri Lanka's Best Bank for SMEs'. HNB was once again crowned the Best Retail Bank in Sri Lanka at the Asian Banker Global Excellence in Retail Financial Services Awards 2025, marking the 15th occasion the Bank has received this coveted title. Similarly, at the 2nd ICC Emerging Asia Banking Conclave & Awards 2024 organised by the Indian Chamber of Commerce (ICC), HNB claimed the title 'Best Bank - Sri Lanka' and also clinched several other awards.

Our dedication to excellence across all fronts was recognised locally as well. Among many, HNB was ranked as No 1 in the Business Today Top 40 rankings for 2024 and was awarded at the TAGS awards, Technovation Awards and Best Corporate Citizen awards in 2024.

### Way Forward

Looking ahead, I am filled with optimism for the future, especially with the Sri Lankan economy now poised for significant growth acceleration over the next few years. The completion of the external debt restructuring process, the resultant sovereign upgrade and progress on the reform agenda are also positive signals that will undoubtedly boost investor confidence, benefiting both the country and the banking sector in the years to come.

Against this backdrop, HNB will remain steadfast in its pursuit of sustainable growth and in doing so strive to build on our legacy

# MANAGING DIRECTOR / CEO'S REVIEW

of strength, stability, and resilience. Our goal is to leverage emerging technologies to continually reform our suite of products and services to deliver transformational change for Sri Lanka's banking public.

With competition in the banking and fintech sectors likely to intensify, we are exploring partnerships and collaborations with fintech companies to upgrade our customer-facing platforms and create new digital ecosystems that will revolutionise traditional banking norms. Our intention is to continuously deliver differentiated experiences to strengthen customer loyalty and ensure that HNB remains the trusted banking partner for years to come.

Equally importantly, we will remain cognisant of national priorities such as carbon neutrality, forest cover, and renewable energy. As a certified carbon-neutral organisation for three consecutive years, HNB will amplify its efforts to support Sri Lanka's green initiatives, particularly through increased lending to the renewable energy sector.

We are also excited about the opportunities presented by Port City Colombo. As a Domestic Systemically Important Bank, along with our diverse portfolio of Group Companies-spanning insurance, NBF, investment banking, and venture capital-we are well-positioned to explore numerous opportunities within the Port City. To further consolidate our strengths and improve readiness in this regard, the HNB Group in June 2024 announced its intention to

acquire the remaining 50% stake in Acuity Partners (Pvt) Ltd., from DFCC Bank PLC for a consideration of Rs 6.5 Bn. Following the green light from the regulators, the deal was successfully concluded in January 2025 and the company was rebranded as HNB Investment Bank (Pvt) Ltd.

As part of our broader strategy to expand our reach and diversify our revenue streams, our long-term plan will focus on potentially establishing HNB's footprint overseas. Our recent announcement of the acquisition of a banking license to operate in Bangladesh is part of this strategy to diversify risk and consolidate our position over the next 3 to 5 years.

## Appreciations

As I conclude my first review as the Managing Director/ Chief Executive Officer of Hatton National Bank PLC, I would first like to express my heartfelt appreciation to my predecessor, Mr Jonathan Alles, not only for his dedicated service to HNB but also for his invaluable advice, which was instrumental in easing my transition into this role.

I also wish to extend my sincere gratitude to the Chairman and the Board of Directors for their unwavering support and guidance in shaping HNB's progress. As I step into this new role, I deeply appreciate the trust placed in me by the Board of Directors.

I would like to acknowledge the dedication and hard work of the HATNA family. It is

without a doubt, your passion, resilience, and unwavering focus on delivering exceptional service to our customers that makes HNB a truly remarkable bank.

Additionally, I would like to express my appreciation to the officials at the Central Bank of Sri Lanka, the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange, the Ministry of Finance, and the Institute of Chartered Accountants, Sri Lanka, for their continued support and collaboration.

I wish to take this opportunity to express my sincere appreciation to our customers, shareholders and other stakeholders for placing their trust in HNB. I look forward to your continued support to empower HNB to navigate the future with confidence and vigour.

Welcome to a bold new era of banking as we rise from our roots.



**Damith Pallewatte**

*Managing Director / Chief Executive Officer*

Colombo, Sri Lanka  
21st February 2025



# Strategy

## Structured to Sustain

Our strategy is built to ensure resilience and sustained growth, no matter the challenges. We have the right mechanisms in place to adapt and thrive amidst significant environmental shifts, ensuring we stay responsive to change and continue our upward trajectory.

*Much like the Swamp Cypress, a tree known for its ability to thrive in fluctuating water levels, our approach is designed to withstand challenges. Native to swamp environments, the Cypress often faces extreme conditions where its roots are submerged, and oxygen is limited. In response, it develops pneumatophores—specialised roots that grow upwards to access vital oxygen, allowing the tree to survive and flourish even in harsh environments. This resilience and adaptability are reflected in HNB's strategic framework. Just as the Cypress uses its unique adaptations to overcome adversity, we too are structured to evolve and grow, ensuring long-term stability and value for all stakeholders, no matter the external pressures.*



# CREATING VALUE

## CAPITAL INPUTS



### FINANCIAL CAPITAL

Funds available to sustain HNB's operations and activities, and to invest in the growth of other key capitals

- Deposit base Rs 1,715 Bn (Rs 1,580 Bn - 2023)
- Shareholders' equity Rs 231.5 Bn (Rs 185.0 Bn - 2023)
- Senior and Sub Debt Rs 27.1 Bn (Rs 17.3 Bn - 2023)



### DIGITAL CAPITAL

State-of-the-art digital infrastructure that enables the Bank to serve customers and fuel business growth

- Dynamic digital front end comprising online and mobile platforms
- Robust and scalable back-end IT systems to facilitate day-to-day operations in line with strategic ambitions



### INTELLECTUAL CAPITAL

Intangible assets that differentiate HNB from peers

- 136-year-old brand legacy
- Business Ethics
- Standards and Certifications



### MANUFACTURED CAPITAL

Fixed assets that facilitate the provision of products and services to our customers across Sri Lanka

- Network of 254 island-wide branches
- 832 SSMs



### HUMAN CAPITAL

Knowledge, skills and experience that drive HNB's strategy and deliver long-term value.

- Comprising a diversified workforce of over 5,500 employees across Sri Lanka



### SOCIAL AND RELATIONSHIP CAPITAL

The relationships and goodwill between the Bank and its stakeholders, including local communities and civil society.

- Providing access to financial products and services to all customer segments Retail, Corporate, SME and Microfinance customers
- Providing assistance through capacity building and financial literacy programmes



### NATURAL CAPITAL

The natural resources used in our operations and the environmental impact of our business activities

- Embedding ESG risk management practices into our business activities to support sustainable lending
- Managing our direct and indirect environmental impact by promoting responsible operations
- 13% energy requirement met by renewable sources



### VISION

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



### MISSION

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



### STRATEGIC PILLARS

- Business Growth
- Business Sustainability
- Improve Customer Experience and Productivity
- People Development
- Technology Enablement

## OUR BUSINESS ACTIVITIES GENERATE OUTPUTS



## OUTPUTS FOR HNB



### FINANCIAL CAPITAL

- Year-on-year Deposit Growth - 8.6% (12.2% - 2023)
- CASA Ratio - 34.2% (29.9% - 2023)
- PAT - Rs 41.3 Bn (Rs 20.4 Bn - 2023)



### DIGITAL CAPITAL

- Digital transaction count - 46.6 Mn (32.5 Mn - 2023)
- Active digital users - 802k (586k - 2023)



### INTELLECTUAL CAPITAL

- Brand equity value of Rs 25.0 Bn (2023)
- AA- (Ika) Credit Rating



### MANUFACTURED CAPITAL

- 10.9% Market share in Net Loans
- 9.3% YoY increase in transactions through SSMs



### HUMAN CAPITAL

- Employee Retention rate - 92.7% (91.9% - 2023)
- Employees Satisfaction - 67% (64% - 2023)



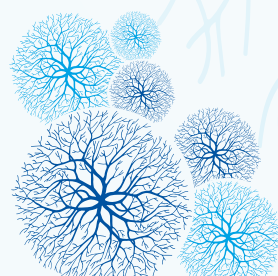
### SOCIAL & RELATIONSHIP CAPITAL

- Overall Customer CSAT - 87.9%



### NATURAL CAPITAL

- 11,130 tCo2e Carbon Footprint (9,025 tCo2e - 2023)
- 1,982 MWh of solar energy generated (2,123.7 MWh - 2023)
- 95,720 kg paper recycled (172,730 kg - 2023)



## PERFORMANCE OF CAPITALS

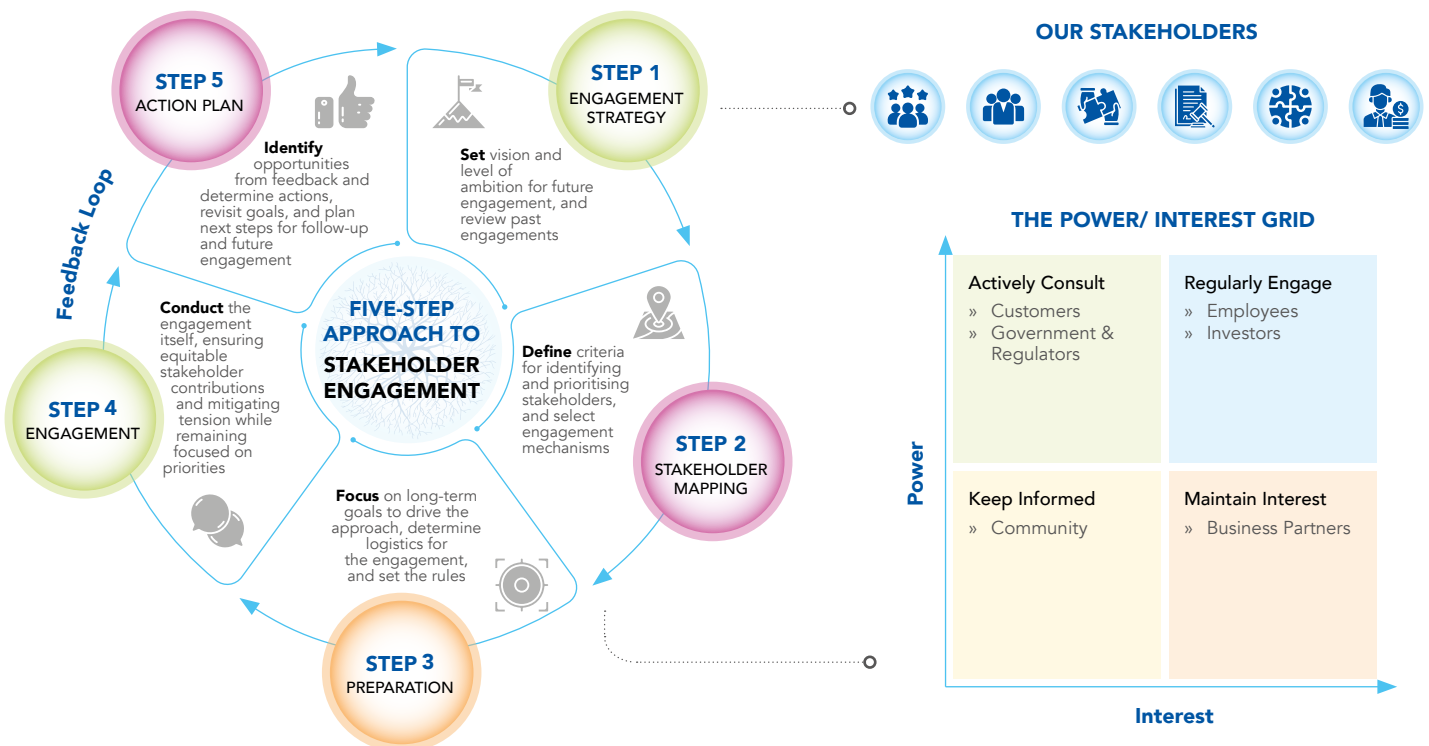
STAKEHOLDER OUTCOMES	STAKEHOLDERS IMPACTED	SDGs	CAPITAL TRADE-OFFS
<ul style="list-style-type: none"> <li>Earnings per share (EPS) - Rs 72.30 (Rs 35.59 - 2023)</li> <li>Return on Equity (ROE) - 19.85% (11.82% -2023)</li> <li>Dividend per share - Rs 15.00 (Rs 8.00 - 2023)</li> <li>Total dividend payout - Rs 8.6 Bn (Rs. 4.5 Bn - 2023)</li> <li>Rs 114.8 Bn paid as deposit interest to customers (Rs 167.7 Bn - 2023)</li> <li>Tax expense of Rs 59Bn for the Bank (Rs 22.5 Bn - 2023)</li> </ul>			<p><b>FINANCIAL CAPITAL</b></p> <p>Investments in innovation, infrastructure, workforce development and expansion would improve long-term profitability and competitiveness, however, could impact the shareholder payouts in the near term.</p>
<ul style="list-style-type: none"> <li>Convenient 24/7 - 365-day access to HNB Self Onboarding platform</li> <li>Reduced queuing times in 2024</li> </ul>			<p><b>DIGITAL CAPITAL</b></p> <p>Investing in digital capital involves significant upfront expenses for technology development or acquisition, which may strain short-term budgets but drive efficiency and competitiveness that can lead to improved long-term profitability.</p>
<ul style="list-style-type: none"> <li>Trust and reliability of transacting with Sri Lanka's premier private commercial bank</li> <li>ZERO incidents of non-compliance</li> </ul>			<p><b>INTELLECTUAL CAPITAL</b></p> <p>Developing intellectual capital requires significant allocation of both financial and non-financial resources. However strategic and well-planned investments in intellectual capital most often contribute towards enhancing competitiveness and strengthens long-term business resilience.</p>
<ul style="list-style-type: none"> <li>Increased access to finance</li> <li>Access to 34 new SSMs</li> </ul>			<p><b>MANUFACTURED CAPITAL</b></p> <p>While investing in manufactured capital requires high upfront costs which may reduce available resources for other areas such as workforce development, such investments yield significant long-term benefits in terms of increased productivity and operational efficiency, collectively contributing towards enhancing profitability.</p>
<ul style="list-style-type: none"> <li>Rs 21.2 Bn paid as monetary benefits to employees (Rs 16.9 Bn - 2023)</li> <li>25.9 hours of training per employee (38.2 hours - 2023)</li> <li>768 new recruits    634 promotions</li> </ul>			<p><b>HUMAN CAPITAL</b></p> <p>While prioritising human capital can lead to a more skilled and motivated workforce, it may divert resources from other investments, such as technology or infrastructure. Additionally, the risk of employees leaving after significant investment in their development poses massive challenges for the Bank.</p>
<ul style="list-style-type: none"> <li>Rs 1.3 Bn paid to suppliers</li> <li>9,623 beneficiaries from community capacity building initiatives</li> </ul>			<p><b>SOCIAL AND RELATIONSHIP CAPITAL</b></p> <p>While fostering customer goodwill can enhance brand loyalty, reputation, and cultivate long-term partnerships, it requires significant time and effort for returns that are not always visible or quantifiable.</p>
<ul style="list-style-type: none"> <li>1,231 facilities granted to finance environmentally sustainable projects (1,493 - 2023)</li> <li>Rs 7.2 Bn - Investments in renewable energy to-date (Rs 7.1 Bn - 2023)</li> <li>1,627 Trees saved due to paperless operations (2,936 - 2023)</li> </ul>			<p><b>NATURAL CAPITAL</b></p> <p>Investing in natural capital increases short-term operational expenses, but definitively contributes towards enhancing the Bank's resilience and improving stakeholder trust</p>

# STAKEHOLDER ENGAGEMENT

Stakeholder engagement is central to HNB's efforts to build trust, foster innovation, and create shared value, while reinforcing the Bank's position as a responsible and forward-thinking financial institution. The Bank acknowledges that effective stakeholder engagement provides valuable insights into emerging trends, risks, and opportunities, which fuel innovation, promote early adoption of regulatory changes and best practices, support community development, and implement solutions that drive economic growth while minimising environmental and social impacts.



Guided by the principles of transparency, inclusivity, collaboration, and sustainability, we maintain a structured approach to identify, prioritise, and engage with stakeholders, ensuring their needs and expectations are seamlessly integrated into its decision making processes. Our engagement efforts are underpinned by robust governance frameworks and ethical practices, where transparent reporting and regular updates to key decision makers ensure stakeholder insights are embedded into the Bank's core strategy, strengthening its ability to create shared value and contribute to a more resilient, innovative, and inclusive future.







**CUSTOMERS**

**2.9 Mn+** Retail, Corporate, SME and Microfinance customers across Sri Lanka



**Importance to HNB**



Authorities Responsible for Engagement

- Regional / Branch Managers
- Business Heads
- Chief Operating Officer
- Chief Executive Officer

**ENGAGEMENT CHANNELS**

- » Dedicated 24x7 contact centre
- » Relationship Managers
- » Frontline sales teams
- » Online and in-person surveys
- » ATL and BTL Promotional Campaigns
- » Corporate Website

KEY CONCERNS	HNB'S RESPONSE
Flexibility in repayments of loans due to economic stress	Ongoing customer support through the Customer Rehabilitation Unit
Access to markets and opportunities for growth	Creating links to markets through initiatives such as tripartite agreements with corporates, Solo Podi Podi business, Avurudu Pola and through online platforms such as Cord360
Innovative and relevant products	Launch of the HNB Self-Onboarding platform
Sound financial advice	One-on-one support through dedicated relationship managers
Access to finance	Access through widespread physical network and digital channel.  Providing SME's with opportunities to access equity and seed funding through partnerships

**STRENGTH OF RELATIONSHIP**




**Outcomes**

- Customer Satisfaction Score (Branch) - **87.9%**
- Customer Satisfaction Score (Call Centre) - **86.8%**

More information: Social and Relationship Capital - page 84

# STAKEHOLDER ENGAGEMENT

 **EMPLOYEES** 5500+ employed at HNB across Sri Lanka



Importance to HNB



Authorities Responsible for Engagement

- Chief Human Resource Officer (CHRO)
- Chief Executive Officer

## ENGAGEMENT CHANNELS

- » Proactive engagement by HR, including through dedicated HR Business Partners for communication with regional / branch teams
- » Monthly meetings with union representatives
- » Employee Experience Officer and other processes for communicating grievances
- » Annual Performance appraisals
- » Employee townhalls
- » CEO newsletters
- » HATNA magazine

STRENGTH OF RELATIONSHIP



STRONG

### Outcomes

- Employee Satisfaction Score - **67%**
- Employee Retention Rate - **92.7%**

KEY CONCERNS	HNB'S RESPONSE
Fair remuneration and benefits	Compensation and benefits reviewed annually against the industry to be ahead of the curve  Junior Executive brought under the variable pay structure
Opportunities for career growth	Launch of the Strategic Human Capital Project to create a platform for succession planning Launch of RISE to encourage employees to achieve their career goals
Training and development	Focus on building an internal trainer pool Rs 114.8 Mn incurred on staff training
A caring and nurturing workplace	Launch of the special health programme for women
Health and safety	Launch of the HNB Wellness Centre in partnership with Lanka Hospitals
"Just transition" to the future workplace.	Launch of ASPIRE for young leaders

More information: Human Capital - page 74





**INVESTORS**

Hatton National Bank PLC is owned by over 8,500 Voting and over 11,000 Non-Voting individual and institutional shareholders



Importance to HNB



Authorities Responsible for Engagement

- Board Secretary
- AGM - Strategy
- Chief Financial Officer
- Chief Executive Officer
- Chairman

**ENGAGEMENT CHANNELS**

- » Annual General Meeting
- » Annual Report
- » Quarterly financial statements and press releases
- » Announcements through the Colombo Stock Exchange
- » Dedicated investor relations webpage
- » Dedicated media centre on the corporate website
- » Quarterly webinar
- » Investor relations meetings and roadshows

**STRENGTH OF RELATIONSHIP**



**Outcomes**

- Recognition at CFA Sri Lanka Capital Market Awards for Investor Relations

KEY CONCERNS	HNB'S RESPONSE
Stable financial performance	Recorded strong and sustainable overall performance with high profitability, above industry asset quality, strong capital buffers and sound liquidity levels. Looking ahead to capture growth opportunities. Please refer Financial Capital Report for more details.
Dividends	The Board of Directors have declared a final dividend of Rs 15.00 per share with the total dividend payout amounting to Rs 8.6 Bn
Share price and liquidity	HNB was one of best traded stocks within a high of Rs 324.00 and a low of Rs 151.00 during the year.
Timely communication of price sensitive information	Complied with the provisions under section 9 of the CSE Listing Rules on corporate governance issued in 2024
Macroeconomic environment and the resultant impact	Demonstrated resilience and stability under extremely volatile conditions over the past.

More information: Investor Relations - page 498

# STAKEHOLDER ENGAGEMENT



## GOVERNMENT AND REGULATORS

The Central Bank of Sri Lanka, Colombo Stock Exchange, Securities and Exchange Commission of Sri Lanka and other regulatory and governing bodies



Importance to HNB



Authorities Responsible for Engagement

- Board Secretary
- Chief Executive Officer
- Board of Directors

## ENGAGEMENT CHANNELS

- » Timely regulatory reporting
- » Annual CBSL Audit
- » Access to information
- » Responses to queries and reviews carried out

## STRENGTH OF RELATIONSHIP



STRONG

### Outcomes

- Zero fines levied by the regulators

## KEY CONCERNS

## HNB'S RESPONSE

Contributing to resolution of multiple crises

Effective implementation of directions issued to curtail the crises such as the establishment of the Customer Rehabilitation Unit to assist customers under stress due to the prolonged slowdown in economic activity

Stability of the financial sector

Maintaining sound liquidity and capital buffers in line with regulatory requirements  
Adoption of global best practices for information/ cybersecurity

Effective implementation of new directions and regulations

Complied with the provisions under section 9 of the CSE Listing Rules on Corporate Governance issued in 2024  
Complied with the Banking Act Direction issued by the CBSL in 2024  
Complied with the Personal Data Protection Act  
Complied with the Code of Best Practice on Corporate Governance (2023) issued by CA Sri Lanka

Partnering sustainable development initiatives of the government

SME loan book expanded by Rs 26.7 Bn in 2024  
Launch of HNB Sarusara  
Promoting solar financing for retail customers

More information: Corporate Governance Report - page 119 and Intellectual Capital - page 112



### SUPPLIERS AND BUSINESS PARTNERS

240+ suppliers who provide support in ensuring business continuity and business partners who facilitate business diversification and expansion



Importance to HNB



Authorities Responsible for Engagement

- AGM - Services
- Chief Financial Officer
- Chief Executive Officer

### ENGAGEMENT CHANNELS

- » Supplier registration process
- » Request for proposals
- » Feedback where relevant
- » MoUs

### KEY CONCERNS

### HNB'S RESPONSE

KEY CONCERNS	HNB'S RESPONSE
Opportunities to grow	134 new suppliers onboarded in 2024
Fair terms of trade	E-procurement system strengthening transparency in procurement processes
Timely payments	Rs 1.3 Bn paid to suppliers in 2024 (Rs. 1.2 Bn – 2023)

### STRENGTH OF RELATIONSHIP



#### Outcomes

- 42% suppliers have maintained relations with HNB for over 5 years

More information: Social and Relationship Capital - page 84



# STAKEHOLDER ENGAGEMENT



## COMMUNITY & ENVIRONMENT

Society and the wider community



Importance to HNB



Authorities Responsible for Engagement

- Regional / Branch Managers
- Chief Executive Officer
- HNB Sustainability Foundation

### ENGAGEMENT CHANNELS

- » Community activities
- » Island-wide presence to facilitate last mile delivery of financial services
- » Interactions with frontline sales teams
- » Grievance hotlines / email

### STRENGTH OF RELATIONSHIP



GOOD

#### Outcomes

- o Top 10 – Best Corporate Citizen Sustainability Award 2024
- o Winner: Best Project - Best Corporate Citizen Sustainability Award 2024

### KEY CONCERNS

### HNB'S RESPONSE

Financial inclusion

Broad MSME development initiatives, Financial Literacy and capacity building activities

Partnering for sustainable development through strategic CSR

Supported many projects under sustainability development goals detailed under the Social Capital report.

Access to affordable financial services and products

Access provided through 254 customer centres, multiple digital channels and agency banking

Environmental and social responsibility

300 projects evaluated by ESMS Unit for Environmental and Social risks

10 facilities rejected due to non-compliance with Bank's Environmental and Social Policy

Rs 5.5 Mn spent on ongoing environmental projects

Job opportunities and youth empowerment

Over 244,000 MSME customers supported creating job opportunities for many more

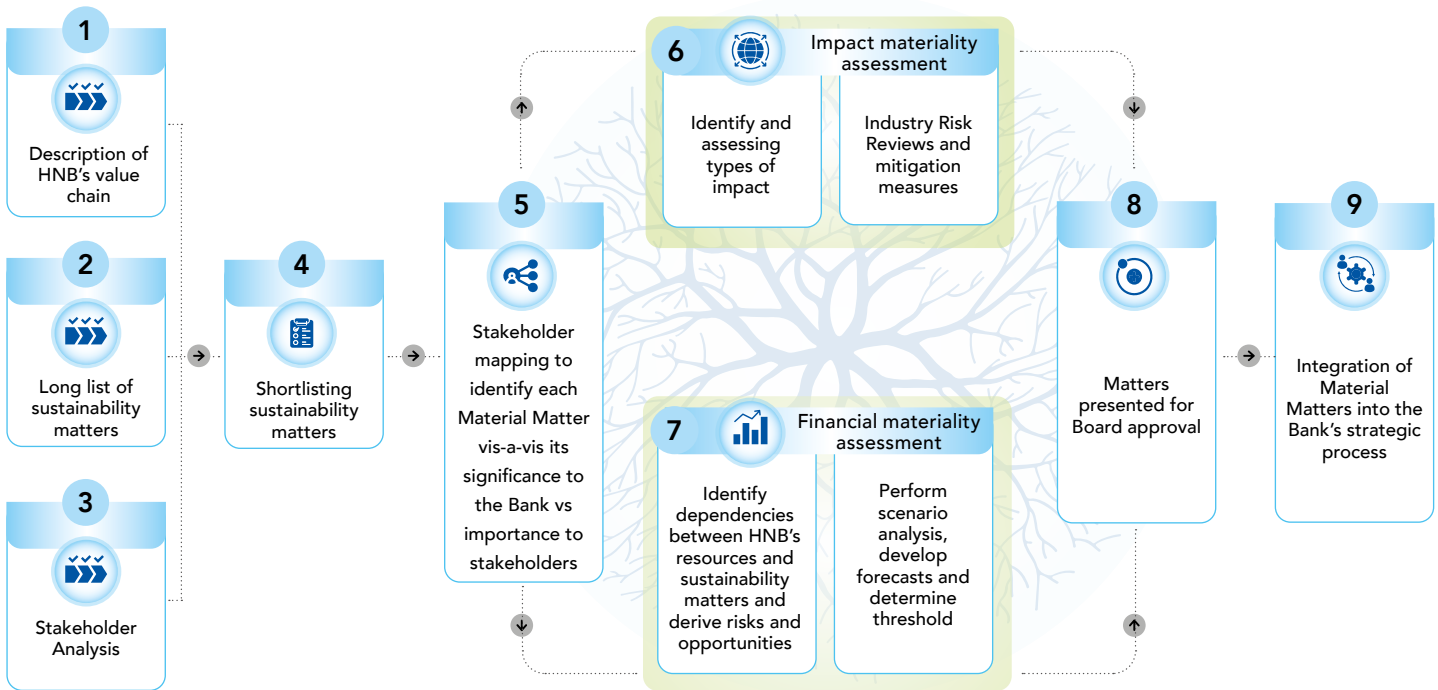
More information: Social and Relationship Capital - page 84 Natural Capital - page 100

# MATERIALITY ASSESSMENT

HNB follows a comprehensive approach to identifying Material Matters that are critical to the Bank’s operations and stakeholders. To that end, the Bank employs a Double Materiality Filter to examine Material Matters from dual perspectives, focusing on assessing sustainability factors alongside the potential financial impact, denoting a responsible and forward-thinking approach to managing sustainability and financial risks.

The Impact Materiality measures the environmental, social, and governance (ESG) impacts on various stakeholders, including communities and ecosystems. Second, the Financial Materiality analyses how Material Matters affect HNB’s profitability and operational continuity.

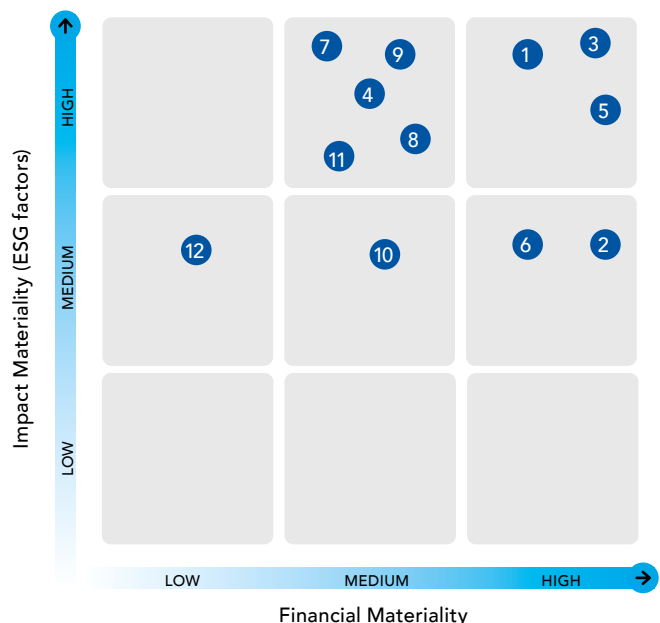
## Materiality Determination Process



## Changes to Material Topics in FY 2024

The following changes are reported in HNB’s Material Topics in the current financial year;



















1. Material Topic 4 (in 2023 - Artificial Intelligence, Technology, Data Security and Future Readiness) and Material Topic 12 (in 2023 - Innovation) were combined and established as a new Material Topic in 2024 - Innovation, Artificial Intelligence, Technology, Data Security and Future Readiness. The reason for combining the two topics, stems from the fact that technology stands as the main lever in fuelling innovation at HNB.
2. A new Material Topic - Diversity, Equity and Inclusion, was added in the current financial year, representing the increasingly multi-generational, multi-ethnic nature of HNB’s workforce



# MATERIALITY ASSESSMENT

	Material Matter	Topic Boundary	GRI Relevance	Risks	Opportunities
1	Economic Stress and Uncertainty	Considers possible uncertainties alongside Sri Lanka's economic recovery	201-1, 201-4, 203-1 203-2, 207-1, 207-2, 207-3	<ul style="list-style-type: none"> <li>» Credit Risk</li> <li>» Market Risk</li> <li>» Liquidity Risk</li> </ul>	<ul style="list-style-type: none"> <li>» Explore new markets or revenue streams, building resilience and reducing dependency on traditional income sources.</li> <li>» Adopt technology-driven solutions, leading to long-term efficiency gains.</li> <li>» Develop new products, services, or business models that cater to evolving demands.</li> </ul>
2	Credit Risk	Possible payment defaults by customers due to prolonged economic stress	2-16	<ul style="list-style-type: none"> <li>» Credit Risk</li> <li>» Liquidity Risk</li> </ul>	<ul style="list-style-type: none"> <li>» Investing in advanced data analytics and credit risk modelling enhances the ability to assess borrower risk accurately.</li> </ul>
3	Financial Stability and Integrated Risk Management	Integrated risk management framework of the Bank	201-1	<ul style="list-style-type: none"> <li>» All key risks</li> </ul>	<ul style="list-style-type: none"> <li>» Informed decision making that aligns with strategic objectives and minimises potential disruptions.</li> </ul>
4	Innovation, Artificial Intelligence, Technology, Data Security and Future Readiness	<p>Continuous improvements across product, internal processes and channels</p> <p>Internal digital infrastructure, data, and information security systems</p>	203-1, 203-2	<ul style="list-style-type: none"> <li>» Information and Cyber Risk</li> <li>» Reputation Risk</li> </ul>	<ul style="list-style-type: none"> <li>» Leveraging artificial intelligence and advanced technologies enables automation, data-driven insights, and streamlined processes, driving innovation and improving overall efficiency.</li> <li>» Robust data security measures and future-ready technology infrastructure build stakeholder trust Promoting collaboration to create a conducive environment for innovation.</li> </ul>
5	Customer Experience	Refers to the value proposition offered by the Bank to various customer segments	2-26, 2-29, 416-1 416-2, 417-1, 417-2, 417-3 418-1	<ul style="list-style-type: none"> <li>» Strategic Risk</li> <li>» Reputation Risk</li> <li>» Information and Cyber Risk</li> </ul>	<ul style="list-style-type: none"> <li>» Understanding customer preferences to develop tailored products and services to meet individual needs.</li> <li>» Driving innovation and creating unique value propositions to gain first-mover advantage.</li> <li>» Improving customer satisfaction scores to enhance HNB's brand reputation.</li> </ul>



Management Approach	Link to Strategy and Resource Allocation Through Capitals	
	Strategy	Capitals
Given the impact of the uncertainties and the volatilities over the last few years, the main focus is on exploring opportunities to diversify revenue streams through new markets, products and services aiming to capture emerging trends in customer behaviour, developments in the digital and technological space and the opportunities arising in the post crisis Sri Lanka and in other potential markets.	<ul style="list-style-type: none"> <li>» Business Growth</li> <li>» Technology enablement</li> <li>» Customer Experience and Productivity</li> <li>» People Development</li> <li>» Business Sustainability</li> </ul>	   
A Credit Risk Management Policy and monitoring mechanism is in place to manage this risk. The Bank adopts advanced credit evaluation techniques to assess borrower risks to support prudent lending practices, while diversifying the credit portfolio across industries and customer segments to minimise concentration risks. This is accompanied with regular monitoring of credit exposures and early identification of potential defaults enabling timely interventions to minimise non-performing loans.	<ul style="list-style-type: none"> <li>» Business Growth</li> <li>» Business Sustainability</li> </ul>	 
Maintain a robust and comprehensive risk management framework to assess, monitor, and mitigate risks across all operations. The framework integrating risk management with financial strategies to support prudent resource allocation, compliance with regulatory requirements, and to safeguard stakeholder interests.	<ul style="list-style-type: none"> <li>» Business Sustainability</li> </ul>	
<p>As a forward-thinking organisation, HNB is committed to digital transformation by integrating advanced technologies such as artificial intelligence, blockchain, and data analytics to enhance customer experience, drive efficiency, improve decision-making, and ensure that Bank remains agile in a rapidly evolving market.</p> <p>The Bank also prioritises investments in resilient digital infrastructure to strengthen its competitive positioning, preserve data integrity and protect sensitive information. Additionally, by promoting cross-functional teamwork, the Bank strives to create an environment where diverse teams can ideate and implement solutions that address changing customer needs and market trends.</p>	<ul style="list-style-type: none"> <li>» Business Growth</li> <li>» Technology enablement</li> <li>» Business Sustainability</li> <li>» Customer experience and productivity</li> <li>» People development</li> </ul>	      
<p>Making banking enjoyable through the use of advanced technologies and data analytics to understand customer preferences and deliver best in-class products and services, including seamless, omni-channel experiences. Additionally, HNB actively seeks customer feedback to identify areas for enhancement, continuously refining its services to exceed customer expectations and foster long-term relationships.</p> <p>The Bank also focuses on people and process improvements to enhance customer experience.</p>	<ul style="list-style-type: none"> <li>» Business Growth</li> <li>» Customer Experience and Productivity</li> <li>» Technology enablement</li> </ul>	   

# MATERIALITY ASSESSMENT

	Material Matter	Topic Boundary	GRI Relevance	Risks	Opportunities
6	Brand Reputation	All elements related to the Group's visibility, competitiveness and industry standing	2-26, 2-28	<ul style="list-style-type: none"> <li>» Reputation Risk</li> <li>» Information and Cyber Risk</li> <li>» Strategic Risk</li> </ul>	<ul style="list-style-type: none"> <li>» Consistent delivery of stakeholder expectations to build trust.</li> <li>» Engage in social initiatives and community projects to foster goodwill.</li> </ul>
7	Employee Well-being, Talent Attraction, Development and Retention	All aspect of the employee value proposition	2-7, 2-8, 2-2, 2-30, 201-3, 202-1, 202-2, 401-1, 401-2, 401-3, 402-1, 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 404-7, 403-8, 403-9, 403-10, 404-1, 404-2, 404-3, 405-1, 406-1, 407-1, 408-1, 409-1	<ul style="list-style-type: none"> <li>» Operational Risk</li> <li>» Reputational risk</li> </ul>	<ul style="list-style-type: none"> <li>» Invest in employee well-being and career development to improve employee satisfaction and loyalty.</li> </ul>
8	Ethics, Governance and Compliance	Refers to all applicable external regulations, global best practices and the Bank's internal constitution	2-9, , 2-10 2-11 2-12 2-13, 2-14 2-15 2-16 2-17 2-18, 2-19, 2-23,- 2-24, 2-25, 2-26, 2-27	<ul style="list-style-type: none"> <li>» Reputation Risk</li> <li>» Information and Cyber Risk</li> </ul>	<ul style="list-style-type: none"> <li>» Promote early adoption of regulatory compliance and voluntary adoption of global best practices</li> </ul>
9	Inclusive Growth and Responsible Lending	Considers sustainable lending practices	2-22 2-25	<ul style="list-style-type: none"> <li>» Reputation Risk</li> <li>» Strategic Risk</li> </ul>	<ul style="list-style-type: none"> <li>» Promote financial inclusion to unbanked and underbanked populations.</li> <li>» Avoiding and minimising negative ESG impacts of lending projects.</li> </ul>
10	Business Network Relationships	All activities relating to suppliers and strategic partners	2-6	<ul style="list-style-type: none"> <li>» Operational Risk</li> <li>» Strategic Risk</li> </ul>	<ul style="list-style-type: none"> <li>» Knowledge sharing to improve productivity and achieve cost leadership</li> </ul>
11	Climate Action	Involves assessing physical and transitional risks associated with climate change and developing plans, and implementing measures to mitigate these risks	201-2, 302-1, 302-4, 302-5, 304-3, 305-1, 305-2, 305-4, 305-5, 305-6, 305-7, 306-1, 306-2, 306-3, 306-4, 306-5, 308-1, 308-2, 414-1, 414-2	<ul style="list-style-type: none"> <li>» Climate Risk</li> </ul>	<ul style="list-style-type: none"> <li>» Offering green financing solutions for all customer segments.</li> <li>» Identifying and managing climate and ESG related risks.</li> <li>» Aligning with global best practices to lead the transition towards net zero carbon emissions.</li> </ul>
12	Diversity, Equity and inclusion	Promoting diversity, equity and inclusion across all the employee lifecycle	2-7, 2-8, 2-9, 2-10, 405-1, 405-2, 401-3, 406-1, 404-1	<ul style="list-style-type: none"> <li>» Strategic Risk</li> <li>» Reputational I Risk</li> </ul>	<ul style="list-style-type: none"> <li>» Enhance employee engagement and retention.</li> <li>» Promote innovations and creativity and lead to improved decision making.</li> </ul>

Management Approach	Link to Strategy and Resource Allocation Through Capitals	
	Strategy	Capitals
» Consistently achieving strategic objectives to deliver stakeholder expectations, while adhering to ethical practices and regulatory standards and prioritising transparency by ensuring open communication with all stakeholders, including customers, employees, investors, and communities.	» Business Growth » Business Sustainability » Customer Experience and Productivity	 
» Create a strong employee value proposition by providing access to equal opportunity and non-discriminatory employment.	» People Development	
» Adherence to stringent ethical standards and governance framework in line with regulatory requirements and industry best practices. The Bank has established robust policies and practices to promote ethical conduct, prevent misconduct, and address any violations promptly. Ethics training and awareness for employees along with regular audits and monitoring systems ensure adherence to policies and mitigate any potential risks.	» Business Sustainability	
» Providing equitable access to financial services while ensuring that lending practices are fair, transparent, and supportive of customers' financial well-being. This includes serving diverse customer segments, including underserved communities, by offering tailored products that meet their specific needs. The Bank's ESMS ensure that the lending activities are in compliance with national ESG regulations and internationally accepted best practices as applicable.	» Business Growth » Business Sustainability	  
» Building mutually beneficial partnerships through regular communication, and strategic alliances.	» Business Growth » Business Sustainability	 
» The Bank tackles climate action through responsible lending, financing green projects, and offering sustainable financial products while working to actively reduce its carbon footprint by implementing energy-efficient practices within its operations, including reducing energy consumption, enhancing waste management and sustainable agriculture practices	» Business Growth » Business Sustainability » Customer Experience and Productivity	  
» The Bank's Diversity and Equality policy aims to preserve the human rights of all employees (including contract employees) by ensuring no one is discriminated against or treated less favourably on the grounds of race, colour, nationality, ethnic or national origin, sex, marital status, gender reassignment, sexual orientation, social status, religious belief, political opinion and/or language, or any other status protected by law.	» People Development	 

# HNB'S STRATEGIC DIRECTION

HNB's Strategic Direction is set by the Board of Directors by way of a three-year strategic plan updated annually on a rolling basis following a deep dive to measure the Bank's performance and progress to date against the Bank's 5 strategic pillars - Business Growth, Business Sustainability, Customer Experience and Productivity, Technology Enablement and People Development.

## BUSINESS GROWTH



**OBJECTIVE** To be the No 1 Bank among private sector banks in Sri Lanka

### 2024 SCORECARD

#### Progress on Planned Initiatives

Focus Area	Resource Allocation in 2024	Outcomes	2024	2023	2022
Support key sectors in the economy	<ul style="list-style-type: none"> <li>Support MSME growth through exports, value chain financing, guarantee and refinance schemes</li> <li>Focus on growing export market share</li> <li>Emphasis on lending towards sustainable projects such as renewable energy</li> </ul>	<ul style="list-style-type: none"> <li>Total Loan growth (YoY)</li> </ul>	11.3%	-1.8%	14.3%
Drive CASA growth	<ul style="list-style-type: none"> <li>Roll out of HNB's Transaction Banking platform - HNB TxB, to drive CASA growth among corporates</li> <li>Aggressive promotional campaigns to promote retail savings</li> </ul>	<ul style="list-style-type: none"> <li>Deposit growth (YoY)</li> <li>CASA Ratio of the Bank</li> </ul>	8.6%	12.2%	30.9%
Optimising Group returns	<ul style="list-style-type: none"> <li>Strengthened Group synergies</li> </ul>	<ul style="list-style-type: none"> <li>Group Profits (Rs Mn)</li> <li>ROE</li> </ul>	44,840	23,606	15,748
			18.4%	11.5%	8.5%

Capitals impacted



SDGs Impacted



Stakeholders impacted



**MEDIUM TERM GOAL** Most profitable Bank and Group among private sector banks

Key Priorities for the Future	Opportunities	Risks
Lending to key sectors of the economy	Capture growth opportunities in the market	Credit Risk (Default Risk)
Increased focus on export trade financing	Growing demand for comprehensive export trade facilitation services	Market Risk (Currency Risk)
Continued emphasis on CASA	Demand for fully fledged transaction banking services from the corporate sector	Market Risk (Interest Rate Risk)
Focus on inorganic opportunities	Diversifying revenue streams	Market Risk, Credit Risk, Reputational Risk

## CUSTOMER EXPERIENCE AND PRODUCTIVITY



**OBJECTIVE** Make Banking Enjoyable for the Customer

### 2024 SCORECARD

#### Progress on Planned Initiatives

Focus Area	Resource Allocation in 2024	Outcomes	2024	2023	2022
Service Excellence	<ul style="list-style-type: none"> <li>Launch of the Queue Management System at branches</li> </ul>	<ul style="list-style-type: none"> <li>Queuing time at branch counters</li> </ul>	10.4 mins	n/a	n/a
Improve Productivity through Automation	<ul style="list-style-type: none"> <li>Improvements to the Loan Origination System (LOS)</li> <li>Robotic Process Automation to improve efficiency</li> <li>ISO certifications for back office functions</li> </ul>	<ul style="list-style-type: none"> <li>Cost-to-income</li> <li>Overall CSAT</li> <li>Branch CSAT</li> </ul>	37.2%	29.9%	23.0%
Customer relationship management	<ul style="list-style-type: none"> <li>Enabling branch teams to access the Customer Relationship Management System</li> <li>Strengthening the Customer Experience vertical</li> </ul>		87.9%	94.6%	93.1%
			86.8%	84.2%	83.0%

Capitals impacted



SDGs Impacted



Stakeholders impacted



**MEDIUM TERM GOAL** NPS > 65% | Cost to income < 30%

Key Priorities for the Future	Opportunities	Risks
Continuous process improvements and automations	Improve process efficiency and redeploy resources	Operational Risk
Leverage Customer Relationship Management	Better understanding of customer requirements for superior service	Operational Risk Cybersecurity Risk



# HNB'S STRATEGIC DIRECTION

## PEOPLE DEVELOPMENT



**OBJECTIVE** To be the most preferred employer in the local banking sector

### 2024 SCORECARD

#### Progress on Planned Initiatives

Focus Area	Resource Allocation in 2024	Outcomes	2024	2023	2022
Employer Branding	<ul style="list-style-type: none"> <li>Launch of INSPIRE outreach initiatives for entry level recruitment</li> </ul>	<ul style="list-style-type: none"> <li>New Recruits</li> <li>Employee Attrition</li> <li>Average Training hours per employee</li> <li>Employee engagement score (GPTW score)</li> </ul>	768	1,146	683
Retention and rewards	<ul style="list-style-type: none"> <li>Launch of the Strategic Human Capital Project to revamp existing remuneration structures</li> <li>Including junior executives into the variable pay structure</li> </ul>		7.3%	8.1%	9.5%
Employee engagement and wellness	<ul style="list-style-type: none"> <li>Rs 21.6 Bn incurred on staff salaries and welfare</li> </ul>		25.9 hrs.	38.2 hrs.	24.4 hrs.
Succession planning	<ul style="list-style-type: none"> <li>Rs 114.8 Mn incurred on training</li> <li>Relaunch of ASPIRE for high potentials</li> <li>Launch of the IBSL Diploma for Microfinance officers to create specialised career pathways</li> </ul>		67%	61%	64%

Capitals impacted



SDGs Impacted



Stakeholders impacted



**MEDIUM TERM GOAL** Employee engagement score > 70%

Key Priorities for the Future	Opportunities	Risks
Strengthen Mid-level Leadership pipeline	Promote continuous learning	Operational Risk
Improve females in leadership roles	Explore coaching and mentoring	Operational Risk

## TECHNOLOGY ENABLEMENT



**OBJECTIVE** To be the best digital bank in Sri Lanka

### 2024 SCORECARD

#### Progress on Planned Initiatives

Focus Area	Resource Allocation in 2024	Outcomes	2024	2023	2022
Drive digital adoption across all segments	<ul style="list-style-type: none"> <li>Launch of HNB Self-Onboarding for retail customers</li> <li>Roll out of HNB's Transaction Banking platform (HNB TxB)</li> </ul>	<ul style="list-style-type: none"> <li>Growth in digital transaction volumes</li> </ul>	40%	60%	116%
Data and analytics	<ul style="list-style-type: none"> <li>Increased use of AI-based analytical dashboards to disseminate information to key decision makers regarding customer spending behaviour patterns, product-wise/ region-wise / segment-wise performance</li> </ul>	<ul style="list-style-type: none"> <li>Total digital users</li> <li>Increase in digital revenues</li> </ul>	1,437k	1,007k	685k
Stabilise core systems/ develop enabling systems	<ul style="list-style-type: none"> <li>API integration to connect the Bank's systems to the customers' ERP</li> <li>IT infrastructure modernisation using the latest rapid system deployment methodology</li> <li>Secured the ISO 27001:2022 Information Security Management certification</li> </ul>				

Capitals impacted



SDGs Impacted



Stakeholders impacted



**MEDIUM TERM GOAL** Employee engagement score > 70%

Key Priorities for the Future	Opportunities	Risks
Drive digital adoption	Improve customer experience	Cybersecurity Risk
Leverage data and analytics	Improve customer experience, revenue streams and productivity	Cybersecurity Risk
Strengthen information Security and Business Continuity Planning systems	Adoption of global best standards and certifications	Cybersecurity Risk
Improve IT system resilience		Cybersecurity Risk

# HNB'S STRATEGIC DIRECTION

## BUSINESS SUSTAINABILITY



**OBJECTIVE** To be the most resilient and sustainable bank

### 2024 SCORECARD

#### Progress on Planned Initiatives

Focus Area	Resource Allocation in 2024	Outcomes	2024	2023	2022
Enhance governance structures	<ul style="list-style-type: none"> <li>Complied with the revised Section 9 of the CSE Listing Rules on Corporate Governance</li> <li>Complied with the Banking Act Direction No 11 of 2007 on Corporate Governance which has been replaced by Banking Act Direction No 05 of 2024 effective from 1st January 2025 except where extended effective dates were provided</li> <li>Complied with the Personal Data Protection Act</li> </ul>	<ul style="list-style-type: none"> <li>Incidents of non-compliance</li> <li>Net Stage 3 ratio</li> <li>Provision Coverage ratio</li> <li>All Currency LCR</li> <li>Tier 1 CAR</li> <li>Total CAR</li> </ul>	0	0	0
Manage impact on society and environment	<ul style="list-style-type: none"> <li>Strong focus on recoveries</li> <li>Ongoing customer rehabilitation to support stressed customers</li> </ul>	<ul style="list-style-type: none"> <li>Carbon Footprint (tCo2e)*</li> <li>Energy requirement met by renewable sources (%)</li> </ul>	11,130	9,025	12,205
Optimising Group returns	<ul style="list-style-type: none"> <li>Supported 1,241 customers and lent Rs 43,448 Mn for sustainable projects</li> <li>Launched HNB Saru Sara to support smart and sustainable agriculture</li> <li>300 projects screened through ESMS</li> <li>Continuing with ESG / Climate risk assessments on vulnerable loan portfolios</li> <li>Conducted 266 financial literacy programmes for unbanked and underbanked communities</li> <li>Obtained Membership of the UNGC</li> </ul>	<p>* Including the head office and branches islandwide, except for 15 branches where the rental agreement covers the electricity and water consumption.</p>	13.0%	15.0%	13.0%

Capitals impacted



SDGs Impacted



Stakeholders impacted



**MEDIUM TERM GOAL** Best Asset Quality among peers | Stable Capital and liquidity | Zero GhG scope 1 and 2

Key Priorities for the Future	Opportunities	Risks
Strengthen recovery action	Improve asset quality and realise provisions made enabling to lend to more sustainable projects	Reputational Risk
Obtain formal approval to adopt SBTi standards	Improved access to special climate related funding at concessionary rates	ESG Risk
Focus on reducing GhG emissions of the Bank	Government initiative to increase investment in renewable energy generation in the Country	Credit Risk (Concentration Risk)

# Management Discussion & Analysis

## Anchored to Ascend

Our foundation is built on strong structures and principles that empower us to rise above challenges and achieve sustainable growth. As we continue to nurture longstanding relationships, we strengthen both ourselves and the communities we serve, fostering stability and resilience in all that we do.

*Much like the Kapok Tree, or Silk Cotton Tree, which towers over tropical rainforests, our growth is anchored in strong foundations that enable us to reach new heights. The tree's stability comes from its massive buttress roots, extending over 30 feet high and up to 165 feet deep, preventing soil erosion and protecting ecosystems.*

*Similarly, HNB is rooted in robust infrastructure and strategic alliances. Just as the Kapok Tree's roots interlace with others to foster mutual growth, we too cultivate interconnected partnerships that ensure long-term stability, enabling us to reach greater heights while supporting collective success.*



# OPERATING ENVIRONMENT

## Overview of the Sri Lankan Economy

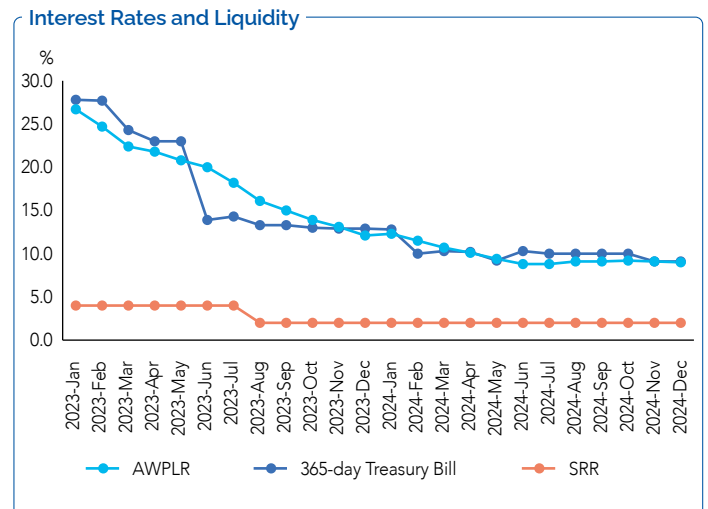
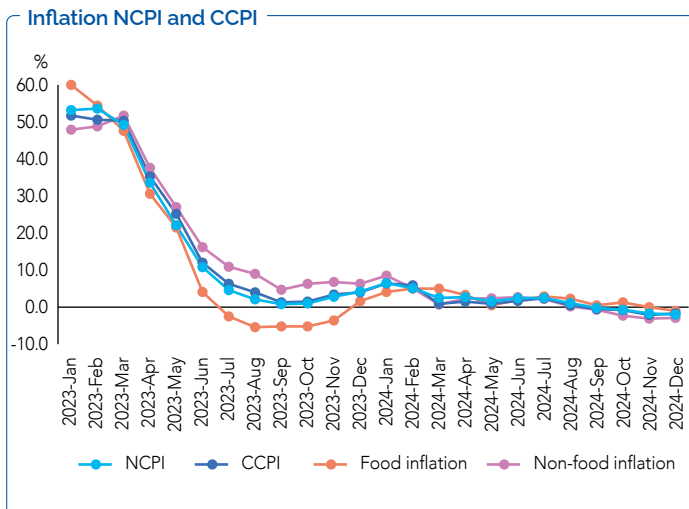
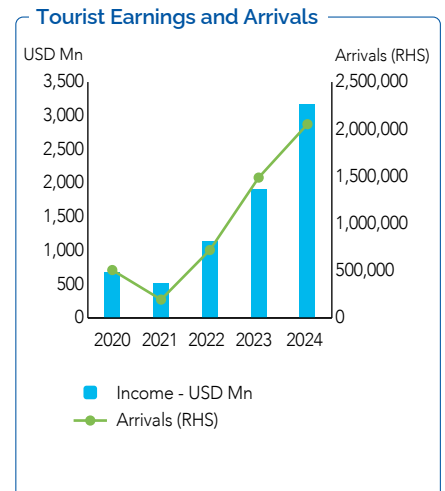
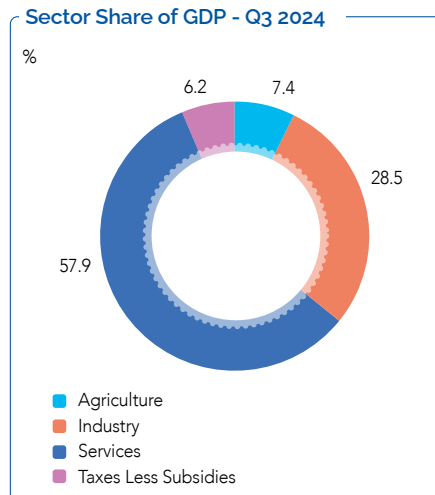
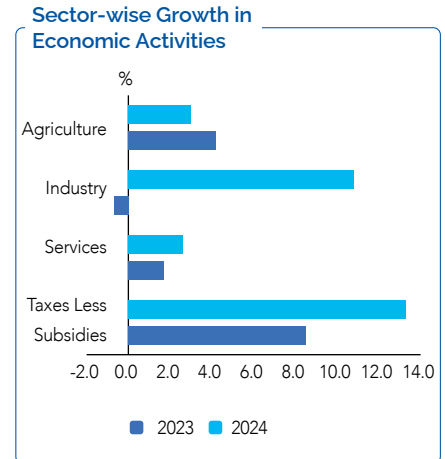
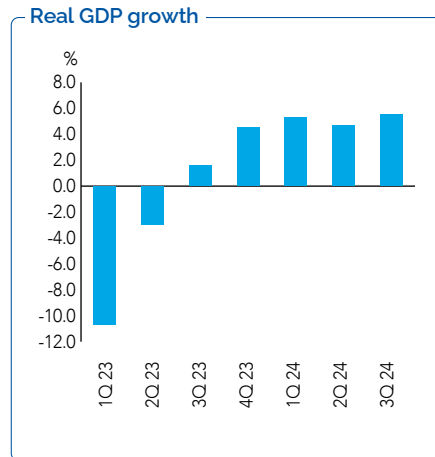
### Economic Growth

After a prolonged contraction that lasted nearly two years, the Sri Lankan economy rebounded strongly in 2024, bolstered by sound structural reforms against the backdrop of continued assistance from the IMF-led extended fund facility. The Sri Lankan economy expanded by 5.5% (year-on-year) in Q3 2024, up from 5.3% recorded in Q1 2024 and 4.7% recorded in Q2 2024, driven by a rebound in the Industrial sector.

The upswing in the industrial sector is attributed to the recovery in construction activities, driven by the widespread resumption of private sector projects and the revival of several large-scale government-led initiatives.

Meanwhile, IT services and the exponential increase in tourist arrivals provided a much-needed boost to the services sector 2024.

The agricultural sector grew due to the cultivation of cereals (except rice), with animal production and tea cultivation also contributing to its growth, despite constraints from localised weather disruptions and other external factors.





### Inflation and Interest Rates

Inflation remained well below the desired target, allowing the Central Bank of Sri Lanka to implement further cuts in policy rates in turn pushing down lending and deposit rates of commercial banks.

### External Sector and Exchange Rate

The Country’s external sector further strengthened in 2024. The widening of the trade deficit caused by imports overshooting exports, was offset to a certain degree by inflows from tourism and remittances. The suspension of external debt service commitments as well as restrictions on vehicle imports also contributed positively towards these results. Buoyed by the positive momentum in the external sector, the Rupee appreciated against all major currencies in 2024 with the USD / LKR rate improving from Rs 323.99 to Rs 292.58 denoting a 9.7% appreciation during the year.

### Banking Sector Performance

#### Credit Growth

Effectively capitalising on the improving health of the Sri Lankan economy, the local Banking sector delivered a strong performance in 2024, signalling a clear turnaround from the de-growth seen in the past few years. The sector as a whole witnessed a notable uptick in credit appetite, mainly driven by the increasing

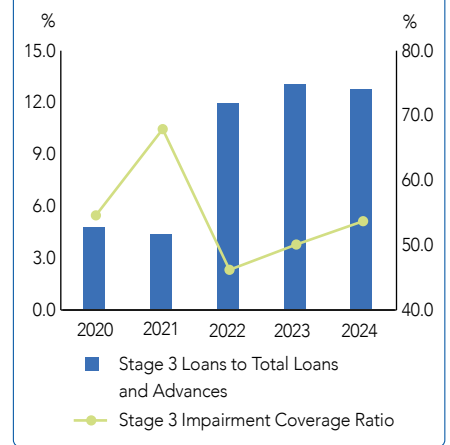
demand for loans amidst declining market interest rates.

Credit extended by both domestic banks and foreign banks increased with Domestic Systemically Important Banks (DSIBs) recording the highest credit expansion, representing 76.7% of the total credit growth during 1H 2024. A notable increase was observed in the volume of credit granted to the Micro, Small, and Medium Enterprises MSMEs sector. Such lending was mainly concentrated into five economic sectors, namely Trade, Manufacturing, Construction and Infrastructure, Agriculture, and Tourism sectors collectively accounting for a majority of the credit granted to MSMEs by the Banking sector at the end Q3 2024.

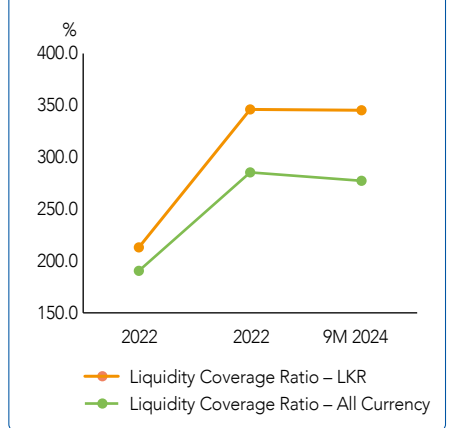
#### Credit Quality

As of September 2024, the credit quality of Licensed Commercial Banks (LCBs) continued to improve. The Gross Stage 3 Loans to Total Loans and Advances declined to 12.7% at the end of Q3 2024, compared to 13.7% at the end of the same period the previous year. The Provision Coverage Ratio, as measured by the Stage 3 Impairment Coverage, improved to 53.7% by the end of Q3 2024, up from 48.0% at the end of the corresponding period of the previous year.

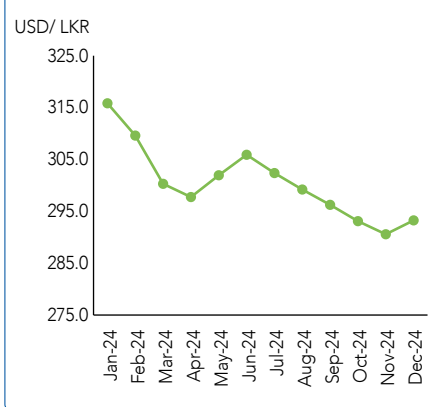
Banking Sector Asset Quality



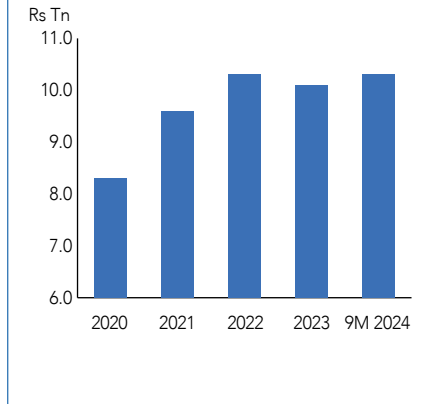
Liquidity Coverage Ratio



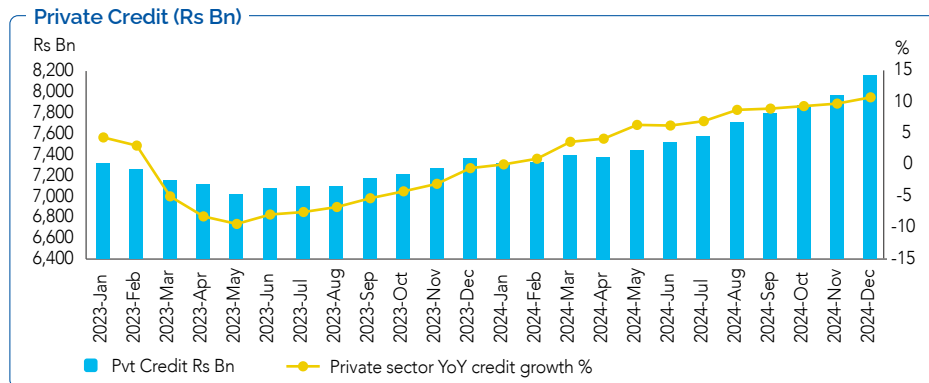
Exchange Rate



Gross Loans and Receivables



# OPERATING ENVIRONMENT

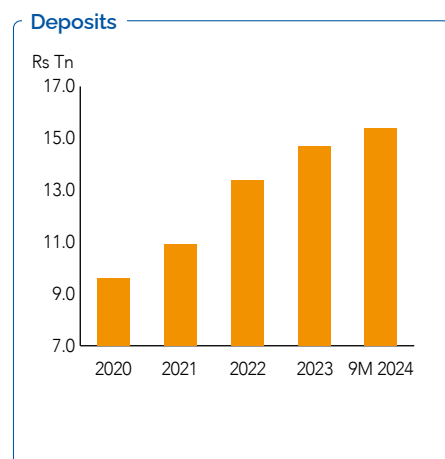


## Liquidity Position

In sharp contrast to the previous year, the Banking sector as a whole demonstrated strong liquidity. Rupee LCR of the Banking sector improved to 345.3% as at end of September 2024 and stood well above the minimum regulatory requirement of 100%, indicating that banks possess adequate High-Quality Liquid Assets to meet any possible net cash outflow requirements.

## Funding Base

The deposit base of LCBs continued to expand during the period. The sector's total deposits grew by 4.6% in the first nine months of the year to reach Rs 15.4 Tn as at end-September 2024. Notwithstanding the drop in interest rates, the CASA base of LCBs registered a year-on-year increase of 12.9% in the first nine months of the year with the CASA ratio in Q3 2024 standing at 33.4%.



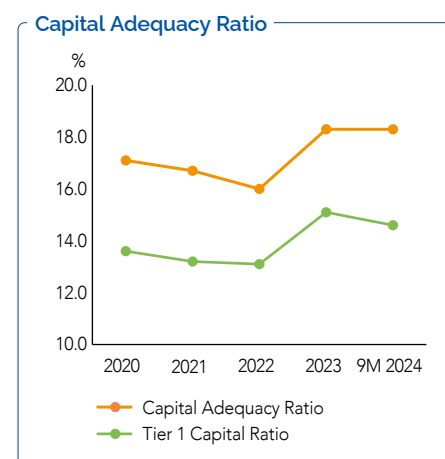
## Capital Adequacy

The Capital Adequacy Ratio (CAR) of the LCBs stood steady at 18.3% as at the end of Q3 2024, the same level as at the end of 2023. The total regulatory capital of the Banking sector grew mainly due to the increase in Common Equity Tier-1 Capital stemming from higher retained profits and Tier-2 debenture capital infusions.

## Profitability

LCBs reported a strong growth in Net Profits during the first nine months of 2024 compared to the corresponding period in the previous year. LCBs reported a Profit After Tax (PAT) of Rs 164.3 Bn during the first nine months of 2024 compared to Rs 137.6 Bn recorded during the corresponding period in 2023.

Increased NII mainly contributed to the increased profitability of LCBs. With growth in interest income outpacing growth



## Key Banking Sector Indicators

Key Indicators as at September 2024	Industry (LCBs)	HNB
Net Interest Margin	4.30%	5.08%
Cost to Income Ratio	41.30%	37.39%
PAT Growth	19.38%	34.00%
Advances Growth	2.28%	6.20%
Deposit Growth	4.55%	2.58%
CASA Growth	5.80%	14.53%
CASA Ratio	33.37%	33.40%
Total Capital Adequacy Ratio	18.31%	20.01%
All Currency Liquidity Coverage Ratio	277.30%	297.39%
Stage 3 Coverage Ratio	53.75%	60.50%

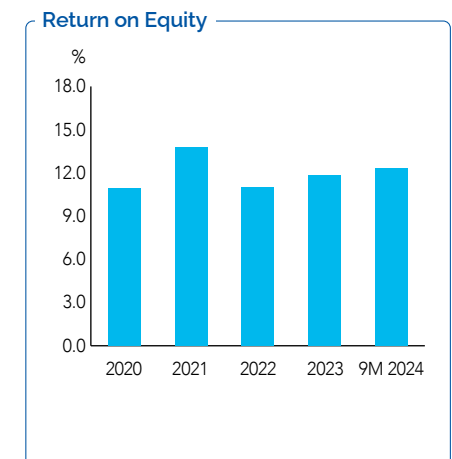
in interest expenses, NII of the LCBs increased to Rs 538.0 Bn during the nine months up to September 2024, up from Rs 472.1 Bn recorded for the corresponding period in 2023. Consequently, both Return on Equity (ROE) and Return on Assets (ROA) of LCB's improved to 12.3% and 1.2% respectively during first nine months of 2024, compared to 11.4% and 1.1% respectively reported during the corresponding period in 2023.

Sources:

Financial Stability Review 2024 - Central Bank of Sri Lanka

Financial Sector Statistical Tables Q3 2024 - Central Bank of Sri Lanka

Sri Lanka Development Update 2024 - World Bank



Opportunities and Challenges for HNB arising out of the Economic Environment and Banking Sector performance in 2024		HNB's Strategic Response as a Domestic Systemically Important Bank (DSIB)	Further Reading	
Opportunities	Return to Economic Growth	Strong improvement in private sector credit appetite. As at the end of 2024, credit of the private sector grew by 10.7% YoY, compared to the contraction of 3.1% reported for the corresponding period in 2023.	<p>In response to the uptick in economic activity in 2024, HNB implemented a targeted approach across its core business segments.</p> <p>In retail banking, the Bank capitalised on the revival of construction sector activities to actively promote home loans, while in the Wholesale Banking segment more aggressive lending was undertaken to grow captive market share. Across both retail and wholesale banking segments, HNB also focused on increasing the exposure to sustainable finance, particularly through EV leasing, solar loans and renewable energy project financing.</p> <p>The Bank also placed a strong emphasis on SME sector growth, as part of a broader strategy to promote more inclusive growth.</p> <p>Leveraging the low interest rates environment, more emphasis was placed on mobilising low cost funding, including retail deposits and CASA growth.</p>	Business Reviews - page 47 to 58
	Well Managed Inflation Expectations	Headline inflation, measured by the Colombo Consumer Price Index (CCPI), remained low in 2024, on the back of downward adjustments in utility prices (including petroleum, electricity and water), and further supported by moderating global commodity prices, stronger currency and improving supply conditions, globally.		
	Accommodative monetary policy by the CBSL	<p>In March 2024, rates were cut by 50 bps followed by another 25 bps in July, bringing the Standing Deposit Facility rate and the Standing Lending Facility rate down to 8.25% and 9.25%, respectively.</p> <p>However, in November 2024, in order to operationalise and signal its monetary policy stance, the Central Bank introduced the Overnight Policy Rate (OPR) at the rate of 8.00%. This measure was implemented by the CBSL to enhance the effectiveness of monetary policy transmission and improve signalling to financial markets and the broader economy.</p>		
Challenge	Improvement in credit quality despite Credit Risk remains at elevated levels	Credit quality of the sector represented by the Gross Stage 3 Loans to Total Loans and Advances, declined to 12.7% at end Q3 of 2024 from 13.7% at end Q3 of 2023. However, it still remains at an elevated level.	Continued focus on recovery management along with ongoing support by the Bank's Customer Rehabilitation Unit to provide rescheduling and restructuring solutions to assist stressed customers. This has enabled HNB to record asset quality ratios which are far superior than that of the industry.	Risk Management Report - page 231

# RISKS, OPPORTUNITIES AND OUTLOOK

## Outlook and Prospects for the Sri Lankan Economy

The faster than expected macroeconomic stabilisation signals a robust growth outlook for 2025 and beyond with the Sri Lankan economy set for further expansion amid the rebound in industry and tourism, increased private credit, and improved supply conditions, globally.

However, policy uncertainty, including the direction and pace of reforms and the scarring effects from the 2022 economic crisis, could be some of the main matters of contention affecting growth in the short-term.

Against this backdrop, the continued implementation of structural reforms will be critical. Key priorities would be to safeguard fiscal resilience through sustained improvements in domestic revenue mobilisation. Effective monetary policy management is also crucial to prevent inflationary pressures, while financial sector risks need to be carefully monitored to preserve financial system stability.

At the same time, achieving sustained growth demands a stronger emphasis on private investment, driving exports, and enhancing the competitiveness of local industries in the global market. With global trade growth expected to surpass 3% in 2025, Sri Lanka must act swiftly to capitalise on emerging opportunities and position itself as a competitive player in international markets. Attracting export-oriented Foreign Direct Investments (FDIs) is equally crucial, as it will not only inject capital into the economy but also facilitate technology transfer, enhance supply chain integration, and create employment opportunities in high-value sectors.

## Role of the Banking Sector, Going Forward

The local banking sector is set to become a catalyst for Sri Lanka's economic growth in 2025 and beyond. As macroeconomic stabilisation gains momentum and key industries rebound, banks will be instrumental in mobilising capital,

promoting financial inclusion, and enabling businesses to scale operations in response to growing global and domestic demand. Equally importantly, banks must enhance risk management frameworks to sustain asset quality notwithstanding economic shocks.

To support the expanded role of banks, the Central Bank of Sri Lanka (CBSL) is expected to implement new regulatory measures aimed at strengthening financial sector resilience. The Directions issued under the Banking (Amendment) Act will introduce more stringent requirements related to these reforms will enhance the banking sector's ability to withstand economic volatility while ensuring that financial institutions operate with greater transparency, accountability, and risk management discipline. Strengthening prudential regulations will also improve investor confidence, making Sri Lanka's banking sector more attractive to international capital flows.

As indicated in the Central Bank's Policy Agenda for 2025 and beyond, released in January 2025, the upcoming launch of the Sustainable Finance Roadmap for Sri Lanka – Version 2.0 will underscore the growing emphasis on sustainability in the financial sector. This initiative will drive banks to integrate Environmental, Social and Governance (ESG) considerations into their lending practices, thereby promoting green finance, renewable energy investments, and responsible lending frameworks.

## HNB's Key Priorities for 2025 and Beyond

As a Domestic Systemically Important Bank (DSIB), HNB will strive to remain at the forefront of Sri Lanka's economic expansion in the coming years. The Bank's strategy will centre on leveraging opportunities for credit growth in high-potential sectors while carefully managing impairment risks to preserve asset quality. Simultaneously, leveraging its strong foreign currency (FCY) position, the Bank will deepen its presence in trade financing, with a focus on

expanding its market share in both export and import trade.

On the retail front, the Bank will adopt a more focused approach to driving core products, such as electric vehicle (EV) leasing, housing loans, and solar loans, to support individual borrowers and households to access affordable and sustainable financing solutions.

HNB also aims to significantly expand its engagement in the Micro, Small, and Medium Enterprise (MSME) sector, reinforcing its commitment to fostering entrepreneurship and economic development. The Bank will continue offering refinance and credit guarantee schemes, as well as supply chain and value chain financing models, to support the SME sector growth. It is hoped that the government's upcoming credit guarantee scheme, due to be mobilised in 2025 will create a platform for HNB to provide targeted funding to priority sectors within the SME umbrella.

Moreover, building on the foundations established in 2024 through the HNB Sarusara initiative, the Bank will position sustainable finance as a key enabler of MSME growth, where the emphasis will be on cultivating a new generation of agripreneurs by providing them with access to financial resources and business development opportunities to drive sustainable agricultural growth.

Meanwhile a significant acceleration in HNB's ongoing digital transformation is also planned in the coming years, as part of a concerted effort to modernise financial infrastructure and elevate Sri Lanka's banking industry on par with global standards. As part of the overall digital agenda, the Bank will also explore FinTech partnerships to deliver cost-effective, user-friendly digital solutions aimed at promoting financial inclusion across the country, ensuring that a wider segment of the population has access to modern banking services.

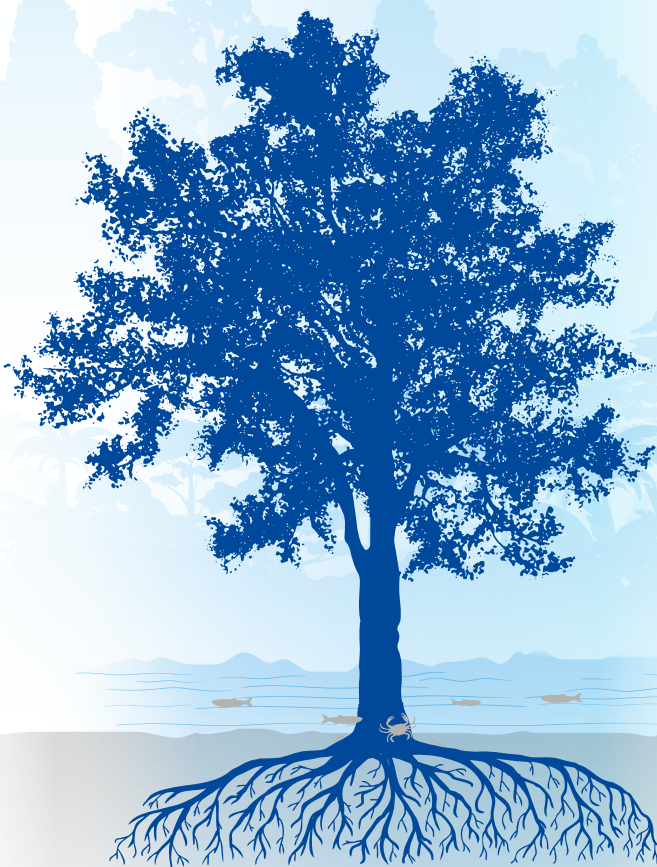
# Business Lines

## Calibrated to Change

We are attuned to the dynamic and ever-evolving landscape around us. Our flexibility and responsiveness position us to not only expand our reach but to offer diverse solutions that meet the needs of every customer, regardless of their circumstances or background.

*Much like the Sweetgum Tree which thrives in diverse environments, our approach is rooted in adaptability. The tree's ability to flourish in varying conditions reflects its versatility. In well-drained soils, it develops deep, vertical taproots for stability. In wetter areas with poor drainage, it spreads its roots closer to the surface, adjusting to its surroundings.*

*Similarly, HNB is designed to adapt to the changing needs of our customers and the ever-evolving market in which we operate in. Just as the Sweetgum Tree's roots evolve with the environment, we refine our offerings and strategies to stay ahead, ensuring we remain a trusted and responsive partner to all stakeholders.*



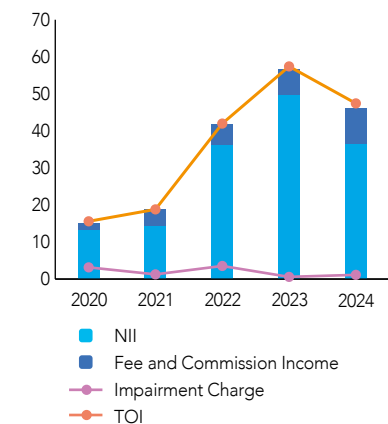


# BUSINESS LINE REVIEW

## RETAIL BANKING

### KEY PERFORMANCE HIGHLIGHTS

Earnings  
Rs Bn



### ADVANCES

Rs **285.9** Bn  
6.6%



### DEPOSITS

Rs **1,029.7** Bn  
10.1%



### CONTRIBUTION TO THE GROUP

**25.8%**  
Net Operating  
Income

**13.9%**  
Segment  
Assets

**55.8%**  
Segment  
Liabilities

### Context, Strategy and Performance

The year 2024 marked a turning point in Sri Lanka's economic prospects after several consecutive years of subpar performance. It was evident right from the start of the year that the private sector credit appetite was on the rebound, driven by renewed optimism surrounding macroeconomic stability and a favourable low-interest-rate environment. In response to this positive shift, HNB took a strategic decision to gradually transition out of the cautious lending approach that had been in place since the onset of the COVID-19 pandemic in 2020 and throughout the subsequent economic crisis period.

In this backdrop, we focused on promoting our core offerings within the retail product basket. In the leasing segment, while the traditional vehicle leasing model remained under pressure due to ongoing vehicle import restrictions, we pushed ahead with our EV (Electric Vehicle) leasing proposition. Envisioning the removal of the vehicle restrictions and the potential opportunities, HNB's EV leasing product was revamped and relaunched in the latter part of 2024.

Efforts to accelerate HNB's flagship agriculture machinery leasing product, Govi Saviya, also delivered excellent results. Leveraging our robust value proposition

and first-mover advantage in this space, we succeeded in achieving consistent month-on-month growth in new volumes, which added a significant boost to the overall retail leasing portfolio.

Cards business was another key growth driver for HNB's retail banking cluster, with the performance surpassing expectations for the year. Improved pricing and special promotional campaigns conducted in collaboration with our extensive merchant partner network, saw the card portfolio recording a solid 21% growth year-on-year. Fee income from the card business also expanded by 21.2% year-on-year, signalling the widespread acceptance of HNB's cards and the payment platforms such as POS/ IPG/ Mini POS.

In the personal loan category, our efforts tilted towards promoting sustainable financing solutions. Through our highly compelling solar loan scheme, we were able to capitalise on the prevailing low-interest-rate environment. The initiative was aimed at enabling customers to enjoy long-term energy savings while contributing to Sri Lanka's transition towards a sustainable future. We also stepped in to supporting young adults in shaping their future through our education loans.

### Awards and Recognitions

- » HNB honoured with the Best Automobile Financing in Asia-Pacific Award at the prestigious Asian Banker Global Excellence in Retail Financial Services Awards 2024
- » HNB ranked Best Retail Bank in Sri Lanka for the **15th year** at the Asian Banker Global Excellence in Retail Financial Services Awards 2025

Moreover, with the local construction and housing sector showing notable activity after a lapse of nearly four years, HNB seized the opportunity to grow its home loan portfolio. Multi-pronged strategies to tap into potential market opportunities saw the Bank doubling volumes granted compared to the previous year, leading to a commendable 10% growth in the housing loan portfolio, year-on-year.

From a funding perspective, CASA growth remained the top priority for 2024. Striving towards achieving the Bank's CASA target, the main strategic thrust was to promote HNB savings with special emphasis placed on minor savings accounts. Supported by organic growth in our savings portfolio, HNB's retail liabilities recorded a 10%

improvement over 2023, while the Bank's retail CASA portfolio recorded a 20% growth from a year ago.

Meanwhile, the asset quality of our retail portfolio strengthened significantly in 2024. After reaching a high by the end of 2022 owing to the dual impact of the pandemic and the economic crisis, we noted a steady increase in customer repayments amid improving economic conditions. Despite these encouraging signs, the Bank continued to maintain a strong focus on recoveries with HNB's regional teams engaged in follow up and recovery efforts, and our dedicated units proactively managed potential delinquent accounts.

Throughout the year we also further intensified the focus on technology integration to enhance the retail customer experience. A major milestone in this regard was the introduction of HNB Self-Onboarding marking the first time in HNB's history that customers could open accounts and access banking services through a fully digital platform. This innovation has not only eliminated the need for in-branch visits, but also given customers the flexibility to complete the onboarding process at their convenience, even from overseas. The platform which was launched in March 2024 received an overwhelmingly positive response from customers, with 600+ new customers opting for digital onboarding within its first nine months of operation.

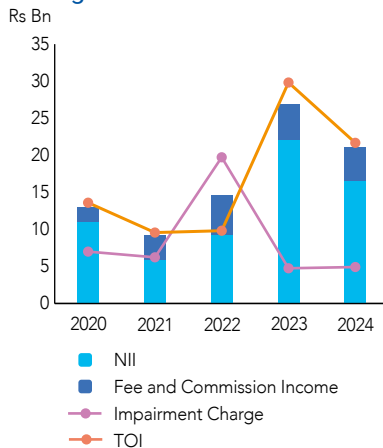
### Future Prospects

With current indications suggesting that Sri Lanka's economy is likely to gain further traction over the next 12–18 months, the immediate focus for HNB's retail banking business would be to capitalise on emerging opportunities for credit expansion. This would require more focused efforts to drive core products such as EV leasing, housing loans, and solar loans, while aggressively expanding the pawning portfolio to cater to evolving customer needs. While pursuing its credit growth aspirations in the coming year, the Bank will continue to rely on its prudent risk management practices to safeguard asset quality indicators and ensure they remain well below the industry average at all times.

## WHOLESALE BANKING

### KEY PERFORMANCE HIGHLIGHTS

#### Earnings



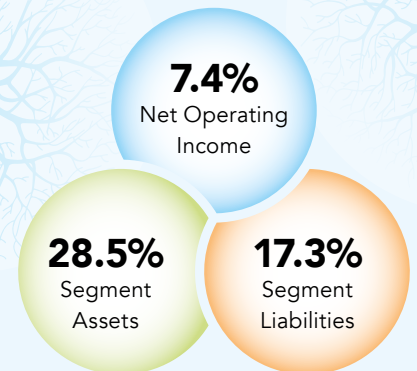
#### ADVANCES

Rs **589.1** Bn   
11.7%

#### DEPOSITS

Rs **319.3** Bn   
13.5%

### CONTRIBUTION TO THE GROUP



### Context, Strategy and Performance

The Sri Lankan economy staged a strong comeback in 2024, with the Country's GDP returning to positive territory signalling an end to the prolonged economic stagnation witnessed since the pandemic in 2020. This together with ongoing fiscal and monetary policy reforms which kept inflation and interest rates in check, paved the way for a revival in economic activity, investment, and credit growth across key sectors.

Empowered by its strong LKR and Foreign Currency (FCY) liquidity position, the Bank swiftly resumed broad-based lending in the second quarter of 2024.

However, faced with stiff competition, action was needed on multiple fronts to reinforce HNB's competitive position. Capitalising on the economic revival, we focused on gaining further traction within existing stronghold sectors by providing customers with the opportunity to benefit

### Awards and Recognitions

- » HNB bestowed with the prestigious titles of Best Market Leader in Trade Finance Services and Best Service Provider in Trade Finance – both overall and domestic by Euromoney Awards for Excellence in 2024.

# BUSINESS LINE REVIEW

from the prevailing low-interest-rate environment. We also expanded our product offerings and pursued cross-selling in order to make inroads into new and emerging sectors. In testimony to the success of these efforts, the loan book registered a 11.7% YoY growth.

On the LKR funding side, CASA growth remained the key strategic objective for HNB in 2024. With NIMs coming under pressure due to the downward spiral in interest rates, the Bank successfully leveraged its strong presence in the digital banking space to drive up CASA. The full roll out of HNB's Transaction Banking platform- HNB TxB in early 2024, signifies an important step in supporting our CASA growth ambitions. HNB TxB with its fully integrated architecture and advanced digital transaction banking capabilities was extremely well received by our corporate customers with approximately 30% of the customer base already onboarded to the system as at 31st December 2024.

In yet another positive advancement, asset quality of the corporate loan book showed a substantial improvement in 2024. With the dual impact of our dedicated rehabilitation efforts over the past few years alongside improving economic conditions creating a conducive environment for the resumption

of loan servicing, particularly by tourism and construction sector customers, the stage 3 portfolio witnessed a significant improvement during the year.

FCY lending gathered significant momentum in 2024. Tapping into the healthy FCY liquidity levels built up over the past year, we aggressively drove our trade finance offerings. Driven by a fresh approach towards exports signalling the Bank's commitment to support the government's push to boost exports, we targeted a diverse range of sectors, from conventional export manufacturers to new entrants and service exporters, a strategy that proved highly effective. Working to recapture the business lost due to widespread import restrictions enforced in the wake of the 2022 economic crisis, the Bank was able to significantly improve its import trade business against the backdrop of robust demand in the second half of the year.

Meanwhile, our project finance portfolios - both LKR and FCY, saw very little movement in 2024 mainly due to the prolonged discontinuation of large scale investments in the Country and the lack of FDI's against the backdrop of Sri Lanka's sovereign debt default position.

In a bid to counteract these challenges, we leveraged our healthy FCY position to mobilise funds towards assisting local corporates looking to establish operations overseas. Notably, the exposure received through these efforts helped to reinforce HNB's credentials to engage in syndications to bolster its offshore lending book. However, the most notable development is HNB's penetration to the Indian market as a direct lender to selected low-risk sectors.

## Future Prospects

With all signs indicating that the credit appetite from corporates is likely to further accelerate in the short to medium term, HNB will seek to leverage its robust liquidity position and competitive product offerings to grow the corporate loan book.

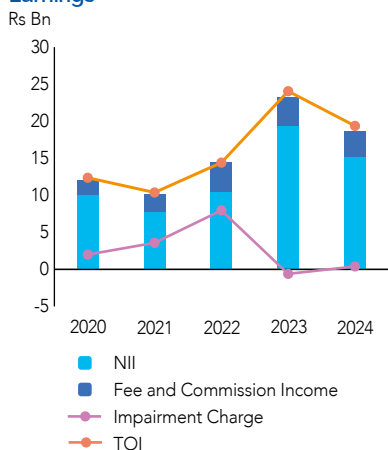
Moreover, with interest rates expected to remain relatively low, the focus on CASA will be further amplified to prioritise attracting low cost funding to fuel the Bank's lending activities.

These efforts will be instrumental in consolidating HNB's liquidity position and improving the Bank's readiness to allocate funding for the resumption of stalled projects.

## SME

### KEY PERFORMANCE HIGHLIGHTS

#### Earnings



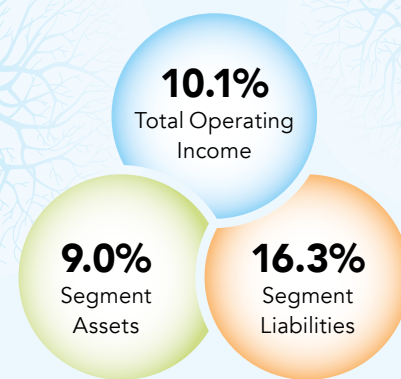
#### ADVANCES

Rs **185.9** Bn   
16.8%

#### DEPOSITS

Rs **300.3** Bn   
11.9%

### CONTRIBUTION TO THE GROUP



## Context, Strategy and Performance

It was a promising year for HNB's SME Banking Segment with the revival of the Country's economy triggered by greater stability and the low interest rate environment.

With the Country's SME sector seemingly on the path to recovery after battling repeated shocks over the past several years, HNB moved swiftly to capitalise on the uptick in credit demand. Leveraging our core strength of 254 branches and the 100+ SME Relationship Managers spread across the Country, the Bank was able to grow its SME loan book by over Rs 26 Bn during the year. The Bank also focused on promoting refinance facilities and guarantee schemes which were available during the year to drive growth and capture market share. We further leveraged on our value chain financing propositions, onboarding new distributors and suppliers during 2024.

At the same time, we remained aggressive in our endeavour to mobilise low cost funding, with SME CASA base growing by 21.1% through an aggressive drive of our Business Banking proposition, merchant onboarding, and online banking rollout.

Consequently, total operating income attributed to SME Banking amounted to Rs 19.4 Bn out of which NII amounted to Rs 15.1 Bn. Though the lower interest rates fuelled growth, it also caused margins to get narrower in 2024 compared to the previous year.

Notably our asset quality also improved in 2024 owing to the sustained efforts over the past few years by the Bank's Business Revival Unit to help our SME customers recalibrate and ride out tough times.

Enhanced repayment capacity of SMEs following the sector resurgence against the backdrop of Sri Lanka's improving economic conditions in 2024, saw the Bank's NPL's continuing to decline steadily throughout the year.

Meanwhile, in keeping with the emphasis on embracing a more holistic approach to drive SME sector growth, HNB continued to collaborate with key stakeholders to deliver value added services to empower SMEs. One such initiative is our partnership with the Lanka Impact Investment Network (LIIN) which is aimed at providing SMEs with opportunities to access equity and seed funding for the purpose of business expansion and diversification. Similarly, our collaborations with the Women's Chamber of Industry and Commerce (WCIC) for their Ramp Up 24 initiative marks another important milestone in empowering women entrepreneurs to widen their market reach. The schedule of financial literacy and capacity building programmes were also further intensified .

Keen to create a robust ecosystem that empowers SME customers to reach the next level, we also prioritised digital adoption within the segment. To that end, a customised version of HNB's transaction banking system was rolled out in February 2024, with 3,000+ SME customers onboarded to the new platform by end 2024. With the move gaining good traction, it was decided to develop a dedicated transaction banking mobile app for SME customers, which is due to be launched in 2025. In yet another achievement on the digital front, 2,000+ SME customers were onboarded to HNB's SOLO app.

## Awards and Recognitions

- » HNB secures 'Sri Lanka's Best Bank for SMEs' at Euromoney Awards for Excellence 2024

## Future Prospects

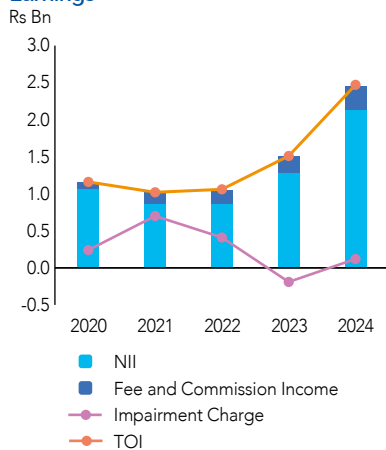
With the Sri Lankan economy set to achieve further stability in the coming months it is expected to create favourable conditions for SME sector growth. As a Systemically Important Bank deeply embedded in the SME sector, HNB is well-positioned to support this growth. Our commitment includes driving our core products , including business banking and value chain financing models to assist vital sectors of the economy. To that end, HNB will strive to secure low-cost funding through local and international partnerships. The Government's upcoming credit guarantee scheme through the National Credit Guarantee Institute, where HNB is a Participating Financial Institution, is set to launch in 2025 and presents a promising opportunity. As a partner in this initiative, HNB anticipates leveraging the scheme to extend targeted funding to priority sectors, reinforcing our commitment to driving economic development.

# BUSINESS LINE REVIEW

## MICROFINANCE

### KEY PERFORMANCE HIGHLIGHTS

#### Earnings



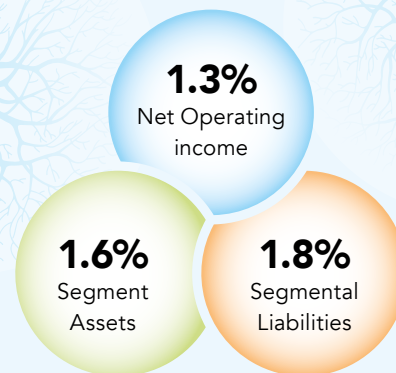
#### ADVANCES

Rs **32.8** Bn   
24.8%

#### DEPOSITS

Rs **33.8** Bn   
25.9%

### CONTRIBUTION TO THE GROUP



### Context, Strategy and Performance

HNB's Microfinance business delivered a robust performance for 2024, as Sri Lanka's economic activity continued to gather momentum. As a Domestic Systemically Important Bank, HNB took up the challenge to support the revival of priority sectors, and directed credit strategies towards rebuilding the Country's agricultural base.

To that end, the Bank's Microfinance business was restructured to drive forward HNB's mission to support and modernise the nation's agriculture sector. A specialised agribusiness unit was formed with a dedicated team to focus exclusively on developing grass root level agri business customers across Sri Lanka. Keen to solidify HNB's expertise in this domain, the Bank partnered with the Department of Agriculture Sri Lanka to conduct an in-house training programme to ensure the Microfinance team has the requisite skills and competencies.

To drive credit expansion during the year, we continued utilising HNB's annual allocation of the New Comprehensive Rural Credit Support (NCRCS) scheme provided by the CBSL to enable grass-root level

farmers to access financing at concessionary interest rates. The launch of "HNB කරකාර" (Sarusura) in June 2024 represents another major step in HNB's efforts to accelerate the growth of Sri Lanka's agriculture sector. කරකාර offers a combination of tailored financial solutions and targeted capacity building to enhance productivity and help farmers build resilience against economic challenges. The programme also includes partnerships with agritech providers and government bodies to foster innovation and sustainable practices across the local agricultural value chain.

The Galoya Farmer Uplifting Project was another new initiative launched in 2024 with the aim of uplifting the lives of rural farmers by addressing critical challenges such as access to credit, market uncertainties, and limited knowledge of best agricultural practices.

Other notable efforts, include HNB's flagship Microfinance Awurudu Pola which was held at the BMICH for the 5th consecutive year, attracting 150 micro customers from all regions of Sri Lanka.

Over the past year, HNB Microfinance conducted 289 financial literacy

programmes and 458 seasonal meetings-locally known as Kanna Resweem, across major irrigation systems in the Country. These initiatives have directly reached over 50,000 rural farmers across the Country.

Cascading from the overall expansion of the Microfinance business, the Microleasing Business also experienced significant growth in the current financial year, with the portfolio growing by 30.0% year-on-year. Ongoing efforts to increase insurance penetration across the Microfinance segment in partnership with the Group insurance arm, also yielded good results with over 10,000 microinsurance policies issued during 2024.

The improvement in asset quality was another important accomplishment in 2024. Dealing with one of the most vulnerable economic sectors, managing asset quality remained a priority for the Microfinance segment. However, the impact of ongoing recovery camps and advisory services enabled to successfully improve asset quality of the segment.

The performance and progress of the Microfinance segment is in part due to the multiple value adding partnerships



forged by HNB over the years. For instance, the collaboration with the SED (Small Enterprise Development) continues to enable the Bank to offer tailored financial products and capacity-building initiatives. The partnerships with NEDA (National Enterprise Development Authority) provides opportunities to harness the potential of local businesses and stimulate regional economic development, while the tie up with Vidatha is instrumental in promoting financial inclusion and entrepreneurship across underserved communities.

Similarly, close collaborations with Universities, Vocational Centres, and

Technical Colleges have proven to be vital in strengthening the Bank's financial literacy programmes.

The fact that a portfolio of approximately Rs. 3.0 Bn was upgraded from Microfinance to SME status, stands as a testament to the impact of HNB's holistic approach towards developing the Microfinance sector.

Meanwhile, given the significant expansion in the Microfinance operations in the current year and considering the future growth potential, HNB tied up with the Institute of Bankers of Sri Lanka (IBSL) to launch the Diploma in Microfinance, a certified course aimed at building specialised in-house

expertise in this field. The first batch of 127 Microfinance Officers commenced their leadership training programme in November 2024.

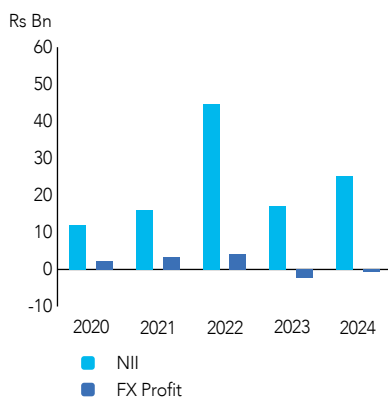
### Future Prospects

Building on the success achieved in 2024, the Bank is gearing up to cultivate a new breed of agripreneurs who will transform Sri Lanka's rural economies. The **සරසර** programme which aims to reach out to and support 30,000 agripreneurs across Sri Lanka by 2025, is expected to be the key catalyst in this endeavour.

## TREASURY

### KEY PERFORMANCE HIGHLIGHTS

#### Earnings



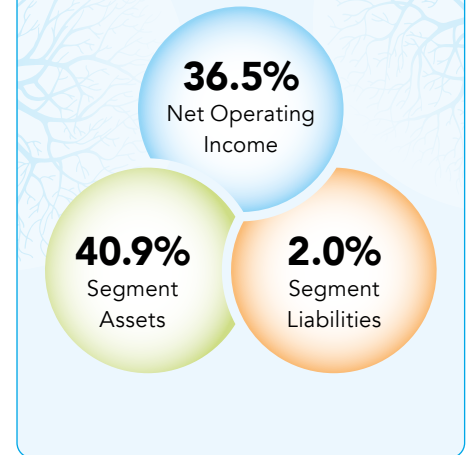
#### TREASURY BOND PORTFOLIO

Rs **288.1** Bn   
85.5%

#### TREASURY BILL PORTFOLIO

Rs **445.9** Bn   
6.0%

### CONTRIBUTION TO THE GROUP



### Context, Strategy and Performance

The operating environment in 2024 had a significant impact on the performance of HNB's Treasury. Market uncertainty driven by political and macroeconomic factors presented significant challenges at the start of the year. However progressive improvements in market conditions from mid-2024 onwards supported by well managed inflation expectations along with the accommodative monetary policy measures implemented by the Central Bank of Sri Lanka, enabled the Treasury to deliver a healthy performance for 2024.

With improving market sentiments, HNB's participation in the primary market registered an increase in 2024. The Bank also continued to be an active participant in the secondary market, as evidenced by the notable increase in Repo activity in the year under review. The collective increase in activity across both primary and secondary markets was reflected in the Bank's government securities portfolio. HNB's government securities portfolio as at 31st December 2024 registered an increase of 16.6% over the previous year, driven by a 85.5% growth in the Treasury Bond portfolio

compared to the previous year. These favourable movements enabled the Treasury to record robust earnings growth in 2024.

Meanwhile, the Treasury leveraged its' built up FCY liquidity to capitalise on the uptick in SWAP market activity following the appreciation of the Sri Lankan Rupee against all major currencies.

The impact to the bottom line with the International Sovereign Bond restructuring is discussed in detail under the Financial Capital Report on page 65.

# BUSINESS LINE REVIEW

On the operational front, HNB Treasury formally adopted the FX Global Code in September 2024, marking an important milestone in strengthening its credentials on par with global standards. The FX Global Code, developed by the CBSL in partnership with several global banks, sets out a set of global principles of good practice in the foreign exchange (FX) market. The adoption of the FX Global Code represents HNB's commitment to adhere to Global best Market Practices, Ethics, Compliance and Risk frameworks in

conducting Treasury operations. Several workshops were conducted to educate Treasury staff regarding the FX Code and its application.

### Future Prospects

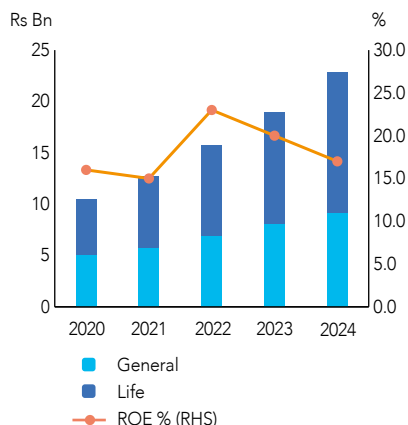
HNB anticipates investor appetite for government securities to gather further momentum in 2025, driven by the improvement in Sri Lanka's sovereign rating. With higher demand for government securities necessitating increased

participation in both primary and secondary markets, the Bank will focus on improving scalability in readiness to manage higher volumes in due course. To that end, plans are underway to invest in a fully automated Treasury System to effectively capture and manage the anticipated influx of new business, while ensuring operational efficiency and enhanced service delivery to clients.

## INSURANCE

### KEY PERFORMANCE HIGHLIGHTS

#### Gross Written Premium



#### EQUITY

Rs **12.5** Bn  
21.8%



#### CAR LIFE

**379.4** %

#### CAR GENERAL

**218.9** %

### CONTRIBUTION TO THE GROUP

**14.8%**

Net Operating  
Income

**3.0%**

Segment  
Assets

**3.4%**

Segment  
Liabilities

### Context, Strategy and Performance

In 2024, Sri Lanka's economy experienced a gradual stabilisation driven by post-election policy adjustments, declining interest rates, and long-awaited stability in the exchange rate. These developments presented a mixed bag of both opportunities and challenges for the local insurance industry. On one hand, the low interest rate environment exerted pressure on investment yields across both core verticals, life and general insurance. Notably, the low interest rate environment also made life insurance more attractive as an alternate investment option for customers.

However, the life insurance business faced fresh challenges as mainstream demand for life policies declined, driven by a reduction in disposable incomes resulting from the high tax regime. Meanwhile, competitive pressure continued to intensify within the general insurance industry, owing to limited growth opportunities in the motor business due to the prolonged restrictions on motor vehicle imports, compelling general insurers to focus mainly on renewals to sustain market share within the motor insurance segment.

Insurance industry grew by 14.3% in 2024, compared to 7.9% in 2023. This positive trend, coupled with a resurgence in

economic activity and heightened investor confidence, provided HNBA Group with the momentum to advance its strategic objectives for the financial year.

Recognising the significant under-penetration of insurance in Sri Lanka, HNBA Group took decisive steps to expand its market reach by expanding its agency network and introducing additional incubator branches within its existing branch network. Bancassurance partnerships were also further strengthened, enabling the Company to tap into previously underserved markets, alongside further steps to capitalise on Group synergies in

order to enhance customer accessibility and improve customer engagement.

Considering the evolving market dynamics, the product portfolio in the Life segment was further expanded in 2024. Another innovative addition to the Life product portfolio was the Group health product, a tailored solution offering medical reimbursement benefits to enable corporates to manage medical benefits offered to their employees.

Backed by these well-timed product offerings, and robust market penetration strategies, HNBA Group delivered outstanding performance in 2024, with Gross Written Premiums (GWP) surging by 21.2% year-over-year to Rs 22.7 Mn, outpacing the industry average of 14.3% and reaffirming HNBA Group as a dominant force in the local insurance industry.

The year 2024 was a period of transformational change for HNBA's IT infrastructure supported by two new core systems for its life and general insurance businesses, alongside several digitisation and automation initiatives aimed at enhancing efficiency, reducing turnaround

times, and elevating the customer experience while achieving internal cost efficiencies.

The live roll out of the new Core Insurance System for the life insurance segment has helped to streamline workflows and significantly improve operational efficiency. Simultaneously, work commenced on implementing a core system for the general insurance business, with the project scheduled to go live in January 2025. Further advancing its digital journey, HNBA Group introduced a Channel Portal that enabled over 98% of life insurance proposals to be processed digitally, eliminating the need for cumbersome paperwork and significantly enhancing processing speed.

To complement these efforts, the Company initiated several Robotic Process Automation (RPA) projects targeting IT and finance operations. These projects aim to integrate advanced technologies such as artificial intelligence and machine learning, enabling seamless data management collectively positioning HNBA Group at the forefront of digital innovation in the insurance industry.

The core system infrastructure further supports HNBA Group's efforts towards transition to SLFRS 17 reporting, including implementation of technology solutions in line with the stipulated implementation date of 1st January 2026.

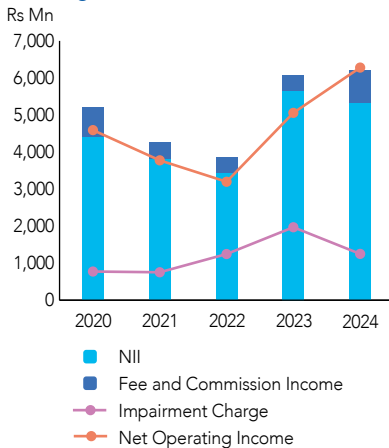
### Future Prospects

Looking ahead, HNBA Group will work to achieve the vision set out under its strategic plan, to ensure the Company is well-positioned to harness emerging opportunities for sustained growth. In this context, emerging segments such as expatriate Sri Lankans and the ageing population, are some of the key areas that would require transformational approaches to reform the current protection-based product range using digital tools while improving the alignment with SLFRS 17 standards. Furthermore, the planned completion of key technological initiatives in 2025, such as a customer portal and expanded RPA projects are also expected to contribute significantly towards fostering growth and enhancing the customer experience in the years ahead.


## FINANCE

### KEY PERFORMANCE HIGHLIGHTS

#### Earnings



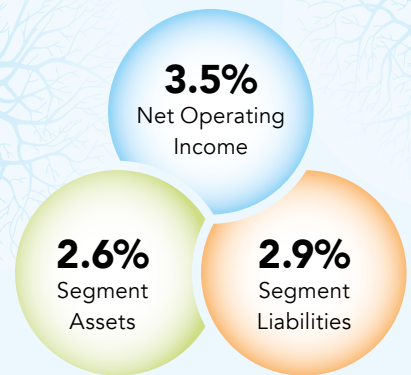
#### ADVANCES

Rs **47.7** Bn   
21.0%

#### DEPOSITS

Rs **40.5** Bn   
8.2%

### CONTRIBUTION TO THE GROUP



# BUSINESS LINE REVIEW

## Context, Strategy and Performance

HNB Finance PLC (HNBF) demonstrated steady progress during the current financial year, successfully navigating the complexities of a challenging operating environment and reinforcing its position within Sri Lanka's Non-Banking Financial Institution (NBFI) sector.

With the low-interest-rate environment influencing customers to seek higher returns than that offered by conventional Fixed Deposits (FDs), the demand for FDs as a whole declined as customers began exploring more financially viable opportunities. HNBF introduced a loyalty card, which played a significant role in both increasing and retaining its deposit customer base. These targeted efforts culminated in a 8.2% growth in the deposit book between January and December 2024, which rose to Rs 40.5 Bn as at 31st December 2024.

On the lending side, the demand for credit picked up swiftly as the Country continued to regain economic stability. Keen to take advantage of this positive momentum, HNBF strategically focused on driving gold loans. Underpinned by aggressive branch-led campaigns to promote the gold loan proposition, the Company's Gold Loan portfolio shot up to Rs 8.3 Bn as at 31st December 2024, denoting a 54.0% expansion from the Rs 5.4 Bn reported as at 31st March 2024.

Similarly, the leasing segment also performed well due to tactical initiatives

aimed at strengthening ties with the dealer networks. The leasing portfolio as at 31st December 2024 reflected a 47.0% expansion a remarkable achievement given that limited demand for vehicle leasing against the backdrop of the ongoing restrictions on vehicle imports.

HNBF did face its share of challenges in 2024. Managing recoveries on the unsecured lending portfolio proved to be a major hurdle as lower disposable incomes attributed to the high-tax regime put customers under additional financial strain. This, in turn, led to increased pressure on collections and heightened the risk of defaults.

In response, the Company switched to collateral-based lending to secure its portfolio against potential losses. Credit evaluation policies also continued to be refined, as part of a consistent approach to enhance the overall credit quality of new loans, ultimately ensuring greater portfolio resilience under volatile economic conditions.

With a view to improving cost efficiencies, the Company resorted to digitisation and automation as key strategies.

One notable initiative was the implementation of a cloud-based collaboration and communication platform, which streamlined operations and led to a significant reduction in paper usage. Additionally, the digitalisation of backend workflows proved to be a key catalyst in improving overall employee productivity.

## Future Prospects

HNBF is well-positioned to capitalise on Sri Lanka's anticipated economic recovery in the coming year. With economic activity expected to gain further traction, the company plans to align its operations to harness emerging opportunities while maintaining agility in the highly competitive NBFI sector.

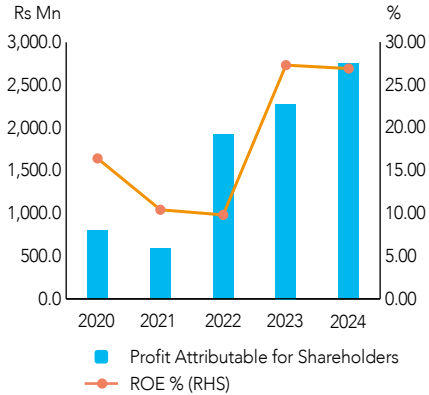
The main focus will be on expanding its collateral-based lending to maintain credit quality and ensure financial stability amidst a dynamic environment. Moreover, recognising the growing emphasis on sustainability, the Company plans to expand its portfolio with innovative green solutions, including a dedicated green leasing product set to launch in late 2025, marking a significant milestone in the Company's dedication to aligning with Sri Lanka's Net Zero targets.

To support this expanded and diversified product scale, HNBF is also planning to invest in a state-of-the-art core banking system to provide the technological backbone necessary to enhance operational efficiency and streamline processes in order to accommodate the demands of its growing customer base in a timely and more cost-effective manner. Digitisation and automation will also remain at the forefront, with a series of projects scheduled for the upcoming year.

## INVESTMENT BANKING

### KEY PERFORMANCE HIGHLIGHTS

#### Earnings



#### ASSETS UNDER MANAGEMENT

Rs **69.0** Bn   
25.5%



### Context, Strategy and Performance

The Investment Banking segment represented by HNB Investment Bank (Pvt) Ltd (HNBIB) - previously known as Acuity Partners (Pvt) Ltd recorded a strong performance for the year against the backdrop of renewed investor confidence in 2024. Increased economic stability fuelled a surge in private equity investments and M&A activity, driving a strong demand for advisory services. At the same time, the decline in interest rates sparked heightened interest in debenture activities.

Moving quickly to capitalise on these positive market sentiments, HNBIB leveraged its expertise in client engagement, innovative structuring capabilities, and seamless execution of transactions to achieve several notable milestones during the year. Among these was the appointment as the manager for two rights issues for Lanka Ventures PLC and LVL Energy Fund PLC.

In yet another landmark achievement, HNBIB served as co-manager for the first listed Green Bond issued by DFCC Bank PLC. These accomplishments have further solidified HNBIB status as the market leader in debenture issuance among investment banks in Sri Lanka.

On the other hand, HNBIB's IPO revenue stream came under pressure as many local entities were seen opting to delay planned CSE listings, amidst subdued equity market activity throughout much of the year. With fewer opportunities locally, HNBIB diversified into the regional market, which resulted in the appointment to manage the IPO of HDFC Maldives, scheduled to be listed on the Maldives Stock Exchange in 2025.

In all, HNBIB's ability to identify and seize market opportunities in a timely manner, while effectively managing challenges enabled the Company to register its highest-ever PAT of Rs 3.1 Bn, surpassing the previous record of Rs 2.0 Bn.

Strategic initiatives focused on strengthening core competencies saw some major investments towards advancing technology architecture in 2024. The key project was the migration of the Company's IT systems to a fully fledged cloud system accompanied with a comprehensive disaster recovery solution. A cloud-based order management system was implemented for the stock brokering business - a first in the industry.

Meanwhile, with the local investment banking space undergoing a rapid transformation in recent years, the competition for skilled investment banking talent emerged as a critical challenge for HNBIB, prompting the company to implement innovative retention strategies and enhanced professional development initiatives to minimise skill attrition.

### Future Prospects

On 21st January 2025, HNB successfully completed the acquisition of the remaining 50% voting stake in Acuity Partners (Pvt) Ltd., previously held by DFCC Bank PLC. Subsequently, The company was rebranded as HNB Investment Bank and is now a wholly owned subsidiary of Hatton National Bank PLC. The acquisition is poised to unlock synergies in areas such as loan syndications, IPOs, and private equity for SMEs, while also driving securitisation and custodian services. Additionally, it will enable the capitalisation on potential growth opportunities in investment banking products as the economy starts to recover, with early indications of the Sri Lankan capital markets transitioning from plain vanilla products to a more diversified range.

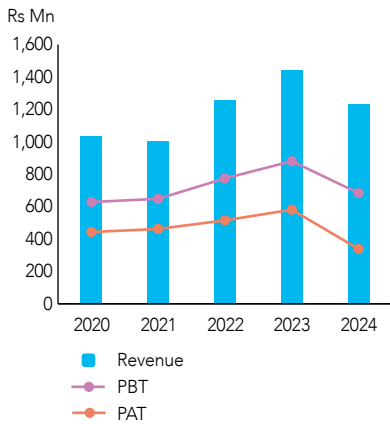


# BUSINESS LINE REVIEW

## REAL ESTATE

### KEY PERFORMANCE HIGHLIGHTS


#### Earnings



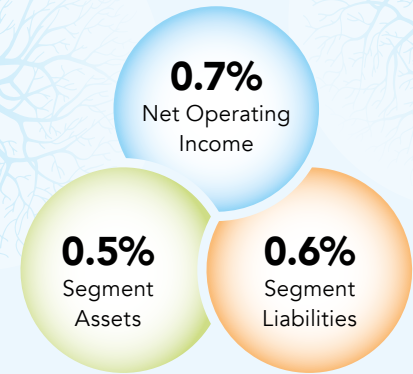
#### ASSETS

Rs **11.3** Bn   
3.3%

#### LIABILITIES

Rs **2.6** Bn   
0.6%

### CONTRIBUTION TO THE GROUP



### Context, Strategy and Performance

Influenced mainly by weak economic conditions over the past few years, the demand for Grade-A office space continued to stagnate in 2024. The trend of KPO and BPO businesses seemingly opting for more cost-effective Non-Grade A options, alongside the global shift towards remote work were some of the other key contributory factors for the reduced demand for Grade A office spaces.

The declining demand for Grade A office spaces posed a significant challenge for HNB's Real Estate segment - Sithma in the current year. Nonetheless, long-term tenancy agreements at HNB Towers ensured tenant retention and revenue stability. Premises management also helped in maintaining operational efficiency and enhancing tenant satisfaction.

### Future Prospects

While challenges persist, Sithma's ability to adapt to market shifts and explore new opportunities will be key to sustaining growth. Future strategies may include infrastructure investment or strategic partnerships to expand the property portfolio in tandem with evolving market dynamics through a mix of Grade A, Basic shell, Hot seating etc.

# Capitals

## Empowered to Enrich

We leverage our time-tested capabilities, processes, and knowledge to focus on enhancing and nurturing the resources that sustain us, all while ensuring the protection and preservation of our environment for the future.

*The Kumbuk Tree thrives near water sources such as lakes, wells, and riverbanks. Its roots are known for their ability to purify water through phytoremediation, a process that reduces the concentration of contaminants and promotes healthier ecosystems. This natural ability is widely used in environmental restoration, and the tree stands as a symbol of commitment to preserving and enriching resources for current and future generations.*

*Similarly, HNB is dedicated to safeguarding and nurturing the essential resources we rely on. Through responsible stewardship and sustainable growth, we contribute to a thriving environment, fostering long-term prosperity and securing a better future for all stakeholders.*



# FINANCIAL CAPITAL

HNB's Financial Capital comprises of the equity capital, retained earnings, and other financial resources that enable the Group to achieve sustained growth in order to consistently generate value for stakeholders in the short, medium and long term.



## RISK

- Increased volatility in interest rates impacting net interest margins
- Higher credit risk in a market that was in economic distress



## OPPORTUNITIES

- Portfolio diversification to mitigate economic volatility
- Engaging in green financing and lending to sustainable projects

## MATERIAL MATTERS

Economic Stress and Uncertainty | Credit Risk | Financial Stability and Integrated Risk Management | Brand Reputation | Inclusive Growth and Responsible Lending



## MANAGEMENT APPROACH

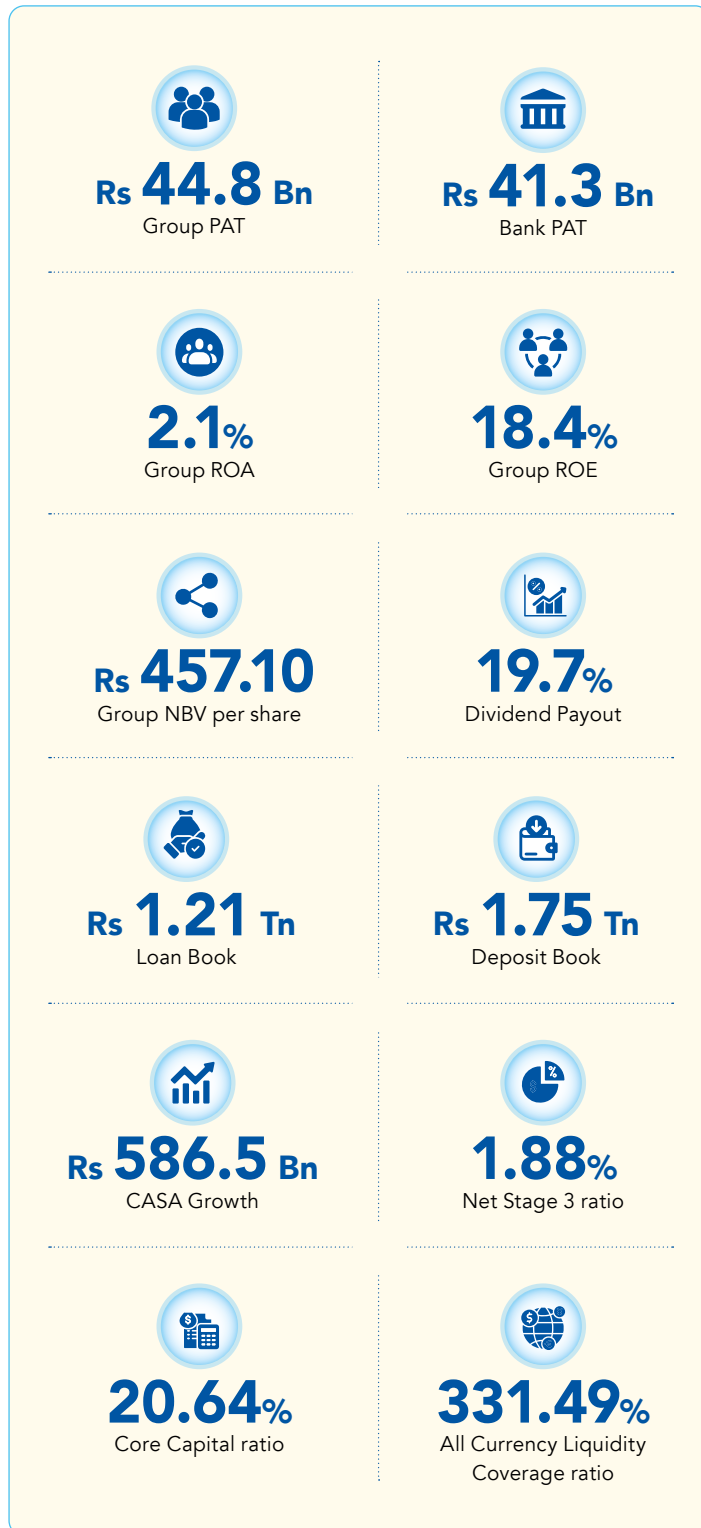
HNB maintains a disciplined approach to managing financial capital, focusing on expanding both fund-based and fee-based income to ensure sustainable growth in topline revenue, profitability and overall balance sheet strength.

As a Domestic Systemically Important Bank (DSIB), HNB places a strong emphasis on capital adequacy and liquidity management, aligning with stringent regulatory compliance requirements. The Group continuously strengthens its capital position through efficient earnings retention, prudent risk management, and selective capital market engagement to support future growth.

## GOVERNANCE

COMPLIANCE	VOLUNTARY BEST PRACTICES	POLICIES	INTERNAL MANDATES
<p>Sri Lanka Accounting Standards issued by CA Sri Lanka</p> <p>Companies Act No 7 of 2007</p> <p>Banking Act No 30 of 1998 as amended</p> <p>CBSL directives and guidelines</p>	<p>In compliance with all regulations and guidelines applicable</p>	<p>Credit Risk Policies</p> <p>Market Risk Policies</p> <p>Liquidity Risk Policies</p> <p>Treasury Policies</p>	<p>Risk Appetite</p> <p>Prudential Limits</p>

## Key Highlights for 2024



## Value Creation Scorecard 2024

### KEY ACTIONS

- » Focus on broad-based lending
- » Emphasis on lending to the SME sector
- » Rs 12.0 Bn Tier II Capital raised via a BASEL III- compliant debenture
- » Mobilise low cost funding by driving CASA growth

### OUTPUTS FOR HNB & IMPACT ON OTHER CAPITALS

- » 7.9% YoY growth in assets (13.8%-2023)
- » 11.6% YoY growth in loans (-1.8% -2023)
- » 33.5% Group CASA ratio (29.4%-2023)
- » Stage 3 portfolio decreased by Rs 10.1 Bn, while the Stage 2 portfolio saw a reduction of Rs 63.4 Bn

Consistent financial performance enhances brand reputation



Strong financial results help to improve stakeholder confidence and trust



Higher salaries and benefits for employees



Green finance initiatives, such as funding for renewable energy projects and energy-efficient infrastructure, contribute to safeguarding the environment



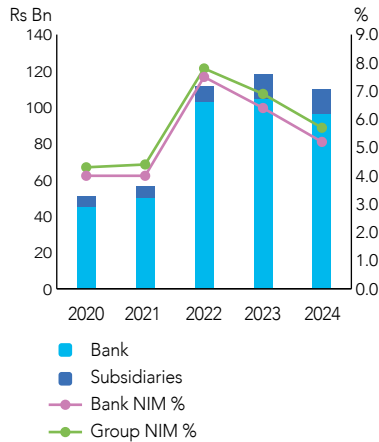
Stakeholder Outcomes	2024	2023	
EPS	Rs 76.14	Rs 39.82	↑
DPS	Rs 15.00	Rs 8.00	↑
Total Dividend Payout	Rs 8.6 Bn	Rs 4.5 Bn	↑
Amount paid as interest to depositors	Rs 118.8 Bn	Rs 174.2 Bn	↓
Tax expense	Rs 60.4 Bn	Rs 24.1 Bn	↑

# FINANCIAL CAPITAL



## ANALYSIS OF THE INCOME STATEMENT

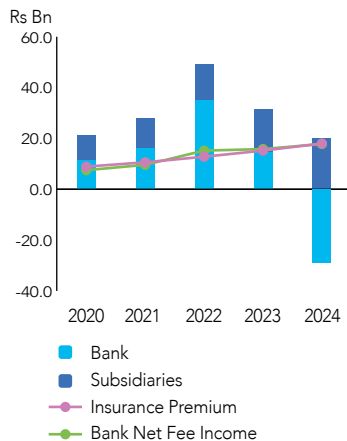
### Net Interest Income



### Net Interest Income (NII)

HNB Group's NII declined in 2024, amidst the contraction in interest rates. The drop in AWPLR and government securities yields, exerted downward pressure on interest income, despite the substantial 11.6% year-on-year expansion in the loan book during the year. However, the decline in NII moderated towards the latter part of the year, as the reduction in interest expenses outpaced the drop in interest income, with the repricing of deposits and the significant expansion in CASA balances in 2024.

### Non Interest Income



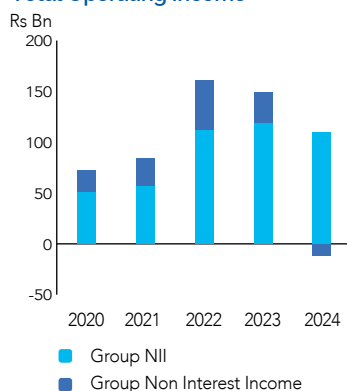
### Non-Interest Income

The Group recorded a 15.5% increase in net fee and commission income for the year, driven primarily by the growth in transaction volumes across digital banking platforms and card services. However, the commission income from trade services was impacted as the Bank had to implement broad-based tariff rationalisation measures in response to competitive pressures arising from the normalisation of market liquidity.

In addition, the insurance segment saw a robust increase in Gross Written Premiums, leading to a 17.8% growth in net insurance premium income, which reached Rs 18.0 Bn during the year. However, the appreciation of the Sri Lankan rupee against the US dollar during the period resulted in the Group having to record an exchange loss of Rs 2.9 Bn compared to the loss of Rs 2.4 Bn recorded in 2023.

Furthermore, the net loss from the derecognition of financial assets resulted in the Group reporting a net loss of Rs 12.2 Bn in non interest income for the year. This is discussed in detail under total operating income section, below.

### Total Operating Income



### Total Operating Income (TOI)

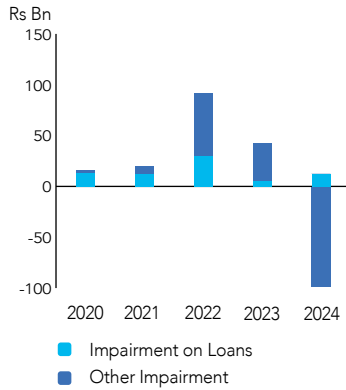
The Group recorded a loss of Rs 49.5 Bn as the net loss arising from derecognition of financial assets. This loss was recorded post completion of the International Sovereign Bond (ISB) restructure in December 2024, where the Bank opted for the "Local option". While the losses form part of the Total Operating Income, the positive impact arising out of the ISB restructure in terms of provision reversals, are recorded under Impairment charge /(reversal). This derecognition loss resulted in a significant drop in the TOI for the period. However, excluding this one-off accounting treatment, the TOI for the period would have been Rs 147.1 Bn which is a marginal drop of 1.6% compared to the previous year.





## ANALYSIS OF THE INCOME STATEMENT

### Impairment



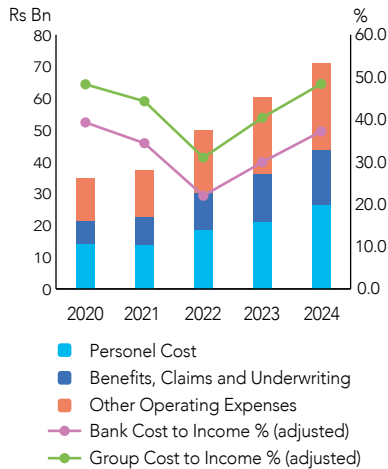
### Impairment Charge / (Reversal)

The result of focused recovery and proactive restructuring measures designed to help customers streamline cash flows and resume repayments as well as the recovery in the overall operating environment, enabled a significant improvement in Stage 3 and Stage 2 portfolios of the Group leading to an improvement in expected credit loss. Nevertheless, on a prudent basis, the Group recognised a total impairment of Rs 11.5 Bn on loans and receivables. As a result, the provision coverage ratio on Stage 3 loans increased to 74.4% in 2024, from 57.5% in the previous year.

With the completion of the ISB restructuring in December 2024, a total impairment of Rs 91.6 Bn was reversed, on account of the previously recognised impairment provisions on the Bank's exposure to ISBs.

Consequently, the Group recorded a total impairment reversal of Rs 77.4 Bn against the impairment charge of Rs 42.5 Bn in 2023.

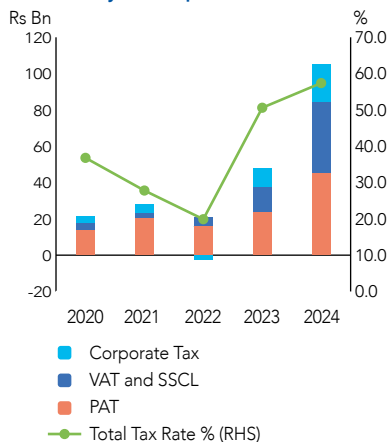
### Operating Expenses



### Operating Expenses

On an overall basis, operating expenses recorded a 17.8% year-on-year increase, primarily driven by higher personnel expenses, card-related costs, and increased utility expenses. The cost-to-income ratio for 2024 was largely distorted by the impact of the derecognition loss arising out of the external debt restructuring. While HNB's cost-to-income ratio was inflated by approximately 25 percentage points as a result, when adjusted for this exceptional item, the ratio for the Group stood at 48.4% compared to 40.4% in 2023 while the Bank ratios stood at 37.2% and 29.9% respectively for the years 2024 and 2023.

### Profitability - Group



### Profitability

HNB reported improved profitability for 2024. The Group surpassed its 2023 Profit After Tax of Rs 23.6 Bn within the first nine months ending 30th September 2024, a commendable achievement that testifies the strong performances across all core business operations despite the pressure on interest margins. The impact of the ISB impairment reversal in the final quarter further amplified the current year profits with Profit Before VAT and Tax for the Group increasing to Rs 103.9 Bn, reflecting a 122.9% YoY increase.

The Group recognised a total tax charge of Rs 60.4 Bn for the year which included a deferred tax charge of Rs 27.3 Bn relating to the reversal of impairment provisions recognised previously on the investments in ISBs, subsequent to the completion of ISB restructure.

Accordingly, the Group's Profit After Tax (PAT), grew to Rs 44.8 Bn in the year under review, up 89.9% from Rs 23.6 Bn tabled in the previous year. Similarly, Group ROE and ROA also improved to 18.4% and 2.1% respectively in 2024, from 11.5% and 1.2% respectively in the previous year.

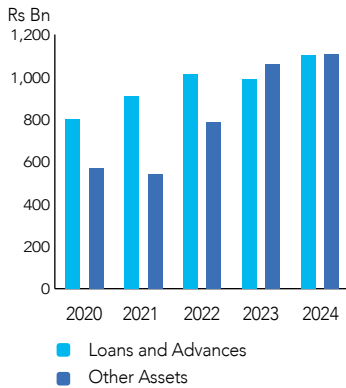
The Bank recorded a PAT of Rs 41.3 Bn, representing 92.2% of the Group's profits, up from 86.2% in the previous year. All Group companies contributed positively towards the Group profitability.

# FINANCIAL CAPITAL



## ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

### Group Total Assets



### Assets

The Group's balance sheet experienced an expansion of 7.9% in Assets surpassing Rs 2,209 Bn at a Group level. As the Bank focused on loan growth with improvement in the operating environment, the Net Loans and Advances accounted for 50% of the Group's asset book increasing from 48.3% in the previous year. Gross Loans and Advances, grew by 11.6% to Rs 1,207 Bn with all core verticals reporting steady year-on-year growth, while the LKR loan book witnessed a 12.6% growth during the year. Furthermore, despite a Rs 25.9 Bn drop in Gross loans and Advances during the first quarter of 2024, the Group witnessed a strong growth of Rs 125.6 Bn in 2024.

The government securities portfolio of the Group remained largely unchanged, while LKR denominated government securities recorded a 16.0% YoY growth. Furthermore, the foreign currency denominated government securities portfolio, saw a drop of 54.7% subsequent to the bond exchange where 30% of ISBs were exchange to local currency bonds and the new bonds being fair valued, subsequent to the closure of the external debt restructuring programme.

### Group Liabilities



### Liabilities

The Group's Deposit base crossed Rs 1,750 Bn recording a year-on-year increase of 8.8% owing to a strong growth in CASA balances. The success of HNB's drive to promote CASA was further evident in the improved CASA ratio for 2024, which shot up to 33.5% in 2024, from 29.4% in 2023 with total CASA deposits growing by Rs 114.2 Bn during the year.

Another addition to HNB's liabilities in 2024, was the BASEL III-compliant debentures issued in August 2024 resulting in a Tier II capital infusion amounting to Rs 12.0 Bn.

### Equity

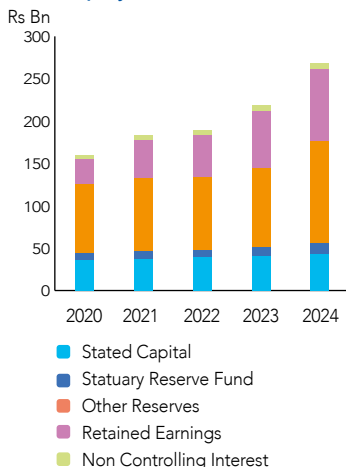
Total Equity Attributable to the Shareholders increased by 23.1% year-on-year during the year to Rs 261.4 Bn as at 31st December 2024, on the back of improved profitability in the current year.

### Dividend

The Board of Directors of HNB has proposed a final cash dividend of Rs 15.00 per share for the year ended 31st December 2024, subject to shareholder approval at the 56th Annual General Meeting scheduled for 27th March 2025.

The dividend payout ratios for the Bank and the Group were 20.7% and 19.7%, respectively, for the year

### Total Equity



### Capital

HNB's capital soundness further strengthened in the current year. As at 31st December 2024, the Group reported Tier 1 and total capital ratios of 20.64% and 24.70% respectively compared to 14.70% and 17.95% respectively at the end of 2023 against the regulatory requirement of 9.5% and 13.5% respectively, indicating the strong buffers. These increases are attributed to three main reasons - higher profitability alongside the Tier II capital infusion as well as the favourable impact on capital from the reversal of deferred tax asset with the reversal of provisions on ISBs.

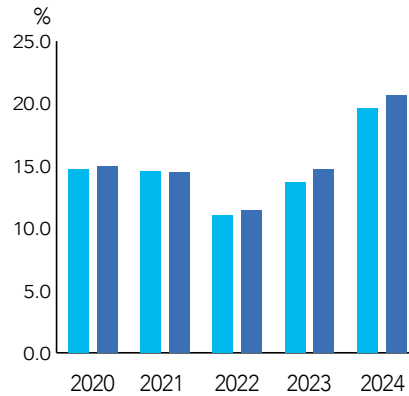
## Liquidity

Aided by improving market conditions in 2024, HNB's liquidity position remained strong, with both LKR and FCY liquidity at healthy levels throughout the year. The Group continued to maintain liquidity buffers well above the regulatory requirements set under the Banking Act Direction No 1 of 2024, which mandates Groups to uphold a minimum Liquidity Coverage Ratio (LCR) and a minimum Net Stable Funding Ratio (NSFR). As of 31st December 2024, HNB's LCR (All Currency) and NSFR stood at 331.5% and 161.2%, respectively, comfortably exceeding the regulatory minimum requirement of 100% for each.

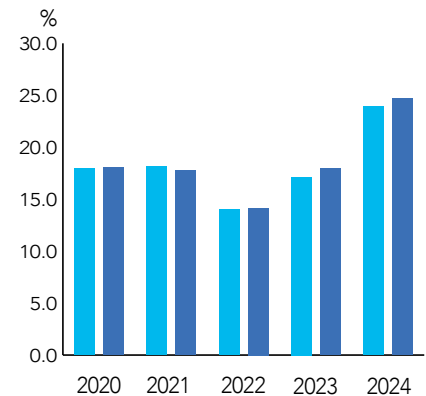
## Performance of the HNB Share

The HNB share was heavily traded throughout 2024, with the voting share price fluctuating between a low of Rs 151.00 and a high of Rs 324.00 during the year, while the non-voting share traded between Rs 127.00 and Rs 264.50. With a Market Capitalisation value of Rs 145.8 Bn in terms of voting shares as at 31st December 2024, HNB remains within the top 10 largest entities based on market capitalisation the Colombo Stock Exchange.

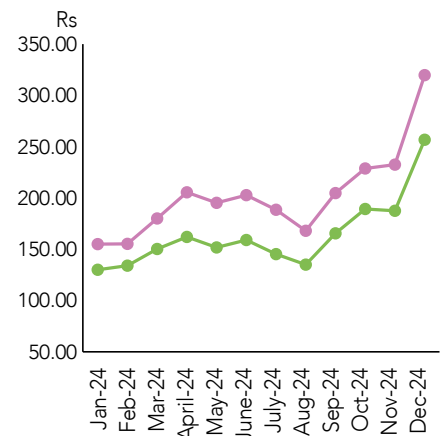
### Tier I Capital



### Total Capital



### HNB Voting and Non - Voting Share Price Movement



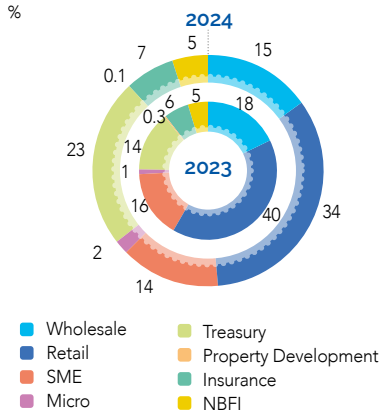
The Government of Sri Lanka suspended the servicing of external public debts w.e.f. 12th April 2022. After an extensive debt restructuring process, in November 2024, the Government of Sri Lanka announced the launch of Sri Lanka International Sovereign Bond (SLISB) Exchange, and the Bank opted for the "Local Bond Option". SLISB exchange was successfully completed in December 2024, whereby 30.0% of the Bank's SLISB exposure was exchanged to LKR bonds and the remaining 70.0% to USD Step Up Bonds. Further, the Past Due Interest (PDI) was settled in the form of PDI bonds denominated in USD. With the completion of SLISB restructure, the Bank reversed Rs 91.6 Bn of Impairment Provisions recognised on SLISBs in the prior years, amounting to 52.0% outstanding exposure, while a net derecognition loss of Rs 49.5 Bn reflecting the short fall between present value of future cash flows from the newly recognised instruments and the carrying value of previously held SLISBs has been recognised in the Income Statement under total operating income. This loss consisted of both the impact of haircut on the previously held SLISBs and the day one loss on new instruments. As a result of this restructure profit before tax increased by Rs 38.0 Bn. With the reversal of previously recognised impairment provisions, the related net deferred tax asset of Rs 27.0 Bn has been charged to the Income Statement. Accordingly, the total impact on profit after tax was Rs 11.8 Bn.

# FINANCIAL CAPITAL

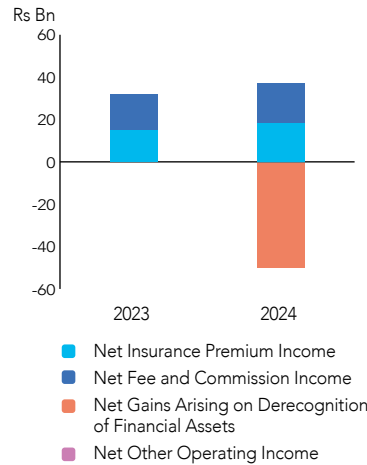


## A SEGMENTAL REVIEW

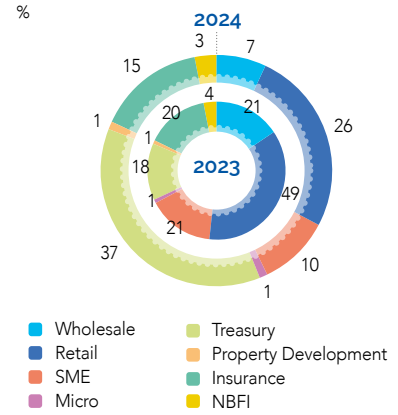
### Segmental NII Contribution



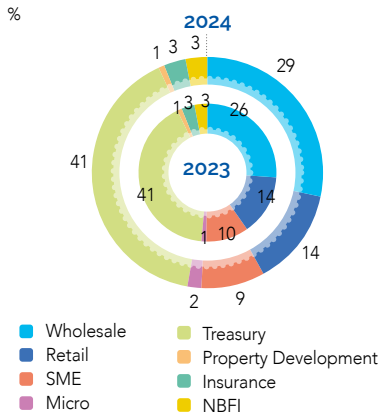
### Segmental Non Interest Income Contribution



### Segmental NOI Contribution



### Segmental Assets

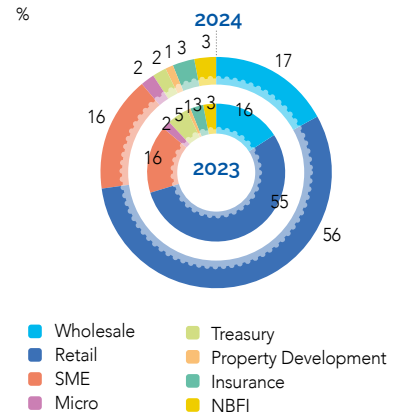


Treasury has the largest portfolio of assets amounting to 40.8% of the Group's assets

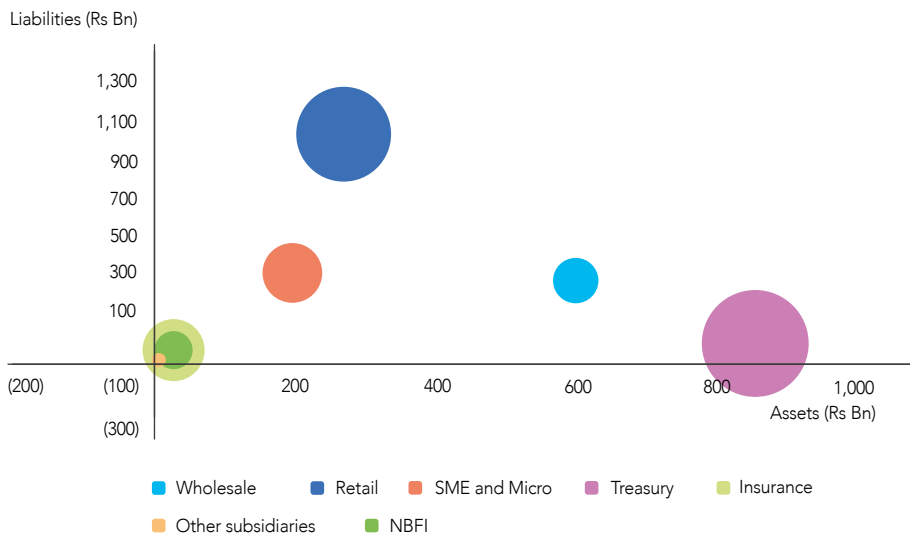
Wholesale Banking is the second largest accounting for 28.5% of assets

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

### Segmental Liabilities



### Overview of Segments

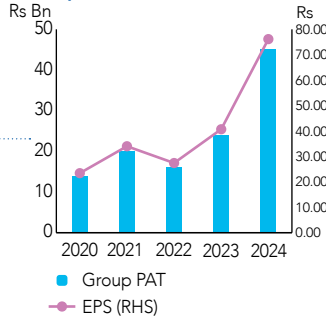


This graph highlights the contribution made to Net Operating Income by each business segment in relation to the funds mobilised to finance the activities of the Group (liabilities) and allocation of funds among the segments.

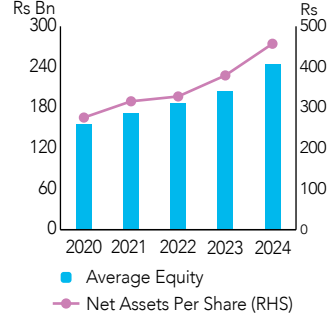


## ANALYSIS OF GROUP PERFORMANCE

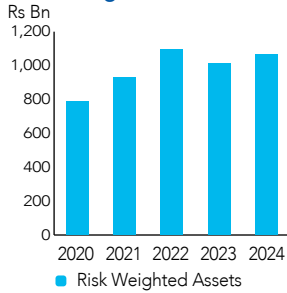
### Group PAT



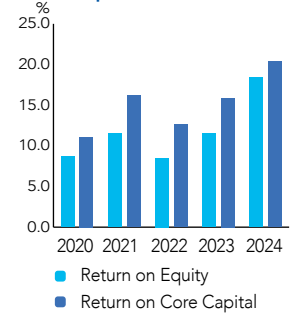
### Average Equity



### Risk Weighted Assets

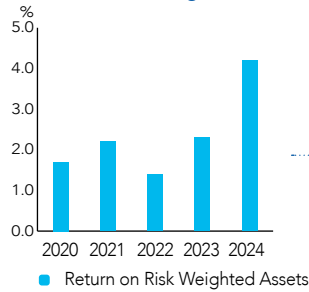


### Return on Equity/ Return on Core Capital

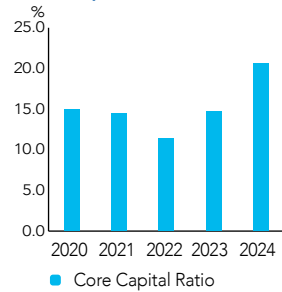


The breakdown of ROE enables identification of the reasons for its movement.

### Return on Risk Weighted Assets



### Core Capital Ratio



## FUTURE PLANS

Lending to key segments of the economy

Overseas expansion

Enhancing technology and digital infrastructure



# DIGITAL CAPITAL

HNB's Digital Capital, which includes advanced back-end infrastructure, tools, and front-end interfaces, creates a 360-degree ecosystem that fully supports the Bank in achieving its strategic growth objectives. It also helps build long-term resilience, keeping the Bank at the forefront of the local banking industry, while ensuring that stakeholder deliverables are met.



## RISK

- Cyber threats in the form of cyberattacks, including data breaches, phishing, ransomware attacks
- Complex and fast evolving regulatory landscape including laws on data privacy, anti-money laundering (AML) etc.



## OPPORTUNITIES

- Drive customer digital adoption to enhance the overall banking experience
- Develop and launch innovative and low-cost digital products to gain first-mover advantage in new and emerging customer segments

## MATERIAL MATTERS

Customer Experience | Brand and Reputation  
Artificial Intelligence, Technology, Data Security and Future Readiness | Innovation



## MANAGEMENT APPROACH

Underpinned by HNB's vision to be the best digital bank in Sri Lanka, the Bank's digital transformation strategy sets the foundation for building a robust and legally compliant digital ecosystem, supported by a stable information and network security architecture, to transform the Bank's digital core to deliver seamless, secure, and innovative solutions that elevate the customers' banking journey, while driving internal efficiency, resilience, and sustained long-term growth in a rapidly evolving local banking industry landscape

## GOVERNANCE

COMPLIANCE	VOLUNTARY BEST PRACTICES	POLICIES	INTERNAL MANDATES
Central Bank of Sri Lanka's (CBSL) Technology Risk Management and Resilience Guidelines Personal Data Protection Act, No 9 of 2022 (PDPA)	ISO/IEC 27001:2022 Information Security Standard NIST Cybersecurity Framework	Information Security Policy Cybersecurity Policy IT Recovery Policy IT Service Management Policy	Digital Vision Digital Strategy Budget

## Key Highlights for 2024



Implementation of HNB Self Onboarding platform



Trilingual mobile app

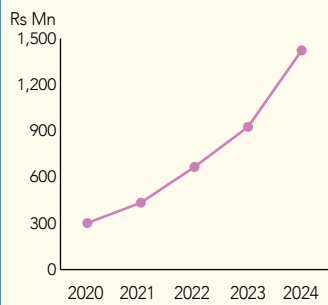


Data free access to digital channels



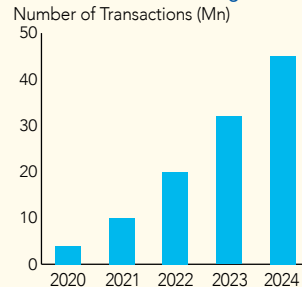
Introduction of new corporate banking platform (TxB)

### Digital Revenue



### Digital Transactions

(Mobile and Internet Banking)



## Digital Innovation

Over the past decade, HNB has made remarkable strides in its digital journey. Driven by substantial investments in cutting-edge technologies, HNB has been delivering transformational digital banking solutions that have continued to redefine the banking experience for its customers. Today, HNB is recognised as the leading digital innovator with its ever-expanding suite of digital channels that are setting new benchmarks for the local banking industry.

In 2024, the Bank further consolidated its digital superiority with the launch of several groundbreaking interfaces to further elevate the customer. Key among them was the HNB Self Onboarding Platform that represents a paradigm shift in how customers perceive and access banking services.



## Value Creation Scorecard 2024

### KEY ACTIONS

- » Launch of the HNB Self Onboarding platform
- » ISO/IEC 27001:2022 Certification
- » Improved alignment with the Personal Data Protection Act (PDPA)
- » Rs 896.4 Mn invested in strengthening IT infrastructure

### OUTPUTS FOR HNB & IMPACT ON OTHER CAPITALS

Increased revenue driven by the exponential growth in digital channel adoption by customers



Strong digital footprint complements the Bank's physical presence



Reliable and resilient digital infrastructure that provides a strong competitive edge over immediate peers



Strong information security posture to safeguard against cyberattacks, helps build customer trust and loyalty



Stakeholder Outcomes	2024	2023
No of digital channels available for retail customers	5	5
Data Privacy Breaches	ZERO	ZERO



# DIGITAL CAPITAL

## HNB's Digital Footprint Serving all Stakeholders of the Bank

<p><b>For Retail Customers</b></p> <ul style="list-style-type: none"> <li>» Digital Banking - (App / Web)</li> <li>» SOLO – digital wallet</li> <li>» Digital Onboarding</li> </ul> 	<p><b>For Business Customers</b></p> <ul style="list-style-type: none"> <li>» Transaction Banking - HNB TxB</li> <li>» Payment platforms – IPG, SOLO, MoMo</li> <li>» Connecting markets through partnerships with Appigo, Cord360 etc</li> <li>» ERP solutions</li> </ul> 
<p><b>For Employees</b></p> <ul style="list-style-type: none"> <li>» E-learning platform – Talent Space</li> <li>» Human Resource Management System - Talent Edge</li> <li>» Online portal on products and services – knowledge hub</li> <li>» Training through virtual channels</li> <li>» Connecting the HNB family through HatnaNet</li> <li>» Automated processes</li> </ul> 	<p><b>For Investors, Regulators &amp; the Community</b></p> <ul style="list-style-type: none"> <li>» Corporate website - <a href="http://www.hnb.net">www.hnb.net</a></li> <li>» Social Media handles - Fb, X, LinkedIn, TikTok, Youtube, Whatsapp Channel, Instagram</li> <li>» <a href="http://www.getsolo.lk">www.getsolo.lk</a></li> </ul>

In 2024, several major projects were undertaken as part of the Bank's strategic thrust to modernise its IT infrastructure to accommodate the rapid increase in customers using HNB's digital channels. Against the backdrop of enhanced digital traffic across all platforms including Online Banking and Transaction Banking platforms, IT infrastructure modernisation was done using the latest rapid system deployment methodologies equipped with advanced rescaling capabilities to handle peak time volumes, without compromising performance.

Enhanced API integrations to connect the Bank's systems directly to customers' ERP platforms through host-to-host integration, thus eliminating manual interventions and enabling corporate clients to directly access banking services with greater ease and efficiency.

As part of the overall approach to improve IT infrastructure resilience, the Bank's legacy servers were replaced with new state-of-the-art energy-efficient servers to reduce power consumption and minimise its carbon footprint.



## IT Infrastructure

To support the rapid Bank-wide digital adoption, a comprehensive infrastructure roadmap has been established to ensure minimal downtime for all critical IT systems and applications. Further taking into account the need for increased scalability in tandem with business growth while reducing energy loads attributed to high capacity IT hardware, HNB continues to invest in cutting edge cloud technologies that facilitate auto re-calibration based on the user demand with no additional demands on energy, thus supporting the Bank's green initiatives.

## HNB exemplifies its status as the leading innovator in the local banking industry in 2024

### HNB unveils the most advanced digital Self-Onboarding platform in the market

HNB Self Onboarding is a transformative digital banking solution empowering prospective customers to safely and securely begin their banking journey on their own terms from anywhere at any time. The fact that the entire account opening process can be completed online through the platform without the need for any in-person visits to a bank branch, marks a significant step towards enhancing customer convenience for the banking clientele of Sri Lanka.

Designed in-house in compliance with Central Bank of Sri Lanka guidelines and developed in partnership with MilleniumIT ESP, the HNB Self Onboarding platform is simple, robust, reliable and secure offering users a seamless and limitless banking experience, while upholding all necessary security and compliance protocols.

### HNB takes a quantum leap in delivering a transformational banking experience through data free access across an omni-channel environment for the first time in the history of the local banking industry

On 4th February in 2024, HNB announced the launch of its pioneering Data Freedom initiative offering the Bank's digital users toll-free access to its digital banking platforms, thus paving the way for a more accessible and inclusive banking experience.

A collaboration with SLT Mobitel and a first in Sri Lanka's banking history, the Data Freedom initiative offers users seamless access to HNB's entire digital suite encompassing the Digital Banking app, Digital Banking website, SOLO app, SOLO Merchant app, SOLO Merchant website, SOLO website, and the HNB Corporate Website without incurring any data charges. The groundbreaking move reflects the Bank's commitment to leverage technology to drive positive change and empower customers to experience a new high in banking convenience.

### HNB MOMO payment solution receives a significant enhancement

The HNB MOMO payment solution was upgraded in 2024, with the introduction of the mini POS (point-of-sale) device, PAX D188 - compatible with range of digital payment acceptances.

The new device - a modern and versatile MiniPOS is equipped with an integrated QR code camera to facilitate contactless payments and QR payments in addition to traditional payment methods. The portability of the device also offers greater flexibility to allow merchants to accept payments conveniently from any location.

## Information Security and Data Privacy

We understand that encouraging our customers to advance their digital banking journey with HNB, rests largely on our ability to protect their digital safety. Hence, Information Security and Data Privacy continues to be paramount among HNB's operational priorities. Recognising the ever-evolving landscape of cyber threats and the critical importance of data protection, we made significant strides in 2024 to further enhance our security framework and ensure robust cyber resilience.

Key achievements for the year include:

- **Cybersecurity Tabletop Exercise:** An awareness and capacity building initiative for HNB's top corporate management. This exercise was carried out by simulating potential cyber threats to test the Bank's response strategies for safeguarding customers' data.
- **Data Sharing Agreements:** A range of data sharing agreements were established between Group companies, clearly outlining the responsibilities and obligations of each entity in handling personal data. This initiative aims to ensure data is shared securely and in full compliance with the Personal Data Protection Act (PDPA) of Sri Lanka.
- **ISO 27001 Certification:** In line with the successful renewal of HNB's ISO 27001 Information Security Management certification under the latest ISO/IEC 27001:2022 standard, the Bank's information security measures were significantly strengthened. This includes ongoing risk assessments, continuous monitoring procedures, and updated incident response plans to meet the stringent requirements of the standard.
- **Digital Channel Security:** We have significantly enhanced the security posture of all our digital channels with the implementation of advanced security protocols and continuous monitoring to detect and mitigate potential threats, thus assuring the transactional safety across HNB's digital channel suite.

# DIGITAL CAPITAL

- **ISO 27701 Implementation:** As part of the commitment to data privacy, HNB initiated the implementation of the ISO 27701 Privacy Information Management System to ensure the Bank's data privacy practices are aligned with international standards. This project also serves as a key driver in supporting the Bank's compliance with the PDPA.
- **Regulatory Compliance:** HNB remained fully compliant with all technology risk-related statutory and regulatory requirements.
- **Payment Card Industry Data Security Standard (PCI DSS) Compliance:** The Bank embarked on a project to achieve PCI DSS compliance, further strengthening the security of payment card transactions, and protecting customers' sensitive information.
- **Phishing Simulation Exercises:** To increase awareness among our staff members, we implemented monthly phishing simulation exercises. These exercises help our employees recognise and respond to phishing attempts, thereby significantly reducing the impact of such attacks.
- **Cybersecurity and Data Privacy Training Academy:** Launch of a new world class online interactive training module focused on cybersecurity and data privacy. This module, rolled out via the Bank's cloud-based Learning Management System (LMS), provides our employees with the knowledge and skills needed to safeguard customer information and stay ahead of emerging threats.
- **Vulnerability and Penetration Testing (VAPT):** Our commitment to continuous security assurance is demonstrated through proactive VAPT to identify and address potential vulnerabilities before they can be exploited.

## Digitisation and Automation

HNB's rationale for digitising and automating its backend system architecture is based on the premise that automation reduces manual errors, drives resource efficiency, and enables real-time data processing to speed up transaction times, thereby supporting innovation and business expansion.

### Digitisation and Back-end Process Automation Initiatives for 2024

KEY CONCERNS	HNB'S RESPONSE
Tracking mechanism for customer requests and complaints	Implemented the CRM workflow tool across the branch network
Complex and time consuming manual work impacting productivity and effectiveness	As a continuation of its Robotic Process Automation (RPA) implementation journey, for improved customer experience, technology enablement, compliance and exponential efficiency gains. RPA was implemented at the Centralised Trade Processing Department for the export bill realisation process and automation of the last leg of the insurance renewal process. The processes have witnessed significant improvement in the productivity levels and turnaround times  HNB is also in the process of completing RPA implementations for Margin Trading and retail clients







### Business Analytics Tools

The Bank has achieved remarkable progress by leveraging data retrieval, visualisation and machine learning tools. These innovations have enabled the creation of detailed descriptive models that provide deep insights into customer behaviour and performance across various segments, regions, and branches.

Moreover, predictive modelling has been instrumental in identifying cross-selling opportunities and predicting potential loan defaults and enhancing the Bank’s strategic planning capabilities. Additionally, the generation of insightful reports has driven key initiatives aimed at increasing CASA, fixed deposits, and digital performance, among others.

Collectively, these efforts have fostered a culture of data-driven decision-making to facilitate more effective responses to evolving customer needs. Other notable benefits include significant cost savings, improved data security, and increased capacity to handle larger data volumes, while contributing towards supporting the Bank’s strategic ambitions.

### FUTURE PLANS

Strengthen system stability by upgrading infrastructure

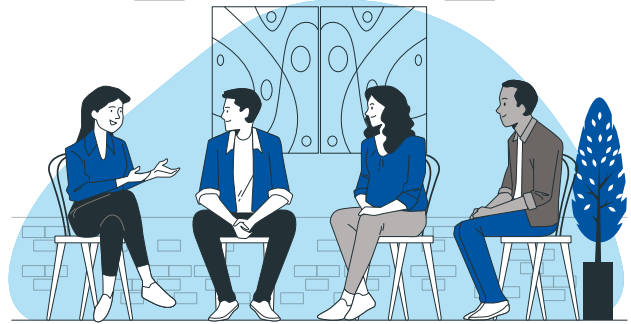
Bolster information security through ISO certifications and new investments

Launch innovative digital solutions to provide convenience to customers.

ISO/IEC 20000 is an international standard for IT service management (ITSM)

# HUMAN CAPITAL

Our strength as a service organisation lies in our Human Capital, which we fondly refer to as the “HATNA Family.” With a united vision, the 5,577 dedicated individuals of the HATNA Family form the backbone of HNB’s success, resilience, and continued growth. They are the true foundation of our business operations.



## RISK

- Staff attrition due to the highly competitive nature of the local banking industry
- Difficulty in retaining key skills owing to brain drain and loss of talent to overseas employment



## OPPORTUNITIES

- Strengthen employer branding to attract best in-class talent
- Recalibrate remuneration structures to stay ahead of the market
- Invest in building internal training capabilities to further enhance our environment for continuous learning and growth

## MATERIAL MATTERS

Employee Well-being | Talent Attraction | Development and Retention



## MANAGEMENT APPROACH

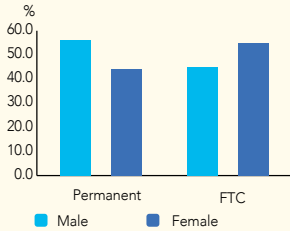
HNB’s approach to managing Human Capital is designed to build an empowered and agile workforce with the commitment and drive to adapt to evolving challenges and achieve organisational goals in order to ensure HNB remains at the forefront of innovation and service excellence within the local banking sector. Our goal is to build a unified team to work cohesively towards delivering HNB’s vision for the future and in doing so, shares in the Bank’s success over time.

## GOVERNANCE

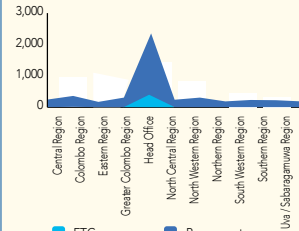
COMPLIANCE	VOLUNTARY BEST PRACTICES	POLICIES	INTERNAL MANDATES
Shop and Office Employees Act EPF Act ETF Act Payment of Gratuities Act	UNGC Principle 3: freedom of association and the effective recognition of the right to collective bargaining;  UNGC Principle 4: elimination of all forms of forced and compulsory labour;  UNGC Principle 5: effective abolition of child labour;  UNGC Principle 6: elimination of discrimination in respect of employment and occupation	Human rights and ethical business practices Safe place to work Talent management policies Industrial relations Diversity and equity Disciplinary action Grievances	» Code of Ethics » Employee Handbook » Green Pledge HATNA Family VALUES » Leading with Courage » Commitment » Teamwork » Excellence HATNA Family PERSONALITIES » Curious » Inventive » Spirited

## Key Highlights for 2024

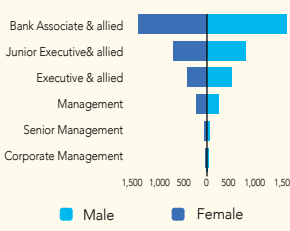
Employees by Type and Gender



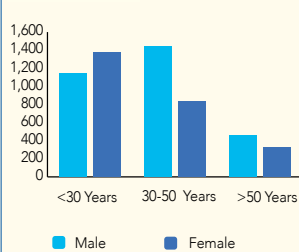
Employees by Type and Region



Gender Profile by Designation



Age Analysis



## Value Creation Scorecard 2024

### KEY ACTIONS

- » Launch of the INSPIRE outreach initiative for the entry level recruitment
- » Rs 114.8 Mn invested in Training
- » Focus on building the internal faculty of trainers Subject Matter Experts (SME)
- » Launch of the Strategic Human Capital Project
- » Launch of RISE - an initiative to promote career progression

### OUTPUTS FOR HNB & IMPACT ON OTHER CAPITALS

- » Staff attrition rate - 7.3% (8.1%-2023)
- » Retention rate among senior management - 96%
- » Females in leadership roles - 253
- » Internal trainer pool - 124
- » Employee Satisfaction - 67% (GPTW score)

Improved employee productivity leading to greater cost efficiencies



High degree of employee satisfaction enhances HNB's reputation as an employer of choice



Ability to retain employees enhances customer trust



High functioning employees have the capacity to multi-task, in turn leading to optimal asset utilisation



Stakeholder Outcomes	2024	2023
Total monetary benefits paid to employees (Rs. Bn)	21.2	16.9
Total number of new recruits	768	1,146
Total number of promotions	634	788
Incidents of discrimination	ZERO	ZERO



# HUMAN CAPITAL

## Efficient Recruitment

Although staff attrition is an inherent challenge in the local banking industry, HNB was able to reduce attrition to 7.3% in 2024 from 8.1% in 2023. Efficient recruitment is seen as a key strategic imperative. Recruitment at HNB is undertaken with the objective of attracting the best-fit candidates who demonstrate a strong commitment to the Bank's vision and core values. A pre-approved manpower plan serves as the basis of ensuring recruitment is efficient and consistent with the Bank's objectives.

We promote fair and equitable recruitment by ensuring both internal and external applicants are considered equally with candidates selected only on merit and suitability for the job role as per predetermined criteria. Special care is also taken to verify the age of all applicants with strict protocols in place to confirm if all new recruits are within the legal age for employment, thus guaranteeing HNB's operations are not at risk for child labour.

In 2024, the scope of the existing recruitment programme was significantly strengthened with the launch of INSPIRE - a targeted outreach initiative to gain access to a wider talent pool to fulfil entry level recruitment needs. Designed to raise awareness regarding the skills required to explore the wide range of career pathways available in the banking industry, the INSPIRE Programme was rolled out across several schools, universities and educational institutions across the Country. To complement these efforts, the financial literacy programmes for students were also significantly accelerated, with the inclusion of additional workshops to emphasise the role of banks in the transition to a cashless society and highlight their contribution to the digital economy.

At the same time, we began actively leveraging the LinkedIn platform for recruitment of professional talent for executive grades.

To further streamline the recruitment process, a new digital portal was

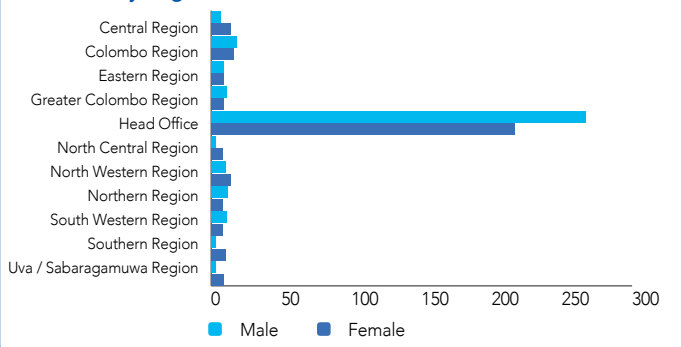
implemented to facilitate online submission of applications and enable online assessments to be conducted for entry levels. As part of the overall efforts to transform our recruitment model on par with global standards, HNB partnered with an independent third-party specialist to introduce a formal assessment centre for management trainees.

A total of 768 new employees were recruited in 2024. All employees, including executive grades were recruited locally from Sri Lanka.

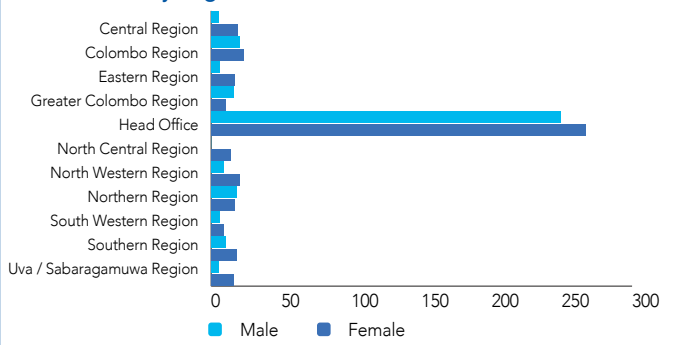
### Recruitment and Turnover by Grade

	Recruitment by grade	Turnover
Corporate Management	3	5
Senior Management	7	8
Management	6	16
Executive	20	50
Junior Executive	7	84
Associate	405	177
Secretary	-	15
Non-Clerical	-	13
FTC	320	315
<b>Total</b>	<b>768</b>	<b>683</b>

### Turnover by Region



### Recruitment by Region



## Employee Experience

### Onboarding

At HNB, onboarding is seen as an opportunity to build the foundation for strong relationships and create a positive experience right from the start of the journey of the employees with the Bank.

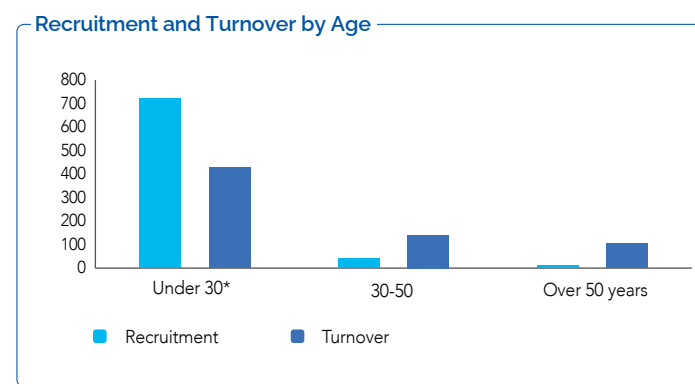
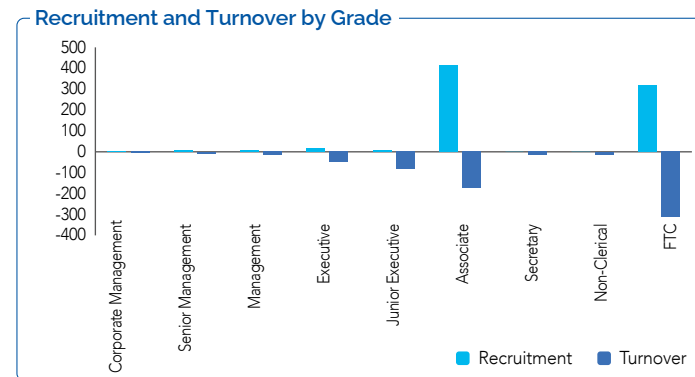
Our structured onboarding process ensures that employees feel welcomed, supported, and empowered from day one. The onboarding process includes a comprehensive 5-day mandatory induction for all new recruits at the entry level. The programme provides in-depth training on our values, operational processes and products, complemented by interactive sessions to foster engagement and collaboration among new hires and is designed to enable new recruits to seamlessly transition into their roles, allowing them to be mobilised productively as early as possible.

A notable feature of the new onboarding programme are the regular refresher workshops conducted at 3-month intervals, spanning a period of 12 to 18 months. These refresher sessions are tailored to reinforce key concepts, address evolving challenges, and ensure that employees remain aligned with the Bank's goals and expectations. This phased approach seeks not only to enhance skill development, but also foster continuous engagement and learning, thereby contributing to long-term employee success, satisfaction and retention.

### Remuneration and Benefits

As a top-tier bank in Sri Lanka, HNB strives to set the industry standard for fair and equitable remuneration and benefits for all employee categories. Regular salary reviews are carried out as part of the commitment to continuous improvement of salary structures to reflect industry standards. Further as an equal opportunity employer, we ensure no gender pay gap exists as males and females performing similar roles, either at entry level positions or across the Group's hierarchy, are remunerated equally.

In the year under review, HNB sought the services of two global consultants as part



of a planned deep dive into the existing job roles and pay structures in order to improve the correlation between the two, as well as to bring more clarity and transparency across salary scales. The result was the launch of the Strategic Human Capital Project in May 2024. By far the most comprehensive salary restructuring exercise undertaken by HNB in over a decade, the Strategic Human Capital Project encapsulates detailed job descriptions across all employee categories along with associated remuneration and benefits and guidelines for performance valuations

and promotions. By integrating detailed job descriptions with clear guidelines for performance appraisals, promotions, and benefits, the project represents a new transformative approach in how employees are compensated and evaluated at HNB underpinned by the principles of meritocracy and accountability. It is anticipated that this approach would help to elevate HNB's remuneration structures above market standards, enabling the Bank to attract top talent, reduce attrition and minimise the brain drain.

#### Standard Benefits provided to all employees

- Salary
- Allowances
- Bonus
- Opportunities for career advancement and growth
- Opportunities for learning and development
- Reimbursement of costs to acquire core banking qualifications and payment of honorarium on successful completion
- Rewards and recognition programmes
- Library facilities
- Staff loans
- Surgical and Hospitalisation cover
- Critical illness cover
- HNB Wellness Center
- Mobile Medical Camps
- Recognition and reward for tenured staff (25 years)
- Accommodation for staff working outstation



# HUMAN CAPITAL

Maternity Leave In compliance with the Shop and Office Employees Act of 1954, female employees are entitled to 84 days paid maternity leave, post-delivery as well as two-hour nursing time till the child reaches one year of age	2024	2023
Maternity leave availed during the year	65	60
Returned to work during the year after obtaining maternity leave during the previous year	17	57
Resignations during the year after obtaining maternity leave during the previous year	0	0

## Diversity and Inclusion

HNB is deeply committed to fostering a workplace culture rooted in diversity and inclusion. As a non-discriminatory and equal opportunity employer, the bank actively champions the values of equality and fairness, ensuring that all employees are provided with equal opportunities to grow and thrive.

Gender balance within the HNB cadre stands at a healthy 55:45 (Male to female ratio), a testament to the consistent

efforts over the years to increase female participation in the workforce. Ongoing emphasis on recruiting females saw 17 females recruited into the Bank's Management Trainee programme out of a total of 29 - the highest number to date. Similarly, HNB's internship programme attracted 116 females in 2024 - the highest number recorded since the commencement of the programme.

## Gender Profile by Grade

By category	Male	Female	% of Female Employees
Corporate Management	22	4	15%
Senior Management	74	17	19%
Management	175	68	28%
Executive & allied	489	174	26%
Junior Executive & allied	743	501	40%
Bank Associate & allied	1,428	1,762	55%
Support Staff	120	-	0%
Total	3,051	2,526	45%

## Human Rights

HNB is committed to upholding human rights as a core principle of its operations, underscoring its commitment to support the creation of a just and equitable society. The Bank strictly adheres to international human rights standards and local labour laws to support a workplace free from discrimination, harassment, and exploitation. Accordingly, HNB does not accept or condone any aspect of forced or compulsory labour, reaffirming the premise that employees have the right to choose to work at their own discretion and are free to leave, subject to the conditions indicated in their employment contracts.

HNB's operations are not at risk for forced or compulsory labour. No incidents of discrimination were reported in the current year.

## Performance Management

Performance management is a vital tool for building a high-functioning workforce to support a large bank like HNB. We currently have a two-tiered approach to performance management. The performance of executives is assessed through a structured mechanism involving setting clear expectations, ongoing monitoring, and providing constructive feedback, followed by a formal annual performance appraisal for the determination of bonuses and increments.

Until 2024, only the performance of senior executives (approximately 18% of the total cadre) was evaluated through a performance-based mechanism, while the remaining employees received fixed bonus entitlements as outlined in the collective bargaining agreement. However, the revamp of job descriptions under the Strategic Human Capital Project paved the way for the Bank to successfully negotiate with unions to include the junior executive category under the performance evaluation framework, bringing the total employees eligible for performance based rewards to 40% for 2024 - signalling a landmark achievement in the effort to embed a performance-driven culture across its workforce.

## Employee Relations and Grievance Management

HNB has always prioritised open communication as the basis for earning the trust and respect of employees and creating a harmonious work environment. Managers at all levels are encouraged to foster good relations with their respective team members through regular meetings and team briefing sessions, while the Bank's open-door policy is designed to empower employees to reach out freely to members of the senior management. Significant changes are communicated top down through OneHNB - the internal communication platform and digital media.

Moreover, with over 50% of the cadre represented by collective bargaining agreements with 2 unions, we have sought to build cordial, and mutually beneficial working relationships with trade unions. Regular meetings with union representatives are an important part of HNB's employee relations framework.

In the current financial year, the collective bargaining agreement was renewed for a further period of 3 years based on mutual agreement of all terms and conditions, including revisions to salary, annual bonuses and other benefits. Hence HNB's operations are not at risk for freedom of association or collective bargaining.

We believe that addressing concerns promptly and fairly, in turn empowers employees to voice their concerns without fear of retaliation, contributing to better workplace harmony. For that reason, a well-structured grievance process is in place to ensure that employee concerns are addressed promptly, fairly, and transparently, ensuring that potential issues are resolved without an adverse impact on morale or productivity. This process includes a range of channels for employees to escalate issues and is supported by a clearly documented grievance resolution procedure.

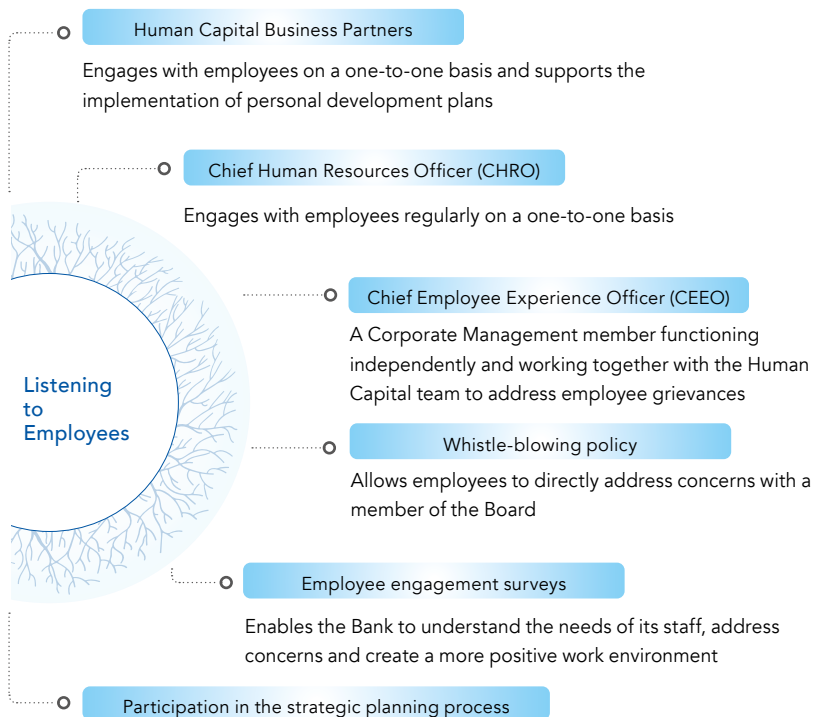
### Key Areas covered under the Collective Bargaining Agreement

- Date of operations and duration
- Salaries and allowances
- Grading criteria of the staff covered by the Collective agreement
- Terminal Benefits
- Medical Benefits
- Leave entitlements
- Trade Union activities
- Employee suspension and disciplinary procedures

### Measuring Employee Satisfaction

HNB participates annually in the Great place to Work (GPTW) survey carried out by GPTW - Sri Lanka. Based on the findings of this latest survey, a 67% overall employee satisfaction score was noted

Apart from the annual GPTW survey, employee satisfaction is also measured via the CSAT model—a peer-to-peer review conducted internally across the business verticals to gauge the service levels of enabling, support and control functions of the Bank.



All employees are encouraged to provide their ideas, suggestions for innovations/ strategies through the "Idea Box" in the Bank's Learning Management System (LMS)

Senior Executive employees are involved in the strategic planning process

# HUMAN CAPITAL

## Employee Growth

### Learning and Development

HNB's training approach is aimed at delivering high quality learning opportunities to enable employees to sharpen their skill set in order to support the Bank's objectives and achieve personal growth aspirations. The Bank-wide training need analysis, which is arrived at based on the outcomes from performance appraisals or through recommendations made by department heads based on identified skill gaps, serves as the basis for developing specialised content to address targeted training needs. All training content is developed and vetted by the Bank's Content Governance Council which consists of cross functional teams of Subject Matter Experts representing key verticals across the organisation. Further the Talent Centre employs a scientific methodology to design training programmes, aligning with globally recognised principles of Instructional Design set forth by the Society for Human Resource Management (SHRM).

Training is delivered through a blended learning approach combining classroom and on-the-job training along with online tools and further supported by coaching and mentoring for optimal outcomes.

Understanding the importance of continuous training, HNB has, over the years, invested substantial resources to build robust internal training resources, including a state-of-the-art training facility at the Bank's Head Office and dedicated training spaces across all regional offices.

In 2023, the Bank commenced a landmark project to certify the internal training faculty with the first batch of 32 certified trainers graduating by the end of 2023. The programme gathered further momentum in 2024, with a specially curated train-the-trainer course conducted to mould participants into skilled trainers. The second intake of 30, successfully completed the 4-week train-the-trainer course and graduated as certified trainers in 2024.

The Bank's cloud-based E-Learning System, which has been in place since 2015, also continues to play an increasingly important role in the delivery of training. The flexibility of the system in offering on-demand training accessible through any digital device, has seen a majority of the standard training programmes, such as teller operations, account opening and clearing, ethics in banking, cybersecurity, AML compliance being delivered through this medium. Competency training for entry level staff and various certifications for officers are also delivered through this platform.

External training workshops and seminars, both local and overseas, are an important part of the overall blended learning approach for our employees.

### TRAINING RECORD FOR 2024

Rs **114.8** Mn  
(+35%)

Investment in training and development

**156,708**  
Total training hours

**26**  
Average training hours per employee



### TRAINING DELIVERY IN 2024

- Classroom and virtual training - **434 programmes** delivered through class room learning
- E-learning (Talent space platform) - **92,636 online** engagements including courses and quizzes
- Structured leadership training programmes - **507 employees** participated in 7 programmes
- Role based training - designed for front line staff for certification
- 'Committed to serve' campaign -Service excellence related training
- External training - **743 employees** participated in **204 programmes** locally and overseas

### TRAINING FOCUS IN 2024

#### Business Sustainability

**185** programmes | **6,619** participants

#### People development

**291** programmes | **4,896** participants

#### Technology enablement

**53** programmes | **1,648** participants

#### Business growth

**155** programmes | **3,533** participants

#### Improve customer experience and productivity

**42** programmes | **2,274** participants

### Structured Leadership programmes

programme – Target Group	Number of Participants
Aspire - Executives/ Managers	40
Impact – Executives/ Managers	33
Leading People - Task or Transformation (Senior Management)	33
Business Excellence Masterclass for Senior Management	10
Management Trainees	30
Orientation programmes (new promotees First Time managers level 1 and 2)	296
Problem Solving & Leading and Managing Teams for First Time Managers	65
<b>Total</b>	<b>507</b>

Another notable initiative launched in 2024 was the Aspire Leadership Development programme for Executives/ Managers with the first batch of 40 candidates selected following a rigorous screening process. The first phase of the programme consisted of a self learning certification on business agility in partnership with a renowned international training organisation.

Other ongoing initiatives such as the HNB Impact programme also continued. The HNB Impact programme - a certified course for Executives/ Managers is an important development initiative for the Bank to enhance performance in the current role. The programme, now in its 5th year of operation, saw its latest batch of 32 managers being certified in 2024. The Bank's Management Trainee Programme saw 12 external recruits being onboarded in 2024.

### Career Mobility

Career mobility at HNB is based on offering employees robust career pathways to

grow and thrive within the Bank. The Bank promotes employee career mobility through a well-defined approach to support promotions, job-rotations and cross-functional exposure that allows employees to take on additional responsibilities and acquire new skills. Career progression is further supported by performance-based evaluations, mentoring, coaching, and leadership training initiatives to help employees accelerate their career trajectory.

The 2024 promotion cycle witnessed a significant number of junior executive and executive promotions (1st and 2nd level promotions). To support the unsuccessful candidates, a special programme was introduced to help employees stay focused on achieving their career goals. The programme, titled "RISE" (Resilience, Insights, Strive, Elevate), was designed to motivate these unsuccessful candidates and reshape their mindset with the tools and strategies needed to better prepare for success in the next promotion cycle.

### HNB partners with the Institute of Bankers of Sri Lanka (IBSL) to launch the customised Microfinance IBSL Diploma Programme

The launch of the Microfinance Diploma Programme underscores HNB's commitment to professional development and excellence. The Diploma in Microfinance is a comprehensive programme covering key areas such as financial inclusion, risk management, customer relationship management, and the application of technology in Microfinance. The programme is delivered through a blend of theoretical learning and hands-on experience, preparing participants for leadership roles within the Microfinance sector.

This Diploma, which sets a new benchmark for professional education in the financial sector, is designed to open new career pathways for employees. The move also aligns seamlessly with the Bank's strategic focus on expanding its footprint in the Microfinance sector, thereby opening up opportunities for employees to enhance their career prospects in tandem to the Bank's evolving objectives.





# HUMAN CAPITAL

## Safety and Well-being

Although as a Bank, HNB employees are not at risk for any occupational health conditions, workplace safety remains a key priority. In striving to create a safe workplace environment for employees, the Bank takes all possible precautions in compliance with national safety regulations. All mandatory safety equipment has been installed at all physical locations of the Bank for the safety of employees, customers, visitors and any other third parties present on the premises.

A dedicated Fire safety warden and floor-level safety champions have been appointed at the Bank's Head Office, and tasked with conducting safety risk assessments, identifying safety hazards and investigating incidents. At a regional level, trained first aid teams have been established to act as first responders in case of emergencies.

Additionally, all full-time employees are entitled to life insurance and healthcare benefits including reimbursement of surgical and hospitalisation expenses for self and family.

Safety awareness is a vital aspect of HNB's commitment to workplace safety. Building a strong safety culture begins from the moment employees join the Bank, with all new recruits undergoing mandatory safety training as part of their induction programme. In addition, regular refresher sessions are conducted to reinforce safety practices and encourage safety awareness among employees.

Meanwhile ongoing efforts to promote health and well-being included the Mobile Medical Camps, Women's health programmes, Diabetes awareness, Mindfulness for Performance, Emotional Intelligence, Stress, and Anger management programmes, and First-aid application from St. John's Ambulance Service.

In September 2024, HNB opened a dedicated Wellness Centre at HNB Towers in partnership with Lanka Hospitals, marking a significant milestone in our efforts to preserve employee well-being. This was followed by doorstep medical checkups

### HNB launches women's health programme for employees

HNB joined forces with CIC Holdings PLC to launch an innovative women's health programme to enhance the well-being and productivity of its female employees. This comprehensive wellness initiative, set to run for three years, will focus on a wide range of women's health concerns, including non-communicable diseases, menopause, nutrition, mental health, and infertility. The programme will be rolled out across all HNB regional offices, with plans to conduct a minimum of one meeting per month. Each quarter will focus on a specific health topic, ensuring comprehensive coverage of women's health issues nationwide.

for all the regions in partnership with Lanka Hospitals.

As a forward-thinking approach to further strengthen overall Bank-wide safety management, HNB commenced the process of obtaining the ISO:45000 Occupational Health and Safety Standard. With work ongoing, the Bank is targeting to obtain the certification by end-2025.

No work-related injuries were reported in 2024.

- Conducted an Eye screening for the Head office staff members along with Vision Care.
- Conducted a Diabetic Awareness session with the help of "Suwa Diviya Srilanka".

- Breast Cancer Awareness session conducted by Lanka Hospitals.
- Conducted a Dental screening session with "Danthaja".
- Conducted a Female Employee wellness programme with "Sri Lanka Menopause Association".
- Conducted Doorstep medical checkups for HNB Tower staff members.
- Initiated the Female wellness awareness programme in the South Western Region (SWR) region.





## Employee Engagement

HNB views employee engagement as a key driver of employee growth because it fosters a sense of belonging, motivation, and purpose. We also believe engaged employees are more likely to be more invested in their contribution to the Bank's success. Therefore, by creating opportunities for meaningful engagement HNB seeks to empower employees to realise their full potential.

- Annual "Bakthi Geetha" at HNB Towers was further expanded to a "Vesak Kalapaya" with week-long activities of sermons, meditation programme, displaying of the HNB digital Pandol, lantern competition for the staff and Dan Sela for the public operated by the staff.
- 25 years' service recognition awards ceremony for 195 staff members.
- Annual Christmas Carols conducted at HNB Towers and a special Christmas

carols programme to celebrate the season with HNB Cards conducted at the Havelock City Mall.

- Sharing the spirit of Christmas at Apeksha Hospital Maharagama, by singing Carols and distributing gifts to the children.
- Annual Best Speaker contest was conducted by HNB Toastmasters Club for all 10 regions and Head Office Departments. The Grand Finale saw 11 finalists in both Prepared and Impromptu Speech Contests. The Prepared Speech champion was also awarded the DTM K Vasanthan Memorial Challenge Shield programme.
- Inter- Branch/ Department Quiz competition, "Quiz Whiz" was conducted for all Regions and Head Office Departments with the 11 Regional Champions competing in the first ever HNB Champion's Quiz for a Challenge Shield.



## FUTURE PLANS

Well-defined succession plan for Corporate and Senior Management teams with focused leadership grooming initiatives.

Strengthen the mid-level Leadership Pipeline and groom the next level of leaders.

Increase females in leadership from the current ratio of 18% to 30% by end of 2026.

Build a dedicated internal Faculty for regional training

Renew the train-the-trainer certification every 3-years

# SOCIAL AND RELATIONSHIP CAPITAL

Social and Relationship Capital serves as a vital link between HNB and the communities it serves - customers, suppliers and business partners as well as the wider community. Strong ties with these crucial stakeholders enhance the Bank's resilience and reinforces HNB's reputation as a trusted and reliable financial institution.



## RISK

- Reputational damage owing to the loss of sensitive customer data due to cyberattacks
- Threats due to competition
- Lack of customer awareness on climate change adaptations and digital transformation



## OPPORTUNITIES

- Invest in digital tools to drive product innovation, strengthen customer service and reduce cost to serve
- Leverage digital technology to develop low cost solutions for the purpose of promoting financial inclusion among underbanked and unbanked populations

## MATERIAL MATTERS

Customer Experience | Brand and Reputation  
 Artificial Intelligence, Technology, Data Security and Future Readiness Innovation  
 Inclusive Growth and Responsible Lending | Business Network Relationships



## MANAGEMENT APPROACH

HNB's efforts to building long-lasting ties with customers, suppliers and businesses as well as the community are based on providing the best possible outcomes for each stakeholder group, through three distinct pivots - making banking enjoyable for the customer, being the preferred choice for suppliers and business partners, and building empowered communities

## GOVERNANCE

COMPLIANCE	VOLUNTARY BEST PRACTICES	POLICIES	INTERNAL MANDATES
Central Bank of Sri Lanka's (CBSL) Technology Risk Management and Resilience Guidelines	ISO/IEC 27001:2022 Information Security Standard	Cyber Security Policy	Customer Complaint Handling Procedure
Financial Consumer Protection Regulations, No 01 of 2023	NIST Cybersecurity Framework	Procurement Policy	ESG strategy and CSR allocation
Personal Data Protection Act, No 9 of 2022	The Sri Lankan Sustainable Banking Principles (SBP)	ESG Policy	
The Banking (Amendment) Act, No 24 of 2024	ISO 9001: 2015 Quality Management System		
The Anti-Money Laundering Laws and Regulations and Financial Transaction Reporting Act No 6 of 2006 and its amendments	ISO/ IEC 22301 Business Continuity Management System		
CBSL Roadmap for Sustainable Finance			

## Key Highlights for 2024



## Value Creation Scorecard 2024

### KEY ACTIONS

- » Launch of HNB Self Onboarding
- » Enabling branch teams to access the CRM System
- » Introduction of the Queue Management System at branches
- » Restructuring the main Customer Experience Unit to drive service excellence
- » Rs 14.3 Mn allocated for strategic CSR

### OUTPUTS FOR HNB & IMPACT ON OTHER CAPITALS

- » 86.8% Overall Customer Satisfaction Score
- » 87.9% Branch Customer Satisfaction Score
- » 42.0% of supplier relationships are more than 5 years

Highly satisfied customers provide the foundation to support sustained long-term financial success

The goodwill associated with longstanding ties with customers, suppliers and the community strengthens the reputation and industry standing

Feedback and suggestions from customers drive innovation and facilitate continuous improvement of physical, digital and human infrastructure

Stakeholder Outcomes	2024	2023	
Customer queueing time at branch counters	10.4 mins	n/a	➔
Supplier Network	249	250	⬇️
Beneficiaries from community capacity building initiatives	9,623	5,667	⬆️

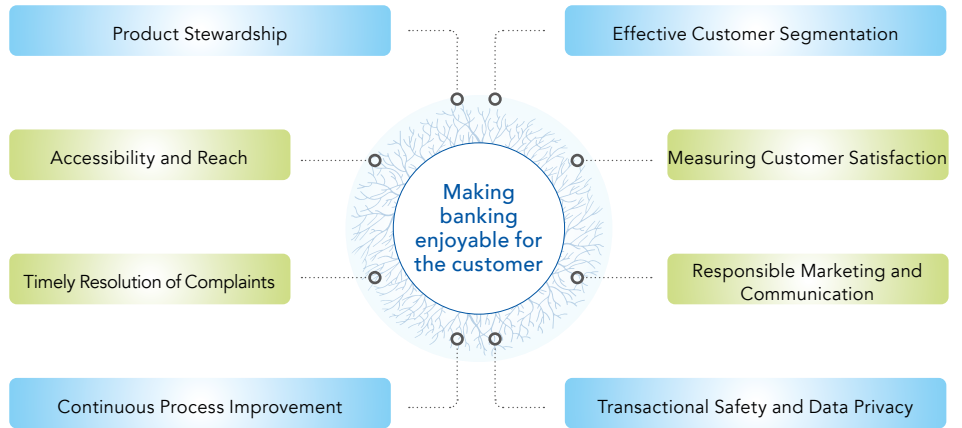


# SOCIAL AND RELATIONSHIP CAPITAL

## CUSTOMERS

### Customer Segmentation

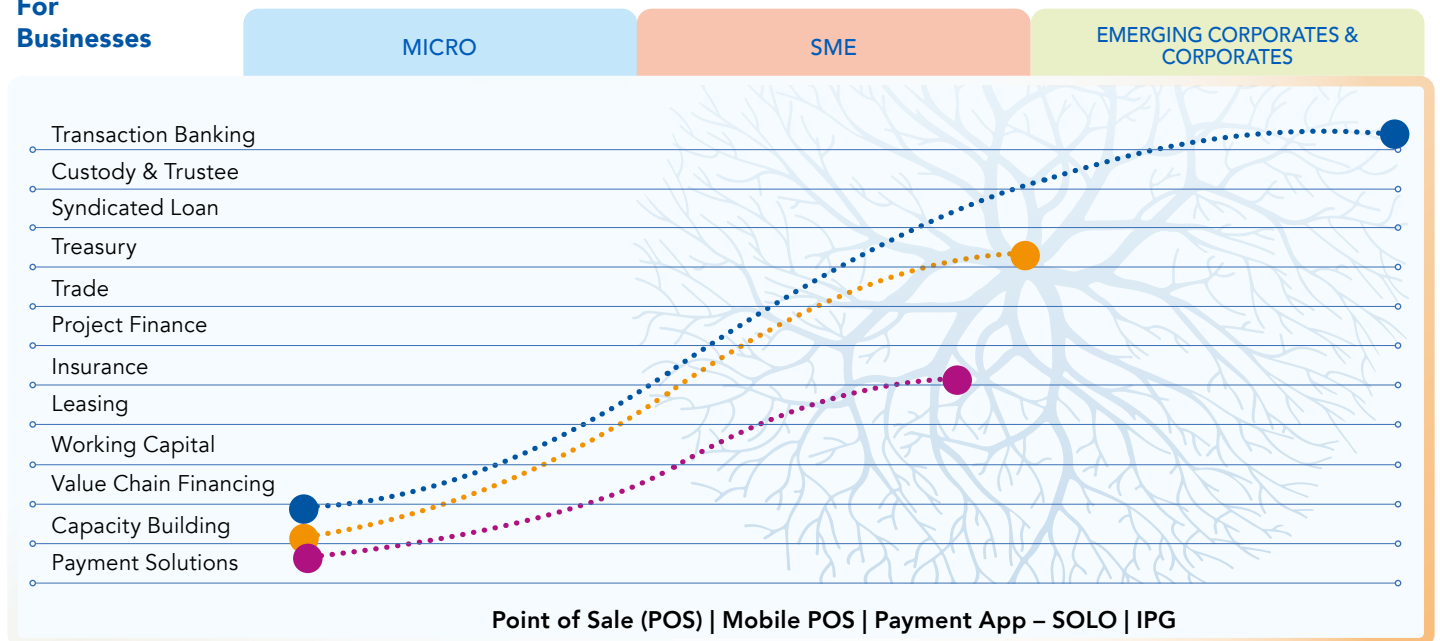
Making banking enjoyable for customers begins with customer segmentation. Effective customer segmentation underscores HNB's intention to present the optimal product / channel mix to enable our diverse customer base achieve their financial goals.



- Branches • SSMs
- Internet Banking
- Mobile Banking
- 24x7 Omni Channel
- Call Centre

- Housing Loans
- Personal Loans
- Credit Cards
- Leasing
- Premier Current Account
- Salary Smart
- Premier Current Account
- Major Investment Plan
- Insurance
- Custody Services
- Margin Trading

### For Businesses





## Product Stewardship

For HNB product stewardship is a 360-degree commitment involving a comprehensive end-to-end approach from designing, developing, and delivering new product innovations for optimal customer value. As a licensed commercial bank, regulatory compliance remains at the heart of all new product innovations / enhancements.

A systematic product development process managed under the purview of the Bank's New Product Development (NPD) Committee ensures every new product idea is thoroughly evaluated to ensure it addresses customer needs, and is appropriate for the target audience. The assessment is accompanied by a further evaluation to determine financial feasibility, legal, compliance, and operational efficiency and risk. HNB's entire suite of products and services for all customer segments have been subject to this stringent scrutiny before the final design is approved.

Of late we have also leveraged data analytics to disseminate customer behaviour, preferences, and market trends, in a bid to develop tailored product innovations.

## Making Banking Enjoyable through Continuous Product Innovations and Enhancement

### SOLO by HNB enhances traveller experience with Unified Payments Interface

HNB PLC, recently rolled out Lanka QR payment acceptance for Indian and Chinese tourists through SOLO, facilitated by the recent partnerships of LankaPay with the National Payment Corporation of India and UnionPay International, a subsidiary of China UnionPay.

The partnership will boost tourism and enhance financial connectivity, enabling smoother transactions across borders and ushering in a new era of convenient payment methods for travellers, the diaspora, and tourists using Indian and Chinese-based mobile payment applications.

### Launch of HNB Self Onboarding

HNB Self Onboarding enables individuals to sign up for their first HNB account seamlessly through an online platform, eliminating the need for physical paperwork or branch visits. Customers can submit their details online and schedule a video call for verification by the Bank's agents at their convenience. Once verified, customers receive their account number and access to a range of services offered by the Bank through all regular HNB digital channels.

The entire process, from initial registration to account activation, can be completed within 24 working hours.

### HNB Data Freedom Initiative

HNB's data freedom initiative offers users seamless access to its entire spectrum of platforms including the Digital Banking app, Digital Banking website, SOLO app, SOLO Merchant app, SOLO Merchant website, SOLO website, and the HNB Corporate Website without incurring any data charges.

As the first of its kind in Sri Lanka's banking history, this initiative marks the beginning of the Bank's vision to create an omni-channel environment for its customers in the years ahead.





# SOCIAL AND RELATIONSHIP CAPITAL

## Access and Reach

HNB's banking legacy is built on providing strong island-wide access for all customer segments, by combining an extensive physical presence with cutting-edge digital solutions. With 254 fully fledged branches and a network of 800+ SSMs across the Country, HNB ensures Retail, Corporate, SME, and Microfinance customers, access to financial services best suited to their needs.

To complement its physical infrastructure, HNB has systematically increased its investment in advanced digital platforms such as mobile banking apps, internet banking, and secure payment systems, all aimed at making banking infinitely more enjoyable by offering seamless connectivity and 24/7-365 access.

The Bank is currently in the process of finalising an Accessibility Policy formalising HNB's commitment to fair and equal access to financial products and services for existing and potential customers, irrespective of their social status, physical ability, marital status, race, caste, gender, age, religion and financial literacy of the consumer.

## Service Excellence

HNB strives to be the benchmark for service excellence through its unwavering commitment to understanding and addressing the unique needs of every customer while maintaining the highest standards of professionalism, integrity, and responsiveness.

The Bank considers customer feedback and complaints as important sources for obtaining customer insights to help strengthen service excellence across all operations. HNB's Customer Experience (CX) Unit is the main point for receiving customer feedback and complaints with the Customer Relationship Management (CRM) System serving as the central platform for recording and managing all customer interactions, including inquiries, service requests, and complaints.

The CRM ensures that all customer complaints are systematically recorded and

## Making Banking Enjoyable through Increased Access and Wider Reach

### HNB MOMO Upgrade

HNB MOMO, a convenient, low cost POS solution for merchants to accept payments via electronic payment cards and QR codes were upgraded with the introduction of the D188 mini POS device. The new device - a secure, efficient and affordable solution to accept payments seamlessly will significantly empower small business owners.

### Updates to the HNB Digital Banking Suite

Enabled real-time opening of new savings accounts (Net Saver) for existing retail customers through online banking.

Introduced a trilingual mobile banking app, allowing retail customers to access services in their native language.

Added an Islamic banking view option, catering to customers seeking Sharia-compliant banking services.

Implemented a bill reminder feature to support retail customers to monitor bill payments.

### Upgrades to HNB's Branch and ATM Networks

34 outdated ATMs were replaced by CRMs (Cash Recycler Machines).

Additional machines were provided to 22 branches that process large Self Service Machines (SSM) transaction volumes.

12 new CRMs were installed at new off-site locations which are strategically important.

routed automatically for resolution. These processes are governed by predefined Service Level Agreements (SLAs).

The CRM System, was extended to all branch teams in 2024, resulting in a higher level of complaints logged through the CRM System. Against this backdrop, the resolution process was revamped with the resolution teams being strengthened.

In parallel, the Compliant-Handling Policy was revamped to further improve overall process efficiency and responsiveness.

## Responsible Marketing and Communications

HNB demonstrates its commitment to responsible marketing and communications

by adhering to the highest standards of transparency, accuracy, and ethical practices in all its customer interactions. As a licensed commercial bank, strict guidelines are followed in developing marketing and promotional material, with content for platforms (electronic, print, digital and social media), thoroughly vetted to ensure adherence to internal guidelines and ensure compliance with all mandatory Central Bank of Sri Lanka disclosures on product terms, conditions, fees, etc.

In addition, all frontline teams engaging in direct marketing activities are trained to inform customers of all terms and conditions attached to the Bank's products and services. No incidents of non-compliance in relation to the disclosure of product information were reported.

Further in compliance with the provisions of the CSE's New Listing Rules on Corporate Governance issued in 2024, a formal policy on corporate disclosures was approved by the Board to establish consistent disclosure practices aimed at ensuring informative and timely disclosure of the Bank's material information to the public.

### Transactional Safety and Data Privacy

HNB places the highest priority on preserving transactional safety and data privacy in order to create a secure banking experience for its customers. The Bank employs cutting-edge technologies and best practices to secure all customer transactions, including multi-layered security protocols such as encryption, Multi-Factor Authentication (MFA), and real-time monitoring designed to detect and prevent unauthorised access or fraudulent activities and promptly flag any anomalies.

As a trusted custodian of sensitive customer data, HNB strictly adheres to the Personal Data Protection Act (PDPA) of Sri Lanka which governs the collection, processing, and sharing of customer data. The Bank's privacy policy has been made available on the corporate website - <https://ebanking.hnb.lk/corp/jsp/privacy.jsp>

To reinforce security and privacy, the Bank's Chief Information Security Officer conducts regular training sessions for its employees, ensuring they are well-versed in handling sensitive data responsibly and can identify potential risks effectively. Moreover, the Bank empowers its customers to protect their own information by offering educational resources on secure banking practices and cyber safety, including providing guidance on recognising phishing attempts, safeguarding personal credentials, and using secure networks for online transactions.

No complaints concerning breaches of customer privacy and losses of customer data, were reported in 2024.

## Making Banking Enjoyable through Internal Process Improvements

### Introduction of the Queue Management System at Branches

The Queue Management System automatically queues the requests made by customers who visit the branches and routes them accordingly to counters of staff members, thus minimising wait times at branch counters.

### Improving the Customer Complaints handling process

The entire process was revamped with the use of technology (CRM System) and with more dedicated staff involved to resolve complaints within predefined service level agreements.

### Enabling branch teams to access the CRM System

Access to the CRM system was extended to branches, allowing real-time access to customer data to drive more proactive customer engagement.

### Relocation of HNB Ja-Ela Branch

The HNB Ja-Ela branch was relocated to offer premium services for the growing customer base in the area.

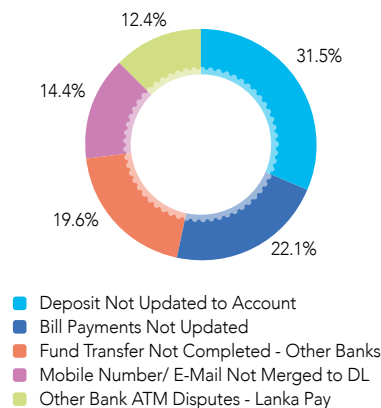
### Introduction of the Secure Mail Feature

The new feature, which is integrated to the Customer Relationship Management System has facilitated branch teams to expedite the issuance of routine services such as balance confirmation letters.

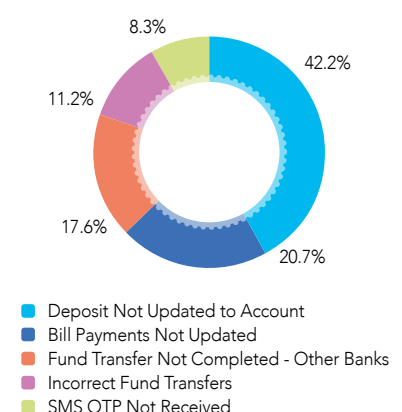
### Implementing e-applications

Online applications were implemented for several products including personal loans, education loans, LAP (Loans Against Property) and housing loans to enhance customer convenience and save time spent visiting the branch.

Complaints - 2023



Complaints - 2024



# SOCIAL AND RELATIONSHIP CAPITAL

## HNB's Sustainability Impact - Measured against the SDG



### GOAL 1: END POVERTY IN ALL ITS FORMS EVERYWHERE

#### Total Lending for poverty provinces in 2024

Eastern	Rs 16,115 Mn
Northern	Rs 16,377 Mn
Uva	Rs 2,941 Mn

- » Gami Pubuduwa Microfinance Scheme to support grassroot level entrepreneurs, business startups, cottage industries Providing access to financial products and services to all customer segments creating employment opportunities through the loan portfolio
- » Providing assistance to micro and SME sectors through capacity building and financial literacy programmes
- » Rs 30.2 Bn worth of loans granted under the Gami Pubuduwa scheme in 2024, benefiting 35,128 micro entrepreneurs.
- » HNB Sarusara agri entrepreneur development programme to encourage agri entrepreneurs to invest in modern agriculture technology for climate resilience, sustainability and increasing productivity.



### GOAL 2: END HUNGER, ACHIEVE FOOD SECURITY AND IMPROVED NUTRITION AND PROMOTE SUSTAINABLE AGRICULTURE

#### Food production from our lending

	Area cultivated (ha)	Production (Mt)
Paddy	21,195	96,883
Minor crops	74	263

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

Total Milk Production 103 Mn L  
Total meat production from poultry farming 6,114 Mt

Information used for calculations

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

Poultry Industry - December Monthly Bulletin Department of Animal Production and Health Peradeniya - 2023

67,751 metric tons of rice from paddy production could produce the equivalent of 231,112,065 meals in 2024, or enough food to provide for approximately 633,184 people.

#### Assumptions

Total rice production used only for human consumption

Information used for calculations

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

Central Bank of Sri Lanka

Department of Census and Statistics Sri Lanka

Rice-the staple food-General information - Rice Research & Development Institute - Department of Agriculture 2022/2023

- Lending for fisheries and aquaculture sector in 2024 - Rs 1,885 Mn

#### Value addition to agriculture products in 2024

Lending for Food and Beverages manufacturing - Rs 12,169 Mn

Increase agricultural productivity and production Lending for farm mechanisation - Rs 296 Mn



### GOAL 3: ENSURE HEALTHY LIVES AND PROMOTE WELL-BEING FOR ALL AT ALL AGES

Lending for health care services development projects	Rs 18,132 Mn
Pharmaceutical and healthcare product manufacturing	Rs 4,160 Mn
Pharmaceutical imports	Rs 3,771 Mn



### GOAL 4: ENSURE INCLUSIVE AND EQUITABLE QUALITY EDUCATION AND PROMOTE LIFELONG LEARNING OPPORTUNITIES FOR ALL

Lending for development of primary and secondary education	Rs 32 Mn
Development of tertiary education	Rs 1,079 Mn
Other education development activities	Rs 1,619 Mn



### GOAL 6: ENSURE AVAILABILITY AND SUSTAINABLE MANAGEMENT OF WATER AND SANITATION FOR ALL

#### Number of beneficiaries from financing for drinking water supply development projects in the country

Monaragala - Buttala Integrated Water Supply project	60,000	Greater Matale Water Supply Project	267,700
Anamaduwa Integrated Water Supply Project	81,700	Kelani Right Bank Water Treatment Plant Phase II	1,500,000
Laggala New Town Water Supply Project	30,000	Amapara Water Supply Project	209,270



### ENSURE ACCESS TO AFFORDABLE, RELIABLE, SUSTAINABLE AND MODERN ENERGY FOR ALL

Personal loan scheme to install solar on houses

We have financed sustainable energy projects with an installed capacity of 47.6 MW of hydro power, 5 MW of wind power, and 54.93 MW of solar power by the end of 2024



### SDG GOAL 8 - PROMOTE SUSTAINED, INCLUSIVE AND SUSTAINABLE ECONOMIC GROWTH

#### Financing main export crops

Crop	Amount Rs Mn	Production from Lending
Tea	14,547	16,436 Mt
Coconut	1,852	66 Mn
Rubber	9,520	21,650 Mt

Information used for calculations

Source: Department of Census and Statistics

Lending to minor export crops	Rs 298 Mn
Lending to tourism sector development	Rs 19,008 Mn

#### Financing Export of Production in 2024 (Rs)

Gems	Rs 885 Mn
Ceramic products	Rs 238 Mn
Leather products	Rs 20 Mn
Garments and fabrics	Rs 6,533 Mn
Food items	Rs 15,289 Mn
Tea	Rs 23,756 Mn
Coconut	Rs 7,617 Mn
Rubber	Rs 1,653 Mn
Minor export crops	Rs 298 Mn
Fish and marine products	Rs 1,080 Mn
Unprocessed Agricultural Products	Rs 448 Mn
Other	Rs 27,214 Mn

# SOCIAL AND RELATIONSHIP CAPITAL



## GOAL 9 BUILD RESILIENT INFRASTRUCTURE, PROMOTE INCLUSIVE AND SUSTAINABLE INDUSTRIALISATION AND FOSTER INNOVATION

To the telecommunication sector development Rs 22,534 Mn  
Lending to the development of the Information Technology and Communication sector Rs 2,484 Mn



## GOAL 11: MAKE CITIES AND HUMAN SETTLEMENTS INCLUSIVE, SAFE, RESILIENT AND SUSTAINABLE

Housing loans and residential property development: Rs 5,245 Mn  
Passenger transport improvement: Rs 558 Mn  
Waste management projects (excluding waste-to-energy): Rs 2,823 Mn



## GOAL 14. CONSERVE AND SUSTAINABLY USE THE OCEANS, SEAS, AND MARINE RESOURCES FOR SUSTAINABLE DEVELOPMENT

As per the Bank's Environmental Policy, we do not finance illegal fishing methods such as drift net fishing in the marine environment using nets in excess of 2.5 km in length to ensure the sustainable use of marine resources.

From our total lending in 2024, we identified lending for sustainable fisheries activities as per the CBSL Green Finance Taxonomy Guidelines



## GOAL 15. PROTECT, RESTORE, AND PROMOTE THE SUSTAINABLE USE OF TERRESTRIAL ECOSYSTEMS; SUSTAINABLY MANAGE FORESTS; COMBAT DESERTIFICATION; AND HALT AND REVERSE LAND DEGRADATION AND BIODIVERSITY LOSS

The Bank does not finance commercial logging operations in primary tropical moist forests, the production or trade of wood or other forestry products unless they come from sustainably managed forests, or the trade of wildlife or wildlife products regulated under CITES.

Bank successfully restored 2.5 acres of degraded forest land within the Kanneliya Forest over the past 6 years.

Advisory services to encourage customers to engage in ecosystem conservation initiatives in line with their business operations, such as establishing butterfly gardens and promoting bee conservation to safeguard biodiversity and maintain the ecological balance around project sites.



## GOAL 16. PROMOTE PEACEFUL AND INCLUSIVE SOCIETIES FOR SUSTAINABLE DEVELOPMENT, PROVIDE ACCESS TO JUSTICE FOR ALL, AND BUILD EFFECTIVE, ACCOUNTABLE, AND INCLUSIVE INSTITUTIONS AT ALL LEVELS

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

## Suppliers and Business Partners

### Procurement Best Practices

As a large Bank, HNB works with an extensive network of suppliers and service providers who provide a range of essential products and services to facilitate the continuity of the Bank's operations.

In keeping with procurement best practices, the Bank deals only with suppliers registered on the Bank's supplier registry. The registry, maintained under

the stewardship of the Banks' Procurement Team is updated annually providing an opportunity to onboard new applicants and for reviewing the performance and progress of existing suppliers. Screening of new suppliers is undertaken as per the established procedure where suppliers are evaluated on specific criteria including financial stability, reliability of service, ethics and sustainability, thus creating the foundation for long term collaborative partnerships. In 2024, the supplier registry was updated with 134 new suppliers being

onboarded, bringing the total registered suppliers to 249 as at 31st December 2024. Of this approximately 99.2 % were local suppliers, while the remaining were overseas suppliers.

In another notable achievement, the Bank Procurement Team achieved the ISO 9001:2015 Certification, which further validates the integrity of the systems and processes adopted for managing HNB's supplier networks.



## Business Partner Relations

Reliable business partners provide essential expertise, resources, and innovative solutions to help the Bank navigate complex operational landscapes, build scale and enhance its capabilities to stay ahead of peers. In particular, HNB's strong ties with global correspondent banks and exchange houses enable the Bank to facilitate international trade, execute cross-border transactions and attract inward remittances to the Country.

Similarly, the partnership with SLT Mobitel has helped HNB to leverage Mobitel's mCash network to significantly expand the Bank's reach via the agent banking concept.

As part of the overall approach to product stewardship, we often pursue value adding partnerships to augment certain business areas. In the current financial year, HNB partnered with several property developers to offer tailored home financing solutions for retail homeowners.

## Communities

### Community Relations

As a Systemically Important Bank in Sri Lanka backed by a strong physical and digital footprint, HNB's core business operations have a significant positive impact

on the communities it serves. Most notably, the Bank's lending activities contribute to economic growth by facilitating access to financial services, supporting entrepreneurship, and promoting financial inclusion across diverse demographics, in turn leading to job creation, and improved living standards. On the other hand, the environmental footprint of HNB's physical branches, as well as its indirect impact through financed activities, could pose challenges.

Even though the positive impacts significantly outweigh the negatives, the Bank remains firmly committed to taking action to counteract negative impacts by obtaining their feedback and insights. Our extensive branch network takes the lead in building community relations, with branch teams engaging directly with local communities to determine challenges and identify grievances. Our Microfinance Officers, often referred to as "barefoot bankers," also play a key role in identifying unmet needs of rural communities.

Ground-level information obtained in this manner is communicated to Senior Management for formulating appropriate strategic responses to community challenges.



# SOCIAL AND RELATIONSHIP CAPITAL

## Strategic CSR

All projects escalated to the Senior Management are carefully reviewed for their correlation to the Bank's sustainability objectives, with successful projects receiving the green light to proceed in line with approved budgetary allocations. This approach to strategic CSR reflects the Bank's commitment to deliver meaningful long-term impact to the community.

All CSR activities are governed by the HNB Sustainability Foundation, established in 2016 under the Deed of Trust. The Trust is overseen by a 10-member Board of Trustees. The Board of Trustees meets every other month to review new proposals and assess the progress of ongoing projects.

Thus, far the Strategic CSR efforts have focused primarily on education, health, entrepreneurship, and the environment.

## Education



### HNB Partners with Sasnaka Sansada Foundation to Support Youth Development

The Bank has partnered with the Sasnaka Sansada Foundation, a government-registered charitable organisation dedicated to youth development and entrepreneurial training across Sri Lanka. Through this collaboration, the Bank has supported two of the Foundation's flagship programmes: the "Sisu Saviya" School Prefects' Leadership Development Programme and the "EntreGate" School Entrepreneurship Development Programme, both aimed at raising education standards among rural communities. By the end of 2024, the Bank completed programmes at Poramadulla Central College, Pinnawala Central College, Seevali Central College, Matara Central College, and Anura Central College, Yakkala.

### Computer Donation to D.S. Senanayake Memorial Public Library, Kandy

The D.S. Senanayake Memorial Public Library in Kandy, with its rich history, serves as a significant cultural and educational hub in the region. As a vital resource for students, researchers, and the general public, the library promotes the habit of reading and lifelong learning through its various services, including book lending, reference materials, periodicals, newspapers, and a mobile library service.

The Bank has been an active participant in supporting the library's mission. In response to a request from the Chief Librarian, a donation of a high-capacity computer and essential equipment has been made to modernise the library's services by introducing the Online Public Access Catalogue

(OPAC) system. This system allows readers to access information about the library's resources through an online platform, making it easier for users to locate materials efficiently.

### Partnership with Sunera Foundation

The Bank partnered with the Sunera Foundation, a renowned charitable organisation dedicated to empowering differently-abled youth through performing arts. As part of this collaboration, the Bank sponsored three key workshops: Sunera Galle, Sunera Katugastota, and Sunera Maharagama. Through these initiatives, the Bank is making a significant impact on the lives of differently-abled young individuals, providing them with opportunities to express themselves, develop new skills, and gain confidence, thereby contributing to a more inclusive and supportive society.

### Book Donation in Collaboration with APPE Lanka Foundation

As part of a collaborative effort with the APPE Lanka Foundation and the home gardening initiative, 150 sets of exercise books were distributed to school children in the Poonakary area of the Kilinochchi district. Through this effort, the Bank reaffirms its dedication to supporting education and ensuring equal opportunities for children in the Poonakary area.

### Sponsorship for Grade 5 Scholarship Conference

The Bank sponsored a Grade 5 Scholarship Conference as part of an employee engagement initiative. This significant event was aimed at providing additional academic support to approximately 1,050 students across 14 Sinhala-medium schools in the Kalpitiya Division. The initiative was designed to address the educational needs of young students, offering them the tools and confidence to excel in their studies.



### UNICEF Rise for Children

The Bank collaborated with UNICEF Sri Lanka's 'Rise for Children' initiative to enhance the education of underprivileged children. This comprehensive program includes catch-up classes, learning modules, and teacher training. The initiative received enthusiastic support from the Bank's staff through their donations, with the HNB Sustainability Fund matching each contribution.

This partnership highlights our dedication to supporting education and creating brighter futures for children across Sri Lanka. By providing essential educational resources, we aim to empower these young minds and contribute to their academic success and overall well-being.

### Donation of Educational Supplies to Kirindagama Primary School in Tissamaharama

The Bank supported a community engagement initiative to assist the students of Kirindagama Primary School in Kirinda. The school, serving 85 students from Grade 1 to 5, faces financial challenges due to the community's reliance on the fisheries industry. The project, includes donating essential school supplies and providing model papers and extra books for Grade 5 students. The aim is to reduce the financial burden on families, enhance educational access, and motivate students to continue their studies.

### Providing Seed Funding for Yarl IT Hub

The Yarl IT Hub has launched an innovative initiative to foster entrepreneurial spirit among youth by introducing entrepreneurship clubs in schools. Through this project, the Bank provides seed funding to entrepreneurial clubs in 40 schools across the Northern region. The aim is to nurture the next generation of business leaders by giving students the opportunity to develop essential business and management skills.



### Maintaining Cancer Counselling Center at Apeksha Hospital Maharagama

A Cancer Counselling Center, established in 2007 in collaboration with Apeksha Hospital, Maharagama (National Cancer Institute), was the first of its kind in Sri Lanka to provide professional counselling services to cancer patients and family members in order to help overcome the trauma of being diagnosed with cancer. Additionally, the Bank provides monthly donations of Rs 7,500 for six months to 100 selected cancer patients each year, offering financial relief.

### Bhakthi Gee and Christmas Carols Ceremony with Goods Donation

In celebration of Poson Poya, the Bank's Bhakthi Gee team performed devotional songs at the Apeksha Hospital to uplift the spirits of the patients. Additionally, the Bank donated essential items to 60 patients in a male ward, with contributions from the Bank's head office staff.

During the Christmas season, the Bank's choir brought joy to the children's ward at the Apeksha Hospital by performing Christmas carols. The Bank also donated gifts, bringing smiles and festive cheer to the children.

### Donating Water Filters to Northern Region Schools

In response to requests from MU/ Therankandal GTMS School and MU/ Yogapuram Primary School, the Bank, installed water filters on the school premises. Both schools previously relied on tube wells for water consumption, which caused kidney-related issues. This project ensures better water sanitation and health for the children, helps reduce kidney-related issues, and will contribute to a healthier future generation.

### HNB #WalktheTalk

In an ongoing effort to promote environmentally friendly practices and healthier lifestyles among staff, the Bank introduced the "HNB Walk the Talk" challenge several years ago. This vibrant initiative encourages employees to embrace eco-friendly transportation options, such as walking and cycling, while also focusing on their personal well-being. The challenge has seen tremendous success, prompting its continuation in 2025. HNB employees have shown exceptional dedication to the initiatives, collectively walking over 16,684km and cycling 50,501km. Today the "HNB Walk the Talk" challenge is a vital part of the Bank's environmental and wellness programme.





# SOCIAL AND RELATIONSHIP CAPITAL

## Hospital Donations

The Bank is committed to enhancing healthcare access and quality through its hospital donation initiatives. By providing essential medical equipment, supplies, and financial support, the Bank aims to strengthen healthcare services in underserved communities. Through these efforts, the Bank hopes to make a meaningful impact on public health and support the dedicated healthcare professionals who serve these communities. The donations the Bank made to the hospitals and healthcare services throughout the year 2024 are as follows:

Hospital / Institute	Donation
De Zoysa Maternity Hospital	Donated five cushion gang chairs which are very helpful for the use of patients and parents who come for the birth registration process and the patient care services in the hospital.
Batticaloa Hospital	Funded Rs 2 Mn for the installation of an elevator in the hospital's Physical Rehabilitation Centre.
Kandy National Hospital	In response to the economic challenges impacting Sri Lanka's healthcare system, HNB has proactively supported the National Hospital in Kandy by donating essential medical items to the respiratory unit (wards 44/45). These contributions will significantly benefit patients with respiratory conditions, ensuring they receive timely and effective care.
10 hospitals in Kilinochchi District	During the COVID-19 pandemic, the Bank procured various medical equipment to ensure the safety and well-being of our employees. As these items are no longer required by the Bank, the unused medical equipment was donated to 10 hospitals in the Kilinochchi District, providing much-needed support to the staff and patients in these rural areas.
1990 Suwa Seriya Foundation	HNB supported the Suwa Seriya Foundation's "Adopt an Ambulance" project by adopting two ambulances worth Rs 10 Mn.
Glancken Hospital, Bogawantalawa	The Bank donated a multi-function printer, including print, scan, and photocopy capabilities, in response to a request from Glancken Hospital. This donation will enhance the hospital's administrative efficiency, directly benefiting the community by making the documentation process smoother and more efficient.
Apeksha Hospital	The Bank donated a Smart TV to the clinical waiting area, enhancing regular updates on health services for patients and providing them with a source of relaxation and distraction. Additionally, the Bank donated a movable partition to the Cancer Counselling Centre maintained by HNB, helping to create private spaces within the Centre and improving the overall patient experience.
Kethumathi Women's Hospital, Panadura	The Bank donated 20 bedside cupboards and 30 mattresses to the hospital to enhance its ability to provide quality care, ensuring that patients receive the necessary comfort and support.



## Entrepreneurship



Over the years, HNB has forged a number of key partnerships for the purpose of scaling up its Microfinance business. In this regard, the collaboration with the SED (Small Enterprise Development) enables the Bank to offer customised financial products alongside capacity-building initiatives to empower small businesses. HNB's partnership with the National Enterprise Development Authority (NEDA) supports the growth of local enterprises, fostering regional economic development, while the tie up with Vidatha plays a crucial role in enhancing financial inclusion and promoting entrepreneurship among rural underserved communities. The Bank also works closely with universities, vocational centres, and technical colleges, strengthening its financial literacy programs and equipping individuals with essential financial knowledge.

Given their significant impact on HNB's business model, the Bank invests in nurturing these partnerships through regular engagement and knowledge sharing initiatives that foster mutual growth.

**Micro Finance Grant 2023/2024** - The Micro Finance Business Support grant is a strategic CSR initiative by our Bank, aimed at providing crucial financial support to 100 microfinance customers for a year, each receiving Rs 100,000. Over the past three years, this programme has supported numerous customers, helping to navigate economic uncertainties. In 2023 we supported 48 customers and the remaining 52 deserving customers were granted under this initiative in 2024. This capital infusion has enabled the selected customers to stabilise their businesses, expand operations, and strengthen our nation's economic resilience.

**HNB Sarusara Agri Entrepreneur Development Programme** - The main aim of the programme is to encourage

agri entrepreneurs to invest in modern agriculture technology for climate resilience and sustainability. The first session held in Nochchiyagama was attended by over 700 agripreneurs. The event consisted of demonstrations in modern agriculture technology including smart and precise agricultural techniques and solutions capable of enhancing farming practices and increasing productivity. The event also featured a mini agriculture exhibition with 21 leading agribusiness solution providers from across the country, offering comprehensive seed-to-shelf solutions that greatly benefited the participants.

**HNB Gami Pubuduwa Microfinance Loan Scheme** - The flagship microfinance programme of HNB extends financial services to self-employment projects and other microenterprises in rural areas. Approximately Rs 30.2 Bn worth of loans were granted under the Gami Pubuduwa scheme in 2024, benefiting 35,128 micro entrepreneurs.

**Financial literacy programmes** - Hand-in-hand with the Gami Pubuduwa Loan Scheme, 27 programmes were conducted during the year in partnership with the Central Bank of Sri Lanka, the Department of Small Entrepreneurs and a host of government and private entities. These endeavours are designed to equip individuals with crucial financial competencies and furnish them with the requisite knowledge and resources for entrepreneurial success.

**SOLO Podi Podi Business** - First introduced as a project to help small businesses grow and adopt digital methods of cashless transactions with customers, the SOLO Podi Podi business initiative was further extended in 2024 to provide marketplace opportunities to small business owners who were given the free use of a dedicated



space at HNB Customer Centres to sell their goods to walk-in customers.

**Supporting women-led businesses** - HNB partnered with the Women's Chamber of Industry and Commerce (WCIC) as the official banking partner of their innovative Ramp Up 24 - unique event designed to support women entrepreneurs in the fashion industry to showcase their products.

**Infrastructure facilities for underserved communities** - As part of our collaboration with the Capital Maharaja Group and Gammadda, Sri Lanka's largest rural development movement, to improve infrastructure in Yaya 6, Mahawilachchiya, the Bank organised a brainstorming session for the villages. HNB's private banking proposition, The Club HNB, aimed to engage members in opportunities for focused and impactful philanthropy. The session was designed to foster collaboration and generate innovative ideas to benefit the local communities.



# SOCIAL AND RELATIONSHIP CAPITAL

## Social Aspects through Environmental Projects



The Bank's environmental projects are deeply rooted in social responsibility and community engagement, reflecting the Bank's commitment to fostering sustainable development and enhancing the well-being of local communities. Through our membership in the UN Global Compact, the Bank aligns corporate strategies with global principles that promote human rights, labour standards, environmental stewardship, and anti-corruption. The plastic bottle recycling initiative with Eco Spindles not only addresses plastic waste management but also empowers schools and communities by providing incentives for responsible waste disposal. The Sapling Distribution Project, launched on World Environment Day, promotes eco-friendly practices and supports local economies by distributing fruit saplings sourced from local communities. The Kanneliya

Restoration Project enhances biodiversity and ecological health, benefiting a wide range of stakeholders by planting native species. The Home Gardening Project in Poonakary, Kilinochchi, empowers war-affected communities by providing resources for sustainable livelihoods, ensuring food security, and building sustainable home economies. The Clean the Environment project engages employees and local authorities in addressing environmental threats from non-biodegradable litter, fostering a sense of community responsibility and environmental stewardship. Together, these initiatives underscore the Bank's dedication to creating a positive social and environmental impact.

*(For further details please refer pages 106-107 in Natural Capital Section)*

## Leading the transition towards becoming a fully Sustainable Bank

HNB is leading the transition towards becoming a fully sustainable bank through a combination of strategic initiatives focused on Environmental, Social, and Governance (ESG) performance. Considering both the regulatory framework and global best practices, the Bank's sustainability agenda is pivoted on the following principles :

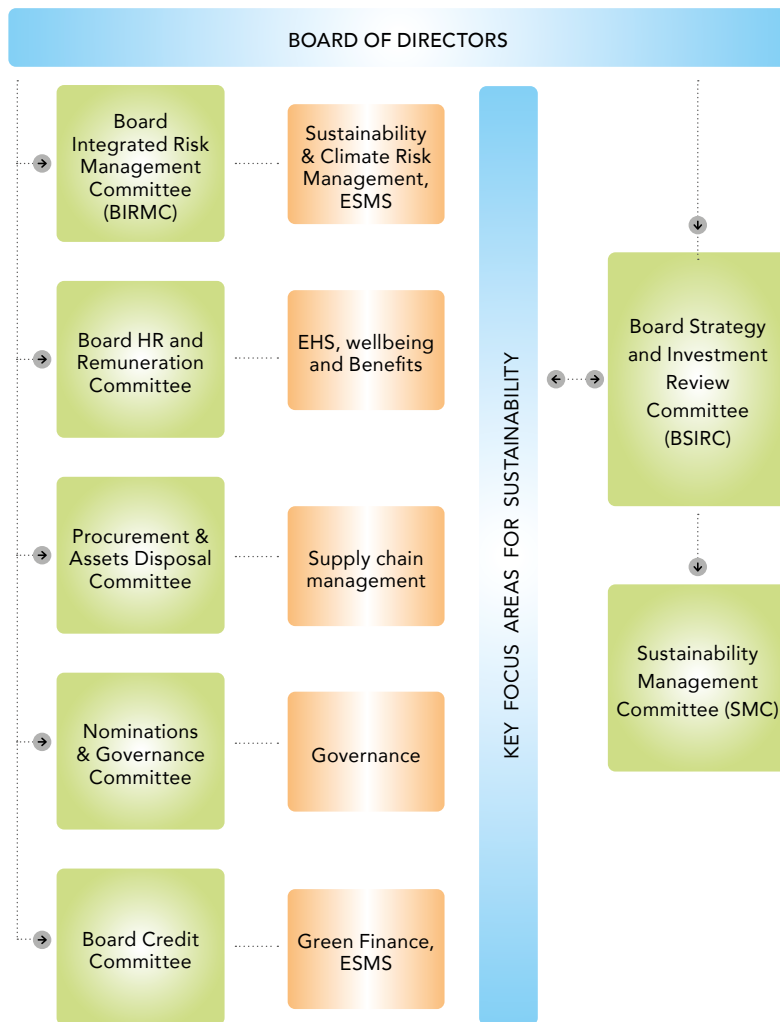
- **Green Financing & Sustainable Lending** - incorporated sustainability into lending practices to prioritise financing of renewable energy, energy efficiency, and eco-friendly projects as well as supporting the UN Sustainability Development Goals.
- **Digital Adoption** - reduce dependency on traditional banking infrastructure and enhance digital financial inclusion.
- **Corporate Social Responsibility (CSR) & Community Support** - empowering communities through financial inclusion, entrepreneurship support, education, and sustainability initiatives
- **Green Operations** - reducing the Bank's carbon footprint by implementing energy-efficient practices and digital banking solutions to minimise paper usage and operational waste.
- **Governance and Ethics** - Board of Directors leading by example, ensuring transparency and accountability in decision-making while incorporating Environmental, Social, and Governance (ESG) considerations into the Bank's long-term strategies.
- **Stakeholder Engagement** - build strong relationships with key stakeholders through frequent and ongoing communications.

## Driving the Paradigm Shift towards Sustainable Lending

### Sustainable Lending

- » Facilities above Rs 15 Mn (excluding retail loans) are subject to Environment and Social Management (ESMS) guidelines.
- » Low-risk projects do not require special evaluations, while medium-risk projects are evaluated using ESMS criteria by trained relationship managers or credit officers.
- » Sector-wise industry risk reviews are conducted, with recommendations shared with staff through circulars.
- » High-risk projects are evaluated by the ESMS Unit
- » Use Scorecards to assess climate and sustainability-related risks and determine appropriate actions to manage negative impacts of our lending portfolios.
- » The Bank will not provide credit facilities to customers engaged in activities listed on the exclusion list. All credit proposals are screened to ensure compliance with this list.
- » The Bank allows longstanding customers engaged in alcoholic beverages and tobacco businesses to maintain relationships subject to total exposure to these sectors being below 3% of the total loan book. No new customers engaged in these activities will be accepted.

## Sustainability Governance Framework



### Regulatory Compliance

- » Central Bank of Sri Lanka Roadmap for Sustainable Finance
- » Sri Lanka Green Finance Taxonomy Guidelines issued by the Central Bank of Sri Lanka
- » Direction No 05 of 2022 on Sustainable Finance Activities of Licensed Banks
- » Central Bank of Sri Lanka's Technology Risk Management and Resilience Guidelines
- » Central Bank of Sri Lanka's Technology Risk Management and Resilience Guidelines
- » Personal Data Protection Act, No 9 of 2022
- » Banking Act Directions No 05 of 2024 on Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka
- » The Anti-Money Laundering Laws and Regulations and Financial Transaction Reporting Act No 6 of 2006 and its amendments
- » CSE regulation on Sustainability Policy
- » SLFRS S1 and S2 requirements

### Best Practices

- » Sustainable Banking Principles of the Sri Lanka Banks' Association
- » IFC Performance Standards and Exclusion List
- » United Nations Global Compact 10 Principles
- » UN Sustainable Development Goals
- » ISO 14064: 2018 Greenhouse Gas Verification Standard Sri Lanka Climate Fund Carbon Credit Scheme

## FUTURE PLANS

Focus on enhancing service levels through Digital banking, ATM's, BDM's, CDM's, Contact Centres

Extend the HNB Saru Sara Programme to reach and support 30,000 agri-entrepreneurs by 2025

Strengthen the procurement process and streamline procurement activities.

Establish a dedicated customer service unit for corporate customers

# NATURAL CAPITAL

As a Bank, HNB's interactions with Natural Capital are twofold. Direct interaction through its operational footprint vis-a-vis the consumption of resources such as energy, and paper, as well as emissions and waste generated by branches and data centres. On the other hand, HNB's indirect relationship to Natural Capital stems from its role as a financier. By extending loans and funding investments, the Bank influences industries and businesses that interact with natural resources.



## RISK

- Higher defaults as borrowers struggle with losses caused by climate-related events, especially in vulnerable industries like agriculture, real estate, and infrastructure.
- Loan portfolio vulnerability due to increased exposures to agriculture, or manufacturing businesses heavily dependent on fossil fuels.



## OPPORTUNITIES

- Divert lending to capitalise on the growing demand for green financing by supporting projects focused on energy transition and climate change adaptation.
- Digital transformation to reduce the Bank's own carbon footprint.

## MATERIAL MATTERS

Credit Risk | Brand and Reputation | Innovation  
Inclusive Growth and Responsible Lending | Climate Action



## MANAGEMENT APPROACH

Guided by HNB's Environmental and Social Policy, the Bank has committed to minimising natural capital loss through a broad-based approach that focuses on environmentally conscious operations, supported by ongoing training, awareness initiatives, and targeted high-impact external projects. The Bank's recent membership in the UN Global Compact (UNGC) further reinforces these commitments by systematically aligning the Bank's efforts with UNGC Principle 7 (support a precautionary approach to environmental challenges), Principle 8 (undertake initiatives to promote greater environmental responsibility), and Principle 9 (encourage the development and diffusion of environmentally friendly technologies).

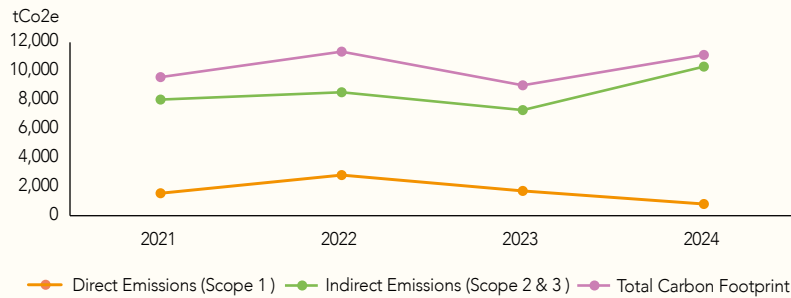
## GOVERNANCE

COMPLIANCE	VOLUNTARY BEST PRACTICES	POLICIES	INTERNAL MANDATES
Sri Lankan Sustainable Banking Initiative established by the Sri Lanka Banks' Association (SLBA)	ISO 14064-1:2018 Greenhouse Gas Certification awarded by the Sri Lanka Climate Fund	Environmental and Social Policy	Environmental and Social Management System (ESMS)
Sri Lanka Sustainable Finance Roadmap of the Central Bank of Sri Lanka	Sri Lanka Climate Fund Carbon Credit Scheme		The Green Pledge
Sri Lanka Green Finance Taxonomy Guidelines issued by the Central Bank of Sri Lanka	IFC Performance Standards and Exclusion List		Strategic CSR
	UNGC Membership		

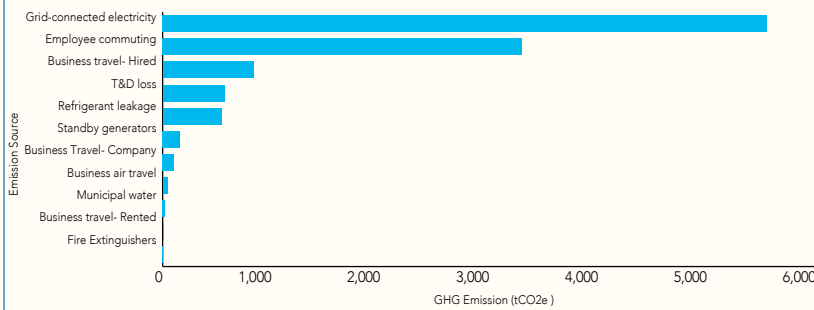
## Key Highlights for 2024

Description	2024		2023	
	Capacity (MW)	Outstanding as at 31/12/2024	Capacity (MW)	Outstanding as at 31/12/2023
Hydro power	47.6	1,243.6	49.6	2,061.7
Wind power	5.0	26.6	5.0	113.1
Solar energy	54.9	4,028.9	34.9	2,233.6
Biomass	3.3	274.7	3.3	357.8
Waste	10.0	1,583.9	10.0	2,325.5

### Carbon Footprint 2024



### GHG emissions for the year 2024



## Our impacts of paper recycling

287 (m3)



Saving of waste directed to landfills

1,627 (Nos)



Saving of fully-grown trees due to paper recycling

167,989 (L)



Savings of oil

382,880 kWh



Saving of electricity

3,041,982 (L)



Saving of water

95,720 (kg's of CO2eq)



Reduction of GHG emission



## Value Creation Scorecard 2024

### KEY ACTIONS

- » Launch of the EV leasing solution for retail customers
- » Launch of the solar loan for retail customers
- » Continued the PET bottle recycling project in collaboration with Eco Spindles
- » Obtained membership of the UNGC
- » Rs 5.5 Mn allocated for environmental impacts

### OUTPUTS FOR HNB & IMPACT ON OTHER CAPITALS

- » 11,130 tCO2e – Carbon Footprint (9,025 tCO2e – 2023) (Employee commuting was added as a new emission source to the 2024 inventory)
- » 2.0 tCO2e emission per employee
- » 1,982 MWh of solar energy generated (2,123.7 MWh- 2023) \*Solar generation has dropped due to the rainy weather conditions that prevailed in 2024
- » 45% reduction in paper disposal
- » 2,397 kg of plastic waste recycled (1,598 kg-2023)
- » Four awards at the Best Corporate Citizen Sustainability Awards 2024 including top 10 and winner: Best Project for Environmental Sustainability
- » Enhanced reputation as a responsible environmental steward
- » Asset resilience against climate change

Stakeholder Outcomes	2024	2023
No of facilities granted to finance environmentally sustainable projects	1,244	1,486
Total amount of credit facilities granted to finance environmentally sustainable projects (Rs Mn)	46,257	58,854



# NATURAL CAPITAL

## Environmentally Conscious Products

### Financing Environmentally Sustainable Projects

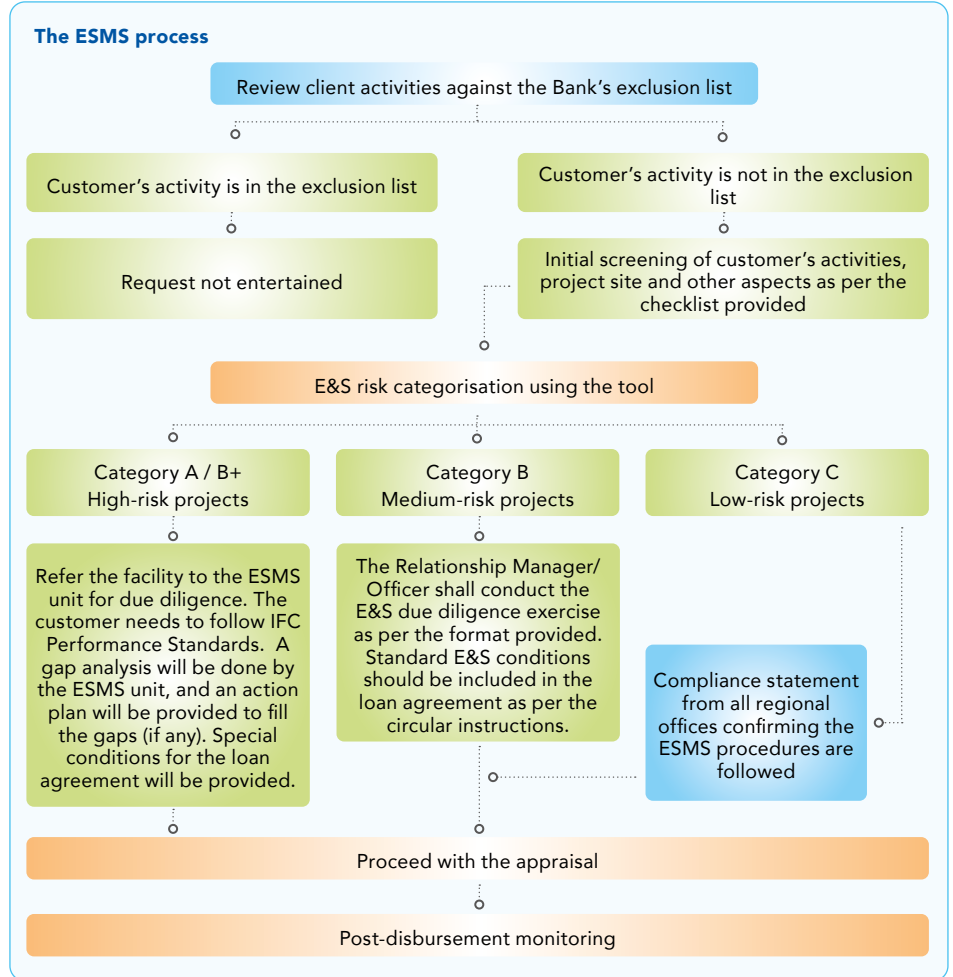
Recognising the critical role banks can play in advancing the government's vision for a green, inclusive, and balanced economy in Sri Lanka, HNB demonstrates its commitment to climate action by engaging in environmentally sustainable lending practices as stipulated in the Sustainable Finance Roadmap established by the Central Bank of Sri Lanka.

Our approach is driven by a robust Environmental and Social Management System (ESMS), whereby we seek to integrate climate-related criteria into our credit appraisal process, helping to minimise the environmental and social risks associated with large lending exposures.

The ESMS which is framed around the IFC's performance standards for environmental and social sustainability aims to ensure HNB avoids funding activities with significant adverse environmental or social impacts. (Refer ESMS Process) A majority of HNB's environmentally sustainable exposures represent lending to support the expansion of the renewable energy sector in Sri Lanka.

These efforts are further augmented by collaborations with industry partners, environmental organisations, and stakeholders to drive innovation and promote best practices in sustainability. As a core group member of the Sri Lanka Banks' Association's Sustainable Banking Initiative (SLBA-SBI), HNB is instrumental in industry-wide efforts to evaluate ESG risks of lending projects, reduce carbon emissions and advance towards carbon neutrality.

Continuing with ESG / Climate risk assessments on vulnerable loan portfolios in the current year, assessments were carried out on the Tea sector and Apparel sector, with observations and recommendations shared across the network for implementation.



### Eco Financing for SMEs

HNB's Eco Financing Solutions for SMEs represents the Bank's commitment to promote climate change adaptation among SMEs in line with the Sri Lanka Green Finance Taxonomy Guidelines issued by the Central Bank of Sri Lanka.

Eco financing solutions are designed to aid SMEs across various priority sectors to transition towards environmentally sustainable operations by investing in green technologies, improving energy efficiency, and reducing their environmental footprint via sustainable waste management initiatives, and other eco-friendly practices.

Beyond traditional banking, we offer credit combined with advisory services to encourage customers to engage in

ecosystem conservation initiatives, such as establishing butterfly gardens, promoting bee conservation, and creating bird baths to enhance biodiversity and maintain the ecological balance around their operational sites.

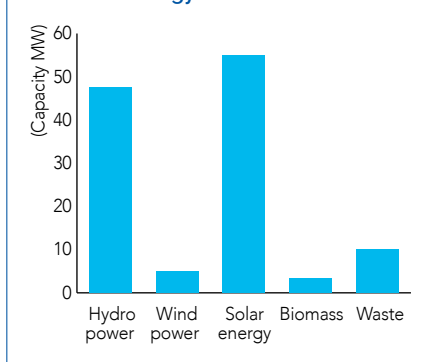
Taking a major step towards promoting climate adaptation among SMEs, the HNB Sarusara Scheme launched in mid-2024 was further expanded to support farmers in vulnerable areas to implement climate-change adaptation technologies and sustainable agriculture practices.

### Green Finance Schemes for Retail customers

HNB's Green Finance Schemes for retail customers aim to encourage the adoption of environmentally friendly practices among



### Contribution towards the nation's renewable energy transition



households. By offering affordable financing options for investments in renewable energy systems, and eco-friendly vehicles, we strive to empower individuals to reduce their carbon footprint.

In 2024, HNB partnered with John Keells CG Auto (Pvt) Ltd (JKCG Auto), to offer innovative EV leasing solutions for the BYD electric vehicle range. The collaboration exemplifies HNB's commitment to making sustainable and cost-effective mobility solutions available to a wider audience in order to spearhead the Country's transition to a greener economy.

Taking concrete steps to further expand green finance schemes for retail customers, HNB re-launched its Solar Loan in 2024. Tying up with several leading solar agents, the Bank sought to promote investment in rooftop solar at a household level, thereby

enabling customers to benefit from long-term energy savings while contributing to Sri Lanka's transition toward a sustainable future.

### Digital Banking

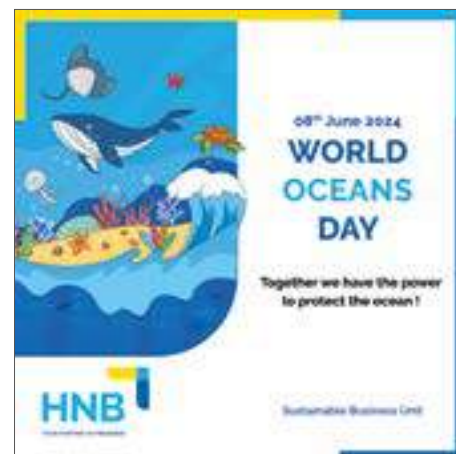
HNB has long acknowledged the value of digital banking not only to simplify the banking experience, but also to enable customers to reduce their environmental footprint. By encouraging the use of online banking channels, mobile payments, and paperless statements, HNB empowers customers to make eco-friendly choices in their daily financial activities.

In keeping with the Bank's principle approach to further deepen the eco-friendly culture among customers, digital platforms are continually enhanced by incorporating Design for Environment (DfE) principles to reduce paper usage and minimising investments in physical infrastructure. Our eco-labelling campaign further reinforces these principles. All HNB ATMs and digital banking platforms carry the eco-label mark informing users about their lower environmental impact. Similarly, green financing options are highlighted with labels that explain their environmental benefits, including initiatives like "Green Pins" and the elimination of ATM slips.

### Environmentally Conscious Operations

HNB's focus on environmentally conscious operations is centred around managing energy, emissions, and waste attributed to core business activities.

Targets will be established to guide actions across all three areas supported by robust monitoring systems and initiatives aimed at driving continuous improvements to reduce energy consumption, minimise carbon emissions and effectively managing waste in line with IFRS S1 and S2 standards and global best practices.

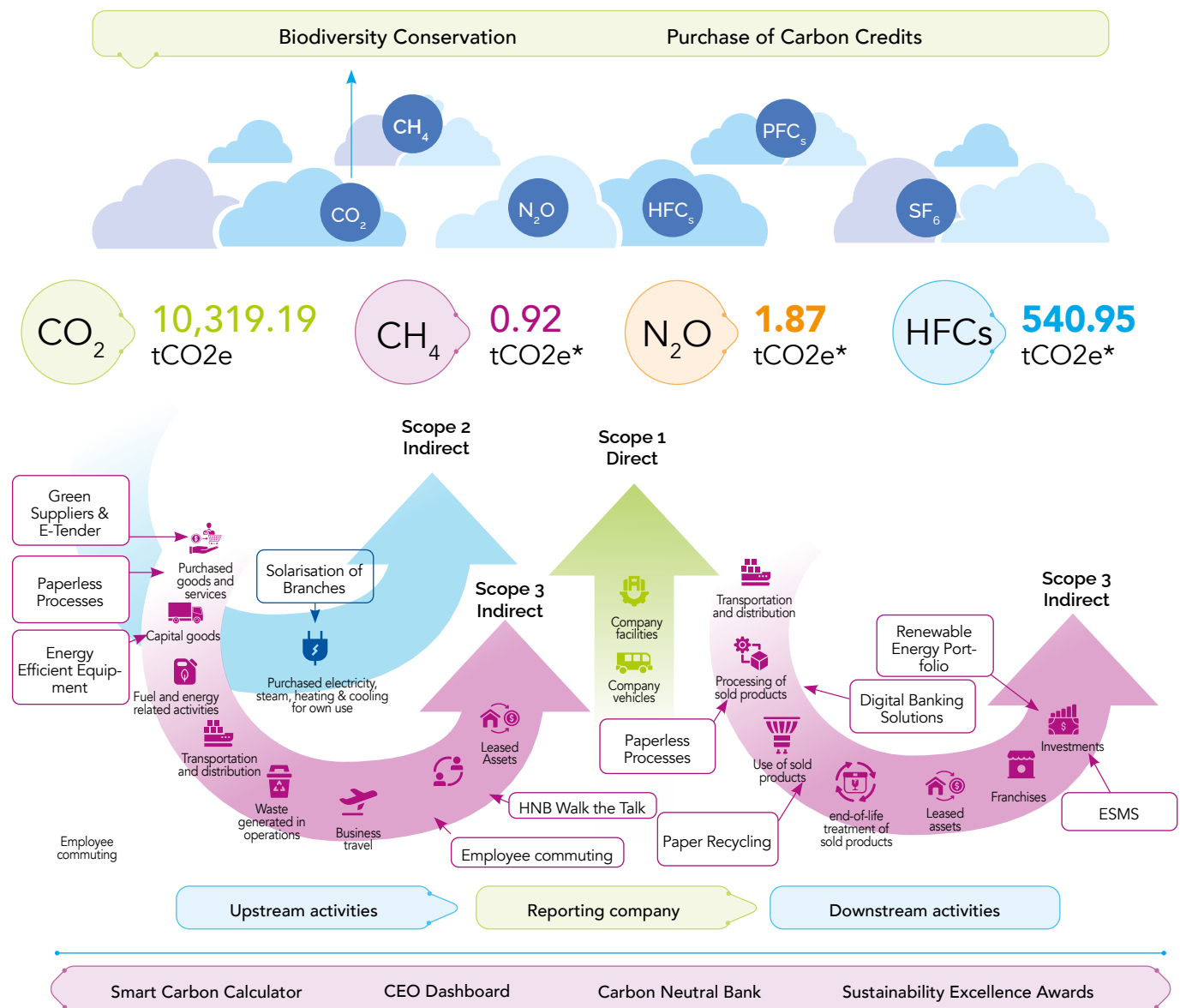


### Green Finance facilities granted

Green Finance facilities granted	2024		2023	
	No of Credit Facilities granted	Value of the Credit Facilities granted (Rs Mn)	No of Credit Facilities granted	Value of the Credit Facilities granted (Rs Mn)
Sustainable Agriculture	329	7,345	245	6,554
Sustainable Manufacturing	471	22,874	717	35,557
Renewable Energy Projects	2	2,800	5	153
Waste Management Projects	172	2,823	166	2,967
Others	270	10,415	353	13,623
<b>Total</b>	<b>1,244</b>	<b>46,257</b>	<b>1,486</b>	<b>58,854</b>

# NATURAL CAPITAL

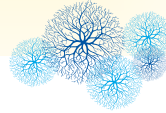
Energy Consumption within the Bank	2024	2023	2022	2021
Electricity purchased from the national grid (MWh)	12,964	11,994	11,681	11,838
Solar energy generated in-house (MWh)	1,982	2,124	1,846	2,638
Percentage of solar energy consumption from total energy (%)	13.0%	14.7%	12.6%	17.8%
Energy generation from diesel (MWh)	191	308	1,085	317
Total power consumption of the branch network (MWh)	15,258	14,426	14,612	14,793



\* We have not released ozone-depleting substances during the year

## Key Achievements for 2024

- » Employee commuting was added as a new emission source to the 2024 inventory under Scope 3: Indirect emissions from transportation.
- » Our solar generation reached 1,982 MWh, contributing to 12.99% of the total energy requirements for our branch network.
- » Achieved a 49% increase in customer onboarding through digital banking platforms.
- » 134 new suppliers were subject to social and environmental screening.



## GHG Emission 2024

Category	Emission Source	tCO <sub>2</sub> e
Category 1: Direct Emissions	Business travel-company owned vehicles	101.19
	Standby generators	157.10
	Refrigerant leakage	540.95
	Fire Extinguishers	2.35
	Business travel - Rented	8.18
Total Direct Emissions		809.77
Category 2: Indirect emissions from imported energy	Grid - connected electricity	5,547.04
Category 3: Indirect emissions from transportation	Business travel - Hired	835.62
	Business Air Travels	44.17
	Employee - commuting	3,301.24
Category 4: Indirect emissions from services used by the organisation	Municipal Water	22.31
Category 6: Indirect emissions from other sources	T & D loss	568.80
Total Indirect emissions		10,319.19
Total GHG emission		11,128.96

\*\*Employee commuting was added as a new emission source to the 2024 inventory

## Key Commitments towards Environmentally Conscious Operations

- » ISO 14064 Certification issued by the Sri Lanka Climate Fund: measuring the Bank's carbon footprint in accordance with the ISO 14064-1:2018 Standard, accounting for 10 emission sources, including both direct and indirect emissions
- » Branch solarisation project to reinforce HNB's carbon neutral status. The solarisation project which commenced in 2016 has seen 94 branches solarised as at the end of 2024
- » Energy-Efficient Lighting Systems: transitioned from conventional lighting to LED systems across our branches and offices
- » Inverter-type air conditioning units to lower energy consumption and extended equipment lifespan, leading to reduced maintenance costs and further energy savings
- » Building Management Systems (BMS) to facilitate monitoring and reporting of energy, emissions and waste using tools such as Smart Carbon Calculator and the CEO Dashboard to support data-driven decision making
- » Digitisation and automation of backend systems to migrate to paperless operations to reduce waste
- » Rs 2,823 Mn invested in 2024 towards waste management projects excluding waste to energy

# NATURAL CAPITAL

	2024	2023	2022	2021
Total volume of paper waste recycled (kg)	95,720	172,730	112,540	92,700
Percentage of paper waste recycled (%)	100	100	100	100
New suppliers screened using environmental criteria	134	36	31	69
Investment of more efficient inverter air conditioning technology across branches (Rs Mn)	86.6	85.6	78.4	26.5

## The Green Pledge

I am aware that my everyday actions leave a lasting impact on the environment. I am aware that what I do affects not just my future but that of my peers, my customers, my family and my fellow countrymen. I pledge to commit myself to create a greener office. I pledge to the following actions, I will, in whatever I do, be conscious of my environment and promote sustainable finance options introduced by HNB. I will seek to strengthen sustainable business practices to reduce any negative environmental and social impact.

- » I will use the photocopier only if it is a must
- » I will strive to print on both sides whenever possible and when not possible reuse the blank side of the paper
- » When taking notes, I will make the best use of paper, using space wisely, sparingly and only out of necessity
- » I will reuse folders and promote digital channels and paperless options to save paper whenever possible
- » I will switch off my monitor when leaving my desk and programme the computer to switch to sleep mode if it is idle for more than 10 minutes.
- » I will switch off the computer and printer before I leave my office
- » If I am the last to leave I will check that all lights are switched off
- » I will separate my waste and dispose it in the correct bin
- » I will use water sparingly and close any running tap
- » I will always opt for energy-saving alternatives and promote the use of renewable energy
- » I will walk, cycle and use public transportation whenever possible to come to work and shift to these sustainable modes of commuting whenever possible
- » I will do my best to take home these pledges and strive to live by example as I recommit myself to a green habitat and sustainable lifestyle, every passing day

In keeping with HNB's holistic approach to environmentally conscious operations, the sustainability practices of the Bank's supply chain are also subject to in-depth scrutiny. All new suppliers are evaluated for their social and environmental performance during the new supplier registration process, while routine audits are conducted to verify if existing suppliers continue to adhere to their commitments. Using audit findings, the Bank provides guidance and support to suppliers to reduce their environmental footprint, advocating for the use of renewable energy and waste reduction strategies.

No negative sustainability (social or environmental) risks were identified within the Bank's supply chain in 2024.

## Training and Capacity Building

Training and capacity building are crucial in helping employees, customers, and other stakeholders cultivate the required mindset and attitude towards environmental consciousness. The process of training and awareness for employees begins with the Green Pledge, which represents a formal promise by every HNB employee to integrate eco-friendly practices into their daily routine at work and home; such as minimising paper use, reducing energy consumption, and embracing sustainable commuting. All new employees are introduced to the Green Pledge as part of their induction programme.

Other targeted training programmes and workshops are also conducted each year to further embed the environmentally conscious culture. Key training and capacity building initiatives for 2024 included;

**HNB #WalktheTalk Initiative** – continuing with the Cycling Challenge and Walking Challenge to encourage our staff to explore eco-friendly options for commuting to work. In 2024, the initiative was further strengthened with the introduction of the STRAVA app to reward employees for their commitment to eco-friendly commuting.

**HNB Sustainability Excellence Awards** – to reward employees for their commitment to foster sustainability and environmental stewardship.

Social Media Campaigns to celebrate Environmental Days:

- World Environment Day
- World Oceans Day
- World Water Day

## Environmental Projects

**Kanneliya Conservation Project** - an ongoing initiative by HNB in collaboration with IUCN and the Forest Department and supported by Biodiversity Sri Lanka. The primary objective of the project is to establish a biodiversity credit accrual system linked to the restoration of a degraded fern land in Halgahawala, Opatha. Since the commencement of the initiative in 2018, the Bank successfully restored 2.5 acres of degraded forest land within the Kanneliya Forest over the past

6 years. Locally hired project staff have been instrumental in the restoration. By the third year, over 8,000 plants had been successfully established, with an additional 4,386 plants added to increase density. Moreover, approximately 1,000 Glyceridia sticks are being cultivated at the site to further support biodiversity and soil health. In 2024, the Bank decided to extend its conservation efforts by continuing to fund this initiative.

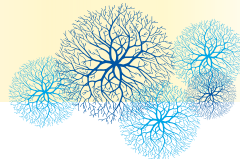
**Sapling Distribution Project** - The Sapling Distribution Project was launched to coincide with World Environment Day on 5th June 2024. As part of this initiative, over 2000 saplings were distributed to selected branches covering all regions. A symbolic celebration of this initiative was held at the premises of HNB Towers with the participation of several of our valued customers and staff.

**Clean the Environment Project**- HNB Mullaitivu and Mulliyawalai branches, along with the Regional Office and other regional branches, launched the "Clean the Environment" project at Vattapalai Temple in May, 2024 in collaboration with the Pradeshiya Sabha Mullaitivu and the Temple administration. This initiative aimed to manage the waste generated by the festival attendees of the Vattapalai temple.

## Recognition and Awards:

In 2024, HNB continued to be recognised for excellence in environmental stewardship with multiple awards and accolades received during the year further reinforcing the Bank's leadership in environmental responsibility and resource conservation.

- » Joint winner in the banking sector at the ACCA Sustainability Reporting Awards 2023
- » Top 10 – Best Corporate Citizen Sustainability Award 2024
- » Winner: Best Project - Best Corporate Citizen Sustainability Award 2024
- » Winner: Triple Bottom Line Award for Economic Sustainability (Profit) - Best Corporate Citizen Sustainability Award 2024
- » Category Award Winner: Economic Contribution - Best Corporate Citizen Sustainability Award 2024



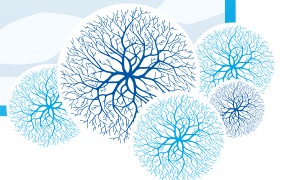
## FUTURE PLANS

Improve paperless operations through digital transformation

Impactful engagement with the Science-based Targets Initiative (SBTi)

Significantly reduce the dependence of grid electricity through increased generation from renewable energy sources

Accelerate lending to industrial decarbonisation





# MANUFACTURED CAPITAL

HNB's Manufactured Capital comprises its extensive branch network and allied physical infrastructure, forming the foundation of the Bank's business model. Our island-wide branch footprint encompassing urban, semi-urban and rural areas, enables HNB to serve diverse customer segments across Sri Lanka, while the allied infrastructure consisting of self-service machines such as ATMs, CRMs (cash withdrawal and deposit machines) further augment the value proposition offered by the branch network.



## RISK

- Maintenance and staffing costs for physical branches could strain profitability amidst economic challenges
- Evolving compliance requirements may necessitate costly upgrades or adjustments to branch operation



## OPPORTUNITIES

- Physical presence in underserved areas can drive financial inclusion by catering to unbanked and rural populations
- Branches can focus on offering personalised advisory and complex financial solutions

## MATERIAL MATTERS

Customer Experience | Brand and Reputation | Inclusive Growth and Responsible Lending



## MANAGEMENT APPROACH

HNB adopts a strategic and sustainable approach to developing its Manufactured Capital, focusing on optimising its physical branch network and allied infrastructure to support business growth and enhance customer satisfaction. This involves improving the robustness of physical infrastructure through continuous and ongoing investments to strengthen reach, accessibility, reliability and efficiency, all collectively contributing towards enhancing customer experience.

## GOVERNANCE

### COMPLIANCE

CBSL directives on branch expansion

### VOLUNTARY BEST PRACTICES

Green building guidelines

### POLICIES

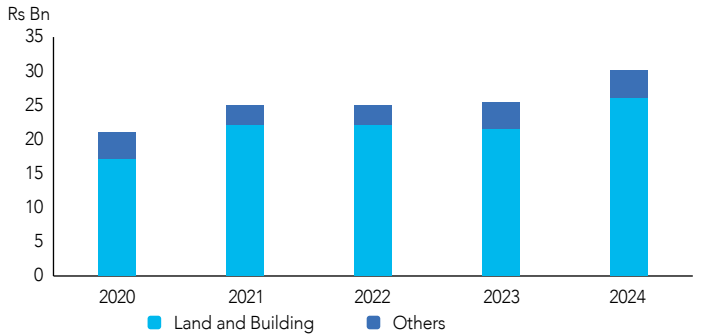
Policy on Control and Management of Company Assets and Shareholder Investments  
Procurement Policy

### INTERNAL MANDATES

Strategic Plan  
Capex plan and budget

## Key Highlights for 2024

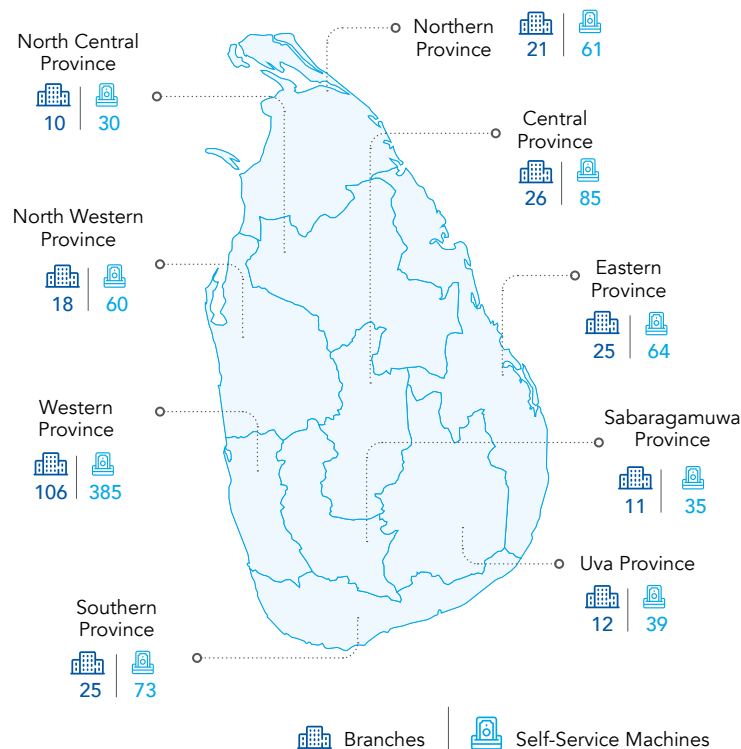
### Property, Plant and Equipment



## Strategic Network Expansion

HNB is the second largest private commercial bank in Sri Lanka, featuring a substantial branch network across the local banking industry. Our extensive physical footprint, represented by 254 branches including Islamic Banking Units, strategically located across urban and semi-urban areas of the Country offers a comprehensive range of banking solutions to drive economic empowerment and support financial inclusion throughout Sri Lanka.

The Bank's strategy on expansion over the past decade has been mainly through digital channels. However, the Bank maintains a scientific approach to identify opportunities for establishing new branches



## Value Creation Scorecard 2024

### KEY ACTIONS

- » 1 branch relocated
- » 34 new Self Service Machines installed
- » CRM enablement across the branch network
- » Rs 978.7 Mn was incurred on account of maintenance and upkeep of physical infrastructure
- » Focus on digital integration to reduce customer queuing/ wait times at branches

### OUTPUTS FOR HNB & IMPACT ON OTHER CAPITALS

- » 9.3% YoY increase in transaction volumes through Self Service Machines
- » 13% energy requirement of branches met by solar

Revenue growth resulting from the delivery of banking services to a growing number of customers in Sri Lanka



Strong physical footprint improves brand visibility and enhances reputation



Ability to promote financial inclusion helps to foster customer trust and loyalty



Stakeholder Outcomes	2024	2023
Island-wide access to Self Service Machines	832	799
Annual transaction volumes through self service machines	62.4 Mn	57.1 Mn
Average customer queuing times at branch counters	10.4 mins	n/a



# MANUFACTURED CAPITAL

or relocating existing ones. Decisions regarding the expansion / relocation are underpinned by the Bank's strategic plans and supported by a comprehensive analysis to determine the potential of a particular area, vis-a-vis market trends, demographic shifts, customer behaviour, and economic activities. Cost considerations are a critical aspect of the branch expansion strategy, with several metrics such as projected return on investment, operational efficiency, and cost-to-income ratios rigorously evaluated.

The final decision making process involves input from Senior Management and is subject to Board approval, ensuring that all expansions are strategically sound and financially sustainable. Currently, approximately 80% of HNB's branch network operates on leasehold premises, with the remaining located on freehold properties owned by HNB.

No new branches were added to the network in 2024. However, the Ja-Ela branch was relocated during the year under review to strengthen visibility, and enhance the customer experience.

## Infrastructure Upgrades

Having already invested in establishing a strong island-wide branch presence, HNB has in recent years placed more emphasis on strengthening service features offered through branches. To that end, considerable resources have been channelled towards installing the latest self-service machines

across the branch network. Today, all our branches are equipped with state-of-the-art self-service machines - ATMs, Cash Deposit Machines and Cheque Deposit Machines, all fully-compliant with international standards for security, efficiency and reliability.

With the self-service model proving to be a highly cost-effective tool in widening customer outreach, particularly in remote and underserved areas, HNB has made a conscious effort to further expand its network. Expanding the self-service infrastructure is also a key aspect of HNB's broader digital transformation strategy to ensure 24/7 availability for essential banking functions in alignment with the Bank's customer proposition of "Make Banking Enjoyable" for all Sri Lankans.

A total of 34 self-service machines were installed in the year under review, in line with the Board approved CAPEX plan and budgets.

## Maintenance and Upkeep

All physical infrastructure is subject to regular maintenance and upkeep to ensure optimal functionality and enhance asset lifespan. This includes replacing outdated equipment / furniture & fittings, performing routine inspections, and conducting necessary repairs. In the year under review, Rs 978.7 Mn was incurred on account of maintenance and upkeep of physical infrastructure.

At the same time, the Bank remains committed to continuously reassessing the effectiveness of its branches in delivering HNB's pledge to "make banking enjoyable" for its customers. As part of this commitment, the Bank has prioritised the integration of advanced technology to optimise the efficiency of its physical assets, thereby ensuring the delivery of an unparalleled customer experience.

Several technology projects were implemented in 2024, among them, the roll out of the CRM (Customer Relationship Management) system across the branch network, enabling frontline teams to access real-time customer data which significantly enhances customer serviceability and supports proactive lead follow ups. Similarly, efforts to revamp the internal workflow of the Loan Origination System (LOS) have greatly reduced turnaround times for leasing customers. Additionally, a new Queue Management System was piloted at selected branches aimed at reducing customer wait times at the branch lobby. Collectively, these initiatives have contributed to a notable improvement in productivity of branch teams, in turn leading to greater operational efficiency.

## Risk Mitigation and Security

The Bank's Business Continuity Plan (BCP) forms an integral part of safeguarding HNB's physical infrastructure and ensuring business continuity in the event



of unforeseen emergencies or disasters. Supported by a comprehensive Business Impact Analysis (BIA), the BCP outlines detailed strategies for mission-critical units, processes, systems, and staff replacements in the event of key personnel absence. It also identifies alternate business locations and necessary resources, with clear documentation of Recovery Time Objectives (RTO), Recovery Point Objectives (RPO), and recovery strategies. To ensure seamless execution, the BCP defines specific roles and responsibilities for critical functions such as Crisis Management, Emergency Response, Business Recovery, and IT Disaster Recovery Planning.

As part of ongoing improvements, the Bank-wide BCP was reviewed during the year and necessary amendments were incorporated to strengthen the resilience of BCP arrangements. The “call tree” crisis communication protocol was integrated into the BCP in 2024, alongside other routine updates. This revised plan was presented to and approved by the Board in July 2024.

In October 2024, HNB successfully conducted its annual live BCP drill for 35 critical departments. The results were shared with the Board’s Integrated Risk Management Committee (BIRMC) and the Central Bank of Sri Lanka (CBSL).

Moreover, HNB also took some concrete steps to comply with Banking Act Directions No 16 of 2021 on the Regulatory Framework for Technology Risk Management and Resilience, by starting the process of obtaining the ISO/IEC 22301 certification for Business Continuity Management. The services of an external consultant were obtained to assist in improving the existing BCP to align with the ISO 22301 Standard. Furthermore, a confirmation was obtained from an external auditor assuring that the Bank’s BCMS processes are conducted according to the ISO standards.

**Sustainability Integration**

In keeping with the latest global best practices, HNB undertakes to integrate sustainability across its branch network through renewable energy investments alongside the adoption of lean management practices.

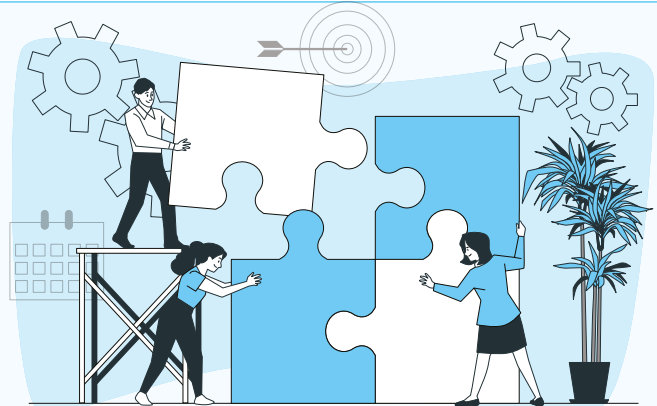
The Bank has taken significant steps to reduce its environmental impact by installing rooftop solar panels at select branches. In addition to renewable energy initiatives, teams are encouraged to adopt lean management principles to streamlining processes, resulting in lower energy consumption, and minimising paper usage, while maintaining service excellence.

**FUTURE PLANS**

- Secure the ISO/IEC 22301 Standard for Business Continuity Management
- Implement the Queue Management System across the branch network
- Strategically expand the self-service network

# INTELLECTUAL CAPITAL

Intellectual capital embodies the intangible assets that define HNB's position within the local banking industry. This includes the Bank's long-standing brand reputation, deeply ingrained values, and other distinctive attributes. The intrinsic value derived through each of these intangible assets not only reinforces the Bank's competitive position, but enables HNB to stay ahead of the curve.



## RISK

- Disruption that can be created by market players and the failure to innovate
- Possibility of data breaches or unethical practices harming the Bank's reputation and customer trust



## OPPORTUNITIES

- Strengthening the HNB brand through consistent communication and proactive customer engagement
- Building strategic alliances to facilitate knowledge exchange and innovation to create competitive differentiation

## MATERIAL MATTERS

Customer Experience | Brand and Reputation | Ethics, Governance and Compliance



## MANAGEMENT APPROACH

Strategically invest in strengthening all key intangibles to ensure they contribute towards solidifying the Bank's competitive position and retaining stakeholder trust.

## GOVERNANCE

COMPLIANCE	VOLUNTARY BEST PRACTICES	POLICIES	INTERNAL MANDATES
All regulations applicable to licensed commercial banks and entities listed on the Colombo Stock Exchange	ISO 9001: 2015	Boardroom Ethics Policy Policy on Internal Code of Business Conduct and Ethics Policy on Anti-Bribery and Corruption Anti-Money Laundering Policy Policy on Whistleblowing Social Media Policy	Brand Strategy



## Key Highlights for FY 2024



### Key awards and accolades in 2024

- » 'No 1 Corporate in Sri Lanka' under 'Business Today Top 40' rankings
- » 'Best Bank in Sri Lanka' by Euromoney
- » 'Best Bank in Sri Lanka' by the Indian Chamber of Commerce (ICC)
- » 'Best Retail Bank in Sri Lanka' for the 15th occasion by the Asian Banker for the year 2024 awarded in 2025
- » 'Best SME Bank in Sri Lanka' by Euromoney
- » 'Best Automobile Financing in Asia Pacific' by the Asian Banker
- » 'Market Leader in Trade Finance Services' by Euromoney
- » 'Best Service Provider in Trade Finance – both Overall and Domestic' by Euromoney
- » 'Runner-up for Best Performance on Profitability – Sri Lanka' by the Indian Chamber of Commerce
- » 'Winner Top 10 - Best Corporate Citizens', 'Triple Bottom Line' Award, 'Economic Contribution Award' and 'Best Project Sustainability' Awarded by the Ceylon Chamber of Commerce
- » Gold Award for the 'Bank of the Year for Excellence in Customer Convenience' at the LankaPay Technovation Awards
- » Silver Awards for 'Private Banking Sector' and 'Corporate Governance Disclosure – Financial Services' at the TAGS Awards by CA Sri Lanka
- » Bronze Award for the 'Best Investor Relations Mid to Large Cap Companies' by CFA Society Sri Lanka

# INTELLECTUAL CAPITAL

## Brand Legacy

HNB's brand legacy is backed by over 136 years of dedicated service to the nation, through the provision of reliable, innovative, and customer-focused banking, positioning HNB as a trusted partner in progress for generations of Sri Lankans. As the Country's largest private-sector retail bank, HNB serves over 2.5 Mn customers nationwide, underscoring its vital role in empowering communities across the island.

Retail banking remains a cornerstone of HNB's operations, supported by a robust network of 254 branches and 800+ self-service machines strategically located for optimal accessibility and island-wide reach. Complementing its physical presence, HNB has consistently led the way in offering customers convenient, secure, and comprehensive

digital banking solutions. By integrating global best practices and cutting-edge technology, the Bank has continually redefined its offerings to correlate with the evolving needs of generations of customers.

The success of HNB's efforts to deliver pioneering digital platforms, is evidenced by the remarkable growth in digital transaction volumes alongside the rapid expansion of the Bank's customer base over the past 5 years.

Moreover, even amidst economic turbulence and industry headwinds in recent years, HNB has remained a symbol of stability and transformation. The Bank demonstrated exceptional resilience in adapting to volatile market conditions while driving progress notwithstanding challenges. These achievements are underpinned by HNB's strong

## Brand Health Tracker - 2024

The 2024 Brand Health Tracker was conducted to evaluate and monitor HNB's brand performance across essential metrics, including top-of-mind and spontaneous recall, as well as primary and secondary brand usage share across banks and products. The study also surveyed other aspects such as customers' general perception of banks, sources of awareness, and brand image attributes, to provide a holistic understanding of HNB's market positioning.

The research was conducted using a stratified random sampling methodology, covering all nine provinces of Sri Lanka. With a robust sample size of 400 respondents, the study ensured high reliability, maintaining a 95% confidence level and a margin of error of  $\pm 4.8\%$ . The findings revealed significant progress in key areas when compared to the previous study conducted in 2022. Spontaneous recall showed an increase of 18%, reflecting enhanced market penetration and stronger brand presence, while top-of-mind (TOM) awareness grew by 2%, indicating steady improvement in brand visibility. These results highlight the effectiveness of HNB's strategic efforts and reinforce the importance of sustained investment in brand management to maintain its competitive edge.



## Value Creation Scorecard 2024

### KEY ACTIONS

- » Strengthening strategic partner networks
- » Strategic shift towards promoting the corporate brand
- » Brand Health Tracker to study key brand metrics
- » Conduct policy updates in line with latest regulatory change
- » Extension of the ISO 9001:2015 coverage to 3 new departments

### OUTPUTS FOR HNB & IMPACT ON OTHER CAPITALS

- » Ranked the Number 1 Company in Sri Lanka by Business Today in its Top 40 Businesses ranking for 2023-24 (Number 4 - 2022-23)
- » Recognised among the Top 25 Corporates at the LMD Awards 2024
- » AA- (Ika) issuer ratings from Fitch Ratings
- » Brand Equity Value Rs 25.0 Bn (2023)
- » ZERO Ethics Violations

Strong all-round brand performance helps to consolidate brand position to drive market share growth



Strong ethics and business conduct contributes towards enhancing customer trust



Adoption of global standards and certifications helps to improve both employee productivity and resource efficiency



Stakeholder Outcomes	2024	2023
No of respondents polled under the brand health tracker	400	n/a



performance across key financial and operational metrics, including asset quality, profitability, funding mix, liquidity, and capital adequacy, collectively strengthening the Bank's ability to consistently maintain the AA-(Ika) issuer rating from Fitch Ratings. Meanwhile, the focus on sustainability and corporate excellence further cements its reputation as a forward-thinking and resilient institution.

During the year under review, our branding efforts were strategically realigned to focus on improving visibility of the HNB corporate brand as part of a planned exercise to build brand equity.

Deviating from the conventional practice of individual product-based branding, we shifted towards a consolidated strategy to unify the entire product basket under the HNB corporate brand.

It is expected that promoting all products under the corporate brand umbrella will convey a cohesive and impactful message that points to a stronger association between our corporate identity and our brand promise: We Make Banking Enjoyable.

### Business Ethics

At HNB, strong business ethics form the cornerstone of our operations, guiding our decision making processes and ensuring adherence to the highest standards of integrity and transparency. It is represented in our Value of "Leading with Courage". Our Board of Directors exemplifies this commitment, setting a precedent for ethical conduct where transparency and

accountability are emphasised across all levels of our organisation.

A robust Board-approved conduct framework, which applies to all Directors and employees, underpins our dedication to embedding the highest standards of ethics, transparency, and integrity across the Bank.

In 2024, this conduct framework was significantly reinforced, with several policies updated to reflect the latest regulatory changes. The key conduct policies revised include:

- Internal Code of Conduct and Ethics Policy
- Whistleblowing Policy
- Social Media Policy: Amended in accordance with the Personal Data Protection Act, clear guidelines were established to protect the privacy, confidentiality, and interests of the Bank, its products, services, employees, partners, and customers.
- Anti-Bribery and Corruption Policy: Amended to align with the provisions of the CSE's new Listing Rules on Corporate Governance, with established procedures mandating employees to report suspicious transactions. This Policy update was supported by extensive training (refer to page 119 for the Corporate Governance Report).

Due to the strict enforcement of the Anti-Bribery and Corruption Policy, HNB's operations are safeguarded against bribery and corruption. No incidents of bribery or corruption were reported in 2024.

### Statement of Commitment to the FX Global Code

Hatton National Bank PLC ("Institution") has reviewed the content of the FX Global Code ("Code") and acknowledges that the Code represents a set of principles generally recognised as good practice in the wholesale foreign exchange market ("FX Market"). The institution confirms that it acts as a Market Participant as defined by the Code, and is committed to conducting its FX Market activities ("Activities") in a manner consistent with the principles of the Code. To this end, the institution has taken appropriate steps, based on the size and complexity of its Activities, and the nature of its engagement in the FX Market, to align its Activities with the principles of the Code.

### Standards and Certifications

Standards and certifications which provide formal validation regarding HNB's commitment to compliance and continuous improvement through proactive risk assessment, strengthens the Bank's reputation and helps to reinforce stakeholder trust.

Currently, several departments across the Bank have successfully obtained the ISO 9001:2015 Quality Management System Certification by Bureau Veritas reflecting the Bank's steadfast commitment towards institutionalising a culture of quality and customer service, whilst also focusing on continuous improvement and efficiency.



# INTELLECTUAL CAPITAL

In 2024, the following departments were certified under the standard;

- Credit Administration Division
- Centralised Credit Operations Department
- Banking Services Department
- Password Administration, SWIFT Communication and Central Cash Management under the Operations Department

The Bank has also adopted various standards and certifications, as needed for operational areas, among them is the Statement of Commitment to the FX Global code applicable for foreign exchange trading operations by the Bank's Treasury.

## Strategic Partnerships

Strategic partners play a vital role in adding value to HNB's business by bringing in complementary expertise, resources, and capabilities that enhance the Bank's offerings and operational efficiency.

Over the years, HNB forged strategic partnerships with various organisations and entities. These tie ups have been instrumental in business growth as well as furthering the Bank's sustainability agenda.

## Memberships and Affiliations

HNB maintains memberships with various organisations to facilitate knowledge sharing and to stay abreast of industry trends, regulatory developments, and global best practices. These memberships enable HNB to actively participate in shaping the future of banking by contributing to thought leadership and collaborating on initiatives that drive innovation and sustainability.

Similarly, affiliations to industry bodies, professional networks, and trade associations provide valuable opportunities for networking, advocacy, and professional development for Bank employees. HNB's ongoing memberships and affiliations include;

- Sri Lanka Bankers' Association Sustainable Banking Initiative
- Asian Bankers Association
- Biodiversity Sri Lanka

## Strategic Partnerships formed in 2024

- » Lanka Property Web (LPW) - Retail Banking - Home Loans
- » John Keells CG Auto (Pvt) Ltd Retail Banking - EV Leasing
- » Lanka Impact Invest Network (LIIN) SME Banking - Seed funding for SME's
- » SLAF Micro Finance - Capacity building workshops on agriculture best practices for grass root level agri-entrepreneurs
- » H T Peris & Co. SME Banking - Capacity building workshops on Tax for SME's

## FUTURE PLANS

Extend the ISO 9001: 2015 to cover other key departments

Strengthen visibility of the corporate brand



# TRANSITIONING TO SLFRS S1 AND S2

## **GOVERNANCE of sustainability-related risks and opportunities**

### **Board Oversight**

The Board is the main governing body responsible for monitoring, approving, overseeing, and reviewing HNB's sustainability and climate-related risks and opportunities. As set out under the Policy Environmental and Social Governance Factors, the Board oversight role encompasses governance, strategy, finance, risk management, and the establishment of metrics and targets to ensure that HNB remains relevant and aligned with global best practices in sustainability.

Recognising the importance and implications of climate-related risks on HNB's business, the Board actively oversees the risk assessment process to identify, evaluate, and respond to these challenges. To facilitate this, the Board has established the Integrated Risk Management Framework (IRMF) to assess the potential impact of various climate scenarios on the Bank's operations and financial stability. This proactive risk management strategy enables HNB to anticipate and mitigate climate-related risks effectively, safeguarding the interests of stakeholders while enhancing long-term organisational resilience.

### **Role of the Board Integrated Risk Management Committee (BIRMC)**

Operating under the delegated authority of the Board, the BIRMC maintains high level surveillance to keep track of risks and opportunities linked to the core business and value chain activities, with feedback and recommendations presented to the Board at monthly Board meetings.

### **Role of Management**

The Sustainability Management Committee (SMC) was appointed in 2024 to ensure comprehensive oversight of sustainability and climate risk-related matters. This committee will report to the Board Strategy and Investment Review Committee (BSIRC)

The selection of members for this committee is based on expertise, leadership role, and functional relevance within HNB. Committee members comprise senior executives, subject matter experts, and key decision-makers who possess deep industry knowledge and experience in risk management, sustainability, finance, and corporate strategy. This approach aims to ensure that the committee is equipped with the necessary skills to provide strategic direction, assess risks, and drive initiatives that align with HNB's long-term objectives and regulatory requirements.

## **STRATEGY process for determining actual and potential impacts of sustainability-related risks and opportunities on the Bank's businesses, strategy and financial planning**

### **Analysis**

HNB has started conducting industry climate and sustainability risk reviews to assess the potential business implications of climate change on its lending portfolio. This exercise marks the first steps towards developing a structured approach to managing climate-related risks. Through this exercise, HNB aims to evaluate the potential financial impact of physical and transition risks across its portfolio, in order to align the Bank's long-term sustainability strategy in tandem with global best practices and regulatory expectations.

### **Outcome**

HNB adopts the precautionary approach for the management of sustainability issues. Hence Sustainable finance has emerged as a key priority for HNB, underscoring the commitment to integrate sustainability into its core financial offerings to ensure long-term value creation while addressing pressing environmental challenges.

To that end, HNB places a strong focus on sustainable financing, including providing tailored financial solutions to support

projects that promote clean energy solutions and reduce reliance on fossil fuels. HNB's sustainable finance strategy also includes tailored financial solutions and capacity-building activities as part of an ambitious initiative to build climate resilience within the agriculture sector, while promoting financial inclusion among rural farmer communities.

Value chain financing represents another key aspect of HNB's sustainable finance strategy. Value chain financing is a fundamental pillar of HNB's sustainable finance strategy that focuses on supporting the SME sector development as the basis of driving transformational change across the entire economy. By integrating financial solutions across multiple industries and sectors from agriculture, manufacturing, trade, energy, and services to SME and micro sectors, HNB strives to ensure that businesses at every touch-point across the economic value chain have access to the capital needed to grow sustainably.

## **RISK MANAGEMENT The processes within the Bank to identify, assess and manage sustainability related risks**

HNB's approach to managing sustainability risks is anchored in a robust Environmental and Social Management System (ESMS), designed to uphold the highest standards of environmental and social responsibility. At the core of the ESMS is a well-defined exclusion list, aligned with the International Finance Corporation's (IFC) Performance Standards for Environmental and Social Sustainability. Embedded within the Bank's Environmental and Social Policy, this list provides the foundational guidance for ensuring HNB avoids funding activities with significant adverse environmental or social impacts. The exclusion list outlines specific areas where HNB is strictly prohibited from extending credit facilities. However, as an exception, HNB continues to support long-standing customers who have obtained facilities for the production and trading of



## TRANSITIONING TO SLFRS S1 AND S2

alcoholic beverages and tobacco prior to the introduction of the exclusion list. To mitigate exposure, the Bank has capped total lending to this sector at below 3% of its total loan book, with current exposure standing at 1%.

To prioritise sustainable lending across other sectors, HNB employs a stringent evaluation process for all high-value credit proposals with the ESMS Unit within the Risk Department tasked with conducting thorough assessments of borrowers' environmental and social performance based on ESMS-defined criteria. All high-risk facilities above Rs. 15 Mn (excluding PFS) are subject to ESMS guidelines, while lower-risk projects require no special evaluation. Medium-risk projects are assessed by trained Relationship Managers (RMs) or credit officers, who apply ESMS criteria and conduct necessary due diligence, including site visits to verify the authenticity of applicant claims. A risk scorecard is used to classify projects, with high-risk projects receiving an A or B+

rating, medium-risk projects are assigned a B rating, and low-risk projects that fully comply with ESMS covenants rated C. To enhance risk management, sector-wise industry risk reviews are conducted, with recommendations disseminated to staff through internal circulars.

Risk scorecards serve as a foundation for determining appropriate risk mitigation measures to address significant environmental and social concerns.

### Next Steps

Going forward, the Bank plans to further deepen its sustainability strategy to consider social risks associated with lending portfolios and in line with the latest global standards as and when such benchmarks are available. In addition, steps will also be taken to measure sustainability risks associated with subsidiary portfolios and assess how these would impact the performance and prospects of the HNB Group as a whole.

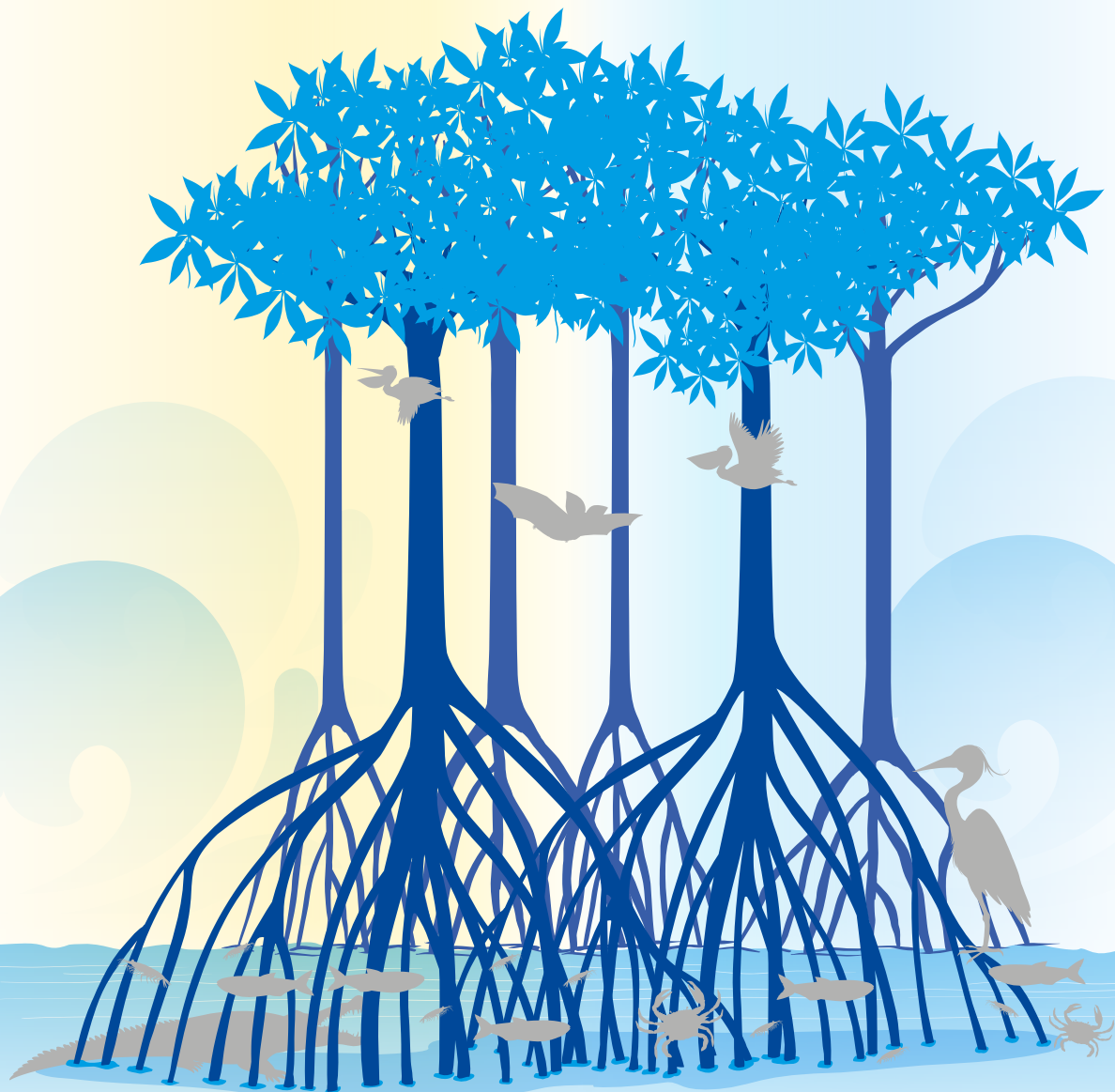
# Governance

## Grounded to Grow

Our governance framework is deeply rooted in integrity, resilience, and accountability, enabling us to distribute value across our extensive network while ensuring long-term stability and progress in every circumstance.

*Aspen Trees thrive through a unique system—rather than relying on external factors for growth, they regenerate through an interconnected root system, creating a vast, self-sustaining organism. Even in the face of disruption, this foundation ensures continuity and renewal.*

*Similarly, our governance structures provide the strength and adaptability needed to navigate challenges, fostering a future of trust, transparency, and sustained growth for all our stakeholders.*



# BOARD OF DIRECTORS



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

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

**Damith Pallewatte**  
Managing Director /  
Chief Executive Officer

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

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

**Sivakrishnarajah Renganathan**  
Director  
(Independent /  
Non Executive)



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



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



**Nanda Fernando**  
 Director  
 (Independent /  
 Non Executive)



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



**Shiromi Halloluwa**  
 Assistant General Manager  
 (Legal) / Board Secretary



**Suresh Shah**  
 Director  
 (Independent /  
 Non Executive)



# BOARD OF DIRECTORS

## Nihal Jayawardene PC

### Chairman

(Non-Independent /  
Non-Executive Director)

LL.M (Lond), President's Counsel

HRRC NGC SIRC BCC

Appointed: August 2021

Appointed Chairman: June 2023

### Skills & Experience:

Mr Jayawardene, who is a distinguished old boy of St. Anthony's College – Kandy, having entered Sri Lanka Law College in 1980, joined the Bar in 1983. He has his career experience as an officer of the Attorney General's Department of Sri Lanka in excess of 20 years, Senior Lecturer of Sri Lanka Law College and Legal Consultant and Board Member in numerous Institutions. He is an Attorney at Law of the Supreme Court of Sri Lanka and Solicitor of the Supreme Court of England & Wales. Recently he along with two others in the Banking sector in Sri Lanka was conferred with the honorary foundation membership of the Chartered Institute of certified Accountants of Australia and New Zealand.

Mr Jayawardene has extensive experience in Public Enterprises reforms programmes carried out in the areas of Insurance, Telecommunication, Aviation, Port & Shipping and Plantation sectors.

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

Mr Jayawardene also played a leading role in the process of drafting the Companies Act, Civil Aviation Authority Act, Civil Aviation Act, and the Colombo Port City

Economic Commissions Act. In December 2023 as the Chairman of a Committee appointed to review the Bills of Exchange Ordinance he submitted comprehensive recommendations to the Minister of Justice.

### Other Current Appointments:

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

### Previous appointments

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

## Damith Pallewatte

### Managing Director / Chief Executive Officer

(Executive Director)

MBA - PIM (USJ), BSc - Management (Hons)  
University of London, LSE, FRM, ACI, SCR,  
FCMA (UK), CGMA

Appointed: Acting Chief Executive Officer -  
April 2024

Appointed Managing Director / CEO:  
November 2024

### Skills & Experience:

Mr Pallewatte holds a Master of Business Administration (MBA) degree from

Postgraduate Institute of Management (PIM), University of Sri Jayawardenepura, Sri Lanka and earned his Bachelor of Science – Management (Hons) degree from University of London, London School of Economics (LSE). He has been admitted to the designation of Certified Financial Risk Manager (FRM) by Global Association of Risk Professionals (GARP) and also an "ACI Operations Certificate" Holder covering Treasury Operations from Financial Markets Association, France. Moreover he is a "Sustainability and Climate Risk Certificate" (SCR) holder from GARP, and a Fellow Member of Chartered Institute of Management Accountants- UK and a Chartered Global Management Accountant (CGMA).

Mr Pallewatte is a qualified Banking & Risk Management Professional with 28+ years of experience in the banking sector of which 14+ years in Senior/Corporate Management having exposure to the full spectrum of banking covering Credit, Branch Banking, Transformation and Operations including Strategy & Risk Management.

### Other Current Appointments:

Mr Pallewatte is the Chairman/Director (NIND/NED) Acuity Partners (Pvt) Ltd (APL), Lanka Ventures PLC, and LVL Energy Fund PLC, He is also a Director (NIND / NED) of Acuity Securities (Pvt) Ltd Mr Pallewatte has also been appointed as Nominee / Stake holder Director of Lanka Financial Services Bureau Limited [LFSBL].

### Previous appointments

Prior to his appointment as Acting Chief Executive Officer, he was the Deputy General Manager – Wholesale Banking Group overlooking business Segments covering Corporate Banking, Emerging Corporates, Trade Finance, Financial Institutions, Treasury Services, Payments &

**BAC** Board Audit Committee  
**HRRC** Human Resources & Remuneration Committee  
**NGC** Nominations & Governance Committee  
**BIRMC** Board Integrated Risk Management Committee  
**RPTRC** Related Party Transactions Review Committee

**SIRC** Strategy & Investment Review Committee  
**PADC** Procurement & Assets Disposal Committee  
**BCC** Board Credit Committee  
**BRC** Board Recoveries Committee  
**SBCDB** Special Board Committee on Digital Banking



Cash Management, Custody and Trustee Services, Islamic Banking and Project Finance. Previously he also held the positions of Deputy General Manager Risk / Chief Risk Officer (CRO)/Chief Information Security Officer (CISO) Mr Pallewatte was also the Chief Risk Officer of Nations Trust Bank PLC prior to joining HNB PLC.

Mr Pallewatte has been appointed to MESANA (Middle East South Asia and North Africa) Regional Advisory Panel of Association of International Certified Professional Accountants (AICPA) for year 2020/21 and MESANA Regional Engagement Panel for 2022/23 by CIMA and elected as Vice Chairman of CIMA Country Network Committee (CNC), Sri Lanka in 2021/22. He has also served as the Chair of South Asia Area Committee of CIMA and AICPA covering countries India, Sri Lanka and Bangladesh for year 2022/23. Mr Pallewatte was a past president of Association of Banking Sector Risk Professionals, also known as the "CRO Forum". He was also appointed as Chairman of the Technical Committee appointed to recommend technological advancements for Credit Information Bureau of Sri Lanka (CRIB) by Central Bank of Sri Lanka. Mr Pallewatte is elected as Vice President / Director of International Chamber of Commerce in Sri Lanka [ICCSL] as well.

Mr Pallewatte was a resource personnel for Institute of Bankers Sri Lanka (IBSL) and Centre of Banking Studies, Central Bank of Sri Lanka (CBSL) and Sri Lanka Institute of Directors (SLID).

## Madura Ratnayake

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

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

HRRC NGC SIRC SBCDB

**Appointed:** October 2018

### Skills & Experience:

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

Mr Ratnayake has over 25 years' experience in IT, digital transformation, and cyber security. He has experience in large scale business transformation program design and execution, driving corporate innovation, cyber security, solution architecture, customer support, consultancy and general management in UK, USA, Australia, India and Sri Lanka. He has delivered multi-million-dollar projects to Fortune 1000 companies with geographically spread software teams.

### Other Current Appointments:

Mr Ratnayake is the Co-Founder and President of Scybers (Pvt) Ltd, a global cybersecurity consulting and managed services company, Director (ED) of 2 H X World (Pvt) Ltd, Director (ED) Scybers Inc (Incorporated in USA), Director (NIND / NED) of Inxai LLC, Director of Protus Cyber Pte Ltd, Director of Stratec Partners Pte Ltd, Director of INXAI (Pvt) Ltd. and hSeind Business Solutions PLC (IND/NED), the first listed software technology company in Sri Lanka. He represents the IT industry on the boards of several leading universities/ institutions.

### Previous appointments

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

He is also the Founder Director and former Chairman of Sri Lanka Association for Software and Services Companies (SLASSCOM), the industry body for IT and BPM in Sri Lanka and the Chairman of Sarvodaya Fusion, the ICT4D arm of Sarvodaya, the largest NGO in Sri Lanka and he was an Independent/Non-Executive Director of Sri Lanka CERT (Pvt) Ltd, National Cybersecurity Agency and Director of Information Communication Technology Agency (ICTA), the National Agency for Digital Government.

## Devaka Cooray

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

*FCA (SL), FCMA (UK)*

BAC NGC BCC

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

### Skills & Experience:

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

# BOARD OF DIRECTORS

## Other Current Appointments:

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

## Previous appointments

Mr Cooray has worked with Ernst & Young for over 40 years of which 30 years was as a Senior Assurance and Talent Partner. He functioned as the Deputy Managing Partner from 2016 to 2019 and served as a member of Ernst & Young's Management Committee from the time the Management Committee was established in 1998 until his retirement in 2019. He was instrumental in establishing the Ernst & Young Practice in the Republic of Maldives in 1995 and functioned as the Partner responsible for the overall management of the Maldivian Practice from its inception. He represented Sri Lanka and Maldives for a number of years in the EY ASEAN Regional Partner Forum. He was seconded to EY USA for a year, where practical experience was gained by being part of assurance teams that performed audit engagements on several large enterprises.

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

## Prawira Rimoe Saldin

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

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

**BIRMC** **SIRC** **PADC**

**Appointed:** April 2021

## Skills & Experience:

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

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

## Other Current Appointments:

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

Speciality Packaging (Private) Limited. He also is Chairman (NIND/NED) of Sithma Development (Private) Limited a Director (NIND/NED) of HNB Assurance PLC and serves as a Trustee of the HNB Sustainability Foundation.

## Previous appointments

Mr Saldin has served as the Commercial Director and Group Finance Director of CIC Holdings PLC for the period 1995-2005. He was the Country Controller & Group Finance Director for Shell Sri Lanka for the period 2005-2010 and also the Group Chief Operating Officer, Browns Group of Companies PLC and the Managing Director of Browns Investments PLC from 2010-2014.

## Dr Prasad Samarasinghe

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

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

**BIRMC** **SIRC** **PADC** **SBCDB**

**Appointed:** October 2022

## Skills & Experience

Dr. Prasad Samarasinghe was appointed as a Director in October 2022. He holds a Doctorate in Telecommunications from the Australian National University, Canberra. Additionally, he earned a Master of Engineering and a Bachelor of Science in Electronics and Telecommunications with First Class Honours from the University of Moratuwa, Sri Lanka.

Dr. Samarasinghe is a Licentiate of Part I and Part II of the Institute of Chartered Accountants of Sri Lanka and was recognized as a Best Achiever in 1991 for exceptional performance in Financial

<b>BAC</b>	Board Audit Committee
<b>HRRC</b>	Human Resources & Remuneration Committee
<b>NGC</b>	Nominations & Governance Committee
<b>BIRMC</b>	Board Integrated Risk Management Committee
<b>RPTRC</b>	Related Party Transactions Review Committee

<b>SIRC</b>	Strategy & Investment Review Committee
<b>PADC</b>	Procurement & Assets Disposal Committee
<b>BCC</b>	Board Credit Committee
<b>BRC</b>	Board Recoveries Committee
<b>SBCDB</b>	Special Board Committee on Digital Banking

Accounting, Business Mathematics, Statistics, and Data Processing.

Before his appointment to the Board of Directors of Hatton National Bank PLC, Dr. Samarasinghe served as an Alternate Director to Mr L. U. D. Fernando from July 5, 2019, to October 25, 2022.

### Other Current Appointments

Dr Samarasinghe is the Managing Director/ Director of Lanka Bell (Pvt) Ltd from July 2005 and also the Managing Director of Bell Active (Pvt) Ltd, Bell Solutions (Pvt) Ltd from September 2008 and Bellvantage (Pvt) Ltd from April 2021.

Dr Samarasinghe is also a Director (NED) of Hayleys Fibre PLC, serving in its Board from September 2017, Lanka Number Portability Services (Guaratnee) Ltd, Director (IND / NED) of Chemanex PLC and Director (NIND / NED) of HNB Finance PLC.

### Previous appointments

Dr. Samarasinghe has served as a Director (NED) of E-Channeling PLC, Techno Park Development Co. (Pvt) Ltd, and Maganeguma Road Construction Equipment Company (Pvt) Ltd. He also served as an Alternate Director (NED) to Mr L U D Fernando in the Boards of HNB Assurance PLC and HNB General Insurance Limited. Dr. Samarasinghe also was a Director (NED) of DCSL Brewery (Pvt) Ltd, Chairman/Director General (ED) of Sri Lanka Rupavahini Corporation and served as a commission member (INED) of Insurance Regulatory Commission of Sri Lanka.

### Kithsiri Gunawardena

#### Director

(Non-Independent / Non-Executive Director)

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

**BIRMC** **BRC**

Appointed: January 2022

### Skills & Experience:

Mr Gunawardena is an Attorney-at-Law and has a Postgraduate Diploma in Marketing Management (PIM, Sri Jayewardenepura) and counts over 35 years of experience as a Lawyer.

### Other Current Appointments:

Mr Gunawardena is the Chief Operating Officer – LOLC Holding PLC. He joined LOLC in 2004 and serves on the Boards of a number of local and overseas subsidiaries within the LOLC Group.

### Previous appointments

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

### Rasitha Gunawardana

#### Director

(Independent / Non-Executive Director)

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

**BAC** **HRRC** **RPTRC** **PADC** **BCC**  
**BRC**

Appointed: January 2022

### Skills & Experience:

Mr Gunawardana is a senior Banker with over 3 decades of experience covering major aspects of Banking. He is a Chartered Management Accountant - UK and has completed ACI Operations Certificate at the ACI Financial Markets Association.

### Other Current Appointments:

Mr Gunawardana is also a Director (IND/ NED) of Richard Pieris Finance Ltd.

### Previous Appointments:

He served as the CEO/General Manager of the Peoples Bank during the period 2019-2020. Prior to that, he held a number of corporate and executive level positions, namely, Senior Deputy General Manager (Business Banking), Deputy General Manager (Risk Management), Deputy General Manager (Credit Control) and Assistant General Manager (Treasury Operations).

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

He held directorships in following establishments; Peoples Leasing and Finance PLC (NED), Peoples Insurance PLC (NED), Peoples Merchant Finance PLC (NED), Lanka Clear Ltd (Ex-Officio), Institute of Bankers of Sri Lanka (Ex-Officio), Credit Information Bureau of Sri Lanka (CRIB), Peoples Travels Ltd (NED), Peoples Micro Finance Ltd (NED) and Lankan Alliance Finance Ltd - Bangladesh (NED).

# BOARD OF DIRECTORS

## Nanda Fernando

### Director

(Independent / Non-Executive Director)

Senior Fellow - IBSL, MBA

RPTRC SIRC PADC BCC BRC

Appointed: April 2024

### Skills & Experience:

Mr Fernando is a Senior Fellow of the Institute of Bankers Sri Lanka and possesses a Master of Business Administration from Sikkim Manipal University, India. He is a product of St. Thomas' College, Mount Lavinia. Mr Fernando is a Banker with over four decades of experience in banking. He possesses a proven track record of strategic leadership, business growth, and exceptional financial performance.

### Other Current Appointments:

He currently serves as a Business Consultant. He is the Managing Director of Professional Business Consultants, a company engaged in providing financial planning and advisory services. He is also a Director (IND / NED) of Haycarb PLC, Dipped Products PLC, Hayleys Fabric PLC, Asset Line Finance Limited and RIL Property PLC. He is engaged in uplifting productivity in companies, resulting in increased stakeholder benefits.

### Previous appointments

He provided effective leadership to Sampath Bank, utilizing his expertise to drive organizational success and deliver exceptional value to stakeholders. He is also well known for his proven professional skills in Financial Management and Analysis, Business Development

and Growth, Risk Management and Compliance, Team Leadership and Talent Development, Operational Excellence, Stake Holder Engagement, and Relationship Management. Prior to his current role, Mr Nanda Fernando was attached to Sampath Bank as its Managing Director. He served Sampath Bank for 36 years from the year of its inception.

## Sivakrishnarajah Renganathan

### Director

(Independent / Non-Executive Director)

FCMA (UK) CGMA, (FLIBF) UK, (FIB - SL)

BAC NGC SIRC BCC

Appointed: April 2024

### Skills & Experience:

Mr Renganathan is a Fellow of the Chartered Institute of Management Accountants UK (FCMA), Chartered Global Management Accountants (CGMA), Fellow of the London Institute of Banking and Finance UK (FLIBF) and Fellow of the institute of Bankers Sri Lanka (FIB). Mr Renganathan is a senior banker counting over 41 years of experience.

### Other Current Appointments:

Mr Renganathan currently serves as a Director (IND / NED) of Sunshine Holdings PLC, Sunshine Healthcare Lanka Ltd., Healthguard Pharmacy Ltd., Lina Spiro (Pvt) Ltd., Lina Manufacturing (PVT) Ltd., Agility Innovations (Pvt) Ltd, Janashakthi Insurance PLC, Ceylon Hospitals PLC, Damro Holdings (Pvt) Ltd., SRF Holdings (Pvt) Ltd and Lanka IOC PLC., In addition, he is a Consultant at Asian Development Bank.

### Previous appointments

Mr Renganathan was the former Managing Director / Chief Executive Officer of Commercial Bank of Ceylon PLC and had held several key positions in the Bank during his tenure of more than 41 years. In addition, he has led Commercial Bank's acquisition of the banking operations of Credit Agricole Indosuez in Bangladesh. He was also the Managing Director and a Board Member of the Commercial Development Company PLC and Commercial Bank of Maldives Private Limited as the Deputy Chairman. Mr Renganathan has served among others, as a Member of the General Council of the Institute of Bankers of Bangladesh, Founder President of Sri Lanka Bangladesh Chamber of Commerce and Industry, Executive Member of the Foreign Investors Chamber of Commerce and Industry in Bangladesh, Vice Chairman of the International Chamber of Commerce Sri Lanka, Council member of Employers Federation of Ceylon, Director of the Lanka Financial Services Bureau Ltd., Sri Lanka Banks' Association (Guarantee) Ltd., Executive member of Ceylon Chamber of Commerce and Council for Business with Britain.

**BAC** Board Audit Committee  
**HRRC** Human Resources & Remuneration Committee  
**NGC** Nominations & Governance Committee  
**BIRMC** Board Integrated Risk Management Committee  
**RPTRC** Related Party Transactions Review Committee

**SIRC** Strategy & Investment Review Committee  
**PADC** Procurement & Assets Disposal Committee  
**BCC** Board Credit Committee  
**BRC** Board Recoveries Committee  
**SBCDB** Special Board Committee on Digital Banking

## Suresh Shah

### Director

(Independent /  
Non-Executive Director)

FCA (Sri Lanka)

HRRC RPTRC SIRC

Appointed: May 2024

#### Skills & Experience:

Mr Shah is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka. His experience includes serving as CEO of two listed entities, extensive involvement in economic and related matters through trade chambers and employer organisations and leading GoSL's SOE reform agenda.

#### Other Current Appointments:

Mr Suresh Shah is the Chairman (INED) of Ceylon Tobacco Company PLC and a Director (NED) of Carson Cumberbatch PLC, Bukit Darah PLC and Director (SIND) of Hunters & Co PLC and Director (INED) of Lanka Canneries (Pvt) Ltd.

#### Previous appointments

Previously, Mr Shah was Director and CEO (ED) of Ceylon Beverage Holding PLC and Lion Brewery Ceylon PLC a position he held for 30 years. He has also served on several other boards in both executive and non-executive capacities. He was Chairman of The Ceylon Chamber of Commerce and of The Employers Federation of Ceylon, a Commissioner of The Securities & Exchange Commission of Sri Lanka, a member of Council of the University of Moratuwa and head of the State-owned Enterprise Restructuring Unit of the Government of Sri Lanka.

## Shiromi Halloluwa (Ms)

### Company Secretary

Appointed: January 2023

Joined Hatton National Bank PLC in June 2000.

#### Skills & Experience:

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

She is an Attorney-at-Law who counts over 24 years of service in the Bank and has completed 29 years of practice in the Legal Profession.

#### Other Current Appointments

Assistant General Manager (Legal) / Board Secretary of HNB PLC and Member of the Bar Association of Sri Lanka, Association of Corporate Lawyers - Sri Lanka, Colombo Law Society and the Association of Board Secretaries of Banks in Sri Lanka.

#### Previous appointments

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



# CORPORATE MANAGEMENT



**1 Damith Pallewatte**

*Managing Director / Chief Executive Officer*  
MBA (PIM-SJP), BSc Mgt (Hons), London School of Economics, FCMA (UK), CGMA, FRM®, ACI, SCR®

**2 Sanjay Wijemanne**

*Chief Operating Officer*  
BSc Business & Finance  
(Mount Saint Mary's University, USA)

**3 Ruwan Manatunga**

*Deputy General Manager - Risk / Chief Risk Officer*  
FCMA (UK), CGMA, FCA (SL)

**4 Niroshana Seneviratne**

*Deputy General Manager - Internal Audit / Chief Internal Auditor*  
Attorney at Law, FCA, FIB, CPA, CISA (USA), PhD (Economics)

**5 Arjuna Abeygunasekara**

*Deputy General Manager - Treasury & Markets*  
MBA (Colombo), BSc (Colombo), ACMA (UK), CGMA, ACI

**6 Nirosh Perera**

*Deputy General Manager / Chief Recovery & Rehabilitation Officer*  
MBA (Manipal), Dip in Marketing - LBS (SL)

**7 Rajive Dissanayake**

*Deputy General Manager - SME & Micro Finance*  
CFA (USA), FCMA (UK), CGMA, BBA (Colombo)



**8 Hisham Ally**

*Deputy General Manager  
- Islamic Banking  
MIM (SL) ACSI (CISI)*

**9 Bimal Perera**

*Deputy General Manager /  
Chief Growth Officer  
B.B.M. (Finance) (Bangalore, India), CFA  
Charterholder (USA), Certified FRM (GARP)*

**10 Chandima Cooray**

*Deputy General Manager /  
Chief Innovation Officer  
BSc. (Hons) in Information Systems  
(Manchester Metropolitan University UK), PGD in  
Entrepreneurship and Circular Economy (Bradford,  
UK),*

**11 Melody Wickramanayake**

*Chief Legal Officer  
LLM, Attorney at Law and Notary Public,  
Commissioner for Oaths, Qualified Company  
Secretary*

**12 Tyronne Hannan**

*Head of Custody and Trustee Services  
MBA (Aus)*

**13 Majella Rodrigo**

*Assistant General Manager  
- Head of Wholesale Banking  
ACMA (UK), CGMA, MBA (Colombo), BSc.  
(Colombo)*

**14 Supun Dias**

*Assistant General Manager  
- Network Business  
MCIM (UK), MSLIM, Chartered Marketer, Dip in  
Marketing (UK)*

# CORPORATE MANAGEMENT



## 15 Sivarajah Nandakumar

Assistant General Manager  
– Operations

MBA (Sri J), AIB (SL)

## 16 Kanchana Karunagama

Assistant General Manager  
/Head of Retail Banking

MBA (Sri J), AIB (SL), MCIM (UK), AICM (SL)

## 17 Dilunika Jayasinghe

Assistant General Manager  
- Chief Credit Officer

MBA Finance (USQ, Aus), FCA (SL), BSc. (Colombo),  
ACSI (UK)

## 18 Druvinda Vaidyakularatne

Assistant General Manager  
- Information Technology / Chief Information  
Officer

FBCS (UK), EMBA (PIM, Sri J)

## 19 Indrajith Senadhira

Assistant General Manager - Services  
/ Chief Employee Experience Officer

MBA (Sri J), MALS (Colombo), LLB (SL), Attorney-at-  
Law, Dip in Marketing (SLIDA), Dip in Credit Mgmt.  
(SLICM), ACIPM

## 20 Kailavasan Indrivasan

Assistant General Manager /  
Chief Human Resources Officer

MBA Finance (Aus), CMA (Aus), AIB (SL)

## 21 Priyanka Wijyaratne

Assistant General Manager – Strategy

MBA (Sri J), ACMA (UK), CGMA, BSc (Colombo)





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### 22 Chamika Weerasinghe

*Assistant General Manager  
- Digital Business*

MBA (Sri J), MCIM (UK)

### 23 Neil Rasiah

*Assistant General Manager - Compliance*

MBA Finance (USQ, Aus), MA Financial Economics (Colombo), B.Sc. (Colombo), AIB (SL), Dip. in Int. Trade (IBSL), FCAP

### 24 Anuradhi Delage

*Assistant General Manager /  
Chief Financial Officer*

FCA (SL), ACMA (UK), CGMA, CPA, BSc Accountancy (Sri J)

### 25 Suresh Emmanuel

*Assistant General Manager - Information  
Security /Chief Information Security Officer*

MSc. Cybersecurity (Gloucestershire-UK), MBA (Cardiff - UK), FBCS (UK), BSc. Computer Science (IIC Uni), CISSP (USA), CISM (USA), CISA (USA), CDPSE (USA), GCCP (USA), ITIL V3.0, ISO27001LA, ISO27701LI, ISO9001LA, CPISI

### 26 Vijaya Vidyasagara

*Assistant General Manager  
- Project Finance*

MBA Finance (Colombo), AIB (SL), AICM (SL)

### 27 Shiromi Halloluwa

*Assistant General Manager  
- Legal /Board Secretary*

Attorney-at-Law & Notary Public,  
Company Secretary

### 28 Manojith Weerasuriya

*Assistant General Manager  
/Head of Corporate Banking*

B.Com (Deakin), M.AppFin (Monash), CFTP (Aus), SA.Fin (FINSIA), Executive Education (Harvard & Oxford Said)

# SENIOR MANAGEMENT



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



**Sothiratnam Mathanan**  
*Chief Manager - Credit Operations*  
MBA (Aus), FABE (UK)



**Rajeev Rajaratnam**  
*Head of IT Project Delivery & Portfolio Management*  
M.Sc IT (Cardiff-UK), AIB (SL)



**Somaskandasarma Narenthiran**  
*Regional Business Head - Colombo Region*  
MBA (UK)



**Sampath Kukulevithana**  
*Head of Recoveries*  
MBA (Manipal), Dip in Marketing (UK)



**Viranga Gamage**  
*Head of Deposits*  
LLB (SL), MBA (Colombo), Attorney-at-law



**Murtaza Normanbhoy**  
*Chief Manager - Internal Audit*  
FCA (SL), FCMA (SL)



**Udara Pathinayake**  
*Head of Leasing*  
MBA (Uni. of Preston - USA)



**Damian Ranjit**  
*Regional Credit Head - Colombo Region*  
PG. Dip. in Business & Financial Administration (ICASL),  
AIB (SL)



**Dilanka De Silva**  
*Chief Manager - Head Office Branch*  
ACIM (UK), AIB (Int. IBSL), Investment Advisor (SEC)



**Suranga Peiris**  
*Head of Emerging Corporates*  
MBA - Finance (USQ, Aus), ACMA (UK), CGMA, AIB (SL)





**Chamara Gunawardena**

*Head of Digital Deliveries and Enterprise Software*

*PG. Dip in Computer Science (Colombo), BIT (Colombo)*



**Roshan Fernando**

*Director/Chief Operating Officer – Sithma Development (Pvt) Ltd. Head of Services*

*MBA (Colombo), BSc. Eng (Hons) (Moratuwa), MIET (UK)*



**Rukshan Senaratne**

*Chief Manager - Centralised Credit Operations*

*MBA (Malaysia)*



**Gauthami Niranjani**

*Head of Cards*

*CMA (SL), MBA (Edith Cowan University – Aus)*



**Angelina Dharmaraj**

*Head of Centralised Credit Administration*

*MBA (UK), AIB (SL)*



**Susith Perera**

*Head of Personal Financial Services*

*AIB (SL)*



**Bandula Monnekulama**

*Regional Business Head - Central Region*

*NDT - Agriculture (HTTI)*



**Deepal Udakumbura**

*Head of Agri Business*

*N Dip Technology (Hardy TTI), PG. Dip Management (Rajarata)*



**Pasindu Dharmasiri**

*Head of Transaction Banking*

*BSc. (Hons.) - IT (London Metropolitan Uni. - UK), MSc. (IT) - (Charles Sturt Uni. - Aus)*



**Natasha Hay**

*Head of Institutional Banking*

*MBA - Edith Cowan University - Aus, Certified Specialist in TRY & FX Operations*



**Daphne Gamage**

*Chief Manager - Remittances*

*MBA (UK)*

# SENIOR MANAGEMENT



**Michelle De Silva**

*Head of Private Banking*

Professional Certified Coach (ICF), Investment Advisor (SEC)



**Roshantha Jayatunge**

*Head of HC Strategy and Talent Development*

AIB (SL), Professional Certified Coach (ICF)



**Sohan Fernando**

*Regional Business Head - North Western Region*

MBA (Cardiff Metropolitan, UK), Dip in Finance & Bank Management (IBSL), Dip in Credit Management (IBSL)



**Mahinda Senevirathne**

*Head of Micro Finance*

MBA (Cardiff Metropolitan, UK), Dip in Agri. (SLSA)



**Vajira Abeyesundera**

*Chief Manager - FX Trading & Customer Sales*

ACMA (UK), CGMA, BA (Hons) (Northumbria, UK), Master of Financial Economics (Colombo), AIB (SL)



**Rozanne De Almeida**

*Head of Trade*

AIB (SL)



**Shankar Dharmaratne**

*Head of Digital Innovations & Partnerships*

BSc in Business Administration - University of Coventry (UK)



**Nimesha De Silva**

*Head of Legal Corporate Affairs*

LLB, LLM, Attorney-at-Law



**Rajeev Perera**

*Head of HC Operations*

MBA (UK)



**Chaminda Dheerasinghe**

*Head of Legal Recoveries*

MBA, LLM, LLB, Attorney-at-Law



**Thusitha Ediriweera**

*Head of Special Projects - Recoveries*

MBA (UK), LLB (SL), Attorney-at-Law, Notary Public & Commissioner for Oaths, MCICM (UK), FICM (SL), MIMSL



**Aruna Sumanasinghe**  
*Senior Manager - Application Management*  
 MBCS (UK)



**Upul Adikari**  
*Head of Marketing & Corporate Communication*  
 MBA (Sri J.), Chartered Marketer, FSLIM (SL) MCIM (UK),  
 P.Mkt (SL)



**Siddique Faleel**  
*Senior Manager - Recoveries*  
 MBA - Finance (USQ, Aus)



**Amila Ranasinghe**  
*Senior Manager - MI & Analytics*  
 ACMA (UK), CGMA



**Shalindra Karunaratne**  
*Regional Credit Head - North Western Region*



**Manoj Pitadeniya**  
*Head of Centralised Credit Monitoring*  
 AICA (UK), AICM (UK), AICM (SL), Dip in Credit  
 Management



**Lalindra Tissera**  
*Senior Manager -FCBU (Corporate Banking)*  
 MBA (Colombo), ACMA (UK), CGMA, MCIM (UK), AIB.  
 (SL)



**Rohana Amarasiri**  
*Head of IT Cards & Payment Systems*  
 BSc. in Physical Science (Sri J), MBCS (UK)



**Vathulan Ganeshan**  
*Head of Pawning*



**Rajitha Wijenayake**  
*Regional Business Head - Southern Region*  
 NDES (Mechanical Engineering)



**Prasad Tennakoon**  
*Head of IT Infrastructure Operations*  
 MBA (Wales, UK), MBCS (UK), IT Diploma (Tech, SL)



# SENIOR MANAGEMENT



**Ajith Kandaramage**

*Senior Manager - IT Procurement*

BSc. in Computer Networks & Systems Security  
(North West, USA), MBCS (UK)



**Prasad Jayatilleke**

*Regional Operations Head  
- Greater Colombo Region*

MBA (Manipal), AIB (SL), Dip in Credit Management



**Sujeewa Jayasinghe**

*Regional Operations Head - Colombo Region*

AIB (SL), MBA - Finance (Colombo)



**Harsha Wickramasinghe**

*Head of Network Channel Management*

MBA (Cardiff - UK)



**Chaminda Abeyasinghe**

*Head of Analytics & Artificial Intelligence*

Dip. in Computer Programming, System Analysis & Design,  
Masters in Information Technology (University of Keele,  
UK), MBCS (UK), ACS (Australia)



**Sattiamoorthy Amalan**

*Regional Business Head - Greater Colombo Region*

Dip in Business Management (ACHE), MBA Finance  
(University of Southern Queensland, Aus), CMA (Aus)



**Eshan Jayaratna**

*Regional Credit Head - South Western Region*

LLB (Buckinghamshire New University)



**Nithiyantham Kethiswaran**

*Head of SME*

AIB (SL), CMA (Aus), CIMA Adv Dip in MA.



**Nadun Gomes**

*Head of IT PMO*

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



**Nishanthan Karunairaj**

*Regional Business Head - Northern Region*



**Sithy Rumaiza Faaiz**

*Head of Legal Operations*

Attorney-at-Law



**Roshan Anuradha**

*Senior Manager - Operations*

MBA (UK)



**Azyan Hameed**

*Senior Manager - Card Systems*

BSc. (MIS), ACMA (UK), MBCS (UK), Higher Dip in Computer Based Information Systems (NIBM SL)



**Gayathri Ganeshan**

*Senior Manager - Talent Development*

AIB (SL), ACMA (UK), MAFE (Colombo)



**Iranjan Fernando**

*Regional Operations Head - Uva/Sabaragamuwa Region*

MBA (Cardiff Metropolitan, UK), Dip in Credit Management (IBSL)



**Duminda Premathilaka**

*Senior Manager - Bambalapitiya Branch*



**Sumathy Subramaniam**

*Senior Manager - Wellawatte Branch*



**Diva Devasagayam**

*Senior Manager - IT Security & Assurance*

MBCS (UK)



**Samuddika Mendis**

*Head of Business Development*

AIB (SL), MBA (Cardiff Metropolitan, UK), CMA (UK)



**Senarath Nagahapitiya**

*Regional Operations Head - North Central Region*

DPHRM (CIPM), Dip in Agri. (SLSA), Certificate in Financing Micro Enterprises (IBSL)



**Lasitha Ranathunga**

*Regional Business Head - South Western Region*

AIB (SL), MSc in Management (Sri J), Dip in Credit Management (IBSL)



**Eranga Abeywickrama**

*Senior Manager - Galle Branch*

MBA (Cardiff), Dip in Credit Management (IBSL), Dip in Digital Marketing (DDM - SLIM)



**Krishan De Silva**

*Regional Business Head - Uva/Sabaragamuwa Region*

MBA (Cardiff UK), AIB (SL), CQHRM (CIPM-SL), Dip in Marketing (LBS)



# SENIOR MANAGEMENT



**Nirosch Edirisinghe**  
*Regional Business Head - North Central Region*  
MBA (USJP), ACMA (UK), CGMA, ACSI (UK), AIB (SL)



**Chamin Kodikara**  
*Senior Manager - City Office Branch*  
MBA (Anglia Ruskin), BSc



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



**Bertie Mariathas**  
*Regional Operations Head - North Western Region*



**Rajiv Gamage**  
*Senior Manager - Pettah Branch*  
MBA (UK)



**Saman Perera**  
*Senior Manager - Negombo Branch*  
MBA (London Metropolitan Uni)



**Remigius Peries**  
*Senior Manager - Ja Ela Branch*



**Dhillshani Hallock**  
*Senior Manager - Centralised Operations*  
MBA (UK)



**Kumudu Liyanage**  
*Regional Credit Head - Southern Region*  
MBA (Suffolk Uni), Prof Dip in International Business (Scqf Level 11)



**Chaminda Suduarachchi**  
*Senior Manager - Rajagiriya Branch*



**Shyam De Silva**  
*Senior Manager Operations - Centralised Trade Operations*  
AIB (SL)



**Indika Ekanayake**  
*Senior Manager - Kandy Branch*  
MBA (Specialised in Marketing-Sikkim Manipal), Dip in Credit Management, CBF, Dip in Business Finance and Bank Management (IBSL), MABE (UK)



**Sivapalan Suresh Kumar**  
*Regional Credit Head - Greater Colombo Region*  
 MBA (London Metropolitan University-UK), AIB (SL)



**Pramith Ponnampereuma**  
*Senior Manager - Corporate Banking / Unit Head*  
 MBA Finance (PIM - Sri J), AIB (SL)



**Dinal Fernando**  
*Senior Manager - Operational Risk*  
 MBA (Aus), DBIRM (IBSL), CBF (IBSL)



**Raman Jeikumar**  
*Senior Manager - Tax & Group Accounting*  
 ACA (SL), ACCA (UK), B.Sc. Financial Management (Sabaragamuwa)



**Savanthi Gunasekera**  
*Senior Manager - Corporate Banking / Unit Head*  
 ACMA (UK), CGMA, B.Sc. (Hons) Business Administration (Sri J)



**Segarajasegaram Sathiyaseelan**  
*Regional Business Head - Eastern Region*  
 MBA(SL), MA Development Studies (SL), BSc (Hons) in Agriculture (SL), PG Dip in Public Administration (SL), PG Dip in Professional Marketing (CIM-UK)



**Ruwan Fernando**  
*Senior Manager - Finance*  
 ACA (SL), B.Sc Accountancy (Sri J)



**Dinethi Liyanage**  
*Head of Legal Advisory*  
 Attorney-at-Law, BA (Kelaniya), LLM (Wales), MBA (Cardiff Met), Post Attorney's Dip in Banking & Insurance Laws



**Deepal De Silva**  
*Senior Manager - Compliance*  
 MBA (UK)



**Dilan Wijerathne**  
*Head of Innovation Desk*  
 MSc in Cyber Security (UK), BSc (Hons) in Software Engineering (OUSL), Dip in Computer Science, Nanotechnology : A maker RNN USA, MIT GSL, CLSSYB



**Uthpala Pinnaduwaheewa**  
*Head of Customer Experience / CXO*  
 MBA (Northampton), Certified Professional Marketer, DBFBM (IBSL), P Dip in Marketing

# CHAIRMAN'S MESSAGE ON CORPORATE GOVERNANCE



Mr Nihal Jayawardene PC  
Chairman

## Chairman's Message

FY 2024 witnessed HNB making excellent progress in strengthening its governance practices in support of the Bank's endeavour to create lasting value for its stakeholders. Admittedly this past year was marked by significant regulatory changes in particular the Banking Act (Amendment) No 24 of 2024, Banking Act Directions No 05 of 2024 on Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka along with Amendments made to the Section 9 of the Listing Rules on Corporate Governance of the Colombo Stock Exchange (CSE), together necessitating a recalibration of the Bank's governance framework to ensure it remains aligned with these heightened regulatory expectations.

Much of the focus for the year was therefore on integrating new regulatory guidelines into our governance framework. Following a deep dive into HNB's existing governance arrangements, the Board initiated substantial transformation of the Bank's Policy frameworks and Terms of Reference for Board Committees, resulting in the establishment of a more robust ecosystem to reinforce transparency and promote accountability. Notable new policies approved by the Board inter alia include; the Policy on matters relating to Board of Directors and the Policy on Corporate Governance, Nominations and Re-Election,

“As we look ahead to the next financial year and beyond, the HNB Board remains steadfast in its commitment to evolving the Bank's governance practices to align with emerging regulatory requirements and global best practices.”

Policy on Board Committees along with the Policy on Corporate Disclosures as well as the Policy on relations with shareholders and Investors. The Board and Board Committees continued to work closely with senior management, as needed to oversee the implementation of relevant changes. The Code of Best Practice on Corporate Governance 2023 issued by the Institute of Chartered Accountants of Sri Lanka was also adopted by the Board of Directors in April 2024 to ensure continuous adherence to the provisions therein.

I am also pleased to note the improved rating received from Transparency International Sri Lanka (TISL). In the 2023 TISL rankings, HNB advanced to the "Significantly Transparent" category with a score of 8.13, compared to the 7.97 TRAC score recorded previously, indicating "Moderately Transparent." This substantial improvement reflects our continuous efforts to improve transparency of corporate disclosures.

Another key milestone for the year was the smooth transition of Mr Damith Pallewatte former Deputy General Manager - Wholesale Banking Group as the successor to the position of Managing Director/CEO of HNB. Mr Pallewatte was formally appointed as MD/CEO on 22nd November 2024, following the receipt of the fit and propriety clearance by the Central Bank of Sri Lanka with the announcement duly made through CSE disclosures.

Meanwhile ongoing Board refreshment witnessed three new Non-Executive Directors appointed to the HNB Board. Mr S

Renganathan and Mr Nanda Fernando, both veteran bankers, each with several decades of experience were appointed to the HNB Board on 02nd April 2024, while Mr Suresh Shah - a renowned corporate figure was appointed with effect from 10th May 2024 and Mrs Dilani Alagaratnam Goonatileke was appointed with effect from 31st January 2025. While extending a warm welcome to the new Board members, I wish to take this opportunity to express my sincere appreciation to Mr Osman Chandrawansa who retired in September 2024 for his invaluable contribution during his tenure. My special thanks extend to Mr Jonathan Alles who retired as the Managing Director/Chief Executive Officer in August 2024 for his leadership and guidance in navigating complex financial landscape and in fostering a culture of excellence within the Bank during his tenure and his dedicated service to HNB over the years.

I also wish to place on record that HNB's 55th Annual General Meeting concluded successfully on 28th March 2024 and was well attended by shareholders. I invite all shareholders to attend the 56th Annual General Meeting of Hatton National Bank PLC to be held on 27th March 2025 at 10 in the forenoon.

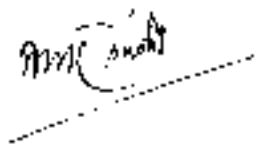
I wish to declare that to the best of my knowledge, the Board of Directors, Key Management Personnel and Employees of Hatton National Bank PLC have complied with the principles of good governance as set out by the regulatory frameworks, including the Banking Act Direction No 11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by the

Central Bank of Sri Lanka and its subsequent amendments, the Code of Best Practice on Corporate Governance 2023 issued by the Institute of Chartered Accountants of Sri Lanka, the revised Section 9 of the Listing Rules on Corporate Governance issued by the Colombo Stock Exchange and all other applicable regulations as well as the Bank's internal constitutional frameworks.

As we look ahead to the next financial year and beyond, the HNB Board remains steadfast in its commitment to evolving the Bank's governance practices to align with emerging regulatory requirements and global best practices.

Our immediate priority will be to continue reviewing existing policies, procedures and introducing new policies and procedures as needed to comply with applicable regulations specifically Banking Act Direction No05 of 2024 on Corporate Governance issued by the Central Bank of Sri Lanka within the timelines stipulated therein.

We also expect to proactively address the requirement of increasing female representation at Board level. To that end, we were able to appoint one independent female Director, Ms. Dilani Alagaratnam Attorney-at-law as an Independent Non-Executive Director to the HNB Board in January 2025, which is well ahead of the end 2025 deadline. The Board is committed to work towards fulfilling the requirement for a second independent female Director by 2026.



**Nihal Jayawardene PC**  
Chairman

Colombo, Sri Lanka  
21st February 2025



### HNB's Approach to Governance

As a domestic systemically important Bank in Sri Lanka, HNB seeks to portray itself as a steward of good governance. The Bank is committed to upholding governance practices that foster trust and confidence in its operations while enhancing the credibility and stability of the country's financial system as a whole.

The Bank's robust institutional governance framework - a combination of internal code and external mandates (regulatory and voluntary adoption of global best practices), reinforces the principles of transparency, accountability and sustainability to achieve the following objectives;

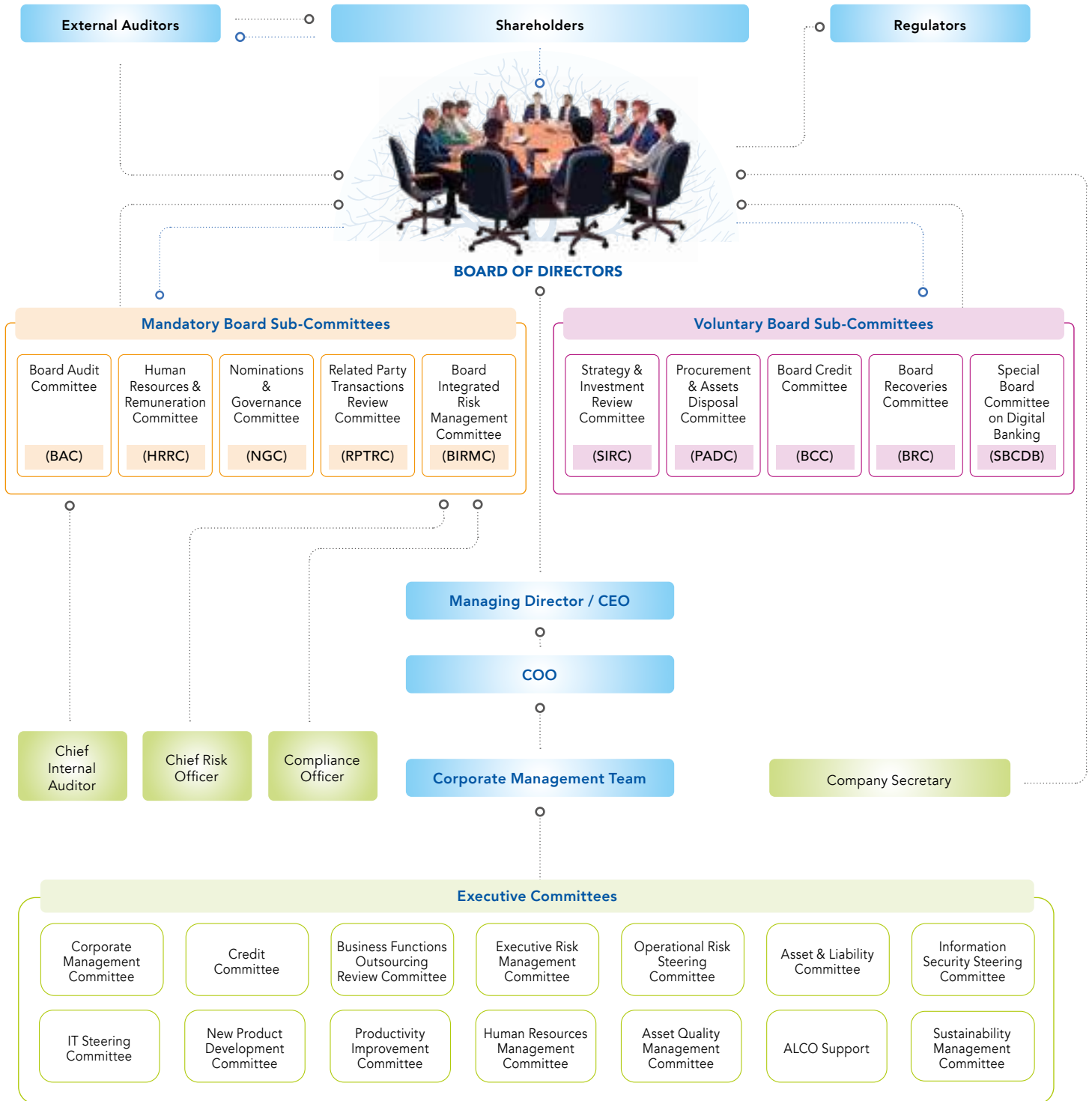
- Facilitate informed decision-making in alignment with the Bank's strategic goals and stakeholder expectations by establishing clear roles and responsibilities for the Board and management.
- Safeguard assets and provide oversight to ensure efficient allocation of resources as needed to achieve the Bank's strategic goals.
- Ensure best practices for identifying, assessing and mitigating potential risks impacting the Bank's financial health and reputation.
- Promote ethical conduct and uphold high ethical standards across all levels of operation.
- Adherence to all applicable laws, regulations and standards set by financial regulatory bodies and industry guidelines.
- Promote open and timely disclosure of financial and non-financial information to preserve stakeholder trust.
- Ensure the remuneration framework is properly aligned with the long-term success of the Bank.
- Guide the Bank and its group companies to be more stable, resilient and future ready.

HNB's approach to governance remains ever-evolving with governance practices and structures reviewed and updated on an ongoing basis amidst changing stakeholder expectations and organisational goals against the backdrop of dynamic operating landscape, influenced by regulations, economic changes, geopolitics, digital trends such as artificial intelligence and enhanced data safety and security requirements, along with cultural shifts and climate change impacts.



# CORPORATE GOVERNANCE

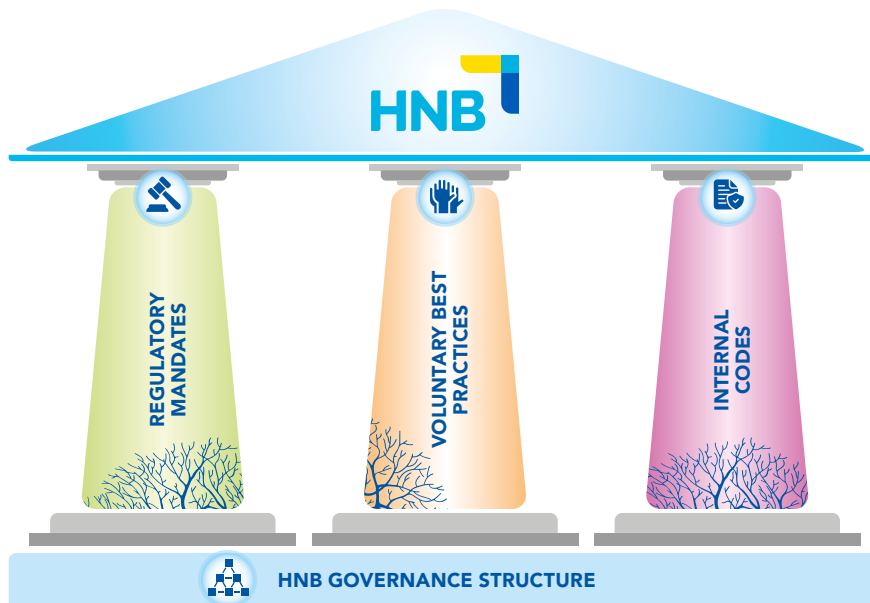
## Governance Structure



○ Reporting Lines  
○ Appointed by



## HNB Corporate Governance Framework



### GOVERNANCE STRUCTURE

HNB has a solid governance structure established through years of commitment to ethical practices, strategic foresight and adherence to regulatory standards. Underpinned by the principles of accountability, transparency, fairness and integrity, the structure ensures the clear segregation

of roles and responsibilities to support effective decision making for the purpose of balancing short-term financial performance with sustainable, long-term growth to create enduring value for shareholders and other stakeholders.

### VOLUNTARY BEST PRACTICES

- The Code of best Practice on Corporate Governance 2023 issued by CA Sri Lanka
- The Sri Lankan Sustainable Banking Principles (SBP)
- ISO 9001: 2015 Quality Management System
- National Institute of Standards and Technology (NIST) cybersecurity framework
- ISO/IEC 27001 Information Security Management System Standard
- ISO/ IEC 22301 Business Continuity Management System
- ISO 14064-1:2018 certification awarded by the Sri Lanka Climate Fund

### REGULATORY MANDATES

- Companies Act No: 07 of 2007 and its amendments.
- Banking Act No 30 of 1988 and its amendments
- All Directions issued to Licensed Banks by the Central Bank of Sri Lanka particularly the Banking Act Direction No 11 of 2007 on Corporate Governance for Licensed Commercial Banks and its amendments and the Banking Act Direction No 05 of 2024 on Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka
- The Anti-Money Laundering Laws and Regulations and Financial Transaction Reporting Act No 6 of 2006 and its amendments
- The Listing Rules of the Colombo Stock Exchange
- Securities and Exchange Commission Act No 19 of 2021 and its amendments
- Directions and Circulars issued by Securities and Exchange Commission of Sri Lanka
- The Inland Revenue Act No 24 of 2017 and its amendments
- The Shop and Office Employees Act No 19 of 1954 and its amendments
- The Sri Lanka Accounting and Auditing Standards Act No 15 of 1995
- The Foreign Exchange Act No 12 of 2017 and its regulations
- Personal Data Protection Act No: 09 of 2022
- CBSL Roadmap for Sustainable Finance
- All other applicable regulations

# CORPORATE GOVERNANCE



## INTERNAL CODES

- Articles of Association
- Policy on Matters Relating to the Board of Directors
- Policy on Board Committees
- Policy on Corporate Governance, Nominations and Re- election
- Board-approved Terms of Reference (TOR) of Board Committees
- Board-approved policy frameworks for governance, risk and operational areas
- Delegation of Authority Limits
- Customer Charter
- Policy on Internal Code of Business Conduct and Ethics for all Directors and Employees
- Related Party Transaction Policy
- Sustainability Framework

## Board Highlights 2024

### Capital and Liquidity

- » Approval/recommendation for Issuance of Basel III Compliant – Tier II Listed Rated Unsecured Subordinated Redeemable Debentures with a Non-Viability Conversion
- » Approval for the Bank Recapitalisation Strategy
- » Approval for proceeding with the local option to exchange the Bank's International Sovereign Bond (ISB) holding in the ISB restructuring process.

### Board Refreshment

- » Three new Independent/ Non Executive Directors were appointed to further strengthen the Board

### Shareholder Matters

- » Approval /recommendation of final dividend for the financial year ended 31st December 2023

### Business Strategy

- » Approval for Annual Budget 2025

### New Investments & Expansion

- » Approval for the issuance of a Non- Binding Letter of Intent considering the potential investment in Bangladesh.
- » Approval for the acquisition of the 50% stake owned by JV partner DFCC Bank PLC in Acuity Partners (Pvt) Ltd.

### Governance Matters

- » Approval for the new organisation structure of the Bank
- » Based on the recommendation made by the Board Audit Committee the Board approved the external auditor rotation in every six years whilst audit partner to be rotated in every three years
- » Reviewed the existing major policies of the Bank and approved the adoption of the following policies in compliance with the Section 9 of the Listing Rules on Corporate Governance issued by the Colombo Stock Exchange

- Policy on the matters relating to the Board of Directors (Revised the existing Board Charter and re-named)
- Policy on Board Committees
- Policy on Corporate Governance, Nominations and Re-election
- Policy on Relations with Shareholders and Investors
- Policy on Corporate Disclosures
- Remuneration Policy
- Policy on Internal Code of Conduct and Ethics
- Anti-Bribery & Corruption Policy
- Policy on Environmental, Social and Governance Factors
- Policy on Control and Management of Company assets and shareholder Investment
- Whistleblowing Policy
- » Considered the Gap analysis on the Banking Act Direction No05 of 2024 on Corporate Governance for Licensed Commercial Banks

### Succession Planning

- » Approval for the appointment of Acting Chief Executive Officer
- » Approval for the appointment of Managing Director /Chief Executive Officer
- » Approval for the appointment of Chief Operating Officer
- » Based on the recommendations made by the Nominations and Governance Committee, the Board approved the appointment of three new KMPs namely, Chief Growth Officer, Chief Innovation Officer and Chief Legal Officer in Deputy General Manager Grade.

### Human Capital Matters

- » Approval for the Bank to execute the collective agreement for the period 2024-2027 with the Ceylon Banks Employees Union

## THE BOARD OF DIRECTORS

### The Role of the Board

(Principles A.1. 2, D.1)

HNB's Board of Directors serves as the guardian of corporate governance, holding ultimate responsibility for ensuring the Bank exemplifies good governance practices and highest ethical standards. As the main governing body within the Bank, the Role of the Board is clearly defined. The Board is tasked with defining the Bank's vision, mission, values and strategic direction to meet stakeholder expectations. In this context, the Board is specifically required to provide forward-thinking leadership to drive the execution of HNB's strategy and risk appetite while exercising independent judgment to oversee the management's efforts towards strategic execution and proactively monitoring performance to preserve or enhance stakeholder value creation over time.

### The following schedule of matters are reserved expressly for the attention of the Board

<b>Vision, Mission and Values</b>	» Reviewing and updating the vision, mission and values of the Bank
<b>Strategy</b>	» Approval of the Bank's strategy, medium-term and short-term plans and associated budgets » Reviewing delivery of the strategy and measure performance against plan » Approval of major capital projects, investments, acquisitions, mergers or disposals
<b>Risk, Capital and Liquidity Planning</b>	» Changes relating to the Bank's capital structure » Approval of the annual capital plan » Approval of risk appetite and liquidity risk appetite
<b>Financial Results and Dividends</b>	» Approval of interim and final financial statements, dividends and any significant change in accounting policies or practices
<b>Remuneration Structures</b>	» Approval of executive compensation structures, succession planning and key management personnel appointments » Approval of non-executive director remuneration
<b>Corporate Governance</b>	» Approval of principal regulatory filings » Approval of the Terms of Reference (TOR) and membership of Board Sub Committees » Approval of Board and Board Sub Committees performance evaluation process » Reviewing and updating the Corporate Governance framework
<b>Stakeholder Communications</b>	» Approval of communications with shareholders and other stakeholders, including annual reports
<b>Crisis Management</b>	» Approval of responses to extraordinary events, including decisions related to crises, emergencies or significant reputational risks

In compliance with revised section 9 of the Listing Rules on corporate governance issued by the Colombo Stock Exchange, the role of the Board was detailed through the Policy on Matters Relating to the Board of Directors. The Policy establishes the framework and the criteria pertaining to Board composition, proceedings of the Board and other relevant policies to ensure that the Directors and management work together to effectively discharge their responsibilities in an appropriate manner, in the best interests of the Bank and in compliance with the relevant legal and regulatory framework. The policy was approved by the Board in September 2024.

### Duties and Responsibilities of Individual Directors

(Principle D.1)

All Board members are expected to dedicate the necessary time and effort to effectively execute their responsibilities as a Director of Hatton National Bank PLC. This commitment includes active participation in Board meetings, where they are expected to channel their skills, knowledge and experience to exercise independent judgment and support informed decision making at Board level. Additionally, all Directors are required to engage in the annual self-assessment, which is an integral part of the comprehensive Board evaluation process to ensure continuous improvement in Board effectiveness.

### Conflicts of Interest

(Principle A.10)

All Directors are expected to act in good faith by upholding the highest standards of honesty and integrity in all their dealings with or on behalf of the Bank. They are required to act in the Bank's best interests by disclosing any actual or perceived conflicts of interest to the Board. In compliance with the provisions of the Banking Act, Directions issued thereunder, the Companies Act, the Articles of Association, the Policy on matters relating to the Board of Directors, the Policy on

# CORPORATE GOVERNANCE

Internal Code of Business Conduct and Ethics, all Directors are required to disclose any direct, indirect, beneficial or non-beneficial interest in a contract or proposed contract to the Board.

Such disclosures should be made at the point of joining and thereafter on quarterly basis. A register of such declared interests is maintained by the Company Secretary and is available for inspection by the shareholders or their authorised representatives as required by Sec. 119 (1) (d) of the Companies Act No 07 of 2007 and amendments thereto.

Appropriate procedures are in place to ensure that there is no conflict of interest that will compromise the independence of Directors.












Accordingly, the Related Party Transaction Review Committee (RPTRC) guided by the Bank's Related Party Transactions Policy and applicable regulations review such disclosures to ensure transactions are fair and in the best interests of the Bank. Moreover, the respective Director(s) are also expected to recuse themselves from participating in meetings and decision-

making process where matters in which they have an interest are being discussed.

The Bank is currently in the process of studying the terms of Banking Act Direction No 05 of 2024 on Corporate Governance for Licensed Banks issued by Central Bank of Sri Lanka to identify and implement new approaches to further strengthening the aforementioned procedures.

Related Party Transactions are disclosed in Note 60 of the Financial Statements on pages 453 to 458.

The total number of Board seats (excluding directorship in HNB) held by each Director as of 31st December 2024 is summarised below.

Name of Director	Directorship Status	No of Board seats held in Listed Companies		No of Board seats held in Unlisted Companies	
		Executive Capacity	Non-Executive Capacity	Executive Capacity	Non-Executive Capacity
Mr Nihal Jayawardene PC		-	-	-	-
Mr Damith Pallewatte		-	2	-	2
Mr Madura Ratnayake		-	1	5	1
Mr Devaka Cooray		-	5	1	9
Mr Rimoe Saldin		2	1	8	-
Mr Rasitha Gunawardana		-	-	1	-
Mr Kithsiri Gunawardana		-	1	-	16
Dr Prasad Samarasinghe		-	3	5	1
Mr Nanda Fernando		-	3	1	1
Mr Sivakrishnarajah Renganathan		-	3	1	6
Mr Suresh Shah		-	4	1	1

 Independent Non-Executive Director |  Non-Independent Non-Executive Director |  Executive Director

## Key Roles and Responsibilities

(Principles A.2, A.3)

The role of the Chairman is distinct and separate from that of HNB's Managing Director / CEO, underscoring the principle that no single person has unfettered decision-making powers at a leadership level. The respective roles are clearly set out in Board approved Policy on matters relating to Board of Directors (formerly known as the Board Charter).

## Chairman

The Chairman, Mr Nihal Jayawardene PC who serves as a Non-Executive Director, is responsible for leading the Board and ensuring the Board and Board Committees function effectively and efficiently as per their respective mandates. By providing leadership to the Board, the Chairman promotes good corporate governance and high standards of integrity and probity throughout the Group. He ensures that the Board receives all information necessary for

making informed decisions in discharging its responsibilities. The Chairman also ensures the effective participation of all Directors in Board deliberations and maintains an open line of communication with members of the Corporate Management providing an effective platform for deliberating strategic and operational matters.

### Managing Director (MD) / Chief Executive Officer (CEO)

HNB's MD/CEO - Mr Damith Pallewatte is responsible for driving the Bank's operational performance as per the Board approved strategy and within the risk appetite and for creating an organisational culture that reflects the Bank's core values. Operating under the delegated authority of the Board, the MD/CEO is required to conduct the affairs of the Group by upholding good corporate governance and the highest standards of integrity and probity in line as established by the Bank.

### Senior Independent Director (SID)

(Principles A.5.7, A.5.8)

HNB's Chairman being a Non-Independent/ Non-Executive Director, has necessitated the appointment of a Senior Independent Director (SID), in compliance with Direction No 3(5) (ii) of the Banking Act Direction No

11 of 2007 on Corporate Governance. As per the formal Terms of Reference, the SID is required to uphold the Board balance and ensure the effective functioning of Independent Directors. In 2024, the SID held one meeting each with the Non-Executive Directors and Independent Directors without the presence of the Chairman to appraise the Chairman's performance and discuss other significant issues that are detrimental to the Bank. The SID also held one meeting with the Executive Director. Feedback from all SID meetings were shared with the Chairman and the Board.

The statement of the SID is set out on page 220 in compliance with the requirements of the Banking Act Direction, Corporate Governance Rules of Colombo Stock Exchange and the Code of Best Practice on Corporate Governance 2023.

### Non-Executive Directors (NEDs)

(Principles A.1.5, A.5.1, A.5.2, A.5.5, A.5.9)

The presence of NEDs on the HNB Board significantly enhances the Board balance. The Ten (10) NEDs on the current HNB Board, with their expertise, experience and independent judgment, play a crucial role in shaping the Bank's strategy development and strengthening its risk management processes. They provide objective oversight, challenge assumptions and contribute to decision-making, ensuring that the Board maintains a holistic and unbiased approach to achieving HNB's strategic ambitions.

## Process for the determination of Directors' Independence



### DEFINITION

Directors' Independence is defined by the criteria set out in the Banking Act Direction No 11 of 2007 on Corporate Governance read together with Banking Act Direction No 05 of 2024 issued by Central Bank of Sri Lanka, revised Section 9 of the Listing Rules on Corporate Governance of Colombo Stock Exchange and Code of Best Practices on Corporate Governance issued by CA Sri Lanka



### ASSESSMENT

The assessment of the status of independence of the Directors is conducted initially at the time of onboarding new Directors and thereafter annually by the Nominations and Governance Committee based on annual declaration and other information submitted by Non-Executive Directors and submit recommendations for Board consideration. In terms of Banking Act Direction No 05 of 2024 the assessment will be conducted on quarterly basis w.e.f. 2025.



### OUTCOME

The Board is satisfied there are no relationships or circumstances likely to affect or appear to affect Directors' independence during the period under review.

The formal annual meeting of NEDs was held on 18th October 2024, without the presence of Executive Director. The main purpose of this meeting was to allow

NEDs to evaluate the performance of Executive Director and Key Management Personnel (KMP) and to discuss the matters and concerns related to the Bank and the

operation of the Board. The feedback and recommendations from the meeting were shared with the MD/CEO and the Board.



# CORPORATE GOVERNANCE

## CHAIRMAN



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

## SENIOR INDEPENDENT DIRECTOR



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

## MD/CEO



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

## COMPANY SECRETARY



- » Ensures Board and Board Sub-Committee meetings are conducted in compliance with the Articles of Association, relevant statutes and regulations.
- » Maintains and manages the minutes of Board and Board Sub-Committee meetings, which are reviewed by the Chairman, circulated to Directors and approved at the next meeting after incorporating amendments.
- » Keeps the minute books open for inspection by any Director
- » Provides full access to advice and service for Directors ensuring proper Board procedures and compliance with regulations.
- » Facilitates procedures for Directors to seek Independent professional advice at the Bank's expense when necessary.
- » Monitoring and ensuring compliance with Listing Rules of CSE including required immediate disclosures and maintaining cordial relationship with CSE.
- » Communicating promptly with the regulators.
- » Coordinates the Bank's Directors and Officers Liability policy, ensuring annual renewal and adequate insurance coverage for the Board and KMPs.

## Company Secretary

(Principles A.1.3, A.1.4)

The Company Secretary plays a vital role and guides the Board on discharging its duties and responsibilities, facilitates adherence to best practices in Corporate Governance and appraises the Board of relevant legislative and regulatory changes. The responsibilities of the Company Secretary encompass activities relating to Board meetings, General meeting, Articles of Association, Corporate Governance and Stock Exchange requirements.

## Board Sub-Committees

To assist in performing its oversight role, the Board has appointed 10 Sub Committees of which 5 are mandatory in conformance with all relevant regulatory requirements. Sub-Committee members are typically Directors with expertise in specific areas.

The responsibilities delegated to Sub-Committees are formally documented in each Committee's Terms of Reference (TOR) which have been approved by the Board of Directors. Committee TORs are reviewed on an annual basis by the Board and are

updated as needed. To facilitate transparent communication between Directors and ensure that all aspects of the Board's mandate are addressed, the respective Committee Chairman is required to report back to the Board after each Committee meeting.

During the year under review several changes being implemented to enhance the integrity of Board Committees in line with new compliance requirements that came into effect in 2024. Matters pertaining to Board Sub-Committees which were previously contained within the Board Charter were compiled into the Policy on Board Sub-Committees, which was approved by the Board in September 2024.

Considering the new regulatory changes regarding the composition of Board Committees, the Board also began working on reconstituting the Audit Committee (BAC), the Board Nomination and Governance Committee (NGC) and the Board Integrated Risk Management Committee (BIRMC). In parallel, the TORs of the NGC, HRRC and RPTRC were reviewed and enhanced in compliance with the new regulations.

## Review of Terms of Reference (TOR)

Revision and update of TORs of the following Board Sub-Committees:

- » Board Integrated Risk Management Committee (BIRMC)
- » Board Credit Committee (BCC)
- » Strategy & Investment Review Committee (SIRC)
- » Board Recoveries Committee (BRC)
- » Human Resources and Remuneration Committee (HRRC)
- » Nominations & Governance Committee (NGC)
- » Senior Independent Director (SID)
- » Special Board Committee on Digital Banking

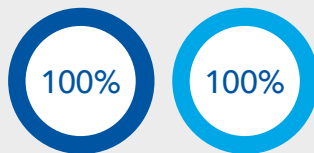
## MANDATORY COMMITTEES

(Principles A.7, B.1, B.2, D.3, D.4, D.5)

### Board Audit Committee (BAC)

#### Membership

Mr Devaka Cooray ©  
Mr Rasitha Gunawardana  
Mr S Renganathan



● Attendance ● % of committee members who are independent directors

#### No of meetings in 2024: 10

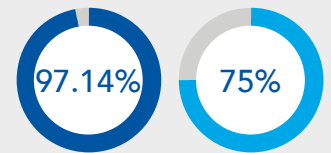
- » Monitor and review adequacy and effectiveness of Internal controls, governance process and financial reporting process
- » Exercise independent oversight of the Bank's assurance functions including internal and external audit
- » Review compliance with relevant legal, regulatory and accounting standards in the preparation of Financial Statements

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### Human Resources & Remuneration Committee (HRRC)

#### Membership

Mr Madura Ratnayake ©  
Mr Nihal Jayawardene PC  
Mr Rasitha Gunawardana  
Mr Suresh Shah



● Attendance ● % of committee members who are independent directors

#### No of meetings in 2024: 09

- » Review HR Policies including Remuneration Policy
- » Promote Bank's values and Policy on Internal Code of Business Conduct and Ethics
- » Review compliance with labour laws
- » Review HR processes including performance evaluation, remunerations, talent management and succession planning

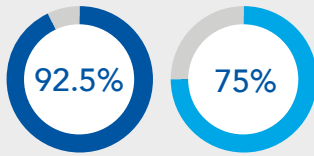
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# CORPORATE GOVERNANCE

## Nominations & Governance Committee (NGC)

### Membership

Mr Devaka Cooray ©  
Mr Madura Ratnayake  
Mr Nihal Jayawardene PC  
Mr S Renganathan



● Attendance ● % of committee members who are independent directors

### No of meetings in 2024: 10

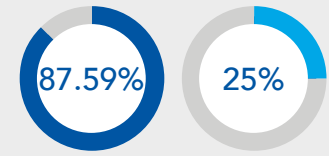
- » Selection and appointment of Directors, MD/CEO and Key Management Personnel
- » Identify skill gaps and recommending of new appointment of Directors and KMP to the Board
- » Review succession plans of Directors, KMP and Bank's critical roles
- » Review the Bank's adequacy of Corporate Governance Framework, policies and skills required to achieve strategic goals

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## Board Integrated Risk Management Committee (BIRMC)

### Membership

Mr Rimoe Saldin ©  
Mr Suresh Shah  
Dr Prasad Samarasinghe  
Mr Kithsiri Gunawardena



● Attendance ● % of committee members who are independent directors

### No of meetings in 2024: 11

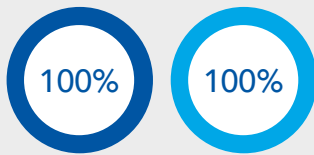
- » Establish a Comprehensive Risk Management Framework
- » Monitor and assess effectiveness of Bank's risk management processes
- » Review compliance with internal risk policy guidelines and relevant regulatory requirements including Basel III and SLFRS 9

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## Related Party Transactions Review Committee (RPTRC)

### Membership

Mr Rasitha Gunawardana ©  
Mr Nanda Fernando  
Mr Suresh Shah



● Attendance ● % of committee members who are independent directors

### No of meetings in 2024: 04

- » Review Related Party Transactions Policy
- » Scrutiny of Related Party Transactions
- » Market disclosures on Related Party Transactions
- » Avoidance of conflict of interest

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## VOLUNTARY COMMITTEES

### Strategy & Investment Review Committee (SIRC)

#### Composition of Directors as at 31st December 2024

Mr Nihal Jayawardene PC ©  
Dr Prasad Samarasinghe  
Mr Madura Ratnayake  
Mr Nanda Fernando  
Mr S Renganathan  
Mr Suresh Shah  
Mr Rimoe Saldin

#### Areas of Oversight

- » Review of economic climate, capital markets activity
- » Economic and monetary policy direction, emerging trends and their potential impact
- » Investment Policy
- » Review Bank's investment portfolios and their performance

### Board Credit Committee (BCC)

#### Composition of Directors as at 31st December 2024

Mr Rasitha Gunawardana ©  
Mr Devaka Cooray  
Mr Nanda Fernando  
Mr Nihal Jayawardene PC  
Mr S Renganathan

#### Areas of Oversight

- » Credit Policy and Lending Guidelines
- » Credit risk control measures including pricing of credit risk
- » Performance of credit risk indicators
- » Formulate and periodically review the Credit Policy
- » Authorise credit facilities over and above the delegated limits of specified categories

### Procurement & Assets Disposal Committee (PADC)

#### Composition of Directors as at 31st December 2024

Mr Rimoe Saldin ©  
Dr Prasad Samarasinghe  
Mr Rasitha Gunawardana  
Mr Nanda Fernando

#### Areas of Oversight

- » Procurement and Disposal Policy
- » Approve procurements and disposal in line with delegation

### Board Recoveries Committee (BRC)

#### Composition of Directors as at 31st December 2024

Mr Kithsiri Gunawardana ©  
Mr Rasitha Gunawardana  
Mr Nihal Jayawardene PC

#### Areas of Oversight

- » Provide strategic direction for speedy recovery of defaulted facilities
- » Review the effectiveness of recovery initiatives deployed
- » Ensure engagement of relevant stakeholders in the recovery process
- » Recommend credit and recovery capability requirements to ensure effective management of NPA and recoveries

### Special Board Committee on Digital Banking (SBCDB)

#### Composition of Directors as at 31st December 2024

Mr Madura Ratnayake ©  
Dr Prasad Samarasinghe

#### Areas of Oversight

- » Provide oversight to the timely and seamless implementation of Bank's proposed Digital Banking Platform/Layer including oversight on related investment components and initiatives
- » Creating a culture of prioritising of customer engagement

# CORPORATE GOVERNANCE


























## BOARD EFFECTIVENESS






### Board Composition

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

The composition and balance of the HNB Board is governed by the Bank's internal constitution, namely the Articles of Association as well as external directives such as the Banking Act Directions and the Listing Rules of the Colombo Stock Exchange. In compliance with these mandates, the HNB Board as at 31st December 2024 comprised 11 Directors, consisting of one (1) Executive Director and ten (10) Non-Executive Directors, of which six (6) are Independent Non-Executive Directors. On this basis, it is deemed that the balance of power within the HNB Board is well distributed so that no one Director has unfettered powers of decision making.

The composition of the Board is subject to change from time to time owing to new appointments, retirements, resignations, and the re-election of Directors.

Name of Director	Directorship Status	Appointment Date	Sub-Committee (As at 31st December 2024)	Skills and Expertise
Mr Nihal Jayawardene PC		August 2021		Legal
Mr Damith Pallewatte <i>Appointed w.e.f. 22nd November 2024</i>		November 2024		Banking & Risk Management
Mr Jonathan Alles <i>Retired w.e.f. 23rd August 2024</i>		May 2013		Banking & Finance
Mr Madura Ratnayake		October 2018		Information Technology and Digital
Mr Devaka Cooray		July 2020		Accounting & Finance
Mr Rimoe Saldin		April 2021		Management and Accounting & Finance
Mr Osman Chandrawansa <i>Retired w.e.f. 11th September 2024</i>		April 2021		Regulatory and Banking & Finance
Mr Rasitha Gunawardana		January 2022		Risk Management and Banking & Finance
Mr Kithsiri Gunawardena		January 2022		Management and Legal
Dr Prasad Samarasinghe		October 2022		Information Technology, Digital, Management and Telecommunication
Mr Nanda Fernando <i>Appointed w.e.f. 2nd April 2024</i>		April 2024		Banking & Finance
Mr Sivakrishnarajah Renganathan <i>Appointed w.e.f. 2nd April 2024</i>		April 2024		Banking & Finance
Mr Suresh Shah <i>Appointed w.e.f. 10th May 2024</i>		May 2024		Accountancy & Management

 BAC	Board Audit Committee
 HRRC	Human Resources & Remuneration Committee
 NGC	Nominations & Governance Committee
 BIRMC	Board Integrated Risk Management Committee
 RPTRC	Related Party Transactions Review Committee

 SIRC	Strategy & Investment Review Committee
 PADC	Procurement & Assets Disposal Committee
 BCC	Board Credit Committee
 BRC	Board Recoveries Committee
 SBCDB	Special Board Committee on Digital Banking



## HNB Board Profile

The HNB Board as at 31st December 2024 comprised 11 Directors, consisting of 01 Executive Director and 10 Non-Executive Directors, of which 06 are Independent Non-Executive Directors. The profile of Board Members and their membership of Committees is given on page 122.

## Board Refreshment

(Principles A.4, A.7, A.7.1, A.7.2., A.7.4, A.8

Key attributes such as skills and competencies as well as gender and other distinctions among Board members are deemed critical in ensuring a well balanced and high quality Board. Therefore, Board refreshment serves as an opportunity for continuous enhancement of Board balance through the infusion of new skills as well as to improve age and gender diversity at a leadership level.

Board refreshment most often takes place organically as a consequence of the retirement or resignation of existing Board members leading to the appointment, re-election, succession of Directors. Apart from this, the Bank's Nominations & Governance Committee (NGC) undertakes to review the structure composition, skill gaps and experience in relevant disciplines of the Board vis-a-vis the latest regulatory directives and global best practices, which paves the way for suitable nominees to enhance the integrity of the Board in terms of diversity indicators such as skills, age, gender etc.

## Selection and Appointment of New Directors

(Principle A.7.4

The assessment and nomination of new Directors, which falls under the purview of the NGC is a comprehensive process where potential candidates are considered based on how their skills and expertise can complement the Board quality and diversity.

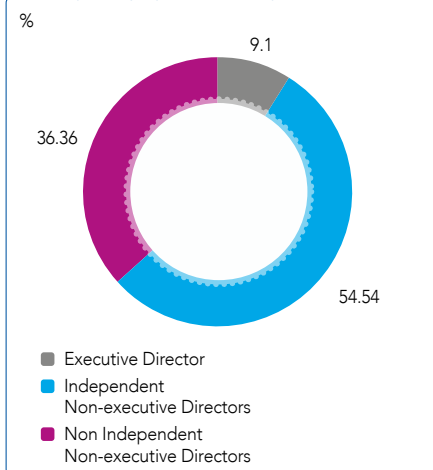
The criteria for the selection of NEDs follow the directives issued under Banking Act No 30 of 1988 and amendments thereto specifically Direction No 11 of 2007 and Direction No 05 of 2024, rules set out

under Section 9 of the CSE Listing Rules on Corporate Governance of Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued by CA Sri Lanka (2023) as well as the provisions in the Securities and Exchange Commission of Sri Lanka Act No 19 of 2021.

The 2024 review of the Board skill matrix against the backdrop of the provisions of the Banking Act Directions No 5 of 2024 on Corporate Governance for Licensed Banks, required Board members to possess qualifications and experience in the designated areas, i.e.: Banking, Finance, Economics, Accounting, Business Administration, Information Technology, Risk Management, Law or any other relevant discipline as may be determined by the Central Bank of Sri Lanka.

Based on this assessment the NGC nominated four (4) suitable candidates, namely - Mr Sivakrishnarajah Renganathan, Mr Nanda Fernando, Mr Suresh Shah and Mrs Dilani Alagaratnam Goonatilleke were appointed to the Board following the formal clearance by the Central Bank of Sri Lanka (CBSL) and Securities

## Executive and Non-executive Directors



and Exchange Commission of Sri Lanka regarding fulfilment of fit and proper conditions. Following their appointments, immediate disclosures were made to the Colombo Stock Exchange together with a brief profile of the Director containing areas of expertise, names of companies in which the Director holds directorships or memberships in Board Committees, shareholdings in the Bank and status of independence .

## Board Changes FY 2024

### Appointments

- » Mr Sivakrishnarajah Renganathan - 02nd April 2024
- » Mr Nanda Fernando - 02nd April 2024
- » Mr Suresh Shah 10th May 2024
- » Mr Damith Pallewatte MD/CEO - 22nd November 2024
- » Mrs Dilani Alagaratnam Goonatilleke - 31st January 2025

### Resignations

- » Mr Dilshan Rodrigo - 12th January 2024 (Already mentioned in 2023 Annual Report)

### Retirements

- » Mr Jonathan Alles - 23rd August 2024
- » Mr Osman Chandrawansa - 11th September 2024

## Board Nominees for 56th AGM

### Election

- » Mr Sivakrishnarajah Renganathan
- » Mr Nanda Fernando
- » Mr Suresh Shah
- » Mrs Dilani Alagaratnam Goonatilleke

### Re-Election

- » Mr Madura Ratnayake
- » Mr Rimoe Saldin

# CORPORATE GOVERNANCE

## Re-election of Directors

*(Principle A.8)*

As per the Bank's Articles of Association 1/3 of the Non- Executive Directors are required to retire from office to each Annual General Meeting and stand eligible to stand for re-election by the shareholders at the Annual General Meeting, subject to NGC's confirmation of the relevant Directors' eligibility for re-election with due consideration of his/her past record in terms of participation, engagement, contribution towards Board matters and fulfilment of fit and proper criteria for Directors.

As per the Bank's Articles of Association, a Director appointed by the Board to fill a casual vacancy that may have arisen since the previous AGM, is also entitled to offer himself / herself for re-election at the next AGM.

## Retirements and Resignation of Directors

As per the provisions of the Banking Act, Directions on Corporate Governance issued by the Central Bank of Sri Lanka NEDs who have served a maximum of nine (9) years on the Board of a Bank or reach 70 years of age (whichever is earlier), are expected to retire from the Board.

In compliance with new regulatory requirements, a formal Policy on Corporate Governance, Nominations and Re-Election was approved by the Board in September 2024 and the same was published on the Bank's website with effect from 1st October 2024. The Policy establishes the relevant criteria and clear guidelines for the nomination of new Directors and the re-election of existing Directors to the Board, ensuring greater accountability, transparency, fairness across the process.

## Succession Planning

*(Principle A.7.3)*

Board succession planning serves as a critical tool in safeguarding the continuity of the Bank's operations and strategic journey.

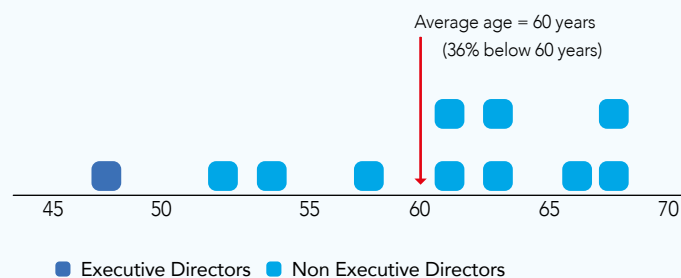
In line with the provisions of the Banking Act Directions on Corporate Governance issued by the Central Bank of Sri Lanka, the Nomination and Governance Committee (NGC) recommended the succession plan detailing suitable persons to fill vacancies created at Board level. The succession plan is presented for approval of the Board of Directors. The NGC continuously reviews succession planning efforts of Key Management Personnel and updates the formal succession with named successor for KMP together with development plans to ensure their readiness.

A structured approach was applied for Mr Damith Pallewatte, DGM-WBG who was appointed as the incumbent MD/CEO and

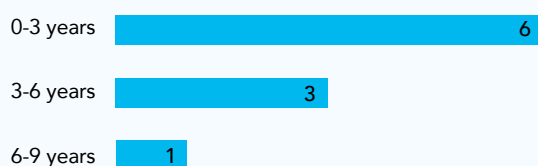
## BOARD SKILLS AND DIVERSITY

As a domestic systemically important Bank, it is vital that the HNB Board possess the appropriate mix of skills and experience required to drive the Bank's strategy in order to create and sustain value over the short, medium and long term.

### Executive Directors to Non-Executive Directors :Age (Years)

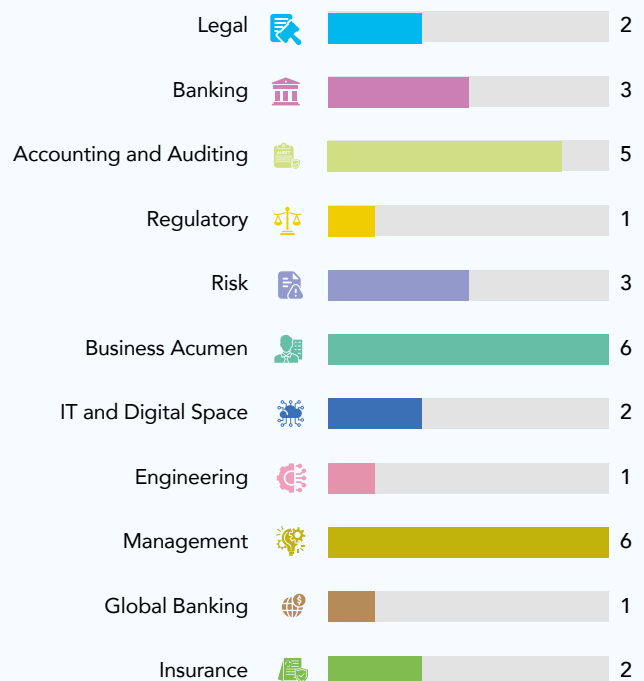


### Non Executive Directors Tenure



### Board skills and experience-Non Executive Directors

*(Number of Board members with experience)*



successor to Mr Jonathan Alles who retired in August 2024. The smooth transition in the executive leadership was facilitated by a series of planned activities rolled out with effect from May 2023. Following the conclusion of the action plan and appropriate approvals regarding fulfilment of the CBSL's fit and proper criteria, Mr Damith Pallewatte was formally appointed as the Managing Director/Chief Executive Officer of HNB in November 2024 with appropriate CSE announcements made in compliance with regulatory requirements.

### Induction and Training for Directors

(Principle A.1.8)

All new Directors are subject to a formal induction where they receive an orientation pack that outlines the main areas that requires familiarisation. The induction pack includes Articles of Association, Banking Act Directions, Code of Best Practice on Corporate Governance 2023 issued by CA

Sri Lanka, Policy on matters relating to the Board of Directors (formerly known as Board Charter) to ensure they are adequately briefed and have the requisite knowledge of the Bank and its operations. New Directors are also required to meet with the Chairman of the Board of Directors, the MD/ CEO and selected KMP of the Bank along with the opportunity to participate in branch visits.

Throughout their tenure, Directors also benefit from both internal and external training programmes to support ongoing knowledge enhancement and build awareness on economic, regulatory and industry trends.

With several new Directors on-boarded in 2024, the induction programme for new appointees was further strengthened to include in-depth discussions with KMPs in charge of key business functions and tailored sessions on the gamut of new compliance requirements that came into effect in the current year.



#### INTERNAL TRAINING PROGRAMMES

- » Training on Anti-Bribery and Corruption by an expert from Transparency International Sri Lanka.
- » Board of Directors awareness on Personal Data Protection Act No 9 of 2022 conducted by the Bank's CISO
- » Strategy workshop conducted by the Bank's Acting Chief Executive Officer
- » Presentation on "Corporate Governance rules of the Colombo Stock Exchange" by Chief Regulatory Officer of Colombo Stock Exchange
- » Induction program for newly appointed Directors
- » Annual cybersecurity presentation to the Board of Directors Presentation conducted by the Bank's CISO
- » Presentation on Economic update by Senior Analyst of Ceylon Chamber of Commerce



#### EXTERNAL TRAINING PROGRAMMES

- » Seminar on "The revisions to new Corporate Governance Rules"
- » High-level Awareness for Board of Directors and Senior Management of Financial Institutions on AML/CFT mutual evaluation
- » Annual high level awareness conference organised by CBSL on strengthening governance – enhancing Board's accountability in Financial institutions for effective compliance against Money Laundering, Terrorist Financing, and Proliferation Financing in Sri Lanka
- » Salient features of the Banking (Amendment) Act No 24 of 2024 conducted by CBSL
- » Strengthening Corporate Governance -The Critical Role of INEDs- programme organised by the Sri Lanka Institute of Directors
- » Role of Directors for Better Governance conducted by CA SRI LANKA

# CORPORATE GOVERNANCE

## Board Meetings

(Principles A.1.1, A.5.10, A.6, A.10)

Board meetings are held monthly or more often when needed. A structured framework is in place for planning of Board meetings, which includes the annual meeting calendar that is prepared annually in advance by the Company Secretary in consultation with the Board Chairman. The annual meeting calendar is communicated to all Board members at the start of the year.

Before each scheduled meeting, the Chairman, assisted by the Company Secretary, sets the agenda for the meeting to ensure relevant matters are presented for discussion in order of priority. To enable Directors to make informed decisions, a Board pack is prepared and circulated among all Directors seven (7) days prior to the Board Meeting. The Board pack typically contains qualitative and quantitative information on matters to be raised at the Board Meeting along with the MD/CEO's review of business operations, financial performance, industry trends and market developments pertaining to each sector and the Group as a whole. KMPs are also invited to attend Board meetings as needed to discuss relevant areas of business.

It is mandatory for Directors to attend Board meetings, with all Board members expected to be fully prepared and engage proactively in all Board proceedings. In preparing for Board meetings, Directors have unrestricted access to KMPs to obtain quantitative and qualitative information and resources pertinent to agenda items.

### Before

- » The Chairman sets a timed agenda in consultation with CEO, Directors and the Company Secretary
- » Directors are encouraged to send in proposals for inclusion in the agenda
- » Papers are generally submitted to the Board one (1) week prior to the Board Meeting
- » Directors may contact Senior Executives/ Company Secretary for additional information in preparation for the meeting

### During

- » The Chairman is responsible for the orderly conduct of the meeting, engaging all Directors
- » KMP and external experts are invited for clarification and/or presentations on items in the agenda
- » Directors are encouraged to share their perspectives and expertise and exercise independent judgement on matters set before the Board
- » Minutes of proceedings are maintained including dissenting views of Directors
- » Directors are expected to excuse themselves from meetings, where conflict of interest may exist

### After

- » Minutes are generally sent to the Board members within two (2) weeks of the meeting
- » An action tracker is used to follow up matters by the Company Secretary in preparation for the next Board Meeting
- » While Board approval on urgent matters may be done by circulation and ratified by the Board at the following meeting, this is discouraged. Where any single Director is of the view that it is a matter for discussion at the Board meeting, such matter shall be brought up at the next meeting by the Chairman
- » Decisions of the Board meeting are generally shared with the KMPs within 48 hours of the conclusion of the meeting.

Directors are also entitled to seek independent professional advice co-ordinated through the Company Secretary at Bank's expense.

## Board and Board Sub-Committee Evaluation

(Principle A.9)

As set out in the Banking Act Directions, Code of Best Practices on Corporate Governance and other applicable regulations, the Board and Board Sub Committees appraise their performance annually. This is done by way of a self-assessment to evaluate if they have successfully discharged their responsibilities as stated in the Policy on Matters relating to the Board of Directors (formerly known as Board Charter). The process of evaluating Board performance begins with the annual self-evaluation by each Director to

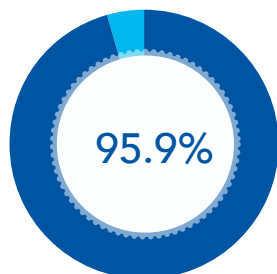
assess his / her contribution to the Board. Simultaneously, the NGC works collectively to assess Board effectiveness with due consideration of the balance and mix of skills, experience, independence and knowledge, the gender representation at Board level.

The same procedure is followed for evaluating the performance of Board Sub-Committees as well.

The outcome of the appraisal for the year 2023 was tabled and discussed at the Board Meeting held in April 2024, the 2024 annual appraisal is currently in progress.

The results of the last evaluation indicate that the Board and Board Sub-Committees are competent and well equipped to perform their respective roles effectively in line with their respective TORs and in

Total number of Board and Board Sub-Committee meetings  
**108**



## Attendance at Board and Sub-Committee Meetings

Name of Director	Board Meetings	Board Audit Committee	Human Resources & Remuneration Committee	Nominations & Governance Committee	Board Integrated Risk Management Committee	Related Party Transactions Review Committee	Strategy & Investment Review Committee	Procurement & Assets Disposal Committee	Board Credit Committee	Board Recoveries Committee	Special Board Committee on Digital Banking
Total meetings held	19	10	9	10	11	4	5	12	7	7	14
Mr Nihal Jayawardene PC	19/19		9/9	9/10		1/1	©5/5		7/7	7/7	
Mr Damith Pallewatte <i>Acting CEO from 6th April 2024 to 21st November 2024 (attendance by invitation) MD / CEO from 22nd November 2024</i>	■ 3/3 3/3		■ 1/1		■ 3/4				1/1		
Mr Jonathan Alles <i>Resigned w.e.f.23rd August 2024</i>	11/13	■ 3/6	■ 2/3	■ 3/3	4/7	■ 2/2	■ 1/1		■ 0/5		
Mr Madura Ratnayake	13/19		©9/9	8/10	4/4 ■ 1/1		4/5				©14/14
Mr Devaka Cooray	19/19	©10/10		©10/10	■ 9/11				6/7		
Mr Rimoe Saldin	19/19	■ 8/10			©11/11		3/3	©12/12			
Mr Osman Chandrawansa <i>Resigned w.e.f. 11th September 2024</i>	14/14	7/7	7/7			2/2			5/5	5/5	
Mr Rasitha Gunawardana	19/19	10/10	9/9			©4/4		12/12	©7/7	7/7	
Mr Kithsiri Gunawardana	18/19		4/5		10/11		1/2			©3/3	
Dr Prasad Samarasinghe	19/19				11/11		5/5	12/12			14/14
Mr Nanda Fernando	10/11				3/4	3/3	4/4	6/8	2/2		
Mr Sivakrishnarajah Renganathan	11/11	7/7	1/1	5/5			4/4		5/5		
Mr Suresh Kumar Shah	10/10		4/4		3/3	2/2	3/3				

© Chairperson as at 31st December 2024

■ Meetings attended by invitation

adherence to the provisions of the relevant regulatory directives.

### Evaluating the performance of the MD/ CEO

*Principle A.11*

The performance of the MD/ CEO is assessed annually by the Board Chairman based on the progress made against the Bank's short, medium and long term objectives with financial and non-financial targets, set at the commencement of the financial year which are agreed with the MD/ CEO whilst also considering the changes in

the operating environment. The outcome of the MD/CEO's annual performance review along with the Chairman's observations are shared with the Board along with the MD/ CEO's responses to the appraisal.

### BOARD OVERSIGHT RESPONSIBILITIES

#### Risk Management and Internal Control

The Board has a sound understanding of the Bank's risk universe and has established a comprehensive Policy on Risk Management and Internal Controls supported by a fully-fledged Integrated Risk Management

Framework (IRMF) and internal control system which provides a platform to monitor and report on the efficacy of all systems - financial, operational and compliance and provide reasonable assurance of achieving the Bank's strategic objectives while safeguarding capital adequacy and sustainability. Assisting the Board in its risk oversight role is the Board Integrated Risk Management Committee (BIRMC), while the Risk Department and several executive level committees support the BIRMC in the implementation of the IRMF. The Internal Audit Department is charged with the



# CORPORATE GOVERNANCE

responsibility of monitoring internal controls and reporting on findings to the BAC.

As part of the ongoing improvements to capture the latest revisions of the CSE's Corporate Governance rules, a summarised version of Policy on Risk Management and Internal Controls was formulated by encapsulating the salient features of the Bank's Risk Management Framework Policy, Operational Risk Management Policy and Fraud Risk Management Guideline.

The BIRMC report on page 208 and the Risk Management Report on Page 232 provide extensive information regarding the risk context, strategy and management measures undertaken in FY 2024.

## Ethics and Conduct

The Board sets the tone for a strong ethical foundation and leads by example in fostering a culture of integrity and responsible business conduct. Every Board member upholds the highest standards of ethics by adhering to the Policy on Internal Code of Business Conduct and Ethics and governance requirements for Directors, both in letter and spirit, ensuring their actions align with the Bank's core values and ethical principles.

Additionally, the Board has established a comprehensive conduct framework to guide decision-making and behaviour across all levels of the operation. This framework promotes accountability, fairness and transparency while ensuring compliance with regulatory requirements and the Bank's governance standards. It serves as a cornerstone for cultivating trust among stakeholders and reinforcing the Bank's reputation for ethical and responsible operations.

## Code of Business Conduct and Ethics (Code)

*Principle D.6*

The Board approved Policy on Internal Code of Business Conduct and Ethics establishes a solid foundation to inculcate strong business ethics at all levels of operation. The Code sets out expected behavioural

### Key features of the Policy on Internal Code of Business Conduct and Ethics

- » Act ethically, responsibly, honestly and with integrity, in the best interests of the Bank
- » Safeguard the Bank from frauds, corruptions, collusions and coercions
- » Compliance with laws, rules and regulations
- » Avoidance of conflict of interest
- » Avoidance of discrimination and harassment
- » Prevention of bribery and corruption
- » Maintain confidentiality
- » Maintain fair dealing
- » Prohibit entertainment and accepting gifts
- » Ensure accurate accounting and record keeping
- » Follow fair and transparent procurement practices
- » Protection and proper use of Bank's assets including information assets
- » Encourage whistle blowing
- » Obtain corporate opportunities

standards and offers guidance regarding what is unacceptable in the course of normal business, including share trading policy outlining the restrictions on trading in listed securities of the Bank. All Directors and employees of HNB, without exception, are bound by the Policy on Internal Code of Business Conduct and Ethics.

The Code is published on the Bank's website (<https://www.hnb.net/bank-policies>) and also accessible on the intranet, while all employees receive training on compliance with the Code as part of their induction process and regular refresher courses.

### Key elements of the ABC Policy;

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

## Anti-Bribery and Corruption (ABC) Policy.

The Board approved ABC Policy underscores the Bank's zero tolerance approach towards bribery and corruption and applies to all Directors, KMPs and employees of HNB. The policy elucidates several internal channels to enable reporting of incidents with allegations of misconduct which are then escalated to the BIRMC, BAC, or Board for investigation.

Regular training is conducted to reinforce these principles among employees and Directors. Similarly, business partners and third parties who act on behalf of the Bank

are also informed of and required to align with the ABC policy. Moreover, the risk of bribery and corruption across bank-wide operations is assessed regularly through the Compliance Monitoring Programme and reviewed by the Bank's Compliance Officer.

### Whistleblowing Policy

The Whistleblowing process is designed as a channel for reporting of possible financial irregularities, inappropriate financial reporting, fraud, unethical conduct or other practices that violate the Code of Conduct & Ethics, Human Rights, regulatory requirements or policies of the Bank including Anti-Bribery and Corruption.

Employees are made aware of the Whistleblowing process by way of circular instructions. Full details regarding the Whistleblowing process and its operation are also made available on the intranet.

As per the established procedure, whistleblower complaints relating to breach of ethics, confidentiality and possible improprieties are reviewed by the Board Audit Committee (BAC), while specific provisions allow for independent investigations as deemed necessary by the BAC. All whistleblower investigations are treated with utmost confidentiality to protect the whistleblowers' identity.

A Whistleblower Policy encapsulating the above procedures was revised and approved by the Board twice during 2024.

### Remuneration

*Principles B.1, B.2, B.3*

The HNB Board has established a comprehensive Remuneration Policy to ensure consistent and fair decision making with regard to the remuneration paid to Executive and Non-Executive Directors, Key Management Personnel and employees in order to achieve the following objectives:

- » Attract, motivate, reward and retain top talent
- » Promote the achievement of strategic objectives within the Bank's risk appetite

- » Encourage alignment with the Bank's core values and an ethical culture

As per the Policy, remuneration structures for Executive Directors are benchmarked to local market rates and are also linked to sustainable value creation objectives in line with the strategy and are based on clear performance targets that have adequate flexibility. The same principles apply for the remuneration of Key Management Personnel (KMP) as well.

The Human Resources & Remuneration Committee (HRRC) as the appointed custodian of the Bank's Remuneration Policy, conducts an annual evaluation of the performance of the Executive Director and KMP and makes recommendations to the Board regarding adjustments to fixed and variable components of their remuneration. The MD/CEO is invited to participate in these discussions regarding the remuneration of the KMPs. As per the Bank's policy, no special early termination clauses are included in the contract of employment of Executive Directors that would entitle them to extra compensation. However, such compensation, if any, would be determined by the Board of Directors with recommendations of the HRRC.

The Board as a whole determines the remuneration of the NEDs who receive a fee for serving as a Director of the HNB Board and a member of a Sub-Committee. Remuneration is determined with reference to fees paid to other Non- Executive and independent Directors across the banking industry and reviewed annually. In the event of an early termination of a NED, there are no compensation commitments other than for accrued fees payable, if any, as per the terms of their contract.

Remuneration disclosures are shown under Note 18 to the financial statements on page 366.

### IT and Information Security Systems

*Principle G*

The Board is accountable for approving the Bank's IT / digital strategy and objectives as well as the IT budget to support the Bank's business model and strategic growth aspirations. This is further facilitated via the creation of specialised Board Sub-Committee namely the Special Board Committee on Digital Banking and the internal digital working group, consisting of Corporate Management members and key internal stakeholders to guide and monitor the progress of the Bank's digital initiatives. In recent years, the Bank has seen exponential growth in its key digital customer offerings including the digital mobile app which is currently used by close to a million retail customers while the newly launched transaction banking platform which is used by SME and large corporates alike, is built using modern techniques such as multi factor authentication and bio metrics among others.

Under the stewardship of these Committees, internal banking IT systems are benchmarked against prevailing security trends and threats on a regular basis to ensure compliance and customer safety. Further key systems are updated regularly to ensure application compliance while adopting the best technology available to satisfy customer needs.

The Board recognises the criticality of robust information and cybersecurity in today's digital landscape and has appointed a dedicated Information Security Committee (ISC) which reports directly to the Board through the Board Integrated Risk Management Committee (BIRMC).

The ISC is chaired by the Bank's MD/CEO and is tasked with providing oversight and guidance on all aspects of information security as well as ensuring the independent and objective assessments of cyber security risks and controls. The Chief Information Security Officer (CISO) reports directly to the ISC about all information security related concerns.

# CORPORATE GOVERNANCE

The CISO is charged with the responsibility of implementing the Bank's cybersecurity framework which is underpinned by a strong governance structure, encompassing policies, procedures and controls aligned with international best practices such as the NIST Cybersecurity Framework and ISO/IEC 27001 standards. A comprehensive programme of internal audits, regular vulnerability assessments and penetration testing by external experts provides continuous assurance of the effectiveness of the Bank's cybersecurity measures. Furthermore, the Bank actively engages in ongoing security assessments and continuous improvement initiatives to proactively address emerging threats and vulnerabilities while also complying with critical directives issued by Central Bank as stipulated via the technology risk resilience guidelines.

The Bank remains committed to safeguarding customer data and protection against evolving cyber threats. In 2024, the Bank proactively initiated Bank wide implementation of Consumer Protection Act and Sri Lanka's Personal Data Protection Act related requirements. This reinforces our commitment to data privacy and security as a leading Bank in Sri Lanka.

## Sustainability

### Principle H

As one of the top-tier banks in Sri Lanka, HNB strives to lead by example in positioning itself as a sustainable organisation. To that end, the HNB Board has adopted a holistic approach to embed Environmental, Social and Governance (ESG) considerations into all facets of its operations, strategy and value chain.

HNB has upheld its commitment to environmental stewardship, exemplified in the Green Pledge – a promise from each employee to integrate eco-friendly practices both at work and home. The Green Pledge encompasses internal footprint management including the Bank's emissions, carbon footprint, resource efficiency, employee health and safety, supply chain management and CSR.

The Board approved Environmental and Social Policy serves as the overarching mandate for incorporating sustainability principles within the Bank's core lending operations. The policy is also approved by the Board of Directors and reviewed as required.

The Sustainability Management Committee serves as the main custodian of the Environmental and Social Policy. The Sustainability Management Committee was established in 2024, under the purview of the Board Strategy and Investment Review Committee to guide and monitor strategic implementation of ESG-related requirements across the Bank.

Accordingly, Sustainability and climate-related risks were identified and an ESG Action Plan drawn up specifying short, medium, and long-term targets. The Sustainability Division was formed in January 2025 to operationalise the ESG action plan.

The main tool for identifying specific ESG risks associated with financing of large projects is the Bank's Environmental and Social Management System (ESMS) which encapsulates the core elements of the Sri Lankan Sustainable Banking Principles (SBP) and the IFC Performance Standards for the management of Environmental and social risks of High-risk projects. The Sustainability Management Committee is charged with the responsibility of conducting due diligence to verify compliance to the ESMS.

The Board's commitment to sustainability extends to clear, comprehensive, and accurate reporting on HNB's progress and performance on ESG matters. Reporting is facilitated through the adoption of globally accepted reporting frameworks, such as the Global Reporting Initiative (GRI) Universal Standards, Task Force on Climate-Related Financial Disclosures (TCFD), United Nations Sustainable Development Goals Implementation of Sri Lanka Financial Reporting Standards – SLFRS S1 & S2 will start from 2025 as per the CSE requirements.

Further, the BIRMC maintains high level surveillance to keep track of sustainability

and climate related risks and opportunities linked to the core business and value chain activities, with feedback and recommendations presented to the Board. Taking into account the BIRMC's findings as well as the new regulations, the existing Environmental and Social Policy was further strengthened in the current year.

The Bank's Sustainability Foundation also plays an important supervisory role to assist in managing the Bank's environmental footprint and its strategic Corporate Social Responsibility (CSR) activities. The foundation, which is managed by an independent board of trustees, meets frequently to discuss and review the progress of CSR and environmental projects with key performance indicators and any concerns raised presented to the Board on quarterly basis.

These efforts are complemented by regular training and capacity building in topics such as sustainable finance practices, ethical governance, social responsibility and environmental stewardship, helping to equip employees with the knowledge and skills needed to understand and apply ESG concepts in their daily operations.

## Stakeholder Engagement

### (Principles C.2,E,F)

The Board is of the opinion that engaging openly with external and internal stakeholders helps to build trust and also gain deeper insights about their expectations of the Bank. Guided by the Board approved Policy on Internal Code of Business Conduct and Ethics, Bank-wide management teams to take a proactive approach to communication with stakeholders.

Throughout the year the Board reviewed the implementation of provisions in the Financial Consumer Protection Regulations No 01 of 2023 which came to effect in August 2024. Based on the requirements of the Financial Consumer Regulations Department (FCRD) of CBSL, the Bank has completed the implementation of most of the key action points in the said Regulations and the status as at 31st December 2024

was informed to the FCRD. The Bank is in the process of complying with the remaining action points.

### Shareholder Relations

*(Principles C.1, C.2, E, F)*

Shareholders are engaged through multiple channels of communication, including the Annual Report, Annual General Meeting (AGM), Interim Financial Statements, announcements to CSE, press releases, the Bank's website, regulatory filings, the investor feedback form given in the Annual Report.

The Board approved Policy on Relations with shareholders and investors ensure effective and timely communications of material matters to shareholders.

In compliance with new regulatory requirements in addition to the existing Corporate Communication Policy, a Policy on Corporate Disclosures was adopted by the Board of Directors. The new policy, with its significantly enhanced scope is designed to promote consistent communication and standardise disclosure practices for disseminating the Bank's material information to the public.

Another key compliance requirement fulfilled was the introduction of the new Policy on Relations with Shareholders and Investors, setting out the principles, standards and guidelines for Investor relations, events and roadshows, corporate disclosures / communications, inquiries and material transactions and other price sensitive information.

The Policy on Corporate Disclosures and the new Policy on Relations with Shareholders and Investors were both approved by the Board in September 2024 and hosted in the Bank's website with effect from 1st October 2024 .

Shareholders also have the opportunity to comment or make suggestions on publicly available information, through the Company Secretary, where all significant issues and concerns are referred to the Board with the views of the management.

### Reporting and Disclosure

The Annual Report is the key medium through which the Board presents a fair and balanced review of the Bank's financial position, performance and prospects combining narrative and visual elements to facilitate readability and comprehension. External audit/ third-party assurance has been obtained where relevant during the reporting, to enhance credibility. The Board of Directors review and approve the Annual Report, prior to publication while the Interim Financials are reviewed & recommended by the Board Audit Committee and approved by the Board of Directors, prior to publication.

### Annual General Meeting (AGM) and Voting Rights

*(Principles C.1, C.2, E, F)*

The Board is responsible for hosting the AGM at the conclusion of the financial year end. The AGM provides an opportunity for shareholders to interact directly with the Board of Directors of the Bank.

In adherence to the provisions in the Companies Act, the notice of the AGM , along with the voting procedures are circulated to shareholders 15 working days prior to the AGM. The PDF version of the Annual Report is uploaded to the CSE website and also made available on the Bank's website for viewing and downloading.

All Shareholders are encouraged to exercise their voting rights either in person at the AGM or by proxy. A special mechanism is in place to record and count all proxy votes lodged for each resolution. Shareholders play a key role in the re-election of Directors and External Auditor and vote on all matters for which notice is given including the adoption of annual report and accounts. All shareholders were given the opportunity to submit any question to the Board / management during the AGM and Voting was concluded on a show of hands.

Shareholder approval was received in an EGM held on 28th March 2024, conducted with the physical attendance of shareholders for issuing Basel III compliant

### Bank Policies

In line with the provisions in the Section 9 of Listing Rules on Corporate Governance of the Colombo Stock Exchange following policies were published on the Bank's website in 2024 at the link <https://www.hnb.net/bank-policies> under the Key Link titled 'Bank Policies'

- » Policy on matters relating to the Board of Directors
- » Policy on Board Committees
- » Policy on Corporate Governance, Nominations and Re-election
- » Policy on Remuneration
- » Policy on Internal Code of Business conduct and Ethics for all Directors and employees, including policies on trading in the Entity's listed securities.
- » Policy on Risk management and Internal controls
- » Policy on Relations with Shareholders and Investors
- » Policy on Environmental, Social and Governance Sustainability
- » Policy on Control and Management of Company Assets and Shareholder Investments
- » Policy on Corporate Disclosures
- » Policy on Whistleblowing
- » Policy on Anti-Bribery and Corruption

convertible debentures strengthening Tier II capital base of the Bank and to support the Bank's balance sheet growth and reduce the maturity mismatch, raising Rs. 12 Bn.

The outcome of the vote on each resolution is informed to the CSE, soon after the conclusion of the AGM and EGM.

# CORPORATE GOVERNANCE

A tabulation of the details of the shareholder attendance at the AGM in the last year is given below.

Mode of Participation	No of Shareholders	No of Shares Presented	% of Shareholding
In Person	60	265,330	0.06
By Proxy	11	302,069,854	67.63
Total Represented	71	302,335,184	67.69

HNB's 56th AGM is scheduled to be held on 27th March 2025.

## Compliance

The Board is responsible for ensuring that Bank complies with applicable laws, rules and statutory codes and provides oversight to ensure all applicable compliance requirements are fulfilled.

At the same time, the Board and all Board Committees remain proactively engaged in continuously evaluating the regulatory landscape to determine changes that may become applicable to the Bank. Moreover, the Board, Board Committees and KMPs also engage with respective regulatory authorities for the purpose of disseminating information on the latest regulatory changes in a bid to promote the early adoption of new regulations.

Under the supervision of BIRMC the compliance function within the Bank is responsible for managing compliance risk of the Bank. The Compliance Department

conducts appropriate due diligence activities to determine compliance with applicable new laws, rules and statutory codes, along with any amendments and additions. These are compiled into a gap report and reported to the Board and assigned to the relevant KMP as the first line. Upon receiving confirmation from the relevant KMP for compliance, the new item/ addition/ amendment is removed from the gap report. The Compliance function operates as the second line of defense within the Bank.

## Governance of Group Companies

The Board seeks to establish a common standard of Corporate Governance across subsidiaries and is guided by the Board approved Charter for Management on Good Governance for Group Companies. Alignment of governance practices and processes is reinforced by the appointment of Bank Directors and/or Corporate Management members to the Boards of subsidiaries.



## Reporting of Compliance

The Bank ensured full compliance with all provisions of CBSL Banking Act Direction No11 of 2007 on Corporate Governance and the Code of Best Practice on Corporate Governance 2023 issued by the Institute of Chartered Accountants of Sri Lanka. The Bank is fully compliant with the revised Section 9 of the Listing Rules on Corporate Governance issued by the Colombo Stock Exchange (CSE), further the Bank is compliant with majority of the requirements of the Banking Act Direction No 05 of 2024 for Licensed Banks issued by the Central Bank of Sri Lanka and measures are underway to comply with the remaining requirements within the specified timelines.

- Banking Act Direction No 11 of 2007 on Corporate Governance
- Section 9 of CSE Listing Rules on Corporate Governance
- Code of Best Practice on Corporate Governance (2023)

## Compliance with Banking Act Direction No11 of 2007 on Corporate Governance

Section	Principle, Compliance & Implementation
<b>3 (1)</b>	<b>Responsibilities of the Board</b>
3 (1) (i)	<p><b>Strengthening the Safety and Soundness of the Bank</b></p> <p>The Board's responsibilities are set out in the Policy on matters relating to Board of Directors (formerly known as Board Charter) approved by the Board in September 2024. The Board is accountable for the management of the affairs of the Bank and the safety and soundness of the Bank.</p> <p><b>a. Setting Strategic Objectives and Corporate Values - Complied</b> ✓</p> <p>The Bank's strategic objectives derived from the Vision and Mission Statements and its corporate values have been determined and approved by the Board of Directors and communicated to all levels of staff through multiple channels. The corporate values are included in the Policy on Internal Code of Business Conduct &amp; Ethics (formerly known as Code of Conduct and Ethics) which is provided in hard copy to all new employees is available on the Bank's website, intranet, explained at orientation programmes.</p> <p><b>b. Approving Overall Business Strategy including Risk Policy and Management - Complied</b> ✓</p> <p>The three year business strategy (Corporate Strategic Plan) together with the projections was presented to the Board of Directors in December 2024 and given the changing dynamics the Board is further deliberating on the Strategic Plan. The Annual budget for 2025, derived from the business strategy was approved after discussing in detail with the corporate management and monitored periodically, by the Board.</p> <p>The Board also approved the overall risk strategy of the Bank, determining the Risk Appetite, Policies and Risk Management Framework &amp; Mechanisms. The Corporate Strategic Plan is aligned to the overall risk strategy of the Bank, where Risk Appetite is considered in areas such as capital allocation and in the adoption of risk matrix to measure the risk levels. Governance and Compliance which are embedded in the Risk Management Policy Framework have also been included in the strategic plan. Further, the risk management procedures and mechanisms with time bound implementation milestones were approved and monitored by the Board Integrated Risk Management Committee (BIRMC) on a regular basis.</p> <p><b>c. Risk Management - Complied</b> ✓</p> <p>The Board takes overall responsibility for risk management of the Bank. The BIRMC is tasked with assisting the Board in structuring the Bank's Risk Policy, defining the risk appetite, identifying risks, setting governance structures and implementing processes to measure, monitor and manage the risks.</p> <p>The following reports provide further insights in this regard:</p> <ul style="list-style-type: none"> <li>• Risk &amp; Capital Review on page 232.</li> <li>• Board Integrated Risk Management Committee Report on page 208.</li> </ul>

# CORPORATE GOVERNANCE

Section	Principle, Compliance & Implementation
	<p><b>d. Communication with all Stakeholders - Complied</b> ✓</p> <p>The Board has approved a Corporate Communication Policy to ensure effective and timely communication with all stakeholders including depositors, creditors, shareholders and borrowers. The Corporate Communication Policy, which was reformulated in 2016 (revised in 2021), is guided by the principles of efficiency, transparency, proactivity, clarity and feedback. Investor forums and AGMs, investors are engaged through one-on-one meetings, road shows, webinars etc. are used to communicate with stakeholders in addition to responding to specific investor queries. During the year 2024, in compliance with the revised CSE Listing Rules, the Board approved the Policy on Relations with shareholders and investors and Policy on Corporate Disclosures to ensure effective and timely communications with all stakeholders and to standardise disclosure practices. Shareholder Relations and Stakeholder Engagement are described on page 160.</p> <p>The Bank has substantially implemented the provisions of Banking Act Direction No 8 of 2011 “Customer Charter of Licensed Banks”, which became effective in 2012. The Charter seeks to improve the quality and content in dispensing of customer service by enhancing customer protection, instilling trust and confidence in the Bank, while incorporating a set of customer obligations generated in the interests of Bank’s stability.</p> <p>During the year the Board reviewed the Customer Charter and made necessary amendments to incorporate the provisions in the Financial Consumer Protection Regulation Act No: 01 of 2023 which came into effect in August 2024.</p>
	<p><b>e. Internal Control System and Management Information Systems - Complied</b> ✓</p> <p>The Board reviews the adequacy and the integrity of the Bank’s Internal Control Systems and Management Information Systems and is satisfied with same. It is assisted by the Board Audit Committee (BAC). The BAC has reviewed reports from the Internal Audit Department in carrying out this function, together with the Management responses on the same. The minutes of the BAC meetings are tabled for the information of the Board on a periodic basis.</p>
	<p><b>f. Key Management Personnel (KMP) - Complied</b> ✓</p> <p>KMP are defined in the Sri Lanka Accounting Standard – LKAS 24 on “Related Party Disclosures”, as the persons who significantly influence policy, direct activities and exercise control over business activities, operations, and risk management. All appointments of designated KMP are recommended by the Nominations &amp; Governance Committee and approved by the Board.</p> <p>For the financial reporting purposes, the Board of Directors and selected key employees who meet the above criteria are considered as KMP of the Bank.</p> <p>For Corporate Governance reporting and monitoring purposes, Key Management Personnel comprise the Corporate Management (MD/CEO, COO, DGMs and AGMs), Head of Custody &amp; Trustee Services as per the guideline of “Key Management Personnel in Banking Act Direction for Corporate Governance” issued by the Banking Supervision Department of CBSL. All appointments of Key Management Personnel are recommended by the Nominations &amp; Governance Committee and approved by the Board.</p>
	<p><b>g. Define areas of authority and key responsibilities for Directors and Key Management Personnel - Complied</b> ✓</p> <p>Areas of authority and key responsibilities for the Board of Directors are set out in the Policy on matters relating to Board of Directors (formerly known as Board Charter). Areas of authority and key responsibilities for Key Management Personnel are stated in their job descriptions as recommended by the Nominations &amp; Governance Committee and approved by the Board. The delegated authority limits for Key Management Personnel have been approved by the Board.</p>
	<p><b>h. Oversight of affairs of the Bank by Key Management Personnel - Complied</b> ✓</p> <p>The MD/CEO and other Key Management Personnel are accountable to the Board for the Bank’s operational and financial performance, in accordance with the policies set by the Board. The Board reviews the performance of the Bank against the strategic plan and receives reports from its Sub-Committees on matters delegated to them. Further, Key Management Personnel make regular presentations to the Board on matters under their purview and are also called in to explain matters relating to their areas.</p>

Section	Principle, Compliance & Implementation
	<p><b>i. Assess effectiveness of own Governance Practices - Complied</b> ✓</p> <p>The effectiveness of the Board's own governance practices, including the process for selection, nomination and election of Directors [which is explained in detail under Rule 3 (2) (ix)] and the process for management of conflict of interest [which is explained in detail under Rule 3 (1) (xii)] are reviewed by the Board on a periodic basis. Implementation of changes required is discussed and determined by the Board at year-end, following the submission of the summary of annual self-evaluations of the Board and Board Sub-Committees.</p>
	<p><b>j. Succession plan for Key Management Personnel - Complied</b> ✓</p> <p>The Bank has an appropriate succession plan for Key Management Personnel aligned to the Bank's strategic objectives and Talent Management Programme. The plan is guided by the policy on succession planning for Key Management Personnel and Directors, last reviewed in 2020. The Nominations &amp; Governance Committee is responsible for the formulation, review and rollout of the plan.</p>
	<p><b>k. Regular Meetings with Key Management Personnel - Complied</b> ✓</p> <p>The Board maintains a sound relationship with the Corporate/Senior Management led by MD/CEO, who in turn assists the Board to formulate policies, strategies, processes and practices that fit the Bank and its business needs in achieving corporate objectives. The Management is open and transparent with the Board, bringing all significant matters to its attention. Key Management Personnel are regularly invited to attend Board and Sub-Committee meetings for discussion on matters concerning their areas of responsibility or make presentations on key agenda items.</p>
	<p><b>l. Regulatory environment and maintaining an effective relationship with regulator – Complied</b> ✓</p> <p>On appointment, Directors are provided with a folder containing all relevant governance information, including laws, regulations, directions and guidelines. Directors are briefed about regulatory developments at Board and Sub-Committee meetings by Key Management Personnel including the Heads of Internal Audit, Risk and Compliance and by attending Director Forums arranged by the Central Bank of Sri Lanka (CBSL) and other regulatory bodies. Further, Board members regularly meet with CBSL officials to discuss strategic matters specific to the Bank, maintaining an effective relationship with the regulator.</p>
	<p><b>m. Hiring and Oversight of External Auditors - Complied</b> ✓</p> <p>The External Auditor is appointed by following the procedures set out in Article 53 (iv) of the Articles of Association. The Board Audit Committee makes recommendations to the Board for the appointment, re-appointment or removal of the External Auditor in-line with professional &amp; ethical standards and regulatory requirements. In addition, the Board has adopted a policy of rotation of auditors, once in five years, in keeping with the principal of Good Corporate Governance. A policy for Engagement of the External Auditor to provide Non-Audit Services is in place, as reviewed and recommended by the Board Audit Committee.</p> <p>On the recommendation of the Board, the shareholders approved the re-appointment of Messrs. KPMG as the External Auditor of the Bank, at the last AGM. In compliance with Section 163 (3) of the Companies Act No 07 of 2007, the External Auditors submit a statement annually, confirming their independence in relation to the External Audit."</p> <p>To fall in line with the provisions in the Banking Act (Amendment) No 24 of 2024 read together with the Banking Act Direction No 05 of 2024 on Corporate Governance issued by the CBSL, the Board of Directors approved the recommendation made by the Board Audit Committee to change the rotation policy of external auditors from 5 to 6 years and to change the audit partner once in every 3 years.</p>
3 (1) (ii)	<p><b>Appointment of Chairman and CEO and defining and approving their functions and responsibilities - Complied</b> ✓</p> <p>The Board has appointed the Chairman and the MD/CEO. Their roles and responsibilities are set out clearly and separately in the Policy on matters relating to the Board of Directors (formerly known as Board Charter), ensuring a balance of power and authority and preventing unfettered power being vested with an individual. These functions and responsibilities are in line with Section 3(5) of said Direction.</p>
3 (1) (iii)	<p><b>Regular Board Meetings - Complied</b> ✓</p> <p>Monthly Board meetings are held regularly, and special meetings are scheduled based on need. Nineteen (19) Board meetings were held in 2024, out of which four (4) meetings were conducted with extended teleconferencing. Directors actively participate in the meetings deliberating on matters set before the Board. Attendance at Board meetings is given on page 157 Urgent Board Papers are approved via circular resolution only on an exceptional basis, where such resolutions are ratified by the Board at the next meeting. 14 Resolutions and 9 credit papers were approved in 2024, via circulation.</p>

# CORPORATE GOVERNANCE

Section	Principle, Compliance & Implementation
3 (1) (iv)	<p><b>Arrangements for Directors to include proposals in the agenda - Complied</b> ✓</p> <p>The Board Calendar with tentative dates for Board and Sub-Committee meetings for the following year is sent to all members approximately one month before the end of the current year. The Chairman sets the Board Agenda assisted by the Company Secretary. Directors submit proposals for inclusion in the agenda up on discussion with the Chairman.</p>
3 (1) (v)	<p><b>Notice of Meetings - Complied</b> ✓</p> <p>Notice of meetings, Agenda and Board Papers for the meetings are sent generally seven (7) days before the meeting, giving members sufficient time to attend the meeting and study the documents. Urgent Board Papers are included on an exceptional basis, with the consent of the Chairman.</p>
3 (1) (vi)	<p><b>Directors' Attendance - Complied</b> ✓</p> <p>At appointment, all Directors are apprised of the regulations on attendance in accordance with the Banking Act Direction No11 of 2007. Attendance at Board meetings is given on page 157. All Directors have attended at least two thirds (2/3) of Board meetings held during 2024, the lowest attendance being eight (8) Directors at a Meeting. No Director has been absent from three (3) consecutive meetings during 2024.</p>
3 (1) (vii)	<p><b>Appointment and setting responsibilities of the Company Secretary - Complied</b> ✓</p> <p>The Board has appointed a Company Secretary, an Attorney at Law, who satisfies the provisions of Section 43 of the Banking Act No30 of 1988 (as amended). The Company Secretary guides the Board on discharging its duties and responsibilities, facilitates adherence to best practices in Corporate Governance and apprises the Board of relevant legislative and regulatory changes.</p>
3 (1) (viii)	<p><b>Directors' access to advice and services of Company Secretary - Complied</b> ✓</p> <p>All Board members have full access to advice and services of the Company Secretary to ensure that proper Board procedures are followed and all applicable rules and regulations are complied with.</p>
3 (1) (ix)	<p><b>Maintenance of Board Minutes - Complied</b> ✓</p> <p>Company Secretary maintains the minutes of the Board meetings. The minutes are reviewed by the Chairman and are circulated to all Board members and approved at the next Board Meeting upon incorporating any amendments proposed by other Directors. The minute book is maintained by the Company Secretary and open for inspection by any Director.</p>
3 (1) (x)	<p><b>Minutes to be of sufficient detail and serve as a reference for regulators and supervisory authorities - Complied</b> ✓</p> <p>Minutes of Board meetings are recorded in sufficient detail to reflect that the Board acted with due care and prudence in performing its duties and to serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at Board meetings.</p> <p>The detailed minutes of the meetings include the following:</p> <ul style="list-style-type: none"> <li>• a summary of data and information used by the Board in its deliberations;</li> <li>• the matters considered by the Board members;</li> <li>• the fact-finding discussions and the issues of contention or dissent;</li> <li>• the testimonies and confirmations of relevant executives which indicates compliance with the Board's strategies and policies and adherence to relevant laws and regulations;</li> <li>• matters related to risks to which the Bank is exposed and an overview of the risk management measures adopted;</li> <li>• the decisions and resolutions of Board/Board Sub-Committees.</li> </ul>
3 (1) (xi)	<p><b>Directors' ability to seek independent professional advice - Complied</b> ✓</p> <p>Procedures are in place to allow Directors to seek independent professional advice, as and when necessary and at the Bank's expense, in discharging their duties and responsibilities. This facility is coordinated through the Company Secretary.</p>

Section	Principle, Compliance & Implementation
3 (1) (xii)	<p><b>Dealing with Conflicts of Interest - Complied</b> ✓</p> <p>Article 40 of Articles of Association, the Policy on matters relating the Board of Directors and the Policy on Internal Code of Business Conduct and Ethics addresses the provision with regard to this requirement. The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both fact and apparent) between their duty to HNB and their other interests.</p> <p>The Board has taken steps to ensure that conflicts and potential conflicts of interest of Directors are disclosed to the Board. Any Director with a material personal interests in a matter being considered by the Board, declares his/her interests unless the Board resolves otherwise, he/she does not participate in discussions or vote on that specific matter. The Directors declare their interests at appointment and thereafter on a quarterly basis. The Bank also maintains the Register of Directors' Interests which is regularly updated in line with the regulatory requirements. In addition, Policy on Anti Bribery &amp; Corruption and relevant internal guidelines are in place to ensure the Bank's commitment towards anti-corruption practices. Further, an effective and comprehensive internal control framework for identifying, recording and disclosing Related Party Transactions is also in place.</p> <p>Measures are underway to review the Policy on matters relating to the Board of Directors and the Policy on Internal Code of Business conduct and Ethics to strengthen the above procedure as required in terms of Banking Act Direction No 05 of 2024 on Corporate Governance for Licensed Banks issued by Central Bank of Sri Lanka.</p>
3 (1) (xiii)	<p><b>Formal schedule of matters for decision making – Complied</b> ✓</p> <p>The Board reserves for itself a formal schedule of matters on which it takes the ultimate decision.</p>
3 (1) (xiv)	<p><b>Inform Central Bank, if there are solvency issues - Complied</b> ✓</p> <p>The Bank is solvent and no situations have arisen to challenge its solvency.</p> <p>In the unlikely event, the Bank is about to become insolvent, a procedure is however in place to inform the Director of Banking Supervision of same, prior to taking any decision or action to suspend payments due to depositors and other creditors.</p>
3 (1) (xv)	<p><b>Capital Adequacy - Complied</b> ✓</p> <p>The Board monitors capital adequacy and other prudential measures to manage risk and to ensure compliance with regulatory requirements. The Bank is in compliance with the minimum capital requirements of the Monetary Board.</p>
3 (1) (xvi)	<p><b>Publish Corporate Governance Report in Annual Report - Complied</b> ✓</p> <p>This report forms part of the Corporate Governance Report of the Bank which is set out on pages 140 to 189.</p>
3 (1) (xvii)	<p><b>Self-Assessment of Directors - Complied</b> ✓</p> <p>Each Director undertakes a self-assessment of the Board annually, to ensure responsibilities are satisfactorily discharged. The outcome of the appraisal for the financial year 2023 was tabled at the Board Meeting held in April 2024. The 2024 annual appraisal is currently in progress. Further, each Director carries out an assessment of "fitness and propriety" to serve as a Director.</p>
<b>3 (2)</b>	<b>The Board's Composition</b>
3 (2) (i)	<p><b>Number of Directors - Complied</b> ✓</p> <p>The Board consists of Eleven (11) Directors as at 31st December 2024, compliant with CBSL Direction which requires the number of Directors to be not less than seven (7) and not more than thirteen (13).</p>
3 (2) (ii)	<p><b>Period of service of a Director - Complied</b> ✓</p> <p>The total period of service of all Non-Executive Directors does not exceed nine (9) years as required by the CBSL Direction. Tenures of service of Directors are given on page 154.</p>
3 (2) (iii)	<p><b>Director Appointment of an Employee as a Director - Complied</b> ✓</p> <p>There is one (1) Director who served in an Executive Capacity in the Board as at 31st December 2024. The Board balance is compliant with the CBSL Direction which limits the number of Executive Directors to 1/3 of the Board.</p>
3 (2) (iv)	<p><b>Independent Non-Executive Directors - Complied</b> ✓</p> <p>The Board comprises six (6) Independent Non-Executive Directors as at 31st December 2024, in compliance with regulatory requirement. Directors satisfy the criteria for determining independence, which is reviewed annually by the Board, based on self-declaration forms submitted by the Directors.</p>



# CORPORATE GOVERNANCE

Section	Principle, Compliance & Implementation
3 (2) (v)	<p><b>Alternate Independent Directors - Complied</b> ✓</p> <p>No Alternate Directors were appointed to represent Non-Executive Directors.</p>
3 (2) (vi)	<p><b>Criteria for Non-Executive Directors - Complied</b> ✓</p> <p>All Non-Executive Directors are eminent professionals in their respective fields, with credible track records and necessary skills and experience. They contribute diverse perspective to matters set before the Board Meeting, bringing independent judgement to bear on issues of strategy, performance and resources.</p>
3 (2) (vii)	<p><b>More than half the quorum to comprise Non-Executive Directors - Complied</b> ✓</p> <p>Majority of the Board comprises Non-Executive Directors.</p>
3 (2) (viii)	<p><b>Identify Independent Non-Executive Directors in communications and disclose categories of Directors in Annual Report - Complied</b> ✓</p> <p>Independent Non-Executive Directors are expressly identified in all corporate communications that disclose the names of Directors of the Bank. Composition and details of the Board are given on page 152.</p>
3 (2) (ix)	<p><b>Formal and transparent procedure for appointments to the Board - Complied</b> ✓</p> <p>The Board has a formal and transparent process in place for the succession and appointment of Directors. The Nominations &amp; Governance Committee processes and short-lists candidates and makes recommendations to the Board for approval. The attributes and experience required from potential appointees are identified and agreed prior to the search process, considering the combined knowledge, experience and diversity of the Board, in relation to the Bank's strategic plans and any gaps thereof. The candidate's other directorships and commitments are also considered to ensure sufficient time to discharge their role at HNB, effectively. Upon completion of this process, names are referred to the Director of the Bank Supervision Department of the Central Bank of Sri Lanka for approval as a "fit and proper" person, prior to the appointment.</p> <p>Mr Sivakrishnarajah Renganathan and Mr Nanda Fernando were appointed to the Board w.e.f. 2nd April 2024</p> <p>Mr Suresh Shah was appointed to the Board w.e.f. 10th May 2024</p> <p>Mr Damith Pallewatte was appointed as the Managing Director/ Chief Executive Officer w.e.f. 22nd November 2024.</p> <p>Mrs Dilani Champika Alagaratnam Goonatileke was appointed to the Board w.e.f. 31st January 2025</p>
3 (2) (x)	<p><b>Re-election of Directors filling casual vacancies - Complied</b> ✓</p> <p>All Directors (other than the Executive Director) appointed to the Board are subjected to re-election by shareholders at the first Annual General Meeting after their appointment.</p>
3 (2) (xi)	<p><b>Communication of reasons for removal or resignation of Director - Complied</b> ✓</p> <p>Resignations of Directors and the reasons thereof are promptly informed to the regulatory authorities and shareholders in compliance with the CSE regulations together with a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.</p> <p>Mr Dilshan Rodrigo resigned w.e.f. 12th January 2024 ( already mentioned in 2023 Annual Report)</p> <p>Mr Jonathan Alles retired from the Board w.e.f. 23rd August 2024 with his retirement from the service of the Bank and Mr Osman Chandrawansa Independent /Non-Executive Director retired from the Board w.e.f. 11th September 2024 having attained the age of 70 years.</p>
3 (2) (xii)	<p><b>Prohibition of a director or employee of any other bank, being appointed as a Director of the Bank - Complied</b></p> <p>None of the Directors are Directors or employees at any other Bank. This is a requirement when seeking appointment of Directors.</p>
<b>3 (3)</b>	<b>Criteria to assess fitness and propriety of Directors</b>
3 (3) (i)	<p><b>Age of Director should not exceed 70 years - Complied</b> ✓</p> <p>There are no Directors who are over seventy (70) years of age.</p>
3 (3) (ii)	<p><b>Directors should not be Directors of more than 20 companies and not more than 10 companies classified as Specified Business Entities - Complied</b> ✓</p> <p>The Directors do not hold Directorships of more than twenty (20) companies/entities/institutions inclusive of Subsidiaries or Associate Companies of the Bank. Directorships in other companies are given on page 146.</p>

Section	Principle, Compliance & Implementation
3 (3) (iii)	<p>Cooling-off period when appointing Directors or CEO - Complied ✓</p> <p>The Bank has complied with the directions when appointing Directors during the year.</p>
<b>3 (4)</b>	<b>Management functions delegated by the Board</b>
3 (4) (i)	Understand and study delegation arrangements - Complied ✓
3 (4) (ii)	Extent of delegation should not hinder Board ability to discharge its functions - Complied ✓
3 (4) (iii)	<p>Review delegation arrangements periodically to ensure relevance to operations of the Bank - Complied ✓</p> <p>The Board has a clear understanding of the delegation arrangements, studying, reviewing and approving the extent of delegation annually to ensure it meets the business needs of the Bank whilst enabling the Board to effectively discharge their duties.</p>
<b>3 (5)</b>	<b>The Chairman and Chief Executive Officer</b>
3 (5) (i)	<p>Separation of roles - Complied ✓</p> <p>There is a clear separation between roles of the Chairman and the CEO, ensuring a balance of power for decision-making.</p>
3 (5) (ii)	<p>Non-Executive Chairman and appointment of a Senior Independent Directors - Complied ✓</p> <p>Chairman. Mr Nihal Jayawardene PC was appointed as the Chairman w.e.f. 9th June 2023. As Mr Nihal Jayawardene, PC is considered a Non-Independent Director as per CBSL regulations, Mr Devaka Cooray was designated as the Senior Independent Director w.e.f. 9th June 2023. A formal Terms of Reference for the Senior Independent Director is in place.</p>
3 (5) (iii)	<p>Disclosure of identity of Chairman and CEO and any relationships with the Board members - Complied ✓</p> <p>The profiles of the Chairman and CEO are disclosed on page 122.</p> <p>The Bank has in place a mechanism to monitor this aspect.</p> <p>As declared by the Directors, no relationships including financial, business, family, or any other, prevailed between the Chairman, MD/CEO or among other Board members.</p>
3 (5) (iv)	<p>Chairman to provide leadership to the Board - Complied ✓</p> <p>The Chairman led the Board ensuring that it performs effectively, and acts in the best interests of the Bank on a timely basis. The effectiveness of the Chairman in discharging Board functions is assessed annually by the Board and through the self-assessment process.</p>
3 (5) (v)	<p>Responsibility for agenda lies with Chairman but may be delegated to Company Secretary - Complied ✓</p> <p>The Chairman sets the Board agenda, assisted by the Company Secretary and MD/CEO.</p>
3 (5) (vi)	<p>Ensure that Directors are properly briefed and provided adequate information - Complied ✓</p> <p>The Chairman ensured that the Board is sufficiently briefed and informed regarding the matters arising at Board Meeting.</p> <p>Board Papers are circulated generally seven (7) days prior to the meeting, giving members adequate time to study the documents. Directors have access to KMPs to clarify matters and to external professionals for independent advice, when required.</p>
3 (5) (vii)	<p>Encourage active participation by all Directors and lead in acting in the interests of the Bank - Complied ✓</p> <p>The Chairman has encouraged all Directors to actively contribute towards the best interests of the Bank and it is addressed in the list of functions and responsibilities of the Chairman which was approved by the Board.</p>
3 (5) (viii)	<p>Encourage participation of Non-Executive Directors and relationships between Non-Executive and Executive Directors - Complied ✓</p> <p>The Chairman has encouraged effective participation of all Directors and constructive relations between Executive and Non-Executive Directors. This function is assessed annually by the Board and by the Chairman in the self-assessment. Additionally, Non-Executive Directors chair the Board Sub-Committees providing further opportunity for active participation.</p>
3 (5) (ix)	<p>Refrain from direct supervision of Key Management Personnel and executive duties - Complied ✓</p> <p>The Chairman does not get involved in the supervision of Key Management Personnel or any other executive duties.</p>

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Section	Principle, Compliance & Implementation
3 (5) (x)	<p><b>Ensure effective communication with Shareholders - Complied</b> ✓</p> <p>The Annual General Meeting (AGM) is the main mechanism for shareholders' views to be heard and where the Board interacts with and clarifies matter for the shareholders. The Board has formulated a formal policy to handle shareholders' complaints. The shareholder engagement is given on page 161.</p>
3 (5) (xi)	<p><b>CEO functions as the apex executive in charge of the day-to-day operations and business - Complied</b> ✓</p> <p>As set out in the Policy on matters relating to the Board of Directors (formerly known as Board Charter), the responsibility for the day-to-day operations and business of the Bank has been delegated to the MD/CEO in his capacity, as the apex executive-in-charge of the Board.</p>
<b>3 (6)</b>	<b>Board appointed Committees</b>
3 (6) (i)	<p><b>Establishing Board Committees, their functions and reporting - Complied</b> ✓</p> <p>The Board has appointed ten (10) Sub-Committees to ensure its oversight and control over the affairs of the Bank.</p> <p>The details of Board Sub-Committees are disclosed on pages 149 to 151.</p> <p>Each Sub-Committee is governed by its own Terms of Reference and has a Secretary who arranges the meetings and maintains minutes and records under the supervision of the Chairman of the Sub-Committee. The Sub-Committee Chairman are accountable for the effective functioning of Committees and reports on a periodic basis to the Board on the activities of their respective Sub-Committees, highlighting matters for Board attention. Committee mandates are reviewed regularly.</p>
3 (6) (ii)	<p><b>Board Audit Committee</b></p> <p><b>a. Chairman to be an Independent Non-Executive Director with qualifications and experience in accountancy and/or audit - Complied</b> ✓</p> <p>The Chairman of the Board Audit Committee (BAC), Mr Devaka Cooray is an Independent Non-Executive Director, a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants United Kingdom. He has worked with Messrs. Ernst &amp; Young for over 40 years of which 30 years was as a Senior Assurance and Talent Partner. He functioned as the Deputy Managing Partner from 2016 until his retirement in 2019. Mr Devaka Cooray has spearheaded many initiatives during his tenure at Messrs. Ernst &amp; Young. Details are provided on page 123.</p> <p><b>b. Committee to comprise solely of Non-Executive Directors - Complied</b> ✓</p> <p>All the members are Independent Non-Executive Directors throughout the year</p> <p><b>c. Board Audit Committee functions - Complied</b> ✓</p> <p>In terms of its mandate, the Board Audit Committee is responsible for the following key recommendations:</p> <ol style="list-style-type: none"> <li>I. The appointment of the External Auditor for audit services in line with professional and ethical standards and in compliance with regulatory requirements. On the recommendation of the Board Audit Committee/Board, the shareholders have approved Messrs. KPMG as the External Auditor of the Bank for the year 2024,</li> <li>II. The service period, audit fee and any resignation or dismissal of the auditor, <ul style="list-style-type: none"> <li>To fall in line with the provisions in the Banking Act (Amendment) No 24 of 2024 read together with the Banking Act Direction No 05 of 2024 on Corporate Governance issued by the CBSL, the Board of Directors approved the recommendation made by the Board Audit Committee to change the rotation policy of external auditors from 5 to 6 years and to change the audit partner once in every 3 years.</li> </ul> </li> <li>III. The implementation of the Central Bank guidelines issued to auditors from time to time and</li> <li>IV. Monitoring and review of the adequacy and effectiveness of accounting policies and the application of relevant accounting standards.</li> </ol> <p><b>d. Review and monitor External Auditor's independence and objectivity and the effectiveness of the audit processes - Complied</b> ✓</p> <p>The Board Audit Committee monitors and reviews the External Auditor's independence, objectivity and the effectiveness of the audit process taking into account relevant professional and regulatory requirements. In addition, the Bank has changed the policy of rotation of external auditors from once in every five years to six years and the rotation of audit partner once in every 3 years.</p>

Section	Principle, Compliance & Implementation
	<p><b>e. Provision of Non-Audit Services by External Auditor - Complied</b> ✓</p> <p>The BAC is guided by the Board approved policy for Engagement of the External Auditor to provide Non-Audit Services. The Policy was reviewed in 2021.</p> <p>In assignment of Non-Audit Services to External Auditors by the Bank, the Board/Board Audit Committee ensures that the External Auditor has the necessary skills and experience for the assignment and ascertains the independency and/or objectivity of the External Auditor in carrying out his duties and responsibilities will not be impaired. Assigning such Non-Audit Services to External Auditors is discussed at BAC meetings and prior Board approval is obtained. Please refer Board Audit Committee Report on page 214 for further details.</p>
	<p><b>f. Determines scope of Audit - Complied</b> ✓</p> <p>The External Auditor Messrs. KPMG attended nine (9) meetings during the year. The External Auditor presented the audit approach and procedures, including nature &amp; scope of the audit and auditor's independence to the Committee.</p>
	<p><b>g. Review financial information of the Bank - Complied</b> ✓</p> <p>The Committee reviews the financial information of the Bank, which are reviewed and presented by the CFO in order to monitor the integrity of the Bank's Financial Statements, Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgements contained therein. The review focuses particularly on the following:</p> <ol style="list-style-type: none"> <li>I. Major judgemental areas,</li> <li>II. Any changes in accounting policies and practices,</li> <li>III. Significant adjustments arising from the audit,</li> <li>IV. The going concern assumption,</li> <li>V. Compliance with relevant accounting standards and other legal requirements.</li> </ol>
	<p><b>h. Discussions with External Auditor on interim and final audits - Complied</b> ✓</p> <p>The Board Audit Committee discusses issues, problems and reservations arising from the interim and final audits with the External Auditor.</p>
	<p><b>i. Review of Management Letter and Bank's response - Complied</b> ✓</p> <p>The Board Audit Committee reviewed the External Auditor's Management Letter for 2023, and the Management's response and follow up on addressing the same thereto during 2024.</p>
	<p><b>j. Review of Internal Audit Function - Complied</b> ✓</p> <p>During the year, the Board Audit Committee reviewed the independence, objectivity and performance of the Internal Audit Function, ensuring the function acts with impartiality, proficiency and due professional care.</p> <p>BAC reviewed the adequacy of coverage of the internal audit plan and approved the same. The Committee also assessed the Internal Audit Department's resource requirements including succession planning and is satisfied that the Internal Audit Department has the necessary authority to carry out its work.</p> <p>The Committee reviewed internal audit findings, management responses thereto and results of the follow up action taken on the recommendations of the Internal Audit Department.</p> <p>The Internal Audit Department's evaluation of the Bank's internal controls were reviewed by the Board Audit Committee.</p> <p>The Committee reviewed the performance appraisal of the Chief Internal Auditor and other senior staff members of the Internal Audit Department.</p> <p>The Committee recommended appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function if any.</p> <p>The Committee is kept apprised of resignations of senior staff of the Internal Audit Department together with the reasons for resigning if any.</p> <p>The Chief Internal Auditor directly reports to the Board Audit Committee, ensuring the independence of the Internal Audit function.</p>

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Section	Principle, Compliance & Implementation
	<p><b>k. Internal Investigations - Complied</b> ✓</p> <p>Major findings of internal investigations and management's responses thereto are reviewed by the Board Audit Committee and implementation of the recommendations.</p>
	<p><b>l. Attendees at Board Audit Committee Meetings - Complied</b> ✓</p> <p>The Chairman of BIRMC, MD/CEO, Chief Financial Officer, Chief Internal Auditor and a representative of the External Auditor are the regular attendees as at the reporting date. Other Board members may also attend meetings upon invitation. The Committee met the External Auditor on two (2) occasions in 2024, in the absence of the Executive Director and KMPs.</p>
	<p><b>m. Explicit authority, resources and access to information - Complied</b> ✓</p> <p>The Board Audit Committee is guided by the Committee Charter which sets out authority and responsibilities of the said Committee. The Charter was last reviewed in April 2024. The Board Audit Committee is authorised to obtain external professional advice and to invite outsiders with relevant experience to attend as and when necessary. The Committee also has full access to information in order to investigate matters relating its Terms of Reference. Terms of Reference of the Committee is described in the Committee Report given on page 214.</p>
	<p><b>n. Regular Meetings - Complied</b> ✓</p> <p>The Board Audit Committee met Ten (10) times during the year. Conclusions in discharging its duties and responsibilities are recorded in the minutes of the meetings maintained by the secretary to BAC.</p>
	<p><b>o. Disclosure in Annual Report - Complied</b> ✓</p> <p>Details of activities of the BAC are included in the report of the Board Audit Committee given on page 214.</p> <p>The number of meetings held and attendance at Board Audit Committee meetings held in 2024 are set out on page 215.</p>
	<p><b>p. Maintain Minutes of Meetings - Complied</b> ✓</p> <p>Minutes of Board Audit Committee meetings are recorded and maintained by the Secretary to the Committee. The Chief Internal Auditor serves as the Secretary to the Committee.</p>
	<p><b>q. Whistle Blowing Policy and relationship with External Auditor - Complied</b> ✓</p> <p>A Board approved Whistle Blowing Policy is in place and the same has been reviewed twice during the year 2024. The Whistle Blowing Policy and the mechanism had been communicated to all staff members.</p> <p>The Board Audit Committee reviews issues relating to breach of ethics if any and the arrangements by which the staff of the Bank may in confidence to raise concerns about possible improprieties. The Committee also ensured that the procedures for the independent investigations of such matters are appropriate and are in place. The Independent Non-Executive Directors handling whistle blowing complaints provide regular updates to the BAC.</p> <p>The Policy on matters relating to the Board of Directors (formerly known as Board Charter) addresses the Board's responsibility to encourage any communication regarding non-compliances and unethical behaviour within the Bank.</p>
3 (6) (iii)	<p><b>Human Resources &amp; Remuneration Committee</b></p>
	<p><b>a. Remuneration Policy - Complied</b> ✓</p> <p>The Committee reviews all significant human resource policies and initiatives, salary structures, promotions and terms and conditions relating to staff at Senior Management level with information and recommendations from the MD/CEO and the Chief Human Resource Officer. Terms of Reference of the Committee is described in the Committee Report on page 200.</p> <p>The Policy on Remuneration was revised in September 2024 merging the separate policies for all employees including KMPs , Non- Executive Directors and Executive Directors.</p> <p>The Committee is currently reviewing the Policy on Remuneration to include a clawback policy as required under Banking Act Direction No 05 of 2024 on Corporate Governance issued by CBSL.</p>
	<p><b>b. Goals and Targets - Complied</b> ✓</p> <p>The goals and targets of the Board of Directors have been clearly set out and evaluated at the end of the year. The goals and targets for the MD/CEO and the senior leadership team are well-documented. Further, the goals and targets for 2024 for the MD/CEO and the senior leadership team were approved by the Board.</p>



Section	Principle, Compliance & Implementation
	<p><b>c. Performance Evaluation - Complied</b> ✓</p> <p>The Directors are evaluated at the end of the year based on the goals and targets set out.</p> <p>The Committee deliberates upon and recommends to the Board of Directors regarding the remuneration packages, annual increments and bonuses of the MD/CEO, COO, members of the Corporate Management and Senior Management staff, having evaluated their performance against the set goals and targets.</p>
	<p><b>d. Meetings - Complied</b> ✓</p> <p>The HRRC Committee met Nine (9) times during the year.</p> <p>The MD/CEO attends Human Resources &amp; Remuneration Committee by invitation. The MD/CEO is not present at the time when matters relating to him are being discussed.</p>
3 (6) (iv)	<p><b>Nomination Committee</b></p>
	<p><b>a. Appointment of Directors, CEO and Key Management Personnel - Complied</b> ✓</p> <p>A formal procedure is in place to appoint new Directors, MD/CEO and Key Management Personnel.</p> <p>The Committee is currently reviewing the procedure to appoint Directors, MD/CEO and KMPs to further strengthen the criteria for selections.</p>
	<p><b>b. Re-election of Directors - Complied</b> ✓</p> <p>The Committee considers and recommends the re-election of the Directors to the Board.</p>
	<p><b>c. Eligibility criteria for appointments to key managerial positions including CEO - Complied</b> ✓</p> <p>The Committee sets the eligibility criteria, including qualifications, experience and key attributes, for appointment or promotion to key management positions including the position of the MD/CEO.</p> <p>A Board approved procedure to appoint Directors, MD/CEO and KMP is in place.</p>
	<p><b>d. Fit &amp; proper persons - Complied</b> ✓</p> <p>Each Director including the MD/CEO carries out an assessment of “fitness and propriety” to serve as a Director of the Bank. These declarations are reviewed by the Nominations &amp; Governance Committee prior to submission to the Director of Bank Supervision of the Central Bank of Sri Lanka.</p>
	<p><b>e. Succession plan and new expertise - Complied</b> ✓</p> <p>A Succession Planning Policy is in place for KMPs and Directors including the MD/CEO. Each year, the Nominations &amp; Governance Committee reviews the additional/new expertise requirements and succession arrangements for Directors and KMPs of the Bank, in line with the strategic plan.</p>
	<p><b>f. Composition of Nomination Committee - Complied</b> ✓</p> <p>The Nomination Committee was renamed as the Nominations &amp; Governance Committee w.e.f. 30th November 2023, in compliance with the revised Section 9 of the Listing Rules on Corporate Governance issued by the Colombo Stock Exchange. Terms of Reference of the Nominations &amp; Governance Committee was revised to be in line with the Banking Act Direction No 05 of 2024 on Corporate Governance issued by CBSL and approved by the Board of Directors on 13th December 2024.</p> <p>The following Non-Executive Directors served on the Nominations &amp; Governance Committee during 2024.</p> <p><b>Chairman</b></p> <p>Mr Devaka Cooray - Independent Non-Executive Director</p> <p><b>Other Committee Members</b></p> <p>Mr Madura Ratnayake – Independent Non-Executive Director</p> <p>Mr Nihal Jayawardene PC - Non-Independent/Non-Executive Director</p> <p>Mr Sivakrishnarajah Renganathan – Independent Non-Executive Director appointed w.e.f. 26th April 2024</p> <p>Terms of Reference of the Committee is described in the Committee Report on page 204.</p>

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Section	Principle, Compliance & Implementation
3 (6) (v)	Board Integrated Risk Management Committee
	<p><b>a. Composition of Risk Management Committee - Complied</b> ✓</p> <p>The following personnel served on the Board Integrated Risk Management Committee during 2024.</p> <p><b>Chairman</b> Mr Rimoe Saldin - Non-Independent/Non-Executive Director</p> <p><b>Other Committee Members</b> Mr Kithsiri Gunawardena - Non-Independent/Non-Executive Director Dr Prasad Samarasinghe - Non-Independent/Non-Executive Director Mr Suresh Shah – Independent Non Executive Director appointed w.e.f. 19th September 2024 Mr Ruwan Manatunga – Chief Risk Officer/DGM (Risk) up to 13th December 2024 Mr Neil Rasiah – Chief Compliance Officer up to 13th December 2024 Mr Damith Pallewatte – Managing Director/ Chief Executive Officer from 19th September 2024 to 13th December 2024 in his capacity as the Acting Chief Executive Officer and as the Managing Director /Chief Executive Officer respectively. Mr Jonathan Alles up to 23rd August 2024.</p> <p>The Chairman of BAC, CRO and MD/CEO attend meetings on invitation. The Committee makes decisions on behalf of the Board within the framework of the authority and responsibilities assigned.</p> <p>The Terms of Reference of the Committee was revised on 24th January 2024. The Terms of Reference of the Committee described in the Committee Report on page 212.</p>
	<p><b>b. Risk Assessment - Complied</b> ✓</p> <p>Policies on Credit Risk Management, Market Risk Management and Operational Risk Management have been approved by the Committee, providing a framework for management and assessment of risks. In discharging its responsibilities further as per the mandate, periodic reports on pre-established risk indicators prepared by the Risk Department are submitted to the Committee for review.</p> <p>The risk management process followed by the subsidiary companies has also been reviewed by the BIRMC during 2024.</p>
	<p><b>c. Review of Management Level Committee – Complied</b> ✓</p> <p>The Committee reviews the reports of the Management Committees including the Asset and Liability Committee (ALCO) and the Executive Risk Management &amp; Credit Policy Committee to assess their adequacy and effectiveness in addressing specific risks and managing the same within the quantitative and qualitative risk limits set in the Risk Appetite Statement approved by the Board.</p>
	<p><b>d. Corrective action to mitigate risks exceeding prudential levels – Complied</b> ✓</p> <p>The Risk Dashboards, prepared on a periodic basis, reflects the actual exposure levels under each risk category against the tolerance levels, decided by the Committee on the basis of the Bank’s policies and regulatory and supervisory requirements. The Committee has taken prompt corrective actions to mitigate the effects of risk indicators which have gone beyond the tolerance levels.</p>
	<p><b>e. Frequency of meetings – Complied</b> ✓</p> <p>The Committee has met eleven (11) times during the year. The agenda covers matters assessing all aspects of risk management including the updated business continuity plans.</p>
	<p><b>f. Actions against officers responsible for failure to identify specific risks or implement corrective action – Complied</b> ✓</p> <p>Such matters, if any, are referred to the Human Resources Division for necessary action.</p>
	<p><b>g. Risk assessment report to Board – Complied</b> ✓</p> <p>Detailed reports of the BIRMC meetings are submitted to the Board at the subsequent Board Meeting.</p>

Section	Principle, Compliance & Implementation
	<p><b>h. Compliance Function – Complied</b> ✓</p> <p>The Bank has established a compliance function to assess and ensure the Bank’s compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations, headed by a dedicated Compliance Officer who reports to the BIRMC.</p>
<b>3 (7)</b>	<b>Related Party Transactions</b>
3 (7) (i)	<p><b>Avoid conflict of interest – Complied</b> ✓</p> <p>A Board approved policy to enhance the transparency of Related Party Transactions is in place. The Related Party Transactions Review Committee (RPTRC) oversees the process relating to the said subject and the Committee report is provided on page 218</p> <p>Steps have been taken by the Board to avoid any conflicts of interest, that may arise, in transacting with related parties as per the definition of this Direction. Directors provide declarations to the Board about their outside business interests at appointment and quarterly thereafter. Directors do not participate in, and excuse themselves from the Meeting, when the Board considers any matters in which lending to related entities are discussed and where a conflict in interest may arise.</p> <p>Transactions carried out with related parties as defined by LKAS 24 on ‘Related Party Disclosures’ in the normal course of business are disclosed on Note 60 to the Financial Statements on ‘Related Party Disclosures’ on pages 453 to 458. Directors’ interests in contracts which do not fall into the definition of Related Party Transactions as per LKAS 24 are reported separately in the Annual Report, outside the Financial Statements. The net accommodation granted to each category of related parties as a percentage of the Bank’s regulatory capital is given under Rule 3 (8) (ii) (e). on page 176.</p>
3 (7) (ii)	<p><b>Related Party Transactions covered by direction – Complied</b> ✓</p> <p>The Related Party Transactions Policy approved by the Board covers the following transactions:</p> <ol style="list-style-type: none"> <li>The grant of any type of accommodation, as defined in the Monetary Board’s Directions on maximum amount of accommodation,</li> <li>The creation of any liabilities of the Bank in the form of deposits, borrowings and investments,</li> <li>The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank and</li> <li>The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.</li> </ol>
3 (7) (iii)	<p><b>Prohibited transactions – Complied</b> ✓</p> <p>The Bank’s Related Party Transactions Policy prohibits transactions which would grant related parties more favourable treatment than that accorded to other customers. These include the following:</p> <ol style="list-style-type: none"> <li>Granting of “Total Net Accommodation” to related parties, exceeding a prudent percentage of the Bank’s regulatory capital. Refer Rule 3 (8) (ii) (e) page 176.</li> <li>Charging of a lower rate of interest than the Bank’s best lending rate or paying more than the Bank’s deposit rate for a comparable transaction with an unrelated comparable counterparty.</li> <li>Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties.</li> <li>Providing services to or receiving services from a related-party without an evaluation procedure.</li> <li>Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</li> </ol>
3 (7) (iv)	<p><b>Granting accommodation to a Director or close relation to a Director – Complied</b> ✓</p> <p>A formal procedure is in place for granting accommodation to Directors or to close relatives of Directors. Such accommodation must be sanctioned at Board meetings, by not less than 2/3 of the number of Directors excluding Director concerned, voting in favour of such accommodation. The terms and conditions of the facility include a provision that it will be secured by such security as may from time to time be determined by the Central Bank of Sri Lanka.</p>

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Section	Principle, Compliance & Implementation															
3 (7) (v)	<p><i>Accommodations granted to persons, or concerns of persons, or close relations of persons, who subsequently are appointed as Directors of the Bank – Complied</i> ✓</p> <p>As at 31st December 2024 the accommodation granted to all Directors are in line with the CBSL Direction.</p>															
3 (7) (vi)	<p><i>Favourable treatment or accommodation to Bank employees or their close relations – Complied</i> ✓</p> <p>No favourable treatment or accommodation is provided to Bank employees or their relatives, other than staff benefits.</p>															
3 (7) (vii)	<p><i>Remittance of accommodations subject to Monetary Board approval – Complied</i> ✓</p> <p>No such situation has arisen during the year.</p>															
<b>3 (8)</b>	<b>Disclosures</b>															
3 (8) (i)	<p><i>Publish annual and quarterly Financial Statements – Complied</i> ✓</p> <p>Annual Audited Financial Statements and Quarterly Financial Statements of the Bank were prepared in accordance with the formats prescribed by the Supervisory and Regulatory Authorities and applicable accounting and financial reporting standards and have been published in the newspapers in all three (3) languages.</p>															
3 (8) (ii)	<p>Disclosures in Annual Report</p> <p><b>A</b> <i>Statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures – Complied</i> ✓</p> <p>Disclosures on the compliance with the applicable accounting standards and regulatory requirements in preparation of the Annual Audited Financial Statements have been made in the Statement of Directors' Responsibility for Financial Reporting on page 280, Chief Executive Officer's and Chief Financial Officer's Statement of Responsibility on page 279 and Note 2.1.1 Statement of Compliance to the Financial Statements on page 299.</p> <p><b>b.</b> <i>Report by the Board on the Bank's internal control mechanism – Complied</i> ✓</p> <p>A confirmation by the Directors on the effectiveness of the internal control system over financial reporting is given under the Directors' Statement on Internal Control over Financial Reporting on page 222.</p> <p><b>c.</b> <i>External Auditor's certification on the effectiveness of the internal control mechanism – Complied</i> ✓</p> <p>The Assurance Report issued by the External Auditor on the Internal Control over Financial Reporting based on SLSAE 3050 – Assurance Reports for Banks on Directors' Statement on Internal Controls issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) is given on page 508. The recommendations made by the Auditors where relevant, will be dealt with in 2025.</p> <p><b>d.</b> <i>Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank – Complied</i> ✓</p> <p>Profiles of Directors are given on pages 122 to 127.</p> <p>Directors' transactions with the Bank are disclosed in Note 60 to the Financial Statements on pages 413 to 418.</p> <p>Remuneration paid by the Bank to the Board of Directors (which includes the remuneration of the Executive Directors) is disclosed in Note 18 to the Financial Statements on page 366.</p> <p><b>e.</b> <i>Total accommodations granted to each category of related parties and as a percentage of the Bank's regulatory capital – Complied</i> ✓</p> <p>The net accommodation granted to each category of related parties are given below as a percentage of the Bank's regulatory capital.</p> <table border="1"> <thead> <tr> <th>Category of Related Party Transactions</th> <th>Rs Mn</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Non-Executive Directors and their close family members</td> <td>1.16</td> <td>0.00</td> </tr> <tr> <td>Key Management Personal * and their close family members</td> <td>252.74</td> <td>0.11</td> </tr> <tr> <td>Subsidiaries</td> <td>2,052.00</td> <td>0.88</td> </tr> <tr> <td>Joint Ventures</td> <td>5,881.54</td> <td>2.52</td> </tr> </tbody> </table> <p>* includes the Executive Directors</p>	Category of Related Party Transactions	Rs Mn	%	Non-Executive Directors and their close family members	1.16	0.00	Key Management Personal * and their close family members	252.74	0.11	Subsidiaries	2,052.00	0.88	Joint Ventures	5,881.54	2.52
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Joint Ventures	5,881.54	2.52														

Section	Principle, Compliance & Implementation										
	<p><i>f. Aggregate values of remuneration to, and transactions with Key Management Personnel – Complied</i> ✓</p> <p>The aggregate amount of remuneration paid during 2024 to KMP and the transactions with KMP are given below;</p> <table border="1" data-bbox="228 453 1487 638"> <thead> <tr> <th data-bbox="228 453 1312 485">Remuneration and transactions with the Key Management Personnel</th> <th data-bbox="1312 453 1487 485">Rs Mn</th> </tr> </thead> <tbody> <tr> <td data-bbox="228 485 1312 527">Remuneration paid</td> <td data-bbox="1312 485 1487 527">815.74</td> </tr> <tr> <td data-bbox="228 527 1312 569">Accommodation</td> <td data-bbox="1312 527 1487 569">943.10</td> </tr> <tr> <td data-bbox="228 569 1312 611">Deposits</td> <td data-bbox="1312 569 1487 611">455.72</td> </tr> <tr> <td data-bbox="228 611 1312 638">Investments</td> <td data-bbox="1312 611 1487 638">82.14</td> </tr> </tbody> </table>	Remuneration and transactions with the Key Management Personnel	Rs Mn	Remuneration paid	815.74	Accommodation	943.10	Deposits	455.72	Investments	82.14
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	<p><i>g. External Auditor’s certification of compliance – Complied</i> ✓</p> <p>The External Auditors have performed procedures set out in Sri Lanka Standards on Related Service 4400 issued by the Institute of Chartered Accountants of Sri Lanka (SLSRS 4400), to meet the compliance requirement of the Corporate Governance Directive. The findings presented in their report addressed to the Board are consistent with the matters disclosed above and did not identify any inconsistencies to those reported above by the Board. The recommendations made by the Auditors where relevant will be dealt with in 2025.</p>										
	<p><i>h. Report confirming compliance with prudential requirements, regulations, laws and internal controls – Complied</i> ✓</p> <p>There were no material non-compliance to prudential requirements, regulations, laws and internal controls affecting the Bank.</p>										
	<p><i>Non-compliance Report – Complied</i> ✓</p> <p>There were no supervisory concern on lapses in the Bank’s Risk Management Systems or non-compliance with the said Direction that have been pointed out by the Director of the Banks Supervision Department of the CBSL, which has been directed to be disclosed to the public. Hence, there are no disclosures in this regard.</p>										
<b>3 (9)</b>	<b>Transitional and Other General Provisions</b>										
	<p><i>Transitional and other general provisions – Complied</i> ✓</p> <p>Transitional provisions have been complied with, as applicable.</p>										



# CORPORATE GOVERNANCE

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

Code Ref	Requirement	Extent of Compliance	Effective Date / status of compliance
<b>9.1 Corporate Governance Rules</b>			
9.1.1 9.1.2 9.1.3	Extent of Compliance with Corporate Governance Rules	The extent of compliance with Corporate Governance Section 09 of the listing rules issued by CSE is tabulated below.	01 October 2023 Complied
<b>9.2 Policies</b>			
9.2.1	Availability of Policies	<p>The following policies which are mandated by the revised CSE Listing Rules are currently in place;</p> <ul style="list-style-type: none"> <li>• Policy on the matters relating to the Board of Directors</li> <li>• Policy on Board Sub-Committees</li> <li>• Policy on Corporate Governance, Nominations and Re-election</li> <li>• Policy on Remuneration</li> <li>• Policy on Internal Code of Business Conduct and Ethics for all Directors and employees, including policies on trading in the Entity's listed securities</li> <li>• Policy on Risk Management and Internal Controls</li> <li>• Policy on Relations with Shareholders and Investors</li> <li>• Policy on Environmental, Social and Governance Sustainability</li> <li>• Policy on Corporate Disclosures</li> <li>• Policy on Whistle Blowing</li> <li>• Policy on Anti-Bribery and Corruption</li> </ul> <p>Summarised versions of all policies are now hosted in the Bank's website at the link <a href="https://www.hnb.net/bank-policies">https://www.hnb.net/bank-policies</a> under the Key Link titled 'Bank Policies'</p>	01 October 2024 Complied
9.2.2	Waivers and Exemptions	At present there are no waivers and exemptions applicable to the Bank.	01 October 2024 Complied
9.2.3	Disclosures in the Annual Report	Please refer section 9.2.1.	01 October 2024 Complied
9.2.4	Requesting of Bank Policies by Shareholders	A copy of the above policies will be make available to the shareholders upon a written request being made to the Company Secretary.	01 October 2024 Complied
<b>9.3 Board Committees</b>			
9.3.1	Establishment of Board Committees	The Nominations & Governance Committee, Remuneration Committee, Audit Committee and Related Party Transactions Review Committee are in place.	01 October 2023 Complied

Code Ref	Requirement	Extent of Compliance	Effective Date / status of compliance
9.3.2	Board Composition, Responsibilities and Disclosures	<p>The composition of all Committees are in line with the revised CSE listing rules.</p> <p>Each Sub Committee is governed by its own Terms of Reference and has a secretary who arranges the meetings, maintains minutes and records under the supervision of the Chairperson of the respective Sub Committee.</p> <p>The Chairperson of the respective Sub Committee is accountable for the effective functioning of the Committee and reports on a periodic basis to the Board on the activities of the Sub Committee, highlighting matters for the attention of the Board. The Committee Terms of Reference/Charters are reviewed regularly.</p>	01 October 2023 Complied
9.3.3	Chairperson of Board Committees	The Chairperson of the Board of Directors was not the Chairperson of Nominations & Governance Committee, Remuneration Committee, Audit Committee or the Related Party Transactions Review Committee during 2024	01 October 2024 Complied
<b>9.4 Adherence to principles of democracy in the adoption of meeting procedures and the conduct of all General Meetings with shareholders</b>			
9.4.1	Record Maintenance	The Company Secretary maintains records of all resolutions and information (Appointment of proxy, number of votes in favour & against and number of shares in respect of vote was directed to be abstained) of General Meetings.	01 October 2023 Complied
9.4.2	Communication and relation with Shareholders and Investors	The Bank has an established policy on communication. Further, the Bank has adopted a new policy named Policy on Relations with Shareholders and Investors incorporating the provisions of the revised CSE Listing Rules for effective communication and relations with shareholder and investors.	01 October 2023 Complied
<b>9.5 Policy on matters relating to the Board of Directors</b>			
9.5.1	Availability of policy on governing matters relating to Board of Directors	The requirements were captured in the Board Charter, several other policies and the Articles of Association. The Bank has updated the Board Charter with provisions of the revised CSE Listing Rules and renamed it as the Policy on matters relating to the Board of Directors.	01 October 2024 Complied
9.5.2	Disclosures in the Annual Report	Disclosures are made in the Annual Report of the Board of Directors given on page 190.	01 October 2024 Complied
<b>9.6 Chairperson and CEO</b>			
9.6.1	Chairperson and CEO	The Chairperson is a Non-Executive Director. The position of Chairperson and CEO is not held by the same individual.	01 October 2023 Complied
9.6.2	Disclosure of Non-Compliances	Not applicable.	01 October 2023 Complied
9.6.3	Appointment of Senior Independent Director	<p>A Non-Independent Director was appointed as the Chairperson in June 2023, a Senior Independent Director was designated in terms of direction 3(5)(ii) of Banking Act Direction No11 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka which was duly notified to shareholders through Colombo Stock Exchange ("CSE") Disclosure.</p> <p>However, since the Chairperson and CEO are not the same person or the Chairperson and CEO are not Close Family Members nor related parties, the designation of a Senior Independent Director doesn't arise under the revised CSE listing rules.</p> <p>Please refer the report of the Senior Independent Director given on page 220 for further details.</p>	01 October 2023 Complied

# CORPORATE GOVERNANCE

Code Ref	Requirement	Extent of Compliance	Effective Date / status of compliance
9.6.4	Disclosure of Non-Compliances in the Annual Report	Not applicable.	01 October 2023 Complied
<b>9.7 Fitness of Directors and CEOs</b>			
9.7.1 9.7.2	Appointment of Fit and Proper Persons	<p>The Board has a formal and transparent process in place for the succession and appointment of Directors. The Nominations &amp; Governance Committee processes and short-lists candidates and makes recommendations to the Board for approval. The attributes and experience required from potential appointees are identified and agreed prior to the search process, considering the combined knowledge, experience and diversity of the Board, in relation to the Bank's strategic plans and any gaps thereof.</p> <p>The candidate's other directorships and commitments are also considered to ensure sufficient time to discharge their role at HNB, effectively. Upon completion of this process, names are referred to the Director of the Bank Supervision Department of the Central Bank of Sri Lanka for approval as a "fit and proper" person, prior to the appointment. All appointments were duly notified to CSE. All Directors appointed to the Board are subjected to re-election by shareholders at the first Annual General Meeting after their appointment.</p> <p>The criteria stated in the revised CSE listing rules were also taken into account when appointing new directors as well as for the annual assessment of fit and propriety of Directors.</p>	01 October 2023 Complied
9.7.3	Fit and Proper Assessment Criteria a) Honesty, Integrity and Reputation b) Competence and Capability c) Financial Soundness	The assessment criteria detailed in the revised CSE listing rules have been incorporated into the annual declaration of the Directors and CEO.	01 April 2024 Complied
9.7.4	Annual Declarations from Directors and CEO	Annual declarations from Directors confirming that each of them have continuously satisfied the fit and proper assessment criteria set out in the CSE revised listing rules were obtained as at 31 December 2024.	01 October 2023 Complied
9.7.5	Disclosures in the Annual Report	Disclosures are made in the Annual Report of the Board of Directors given on page 190.	01 October 2023 Complied
<b>9.8 Board Composition</b>			
9.8.1	Board at Minimum to consist of Five (5) Directors.	The Bank is complied with the requirement. The Board of Directors of the Bank consisted of eleven (11) Directors as at 31 December 2024.	01 October 2024 Complied
9.8.2	Minimum number of Independent Directors (Min:2 or 1/3 of total number, whichever is higher)	The Bank is complied with the minimum number of Independent Directors. The Board of Directors of the Bank consisted of six (6) Independent Directors as at 31 December 2024.	01 October 2024 Complied

Code Ref	Requirement	Extent of Compliance	Effective Date / status of compliance
9.8.3 9.8.4	Criteria for determining Independence	<p>The Bank is complied with the criteria for determining independence of a Director.</p> <p>The Bank takes in to account the provisions of Code of Best Practice on Corporate Governance issued by CA Sri Lanka (2023) and Banking Act Direction No11 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka which is replaced with Banking Act Direction No 05 of 2024 on Corporate Governance. The Bank has revised the criteria for determining the independence of a Director taking in to account the revised CSE listing rules.</p>	01 October 2023 Complied
9.8.5	Declarations	Annual Declaration was obtained from the Board of Directors incorporating the provisions made under the revised CSE listing rules as at 31 December 2024.	01 October 2023 Complied
<b>9.9 Alternate Directors</b>			
9.9	Appointment of Alternate Directors	<p>No Alternate Directors were appointed to represent Non-Executive Directors. Articles of Association includes provisions to comply with the revised CSE listing rules.</p> <p>For more clarity the Bank is in the progress of amending the Articles of Association of the Bank incorporating the provisions in rule 9.9 of the listing rules and the same will be subjected to the approval of the shareholders at a General Meeting of the Bank as appropriate and the Central Bank of Sri Lanka.</p>	01 January 2024 Complied
<b>9.10 Disclosures relating to Directors</b>			
9.10.1	Policy on the maximum number of Directorships	<p>In terms of direction 3(3)(ii) of Banking Act Direction No11 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka, Directors should not be Directors of more than twenty (20) companies or not more than ten (10) companies classified as Specified Business Entities.</p> <p>As such Directors do not hold Directorships of more than twenty (20) companies/entities/institutions inclusive of Subsidiaries or Associate Companies of the Bank.</p>	01 October 2023 Complied
9.10.2	Appointment of new Director	Nominations & Governance Committee reviews all new appointments. Three (3) new appointments have been done during the year 2024 and immediate market announcements have been made for each such appointment .	01 October 2023 Complied
9.10.3	Changes to the Composition	After the effective date of the revised CSE listing rules, changes in the composition of the Board Committees had been taken place and immediate market announcements have been made on such changes .	01 October 2023 Complied
9.10.4	Disclosures in the Annual Report	<p>Please refer pages 122 to 127 for profiles of Directors.</p> <p>Please refer page 220 for Terms of Reference of Senior Independent Director.</p> <p>Please refer page 122 for Directorships in other companies.</p>	01 October 2023 Complied
<b>9.11 Nominations and Governance Committee</b>			
9.11.1	Availability of Nominations and Governance Committee	The Nominations Committee was renamed as the Nominations & Governance Committee with effect from 30th November 2023.	01 October 2024 Complied
9.11.2	Appointment and re-election of Directors	The Committee follows a formal procedure in appointment and re-election of Directors.	01 October 2024 Complied

# CORPORATE GOVERNANCE

Code Ref	Requirement	Extent of Compliance	Effective Date / status of compliance									
9.11.3	Terms of Reference	The Committee has adopted a Terms of Reference which define the scope, authority and duties. Revised Terms of Reference in line with the CSE listing rules was approved on 30th November 2023. The Terms of Reference was further amended to be in line with the provisions of the Banking Act Direction No 05 of 2024 on Corporate Governance and same was approved by the Board on 28th November 2024.	01 October 2024 Complied									
9.11.4 (1)	Composition - Minimum of three (3) Directors, out of which a minimum of two (2) members shall be Independent Directors	The Bank is in compliance throughout the year with the revised CSE listing rules. Given below is the composition of the Nominations & Governance Committee during 2024. <table border="1" data-bbox="537 695 1286 835"> <thead> <tr> <th>Period</th> <th>Independent Non Executive Directors</th> <th>Non- Executive Directors</th> </tr> </thead> <tbody> <tr> <td>01 January to 27 June 2024</td> <td>3</td> <td>1</td> </tr> <tr> <td>28 June to 31 December 2024</td> <td>3</td> <td>1</td> </tr> </tbody> </table>	Period	Independent Non Executive Directors	Non- Executive Directors	01 January to 27 June 2024	3	1	28 June to 31 December 2024	3	1	01 October 2024 Complied
Period	Independent Non Executive Directors	Non- Executive Directors										
01 January to 27 June 2024	3	1										
28 June to 31 December 2024	3	1										
9.11.4 (2)	Composition - Independent Director shall be appointed as the Chairperson of the Committee	An Independent Director functioned as the Chairman of the Committee throughout the year.	01 October 2024 Complied									
9.11.4 (3)	Composition - The Chairperson and the members of the Committee shall be identified in the Annual Report	The Chairman and the members of the Committee are identified in the Nominations & Governance Committee report given on page 203.	01 October 2024 Complied									
9.11.5	Functions	The Bank has documented the functions of the Committee in the Terms of Reference. All functions are effectively discharged by the Committee. Please refer Nominations & Governance Committee Report on page 203.	01 October 2024 Complied									
9.11.6	Disclosures in the Annual Report	Disclosure requirements are covered in the Nominations & Governance Committee Report given on page 203.	01 October 2024 Complied									
<b>9.12 Remuneration Committee</b>												
9.12.1	Definition of Remuneration	The Bank has established a formal transparent policy on remuneration and defined remuneration in terms of cash and non-cash benefits.	01 October 2023 Complied									
9.12.2	Remuneration Committee	A Human Resources and Remuneration Committee was in place.	01 October 2023 Complied									
9.12.3 9.12.4	Remuneration Policy - Executive Directors/ Non-Executive Directors	The remuneration policy of the Bank has been reviewed and amended to be in line with the provisions in the revised CSE Listing Rules and approved by the Board on 14th December 2023. The Policy has been further reviewed during 2024 and approved by the Board of Directors on 26th September 2024.	01 October 2023 Complied									
9.12.5	Terms of Reference	The Committee has adopted a Terms of Reference which define the scope, authority and duties in compliance with the revised CSE listing rules. The HRRC has recommended amendments to the TOR to be in line with the Banking Act Direction No 05 of 2024 and same was approved by the Board of Directors on 30th January 2025.	01 October 2023 Complied									



Code Ref	Requirement	Extent of Compliance	Effective Date / status of compliance															
9.12.6 (1) & (2)	Composition - Minimum of three (3) Directors, out of which a minimum of two (2) members shall be Independent Directors	<p>Given below is the composition of the Human Resources and Remunerations Committee during 2024.</p> <table border="1"> <thead> <tr> <th>Period</th> <th>Independent – Non-Executive Directors</th> <th>Non- Executive Directors</th> </tr> </thead> <tbody> <tr> <td>01 January to 25 April 2024</td> <td>3</td> <td>2</td> </tr> <tr> <td>26 April to 27 June 2024</td> <td>4</td> <td>2</td> </tr> <tr> <td>28 June to 18 September 2024</td> <td>4</td> <td>1</td> </tr> <tr> <td>19 September to 31 December 2024</td> <td>3</td> <td>1</td> </tr> </tbody> </table> <p>The scope of the Committee is limited to the operations of the Bank.</p>	Period	Independent – Non-Executive Directors	Non- Executive Directors	01 January to 25 April 2024	3	2	26 April to 27 June 2024	4	2	28 June to 18 September 2024	4	1	19 September to 31 December 2024	3	1	01 October 2024 Complied
Period	Independent – Non-Executive Directors	Non- Executive Directors																
01 January to 25 April 2024	3	2																
26 April to 27 June 2024	4	2																
28 June to 18 September 2024	4	1																
19 September to 31 December 2024	3	1																
9.12.6 (3)	Composition - Independent Director shall be appointed as the Chairperson of the Committee	An Independent Director functioned as the Chairman of the Committee throughout the year.	01 October 2023 Complied															
9.12.7	Functions	The Bank has documented the functions of the Committee in the Terms of Reference. All functions are effectively discharged by the Committee. Please refer Human Resources and Remuneration Committee Report on page 200.	01 October 2023 Complied															
9.12.8	Disclosures in the Annual Report	Disclosure requirements are covered in the Human Resources and Remuneration Committee Report given on page 200.	01 October 2023 Complied															
<b>9.13 Audit Committee</b>																		
9.13.1	Audit and Risk Committees	The Bank has established separate Committees to perform the Audit and Risk Functions.	01 October 2023 Complied															
9.13.2	Terms of Reference	The Committee has adopted a Terms of Reference which define the scope, authority and duties. Audit Committee charter was reviewed in 2024. The Board Audit Committee has recommended the amendments to the Board on 25th March 2024 and the same was approved by the Board on 25th April 2024.	01 October 2023 Complied															
9.13.3 (1) & (4)	Composition - A Minimum of three (3) Directors, out of which a minimum of two (2) or a majority of the members, whichever higher, shall be Independent Directors	<p>The Bank is in compliance throughout the year with the revised CSE listing rules. Given below is the composition of the Audit Committee during 2024.</p> <table border="1"> <thead> <tr> <th>Period</th> <th>Independent Non- Executive Directors</th> <th>Non- Executive Directors</th> </tr> </thead> <tbody> <tr> <td>01 January to 25 April 2024</td> <td>3</td> <td>-</td> </tr> <tr> <td>26 April to 18 September 2024</td> <td>4</td> <td>-</td> </tr> <tr> <td>19 September to 31 December 2024</td> <td>3</td> <td>-</td> </tr> </tbody> </table> <p>The scope of the Committee is limited to the operations of the Bank.</p>	Period	Independent Non- Executive Directors	Non- Executive Directors	01 January to 25 April 2024	3	-	26 April to 18 September 2024	4	-	19 September to 31 December 2024	3	-	01 October 2024 Complied			
Period	Independent Non- Executive Directors	Non- Executive Directors																
01 January to 25 April 2024	3	-																
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# CORPORATE GOVERNANCE

Code Ref	Requirement	Extent of Compliance	Effective Date / status of compliance
9.13.3 (2)	Composition - The quorum for a meeting of the Audit Committee shall require that the majority of those in attendance to be Independent Directors	Audit Committee Charter was revised and approved by the Board on 25th April 2024 and with the revision, quorum was changed as follows. "The quorum shall be the majority of the members of the Committee out of which the majority in attendance should be independent". In all the meetings held during the year (10), all the members presents were Independent Directors.	01 October 2024 Complied
9.13.3 (3)	Composition - The Audit Committee may meet as often as required provided that the Audit Committee compulsorily meets on a quarterly basis prior to recommending the financials to be released to the market	The Committee met Ten (10) times during the year. The Committee reviewed the quarterly and annual financial statements and recommended same to the Board of Directors prior to publication.	01 October 2024 Complied
9.13.3 (5)	Composition - Independent Director shall be appointed as the Chairperson of the Committee	An Independent Director functioned as the Chairman of the Committee throughout the year.	01 October 2024 Complied
9.13.3 (6)	Composition - The CEO and the CFO shall attend the Audit Committee meetings by invitation	The Chairman of BIRMC, MD/CEO, Chief Financial Officer, Chief Internal Auditor, and a representative of the External Auditor are typically invited to attend meetings. Other Board members may also attend meetings upon invitation.  Mr Jonathan Alles, former MD/CEO was a member of the BIRMC up to 22nd August 2024 and Mr Damith Pallewatte was a member of the BIRMC from 19th September to 15th December 2024 in the capacity of Actg. CEO and MD/CEO respectively	01 October 2024 Complied
9.13.3 (7)	Composition - The Chairperson of the Audit Committee shall be a Member of a recognised professional accounting body	The Chairman of the Board Audit Committee, Mr Devaka Cooray is an Independent Non-Executive Director, a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants of United Kingdom.	01 October 2024 Complied
9.13.4	Functions	The Bank has documented the functions of the Committee in the Audit Committee Charter. The Bank has made further improvements to the Audit Committee Charter to be in line with the revised CSE listing rules. Audit Committee Charter was revised and approved by the Board on 25th April 2024. The functions listed under 9.13.4.1 (vii), (viii) and (ix) are covered within the scope of Board Integrated Risk Management Committee.  Functions are effectively discharged by the Committee. Please refer Audit Committee Report on page 214.	01 October 2024 Complied
9.13.5	Disclosures in the Annual Report	Disclosure requirements are covered in the Audit Committee Report given on page 214.	01 October 2024 Complied
<b>9.14 Related Party Transactions Review Committee</b>			
9.14.1	Availability of Related Party Transactions Review Committee	A Related Party Transactions Review Committee is in place.	01 October 2023 Complied

Code Ref	Requirement	Extent of Compliance	Effective Date / status of compliance																
9.14.2	Composition - A minimum of three (3) Directors, out of which two (2) members shall be Independent Directors. Committee may also include Executive Directors. An Independent Director shall be appointed as the Chairperson of the Committee	<p>The Bank is in compliance throughout the year with the revised CSE listing rules. Given below is the composition of the Related Party Transactions Review Committee during 2024.</p> <table border="1"> <thead> <tr> <th>Period</th> <th>Independent Non- Executive Directors</th> <th>Non- Executive Directors</th> <th>Executive Directors</th> </tr> </thead> <tbody> <tr> <td>01 January to 25 April 2024</td> <td>2</td> <td>1</td> <td>1</td> </tr> <tr> <td>26 April to 18 September 2024</td> <td>3</td> <td>-</td> <td>1</td> </tr> <tr> <td>19 September to 31 December 2024</td> <td>3</td> <td>-</td> <td>-</td> </tr> </tbody> </table> <p>An Independent Director functioned as the Chairman of the Committee throughout the year.</p> <p>The scope of the Committee is limited to the operations of the Bank and oversight on group entities through the compliance officers of each group entity.</p>	Period	Independent Non- Executive Directors	Non- Executive Directors	Executive Directors	01 January to 25 April 2024	2	1	1	26 April to 18 September 2024	3	-	1	19 September to 31 December 2024	3	-	-	01 April 2024 Complied
Period	Independent Non- Executive Directors	Non- Executive Directors	Executive Directors																
01 January to 25 April 2024	2	1	1																
26 April to 18 September 2024	3	-	1																
19 September to 31 December 2024	3	-	-																
9.14.3	Functions	<p>The Related Party Transactions Review Committee is responsible for reviewing the Related Party Transactions, to ensure the interests of shareholders as a whole are taken into account when entering into Related Party Transactions.</p> <p>The Committee has established and maintained a policy, procedure and process for the identification, clarification and reporting the Related Party Transactions on an end-to-end basis across the Bank's operations. The Bank has reviewed and revised the Related Party Transactions policy in April 2024 to be in line with the revised CSE listing rules.</p> <p>Please refer Related Party Transactions Review Committee Report on page 218.</p>	01 October 2023 Complied																
9.14.4 (1)	General requirements - The Committee shall meet at least once a calendar quarter	The Committee met four (4) times during 2024. The minutes of all meetings are properly documented and tabled at the subsequent Board meetings for ratification.	01 October 2023 Complied																
9.14.4 (2)	General requirements - The Committee should ensure that they have, or have access to, enough knowledge or expertise to assess all aspects of proposed Related Party Transactions	The Committee has adequate knowledge and expertise to assess all aspects of Related Party Transactions.	01 October 2023 Complied																
9.14.4 (3)	General requirements - Approval by Board of Directors	Where necessary, the Committee shall recommend and request the Board of Directors to approve the Related Party Transactions which have been reviewed by the Committee.	01 October 2023 Complied																

# CORPORATE GOVERNANCE

Code Ref	Requirement	Extent of Compliance	Effective Date / status of compliance
9.14.4 (4)	General requirements - Conflict of Interest	The Related Party Transactions Review Committee oversees the process relating to the Conflict of Interest . Steps have been taken by the Board to avoid any conflicts of interest, that may arise, in transacting with related parties. Directors provide declarations to the Board about their material interests in business transactions at the time of appointment and thereafter on quarterly basis. Directors do not participate in, and recuse themselves from the Meeting, when the Board considers any matters in which transactions with related entities are discussed and where a conflict of interest may arise.	01 October 2023 Complied
9.14.5	Review of Related Party Transactions by the Related Party Transactions Review Committee	The Committee takes into account the provision of the said listing rules when reviewing related party transactions.	01 October 2023 Complied
9.14.6	Shareholder Approval	A situation to obtain the shareholder approval as per revised CSE listing rules has not arisen during the year.	01 October 2023 Complied
9.14.7	Immediate Disclosures	A situation has not arisen where immediate disclosure is required to be made as per revised CSE listing rules.	01 October 2023 Complied
9.14.8	Disclosures in the Annual Report	Disclosure requirements are covered in the Related Party Transactions Review Committee Report given on page 218.	01 October 2023 Complied
9.14.9	Acquisition and Disposal of assets from/to related parties	The Bank has not acquired/disposed substantial assets from/to related parties.	01 October 2023 Complied
9.14.10	Exempted Related Party Transactions	The provisions of the sections are considered when evaluating the Related Party Transactions by the Committee.	01 October 2023 Complied
<b>9.16 Additional Disclosures</b>			
9.16	(i) Declaration of all material interest (ii) Review of internal controls and compliance controls (iii) Compliance with laws, rules and regulations (iv) Material Non-Compliances	Disclosure requirements are covered in the Annual Report of the Board of Directors given on page 190. Material non-compliance with any Law or Regulation has not arisen during the year 2024.	01 October 2023 Complied

## Compliance with the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (2023)

Code Ref.	Requirement	Reference	Complied	Page Ref
<b>A.</b>	<b>Directors</b>			
A.1	The Board	The Board	✓	145
A.1.1	Regular Board meetings, provide information to the Board on a structured and regular basis	Board Meetings	✓	156
A.1.2	Roles & Responsibilities of the Board	The Role of the Board	✓	145
A.1.3	Compliance & Independent Professional Advice	Company Secretary	✓	149
A.1.4	Access to advice and services of Company Secretary	Company Secretary	✓	149
A.1.5	Independent Judgement	Non- Executive Directors	✓	147
A.1.6	Dedicate Adequate Time and Effort	Board Meetings	✓	156
A.1.7	Calls for Resolutions	Board Meetings	✓	156
A.1.8	Board Induction and Training Annual Assessment of Training Needs	Induction & Training for Directors	✓	155
A.2	Chairman & Chief Executive Officer	Key Roles and Responsibilities	✓	146
A.3	Chairman's Role in Preserving Good Corporate Governance	Key Roles and Responsibilities	✓	146
A.4	Availability of Financial Acumen	Board Refreshment	✓	153
A.5	Board Balance	Board Composition	✓	152
A.5.1	Independent Non-Executive Directors	Board Composition	✓	152
A.5.2				
A.5.3	Director's Independency	Non - Executive Directors	✓	157
A.5.4	Annual Declaration	Non- - Executive Directors	✓	154
A.5.5	Annual determination of independence of Non-Executive Directors	Non - Executive Directors	✓	157
A.5.6	Alternate Directors	No alternate Directors have been appointed to represent Non-Executive Directors of the Bank	✓	-
A.5.7	Senior Independent Director (SID) Meetings with Non-Executive Directors and Executive Director by SID	Senior Independent Director (SID) Statement by the Senior Independent Director (SID)	✓	220
A.5.8	Confidential Discussions with SID	Senior Independent Director (SID) Statement by the Senior Independent Director (SID)	✓	220
A.5.9	Meetings with Non-Executive Directors by Chairman	Non- Executive Directors	✓	147
A.5.10	Minutes	Board Meetings	✓	156
A.6	Provision of Appropriate and Timely Information	Efficient Meetings	✓	156
A.7	Appointments to the Board- Nomination Committee	Board Composition, Board Refreshment , Selection, Election & Appointment	✓	153
A.7.1	Composition of Nomination Committee	Board Composition, Nomination and Governance Committee Report	✓	153



# CORPORATE GOVERNANCE

Code Ref.	Requirement	Reference	Complied	Page Ref
A.7.2	Annual assessment of Board composition	Board Refreshment/ Board Composition	✓	153
A.7.3	Succession plan for CEO/KMPs	Succession planning	✓	154
A.7.4	Disclosures on appointment of new Directors	Board Refreshment, selection and appointment of new Directors	✓	153
A.7.5	Profile of the Members of the Nomination Committee	Nomination and Governance Committee Report	✓	203
A.7.6	Terms of Reference for Nomination Committee			
A.8	Re-election of Directors	Re-election	✓	154
A.9	Appraisal of Board & Sub-Committees	Board and Board Sub Committee evaluations	✓	156
A.10	Annual Report to Disclose Specified Information Regarding Directors	Board Composition	✓	153
		Conflict of interest		145
		Board Meetings		156
A.11	Annual appraisal of the CEO	Evaluating the performance of the MD/CEO	✓	157
<b>B.</b>	<b>Directors' Remuneration</b>			
B.1	Directors' & Executive Remuneration – HRRC	Remuneration	✓	159
		Mandatory Committees		149
B.2	Level & Make-up of Remuneration	Remuneration	✓	159
B.3	Disclosures related to Remuneration in Annual Report	Remuneration Disclosures	✓	159
		Financial Statements		288-466
		HRRC Report		200
<b>C.</b>	<b>Relations with Shareholders</b>			
C.1	Constructive use of the AGM & conduct of General Meetings	Annual General Meeting (AGM) and Voting rights	✓	161
C.2	Communication with shareholders	Annual General Meeting and Voting rights. Shareholder Relations	✓	161
C.3	Disclosure of Major and Material Transactions	There were no major or material transactions during the year	✓	-
<b>D.</b>	<b>Accountability &amp; Audit</b>			
D.1	Present a balanced and understandable assessment of the Company's financial position, performance and prospects	The Role of the Board Reporting and Disclosure Chief Executive Officer's and Chief Financial Officer's Responsibility Statement Annual Report of the Board of Directors on the affairs of the Bank Directors' Responsibility for Financial Reporting Directors' Statement on Internal Control over Financial Reporting Management Discussion and Analysis Statement of going concern of the Bank on Note 2.15, to the Financial Statements Related Party Transactions i) Note 60 in the Financial Statements ii) Report of the RPTRC	✓	145 161 279 190 280 221 21 300 453-458 218

Code Ref.	Requirement	Reference	Complied	Page Ref
		In the unlikely event of the net assets of the Bank falling below 50% of Shareholders Funds, the Board will summon an Extraordinary General Meeting (EGM) to notify the shareholders of the position and to explain the remedial action being taken.		
D.2	Process of Risk Management and a sound system of internal control to safeguard shareholders' investments and the Company's assets	Risk Management and Internal Controls Risk & Capital Review Directors' Statement on Internal Control over Financial Reporting	✓	157 232 221
D.3	Audit Committee	Mandatory Committees Board Audit Committee Report	✓	149 214
D.4	Risk Committee	Mandatory Committees Board Risk Committee Report	✓	149 208
D.5	Related Party Transactions Review Committee	Mandatory Committees Board Related Party Transactions Review Committee report	✓	149 218
D.6	Code of Business Conduct and Ethics	Code of Business Conduct and Ethics Chairman's Message	✓	158 140
D.7	Corporate Governance Disclosures	Corporate Governance Report	✓	140 - 189
<b>E/F</b>	<b>Institutional and other Investors</b>			
	Encourage voting at AGM – institutional and other investors	Annual General Meeting and Voting rights. Shareholder Relations Stakeholder Engagement	✓	161
<b>G.</b>	<b>Internet of Things &amp; Cyber Security</b>			
G.1	Identify connectivity and related cyber risks	IT and Information Security Systems	✓	159
G.2	Appoint a CISO and implementing a Cyber Security Policy			
G.3	Include Cyber Security on Board agenda			
G.4	Independent Assurance			
G.5	Disclosures in Annual Report			
<b>H.</b>	<b>Environment, Society &amp; Governance</b>			
H.1	Board to consider Sustainability Risks and opportunities	Sustainability	✓	160
H.2	Consider views of stakeholders in managing sustainability related risks and opportunities			
H.3	Establish an ESG governance framework			
H.4	Establish an ESG governance structure			
H.5	Annual Report to contain sufficient information on sustainability related risks and opportunities			

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Board of Directors of Hatton National Bank PLC (the 'Bank' or the 'Company') is pleased to present the Annual Report to the shareholders for the financial year ending 31st December 2024. This report includes the audited financial statements of the Bank, the consolidated financial statements of the Group for the same period, and the Auditor's Report on these financial statements. These documents comply with the requirements of the Companies Act No 7 of 2007, the Banking Act Direction No 11 of 2007 on Corporate Governance for Licensed Banks (replaced by Banking Act Direction No 05 of 2024 issued by the Central Bank of Sri Lanka), the Listing Rules of the Colombo Stock Exchange (as amended from time to time), and the Code of Best Practice on Corporate Governance 2023 issued by the Institute of Chartered Accountants of Sri Lanka.

The Annual Report of the Board of Directors on the affairs of the Company summarises on the Bank's Corporate Governance practices. A detailed report on Corporate Governance is included as part of the suite of reports produced by the Bank.

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

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

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

The financial statements were reviewed and approved by the Board of Directors on 21st February 2025.

## Our Commitment to Corporate Governance

At Hatton National Bank PLC, we are dedicated to upholding the highest standards of governance, integrity and professionalism. Our Governance Framework is benchmarked with global best practices and incorporates the principles outlined in the Banking Act Direction No 11 of 2007 on Corporate Governance, which has been replaced by Banking Act Direction No 05 of 2024 on Corporate Governance, effective from 1st January 2025, except where extended effective dates were provided. Additionally, we adhere to the Corporate Governance Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka in 2023.

Details of compliance are set out on pages 163 to 189 of this report.

## A Robust Governance Framework

Our Governance Framework is designed to foster integrated thinking and decision-making, ensuring a balance of strategic outcomes over time. This approach aligns the interests of the Bank, its stakeholders and society aiming to create and protect sustainable shared value.

Key elements of our robust governance structure include:

- Strong Leadership: Ensuring checks and balances at all levels.
- Clear Organisational Structure: With well-defined lines of responsibility.
- Effective Risk Management and Controls: To mitigate risks and ensure stability.
- Value-Driven Ethical Culture: Promoting responsible behaviour and decision-making.

As the primary custodian of good corporate governance, the Board is fully committed to achieving the four

key outcomes of our Governance Framework: Sustainable Value Creation, Effective Control, Ethical Leadership and Accountability. Detailed explanations of these outcomes can be found on pages 142 to 162 of this report.

## Leadership

The Board of Directors holds the ultimate responsibility for the Bank's performance and affairs. They collectively determine the Bank's risk appetite, lead the formulation of its strategy, monitor the achievement of set objectives and oversee the governance frameworks and control environment. To ensure focused oversight, the Board has delegated specific responsibilities to ten (10) Board Sub-Committees, which includes the five mandatory Committees as required by applicable regulations.

The daily management of the Bank and the implementation of its strategic plan are entrusted to the Executive Management, led by the Managing Director/Chief Executive Officer (MD/CEO). The segregation of roles and responsibilities of the Chairman and MD/CEO supports balance of power. The MD/CEO reports directly to the Board.

The Executive Management (Key Management Personnel) are empowered to make decisions within a defined framework, leveraging their complementary skills and diverse experience to strengthen the Bank's ability to execute its strategy effectively.

Roles and responsibilities for Executive Management are clearly set out in the respective job descriptions and overseen by the designated authorities. The Executive Management is required to be open and transparent with the Board, promptly escalating matters of concern. The Bank's Executive Management /Key Management Personnel (KMP) attend Board meetings by invitation on needed basis, increasing effective communication between the Board and Management. Regular reporting on key matters enables effective oversight by the Board.

## Governance in 2024

The year 2024 continued to challenge the robustness, resilience and agility of our governance structures as we aimed to drive sustainable growth in line with our Vision and Values, while balancing the interests of our stakeholders. Our well-defined governance structures enabled the Board to maintain effective oversight and leadership as the medium to long-term impacts of the current economic developments. The Board received regular updates, supported by enhanced analysis and reporting on key issues affecting the Bank and its stakeholders. Key priorities included Compliance, Risk Management, Recoveries and Internal Control. The Board, both directly and through its sub-committees, took actions in response to challenges, manage crises and seize opportunities, while recalibrating strategy to preserve and create value for the Bank and its stakeholders.

In formulating strategy, the Board adopted an integrated approach to value creation embracing stakeholder inclusivity and considering the Environmental, Social and Governance (ESG) impacts on the organisation. Management updates on stakeholder engagement initiatives were reviewed, along with reports from Board sub-committees as detailed in the Stakeholder Expectations section on pages 24 to 30 of this report.

The annual strategy review for 2025 was conducted by the Board in December 2024, in consultation with the Executive Management Team, with due consideration of the current economic conditions, risks and opportunities, the Board approved the budget for the year 2025.

The Board maintains the appropriate balance, mix of skills and experience to support the scope and scale of the Bank's operations as a Domestic- Systemically Important Bank (D-SIB). The Board comprises a majority of Non-Executive Directors who are eminent professionals in their respective fields. A detailed process is in place to ensure that the skills and experience of the Board remain relevant to the Bank's needs. A comprehensive Skills Matrix support Director recruitment and succession planning.

Directors are appointed through a formal and transparent process, assessed for their independence and approved by the Central Bank of Sri Lanka. The Board Nominations & Governance Committee (BNGC) is responsible for recommending new Directors for Board approval, after reviewing the combined knowledge, experience and diversity of the Board in relation to the Bank's strategic plans and any gaps. In 2024, three new Directors were appointed to fill casual vacancies as detailed on pages 153 and 205. Further, in compliance with the Banking Act Direction No 05 of 2024 on Corporate

Governance, Board appointed one female representative to the Board in January 2025 as detailed on pages 153 and 205 well in advance to the extended timeline given for compliance.

New Board members participated in an induction program aimed at providing them with the necessary information and support to be effective. Directors stay informed about changes in laws, regulations, capital market provisions and the business environment by attending seminars, workshops, conferences and formal training programs, enhancing their ability to guide the Bank through key challenges.

Meeting agendas and relevant papers are generally made available to Directors seven days before the meeting and minutes of the preceding meeting are circulated two weeks before the subsequent Board Meeting. This allows members sufficient time to review, make observation, and prepare for the meeting. The Chairman, assisted by the Company Secretary sets the Board agenda. Care is taken to ensure that the Board spends adequate time on matters critical to the Bank's success, including governance practices, compliance, risk, sustainability initiatives and administrative matters.

The names, appointment dates, and meeting attendance of the Bank's Directors are provided on pages 152 and 157 of this report.

## THE BOARD

### As at 31st December 2024

Non-Executive /Independent Directors	<ul style="list-style-type: none"> <li>• Mr Devaka Cooray</li> <li>• Mr Madura Duminda Ratnayake</li> <li>• Mr Rasitha Gunawardana</li> <li>• Mr Nanda Fernando</li> <li>• Mr Sivakrishnarajah Renganathan</li> <li>• Mr Suresh Kumar Shah</li> </ul>	Senior Independent Director (SID)
Non- Executive /Non- Independent Directors	<ul style="list-style-type: none"> <li>• Mr Nihal Jayawardene PC</li> <li>• Mr Rimoe Saldin</li> <li>• Mr Kithsiri Gunawardena</li> <li>• Dr. Prasad Samarasinghe</li> </ul>	Chairman
Executive Director	<ul style="list-style-type: none"> <li>• Mr Damith Pallewatte</li> </ul>	Managing Director /Chief Executive Officer

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

## Remuneration

The Bank's Remuneration Policy supports the motivation and reward of performance of employees while meeting regulatory requirements and stakeholder expectations. Remuneration consists of two components - fixed and variable. The variable component includes the annual performance bonus. Details of Directors' emoluments and other benefits paid in respect of the Group and the Bank during the financial year ended 31st December 2024 are given in Note 18 to the financial statements on page 366.

## Board Evaluation

To uphold our commitment to exemplary corporate governance, we conduct annual performance evaluations aimed at enhancing the effectiveness of the Board and its Committees. Each Board member performs a self-assessment to evaluate their individual effectiveness and the overall effectiveness of the Board. The outcome of the appraisal for the year 2023 was tabled and discussed at the Board Meeting held in April 2024 and the results indicated that the Board's performance met expectations. The 2024 annual appraisal is currently in progress.

## Directors' Interests and Related Party Transactions

The Board is dedicated to maintaining the highest standards of professional and ethical conduct. Upon appointment and quarterly thereafter, Directors declare their business interests in other organisations, related parties and stakeholders. These details are recorded in the Directors' Interests Register, which is available for inspection as per the Companies Act. The Board confirms that Directors have no direct or indirect interest in any contract or proposed contract with the Bank except as disclosed on pages 224 to 230 of this report.

The Related Party Transactions Review Committee reviews all transactions requiring approval in accordance with the Bank's Related Party Transactions Policy and relevant regulations of the Colombo

Stock Exchange and the Central Bank of Sri Lanka. This ensures that transactions are fair and in the best interests of the Bank. Related party transactions are detailed in Note 60 on pages 453 to 458 of the financial statements.

## Independence

The independence of Non-Executive Directors is evaluated annually as part of the Directors' assessment process. Starting from 1st January 2025, this evaluation will also be conducted quarterly in accordance with Banking Act Direction No 05 of 2024. When the Board addresses matters where a conflict of interest is clearly evident, the concerned Directors are restricted from accessing related information, both physically and electronically. They also withdraw from the meeting and abstain from participating in the discussion and decision-making process for those specific matters.

## Compliance

During the year, the Bank met urgent and rapidly evolving regulatory requirements as the operating environment continued to be increasingly volatile. The Bank remained extra vigilant, expanding the scope and rigour of processes to mitigate emerging threats and ensure compliance. Continued investments in human resources, new systems, platforms and processes including the use of system base analytics and Artificial Intelligence solutions and establishment of a Compliance test check, strengthened the compliance function and improved efficacy in prevention, detection, and reporting. The Bank is compliant with all relevant statutory and regulatory requirements, including the Listing Rules of the CSE and directions issued by the Central Bank of Sri Lanka. The Board is also guided in the conduct of business by the Bank's policies, values, standards and Code of Conduct and Ethics. The requirement to have a policy governing the matters related to the Board of Directors was captured in the Board Charter, several other policies and the Articles of Association. The Board reviewed the Board Charter during the year 2024 and renamed it to read as Policy on

matters relating to the Board of Directors to be in line with the provisions of the revised CSE listing rules. Further the Code of Conduct and Ethics was reviewed and renamed as Policy on Internal Code of Business Conduct and Ethics providing clear guidance and professionally and ethically acceptable behaviours of all Directors and employees on confidentiality of data, conflicts of interest, procedures for dealing with financial and non-financial benefits and gifts, integrity in reporting and the fair treatment to customers.

The Compliance Officer who reports to the Board Integrated Risk Management Committee, tables a report on compliance at monthly meetings of the Committee. A quarterly compliance report is tabled at Board Audit Committee. Where necessary, any non-compliant issues are escalated to the Board for necessary action.

The Board comprises six (6) Independent Non-Executive Directors, in compliance with regulatory requirements.

Material non-compliance with Laws and regulations has not been arisen during the year.

## Risk Governance & Internal Control

The Board is responsible for formulating and implementing effective risk management and internal control systems to safeguard shareholder interests and the assets of the Bank, in meeting strategic objectives. These systems cover all controls, including financial, operational and compliance and are monitored and regularly reviewed for effectiveness by the Board. The systems are governed by mandated Board and management committees with appropriate expertise and resources and are compliant with statutory and regulatory requirements.

The overall risk profile of the Bank was well managed in the period under review, as the country's economic conditions and operating environment continued to improve. Nevertheless, the Bank reinforced its risk management activities to build necessary safeguards and mitigate risk



exposure as described in the Risk Review on pages 234 to 275.

### Digital Trust and Cyber resiliency

The Bank has been continuously taking steps to enhance the digital trust among our customers. The Bank's commitment to safeguarding customer data and enhancing digital banking services remains unwavering. As the Bank navigates an increasingly digital landscape, the Board recognises the critical importance of agility, scalability, and innovation that modern digital platforms offer. To ensure the Bank's digital technology strategy aligns seamlessly with its overall business objectives, the Bank continues to invest in effective governance and resource allocation.

In response to the evolving cybersecurity landscape, the Bank is excited to announce the adoption of a Zero Trust Cybersecurity Architecture. This proactive approach ensures that every access request is thoroughly verified, regardless of its origin, thereby significantly enhancing our security posture. The Bank follows a Security by

design concept in all projects. This year marked a significant milestone with the first-ever cybersecurity tabletop exercise in the banking industry, engaging the corporate management team. This initiative was designed to simulate potential cyber threats and enhance Bank's preparedness, ensuring that the Bank's leadership is equipped to respond effectively to any security challenges. The Bank is also dedicated to enhancing security within its mobile applications. The Bank's focus extends to protecting customers during the runtime of banking apps, implementing advanced security measures that safeguard transactions and personal information in real-time. To foster a culture of security awareness, the Bank has launched consistent information security awareness programs for its customers. These initiatives aim to educate its customers about best practices in cybersecurity, empowering them to protect their personal information.

Additionally, the Bank has rolled out numerous initiatives aimed at enhancing the digital trust of our customers. By

prioritising transparency and security, the Bank strive to build lasting relationships based on confidence and reliability. The HNB Digital Banking App continues to be a cornerstone of its digital strategy, offering a secure and user-friendly experience. With features like real-time fund transfers, E-passbook facilities, and robust two-factor authentication, the Bank ensures that its customers can manage their finances conveniently and securely. As the Bank look to the future, its commitment to innovation and cybersecurity will remain at the forefront of our strategy, ensuring that the Bank not only meet but exceed the expectations of its customers in an ever-evolving digital world.

### Group Corporate Governance

The Board aims to implement a unified standard of corporate governance across all group subsidiaries. While policies and procedures are aligned with those of the Bank, they are also tailored to address the unique business structures and risks of each entity.

### Statutory Disclosures

Section 168 of the Companies Act No 7 of 2007, requires the following information to be published in the Annual Report prepared for the year under review.

No	Disclosure requirements	Reference to the Companies Act No 7 of 2007	Disclosure reference for compliance	Page
1	The nature of the business of the Bank and the Group	Section 168 (1) (a)	About HNB Group	8-9
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, 2024	288 - 297 Signed on page 21
3	Auditor's report on the financial statements of the Bank and the Group	Section 168 (1) (c)	Independent Auditor's Report	282 - 285
4	Any change in accounting policies made during the accounting period	Section 168 (1) (d)	Note 3.6 to the financial statements - Changes in Material Accounting Policies	309
5	Particulars of entries in the Interests Register made during the accounting period	Section 168 (1) (e)	Directors' Interest in Contracts with the Bank  Corporate Governance Report - Conflict of Interest, provides details of management of Directors' Interests	224 - 230

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

No	Disclosure requirements	Reference to the Companies Act No 7 of 2007	Disclosure reference for compliance	Page
6	Remuneration and other benefits of Directors during the accounting period	Section 168 (1) (f)	Note 18 to the financial statements - Other Expenses  Corporate Governance Report - Fair and Responsible Remuneration, provides details of the remuneration framework	366
7	Total amount of donations made by the Company during the accounting period	Section 168 (1) (g)	Note 18 to the financial statements - Other Expenses	366
8	Names of the persons holding office as Directors of the Company as at the end of the accounting period and the names of any persons who ceased to hold office as Directors of the Company during the accounting period	Section 168 (1) (h)	Board Profiles  Corporate Governance Report	122 - 127  140 - 198
9	Amounts payable by the Company to the person or firm holding office as auditor of the Company as audit fees and as a separate item, fees payable by the Company for other services provided by that person or firm	Section 168 (1) (i)	Note 18 to the financial statements – Other Expenses	366
10	Particulars of any relationship (other than that of auditor) which the auditor has with or any interests which the auditor has in the Company or any of its subsidiaries	Section 168 (1) (j)	The Bank’s auditors during the period under review were Messrs. KPMG, Chartered Accountants.  Board Audit Committee periodically reviews the independence and objectivity of the External Auditor and also considers the adherence to the Policy on non-audit services to ensure that their independence is maintained.  Based on the declaration provided by Messrs. KPMG, and as far as the Directors are aware, the auditors do not have any relationship or interest with the Bank that in our judgement, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), applicable on the date of this Report.  A resolution re-appointing Messrs. KPMG Sri Lanka as Auditors for the ensuing year and authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting.	214
11	Signed on behalf of the Board by two Directors and the Company Secretary	Section 168 (1) (k)	Complied with	199

## Additional Disclosures

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

No	Disclosure requirements	Note reference	Page
1	Vision, Mission and Corporate Conduct	<p>Vision and Mission</p> <p>The Bank is committed to upholding high standards of business conduct and ethics in the work place at all times, paramount in retaining the trust of our stakeholders. All employees of the Bank abide by the Bank's Policy on Internal Code of Business conduct and Ethics, which has been communicated via electronic and visual mediums and been made available in three languages. The Policy on Internal Code of Business conduct and Ethics for Directors and employees is hosted in the Bank's website</p>	22
2	Principal Activities	About HNB Group	8-9
3	Changes to the Group Structure	On January 21, 2025, the Bank acquired the remaining 50% stake in Acuity Partners (Private) Limited from DFCC Bank PLC. and the company's name was changed as HNB Investment Bank (Pvt) Ltd w.e.f. 31st January 2025. HNB Investment Bank (Pvt) Ltd is now a wholly owned subsidiary of the Bank.	
4	List of Directors of Subsidiaries and Joint Ventures of the Bank as at 31st December 2024	<p><b>Subsidiaries</b></p> <p><b>HNB Assurance PLC</b>            Mr S A Chapman            Mr L U D Fernando            Mr Ashoka Goonesekere            Mr L H A Lakshman Silva            Dr. P S Gamwarige            Mr P R Saldin            Prof. Ananda Kithsiri W Jayawardane</p> <p><b>Sithma Development (Pvt) Ltd</b>            Mr P R Saldin            Dr. L Rohan Karunaratne            Ms. Anuradhi U Delage            Mr U A Roshan Fernando</p>	
		<p><b>HNB Finance PLC</b>            Mr A G R Dissanayake            Mr B M D C Prabath            Mr H D Wijesundara            Mr R D Manatunga            Mr Lalith Withana            Mr M S Polamarasetty            Mr B Premalal            Mr Anura Pathirige            Dr. T K D A P Samarasinghe            Mr R D Tissera</p>	
		<p><b>Joint Ventures</b></p> <p><b>Acuity Partners (Pvt) Ltd</b>  <b>Name changed as HNB Investment Bank (Pvt) Ltd w.e.f. 31st January 2025</b>            Mr P G D B Pallewatte            Mr N H T I Perera            Mr M R Abeywardena            Mr A G R Dissanayake            Mr M S Wijemanne            Mr S I Wijesinghe            Mr K S Jayasuriya            Mr D Nigel Bartholomeusz</p>	

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

No	Disclosure requirements	Note reference	Page
		<p><b>Other Group Companies</b></p> <p><b>HNB General Insurance Ltd</b> (Subsidiary of HNB Assurance PLC)</p> <p>Mr S A Chapman Mr L U D Fernando Mr M S Wijemanne Mr A V Abeygunasekara Mr U K D Dharmadasa Ms. P Abeygunawardana</p> <p><b>Lanka Ventures PLC</b> Mr P G D B Pallewatte Mr N H T I Perera Mr M R Abeywardena Mr J D N Kekulawala Mr R A Dassanayaka Mr A G R Dissanayake Mr W P Kusal Jayawardana</p>	
		<p><b>Acuity Securities Ltd</b> (Name changed as HNB Securities Limited w.e.f. 31st January 2025)</p> <p>Mr M R Abeywardena Mr P G D B Pallewatte Mr A V Abeygunasekara Mr R A Dassanayake Mr K. S. Jayasuriya</p> <p><b>Acuity Stockbrokers Ltd</b> (Name changed as HNB Stock Brokers (Pvt) Ltd w.e.f. 31st January 2025)</p> <p>Mr M R Abeywardena Mr P P S P Fernando Mr M S Wijemanne Mr A Iddamalgoda Mr K A P Perera Ms. M P Abeyesekara</p>	
		<p><b>LVL Energy Fund PLC</b> (Subsidiary of Lanka Ventures PLC)</p> <p>Mr P G D B Pallewatte Mr N H T I Perera Mr M A Wijetunge Mr M R Abeywardena Mr J D N Kekulawala Mr M M Wijetunge Mr C Dharmawardena Mr R A Dassanayaka Mr A G R Dissanayake Mr W P Kusal Jayawardana</p>	
5	Review of Operations	<p>Chairman's Message</p> <p>Managing Director/CEO's Message</p> <p>Stakeholder Reports</p> <p>Business Line Review</p>	<p>12 - 14</p> <p>15 - 20</p> <p>59 - 118</p> <p>47 - 58</p>
6	Future Developments	<p>Chairman's Message</p> <p>Managing Director/CEO's Message</p> <p>Stakeholder Reports</p> <p>Business Line Review</p>	<p>12 - 14</p> <p>15 - 20</p> <p>59 - 118</p> <p>47 - 58</p>
7	Financial Statements	<p>The financial statements of the Group and the Bank for the year ended December 31, 2024</p> <p>The financial statements of the Bank and the Group have been prepared in accordance with Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and they comply with the requirements of Companies Act No 7 of 2007 and Banking Act No 30 of 1988 (as amended).</p>	288 - 297
8	Directors' Responsibility for Financial Reporting	Directors' Responsibility for Financial Reporting	280 - 281
9	Auditor's Report	Independent Auditor's Report	282 - 286

No	Disclosure requirements	Note reference	Page
10	Material Accounting Policies	Note 2.1 and 3 to the financial statements - Basis of Preparation and Material Accounting Policies, respectively	299 - 309
11	Going Concern	Note 2.1.5 to the financial statements – Going Concern	300
12	Income	Note 7 to the financial statements – Gross Income	350
13	Financial Results and Appropriations	Income Statement	288
		Statement of Profit or Loss and Other Comprehensive Income	289
		Statement of Changes in Equity	292 - 294
14	Reserves	Statement of Changes in Equity	292 - 294
15	Corporate Donations	Note 18 to the financial statements - Other Expenses	366
		The Bank did not make any donations to Government approved charities	
16	Taxation	Note 21 to the financial statements - Income Tax Expense	368
17	Statutory Payments	The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government and the employees have been made up to date.	-
18	Dividends on Ordinary Shares	Note 23 to the financial statements - Dividends Paid and Proposed	372
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 1,875,157,000.00 and Rs. 2,493,038,000.00 respectively. (2023 Bank: Rs 2,842,925,000.00 and Group: Rs 3,393,045,000.00). Details are given in Note 36, 37 and 39 to the financial statements.	404 - 425
	(ii) Capital commitments	Capital expenditure approved and contracted for and approved and not contracted for, as at balance sheet date are given in Note 59 (b) to the financial statements – Capital commitments.	452
20	Property, Plant and Equipment	Note 37 to the financial statements - Property, Plant and Equipment	409 - 419
21	Net Book Value of Freehold Properties	Note 37 to the financial statements - Property, Plant and Equipment.	409 - 419
22	Outstanding Litigation	In the opinion of the Directors and the Bank's Lawyers, pending litigation against the Bank disclosed in Note 59 (C) of the financial statements, will not have a material impact on the financial position of the Bank or its future operations.  Note 59 (C) to the financial statements - Litigation against the Bank	452
23	Events after the Reporting Date	Note 64 to the financial statements - Events Occurring After the Reporting Period	464
24	Stated Capital and Debentures	Notes 54, 47 and 52 to the financial statements – Stated Capital, Debt Securities Issued and Subordinated Term Debts, respectively	446, 432, 438
25	Share Information	Investor Relations	498 - 507
26	Shareholdings	Investor Relations	498 - 507
27	Equitable Treatment to Shareholders	The Bank has at all times ensured that all shareholders (both voting and non-voting) are treated equitably except for the right to vote.	-
28	Register of Directors and Secretaries	As required under Section 223 (1) of the Companies Act No 7 of 2007, the Bank maintains a Register of Directors and Secretaries which contains the name, surname, former name (if any), residential address, business, occupation, dates of appointment and dates of resignation (if applicable) of each Director and the Secretary.	-



# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

No	Disclosure requirements	Note reference	Page																																				
29	Directors' Interests in the Ordinary Shares (Voting and Non-Voting)	<table border="1"> <thead> <tr> <th>Name</th> <th>As at 31st December 2024</th> <th>As at 31st December 2023</th> </tr> </thead> <tbody> <tr> <td>Mr Nihal Jayawardena</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr Damith Pallewatte</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr Devaka Cooray</td> <td>9,491</td> <td>9,265</td> </tr> <tr> <td>Mr Madura Ratnayake</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr P R Saldin</td> <td>3,505</td> <td>3,422</td> </tr> <tr> <td>Mr Kithsiri Gunawardena</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr Rasitha Gunawardana</td> <td>26,261</td> <td>25,653</td> </tr> <tr> <td>Dr. Prasad Samarasinghe</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr Nanda Fernando</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr S Renganathan</td> <td>-</td> <td>-</td> </tr> <tr> <td>Mr Suresh Shah</td> <td>-</td> <td>-</td> </tr> </tbody> </table>	Name	As at 31st December 2024	As at 31st December 2023	Mr Nihal Jayawardena	-	-	Mr Damith Pallewatte	-	-	Mr Devaka Cooray	9,491	9,265	Mr Madura Ratnayake	-	-	Mr P R Saldin	3,505	3,422	Mr Kithsiri Gunawardena	-	-	Mr Rasitha Gunawardana	26,261	25,653	Dr. Prasad Samarasinghe	-	-	Mr Nanda Fernando	-	-	Mr S Renganathan	-	-	Mr Suresh Shah	-	-	
		Name	As at 31st December 2024	As at 31st December 2023																																			
		Mr Nihal Jayawardena	-	-																																			
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		Mr Nanda Fernando	-	-																																			
Mr S Renganathan	-	-																																					
Mr Suresh Shah	-	-																																					
30	Directors' Interest in Debentures	Directors did not have any interest in debentures as at 31st December 2024	-																																				
31	Directors' Remuneration	Note 18 to the financial statements - Other Expenses	366																																				
32	Human Resources	Human Capital	74 - 83																																				
33	Employee Share Option Plan	Note 54 to the financial statements - Stated Capital	446																																				
34	Environmental Protection	<p>To the best of knowledge of the Board, the Bank has complied with the relevant environmental laws and regulations. The Bank has not engaged in any activity that is harmful or hazardous to the environment.</p> <p>Specific measures taken to protect the environment are found in the Stakeholder Reports.</p>	59 - 118																																				
35	Risk Management and Internal Control	Risk & Capital Review	232 - 275																																				
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37	Corporate Governance	Corporate Governance Report	140 - 189																																				
38	Insurance and Indemnity	Pursuant to a decision of the Board, the Bank obtained an Insurance Policy to cover Directors' and Officers' liability.	-																																				
39	Material Foreseeable Risk Factors (As per Rule No 7.6 (VI) of the Listing Rules of the Colombo Stock Exchange)	Risk & Capital Reviews	230 - 275																																				
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	10 - 11																																				

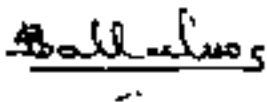
## Notice of Annual General Meeting

The 56th Annual General Meeting of the Bank is convened on 27th March 2025, at 10.00 in the forenoon, at the Auditorium on Level 22 of "HNB Towers", No 479, T B Jayah Mawatha, Colombo 10 (Registered Office). The Notice of the 56th Annual General Meeting is enclosed.

## Acknowledgement of the Contents of the Report

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

For and on behalf of the Board of Directors,

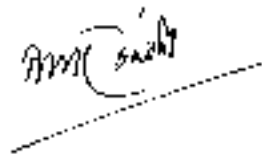


*Shiromi Halloluwa*  
*Assistant General Manager (Legal) / Board Secretary*



*Damith Pallewatte*  
*Managing Director / Chief Executive Officer*

Colombo, Sri Lanka  
21st February 2025



*Nihal Jayawardene PC*  
*Chairman*

# HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT



**Madura Ratnayake**  
Chairman, Human Resources & Remuneration Committee

## Composition & Meetings

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

### Chairman

Mr Madura Ratnayake (IND/NED)  
(appointed on 5th October 2021)

### Other Members

- Mr Nihal Jayawardene PC (NIND/NED) (appointed on 23rd June 2023)
- Mr Rasitha Gunawardana (IND/NED) (appointed on 9th November 2023)
- Mr Suresh Kumar Shah (IND/NED) (appointed on 28th June 2024)
- Mr Osman Chandrawansa (IND/NED) (Retired w.e.f. 11th September 2024)
- Mr Kithsiri Gunawardana (NIND/NED) (appointed on 21st January 2022 and resigned w.e.f. 28th June 2024)
- Mr Sivakrishnarajah Renganathan (IND/NED) (appointed w.e.f. 26th April 2024 and resigned w.e.f. 28th June 2024)

Brief profiles of the Directors are given on pages 122 to 127 in this report.

The HR & Remuneration Committee (the "Committee") convenes meetings as needed, but at a minimum, twice annually. Additional meetings may be called at the discretion of the Committee Chairman. The outcomes of these meetings are consistently reported to the Board, with minutes distributed to all Directors.

Operating under established Terms of Reference (TOR), the HR & Remuneration Committee has clearly defined its scope, authority, duties and quorum requirements. The Committee is dedicated to upholding principles of accountability and transparency, ensuring that remuneration structures are fair and aligned with both the Bank's performance and the long-term interests of the Bank and its shareholders. The TOR has been reviewed and updated to comply with the Section 9 of the Listing Rules on Corporate Governance issued by the Colombo Stock Exchange and the Banking Act Direction No 05 of 2024 on Corporate Governance for Licensed Banks, as issued by the Central Bank of Sri Lanka (CBSL).

## Policy

The Bank's Remuneration Policy aims to attract, motivate and retain employees with the pertinent professional, managerial and operational expertise to meet the Bank's objectives. This year, the policy was updated to include remuneration guidelines for both Non-Executive and Executive members of the Board of Directors. The policy is available on the Bank's website, ensuring alignment with the Corporate Governance Rules of the Colombo Stock Exchange.

## Scope

The Committee is empowered to review, assess and recommend to the Board of Directors on any matters affecting the Bank's Human Resources, as well as any issues referred by the Board or other Sub-Committees. In fulfilling its responsibilities, the Committee focuses on:

- Remuneration for Non-Executive Directors, Executive Director, and

Key Management Personnel (KMP) or equivalent positions.

- Practices that attract, develop and retain high-performing talent.
- Competitive short and long-term incentives linked to sustainable performance and shareholder returns.
- Learning and development strategies and annual training plans for employees.
- Workforce representation.
- Leadership talent acquisition and retention.

## To achieve these goals, the Committee:

Sets annual goals and targets for the MD/CEO and Key Management Personnel (KMPs).

Reviews Human Resource policies, salary structures and incentive schemes for Senior Management, obtaining necessary information and recommendations from the MD/CEO and Chief Human Resource Officer (CHRO). The Committee evaluates their performance and recommends remuneration packages, annual increments, and bonuses for the MD/CEO, Corporate Management and Senior Management staff to the Board of Directors.

Annually reviews the organisation structure and makes changes in line with the Bank's strategic direction.

Prioritises ensuring proper succession planning for critical positions and determining the basis for revising remuneration, benefits and other performance-based incentives.

Considers and approves the recruitment and promotion of management-level staff based on proposals submitted by the Human Capital Management Committee headed by MD/CEO following a formal process of evaluation

Provides strategic oversight for skill and capability building, considering market dynamics and emerging regulatory, technological and market developments.

### Invitees of the Board

- Mr Jonathan Alles (MD/CEO) (retired w.e.f. 23rd August 2024)
- Mr Damith Pallewatte (MD/CEO) (w.e.f. 6th April 2024 as Acting CEO and as MD/CEO w.e.f. 22nd November 2024 except when his remuneration or performance is discussed).

### Management Participants

Mr Kailaivasan Indravasan – Chief Human Resources Officer ( CHRO)

### Secretary to the Committee

The Board Secretary functions as the Secretary to the Committee.

### Attendance during 2024

The Committee met Nine (09) times during 2024.

Attendance details of meetings held during 2024 are as follows.

### Attendance during 2024

	Eligible to attend /Attended
Mr Madura Duminda Ratnayake	9/9
Mr Nihal Jayawardene PC	9/9
Mr Rasitha Gunawardana	9/9
Mr Suresh Shah	4/4
Mr Osman Chandrawansa	7/7
Mr Kithsiri Gunawardana	5/4
Mr Sivakrishnarajah Renganathan	1/1
Mr Damith Pallewatte	5/5
Mr Jonathan Alles	3/2

Reviews and recommends to the Board on matters related to diversity, including:

- The Bank’s diversity policy.
- Establishing measurable objectives for achieving diversity across the Group, annually assessing both objectives and progress.

Reviewing the relative proportion of women and men in the workforce at all levels and examining remuneration by gender to identify and address any pay gaps, providing recommendations to the Board where relevant.

### Key Activities Carried Out in 2024

Creation of the People Roadmap & HR dashboard.

Commencement of Strategic HR Transformation project covering Organisation Structure review, Job Evaluation, Job grading & Job banding, Compensation & Benefits Industry Benchmarking study, Performance Management system and competency framework review. The implementation of this project will assist the Bank to achieve the desired optimal structure to support robust growth and strategic initiatives.

Putting in place the Training plan for 2025 aligned to Bank’s strategy pillars with a higher focus on leadership development and regional training programs.

Reviewing Revised Succession Plan for the Senior Management with a success rate assessment.

Amendments were made to the Code of Conduct and Ethics, which has been renamed as the Policy on Internal Code of Business Conduct and Ethics for all Directors and employees including the policy on trading HNB shares and to the Policy on Anti-Bribery and Corruption, ensuring alignment with the Corporate Governance Rules of the Colombo Stock Exchange. These policies are now available on the Bank’s website.

All HR policies of the Bank were reviewed and necessary amendments were incorporated into the following policies:

- Social Media Policy
- Remuneration Policy

Implementing Great Place To Work (GPTW) action plans based on the survey feedback and establishing Regional Engagement Teams and a mentoring program through the Corporate Management.

Finalisation of Collective Agreement within a short period of time before the deadline.

Introduction of Mobility Allowance for staff who work more than 50 km away from home.

Workforce Planning model for the Network was approved and implemented ensuring that optimum staff required were made available.

Maintained continuous oversight of the familiarisation and handover action plan for the CEO’s successor, ensuring a smooth transition.

### Employment Report

To achieve its goals, the Bank requires a workforce that is both skilled and representative of the stakeholders it serves. The Bank’s current and future success hinges on the knowledge and collective skills of its employees, especially as it faces increasing pressure to adapt swiftly to a more diverse and mobile workforce. The Bank is fully committed to investing in Human Capital Development to enhance existing skills and acquire new knowledge necessary to improve overall performance.

# HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

The table below reflects the employment report of the Company as of 31st December, 2024.

Levels	Total
Corporate Management	26
Senior Management	87
Management & Executive allied	897
Junior Executive allied	1210
Bank Associate allied	2586
Secretaries	145
Support Staff	117
Total Permanent	5068
Fixed Term Contract	509
Total	5577

## Professional Advice


The Committee is authorised to seek external professional advice on matters within its scope.

## Committee Evaluation

To ensure optimal performance, a self-evaluation of the Committee members was conducted and circulated among the members for necessary action. A summary of the results was submitted to the Board.

## Conclusion

In 2025, the Bank will focus on implementing strategic recommendations for the optimal growth of Human Capital. We will continue to introduce and strengthen HR policies, practices and systems, focusing on organisational structure, job evaluation, performance management, employee rewards and recognition, strategic workforce planning, career development, succession planning and employee engagement and wellness. These efforts will enhance our employee value proposition and contribute to the sustainable growth of the Bank.



**Madura Ratnayake**

*Chairman*

*Human Resources & Remuneration  
Committee*

Colombo, Sri Lanka

21st February 2025



# NOMINATIONS AND GOVERNANCE COMMITTEE REPORT



*Mr Devaka Cooray, Chairman,  
Nominations and Governance  
Committee*

## Composition & Meetings

The following Directors serve/served on the Nominations and Governance Committee:

### Chairman

Mr Devaka Cooray (IND/NED)  
Appointed on 30th July 2021

### Other Members

- Mr Madura Ratnayake (IND/NED)  
Appointed on 4th October 2021
- Mr Nihal Jayawardene PC (NIND/  
NED) Appointed on 23rd June 2023
- Mr Sivakrishnarajah Renganathan  
(IND/NED) Appointed w.e.f. 26th  
April 2024

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

Brief profiles of the Directors are given  
on pages 122 to 127 in this report.

## Activities In 2024

In 2024, the Board Nominations and Governance Committee (BNGC) emerged as a pivotal force in the Bank's governance landscape. This transformation was driven by the implementation of new corporate governance regulations by the Colombo Stock Exchange. Consequently, the BNGC's responsibilities were significantly expanded, empowering the Committee to elevate the Bank's governance culture beyond the expectations of stakeholders.

As part of its duties, the Committee undertook a comprehensive review of the Bank's Corporate Governance Framework, including an in-depth assessment of policies, guidelines, principles in relation to both the Board and Key Management levels. The Committee further evaluated the balance of skills, experience, attributes, independence and diversity among the Board and Key Management Personnel (KMP) to ensure each leadership tier possess the requisite skills to implement strategic plans effectively and that the Board could provide informed and constructive challenges to Management.

Accordingly, talent management and succession planning for roles below the Board level were key topics of discussion. Throughout the year, the Committee engaged in continuous reviews of the structure, skills and composition of the Board and its Committees with appropriate recommendations made to the Board to enable any identified skill gaps at the Board level to be addressed through the appointment of suitable candidates to fill these vacancies.

The Committee also closely monitored activities and initiatives aimed at strengthening the Bank's talent pipeline. Recommendations were made to appoint limited number of KMP to Group Company Boards to ensure alignment of corporate values, policies, processes and cultures across the organisation.

Succession planning was another major focus for the Committee, which conducted extensive reviews to ensure continuity of operations and the development of

strong talent pipelines for KMPs. In line with the established procedure for orderly succession, Mr Damith Pallewatte was appointed as the Managing Director of the Bank, with effect from 22nd November, 2024, following the retirement of Mr Jonathan Alles, who completed his term of office on 23rd August, 2024.

The fitness and propriety of Directors and new KMP were evaluated as required to ensure compliance with the Central Bank of Sri Lanka (CBSL) requirements and the Corporate Governance Rules of the Colombo Stock Exchange (CSE). Additionally, the Committee reviewed the revised selection matrix, which includes qualifications, experience and key attributes for promotions within the Key Management Personnel. This comprehensive approach ensured that the Bank maintained a robust governance framework capable of supporting its strategic objectives.

## Committee Responsibilities

The Committee is responsible for implementing a systematic and transparent procedure to select and appoint new Directors, the MD/CEO and Key Management Personnel (KMP), in line with the Bank's governance standards.

In addition, the Committee considers and recommends the re-election of current Directors following an evaluation of their performance and contributions to the Board's overall responsibilities, ensuring that only those who add value to the Board are re-elected.

Ensuring that an updated procedure is in place for the selection, appointment and re-election of Directors taking into account the fitness, propriety, qualifications, competencies and independence of the candidates, in line with statutory provisions.

The Committee sets the eligibility criteria for appointments or promotions to the positions of MD/CEO and KMPs including establishing clear guidelines regarding required qualifications, experience and key attributes necessary for the respective

# NOMINATIONS AND GOVERNANCE COMMITTEE REPORT

## Invitees of the Board

- Mr Jonathan Alles - Managing Director/Chief Executive Officer participated at the meetings on invitation as and when necessary until his retirement on 23rd August 2024.
- Mr Damith Pallewatte participated at the meetings on invitation w.e.f. 6th April 2024 as Actg. CEO and thereafter as MD/CEO w.e.f. 22nd November 2024.

## Secretary to the Committee

The Board Secretary functions as the Secretary to the Committee.

## Attendance during 2024

Attendance details of meetings held during 2024 are as follows.

Members	Eligible to attend /Attended
Mr Devaka Cooray	10/10
Mr Madura Ratnayake	10 /8
Mr Nihal Jayawardene PC	10/9
Mr S. Renganathan	5/5
<b>Invitees</b>	
Mr Jonathan Alles	3/3
Mr Damith Pallewatte	7/4

roles, to ensure the right individuals are selected.

The BNGC is entrusted with responsibility of ensuring Directors, the MD/CEO and KMP are fit and proper persons to hold office in compliance with the criteria specified under statutory and regulatory requirements, maintaining the integrity of the Bank's leadership.

The Committee considers and recommends the need for additional expertise and succession arrangements for retiring Directors and KMPs ensuring continuity and preparing for future leadership needs.

## The Terms of Reference

The Terms of Reference (TOR) of the Nominations and Governance Committee, adopted by the Board was reviewed periodically, to ensure alignment with regulatory requirements and industry best practices. The BNGC's TOR was further reviewed and amended by the members of the Committee at its meeting held on 18th November 2024 to be in line with the Banking Act Direction No 05 of 2024 issued by the Central Bank of Sri Lanka and the same was approved by the Board on 28th November 2024.

## Duties Discharged by The Committee

### Board Composition

#### The Committee:

Reviewed the structure, skills and the composition of the Board and its Committees on an ongoing basis, making recommendation to the Board as appropriate;

Identified the required skill gaps at Board level and recommended several candidates to fill vacancies on the Board;

Assessed the fitness and propriety of the Directors holding office in terms of the provisions of the Banking Act, Banking Act Direction No 11 of 2007 and Banking Act Direction No 05 of 2024 on Corporate Governance for Licensed Commercial

Banks issued by the Central Bank of Sri Lanka ("the Direction"), Code of Best Practice on Corporate Governance 2023 issued by the Institute of Chartered Accountants of Sri Lanka and Corporate Governance Rules of the CSE.

Recommended the appointment of Mr Nanda Fernando, Mr Sivakrishnarajah Renganathan, Mr Suresh Shah and Mrs Dilani Alagaratnam Goonatilleke as Directors to fill casual vacancies created in the Board.

## Succession Planning

### The Committee:

Reviewed the Succession Plans for MD/CEO, 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 and recommended all new appointments to the Boards of subsidiaries and associate companies of the Bank.

## Highlights 2024

During the year, the Committee's activities included:

Reviewing and updating the Corporate Charter of the Board of Directors and re named it as Policy on matters relating to the Board of Directors.

Adopting the following new policies in terms of the Corporate Governance Rules of the Colombo Stock Exchange

- Policy on Board Sub Committees
- Policy on Corporate Governance, Nominations and Re- Election
- Policy on Corporate Disclosures
- Policy on Relations with Shareholders and Investors

Reviewing the Terms of Reference (TOR) of the Board Nominations and Governance Committee;

Reviewing succession plans for Board and KMP;

Overseeing the Board evaluations undertaken during the year and further refining the Board Evaluation framework;

Assessing the Board's skill set and bench strength to ensure that the required balance of skills and experience, independence and knowledge is in place for the Board and its Committees to function effectively;

Proactively initiating the process of recruiting a female director to the Board to ensure gender diversity, well ahead of the regulatory requirement deadline which is 31st December 2025 as per the Banking Act Direction No 05 of 2024 issued by the Central Bank of Sri Lanka and recommended the appointment of Mrs Dilani Champika Alagaratnam Goonatileke.

Ensuring compliance with the Corporate Governance Rules in the conduct of all affairs in the Committee;

Analysing the Organisation chart and skill gaps;

Revised the selection matrix containing qualifications, experience, and the key attributes applicable for promotions to and within the Key Management Personnel.

## Group Governance/Management Principles

Appointed suitable KMP to Group Companies as HNB nominee Directors to ensure governance standards within the group are complied with.

## Training

The Committee ensured that the Bank carried out the induction programme for the newly appointed Directors during the year 2024 with sessions covering Board engagement.

Nine (9) training opportunities were made available to the Directors apart from conducting special presentations by eminent professionals on matters of importance inter-alia Corporate Governance Rules of Colombo Stock Exchange, High-level Awareness for Board of Directors and Senior Management of Financial Institutions on AML/CFT mutual evaluation, Personal Data Protection Act No 9 of 2022, Anti-Bribery and Corruption, Salient features of the Banking (Amendment) Act No 24 of 2024, Role of Directors for Better Governance, Cybersecurity and Economic updates. Director training and developments were further supported through Board deep dives, risk deep dives and functions reviews.

## Re-election/Re-appointment of Directors at the 56th Annual General Meeting

As per the provisions in the Articles of Association a Director is eligible for re-election pursuant retirement, after having

served three years since his/her last re-election to the office. Accordingly, the BNGC has recommended that, Mr Madura Ratnayake (IND/NED) and Mr Prawira Rimoe Salidin (NIND/NED) having served three years since their last re-election are required to retire by rotation and remain eligible to be re-elected/re-appointed at the 56th Annual General Meeting to be held on 27th March 2025, under Article 34 of the Articles of Association and other applicable regulations.

The Committee, considering their contribution recommended their names to the Board of Directors for approval. Accordingly, the Board at its meeting held on 28th November 2024, recommended that Mr Madura Ratnayake (IND/NED) and Mr Prawira Rimoe Saldin (NIND/NED) should be re-elected/re-appointed as Directors of the Bank at the next Annual General Meeting.

Directors Mr Nanda Fernando, Mr Sivakrishnarajah Renganathan and Mr Suresh Shah who were appointed during the year 2024 and Mrs Dilani Alagaratnam Goonatileke who was appointed on 31st January 2025 to fill casual vacancies offered themselves for formal appointment under Article 36 of the Articles of Association. The re-appointment of Mr Nanda Fernando, Mr Sivakrishnarajah Renganathan and Mr Suresh Shah were recommended by the Committee and the Board on 18th November 2024 and 28th November 2024 respectively. The re-appointment of Mrs Dilani Alagaratnam Goonatileke was recommended by the Board on 30th January 2025.

# NOMINATIONS AND GOVERNANCE COMMITTEE REPORT

As required under Rule No 9.11.6 of the Corporate Governance Rules of the Colombo Stock Exchange, we give below the information of the Directors proposed for re-election at the 56th Annual General Meeting to be held on 27th March 2025.

Name of the Director	Board Sub-Committee Memberships	First Appointment as a Director	Date of Last Re-election as a Director	Directorships in Other Entities	Material Relationships
Mr Madura Ratnayake	<ul style="list-style-type: none"> <li>• HRRC - Chairman</li> <li>• NGC – Member</li> <li>• BSIRC- Member</li> <li>• SBCDB - Chairman</li> </ul>	25th October, 2018	30th March, 2022	Commitments over the preceding three years and present Commitments: Details are given in profiles of Board of Directors on pages 122 to 127.	Mr Madura Ratnayake or his close family members do not have any relationships with the Directors of the Bank or its material shareholders other than the relevant interest in transactions with the Bank disclosed in pages 224 to 230 in this report.
Mr Prawira Rimoe Saldin	<ul style="list-style-type: none"> <li>• BIRMC – Chairman</li> <li>• SIRC - Member</li> <li>• PADC- Chairman</li> </ul>	30th April, 2021	30th March, 2022	Commitments over the preceding three years and present Commitments: Details are given in profiles of Board of Directors on pages 122 to 127.	Mr Prawira Rimoe Saldin or his close family members do not have any relationships with the Directors of the Bank or its material shareholders other than the relevant interest in transactions with the Bank disclosed in pages 224 to 230 in this report.

The following Director was re-elected at the 55th Annual General Meeting in terms of provisions stipulated in the Articles of Association of the Bank and other applicable regulatory requirements.

As required under Rule No 9.11.6 of the Corporate Governance Rules of the Colombo Stock Exchange, we give below the information of the Director re-elected at the 55th Annual General Meeting held on 28th March 2024.

Name of the Director	Board Sub-Committee Memberships	First Appointment as a Director	Date of Last Re-election as a Director	Directorships in Other Entities	Material Relationships
Mr Devaka Cooray	<ul style="list-style-type: none"> <li>• BAC - Chairman</li> <li>• BNGC- Chairman</li> <li>• BCC- Member</li> </ul>	3rd July 2020	28th March 2024	Commitments over the preceding three years and present Commitments : Details are given in profiles of Board of Directors on pages 122 to 127.	Mr Devaka Cooray or his close family members do not have any relationships with the Directors of the Bank or its material shareholders other than the relevant interest in transactions with the Bank disclosed in pages 224 to 230 in this report.

## Committee Effectiveness

The performance of the Committee is reviewed each year as part of the Board effectiveness assessment. The Committee completed its self-assessment for the year 2024, and the review concluded that the Committee continues to operate effectively.

The Senior Independent Director conducted separate meetings with the Independent Directors enabling them to inform the major issues relating to the

Bank in terms of the CSE Listing Rules during the year under review. In addition, Independent Directors are free to express their views on the issues relating to the Bank at Board meetings.

Induction programs are conducted for newly appointed Directors on Corporate Governance, Listing Rules, Securities Market Regulations and other applicable laws and regulations along with the familiarisation on the key focus areas of the Bank. The Board of Directors are

periodically appraised on Corporate Governance, Listing Rules, Securities Market Regulations and other applicable laws and regulations as appropriate.

Declarations with regard to the assessment of independence/non-independence of Directors for the year 2024/2025 were submitted by the Directors in terms of Direction 2.5 of CBSL Direction on Corporate Governance, item A.5.5 of "Code of Best Practice on Corporate Governance" and Rule 9.8.5 of "Corporate

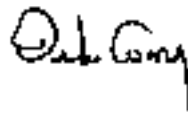
Governance Rules of the Colombo Stock Exchange (CSE)" have been assessed by the Committee at its meeting held on 17th February 2025 and declared that the Directors of the Bank have met the criteria for determining the independence as set out in Corporate Governance Rules of CSE.

This year review highlights that the Committee continues to be well constituted and that the role and the responsibilities are clear and well understood. The Committee's interaction with the Board, Board Sub Committees and the Management is considered effective and was pursuing matters to ensure safe and sound operation of the Bank in line with the applicable laws and regulations.

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

The Committee declares that the Corporate Governance requirements

stipulated under the CSE Listing Rules have already been met by the Bank including certain requirements implemented recently. Further, the Bank is in the process of adopting the latest implementations introduced by Banking Act Direction No 05 of 2024 issued by the Central Bank of Sri Lanka to ensure the overall compliance with the aforementioned regulation. For more details, refer to the Corporate Governance Report pages 140 to 189.



*Devaka Cooray*  
*Chairman*  
*Nominations and Governance Committee*

Colombo, Sri Lanka  
21st February 2025



# BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT



*Mr Rimoe Saldin, Chairman,  
Board Integrated Risk Management  
Committee*

## Composition & Meetings

The Board Integrated Risk Management Committee (BIRMC) currently comprises four members and one invitee, the Chairman of the BAC, who will attend on an as needed basis. The Committee members are listed below.

### Chairman

Mr Rimoe Saldin (NIND/NED)

### Other Members

- Mr Suresh Shah (IND/NED appointed with effect from 19th September 2024)
- Dr Prasad Samarasinghe (NIND/NED)
- Mr Kithsiri Gunawardena (NIND/NED)
- Mr Jonathan Alles (Retired from the Bank service with effect from 23rd August 2024)
- Mr Madura Rathnayake (IND/NED appointed till 26th April 2024)
- Mr Nanda Fernando (IND/NED appointed from 26th April 2024 up to 19th September 2024)
- Mr Damith Pallewatte (MD/CEO appointed from 19th September 2024 up to 16th December 2024)

### Invitees of the Board

Mr Devaka Cooray (IND/NED)

## Major Initiatives Implemented in 2024

### Integrated Risk Management

- The Bank's ICAAP was reviewed during the year to ensure capital adequacy was maintained above minimum regulatory requirements. Variables such as asset quality, market risk factors, investments in Government securities, concentration risk assessments etc., were subjected to stress testing.
- The ICAAP model was validated by an external consultant to ensure that the model mechanism is capable of identifying and capturing emerging risks.
- The Risk Appetite Statement of the Bank was reviewed periodically in response to macro and micro economic factors of the country. The financial budgets and business performance of the Bank were maintained in line with the Risk Appetite Statement.
- A series of industry and country reviews were conducted to assess risk levels across various sectors and implement corrective actions aimed at better managing the Bank's lending portfolio.
- Rolled out a dynamic Internal Risk Rating assessment model that features a comprehensive risk evaluation across lending portfolios in the Corporate, Emerging Corporate, and SME sectors.

### Group risk

- Additional features, including the assessment of perceived risk levels of group companies were introduced to Risk Dashboards and Risk Assessment report to Strengthen the assessment of Group Risk and enhance compliance monitoring.
- Potential risk areas were reviewed quarterly, with follow-up remedial actions taken to ensure that identified risks were effectively mitigated. This process significantly strengthened the risk management environment across group companies, promoting a proactive

approach to risk identification and resolution.

- The ICAAP and associated policies were successfully implemented for subsidiary companies, ensuring subsidiaries adhered to the same standards of capital adequacy and risk management practices as HNB.

### Credit Risk

- The Credit Risk Policy was reviewed in line with regulatory requirements.
- Credit guidelines for credit cards, personal loans, home loans, educational loans, leasing, SME lending, microfinance and corporate banking & emerging corporate banking, were reviewed, in line with the Bank's strategic vision, growth plans, risk appetite and prevailing market conditions. These credit guidelines direct the management of the risk-return mix of respective product portfolios, based on historical experiences and prevailing economic and market factors.
- The guidelines for margin trading credit policy were reviewed, based on the market applicability.
- The internal CRIB Guidelines were reviewed against current market conditions and changes were proposed based on evaluations of CRIB clearance requests.
- The Management Review List (MRL) and Watch List (WL) policy was reviewed in line with Regulatory requirements of classifying, recognising and measuring of credit facilities and considering the overall risk appetite of the Bank.
- Environmental and Social Risk Management policy was reviewed in line with the regularity requirements, whilst ensuring compliance with new directions in Environmental, Social, and Governance (ESG) criteria. Gender related screening has been incorporated into the E&S check list and due diligence report during the current year.
- Environmental, Social, and Governance (ESG) Score card was developed in line

Profiles of directors are given in pages 122 to 127.

### Management Participants

- Mr Damith Pallewatte - MD/CEO (Appointed with effect from 16th December 2024)
- Mr Ruwan Manatunga - DGM-Risk / Chief Risk Officer

### Regular Attendees by Invitation

- Mr Niroshana Seneviratne - DGM - Internal Audit/ Chief Internal Auditor
- Mr Druvinda Vaidyakularatne – AGM - Information Technology / Chief Information Officer
- Mr Arjuna Abeygunasekara – DGM – Treasury and Markets
- Mr Suresh Emmanuel – AGM - Information Security/ Chief Information Security Officer
- Mr Neil Rasiah – AGM Compliance

### Secretary to the Committee

Mr Ruwan Manatunga – DGM – Risk/ Chief Risk Officer

### Attendance during 2024

	Eligible to attend /Attended
Mr Rimoe Saldin	11/11
Mr Madura Rathnayake*	5/5
Mr Jonathan Alles **	7/4
Mr Devaka Cooray	11/9
Dr Prasad Samarasinghe	11/11
Mr Kithsiri Gunawardena	11/10
Mr Suresh Shah***	3/3
Mr Nanda Fernando ****	4/3
Mr Damith Pallewatte*****	3/3

\* Mr Madura Rathnayake appointed till 26th April 2024

\*\* Mr Jonathan Alles retired from the Bank service with effect from 23rd August 2024

\*\*\* Mr Suresh Shah appointed with effect from 19th September 2024

\*\*\*\* Mr Nanda Fernando appointed from 26th April 2024 up to 19th September 2024

\*\*\*\*\* Mr Damith Pallewatte appointed with effect from 19th September 2024

with SLFRS S1 and S2 criteria to assess sustainability and climate related risks and opportunities.

- Enhanced post loan disbursement reviews were carried out on the Advances Portfolio in order to ensure compliance with Credit Policies and Guidelines. Observations and learnings were shared with Business Units and Credit Teams in order to ensure qualitative improvements in Credit underwriting and Credit Administration processes.
- Training and familiarisation sessions were conducted for businesses and credit approvers on the Bank's credit policies and guidelines, best practices and common lapses in credit underwriting of facilities, as well as rescheduling / restructuring of facilities.
- Credit Approval Structure was reviewed against new NPAs, LRMs findings, regulatory changes and other emerging credit risks to the loan book.

### Operational Risk

- Control actions were introduced to curtail fraud and scams committed by individuals and well-organised gangs using bank accounts, which increased in 2024. The Bank enhanced public awareness through social media, its branch network, and SMS alerts. Additionally, suspicious transactions were monitored by the Compliance Department through the AML system. During customer onboarding, the Bank adopted stringent evaluation procedures.
- Non-compliance with procedure controls by branches was addressed by the Operational Risk Unit through visiting branches, reviewing the operational standards, and conducting Operational Risk trainings. Familiarisation sessions and trainings were conducted to educate staff on operational standards and the importance of compliance with procedural controls.

- Risks arising from third-party service providers due to weak controls and non-adherence to contracts were addressed through on-site reviews and L1 and L2 assessments to strengthen security and control measures. A centralised list of outsourced service providers, covering both critical and non-critical services, was created and the dependency on certain providers was reviewed. Service providers were educated on the Financial Consumer Protection Regulations No 01 of 2023, and contracts were updated to include clauses for punitive actions related to reputational damages, in addition to penalties for operational lapses.
- Control measures were implemented to address the rising fraud and robberies resulting from job losses in industry and services, income losses, inflation, food insecurity, and economic disruptions. Additionally, the Customer Blacklisting Guidelines were reviewed to prevent the onboarding of potential offenders. The latest IP-based CCTV cameras, with a data storage capacity of 90 days, were also installed replacing the old cameras.

- IT system failures and unexpected errors were addressed through root causes analysis and the BCP was tested through IT DR drills.

- Controls were introduced and monitored through Risk and Control Self Assessments (RCSA) to address emergent risks arising from operational process changes. This process encompassed all Head Office departments, as well as the branch network and regional offices.

### Portfolio Risk Management

- Bank's Individually Significant Loan (ISL) portfolio, which accounts for approx. 60% of the Bank's lending portfolio, was analysed quarterly to ensure the maintenance of an optimal level of provisions under the Expected Credit Loss (ECL) approach and for proper classification under SLFRS-9.

# BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

- Bank's individually insignificant lending portfolios were regularly reviewed for credit quality, proper classification, provisioning under SLFRS-9, credit concentration, and compliance with the Bank's risk appetite levels.
- A post-review was conducted for all restructured and rescheduled lending facilities, including a comprehensive risk assessment, before upgrading accounts from upper buckets (SLFRS-9 Stage 2/3) to lower buckets (Stage 1).
- Strengthened L2 review mechanism for specific lending portfolios including the Margin Trading portfolio, Overdraft portfolio, Credit Card portfolio etc. to ensure adherence and compliance with the Bank's Credit policies.
- Conducted a series of training sessions across business divisions and branch network to enhance knowledge on 'Classification, Recognition and Measurement of Credit Facilities based on the SLFRS 9 ECL Approach.'

## Market Risk

- Treasury limits were regularly reviewed to assess micro and macro-economic factors on counterparty limits, country limits and limits for treasury activities. The Bank's liquidity and funding needs were periodically reviewed.
- Conducted semi-annual stress testing, based on Bank's Liquidity Coverage Ratio (LCR), to assess impacts on the Bank's liquidity position due to a range of potential liquidity crisis scenarios. This included a thorough analysis of the resulting impacts on the Bank, along with strategic measures to address potential liquidity gaps and minimise adverse effects.
- Comprehensive biannual Country Limit reviews were conducted to assess the Bank's exposure to each country. These reviews covered Treasury counterparty limits, counter guarantee limits, export bill limits, nostro balances, investments in foreign bonds and loan facilities with

limits allocated based on the Bank's core capital.

- Regular impact analysis on the Bank's capital base was carried out on the possible hair cut on the Bank's investment in USD denominated bonds, USD deposit run, LKR deposit run and immediate demand of FC funding lines, identifying strategies and to minimise the impact of these events.

## Loan Review Mechanism

- Enhanced post loan disbursement reviews were conducted on the Advances Portfolio in order to ensure compliance with credit policies and guidelines. Observations and learnings were shared with business units and credit teams in order to ensure qualitative improvements in credit underwriting and credit administration processes.
- Quarterly discussions were held with the members of the Corporate Management Team (CMT) to review corrective actions taken to address LRM findings.
- Meetings were held with lending staff, including credit administration/centralised credit operations and other business units to address shortcomings and develop strategies to minimise possible losses relating to the Bank's credit portfolio.
- The loan review team reviewed underwriting and collateral files to ascertain the underwriting, monitoring, and documentation practices. During a file review, a team member meets the Business Units to discuss individual facilities.
- The LRM Policy was reviewed and updated to align with internal lending guidelines, market and economic conditions, and to enhance overall underwriting standards.
- A comprehensive e-Learning module on LRM was hosted on Talent Space, HNB.
- Frequent branch visits were conducted to communicate best practices relating

to Credit Guidelines and LRM findings and to improve the credit underwriting standards of SME RMs, ROs, and staff involved in PFS and other lending products.

- Conducted comprehensive training programs/awareness sessions for staff on LRM key findings in order to improve credit underwriting standards.
- Risk Bulletins were issued every quarter for knowledge sharing and to improve the credit underwriting standards.

## Information & Cyber Risk

- A Cyber security maturity assessment was carried out in line with the NIST (National Institute of Standards and Technology) Cyber Security Framework.
- Bank wide information security risk assessments were carried out covering technology infrastructure, business applications and processes, and branch network.
- Regular information security risk assessments were conducted for vendors and Outsourced Service Providers (OSP) to identify potential Cyber risks exposures and impact on the Bank.
- IT / Cyber security assessments were conducted for IT projects both prior to and post implementation, to identify potential threats to the Bank and implement necessary risk controls. Security measures to counter Phishing risks were strengthened by including tailored employee training and simulated exercises using multiple phishing scenarios.
- Email and web application controls were enhanced to defend against latest security threats to the Bank
- Employee and customer awareness of Cyber security was enhanced through physical /online trainings, simulated exercises, e-flyers, posters, web notifications, SMS messages, etc.

## Looking Ahead

### Integrated Risk Management

- Increase risk reviews on industries in order to identify new opportunities and exit from elevated risk business sectors.
- Conduct comprehensive country reviews to assess and mitigate potential risks from international exposures. This process will also identify new, lending opportunities, ensuring informed decision making, asset protection, and financial stability.
- Introduce new Internal Risk Rating models for project finance, micro finance and retail facilities. New IRRs will be integrated into the decision-making process and pricing strategies.
- Improve Risk Appetite statement by including more qualitative and quantitative parameters that encompass all risk elements of the Bank, which will provide a more comprehensive framework for managing and monitoring risk.

### Group risk

- Further strengthen the mechanism and assessment of Group risk monitoring by way of introducing new tools.
- Regular meetings to be scheduled at senior executive level to assess the compliance of Group companies, as well as to identify challenges that need to be addressed.

### Credit Risk

- Work with impacted customers to support business revival by linking them with supply chains of large corporates, offering digital solutions to expand their sales and collection points, advisory services etc. The Bank also restructures repayments at an early stage, based on forecast cashflows.
- Develop predictive models to carry out analytics on the Bank's loan portfolios

across businesses and products to identify early warning signals of stress.

- Upgrade and integrate enhanced IRR assessment models across all businesses to their respective loan origination modules.
- Improve credit evaluation by issuing periodic guidelines, considering the anticipated changes in the economic and business environment, in order to minimise the additional stress on the Bank's lending portfolio.
- Conduct frequent familiarisation sessions for internal credit staff to upskill credit underwriting standards and build a prudent risk management culture.
- Conduct periodic reviews and effectively monitor and classify the Green Financing Lending Portfolio in accordance with regulatory requirements.
- As per the SLFRS S1 and S2 requirements, sustainability and climate related risks will be identified on the Bank's lending portfolios and recommendations will be communicated to the network/sustainability management.

### Operational Risk

- Mitigate risk of fraudulent activities by strengthening controls and creating awareness. Review existing processes and procedures. Strengthen the monitoring process and increase visits to outsourced service providers to review and mitigate operational risk vulnerabilities.
- Address delays in the implementation of the new IT system by monitoring action items through the RCSA process.
- Better manage the unexpected changes in operational conditions due to geo political instability by reviewing the Banks Recovery and BCP policies, and incorporating necessary adjustments.

- The increasing trend in staff turnover, due to migration and recruitment by competitors will be managed through succession planning and grooming initiatives, and implementing a Job rotation mechanism.
- Address the outsourced business risk vulnerabilities through regular visits and reviews of service providers and monitoring Bank's ability to regain services through the BCP process. The Bank will also add new service providers and discontinue agreements depending on the perceived risk vulnerabilities.
- Implement a comprehensive automated operational risk management system, to replace the manual risk assessment processes.
- Obtaining an ISO certification to the Business Continuity Management process of the Bank.

### Portfolio Risk Management

- Incorporate additional value-added features into the Individually Significant Loan (ISL) impairment assessment solution, i-SLAP, to further strengthen the Bank's ISL impairment assessment process.
- Further strengthen periodic ISL assessments by increasing the number of assessments to capture Objective Evidence of Incurred Losses (OEIL) and ensure proper classification and maintenance of an optimal level of impairment.

### Information & Cyber Risk

- Invest in advanced technologies to detect and prevent sophisticated web and email-based security threats and vulnerabilities.
- Enhance the controls implemented to prevent data leakages via various channels using the latest detection and prevention technologies

# BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

- Enhance the scope under incident response planning and simulations for possible Cyber-attacks
- Implement rigorous third-party risk assessments to evaluate cyber security practices of vendors, partners, and service providers to prevent potential vulnerabilities introduced through external relationships.
- Enhance the scope of periodic information security risk assessments to evaluate the effectiveness of the Bank's applications and IT infrastructure, and enforce strong security measures.
- Engage with an external security consultancy firm to independently validate the effectiveness of security controls.
- Improve staff and customer awareness on modern security threats and vulnerabilities and recommend mitigation actions.

## Market Risk

- Review caps and limits on investments in securities and measurement of volatility of forex and securities.
- Review the limits structure for Treasury activities for the year 2025, considering the strategic focus of the Bank, possible risk factors, current market and economic challenges, impact on external debt restructuring etc.
- In line with Central Bank regulations, the Bank will take the initiative to adopt the Foreign Exchange (FX) Global Code. This involves ensuring that internal processes and procedures are aligned with and adhere to the applicable principles of the FX Global Code.
- Attract new export customers by offering competitive rates and providing advisory services to explore new markets
- Engaging with overseas counterparts for new USD funding lines.

## Loan Review Mechanism

- Recommendations to increase the Scope under LRM including assessing restructuring/rescheduling of facilities that directly affect the impairment implications and evaluating Easy Draft facilities, as a product coverage.
- Develop a Score Card to monitor the risk level of specific lending portfolios based on findings from the loan review mechanism.

## Summary of BIRMC Charter

- The BIRMC Charter specifically establishes a Risk Management Framework that proactively supports the assessment, evaluation, monitoring and management of risks, whilst creating a strong risk culture and supporting the Bank's strategic objectives.
- The Charter stipulates that decisions are made in compliance with the Bank's internal risk policy guidelines and regulatory supervisory requirements and corrective actions are taken to mitigate risks taken beyond the risk tolerance set by the Committee.

## Primary Responsibilities of BIRMC

The primary responsibilities of the BIRMC as defined by the terms of reference set out by the Board of Directors are:

- Ensure that the Bank and its subsidiaries have an enterprise wide comprehensive risk management framework, appropriate compliance policies and risk management systems in place.
- Assess all risk types, including but not limited to, credit, market, liquidity, operational and strategic, reputational risks, information and Cyber security risks to the Bank and that they are managed through appropriate risk indicators and management information and established mitigants.
- Ensure risk assessment and mitigating actions are taken in accordance with established delegated authority and

corrective actions are taken to manage risks taken beyond the risk tolerance set by the Committee, based on the Bank's policies, the Board's risk appetite and regulatory and supervisory requirements.

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

## Other Responsibilities of The Committee

Other responsibilities of the BIRMC include:

- Supporting the Board of Directors in fulfilling its oversight responsibilities relating to compliance matters. In this capacity, the Committee reviews the implementation of compliance programs, policies and procedures that are designed to respond to the various compliance and regulatory risks of the Bank.
- Reviewing and monitoring the Bank's compliance report on money laundering and action taken in relation to it.
- Reviewing and referring for action to any subcommittee of the Board, matters that are either specifically referred to the attention of the Committee, or that comes to the attention of the Committee from Board filings that impact the systemic risks to the Bank, with a clear



objective of eliminating repeat findings or managing forward risks.

### Compliance

The BIRMC was established as a Sub Committee of the Board, in compliance with Section 3(6) of the Banking Act Direction No 11 of 2007, on Corporate Governance for Licensed Commercial Banks in Sri Lanka. The composition and the scope of work of the Committee conform with the provisions of this direction.

The Bank has adopted an Integrated Risk Management (IRM) framework in line with the Central Bank of Sri Lanka (CBSL) Banking Act Direction No 7 of 2011. Further, the BIRMC has adopted Basel III Guidelines issued under the Banking Act No 01 of 2016 as well and continues to improve the Bank's adherence to these guidelines. As per section 3(6)(v)(g) Banking Act No 11 of 2007 on Corporate Governance for Licensed Commercial Banks, the BIRMC submits a Risk Assessment Report within a week of each meeting to the Board of Directors in order to seek the Board's views, concerns and/or specific directions on material risks deliberated.

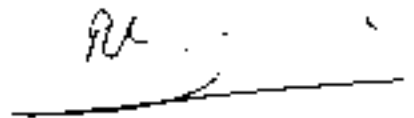
### Professional Advice

The BIRMC is authorised to obtain legal or other professional advice internally and/ or from outside the Bank, as and when considered necessary, at the Bank's expense.

The Committee may also seek the views of other Board sub committees as required and may inform them of any relevant procurements that may be of relevance to their mandates.

### Committee Evaluation

The self-assessment of the BIRMC by its Committee members was carried out in January 2025 and the Committee agreed on a 'Satisfactory' rating score. Areas identified for improvement are addressed.



*Rimoe Saldin*  
Chairman  
Board Integrated Risk Management  
Committee

Colombo, Sri Lanka  
21st February 2025

# BOARD AUDIT COMMITTEE REPORT



*Mr Devaka Cooray, Chairman,  
Board Audit Committee*

## Composition & Meetings

The Board Audit Committee (BAC) comprises of three (03), Independent Non-Executive Directors as at 31st December 2024.

### Chairman

Mr Devaka Cooray (IND/NED)

### Other Members

- Mr Rasitha Gunawardana (IND/NED)
- Mr Sivakrishnarajah Renganathan (IND/NED) Appointed w.e.f. 26th April 2024
- Mr Osman Chandrawansa (IND/NED) Retired w.e.f. 11th September 2024

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

Profiles of the Directors representing the BAC are given on pages 122 to 127.

### Regular Attendees by Invitation

Managing Director/Chief Executive Officer, Chief Internal Auditor and Chief Financial Officer are regular invitees to the BAC meetings. The External Auditor (Messrs. KPMG) and the Chairman of the BIRMC also attends meetings by invitation.

### Secretary to the Committee

Dr. Niroshana Seneviratne  
– Chief Internal Auditor

## Significant Assumptions, Accounting Judgements and Accounting Treatment Considered During 2024

During the year, the BAC reviewed key assumptions, judgements and accounting treatments adopted by the Bank including the following key areas;

- Loan Impairment Allowances and related Management Overlay, taking into consideration the developments in the macro economic environment and its potential impact on Expected Credit Losses
- Accounting for the impact of restructuring International Sovereign Bonds
- Recognition of Deferred Tax on Impairment Charges
- Actuarial Valuation of Pension Liability
- Tax Provisions
- Assessment of Going Concern
- Carrying Value of Investments in Group Companies
- Valuation of Financial Instruments

## Charter of the Committee

The role of the BAC is to assist the Board in exercising structured, systematic oversight over the Bank's financial reporting, internal audit, internal controls and external audit practices. The BAC Charter which is approved by the Board, clearly defines the Terms of Reference (TOR) of the Committee and regulates the purpose, composition, duties, responsibilities and investigative authority of the Committee. To be in line with the changes in the regulatory landscape, specially focusing on the revised Colombo Stock Exchange (CSE) listing rules, the BAC Charter was revised and approved by the Board in April 2024.

## Key Responsibilities of the Committee

Key responsibilities include;

- Monitor and review adequacy and effectiveness of Bank's policies with respect to risk assessments and management of financial reporting processes and internal control systems in order to provide accurate, appropriate and timely information to the Board,

regulatory authorities, management and other stakeholders.

- Review Bank's compliance with relevant legal, regulatory and accounting standards and discuss the significant financial reporting issues and judgements in the preparation and presentation of financial statements, external reports, and periodical evaluation of the effectiveness of such compliance processes.
- Exercise independent oversight of the Bank's assurance functions, including external & internal audit and ensure the independence and effectiveness of both external & internal audit functions.
- Establish a policy for non-audit services provided by the External Auditor and review/ oversee the non-audit services provided by the External Auditor in line with the Bank's policy.
- Evaluate the adequacy, efficiency and effectiveness of the governance process.
- Engagement of independent advisors for specialised functions where deemed necessary.
- Approve and review the annual internal audit plan and review the internal audit findings, and liaise with the Bank's Corporate Management to ensure that precautionary measures are taken to minimise and control weaknesses, procedure violations, frauds and errors.

## Authority of the Committee

The BAC is empowered to investigate any matter as deemed necessary with unrestricted access to records, data, reports and management/staff, to obtain relevant information considered necessary in the discharge of duties and responsibilities. The BAC may also engage independent counsel and/or other advisors, if deemed necessary.

## Activities in 2024

The BAC met ten (10) times during the year. Apart from the regular attendees from the management, the BAC invited Members of the Bank's Senior Leadership Team to participate in meetings on needs basis.

## Attendance during 2024

Attendance details of Meetings held during 2024 are as follows;

	Eligible to attend /Attended
Mr Devaka Cooray	10/10
Mr Rasitha Gunawardana	10/10
Mr Sivakrishnarajah Renganathan	7/7
Mr Osman Chandrawansa	7/7

The External Auditor (Messrs. KPMG) attended nine (09) meetings while the Chairman of BIRMC attended eight (08) meetings by invitation.

Minutes of the proceedings of the BAC meetings are periodically reported to the Board.

Activities of the BAC during 2024 are summarised below.

### Financial Reporting

- The BAC reviewed the Bank's financial reporting process on behalf of the Board to ensure that Financial Statements are prepared in accordance with the Bank's accounting records, in compliance with regulatory provisions including the Sri Lanka Accounting Standards, Companies Act, Listing Rules of Colombo Stock Exchange, Securities Exchange Commission Act and Banking Act and reflect a true and fair view on the financial position and performance of the Bank.
- The BAC reviewed the accounting policies and practices and is satisfied that those are appropriate, and that adequate internal controls and procedures are in place to provide reasonable assurance that the financial reporting system is effective and well managed to provide reliable and timely information.
- The BAC reviewed the impact of the accounting treatment on significant risks and uncertainties and key estimates and judgements material to the Bank's financial reporting and whether disclosures made in the published financial statements were adequate, appropriate and fair.
- During the year, BAC continued its ongoing focus on the assessment of adequacy of provision for Expected Credit Loss (ECL) recognised in the Financial Statements based on the internal models which were refined during the year with updated underlying assumptions, management overlays computed outside the model based on stress testing relating to the exposures to risk elevated sectors, and adjustments made to economic factors to incorporate the latest macro-economic conditions such as exchange rates, interest rates, inflation and GDP growth rates.

- The BAC continued to evaluate and monitor the effectiveness of the related processes and internal control framework to ensure ongoing compliance with Directions No 13 and 14 of 2021, issued by the Central Bank of Sri Lanka. Further, during the year BAC assessed appropriateness of the accounting treatment adopted to account for the impact of restructuring International Sovereign Bonds which concluded in December 2024. The BAC reviewed and recommended annual and quarterly Financial Statements to the Board for approval, along with management discussion and analysis, prior to publishing the same.
- The BAC obtained and reviewed assurance received from the Chief Executive Officer and Chief Financial Officer that the financial records have been properly maintained and the financial statements give a true and fair view of the Bank's operations and finances. The Chief Executive Officer's and Chief Financial Officer's responsibility statement, detailed in page 279 of this annual report, confirms adherence to applicable laws, regulations, and prudential requirements.
- The BAC continued to assess and monitor the adequacy, effectiveness and progress of Bank's reconciliation processes through periodic updates provided by the finance team.
- The BAC met with the Chief Financial Officer twice (02) during the year, in the absence of Key Management Personnel to ensure the transparency and independence of the financial reporting function of the Bank.

### External Audit

The BAC assists the Board in assessing the independence, evaluating the performance and making recommendations pertaining to appointment, re-appointment and removal of External Auditors where deemed required. Furthermore, BAC approves the remuneration and terms of engagement of the External Auditors.

# BOARD AUDIT COMMITTEE REPORT

The BAC carried out the following activities in discharge of its duties in this regard;

- Assisted the Board in engaging the External Auditor for audit services, in compliance with regulatory provisions.
- Monitored and assessed the independence, objectivity and effectiveness of the External Auditor during the year 2024.
- The BAC assessed any potential threats to independence that were self-identified or reported by the External Auditor.
- The BAC reviewed the non-audit services provided by the External Auditor against the Policy on non-audit services, to ensure such functions do not fall within the definition of restricted services. The BAC also ensured that provision of such services would not impair the External Auditors' independence and objectivity. The BAC reviewed and recommended the fees payable to External Auditor while ensuring adherence to the Board approved limit on fees pertaining to non-audit fees.
- The External Auditor provided the BAC with a written confirmation of its independence for the Financial Year ended 31st December 2024. Accordingly, the BAC considered the External Auditor to be independent, in accordance with professional ethical standards and applicable rules & regulations.
- Discussed the audit plan, scope and the methodology proposed to be adopted in conducting the audit with the External Auditor prior to commencement of the annual audit.
- Discussed all relevant matters arising from the interim and final audits together with the Management Letter and management responses thereto.

Messrs. KPMG has been the External Auditor of the Bank since 2020, and the rotation of the engagement partner took place during 2024. The BAC met with the engagement partner of the External Auditor twice (02) during the year, in the absence of Key Management Personnel to ensure that there were no limitations of the

scope in relation to the audit and to allow for full disclosure of any incidents which could have had a negative impact on the effectiveness of the external audit. The BAC concluded that there was no cause for concern.

During the year 2024, the BAC reviewed the policy on External Auditor rotation in line with the provisions of the Banking Act Directions No 05 of 2024 on Corporate Governance for Licensed Banks. To be in line with the said Banking Act Direction, the policy on audit firm rotation and engagement partner rotation was amended to six (06) years and three (03) years respectively.

## Risks and Internal Control

- Continued to assess the adequacy, efficiency and effectiveness of the Bank's internal control systems. The BAC satisfied itself that adequate controls and procedures are in place to provide reasonable assurance to the effect that the Bank's assets are safeguarded.
- Assessed through the internal audit function that reports directly to the BAC, the effectiveness of the Bank's internal control over financial reporting as at 31st December 2024, as required by the section 3(8) (ii) (b) of the Banking Act Direction No 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka and based on the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). Furthermore, the External Auditor has issued an Assurance Report on Directors' Statement on Internal Control over Financial Reporting.
- The BAC is satisfied with the reliability of the financial reporting system as disclosed on pages 221 to 222, Directors' Statement on Internal Control over Financial Reporting. BAC confirms that the report given in page 223 does not suggest any fundamental concerns over the control framework or procedures.
- Reviewed the processes for identification, recording, evaluation

and management of significant risks that come under the purview of the BAC. The BAC received 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. These reports also included summary highlights of the most significant matters being highlighted by the Internal Audit Department.

- The BAC periodically reviewed and discussed the key financial issues of group companies, with a view of identifying and managing associated risks in order to maintain the smooth flow of operations.
- The BAC focused on specific operational areas of the Bank and held detailed discussions with the leadership team to ensure the adequacy and effectiveness of the Bank's internal controls over such operational aspects and Information security.

## Internal Audit

The BAC carried out the following activities in discharge of its duties in this regard:

- Continuously reviewed and satisfied itself with the independence, objectivity and effectiveness of the internal audit function as the third line of defense.
- Reviewed the internal audit reports, investigation outcomes, status of significant findings along with recommendations, corrective actions, management responses and status of implementations on a regular basis, in order to satisfy itself on the adequacy and effectiveness of the Bank's internal controls system.
- Ensured the adequacy and coverage of the annual audit plan for the year, which was prepared on the risk-based planning methodology along with frequent pre-planned reviews.
- Material concerns highlighted by the Internal Audit function of the Bank were taken up by the BAC for further

discussion and deliberation at the Board where necessary.

- Assessed and addressed the Internal Audit Department's resource requirements including succession planning.
- Continuously supervised and guided the Internal Audit Department in executing the annual Internal Audit Plan, while also ensuring the department's engagement in addressing areas that required attention beyond the scope of the Audit Plan.
- Reviewed and satisfied itself with the performance of the Chief Internal Auditor and other senior staff members of the Internal Audit Department.
- Reviewed and approved the revisions made to the Internal Audit Charter during the year.
- Two (02) independent discussions were held with the Chief Internal Auditor, in the absence of Key Management Personnel to ensure independence of the Internal Audit Department's operations.

### Whistleblowing

The BAC reviewed concerns raised via the whistleblower process with regard to actual or suspected frauds, violations or any other serious infringement of rules / policies of the Bank. The BAC ensured independent investigations on such matters, while maintaining the confidentiality of the identity of the person raising the concern. Updates on each matter were reviewed by the BAC on a regular basis to ensure that adequate and appropriate actions were taken where necessary.


The policy was reviewed by the BAC twice during the year and recommended to the Board for approval.

### Training and Development of Committee Members

Members of the BAC attended presentations made by consultants and Key Management Personnel. Members also attended seminars, conferences and workshops as a part of their continuous professional development.

### Committee Evaluation

The annual evaluation of the BAC was conducted by the Independent Non-Executive Chairman, based on the contributions from individual assessments by the Members of the BAC, Managing Director/CEO, Chief Financial Officer, Chief Internal Auditor and External Auditor in accordance with international best practices and the results of the assessment would be taken up for discussion in March 2025.



*Devaka Cooray*  
Chairman  
Board Audit Committee

Colombo, Sri Lanka  
21st February 2025



# RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT



*Mr Rasitha Gunawardena, Chairman, Related Party Transactions Review Committee*

## Composition & Meetings

The Related Party Transactions Review Committee (RPTRC) comprised three members consisting of three non-executive directors. Two directors including the Chairman are Independent Directors:

### Chairman

Mr Rasitha Gunawardena (IND/NED)

### Other Members

- Mr Suresh Shah (IND/NED)
  - Mr Nanda Fernando (IND/NED)
- (IND/NED) – Independent Non-Executive Director

Brief profiles of the Directors are given on pages ...to .... in this report.

### Management Participants

Chief Financial Officer and Board Secretary attends the meetings by invitation. In addition, the Committee summons other relevant officials of the Bank to participate in Committee proceedings on a 'need basis'

### Secretary to the Committee

Mr Neil Rasiah  
– Chief Compliance Officer

## Key Initiatives Implemented During 2024

Terms of Reference (TOR) of the Committee was reviewed and amended in 2024 taking into consideration the amendments made to Section 9 of the listing rules of Colombo Stock Exchange and in terms Banking act direction on corporate governance for licenced banks directions No 5 of 2024. One of the salient features of the CBSL direction is that the RPTRC committee has been recognised as one of the compulsory Board Sub Committees. Further the scope of related parties had been expanded, with the inclusion of new categories of individuals and entities as related parties of the Bank.

Considering the above noted changes, the Related Party Transactions Policy document is being reviewed and revised.

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

The Related Party Transactions Review Committee is governed by the 'Terms of Reference' approved by the Bank's Board of Directors. The statutory and fiduciary responsibilities of the Committee are set out by the following regulations and relevant codes.

1. The 'Code of Best Practices on Related Party Transactions' published by the Securities and Exchange Commission of Sri Lanka (the "Code"),
2. Regulations promulgated by the Colombo Stock Exchange ("The CSE Rules"),
3. Financial reporting under Sri Lanka Accounting Standard LKAS 24,
4. Banking Act Direction No: 5 of 2024 on Corporate Governance of Licensed Commercial Banks in Sri Lanka.
5. 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, including the guidelines on related party

transactions and its reporting requirements. The TOR also specifies the composition of the Committee; stating that the Chairman should be a Non - Executive Independent Director, and the Committee should meet at least once in every quarter. 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 also 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 2024, the TOR was amended in line with amendments to Listing Rules of Colombo Stock Exchange and banking act direction.

## Scope of Operations

The principal function of the Committee is the review, verification and scrutiny of relevant 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 the new corporate governance rule no 5 of 2024, to determine and ensure that they have not received more favourable or preferential consideration vis a vis the other shareholders and customers of the Bank, thereby ensuring all dealings have been done in conformity with the above regulations and "Codes".

In discharging the above responsibilities, the Committee relies on the integrity of related party transactions data sourced via the following:

- Comprehensive list of related parties compiled based on latest available declarations, signed by the responsible Directors/KMPs.
- Related party transactions confirmed by the business and functional heads to the Committee.
- Director information obtained from subsidiaries and associates.

## Meetings

In accordance with the terms of reference, the Committee meets whenever necessary, but not less than four (4) times a year or once in every three (3) months as stipulated in the Securities and Exchange Commission of Sri Lanka (SEC) Guidelines and Listing Rules of Colombo Stock Exchange. During 2024, four (4) such meetings were held, and the minutes were circulated to the Board of Directors for their information and review.

Attendance details of meetings held during 2024 are as follows:

	Eligible to attend /Attended
Mr Osman Chandrawansa (retired w.e.f. 11.09.2024)	2/2
Mr Nihal Jayawardene PC (resigned w.e.f. 26.04.2024)	1/1
Mr Jonathan Alles (retired w.e.f. 23.08.2024)	2/2
Mr Rasitha Gunawardena	4/4
Mr Nanda Fernando	3/3
Mr Suresh Shah	2/2

Quarterly reporting to RPTRC falls under the responsibility of business heads who confirm to the Committee that RPTs have not benefited from “more favourable treatment” in regard to related party transactions. Quarterly reports are further reviewed by the Chief Compliance Officer (who serves as the secretary to the RPTRC) by assessing all transactions against benchmarked criteria applicable for comparable non-related party transactions, based on system generated reports.

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

Also it is the responsibility of the business heads to ensure that all other routine/ recurrent transactions with RPTs are in line with the RPT Policy and in particular for accommodations the relevant business heads should ensure applicable requirements are met in terms of credit limits, security/margin, BOD approval and no favourable treatment or conflict of interest has occurred.

As stated previously, wherever necessary, the Committee is empowered to obtain independent legal, financial and technical advice from specialists in such fields, to review and determine transactions. Apart from obtaining independent specialists’ advice wherever necessary, the Committee has access to data and information pertaining to related parties as well as the ability to call for clarifications from the management and auditors (External and Internal) on any allied matter.

The Committee reviews the related party transactions reported by the business heads along with the comments /observations made during such reviews if any, are communicated to the Board of Directors.

In addition, the Committee shares information with the Board Audit Committee whenever necessary and appropriate to facilitate the Board Audit Committee to conduct its Statutory and Regulatory responsibilities with regard to related party transactions.

## Training and awareness

Measures were taken to increase the awareness on Related Party Transactions (RPTs) guidelines by conducting a training programme for the Board of Directors and Corporate Management with the assistance of Director Bank Supervision at Central Bank of Sri Lanka. Further several training sessions were conducted for relevant internal staff members.

## Self-Appraisal of Committee Functions

An annual self-evaluation of the effectiveness of the Committee was conducted by the Chairman of the RPTRC with contributions by way of individual assessments by the members of the Committee. The review for 2024 concluded that the Committee continues to operate effectively and competently.

Note 60 to the financial statements on pages 453 to 458 set out the information required on related party transactions. In the opinion of the Committee, there were no transactions with related parties which were more favourable or preferential, during the period under review and the Bank had been compliant with the above regulations and Codes.



**Rasitha Gunawardena**  
Chairman  
Related Party Transactions Review Committee

Colombo, Sri Lanka  
21st February 2025

# STATEMENT BY THE SENIOR INDEPENDENT DIRECTOR



Mr Devaka Cooray,  
Senior Independent Director

Dear Stakeholders,

I was designated as the Senior independent Director (SID) of Hatton National Bank PLC ("the Bank") with effect from 9th June 2023 in terms of Section 3(5)(ii) of the Banking Act Direction No 11 of 2007 on Corporate Governance for Licensed Commercial Banks with the appointment of Mr Nihal Jayawardene PC (NIND/NED) as the Chairman of the Bank.

The role of the Senior Independent Director (SID) is defined by comprehensive and Board-approved Terms of Reference (TOR), designed to enhance the independence of the position. This year, the TOR underwent a review and subsequent amendments, which were approved by the Board of Directors on 28th November 2024, ensuring compliance with the Banking Act Direction No 05 of 2024 on Corporate Governance for Commercial Banks. Throughout 2024, I have been actively involved in Board meetings, contributing to discussions and decision-making processes. I am pleased to report that the Board of Directors has consistently demonstrated independent judgment and objectivity in all Board deliberations, ensuring that the decisions made were in the best interest of the Bank.

In accordance with the TOR, the purview and the objectives of the SID are delineated as follows:

1. Serving as a key intermediary between the Chairman and other Directors,

facilitating open dialogue and independent perspectives;

2. Providing a forum for the Chairman to discuss strategic matters and governance issues, ensuring that a range of perspectives is duly considered in the deliberations of the Board;
3. Upholding legal obligations to the Bank as any other Director, participating actively in promoting the success of the Bank;
4. Assisting the Board in collectively directing the Bank's affairs and ensuring the effective governance of the Bank; and
5. Engaging with shareholders and other stakeholders to address concerns and enhance the governance framework of the Bank.

As the SID, it was incumbent upon me to ensure that all critical issues were deliberated by the Board in a timely manner and that the perspectives of the Non-Executive Directors were duly considered. Serving as the Chairman of the Board Nominations and Governance Committee (BNGC) further augmented my capacity to fulfil the comprehensive responsibilities of the SID, particularly in the appointment of new Directors to the Board and Key Management Personnel to the Bank, evaluating the fitness and propriety of Directors continuing in office, providing independent and prudent advice to the Chairman and the Board on matters discussed during meetings, and offering leadership to the Board as and when required.

Throughout the financial year under review, I engaged in several confidential discussions with Directors. Moreover, I took necessary measures to act as an intermediary for Non-Executive Directors when needed, considering the views of the Executive Director as appropriate. In accordance with regulatory requirements, I presided over the following meetings in 2024:

- One (01) meeting with Non-Executive Directors without the presence of the Chairman.

- One (01) meeting with the Executive Director.
- One (01) meeting with Independent Directors.

During the meetings with Non-Executive Directors, we conducted a comprehensive assessment of the Chairman's contributions, while also considering the perspectives of the Executive Director. The feedback and recommendations from these discussions were duly communicated to the Chairman as appropriate.

I affirm that under my supervision as the SID, the performance of individual Directors and the overall effectiveness of the Board were reviewed throughout 2024, in accordance with the Corporate Governance guidelines and the Policy on matters relating to the Board of Directors.

In fulfilling my fiduciary and regulatory duties to shareholders, I attended the Annual General Meeting held on 28th March 2024, which provided me with a balanced understanding of the issues and concerns of shareholders.

It is my aspiration to elevate the Bank's governance standards in line with international best practices, ensuring that the Bank is firmly rooted in sound governance principles.

I believe that I have met the obligations entrusted to the SID and have effectively discharged my duties and responsibilities towards the Chairman, the Board of Directors, and the Shareholders of Hatton National Bank PLC, in accordance with the Corporate Governance guidelines and the TOR setting out the functions of the SID.

A handwritten signature in black ink, appearing to read 'Devaka Cooray', written in a cursive style.

Devaka Cooray  
Senior Independent Director

Colombo, Sri Lanka  
21st February 2025

# DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

## Responsibility

The Board of Directors present this statement on Internal Control Over Financial Reporting of the Bank in accordance with Section 3 (8) (ii) (b) of Banking Act Direction No 11 of 2007, and principle D.1.5. of the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and Rule 9.16 (ii) of the Corporate Governance Rules of the Colombo Stock Exchange.

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

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

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

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

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

## Key Internal Control Processes

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls and risk management 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 and that the operations of the Bank are in line with the annual budget as well as the policies and business directions that have been approved by the Board.
- The Internal Audit Division of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. Audits are carried out on majority of the units and branches, the frequency of which is determined by the level of risk assessed by the internal audit, to provide an independent and objective report on the operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Board Audit Committee and the findings of the audits are submitted to the Board Audit Committee for review at their periodic meetings.
- The Board Audit Committee of the Bank approves the annual audit plan, reviews internal control issues identified by the Internal Audit Division, the external auditors, regulatory authorities and management; and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit function with particular emphasis

on the scope of the audits and quality of same. The minutes of the Board Audit Committee meetings are tabled for the information of the Board on a periodic basis. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Board Audit Committee Report on pages 214 to 217 in this report.

- The Board Integrated Risk Management Committee (BIRMC) is established to assist the Board to oversee the overall management of principal areas of risk of the Bank. The Executive Risk Management Committee which includes representation from all key business and operating units of the Bank, assists the Board with the implementation of policies advocated at BIRMC.
- Operational committees have also been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Human Resource Management Committee, Assets and Liability Committee, the Information Technology Steering Committee, Executive Risk Management and Credit Committee and the Operational Risk Steering Committee.
- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Bank. These, in turn, were observed and checked by the Internal Audit Division for suitability of design and effectiveness on an on-going basis. This assessment did not include subsidiaries of the Bank.

The Bank continued to refine the statistical models used in the computations of Expected Credit Losses (ECL) in accordance with SLFRS 9 - "Financial Instruments" and the data extraction procedures pertaining to the calculations performed in respect of SLFRS 9. Since the adoption of this standard, progressive improvements on

# DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

processes to comply with new requirements of classification, estimation of expected credit losses and disclosures were made whilst, further strengthening of processes continued to support the estimation of expected credit loss and financial statement disclosures.

The existing models were further validated this year in terms of the appropriateness of underlying assumptions, incorporating the potential implications of changes in the macroeconomic conditions prevailing in the country. Amendments were made to the post-model adjustments, which had been built up, to reflect improved economic conditions. These amendments include adjustments to economic factors, such as reducing the weightages assigned to best-case, base-case, and worst-case scenarios to account for positive changes. These refinements ensure that the models remain relevant while continuing to stress test exposures for identified sectors that remain vulnerable.

Policies in relation to classification and measurement of financial instruments and the computation of Expected Credit Losses are reviewed at frequent intervals and the Board approval is obtained based on the recommendation of the Board Audit Committee. Further, the Bank maintains detailed documentation in relation to the methodologies and the procedures adopted and same are reviewed as and when necessary.

Considering the complexity involved in the computation of ECL from Loans and Advances, the Bank will continue to strengthen the process with system - supported procedures in order to minimise the manual intervention.

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

## Confirmation

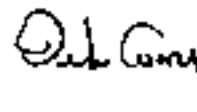
Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

## Review of The Statement by External Auditors

The external auditors, Messrs KPMG, have reviewed the above Directors' Statement on Internal Control Over Financial Reporting for the year ended 31st December 2024 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal

control system of the Bank. Their Report on the Statement of Internal Control is given in page 223 of this report.

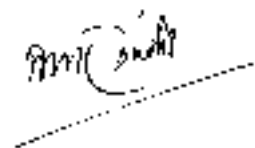
By order of the Board



*Devaka Cooray*  
Chairman  
Board Audit Committee



*Damith Pallewatte*  
Managing Director /  
Chief Executive Officer



*Nihal Jayawardene PC*  
Chairman

Colombo, Sri Lanka  
21st February 2025





# 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 as amended.

## 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 2024		As at 31st December 2023		
			Limit Rs Mn	Outstanding Rs Mn	Limit Rs Mn	Outstanding Rs Mn	
<b>(A)</b>	<b>Mr P R Saldin</b>						
Sithma Development (Pvt) Ltd.	Chairman	Overdraft Letter of Credit (S/U)	50.00 *(50.00)	- 23.05	50.00 12.47	- 12.47	Mortgage over Commercial Property, Documents of title, dully accepted Usance drafts, Mortgage over Commercial Property (LH)
		<b>Total</b>	<b>50.00</b>	<b>23.05</b>	<b>62.47</b>	<b>12.47</b>	
CIC Holdings PLC	Director	Short Term Loans Letter of Credit (S/U) Import Loan Overdraft Shipping Guarantee Forward Exchange Contract Corporate Credit Card <b>Total</b>	2,500.00 *(1,500.00) *(1,500.00) *(250.00) *(1,500.00) - *(1,500.00) - <b>2,500.00</b>	400.00 196.65 - 0.68 174.99 - - <b>772.32</b>	1,000.00 *(500.00) *(500.00) *(20.00) - - *(2.00) <b>1,000.00</b>	538.00 6.00 371.68 3.53 1.65 - - <b>920.86</b>	Existing negative pledge over stocks, and Debtors
Chemanex PLC	Chairman	Letter of Credit (S/U) Shipping Guarantee Import/Short Term Loan Overdraft Forward Exchange Contract <b>Total</b>	200.00 *(200.00) *(200.00) *(200.00) *(200.00) *(200.00) <b>200.00</b>	- - 150.00 6.58 - - <b>156.58</b>	200.00 *(200.00) *(200.00) *(95.00) *(200.00) <b>200.00</b>	- - 105.20 1.09 - <b>106.29</b>	Documents of title, Duly accepted Usance Drafts, Clean
HNB Assurance PLC	Director	Letter of Guarantee Corporate Credit Card <b>Total</b>	47.55 2.00 <b>49.55</b>	47.55 0.36 <b>47.91</b>	207.89 2.00 <b>209.89</b>	207.89 0.85 <b>208.74</b>	Lien over MMSA balance, Corporate Guarantee of the company
CIC Agri Business (Pvt) Ltd	Director	Overdraft Import/Short Term Loan Shipping Guarantee Forward Exchange Contract Letter of Credit <b>Total</b>	*(100.00) *(1,300.00) *(1,000.00) - *(130.00) 1,300.00 <b>1,300.00</b>	- - - - - - <b>-</b>	N/A N/A <b>N/A</b>	N/A N/A <b>N/A</b>	Negative Pledge for over stocks and Debtors, Shipping Guarantee Indemnity, Forex Agreement

Director/Company	Name of the Director/Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2024		As at 31st December 2023		
			Limit Rs Mn	Outstanding Rs Mn	Limit Rs Mn	Outstanding Rs Mn	
<b>(B)</b>	<b>Dr T K D A P Samarasinghe</b>						
HNB Finance PLC	Director	Money Market Loan Overdraft Term Loan Credit Card <b>Total</b>	1,000.00 1,000.00 1,000.00 1.00 <b>3,001.00</b>	1,000.00 - - 0.01 <b>1,000.01</b>	1,000.00 1,000.00 1,000.00 0.50 <b>3,000.50</b>	500.00 - - 0.04 <b>500.04</b>	Negative Pledge for Rs.2.0 Bn over all movable & immovable assets. mortgage over lease portfolio, Corporate Guarantee
Hayleys Fibre PLC	Director	Overdraft Packing Credit Loan Export Bill Discounting Short Term Loan Letter of Guarantee Letter of Credit (S/U) Forex Exchange Contract Short Term Loan <b>Total</b>	6.00 325.00 *(325.00) *(75.00) *(5.00) *(3.00) 240.00 - <b>571.00</b>	- 89.98 - **150.00 **16.09 - - - <b>256.07</b>	6.00 325.00 *(325.00) *(75.00) *(5.00) *(3.00) 25.92 *(75.00) <b>356.92</b>	- 114.52 - 75.00 **16.47 - - 75.00 <b>280.99</b>	Overdraft Agreement, Clean, Export Bill Discounting Indemnity, Short Term Loan Agreement, LG Indemnity, Documents of title, duly accepted Usance drafts, Forward exchange agreement
Chemanex PLC	Director	Letter of Credit (S/U) Shipping Guarantee Import/Short Term Loan Overdraft Forward Exchange Contract <b>Total</b>	200.00 *(200.00) *(200.00) *(200.00) *(200.00) <b>200.00</b>	- - 150.00 6.58 - <b>156.58</b>	200.00 *(200.00) *(200.00) *(95.00) *(200.00) <b>200.00</b>	- - 105.20 1.09 - <b>106.29</b>	Documents of title, Duly accepted Usance Drafts, Clean
<b>(C)</b>	<b>Mr M P D Cooray</b>						
Unimo Enterprises Limited	Chairman	Letter of Credit(S/U) Import Loan (STL) Letter of Guarantee <b>Total</b>	1,500.00 *(1,500.00) 1,500.00 <b>3,000.00</b>	175.28 725.00 - <b>900.28</b>	1,500.00 *(1,500.00) *(1,500.00) <b>1,500.00</b>	- 1,118.00 381.48 <b>1,499.48</b>	Corporate Guarantee of United Motors Lanka PLC, Indemnity
JAT Holdings PLC	Director	Overdraft Letter of Guarantee Letter of Credit(S/U) Import Loan Standby Letter of Credit Import Loan Credit Card <b>Total</b>	100.00 75.00 250.00 *(250.00) 330.00 *(330.00) 1.00 <b>756.00</b>	31.99 57.39 2.99 249.44 - - - <b>341.81</b>	100.00 75.00 250.00 *(250.00) 330.00 *(330.00) 1.00 <b>756.00</b>	80.10 52.84 - 245.49 - - - <b>378.43</b>	Clean, Counter Indemnity, Document of title, Duly accepted Usance drafts, Loan Agreement.
HVA Foods PLC	Director	Packing Credit Export Bill Discounting Overdraft Export Loans Post Shipment Forward Ex Contract Short Term Loan <b>Total</b>	300.00 *(300.00) 100.00 *(300.00) *(300.00) *(100.00) <b>400.00</b>	- - 98.57 - - 100.00 <b>198.57</b>	320.00 *(320.00) 100.00 *(320.00) *(320.00) *(100.00) <b>420.00</b>	111.28 - 99.17 - - 100.00 <b>310.45</b>	Corporate Guarantee from George Steuart and Co Ltd, Forward Exchange Agreement. Overdraft Agreement, Loan Agreement

## DIRECTORS' INTEREST IN CONTRACTS WITH THE BANK

Director/Company	Name of the Director/Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2024		As at 31st December 2023		
			Limit Rs Mn	Outstanding Rs Mn	Limit Rs Mn	Outstanding Rs Mn	
Dutch Lanka Engineering Pvt Ltd	Chairman	Overdraft	20.00	19.34	20.00	**20.41	Corporate Guarantee from Dutch Lanka Trailer Manufactures (Pvt) Ltd.  Lien & Setoff over Company FD's total Rs.79.30Mn
		Short Term Loan	23.00	-	23.00	-	
		Shipping Guarantee	*(100.00)	-	-	-	
		Term Loans	*(45.86)	45.86	3.65	3.65	
		Letters of Guarantee	5.00	1.92	5.00	0.42	
		Letter of Credit-Sight limit	100.00	-	100.00	-	
		Import Loans	*(100.00)	29.48	*(100.00)	6.50	
		Short term Loan-one off	-	-	*(60.90)	30.45	
		Forward Exchange Contract	*(10.00)	-	-	-	
		Letter of Credit-Usance	-	-	*(100.00)	-	
		Short Term Loan -(Revolving)	-	-	*(100.00)	42.04	
		<b>Total</b>		<b>148.00</b>	<b>96.60</b>	<b>151.65</b>	
The Light House Hotel PLC	Director	Overdraft	200.00	-			Overdraft agreement/Board Resolution, Loan application, Existing Corporate Guarantee for Rs 250.0 Mn from Jetwing Hotels Ltd, Title of goods to be imported
		Money Market Loan	*(200.00)	-			
		Term Loans	105.43	105.43	N/A	N/A	
		One-off Letter of Credit	10.00	6.80			
		<b>Total</b>		<b>315.43</b>	<b>112.23</b>		
<b>(D) Mr M N R Fernando</b>							
Haycarb PLC	Director	Short Term Loan	100.00	100.00	N/A	N/A	Clean
		<b>Total</b>	<b>100.00</b>	<b>100.00</b>			
Hayleys Fabric PLC	Director	Letters of Credit-(S/U)	150.00	41.05			Documents of title to goods imported/ Duly accepted usance drafts., Mortgage over commercial property, Cheque Purchase Indemnity, Mortgage over equipment, Forward Exchange Agreement, Bill discounting Indemnity Clean,Letter of Indemnity
		Import Loan	*(150.00)	-			
		Cheque Purchase	*(150.00)	-			
		Overdraft	30.00	-			
		Forward Exchange Contract	120.00	-			
		Export Bill Discounting	-	-	N/A	N/A	
		Overdraft	15.00	-			
		Letter of Credit - (S/U)	450.00	-			
		Import Loan	*(450.00)	-			
		Short Term Loan	*(450.00)	293.26			
		Shipping Guarantee/ Airway Bill Endorsement (USD 1.50Mn)	*(450.00)	-			
<b>Total</b>		<b>765.00</b>	<b>334.31</b>				
Assetline Finance Limited	Director	Term Loan	3,000.00	2,850.00			Clean/Corporate Gtee
		Overdraft	50.00	-			
		Money Market Loan	5,500.00	2,450.00	N/A	N/A	
		<b>Total</b>	<b>8,550.00</b>	<b>5,300.00</b>			

Director/Company	Name of the Director/Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2024		As at 31st December 2023		
			Limit Rs Mn	Outstanding Rs Mn	Limit Rs Mn	Outstanding Rs Mn	
<b>(E)</b>	<b>Mr S Renganathan</b>						
Sunshine Holdings PLC	Director	Overdraft <b>Total</b>	50.00 <b>50.00</b>	- -	N/A	N/A	Clean
Damro Holdings Pvt Ltd	Director	Letter of Credit Import Loan Shipping Guarantee Letter of Guarantee Short Term Loan Money Market Loan Term Loan Forward Exchange Contract <b>Total</b>	3,250.00 *(3,250.00) *(3,250.00) 250.00 *(3,250.00) 2,500.00 8,625.40 *(234.60) <b>14,625.40</b>	18.99 - - - - - 8,625.40 - <b>8,644.39</b>	N/A	N/A	Documents of title to goods / Duly accepted Usance drafts., Corporate gtee, Loan Agreements, Shipping Guarantee Indemnity, Loan agreement, Immovable Property, Forex agreement Money Market Loan Agreement, Letter of Guarantee indemnity
Sunshine Healthcare Pvt Ltd	Director	Letter of Guarantee Money Market Loan Block Lease Shipping Guarantee Import Loan Letters of Credit Forex Contracts Overdraft Export Bill Discounting Overdraft <b>Total</b>	150.00 1,350.00 50.00 *(500.00) *(1,400.00) 1,400.00 *(270.00) 150.00 *(100.00) 100.00 <b>3,200.00</b>	8.84 800.00 - 32.52 - 213.12 - - - - <b>1,054.48</b>	N/A	N/A	Letter of guarantee indemnity, Money market loan agreement, Absolute ownership of the vehicles, Shipping guarantee Indemnity, Import Loan Agreement, Documents of title to goods imported/ Duly accepted usance drafts, Forex agreement, Overdraft agreement, Clean
Healthguard Pharmacy Pvt Ltd	Director	Revolving Short Term Loan Letter of Guarantee Overdraft Letter of Credit (S/U) Import Loan Letter of Credit -Local <b>Total</b>	250.00 50.00 500.00 200.00 *(200.00) *(200.00) <b>1,000.00</b>	- 7.51 - 11.62 - - <b>19.13</b>	N/A	N/A	Existing Registered Primary Floating Mortgage Bond Short Term Loan Agreement, Letter of Guarantee Indemnity, Overdraft Agreement, Documents of title to goods imported, Duly Accepted Usance Drafts, Import Loan Agreement



## DIRECTORS' INTEREST IN CONTRACTS WITH THE BANK

Director/Company	Name of the Director/Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2024		As at 31st December 2023		
			Limit Rs Mn	Outstanding Rs Mn	Limit Rs Mn	Outstanding Rs Mn	
Lina Manufacturing Pvt Ltd	Director	Letter of Credit (S/U)	400.00	-	N/A	N/A	Documents of title to goods to be imported / Duly accepted usance drafts, Import Loan Agreement, Money Market Loan Agreement, Letter of Guarantee Indemnity, Overdraft agreement
		Import Loan	*(400.00)	-			
		Money Market Loan	*(100.00)	-			
		Letter of Guarantee	75.00	-			
		Overdraft	125.00	-			
<b>Total</b>	<b>600.00</b>						
Ceylon Hospitals PLC	Director	Term Loan	91.72	91.72	N/A	N/A	Loan Agreement, Overdraft Agreement
		Term Loan	85.95	85.95			
		Term Loan	40.00	40.00			
		Overdraft	300.00	278.68			
		Money Market Loan	*(300.00)	-			
<b>Total</b>	<b>517.67</b>	<b>496.35</b>					
<b>(F)</b>	<b>Mr S K Shah</b>						
Carson Cumberbatch PLC	Director	Money Market Loan	*(1,000.00)	-	N/A	N/A	Money Market Agreement, Overdraft Agreement
		Overdraft	1,000.00	-			
		<b>Total</b>	<b>1,000.00</b>	-			
Hunters & Company PLC	Director	Letter of Credit -Sight	120.00	1.00	N/A	N/A	Documents of title, Mortgage over stock, Guarantee indemnity Mortgage over Commercial Property
		Import Loan	80.00	-			
		Letter of Credit – Usance	80.00	66.68			
		Overdraft I	65.00	-			
		Overdraft II	85.00	-			
		Letter of Guarantee	100.00	86.48			
<b>Total</b>	<b>530.00</b>	<b>154.16</b>					
Lanka Caneries (Pvt) Ltd	Director	Letter of Credit (S/U)	140.00	-	N/A	N/A	* Documents of title * Import Loan Agreement * Overdraft Agreements * Loan Agreement * Guarantee indemnity
		Import Loan	*(140.00)	-			
		Overdraft	*(140.00)	113.25			
		Short Term Loans	*(140.00)	-			
		Overdraft	250.00	250.00			
		Letter of Guarantee	10.00	-			
<b>Total</b>	<b>400.00</b>	<b>363.25</b>					
<b>(G)</b>	<b>Mr W M D Ratnayake</b>						
Sri Lanka Institute of Information Technology (SLIIT)	Council Member	Term Loan	1,785.71	1,785.71	2,000.00	2,000.00	An Irrevocable letter of Undertaking from the Directors of the company confirming that they will not mortgage the project property to any other Bank/Financier
		Term Loan	803.25	803.25	785.52	785.52	
		<b>Total</b>	<b>2,588.96</b>	<b>2,588.96</b>	<b>2,785.52</b>	<b>2,785.52</b>	

Director/Company	Name of the Director/Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2024		As at 31st December 2023		
			Limit Rs Mn	Outstanding Rs Mn	Limit Rs Mn	Outstanding Rs Mn	
Hsenid Business Solution Ltd	Director	Letter of Guarantee	7.75	7.75	7.75	7.75	Lien over deposit
		<b>Total</b>	<b>7.75</b>	<b>7.75</b>	<b>7.75</b>	<b>7.75</b>	
<b>(H) Mr P G D B Pallewatte</b>							
Acuity Security Ltd	Director	Overdraft	250.00	-			Clean, Indemnity
		Letter of Guarantee	50.00	37.74	N/A	N/A	
		Overdraft	4,500.00	-			
		<b>Total</b>	<b>4,800.00</b>	<b>37.74</b>			
Acuity Partners Pvt Ltd	Chairman	Overdraft	300.00	71.59			Clean, Cash Margin
		Money Market Loan	*(300.00)	-	N/A	N/A	
		Letter of Guarantee	11.76	10.61			
		<b>Total</b>	<b>311.76</b>	<b>82.20</b>			
LV L Energy Fund PLC	Chairman	Term Loan	45.00	45.00			Clean, Mortgage
		Overdraft	350.00	35.38	N/A	N/A	Bond over ordinary shares of Lanka Energy International (Pvt) Ltd
		<b>Total</b>	<b>395.00</b>	<b>80.38</b>			
<b>(I) Mr K A K P Gunawardena</b>							
Gal Oya Plantations Pvt Ltd	Director	Leases	111.10	111.10	177.01	177.01	Absolute ownership over the vehicle/s and machinery.
		<b>Total</b>	<b>111.10</b>	<b>111.10</b>	<b>177.01</b>	<b>177.01</b>	

\* Figures in brackets indicate sub limits granted to respective entities.

\*\* Approval was obtained for the excesses.

# DIRECTORS' INTEREST IN CONTRACTS WITH THE BANK

## 2. Other Business Transactions with the Bank

Company/Director	Name of the Director / Relationship	Nature of Transaction	Amount Rs Mn 2024	Amount Rs Mn 2023
<b>(A) Mr P R Saldin</b>				
Sithma Development (Pvt) Ltd.	Chairman	Rental paid	830.53	832.61
		Dividend Income	595.00	-
		Rental income	28.11	23.00
HNB Assurance PLC	Director	Merchant commission	15.93	11.07
		Rental income	8.12	7.01
		Dividend income	350.92	328.42
		Commission received	637.58	453.16
		Claims paid	49.35	52.11
<b>(B) Dr T K D A P Samarasinghe</b>				
Lanka Bell Limited	Managing Director	Data line expenses & Other	0.91	12.11
<b>(C) Mr M P D Cooray</b>				
JAT Holdings PLC	Director	Merchant commission	1.51	1.41
The Light House Hotel PLC	Director	Merchant commission	7.54	N/A
Management Systems (Pvt) Ltd	Managing Director	Administration expenses	8.33	5.83
<b>(D) Mr W M M D Rathnayake</b>				
Hsenid Business Solution Systems (Pvt) Ltd	Director	System Maintenance & Other	24.64	15.15
<b>(E) Mr S K Shah</b>				
Ceylon Chamber of Commerce	Committee Member	Subscription fees	0.39	N/A
		Training & Participation	1.44	N/A
Hill Club Nuwara Eliya	Committee Member	Sponsorship	0.25	N/A
<b>(F) Mr P G D B Pallewatte</b>				
International Chamber of Commerce Sri Lanka (ICCSL)	Director	Subscription fees	0.02	N/A
Lanka Financial Services Bureau Ltd (LFSBL)	Director	Swift Charges	17.13	N/A
<b>(G) Mr S Renganathan</b>				
International Chamber of Commerce & Industry, Policy Advocacy Committee	Advisory	Training & Subscription	0.12	N/A

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

The above disclosure is only pertaining to the transactions carried out with directors who are holding office as at 31st December 2024.

The above entities also held customer deposits with the Bank totalling to Rs 8,579.44 Mn and interest paid was Rs 419.39 Mn. Interest income earned from loans and advances amounted to Rs 1,872.49 Mn and Net Fee Income totalling to Rs 49.69 Mn for the year ended 31st December 2024.

# Risk Management

## Positioned to Protect

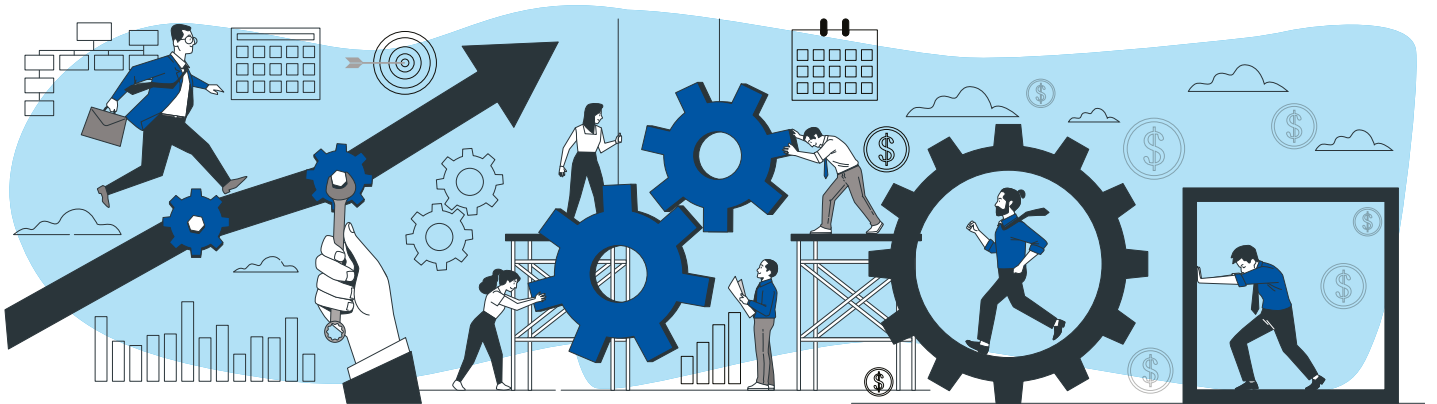
We are committed to protecting and safeguarding our stakeholders and ensuring resilience by proactively identifying, assessing, and mitigating risks. Our risk management framework is designed to fortify our operations, ensuring we remain steadfast in the face of uncertainty while fostering long-term stability and growth.

*Mangroves are a vital and thriving coastal ecosystem, supporting both life and livelihoods. These remarkable trees serve as carbon sinks, helping mitigate the effects of climate change, while also acting as a natural defense for coastlines. By reducing the impact of natural disasters such as floods, storm surges, and tsunamis, mangroves protect communities and ecosystems from unforeseen risks. Their ability to absorb and withstand these impacts demonstrates their strength in overcoming challenges and ensuring future protection.*

*Similarly, HNB has built a resilient risk management framework that anticipates disruptions, absorbs financial and operational shocks, and adapts to changing conditions. By strengthening our financial foundations, governance structures, and strategic foresight, we create a secure environment for our stakeholders. Just as mangroves sustain ecosystems, our proactive strategies safeguard stability, foster trust, and drive sustainable progress, ensuring resilience in an evolving landscape.*



# RISK & CAPITAL REVIEWS



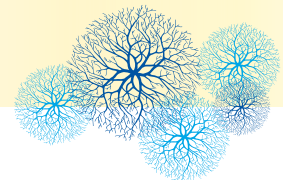
“ Implementing IMF program successfully brought about a turnaround in the country’s economic growth from the third quarter of 2023, prior to which was on a severe decline since the beginning of the Covid pandemic and the subsequent economic collapse. This encouraging change in the macroeconomic environment has continued to strengthen in 2024, significantly alleviating the previous economic-crisis-linked risk environment of the banking industry. The completion of the Domestic Debt Optimisation in 2023 and progress in External Debt Restructuring in 2024, coupled with greater political stability following the Presidential and General Elections, also contributed towards uplifting economic confidence, while declining interest rates and inflation rates contributed directly towards encouraging economic activities. ”

Nevertheless, lingering after-effects from the spike in inflation during the economic crisis, and accumulated debts, continued to overshadow the banking industry risk landscape. New risks also emerged in 2024, from heightened geopolitical uncertainties with regards to international trade and ongoing conflicts in the Middle East and Ukraine.

During the 12 months under review, HNB as one of the largest private banks in the country, has been in the forefront in supporting economic recovery, while also strengthening its risk resilience.

## Risk Management Achievements in 2024

- » Operational losses were continually reduced to achieve some of the best results in the industry.
- » A large share of Stage 2 and Stage 3 loans were successfully reversed to achieve one of the highest quality loan books in the Banking industry.
- » Key departments and IT systems were reinforced for disaster recovery.
- » Cyber security and fraud prevention measures were tightened to industry best standards.
- » Capital adequacy and liquidity positions were reviewed to meet any contingencies.
- » New systems and workflows were introduced to enhance effectiveness of the Risk Management Department.
- » Commenced integrating SLFRS S1, S2 sustainability and climate related financial risk management, into the overall risk framework.
- » Rolled out a corporate internal risk rating assessment solution featuring comprehensive risk assessment models for Corporate, Emerging Corporate, and SME sectors.





## SIGNIFICANT RISKS IN 2024

### Macro environment

The overall stabilisation and gradual improvement of domestic macroeconomic conditions against a backdrop of easing monetary policy, lowering rate of inflation, and fiscal consolidation measures, contributed towards the decline in risk perceptions in 2024. However, these positive developments were offset by diminished real income amidst elevated price levels and geopolitical risks. As the economy recovers from the prolonged contraction observed in the past three years, the monetary policy easing cycle and the envisaged rate of inflation within the Central Bank's 5% band, are expected to support continued economic growth. However, it is noteworthy that the level of real Gross Domestic Product, although now aligned to an upward trajectory, remains below pre-pandemic levels, reflecting the extent of economic losses absorbed by the nation in the recent past.

### Geopolitical risks

The geopolitical risk environment intensified in 2024 with the escalation of the Russia-Ukraine war, the conflict in the Middle East and heightened trade tensions between the US and China, as well as between Russia and western allied nations backing Ukraine. In addition, 2024 was a year of global election cycles, which heightened uncertainties in macroeconomic and trade policies. These unfavourable global conditions had a spill over effect on overall global trade also reflected in Sri Lanka's international trading activities with the cost of shipping and insurance premia, adding to both import and export costs from Sri Lanka, and also constraining export growth opportunities, which collectively hindered export growth.

### Foreign exchange market

In 2024, the rupee reversed its previous depreciation trend to adopt an appreciation trend against the USD. This reversal was boosted by enhanced inflows, particularly in the form of higher workers' remittances, tourist earnings and export conversions, which also contributed towards building Gross Official Reserves (GOR). However, while liquidity conditions in the domestic foreign exchange market softened, this has occurred in an environment where the demand pressures from vehicle imports and external debt servicing were partially suppressed. Going forward, liquidity conditions in the domestic foreign exchange market will depend on several factors that dictate demand and supply. This includes the relaxed monetary policy stance, possible relaxation of vehicle imports restrictions, the finalisation of the External Debt Restructuring, geopolitical tensions, swings in economic policies of trading partners after elections, foreign investor sentiments and envisaged inflows from exports, tourism and workers' remittances.

### Regulatory changes

The country's financial sector and banking industry in particular also faced a number of significant regulatory changes aimed at strengthening financial system stability and transparency. The Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) regime was further enhanced as well as good governance conditions. The Central Bank also continued to implement Financial sector policies that supports a steady economic recovery, such as establishing Business Revival Units (BRUs) in Licensed Banks to assist viable businesses impacted by the economic crisis.

### Climate related financial risks

Throughout 2024, Sri Lanka and the rest of the world continued to experience extreme weather events that not only wreaked havoc on human life but also disrupted economic activities causing incalculable losses, demonstrating that global financial systems are becoming increasingly exposed to climate risks via both physical and transition risk. These climatic events resulted considerable losses to businesses as well as individuals, affecting their repayment capacity. Further, certain businesses do not correspond with the transition to a low-carbon economy. These businesses are likely to experience interruptions and losses or declines in profits. Banks may also face legal and regulatory compliance risks due to lending into climate-sensitive projects. If investors and customers believe that banks are not adequately aligned with the transition to a low-carbon economy, transition risk may also evident as a reputational risk. In response to this emerging threat to the country's financial system, the Central Bank plan to expand its Sustainable Finance Roadmap. The Ministry of Finance and the Ministry of Environment have also joined hands to develop a national strategy for climate change, to strengthen the overall infrastructure to scale up sustainable finance in the country. CA Sri Lanka has issued localised versions of IFRS S1 and S2 Sustainability and Climate related disclosure standards, designated as SLFRS S1 and SLFRS S2, which will be effective from January 1, 2025. These standards will more likely change the business strategy of large corporates (including Banks) in the country, addressing the growing investor demand for Environmental, Social, and Governance (ESG) information.

# RISK & CAPITAL REVIEWS

## Political risks

Political and policy uncertainty remained high in domestic markets for much of 2024, discouraging business expansion as well as foreign investments, as the year was a crucial election year with both Presidential as well as Parliamentary elections lined up. However, the country negotiated both major electoral debacles with an exemplary calm to establishing a strong and stable government, strengthening confidence in the economy and policy environment among investors as well as consumers. The improvement to business sentiments was indicated by a historic surge in the share market following the establishment of the new government. The stable political environment will create a more conducive environment for investments and economic activities thereby boosting growth in the future.

## Credit risk

During 2024, the market interest rates continued to decline, brought about by the accommodative monetary policy stance, resulting in a partial correction of interest rate anomalies and leading to a gradual growth in credit demand. The credit cycle entered an expansionary phase during the second half of the year, as lending to the private sector improved gradually. However, the deterioration of real income levels, tax adjustments and elevated price levels, continued constrain debt repayment capacities of consumers and businesses, causing Non-Performing Loan (NPL) ratios to remain comparatively high. Nevertheless, continued macroeconomic stability is expected to gradually reduce credit risk of financial institutions from previous elevated levels.

## Sovereign rating

In September 2024, Fitch Rating retained Sri Lanka's Restricted Default rating, reflecting the country's incomplete external debt restructuring program. The country completed the local-

currency portion of its domestic debt optimisation in September 2023, and restructuring negotiations are ongoing with private external creditors. The completion of the foreign-currency commercial debt restructuring led to an upgrade of the Long-Term Foreign-Currency rating to CCC+ in December 2024, which is expected to encourage the return of foreign investments to the country. Sri Lanka's sovereign rating was downgraded seven times in the last seven years, with five of those downgrades occurring since April 2020. The most recent downgrade was to default rating in May 2022, after the expiration of a grace period for an ISB coupon payment.

## Cyber security

Cyber security threats that can destabilise financial systems are becoming increasingly common globally as well as within Sri Lanka. With the increase of digital banking penetration in the country, Cyber threats such as phishing & mobile application attacks which are specifically targeting banking customers are on the rise. Therefore, the Central Bank has recognised the importance of prudent management of technology risks and has established minimum regulatory requirements for Licensed Banks which focus on layered defence approach for combating cyber-attacks that covers IT/Cyber security controls, administrative controls, business continuity related requirements and user/customer awareness.

## Increasing trend in scams and frauds

With the rise of online banking and electronic payment systems, Sri Lanka witnessed a surge in financial frauds in 2024. Such activities were conducted by both individuals as well as small gangs, using bank accounts, to defraud depositors and banking customers. The trend of increasing fraud and robberies are due to job losses in industries and services sectors, income losses, the rising

cost of living and rising food insecurity, as well as economic disruptions.

## Emerging risks at branches due to non-compliance with procedure controls

The lack of awareness and practical knowledge among staff regarding the risks that they expose the Bank to when bypassing procedural controls has led to the increase in operational risks at branches. Therefore, the Operational Risk Unit commenced visiting branches and reviewing branch standards with regard to controls, security measures, BCP readiness and general banking operations. In addition, awareness creation on operational risk was carried out through training programmes which were conducted during the branch visits.

## Risks from third party services providers

Risks from third party, outsourced services providers arise due to weak controls and processes, as well as non-adherence to contractual conditions by service providers, resulting in exposing the Bank to potential risks of reputational damage. The Bank has addressed this challenge by maintaining a centralised list of all service providers, covering both critical and non-critical services, in compliance with the CBSL Business Outsourcing Policy. The list is collated and monitored by the Compliance Department. The business owners conduct annual on-site visits to ensure thorough monitoring and review. Additionally, the Risk Management unit, CISO's Office, Compliance Department, and Internal Audit Department conduct independent reviews based on the criticality of the services to strengthen information security, enhance general controls, and ensure adherence to HNB standards as outlined in the OSP agreements.

### IT system failures and unexpected errors

Due to the extensive digitisation of the Bank's IT systems and processes, any unexpected system failures and errors exposes the Bank to deterioration in service levels, financial losses, as well as reputational damage. During the year, the Bank initiated Root Causes analysis reporting to identify reasons for such events and conducted business continuity tests through IT disaster recovery drills. These proactive measures have strengthened the Bank's resilience towards IT system risks.

### Emerging risks due to operational process changes

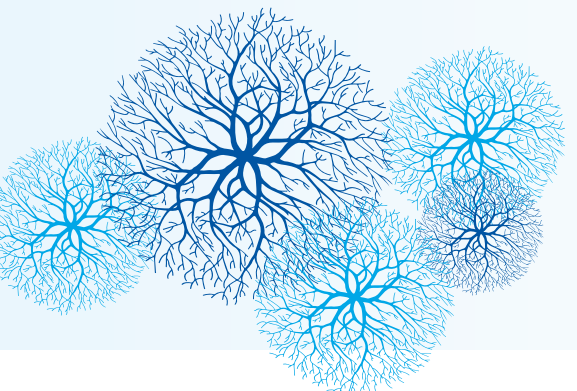
Risks arising from operational process changes exposes the Bank to operational losses as well as regulatory and legal penalties. The Bank has responded by conducting Risk and Control Self-Assessments (RCSA) on a quarterly basis, covering all Head Office departments and the entire branch network through regional offices, to evaluate the risk level of departments. The Bank has also introduced controls and monitored implementation to mitigate any risks.

### Liquidity Risk

Liquidity levels improved in 2024 and markets operating with surplus liquidity and the Banking sector completed the divestment of Sri Lanka Development Bonds (SLDBs) under the Domestic Debt Optimisation (DDO) program, which reduced the Banking sector's exposure to the sovereign by Rs 63.7 Bn. The Bank's impairment provisioning for ISB's decreased in 2024 from Rs 102.1 Bn to Rs 1.6 Bn due to external debt re-structuring adjustments. Despite improvements to liquidity conditions in the market, the Bank continued to maintain excess capital and liquidity positions to ensure financial stability, while also accommodating customer demands. The Bank's exposure to Treasury Bills decreased by Rs 21.0 Bn.

	Investments			Impairment		
	As at Dec 2024 Rs (Bn)	As at Dec 2023 Rs (Bn)	As at Dec 2022 Rs (Bn)	As at Dec 2024 Rs (Bn)	As at Dec 2023 Rs (Bn)	As at Dec 2022 Rs (Bn)
Bank's investment in USD development bonds	Nil	Nil	32.1*	Nil	Nil	2.5
Bank's investments in ISBs	63.7*	196.3*	209.6*	1.6	102.1	73.4
Bank's investments in TBills	453.1	474.1	216.5	Nil	Nil	Nil
Bank's investments in TBonds	277.5	155.3	56.4	Nil	0.7	Nil

\*Based on prevailing exchange rate during the corresponding dates



# RISK & CAPITAL REVIEWS

## Managing the Material Risks

All risks noted as material are continually measured and monitored to ensure operational stability and sustainability



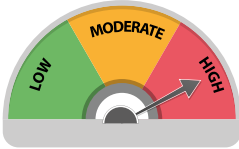
Figure 1: Material Risks

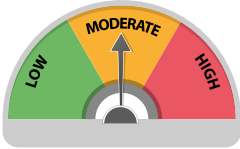
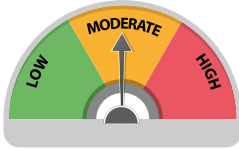
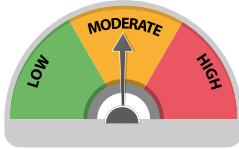
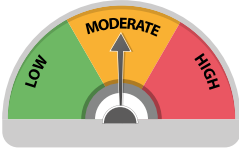
	Credit Risk	Operational Risk	Information & Cyber Risk
<b>Definition of the risk</b>	<p>This risk refers to losses due to one, or more, counterparties failing to meet all, or part, of their contractual obligations towards the Bank in accordance with agreed terms.</p> <p>This risk includes;</p> <ul style="list-style-type: none"> <li>• Default Risk</li> <li>• Counterparty Risk</li> <li>• Concentration Risk</li> <li>• Residual Risk</li> <li>• Recovery Risk</li> </ul>	<p>The risk of loss due to inadequate, or failed internal processes, people, or systems or from external events. This definition includes Legal Risk but excludes Strategic and Reputational Risk.</p> <p>Operational Risk Components;</p> <ul style="list-style-type: none"> <li>• Compliance Risk</li> <li>• Legal Risk</li> <li>• Financial Crimes Risk</li> <li>• Technology Risk</li> <li>• Information &amp; Cyber Risk</li> <li>• Business Continuity Management</li> <li>• Conduct Risk</li> </ul>	<p>Risk of financial loss, or disruption or damage to the reputation of the Bank from information by unintended parties and unauthorised access to our systems or data/information.</p> <p>This risk also arises from the failure of the Bank's Information Technology systems services due to unauthorised modifications.</p> <p>Components of Cyber Risk;</p> <ul style="list-style-type: none"> <li>• Information Risk</li> <li>• Cyber Risk</li> <li>• Financial Crime Risk</li> <li>• Technology Risk</li> </ul>
<b>Risk drivers</b>	<p>Drivers of this risk includes the current economic landscape, concentration of portfolio by product, business sector, geography etc, rigour of credit evaluation and monitoring processes, Bank's Credit Risk Appetite, Internal risk goals and tolerance level, expectation on government concessions to postpone repayment.</p>	<ul style="list-style-type: none"> <li>• Day-to-day operations and external events.</li> </ul>	<ul style="list-style-type: none"> <li>• The integration of Information Technology into all aspects of Banking operations which facilitate convenience, scalability and capability but also makes the Bank vulnerable to unauthorised access to systems and information assets.</li> </ul>
<b>How the Risk is measured</b>	<p>The risk is measured based on Credit Exposure, Probability of Default (PD), Expected Losses, Loss Given Default (LGD) and recovery rates. Stage 3 ratio, stress testing on concentration, Large Borrower default, increase in provision etc. Additional Capital under Pillar 2 risk is assessed by Internal Capital Adequacy Assessment Process (ICAAP) as per Basel III.</p>	<p>Measured using operational losses, loss events/near misses, key risk indicators, overall risk grid matrix, risk ranking and prioritising, risk heat map. Capital is allocated under Capital Adequacy Ratio (CAR) as per Basel III.</p>	<p>Cyber Risk loss limits and Cyber Risk Matrix, Hacking, Phishing, Malware attack attempts for a month are measured to track this risk factor continuously.</p>

Liquidity Risk	Market Risk	Strategic Risk	Reputation Risk
<p>This refers to the risk that the Bank is unable to meet its debt obligations or having to meet these obligations at excessive cost.</p>	<p>Market risk refers to the potential for losses in financial instruments or portfolios due to fluctuations in market conditions, such as changes in interest rates, exchange rates, and commodity prices. It encompasses the uncertainty that arises from various economic factors, impacting the value of investments in the financial markets.</p>	<p>The Strategic Risk is the uncertainties inherent in executing strategic objectives.</p>	<p>Refers to potential losses from damages to reputation.</p>
<p>Arises from the risk of Debt Restructure, as well as mismatches in cash flow from potential short-term cash demand, the Bank's own borrowing activity, trading activities and counterparty interactions.</p>	<p>Arises from adverse fluctuations in the market interest rates, exchange rates and equity prices.</p> <p>Components of Market Risk;</p> <ul style="list-style-type: none"> <li>• Interest Rate Risk</li> <li>• Foreign Exchange Risk</li> <li>• Equity Price Risk</li> <li>• Commodity Price Risk</li> </ul>	<p>Arises from external developments in Technology, Products, Business Models.</p>	<p>Arises from events that could adversely impact public perception of the Bank as a responsible corporate citizen.</p>
<p>A range of metrics are being used by the Bank including regulatory limits such as the LCR, internal models and balance sheet-based measures and Stress Testing on Interest Rate Sensitivity, Probabilistic Analysis and NII analysis to measure this risk.</p>	<p>Measured using Value at Risk, Sensitivity Analysis and Stress Testing on open positions, mark to market on daily basis to identify the trading book position. Capital is allocated under CAR as per Basel III.</p>	<p>Measured using a scorecard approach to quantify strategic risk under the Basel III Pillar 2 calculation.</p>	<p>Measured using a scorecard approach by assessing underlying risk drivers of Reputational Risk due to qualitative nature of the risk.</p>



# RISK & CAPITAL REVIEWS

	Credit Risk	Operational Risk	Information & Cyber Risk
<b>How the risk is monitored</b>	Continuous monitoring is conducted via Credit Risk vertical using the Credit Risk Dashboard which provides metrics on several parameters including analysis of arrears, collateral, concentration etc. are submitted to BIRMC, BCC and executive committees.	Monitored through the Bank's Operational Risk Management vertical under the guidance of ORSC with input from business units through Risk and Control Self-Assessments. Operational Risk monthly Dashboards are submitted to ERMC, BIRMC and Board.	The Bank conducts security risk reviews/assessments on regular basis to ensure business processes are in line with guidelines.  IT and Cyber-Risk dashboard are presented to BIRMC and ERMC monthly by Information and Cyber Security Risk vertical, Monitoring of Privileged User Activities and changes are carried out on a periodic basis and report to BIRMC.
<b>How the risk is managed</b>	A Credit Risk Management Policy and monitoring mechanism is available to manage this risk.	Managed through a sound Operational Risk Management Framework by the ORSC with the participation of all business/support units. A comprehensive Business Continuity Plan (BCP) is also available.	The Bank has in place an action plan for digital resilience and awareness and also has business continuity plans. In addition, physical controls, technical and logical access and administrative controls, independent L2 & L3 verifications by Risk and Audit are used to manage the risk.
<b>Key Information</b>	 <p>Trend: →</p> <p>Page 252</p>	 <p>Trend: →</p> <p>Page 257</p>	 <p>Trend: ↑</p> <p>Page 259</p>

Liquidity Risk	Market Risk	Strategic Risk	Reputation Risk
<p>Regular monitoring by the ALCO, Board subcommittee and Treasury Middle Office (TMO) using a matrix of regulatory and prudential limits and gaps using both stock and flow approaches. The dashboards are submitted to ALCO and BIRMC and the Board.</p>	<p>Monitored by the ALCO using Market Risk Dashboards supported by an independent Treasury Middle Office (TMO), which reports to CRO. Internal and regulatory limits and exceptions are immediately reported to ALCO.</p>	<p>The Integrated Risk Management Unit monitors this risk through a scorecard and is evaluated for any additional capital requirement through the ICAAP submission to the Board annually.</p>	<p>Monitored by the Integrated Risk Management Unit using a scorecard and evaluated for any additional capital requirements through the ICAAP submission to the Board annually.</p>
<p>A strong Liquidity Risk Management Framework is in place which includes contingency plans.</p>	<p>The Treasury Department overlooks this risk using diversification and hedging strategies.</p>	<p>The Corporate Management and Board are involved in managing this risk.</p>	<p>The Bank sets the tone at the top and reinforces its core values and purpose.</p>
 <p>Trend: →</p> <p>Page 265</p>	 <p>Trend: →</p> <p>Page 261</p>	 <p>Trend: →</p> <p>Page 268</p>	 <p>Trend: →</p> <p>Page 268</p>

# RISK & CAPITAL REVIEWS

## Enterprise Risk Governance

The Board is ultimately responsible for managing the Bank's risks and is assisted by the Board Integrated Risk Management Committee (BIRMC) and other Board sub committees. In addition, the executive functional units of the Bank are also held responsible for the effective implementation of the risk management strategies that have been approved by the Board. Expertise from executive committees consisting of corporate and senior management teams also contribute towards managing risks.

To enhance monitoring and advisory functions, the Bank has a dedicated Chief Information Security Officer.

## Three Lines of Defence

The 'Three Lines of Defence' model has been adopted to ensure the risk management initiatives of the Bank is in line with best industry practises.

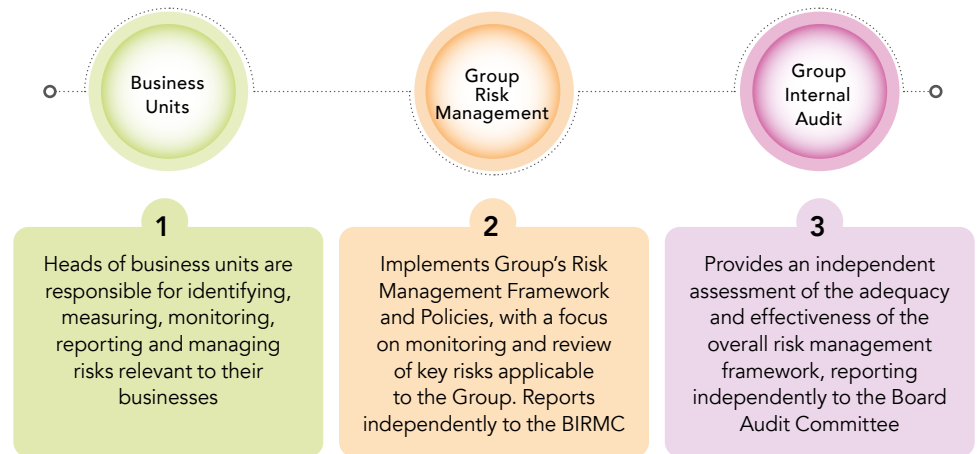
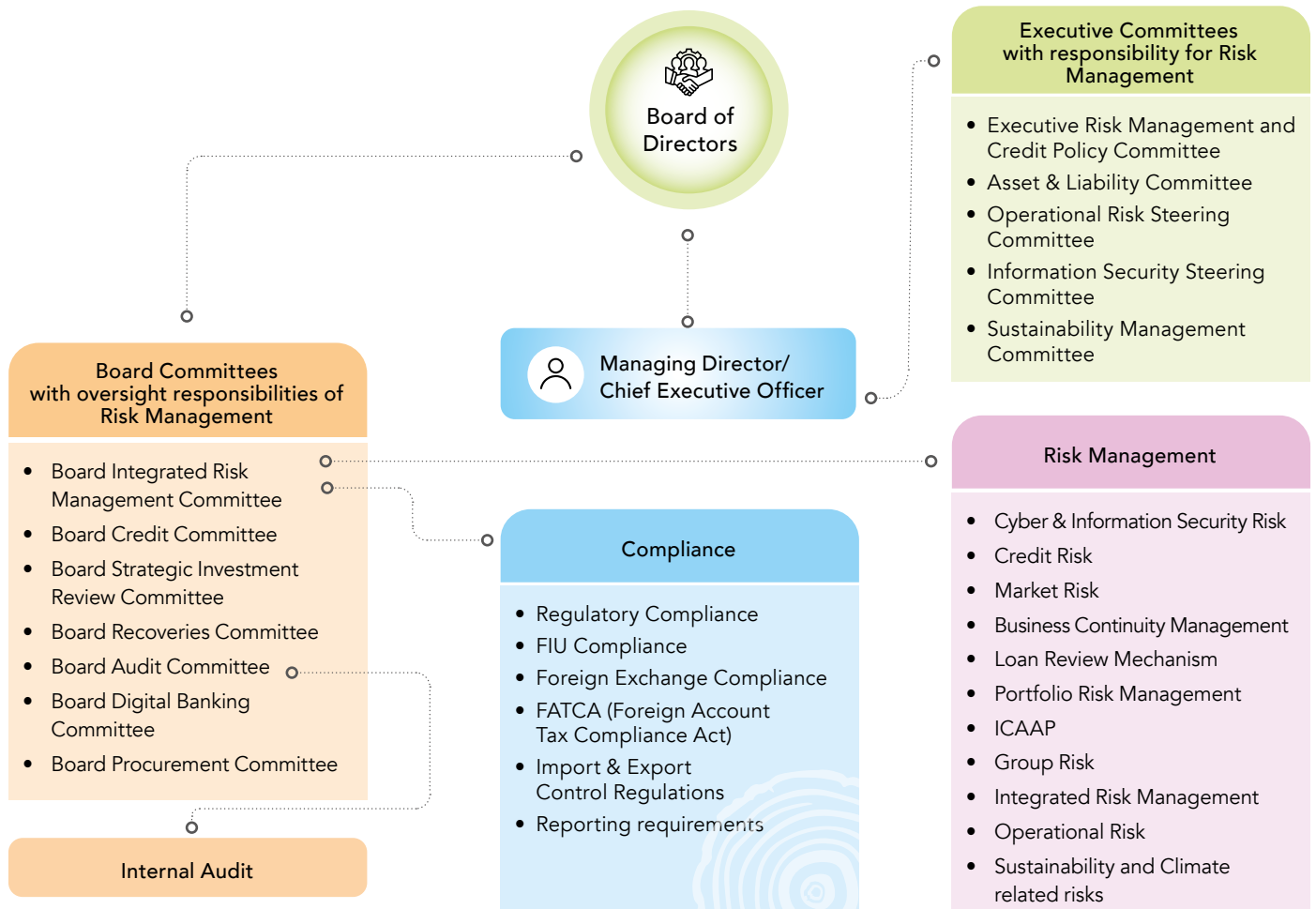


Figure 2: Risk Governance Structure of the Bank



## Roles & Responsibilities of Committees in Relation to Risk Management

Figure 3: Roles & Responsibilities of Committees in Relation to Risk Management

Board Committees	Role of Committees in Relation to Risk Management	Executive Committees	Role of Committees in Relation to Risk Management
Board Integrated Risk Management Committee (BIRMC)	Maintains oversight of Risk Management and makes recommendations to the Board on developing and implementing Risk Management Policies, setting the Bank's Risk Appetite and monitoring material risks of the Bank through risk dashboards. The Chief Risk Officer and Chief Compliance Officer have a direct technical reporting line to the BIRMC.	Executive Risk Management Committee (ERMC)	Chaired by MD/CEO and comprising heads of key business lines and operating units of the Bank, the ERMC is the apex executive committee for risk management and supports BIRMC and BCC in effective implementation of the risk policy.
Board Credit Committee (BCC)	Approves credit proposals above a specified exposure threshold. Reviews the credit risk dashboards and makes recommendations on areas including credit limits, sector-wise exposure, sector risks, or any other related areas concerning Credit Risk Management policies and processes.	Asset & Liability Committee (ALCO)	The ALCO plays a key role in managing liquidity risk and financial stability of the Bank. It reviews liquidity forecasts to manage gaps, adequacy of contingency funding plans and stress testing results in achieving its objectives. The Committee also determines the ideal structure of the Bank's balance sheet to provide the optimal profitability while minimising potential risks.
Board Recoveries Committee (BRC)	Is responsible for overlooking of recoveries of Stage 3 advances and to strengthen the delinquent loan recovery function of the Bank.	Operational Risk Steering Committee (ORSC)	Chaired by COO and comprising the DGM-Risk/CRO, Heads of Operations, Audit, Compliance, IT, HR and Network Management, the Committee is responsible for assessing operational processes and internal controls to minimise operational losses and to instil a compliance culture amongst staff.
Board Audit Committee (BAC)	Responsible for financial reporting risk and internal controls. The Bank's Chief Internal Auditor reports directly to the BAC. This Committee plays a key role in the implementation of the Bank's risk management and compliance policy by monitoring key controls.	Information Security Committee (ISC)	Responsible for reviewing and making recommendations on Bank wide information security and cyber security, the ISC is chaired by MD/CEO and comprises of representatives from corporate business, IT, Audit, Compliance and support functions.
Board Strategic Planning & Investment Committee (BSPIC)	Responsible for setting the overall business strategy of the Bank and ensures there is a congruence in the Bank's strategic direction, goals and KPIs and the Board's Risk Appetite.	Sustainability Management Committee	Highest-level Committee on matters related to Sustainability affairs. This ensures the Bank integrates sustainability into its strategy by formulating and implement ESG policies, monitoring compliance with regulatory norms, and guiding departments on sustainability decisions. The Sustainability Management Committee will assume advisory and monitoring responsibilities in 2025, previously managed by the Sustainability foundation until end 2024.
Board Digital Banking Committee (BDBC)	Responsible for implementing the Bank's proposed Digital Banking Platform and products and reviews key technology risks and associated strategies. It is responsible for identifying and monitoring of key risks arising from the digital area and refers such risks to the Risk Department and Compliance Department for advice and action.		
Board Procurement & Asset Disposal Committee	Responsible for assessing proposals for procurement or disposal of assets/properties of the Bank and ensures transparency in procurement/disposal processes and good practices.		

# RISK & CAPITAL REVIEWS

## Risk Management Policy Framework

The Bank's Risk Policy stems from the Bank's risk philosophy which is to maximise value creation for all stakeholders. The Risk Framework Policy is approved by the Board and provides guidance to the management on implementing processes within the Bank. The primary objective of the Bank's Risk Management Policy Framework is to effectively identify, measure, manage, monitor and control risks faced by the Bank and to determine its Risk Appetite in line with the overall business strategy of the Bank.

Figure 4: Risk Management Policy Framework





## Risk Culture

The risk culture of the Bank is a fundamental component shaping its approach to identifying, assessing, and managing risks inherent in banking and financial activities. It encompasses the shared values, beliefs, and behaviours within the Bank that collectively influences how risks are perceived, communicated, and integrated into decision-making processes. In the dynamic landscape of the banking industry, a robust risk culture is not merely a regulatory necessity but a strategic imperative for ensuring the long-term resilience and success of the Bank.

Figure 5: Key Determinants of Risk Culture

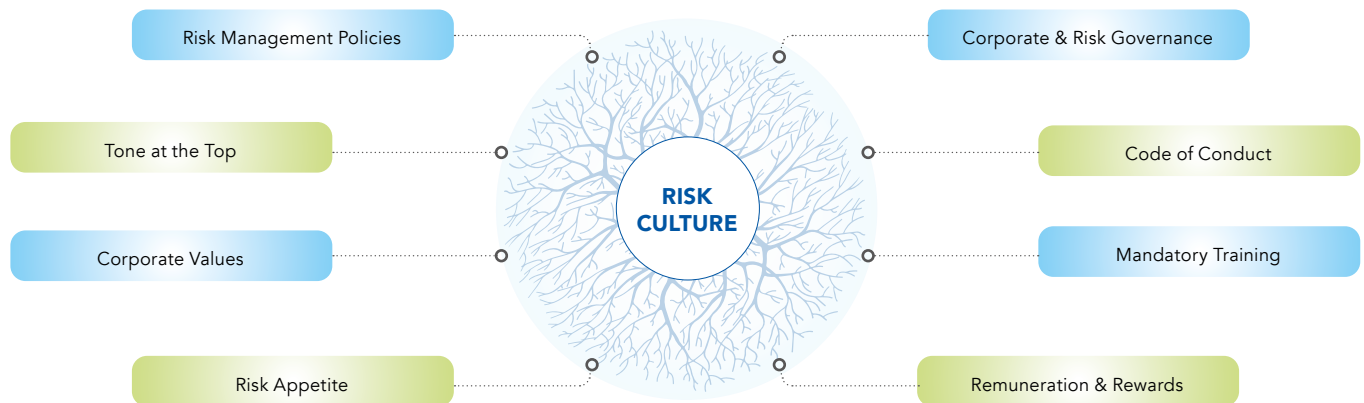
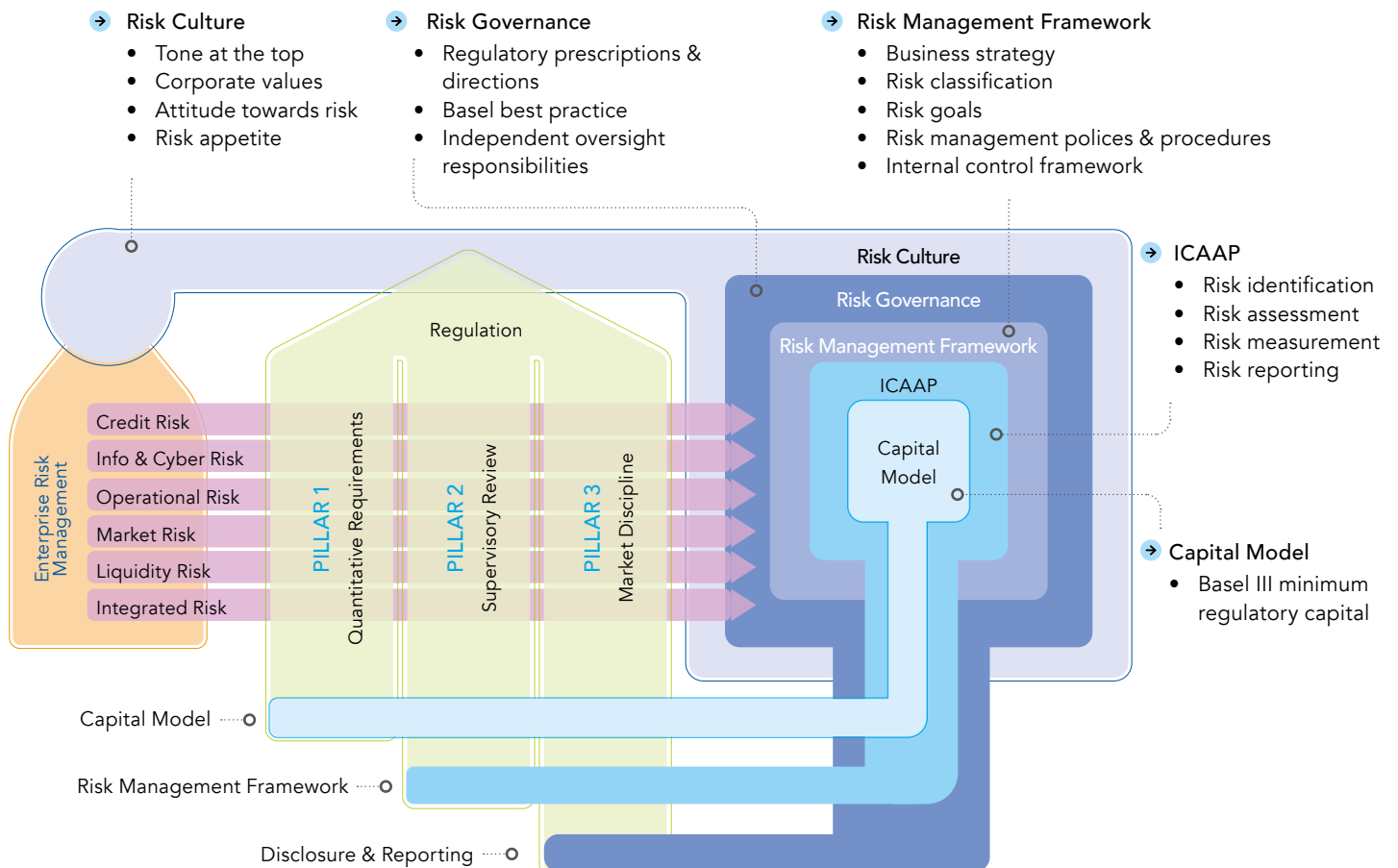


Figure 6: HNB Philosophy in Managing Risk



# RISK & CAPITAL REVIEWS

## Risk appetite

The Bank's Risk Appetite Statement instils targets for a number of criteria such as capital adequacy, profitability and efficiency, concentration limits, liquidity positioning and limits for other risk types.

The objectives of the Bank's Risk Appetite Framework (RAF) are as follows:

- Links the Bank's business strategy, products and processes with associated risk levels
- Design Risk Appetite and thresholds in line with the Risk Management Framework of the Bank
- Enable the Senior Management and the Board of Directors (BOD) to effectively monitor the material risks across various business units of the Bank, and takes corrective action, as and when required
- Compliance to regulatory principles on Risk Appetite requirements

## Stress testing

The primary objective of Stress Testing is to assess the impact of adverse scenarios on the Bank's Capital Adequacy Ratio (CAR), profitability and liquidity. Appropriate stress scenario development methodologies applicable to each risk area are clearly specified and key macroeconomic factors impacting the Bank are identified to support this process. To ensure the effectiveness of the process, the Bank's stress testing system complies with CBSL guidelines and the Basel Committee and encompasses all significant and high impact risk areas of the Bank. The outcome of stress tests is communicated to the BIRMC and to the Board.

## Group Risk

To sustain stringent Risk Management across the Group, the Bank's four direct subsidiaries are overlooked by the Integrated Risk Management division for

regular review and continuous supervision, while senior Bank officials are members of the Boards of subsidiaries ensuring a high level of knowledge of the risk management activities of the subsidiaries. The two insurance subsidiaries and HNB Finance PLC have dedicated risk management units, which regularly liaise with the Bank's Integrated Risk Management (IRM) division. The IRM division also receives the Regulatory Inspection Reports and Management Letters of the Group entities to ascertain potential areas of risk concern and to follow up on agreed remedial action to strengthen the Risk Management environment of Group companies.

In addition, some of the subsidiaries are also subject to external regulatory monitoring with two direct subsidiaries, which are public listed companies, complying with the regulatory reporting requirements of the Colombo Stock Exchange (i.e HNB Assurance PLC and HNB Finance PLC). HNB Assurance PLC and HNB General Insurance Ltd., come under the regulations of the Insurance Regulatory Commission of Sri Lanka, while HNB Finance PLC is regulated by CBSL.

## Strengthening risk management in 2024

As the macro environment continued to evolve and correct itself from the previous economic-crisis environment towards a more stable risk environment, the Bank remained vigilant towards any further economic shocks that could impact the financial sector and its operations by continually monitoring external operating environment dynamics. As a core component of risk preparedness, the Bank continued to invest in strengthening and upgrading its technologies for risk monitoring and assessment. All statutory reports such as the ICAAP report were submitted on time to the regulator maintaining an uncompromising level of compliance at all times.

*Figure 7: Key Initiatives of the Bank to Strengthen Risk Management in 2024*

## Integrated Risk Management

- The Bank's ICAAP was reviewed during the year to ensure capital adequacy was maintained above minimum regulatory requirements. Variables such as asset quality, market risk factors, investments in Government securities, concentration risk assessments etc., were subjected to stress testing.
- The ICAAP model was validated by an external consultant to ensure that the model mechanism is capable of identifying and capturing emerging risks.
- The Risk Appetite Statement of the Bank was reviewed periodically in response to macro and micro economic factors of the country. The financial budgets and business performance of the Bank were maintained in line with the Risk Appetite Statement.
- A series of industry and country reviews were conducted to assess risk levels across various sectors and implement corrective actions aimed at better managing the Bank's lending portfolio.
- Rolled out a dynamic Internal Risk Rating assessment model that features a comprehensive risk evaluation across lending portfolios in the Corporate, Emerging Corporate, and SME sectors.

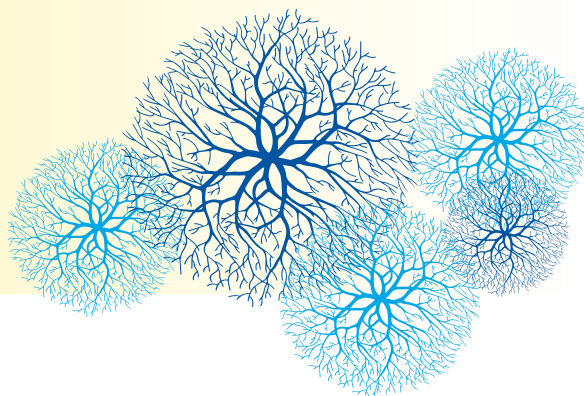
## Credit Risk

- The Credit Risk Policy was reviewed in line with regulatory requirements.
- Credit guidelines for credit cards, personal loans, home loans, educational loans, leasing, SME lending, micro-finance, corporate banking and emerging corporate were reviewed, in line with the Bank's strategic vision, growth plans, risk appetite and prevailing market conditions. These credit guidelines direct the management of the risk-return mix of respective product portfolios, based on historical experiences and prevailing economic and market factors.
- The guidelines for margin trading credit policy were reviewed, based on the market applicability.
- The internal CRIB Guidelines were reviewed against current market conditions and changes were proposed based on evaluations of CRIB clearance requests.
- The Management Review List (MRL) and Watch List (WL) policy was reviewed in line with Regulatory requirements of classifying, recognising and measuring of credit facilities and considering the overall risk appetite of the Bank.
- Environmental and Social Risk Management policy was reviewed in line with the regulatory requirements, whilst ensuring compliance with new directions in Environmental, Social, and Governance (ESG) criteria. Gender related screening has been incorporated into the E&S check list and due diligence report during the current year.

- Environmental, Social, and Governance (ESG) Score card was developed in line with SLFRS S1 and S2 criteria to assess sustainability and climate related risks and opportunities.
- Enhanced post loan disbursement reviews were carried out on the Advances Portfolio in order to ensure compliance with Credit Policies and Guidelines. Observations and learnings were shared with Business Units and Credit Teams in order to ensure qualitative improvements in Credit underwriting and Credit Administration processes.
- Training and familiarisation sessions were conducted for businesses and credit approvers on the Bank's credit policies and guidelines, best practices and common lapses in credit underwriting of facilities, as well as rescheduling / restructuring of facilities
- Credit Approval Structure was reviewed against new NPAs, LRMs findings, regulatory changes and other emerging credit risks to the loan book.

## Group risk

- Additional features, including the assessment of perceived risk levels of group companies were introduced to Risk Dashboards and Risk Assessment report to strengthened the assessment of Group Risk and enhance compliance monitoring.
- Potential risk areas were reviewed quarterly, with follow-up remedial actions taken to ensure that identified risks were effectively mitigated. This process significantly strengthened the risk management environment across group companies, promoting a proactive approach to risk identification and resolution.
- The ICAAP and associated policies were successfully implemented for subsidiary companies, ensuring subsidiaries adhered to the same standards of capital adequacy and risk management as per the Bank.



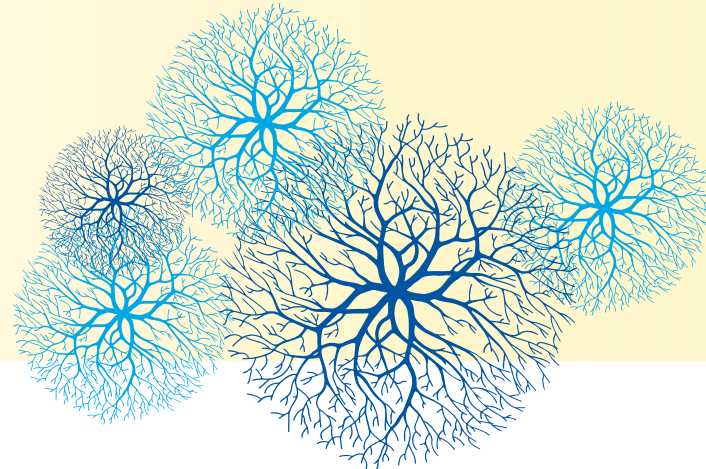
# RISK & CAPITAL REVIEWS

## Operational Risk

- Control actions were introduced to curtail fraud and scams committed by individuals and well-organised gangs using bank accounts, which increased in 2024. The Bank enhanced public awareness through social media, its branch network, and SMS alerts. Additionally, suspicious transactions were monitored by the Compliance Department through the AML system. During customer onboarding, the Bank adopted stringent evaluation procedures.
- Non-compliance with procedure controls by branches was addressed by the Operational Risk Unit through visiting branches, reviewing the operational standards, and conducting Operational Risk trainings. Familiarisation sessions and trainings were conducted to educate staff on operational standards and the importance of compliance with procedural controls.
- Risks arising from third-party service providers due to weak controls and non-adherence to contracts were addressed through on-site reviews and L1 and L2 assessments to strengthen security and control measures. A centralised list of outsourced service providers, covering both critical and non-critical services, was created and the dependency on certain providers was reviewed. Service providers were educated on the Financial Consumer Protection Regulations No 01 of 2023, and contracts were updated to include clauses for punitive actions related to reputational damages, in addition to penalties for operational lapses.
- Control measures were implemented to address the rising fraud and robberies resulting from job losses in industry and services, income losses, inflation, food insecurity, and economic disruptions. Additionally, the Customer Blacklisting Guidelines were reviewed to prevent the onboarding of potential offenders. The latest IP-based CCTV cameras, with a data storage capacity of 90 days, were also installed replacing the old cameras.
- IT system failures and unexpected errors were addressed through root causes analysis and the BCP was tested through IT DR drills.
- Controls were introduced and monitored through risk and control self-assessments (RCSA) to address emergent risks arising from operational process changes. This process encompassed all Head Office departments, as well as the branch network and regional offices.

## Portfolio Risk Management

- Bank's Individually Significant Loan (ISL) portfolio, which accounts for approx. 60% of the Bank's lending portfolio, was analysed quarterly to ensure the maintenance of an optimal level of provisions under the Expected Credit Loss (ECL) approach and for proper classification under SLFRS-9.
- Bank's individually insignificant lending portfolios were regularly reviewed for credit quality, proper classification, provisioning under SLFRS-9, credit concentration, and compliance with the Bank's risk appetite levels.
- A post-review was conducted for all restructured and rescheduled lending facilities, including a comprehensive risk assessment, before upgrading accounts from upper buckets (SLFRS-9 Stage 2/3) to lower buckets (Stage 1).
- Strengthened L2 review mechanism for specific lending portfolios including the Margin Trading portfolio, Overdraft portfolio, Credit Card portfolio etc. to ensure adherence and compliance with the Bank's Credit policies.
- Conducted a series of training sessions across business divisions and branch network to enhance knowledge on 'Classification, Recognition and Measurement of Credit Facilities based on the SLFRS 9 ECL Approach.'





## Market Risk

- Treasury limits were regularly reviewed to assess micro and macro-economic factors on counterparty limits, country limits and limits for treasury activities. The Bank's liquidity and funding needs were periodically reviewed.
- Conducted semi-annual stress testing, based on Bank's Liquidity Coverage Ratio (LCR), to assess impacts on the Bank's liquidity position due to a range of potential liquidity crisis scenarios. This included a thorough analysis of the resulting impacts on the Bank, along with strategic measures to address potential liquidity gaps and minimise adverse effects.
- Comprehensive biannual Country Limit reviews were conducted to assess the Bank's exposure to each country. These reviews covered Treasury counterparty limits, counter guarantee limits, export bill limits, nostro balances, investments in foreign bonds and loan facilities with limits allocated based on the Bank's core capital.
- Regular impact analysis on the Bank's capital base was carried out on the possible haircut on the Bank's investment in USD denominated bonds, USD deposit run, LKR deposit run and immediate demand of FC funding lines, identifying strategies and to minimise the impact of these events.

## Loan Review Mechanism

- Enhanced post loan disbursement reviews were conducted on the Advances Portfolio in order to ensure compliance with credit policies and guidelines. Observations and learnings were shared with business units and credit teams in order to ensure qualitative improvements in credit underwriting and credit administration processes.
- Quarterly discussions were held with the members of the Corporate Management Team (CMT) to review corrective actions taken to address LRM findings.
- Meetings were held with lending staff, including credit administration/centralised credit operations and other business units to address shortcomings and develop strategies to minimise possible losses relating to the Bank's credit portfolio.
- The loan review team reviewed underwriting and collateral files to ascertain the underwriting, monitoring, and documentation practices. During a file review, a team member meets the Business Units to discuss individual facilities.
- The LRM Policy was reviewed and updated to align with internal lending guidelines, market and economic conditions, and to enhance overall underwriting standards.
- A comprehensive e-Learning module on LRM was hosted on Talent Space, HNB.
- Frequent branch visits were conducted to communicate best practices relating to Credit Guidelines and LRM findings and to improve the credit underwriting standards of SME RMs, ROs, and staff involved in PFS and other lending products.
- Conducted comprehensive training programs/ awareness sessions for staff on LRM key findings in order to improve credit underwriting standards.
- Risk Bulletins were issued every quarter for knowledge sharing and to improve the credit underwriting standards.

## Information & Cyber Risk

- A Cyber security maturity assessment was carried out in line with the NIST (National Institute of Standards and Technology) Cyber Security Framework.
- Bank wide information security risk assessments were carried out covering technology infrastructure, business applications and processes, and branch network.
- Regular information security risk assessments were conducted for vendors and Outsourced Service Providers (OSP) to identify potential Cyber risks exposures and impact on the Bank.
- IT / Cyber security assessments were conducted for IT projects both prior to and post implementation, to identify potential threats to the Bank and implement necessary risk controls. Security measures to counter Phishing risks were strengthened by including tailored employee training and simulated exercises using multiple phishing scenarios.
- Email and web application controls were enhanced to defend against latest security threats to the Bank
- Employee and customer awareness of Cyber security was enhanced through physical /online trainings, simulated exercises, e-flyers, posters, web notifications, SMS messages, etc.



# RISK & CAPITAL REVIEWS

Figure 8: Planned Initiatives to Strengthen Risk Management In 2025

## Integrated Risk Management

- Increase risk reviews on industries in order to identify new opportunities and exit from elevated risk business sectors.
- Conduct comprehensive country reviews to assess and mitigate potential risks from international exposures. This process will also identify new, lending opportunities, ensuring informed decision making, asset protection, and financial stability.
- Introduce new Internal Risk Rating models for project finance, micro finance and retail facilities. New IRRs will be integrated into the decision-making process and pricing strategies.
- Improve Risk Appetite statement by including more qualitative and quantitative parameters that encompass all risk elements of the Bank, which will provide a more comprehensive framework for managing and monitoring risk.

## Group risk

- Further strengthen the mechanism and assessment of Group risk monitoring by way of introducing new tools.
- Regular meetings to be scheduled at senior executive level to assess the compliance of Group companies, as well as to identify challenges that need to be addressed.

## Credit Risk

- Work with impacted customers to support business revival by linking them with supply chains of large corporates, offering digital solutions to expand their sales and collection points, advisory services etc. The Bank also restructures repayments at an early stage, based on forecast cashflows.
- Develop predictive models to carry out analytics on the Bank's loan portfolios across businesses and products to identify early warning signals of stress.
- Upgrade and integrate enhanced IRR assessment models across all businesses to their respective loan origination modules.
- Improve credit evaluation by issuing periodic guidelines, considering the anticipated changes in the economic and business environment, in order to minimise the additional stress on the Bank's lending portfolio.
- Conduct frequent familiarisation sessions for internal credit staff to upskill credit underwriting standards and build a prudent risk management culture.
- Conduct periodic reviews and effectively monitor and classify the Green Financing Lending Portfolio in accordance with regulatory requirements.
- As per the SLFRS S1 and S2 requirements, sustainability and climate related risks will be identified on the Bank's lending portfolios and recommendations will be communicated to the network/sustainability management.

## Operational Risk

- Mitigate risk of fraudulent activities by strengthening controls and creating awareness. Review existing processes and procedures. Strengthen the monitoring process and increase visits to outsourced service providers to review and mitigate operational risk vulnerabilities.
- Address delays in the implementation of the new IT system by monitoring action items through the RCSA process.
- Better manage the unexpected changes in operational conditions due to geo political instability by reviewing the Banks Recovery and BCP policies, and incorporating necessary adjustments.
- The increasing trend in staff turnover, due to migration and recruitment by competitors will be managed through succession planning and grooming initiatives, and implementing a Job rotation mechanism.
- Address the outsourced business risk vulnerabilities through regular visits and reviews of service providers and monitoring Bank's ability to regain services through the BCP process. The Bank will also add new service providers and discontinue agreements depending on the perceived risk vulnerabilities.
- Implement a comprehensive automated operational risk management system, to replace the manual risk assessment processes.
- Obtaining an ISO certification to the Business Continuity Management process of the Bank.

## Portfolio Risk Management

- Incorporate additional value-added features into the Individually Significant Loan (ISL) impairment assessment solution, i-SLAP, to further strengthen the Bank's ISL impairment assessment process.
- Further strengthen periodic ISL assessments by increasing the number of assessments to capture Objective Evidence of Incurred Losses (OEIL) and ensure proper classification and maintenance of an optimal level of impairment.

## Loan Review Mechanism

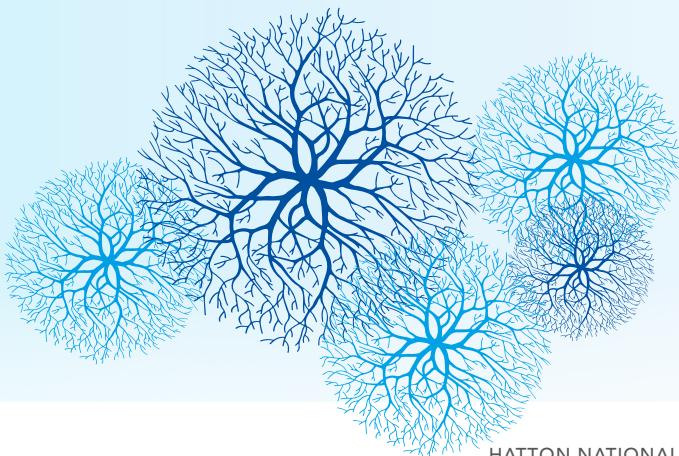
- Recommendations to increase the Scope under LRM including assessing restructuring/rescheduling of facilities that directly affect the impairment implications and evaluating Easy Draft facilities, as a product coverage.
- Develop a Score Card to monitor the risk level of specific lending portfolios based on findings from the loan review mechanism.

## Information & Cyber Risk

- Invest in advanced technologies to detect and prevent sophisticated web and email-based security threats and vulnerabilities.
- Enhance the controls implemented to prevent data leakages via various channels using the latest detection and prevention technologies.
- Enhance the scope under incident response planning and simulations for possible Cyber-attacks.
- Implement rigorous third-party risk assessments to evaluate cyber security practices of vendors, partners, and service providers to prevent potential vulnerabilities introduced through external relationships.
- Enhance the scope of periodic information security risk assessments to evaluate the effectiveness of the Bank's applications and IT infrastructure, and enforce strong security measures.
- Engage with an external security consultancy firm to independently validate the effectiveness of security controls.
- Improve staff and customer awareness on modern security threats and vulnerabilities and recommend mitigation actions.

## Market Risk

- Review caps and limits on investments in securities and measurement of volatility of forex and securities.
- Review the limits structure for Treasury activities for the year 2025, considering the strategic focus of the Bank, possible risk factors, current market and economic challenges, impact on external debt restructuring etc.
- In line with Central Bank regulations, the Bank will take the initiative to adopt the Foreign Exchange (FX) Global Code. This involves ensuring that internal processes and procedures are aligned with and adhere to the applicable principles of the FX Global Code.
- Conduct targeted deposit campaigns to mobilize deposits.
- Promote lending by offering customers attractive interest rates.
- Encourage worker remittances by offering competitive exchange rates and organising overseas deposit campaigns.
- Attract new export customers by offering competitive rates and providing advisory services to explore new markets.
- Engaging with overseas counterparts for new USD funding lines.



# RISK & CAPITAL REVIEWS

## Integrated Risk Management & Capital Management

The IRM framework of the Bank has been structured in line with regulatory requirements as well as the Bank's strategic requirements, and is regularly reviewed to enable optimum risk-returns for the Bank through a systematic process of identifying, assessing and managing the multitude of risks faced by the Bank in its daily operations. Meanwhile, the Bank's capital management system is aimed at optimising the capital structure for maximum stability and growth, enabling efficient capital allocation, cost management, liquidity, regulatory compliance etc., to ensure the Bank's financial stability and resilience to external shocks. As a core component of risk management, the Bank's capital management process has been integrated into the IRM and plays a vital role in the sustained stability and profitability of the Bank.

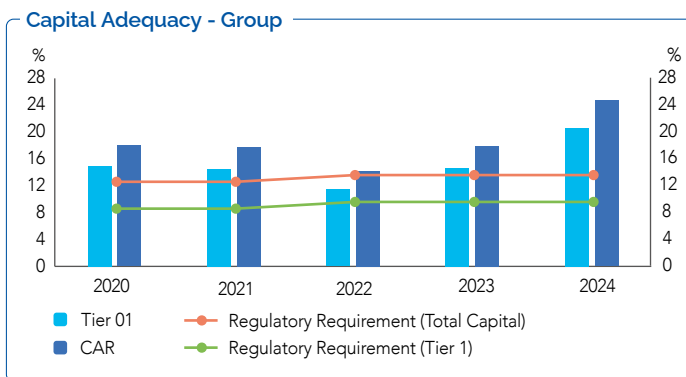
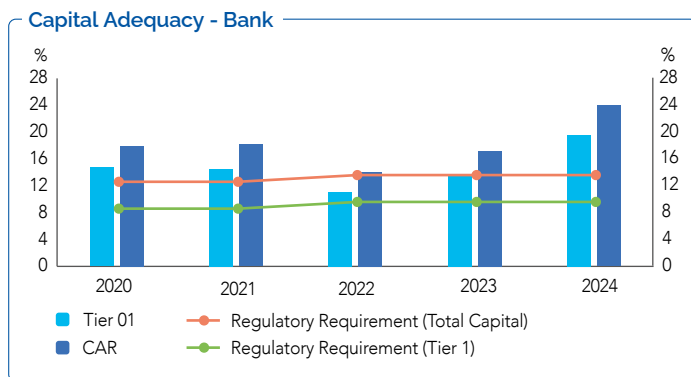
## Regulatory Capital

Figure 9 depicts the components of the Bank's capital in compliance with regulatory requirements on capital adequacy.

Figure 9: Regulatory Capital Requirements

	Regulatory Requirement as at			Bank's Position as at		
	31.12.2024	31.12.2023	31.12.2022	31.12.2024	31.12.2023	31.12.2022
Common Equity Tier (CET) 1 (a)	8.00%	8.00%	8.00%	19.59%	13.66%	11.06%
Total Tier 1 (a)	9.50%	9.50%	9.50%	19.59%	13.66%	11.06%
Total Capital (a)	13.50%	13.50%	13.50%	23.96%	17.13%	14.00%

(a) Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks



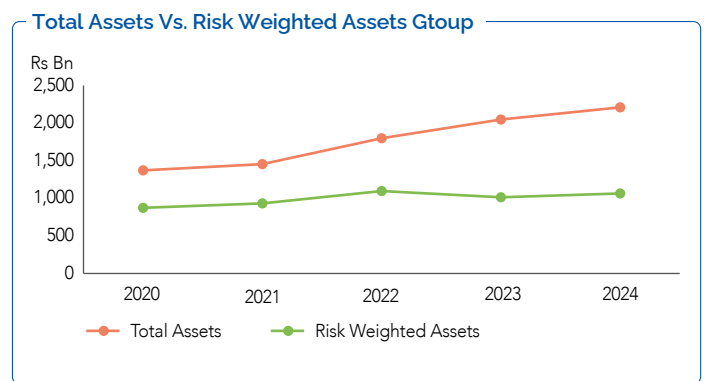
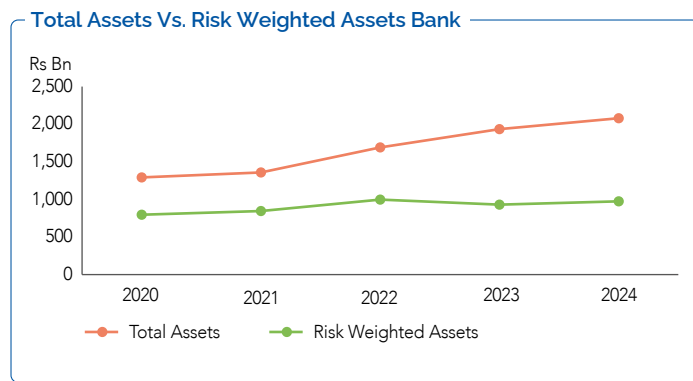
## Risk Weighted Assets

Capital requirements are measured as a percentage of Risk Weighted Assets which are calculated on the following basis as per CBSL direction No1 of 2016:

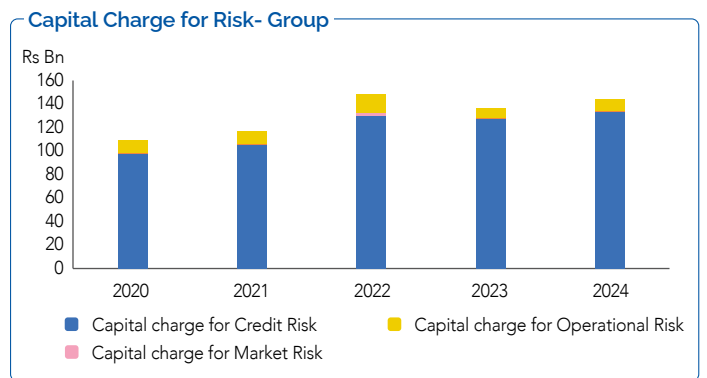
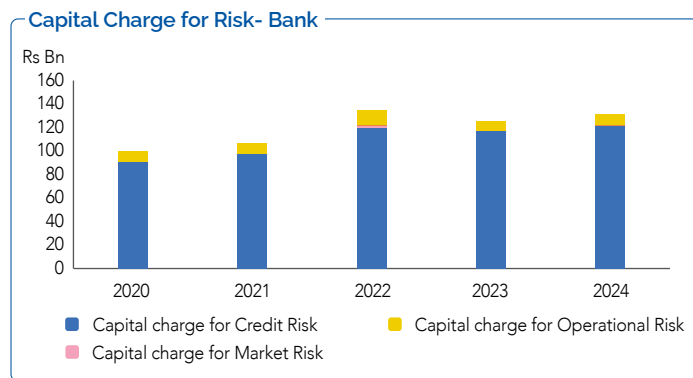
- Credit Risk – The Standardised Approach
- Market Risk – The Standardised Measurement Method
- Operational Risk – Alternative Standardised Approach

Figure 10: Risk Weighted Assets & Capital Charge

Item Rs '000	Bank				Group			
	Risk Weighted Assets		Capital Required		Risk Weighted Assets		Capital Required	
	2024	2023	2024	2023	2024	2023	2024	2023
Credit Risk	900,119,356	865,022,688	121,516,113	116,778,063	985,802,113	945,277,000	133,083,285	127,612,395
Market Risk	1,545,030	534,316	208,579	72,133	2,130,508	765,987	287,619	103,408
Operational Risk	72,220,824	63,945,171	9,749,811	8,632,598	75,708,579	67,022,522	10,220,658	9,048,040
<b>Total</b>	<b>973,885,210</b>	<b>929,502,175</b>	<b>131,474,503</b>	<b>125,482,794</b>	<b>1,063,641,201</b>	<b>1,013,065,509</b>	<b>143,591,562</b>	<b>136,763,844</b>



The Bank's RWAs increased from Rs 930Bn in 2023 to Rs 974Bn in 2024 by Rs 44Bn. The difference between Total Assets and RWAs increased during the year to Rs 1.1Tn.



# RISK & CAPITAL REVIEWS

## Stress Testing

Comprehensive stress tests were conducted on the Bank's CAR for the highest risk indicator in each major risk category.

Figure 11: Stress Testing Results on A Moderate Stress Scenario

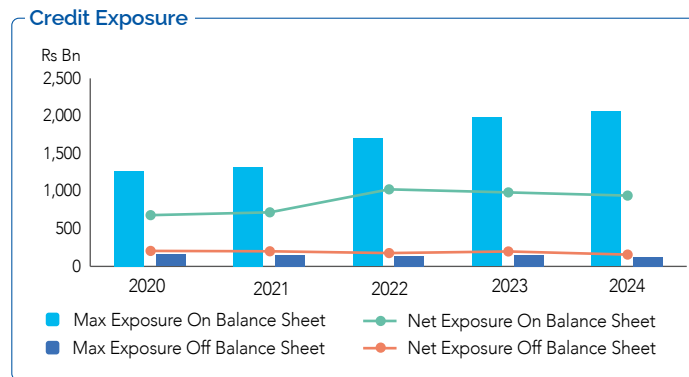
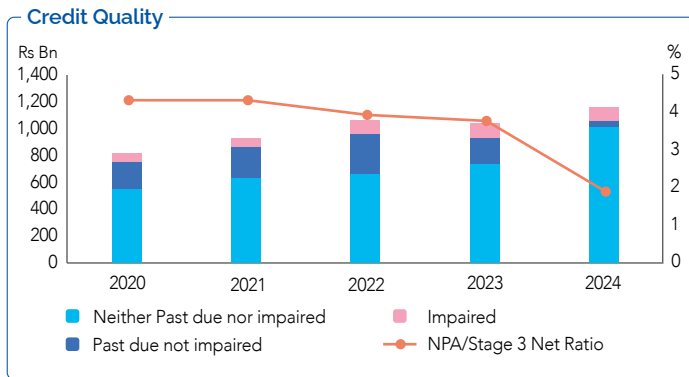
		Impact on CAR as at 30.06.2024		
		Moderate Impact	High Impact	Severe Impact
Stage 3 Stress	Increase in stage 3 ratio for different portfolio and thereby increase in provision.	✓		
Credit Risk – Asset Downgrade	Increasing the direct non-performing facilities over the direct performing facilities balance for the entire portfolio.	✓		
Credit Concentration Risk– Large Borrowers Default	Default of the higher borrowers by classifying the credit granted to them as non-performing.		✓	
Credit Concentration Risk– HHI	% increase in HHI under stress.	✓		
Operational Losses	Increase in Operational Losses in the Stress Scenario leading to higher capital requirements	✓		
Interest Risk in Banking Book (IRRBB) EAR and EVE (LKR)	To assess the long-term impact of changes in interest rates on Bank's Economic Value of Equity (EVE) through changes in the economic value of its assets and liabilities and to assess the immediate impact of changes in interest rates on Bank's earnings through changes in interest rates on Bank's earnings through changes in its Net Interest Income (NII).	✓		
Foreign Exchange Risk	% shock in the LKR exchange rate against all other currencies.	✓		
Liquidity Risk	Deposit runs and rollovers	✓		
Global Financial Crisis (Multiple Scenarios)	1. Adverse changes in Foreign Exchange Rates 2. Interest Rate Risk 3. Liquidity	✓		
Overall Credit Portfolio Deterioration	1. stage 3 Stress 2. Asset Downgrade 3. Concentration Increase	✓		

## Credit risk

	2024 Maximum Exposure Rs 000's	2023 Maximum Exposure Rs 000's	%
Maximum Credit Exposures	2,179,930,586	2,133,836,283	2%
- Total Assets subject to Credit Risk	2,059,334,682	1,980,673,145	4%
- Off Balance Sheet Commitment subject to Credit Risk	120,595,904	153,163,138	-21%
- Max Exposure to credit risk Gross Loans & Receivables to customers	1,159,740,459	1,041,990,203	11%
Net exposure to credit risk of Loans & Receivables to Customers	583,574,917	477,385,883	22%
Impaired Loans	104,230,733	114,587,821	-9%
Provisions for impairment	96,065,115	87,109,889	10%
- Individual Impairment	65,077,051	50,761,814	28%
- Collective Impairment	30,988,064	36,348,075	-15%
Net Stage 3 Ratio	1.88%	3.76%	-50%



In 2024, the Bank's maximum exposures to credit risk increased by 2%, while Impaired Loans as a % of Gross Loans and Receivables were at 9% reflecting a better position than its peers. Allowance for individual impairment increased by 28% to Rs 65Bn while allowance for collective impairment reduced by 15% to Rs 31Bn.



## Credit risk governance

The Risk Management Department's function was further streamlined to focus on the monitoring and advisory functions of credit risk, in order to enhance the credit risk governance process.

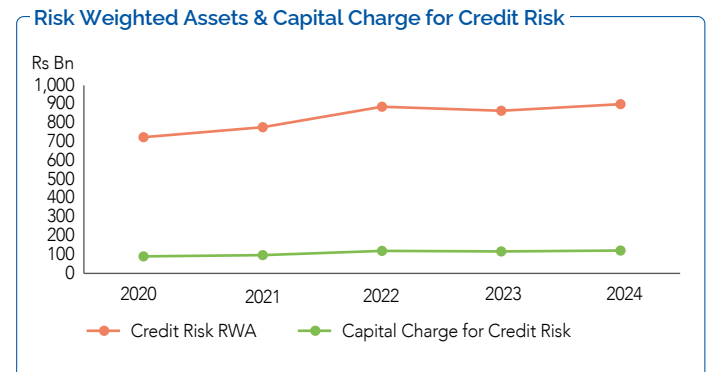
## Approved Regulatory Capital Approach

Complying with the CBSL Direction No1 of 2016, the Bank uses the Standardised Approach to measure the capital charge for Credit Risk. Accordingly, specific risk weights are applied to net counterparty exposures in defined categories after recognising a limited set of qualifying collateral.

- Template 9: Credit Risk under Standardised Approach: Exposures by Assets Classes and Risk Weights on page 476 provides details according to risk weights.
- Template 8: Credit Risk under Standardised Approach on page 474 details the computation of Risk Weighted Assets for Credit Risk.

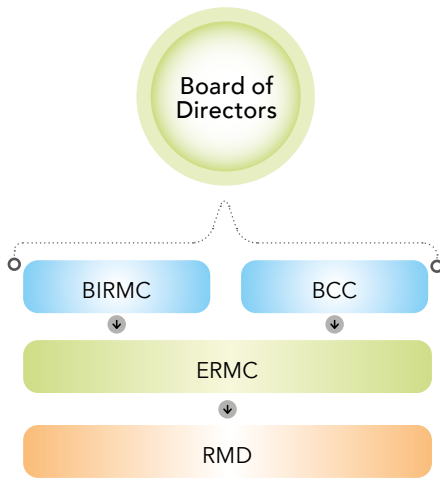
## Internal Risk Ratings (IRR)

The Bank's current IRR model, which is Basel III compliant enhances the capability to manage default risk. The Bank recalibrated its IRR models in order to factor emerging development in the macro and microeconomic operating environments.



# RISK & CAPITAL REVIEWS

Figure 12: Credit Risk Governance



## Credit Risk

- » Pre-Assessment
- » Portfolio Management
- » Loan Review Mechanism

## Credit Administration

- » Security Documentation
- » Disbursements

## Centre of Aspiration

- » Collection & Recoveries

## Credit Risk Management Processes

The Bank's comprehensive Credit Risk management process includes the following:

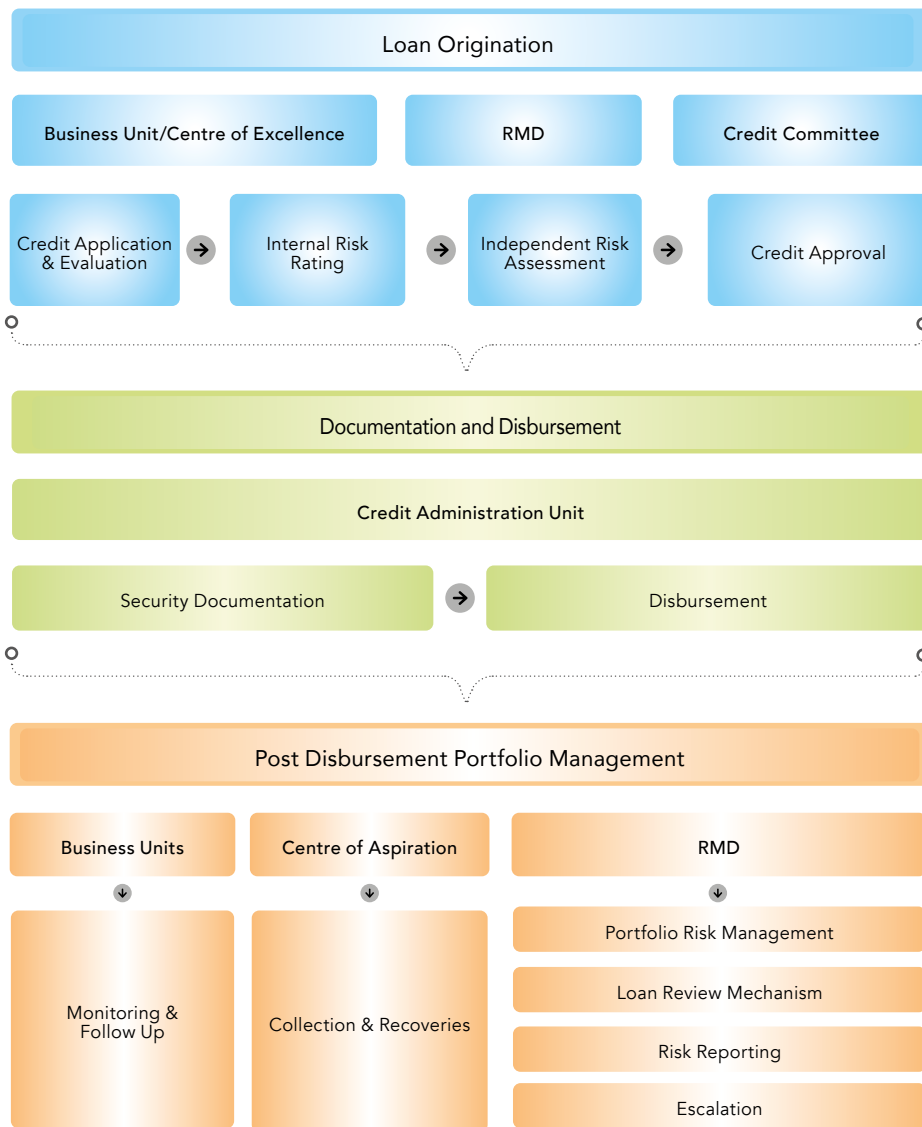
- **Segregation of Credit Risk management at branch level** – Duties between relationship management/sales and the loan approval process for SME and retail segments are clearly segregated, facilitating high levels of specialisation. Separation of recoveries has assisted monitoring of the effectiveness of recovery processes at management and Board levels. Due to this segregation, it is possible to measure, monitor and make recommendations at portfolio level.
- **Independent Risk Assessment** – The Credit Risk Management function independently reviews Corporate, Emerging Corporates and SME facilities, while Retail facilities are reviewed by the Centre of Excellence (COE) enabling high levels of specialisation, and improved turnaround times.
- **Delegation of Authority** - Approval of credit facilities above a specified threshold have been assigned to Credit Approval Committees. The Credit Risk Management division provides its assessment on credit facilities prior to approval of facilities in order to support decision making of the relevant approving committee.
- **Internal Risk Ratings** – The Bank has deployed the recalibrated IRR models for Large Corporate, Emerging Corporate and SME segments which covers approx. 70% of the Bank's total advances portfolio. The remaining recalibrated models covering Financial Institutions, Project Finance, Retail and Micro finance segment will be deployed in 2025. The Bank also computes the Risk Adjusted Return On Capital (RAROC) for Corporate Banking, Emerging Corporate and SME business segments which enables to assess the risk returns of customer relationships.
- **Collateral** – The Bank obtains collateral as a secondary recourse through mortgage bonds over movable and immovable property, guarantees, liens over financial assets and assignments of receivables. Regular valuations are carried out to ensure adequacy of collateral throughout the lifecycle of the loan.
- **Security Documentation and Disbursement** – The Centralised Security Repository Centre checks completeness and authenticity of security documentation and compliance with pre-disbursement conditions. This function supports compliance and recovery processes with required documentation while the pre-disbursement function ensures that correct limits and rates are marked in the system facilitating accurate monitoring and recovery processes.
- **Loan Review Mechanism** – Post reviews of credit facilities are conducted covering all business lines, and LRM reports are submitted to BIRMC and Board, and learnings from LRM reports are incorporated when Credit Policies are reviewed.
- **Management of Large Exposures** – Exposures of the 20 largest borrowers are maintained within internal risk limits and material exposures and substantial exposures are monitored. Industry risk limits are set to monitor concentration risk facilitating early action on industries with elevated risk.
- **Portfolio Risk Management** – Accounts are monitored to identify early warning signs of asset quality deterioration. likely to fall in to Stage 3 lists are used for alerting Business units, Risk Management Department, Management Committees and the Board. Both Business Revival Unit (BRU) and the Special Asset Management

(SAM) unit risk manages accounts with Early Warning Signals to manage credit risk of distressed accounts.

- **Environmental and Social Risk Management** – The Bank’s Environmental and Social Risk Management

division provides the framework to establish internationally accepted best Environmental and Social Risk Management practices including country regulations and globally standards such as IFC Performance standards and ADB Safeguards.

Figure 13: segregation of duties for credit risk management



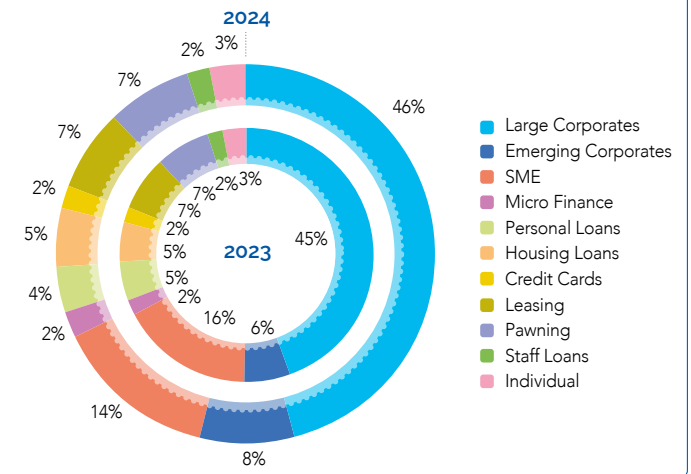
# RISK & CAPITAL REVIEWS

## Concentration Risk

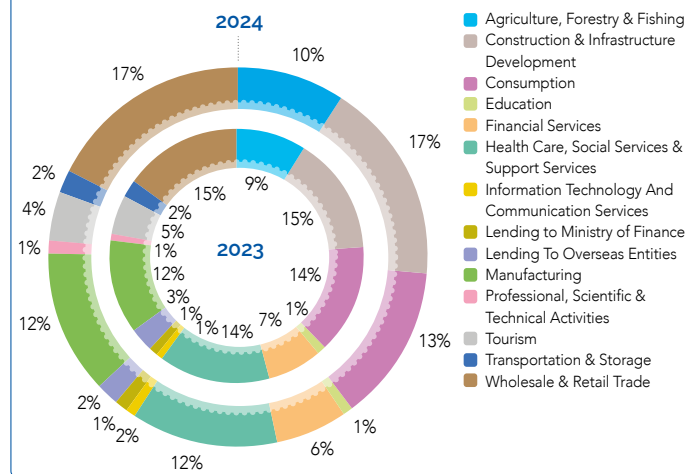
Potential concentration risk is managed through a diversified portfolio in line with risk appetite. The Herfindahl-Hirschman Index (HHI) model is used to quantify Concentration Risk and dashboards are reviewed at all levels of the risk governance structure to balance portfolio quality.

Portfolio Growth by Region	Dec'24 (Rs Mn)	Dec'23 (Rs Mn)
Central	40,648	40,988
Colombo	110,192	110,596
Corporate/EC	634,787	535,003
Eastern	26,219	23,823
FCBU	641	596
Greater Colombo	71,553	69,274
North Central	45,986	40,867
Northern	31,629	27,129
North Western	75,229	69,189
Southern	40,795	42,769
South Western	52,613	53,629
Uva/Sabaragamuwa	29,448	28,127

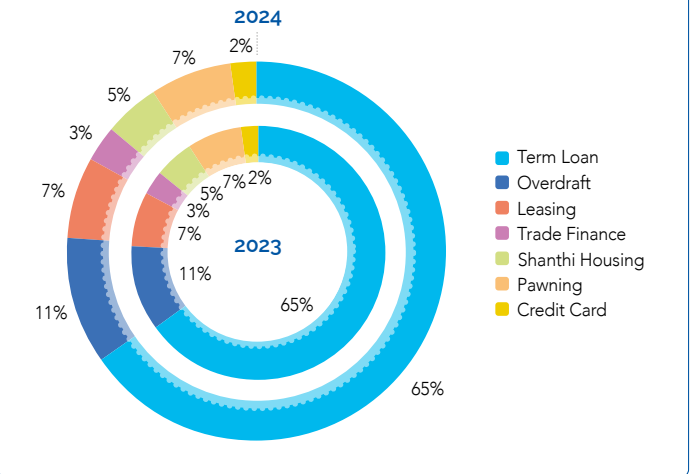
## Exposure by Counter Party



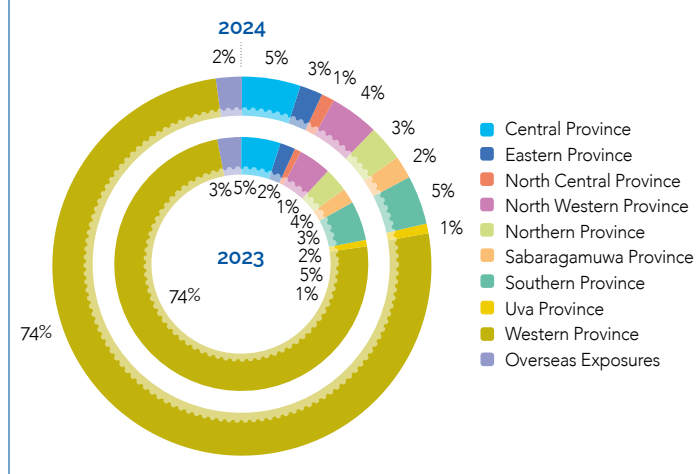
## Exposure by Industry Sector



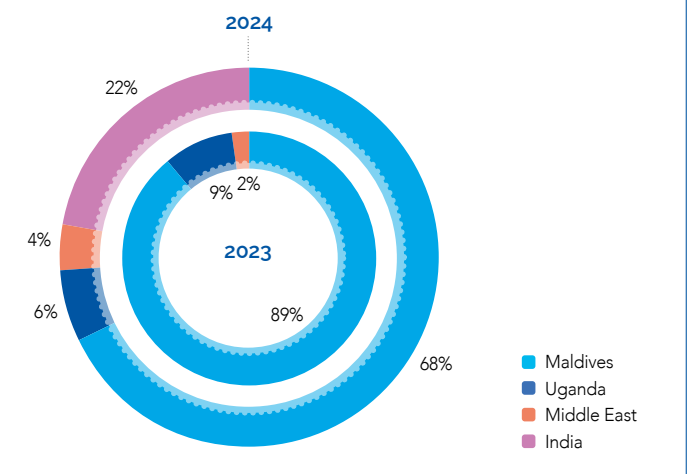
## Exposure by Product



## Exposure by Geography

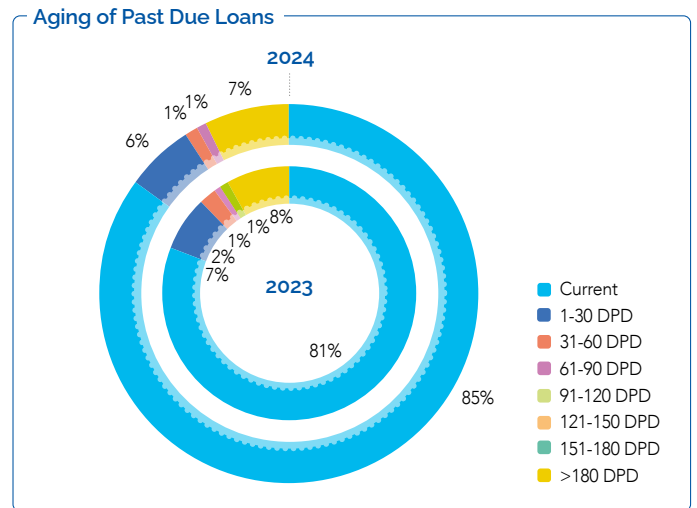
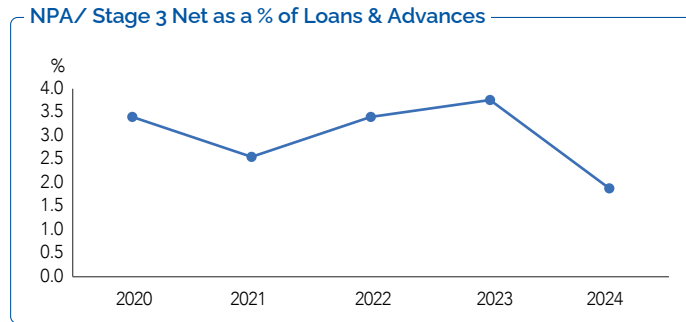


## Overseas Exposure



## Default risk

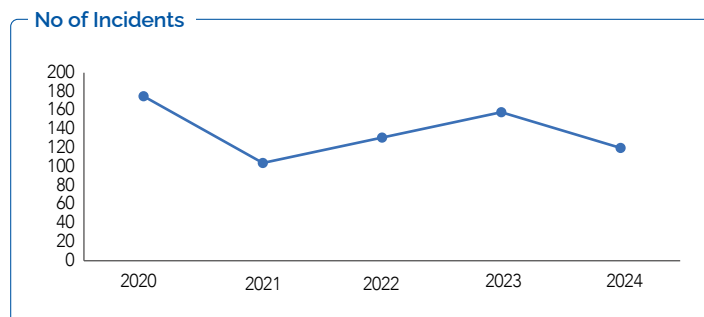
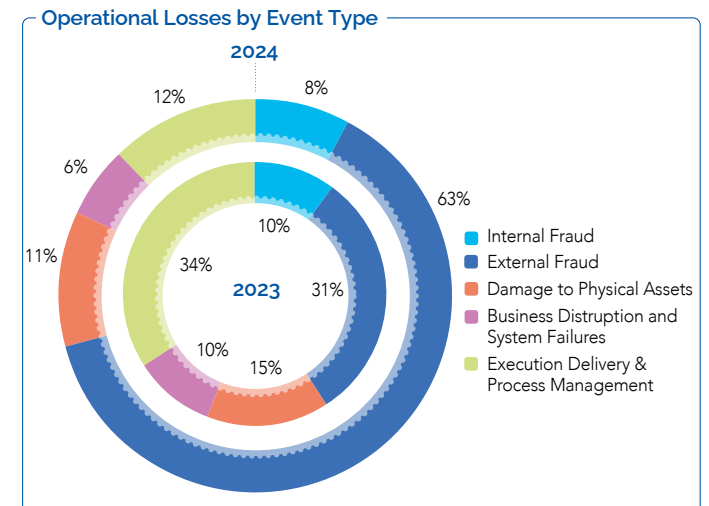
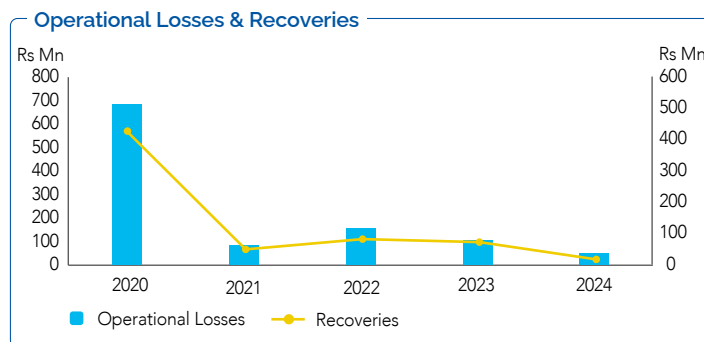
Default risk indicators include Stage 3 ratio, ageing of exposures and classification of the portfolio using Internal Risk Rating models.



## Operational risk

### Operational Risk Review

As a large island wide operator, HNB's operational risks are diverse. As a risk management strategy, the Bank invests in modern technologies, best practices and continuous training. A consolidated Recovery Plan has been implemented considering Business Continuity Policy, Contingency Funding Plan, Internal Capital Adequacy Process and Crisis Communication Plan. Further, the Fraud Risk Management Guideline and Customer Blacklisting Guideline were reviewed to address new and emerging risks.





# RISK & CAPITAL REVIEWS

The Bank has migrated to the Alternate Standardised Approach to compute the capital charge for operational risk. Consequently, the Bank was able to reduce almost Rs 8 Bn, from the capital allocation due to this initiative.

## Operational Risk Governance

The BIRMC continued to engage with the Risk Management department, while the Board Audit Committee (BAC) maintained stringent oversight of internal controls, while liaising with internal and external auditors. The Board and Board subcommittees are supported in risk management by the Executive Risk Management Committee (ERMC) in addition to the Operational Risk Steering Committee (ORSC) which supports the BIRMC in identifying, measuring, monitoring and managing Operational Risk.

## Managing operational risk

Operational Risk is managed by utilising the following tools.

- Risk & Control Self-Assessment (RCSA)**  
 The frequency of the RCSA was increased to quarterly assessments, for more frequent Operational Risk monitoring. Businesses assess their own processes and controls on a quarterly basis, which are reviewed by the Operational Risk Unit to estimate the operational risk profile of the entire Bank.
- Key Risk Indicators (KRI)**  
 KRIs are used for early warnings of risks and are monitored continuously with triggers and thresholds reviewed and revised regularly.
- Internal Loss Data Capturing & Reporting**  
 Operational Risk Dashboards in accordance with Basel guidelines, are used for reporting internal losses, including potential losses and "near misses" for material risks. These are reviewed by ORSC, ERMC and BIRMC to identify potential threats and determine appropriate action to manage same. External loss incidents are captured on

best effort basis and reviewed in relation to the internal control environment.

- Root Cause Analysis**  
 The Bank has adopted a system to review material loss incidents to ascertain the root cause and these learnings are used to improve the control environment under the Operational Risk Management function.
- Risk Matrices**  
 Risk matrices are used to consolidate and prioritise risks considering the potential impact and likelihood of occurrence.

## Risk Review of New Products & Processes

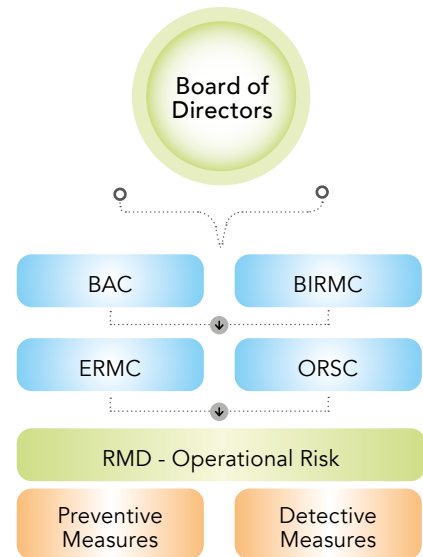
The Bank has clear policies and procedures for introducing new products or amending or discontinuing existing products or delivery channels, to minimise associated risks.

## Mitigating operational risk

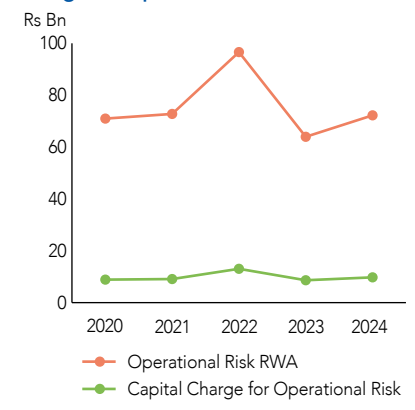
The following tools are used to manage operational risk.

- Risk Culture** – The risk culture is a key preventive tool and all senior personnel lead by example, to inspire accountability and risk ownership. The culture is supported by a policy framework, governance structure, regular training and effective internal controls.
- Insurance** – The adequacy and effectiveness of the Bank's comprehensive insurance covers were reviewed during the year.
- Scenario planning** – Scenario planning was continued in 2024 to develop appropriate responses for potential loss events such as fire, security breach etc.
- Assessment of Outsourcing Activities** – The Bank has a comprehensive Outsourcing Policy that defines the activities, terms and conditions relating to outsourced activities and is monitored by the Compliance Division. Detailed KYC and due diligence tests are conducted before engagement, or

Figure 14: Operational Risk Governance



## Risk Weighted Assets & Capital Charge for Operational Risk



renewal of existing contracts to assess the AML/CFT risks that may arise. The Operational Risk Unit carries out a risk-based review of critical outsourcing activities on a need basis. All critical outsourcing service providers are required to have a satisfactory BCP and must perform regular tests on its BCP, to ensure disaster readiness and a return to normal operations as quickly as possible.



## Business Continuity Planning & Disaster Recovery

Mission critical units, critical processes and necessary resources, have been identified and documented together with Recovery Time Objectives (RTO), Recovery Point Objectives (RPO) and Recovery Strategies. A Business Continuity Management and Public Health Contagion Plan was developed in 2020 following the emergence of the COVID-19 pandemic, and Business Continuity policy documents and plans are updated regularly to reflect the regulatory changes.

Regular BCP and Disaster Recovery tests are conducted to cover all critical systems and the Mission Critical Units of the Bank. BCP tests are reviewed by the Bank's Internal Audit department and the Bank has also established a Business Continuity Steering Committee (BCSC) and a Disaster Management Team (DMT) to oversee the BCP strategy. Awareness sessions and newsletters are used to educate the staff regarding the Business Continuity Management process, while maintaining clear communications with the public to communicate any emergency responses.

## Information and Cyber Risk

### Information & Cyber Risk Governance

Given the rising rate of digital crimes and rapid adoption of digital financial transactions, maintaining stringent governance and oversight of the Bank's information systems has become a priority to protect customers as well as HNB's banking assets. For direct monitoring of associated risks, the Information and Cyber Security Risk Management Unit under the Risk Management Department, reports to the CRO, who reports independently to BIRMC and the Chief Information Security Officer (CISO) reports directly to the COO. Policy formulation is under the purview of the CISO while implementation and compliance are overseen by the Information and Cyber Security Risk Management team. The segregation of functions has strengthened the implementation and monitoring aspects of the Cyber Risk management function.

### Information Security Management

HNB has a fully-fledged Information & Cyber Security Policy that defines the management approach towards the Bank's information assets, hardware and software, with the primary objective of protecting these assets from identified internal and external threats to ensure that all statutory and contractual obligations are met, and the brand is protected. It also provides guidance for

## Information & Cyber Risk Reviews Conducted in 2024

### Information & Cyber Risk Reviews

- » In-depth Analysis on Phishing Simulation 2023 – 2024.
- » Technical Review - Vulnerability Assessment on web services.
- » Corporate Planning Unit Risk Assessment.
- » Information Security Risk Assessment Card Center Merchant Payments and Card Network Clearing.
- » Analytics and Artificial Intelligence Information Security Risk Assessment.
- » Information Security Risk Assessment - Card Center Risk Unit.
- » Risk Analysis on outsourced vendor services.
- » Information Security Risk Assessment - Card Center, Central Monitoring Unit (CMU).

### Cybersecurity Statistics 2024

- » Average total cost of a breach: USD 4.88Mn.
- » Average cost of a malicious insider attack: USD 4.99Mn.
- » 63% of organisations planning to increase security investments as a result of a breach.
- » The percentage of breaches that involved data stored in the cloud: 80%.
- » The average cost of a breach when attackers used compromised credentials: USD 4.81Mn.
- » Average breach costs for organisations experiencing a high-level shortage of security skills: USD 5.74Mn.

Source: IBM

### Cyber Security predictions for 2025

- » AI will continue to increase the speed at which both countermeasures and exploits are crafted.
- » ISPs will face more sophisticated, AI-enhanced Cyber Attacks.
- » More ISPs will leave legacy systems behind for unified, AI-driven security platforms.
- » AI will open the door to Cyber lawfare and drive up the cost of doing business.
- » Threat intelligence will become increasingly important in deterring hackers.
- » The sources of threat intelligence will shift.
- » API attacks will increase.

Source: Cybersecurity Ventures

# RISK & CAPITAL REVIEWS

systematic management of information assets throughout its lifecycle supporting the operational and strategic needs of the Bank in compliance with regulations and internal risk appetite.

## Tools used to protect information assets

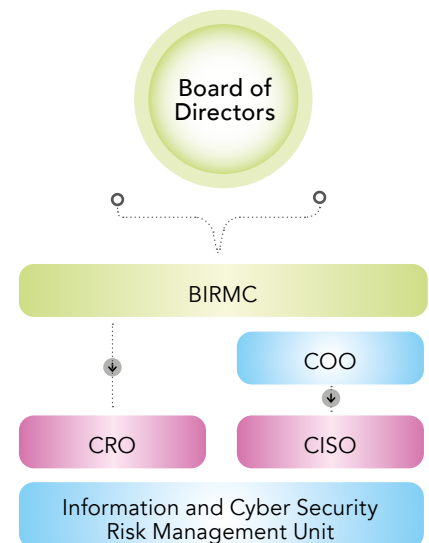
Additional tools to ensure continuous protection of its information assets from emerging threats include the following;

- **Layered Defence Model** – A layered defence model is deployed to support management of Information Security.
- **Third Party Vulnerability Assessments and Third-Party Security & Compliance Reviews** – Carried out to manage risks arising from connectivity with third parties.
- **Periodic reviews of the effectiveness of the Bank’s Internal IT/IS Management by IT Security Team** – Internal Audit and CISO carry out separate reviews to assess the effectiveness of the Information and Cyber Risk Management processes and controls.
- **Monitoring Cyber Threat Intelligence** – Review up-to date information on current and emerging Cyber threats with a view to initiating necessary action in a timely manner.
- **Data Classification Methodology** – This initiative supports safeguarding of information assets through clear categorisation of access to documents and uses leading IT tools.
- **Controls over Data in Transit, At Rest and in Use** – Email flow and USB/ CD ROM restrictions implemented together with organisation wide awareness campaigns enhance levels of information security.
- **Security Information & Event Management (SIEM) Solution** – All critical systems and databases are integrated for log analysis enhancing capabilities of identifying IT & Cyber risks.



- **Surveillance & Upgrading** – Continuous monitoring of effectiveness of Anti-virus/ Malware/ ransomware protections.
- **Cyber Risk Dashboard** – Communicates developments in Information & Cyber Risk to executive and Board Committees on a monthly basis. This dashboard includes a tracker of Information and Cyber Risk related incidents, Top 10 Cyber risks, Cybersecurity incidents reported during 6 months, IS audit findings, adherence level of security standards, Cybersecurity awareness activities, Security Operations Centre statistics, malware & phishing related updates, update on BCP and DR drill, update on Endpoints exposed with risks, etc.
- **IT Disaster Recovery Plan** – A key component of the Bank’s Business Continuity Plan, this is tested regularly and amended as appropriate.
- **Privilege Access Management (PAM)** – Provides granular level visibility over activities carried out by privilege users in the banking systems.
- **Security Operating Centre (SOC)** – Strengthens the Cyber Security surveillance and incident response process with 24x7 security alert monitoring function.

Figure 15: Information and Cyber Risk Governance



## Market risk

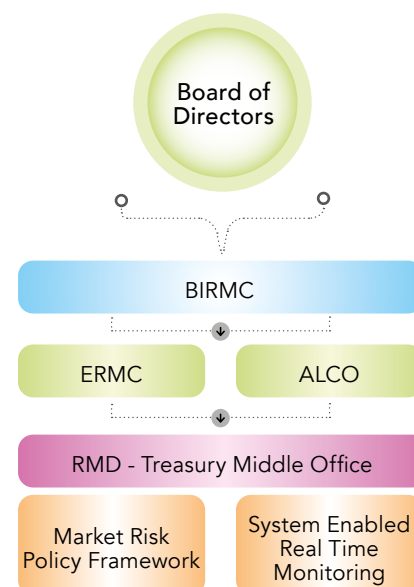
### Market Risk Review

The Bank's market risk exposures arise mainly from the Bank's Non-Trading Portfolio (Banking Book) which accounts for 36% of Total Assets and 40% of Total Liabilities. Interest Rate Risk (IRR) and Foreign Exchange (FX) Risk are the most significant components of Market Risk as the Bank has minimal exposure to Commodity Price Risk and Equity Risk as these account for less than 15% of the total risk weighted exposure for market risk at the close of the year.

	2024 (Rs Mn)	2023 (Rs Mn)
<b>Assets Subject to Market Risk</b>		
Cash & Cash Equivalents	63,356	73,149
Balances with Central Bank	6,913	12,234
Placements with Banks	41,859	55,991
Derivative Financial Assets	375	452
Financial assets measured at fair value through profit or loss	1,835	116
Financial assets measured at amortised cost - debt and other instruments	741,761	549,772
Loans & Receivables to other customers	1,063,675	954,880
Financial assets measured at fair value through other comprehensive income	96,309	189,326
	2024 (Rs Mn)	2023 (Rs Mn)
<b>Liabilities subject to Market Risk</b>		
Due to Banks	6,596	9,020
Derivative Financial Liabilities	1,573	1,366
Due to Other Customers/Deposits from customers	1,715,484	1,579,780
Other Borrowings	19,740	24,933
Subordinated Liabilities	28,174	18,962

### Market Risk Governance

The Board has overall responsibility for managing the Market Risks and is assisted in its duties by the Board Integrated Risk Management Committee (BIRMC), while the Executive Risk Management Committee (ERMC) makes proposals on policy to monitor risks. Market Risk exposures and profitability is supervised by the Asset and Liability Committee (ALCO) and the Treasury is involved in managing both the Banking/Trading Book and the asset and liability position of the Bank. Accordingly, duties of the Bank's Treasury Operations are segregated into Front Office, Middle Office and Back Office in line with best practices. Treasury Middle Office (TMO) ensures that Treasury Front Office deals within limits set out in the Bank's risk appetite and Treasury Back Office reconciles and escalates key issues promptly. The Market Risk Management Unit of Risk Management Department (RMD) independently measures, monitors and reports on market risk exposures using Market Risk Dashboards and assists in review of the Bank's Market Risk related policies and exposure limits.



**Risk Weighted Assets and Capital Charge for Market Risk**



# RISK & CAPITAL REVIEWS

## Approved Regulatory Capital Approaches

The Bank is in the process of adopting the more advanced Internal Model Approach, while using the Standardised Measurement method as required by CBSL Direction No1 of 2016 in line with Basel III requirements for computing regulatory capital for Market Risk. Accordingly, the calculation of regulatory capital is based on specified risk weightings applied to net exposures in defined categories as set out in Template 10 in page 477, Market Risk Under Standardised Measurement Method.

## Market Risk Management

Market Risk is managed in accordance with the Asset and Liability Management (ALM) and Treasury Policy which support management of Interest Rate Risk, Investment and the Foreign Exchange Risk. The trading portfolio is managed by Treasury while the Non-Trading Portfolio is impacted by both the Bank's business lines and Treasury. The Balance Sheet and Income Statement implications of Market Risk are summarised below.

Portfolio	Banking Book "Hold Until Maturity" and "Available for Sale"	Trading Book "Intend to Actively Trade"
Line Items	<ul style="list-style-type: none"> <li>• Deposits</li> <li>• Loans</li> <li>• Bonds (Investment Portfolio)</li> <li>• Bills &amp; Bonds (Treasury Portfolio)</li> <li>• Derivatives</li> </ul>	<ul style="list-style-type: none"> <li>• Bills &amp; Bonds (Treasury Portfolio)</li> <li>• Derivatives (Forward, Swaps and Options)</li> </ul>
Balance Sheet Value	Historical Cost	Mark to Market daily
Income Statement	Net Interest Margins	Net Interest margins + Net Change in Value (Mark to Market)
Risk exposure	<ul style="list-style-type: none"> <li>• Repricing risk</li> <li>• Basis risk</li> <li>• Forex risk</li> </ul>	All components of market risk

Key tools and processes used to manage Market Risk

- **Market Risk Limits** - Limits contain trading activities within a specified range in line with the Bank's Risk Appetite Statement. These are reviewed and approved by the BIRMC as well as BOD and are regularly reviewed by ALCO and ERM. C.
- **Value at Risk (VaR)** - The VaR of a portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Bank is based upon a 99% confidence level and assumes 1-day and a 10-day holding period. It is based mainly on historical simulation. The model generates a wide range of plausible future scenarios for market price movements considering market data and observed relationships between different markets and prices.
- **Stress Testing** - The Bank conducts stress testing on key components of Market Risk including interest rate, foreign currency, equity and gold to understand the potential impacts. This information is used to provide direction in managing portfolios, optimising profitability and liquidity.

Bank also periodically conducts simulations on severe liquidity crisis events that can be triggered by any one or more of the following events taking place:

1. Loss of reputation due to rumours of a large loss, fraud, management misdemeanour etc.
2. Severe rating downgrade (3-4 notches or to below investment grade)
3. News/speculation of an impending takeover/merger.
4. Large regulatory penalty/qualification of accounts by Auditors/other compliance related loss of reputation.

The following stress scenarios were applied to assess the impact of a liquidity squeeze on the Bank:

1. A run on the Bank by depositors.
2. Loss of short-term interbank LKR liquidity.
3. A global banking crisis which could affect short term interbank FC liquidity.
4. Worst case scenario comprising of the above stress situations (scenarios 1,2 and 3).
5. Loss of wholesale savings and deposits.

Results of the stress testing are tabled at ERM/ ALCO/ BIRMC for their reference on ALM decisions.



Figure 16: Market Risk Limits

Limit Type	Activity Limit	Target Risk Area
Exposure	Trading / Investment in foreign currency fixed income securities (excluding investment in Sri Lanka Government Treasury Bills & Bonds)	Governs the trading/investment in long-term securities with reputed issuers, with minimum credit ratings of A or equivalent
	Investment in Sri Lanka Government Treasury Bills & Bonds/CBSL Securities	Governs trading & investments in Sri Lanka Government Treasury Bills & Bonds that are denominated in Sri Lankan Rupees
	Cap on total investment on Government Securities	Will govern overall exposure to government securities in terms of balance sheet exposure
	Standing Deposit Facility (SDF) With CBSL	Governs Money Market Deals with CBSL
	Interbank Money Market/ Trade borrowings in FCY both in Sri Lanka and outside	Limits the Bank's exposure to liquidity risk arising from funding mismatches and over reliance of FC borrowings to generate liquidity
	Cap on inter-bank call borrowing / call lending	Limits the Bank's exposure to adverse fluctuations in inter-bank call money rates and liquidity risk arising due to market liquidity
Tolerance	Rate tolerances	Governs minimum / maximum deviation from market rates on interest / exchange rates to ensure no undue risks are undertaken
	Amount Tolerances	Governs maximum transaction size undertaken on a currency, instrument or by a dealer
	Tenor Tolerances	Protects the bank from both market and counterparty risk that could arise with time

### Stress Testing on Projected NII

Results of stress tests carried out on Interest Rate Risk for its Loans and Advances portfolio and the Fixed Income Securities portfolio are given below.

Item	2024		2023	
	100 bp Parallel Up Rs 000's	100 bp Parallel Down Rs 000's	100 bp Parallel Up Rs 000's	100 bp Parallel Down Rs 000's
As at December 31st	6,707,612	(7,143,899)	2,034,672	(2,188,901)
Average for the Year	2,409,455	(2,605,153)	2,844,051	(3,014,317)
Maximum for the Year	6,707,612	(1,029,396)	5,018,180	(2,058,839)
Minimum for the Year	933,210	(7,143,899)	1,972,457	(5,301,717)
Minimum for the Year		1%	2%	5%
Fixed Income Risk	Original CAR	CAR After Change		
Fixed Income Total Portfolio	23.96%	23.38%	22.79%	20.96%
Fixed Income Trading Portfolio	23.96%	23.96%	23.95%	23.95%

# RISK & CAPITAL REVIEWS

## Interest Rate Risk in Banking Book (IRRBB)

The differences in re-pricing of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) can lead to IRRBB, which impact future interest income and expenses and its economic value. Different maturity buckets are used to analyse the Bank's interest rate sensitive assets and interest rate sensitive liabilities to determine suitable strategies to optimise earnings based on identified gaps and future interest rate forecasts. The modified duration gap approach is used for analysing changes in economic value of equity, which requires the mapping of assets and liabilities into different time buckets based on their residual maturity as set out below depicting an increased/decreased sensitivity.

	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 Years	Non-Sensitive	Total (Rs. Mn)
Assets and Off Balance Sheet Exposures	670,623	161,621	346,925	195,329	237,775	156,203	243,358	140,749	2,152,582
Liabilities and Off Balance Sheet Exposures	202,648	328,722	285,189	296,027	144,420	169,714	215,033	478,167	2,119,919
Period Gap	467,975	(167,100)	61,737	(100,698)	93,355	(13,511)	28,324	-	-
Cumulative Gap	467,975	300,875	362,612	261,914	355,269	341,757	370,082	-	-
RSA/RSL	3.31	0.49	1.22	0.66	1.65	0.92	1.13	-	-

## Foreign Exchange Risk

This risk is managed through currency swaps, exposure limits and VaR. Market Risk exposure of the Bank's overnight foreign exchange positions is measured using 10-day VaR, at 99% confidence level. TMO monitors limits in real time and at specified frequencies in accordance with the Bank's comprehensive Market Risk management limit structure to ensure compliance with Bank's risk appetite. Trigger points are escalated to CRO, MD/ CEO or Board of Directors depending on the potential loss that may arise.

The Bank's exposure to FX risk as at the end of the reporting period is given below. Foreign exchange exposures are subject to stress testing by applying shocks between 5% to 15% to estimate the impact on profitability and capital adequacy of the Bank.

	Net Open Position (NOP) (000)	Overall Exposure in Respective Foreign Currency (000)	Overall Exposure in LKR (000)
United States Dollar	1,156	2,198,372	644,672,539
Great Britain Pound	29	68,030	25,013,999
Euro	36	104,792	31,990,241
Japanese Yen	505	1,029,183	1,924,778
Singapore Dollar	14	3,069	660,583
Other currencies in USD	426	56,303	16,510,929
Total Exposure	1,669	2,457,879	720,773,069
Total Capital Funds as at 31st December 2024	233,313,500		
Total exposure as a % of Capital Funds as at 31st December 2024	0.21%		
VaR (99%, 1 day) 31st December 2024	0.49%		
VaR (99%, 1 day) 31st December 2023	1.58%		

Magnitude of shock		5%	10%	15%
Foreign Currency Risk	Original CAR	CAR after Change		
1) All foreign currencies	23.96%	23.96%	23.95%	23.95%
2) USD/LKR		23.96%	23.95%	23.95%

### Equity Price Risk

As at end December 2024, the Bank's equity portfolio stood at Rs 158 Mn and is managed taking a long-term view. Stress testing conducted at 10% to 40% change in equity prices indicate no change in CAR. The Bank conducts mark-to-market calculations on a daily basis for held-for-trading and available-for sale portfolios and VaR calculations on a 10-day basis. Year-end positions are summarised below.

Magnitude of Shock	2024		2023	
	Exposure Rs Mn	VaR (99%, 10 day) Rs Mn	Exposure Rs Mn	VaR (99%, 10 day) Rs Mn
Equity (MV)	158.10	12.74	113.69	9.65

### Commodity Price Risk

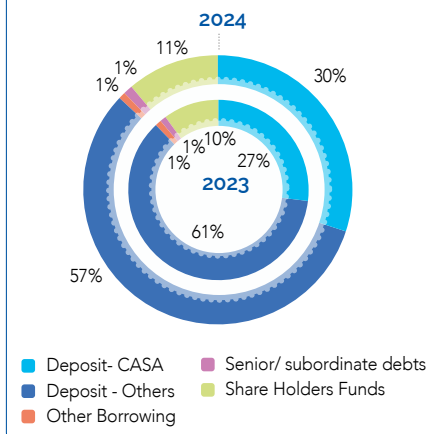
The Bank's careful management of the Pawning portfolio and the use of conservative loan to value ratios, have ensured that the risk exposure was limited to 6.61% of the loan book. It is noteworthy that the regulatory approach is to treat the exposure in line with Foreign Exchange Risk as described in the Approved Regulatory Capital Approach under Market Risk.

### Liquidity risk

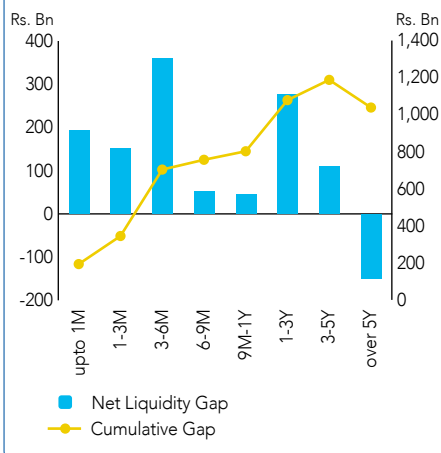
The Bank continued to maintain prudent Liquidity Risk management during the year.

	2024
Liquidity Coverage Ratio (For LKR)	292.61%
Liquidity Coverage Ratio (For All CCY)	330.08%
Net Loans to Total Assets	48.91%
Loans to Customer Deposits	70.64%
Liquid Assets to Short Term Liabilities	147.74%
Commitments to Liquid Assets	52.90%
Commitments to Total Loans	50.56%

### Funding Diversification by Product



### Liquidity Gap Based on Behavioural Analysis

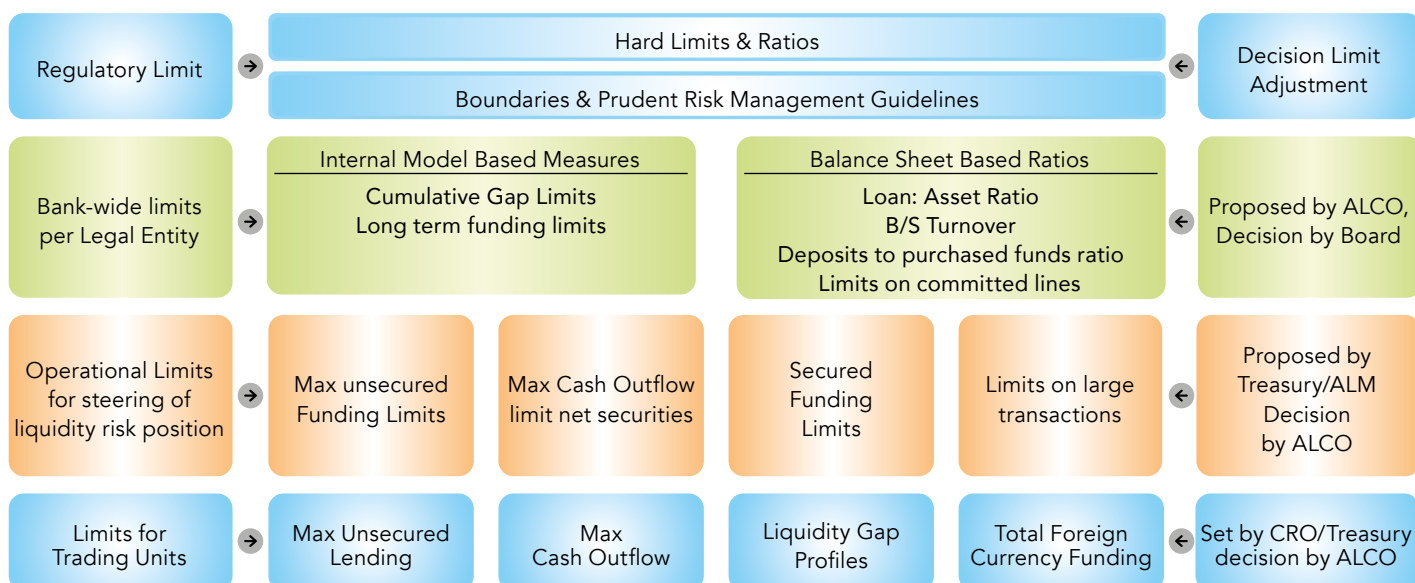


# RISK & CAPITAL REVIEWS

## Liquidity Risk Governance

The Bank's Liquidity Risk management framework includes a contingency plan encompassing both contracted and un-contracted liquidity positions as summarised in Figure 18. The column on the extreme right reflects the governance structures identifying roles of those with responsibility for managing Liquidity Risk. The Board, BIRMC, ERM and ALCO regularly review reports on the Bank's liquidity indicators to ensure that they are managed within agreed parameters.

Figure 17: Liquidity Risk Management Framework



## Liquidity Risk Management

A range of Liquidity Risk indicators are available to indicate changes in assets and liabilities to enable continuous monitoring of Liquidity Risk. Appropriate funding activities to maintain desired levels of liquidity in line with the Bank's Risk Appetite have been identified and liquidity ladders, probabilistic analysis and stress tests are undertaken to evaluate liquidity requirements of the Bank using both stock and flow approaches. Liquidity gaps are monitored based on the behavioural analysis of the Bank's assets and liabilities, historical rollover patterns, drawdown of unutilised overdrafts and disbursement of approved but undisbursed loans.

Figure 18: Managing Liquidity Risk

Funding Plan	Managing Liquidity Risk	Managing intraday liquidity risk	Identify Contingent Funding Requirement	Managing Regulator
Identify concentration risk in banking book	Establish liquidity policy and appetite	Maintain liquidity buffers	Early warning indicators	Maintaining LCR
Pricing liquidity risk via maintain pricing mechanism within the bank	Monitor intraday limits and carry out stress Testing	Daily clearing and settlement	Conduct liquidity simulations	Reporting on liquidity assets and reserves

The Bank measures its liquidity position against all major currencies at both individual and aggregate levels to maintain potential risks within specified limits while liquidity commitments resulting from loan disbursements and undrawn overdrafts are also monitored to assess adequacy of funding sources. An adequate margin in high quality liquid assets and diverse funding sources are maintained and contingency funding agreements have been negotiated with peer banks for sufficient liquidity buffers in accordance with the Bank's Contingency Funding Plan.

The Bank has taken a strategic decision to generate low cost LKR funding through foreign currency swaps for short to medium term liquidity. Exposure limits in terms of regulatory and internal, regular management information to ALCO/BIRMC/BOD manages the Liquidity Risk that could arise from over reliance of borrowings and cross currency liquidity generation, are actively managed.

## Funding Diversification

As at end of 2024, deposits from customers accounted for 86% of funds, excluding shareholder funds and subordinate debts. The total capital stood at LKR 231 Bn.

## Credit Ratings

Following the recent sovereign upgrade and the recalibration of Sri Lanka national rating scale by Fitch Ratings, HNB's credit rating was upgraded to AA- (lka) from A (lka) on 21st January 2025.

Rating Type	Long Term National Rating
Issuer	Fitch Ratings Lanka Ltd
Rating	AA- (lka)
Outlook	Stable
Date Issued	21st January 2025
What can change the rating up	An improvement in Sri Lanka's sovereign rating could lead to an upgrade of the banks' ratings. Additionally, better-than-expected key credit metrics, compared to peers, could also support a rating upgrade.
What can change the rating down	A downgrade in Sri Lanka's sovereign rating could lead to a decline in the banks' ratings. Similarly, deterioration in key credit metrics, compared to peers, would add downward pressure on ratings, which are based on intrinsic financial strength, independent of sovereign rating changes.

## Compliance Risk

The Bank has maintained a rigorous focus on all new, as well as existing, compliance guidelines, with the Compliance Division conducting regular compliance checks on branches and departments.

## Compliance Risk Governance

The Compliance function of the Bank falls within the purview of the Bank's Compliance Department which is empowered to ensure that the Bank complies with all legal and regulatory requirements including CBSL, SEC, CSE, SLAASMB etc., and encompasses both financial and operational compliance. The compliance function also extends to the Bank's wide-ranging policy framework. While the Compliance Department reports directly to BIRMC, it operates independently of the Risk Management Department but is invited to attend meetings of the Board Audit Committee, Board Related Party Review Committee and the Special Board Digital Banking Committee.

## Compliance Risk Mitigation

The Bank regularly reviews and updates its policy framework to incorporate changes in regulations, emerging threats and learnings from industry experiences and learnings from HNB itself. The Bank ensures that the Compliance Division is staffed with the relevant expertise to enable full compliance with all regulations and is headed by the Chief Compliance Officer. The Compliance Division plays a key role in enhancing awareness on regulations, internal policies and best practices in the industry by integrating these into the training programmes of the Bank. New recruits and promoted employees receive a compliance training tailored to meet the demands of their new role and function. An e-learning AML module further supports knowledge enhancement on Anti Money Laundering covering all regions. The Bank also conducted compliance case studies for its branch network to mitigate potential compliance risk.

## Key Activities of the Compliance Function

- » Foreign Exchange Regulations
- » Financial Crime
- » Anti-Money Laundering & Know Your Client
- » FATCA
- » Group Compliance

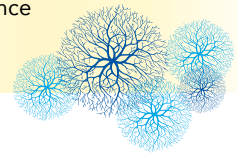
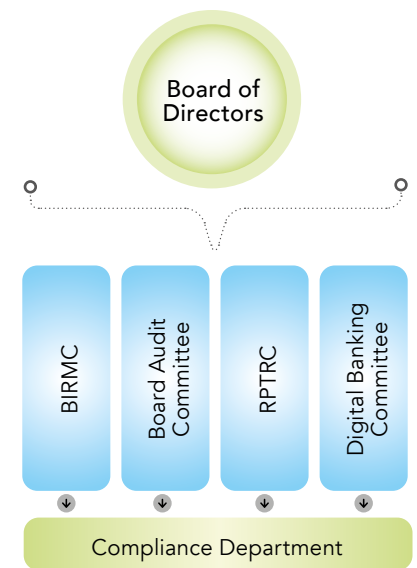


Figure 19: Compliance Risk Governance



## Definition

Compliance Risk is defined as the risk of legal or regulatory sanctions, financial loss, or loss of reputation that a bank may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice.



# RISK & CAPITAL REVIEWS

During the year compliance risk awareness was enhanced by:

- Conducting knowledge sharing and training sessions across the branch network to educate the staff on mitigating potential compliance risk.
- Ensured staff were nominated to attend local & foreign training programmes, international summits, webinars and online certification courses to improve knowledge.
- Rolled out on the Bank's E - Learning platform training material covering latest regulations, AML courses, forex courses, & FAQs etc., for knowledge sharing.

## Reputation Risk

Bank has continued to manage its Reputation Risk by maintaining full compliance, ethical and professional behaviour and transparent and timely communications with its stakeholders. As an important initiative, the Bank implemented measures to safeguard the interests of its customers while ensuring customer touchpoints functioned efficiently to serve the needs of the communities it operates in. Additionally, awards and accolades received, reflect the high esteem in which the Bank is held.

## Reputation Risk Mitigation

Mechanisms in place to safeguard the reputation of the Bank include:

- Availability of a Code of Ethics applicable to all employees ensures that corporate values and expectations of conduct are clearly communicated throughout the Bank.
- Comprehensive customer engagement mechanisms are in place including the contact centre, which is operative 24x7, enabling customers to contact the Bank for any assistance, report of a complaint and also enables the Bank to address any concerns promptly.
- Print and electronic media exposure is monitored for any adverse remarks or

customer complaints on the Bank and its services.

- A comprehensive training and development plan facilitate employee learning on the subject and sharing of learnings while supporting competency development in this area.
- Response plans and identification of spokespersons in the event of a crisis supports organisation readiness to handle reputation risk events.

## Monitoring

A scorecard is used to assess Reputation Risk trigger events and manages attributes that impact the reputation of the Bank, reducing the capital requirement. These pre-emptive measures support scoring, reducing capital allocation under reputational risk.

## Strategic Risk

The leadership of the Bank is collectively responsible for providing strategic direction and undertake evaluation of alternative strategies which are deliberated in depth to chart its course. Strategic Risk was continually reviewed during the year to accommodate changing market conditions.

## Strategic Risk Mitigation

The dedicated Strategic Planning Department oversees the strategic planning process while the RMD strengthens the process through analysis of potential areas of concern. Compliance is maintained with all Regulatory requirements. Key risk drivers and other material matters are monitored to identify potential areas of regulation. The Bank also engages external resources to support its strategic planning processes, injecting global expertise to enhance the management of Strategic Risk. Regular communications are maintained with employees to ensure that employees are engaged.



## Definition

*Strategic Risk may arise if the Bank's future business plans and strategies are inadequate to meet desired business goals and expectations.*

## Monitoring

Strategic Risk assessments are conducted in both quantitative and qualitative dimensions using a scorecard to compute capital allocation for Strategic Risk as a part of Pillar II risk assessment under ICAAP. In 2024, the Bank operationalised a Strategic Risk dashboard through which major Strategic Risks can be escalated to the BSIRC through the BIRMC which would support the BSIRC in reviewing macroeconomic strategic opportunities and risks available within and outside Sri Lanka.

## Conduct Risk

Within the prevailing challenging and unpredictable macro environment, managing Conduct Risk is becoming increasingly significant. Underlying factors contributing to Elevated Conduct Risk include failures in internal controls, non-compliance, negligence and failure to incentivise the right behaviours etc.

## Conduct Risk Mitigation

A clear understanding of the causes of poor conduct in the past has assisted the Bank in estimating and preventing a recurrence of the same conduct in the future. Therefore, the Bank has defined its key conduct risk drivers.



### Definition

*Conduct Risk is any action of a bank, or the banking industry that leads to customer dissatisfaction, or negatively impacts market stability due to unacceptable, or unexpected behaviour in meeting the bank's obligations towards its stakeholders.*

### Monitoring

Lines of defence in managing Conduct Risk:

- Operational: Day to day monitoring and reviewing management of information. This line of defence remains with the respective business unit itself.
- Compliance: Implementing policies and procedures as prescribed by regulator and industry best standards. The Operational Risk Management Department is under the purview of RMD, and the Audit and Compliance Department ensures the management of the risk control framework and ongoing compliance monitoring.
- Board: Assessing Conduct Risks through review and analysis of periodic management information.

### Legal Risk

The Bank continually monitors its compliance with all applicable laws and directives as well as maintaining high ethical standards, to address potential legal risks. As per ISO 31000, legal risk can be of the following types:

- Litigation Risk
- Contract Risk
- Regulatory Risk
- Structural Risk

### Legal Risk Mitigation

The Bank has implemented a Legal Risk scorecard as a part of improvements made

to the ICAAP document of the Bank and the same was considered as quantitative risk assessing parameters to be used in Pillar 2 risk assessment.

The Legal Department of the Bank carries out a comprehensive assessment prior to entering into an agreement with any 3rd party service providers. Additionally, the Bank retains reputed legal counsellors to safeguard the Bank's interest in dealing with litigation against the Bank.

### Monitoring

Legal Risks are analysed using a scorecard to ascertain the additional capital requirement under Basel II, pillar 2 calculations. Factors considered for the assessment of Legal Risk include, Legal Risk governance and framework, claims arising from/deprived due to defective documentation in contracts, legislative/regulatory developments resulting in claims against/deprivation of making claims etc.

The Legal Department prepares a quarterly compliance assessment report based on a comprehensive checklist covering a broad spectrum of the Bank's litigation and related functionalities which is signed off by every member of the Legal Department. This is reviewed by the Compliance Division on a quarterly basis, strengthening Legal Risk monitoring.



### Definition

*Legal Risk can arise from the current and prospective risks to earnings, or capital due to violations of, or non-conformance with laws, rules, regulations, prescribed practices, or ethical standards issued by the regulator from time to time.*

### Model Risk

Models are widely used to support decision making in the financial sector, and are a critical component of a Bank's Risk Management. Therefore, prudent

development of models and their lifecycle is fundamentally important to their effectiveness and Risk control.

### Model Risk Governance

The Bank's Model Risk Management Framework provides guidance on the structure of models and assumptions used for the Bank's business projections, financial analysis and risk management capabilities.

The governance principles for the Bank's model lifecycles are:

- Compliance with model development rules and risk estimation methodologies prescribed by Basel principles and leading model development practices across the globe.
- Maintain data for models in line with the Risk Data Aggregation (and Reporting) Principles prescribed by the Basel Committee on Banking Supervision through the BCBS 239 principles.
- Develop distinct models across different portfolios of the Bank such as Retail, Corporate, etc. for credit portfolios and loss data for Market Risk and Operational Risk.
- Models are to be parsimonious, taking into account the appropriateness of variables, data length, ease of availability, with the aim to maximize performance with resources available.
- Independent validation of models with the aim of ensuring accuracy of models



### Definition

*Model Risk may arise from losses as a consequence of decisions that could be primarily based on the output of internal models, or as a result of the errors in the development, implementation or use/ maintenance of the models.*

# RISK & CAPITAL REVIEWS

## Model Risk Mitigation

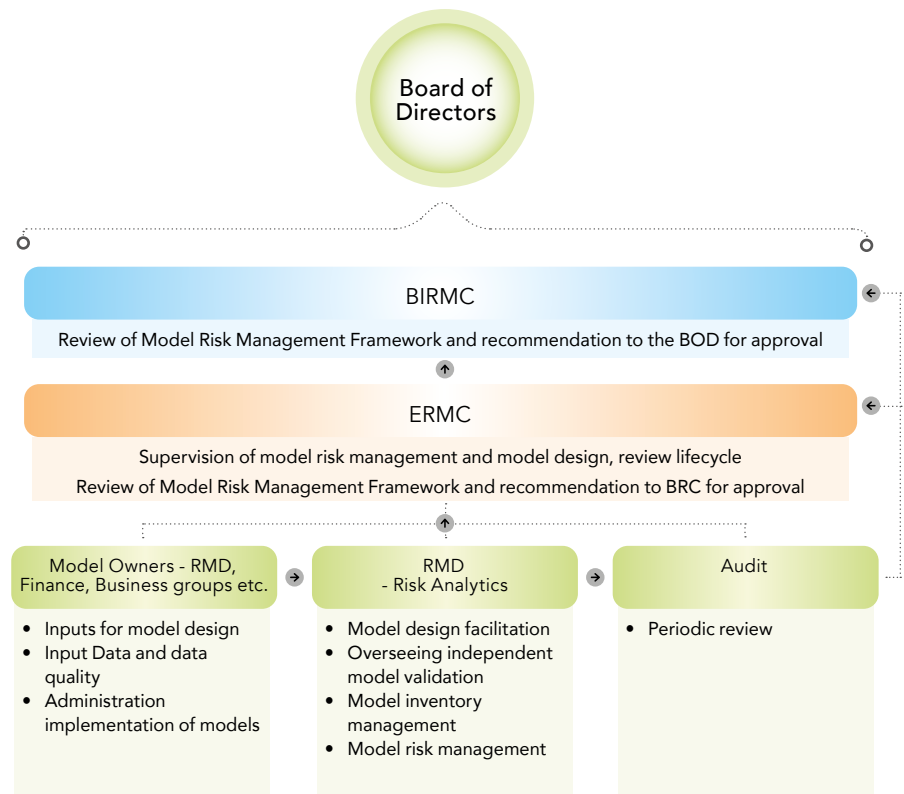
To mitigate the Model Risk, the Bank carries out supplementary model validations considering changes in the nature and structure of existing risks and the emergence of new risk.

## Monitoring

There is cross-departmental involvement in various stages of model development, implementation and review; with the oversight of the Board of Directors, through the BIRMC.

The performance of models against actual results are reported via dashboards and other monthly reporting methods. Further, the Bank also obtains independent validation of data quality and model processes to strengthen model risk management.

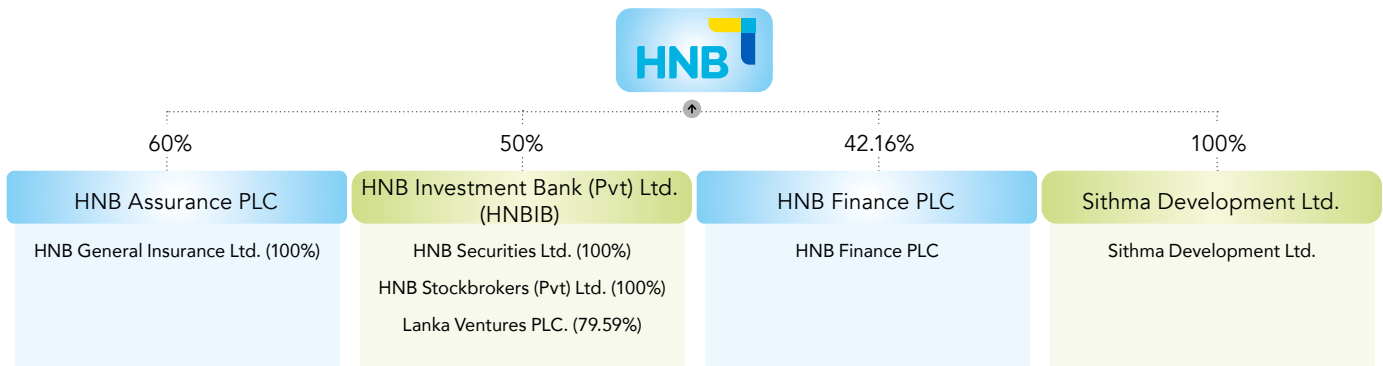
Figure 20: Model Risk Governance Structure



## Group Risk

The HNB Group comprises four subsidiaries, out of which three are engaged in the provision of financial services.

- HNB Investment Bank (Pvt) Ltd (previously known as Acuity Partners (Pvt) Ltd.) is a joint venture providing investment banking services which has four subsidiaries which make up a fully-fledged wealth management and investment banking cluster.
- HNB Assurance PLC and HNB Finance PLC are listed on the Colombo Stock Exchange. These two subsidiaries are regulated by the Insurance Regulatory Commission of Sri Lanka and the Central Bank of Sri Lanka. Activities of HNB Investment Bank (Pvt) Ltd are subject to regulations of the SEC as market intermediaries.
- Sithma Development Ltd., the fourth subsidiary is the real estate arm of the HNB Group.



## Mitigation & Monitoring

Risk management of the Group companies are overseen by the HNB's Corporate Management team and they are on the Boards of Group companies. The risk management divisions of the Group companies forward risk management review reports including the key risk concerns to the Risk Division and Compliance Division of HNB. These reports identify the key risks faced by each entity, measures taken to manage or mitigate the risks and are reviewed by the Risk Management Department of the Bank and tabled at the BIRMC meeting for further guidance. Risk aggregating poses some challenges due to the varying operating models of the Group companies and the Bank continues to address this to facilitate assessment of the Bank's material risks as a group.

Accordingly, the Bank's Risk Management Department has developed a Group Risk Dashboard to monitor subsidiary specific financial and nonfinancial risk parameters covering changes to Group structure, general and specific financial highlights of each subsidiary, adherence to respective governing authorities, compliance breaches if any and non-financial risks faced by respective subsidiaries on a quarterly basis.

Effectiveness of the Group risk management is supported by the following:

- All Group companies indicate healthy financial positions at the close of the year despite an exceptionally challenging year.
- HNB's capital at risk is limited to the amounts invested in these companies

in the form of equities at the time of these companies were incorporated or acquired.

- Key Management Personnel / Director representation on Boards of Group companies support alignment to core values, business strategy and a sufficient information flow

Group companies engaged in Insurance, Finance Business and Investment Banking are subject to regulatory oversight and have structures in place to facilitate compliance.

Group Co.	Board Representation	Chairman	Board Risk Committee Representation
HNB Assurance PLC	✓		✓
HNB Investment Bank (Pvt) Ltd	✓	✓	✓
Sithma Development Pvt Ltd	✓	✓	
HNB Finance PLC	✓		✓

# RISK & CAPITAL REVIEWS

## HNB Assurance PLC (HNBA)

As a leading insurer in the country, HNB Assurance PLC (HNBA) and its fully owned subsidiary HNB General Insurance Limited (HNBGI) maintain stringent compliance and risk management systems. These companies also comply with multiple regulatory frameworks including the regulations of the Insurance Regulatory Commission of Sri Lanka, the CSE and the SEC.

The key risk indicators of these two subsidiaries are given below and a summary of their performance is given on page 272 in this report.

### Capital Adequacy Ratio

**HNBA**  
**377%**  
**HNBGI**  
**219%**

### HNB Assurance PLC

**A(Ika)**

**Outlook: Stable**

From 06th February 2025 onwards, Fitch rating of HNB Assurance PLC has upgraded to A (Ika) from A-(Ika) with Stable Outlook.

### HNB General Insurance

**A(Ika)**

**Outlook: Stable**

Key Risk Indicator	2024	2023
<b>HNB Assurance PLC</b>		
Claims Ratio (without policy maturities)	10%	12%
Expense Ratio	53%	53%
Combined Ratio	76%	79%
Capital Adequacy Ratio	377%	341%
<b>HNB General Insurance Limited</b>		
Claims Ratio	67%	72%
Expense Ratio	41%	39%
Combined Ratio	108%	111%
Capital Adequacy Ratio	219%	208%

## HNBA Group's Risk Management Policy Framework

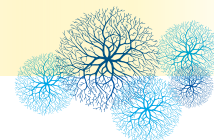
The HNBA Group's risk management policy framework defines the risk management policies and processes and provides clear guidance for managing foreseeable risks. The policy framework is aligned to the HNB policies where relevant to achieve strategic alignment and minimise potential adverse impacts. HNBA's Risk Governance structure includes a Board Level Risk Management Committee and the Board Audit Committee. Risk management activities carried out by HNBA and HNBGI are conveyed to the BIRMC of HNB PLC on a quarterly basis. The Compliance Risk is managed by the submission of confirmation on compliance to the Compliance Division of HNB on a quarterly basis.

The following officials of the Bank are directors of HNBA facilitating alignment of values and culture:

Name	Role in HNBA	Role at the Bank
Mr Sanjay Wijemanne	Non Independent / Non-Executive Director - HNBGI	Chief Operating Officer
Mr Arjuna Abeygunasekara	Non Independent / Non-Executive Director - HNBGI	Deputy General Manager - Treasury & Markets

## Key Initiatives in 2024

- » Revamped Key Risk Indicators (KRIs) covering Insurance Risk, Operational Risk, HR Risk, Business Risk, Investment Risk, Compliance Risk, Finance Risk, and IT Risk.
- » Conducted stress testing and scenario analysis based on the current economic conditions.
- » Ensured company policies align with regulatory compliance and internal controls, including risk assessments for Anti-Money Laundering (AML) compliance, cybersecurity, and system access reviews.
- » Initiated an incident reporting system and appointed Risk Champions.
- » Conducted Business Continuity Planning (BCP) tests and disaster recovery simulations throughout the year, with results reviewed by the Board Risk Management Committee.





## HNB Finance PLC (HNBF)

HNBF has a comprehensive risk management framework aligned to the Bank's risk objectives and parameters that reflects the Company's status as a full-fledged finance company listed on the CSE in 2020. Its risk profiles are shaped by a legacy of microfinance business with more recent successful penetration into the leasing market segment, extending the customer life cycle and broad basing the market segments.

The key risk indicators of HNBF are given below while a summary of its performance is given on page 273.

### Capital Adequacy Ratio

# 11.16%

Approval was given by CBSL to comply with the regulatory requirement by May 2025. Based on the board approved capital augmentation plan, HNBF is expected to raise additional capital.

### HNB Finance PLC

# A(lka)

#### Outlook: Stable

From 24th January 2025 onwards, Fitch rating of HNB Finance PLC has upgraded to A (lka) from BBB+ (lka) with Stable Outlook.

Key Risk Indicator	2024	2023
Deposit Growth (%)	8.16%	-6.25%
Advances Growth (%)	20.78%	-17.36%
Profitability (Rs. Mn)	938	281
Total Assets (Rs. Mn)	53,067	49,247
Shareholder Funds (Rs. Mn)	5,999	5,088
CAR (%) Total Capital	11.16%	12.60%
Impairment Charge (%)	18.64%	35.34%
Impaired Portfolio (Rs. Mn)	6704	5,475
Stage 3 Ratio (%)	19.17%	24.21%

HNBF reported a profit of Rs 937.6 Mn. The Net Interest Income (NII) experienced a decline of 6%, primarily attributed to the decrease in market interest rates during the period.

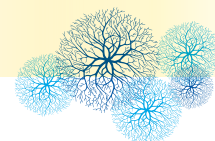
The CRO of HNB is a member of BIRMC of HNBF, and provides guidance on development of Risk Management policies, structures, processes and controls using the extensive experience of the Bank's risk management function.

The following officials of the Bank are directors of HNBF facilitating alignment of values and culture:

Name	Role in HNBF	Role at the Bank
Mr Ruwan Manatunga	<ul style="list-style-type: none"> <li>Non-Independent Non-Executive Director</li> <li>Chairman of the Board Recovery Committee</li> <li>Committee Member of BIRMC and Board Credit Committee</li> </ul>	Deputy General Manager - Risk/Chief Risk Officer
Mr Rajive Dissanayake	<ul style="list-style-type: none"> <li>Chairman/ Non-Independent Non-Executive Director</li> <li>Chairman of the Board Strategic &amp; Investment Review Committee</li> <li>Committee Member of the Board Human Resources &amp; Remuneration Committee, Board Nominations &amp; Governance Committee and Board Procurement Committee</li> </ul>	Deputy General Manager - SME & Micro Finance

## Key Initiatives in 2024

- » The Board reviewed and approved the Internal Capital Adequacy Assessment Process (ICAAP), strengthening the framework for effective capital management.
- » The Board approved the Stress Testing Policy, enhancing the organisation's ability to assess and manage financial risks effectively.
- » New Credit Risk management policy was introduced in compliance with Finance Business Act Direction No2 of 2024 on Credit Risk Management.
- » Revised the risk-based credit scoring model based on the review outcomes of individual models to enhance accuracy and risk assessment.
- » Business Continuity Plan (BCP) testing was conducted for all departments, along with Disaster Recovery (DR) drills for IT systems to assess operational resilience in the event of disruptions or disasters.
- » Ensured continuous monitoring and implementation of the Information Security Policies Manual and Information Security Management System Procedures to maintain compliance with ISO 27001 – Information Security Management Standard.



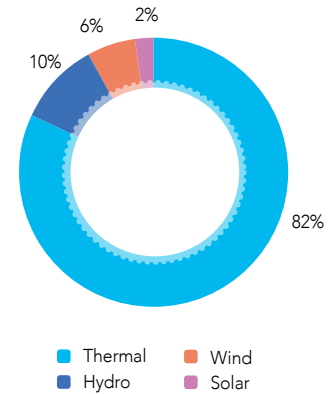
# RISK & CAPITAL REVIEWS

## HNB Investment Bank (Pvt) Ltd (HNBIB)

The HNB investment Bank Risk exposure is monitored and followed by the Groups' Audit Committees with oversight by HNB BIRMC. The group submits a monthly and quarterly report on risk management activities to the Board Integrated Risk Management Committee of the Bank. In addition, HNB conducts a Group Governance follow up meeting on a quarterly basis with HNBIB. The Margin Trading Operations of HNB Investment Bank (Pvt) Ltd and the stockbroking license of HNB Stockbrokers (Pvt) Ltd is issued by the SEC and they comply with its requirements while HNB Securities Ltd., is regulated by CBSL.

Material risks identified by the HNBIB Group are Market Risks, Compliance Risks, Interest Rate Risk and Liquidity Risk. Such risks are assessed and mitigated through laid down procedures based on internal & regulatory procedures. Additionally, Lanka Ventures PLC and its Group entities are materially impacted by the currency devaluation and adverse weather patterns as its portfolio comprises of investments in renewable energy. However, climate change risks are largely mitigated through diversification, as the portfolio covers thermal, solar, wind and hydro power generation.

Break-up of Installed power Generation capacity



### Debt to Equity Ratio

**24%**

### Profit After Tax

**Rs. 3.1 Bn**

Key Risk Indicator	2024	2023
ROE	26.80%	27.30%
ROI	183%	151%

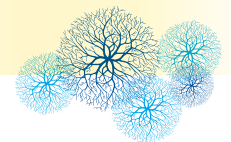
HNB Investment Bank Group recorded its highest ever PAT of Rs 3.1 Bn, against a budget of Rs 2.7 Bn. This is mainly due to the strong performance of HNB Securities Ltd. The surge in the turnover levels of the Colombo Stock Exchange assisted HNB Stockbrokers (Pvt) Ltd, to end the year with a strong performance. The Corporate Finance arm of the HNBIB was able to record their highest ever revenue to date, while securing the market leadership in the highest number of corporate debentures issued during the year.

The following officials of the Bank are directors of HNBIB facilitating oversight and alignment of values and culture:

Name	Role in HNBIB	Role at the Bank
Mr Damith Pallewatte	Chairman - HNBIB Director - HNB Securities Ltd.	Managing Director/Chief Executive Officer
Mr Sanjay Wijemanne	Director- HNBIB & HNB Stockbrokers (Pvt) Ltd.	Chief Operating Officer
Mr Rajive Dissanayake	Director- HNBIB	Deputy General Manager - SME & Micro Finance
Mr Arjuna Abeygunasekara	Director-HNB Securities Ltd.	Deputy General Manager - Treasury & Markets

## Key Initiatives in 2024

- » HNB Stockbrokers (Pvt) Ltd became the first brokering firm to moving into a cloud-based Order Management System.
- » Successfully held an investor forum to revive client awareness and give them insights into potential market opportunities.
- » Commenced the groundwork to move all three entities into a cloud-based Data Centre Module.
- » Co-managed the 1st ever Green Bond to be listed on the Colombo Stock Exchange.



## Sithma Development (Pvt) Ltd

Sithma developers owns and manages the landmark building of the Bank's head office and manages the branch premises owned by the Bank. Risks related to Sithma are monitored by the Bank's Audit Committee and BIRMC in addition to the Board of the subsidiary and the Bank in its role as the parent company.

Typically, the main risks faced by the subsidiary are Market Risk and Compliance Risk. The value of its assets and rental revenues are impacted by real estate market movements. However, the prime location and A grade facilities of the building acts as a strength. As the building houses over 2,500 people, compliance with best practice in health and safety standards including fire detection and prevention is a key aspect of risk that is monitored continuously.

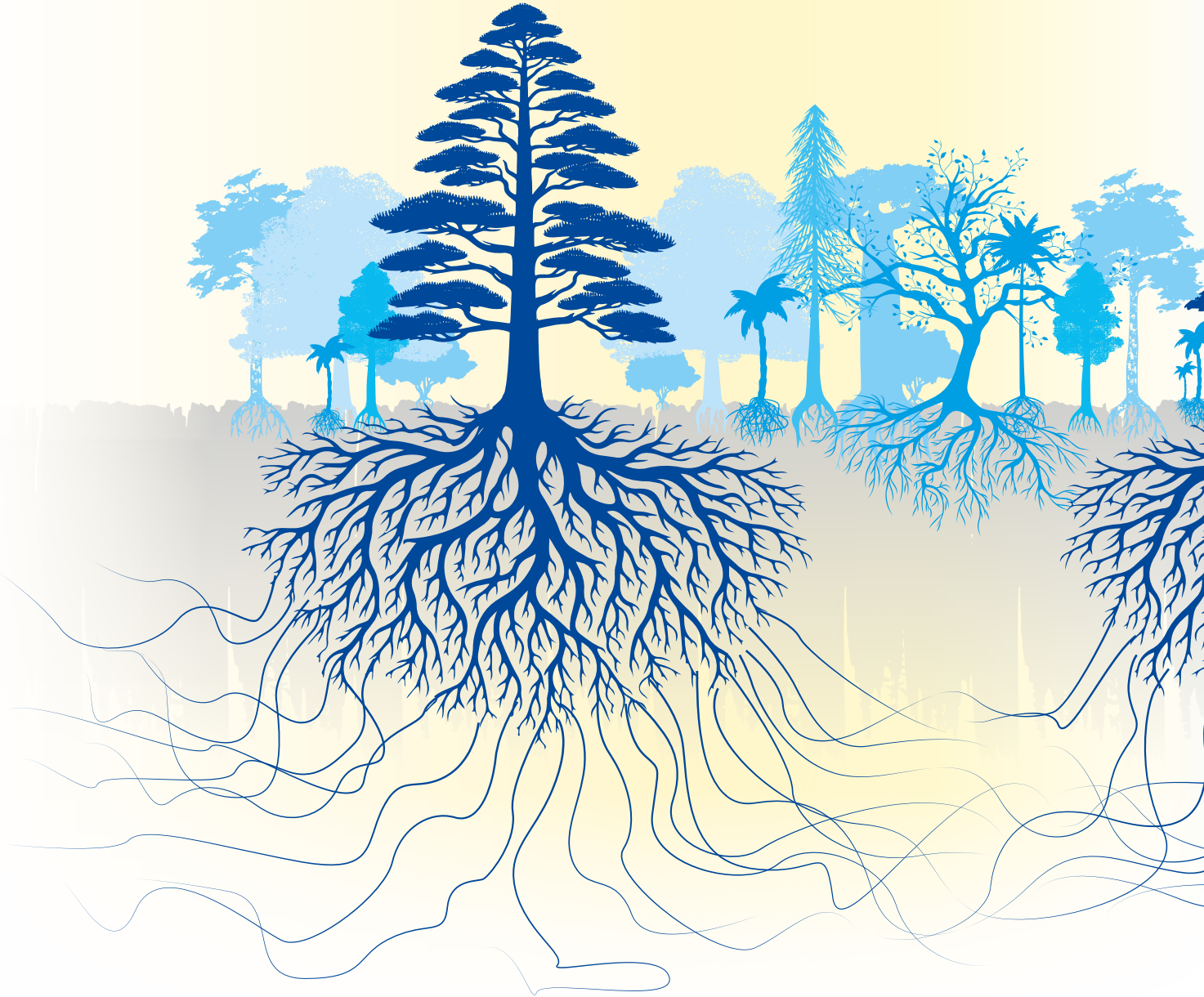
During the current financial year Sithma retained its client base through regular communication with key stakeholders and increased investment in personal protective gear and rigorous reinforcement of agreed upon procedures.

## A Grade Smart Building

Value of Properties	Rs '000
<b>HNB Towers - No 479, TB Jayah Mawatha, Colombo 10.</b>	
Net Book Value	7,729,938
Market Value	18,927,900
<b>SMART Building - No 21, Janadhipathi Mawatha, Colombo 1.</b>	
Net Book Value	48,188
Market Value	484,300
<b>Building at Kegalle</b>	
Net Book Value	75,200
Market Value	218,000

	2024 Rs '000	2023 Rs '000
<b>Revenue from Rental</b>		
Rental Income	1,072,371	1,090,141
<b>Profitability</b>		
Profit After Tax	355,244	581,055
<b>Equity &amp; Debt</b>		
Equity & Reserves	8,690,834	9,043,227
Liabilities	2,567,560	2,599,401
Total Equity & Liabilities	11,258,394	11,642,632

# Financial Statements



## Positioned to Protect

The far-reaching influence and strong connections we have built over time enable us to achieve exceptional growth, even in the face of adversity and change.

*Redwood Trees exemplify the power of connection and support. The Coast Redwood, reaching over 380 feet in height, and the Sequoia Redwood, the largest living single-stem tree, owe their extraordinary growth to an extensive root system. This system stretches over 100 feet from each tree's base, intertwining with the roots of neighbouring Redwoods to create a strong, supportive network. Together, they form a thriving ecosystem that remains resilient even in the harshest conditions.*

*Similarly, HNB's expansive network of relationships, partnerships, and solid foundations provides the strength needed to navigate challenges and ensure continued success. Just as Redwoods rely on one another for support, our interconnected ecosystem allows us to overcome adversity, conquer challenges, and sustain unmatched growth.*





# FINANCIAL CALENDAR

FINANCIAL CALENDAR	2024	2025
55th Annual General Meeting held on	28th March 2024	-
Rs 8.00 per share Final Dividend for 2023 paid on (Rs. 4.00 in the form of cash and Rs. 4.00 in the form of scrip)	16th April 2025	-
Audited Financial Statements for 2024 signed on	21st February 2025	-
56th Annual General Meeting to be held on	27th March 2025	-
Rs 15.00 per share Final Cash Dividend for 2024 payable in*	April 2025	-
57th Annual General Meeting to be held in	-	March 2026
Final Dividend for 2025 payable in**	-	April 2026

Financial Calendar

\*Subject to confirmation by Shareholders

\*\*Subject to confirmation by Directors and Shareholders

Interim Financial Statements published / to be published in terms of Rule 7.4 of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka

	Colombo Stock Exchange		Newspapers (as required by CBSL)			
	2024	2025	2024 (Published on)			2025 (To be published on or before)
	(Published on)	(To be published on or before)	English	Sinhala	Tamil	In all three languages
1st Quarter Interim Results	14th May 2024	15th May 2025	28th May 2024	31st May 2024	31st May 2024	31st May 2025
2nd Quarter Interim Results	14th August 2024	15th August 2025	23rd August 2024	30th August 2024	30th August 2024	31st August 2025
3rd Quarter Interim Results	14th November 2024	15th November 2025	19th November 2024	29th November 2024	29th November 2024	30th November 2025
4th Quarter Interim Results	24th February 2025	28th February 2026	31st March 2025 *	31st March 2025 *	31st March 2025 *	31st March 2026

\* To be published on or before 31st March 2025

# MANAGING DIRECTOR /CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The financial statements of Hatton National Bank PLC (the "Bank") and the consolidated financial statements of the Bank and its subsidiaries (the "Group") and the Group's interest in its joint venture as at 31st December 2024 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 and the Directions, Determinations and Guidelines issued by the Central Bank of Sri Lanka, amendments thereto
- Listing Rules of the Colombo Stock Exchange,
- Code of Best Practice on Corporate Governance 2023 issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

The formats used in the preparation of the financial statements and disclosures made in this annual report and the interim financial statements comply with the formats prescribed by the Central Bank of Sri Lanka. The Group presents the financial results to its shareholders on a quarterly basis.

The material accounting policies used in the preparation of the financial statements are appropriate and are consistently applied by the Group. The material accounting policies and estimates that involved a high degree of judgment and complexity were discussed with the Board Audit Committee and external auditors. Comparative information has been reclassified wherever necessary to comply with the current presentation. There are no departures from the prescribed accounting standards in their adoption. The 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.

We confirm that to the best of our knowledge that the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances. We confirm that the Bank and the Group has adequate resources to continue operations in the foreseeable future and have adopted the 'going concern' basis in preparing these financial statements.

We confirm that , the Group has taken proper and sufficient care in installing a system of internal controls and Risk Management framework, to ensure safeguarding assets and for preventing and detecting frauds as well as other irregularities, which are reviewed, evaluated, and updated on an ongoing basis. We have reviewed the internal control and risk management procedures for the financial year under review and to the best of our knowledge are satisfied that there were no significant deficiencies and weaknesses in the design or operation of internal controls and risk management procedures. The Bank's internal auditor has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank are consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting. The financial statements of the Group for the year 2024 were audited by Messrs KPMG, Chartered Accountants, the independent external auditors. Their report is given in pages 282 to 286.

The Board Audit Committee of the Bank meets periodically with the internal audit team and the independent external auditor to review their audit plans, assess the manner in which the auditors are performing their responsibilities, and to discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the external auditor and the internal auditor have access to the members of the Board Audit Committee to discuss any matter of substance, details of which are given in the 'Board Audit Committee Report' in pages 214 to 217.

The Board Audit Committee approves the audit and non-audit services provided by external auditor, Messrs KPMG, in line with the Bank's policy on provision of non-audit

services, in order to ensure that the provision of such services does not impair KPMG's independence.

We confirm that to the best of our knowledge,

- the Bank, its subsidiaries and the joint venture have complied with all applicable laws, regulations, and prudential requirements; there are no material non-compliances; there are no material litigations and open tax assessments that are pending against the Group other than those disclosed in the Note 59 (c) to the financial statements in this Annual Report; and
- all taxes, duties, levies, and all statutory payments payable by the Group and the Bank and all contributions, levies, and taxes payable on behalf of and in respect of the employees of the Group and the Bank as at 31st December 2024, have been paid, or where relevant provided for.



**Damith Pallewatte**  
Managing Director/Chief Executive Officer



**Anuradhi Delage**  
Chief Financial Officer

Colombo, Sri Lanka  
21st February 2025

# DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibility of the Board of Directors in relation to the financial statements of the Bank, its subsidiaries and joint venture company prepared in accordance with, LKAS & SLFRS and prescribed in the provisions of the Companies Act No. 7 of 2007 is set out in the following statement.

The responsibility of the external auditor in relation to the financial statements are set out in the report of the auditors given on pages 282 to 286.

As per the provisions of sections 150 (1), 151, 152, and 153 (1) & (2) of the Companies Act No 7 of 2007, the Directors are required to prepare financial statements for each financial year and place them before a general meeting. The financial statements comprise the statement of financial position as at 31st December 2024, the income statement, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flow for the year then ended and notes thereto.

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

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

The Directors are also required to ensure that the Bank, its subsidiaries and joint venture company have adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements. The Directors are also required to take into consideration the implications of the current economic conditions on the Group's business, operations and financial performance this year. Further, the Directors have a responsibility to ensure that the companies within the Group maintain sufficient accounting records to disclose, with reasonable accuracy, the financial position of the Bank, its subsidiaries and joint venture company.

Accordingly, the Board of Directors confirms that the financial statements of the Group and the Bank, give a true and fair view of; the financial position of the Group and the Bank as at 31st December 2024 and the financial performance of the Group and the Bank for the financial year then ended.

## COMPLIANCE REPORT

- Financial statements presented in this report have been prepared based on Sri Lanka Accounting Standards (commonly referred as "SLFRS"/"LKAS"), inclusive of specific disclosures laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) consistent with the underlying books of accounts and are in conformity with the requirements of Companies Act No 7 of 2007, Sri Lanka Accounting and Auditing Standard Act No 15 of 1995, Banking Act No 30 of 1988 and amendments thereto, the Listing Rules of the Colombo Stock Exchange (CSE) and the Code of Best Practice on Corporate Governance 2023 issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). In addition, these financial statements comply with the prescribed format issued by the Central Bank of Sri Lanka for the preparation of annual financial statements of licensed commercial banks. The financial statements, along with the relevant specific disclosures, are provided on pages 288 to 466.
- The Directors have instituted effective and comprehensive systems of internal control for identifying, recording, evaluating and managing the significant risks faced by the Bank throughout the year which are regularly reviewed by the Board. This comprises internal reviews, internal audit and the entire system of financial and other controls required to carry on the business of banking in an orderly manner, safeguard its assets, prevent and detect frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31st December 2024 are given on pages 221 to 222 in Directors' Statement on Internal Control Over Financial Reporting. External Auditor's Assurance Report on the Directors' Statement on Internal Control is given on page 223.

- To the best of their knowledge 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 on Note 59 to the financial statements covering contingent liabilities.
- The Directors have taken appropriate steps to ensure that the Bank and Group maintain proper books of accounts and review the financial reporting system at their regular meetings and also through the Board Audit Committee. The report of the Board Audit Committee is given on pages 214 to 217. The Board of Directors also approves the interim and annual financial statements prior to their release based on review and recommendation by the Board Audit Committee.
- The Board of Directors accepts responsibility for the integrity and objectivity of the financial statements presented in this report.
- The Bank's external auditor, Messrs. KPMG, has been provided 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.
- The Bank's financial position is in compliance with the provisions of the Banking Act, No 30 of 1988 relating to the issuance of financial statements and disclosure provisions and there was no occurrences of losses that will materially reduce the stated capital, irregularities that jeopardize the interest of our depositors and creditors. Further, the obligation to our depositor is sufficiently covered by the assets of the Bank.

The Bank's external auditor has 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. Their report is given in pages 282 to 286 in this report.

- The financial statements of the Bank and the Group have been certified by the

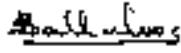
Chief Financial Officer of the Bank, the officer responsible for their preparation, as required by Sections 150 (1) (b) and 152 (1) (b) of the Companies Act. The financial statements of the Bank and the Group have been signed by two Directors and the Company Secretary of the Bank on 21st February 2025 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 15 per share in the form of cash for the year 2024.
- As required by Sections 166 (1) and 167 (1) of the Companies Act, the Board of Directors has prepared this Annual Report in time and the Annual Report will be published/hosted in the Bank's website and Colombo Stock Exchange website. The link will be shared with the shareholders enabling them to access the Annual Report electronically. Bank will also ensure that a copy of the Annual Report is sent to every shareholder of the Bank, who expressed desire to receive a hard copy within the stipulated period of time as required by the Rule No 7.5 (a) and (b) on Continuing Listing Requirements of the Listing Rules of the CSE.

- Further, all shareholders in each category have been treated equitably in accordance with the original terms of issue.

Accordingly, the Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board



**Shiromi Halloluwa**

Assistant General Manager Legal/Board  
Secretary

Colombo, Sri Lanka  
21st February 2025

# INDEPENDENT AUDITOR'S REPORT



KPMG  
(Chartered Accountants)  
32A, Sir Mohamed Meeran Mawatha,  
P. O. Box 188,  
Colombo 00300, Sri Lanka

Tel +94 - 11 542 8428  
Fax +94 - 11 244 5872  
+94 - 11 244 6758  
Internet www.kpmg.com/lk

## TO THE SHAREHOLDERS OF HATTON NATIONAL BANK PLC

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Hatton National Bank PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), which comprise the statement of financial position as at December 31, 2024, and the income statement and statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policies and other explanatory

information as set out on pages 288 to 465 of this Annual Report.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank and the Group as at December 31, 2024, and of its financial performance and its 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 for professional Accountants issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Bank's financial statements and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Allowances for Expected Credit Losses

Refer to the critical accounting estimates and judgements disclosures in relation to the allowance for expected credit losses in Note 2.2 (Accounting Judgement, Estimates and Assumptions), Note 15 (Impairment charge for loans and other losses), and Note 31 (Financial assets measured at amortised cost - loans and advances to customers), to these financial statement

#### Risk Description

Allowance for expected credit losses (ECL) is a key audit matter due to the significance of the loans and receivables balance to the financial statements and the inherent complexity of the ECL models used by the Bank and Group to measure ECL allowances. These models are reliant on data and estimates including multiple economic scenarios and key assumptions such as defining a significant increase in credit risk (SICR).

As disclosed in Note 31 & 15 to these financial statements, the Bank and the Group have recorded financial assets measured at amortized cost against loans and advances to customers, of Rs. 1,159,740 Mn and Rs. 1,206,782 Mn respectively as at 31st December 2024.

#### Our Responses

Our audit procedures to assess the allowances for ECL included the following:

Testing key controls of the Bank and Group in relation to:

- The ECL model governance and validation processes which involved the assessment of model performance.
- The assessment and approval of the forward-looking macro-economic assumptions and scenario weightings through challenge applied by internal governance processes;
- Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems;
- IT system controls which calculate loans days past due of loans, and classification of non-performing loan.

KPMG is a Swiss entity partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG Network, a Swiss Entity, a Swiss entity limited by guarantee. All rights reserved.

S. P. Jayatilaka FCA  
M. S. Joseph FCA  
R. M. B. Kapuranga FCA  
M. A. M. Samarasena FCA  
Dr. P. R. Sumanadasa FCA

I. G. Rajapaksa FCA  
W. S. S. Adarshwardena FCA  
M. R. K. U. M. Madugala FCA  
M. C. S. S. Perera FCA  
K. S. M. S. R. R. Rajapaksa FCA

M. H. C. Perera FCA  
S. A. S. Rajaratnam FCA  
H. R. Rajapaksa FCA  
A. M. H. P. Mahipala FCA

For Sri Lanka: S. P. Jayatilaka, M. S. Joseph, R. M. B. Kapuranga, M. A. M. Samarasena, Dr. P. R. Sumanadasa, I. G. Rajapaksa, W. S. S. Adarshwardena, M. R. K. U. M. Madugala, M. C. S. S. Perera, K. S. M. S. R. R. Rajapaksa  
For Somaliland: A. M. H. P. Mahipala, H. R. Rajapaksa, S. A. S. Rajaratnam, M. H. C. Perera, A. M. H. P. Mahipala





## Allowances for Expected Credit Losses

High degree of complexity and judgment are involved in estimating Expected Credit Loss (ECL) (Bank Rs. 96,065 Mn; Group Rs. 102,769 Mn as at the reporting date).

SLFRS 9 Financial Instruments requires the Group to measure ECLs on a forward-looking basis reflecting a range of economic conditions. Post-model adjustments are considered to address known ECL model limitations or emerging trends in the loan portfolios.

Additionally, allowances for individually assessed loans exceeding specific thresholds are assessed. Challenging the assessment of specific allowances based on the expected future cash repayments and estimated proceeds from the value of the collateral held in respect of the loans by the Bank and Group in respect of the loans.

Assessing adequacy of impairment for individually significant loans and advances (ISL)

Selecting a sample of customers (based on quantitative thresholds set by the bank and qualitative factors) and our procedures included the following:

- Evaluating management's assessment of recoverability of the forecasted cash flows by comparing them to the historical performance of the customers, their financial position and the expected future performance where applicable;
- Assessing external collateral valuer's credentials and comparing external valuations to values used in management's impairment assessments, forecasted timing of future cash flows in the context of underlying valuations and approved business plans on a sample basis;
- Exercising our judgment, our procedures included using our understanding of relevant industries and the macroeconomic environment and comparing with the data and assumptions used in recoverability assessment. Where relevant we assessed the forecast timing of future cash flows in the context of underlying valuations, and business plans;
- Testing the implementation of the SICR methodology by re-performing the staging calculation for a sample of loans;
- For a sample of customer loans which were not identified as displaying indicators of impairment by management, we reassessed the conclusions made by the management by reviewing the historical performance of the customers and form our own view whether any impairment indicators were present.

Assessing the adequacy of collectively impairment included the following procedures:

- Obtaining an understanding of the processes to determine ECL allowances, evaluating the ECL model methodologies of the Bank and Group's against established market practices and criteria in the accounting standards;
- Assessing the accuracy of the data used in the ECL models by checking a sample of data fields such as account balance, days past due, interest rate to relevant source systems.
- By working with our Financial Risk Management (FRM) specialist we carried out the following procedures;;
  - Challenging the forward-looking macro-economic assumptions and scenarios incorporated in the ECL models by comparing the economic factors used to relevant publicly available macro-economic information, to identify contradictory indicators;
- Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the loan portfolios against the assessment of the Bank and Group;

# NOTES TO THE FINANCIAL STATEMENTS



## Allowances for Expected Credit Losses

### Assessing the adequacy of post model adjustments

We challenged key assumptions in the components of the Bank and Group's post-model adjustments to the ECL allowance balance. This included:

- Assessing post-model adjustments against the ECL model and data deficiencies identified in the ECL model validation processes, particularly in light of the significant volatility in economic scenarios;
- Comparing underlying data used in concentration risk and economic cycle allowances to underlying loan portfolio characteristics of recent loss experience, current market conditions and specific risks (including exposure to risk elevated sectors) in the loan portfolios;
- Assessing certain post-model adjustments identified by the Bank and Group against internal and external information;
- Assessing the completeness of post-model adjustments by checking the consistency of risks we identified in the loan portfolios against the Bank and Group's assessment.

### Assessing the adequacy of impairment for financial assets

By working with our Financial Risk Management (FRM) specialist we carried out the following procedures;

- Challenging the underlying assumptions used and the methodology adopted to compute the impairment provision; and
- Assessing the reasonableness of key inputs and assumptions using comparable data in the market and available alternatives

We also assessed the appropriateness of the related disclosures in the financial statements using our understanding obtained from our testing and against the requirements of Sri Lanka Accounting Standards.

## IT systems and controls over financial reporting

### Risk Description

The Bank and Group's businesses utilize many complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. The controls over access, changes to and operation of IT systems are key to the recording of financial information and the preparation of financial statements which provide a true and fair view of the Bank and Group's financial position and performance.

The IT systems and controls, as they impact the recording and reporting of financial transactions, is a key audit matter as our audit approach could significantly differ depending on the effective operation of the Bank and Group's IT controls.

### Our Responses

Our testing focused on the technology control environments for key IT applications (systems) used in processing significant transactions and recording balances in the general ledgers, and the automated controls embedded within these systems which link the technology enabled business processes. Our audit procedures included:

- Assessing the governance and higher-level controls in place across the IT Environment, including those regarding policy design, review and awareness, and IT Risk Management practices;
- Obtaining an understanding and testing operating effectiveness of the sample of key controls operating in relation to financial accounting and reporting systems, including system access and system change management, monitor system integrity, program development and computer operations;
- Data integrity of critical system reporting used by us in our audit to select samples and analyze data used by management to generate Financial Statements.
- Testing compensating controls, such as reconciliations between systems and other information sources and performed additional substantive testing such as using extended sample sizes and performing data analysis routines over the full population of transactions.



## Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and we have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's and 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 Bank/Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

## 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 Bank's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a

material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

# NOTES TO THE FINANCIAL STATEMENTS



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.

The Bank's financial position is in compliance with the provisions of the Banking Act No.30 of 1988 and the Banking (Amendment) Act No.24 of 2024 relating to the issuance of financial statements and disclosure provisions and, we have not noted any instance to call for an explanation or any information from any officer or agent of the bank in relation to Section 39 (1A).

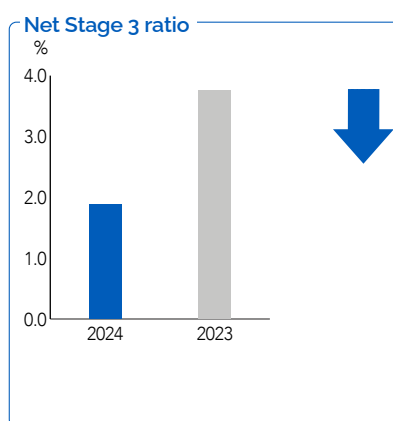
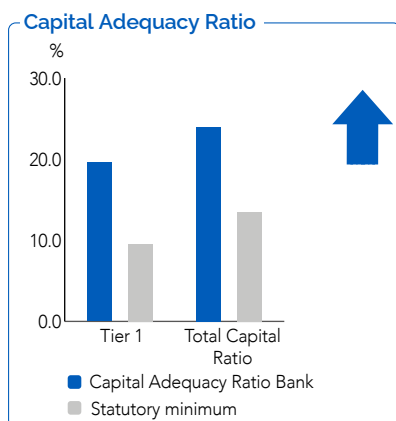
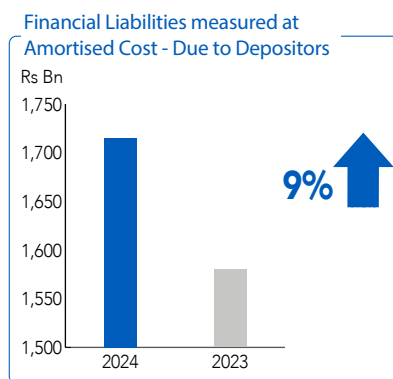
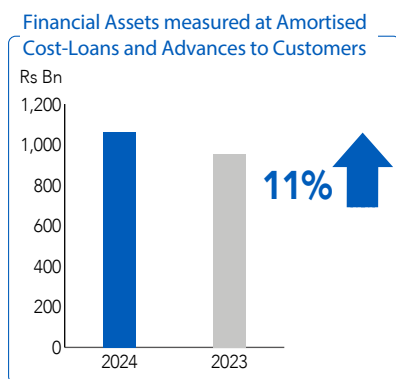
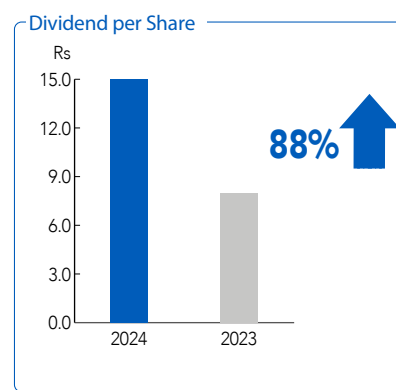
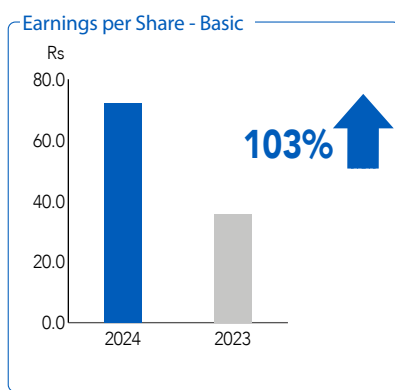
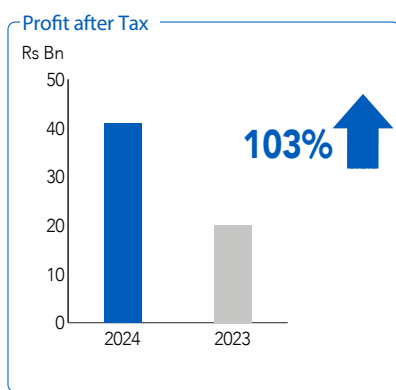
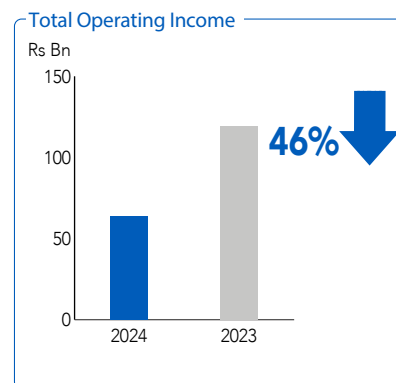
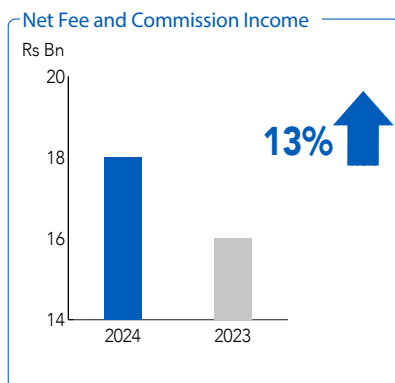
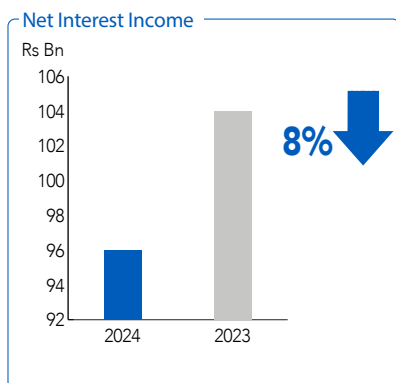
CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is FCA 1798.

A handwritten signature in black ink, appearing to read 'KPMG'.

Chartered Accountants

Colombo, Sri Lanka  
24th February 2025

# FINANCIAL HIGHLIGHTS - BANK





# INCOME STATEMENT

For the year ended 31st December	Note	Bank		Group	
		2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
<b>Gross income</b>	7	190,869,912	299,139,347	228,945,309	336,638,191
Interest income		222,690,253	284,097,697	240,243,657	304,578,112
Less : Interest expenses		126,402,153	179,755,441	130,478,678	186,503,550
<b>Net interest income</b>	8	96,288,100	104,342,256	109,764,979	118,074,562
Fee and commission income		18,412,099	16,308,907	20,022,671	17,207,633
Less: Fee and commission expenses		564,359	467,572	873,946	634,980
<b>Net fee and commission income</b>	9	17,847,740	15,841,335	19,148,725	16,572,653
<b>Net interest, fee and commission income</b>		114,135,840	120,183,591	128,913,704	134,647,215
Net gains / (losses) from trading	10	(4,308,429)	(11,951,627)	(3,965,732)	(11,850,918)
Net gains from financial investments at fair value through other comprehensive income	11	379,172	271,537	506,803	310,852
Net insurance premium income	12	-	-	17,968,647	15,249,250
Net losses arising on de-recognition of Sri Lanka International Sovereign Bonds	13	(49,461,541)	-	(49,461,541)	-
Net other operating income	14	3,158,358	10,412,833	3,630,804	11,143,262
<b>Total operating income</b>		63,903,400	118,916,334	97,592,685	149,499,661
Less: Impairment charge/(reversal) for loans and other losses	15	(78,655,988)	40,589,311	(77,405,549)	42,523,930
<b>Net operating income</b>		142,559,388	78,327,023	174,998,234	106,975,731
<b>Less : Operating expenses</b>					
Personnel expenses	16	21,189,328	16,944,206	26,328,854	20,934,258
Benefits, claims and underwriting expenditure	17	-	-	17,314,118	15,218,729
Other expenses	18	21,015,257	18,559,609	27,485,811	24,222,208
<b>Total operating expenses</b>		42,204,585	35,503,815	71,128,783	60,375,195
<b>Operating profit before taxes on financial services</b>		100,354,803	42,823,208	103,869,451	46,600,536
Less: Taxes on financial services	19	20,534,046	10,134,513	21,147,935	10,523,130
<b>Operating profit after taxes on financial services</b>		79,820,757	32,688,695	82,721,516	36,077,406
Share of profit of joint venture (net of income tax)	20	-	-	1,377,926	1,140,769
<b>PROFIT BEFORE INCOME TAX</b>		79,820,757	32,688,695	84,099,442	37,218,175
Less: Income tax expense	21	38,478,964	12,335,577	39,259,810	13,611,684
<b>PROFIT FOR THE YEAR</b>		41,341,793	20,353,118	44,839,632	23,606,491
Profit attributable to:					
Equity holders of the Bank		41,341,793	20,353,118	43,538,931	22,770,791
Non-controlling interests		-	-	1,300,701	835,700
<b>PROFIT FOR THE YEAR</b>		41,341,793	20,353,118	44,839,632	23,606,491
<b>Earnings per share</b>					
Basic earnings per ordinary share (Rs)	22	72.30	35.59	76.14	39.82
Diluted earnings per ordinary share (Rs)		72.30	35.59	76.14	39.82
<b>Dividend per share</b>	23				
Dividend per share: Gross (Rs)		15.00*	8.00	15.00*	8.00

The notes to the financial statements from pages 298 to 466 form an integral part of these financial statements.

\*Final dividend proposed, which is to be approved at the Annual General Meeting.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December	Note	Bank		Group	
		2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
<b>PROFIT FOR THE YEAR</b>		41,341,793	20,353,118	44,839,632	23,606,491
<b>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods</b>					
Change in fair value of investments in equity instruments designated at fair value through other comprehensive income		3,043,986	3,398,710	3,042,939	3,399,392
Remeasurement of post-employment benefit obligations	53 (c) vi	(3,138,087)	3,507	(3,280,236)	(30,683)
Revaluation gain on freehold land and buildings		4,733,055	-	5,490,076	-
Less: Tax expense relating to items that will not be reclassified to profit or loss including the effect of rate change		(1,419,916)	-	(1,632,877)	10,921
<b>Total other comprehensive income that will not be reclassified to profit or loss</b>		<b>3,219,038</b>	<b>3,402,217</b>	<b>3,619,902</b>	<b>3,379,630</b>
<b>Other comprehensive income that will be reclassified to profit or loss in subsequent periods</b>					
<b>Debt instruments at fair value through other comprehensive income :</b>					
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income		4,136,290	3,238,371	4,462,226	4,470,635
Cumulative net gains/(losses) on debt instruments measured at fair value through other comprehensive income that are reclassified to amortised cost		-	-	-	-
Net change in expected credit losses of debt securities measured at fair value through other comprehensive income	15	1,593,267	-	1,593,267	-
Transfer to life policy holder reserve fund	57 (f)	-	-	(190,566)	(654,729)
Share of other comprehensive income of joint venture that will be reclassified to profit or loss		-	-	(299,689)	(316,335)
Less: Tax expense relating to items that will be reclassified to profit or loss including the effect of rate change		(1,240,887)	(971,511)	(1,241,243)	(1,079,170)
<b>Total other comprehensive income that will be reclassified to profit or loss</b>		<b>4,488,670</b>	<b>2,266,860</b>	<b>4,323,995</b>	<b>2,420,401</b>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<b>7,707,708</b>	<b>5,669,077</b>	<b>7,943,897</b>	<b>5,800,031</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<b>49,049,501</b>	<b>26,022,195</b>	<b>52,783,529</b>	<b>29,406,522</b>
Total comprehensive income attributable to:					
Equity holders of the Bank		49,049,501	26,022,195	51,477,698	28,384,289
Non-controlling interests		-	-	1,305,831	1,022,233
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>49,049,501</b>	<b>26,022,195</b>	<b>52,783,529</b>	<b>29,406,522</b>

The notes to the financial statements from pages 298 to 466 form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

As at 31st December	Note	Bank		Group	
		2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
<b>ASSETS</b>					
Cash and cash equivalents	25	63,356,259	73,148,596	64,065,041	73,758,907
Placements with banks	26	41,858,517	55,991,134	48,656,010	61,836,382
Balances with Central Bank of Sri Lanka	27	6,913,009	12,234,361	6,913,009	12,234,361
Reverse repurchase agreements	28	-	-	5,280,692	1,830,461
Derivative financial instruments	29	375,060	452,193	375,060	452,193
Financial assets measured at fair value through profit or loss	30	1,835,469	115,641	2,962,612	801,065
Financial assets measured at amortised cost - loans and advances to customers	31	1,063,675,345	954,880,316	1,104,013,319	988,601,197
Financial assets measured at amortised cost - debt and other financial instruments	32	741,761,201	549,772,155	770,020,546	584,131,263
Financial assets measured at fair value through other comprehensive income	33	96,309,470	189,325,958	112,407,299	195,975,307
Investment in joint venture	34	755,000	755,000	5,553,026	4,474,789
Investment in subsidiaries	35	3,017,285	3,017,285	-	-
Investment properties	36	453,769	459,104	868,188	913,922
Property, plant and equipment	37	30,126,467	25,418,520	55,467,867	50,164,957
Right-of-use assets	38	4,512,346	5,081,338	2,302,947	2,473,450
Intangible assets and goodwill	39	1,322,941	1,560,099	1,808,753	2,009,896
Deferred tax assets	40	3,393,785	33,944,563	3,941,633	33,967,277
Other assets	41	18,872,133	28,096,221	24,537,698	33,414,983
<b>Total assets</b>		<b>2,078,538,056</b>	<b>1,934,252,484</b>	<b>2,209,173,700</b>	<b>2,047,040,410</b>
<b>LIABILITIES</b>					
Due to banks	42	6,595,571	9,019,582	6,595,571	9,019,582
Derivative financial instruments	29	1,573,417	1,365,523	1,573,417	1,365,523
Securities sold under repurchase agreements	43	26,486,104	61,793,694	26,486,104	61,793,694
Financial liabilities measured at amortised cost - due to depositors	44	1,715,484,127	1,579,780,228	1,750,259,233	1,609,153,685
Dividends payable	45	976,029	974,790	994,123	990,781
Financial liabilities measured at amortised cost - other borrowings	46	19,740,135	24,933,215	19,742,152	25,031,784
Debt securities issued	47	-	87,569	448,108	550,160
Current tax liabilities	48	10,435,749	23,953,823	11,387,381	24,707,679
Deferred tax liabilities	40	-	-	6,731,283	6,552,515
Insurance provision - life	49	-	-	38,877,712	30,975,260
Insurance provision - non-life	50	-	-	4,507,058	4,694,303
Other provisions		19,523,788	9,079,375	20,306,114	9,697,283
Other liabilities	51	18,069,634	19,325,952	21,548,786	20,696,216
Subordinated term debts	52	28,174,227	18,961,556	29,967,185	22,255,164
<b>Total liabilities</b>		<b>1,847,058,781</b>	<b>1,749,275,307</b>	<b>1,939,424,227</b>	<b>1,827,483,629</b>

As at 31st December	Note	Bank		Group	
		2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
<b>EQUITY</b>					
Stated capital	54	42,858,227	40,955,116	42,858,227	40,955,116
Statutory reserve fund	55	12,610,000	10,410,000	12,610,000	10,410,000
Retained earnings	56	77,316,202	56,311,574	91,384,909	68,251,694
Other reserves	57	98,694,846	77,300,487	114,507,771	92,623,236
<b>Total shareholders' equity</b>		<b>231,479,275</b>	<b>184,977,177</b>	<b>261,360,907</b>	<b>212,240,046</b>
Non-controlling interests	58	-	-	8,388,566	7,316,735
<b>Total equity</b>		<b>231,479,275</b>	<b>184,977,177</b>	<b>269,749,473</b>	<b>219,556,781</b>
<b>Total equity and liabilities</b>		<b>2,078,538,056</b>	<b>1,934,252,484</b>	<b>2,209,173,700</b>	<b>2,047,040,410</b>
Contingent liabilities and commitments	59	867,243,839	883,033,112	867,243,839	883,033,112
Net assets value per ordinary share (Rs.)	63	404.81	323.49	457.07	371.17

The notes to the financial statements from pages 298 to 466 form an integral part of these financial statements.

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



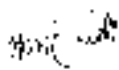
Anuradhi Delage  
Chief Financial Officer

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

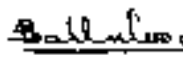
Approved and signed for and on behalf of the Board.



Damith Pallewatte  
Managing Director/Chief Executive Officer



Nihal Jayawardene  
Chairman



Shiromi Halloluwa  
Head of Legal/Board Secretary

21st February 2025  
Colombo

# STATEMENT OF CHANGES IN EQUITY

Bank	Stated Capital			Other Reserves				Total	
	Voting Shares	Non Voting Shares	Statutory Reserve Fund	Capital Reserve	Fair Value Reserve	Special Reserve	General Reserve		Retained Earnings
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
Balance as at 1st January 2023	31,732,741	6,946,264	9,310,000	13,927,316	(1,395,906)	-	58,100,000	40,706,963	159,327,378
Total comprehensive income for the year									
Net profit for the year 2023	-	-	-	-	-	-	-	20,353,118	20,353,118
Other comprehensive income, net of tax	-	-	-	-	5,669,077	-	-	-	5,669,077
Total comprehensive income for the year	-	-	-	-	5,669,077	-	-	20,353,118	26,022,195
Transactions with equity holders, recognised directly in equity									
Contributions by and distributions to equity holders									
Dividends to equity holders									
Final dividend 2022 - Cash	23	-	-	-	-	-	-	-	-
Final dividend 2022 - Scrip	23	1,820,883	455,228	-	-	-	-	(2,677,777)	(401,666)
Total contributions by and distributions to equity holders		1,820,883	455,228	-	-	-	-	(2,677,777)	(401,666)
Transfer of / (subsequent settlement of) unclaimed dividends	56	-	-	-	-	-	-	29,270	29,270
Transfers during the year 2023			1,100,000				1,000,000	(2,100,000)	-
Balance as at 31st December 2023	33,553,624	7,401,492	10,410,000	13,927,316	4,273,171	-	59,100,000	56,311,574	184,977,177

The notes to the financial statements from pages 298 to 466 form an integral part of these financial statements.

Bank	Stated Capital				Other Reserves				Total	
	Voting Shares	Non Voting Shares	Statutory Reserve Fund	Capital Reserve	Fair Value Reserve	Special Reserve	General Reserve	Retained Earnings		
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000		
	Note									
Balance as at 1st January 2024	33,553,624	7,401,492	10,410,000	13,927,316	4,273,171	-	59,100,000	56,311,574	184,977,177	
Total comprehensive income for the year										
Net profit for the year 2024	-	-	-	-	-	-	-	41,341,793	41,341,793	
Other comprehensive income, net of tax	-	-	-	3,313,138	7,532,657	-	-	(3,138,087)	7,707,708	
Total comprehensive income for the year	-	-	-	3,313,138	7,532,657	-	-	38,203,706	49,049,501	
Transactions with equity holders, recognised directly in equity										
Contributions by and distributions to equity holders										
Dividends to equity holders										
Final dividend 2023 - Cash	23	-	-	-	-	-	-	(2,238,954)	(2,238,954)	
Final dividend 2023 - Scrip	23	1,518,616	384,495	-	-	-	-	(2,238,954)	(335,843)	
Total contributions by and distributions to equity holders		1,518,616	384,495	-	-	-	-	(4,477,908)	(2,574,797)	
Transfer of / (subsequent settlement of) unclaimed dividends	56	-	-	-	-	-	-	27,394	27,394	
Transfers during the year 2024		-	-	2,200,000	-	-	9,548,564	1,000,000	(12,748,564)	
Balance as at 31st December 2024		35,072,240	7,785,987	12,610,000	17,240,454	11,805,828	60,100,000	77,316,202	231,479,275	

The notes to the financial statements from pages 298 to 466 form an integral part of these financial statements.



# STATEMENT OF CHANGES IN EQUITY

Group	Attributable to Equity Holders of the Bank													
	Stated Capital			Other Reserves							Shareholders'			Total
	Voting Shares	Non-Voting Shares	Statutory Reserve Fund	Capital Reserve	General Reserve	Fair Value Reserve	Special Reserve	Life Policy Holder Reserve Fund	Restricted Regulatory Reserve	Exchange Equalisation Reserve	Retained Earnings	Funds	Non Controlling Interests	
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
	31,732,741	6,946,264	9,310,000	28,493,417	58,100,000	(1,182,630)	-	(1,347,731)	381,156	611,253	50,247,360	183,291,830	6,795,096	190,086,926
Balance as at 1st January 2023														
Total comprehensive income for the year														
Net profit for the year 2023	-	-	-	-	-	-	-	-	-	-	22,770,791	22,770,791	835,700	23,606,491
Other comprehensive income, net of tax	-	-	-	-	-	5,674,494	-	-	-	(43,046)	(17,950)	5,613,498	186,533	5,800,031
Total comprehensive income for the year	-	-	-	-	-	5,674,494	-	-	-	(43,046)	22,752,841	28,384,289	1,022,233	29,406,522
Transactions with equity holders, recognised directly in equity														
Contributions by and distributions to equity holders														
Dividends to equity holders														
Final dividend 2022 - Cash	-	-	-	-	-	-	-	-	-	-	-	-	(219,000)	(219,000)
Final dividend 2022 - Scrip	1,820,883	455,228	-	-	-	-	-	-	-	-	(2,677,777)	(401,666)	-	(401,666)
Total contributions by and distributions to equity holders	1,820,883	455,228	-	-	-	-	-	-	-	-	(2,677,777)	(401,666)	(219,000)	(620,666)
Transfer to life policy holder reserve fund	57 (f)	-	-	-	-	(422,391)	-	1,358,714	-	-	-	936,323	(281,594)	654,729
Transfer of / (subsequent settlement of) unclaimed dividends	56	-	-	-	-	-	-	-	-	-	29,270	29,270	-	29,270
Transfers during the year 2023	-	-	1,100,000	-	1,000,000	-	-	-	-	-	(2,100,000)	-	-	-
Balance as at 31st December 2023	33,553,624	7,401,492	10,410,000	28,493,417	59,100,000	4,069,473	-	10,983	381,156	566,207	68,251,694	212,240,046	7,316,735	219,556,781

The notes to the financial statements from pages 298 to 466 form an integral part of these financial statements.

Group	Attributable to Equity Holders of the Bank														Total	
	Stated Capital				Other Reserves						Shareholders' Funds					Controlling Interests
	Voting Shares	Non-Voting Shares	Statutory Reserve Fund	Capital Reserve	General Reserve	Fair Value Reserve	Special Reserve	Life Policy Holder Reserve Fund	Restricted Regulatory Reserve	Exchange Equalisation Reserve	Retained Earnings	Funds	Non Controlling Interests			
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000			
Balance as at 1st January 2024	33,553,624	7,401,492	10,410,000	28,493,417	59,100,000	4,069,473	-	10,983	381,156	568,207	68,251,694	212,240,046	7,316,735	219,556,781		
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	43,538,931	43,538,931	1,300,701	44,839,632		
Net profit for the year 2024	-	-	-	3,831,870	-	7,579,976	-	-	-	(266,441)	(3,206,638)	7,938,767	5,130	7,943,897		
Other comprehensive income, net of tax	-	-	-	3,831,870	-	7,579,976	-	-	-	(266,441)	40,332,293	51,477,698	1,305,831	52,783,529		
Total comprehensive income for the year	-	-	-	3,831,870	-	7,579,976	-	-	-	(266,441)	40,332,293	51,477,698	1,305,831	52,783,529		
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Contributions by and distributions to equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Dividends to equity holders	-	-	-	-	-	-	-	-	-	-	(2,238,954)	(2,238,954)	(234,000)	(2,472,954)		
Final dividend 2023 - Cash	-	-	-	-	-	-	-	-	-	-	(2,238,954)	(2,238,954)	(234,000)	(2,472,954)		
Final dividend 2023 - Scrip	1,518,616	384,495	-	-	-	-	-	-	-	-	(2,238,954)	(335,843)	-	(335,843)		
Total contributions by and distributions to equity holders	1,518,616	384,495	-	-	-	-	-	-	-	-	(4,477,908)	(2,574,797)	(234,000)	(2,808,797)		
Transfer to life policy holder reserve fund	-	-	-	-	-	-	-	190,566	-	-	-	190,566	-	190,566		
Transfer of / (subsequent settlement of) unclaimed dividends	-	-	-	-	-	-	-	-	-	-	27,394	27,394	-	27,394		
Transfers during the year 2024	-	-	2,200,000	-	1,000,000	-	9,548,564	-	-	-	(12,748,564)	-	-	-		
Balance as at 31st December 2024	35,072,240	7,785,987	12,610,000	32,325,287	60,100,000	11,649,449	9,548,564	201,549	381,156	301,766	91,384,909	261,360,907	8,388,566	269,749,473		

The notes to the financial statements from pages 298 to 466 form an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

## ACCOUNTING POLICY

The statement of cash flows has been prepared using the direct method of preparing cash flows in accordance with Sri Lanka Accounting Standard - LKAS 7 on "Statement of Cash Flows" whereby gross cash receipts and gross cash payments of operating activities, financing activities and

investing activities have been recognised. Cash and cash equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

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

For the year ended 31st December	Note	Bank		Group	
		2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
<b>Cash flows from operating activities</b>					
Interest receipts		201,623,178	278,180,411	218,752,576	290,876,688
Interest payments		(128,565,113)	(154,092,480)	(133,557,378)	(161,351,036)
Net commission receipts		17,684,449	15,738,388	18,985,433	16,469,601
Payments to employees		(17,695,193)	(14,832,343)	(22,750,135)	(18,716,444)
Taxes on financial services		(13,319,538)	(7,494,176)	(13,893,960)	(7,878,196)
Loss/receipts from other operating activities		(10,811,220)	(13,335,103)	8,502,446	2,929,554
Payments for other operating activities		(18,746,267)	(17,147,416)	(33,660,738)	(30,118,408)
<b>Operating profit before changes in operating assets and liabilities</b>		<b>30,170,296</b>	<b>87,017,281</b>	<b>42,378,244</b>	<b>92,211,759</b>
<b>(Increase)/decrease in operating assets</b>					
Balances with Central Bank of Sri Lanka		5,320,239	20,107,587	5,320,239	20,107,587
Financial assets measured at amortised cost - loans and advances to customers		(116,835,715)	(3,338,089)	(123,531,526)	1,994,876
Reverse repurchase agreements		-	-	(3,450,231)	(449,882)
Other assets		1,874,838	(1,052,139)	1,341,578	(2,273,981)
		(109,640,638)	15,717,359	(120,319,940)	19,378,600
<b>Increase / (decrease) in operating liabilities</b>					
Financial liabilities measured at amortised cost - due to depositors		167,098,275	183,203,524	172,499,922	177,265,179
Financial liabilities measured at amortised cost - other borrowings		(7,711,581)	(4,491,892)	(7,808,132)	(5,428,327)
Securities sold under repurchase agreements		(35,208,798)	55,144,079	(35,208,798)	55,144,079
Other liabilities		(164,878)	2,555,130	928,835	3,235,465
		124,013,018	236,410,841	130,411,827	230,216,396
<b>Net cash generated (used in)/ generated from operating activities before income tax</b>		<b>44,542,676</b>	<b>339,145,481</b>	<b>52,470,131</b>	<b>341,806,755</b>
Income tax paid		(24,107,062)	(22,852,568)	(25,249,820)	(23,549,119)
<b>Net cash (used in)/generated from operating activities</b>		<b>20,435,614</b>	<b>316,292,913</b>	<b>27,220,311</b>	<b>318,257,636</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	37	(1,516,991)	(2,082,288)	(1,993,957)	(2,580,384)
Proceeds from the sale of property, plant and equipment		10,650	12,692	36,976	18,513
Net proceeds from sale, maturity and purchase of financial investments		(49,949,296)	(312,813,721)	(52,906,022)	(311,452,319)
Net purchase of intangible assets	39	(358,166)	(760,637)	(499,081)	(812,659)
Dividends received from investment in subsidiaries	14	893,280	288,473	-	-
Dividends received from other investments		236,374	33,497	236,831	43,724
<b>Net cash used in from investing activities</b>		<b>(50,684,149)</b>	<b>(315,321,984)</b>	<b>(55,125,253)</b>	<b>(314,783,125)</b>

For the year ended 31st December	Note	Bank		Group	
		2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
<b>Cash flows from financing activities</b>					
Proceeds from the issue of subordinated debt	52 (b)	12,000,000	-	12,000,000	-
Repayment of subordinated debt/debt securities issued		(3,334,074)	(6,000,000)	(4,391,391)	(6,005,946)
Dividend paid to non controlling interest		-	-	(234,000)	(233,226)
Dividend paid to shareholders of the parent company		(2,546,164)	(405,932)	(2,547,403)	(405,932)
<b>Net cash generated in financing activities</b>		<b>6,119,762</b>	<b>(6,405,932)</b>	<b>4,827,206</b>	<b>(6,645,104)</b>
<b>Net increase in cash and cash equivalents</b>		<b>(24,128,773)</b>	<b>(5,435,003)</b>	<b>(23,077,736)</b>	<b>(3,170,593)</b>
Cash and cash equivalents at the beginning of the period		129,390,056	134,825,059	135,847,014	139,017,607
Cash and cash equivalents at the end of the period		105,261,283	129,390,056	112,769,278	135,847,014
<b>Note [a] - Reconciliation of operating profit before changes in operating assets and liabilities</b>					
Profit before income tax		79,820,757	32,688,695	84,099,442	37,218,175
Amortisation of intangible assets	18 (b)	595,324	450,692	680,592	539,914
Amortisation of right of use assets	18 (b)	848,063	823,040	891,471	820,805
Accretion of interest on right of use assets		879,192	862,480	421,269	385,875
Accrual for interest payable		998,801	31,468,717	540,985	31,434,875
Accrual for interest receivable		(20,342,239)	(5,387,080)	(20,766,245)	(13,171,218)
Accrual for other payables		43,457	(5,720,036)	1,008,206	(5,342,196)
Accrual for other receivables		236,388	(4,959,155)	(252,096)	(4,852,662)
Depreciation of investment property	18 (b)	5,335	5,335	46,031	29,281
Depreciation of property, plant and equipment	18 (b)	1,579,932	1,497,194	2,212,880	2,027,133
Dividend income		(1,275,403)	(445,431)	(405,808)	(167,185)
Foreign Exchange (loss)/gain		(3,773,123)	(4,659,417)	(3,773,123)	(4,659,417)
Gain on disposal of property, plant and equipment		(10,569)	(10,386)	(30,818)	(13,879)
Impairment charge for loans and other losses	15	(78,655,988)	40,589,311	(77,405,549)	42,523,930
Increase in insurance contract liabilities - life		-	-	7,902,452	6,382,857
Movement in general insurance reserve fund		-	-	(187,245)	512,715
Net capital gain/(loss) from financial assets measured at fair value through Other comprehensive income	11	-	(117,291)	(127,174)	(156,247)
Net capital gain/(loss) from financial assets measured at fair value through profit or loss	10	(189,376)	(66,814)	(224,256)	(75,575)
Net capital gain/(loss) from Mark to Market valuation on Financial assets measured at fair value through profit or loss	10	(51,796)	(2,573)	(336,385)	(84,653)
Net loss arising on derecognition of financial assets	13	49,461,541	-	49,461,541	-
Share of profit of joint venture	20	-	-	(1,377,926)	(1,140,769)
		30,170,296	87,017,481	42,378,244	92,211,759
<b>Note [b] - Cash and cash equivalents at the end of the period</b>					
Cash and cash equivalents	25	63,384,494	73,365,223	64,093,301	73,975,559
Placements with banks	26	41,876,789	56,024,833	48,675,977	61,871,455
		105,261,283	129,390,056	112,769,278	135,847,014

The notes to the financial statements from page 298 to 466 form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 REPORTING ENTITY

### 1.1 Corporate Information

Hatton National Bank PLC (the "Bank") is a public quoted company incorporated on 5th March 1970 with limited liability and domiciled in Sri Lanka. It is a licensed commercial bank registered under the Banking Act No. 30 of 1988 and amendments thereto. The Bank was re-registered under the Companies Act No. 07 of 2007. The registered office of the Bank is situated at No 479, T B Jayah Mawatha, Colombo 10. The shares of the Bank have a primary listing on the Colombo Stock Exchange. The unsecured subordinated debentures of the bank are also listed on the Colombo Stock Exchange.

The Bank does not have an identifiable parent of its own. The Hatton National Bank PLC is the ultimate parent of the Group.

The structure of the Group is given below.

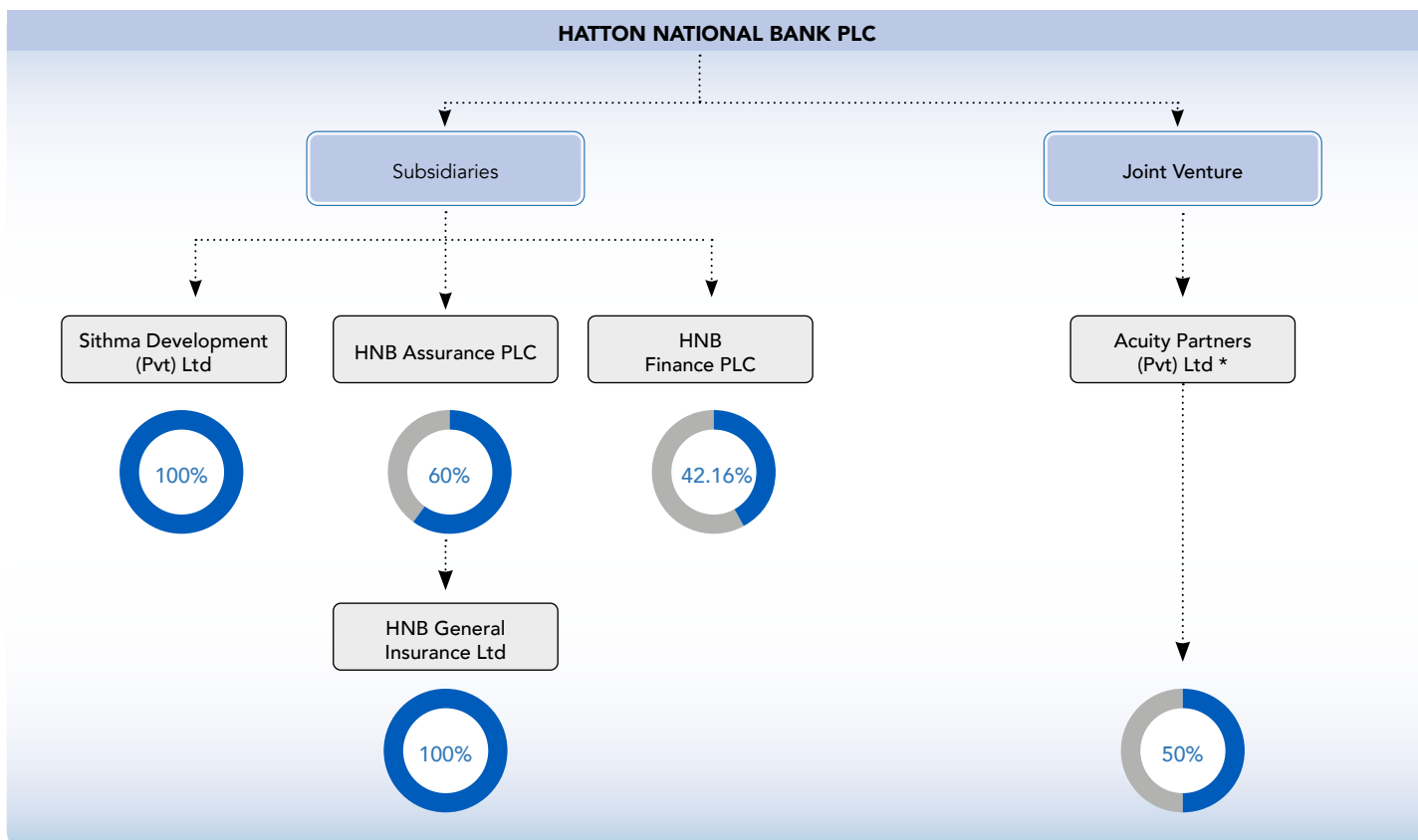
The staff strength of the Group and the Bank was as follows:

As at 31st December	2024	2023
Bank	5,577	5,492

Corporate information is presented in inner back cover of this Annual Report.

### 1.2 Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended 31st December 2024 include the Bank and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in its joint venture. The financial statements of all companies in the Group have a common financial year which ends on December 31st except for subsidiary, HNB Finance PLC and Lanka Ventures PLC, (a subsidiary of Acuity Partners (Pvt) Limited, the joint venture), whose financial year ends on March 31st.



\*As disclosed in Note 64 (b) to the financial statements, the bank acquired the remaining 50% shares in Acuity Partners (Pvt) Ltd on 21st January 2025. With this acquisition Acuity partners (Pvt) Ltd, which was subsequently rebranded as HNB Investment Bank (Pvt) Ltd, became a wholly owned subsidiary of Hatton National Bank PLC.

### 1.3 Principal Activities and Nature of Operations

The principal activities of the group companies comprising of the subsidiaries and the joint venture company are summarised below.

Entity	Principal business activity
Hatton National Bank PLC	Banking and related activities such as deposit acceptance, corporate and retail banking, personal financial services, off shore banking, foreign currency operations, trade services, investment banking, development banking, rural finance, project finance, leasing, issuing of local and international debit and credit cards, internet banking, mobile banking, money remittance facilities, dealing in government securities and treasury-related products, export and domestic factoring, pawning, margin trading, digital banking services, bancassurance and islamic banking products and services etc.
<b>Subsidiaries</b>	
HNB Assurance PLC	Provides life insurance solutions for both individual and corporate customers. Life insurance is a protection against financial losses that would result from an insured event adversely affecting the insured. In such situations, the nominated beneficiary receives the proceeds and is thereby safeguarded from financial impacts of the insured event. The benefit paid by a life insurer is consideration in exchange for premium payments made by the insured.
HNB General Insurance Ltd (Fully owned subsidiary of HNB Assurance PLC)	Provides general insurance solutions for both individual and corporate customers. Insurance other than 'Life Insurance' falls under the category of general insurance; Fire, motor, marine and miscellaneous insurance are the main categories under general insurance
Sithma Development (Pvt) Ltd	Construction and letting of premises for commercial purposes and related services
HNB Finance PLC	Provision of microfinance facilities, personal and business loans, leasing, housing loans, pawning etc. primarily focusing on the lower income segment of the community and mobilisation of public deposits.
<b>Joint Ventures</b>	
Acuity Partners (Pvt) Ltd (Became a wholly owned subsidiary of Hatton National Bank PLC w.e.f. 21st January 2025 and subsequently rebranded as HNB Investment Bank (Pvt) Ltd)	Investment banking and related activities such as corporate finance, debt structuring, and IPO's and margin trading facilities.

There were no significant changes in the nature of the principal activities of the Group during the financial year under review. The group companies are domiciled in Sri Lanka.

## 2 BASIS OF ACCOUNTING

### 2.1 Basis of Preparation

#### 2.1.1 Statement of Compliance

The consolidated financial statements of the Group and the separate financial statements of the Bank have been prepared in accordance with Sri Lanka Accounting Standards (commonly referred to as "SLFRS"/"LKAS") issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

Further, these statements comply with the requirements of the Companies Act No. 7 of 2007, the Banking Act No. 30 of 1988 (including applicable directions and

amendments), the Insurance Industry Act No. 43 of 2000, and the Finance Business Act No. 42 of 2011 and its amendments, these financial statements provide information and appropriate disclosures as required by the above.

The Group did not adopt any inappropriate accounting treatments, which are not in compliance with the requirement of the SLFRSs and LKASs, regulations governing the preparation and presentation of financial statements.

Details of the Group's material accounting policies applied during the year are given

in notes 3 to 67 on pages 303 to 466.

The formats used in the preparation and presentation of the financial statements and the disclosures made therein also complied with the specified formats prescribed by the Central Bank of Sri Lanka (CBSL) in circular No 05 of 2024 dated 31st December 2024, on "Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks".

#### 2.1.2 Responsibility for Financial Statements

The Board of Directors acknowledges their responsibility for financial statements as set out in the "Annual Report of the Board of Directors



# NOTES TO THE FINANCIAL STATEMENTS

## 2 BASIS OF ACCOUNTING (Contd.)

on the Affairs of the Company”, “Directors’ Responsibility for Financial Reporting” and the certification on the statement of financial position on pages 199, 281 and 291 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 21st February 2025.

### 2.1.4 Basis of Measurement

The financial statements have been prepared on the historical cost basis and applied consistently except for the following items in the statement of financial position.

Item	Basis of measurement	Note Reference	Page Reference
Derivative financial instruments	Fair value	29	377
Financial assets measured at fair value through profit or loss	Fair value	30	378
Financial assets measured at fair value through other comprehensive income	Fair value	33	396
Freehold land and buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation	37	409
Insurance contract liabilities	Actuarially determined value of life insurance liability estimated based on actuarial guidelines issued by Insurance Regulatory Commission of Sri Lanka (IRCSL)	49	433
Incurred but not reported/incurred but not enough reported liability	Actuarially determined values based on internationally accepted actuarial policies and methodologies	50	435
Defined benefit obligations	Asset/(liability) for defined benefit obligations is recognised as the present value of the defined benefit obligation less the fair value of the plan assets	53	439

### 2.1.5 Going Concern

The Group’s financial statements have been prepared under the assumption of a going concern, as the Board of Directors is confident that the Group possesses sufficient resources to continue its operations into the foreseeable future. This confidence is based on directors’ comprehensive assessment, which includes adherence to regulatory capital requirements, and anticipated funding requirements. The going concern assessment takes into account several factors, with key elements being the

These financial statements include the following components:

- an income statement and statement of profit or loss and other comprehensive income providing the information on the financial performance of the Group and the Bank for the year under review. Refer pages 288 and 289;
- a statement of financial position (SOFP) providing the information on the financial position of the Group and the Bank as at the year end. Refer pages 290 and 291;

- a statement of changes in equity depicting all changes in shareholders’ funds during the year under review of the Group and the Bank. Refer pages 292 to 295;
- a statement of cash flows providing the information to the users, on the ability of the Group and the Bank to generate cash and cash equivalents and utilisation of those cash flows. Refer page 296 and 297;
- notes to the financial statements comprising material accounting policies and other explanatory information. Refer pages 303 to 466.

Group’s profitability, capital, and liquidity. Refer to Note 5.4 and Note 5.7 of the financial statements.

### 2.1.6 Functional and Presentation Currency

The financial statements of the Group are presented in Sri Lankan Rupees (LKR), which is the currency of the primary economic environment in which the Group operates (Group’s functional currency). Each entity in the Group determines its own functional currency and items included in the financial statements

of each individual entity are measured using that functional currency. There was no change in the Group’s presentation and functional currency during the year under review.

### 2.1.7 Presentation of Financial Statements

The assets and liabilities of the Group presented in the statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis on recovery or settlement

within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 61 to the financial statements.

No adjustments have been made for the inflationary factors affecting the financial statements.

### 2.1.8 Rounding

The amounts in the financial statements have been rounded-off to the nearest rupees thousands except where otherwise indicated, as permitted by the Sri Lanka Accounting Standard - LKAS 1 on "Presentation of Financial Statements".

### 2.1.9 Materiality and aggregation

Each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard - LKAS 1 - "Presentation of Financial Statements".

### 2.1.10 Comparative Information

The comparative information has been reclassified where ever necessary to conform with the current year's classification in order to provide a better presentation.

## 2.2 Accounting Judgements, Estimates and Assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets, liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Estimates and underlining assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgement/estimates involved.

### 2.2.1 Economic environment

The Sri Lankan economy continued to improve during the year, supported by monetary and fiscal measures, increased foreign exchange reserves, and a gradual recovery in key sectors. These improvements contributed to enhanced market confidence and economic stability.

A significant development during the year was the successful completion of Sri Lanka's external debt restructuring efforts. In December 2024, the government finalised an exchange of Sri Lanka Sovereign Bonds (SLISBs) as part of its broader restructuring strategy. This initiative was aimed at restoring debt sustainability by reducing the country's debt burden, ensuring future repayments remained within its economic capacity, and facilitating long-term recovery. While these developments are positive, challenges remain in certain areas/segments.

The significant accounting estimates impacted by these forecasts and associated uncertainties predominantly relate to expected credit losses, fair value measurement and the assessment of the recoverable amount of financial assets. The impact of the economic conditions on each of these estimates is discussed further in the relevant notes of these financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

### 2.2.2 Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes.

Significant Judgements	Note Reference	Page Reference
Classification of financial assets and assessment of the business model within which the assets are held	3.4.3	306
Determination of fair value of financial instruments when there is no observable market data	6.2	346
Establishing the criteria for determination of whether credit risk on a financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of Expected Credit Losses (ECL) and the selection and approval of models used to measure Expected Credit Losses (ECL)	15 (c)	360
Determination of control over investees	34, 35	399, 401
Classification of investment properties	36	404

# NOTES TO THE FINANCIAL STATEMENTS

## 2 BASIS OF ACCOUNTING (Contd.)

### 2.2.3 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the financial statements for the year ended 31st December 2024 is included in the following notes.

Significant Assumptions and Estimation Uncertainties	Note Reference	Page Reference
Impairment testing for Cash Generating Units (CGU) containing goodwill: key assumptions underlying recoverable amounts	3.5, 39	308, 423
Measurement of the fair value of financial instruments with significant unobservable inputs	6.2	346
Impairment of financial instruments: determination of inputs into the Expected Credit Loss (ECL) measurement model including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information	15 (a)	359
Useful life time of property, plant and equipment, investment properties and intangible assets	36, 37, 39	404, 409, 423
Determination of the fair value of freehold land and buildings on the basis of significant unobservable inputs	37 (c)	416
Right-of-use assets and operating lease liability	38	420
Recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used	40 (d)	427
Valuation of life insurance contract liabilities of subsidiary, HNB Assurance PLC (HNBA)	49	433
Valuation of non-life insurance contract liabilities of subsidiary, HNB General Insurance Limited	50	435
Measurement of defined benefit obligations: key actuarial assumptions	53 (c) vii	443
Recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources	59	451

Accounting policy	Note Reference	Page Reference
<b>Material accounting policies – General</b>		
Basis of consolidation	3.1	303
Foreign currency	3.2	304
Financial instruments – Initial recognition, classification and subsequent measurement	3.3	304
Investment in joint venture	34	399
Investment in subsidiaries	35	401
Investment properties	36	404
Property, plant and equipment	37	409
Right-of-use assets	38	420
Intangible assets and goodwill	39	423
Due to banks	42	429
Securities sold under repurchase agreements	43	429
Financial liabilities measured at amortised cost – Due to depositors	44	430
Financial liabilities at amortised cost – Other borrowings	46	431
Debt securities issued	47	432
Subordinated term debts	52	438
Insurance provision – Life	49	433
Insurance provision – Non-life	50	435

Accounting policy	Note Reference	Page Reference
Employee benefit obligations	53	439
Contingent liabilities and commitments	59	451
<b>Material accounting policies – Recognition of income and expenses</b>		
Gross income	7	350
Net interest income	8	350
Net fee and commission income	9	353
Net gains/(losses) from trading	10	355
Net gain from financial investments at fair value through other comprehensive income	11	356
Net insurance premium income	12	356
Net gains arising on de-recognition of financial assets	13	357
Net other operating income	14	358
Impairment charge for loans and other losses	15	359
Personnel expenses	16	364
Benefits, claims and underwriting expenditure	17	365
Other expenses	18	366
Income tax expenses	21	368

### 3. MATERIAL ACCOUNTING POLICIES

#### Application of Accounting Policies

The Group has consistently applied the accounting policies for all periods presented in the financial statements. The Group has adopted the standards set out in Note 3.6 during the year. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective as given in Note 4.

Apart from the general accounting policies set out below, the specific accounting policies pertaining to each item in the financial statements have been presented within the respective notes to the financial statements. These material accounting policies have been applied consistently to all periods presented in the financial statements of the Group, unless otherwise indicated. The accounting policies have been consistently applied by the Group entities where applicable and deviations if any have been disclosed accordingly. Further the changes in accounting policies due to adoption of new standards and interpretations have been presented in Note 4 to the financial statements.

#### 3.1 Basis of Consolidation

The Group's financial statements comprise the consolidation of the financial statements of the Bank, its subsidiaries in terms of the Sri Lanka Accounting Standard - SLFRS 10 on

“Consolidated Financial Statements” and the proportionate share of the profit or loss and net assets of its joint venture (equity method) in terms of the Sri Lanka Accounting Standard - SLFRS 11 on “Joint Arrangements”.

##### 3.1.1 Business Combinations and Goodwill

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group.

In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a ‘concentration test’ that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs

are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in income statement.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in income statement.

##### 3.1.2 Non-Controlling Interests (NCI)

The details of non-controlling interest are given in Note 58 to the financial statements.

##### 3.1.3 Subsidiaries

The details of the Bank's subsidiaries, how they are accounted in the financial statements of the Bank and their contingencies are set out in Notes 35 and 59 on pages 401 and 451 to the financial statements.

##### 3.1.4 Joint Venture

The details of joint venture, the method of accounting for same in the financial statements

# NOTES TO THE FINANCIAL STATEMENTS

## 3. MATERIAL ACCOUNTING POLICIES (Contd.)

of the Bank, together with summarised financial position and the Group's share of contingent liabilities of such joint venture are set out in Notes 34 and 59 on pages 399 and 451 to the financial statements.

### 3.1.5 Loss of Control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in income statement. Any interest retained in the former subsidiary is measured at fair value when control is lost. Subsequently, it is accounted for as an associate or in accordance with the Group's accounting policy for financial instruments.

### 3.1.6 Transactions Eliminated on Consolidation

Intra-group balances, transactions and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Un-realised gains arising from transactions with equity accounted investees are eliminated to the extent of the Group's interest in the investee. Un-realised losses are eliminated in the same way as un-realised gains, except that those are only eliminated to the extent that there is no evidence of impairment.

### 3.1.7 Material Gains or Losses, Provisional Values or Error Corrections

There were no material gains or losses, provisional values or error corrections recognised during the year in respect of business combinations that took place in previous periods.

## 3.2 Foreign Currency

### 3.2.1 Foreign Currency Transactions and Balances

Transactions in foreign currencies are translated into the functional currency, which is Sri Lankan Rupees (LKR), using the middle rates of exchange prevailing at the dates on which the transactions were affected.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Sri Lankan Rupees using the middle rates of exchange prevailing at that

date. All differences arising on non-trading activities are taken to "other operating income" in the income statement as foreign exchange gain/(loss).

The foreign currency gains or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period and the amortised cost in foreign currency translated at the middle rates of exchange prevailing at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in the income statement, except for differences arising on the retranslation of financial investments measured at fair value through other comprehensive income, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Sri Lankan Rupees at the exchange rates on the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in income statement. However, foreign currency differences arising from the translation of following items are recognised in Other Comprehensive Income (OCI):

- Equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI;
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- Qualifying cash flow hedges to the extent that the hedges are effective.

### 3.2.2 Foreign Currency Translations

The Group's consolidated financial statements are presented in Sri Lankan Rupees, which is also the Bank's functional currency. The

financial statements of the foreign currency banking unit is translated into the Group's presentation currency as explained below.

### 3.2.3 Transactions of the Foreign Currency Banking Unit

These are recorded in accordance with above, except the application of the closing exchange rate for translation of the income statement and the statement of profit or loss and other comprehensive income.

## 3.3 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

### 3.3.1 Date of Recognition

All financial assets and liabilities with the exception of loans and advances to customers and balances due to customers are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes "regular way trades". Regular way trades mean purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognises balances due to customers when funds are transferred to the Group.

### 3.3.2 Recognition and Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing instruments as described in Note 3.4 to the financial statements.

All financial instruments are measured initially at their fair value plus or minus the transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except in the case of financial assets and financial liabilities measured at fair value through profit or loss.

Trade receivables are measured at transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the bank accounts for the 'Day 1' profit or loss, as described below.

### 3.3.2 (a) "Day 1" Profit or Loss

The "Day 1 loss" arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rate (EIR) in "Interest Income" and "Personnel Expenses" over the remaining service period of employee or tenure of the loan whichever is shorter.

### 3.4 Classification and Subsequent Measurement of Financial Instruments

The Group classifies all of its financial assets based on the business model for managing the asset and the asset's contractual terms.

These assets are measured at either:

- Amortised cost, as explained in Note 31 and Note 32 to the financial statements.
- Fair Value through Other Comprehensive Income (FVOCI), as explained in Note 33 to the financial statements.
- Fair Value through Profit or Loss (FVTPL) as explained in Note 30 to the financial statements.

The Group classifies and measures its derivative and trading portfolio at FVTPL as explained in Notes 29 and 30 to the financial statements. The Group may designate financial instruments at FVTPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 30 to the financial statements.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL. The financial liabilities are measured at FVTPL when they are either derivative instruments, held for trading or the fair value designation is applied,

as explained in Note 29 to the financial statements.

The subsequent measurement of financial instruments depends on their classification.

#### 3.4.1 Business Model Assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment

The business model assessment is based on reasonably expected scenarios without taking into account "worse case" or "stress case" scenarios. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model,

but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

#### 3.4.2 Assessment of whether contractual cash flows are Solely Payments of Principal and Interest (SPPI test)

As a second step of its classification process, the Group assesses the contractual terms of the financial assets to identify whether they meet the SPPI test.

For the purpose of this assessment, "principal" is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

"Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during the particular period of time and for other basic lending risks and costs, as well as profit margin.

When carrying out the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than "de minimis" exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.



# NOTES TO THE FINANCIAL STATEMENTS

## 3. MATERIAL ACCOUNTING POLICIES (Contd.)

### 3.4.3 Classification and Subsequent Measurement of Financial Assets

A summary of the recognition and measurement criteria pertaining to different types of financial assets recognised within the statement of financial position are as follows.

Financial Asset Classification	Criteria	Type of Assets Measured as per the Specified Asset Classification	Note Reference
Financial assets measured at amortised cost	<p>A financial asset is measured at amortised cost if both of the following conditions are met and is not designated as at FVTPL:-</p> <ul style="list-style-type: none"> <li>- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and</li> <li>- The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.</li> </ul>	Cash and cash equivalents	25
		Placements with banks	26
		Balances with Central Bank of Sri Lanka	27
		Reverse repurchase agreements	28
		Financial assets measured at amortised cost - loans and advances to customers	31
		Financial assets measured at amortised cost - debt and other instruments	32
Financial assets measured at fair value through other comprehensive income	<ul style="list-style-type: none"> <li>• A debt instrument is measured at Fair Value through Other Comprehensive Income (FVOCI) when both of the following conditions are met: <ul style="list-style-type: none"> <li>- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets</li> <li>- The contractual terms of the financial asset meet the SPPI test</li> </ul> </li> <li>• Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments held for strategic and statutory purposes as equity instruments measured at fair value through other comprehensive income.</li> </ul>	Financial assets measured at fair value through other comprehensive income	33
Financial assets measured at fair value through profit or loss	<p>A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Group may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch) that would otherwise arise from measuring the assets and liabilities or recognising gains or losses on them on different basis.</p>	Derivative financial instruments	29
		Financial assets measured at fair value through profit or loss	30

### 3.4.4 Classification and Subsequent Measurement of Financial Liabilities

A summary of the recognition and measurement criteria pertaining to the different types of financial liabilities recognised within the statement of financial position are as follows

Financial Liability Classification	Criteria	Type of Liabilities Measured as per the Specified Liability Classification	Note Reference
Financial liabilities measured at amortised cost	Financial liabilities issued by the Group that are not designated at FVTPL are classified as financial liabilities measured at amortised cost	Due to banks	42
		Securities sold under repurchase agreements	43
		Financial liabilities measured at amortised cost - due to depositors	44
		Financial liabilities measured at amortised cost - other borrowings	46
		Debt securities issued	47
		Subordinated term debts	52
Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at fair value through profit or loss include; <ul style="list-style-type: none"> <li>- Financial liabilities held for trading and</li> <li>- Financial liabilities designated at fair value through profit or loss</li> </ul>	Derivative financial instruments	29

#### Financial liabilities designated at fair value through profit or loss

Financial liabilities in this category are those that are not held for trading and have been either designated by the Group upon initial recognition or are mandatorily required to be measured at fair value under SLFRS 9. Group only designates a financial liability at FVTPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognising gains or losses on them on a different basis or

- The liabilities are part of a group of financial liabilities, which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

Changes in fair value are recorded in income statement with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the own credit reserve through other comprehensive income and do not get recycled to the income statement. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the effective interest rate, taking into account any discount/premium and qualifying transaction costs being an integral part of the instrument.

#### 3.4.5 Reclassifications of Financial Instruments

As per the requirement of SLFRS 9, the Group reclassifies its financial assets subsequent to the initial recognition when and only when the business model for managing such financial assets is changed. Such reclassifications are applied prospectively from the reclassification date. Financial liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

- If a financial asset is reclassified out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the

financial asset and fair value is recognised in income statement.

- If the reclassification takes place out of the fair value through profit or loss category into the amortised cost measurement category, its fair value at the reclassification date becomes the new gross carrying amount.
- If the reclassification takes place out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.
- If the reclassification takes place out of the fair value through other comprehensive income measurement category to amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result,

# NOTES TO THE FINANCIAL STATEMENTS

## 3. MATERIAL ACCOUNTING POLICIES (Contd.)

the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

### 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 or a financial instrument, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan/financial instrument, 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/financial instruments are classified as Stage 1 for ECL measurement purposes, unless the new loan/financial instrument is deemed to be a Purchased or Originated Credit Impaired (POCI) asset.

When assessing whether or not to derecognise a financial asset, amongst others, the Group considers the following factors:

- Change in currency of the financial asset
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

#### 3.4.6 (b) Derecognition other than for substantial modification

##### 3.4.6 (b)(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both

transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset

or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement. Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Group cannot sell or pledge the original asset other than as security to the eventual recipients
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay

In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either

- The Group has transferred substantially all the risks and rewards of the asset

or

- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Group would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

##### 3.4.6 (b)(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in income statement.

## 3.5 Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication

of impairment. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing

is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in the income statement and disclosed in Note 15 to the financial statement, except for property previously revalued where the gain or loss on revaluation was taken to equity. In this case, the impairment is also recognised in equity up to the extent of any previously recognised revaluation gains. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets,

impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 3.6 Changes in Material Accounting Policies

The Group has not made any changes to its material accounting policies during the current annual reporting period.

## 4. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has issued several new accounting standards and amendments/improvements to existing standards. These new standards are set to become effective in the coming years. Early application of these standards is allowed, but the Group has not early adopted any of the new or amended standards in the preparation of these financial statements.

Accounting Standard	Descriptions	Effective Date	Assessment of the impact on the Group/Bank
Sri Lanka Accounting Standard - SLFRS 17 "Insurance Contracts"	<p>SLFRS 17 Liability Recognition: Presents future cash flows as present value with risk adjustment and Contractual Service Margin (CSM), groups contracts by risk and profitability, and recognises losses directly in the income statement.</p> <p>New Insurance Revenue Measure: Shifts revenue measurement to service delivery, excluding investment-related premiums, and necessitates calculating deferred profit (CSM) at transition.</p>	1st January 2026	Impact on the subsidiaries HNBA and HNBGI: SLFRS 17 requires substantial changes in accounting for insurance contracts, involving significant judgment and new techniques. HNBA and HNBGI are currently conducting assessments and are in the process of evaluating the approach towards implementation programs to adopt SLFRS 17 and SLFRS 9
Exemption - Sri Lanka Accounting Standard - SLFRS 9 "Financial Instruments"	<p>Temporary Exemption: SLFRS 9, which addresses financial instruments accounting, became effective from 1st January 2018.</p> <p>However, the financial statements of HNB Assurance PLC has been prepared in line with SLFRS 9 when preparing the consolidated financial statements. It allows a temporary exemption to apply LKAS 39 instead of SLFRS 9 for annual periods starting before 1st January 2023 and up to 31st December 2025, for qualifying insurers.</p> <p>Criteria for Exemption: Insurers like HNB Assurance PLC and HNB General Insurance Limited, whose activities are predominantly insurance-related, can opt to continue using LKAS 39 until 31st December 2025, based on the specified criteria.</p>	1st January 2026	<p>Given that HNBA and HNBGI are primarily engaged in insurance activities, and considering the criteria for exemption, both companies will continue to applying LKAS 39 instead of SLFRS 9 up until 31st December 2025</p> <p>However, the financial Statements of HNB Assurance PLC has been prepared in line with SLFRS 9 when preparing Consolidated financial statements,</p>

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT

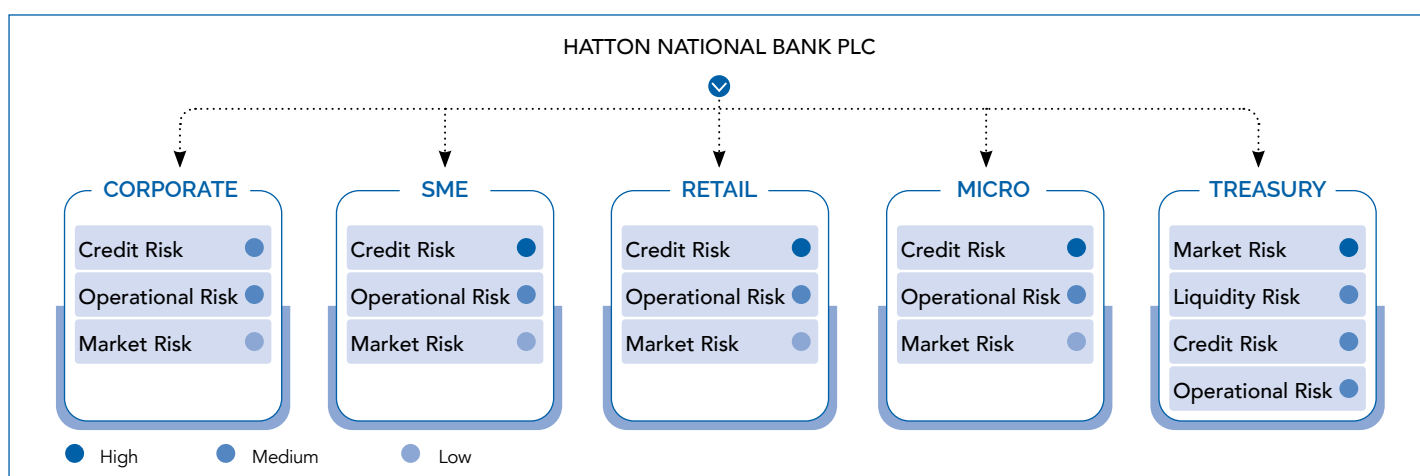
This note presents information about the Bank/Group exposure to financial risks and the Bank/Group's management of capital.

### 5.1 Introduction and Overview

Bank/Group has exposure to the following key risks from financial instruments:

- credit risk;
- liquidity risk;
- market risk and
- operational risks

The following chart provides a link between the Bank's business units and the principal risks that they are exposed to. The significance of risk is assessed within the context of the Bank as a whole and is measured based on allocation of the regulatory capital within the Bank.



This note presents information about the Bank/Group's exposure to each of the above risks, the objectives, policies and processes for measuring and managing such risks.

### 5.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board discharges its governance responsibility through seven board sub committees with oversight responsibility for risk management viz. Board Integrated Risk Management Committee (BIRMC), Board Audit Committee (BAC), Board Credit Committee (BCC), Strategy and Investment Review Committee (SIRC), Special Board Committee on Digital Banking, Procurement and Asset Disposal Committee and Board Recoveries Committee (BRC).

The BIRMC provides the Board, the assurance that risk management strategies, policies and processes are in place to manage events/

outcomes that have the potential to impact significantly on earnings performance, reputation and capital. The approach entails active monitoring of the level of risk exposure against the parameters set in the risk appetite and risk goals. The BCC and BRC also assists the Board by assessing significant credit and other transactions beyond the discretion of executive management.

Executive management committees, each with specialised focus, have been established to support the BIRMC and are responsible for the co-ordination of risk matters for each of the areas pertaining to risk management. Those are Executive Risk Management and Credit Policy Committee, Operational Risk Steering Committee, Asset and Liability Committee and Information Security Steering Committee.

The BAC provides its assessment on the effectiveness of internal audit and external disclosure of accounting policies and financial reporting to the Board. Internal Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the BAC.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

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### 5.3 Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers and investments in debt securities.

In addition to loans, the Bank makes available to its customers, guarantees which may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event

of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to risks similar to loans and are mitigated by the same control processes and policies.

For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, industry risk and geographical risk etc.). The methodology adopted by the Bank in determining the expected credit losses is detailed in Note 15 to the financial statements.

### Consideration of current economic conditions on credit risk

Bank continued to conduct in-depth analysis on the industries which has been affected and the scale of impact on Bank's lending portfolio, through various stress testing techniques including stage shift assessment of elevated risk industries. Uncertainties relating to the economic conditions in Sri Lanka stressed the importance of diversification of the Bank's loan book across a wide range of industries which in turn would ensure the resilience of the Bank in the economic environment of this nature. The Bank is comfortable with the existing composition of its loan book and continuous monitoring activities are being carried out to avoid accumulation of exposures to risky economic segments.

#### 5.3.1 Settlement Risk

The bank's activities may give rise to risk at the time of settlement of transactions and trades. "Settlement risk" is the risk of loss due to the failure of a customer or a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

#### 5.3.2 Management of Credit Risk

Board Credit Committee has oversight responsibility for the management of credit. Risk Management Division (RMD) is a separate vertical independent of business units, established to assess the credit risk of credit proposals and submit independent observations to all approving authorities.

Other responsibilities of RMD are as follows:

- Formulating credit policies and guidelines in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
- Formalise approval of such policies and guidelines from the Board of Directors upon clearance by relevant Board Sub-committees.
- Establishing the credit approval structure with delegated authority limits for the approval and renewal of credit facilities. The delegated authority limits are assigned to identified individuals. Larger credit facilities require approval by the Board Credit Committee or the Board of Directors as appropriate.



# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

- Reviewing and assessing credit risk: credit risk unit of RMD assesses all credit exposures in excess of designated limits, before facilities are approved. Renewals of facilities are subject to the same review process.
- Setting the risk appetite for exposures to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.
- Identification of elevated risk industries and the adequacy of any overlay adjustment made outside the ECL model, as part of model adjustments to address the potential implications of the prevailing economic conditions.

Each business unit is required to implement Bank's credit policies and guidelines, with credit approval authorities delegated from the Board of Directors. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios.

Regular audits of business units and credit processes are undertaken by Internal Audit Division.

### 5.3.3 Credit Quality Analysis

#### 5.3.3(a) Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The general creditworthiness of customers tends to be the most relevant indicator of credit quality of a loan. However, collateral provides additional security and the Bank generally requests large borrowers to provide same. The Bank may take collateral in the form of a first charge over real estate and residential properties, floating charges over all corporate assets and other liens and guarantees.

The main types of collateral obtained are, as follows:

- For securities lending and reverse repurchase transactions; cash or securities
- For corporate and small business lending; charges over real estate properties, inventory and trade receivables and in special circumstances, government guarantees
- For retail lending; mortgages over residential properties

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The proceeds are used to reduce or repay the outstanding claim. The Bank generally does not use non-cash collateral for its own operations.

### 5.3.3(b) Maximum exposure to credit risk

The following table shows the maximum exposure and net exposure (net of fair value of any collaterals held) to credit risk by class of financial asset, before netting off impairment for expected credit losses.

#### Bank

As at 31st December	2024		2023	
	Maximum exposure to credit risk Rs 000	Net exposure to credit risk Rs 000	Maximum exposure to credit risk Rs 000	Net exposure to credit risk Rs 000
Balances with banks	12,053,665	12,053,665	28,492,964	28,492,964
Placements with banks	41,876,789	41,876,789	56,024,833	56,024,833
Derivative financial instruments	375,060	375,060	452,193	452,193
Financial assets measured at fair value through profit or loss	1,835,469	158,099	115,641	113,694
Financial assets measured at amortised cost -loans and advances to customers (gross)	1,159,740,459	583,601,328	1,041,990,203	477,385,883
Financial assets measured at amortised cost -debt and other instruments	742,397,231	71,511,510	653,242,171	206,908,984
Financial assets measured at fair value through other comprehensive income	96,309,470	34,908,351	189,325,958	6,228,832
Other financial assets	4,746,539	1,394,045	11,029,182	4,158,958
	2,059,334,682	745,878,847	1,980,673,145	779,766,341
Guarantees, letters of credit and acceptances	120,595,904	118,278,759	153,163,138	151,569,468

#### Group

As at 31st December	2024		2023	
	Maximum exposure to credit risk Rs 000	Net exposure to credit risk Rs 000	Maximum exposure to credit risk Rs 000	Net exposure to credit risk Rs 000
Balances with banks	12,337,937	12,337,937	28,743,107	28,743,107
Placements with banks	48,675,977	48,675,977	61,871,455	61,871,455
Reverse repurchase agreement	5,280,692	-	1,830,461	-
Derivative financial instruments	375,060	375,060	452,193	452,193
Financial assets measured at fair value through profit or loss	2,962,612	1,285,242	801,065	799,118
Financial assets measured at amortised cost - loans and advances to customers (gross)	1,206,782,185	602,311,583	1,081,186,166	510,597,510
Financial assets measured at amortised cost - debt and other instruments	770,658,755	82,453,319	688,376,005	216,512,060
Financial assets measured at fair value through other comprehensive income	112,407,299	34,912,783	195,975,307	6,234,312
Other financial assets	8,414,670	2,630,215	14,269,396	7,510,483
	2,167,895,187	784,982,116	2,073,505,155	832,720,238
Guarantees, letters of credit and acceptances	120,595,904	118,278,759	153,163,138	151,569,468

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

### 5.3.3(c) Maximum exposure to credit risk by risk rating

The following table sets out information about the credit quality of financial assets measured at amortised cost, measured at fair value through profit or loss, measured at fair value through other comprehensive income and contingent liabilities and commitments.

Bank	High Grade				Standard Grade				Sub-Standard Grade			
	Stage 1	Stage 2	Stage 3	Exposures not subject to ECL	Stage 1	Stage 2	Stage 3	Exposures not subject to ECL	Stage 1	Stage 2	Stage 3	Exposures not subject to ECL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>As at 31st December 2024</b>												
<b>Financial Assets</b>												
Cash and cash equivalents	1,023,643	-	-	51,330,829	10,704,582	-	-	-	8,969	-	-	-
Placements with banks	14,551,757	-	-	-	27,325,032	-	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	6,913,009	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	316,623	-	-	-	4,684	-	-	-	-
Financial assets measured at fair value through profit or loss	1,677,370	-	-	-	-	-	-	5,963	-	-	-	-
Financial assets measured at amortised cost loans and advances to customers (gross)*	112,335,377	592,350	-	-	317,788,985	10,355,557	-	-	133,316,831	15,798,889	-	-
Financial assets measured at amortised cost debt and other instruments	676,030,434	-	-	-	2,075,211	63,657,093	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	68,637,405	-	-	-	-	-	-	8,275,744	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-	-	-	-	-
	874,255,986	592,350	-	58,560,461	357,893,810	74,012,650	-	8,286,391	133,325,800	15,798,889	-	-
<b>Off balance sheet exposures</b>												
Contingent liabilities and commitments*	53,555,950	-	-	-	116,339,577	353,339	-	-	26,620,591	980,919	-	-
<b>As at 31st December 2023</b>												
<b>Financial Assets</b>												
Cash and cash equivalents	9,076,974	-	-	44,872,259	18,415,944	-	-	-	16,436	-	-	-
Placements with banks	13,130,910	-	-	-	42,893,923	-	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	12,234,361	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	430,664	-	-	-	6,069	-	-	-	-
Financial assets measured at fair value through profit or loss	1,947	-	-	-	-	-	-	3,285	-	-	-	-
Financial assets measured at amortised cost loans and advances to customers (gross)*	74,285,883	34,663,621	-	-	286,121,370	12,283,279	-	-	84,864,821	33,592,539	-	-
Financial assets measured at amortised cost debt and other instruments	451,616,625	-	-	-	3,110,992	196,305,095	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	183,097,126	-	-	-	-	-	-	5,501,697	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-	-	-	-	-
	731,209,465	34,663,621	-	57,537,284	350,542,229	208,588,374	-	5,511,051	84,881,257	33,592,539	-	-
<b>Off balance sheet exposures</b>												
Contingent liabilities and commitments*	79,213,419	139,483	-	-	204,204,987	4,847,199	-	-	57,679,873	7,791,666	-	-

\*Categorisation based on Bank's internal risk rating. Accordingly, AAA to AA- considered as "High grade", A+ to BBB- as "Standard grade", BB+ to B- as "Sub Standard grade", CCC+ and below as "Low grade".

Low Grade				Unrated				Exposures not Subject to Rating				Total	Note	
Stage 1	Stage 2	Stage 3	Exposures not subject to ECL	Stage 1	Stage 2	Stage 3	Exposures not subject to ECL	Stage 1	Stage 2	Stage 3	Exposures not subject to ECL			
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000		
316,471	-	-	-	-	-	-	-	-	-	-	-	-	63,384,494	25
-	-	-	-	-	-	-	-	-	-	-	-	-	41,876,789	26
-	-	-	-	-	-	-	-	-	-	-	-	-	6,913,009	27
-	-	-	-	-	-	-	53,753	-	-	-	-	-	375,060	29
-	-	-	-	-	-	-	152,136	-	-	-	-	-	1,835,469	30
37,703,651	7,379,537	82,014,014	-	310,672,107	10,370,162	20,784,340	-	98,916,121	807,418	905,120	-	-	1,159,740,459	31
-	-	634,493	-	-	-	-	-	-	-	-	-	-	742,397,231	32
-	18,105,304	-	-	-	-	-	1,291,017	-	-	-	-	-	96,309,470	33
-	-	-	-	-	-	-	-	4,746,539	-	-	-	-	4,746,539	41
38,020,122	25,484,841	82,648,507	-	310,672,107	10,370,162	20,784,340	1,496,906	103,662,660	807,418	905,120	-	-	2,117,578,520	
7,274,529	77,523	367,620	-	425,425,882	2,923,179	897,354	-	-	-	-	-	-	634,816,463	5.3.6(C)
983,610	-	-	-	-	-	-	-	-	-	-	-	-	73,365,223	25
-	-	-	-	-	-	-	-	-	-	-	-	-	56,024,833	26
-	-	-	-	-	-	-	-	-	-	-	-	-	12,234,361	27
-	-	-	-	-	-	-	15,460	-	-	-	-	-	452,193	29
-	-	-	-	-	-	-	110,409	-	-	-	-	-	115,641	30
29,923,962	10,129,234	101,934,663	-	263,603,262	19,145,775	11,592,482	-	77,589,822	1,198,814	1,060,676	-	-	1,041,990,203	31
-	-	651,159	-	1,558,300	-	-	-	-	-	-	-	-	653,242,171	32
-	-	-	-	-	-	-	727,135	-	-	-	-	-	189,325,958	33
-	-	-	-	-	-	-	-	11,029,182	-	-	-	-	11,029,182	41
30,907,572	10,129,234	102,585,822	-	265,161,562	19,145,775	11,592,482	853,004	88,619,004	1,198,814	1,060,676	-	-	2,037,779,765	
12,301,140	831,726	3,914,132	-	324,312,457	787,891	564,665	-	-	-	-	-	-	696,588,638	5.3.6 (C)

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

### 5.3.3(d) Financial assets measured at amortised cost - loans and advances to customers - Analysis of Stage 2 and Stage 3 loans

The tables below summarises the ageing of stage 2 and stage 3 loans, as follows:

Stage 2 - Loans classified under Stage 2 include those that are contractually past due loans, that have been moved to Stage 2 based on criteria such as restructuring, watch listing, and the customer's worst arrears bucket.

Stage 3 - Loans classified under Stage 3 include contractually past due loans and loans that have been moved to Stage 3 due to restructuring more than twice, rescheduling, and the customer's worst arrears bucket.

Bank	Stage 2		Stage 3		Total	
	Gross carrying amount Rs 000	Expected credit losses Rs 000	Gross carrying amount Rs 000	Expected credit losses Rs 000	Gross carrying amount Rs 000	Expected credit losses Rs 000
<b>As at 31st December 2024</b>						
<b>Less than :</b>						
30 DPD	34,504,933	6,972,701	-	-	34,504,934	6,972,701
90 DPD	-	-	18,545,740	10,227,187	18,545,740	10,227,187
<b>More than :</b>						
30 DPD	12,174,404	1,411,166	-	-	12,174,404	1,411,166
90 DPD	-	-	85,684,992	67,529,196	85,684,992	67,529,196
<b>Total</b>	<b>46,679,337</b>	<b>8,383,867</b>	<b>104,230,732</b>	<b>77,756,383</b>	<b>150,910,069</b>	<b>86,140,250</b>

Bank	Stage 2		Stage 3		Total	
	Gross carrying amount Rs 000	Expected credit losses Rs 000	Gross carrying amount Rs 000	Expected credit losses Rs 000	Gross carrying amount Rs 000	Expected credit losses Rs 000
<b>As at 31st December 2023</b>						
<b>Less than :</b>						
30 DPD	88,399,828	7,578,945	-	-	88,399,828	7,578,945
90 DPD	-	-	15,320,922	6,115,598	15,320,922	6,115,598
<b>More than :</b>						
30 DPD	22,613,434	2,754,802	-	-	22,613,434	2,754,802
90 DPD	-	-	99,266,899	60,007,277	99,266,899	60,007,277
<b>Total</b>	<b>111,013,262</b>	<b>10,333,747</b>	<b>114,587,821</b>	<b>66,122,875</b>	<b>225,601,083</b>	<b>76,456,622</b>

### 5.3.3(e) Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. With gross-settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the Bank honours its obligation, but the counterparty fails to deliver the counter value.

The following table shows an analysis of counterparty credit exposures arising from derivative financial instruments.

As at 31st December 2024	Derivative Type							
	Forward		SWAP		Spot*		Total	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Derivative financial assets</b>								
By counterparty ;								
- with banks	9,278,897	113,418	51,095,136	205,547	1,828,468	2,343	62,202,501	321,308
- with other customers	5,778,509	53,752	-	-	-	-	5,778,509	53,752
<b>Total derivative financial assets</b>	<b>15,057,406</b>	<b>167,170</b>	<b>51,095,136</b>	<b>205,547</b>	<b>1,828,468</b>	<b>2,343</b>	<b>67,981,010</b>	<b>375,060</b>
<b>Derivative financial liabilities</b>								
By counterparty ;								
- with banks	22,863,190	191,494	81,701,474	1,358,666	2,471,018	2,371	107,035,682	1,552,531
- with other customers	1,544,422	20,886	-	-	-	-	1,544,422	20,886
<b>Total derivative financial liabilities</b>	<b>24,407,612</b>	<b>212,380</b>	<b>81,701,474</b>	<b>1,358,666</b>	<b>2,471,018</b>	<b>2,371</b>	<b>108,580,104</b>	<b>1,573,417</b>

As at 31st December 2023	Derivative Type							
	Forward		SWAP		Spot*		Total	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Derivative financial assets</b>								
By counterparty ;								
- with banks	10,661,000	94,219	55,029,220	341,056	518,504	1,459	66,208,724	436,734
- with other customers	1,812,988	15,459	-	-	-	-	1,812,988	15,459
<b>Total derivative financial assets</b>	<b>12,473,988</b>	<b>109,678</b>	<b>55,029,220</b>	<b>341,056</b>	<b>518,504</b>	<b>1,459</b>	<b>68,021,712</b>	<b>452,193</b>
<b>Derivative financial liabilities</b>								
By counterparty ;								
- with banks	2,589,789	22,840	81,153,257	1,332,762	1,105,936	316	84,848,982	1,355,918
- with other customers	777,679	9,605	-	-	-	-	777,679	9,605
<b>Total derivative financial liabilities</b>	<b>3,367,468</b>	<b>32,445</b>	<b>81,153,257</b>	<b>1,332,762</b>	<b>1,105,936</b>	<b>316</b>	<b>85,626,661</b>	<b>1,365,523</b>

\*Spot contract is a contract that will mature within two days from the deal date.



# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

### 5.3.3(f) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated (restructured / rescheduled) loan recognised as a new loan at fair value in accordance with the accounting policy set out in 31 (c) iii.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with

- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new asset is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Concessions are granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing

the timing of interest payments and amending the terms of loan covenants. Such concessions are granted to both retail and corporate loans and the management regularly reviews reports on loans.

Generally, a change to original repayment terms is a qualitative indicator of a significant increase in credit risk for performing credit facility while the repayment terms of the existing credit impaired credit facilities are also amended due to reasons noted above. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to have an increased credit risk or credit impaired / in default and the PD is considered to have decreased such that it falls within the 12 month PD range for the asset to be considered Stage 1.

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL.

	2024	2023
	Rs 000	Rs 000
<b>Financial assets modified during the year</b>		
Amortised cost before modification	4,794,403	6,535,649
Net modification loss	541,318	776,406
<b>Financial assets modified since initial recognition</b>		
Gross carrying amount of financial assets previously modified for which loss allowance has changed during the year to an amount equal to 12month ECL from lifetime	17,525,561	327,904

### 5.3.4(a) Credit exposure and expected credit loss (ECL) provision movement - Stage wise

Bank - 2024	Stage 1		Stage 2		Stage 3		Exposures not subject to ECL	Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL		Gross carrying amount	ECL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000		Rs 000	Rs 000
<b>Cash and cash equivalents</b>									
As at 1st January 2024	28,492,964	216,627	-	-	-	-	44,872,259	73,365,223	216,627
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated or purchased and effect of remeasurement	2,875,619	357	-	-	-	-	7,506,817	10,382,436	357
Financial assets derecognised or repaid (excluding write offs)	(16,402,612)	(188,749)	-	-	-	-	(3,960,553)	(20,363,165)	(188,749)
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2024</b>	<b>14,965,971</b>	<b>28,235</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48,418,523</b>	<b>63,384,494</b>	<b>28,235</b>
<b>Placements with banks</b>									
As at 1st January 2024	56,024,833	33,699	-	-	-	-	-	56,024,833	33,699
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated or purchased and effect of remeasurement*	1,267,774	964	-	-	-	-	-	1,267,774	964
Financial assets derecognised or repaid (excluding write offs)	(15,415,818)	(16,391)	-	-	-	-	-	(15,415,818)	(16,391)
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2024</b>	<b>41,876,789</b>	<b>18,272</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41,876,789</b>	<b>18,272</b>
<b>Financial assets measured at amortised cost - debt and other financial instruments</b>									
As at 1st January 2024	456,285,915	740,093	196,305,095	102,078,763	651,160	651,160	-	653,242,170	103,470,016
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated or purchased and effect of remeasurement / exchange adjustment	288,209,627	-	-	-	-	-	-	288,209,627	-
Financial assets derecognised or repaid / exchange adjustment (excluding write offs)	(2,732,805)	(738,557)	(196,305,095)	(102,078,763)	(16,666)	(16,666)	-	(199,054,566)	(102,833,986)
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2024</b>	<b>741,762,737</b>	<b>1,536</b>	<b>-</b>	<b>-</b>	<b>634,494</b>	<b>634,494</b>	<b>-</b>	<b>742,397,231</b>	<b>636,030</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

### 5.3.4 (a) Credit exposure and expected credit loss (ECL) provision movement - Stage wise (Contd.)

Bank - 2024	Stage 1		Stage 2		Stage 3		Exposures not subject to ECL	Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL		Gross carrying amount	ECL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000		Rs 000	Rs 000
<b>Financial assets measured at amortised cost</b>									
<b>- Loans and advances to customers</b>									
As at 1st January 2024	816,389,120	10,653,265	111,013,262	10,333,747	114,587,821	66,122,875	-	1,041,990,203	87,109,887
Transfer to stage 1	55,610,083	3,182,022	(53,198,164)	(2,402,632)	(2,411,919)	(779,390)	-	-	-
Transfer to stage 2	(7,583,974)	(212,637)	12,665,887	2,967,529	(5,081,913)	(2,754,892)	-	-	-
Transfer to stage 3	(4,948,595)	(183,086)	(7,632,217)	(1,865,050)	12,580,812	2,048,136	-	-	-
New assets originated or purchased and effect of remeasurement	649,226,687	5,529,962	17,695,406	5,277,508	15,644,359	28,300,029	-	682,566,452	39,107,499
Financial assets derecognised or repaid (excluding write offs)	(510,666,452)	(9,132,915)	(35,834,860)	(5,948,299)	(32,446,405)	(14,442,916)	-	(578,947,717)	(29,524,130)
Write offs*	-	-	-	-	(752,915)	(752,915)	-	(752,915)	(752,915)
Foreign exchange adjustments	10,803,521	88,253	1,970,023	21,064	2,110,892	15,456	-	14,884,436	124,772
<b>As at 31st December 2024</b>	<b>1,008,830,390</b>	<b>9,924,864</b>	<b>46,679,337</b>	<b>8,383,867</b>	<b>104,230,732</b>	<b>77,756,383</b>	<b>-</b>	<b>1,159,740,459</b>	<b>96,065,114</b>
<b>Financial assets measured at fair value through other comprehensive income</b>									
As at 1st January 2024	183,097,126	-	-	-	-	-	6,228,832	189,325,958	-
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated/purchased or increase in fair value	90,448,505	-	18,105,304	-	-	-	3,186,784	111,740,593	-
Financial assets derecognised/repaid (excluding write offs) and reductions in fair value	(204,757,081)	-	-	-	-	-	-	(204,757,081)	-
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2024</b>	<b>68,788,550</b>	<b>-</b>	<b>18,105,304</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,415,616</b>	<b>96,309,470</b>	<b>-</b>
<b>Financial assets measured at fair value through profit or loss</b>									
As at 1st January 2024	1,933	-	-	-	-	-	113,708	115,641	-
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated/purchased or increase in fair value	1,677,370	-	-	-	-	-	44,391	1,746,975	-
Financial assets derecognised/repaid (excluding write offs) and reductions in fair value	(1,933)	-	-	-	-	-	-	(1,933)	-
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2024</b>	<b>1,677,370</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>158,099</b>	<b>1,835,469</b>	<b>-</b>

Bank - 2023	Stage 1		Stage 2		Stage 3		Exposures not subject to ECL	Total		
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL		Gross carrying amount	Gross carrying amount	ECL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000		Rs 000	Rs 000	Rs 000
<b>Cash and cash equivalents</b>										
As at 1st January 2023	41,167,892	203,012	-	-	-	-	39,274,001	80,441,893	203,012	
Transfer to stage 1	-	-	-	-	-	-	-	-	-	
Transfer to stage 2	-	-	-	-	-	-	-	-	-	
Transfer to stage 3	-	-	-	-	-	-	-	-	-	
New assets originated or purchased and effect of remeasurement	5,378,679	85,117	-	-	-	-	5,598,258	10,976,937	85,117	
Financial assets derecognised or repaid (excluding write offs)	(18,053,607)	(71,502)	-	-	-	-	-	(18,053,607)	(71,502)	
Write offs	-	-	-	-	-	-	-	-	-	
<b>As at 31st December 2023</b>	<b>28,492,964</b>	<b>216,627</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44,872,259</b>	<b>73,365,223</b>	<b>216,627</b>	
<b>Placements with banks</b>										
As at 1st January 2023	54,383,166	12,138	-	-	-	-	-	54,383,166	12,138	
Transfer to stage 1	-	-	-	-	-	-	-	-	-	
Transfer to stage 2	-	-	-	-	-	-	-	-	-	
Transfer to stage 3	-	-	-	-	-	-	-	-	-	
New assets originated or purchased and effect of remeasurement	37,864,106	28,354	-	-	-	-	-	37,864,106	28,354	
Financial assets derecognised or repaid (excluding write offs)	(36,222,439)	(6,793)	-	-	-	-	-	(36,222,439)	(6,793)	
Write offs	-	-	-	-	-	-	-	-	-	
<b>As at 31st December 2023</b>	<b>56,024,833</b>	<b>33,699</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>56,024,833</b>	<b>33,699</b>	
<b>Financial assets measured at amortised cost - debt and other financial instruments</b>										
As at 1st January 2023	282,839,987	3,324	241,750,564	75,795,353	661,750	661,750	-	525,252,301	76,460,427	
Transfer to stage 1	-	-	-	-	-	-	-	-	-	
Transfer to stage 2	-	-	-	-	-	-	-	-	-	
Transfer to stage 3	-	-	-	-	-	-	-	-	-	
New assets originated or purchased and effect of remeasurement / exchange adjustment	182,762,940	799,949	-	28,704,510	(10,590)	(10,590)	-	182,752,350	29,493,869	
Financial assets derecognised or repaid (excluding write offs)	(9,317,011)	(63,180)	(45,445,469)	(2,421,100)	-	-	-	(54,762,480)	(2,484,280)	
Write offs	-	-	-	-	-	-	-	-	-	
<b>As at 31st December 2023</b>	<b>456,285,916</b>	<b>740,093</b>	<b>196,305,095</b>	<b>102,078,763</b>	<b>651,160</b>	<b>651,160</b>	<b>-</b>	<b>653,242,171</b>	<b>103,470,016</b>	
<b>Financial assets measured at amortised cost - Loans and advances to customers</b>										
As at 1st January 2023	790,590,235	12,477,377	168,456,347	16,235,373	102,325,072	58,527,652	-	1,061,371,654	87,240,402	
Transfer to stage 1	31,772,102	3,752,167	(29,426,275)	(2,937,732)	(2,345,827)	(814,435)	-	-	-	
Transfer to stage 2	(27,096,371)	(789,689)	32,980,565	2,721,815	(5,884,194)	(1,932,126)	-	-	-	
Transfer to stage 3	(5,418,703)	(227,235)	(25,749,716)	(3,859,369)	31,168,419	4,086,604	-	-	-	
New assets originated or purchased and effect of remeasurement	467,690,769	5,108,958	24,700,552	5,446,419	18,796,226	21,199,076	-	511,187,547	31,754,453	
Financial assets derecognised or repaid (excluding write offs)	(455,067,539)	(9,791,651)	(92,679,817)	(7,486,540)	(30,175,264)	(14,908,287)	-	(577,922,620)	(32,186,478)	
Write offs*	-	-	-	-	(1,690,976)	(1,690,976)	-	(1,690,976)	(1,690,976)	
Foreign exchange adjustments	13,918,627	123,338	32,731,606	213,781	2,394,365	1,655,367	-	49,044,598	1,992,486	
<b>As at 31st December 2023</b>	<b>816,389,120</b>	<b>10,653,265</b>	<b>111,013,262</b>	<b>10,333,747</b>	<b>114,587,821</b>	<b>66,122,875</b>	<b>-</b>	<b>1,041,990,203</b>	<b>87,109,887</b>	

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

Bank - 2023	Stage 1		Stage 2		Stage 3		Exposures not subject to ECL	Total	
	Gross carrying amount Rs 000	ECL Rs 000	Gross carrying amount Rs 000	ECL Rs 000	Gross carrying amount Rs 000	ECL Rs 000		Gross carrying amount Rs 000	ECL Rs 000
<b>Financial assets measured at fair value through other comprehensive income</b>									
As at 1st January 2023	-	-	-	-	-	-	2,706,660	2,706,660	-
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated/purchased or increase in fair value	183,097,126	-	-	-	-	-	3,522,172	186,619,298	-
Financial assets derecognised/repaid (excluding write offs) and reductions in fair value	-	-	-	-	-	-	-	-	-
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2023</b>	<b>183,097,126</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,228,832</b>	<b>189,325,958</b>	<b>-</b>
<b>Financial assets measured at fair value through profit or loss</b>									
As at 1st January 2023	496	-	-	-	-	-	111,121	111,617	-
Transfer to stage 1	-	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-	-
New assets originated/purchased or increase in fair value	1,437	-	-	-	-	-	2,587	4,024	-
Financial assets derecognised/repaid (excluding write offs) and reductions in fair value	-	-	-	-	-	-	-	-	-
Write offs	-	-	-	-	-	-	-	-	-
<b>As at 31st December 2023</b>	<b>1,933</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>113,708</b>	<b>115,641</b>	<b>-</b>

\* The contractual amount outstanding on financial assets that were written off during the year ended 31st December 2024 and that are still subject to enforcement activity is Rs 607 Mn (2023 - Rs 48 Mn)

### 5.3.4 (b) Sensitivity of factors used to determine impairment provisions

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Bank should be considered as a best estimate within a range of possible estimates.

As at 31st December 2024	Sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]				Sensitivity effect on Income Statement
	Stage 1	Stage 2	Stage 3	Total	[Increase/(Decrease) in impairment charge]
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Change in Property realisation period of individually significant impaired customers</b>					
- Advanced by one year	-	-	735,067	735,067	735,067
- Deferred by one year	-	-	(679,866)	(679,866)	(679,866)
<b>Change in Probability of Default (PD)</b>					
- Increase existing PD by 10% across all age buckets	866,557	230,927	-	1,097,484	1,097,484
- Decrease existing PD by 10% across all age buckets	(866,557)	(230,927)	-	(1,097,484)	(1,097,484)
<b>Change in Loss Given Default (LGD)</b>					
- 1% increase	86,656	23,093	75,428	185,177	185,177
- 1% decrease	(86,656)	(23,093)	(75,428)	(185,177)	(185,177)
<b>Change in deemed loss period*</b>					
- Deemed loss period increase by 1 year	(120,417)	(30,443)	(107,867)	(258,727)	(258,727)
- Deemed loss period decrease by 1 year	102,029	28,692	92,747	223,468	223,468
<b>Changes in Weightages Used for Economic Factor Adjustment (EFA)</b>					
- worse case 5% increase, best case 5% decrease, base case constant	85,170	22,751	-	107,921	107,921
- worse case 5% decrease, best case 5% increase, base case constant	(85,170)	(22,751)	-	(107,921)	(107,921)

\*The deemed loss period is when the Bank assumes a contract's LGD (Loss Given Default) is 100% when calculating LGD.



# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

As at 31st December 2023	Sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]				Sensitivity effect on
	Stage 1	Stage 2	Stage 3	Total	Income Statement
	Rs 000	Rs 000	Rs 000	Rs 000	[Increase/(Decrease) in impairment charge] Rs 000
<b>Change in Property realisation period of individually significant impaired customers</b>					
- Advanced by one year	-	-	2,284,483	2,284,483	2,284,483
- Deferred by one year	-	-	(2,210,103)	(2,210,103)	(2,210,103)
<b>Change in Probability of Default (PD)</b>					
- Increase existing PD by 10% across all age buckets	956,786	522,667	-	1,479,453	1,479,453
- Decrease existing PD by 10% across all age buckets	(956,786)	(522,667)	-	(1,479,453)	(1,479,453)
<b>Change in Loss Given Default (LGD)</b>					
- 1% increase	283,711	153,171	460,558	897,440	897,440
- 1% decrease	(283,711)	(153,171)	(460,558)	(897,440)	(897,440)
<b>Change in deemed loss period</b>					
- Deemed loss period increase by 1 year	(321,831)	(167,414)	(531,561)	(1,020,806)	(1,020,806)
- Deemed loss period decrease by 1 year	257,723	162,652	503,704	924,079	924,079
<b>Change in Economic Factor Adjustment (EFA)</b>					
- worse case 5% increase, best case 5% decrease, base case constant	107,857	59,383	-	167,240	167,240
- worse case 5% decrease, best case 5% increase, base case constant	(107,857)	(59,383)	-	(167,240)	(167,240)

### 5.3.5 Collateral held and other credit enhancement

The bank holds collateral and other credit enhancements against certain types of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets. For each loan, the value of disclosed collateral is capped at the amount of the loan it is held against.

As at 31st December	2024		2023	
	Gross loan balance	Security value	Gross loan balance	Security value
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Stage 1</b>				
Cash Collateral	56,812,111	56,812,111	51,053,037	51,053,037
Property, plant and machinery	305,570,661	293,491,223	244,841,081	160,650,282
Treasury Guarantee	32,104,481	32,104,481	-	-
Others	224,563,213	166,923,499	299,897,147	220,768,113
Unsecured	389,779,924	-	220,597,855	-
	1,008,830,390	549,331,314	816,389,120	432,471,432
<b>Stage 2</b>				
Cash collateral	941,800	941,800	2,381,028	2,381,028
Property, plant and machinery	23,772,340	21,164,675	31,583,888	26,272,134
Treasury Guarantee	-	-	31,304,077	31,304,077
Others	8,378,521	7,934,272	10,789,823	9,846,541
Unsecured	13,586,676	-	34,954,446	-
	46,679,337	30,040,747	111,013,262	69,803,780
<b>Stage 3</b>				
Cash collateral	729,444	729,445	529,022	529,022
Property, plant and machinery	69,484,938	60,221,049	56,647,598	45,445,792
Others	17,469,970	11,740,563	19,183,831	13,765,722
Unsecured	16,546,380	-	38,227,370	-
	104,230,732	72,691,057	114,587,821	59,740,536

#### Assets obtained by taking possession of collateral

Details of financial and non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances and held at the year end are shown below.

	2024	2023
	Rs 000	Rs 000
Property	7,036,570	4,651,310
Debt securities	-	-
Other	-	-

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank does not generally use the non-cash collateral for its own operations.

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

### 5.3.6 Concentration of Credit Risk

The Bank monitors concentration of credit risk by sector.

#### 5.3.6(a) Concentration by Sector

Bank	Agriculture and Fishing	Manufacturing	Tourism	Transport and Storage	Construction and Infrastructure	Wholesale and Retail
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>As at 31st December 2024</b>						
<b>Financial Assets</b>						
Cash and cash equivalents	-	-	-	-	-	-
Placements with banks	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	-	-	61,903	3,117	6	-
Financial assets measured at amortised cost - loans and advances to customers (gross)	112,867,484	143,311,457	65,328,243	26,778,492	206,025,998	187,151,435
Financial assets measured at amortised cost - debt and other instruments	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
	112,867,484	143,311,457	65,390,146	26,781,609	206,026,004	187,151,435
<b>As at 31st December 2023</b>						
<b>Financial Assets</b>						
Cash and cash equivalents	-	-	-	-	-	-
Placements with banks	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	-	-	48,278	1,940	3	-
Financial assets measured at amortised cost - loans and advances to customers (gross)	122,536,591	120,274,631	73,020,357	29,361,198	156,970,212	150,374,596
Financial assets measured at amortised cost - debt and other instruments	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
	122,536,591	120,274,631	73,068,635	29,363,138	156,970,215	150,374,596

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
-	63,384,494	-	-	-	-	-	-	-	63,384,494
-	41,876,789	-	-	-	-	-	-	-	41,876,789
-	6,913,009	-	-	-	-	-	-	-	6,913,009
-	375,060	-	-	-	-	-	-	-	375,060
-	1,730,058	-	-	-	-	-	40,385	-	1,835,469
23,638,360	79,390,589	9,328,314	1,527,803	10,053,661	145,923,465	140,982,748	1,590,289	5,842,121	1,159,740,459
-	740,300,758	-	-	-	-	-	2,096,473	-	742,397,231
-	96,309,470	-	-	-	-	-	-	-	96,309,470
-	4,746,539	-	-	-	-	-	-	-	4,746,539
23,638,360	1,035,026,766	9,328,314	1,527,803	10,053,661	145,923,465	140,982,748	3,727,147	5,842,121	2,117,578,520
-	73,365,223	-	-	-	-	-	-	-	73,365,223
-	56,024,833	-	-	-	-	-	-	-	56,024,833
-	12,234,361	-	-	-	-	-	-	-	12,234,361
-	452,193	-	-	-	-	-	-	-	452,193
-	33,112	-	-	-	-	-	32,308	-	115,641
11,084,415	130,350,982	10,757,973	1,509,994	10,851,882	145,172,220	54,240,323	18,852,715	6,632,114	1,041,990,203
-	650,626,018	-	-	-	-	-	2,616,153	-	653,242,171
-	189,325,958	-	-	-	-	-	-	-	189,325,958
-	11,029,182	-	-	-	-	-	-	-	11,029,182
11,084,415	1,123,441,862	10,757,973	1,509,994	10,851,882	145,172,220	54,240,323	21,501,176	6,632,114	2,037,779,765

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

### 5.3.6(a) Concentration by Sector (Contd.)

Group	Agriculture and Fishing	Manufacturing	Tourism	Transport and Storage	Construction and Infrastructure	Wholesale and Retail
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>As at 31st December 2024</b>						
<b>Financial Assets</b>						
Cash and cash equivalents	-	-	-	-	-	-
Placements with banks	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-
Reverse repurchase agreements	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	-	83,115	61,903	3,117	11,930	-
Financial assets measured at amortised cost - loans and advances to customers (gross)	120,505,334	146,756,744	65,895,976	27,748,298	206,856,772	199,569,363
Financial assets measured at amortised cost - debt and other instruments	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
	120,505,334	146,839,859	65,957,879	27,751,415	206,868,702	199,569,363
<b>As at 31st December 2023</b>						
<b>Financial Assets</b>						
Cash and cash equivalents	-	-	-	-	-	-
Placements with banks	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-
Reverse repurchase agreements	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	-	70,108	48,278	1,940	7,303	-
Financial assets measured at amortised cost - loans and advances to customers (gross)	131,635,976	123,231,075	73,271,255	29,523,231	157,916,149	165,014,612
Financial assets measured at amortised cost - debt and other instruments	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
	131,635,976	123,301,183	73,319,533	29,525,171	157,923,452	165,014,612

Information Technology and Communication Services Rs 000	Financial Services Rs 000	Professional, Scientific and Technical Services Rs 000	Art, Entertainment and Recreation Rs 000	Education Rs 000	Health care, Social Services and Support Services Rs 000	Consumption Rs 000	Other Rs 000	Lending to Overseas Entities Rs 000	Total Rs 000
-	64,093,301	-	-	-	-	-	-	-	64,093,301
-	48,675,977	-	-	-	-	-	-	-	48,675,977
-	6,913,009	-	-	-	-	-	-	-	6,913,009
-	5,280,692	-	-	-	-	-	-	-	5,280,692
-	375,060	-	-	-	-	-	-	-	375,060
-	2,564,462	-	-	-	-	-	238,085	-	2,962,612
24,062,536	79,155,636	10,596,715	1,527,803	10,687,189	154,272,950	151,714,459	1,590,289	5,842,121	1,206,782,185
148,163	767,335,522	-	-	-	-	-	2,536,861	-	770,020,546
-	112,407,299	-	-	-	-	-	-	-	112,407,299
-	8,414,670	-	-	-	-	-	-	-	8,414,670
24,210,699	1,095,215,628	10,596,715	1,527,803	10,687,189	154,272,950	151,714,459	4,365,235	5,842,121	2,225,925,351
-	73,975,559	-	-	-	-	-	-	-	73,975,559
-	61,871,455	-	-	-	-	-	-	-	61,871,455
-	12,234,361	-	-	-	-	-	-	-	12,234,361
-	1,830,461	-	-	-	-	-	-	-	1,830,461
-	452,193	-	-	-	-	-	-	-	452,193
-	600,540	-	-	-	-	950	71,946	-	801,065
11,123,174	130,883,434	10,796,082	1,544,738	11,088,438	152,292,436	57,438,383	18,795,069	6,632,114	1,081,186,166
148,112	685,582,223	-	-	-	-	-	2,645,670	-	688,376,005
-	195,975,307	-	-	-	-	-	-	-	195,975,307
-	14,269,396	-	-	-	-	-	-	-	14,269,396
11,271,286	1,177,674,929	10,796,082	1,544,738	11,088,438	152,292,436	57,439,333	21,512,685	6,632,114	2,130,971,968



# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

### 5.3.6(b) Significant foreign lending exposures

Gross and net carrying values of significant foreign lending are given below. All these loans have been considered as significant loans and analysed individually. When the Bank has identified objective evidence of impairment of these loans, future cash flows have been estimated giving due consideration for specific industry, country risk factors etc. and availability of collateral.

As at 31st December	Maldives		Uganda		Middle East	
	2024	2023	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Gross carrying value	19,455,362	24,596,050	1,705,021	2,321,470	1,050,354	582,992
Impairment allowance	(4,675,561)	(2,231,004)	(33,031)	(176,717)	(20,111)	(71,938)
<b>Net carrying value</b>	<b>14,779,801</b>	<b>22,365,046</b>	<b>1,671,990</b>	<b>2,144,753</b>	<b>1,030,243</b>	<b>511,054</b>

Total unutilised overdrafts approved to above customers as at 31st December 2024 amounts to Rs 3,372 Mn (2023: Rs 1,292 Mn).

### 5.3.6(c) Commitments and Guarantees

The Bank enters into various irrevocable commitments and assumes contingent liabilities in order to meet the financial needs of the customer. These obligations contain credit risk and form part of the overall risk of the Bank even though those are not recognised on the statement of financial position.

As at 31st December	2024	2023
	Rs 000	Rs 000
Documentary credit	27,331,743	26,964,874
Guarantees	78,546,123	114,927,736
Acceptances	14,718,038	11,270,528
Commitment for unutilised facilities - Direct	271,929,810	269,445,259
Commitment for unutilised facilities - Indirect	242,290,749	273,980,241
<b>Total</b>	<b>634,816,463</b>	<b>696,588,638</b>

### 5.3.7 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

### 5.3.8 Loan to value ratio

Bank complies with the requirements of Central Bank of Sri Lanka in relation to Loan to value ratio when granting credit facilities.

## 5.4 Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its debt obligations associated with its financial liabilities due to lack of funds or having to meet these obligations at excessive cost.

### 5.4.1 Management of Liquidity Risk

The Bank manages liquidity risk, in accordance with regulatory guidelines and international best practices. The objective of the Bank's liquidity and funding framework is to ensure that funding commitments and deposit withdrawals can be met when due and market access remains cost effective. A board approved liquidity policy to manage liquidity on a day-to-day basis along with a contingency funding plan to deal with crisis situations are in place. Contractual and behavioural maturity of assets and liabilities, key liquidity ratios and monthly liquidity forecasts and gaps are reviewed at Assets and Liability Committee (ALCO) meetings. The main sources of the Bank's funding are capital, core deposits from retail and commercial clients, wholesale deposits and access to borrowed funds from the interbank money market. The Bank also maintains a portfolio

of readily marketable securities to further strengthen its liquidity position. Liquidity risk exposure is managed by treasury with limits and triggers set to ensure that sufficient liquidity surplus and reserves are available to meet daily business requirements and also to deal with a sudden liquidity shock. Treasury reports the Bank's overall liquidity position to management on a daily basis.

#### 5.4.2 Exposure to Liquidity Risk

The Bank monitors the following liquidity ratios to assess funding requirements.

As at 31st December	2024 %	2023 %
<b>Liquidity Coverage Ratio (LCR)</b>		
This ratio determines the ability of the Bank to withstand adverse shocks (i.e. sudden withdrawal of a significant portion of deposits) by holding high quality liquid assets in a 30 day time span. The LCR is intended to promote the short-term resilience of a bank's liquidity risk profile over a 30-day period.		
Rupee Liquidity Requirement	292.61	387.17
All Currency Liquidity Requirement	331.49	445.92
This ratio is defined as the amount of high-quality liquid assets that could be used to raise liquidity, measured against the total volume of net cash outflows, arising from both actual and contingent exposures in a stressed scenario.		
<b>Net Stable Funding Ratio (NSFR)</b>		
This ratio measures the availability of stable funds against the required funds of the Bank. NSFR, requires banks to maintain stable funding profile by creating additional incentives to fund their activities with more stable sources of funding on an ongoing basis, over a longer time horizon.		
	161.18	150.19

#### 5.4.3 Liquidity reserves

Components of the Bank's liquid assets portfolio/high quality liquidity assets (all currency) used for the purpose of calculating Liquidity Coverage ratio in December 2024 and December 2023.

As at 31st December	2024 Rs 000	2023 Rs 000
<b>Asset - All Currency</b>		
<b>Level 1 Assets</b>		
Cash in hand	51,330,829	44,872,260
Instruments issued by sovereigns	716,709,484	565,055,811
<b>Level 2A Assets</b>		
Issued or guaranteed by sovereigns	85,988,105	61,322,813
<b>Level 2B Assets</b>		
Qualifying non-financial common equity shares	105,412	82,529
<b>Total unweighted stock of High Quality Liquid Assets (HQLA)</b>	<b>854,133,830</b>	<b>671,333,413</b>
<b>Total weighted stock of High Quality Liquid Assets (HQLA)</b>	<b>841,182,908</b>	<b>662,093,727</b>
<b>Net Cash outflows</b>	<b>253,758,731</b>	<b>148,477,921</b>
<b>Liquidity Coverage Ratio (LCR)</b>	<b>331.49</b>	<b>445.92</b>

Total stock of HQLA is weighted as instructed by Regulator to arrive at LCR.

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 2024 is presented in Note 32 and 33 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

### 5.4.4 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of undiscounted cash flows of the Bank's financial assets and liabilities as at 31st December. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

#### Contractual maturities of undiscounted cash flows of financial assets and financial liabilities

Bank 31st December 2024	Up to 3 months Rs 000	3 - 12 months Rs 000	1 - 3 years Rs 000	3 - 5 years Rs 000	More than 5 years Rs 000	Total Rs 000
<b>Financial Assets</b>						
<i>Derivative assets</i>						
Derivative financial instruments held for risk management	288,923	86,137	-	-	-	375,060
<i>Non- derivative assets</i>						
Cash and cash equivalents	63,386,702	-	-	-	-	63,386,702
Placements with banks	41,039,131	895,540	-	-	-	41,934,671
Balances with Central Bank of Sri Lanka	-	-	-	-	6,913,009	6,913,009
Financial assets measured at fair value through profit or loss	1,835,469	-	-	-	-	1,835,469
Financial assets measured at amortised cost - loans and advances to customers (gross)	513,402,484	334,794,279	256,577,747	138,340,388	140,822,957	1,383,937,855
Financial assets measured at amortised cost - debt and other instruments	155,475,154	360,794,300	113,889,168	197,423,611	107,506,166	935,088,399
Financial assets measured at fair value through other comprehensive income	3,300,133	12,107,539	35,865,603	48,281,905	25,916,761	125,471,941
Other financial assets	4,746,539	-	-	-	-	4,746,539
<b>Total undiscounted financial assets</b>	<b>783,474,535</b>	<b>708,677,795</b>	<b>406,332,518</b>	<b>384,045,904</b>	<b>281,158,893</b>	<b>2,563,689,645</b>
<b>Financial Liabilities</b>						
<i>Derivative liabilities</i>						
Derivative financial instruments held for risk management	1,502,085	71,332	-	-	-	1,573,417
<i>Non-derivative liabilities</i>						
Due to banks	4,152,114	362,758	573,089	116,239	2,068,527	7,272,727
Securities sold under repurchase agreements	26,127,304	435,970	-	-	-	26,563,274
Financial liabilities measured at amortised cost - due to depositors	1,079,935,232	567,226,477	89,032,766	31,053,163	4,383,055	1,771,630,693
Dividends payable	976,029	-	-	-	-	976,029
Financial liabilities measured at amortised cost - other borrowings	4,945,374	5,930,690	9,396,407	2,357,896	213,149	22,843,516
Financial liabilities at amortised cost - debt securities issued	-	-	-	-	-	-
Other financial liabilities	10,466	-	-	-	-	10,466
Subordinated term debts	138,499	4,186,482	15,693,482	25,205,544	10,875,958	56,099,965
<b>Total undiscounted financial liabilities</b>	<b>1,117,787,103</b>	<b>578,213,709</b>	<b>114,695,744</b>	<b>58,732,842</b>	<b>17,540,689</b>	<b>1,886,970,087</b>
<b>Net undiscounted financial assets/(liabilities)</b>	<b>(334,312,568)</b>	<b>130,464,086</b>	<b>291,636,774</b>	<b>325,313,062</b>	<b>263,618,204</b>	<b>634,784,887</b>

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

Bank	Up to	3 - 12	1 - 3	3 - 5	More than	Total
As at 31st December 2024	3 months	months	years	years	5 years	
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Documentary credit	23,000,946	3,965,232	147,505	218,060	-	27,331,743
Guarantees	17,038,393	16,864,163	23,248,766	17,091,008	4,303,793	78,546,123
Acceptances	12,491,218	2,117,374	75,136	34,310	-	14,718,038
Commitment for unutilised facilities - Direct	271,929,810	-	-	-	-	271,929,810
Commitment for unutilised facilities - Indirect	242,290,749	-	-	-	-	242,290,749
	566,751,116	22,946,769	23,471,407	17,343,378	4,303,793	634,816,463

Contractual maturities of undiscounted cash flows of financial assets and financial liabilities

Bank	Up to	3 - 12	1 - 3	3 - 5	More than	Total
As at 31st December 2023	3 months	months	years	years	5 years	
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Financial Assets</b>						
<i>Derivative assets</i>						
Derivative financial instruments held for risk management	372,931	79,262	-	-	-	452,193
<i>Non- derivative assets</i>						
Cash and cash equivalents	73,148,596	-	-	-	-	73,148,596
Placements with banks	56,124,833	-	-	-	-	56,124,833
Balances with Central Bank of Sri Lanka	-	-	-	-	12,234,361	12,234,361
Financial assets measured at fair value through profit or loss	115,641	-	-	-	-	115,641
Financial assets measured at amortised cost - loans and advances to customers (gross)	510,966,289	271,288,937	255,267,419	117,535,245	145,202,120	1,300,260,010
Financial assets measured at amortised cost - debt and other instruments	116,048,993	314,248,587	150,552,106	68,855,666	18,670,201	668,375,553
Financial assets measured at fair value through other comprehensive income	74,111,053	83,115,001	12,656,030	28,039,592	23,703,832	221,625,508
Other financial assets	11,029,182	-	-	-	-	11,029,182
<b>Total undiscounted financial assets</b>	<b>841,917,518</b>	<b>668,731,787</b>	<b>418,475,555</b>	<b>214,430,503</b>	<b>199,810,514</b>	<b>2,343,365,877</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

Bank As at 31st December 2023	Up to 3 months Rs 000	3 - 12 months Rs 000	1 - 3 years Rs 000	3 - 5 years Rs 000	More than 5 years Rs 000	Total Rs 000
<b>Financial Liabilities</b>						
<i>Derivative liabilities</i>						
Derivative financial instruments held for risk management	1,113,872	251,651	-	-	-	1,365,523
<i>Non-derivative liabilities</i>						
Due to banks	193,607,633	998,702,333	871,970,474	452,416,031	1,554,325	2,518,250,796
Securities sold under repurchase agreements	60,425,428	681,280	1,072,452	-	-	62,179,160
Financial liabilities measured at amortised cost - due to depositors	981,288,414	566,795,360	46,508,485	52,962,408	2,793,230	1,650,347,897
Dividends payable	974,790	-	-	-	-	974,790
Financial liabilities measured at amortised cost - other borrowings	47,278,134	6,812,277	11,829,213	4,133,995	1,267,597	71,321,216
Financial liabilities at amortised cost - debt securities issued	-	3,529	90,715	-	-	94,244
Other financial liabilities	7,224	-	-	-	-	7,224
Subordinated term debts	1,362,800	3,857,957	11,475,252	1,330,000	8,995,000	27,021,009
<b>Total undiscounted financial liabilities</b>	<b>1,286,058,295</b>	<b>1,577,104,387</b>	<b>942,946,591</b>	<b>510,842,434</b>	<b>14,610,152</b>	<b>4,331,561,859</b>
<b>Net undiscounted financial assets/(liabilities)</b>	<b>(444,140,777)</b>	<b>(908,372,600)</b>	<b>(524,471,036)</b>	<b>(296,411,931)</b>	<b>185,200,362</b>	<b>(1,988,195,982)</b>

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

Bank As at 31st December 2023	Up to 3 months Rs 000	3 - 12 months Rs 000	1 - 3 years Rs 000	3 - 5 years Rs 000	More than 5 years Rs 000	Total Rs 000
Documentary credit	24,555,382	2,319,000	90,492	-	-	26,964,874
Guarantees	55,244,549	44,450,916	10,627,418	131,678	4,473,175	114,927,736
Acceptances	9,543,201	1,699,301	28,026	-	-	11,270,528
Commitment for unutilised facilities - Direct	269,445,259	-	-	-	-	269,445,259
Commitment for unutilised facilities - Indirect	273,980,241	-	-	-	-	273,980,241
	<b>632,768,632</b>	<b>48,469,217</b>	<b>10,745,936</b>	<b>131,678</b>	<b>4,473,175</b>	<b>696,588,638</b>

The amounts in the table above have been compiled as follows.

Type of financial instrument	Basis on which amounts are compiled
Non-derivative financial liabilities and financial assets	Undiscounted cash flows, which include estimated interest payments.
Issued financial guarantee contracts and unrecognised loan commitments	In respect of issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The Bank's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are as follows:

- demand deposits from customers are expected to remain stable or increase;
- not all undisbursed loan commitments are expected to be drawn down immediately;

#### 5.4.5 Financial assets available to support future funding

Financial assets are pledged as collateral as part of sales and repurchases, securities borrowing and securitisation transactions under terms that are usual and customary for such activities. In addition, as part of these transactions, the Bank has received collaterals that it is permitted to sell or repledge in the absence of default.

The total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities as at 31st December 2024 and 2023 is shown in the following tables.

As at 31st December 2024	Encumbered		Unencumbered		Total Rs 000
	Pledged as collateral	Other	Available as collateral	Other	
	Rs 000	Rs 000	Rs 000	Rs 000	
Cash and cash equivalents	-	-	63,384,494	-	63,384,494
Placements with banks	-	-	41,876,789	-	41,876,789
Balances with Central Banks	-	6,913,009	-	-	6,913,009
Derivative financial assets	-	-	-	375,060	375,060
Financial assets recognised through profit or loss measured at fair value	-	-	1,835,469	-	1,835,469
Financial assets measured at amortised cost Loans and advances to other customers	-	-	1,159,740,459	-	1,159,740,459
Financial assets measured at amortised cost Debt and other financial instruments	29,609,594	-	712,787,637	-	742,397,231
Financial assets measured at fair value through other comprehensive income	-	-	96,309,470	-	96,309,470
Other financial assets	-	-	-	4,746,539	4,746,539
<b>Total</b>	<b>29,609,594</b>	<b>6,913,009</b>	<b>2,075,934,318</b>	<b>5,121,599</b>	<b>2,117,578,520</b>

As at 31st December 2023	Encumbered		Unencumbered		Total Rs 000
	Pledged as collateral	Other	Available as collateral	Other	
	Rs 000	Rs 000	Rs 000	Rs 000	
Cash and cash equivalents	-	-	73,365,223	-	73,365,223
Placements with banks	-	-	56,024,833	-	56,024,833
Balances with Central Banks	-	12,234,361	-	-	12,234,361
Derivative financial assets	-	-	-	452,193	452,193
Financial assets recognised through profit or loss measured at fair value	-	-	115,641	-	115,641
Financial assets measured at amortised cost - Loans and advances to other customers	-	-	1,041,990,203	-	1,041,990,203
Financial assets measured at amortised cost - Debt and other financial instruments	65,592,995	-	587,649,176	-	653,242,171
Financial assets measured at fair value through other comprehensive income	-	-	189,325,958	-	189,325,958
Other financial assets	-	-	-	11,029,182	11,029,182
<b>Total</b>	<b>65,592,995</b>	<b>12,234,361</b>	<b>1,948,471,034</b>	<b>11,481,375</b>	<b>2,037,779,765</b>



# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

### 5.5 Market Risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's or issuer's credit standing) will affect the Bank's income or the value of its holding of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters in order to ensure the Bank's solvency while optimising the return on risk.

### 5.5.1 Management of Market Risk

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolio includes financial assets and liabilities that are managed on a fair value basis. All foreign exchange positions within the Bank are treated as part of the Bank's trading portfolio for risk management purposes. Non trading portfolio is managed in accordance with the purpose and strategic benefits of such investments, rather than purely on fair value basis.

The Bank has a board approved treasury policy. Treasury middle office monitors the Bank's compliance with the above policy and ensures that the Bank's market risk limits are in line with the level of risk acceptable to the Board. The Bank employs a range of tools to monitor and limit market risk exposures which are discussed below.

The following table sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios.

As at 31st December 2024	Market Risk Measurement			
	Note	Carrying amount Rs 000	Trading Portfolio Rs 000	Non-Trading Portfolio Rs 000
<b>Assets subject to market risk</b>				
Cash and cash equivalents	25	63,384,494	-	63,384,494
Placements with banks	26	41,876,789	-	41,876,789
Derivatives financial assets	29	375,060	375,060	-
Financial assets measured at fair value through profit or loss	30	1,835,469	1,835,469	-
Financial assets measured at amortised cost				
- Loans to and advances to customers	31	1,159,740,459	-	1,159,740,459
Financial assets measured at amortised cost				
- Debt and other financial instruments	32	742,397,231	-	742,397,231
Financial assets measured at fair value through other comprehensive income	33	96,309,470	-	96,309,470
		2,105,918,972	2,210,529	2,103,708,443
<b>Liabilities subject to market risk</b>				
Due to banks	42	6,595,571	-	6,595,571
Derivatives financial liabilities	29	1,573,417	1,573,417	-
Financial liabilities measured at amortised cost - due to depositors	44	1,715,484,127	-	1,715,484,127
Financial liabilities measured at amortised cost - other borrowings	46	19,740,135	-	19,740,135
Debt securities issued	47	-	-	-
Subordinated term debt	52	28,174,227	-	28,174,227
		1,771,567,477	1,573,417	1,769,994,060

As at 31st December 2023	Note	Market Risk Measurement		
		Carrying amount Rs 000	Trading Portfolio Rs 000	Non-Trading Portfolio Rs 000
<b>Assets subject to market risk</b>				
Cash and cash equivalents	25	73,365,223	-	73,365,223
Placements with banks	26	56,024,833	-	56,024,833
Derivatives financial assets	29	452,193	452,193	-
Financial assets measured at fair value through profit or loss	30	115,641	115,641	-
Financial assets measured at amortised cost				
- Loans to and advances to customers	31	1,041,990,203	-	1,041,990,203
Financial assets measured at amortised cost				
- Debt and other financial instruments	32	653,242,171	-	653,242,171
Financial assets measured at fair value through other comprehensive income	33	189,325,958	-	189,325,958
		2,014,516,222	567,834	2,013,948,388
<b>Liabilities subject to market risk</b>				
Due to banks	42	9,019,582	-	9,019,582
Derivatives financial liabilities	29	1,365,523	1,365,523	-
Financial liabilities measured at amortised cost - due to depositors	44	1,579,780,228	-	1,579,780,228
Financial liabilities measured at amortised cost - other borrowings	46	24,933,215	-	24,933,215
Debt securities issued	47	87,569	-	87,569
Subordinated term debt	52	18,961,556	-	18,961,556
		1,634,147,673	1,365,523	1,632,782,150

### 5.5.2 Exposure to equity price risk

The principal tool used to measure and control market risk exposure within the Bank is Value at Risk (VaR). The VaR of a portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model is used mainly based on historical simulation by the Bank upon a 99 percent confidence level and assumes 1-day and a 10-day holding period. Taking account of market data from the previous two years and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

- The 1-day and 10-day holding periods assumes that it is possible to hedge or dispose of positions within those periods. This may not be the case for illiquid assets or in situations in which there is severe general market liquidity.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes, may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if market price volatility declines and vice versa.
- The Bank uses VaR limits for foreign exchange and equity risks. The overall structure of VaR limits is subject to review and approval by ALCO. VaR limits are allocated to portfolios. VaR is measured at least monthly and reported to the Asset and Liability Committee (ALCO) and Board Integrated Risk Management Committee (BIRMC).

The Bank's VaR models are subject to regular validation by Treasury Mid Office (TMO) to ensure that they continue to perform as expected and that assumptions used in model development are still appropriate.

A summary of the VaR position of the Bank as at 31st December is as follows:

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

As at 31st December	2024	2023
<b>Trading portfolio</b>		
Marked-to-market value of the trading equity portfolio - Rs 000	158,099	113,694
Value-at-Risk (under 99% confidence level for 10 day period)	8.06%	8.49%
Maximum estimated loss of value in the marked-to-market value of the portfolio is indicated by the VaR over a 10 day period - Rs 000	12,744	9,651
<b>Non trading portfolio</b>		
Marked-to-market value of the non trading equity portfolio - Rs 000	27,221	22,273
Value-at-Risk (under 99% confidence level for 10 day period)	10.90%	17.38%
Maximum estimated loss of value in the marked-to-market value of the portfolio is indicated by the VaR over a 10 day period - Rs 000	2,059	2,450

The limitations of the VaR model are mitigated by supplementing VaR limits with other risk measures. The Bank uses a wide range of stress tests to model the financial impact of various exceptional market scenarios such as changes in exchange rates, interest rates and prices of financial instruments such as equities and bonds. The results of the stress tests are reviewed periodically by the Asset and Liability Committee (ALCO) and Board Integrated Risk Management Committee (BIRMC).

interest rate risk against interest rate gap limits, which is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various rate scenarios. Net interest yields are also calculated for each product, to ensure that adequate margins are maintained.

Majority of the Bank's holding in treasury bills and bonds are in shorter maturities, thus the impact of interest rate changes in prices of treasury bills and bonds are very insignificant. Modified duration of non-trading portfolios as at 31st December is given below.

### 5.5.3 Exposure to interest rate risk - Non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments due to changes in market interest rates. The Bank manages the

As at 31st December	2024	2023
Non trading	0.7100	0.9590

The following is a summary of the Bank's interest rate gap position on non-trading portfolios. The interest rate repricing gap table analyses the full-term structure of interest rate mismatches within the Bank's balance sheet based on either the next repricing date or the maturity date if floating rate or the maturity date if fixed rate.

As at 31st December 2024	Carrying amount Rs 000	Less than 3 months Rs 000	3-6 months Rs 000	6-12 months Rs 000	1-5 years Rs 000	More than 5 years Rs 000
Financial assets measured at amortised cost						
- Loans and advances to customers	1,159,740,459	399,793,328	143,394,749	83,268,486	346,694,841	186,589,055
Financial assets measured at amortised cost - debt and other instruments	742,397,231	150,103,745	247,499,450	83,538,432	141,208,048	120,047,556
Financial assets measured at fair value through other comprehensive income	86,742,709	18,880,354	2,143,958	3,443,593	62,274,804	-
	1,988,880,399	568,777,427	393,038,157	170,250,511	550,177,693	306,636,611
Financial liabilities measured at amortised cost						
- due to depositors	1,715,484,127	1,075,930,066	272,333,135	274,192,658	91,090,587	1,937,681
Debt securities issued	-	-	-	-	-	-
Subordinated term debts	28,174,227	-	-	-	8,354,270	19,819,957
Borrowings	52,821,810	35,813,732	1,991,454	3,579,313	11,236,704	200,607
	1,796,480,164	1,111,743,798	274,324,589	277,771,971	110,681,561	21,958,245
	192,400,235	542,966,371	118,713,568	(107,521,460)	439,496,132	284,678,366

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 2024 is as follows.

As at 31st December	Increase of 100 bps	Decrease of 100 bps	Increase of 200 bps	Decrease of 200 bps
LKR Portfolio (Rs 000)	6,707,612	(7,143,899)	12,997,134	(14,740,502)
USD Portfolio (USD 000)	7,832	(8,289)	15,243	(17,071)

Interest rate movements affect reported equity in the following ways:

- Retained earnings: Increases/ (decreases) in net interest income and in fair values of derivatives and other non-trading financial assets mandatorily measured at FVTPL reported in profit or loss;

- Fair value reserve: Increases/ (decreases) in the fair values of financial assets at FVOCI reported directly in equity;

Aggregate non-trading interest rate risk positions are managed by Treasury, which uses investment securities, placements with banks, deposits from banks and derivative instruments to

manage the positions. The use of derivatives to manage interest rate risk is described in Note 29 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

### 5.5.4 Exposure to currency risks - Non-trading portfolios

Foreign exchange risk in Net Open Position (NOP)/unhedged position of Bank

The following table indicates the Bank's exchange rate risk exposure based on its size of the NOP/unhedged positions in the foreign currency assets/liabilities. By 31st December 2024, Bank carried a USD equivalent NOP/unhedged "Overbought" position of LKR 489 Mn. The impact of exchange rate risk is given below:

As at 31st December	2024	2023
Net exposure – USD equivalent	1,669,359	469,235
Value of position in Rs 000	489,539	152,032
Exchange rate (USD/LKR) as at 31 December	293.25	324.00
<b>Possible potential loss to Bank</b>		
– If exchange rate (USD/LKR) depreciates by 1% – Rs 000	4,895	1,520
– If exchange rate depreciates by 10% – Rs 000	48,954	15,203
– If exchange rate depreciates by 15% – Rs 000	73,431	22,805

### 5.6 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk in order to avoid/mitigate financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. All activities should be aligned with the Bank's policy and requires compliance with the applicable legal and regulatory requirements.

The following are included in the operational risk management process within the Bank.

- Review the risk exposure to the Bank with the current macro-economic changes through the Risk and Control Self Assessment process (RCSA) across the Bank's Departments and Branch network.
- Identify the risk exposure to the Bank in processes followed by departments through Risk and Control-Assessment (RCSA) process and monitor that necessary actions are introduced and

implemented to mitigate the associated risks.

- Monitoring of Key Risk Indicators (KRIs) for critical systems and processes and ensure that they are operated within the defined threshold limits.
- Collate the loss incidents through the 'Operational risk incident reporting system' which are independently analysed by the Integrated Risk Management Division (IRMD) and recommend necessary improvements to the systems, processes and procedures to avoid recurrence and mitigate risks to minimize the losses.
- Analyse downtime of the critical systems, attrition information, exit interview comments and complaints to identify operational risks and recommend mitigating controls. The key findings of the analysis are evaluated at the Operational Risk Steering Committee (ORSC) and the Board Integrated Risk Management Committee (BIRMC) meetings in an operational risk perspective.
- Ensuring business continuity management and operational resilience by Business Continuity Planning (BCP) and testing through Bank's disaster recovery drills to

strengthen perceived areas for improvement.

- Reviewing risk in new products, processes and outsourcing activities.

The primary responsibility for the development of operational risk management framework and controls to address operational risk lies with RMD whilst implementation is assigned to senior management within each business unit and support function. This responsibility is supported by the development of overall standards for management of operational risk in the following areas

- Defining requirement for appropriate segregation of duties, including independent authorisation of transactions.
- Defining requirements for reconciliation and monitoring of transactions.
- Maintain compliance with regulatory and other legal requirements.
- Review of controls and procedures through RCSA process.
- Periodic review of operational risks to identify emerging threats and assess the adequacy of controls and procedures to mitigate the identified risks.

- Maintain a data base and reporting of operational losses to the senior management, Board of Directors and regulator.
- Development of contingency plans as a business continuity measure.
- Developing the risk awareness culture across the Bank through communication and conducting training and awareness programmes for the staff to maintain ethics and business standards.
- Recommend insurance coverage as a risk mitigation strategy under the operational risk framework for emerging threats arising from external and other events.
- Risk based reviews on critical outsourced activities.

All banks in Sri Lanka need to maintain a minimum Common Equity Tier 1 ratio of 7%, Tier 1 ratio of 8.5% and a total capital ratio of 12.5%. In addition, the licensed banks which are determined as Domestic Systemically Important Banks (D-SIBs) shall maintain additional Higher Loss Absorbency (HLA) requirements as specified by the Monetary Board in the form of Common Equity Tier 1.

As per this requirement, the Bank should maintain a Common Equity Tier 1 ratio of 8% together with a Tier 1 ratio of 9.5% and a total capital ratio of 13.5%. Regulatory minimum ratio as at 31st December 2024 - Common Equity Tier 1 ratio of 8% together with a Tier 1 ratio of 9.5% and a total capital ratio of 13.5%.

## 5.7 Capital Management

The Bank is required to manage its capital taking in to account the need to meet the regulatory requirements as well as the current and future business needs, stakeholder expectation and available options for raising capital.

### 5.7.1 Regulatory capital

The Bank manages its capital considering regulatory capital requirements. The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for licensed banks in Sri Lanka based on the Basel Framework. Thus the Bank's operations are directly supervised by CBSL. The Bank is required to comply with the provisions of the Basel III framework in respect of regulatory capital and capital to cover any additional risk.



# NOTES TO THE FINANCIAL STATEMENTS

## 5 FINANCIAL RISK MANAGEMENT (Contd.)

As at 31st December	2024	2023
<b>Common equity Tier 1 (CET1) capital after adjustments</b>	<b>190,811,979</b>	126,926,615
<b>Total common equity Tier 1 (CET1) capital</b>	<b>199,639,959</b>	170,009,255
Equity capital (stated capital)/assigned capital	42,858,227	40,955,116
Reserve fund	12,610,000	10,410,000
Published retained earnings/(accumulated retained losses)	77,316,203	56,305,768
Published accumulated other comprehensive income (OCI)	6,755,529	3,238,371
General and other disclosed reserves	60,100,000	59,100,000
Unpublished current year's profit/(losses) and gains reflected in OCI	-	-
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
<b>Total adjustments to CET1 capital</b>	<b>8,827,980</b>	43,082,640
Goodwill (net)	-	-
Other intangible assets (net)	1,322,941	1,391,167
Revaluation losses of property, plant and equipment	-	-
Defined benefit pension fund assets	1,394,045	4,158,958
Investments in the capital of banking and financial institutions where the bank does not own more than 10% of the issued ordinary share capital of the entity	-	344,997
Significant investments in the capital of financial institutions where the Bank owns more than 10% of the issued ordinary share capital of the entity	2,089,842	2,618,180
Shortfall of capital in financial subsidiaries	627,367	624,770
Deferred tax assets (net)	3,393,785	33,944,568
<b>Additional Tier 1 (AT1) capital after adjustments</b>	<b>-</b>	-
<b>Total additional Tier 1 (AT1) capital</b>	<b>-</b>	-
Qualifying additional Tier 1 capital instruments	-	-
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
<b>Total adjustments to AT1 capital</b>	<b>-</b>	-
Investment in own shares	-	-
Others (Specify)	-	-
<b>Tier 2 Capital after adjustments</b>	<b>42,501,520</b>	32,328,305
<b>Total Tier 2 Capital</b>	<b>42,501,520</b>	32,328,305
Qualifying Tier 2 capital instruments	22,230,972	12,496,465
Revaluation gains	9,019,057	9,019,056
General provisions/Eligible impairment	11,251,492	10,812,784
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
<b>Total adjustments to Tier 2 capital</b>	<b>-</b>	-
Investment in own shares	-	-
Others (specify)	-	-
<b>CET1 capital</b>	<b>190,811,979</b>	170,009,255
<b>Total Tier 1 capital</b>	<b>190,811,979</b>	126,926,615
<b>Total capital</b>	<b>233,313,500</b>	159,254,920

As at 31st December	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Total Risk Weighted Assets (RWA)</b>	<b>973,885,210</b>	929,502,175	<b>1,063,641,201</b>	1,013,065,509
RWAs for credit risk	<b>900,119,356</b>	865,022,689	<b>985,802,113</b>	945,277,000
RWAs for market risk	<b>1,545,030</b>	534,316	<b>2,130,508</b>	765,987
RWAs for operational risk	<b>72,220,824</b>	63,945,171	<b>75,708,579</b>	67,022,522
<b>Regulatory capital ratios (%)</b>				
Common equity Tier 1 Capital ratio	<b>19.59%</b>	13.66%	<b>20.64%</b>	14.70%
Tier 1 capital ratio	<b>19.59%</b>	13.66%	<b>20.64%</b>	14.70%
Total capital ratio	<b>23.96%</b>	17.13%	<b>24.70%</b>	17.95%

### 5.7.2 Capital allocation

Management monitors the capital adequacy ratio on a regular basis to ensure that it operates well above the internal limit set by the Bank. The allocation of capital between specific operations and activities, to a large extent is driven by optimisation of return on capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases, the regulatory requirements do not fully reflect the varying degree of risks associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required level by the regulator.

## 6 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

### ACCOUNTING POLICY

#### Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market or, in its absence of which, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

Group measures the fair value of an asset or a liability carried at fair value at bid price or

ask price respectively. The long positions and short positions are measured using mid rates.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

#### Valuation models

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices,

foreign currency exchange rates, expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models to determine the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for government securities such as treasury bills, treasury bonds and Sri Lanka sovereign bonds, listed equity securities and forward contracts. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and

# NOTES TO THE FINANCIAL STATEMENTS

## 6 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Contd.)

markets and is prone to changes based on specific events and general conditions in the financial markets.

### Fair Value Hierarchy

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

- **Level 1 : Fair value measurement using unadjusted quoted market prices**

When available, the fair values of financial instruments are determined using unadjusted quoted market prices in active markets for identical instruments, including those published by the Central Bank of Sri Lanka. A market is considered active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions conducted at arm's length.

- **Level 2 : Fair value measurement using significant observable inputs**

In the absence of an active market for a financial instrument, the fair value is determined using quoted market prices in active markets for similar instruments or quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques in which all significant inputs are directly or indirectly observable from market data. The spot and forward premiums available as at the reporting date have been used to estimate the fair value of derivative financial instruments while the fair value of unquoted units have been measured using manager's selling prices.

- **Level 3 : Fair value measurement using significant unobservable inputs**

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

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third party market participant would take them into account in pricing a transaction.

### Assets and Liabilities Recorded at Fair Value

A description of how fair values are determined for assets and liabilities that are recorded at fair value using valuation techniques is summarised below, which incorporates the bank's estimate of assumptions that a market participant would make when valuing the instruments.

- **Derivative financial instruments**

Derivative financial instruments such as forward foreign exchange contracts and currency swaps are valued using a valuation technique with market observable inputs (Level 2). The most frequently applied valuation technique is forward pricing model which incorporates various inputs, including foreign exchange spot and forward premiums.

- **Financial assets measured at fair value (FVOCI/FVTPL)**

Government debt securities classified as financial assets measured at FVOCI/FVTPL are valued using current yield rates or market rates published by the Central Bank of Sri Lanka. Quoted equities and units classified as FVOCI/FVTPL are valued using quoted market prices in the active markets as at the reporting date (Level 1). Unquoted units classified as FVOCI/FVTPL are valued using manager's selling price. Unquoted shares classified as FVOCI are valued at cost.

### Valuation framework

Control framework has been established for the measurement of fair values. The determination of fair value is carried out independently from front office management and reports to the Chief Financial officer, with the overall responsibility for independently verifying the results of trading and investment

operations and all significant fair value measurements. Specific controls include verification of observable pricing and analysis and investigation of significant daily valuation movements for government securities. When the assistance of third party experts is obtained to determine the fair values, the reasonability of such valuation results are validated and significant valuation issues are reported to the Board Audit Committee. Specific controls include:

- Verification of observable pricing
- re performance of model valuations
- a review and approval of changes to models
- quarterly calibration and back testing of models against observed market transactions

### ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

#### Assessment of implications of uncertain economic environment

The Group evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgement and estimation in determining the carrying values of financial assets and financial liabilities at the reporting date.

For certain financial instruments, data that is not readily observable in current markets may be used. If unobservable market data is used, a higher degree of judgement is used to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, unobservable inputs are derived from other relevant market data and compared with the observed transaction prices where available.

## 6.1 Financial instruments measured at fair value and fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised.

The amounts are based on the values recognised in the statement of financial position.

As at 31st December 2024	Bank				Group			
	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000
<b>Financial assets measured at fair value derivative financial instruments</b>								
Currency swaps	-	200,265	-	200,265	-	200,265	-	200,265
Forward foreign exchange contracts	-	174,795	-	174,795	-	174,795	-	174,795
	-	375,060	-	375,060	-	375,060	-	375,060
<b>Financial assets measured at fair value through profit or loss</b>								
Quoted shares	158,099	-	-	158,099	992,227	-	-	992,227
Government Securities	1,677,370	-	-	1,677,370	1,677,370	-	-	1,677,370
Unquoted units	-	-	-	-	-	293,015	-	293,015
	1,835,469	-	-	1,835,469	2,669,597	293,015	-	2,962,612
<b>Financial assets measured at fair value through other comprehensive income</b>								
Quoted shares	8,275,744	-	-	8,275,744	8,275,744	-	-	8,275,744
Unquoted shares	-	-	184,180	184,180	-	-	188,612	188,612
Unquoted units	-	1,106,837	-	1,106,837	-	1,106,837	-	1,106,837
Government Securities	68,637,405	18,105,304	-	86,742,709	84,730,802	18,105,304	-	102,836,106
	76,913,149	19,212,141	184,180	96,309,470	93,006,546	19,212,141	188,612	112,407,299
<b>Financial liabilities measured at fair value derivative financial instruments</b>								
Currency swaps	-	1,353,631	-	1,353,631	-	1,353,631	-	1,353,631
Forward foreign exchange contracts	-	219,786	-	219,786	-	219,786	-	219,786
	-	1,573,417	-	1,573,417	-	1,573,417	-	1,573,417

# NOTES TO THE FINANCIAL STATEMENTS

## 6 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Contd.)

As at 31st December 2023	Bank				Group			
	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000
<b>Financial assets measured at fair value derivative financial instruments</b>								
Currency swaps	-	282,184	-	282,184	-	282,184	-	282,184
Forward foreign exchange contracts	-	170,009	-	170,009	-	170,009	-	170,009
	-	452,193	-	452,193	-	452,193	-	452,193
<b>Financial assets measured at fair value through profit or loss</b>								
Quoted shares	113,694	-	-	113,694	331,492	-	-	331,492
Government Securities	1,947	-	-	1,947	1,947	-	-	1,947
Unquoted units	-	-	-	-	-	467,626	-	467,626
	115,641	-	-	115,641	333,439	467,626	-	801,065
<b>Financial assets measured at fair value through other comprehensive income</b>								
Quoted shares	5,501,697	-	-	5,501,697	5,501,697	-	-	5,501,697
Unquoted shares	-	-	33,035	33,035	-	-	38,515	38,515
Unquoted units	-	694,100	-	694,100	-	694,100	-	694,100
Government Securities	183,097,126	-	-	183,097,126	189,740,995	-	-	189,740,995
	188,598,823	694,100	33,035	189,325,958	195,242,692	694,100	38,515	195,975,307
<b>Financial liabilities measured at fair value derivative financial instruments</b>								
Currency swaps	-	1,287,948	-	1,287,948	-	1,287,948	-	1,287,948
Forward foreign exchange contracts	-	77,575	-	77,575	-	77,575	-	77,575
	-	1,365,523	-	1,365,523	-	1,365,523	-	1,365,523

### 6.2 Fair Value Measurement of Assets Classified as Level 3 and Level 2

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values for financial instruments in the statement of financial position, as well as the significant unobservable inputs used.

Type	Valuation technique
Unquoted equity shares	The majority of unquoted equity investments of the Group include share investments that have been made primarily for regulatory purposes. Such investments have been recorded at cost which is comparable to computed fair value due to level 3 estimates used.
Forward exchange contracts/Currency swaps	Forward pricing: The fair value is determined using quoted forward exchange rates at the reporting date and present value calculations based on high credit quality yield curves in the respective currencies.
Unquoted units	Manager's selling prices [Rs 56.89 per unit (2023 - Rs 35.68)]

Further there are no material changes in the fair value of financial assets categorised under Level 3 compared to the values reported as at 31st December 2023. The Group has not changed the valuation models and assumptions used to measure the fair values of Level 3 financial instruments

during the year ended 31st December 2024.

Further, there were no transfers from Level 1 to Level 2 or Level 2 to Level 1 in 2024 and no transfers in either direction in 2023. There were no transfers out of Level 3 in 2024 or 2023.

**Sensitivity of significant unobservable inputs used to measure fair value of fixed rate financial instruments**

A significant increase / ( decrease ) in the market interest rate would result in lower/( higher) fair value being disclosed.

### 6.3 Level 3 recurring fair values

#### Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

	Equity securities			
	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January	33,035	27,839	38,515	30,551
Addition during the year	151,145	-	150,097	-
Net change in fair value (unrealised)	-	5,196	-	7,964
<b>Balance as at 31st December</b>	<b>184,180</b>	<b>33,035</b>	<b>188,612</b>	<b>38,515</b>

### 6.4 Fair value of assets and liabilities not measured at fair value

The following table summarises the carrying amounts and the Group's estimate of fair values of those assets and liabilities not presented in the statement of financial position at fair value. The fair values in the table below may be different from the actual amounts that will be received/ paid on the settlement or maturity of the asset or liability. For certain instruments, the fair value may be determined, using assumptions which are not observable in the market.

As at 31st December 2024	Carrying Value Rs 000	Bank Fair Value				Total Rs 000	Carrying Value Rs 000	Group Fair Value				Total Rs 000
		Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Level 1 Rs 000			Level 2 Rs 000	Level 3 Rs 000			
<b>Financial Assets</b>												
Cash and cash equivalents [Note 25]	63,356,259	-	63,356,259	-	63,356,259	64,065,041	-	64,065,041	-	64,065,041		
Placements with banks [Note 26]	41,858,517	-	41,858,517	-	41,858,517	48,656,010	-	48,656,010	-	48,656,010		
Balances with Central Bank of Sri Lanka [Note 27]	6,913,009	-	6,913,009	-	6,913,009	6,913,009	-	6,913,009	-	6,913,009		
Reverse repurchase agreement [Note 28]	-	-	-	-	-	5,280,692	-	5,280,692	-	5,280,692		
Financial assets at amortised cost - loans and advances to customers [Note 31]	1,063,675,345	-	1,075,048,670	-	1,075,048,670	1,104,013,319	-	1,114,972,987	-	1,114,972,987		
Financial assets at amortised cost- debt and other financial instruments [Note 32]	741,761,201	682,838,280	75,431,246	-	758,269,526	770,020,546	700,813,971	90,791,756	-	791,605,727		
Other financial assets [Note 41]	4,746,539	-	4,746,539	-	4,746,539	8,414,670	-	8,414,670	-	8,414,670		
<b>Total financial assets measured at amortised cost</b>	<b>1,922,310,870</b>	<b>682,838,280</b>	<b>1,267,354,240</b>	<b>-</b>	<b>1,950,192,520</b>	<b>2,007,363,287</b>	<b>700,813,971</b>	<b>1,339,094,165</b>	<b>-</b>	<b>2,039,908,136</b>		



# NOTES TO THE FINANCIAL STATEMENTS

## 6 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Contd.)

As at 31st December 2024	Bank Fair Value					Group Fair Value				
	Carrying				Total	Carrying				Total
	Value Rs 000	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Rs 000	Value Rs 000	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Rs 000
<b>Financial Liabilities</b>										
Due to banks [Note 42]	6,595,571	-	6,595,571	-	6,595,571	6,595,571	-	6,595,571	-	6,595,571
Securities sold under repurchase agreements [Note 43]	26,486,104	-	26,486,104	-	26,486,104	26,486,104	-	26,486,104	-	26,486,104
Financial liabilities at amortised cost- due to depositors [Note 44]	1,715,484,127	-	1,734,577,618	-	1,734,577,618	1,750,259,233	-	1,769,175,119	-	1,769,175,119
Financial liabilities at amortised cost- other borrowings [Note 46]	19,740,135	-	19,740,135	-	19,740,135	19,742,152	-	19,742,152	-	19,742,152
Debt securities issued [Note 47]	-	-	-	-	-	448,108	-	448,108	-	448,108
Subordinated term debts [Note 52]	28,174,227	-	30,554,562	-	30,554,562	29,967,185	-	32,347,519	-	32,347,519
Other financial liabilities [Note 51]	10,466	-	10,466	-	10,466	4,190,120	-	4,190,120	-	4,190,120
<b>Total financial liabilities measured at amortised cost</b>	<b>1,796,490,630</b>	<b>-</b>	<b>1,817,964,456</b>	<b>-</b>	<b>1,817,964,456</b>	<b>1,837,688,473</b>	<b>-</b>	<b>1,858,984,693</b>	<b>-</b>	<b>1,858,984,693</b>

As at 31st December 2023	Bank Fair Value					Group Fair Value				
	Carrying				Total	Carrying				Total
	Value Rs 000	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Rs 000	Value Rs 000	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Rs 000
<b>Financial Assets</b>										
Cash and cash equivalents [Note 25]	73,148,596	-	73,148,596	-	73,148,596	73,758,907	-	73,758,907	-	73,758,907
Placements with banks [Note 26]	55,991,134	-	55,991,134	-	55,991,134	61,836,382	-	61,836,382	-	61,836,382
Balances with Central Bank of Sri Lanka [Note 27]	12,234,361	-	12,234,361	-	12,234,361	12,234,361	-	12,234,361	-	12,234,361
Reverse repurchase agreement [Note 28]	-	-	-	-	-	1,830,461	-	1,830,461	-	1,830,461
Financial assets at amortised cost - loans and advances to customers [Note 31]	954,880,316	-	949,550,566	-	949,550,566	988,601,197	-	989,517,180	-	989,517,180
Financial assets at amortised cost- debt and other financial instruments [Note 32]	549,772,155	493,293,433	10,603,890	-	503,897,323	584,131,263	493,293,433	16,808,956	-	510,102,389
Other financial assets [Note 41]	11,029,182	-	11,029,182	-	11,029,182	14,269,396	-	14,269,396	-	14,269,396
<b>Total financial assets measured at amortised cost</b>	<b>1,657,055,744</b>	<b>493,293,433</b>	<b>1,112,557,729</b>	<b>-</b>	<b>1,605,851,162</b>	<b>1,736,661,967</b>	<b>493,293,433</b>	<b>1,170,255,643</b>	<b>-</b>	<b>1,663,549,076</b>
<b>Financial Liabilities</b>										
Due to banks [Note 42]	9,019,582	-	9,019,582	-	9,019,582	9,019,582	-	9,019,582	-	9,019,582
Securities sold under repurchase agreements [Note 43]	61,793,694	-	61,793,694	-	61,793,694	61,793,694	-	61,793,694	-	61,793,694
Financial liabilities at amortised cost- due to depositors [Note 44]	1,579,780,228	-	1,596,246,417	-	1,596,246,417	1,609,153,685	-	1,624,937,437	-	1,624,937,437
Financial liabilities at amortised cost- other borrowings [Note 46]	24,933,215	-	24,933,215	-	24,933,215	25,031,784	-	25,031,784	-	25,031,784
Debt securities issued [Note 47]	87,569	-	87,569	-	87,569	550,160	-	544,007	-	544,007
Subordinated term debts [Note 52]	18,961,556	-	17,977,991	-	17,977,991	22,255,164	-	21,121,727	-	21,121,727
Other financial liabilities [Note 51]	7,224	-	7,224	-	7,224	2,869,423	-	2,869,423	-	2,869,423
<b>Total financial liabilities measured at amortised cost</b>	<b>1,694,583,068</b>	<b>-</b>	<b>1,710,065,692</b>	<b>-</b>	<b>1,710,065,692</b>	<b>1,730,673,492</b>	<b>-</b>	<b>1,745,317,654</b>	<b>-</b>	<b>1,745,317,654</b>

Fair values of the following assets and liabilities are estimated for the purpose of disclosure as described below:

**Financial assets measured at amortised cost - loans and advances to customers**

The loans and receivables to customers comprise of both fixed rate loans and floating rate loans. Majority of the floating rate loans can be re-priced either quarterly or semi-annually while for fixed rate loans, the loan contract allows the Bank to change the contracted rate if there is a material difference between the contracted rate and the market rate. The carrying value of floating rate loans generally approximates the fair value due to the effect of re-pricing while the fair value of loans and receivables to customers with a residual maturity of less than one year generally approximates the carrying value, subject to any significant movement in credit spreads. The estimated fair value of loans and receivables with a residual maturity of more than one year, is the present value of future cash flows expected

to be received from such loans and receivables calculated based on interest rates at the reporting date for similar types of loans and receivables.

**Financial assets measured at amortised cost - debt and other instruments**

These comprise of investments in USD Step up Bond, Sri Lanka sovereign bonds (previously held), quoted and unquoted debentures.

The fair values of USD Step up Bond and Sri Lanka sovereign bonds were valued using quoted market prices while the fair value of unquoted debentures are estimated at the present value of future cash flows expected to be received from such investments calculated based on interest rates at the reporting date for similar instruments.

**Financial liabilities measured at amortised cost - due to depositors**

The fair value of customer deposits which are repayable on demand or have a remaining contractual maturity

of less than one year, approximates to the carrying value of such deposits.

The fair value of customer deposits with a contractual maturity of more than one year, is estimated as the present value of future cash flows expected from such deposits calculated based on interest rates at the reporting date for similar types of deposits.

**Debt securities issued**

The fair value of debt securities issued has been determined by discounting the future cash flows by the interest rates prevailing as at the reporting date for similar instruments.

**Subordinated term debts**

The fair value of fixed rate subordinated debentures has been determined by discounting the future cash flows by the interest rates prevailing as at the reporting date for similar instruments.

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 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	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Interest income [Note 8 (a)]	222,690,253	284,097,697	240,243,657	304,578,112
Fee and commission income (Note 9)	18,412,099	16,308,907	20,022,671	17,207,633
Net gain/(loss) from trading (Note 10)	(4,308,429)	(11,951,627)	(3,965,732)	(11,850,918)
Net gain from financial investments at fair value through other comprehensive income (Note 11)	379,172	271,537	506,803	310,852
Net insurance premium income (Note 12)	-	-	17,968,647	15,249,250
Net loss arising on de-recognition of Sri Lanka International Sovereign Bonds (Note 13)	(49,461,541)	-	(49,461,541)	-
Net other operating income (Note 14)	3,158,358	10,412,833	3,630,804	11,143,262
	190,869,912	299,139,347	228,945,309	336,638,191

## 8 NET INTEREST INCOME

### ACCOUNTING POLICY

Interest income and expenses are recognised in the income statement profit or loss using the effective interest rate method.

Interest income and expenses presented in the income statement include:

- financial assets measured at FVTPL
- financial assets and financial liabilities measured at amortised cost
- financial assets measured at FVOCI

### Effective interest rate (EIR)

The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The effective interest rate (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the effective interest rate. The Group recognises interest income using a rate of

return that represents the best estimate of a constant rate of return over the expected life of the loan. The calculation includes all fees and points received or paid between parties to the contract, that are an integral part of effective interest rate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Interest income [Note 8 (a)]	222,690,253	284,097,697	240,243,657	304,578,112
Interest expense [Note 8 (b)]	126,402,153	179,755,441	130,478,678	186,503,550
<b>Net interest income</b>	<b>96,288,100</b>	<b>104,342,256</b>	<b>109,764,979</b>	<b>118,074,562</b>

## 8 (a) Interest income

### ACCOUNTING POLICY

The Group calculates interest income by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired (as set out in Note 31(c) to the financial statements) and is, therefore, regarded as Stage 3, the Group calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures (as outlined in Note 31 (c) to the

financial statements) and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross amortised cost basis.

The Group ceases to recognise interest income on assets that are collectively impaired (over 90 days past due) when it becomes probable that the associated economic benefits will no longer continue to flow to the Bank.

For Purchased or Originated Credit-Impaired (POCI) financial assets (as set out in Note 31 (b) to the financial statements), the Group calculates interest income by calculating the credit-adjusted effective interest rate and applying that rate to the amortised cost of the asset. The credit-adjusted effective interest rate is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

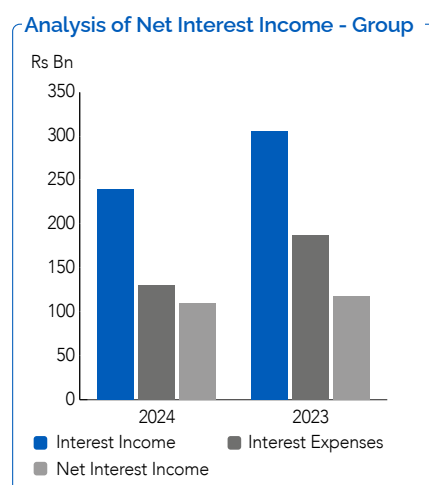
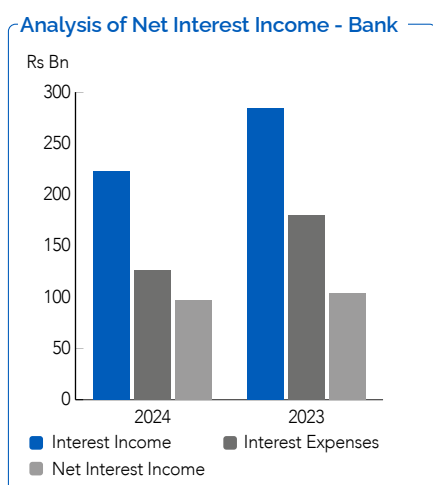
For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Cash and cash equivalents	745,047	1,300,031	786,440	1,349,838
Securities purchased under resale agreements	18,051	193,259	462,655	567,228
Placements with banks	1,613,291	2,166,626	2,568,025	3,160,624
Interest income accrued on impaired financial assets	1,095,957	2,806,931	1,095,957	2,806,931
Financial assets measured at fair value through profit or loss	122,493	9,159	122,493	9,159
<b>Financial assets measured at amortised cost</b>			-	
Loans and advances to customers	118,233,460	156,040,060	127,872,184	168,309,664
Debt and other instruments	85,360,535	109,913,422	90,383,163	116,030,717
Financial assets measured at fair value through other comprehensive income	15,501,419	11,063,144	16,949,330	11,747,046
Other interest income	-	605,065	3,410	596,905
	<b>222,690,253</b>	<b>284,097,697</b>	<b>240,243,657</b>	<b>304,578,112</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 8 NET INTEREST INCOME (Contd.)

### 8 (b) Interest Expenses

For the year ended 31st December	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
Securities sold under repurchase agreements	5,854,778	5,918,084	5,854,778	5,918,084
Due to banks	1,178,541	854,381	1,178,541	854,381
Due to depositors (deposits from customers)	114,801,825	167,742,498	118,824,307	174,174,723
Debt securities issued	6,732	188,091	193,410	405,718
Other borrowings	1,247,219	1,679,149	1,320,288	1,728,563
Subordinated term debts	2,433,427	2,502,644	2,685,647	3,028,092
Interest expense on lease liabilities [Note 38 (b)]	879,192	862,480	421,269	385,875
Other interest expenses	439	8,114	439	8,114
	126,402,153	179,755,441	130,478,678	186,503,550



### 8 (c) Net Interest Income from Sri Lanka Government Securities

Interest income and interest expenses on investments in government securities are summarised below.

For the year ended 31st December	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Interest income</b>				
Financial assets measured at fair value through profit or loss	122,493	9,159	122,493	9,159
Financial assets measured at amortised cost -Debt and other financial instruments	84,114,000	108,102,673	87,663,535	112,987,551
Financial assets measured at fair value through other comprehensive income	15,501,419	11,063,144	16,949,330	11,747,046
Securities purchased under resale agreements	18,051	193,259	462,655	567,228
<b>Less : Interest expenses</b>				
Securities sold under repurchase agreements	(5,854,778)	(5,918,084)	(5,854,778)	(5,918,084)
<b>Net interest income from Sri Lanka Government Securities</b>	<b>93,901,185</b>	<b>113,450,151</b>	<b>99,343,235</b>	<b>119,392,900</b>

## 9 NET FEE AND COMMISSION INCOME

### ACCOUNTING POLICY

Fee and commission income and expense that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate.

If a loan commitment is not expected to result in the draw down of a loan, then the related loan commitment fee is recognised on a straight line basis over the commitment period.

Other fees and commission income are recognised as follows;

- Fee and commission income earned from services that are provided over

a certain period of time is accrued over that period. Fees for guarantees and trade related commissions are recognised on a straight line basis over the period of contract.

- Fee and commission income from providing transaction services are recognised as and when the services are performed.

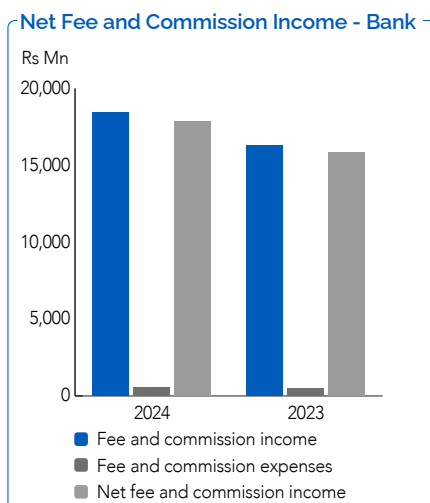
Other fees and commission expenses are mainly related to transaction and service fees that are expensed as and when the services are received.

A contract with a customer that results in a recognising a financial instrument

in the Group's financial statements may be partially in the scope of Sri Lanka Accounting Standard SLFRS 9 "Financial Instruments" and partially within the scope of Sri Lanka Accounting Standard SLFRS 15 "Revenue from Contracts with Customers". In such a scenario, the Group first applies SLFRS 9 to such separate contract and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Fee and commission income [Note 9 (b)]	18,412,099	16,308,907	20,022,671	17,207,633
Less: Fee and commission expenses	564,359	467,572	873,946	634,980
<b>Net fee and commission income</b>	<b>17,847,740</b>	<b>15,841,335</b>	<b>19,148,725</b>	<b>16,572,653</b>





# NOTES TO THE FINANCIAL STATEMENTS

## 9 NET FEE AND COMMISSION INCOME (Contd.)

### 9 (a) Performance Obligations and Revenue Recognition Policies

Fee and commission income from contracts with customers is measured based on the consideration specified in the contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

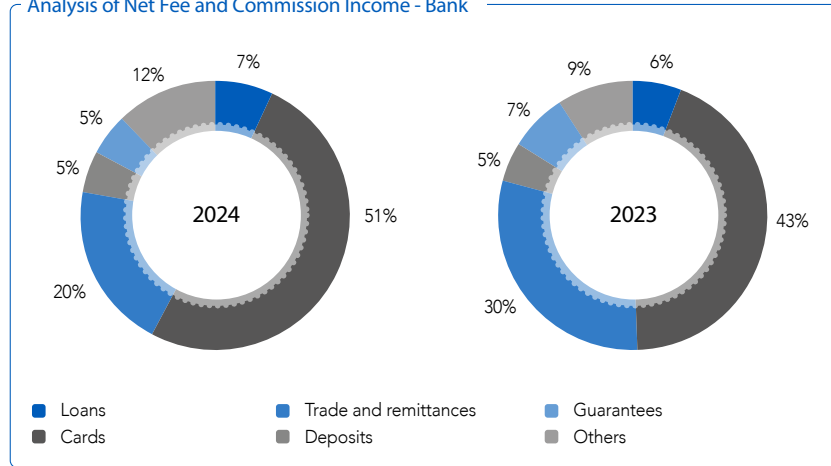
Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under SLFRS 15
Retail and corporate banking services	The Bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees.	Revenue from account service and servicing fees is recognised over time as the services are provided. Fees for guarantees and trade related commissions are recognised on a straight-line basis over the period of contract.
	Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates on a periodic basis.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
	Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
	Servicing fees are charged on a monthly basis.	
Insurance service	Insurance contract policyholders are charged for policy administration services and other contract fees.	These fees are recognised as income upon receipt or when they become due.

### 9 (b) Disaggregation of fee and commission income

In the following table, fee and commission income from contracts with customers in the scope of SLFRS 15 is disaggregated by major types of services.

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Loans and advances related services	1,356,476	1,051,363	1,356,476	1,051,363
Credit and debit cards related services	9,451,559	7,107,559	9,451,559	7,107,559
Trade and remittances related services	3,709,797	4,823,420	3,709,797	4,823,420
Deposits related services	806,310	765,135	806,310	765,135
Guarantees related services	883,339	1,065,708	883,339	1,065,708
Other financial services	2,204,618	1,495,722	3,815,190	2,394,448
<b>Gross fee and commission income</b>	<b>18,412,099</b>	<b>16,308,907</b>	<b>20,022,671</b>	<b>17,207,633</b>

Analysis of Net Fee and Commission Income - Bank



## 10 NET GAINS/(LOSSES) FROM TRADING

### ACCOUNTING POLICY

Results arising from trading activities include all gains and losses from unrealised fair value changes, related capital gains and losses, dividend income from financial assets held for trading and gains/(losses)

from revaluation of derivative financial instruments.

Dividend income is recognised when the Group's right to receive the dividend is established.

Derivative financial instruments are fair valued at each reporting date. Gains and losses arising from changes in fair value are included in the income statement in the period in which they arise.

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
<b>Financial assets - Held for trading</b>				
<b>Fixed income</b>				
Net marked to market gain/(loss)	-	-	-	-
Net capital gain/(loss)	189,187	66,814	189,187	66,814
<b>Equities</b>				
Net marked to market gain/(loss)	51,796	2,573	336,385	84,653
Net capital gain/(loss)	189	-	35,069	8,761
Dividend income	2,950	2,712	26,178	12,580
<b>Derivative financial instruments</b>				
Gain/(loss) on revaluation of foreign currency derivatives				
- With banks	(4,585,417)	(12,029,580)	(4,585,417)	(12,029,580)
- With customers	32,866	5,854	32,866	5,854
	(4,308,429)	(11,951,627)	(3,965,732)	(11,850,918)

# NOTES TO THE FINANCIAL STATEMENTS

## 11 NET GAIN FROM FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

### ACCOUNTING POLICY

Net gain from financial investments includes dividend income and net capital gains / losses from financial investments measured at fair value through other comprehensive income.

Dividend income is recognised when the Group's right to receive the dividend is established.

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
<b>Fixed income</b>				
Net capital gain/(loss)	-	117,291	127,174	156,247
<b>Equities</b>				
Dividend income	379,172	154,246	379,629	154,605
	379,172	271,537	506,803	310,852

## 12 NET INSURANCE PREMIUM INCOME

### ACCOUNTING POLICY

#### • Life insurance business

Gross written premium on life insurance contracts are recognised as revenue when a premium is due from a policyholder (policies within the 30-day grace period are considered as due). Premiums received in advance are not recorded as revenue but recorded as a liability until the premium is due unless otherwise the relevant policy conditions require such premiums to be recognised as revenue. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies.

For single premium business, revenue is recognised on the date on which the policy is effective.

#### • Non-life insurance business

Gross written premium on non-life insurance comprise the total premiums received/receivable for the whole period of cover provided by contracts entered into during the accounting period. Premium is generally recognised upon the inception of the policy as written and are earned primarily on a pro-rata basis over the term of the related policy coverage.

#### • Reinsurance premiums

Gross reinsurance premiums on insurance contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective. Value of the reinsurance premiums are decided based on rates agreed with reinsurers.

#### • Net change in reserve for unearned premium

Gross Written Premium (GWP) of general business is deferred over the term of the underlying policies' risk attached period according to the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments there to. Unearned premiums are the proportion of premiums that relate to the period of risk after the respective reporting period. Group uses 1/24th basis to defer the GWP of all policies except for the marine insurance policies and title insurance policies, where marine insurance premiums are deferred based on 60 : 40 basis and total premiums on title insurance are transferred to reserve for title insurance for the reporting period.

For the year ended 31st December	Group	
	2024 Rs 000	2023 Rs 000
Gross insurance premium income	22,354,891	18,310,207
Premium ceded to reinsurers	(4,585,634)	(2,922,404)
<b>Net written premium</b>	<b>17,769,257</b>	<b>15,387,803</b>
Net change in reserve for unearned premium	199,390	(138,553)
<b>Net insurance premium income [Note 12 (a)]</b>	<b>17,968,647</b>	<b>15,249,250</b>

## 12 (a) Net Insurance Premium income

For the year ended 31st December	Gross insurance premium income		Premium ceded to insurers		Net insurance premium income	
	2024	2023	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Life Insurance</b>						
Individual policies	10,733,915	8,769,704	(479,268)	(345,211)	10,254,647	8,424,493
Corporate policies	466,898	387,414	(82,571)	(179,607)	384,327	207,807
Single premium	2,453,122	1,719,780	(213,210)	(67,373)	2,239,912	1,652,407
<b>Gross written premium - life insurance</b>	<b>13,653,935</b>	<b>10,876,898</b>	<b>(775,049)</b>	<b>(592,191)</b>	<b>12,878,886</b>	<b>10,284,707</b>
<b>General Insurance</b>						
Fire	1,885,932	1,488,609	(1,755,130)	(1,394,154)	130,802	94,455
Motor	4,775,374	4,519,986	(1,254,142)	(195,735)	3,521,232	4,324,251
Marine	327,135	123,155	(290,630)	(107,762)	36,505	15,393
Miscellaneous	1,712,515	1,301,559	(510,683)	(632,562)	1,201,832	668,997
<b>Gross written premium - general insurance</b>	<b>8,700,956</b>	<b>7,433,309</b>	<b>(3,810,585)</b>	<b>(2,330,213)</b>	<b>4,890,371</b>	<b>5,103,096</b>
Net change in reserves for unearned premium					199,390	(138,553)
	22,354,891	18,310,207	(4,585,634)	(2,922,404)	17,968,647	15,249,250

## 13 NET LOSSES ARISING ON DE-RECOGNITION OF SRI LANKA INTERNATIONAL SOVEREIGN BONDS

### ACCOUNTING POLICY

The accounting policy related to the derecognition of financial instruments is detailed in Note 3.4.6 to the financial statements.

For the year ended 31st December	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
Sri Lanka International Sovereign Bonds held by the Bank	(49,461,541)	-	(49,461,541)	-
	(49,461,541)	-	(49,461,541)	-

### Impact on financial statements from Sri Lanka International Sovereign Bonds restructuring

The above noted loss on derecognition was recorded upon the completion of Sri Lanka International Sovereign Bonds (SLISBs) restructure in December 2024. As explained in Note 32 (a) to the financial statements, the previously held SLISBs were derecognised and the new instruments received were recognised in the Bank's financial statements during 2024. An analysis of the net loss on such restructure is as follows.

For the year ended 31st December	Bank 2024 Rs 000
Loss on haircut from previously held SLISBs	(10,974,980)
Net Day one loss	(41,572,931)
Loss on derecognition of Sri Lanka International Sovereign Bonds	(52,547,911)
Receipt of exchange fee	3,086,370
<b>Net loss on derecognition of Sri Lanka International Sovereign Bonds</b>	<b>(49,461,541)</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 14 NET OTHER OPERATING INCOME

### ACCOUNTING POLICY

Other operating income includes rental income, dividend income from group entities, gains on disposal of property, plant and equipment and foreign exchange gains and losses.

- **Rental income**

Rental income is recognised on an accrual basis.

- **Dividend income from subsidiaries and joint venture**

Dividend income from subsidiaries and joint venture is recognised when the Bank's right to receive the dividend is established.

- **Gains and losses on disposal of assets**

Net gains and losses arising from the disposal of property, plant and equipment and other non-current assets including investments in subsidiaries, joint ventures and associates are recognised in the

income statement after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

- **Foreign exchange gain**

Foreign currency positions are revalued at each reporting date. Gains and losses arising through revaluation are included in the income statement in the period in which they arise.

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Dividend income from subsidiaries and joint venture	893,280	288,473	-	-
Foreign exchange gain *				
- With banks	(2,381,687)	6,219,559	(2,462,415)	6,118,264
- With customers	4,068,298	3,502,659	4,068,298	3,502,659
Gain on disposal of property, plant and equipment (net)	10,569	10,386	30,818	13,879
Rental income	16,088	13,631	16,088	13,631
Rental income from investment properties	130,757	142,904	385,955	434,833
Recovery of loans written off in prior years	331,840	145,862	468,510	200,020
Recovery of operational losses provided for in prior years	23,157	18,672	23,157	18,672
Miscellaneous	66,056	70,687	1,100,393	841,304
	<b>3,158,358</b>	<b>10,412,833</b>	<b>3,630,804</b>	<b>11,143,262</b>

\* Foreign exchange gain/(loss) represents both revaluation gain/(loss) on the Bank's net open position and gain/(loss) on foreign exchange contracts. Loss on revaluation of foreign currency derivatives amounting to Rs 4,552 Mn (2023 : Loss of Rs 12,024 Mn ) is reported under Note 10, 'Net gain/(loss) from trading' as required by the Sri Lanka Accounting Standard SLFRS 9 "Financial Instruments". Accordingly total exchange loss of the Bank and the Group for the year ended 31st December 2024 amounted to Rs 2,866 Mn and Rs 2,947 Mn respectively (2023 : Loss of Rs 2,301 Mn for the Bank and a loss of Rs 2,403 Mn for the Group).

## 15 IMPAIRMENT CHARGE /(REVERSAL) FOR LOANS AND OTHER LOSSES

### ACCOUNTING POLICY

The Group calculates ECL allowances on financial assets in line with SLFRS - 9. The Bank also considers the Banking Act Direction No. 13 of 2021 and No.14 of 2021 on Classification, Recognition and Measurement of Credit Facilities/Other Financial Assets in Licensed Banks in accordance with SLFRS - 9. The accounting policy adopted in determining same is given in Note 15 (a) to the financial statements.

The Group calculates ECL allowances for the below noted financial assets, except for those assets that are not measured at Fair Value Through Profit or Loss (FVTPL) and equity instruments are not subject to ECL under SLFRS 9:

- Cash and cash equivalents
- Placements with banks

- Financial assets measured at amortised cost - loans and advances to customers
- Financial assets measured at amortised cost - debt and other financial instruments
- Financial assets measured at fair value through other comprehensive income
- Loan commitments and financial guarantee contracts

### 15 (a) Overview of the Expected Credit Loss Principles

The Group measures Expected Credit Loss (ECL) allowances based on the credit losses anticipated over the life of the asset (Lifetime Expected Credit Loss, or LTECL). However, if there has been no significant increase in credit risk since origination, the allowance is based on the 12-month expected credit loss (12mECL). The 12m ECL represents that portion of LTECLs which corresponds to ECLs that could result from default events within 12 months following the reporting date. The Group calculates Expected Credit Loss (ECL) by applying a 12-month Probability of Default (PD), adjusted for Exposure at Default (EAD) and Loss Given Default (LGD). This figure is then discounted using a rate that approximates the original Effective Interest Rate (EIR).

LTECLs and 12mECLs are calculated either on an individual basis or on collective basis, depending on the nature of the underlying portfolio of financial instruments.

#### 15 (b) i Calculation of ECLs for individually significant loans

The Group initially assesses Expected Credit Losses (ECLs) for each individually significant loan (ISL), above a predefined threshold. If these assets are not found to be impaired through this individual assessment, the Group then aggregates them with loans and advances possessing similar credit risk characteristics for a collective impairment evaluation. The criteria used to assess whether there is a significant increase in credit risk of an individually significant loan are detailed under Note 31. The Group calculates ECLs for ISLs by using

probability weighted scenarios to estimated expected cash flows, based on a predefined threshold. These cash flows are then discounted at a rate approximating the original EIR. A cash shortfall is defined as the difference between the cash flows that are contractually due to the group and the cash flows that the group actually expects to receive.

#### 15 (b) ii Grouping loans and advances measured on a collective basis

Loans and advances, including those assessed individually and found not impaired as well as individually insignificant loans, are collectively assessed for Expected Credit Loss (ECL) provisions. This process involves categorising these assets into groups with similar credit risk characteristics as described below.

- Product type
- Industry of the Borrower
- Whether the loan is restructured/ rescheduled
- Whether the loan is watch listed or not
- Additionally, the Group may determine other necessary criteria from time to time to classify such loans and advances appropriately.

The key elements of ECLs computation for collectively assessed loans are as follows:

**Probability of Default (PD):** The probability of default is an estimate of the likelihood of a borrower defaulting on its financial obligations. A default may only happen at a certain time over the assessed period, if the facility has

not been previously de-recognised and is still in the portfolio. The Group estimates the Probability of Default (PD) based on historical information with regard to delinquency of loans and advances. In this process historical information pertaining to 3-6 years have been used depending on the nature of the product. (Definition of default is given in Note 31 (c).

**Exposure at Default (EAD):** The exposure at default represents the expected exposure in the event of a default. The Group estimates EAD, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdowns of committed facilities. To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months. For Stage 2, Stage 3 and Purchase or Originated Credit Impaired (POCI) financial assets, the exposure at default is considered for events over the lifetime of the instruments.

**Loss Given Default (LGD):** The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The Group segments its lending portfolio into homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The loss given default is estimated based on historically collected loss data and is usually presented as a percentage of the EAD.



# NOTES TO THE FINANCIAL STATEMENTS

## 15 IMPAIRMENT CHARGE FOR LOANS AND OTHER LOSSES (Contd.)

Discount rate for collective assessments are determined separately for portfolios of facilities with similar credit risk characteristics.

- **Credit card and Revolving facilities**

The group offers a diverse range of products, including corporate, SME, and retail overdraft, as well as credit card facilities. It conducts an annual review of the sanction limits, retaining the right to either cancel or reduce these limits. For these facilities, the group calculates 12 month ECL allowances, reflecting its expectations of customer behaviour, the likelihood of default, and potential future risk mitigation strategies, which may involve reducing or cancelling the facilities.

The EAD is determined by taking the maximum of the sanctioned limit adjusted by an appropriate credit conversion factor (CCF), or the gross carrying amount of the loan.

The Group calculates Expected Credit Loss (ECL) by applying a 12-month Probability of Default (PD), adjusted for EFA to EAD. This figure is subsequently multiplied by the LGD and then discounted using a rate that approximates the original EIR. For credit cards, the Group assesses ECL over the asset's lifetime (Lifetime Expected Credit Loss, LTECL). However, if credit risk has not significantly increased since origination, the allowance is based on the 12-month ECL (12mECL), which represents the LTECL portion that is expected from default events within the next 12 months.

- **Undrawn loan commitments**

When estimating life time ECL (LTECLs) for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life and ECL is recognised based on probability of default, loss given default and economic factor adjustment. The ECL component for loan commitments, letters of credit and acceptances is recognised within "other liabilities".

- **Financial guarantee contracts**

The Group estimates ECLs for financial guarantee contracts based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk adjusted interest rate relevant to the exposure. The ECL

component related to the financial guarantee contracts are recognised within "other liabilities".

- **Recognition of expected credit loss provisions on government securities**

Bank does not recognise impairment provisions in respect of Rupee denominated government securities while recognition of impairment on foreign currency denominated government securities is determined based on the applicable exposure at default, probability of default and loss given default.

- **Debt instruments measured at fair value through OCI**

The Bank does not recognise impairment provisions for LKR denominated government securities. However, the recognition of impairment on foreign currency-denominated government securities, which do not have a LKR repayment option, is determined based on the applicable exposure at default, probability of default, and loss given default.

- **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 worst case).

In its ECL models, the Group relied on a broad range of forward-looking information as economic inputs as noted below.

Quantitative factors	Qualitative factors
GDP growth	Government policies
Inflation	Status of industry/business
Interest rate	Regulatory impact
Unemployment rates	
Exchange rate	

Out of the qualitative factors noted above, interest rates and exchange rates are forecasted using interest rate term structure and interest rate parity theory respectively, while GDP growth, inflation and unemployment rates are estimated using the binomial tree

model based on latest available actual/forecast data. Forecasts of such quantitative economic factors may be derived based on economic data and forecasts published by Central Bank of Sri Lanka, International Monetary Fund, Asian Development Bank or World Bank.

- **Reversal of Impairment**

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back to the profit or loss by reducing the impairment allowance accordingly.

- **Write-off of financial assets**

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at individual asset level.

However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

### 15 (c) Accounting Judgements, Estimates and Assumptions used in ECL calculation

The measurement of impairment losses under SLFRS - 9 requires judgement across all categories of financial assets, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining ECL allowances and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes of which can result in different levels of allowances.

The Group's Expected Credit Loss (ECL) calculations are the outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered for accounting judgements and estimates include:

- the Group's criteria for assessing whether there has been a significant increase in credit risk as a result of which allowances for financial assets should be measured on a Life Time Expected Credit Loss (LTECL) basis. The criteria are elaborated under Note 31 (c) i.
- the segmentation of financial assets when their ECL is assessed on a collective basis.
- the selection of an estimation technique or modelling methodology, noting that the modelling of the Group's ECL estimates are complex; and

- the selection of inputs for those models, and the interdependencies between those inputs.

The judgements and associated assumptions have been made within the context of the impact of prevailing economic conditions and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances.

Accordingly, the Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

The following table summarises the key judgements and assumptions used by the Bank in relation to the ECL model inputs, and the interdependencies between those inputs.

Judgement/ Assumption	Description	Considerations for the year ended 31st December 2024
Determining when a Significant Increase in Credit Risk (SICR) has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from Stage 1 to Stage 2. This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from 12 month ECL to life time ECL.	There were no material changes to the policies during the year ended 31st December 2024. Details of SICR indicators are given under Note 31 (c) i.
Measuring 12 month expected credit losses and lifetime expected credit losses	The Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity.	The PD, EAD and LGD models are subject to the Group's policy on impairment assessment. There were no material changes to the policies during the year ended 31st December 2024.
	In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.	There were no material changes to behavioural lifetime estimates during the year ended 31st December 2024.
Base case economic forecast	The Group derives a forward-looking base case economic scenario which reflects the Bank's view of the most likely future macro-economic conditions.	As at 31 December 2024, the base case assumptions have been updated to reflect the evolving situation with respect to prevailing economic conditions and economic forecasts provided by the Central Bank of Sri Lanka, International Monetary Fund, Asian Development Bank and World Bank.

# NOTES TO THE FINANCIAL STATEMENTS

## 15 IMPAIRMENT CHARGE FOR LOANS AND OTHER LOSSES (Contd.)

Judgement/ Assumption	Description	Considerations for the year ended 31st December 2024															
Probability weighting of each economic scenario (base case, best case and worse case scenarios)	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario at each measurement date.	<p>The key consideration for probability weightings in the current period is the prevailing uncertain economic conditions.</p> <p>Despite maintaining a greater emphasis on the worst-case scenario, the Group has reduced the weightage from 80% in the previous year to 70% in 2024, reflecting improved macro economic conditions. Correspondingly, the weightage for the base-case scenario has been increased from 15% to 25%. It is important to note that these assigned probability weightings carry a high degree of inherent uncertainty. Consequently, actual outcomes may significantly differ from those projected, given the unsettled nature of the economic landscape. The probability weightings used in the ECL calculations are shown below.</p> <table border="1"> <thead> <tr> <th>As at 31st December</th> <th>2024</th> <th>2023</th> </tr> <tr> <td></td> <td>%</td> <td>%</td> </tr> </thead> <tbody> <tr> <td>Best Case</td> <td>5</td> <td>5</td> </tr> <tr> <td>Base Case</td> <td>25</td> <td>15</td> </tr> <tr> <td>Worst Case</td> <td>70</td> <td>80</td> </tr> </tbody> </table>	As at 31st December	2024	2023		%	%	Best Case	5	5	Base Case	25	15	Worst Case	70	80
As at 31st December	2024	2023															
	%	%															
Best Case	5	5															
Base Case	25	15															
Worst Case	70	80															
Post model adjustments	<p>Temporary adjustments to the ECL allowance are used in circumstances where it is judged that the existing inputs, assumptions and model techniques do not capture all the risk factors relevant to Group's lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into the current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management overlay may impact the amount of ECL recognised.</p> <p>The uncertainty associated with the prevailing economic conditions and the extent to which the actions of governments, businesses and consumers mitigate the potentially adverse credit outcomes are not fully incorporated into existing ECL models. Accordingly, management overlays have been applied to ensure credit provisions are appropriate.</p>	<p>Management has made several post-model adjustments to the modelled ECL primarily due to the uncertainty in the economic landscape.</p> <p>Post model adjustments have been made to the modelled ECL provision, specifically addressing exposure to sectors identified by the group as having an elevated risk.</p>															

### 15 (d) The Group calculates loss allowances equal to the lifetime Expected Credit Loss (ECL), except for the financial instruments for which there has been no significant increase in credit risk since their initial recognition

To support this approach, the Group has an established policy to assess, at the end of each reporting period, whether the credit risk of a financial instrument has significantly increased since its initial recognition. This assessment is based on evaluating the change in the risk of default over the remaining life of the financial instrument.

## 15 (e) Impairment charges on financial and non-financial assets

### Bank

For the year ended 31st December	2024					2023				
	Stage 1	Stage 2	Stage 3	Other	Total	Stage 1	Stage 2	Stage 3	Other	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Impairment charge/(reversal) on financial assets measured at amortised cost										
Cash and cash equivalents	(188,392)	-	-	-	(188,392)	13,615	-	-	-	13,615
Placements with banks	(15,428)	-	-	-	(15,428)	21,561	-	-	-	21,561
Loans and advances *	(640,148)	(1,824,681)	13,464,786	-	10,999,957	(1,700,774)	(5,687,845)	10,941,566	-	3,552,947
Debt instruments **	(1,788)	(91,639,774)	(16,666)	-	(91,658,228)	799,949	35,255,105	(10,590)	-	36,044,464
Impairment charge/(reversal) on financial assets measured at fair value through other comprehensive income										
Debt instruments	-	1,593,267	-	-	1,593,267	-	-	-	-	-
Impairment charge / (reversal) on loan commitments and financial guarantee contracts	(1,042,170)	(241,073)	606,463	-	(676,780)	458,740	(169,397)	(59,989)	-	229,354
Impairment charge / (reversal) on property plant and equipment, intangible assets and prepayments	-	-	-	(37,914)	(37,914)	-	-	-	(49,036)	(49,036)
Other impairment charges	-	786,212	541,318	-	1,327,530	-	-	776,406	-	776,406
	(1,887,926)	(91,326,049)	14,595,901	(37,914)	(78,655,988)	(406,909)	29,397,863	11,647,393	(49,036)	40,589,311

\* Impairment charges recognised against loans and advances include the amendments made to the previously recognised post model adjustments made outside ECL model using various stress testing technique in order to address the potential implications of prevailing economic conditions and associated uncertainties.

The improved economic factors applied to the base case in 2024, resulted in the reduction in modelled ECL. The management initiated post-model adjustments to the modelled ECL based on the Bank's exposure to the risk-elevated sectors identified by the Risk division of the Bank. In 2024, the Bank revisited the sectors exposed to elevated risk based improved economic conditions. Accordingly, required adjustments have been made to previously assessed post model adjustment resulting in a further reduction in the post model adjustments.

\*\* During the year, the Bank reversed the total impairment provision previously recognised for SLISBs amounting to Rs 91.6 Bn subsequent to the completion of restructure while an impairment charge of Rs 1.5 Bn was recognised on PDI bonds, as detailed in Note 32 (d) (ii).

### Group

For the year ended 31st December	2024					2023				
	Stage 1	Stage 2	Stage 3	Other	Total	Stage 1	Stage 2	Stage 3	Other	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Impairment charge/(reversal) on financial assets measured at amortised cost										
Cash and cash equivalents	(188,392)	-	-	-	(188,392)	13,616	-	-	-	13,616
Placements with banks	(15,106)	-	-	-	(15,106)	22,246	-	-	-	22,246
Loans and advances	(2,393,807)	(1,637,136)	16,280,474	-	12,249,531	(1,831,363)	(5,925,620)	13,244,742	-	5,487,759
Debt instruments	(1,245)	(91,639,774)	(16,666)	-	(91,657,685)	800,576	35,255,105	(10,590)	-	36,045,091
Impairment charge/(reversal) on financial assets measured at fair value through other comprehensive income										
Debt instruments	-	1,593,267	-	-	1,593,267	-	-	-	-	-
Impairment charge / (reversal) on loan commitments and financial guarantee contracts	(1,042,170)	(241,073)	606,463	-	(676,780)	458,740	(169,397)	(59,989)	-	229,354
Impairment charge / (reversal) on property plant and equipment, intangible assets and prepayments	-	-	-	(37,914)	(37,914)	-	-	-	(15,095)	(15,095)
Other impairment charges	-	786,212	541,318	-	1,327,530	-	-	776,406	(35,447)	740,959
	(3,640,720)	(91,138,504)	17,411,589	(37,914)	(77,405,549)	(536,185)	29,160,088	13,950,569	(50,542)	42,523,930

# NOTES TO THE FINANCIAL STATEMENTS

## 16 PERSONNEL EXPENSES

### ACCOUNTING POLICY

Personnel expenses include salaries and bonus, terminal benefit charges and other related expenses. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans, if the Group has a present legal or constructive obligation to pay this amount, as a result of past

service provided by the employee and the obligation can be estimated reliably.

Employees are eligible for Employees' Provident Fund (EPF) contributions and Employees' Trust Fund (ETF) contributions in accordance with the respective statutes and regulations.

Defined benefit plan contributions and changes in the liabilities for EPF interest guarantee and accumulated leave are

recognised in the income statement based on actuarial valuations carried out in accordance with Sri Lanka Accounting Standard - LKAS 19 on "Employee Benefits".

The Group's net obligation to the pension fund, gratuity, EPF interest guarantee and unutilised accumulated annual leave are disclosed under Note 53 to the financial statements.

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Salaries and bonus	18,507,725	14,964,941	22,990,323	18,438,120
Contributions to Employees' Provident Fund (EPF)	1,141,474	950,407	1,530,529	1,270,966
Contributions to Employees' Trust Fund (ETF)	285,368	235,244	382,344	315,947
Provision for defined benefit plan - funded [Note 16 (a)]	416,006	9,225	416,006	9,225
Increase in liability for EPF interest guarantee [Note 53 (d)]	3,840	7,321	3,840	7,321
Increase in liability for accumulated leave [Note 53 (e)]	110,079	4,862	110,079	4,862
Provision for defined benefit plan - unfunded [Note 53 (g)]	-	-	170,897	115,611
Others	724,836	772,206	724,836	772,206
	21,189,328	16,944,206	26,328,854	20,934,258

### 16 (a) Provision for Defined Benefit Plan - Funded

For the year ended 31st December	Bank/Group	
	2024 Rs 000	2023 Rs 000
Current service cost [Note 53 (c) iii]	915,081	652,947
Net interest on defined benefit (asset)/liability [ Note 53 (c) v]	(499,075)	(643,722)
	416,006	9,225

## 17 BENEFITS, CLAIMS AND UNDERWRITING EXPENDITURE

### ACCOUNTING POLICY

Benefits and claims for insurance contracts include the cost of all claims arising during the year including internal and external claims handling costs that are directly related to the processing and settlement of claims and are recorded net of recoveries from reinsurance on claims.

- **Benefits and claims paid - Life insurance**

Claims on accident, hospitalisation, death and maturity are charged on notification of death or on expiry of the term. The interim payments and surrenders are accounted for only at the time of settlement.

- **Benefits and claims paid - Non life insurance**

General insurance claims include all claims occurred during the year, whether reported or not together with claims handling costs that are directly related to the processing and settlement of claims, reductions for the value of salvage and other recoveries.

- **Reinsurance claims**

Reinsurance on claims are recognised when the related gross insurance claims are recognised according to the terms of the relevant contract.

- **Underwriting and net acquisition cost**

Expenses for acquisition and maintenance of life and general insurance business

are accounted for net of reinsurance commission on accrual basis. Reinsurance commission income is accrued according to the agreed terms with the reinsurers.

### ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

- **Deferred acquisition expenses**

Acquisition expenses, representing commissions, which vary with and are directly related to the production of business, are deferred and amortised over the period in which the related written premiums are earned. Reinsurance commission is also treated in the same manner with deferred acquisition costs.

For the year ended 31st December	Group	
	2024 Rs 000	2023 Rs 000
Net insurance benefits and claims paid [Note 17(a)]	6,756,055	6,426,719
Net change in insurance claims outstanding	(71,922)	239,365
Change in contract liabilities - life fund	7,880,552	6,352,522
Underwriting and net acquisition costs	2,749,433	2,200,123
	17,314,118	15,218,729

### 17 (a) Net insurance benefits and claims paid

For the year ended 31st December	Group					
	2024			2023		
	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Life Insurance</b>						
Claims - deaths, disability and hospitalisation	1,009,666	(396,109)	613,557	820,010	(343,333)	476,677
Surrenders	689,062	-	689,062	656,397	-	656,397
Annuity payments	13,019	-	13,019	12,472	-	12,472
Policy maturities	1,679,466	-	1,679,466	1,508,601	-	1,508,601
<b>Net life insurance claims</b>	<b>3,391,213</b>	<b>(396,109)</b>	<b>2,995,104</b>	<b>2,997,480</b>	<b>(343,333)</b>	<b>2,654,147</b>
<b>Non-life Insurance</b>						
Fire	358,009	(318,286)	39,723	449,393	(461,025)	(11,632)
Motor	2,428,293	(4,272)	2,424,021	2,537,409	(327)	2,537,082
Marine	82,742	(63,031)	19,711	18,973	(17,018)	1,955
Miscellaneous	1,348,722	(71,226)	1,277,496	1,321,432	(76,265)	1,245,167
<b>Net non-life insurance claims</b>	<b>4,217,766</b>	<b>(456,815)</b>	<b>3,760,951</b>	<b>4,327,207</b>	<b>(554,635)</b>	<b>3,772,572</b>
<b>Total net insurance benefits and claims paid</b>	<b>7,608,979</b>	<b>(852,924)</b>	<b>6,756,055</b>	<b>7,324,687</b>	<b>(897,968)</b>	<b>6,426,719</b>



# NOTES TO THE FINANCIAL STATEMENTS

## 18 OTHER EXPENSES

### ACCOUNTING POLICY

Other operating expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and maintaining the property, plant and equipment in a

state of efficiency has been charged to the income statement in arriving at the profit for the year. Provisions in respect of other expenses are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources

embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Advertising and related expenses	421,960	293,467	677,636	521,336
Auditors' remuneration [Note 18 (a)]	33,622	26,325	47,136	42,244
Business promotion and product expenses	874,457	761,158	874,457	761,158
Crop insurance levy	218,266	206,000	228,322	226,298
Deposit insurance premium	1,593,025	1,475,073	1,593,025	1,475,073
Depreciation and amortisation [Note 18 (b)]	3,028,654	2,776,261	3,830,974	3,417,133
Direct operating expenses on investment property	170	-	170	48,781
Directors' emoluments - Board related fees only	57,167	43,119	103,355	100,775
Donations	14,331	56,468	15,035	57,218
Legal expenses and professional fees	431,024	226,241	499,512	253,499
Office administration and establishment expenses	11,515,864	10,328,732	15,024,468	13,570,441
Operational risk event losses	146,595	47,345	146,595	47,345
Other overhead expenses	2,680,122	2,319,420	4,445,126	3,700,907
	21,015,257	18,559,609	27,485,811	24,222,208

### 18 (a) Auditors' Remuneration

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Audit fees and expenses	23,789	21,360	36,506	35,814
Audit related fee and expenses	3,593	3,685	4,165	3,685
Non-audit expenses	6,240	1,280	6,465	2,745
	33,622	26,325	47,136	42,244

### 18 (b) Depreciation and amortisation expenses

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Depreciation of investment property (Note 36)	5,335	5,335	46,031	29,281
Depreciation of property, plant and equipment (Note 37)	1,579,932	1,497,194	2,212,880	2,027,133
Amortisation of right-of-use assets (Note 38)	848,063	823,040	891,471	820,805
Amortisation of intangible assets (Note 39)	595,324	450,692	680,592	539,914
	3,028,654	2,776,261	3,830,974	3,417,133

## 19 TAXES ON FINANCIAL SERVICES

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Value Added Tax on financial services	18,031,837	8,898,597	18,565,989	9,239,089
Social Security Contribution Levy	2,502,209	1,235,916	2,581,946	1,284,041
	20,534,046	10,134,513	21,147,935	10,523,130

### (a) Value Added Tax (VAT) on Financial Services

The base of the calculation of Value Added Tax (VAT) on financial services is the value addition attributable to financial services which includes operating profit before VAT on financial services adjusted for emoluments of employees and economic depreciation.

VAT rate applied during 2024 was 18% (2023 - 18%).

### (b) Social Security Contribution Levy (SSCL)

Social Security Contribution Levy came into effect from 1st October 2022. The base of the calculation of Social Security Contribution Levy is the value addition attributable to financial services which includes operating profit before taxes on financial services adjusted for emoluments of employees and economic depreciation. SSCL rate applied during 2024 was 2.5%. (2023 - 2.5%)

## 20 SHARE OF PROFIT OF JOINT VENTURE (NET OF INCOME TAX)

### ACCOUNTING POLICY

The policy adopted in accounting for joint venture investments is given in Note 34 to the financial statements.

The aggregate of the Group's share of profit or loss of the joint venture is shown on the face of the income statement outside operating profit and represents Group's share of profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

For the year ended 31st December	Group	
	2024 Rs 000	2023 Rs 000
Share of profit of joint venture before income tax	1,868,901	1,278,392
Income tax on share of operating results of joint venture [(charge)/reversal]	(490,975)	(137,623)
<b>Share of profit of joint venture (net of income tax) [Note 34 (b)]</b>	<b>1,377,926</b>	<b>1,140,769</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 21 INCOME TAX EXPENSE

### ACCOUNTING POLICY

Income tax expense comprises of current and deferred tax. Income tax expense is recognised in the income statement, except to the extent it relates to items recognised directly in Other Comprehensive Income (OCI), in which case it is recognised in OCI. The Group applied IFRIC 23 "Uncertainty Over Income Tax Treatment" (IFRIC 23) in determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates when there is uncertainty over the income tax treatment. However, the application of IFRIC 23 did not have any significant impact on the financial statements of the Group to provide additional disclosures in the financial statements.

#### Current Tax

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of current year as well as any adjustment to the tax payable or receivable in respect of previous years. The tax rates and tax laws used to compute the amount of current tax assets and liabilities are those that are enacted or substantively enacted on the reporting date.

Current income tax relating to items recognised directly in equity, is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns, with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Management has used its judgement on the application of tax law including transfer pricing regulations involving identification of associated undertaking, estimation of respective arm's length prices and selection of appropriate pricing mechanism.

#### Deferred Tax

Deferred tax is recognised in respect of temporary differences at the reporting

date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

#### Deferred tax liabilities

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

#### Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses (if any), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the unused tax credits and unused tax losses carried forward can be utilised except;

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction, that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available

against which the temporary differences can be utilised.

The carrying amount of deferred tax asset is reviewed at each reporting date, and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates, that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised directly in equity are also recognised in equity, through other comprehensive income and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

As of 31st December 2024, the total deferred tax assets recognised for lease liabilities amounted to Rs 1,783 Mn (2023: Rs 1,902 Mn), and the total deferred tax liabilities recognised for right-of-use assets were Rs 1,352 Mn (2023: Rs 1,524 Mn).

Accordingly, provision for taxation is made on the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the applicable Inland Revenue Act. In estimating the provision for taxation, the Group had applied the provisions of Inland Revenue Act No. 24 of 2017 and the subsequent amendments thereto.

### ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The Group is subject to income tax and judgement is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to interpretation of the applicability of tax laws, at the time of preparation of these financial statements.

Uncertainties also exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and the long term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future

adjustments to tax income and expense amounts that were initially recorded and deferred tax amounts in the period in which the determination is made. The Group has evaluated these uncertainties in terms of IFRIC 23 "Uncertainty Over Income Tax Treatment".

The deferred tax liabilities/assets are disclosed under Note 40 to the financial statements.

### 21 (a) Income Tax Expense

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Current tax expense [Note 21 (b)]	10,588,988	16,780,300	11,929,522	17,796,557
Deferred tax expense [Note 21 (c)]	27,889,976	(4,444,723)	27,330,288	(4,184,873)
	38,478,964	12,335,577	39,259,810	13,611,684
Effective tax rate	48.21%	37.74%	46.68%	36.57%
Effective tax rate (excluding deferred tax)	13.27%	51.33%	14.19%	47.82%

### 21 (b) Current Income Tax Expense

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Current tax on profit for the year [Note 21 (b) (i)]	10,588,988	16,780,300	11,884,004	17,857,413
Over/(under) provision in previous years	-	-	45,518	(60,856)
	10,588,988	16,780,300	11,929,522	17,796,557

### 21 (b) (i) Treatment of impairment charges

As per Part I : Sec. (I) of the Gazette notification issued on 25th October 2022 under sub section (2) and (3) of section 66 of the Inland revenue Act, No. 24 of 2017, the impairment charges of Stage 3 credit facilities classified as per Sri Lanka Accounting Standards (SLFRS 9) have been considered as an allowable deduction (after adjusting for specifications given under section 1 of schedule 1 of the said Gazette notification).

### 21 (c) Deferred Tax Expense

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
<b>Deferred Tax Liability [Note 40(a)]</b>				
Origination / (reversal) of temporary difference during the year	(176,745)	335,829	(395,882)	443,612
	(176,745)	335,829	(395,882)	443,612
<b>Deferred Tax Asset* [Note 40(b)]</b>				
Reversal / (origination) of temporary difference during the year - Sri Lanka International Sovereign Bonds and PDI Bonds	27,014,458	(10,813,339)	27,014,458	(10,813,339)
Reversal / (origination) of temporary difference during the year - Others	1,052,263	6,032,787	711,712	6,184,854
	28,066,721	(4,780,552)	27,726,170	(4,628,485)
	27,889,976	(4,444,723)	27,330,288	(4,184,873)

# NOTES TO THE FINANCIAL STATEMENTS

## 21 INCOME TAX EXPENSE (Contd.)

\* Deferred tax asset has been recognised on all temporary differences arising on impairment provisions after adjustments been made in respect of impairment charges pertaining to stage 3 credit facilities, based on the specifications given in section 1 of schedule (1) of the Gazette notification issued on 25th October 2022 under Inland Revenue Act No 24 of 2017.

The Bank has made substantial provisions against Sri Lanka International Sovereign Bonds (SLISB) during the previous years (Note 32 (d) i). Accordingly, a deferred tax asset has been recognised against the said provision. With the conclusion of the SLISB debt restructuring in December 2024, the said impairment provisions previously recognised were reversed to the income statement and an expected credit loss provision was recognised for PDI bonds. Accordingly, the net deferred tax asset recognised by the Bank against such provisions have been reversed to the income statement during the year.

### 21 (d) Current Tax on Profit for the year - Subsidiaries

For the year ended 31st December	Group	
	2024	2023
	Rs 000	Rs 000
Sithma Development (Pvt)Ltd	238,721	313,119
HNB Assurance PLC	834,635	763,994
HNB Finance PLC	267,178	-
	1,340,534	1,077,113

### 21 (e) Applicable Tax Rates

The tax rate applicable for the Bank and Group is disclosed below.

Company	Tax rate
Hatton National Bank PLC	30%
HNB Assurance PLC and its subsidiary HNB General Insurance Limited	30%
HNB Finance PLC	30%
Sithma Development (Pvt) Ltd	30%

### 21 (f) Reconciliation of Effective Tax Rate

For the year ended 31st December	Bank				Group			
	2024		2023		2024		2023	
	%	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000
Profit before income tax		79,820,757		32,688,695		84,099,442		37,218,175
Tax using the corporate tax rate	30.00	23,946,227	30.00	9,806,609	30.14	25,343,588	30.00	11,165,453
Disallowable expenses	21.03	16,789,249	12.31	4,022,544	20.91	17,581,530	12.76	4,748,570
Tax effects on:								
Allowable expenses	(0.62)	(493,125)	(0.05)	(16,206)	(0.63)	(525,873)	(0.10)	(36,318)
Tax exempt income	(2.21)	(1,763,387)	(4.52)	(1,477,370)	(2.99)	(2,518,674)	(6.16)	(2,291,961)
Recognition of tax losses during the year	-	-	-	-	(0.73)	(610,883)	-	-
Undistributable profits of subsidiaries and joint venture	-	-	-	-	(0.07)	(55,396)	0.23	86,796
	48.21	38,478,964	37.74	12,335,577	46.63	39,214,292	36.74	13,672,540
Over provision in previous years	-	-	-	-	0.05	45,518	(0.16)	(60,856)
Income tax expense [Note21 (a)]	48.21	38,478,964	37.74	12,335,577	46.68	39,259,810	36.57	13,611,684

## 21 (g) Tax Expenses Relating to Items Recognised in Other Comprehensive Income

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Remeasurement of post-employment benefit obligations	-	-	12,897	10,921
Revaluation of freehold land and buildings	(1,419,916)	-	(1,645,774)	-
Net losses on investments in government securities	(1,240,887)	(971,511)	(1,241,243)	(1,079,170)
	(2,660,803)	(971,511)	(2,874,120)	(1,068,249)

## 21 (h) Tax Losses Recognised during the Year

Group	2024 Rs 000
Balance as at 1st January	-
Tax losses recognised during the year	2,036,277
Tax losses utilised during the year	-
Balance as at 31st December	2,036,277

## 22 EARNINGS PER SHARE

### ACCOUNTING POLICY

The Bank/Group presents basic and diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders of the Bank and Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees as per Sri Lanka Accounting Standard - LKAS 33 on "Earnings per Share".

## 22 (a) Basic Earnings per Share

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
<b>Amount used as the numerator</b>				
Profit attributable to equity holders of the Bank	41,341,793	20,353,118	43,538,931	22,770,791
<b>Number of ordinary shares used as the denominator</b>				
Weighted average number of ordinary shares outstanding during the year used as the denominator				
for basic EPS ('000) [Note 22 (c)]	571,821	571,821	571,821	571,821
<b>Basic earnings per ordinary share (Rs)</b>	<b>72.30</b>	<b>35.59</b>	<b>76.14</b>	<b>39.82</b>



# NOTES TO THE FINANCIAL STATEMENTS

## 22 EARNINGS PER SHARE (Contd.)

### 22 (b) Diluted Earnings per Share

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Amount used as the numerator				
Profit attributable to equity holders of the Bank	41,341,793	20,353,118	43,538,931	22,770,791
Number of ordinary shares used as the denominator				
Weighted average number of ordinary shares outstanding during the year used as the denominator for diluted EPS ('000) [Note 22 (c)]	571,821	571,821	571,821	571,821
Diluted earnings per ordinary share (Rs)	72.30	35.59	76.14	39.82

### 22 (c) Weighted Average Number of Ordinary Shares Outstanding During the Year, Used as the Denominator for Basic and Diluted Earnings Per Share

	Bank/Group 2024
Number of shares in issue as at 1st January	559,738,387
Number of shares satisfied in the form of issue and allotment of new shares for final dividend 2023	12,082,809
Weighted average number of ordinary shares as at 31st December	571,821,196

## 23 DIVIDENDS PAID AND PROPOSED

For the year ended 31st December	2024			2023		
	Gross Dividend Rs 000	Dividend Tax Rs 000	Net Dividend Rs 000	Gross Dividend Rs 000	Dividend Tax Rs 000	Net Dividend Rs 000
Rs 5.00 scrip dividend per share declared for 2022 and paid in 2023	-	-	-	2,677,777	401,666	2,276,111
Rs 4.00 cash dividend per share declared for 2023 and paid in 2024	2,238,954	257,777	1,981,177	-	-	-
Rs 4.00 scrip dividend per share declared for 2023 and paid in 2024	2,238,954	335,843	1,903,111	-	-	-

### 23 (a) Proposed Dividends

The Directors recommend that a final cash dividend of Rs 15 per share (2023: Rs 8.00 per share, a cash dividend of Rs 4.00 and a scrip dividend of Rs 4.00) on both voting and non-voting shares of the Bank, be paid for the financial year ended 31st December 2024.

The final dividend is to be approved at the Annual General Meeting to be held on 27th March 2025. In accordance

with Sri Lanka Accounting Standard – LKAS 10 on “Events after the reporting period”, this final dividend has not been recognised as a liability as at 31st December 2024. Final dividend proposed amounts to Rs 8,577 Mn (2023 final dividend : Rs 4,478 Mn).

### 23 (b) Compliance with Sections 56 and 57 of Companies Act No. 07 of 2007

As required by the Section 56 of the Companies Act No. 07 of 2007, the

Board of Directors of the Bank satisfied the solvency test in accordance with the Section 57, prior to recommending the final dividend. A statement of solvency completed and duly signed by the Directors on February 21st, 2024 has been audited by external auditor, Messrs. KPMG.

## 24 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

The accounting policies adopted in measurement of financial instruments are given in Notes 3.3, 3.4 to the financial statements.

The carrying amounts of financial instruments by category as defined in Sri Lanka Accounting Standard - SLFRS 9 "Financial Instruments" under headings of the statement of financial position are summarised below.

### 24 (a) Analysis of Financial Instruments by Measurement Basis - Bank

	As at 31st December 2024				As at 31st December 2023			
	Fair Value through Profit or Loss	Amortised Cost	Fair Value through Other Comprehensive Income	Total Carrying Amount	Fair Value through Profit or Loss	Amortised Cost	Fair Value through Other Comprehensive Income	Total Carrying Amount
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>								
Cash and cash equivalents	-	63,356,259	-	63,356,259	-	73,148,596	-	73,148,596
Placements with banks	-	41,858,517	-	41,858,517	-	55,991,134	-	55,991,134
Balances with Central Bank of Sri Lanka	-	6,913,009	-	6,913,009	-	12,234,361	-	12,234,361
Derivative financial instruments	375,060	-	-	375,060	452,193	-	-	452,193
Financial assets measured at fair value through profit or loss	1,835,469	-	-	1,835,469	115,641	-	-	115,641
Financial assets measured at amortised cost - loans and advances to customers	-	1,063,675,345	-	1,063,675,345	-	954,880,316	-	954,880,316
Financial assets measured at amortised cost - debt and other instruments	-	741,761,201	-	741,761,201	-	549,772,155	-	549,772,155
Financial assets measured at fair value through other comprehensive income	-	-	96,309,470	96,309,470	-	-	189,325,958	189,325,958
Other financial assets	-	4,746,539	-	4,746,539	-	11,029,182	-	11,029,182
<b>Total financial assets</b>	<b>2,210,529</b>	<b>1,922,310,870</b>	<b>96,309,470</b>	<b>2,020,830,869</b>	<b>567,834</b>	<b>1,657,055,744</b>	<b>189,325,958</b>	<b>1,846,949,536</b>
<b>Liabilities</b>								
Due to banks	-	6,595,571	-	6,595,571	-	9,019,582	-	9,019,582
Derivative financial instruments	1,573,417	-	-	1,573,417	1,365,523	-	-	1,365,523
Securities sold under repurchase agreements	-	26,486,104	-	26,486,104	-	61,793,694	-	61,793,694
Financial liabilities measured at amortised cost - due to depositors	-	1,715,484,127	-	1,715,484,127	-	1,579,780,228	-	1,579,780,228
Financial liabilities measured at amortised cost - other borrowings	-	19,740,135	-	19,740,135	-	24,933,215	-	24,933,215
Debt securities issued	-	-	-	-	-	87,569	-	87,569
Other financial liabilities	-	10,466	-	10,466	-	7,224	-	7,224
Subordinated term debts	-	28,174,227	-	28,174,227	-	18,961,556	-	18,961,556
<b>Total financial liabilities</b>	<b>1,573,417</b>	<b>1,796,490,630</b>	<b>-</b>	<b>1,798,064,047</b>	<b>1,365,523</b>	<b>1,694,583,068</b>	<b>-</b>	<b>1,695,948,591</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 24 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (Contd.)

### 24 (b) Analysis of Financial Instruments by Measurement Basis - Group

	As at 31st December 2024				As at 31st December 2023			
	Fair Value	Amortised	Fair Value	Total	Fair Value	Amortised	Fair Value	Total
	through	Cost	through Other	Carrying	through	Cost	through Other	Carrying
	Profit or Loss		Comprehensive	Amount	Profit or Loss		Comprehensive	Amount
	Rs 000	Rs 000	Income	Rs 000	Rs 000	Rs 000	Income	Rs 000
			Rs 000	Rs 000			Rs 000	Rs 000
<b>Assets</b>								
Cash and cash equivalents	-	64,065,041	-	64,065,041	-	73,758,907	-	73,758,907
Placements with banks	-	48,656,010	-	48,656,010	-	61,836,382	-	61,836,382
Balances with Central Bank of Sri Lanka	-	6,913,009	-	6,913,009	-	12,234,361	-	12,234,361
Reverse repurchase agreements	-	5,280,692	-	5,280,692	-	1,830,461	-	1,830,461
Derivative financial instruments	375,060	-	-	375,060	452,193	-	-	452,193
Financial assets measured at fair value through profit or loss	2,962,612	-	-	2,962,612	801,065	-	-	801,065
Financial assets measured at amortised cost-loans and advances to customers	-	1,104,013,319	-	1,104,013,319	-	988,601,197	-	988,601,197
Financial assets measured at amortised cost-debt and other instruments	-	770,020,546	-	770,020,546	-	584,131,263	-	584,131,263
Financial assets measured at fair value through Other comprehensive income	-	-	112,407,299	112,407,299	-	-	195,975,307	195,975,307
Other financial assets	-	8,414,670	-	8,414,670	-	14,269,396	-	14,269,396
<b>Total financial assets</b>	<b>3,337,672</b>	<b>2,007,363,287</b>	<b>112,407,299</b>	<b>2,123,108,258</b>	<b>1,253,258</b>	<b>1,736,661,967</b>	<b>195,975,307</b>	<b>1,933,890,532</b>
<b>Liabilities</b>								
Due to banks	-	6,595,571	-	6,595,571	-	9,019,582	-	9,019,582
Derivative financial instruments	1,573,417	-	-	1,573,417	1,365,523	-	-	1,365,523
Securities sold under repurchase agreements	-	26,486,104	-	26,486,104	-	61,793,694	-	61,793,694
Financial liabilities measured at amortised cost - due to depositors	-	1,750,259,233	-	1,750,259,233	-	1,609,153,685	-	1,609,153,685
Financial liabilities measured at amortised cost - other borrowings	-	19,742,152	-	19,742,152	-	25,031,784	-	25,031,784
Debt securities issued	-	448,108	-	448,108	-	550,160	-	550,160
Other financial liabilities	-	4,190,120	-	4,190,120	-	2,869,423	-	2,869,423
Subordinated term debts	-	29,967,185	-	29,967,185	-	22,255,164	-	22,255,164
<b>Total financial liabilities</b>	<b>1,573,417</b>	<b>1,837,688,473</b>	<b>-</b>	<b>1,839,261,890</b>	<b>1,365,523</b>	<b>1,730,673,492</b>	<b>-</b>	<b>1,732,039,015</b>

## 25 CASH AND CASH EQUIVALENTS

### ACCOUNTING POLICY

Cash and cash equivalents include cash in hand and balances with banks. These are subject to an insignificant risk of changes in fair value and are used by the Group in the management of its short term commitments. These are brought to the financial statements at the face values or gross values where appropriate. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Local currency in hand	49,903,638	42,396,821	50,328,173	42,757,014
Foreign currency in hand	1,427,191	2,475,438	1,427,191	2,475,438
Balances with banks	12,053,665	28,492,964	12,337,937	28,743,107
	63,384,494	73,365,223	64,093,301	73,975,559
Less : Allowance for impairment losses [Note 25 (a)]	28,235	216,627	28,260	216,652
	63,356,259	73,148,596	64,065,041	73,758,907

All cash and cash equivalent balances held by the group entities were available for use by the Group.

### 25 (a) Movement in Impairment during the year

Stage 1	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Balance as at 1st January	216,627	203,012	216,652	203,036
Net impairment charge during the year [Note 15]	(188,392)	13,615	(188,392)	13,616
Balance as at 31st December	28,235	216,627	28,260	216,652

### 25 (b) Credit and Market risk

Information about the Group's credit and market risks for financial assets are included in Note 5 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 26 PLACEMENTS WITH BANKS

### ACCOUNTING POLICY

Placements with banks include money at call and short notice that are subject to an insignificant risk of change in the fair value, and are used by the Group in the management of its short term commitments. These are brought to the financial statements at the face values or gross values where appropriate. Placements with banks are carried at amortised cost in the statement of financial position.

As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Placements - within Sri Lanka	883,400	-	7,682,588	5,846,622
Placements - outside Sri Lanka	40,993,389	56,024,833	40,993,389	56,024,833
	41,876,789	56,024,833	48,675,977	61,871,455
Less : Allowance for impairment losses [Note 26 (a)]	18,272	33,699	19,967	35,073
	41,858,517	55,991,134	48,656,010	61,836,382

### 26 (a) Movement in Impairment during the year

Stage 1	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Balance as at 1st January	33,699	12,138	35,073	12,827
Net impairment charge during the year [Note 15]	(15,428)	21,561	(15,106)	22,246
Balance as at 31st December	18,272	33,699	19,967	35,073

### 26 (b) Credit and Market risk

Information about the Group's credit and market risks for financial assets are included in Note 5 to the financial statements.

## 27 BALANCES WITH CENTRAL BANK OF SRI LANKA

Balances with Central Bank of Sri Lanka represent both Statutory cash balance and Standing deposit facility. Statutory cash balance is required to be maintained as per the provisions of Section 93 of the Monetary Law Act. The minimum cash reserve requirement on rupee deposit liabilities was 2% as at 31st December 2024 (2023 : 2%).

There is no reserve requirement for foreign currency deposit liabilities.

As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Statutory balance with Central Bank of Sri Lanka	6,913,009	10,733,248	6,913,009	10,733,248
Standing deposit facility with Central Bank of Sri Lanka	-	1,501,113	-	1,501,113
	6,913,009	12,234,361	6,913,009	12,234,361

## 28 REVERSE REPURCHASE AGREEMENTS

### ACCOUNTING POLICY

Securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within “reverse repurchase agreements”, reflecting the transaction’s economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the Effective Interest Rate (EIR).

As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
<b>Securities purchased under reverse repurchase agreements</b>				
with banks	-	-	-	-
with customers	-	-	5,280,692	1,830,461
	-	-	5,280,692	1,830,461

## 29 DERIVATIVE FINANCIAL INSTRUMENTS

### ACCOUNTING POLICY

The accounting policy pertaining to derivative financial instruments has been given in Note 3.3 and 3.4 to the financial statements.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e. the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller

than would be required for other types of contracts expected to have a similar response to changes in market factors.

- It is settled at a future date.

The Bank uses derivatives such as forward foreign exchange contracts and currency swaps. Bank has not designated any derivative as a hedging instrument and has not followed hedge accounting as at the reporting date. All derivatives are initially recognised and subsequently measured at fair value, with revaluation gains or losses recognised in the income statement under “Net gain/(loss) from trading” (Note 10). Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fair value is determined

using the forward market rates ruling on the reporting date.

### ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Judgement is required when the Bank/ Group selects the valuation techniques used to determine the fair value of derivatives, particularly the selection of valuation inputs that are not readily observable, and the application of valuation adjustments to certain derivatives.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities.



# NOTES TO THE FINANCIAL STATEMENTS

## 29 DERIVATIVE FINANCIAL INSTRUMENTS (Contd.)

As at 31st December	Bank/Group			
	2024		2023	
	Assets Rs 000	Liabilities Rs 000	Assets Rs 000	Liabilities Rs 000
<b>Currency swaps</b>				
Sales	452	5,025	79,182	1,400
Purchases	199,813	1,348,606	203,002	1,286,548
	200,265	1,353,631	282,184	1,287,948
<b>Forward foreign exchange contracts</b>				
Sales	113,966	129,579	155,382	18,326
Purchases	60,829	90,207	14,627	59,249
	174,795	219,786	170,009	77,575
	375,060	1,573,417	452,193	1,365,523

## 30 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

### ACCOUNTING POLICY

The accounting policy pertaining to financial assets measured at fair value through profit or loss has been given in Note 3.3 and 3.4 to the financial statements.

A financial asset is classified as measured at fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss.

#### Financial assets held for trading

The Group classifies financial assets as held for trading in the following circumstances.

- Those have been purchased or acquired primarily for short-term profit making through trading activities; or
- Those form part of a portfolio of financial instruments that are managed together, for which there is evidence

of a recent pattern of short-term profit taking

Financial assets held for trading are measured and recorded at fair value in the statement of financial position. Changes in fair value are recognised in "net gain/(loss) from trading" (Note 10). Interest income from financial assets held for trading is recorded in "Interest income" (Note 8) and dividend income is recorded in "net gain/(loss) from trading" (Note 10) according to the terms of the contract, or when the right to receive the payment has been established.

Financial assets held for trading include instruments such as government securities, equity instruments etc. that have been acquired principally for the purpose of selling or repurchasing in the near term.

Further as per SLFRS 9, financial assets measured at fair value through profit or loss include all financial assets other than those classified as fair value through other comprehensive income and financial assets measured at amortised cost.

#### Financial assets designated at fair value through profit or loss

The Group has not designated any financial asset at fair value through profit or loss

### ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Judgement is required when applying the valuation techniques used to determine the fair value of trading securities not valued using quoted market prices.

As at 31st December	2024	2023
	Fair Value	Fair Value
	Rs 000	Rs 000
Quoted shares - Bank [Note 30 (a)]	158,099	113,694
Government of Sri Lanka treasury bills - Bank [Note 30 (b)]	797	1,933
Government of Sri Lanka treasury bonds - Bank [Note 30 (c)]	1,676,573	14
<b>Total financial assets measured at fair value through profit or loss - Bank</b>	<b>1,835,469</b>	<b>115,641</b>
Quoted shares - Subsidiaries [Note 30 (d)]	834,128	217,798
Unquoted units in unit trusts - Subsidiaries [Note 30 (e)]	293,015	467,626
<b>Total financial assets measured at fair value through profit or loss - Subsidiaries</b>	<b>1,127,143</b>	<b>685,424</b>
<b>Total financial assets measured at fair value through profit or loss - Group</b>	<b>2,962,612</b>	<b>801,065</b>

### 30 (a) Quoted Shares Held by the Bank

As at 31st December	2024				2023			
	No of Ordinary Shares	Cost of Investment	% of Total	Fair Value	No of Ordinary Shares	Cost of Investment	% of Total	Fair Value
		Rs 000		Rs 000		Rs 000		Rs 000
<b>Banks, Finance and Insurance</b>								
Ceylinco Insurance PLC	34,000	23,035	18	46,725	34,000	23,035	18	27,880
National Development Bank PLC	52,651	10,904	8	5,963	50,618	10,904	8	3,285
<b>Sector Total</b>		<b>33,939</b>		<b>52,688</b>		<b>33,939</b>		<b>31,165</b>
<b>Construction and Engineering</b>								
Access Engineering PLC	175	6	-	6	175	6	-	3
<b>Sector Total</b>		<b>6</b>		<b>6</b>		<b>6</b>		<b>3</b>
<b>Diversified Holdings</b>								
Aitken Spence PLC	278,515	30,625	24	40,385	278,515	30,625	24	32,308
<b>Sector Total</b>		<b>30,625</b>		<b>40,385</b>		<b>30,625</b>		<b>32,308</b>
<b>Hotels and Travels</b>								
Aitken Spence Hotel Holdings PLC	575,301	45,998	36	48,728	575,301	45,998	36	36,244
Asian Hotels and Properties PLC	207,476	14,918	12	13,175	207,476	14,918	12	12,034
<b>Sector Total</b>		<b>60,916</b>		<b>61,903</b>		<b>60,916</b>		<b>48,278</b>
<b>Motors</b>								
United Motors Lanka PLC	33,385	3,522	3	3,117	33,385	3,522	3	1,940
<b>Sector Total</b>		<b>3,522</b>		<b>3,117</b>		<b>3,522</b>		<b>1,940</b>
		<b>129,008</b>		<b>158,099</b>		<b>129,008</b>		<b>113,694</b>
Unrealised gain/(loss) from marked to market valuation		29,091				(15,314)		
<b>Total quoted shares - Bank</b>		<b>158,099</b>		<b>158,099</b>		<b>113,694</b>		<b>113,694</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 30 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Contd.)

### 30 (b) Government of Sri Lanka Treasury Bills Held by the Bank

As at 31st December	2024		2023	
	Cost of Investment	Fair Value	Cost of Investment	Fair Value
	Rs 000	Rs 000	Rs 000	Rs 000
Government of Sri Lanka treasury bills - Bank	797	797	2,000	1,933
Unrealised gain/(loss) from marked to market valuation	-	-	(67)	-
	797	797	1,933	1,933

### 30 (c) Government of Sri Lanka Treasury Bonds Held by the Bank

As at 31st December	2024		2023	
	Cost of Investment	Fair Value	Cost of Investment	Fair Value
	Rs 000	Rs 000	Rs 000	Rs 000
Government of Sri Lanka treasury bonds - Bank	1,669,182	1,676,573	16	14
Unrealised gain/(loss) from marked to market valuation	7,391	-	(2)	-
	1,676,573	1,676,573	14	14

### 30 (d) Quoted shares Held by Subsidiaries

As at 31st December	2024				2023			
	No of Ordinary Shares	Cost of Investment	% of Total	Fair Value	No of Ordinary Shares	Cost of Investment	% of Total	Fair Value
		Rs 000		Rs 000		Rs 000		Rs 000
<b>Banks, Finance and Insurance</b>								
Central Finance Company PLC	785,000	57,120	10	70,258	142,285	17,088	9	14,975
Nations Trust Bank PLC	551,622	66,762	12	102,877	103,080	6,909	4	11,081
Peoples Leasing & Finance PLC	649,094	10,374	2	11,035	615,201	10,008	6	6,583
Sampath Bank PLC	1,231,295	90,552	17	145,600	547,951	34,133	19	38,631
Seylan Bank PLC - (Non-Voting)	1,532,963	59,792	11	87,379	803,731	28,112	15	28,532
Commercial Bank of Ceylon PLC	266,130	24,709	5	38,522	-	-	-	-
National Development Bank PLC	518,182	36,730	7	58,684	-	-	-	-
LB Finance PLC	142,285	17,090	3	27,034	-	-	-	-
<b>Sector Total</b>		363,129		541,389		96,250		99,802
<b>Beverage Food and Tobacco</b>								
Distilleries Company of Sri Lanka PLC	-	-	-	-	33,935	-	-	950
Sunshine Holdings PLC	467,400	29,954	5	46,740	-	-	-	-
<b>Sector Total</b>		29,954		46,740		-		950

As at 31st December	2024				2023			
	No of Ordinary Shares	Cost of Investment Rs 000	% of Total	Fair Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	% of Total	Fair Value Rs 000
	<b>Diversified Holdings</b>							
Hemas Holdings PLC	1,284,537	107,360	20	132,628	173,000	12,671	7	11,539
John Keells Holdings PLC	29,670	3,679	1	6,705	29,670	3,679	2	5,667
Melstacorp PLC	94,532	5,603	1	11,627	94,532	5,603	3	7,969
Richard Peiris and Company PLC	-	-	-	-	312,851	4,351	2	6,413
Vallibel One PLC	-	-	-	-	209,638	4,000	2	8,050
<b>Sector Total</b>		<b>116,642</b>		<b>150,960</b>		<b>30,304</b>		<b>39,638</b>
<b>Land and Property</b>								
Overseas Realty (Ceylon) PLC	486,679	12,453	2	11,924	486,679	12,453	7	7,300
<b>Sector Total</b>		<b>12,453</b>		<b>11,924</b>		<b>12,453</b>		<b>7,300</b>
<b>Manufacturing</b>								
ACL Cables PLC	197,125	3,601	1	23,360	190,400	3,016	2	13,100
Chevron Lubricants Lanka PLC	-	-	-	-	112,821	10,422	6	10,188
Dipped Products PLC	-	-	-	-	324,000	7,255	4	9,040
Royal Ceramic Lanka PLC	680,000	9,172	2	29,580	680,000	9,172	5	17,952
Tokyo Cement Company (Lanka) PLC	431,057	12,824	2	30,175	431,057	12,824	7	19,828
<b>Sector Total</b>		<b>25,597</b>		<b>83,115</b>		<b>42,689</b>		<b>70,108</b>
		<b>547,775</b>		<b>834,128</b>		<b>181,696</b>		<b>217,798</b>
Unrealised gain / (loss) From marked to market valuation		286,353				36,102		
<b>Total quoted shares - Subsidiaries</b>		<b>834,128</b>		<b>834,128</b>		<b>217,798</b>		<b>217,798</b>

### 30 (e) Unquoted Units in Unit Trusts Held by Subsidiaries

As at 31st December	2024			2023		
	No of Units	Cost of Investment Rs 000	Fair Value Rs 000	No of Units	Cost of Investment Rs 000	Fair Value Rs 000
	Capital Alliance Investment Grade Fund	5,721,311	120,000	203,353	4,043,306	120,000
JB Vantage Money Market Fund	1,942,552	80,000	89,662	1,942,552	80,000	83,788
NDB Wealth Money Fund	-	-	-	4,006,651	120,000	126,963
Senfin Money Market Fund	-	-	-	5,503,229	120,000	128,382
Unrealised gain from marked to market valuation		93,015			27,626	
<b>Total quoted units - Subsidiaries</b>		<b>293,015</b>	<b>293,015</b>		<b>467,626</b>	<b>467,626</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 30 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Contd.)

### 30 (f) Analysis

As at 31st December	Bank		Group	
	2024 Fair Value Rs 000	2023 Fair Value Rs 000	2024 Fair Value Rs 000	2023 Fair Value Rs 000
By currency				
Sri Lankan Rupee	1,835,469	115,641	2,962,612	801,065
	1,835,469	115,641	2,962,612	801,065

### 30 (g) Credit and Market risk

Information about the Group's credit and market risks for financial assets are included in Note 5 to the financial statements.

## 31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS

### ACCOUNTING POLICY

The accounting policy pertaining to financial assets measured at amortised cost - loans and advances to customers has been given in Note 3.3 and 3.4 to the financial statements.

Financial assets measured at amortised cost - loans and advances to customers include loans and advances and lease receivables of the Group.

As per SLFRS 9, loans and advances to customers are assets that are;

- Held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows, that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.

After initial measurement, loans and receivables are subsequently measured at amortised cost using the Effective

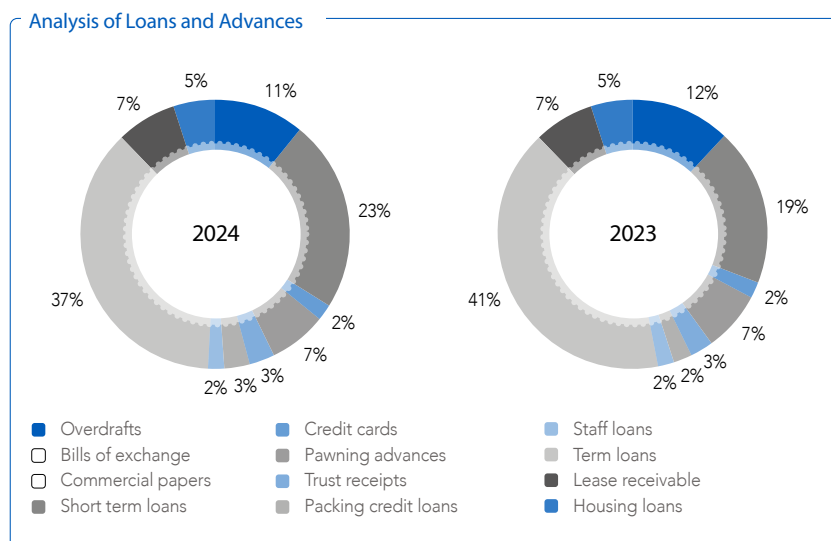
Interest Rate (EIR), less allowance for impairment except when the Group designates loans and receivables at fair value through profit or loss. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the income statement. The losses arising from impairment are recognised in 'impairment charge for loans and other losses' in the income statement. (Note 15)

As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Gross loans and advances	1,159,740,459	1,041,990,203	1,206,782,185	1,081,186,166
Stage 1	1,008,830,390	816,389,120	1,038,573,778	839,427,758
Stage 2	46,679,337	111,013,262	54,819,049	118,245,535
Stage 3	104,230,732	114,587,821	113,389,358	123,512,873
Less : Accumulated impairment under:	96,065,114	87,109,887	102,768,866	92,584,969
Stage 1 [Note 31 (e)]	9,924,864	10,653,265	10,477,990	12,960,050
Stage 2 [Note 31 (e)]	8,383,867	10,333,747	8,897,502	10,659,837
Stage 3 [Note 31 (e)]	77,756,383	66,122,875	83,393,374	68,965,082
Net loans and advances	1,063,675,345	954,880,316	1,104,013,319	988,601,197

### 31 (a) Analysis of Loans and Advances

#### 31 (a) i By Product

As at 31st December	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
Overdrafts	129,410,251	124,434,049	129,410,251	123,961,991
Bills of exchange	1,690,490	1,335,781	1,690,490	1,335,781
Commercial papers	242,634	185,812	242,634	185,812
Short term loans	269,530,223	201,429,018	269,570,632	201,870,941
Credit cards	20,581,153	17,009,417	20,581,153	17,009,417
Pawning advances	80,249,186	73,339,142	88,581,352	78,230,271
Trust receipts	32,448,218	28,400,641	32,448,218	28,400,641
Packing credit loans	35,320,921	33,013,309	35,320,921	33,013,309
Staff loans	20,371,999	16,050,668	20,757,747	16,523,156
Term loans	431,400,596	424,512,657	446,061,719	444,498,100
Lease receivable	81,320,812	70,355,503	104,943,092	84,232,541
Housing loans	57,173,976	51,924,206	57,173,976	51,924,206
<b>Total gross loans and advances [Note 31 (a) ii]</b>	<b>1,159,740,459</b>	<b>1,041,990,203</b>	<b>1,206,782,185</b>	<b>1,081,186,166</b>





# NOTES TO THE FINANCIAL STATEMENTS

## 31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

### 31 (a) ii By Currency

As at 31st December	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
Sri Lankan Rupees	994,638,787	886,030,518	1,041,680,513	925,226,481
United States Dollars	144,234,223	153,612,140	144,234,223	153,612,140
Great Britain Pounds	93,285	970,057	93,285	970,057
Euros	1,648,791	1,269,973	1,648,791	1,269,973
Other currencies	19,125,373	107,515	19,125,373	107,515
<b>Total gross loans and advances [Note 31 (a) i]</b>	<b>1,159,740,459</b>	<b>1,041,990,203</b>	<b>1,206,782,185</b>	<b>1,081,186,166</b>

### 31 (b) Staging Classification of Loans and Advances

As per SLFRS 9, a three stage model is adopted for impairment assessment based on changes in credit quality since initial recognition.

Stage	Classification Criteria	ECL measurement
Stage 1	Financial assets that have not undergone a significant increase in credit risk since initial recognition and are not credit impaired	12 months expected credit loss
Stage 2	Financial assets that have experienced a significant increase in credit risk since initial recognition but not credit impaired	Life time expected credit loss
Stage 3	Financial assets which are credit impaired	Life time expected credit loss with probability of default at 100%
POCI	Purchased or Originated Credit Impaired assets (POCI) are financial assets which are credit impaired on initial recognition.	These assets are categorised within stage 3 and expected credit loss is only recognised or released to the extent that there is a subsequent change in expected credit loss

### 31 (c) Factors considered in the Assessment of Expected Credit Losses

#### 31 (c) i Significant Increase in Credit Risk (SICR)

The Group assesses significant increase in credit risk primarily based on whether customer's contractual payments are over 30 days past due, in line with the rebuttable presumption under SLFRS 9. Additionally, to determine if an ISL customer shows signs of significant credit risk increase, the Group considers following criteria beyond the initial assessment.

- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/ group of customers, portfolios or instruments.

- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/group of customers or an instrument and when the value of collateral is significantly reduced and/or realisability of collateral is doubtful.
- 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 bank is unable to contact or find the customer.
- A fall of 50% or more in the turnover and/or profit before tax of the customer when compared to the previous year
- Erosion in net-worth by more than 25% when compared to the previous year

Credit facilities/exposures which have one or more of the above indicators are treated as facilities with significant increase in credit risk and assessed accordingly in ECL computations. The Group regularly monitors, the effectiveness of the criteria used to identify significant increase in credit risk to confirm that the criteria is capable of identifying significant

increase in credit risk before an exposure is in default.

- Economic conditions

Bank takes into consideration the uncertainties relating to the current economic conditions in order to assess cashflow projections for future recoveries. The main factors that cause uncertainties regarding this application relate to the unstable economic environment prevailing in the country and to the resultant implications on the creditworthiness of the borrowers.

### 31 (c) ii Definition of Default and Credit Impaired Assets

The Group generally considers financial assets as defaulted and therefore assessed in Stage 3 (as credit-impaired) for ECL calculations when:

- The borrower is unlikely to pay its obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The borrower becomes 90 days past due on its contractual payments.
- When a customer is subject to litigation, that significantly affects the performance of the credit facility.
- When the customer is deceased/insolvent.

In addition, the Group classifies the financial investments under Stage 3 when the external credit rating assigned to the particular investment is "default".

In assessing whether a borrower is in default, Group reviews its individually significant loans and advances above a predefined threshold at each reporting date. The Group considers customers with one or more of the default indicators as credit impaired. [Further as per Guidelines to Licensed Banks on the Adoption of Sri Lanka

Accounting Standard - SLFRS 9 : "Financial Instruments" issued by Central Bank of Sri Lanka, all the credit facilities/customers classified as non-performing as per Central Bank of Sri Lanka Directions are assessed as Stage 3 exposures].

### 31 (c) iii Modified Financial Assets

The Group sometimes makes concessions or modifications to the original terms of loans as response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. Such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. De-recognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

When the loan has been renegotiated or modified but not de-recognised, a reassessment is made whether there has been a significant increase in credit risk, as set out in Note 31 (c) i to the financial statements. Accordingly, all rescheduled loans are classified as Stage 3 unless upgraded due to satisfactory performing period. Further loans which have been restructured up to two times unless upgraded due to satisfactory performing period are classified as Stage 2 while such loans which have been restructured more than two times are classified as Stage 3 in accordance with Banking Act Direction No. 13 of 2021 on "Classification, Recognition and Measurement of credit facilities in Licensed Banks".

### 31 (d) Movement between the Stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative change in credit risk since initial recognition. Financial instruments are transferred out of Stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessment described above. Financial instruments are transferred out of Stage 3 when they no longer exhibit any evidence of credit impairment as described above. Further restructured facilities are upgraded in accordance with board approved policies upon the settlement of all due payments and Bank is satisfied that the customer is able to service debt obligations up to a foreseeable future and the upgraded credit facility has exhibited a sustained/trend/status of improvement to justify an improved classification.

# NOTES TO THE FINANCIAL STATEMENTS

## 31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

### 31 (e) Movement in Impairment during the year

	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
<b>Stage 1</b>				
Balance as at 1st January	10,653,265	12,477,377	12,960,050	14,914,751
Effect of exchange rate fluctuations	(88,253)	(123,338)	(88,253)	(123,338)
Net impairment (reversal)/charge for the year [Note 15]	(640,148)	(1,700,774)	(2,393,807)	(1,831,363)
<b>Balance as at 31st December [Note 31]</b>	<b>9,924,864</b>	<b>10,653,265</b>	<b>10,477,990</b>	<b>12,960,050</b>
<b>Stage 2</b>				
Balance as at 1st January	10,333,747	16,235,373	10,659,837	16,799,238
Effect of exchange rate fluctuations	(125,199)	(213,781)	(125,199)	(213,781)
Net impairment charge/(reversal) for the year [Note 15]	(1,824,681)	(5,687,845)	(1,637,136)	(5,925,620)
<b>Balance as at 31st December [Note 31]</b>	<b>8,383,867</b>	<b>10,333,747</b>	<b>8,897,502</b>	<b>10,659,837</b>
<b>Stage 3</b>				
Balance as at 1st January	66,122,875	58,527,652	68,965,082	61,267,133
Effect of exchange rate fluctuations	(1,078,363)	(1,655,367)	(1,078,363)	(1,655,367)
Net impairment charge/(reversal) for the year [Note 15]	13,464,786	10,941,566	16,280,474	13,244,742
Write-offs and other movements during the year	(752,915)	(1,690,976)	(773,819)	(3,891,426)
<b>Balance as at 31st December [Note 31]</b>	<b>77,756,383</b>	<b>66,122,875</b>	<b>83,393,374</b>	<b>68,965,082</b>
<b>Total impairment allowance for financial assets measured at amortised cost - Loans and advances to customers</b>	<b>96,065,114</b>	<b>87,109,887</b>	<b>102,768,866</b>	<b>92,584,969</b>

### 31 (f) i Product wise Movement in Allowance for Impairment Losses - Bank

	2024				2023
	Lease Receivable	Loans and Receivables	Pawning	Total	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January	1,964,983	85,042,339	102,565	87,109,887	87,240,402
Effect of exchange rate fluctuations	(224)	(1,291,591)	-	(1,291,815)	(1,992,486)
Net impairment charge for the year	832,612	10,222,407	(55,062)	10,999,957	3,552,947
Write-offs during the year	(145,849)	(607,066)	-	(752,915)	(1,690,976)
<b>Balance as at 31st December</b>	<b>2,651,522</b>	<b>93,366,089</b>	<b>47,503</b>	<b>96,065,114</b>	<b>87,109,887</b>

### 31 (f) ii Product wise Movement in Allowance for Impairment Losses - Group

	2024				2023
	Lease Receivable	Loans and Receivables	Pawning	Total	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January	3,482,832	88,973,400	128,737	92,584,969	92,981,122
Effect of exchange rate fluctuations	(224)	(1,291,591)	-	(1,291,815)	(1,992,486)
Net impairment charge for the year	890,370	11,379,812	(20,651)	12,249,531	5,487,759
Write-offs during the year	(166,752)	(607,067)	-	(773,819)	(3,891,426)
<b>Balance as at 31st December</b>	<b>4,206,226</b>	<b>98,454,554</b>	<b>108,086</b>	<b>102,768,866</b>	<b>92,584,969</b>

### 31 (g) Lease Receivables

#### ACCOUNTING POLICY

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Amounts receivable under finance leases

are classified as lease receivables and presented within loans and advances to customers in the statement of financial position after deduction of unearned lease income and the impairment for rentals

doubtful of recovery. Lease receivables are collectively assessed for impairment in accordance with the policy for allowance for impairment losses as given in Note 31 (c) to the financial statements.

As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Total lease rentals receivable	97,729,118	85,949,428	128,288,978	105,435,531
Unearned lease income	(16,408,306)	(15,593,925)	(23,345,886)	(21,202,990)
<b>Gross lease receivable</b>	<b>81,320,812</b>	<b>70,355,503</b>	<b>104,943,092</b>	<b>84,232,541</b>
Impairment allowance for lease receivable	(2,651,522)	(1,964,983)	(4,206,226)	(3,718,202)
<b>Net lease receivable</b>	<b>78,669,290</b>	<b>68,390,520</b>	<b>100,736,866</b>	<b>80,514,339</b>
Net lease receivables within one year [Note 31 (g) (i)]	32,990,819	28,815,450	38,777,713	29,663,366
Net lease receivables from one to five years [Note 31 (g) (ii)]	45,447,770	39,316,180	61,328,419	50,592,083
Net lease receivables after five years [Note 30 (g) (iii)]	230,701	258,890	630,734	258,890
	<b>78,669,290</b>	<b>68,390,520</b>	<b>100,736,866</b>	<b>80,514,339</b>

#### 31 (g) i Net Lease Receivables within one year

As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Total lease rentals receivable within one year from the reporting date	42,837,268	37,700,420	49,452,771	39,388,705
Unearned lease income	(8,649,073)	(8,057,050)	(8,775,608)	(8,774,802)
Less: Impairment allowance for lease receivables	(1,197,376)	(827,920)	(1,899,450)	(950,537)
	<b>32,990,819</b>	<b>28,815,450</b>	<b>38,777,713</b>	<b>29,663,366</b>

#### 31 (g) ii Net Lease Receivables from one to five years

As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Total lease rentals receivables from one to five years from the reporting date	54,622,881	47,964,637	77,949,953	65,762,455
Unearned lease income	(7,730,559)	(7,518,832)	(14,329,978)	(12,410,145)
Less: Impairment allowance for lease receivables	(1,444,552)	(1,129,625)	(2,291,556)	(2,760,227)
	<b>45,447,770</b>	<b>39,316,180</b>	<b>61,328,419</b>	<b>50,592,083</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 31 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

### 31 (g) iii Net Lease Receivables after five years

As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Total lease rentals receivable after five years from the reporting date	268,969	284,371	886,254	284,371
Unearned lease income	(28,674)	(18,043)	(240,300)	(18,043)
Less: Impairment allowance for lease receivables	(9,594)	(7,438)	(15,220)	(7,438)
	230,701	258,890	630,734	258,890

Impairment allowance for lease receivables are included in the stage wise movement for impairment presented in Note 31 (e) to the financial statements.

### 31 (h) Credit and Market risk

Information about the Group's credit and market risks for financial assets are included in Note 5 to the financial statements.

## 32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS

### ACCOUNTING POLICY

The accounting policy pertaining to financial assets measured at amortised cost - debt and other financial instruments has been given in Note 3.3 and 3.4 to the financial statements

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding. These conditions are explained in detail in Note 3.4.1 and 3.4.2 to the financial statements.

After initial measurement, financial assets measured at amortised cost - debt and other financial instruments are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less allowance for impairment except when the Group designates a financial asset as measured at fair value through profit or loss. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the income statement. The losses arising from impairment are recognised in 'impairment charge for loans and other losses' in the income statement.

These assets are tested for impairment in accordance with the criteria given in Note 31 (c) to the financial statements.

### ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Impairment of financial assets measured at amortised cost - debt and other financial instruments

The Group assesses impairment for financial assets measured at amortised cost - debt and other financial instruments in line with the same principles used for assessment of impairment of loans and receivables.

The impairment loss on financial assets measured at amortised cost - debt and other financial instruments is disclosed in Note 32 (d) to the financial statements.

As at 31st December	2024	2023
	Rs 000	Rs 000
Government of Sri Lanka treasury bills held by the Bank	444,888,401	327,967,593
Government of Sri Lanka treasury bonds held by the Bank	225,997,320	118,365,594
Sri Lanka International Sovereign Bonds held by the Bank	-	196,305,095
USD Step up Bonds issued by Government of Sri Lanka held by the Bank	63,657,093	-
Foreign government bonds held by the Bank*	96,161	112,827
Quoted debentures held by the Bank [Note 32 (e)]	7,758,256	10,491,062
<b>Total financial assets at amortised cost – debt and other financial instruments - Bank [Note 32 (a)]</b>	<b>742,397,231</b>	<b>653,242,171</b>
<b>Allowance for impairment on financial assets at amortised cost – debt and other financial instruments - Bank [Note 32 (c)]</b>	<b>636,030</b>	<b>103,470,016</b>
Stage 1	1,536	740,093
Stage 2	-	102,078,763
Stage 3	634,494	651,160
<b>Net financial assets at amortised cost - debt and other financial instruments - Bank</b>	<b>741,761,201</b>	<b>549,772,155</b>

\* These bonds were issued by the Government of Greece and have been classified as stage 3 for Expect Credit Loss (ECL) computation. Bank has recognised an ECL provision amounting to Rs 96 Mn (2023 - Rs. 113 Mn) in respect of this investment.

As at 31st December	2024	2023
	Rs 000	Rs 000
Government of Sri Lanka treasury bonds held by subsidiaries	13,429,892	12,463,103
Government of Sri Lanka treasury bills held by subsidiaries	3,889,823	13,067,655
Quoted debentures held by subsidiaries [Note 32 (f)]	9,565,926	7,454,543
Unquoted debentures held by subsidiaries [Note 32 (g)]	1,375,883	1,375,442
Other loans and receivables held by subsidiaries [Note 32 (h)]	-	773,091
<b>Total financial assets at amortised cost - debt and other financial instruments - Subsidiaries</b>	<b>28,261,524</b>	<b>35,133,834</b>
<b>Total financial assets at amortised cost - debt and other financial instruments - Group</b>	<b>770,658,755</b>	<b>688,376,005</b>
<b>Allowance for impairment on financial assets at amortised cost debt and other financial instruments - Group [Note 32 (c)]</b>	<b>638,209</b>	<b>104,244,742</b>
Stage 1	3,715	741,729
Stage 2	-	102,078,763
Stage 3	634,494	1,424,250
<b>Net financial assets at amortised cost – debt and other financial instruments - Group</b>	<b>770,020,546</b>	<b>584,131,263</b>

### 32 (a) Analysis

As at 31st December	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
<b>By Collateralisation</b>				
Pledged as collateral	29,609,594	65,592,995	29,609,594	65,592,995
Unencumbered	712,787,637	587,649,176	741,049,161	622,783,010
	742,397,231	653,242,171	770,658,755	688,376,005
<b>By Currency</b>				
Sri Lankan Rupee	678,643,977	456,824,249	706,905,501	491,958,083
United States Dollar	63,657,093	196,305,095	63,657,093	196,305,095
Euros	96,161	112,827	96,161	112,827
	742,397,231	653,242,171	770,658,755	688,376,005



# NOTES TO THE FINANCIAL STATEMENTS

## 32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS (Contd.)

### 32 (a) (i) Restructure of Sri Lanka International Sovereign Bonds

The Government of Sri Lanka suspended the servicing of external public debts w.e.f. 12th April 2022. After an extensive debt restructuring process, in December 2024, Sri Lanka successfully completed the exchange of its Sri Lanka International Sovereign Bonds as part of its external debt restructuring efforts. The primary objective was to restore the country's debt sustainability by reducing the debt burden.

As per the terms of the exchange, the bond holders could opt for either "Global option" or "Local bond option" and the Bank opted for the latter.

A summary of the key terms and the details of new bonds received by the Bank are as follows.

Type of Bonds	Key terms	Amount received by the Bank
LKR Bond	<ul style="list-style-type: none"> <li>30% of the existing bonds exchanged into eight (8) new variable coupon Treasury bonds denominated in LKR with zero hair cut</li> <li>Variable interest rate of SLFR + 0.5%</li> <li>Maturity between March 2036 and March 2043, with one bond maturing each year during this period.</li> </ul>	LKR 48.84 Bn LKR bonds
USD step up Bond	<ul style="list-style-type: none"> <li>70% of the existing bonds exchanged into a USD step up bond with a 10% haircut.</li> <li>The interest rate will range from 1% to 3.5% throughout its tenor (1% at inception which will gradually increase to 3.5% by the bond's final maturity date).</li> <li>Capital repayments will consist of 10 instalments which will commence from June 2029 and end on June 2038 (five instalments of 8% of the total value of the USD step-up bonds and another five instalments of 12% of the total value of the USD step-up bond).</li> <li>Repayment will primarily be in US dollars; however, in the event the Government determines that it is unable or impracticable to make any payments in USD, interest or amortization amount can be settled in LKR.</li> </ul>	USD 353 Mn step up bonds
Past Due Interest (PDI) Bond	<ul style="list-style-type: none"> <li>This bond was issued o/a of the Past Due Interest for the previous SLISBs with a 11% haircut.</li> <li>The interest rate for this instrument is fixed at 4% throughout its tenor.</li> <li>This bond will be repaid in USD only.</li> <li>As per the amortization schedule the bond will mature in 2028</li> </ul>	USD 72 Mn PDI bonds

### 32 (a) (ii) Recognition of new instruments

As per SLFRS 9 – "Financial Instruments", the above noted exchange resulted in derecognition of the previously held SLISBs due to the significant modification to the cashflows and the terms and conditions. The Bank recognized the new instruments at fair value.

The Bank assessed the fair value of the new instruments in accordance with

SLFRS 9, using the discounted cash flow valuation method. The discount rate was determined using a risk-free rate derived based on long-term US Treasury bills, which was adjusted for credit, liquidity and other risks. Accordingly, the Bank applied a rate of 10.25% to determine the fair value of PDI Bonds and a rate of 8.5% was used for the fair value determination of USD Step-Up Bond after adjusting for the de-risk factor.

The Bank recognized a loss on derecognition of Rs 52.55 Bn in respect of this restructure, which was netted off against the realisation of the exchange fee bond paid to bondholders who validly delivered the original bonds before the expiration date. The resultant net loss on derecognition amounted to Rs 49.5 Bn, which is reported under Note 13 to the financial statements. A detailed breakdown of the same is shown below

For the year ended 31st December	2024 Rs. 000
Loss on haircut from previously held SLISBs	(10,974,980)
Net Day one loss	(41,572,931)
Loss on derecognition of Sri Lanka International Sovereign Bonds	(52,547,911)
Receipt of exchange fee	3,086,370
Net loss on derecognition of Sri Lanka International Sovereign Bonds	(49,461,541)

### 32 (a) (iii) Sensitivity analysis of fair value of bonds

A 1% increase or decrease in the discount rate of both the USD Step-up Bond and the PDI Bond would result in a corresponding decrease or increase in their fair value, as shown below.

Increase/(decrease) in Discount Rate	Increase / (Decrease) in fair value Rs. 000
Increased discount rate by 1%	(4,966,033)
Decreased discount rate by 1%	5,425,563

### 32 (b) Disclosure as per Registered Stock and Securities Ordinance and Local Treasury Bills Ordinance Direction No 01 of 2019 on Repurchase and Reverse Repurchase transactions of Dealer Direct Participants in Scripless Treasury Bonds and Scripless Treasury Bills

Bank has allocated government securities amounting to Rs 29.6 Bn (2023 - Rs 65.59 Bn) in respect of securities sold under repurchase agreements.

Banks policy on haircuts for repurchase and reverse repurchase transactions are explained below.

Board approved policy guideline outlines the allocation of securities and haircut rules for repurchase and reverse repurchase agreements and valuation process. The policy has been formulated in line with the Direction No.01 of 2019 on Registered Stock and Securities Ordinance and Local Treasury Bills Ordinance issued by the Monetary Board of the Central Bank of Sri Lanka taking in to consideration the market practices. Securities are allocated/obtained as per the set guidelines. No penalties were levied on the Bank during the year, for any non-compliance.

### 32 (c) Movement in Impairment during the year

	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
<b>Stage 1</b>				
Balance as at 1st January	740,093	3,324	741,729	4,333
Net impairment charge / (reversal) for the year [Note 15]	(1,788)	799,949	(1,245)	800,576
Effect of exchange rate fluctuations and other movements	(736,769)	(63,180)	(736,769)	(63,180)
<b>Balance as at 31st December</b>	<b>1,536</b>	<b>740,093</b>	<b>3,715</b>	<b>741,729</b>
<b>Stage 2</b>				
Balance as at 1st January	102,078,763	75,795,353	102,078,763	75,795,353
Net impairment charge / (reversal) for the year [Note 15]	(91,639,774)	35,255,105	(91,639,774)	35,255,105
Effect of exchange rate fluctuations	(10,438,989)	(8,971,695)	(10,438,989)	(8,971,695)
<b>Balance as at 31st December</b>	<b>-</b>	<b>102,078,763</b>	<b>-</b>	<b>102,078,763</b>
<b>Stage 3</b>				
Balance as at 1st January	651,160	661,750	1,424,250	1,434,840
Net impairment charge for the year [Note 15]	(16,666)	(10,590)	(16,666)	(10,590)
Write-offs during the year	-	-	(773,090)	-
<b>Balance as at 31st December</b>	<b>634,494</b>	<b>651,160</b>	<b>634,494</b>	<b>1,424,250</b>
<b>Total impairment allowance for financial assets measured at amortised cost - Debt and other financial instruments</b>	<b>636,030</b>	<b>103,470,016</b>	<b>638,209</b>	<b>104,244,742</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS (Contd.)

### 32 (d) Stage classification and ECL provisions

#### 32 (d) (i) ECL provision of previously held SLISBs

Given the significant uncertainty surrounding the debt restructuring discussions, Bank has recognized impairment provisions amounting to LKR 92 Bn up to 31st December 2023. With the successful conclusion of the debt restructuring in December 2024, the Bank reversed the full impairment provision recognized in respect of previous SLISBs as disclosed in Note 15.

The said ECL provisions have been determined by considering the LGD for foreign currency exposures issued by sovereigns while the PD was derived based on historical loss rates published by international rating agencies for sovereigns with similar risk rating as Sri Lanka.

#### 32 (d) (iii) Sensitivity analysis of impairment provision of PDI bonds

Sensitivity analysis of impairment provision of PDI bonds to +1%/-1% change in PD/LGD rates.

	Increase/ (Decrease) in Impairment provision Rs. 000
Increase in PD rate by 1%	36,211
Decrease in PD rate by 1%	(36,211)
Increase in LGD rate by 1%	79,663
Decrease in LGD rate by 1%	(79,663)

#### 32 (d) (iv) Stage Assessment of newly recognized instruments

Bank classified USD Step up bonds and LKR bonds in stage 1 considering the ability of the Government to settle the dues in LKR while the PDI bonds has been classified under stage 2.

#### 32 (d) (v) Fair value Assessment

The Bank assessed the fair value of local LKR bonds using Level 1 inputs similar to other LKR denominated government securities, also considering the variable nature of the instrument with short term interest reset feature. The fair values of PDI bonds received and USD Step up bonds have been assessed using Level 2 inputs.

#### 32 (d) (ii) ECL provision of newly recognised instruments

Bank did not recognize ECL provisions on USD Step up bonds and LKR bonds received as part of SLISB restructure, considering the ability of the Government to settle the dues in LKR while, the Bank recognized Rs 1.5 Bn ECL provisions on PDI bonds.

### 32 (e) Quoted debentures held by the Bank

As at 31st December	2024		2023	
	No of Debentures	Amortised Cost Rs 000	No of Debentures	Amortised Cost Rs 000
<b>Brown &amp; Company PLC</b> (15.42% debentures redeemable on 31st March 2027)	15,000,000	1,558,141	15,000,000	1,558,300
<b>LOLC Finance PLC (Previously known as Commercial Leasing and Finance PLC)</b> (6 months T bill rate + 4.25% debentures redeemable on 24th September 2025)	5,000,000	517,070	5,000,000	526,594
<b>Lanka Orix Leasing Company PLC</b> (15% debentures redeemed on 27th September 2024)	-	-	5,000,000	519,521
<b>MTD Walkers PLC</b> (10.25% debentures redeemable on 30th September 2020) *	5,000,000	538,332	5,000,000	538,332
<b>National Savings Bank</b> (6 months AWPLR + 1% debentures redeemable on 24th September 2026)	50,000,000	5,144,713	50,000,000	5,283,438
<b>People's Leasing and Finance PLC</b> (8% debentures redeemed on 29th July 2024)	-	-	20,000,000	2,064,877
<b>Quoted Debentures - Bank</b>		<b>7,758,256</b>		<b>10,491,062</b>

\* This investment has been categorised as stage 3 for Expected Credit Loss (ECL) computation. ECL provision has been recognised in full for this exposure.

**32 (f) Quoted debentures held by subsidiaries**

As at 31st December	2024		2023	
	No of Debentures	Amortised Cost Rs 000	No of Debentures	Amortised Cost Rs 000
<b>Commercial Bank of Ceylon PLC</b>				
(12.25% debentures redeemable on 27th October 2026)	135,700	13,861	135,700	13,861
(28.00% debentures redeemable on 11th December 2027)	5,000,000	507,288	5,000,000	510,797
(12.50% debentures redeemable on 22nd July 2028)	1,192,800	125,857	1,192,800	125,857
(15.00% debentures redeemable on 19th December 2028)	3,000,000	301,356	3,000,000	301,356
(13.00% debentures redeemable on 09th July 2029)	4,000,000	424,789	-	-
(14.25% debentures redeemable on 19th December 2030)	1,500,000	150,644	1,500,000	150,644
(13.25% debentures redeemable on 09th July 2031)	2,000,000	212,633	-	-
(14.00% debentures redeemable on 19th December 2033)	2,500,000	251,055	2,500,000	251,055
(13.50% debentures redeemable on 09th July 2034)	4,000,000	425,742	-	-
		2,413,225		1,353,570
<b>DFCC Bank PLC</b>				
(13.50% debentures redeemed on 28th March 2024)	-	-	1,000,000	110,282
(13.00% debentures redeemable on 29th March 2025)	500,000	54,968	500,000	54,951
(9.00% debentures redeemable on 23rd October 2025)	2,700,000	274,660	2,700,000	274,594
(13.75% debentures redeemable on 28th March 2026)	1,298,100	143,404	1,298,100	143,404
(15.25% debentures redeemable on 16th January 2029)	7,000,000	802,363	-	-
(13.90% debentures redeemable on 28th March 2029)	3,532,100	390,604	3,532,100	390,604
		1,665,999		973,835
<b>First Capital Holdings PLC</b>				
(10.00% debentures redeemable on 07th February 2026)	2,903,200	316,329	2,903,200	316,250
		316,329		316,250
<b>Hayleys PLC</b>				
(13.00% debentures redeemed on 26th August 2024)	-	-	282,300	29,517
				29,517
<b>LOLC Holdings PLC</b>				
(15.00% debentures redeemed on 27th September 2024)	-	-	2,800,000	290,932
(10.25% debentures redeemable on 24th February 2026)	4,050,000	440,388	4,050,000	440,257
		440,388		731,189
<b>National Development Bank PLC</b>				
(13.95% debentures redeemed on 30th March 2024)	-	-	1,700,000	187,966
(9.50% debentures redeemable on 24th September 2025)	1,114,600	114,303	1,114,600	114,274
(11.90% debentures redeemable on 23rd November 2026)	5,000,000	506,195	5,000,000	507,531
(13.00% debentures redeemable on 01st December 2029)	2,950,000	298,047	-	-
(12.41% debentures redeemable on 01st December 2029)	506,900	51,190	-	-
		969,735		809,771
<b>Nations Trust Bank PLC</b>				
(12.80% debentures redeemed on 23rd December 2024)	-	-	3,000,000	302,867
(12.90% debentures redeemable on 23rd December 2026)	800,000	80,283	800,000	80,770
		80,283		383,637

# NOTES TO THE FINANCIAL STATEMENTS

## 32 FINANCIAL ASSETS MEASURED AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS (Contd.)

As at 31st December	2024		2023	
	No of Debentures	Amortised Cost Rs 000	No of Debentures	Amortised Cost Rs 000
<b>People's Leasing and Finance PLC</b>				
(8.00% debentures redeemed on 05th August 2024)	-	-	815,000	84,470
(9.00% debentures redeemable on 05th August 2026)	1,205,600	124,977	1,205,600	125,502
(9.00% debentures redeemable on 05th August 2026)	1,076,967	93,970	1,076,967	86,192
		218,947		296,164
<b>Sampath Bank PLC</b>				
(13.90% debentures redeemed on 28th February 2024)	-	-	2,800,000	312,735
(28.00% debentures redeemable on 09th February 2028)	9,000,000	1,125,074	9,000,000	1,124,384
		1,125,074		1,437,119
<b>Seylan Bank PLC</b>				
(9.75% debentures redeemable on 12th April 2026)	973,100	104,172	973,100	104,146
(25.00% debentures redeemable on 01st May 2028)	415,100	43,216	415,100	43,187
(28.00% debentures redeemable on 01st May 2028)	4,500,000	534,230	4,500,000	533,886
(13.25% debentures redeemable on 17th July 2029)	5,500,000	583,343	-	-
		1,264,961		681,219
<b>Siyapatha Finance PLC</b>				
(13.33% debentures redeemed on 08th August 2024)	-	-	157,100	16,548
(13.20% debentures redeemable on 06th June 2029)	6,000,000	645,133	-	-
		645,133		16,548
<b>Sri Lanka Telecom PLC</b>				
(12.75% debentures redeemable on 19th April 2028)	1,443,800	148,163	1,443,800	148,112
		148,163		148,112
<b>LOLC Finance PLC</b>				
(10.50% debentures redeemable on 23rd September 2025)	2,700,000	277,689	2,700,000	277,612
		277,689		277,612
<b>Total quoted debentures - Subsidiaries</b>		<b>9,565,926</b>		<b>7,454,543</b>

**32 (g) Unquoted debentures held by subsidiaries**

As at 31st December	2024		2023	
	No of Debentures	Amortised Cost Rs 000	No of Debentures	Amortised Cost Rs 000
<b>DFCC Bank PLC</b> (11.00% debentures redeemable on 12th June 2025)	2,460,000	261,050	2,460,000	260,976
		261,050		260,976
<b>Nations Trust Bank PLC</b> (9.15% debentures redeemable on 9th July 2026)	4,250,000	443,751	4,250,000	443,645
		443,751		443,645
<b>Peoples Bank</b> (9.50% debentures redeemable on 27th July 2025)	1,500,000	156,168	1,500,000	156,129
(16.25% debentures redeemable on 16th October 2031)	5,000,000	514,914	5,000,000	514,692
		671,082		670,821
<b>Total unquoted Debentures - Subsidiaries</b>		<b>1,375,883</b>		<b>1,375,442</b>

**32 (h) Other loans and receivables held by subsidiaries**

As at 31st December	2024	2023
	Amortised Cost Rs 000	Amortised Cost Rs 000
Other loans and receivables*	-	773,091
	-	773,091

\* These investments were categorised as stage 3 for Expected Credit Loss (ECL) computation and ECL provisions were recognised in full. The amount outstanding was written off against the provision during 2024.

**32 (i) Credit and Market risk**

Information about the Group's credit and market risks for financial assets are included in Note 5 to the financial statements.



# NOTES TO THE FINANCIAL STATEMENTS

## 33 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

### ACCOUNTING POLICY

The accounting policy pertaining to financial assets measured at fair value through other comprehensive income has been given in Note 3.3 and 3.4 to the financial statements

Financial assets are classified as Fair Value through Other Comprehensive Income (FVOCI) when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.

#### Debt instruments measured at FVOCI

Debt instruments measured at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and

losses on account of such investments are recognised in profit or loss. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis.

On de-recognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

#### Equity instruments measured at FVOCI

Upon initial recognition, the Group occasionally makes an irrevocable election to classify some of its equity investments as equity instruments measured at FVOCI when those meet the definition of equity under Sri Lanka Accounting Standard - LKAS 32 "Financial Instruments - Presentation" and are not held for trading. Such classification is determined on an instrument by instrument basis.

The FVOCI designation was made because the investments are expected to be held for long term strategic purposes and regulatory nature of investments. None of these investments were disposed during the year.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments measured at FVOCI are not subject to an impairment assessment.

### ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Impairment of financial assets measured at fair value through other comprehensive income

The Group assesses impairment for financial assets measured at fair value through other comprehensive income in line with the same principal used for assessment of impairment of loans and receivables.

As at 31st December	Fair Value	
	2024	2023
	Rs 000	Rs 000
Quoted shares held by Bank [Note 33 (b)]	8,275,744	5,501,697
Unquoted shares held by Bank [Note 33 (c)]	184,180	33,035
Unquoted units held by Bank [Note 33 (d)]	1,106,837	694,100
Government of Sri Lanka treasury bills held by Bank	985,445	146,138,332
Government of Sri Lanka treasury bonds held by Bank	60,415,674	36,958,794
PDI Bonds issued by Government of Sri Lanka held by Bank	18,105,304	-
Government of US treasury bills held by Bank	7,236,286	-
<b>Total financial assets at fair value through other comprehensive income - Bank [Note 33 (a)]</b>	<b>96,309,470</b>	<b>189,325,958</b>
Government of Sri Lanka treasury bonds held by subsidiaries	16,093,397	6,643,869
Unquoted shares held by subsidiaries [Note 33 (e)]	4,432	5,480
<b>Total financial assets at fair value through other comprehensive income - Subsidiaries</b>	<b>16,097,829</b>	<b>6,649,349</b>
<b>Total financial assets at fair value through other comprehensive income - Group [Note 33 (a)]</b>	<b>112,407,299</b>	<b>195,975,307</b>

### 33 (a) Analysis

As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
<b>By collateralisation</b>				
Pledged as collateral	-	-	-	-
Unencumbered	96,309,470	189,325,958	112,407,299	195,975,307
	96,309,470	189,325,958	112,407,299	195,975,307
<b>By Currency</b>				
Sri Lankan Rupee	70,967,880	189,325,958	87,065,709	195,975,307
United States Dollar	25,341,590	-	25,341,590	-
	96,309,470	189,325,958	112,407,299	195,975,307

### 33 (b) Quoted shares held by the Bank

As at 31st December	2024			2023		
	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	53,964,933	2,225,849	6,138,511	52,629,168	2,120,590	4,274,663
National Development Bank PLC	11,517,884	1,255,177	1,304,400	11,073,010	1,226,941	742,687
Nations Trust Bank PLC	4,465,586	421,604	832,833	4,375,023	412,300	484,347
<b>Total quoted shares - Bank</b>		<b>3,902,630</b>	<b>8,275,744</b>		<b>3,759,831</b>	<b>5,501,697</b>

### 33 (c) Unquoted shares held by the Bank

As at 31st December	2024			2023		
	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
LankaPay Private Limited	2,214,521	24,559	24,559	2,214,521	24,559	24,559
Lanka Financial Services Bureau	500,000	5,000	2,750	500,000	5,000	2,750
Lanka Rating Agency Limited	10,471,898	16,550	-	10,471,898	16,550	-
Magpek Exports Ltd	359,000	14,360	-	359,000	14,360	-
National Credit Guarantee Institution Ltd	15,114,374	151,145	151,145	-	-	-
S.W.I.F.T	27	5,196	5,196	27	5,196	5,196
<b>Total unquoted shares - Bank</b>		<b>217,340</b>	<b>184,180</b>		<b>66,195</b>	<b>33,035</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 33 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Contd.)

### 33 (d) Unquoted units in unit trusts held by the Bank

As at 31st December	2024			2023		
	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	1,106,837	19,455,327	400,000
<b>Total unquoted units in unit trust - Bank</b>		<b>400,000</b>	<b>1,106,837</b>		<b>400,000</b>	<b>694,100</b>

### 33 (e) Unquoted shares held by subsidiaries

As at 31st December	2024			2023		
	No of Ordinary Shares	Cost of Investment Rs 000	Fair Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	Fair Value Rs 000
	Credit Information Bureau of Sri Lanka	200	290	4,000	200	290
UB Finance	540,121	12,196	432	540,121	12,196	378
Standard Credit Lanka (Formerly Ceylinco investment and Reality Ltd)	38,458,474	38,458	-	38,458,474	38,458	-
<b>Total unquoted shares - Subsidiaries</b>		<b>50,944</b>	<b>4,432</b>		<b>50,944</b>	<b>5,480</b>

### 33 (f) Credit and Market risk

Information about the Group's credit and market risks for financial assets are included in Note 5 to the financial statements.

### 33 (g) Reclassification of financial instruments

The Bank re-classified its debt securities portfolio measured at Fair Value Through Other Comprehensive Income category to Amortised Cost category with effect from 1st April 2022 in accordance with "Statement of Alternative Treatment (SoAT) on Reclassification of Debt Portfolio" issued by CA Sri Lanka. Additionally, this reclassification requires the disclosure of its impact at each reporting date. Accordingly, Government of Sri Lanka treasury bills, Government of Sri Lanka treasury bonds and international sovereign bond investments which were previously classified as financial assets measured at Fair Value Through Other Comprehensive Income (FVOCI) were re-classified as financial assets measured at amortised cost. There was no change to the effective interest rate used and interest revenue recognised in respect of the reclassified assets for the year ended 31st December 2024.

Had these investments continued to be carried at fair value through other comprehensive income, the fair value of same as at 31st December 2024 would have amounted to Rs 11.5 Bn (31st December 2023: Rs 17 Bn) and would have resulted in the recognition of a fair value loss of Rs 326 Mn (2023: Rs 1.4 Bn) (net of tax) in other comprehensive income statement during the period.

## 34 INVESTMENT IN JOINT VENTURE

### ACCOUNTING POLICY

Joint venture is a type of joint arrangement, whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group determines joint control, by taking into account similar considerations necessary, to determine control over subsidiaries.

The Group's investment in a joint venture is accounted for, using the equity method and is recognised initially at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to a joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The income statement reflects Group's share of the results of operations of the joint venture. Any change in "other comprehensive income" of the joint venture is presented as part of the Group's "other comprehensive income". In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any such change, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the income statement outside operating profit.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

At each reporting date, the Group determines whether there is an objective evidence that the investment in joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognises the loss in impairment for loans and other losses in the income statement.

The Group discontinues the use of equity method from the date that it ceases to have joint control over the joint venture and accounts for the investment in accordance with the Group's accounting policy for financial instruments. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal, is recognised in income statement. The Bank's investment in joint venture is carried at cost.

### 34 (a) Investment in unquoted joint venture - Bank

As at 31st December	2024			2023		
	% Holding value	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000	% Holding value	Cost of Investment Rs 000	Fair Value/ Directors' valuation Rs 000
Acuity Partners (Pvt) Ltd [Note 64 (b)]	50	755,000	5,665,164	50	755,000	4,586,927
		755,000			755,000	

Bank did not receive any dividend income from Acuity Partners (Pvt) Ltd for the year ended 31st December 2024 (2023: Nil)

# NOTES TO THE FINANCIAL STATEMENTS

## 34 INVESTMENT IN JOINT VENTURE (Contd.)

### 34 (b) Investment in Unquoted Joint Venture - Group

	2024	2023
	Rs 000	Rs 000
Investment in joint venture (at cost) as at 1st January	755,000	755,000
Group's share of joint venture profit as at 1st January	3,831,927	3,007,493
Group's share of net assets of joint venture company as at 1st January	4,586,927	3,762,493
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)	4,474,789	3,650,355
Share of profit of joint venture (net of income tax) [Note 20]	1,377,926	1,140,769
Share of other comprehensive income of equity accounted joint venture	(299,689)	(316,335)
Dividend received during the year	-	-
Group's share of net assets of joint venture company as at 31st December	5,553,026	4,474,789

### 34 (c) Summarised Financial Position of Joint Venture - Acuity Partners (Pvt) Ltd and its Subsidiaries

As at 31st December	2024	2023
	Rs 000	Rs 000
Cash and cash equivalents	2,576,673	1,034,595
Trade and other receivables	1,922,905	2,074,928
Other current assets	48,368,607	22,726,083
Non-current assets	16,941,496	29,788,563
Trade and other payables	(610,845)	(1,272,944)
Other current liabilities	(52,052,140)	(38,549,716)
Non-current liabilities	(2,686,048)	(3,312,575)
Non controlling interest	(3,130,321)	(3,315,081)
Share holder's equity of Joint Venture	11,330,327	9,173,853
Group's carrying amount of the investment	5,665,164	4,586,927
Share of unrealised profit on disposal of investments	(112,138)	(112,138)
Group's carrying amount of the investment - Net	5,553,026	4,474,789

### 34 (d) Summarised Statement of Profit or Loss of Joint Venture - Acuity Partners (Pvt) Ltd and its Subsidiaries

For the year ended 31st December	2024	2023
	Rs 000	Rs 000
Interest income	5,673,900	4,341,420
Other Income	918,046	296,230
Revenue	6,591,946	4,637,650
Depreciation and amortisation expenses	(137,497)	(140,426)
Administration and distribution expenses	(922,205)	(882,080)
Finance cost	(402,633)	(734,240)
Profit from operations	5,129,611	2,880,904
VAT on financial services	(834,200)	(589,207)
Profit before tax	4,295,411	2,291,697
Income tax expenses	(1,115,854)	(275,246)
Profit for the year	3,179,557	2,016,451
Other comprehensive income	(1,416,516)	(1,416,015)
Total comprehensive income for the year	1,763,041	600,436
Non controlling interest	393,432	1,048,432
<b>Total comprehensive income for the year</b>	<b>2,156,473</b>	<b>1,648,868</b>
<b>Group's share of :</b>		
Profit or loss for the year	1,377,926	1,140,769
Other comprehensive income for the year	(299,689)	(316,335)
Comprehensive income for the year	1,078,237	824,434

There are no restrictions on the ability of the joint venture company to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances.

The Bank has neither contingent liabilities nor capital and other commitments towards its joint venture company.

### 35 INVESTMENT IN SUBSIDIARIES

#### ACCOUNTING POLICY

Subsidiaries are entities that are controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect the returns of those investees through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee
- exposure or rights to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control.

To support this presumption when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with other vote holders of the investee
- rights arising from other contractual arrangements
- the Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the above.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences, until the date that control ceases. Where subsidiaries have been sold or acquired during the year, assets, liabilities, income and expenses of the said subsidiary are included in the consolidated financial statements, from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to



# NOTES TO THE FINANCIAL STATEMENTS

## 35 INVESTMENT IN SUBSIDIARIES (Contd.)

transactions between members of Group are eliminated in full on consolidation.

Non-controlling interests represent the portion of profit or loss and net assets of the subsidiaries, not owned directly or indirectly by the Bank. The non-controlling interest is presented in the consolidated statement of financial position within equity, separately from the equity attributable to the equity holders of the Bank. Non-controlling interests in the profit or loss of the Group, is disclosed separately in the consolidated income statement.

A change in the ownership interest of a subsidiary without a loss of control, is accounted for as an equity transaction. Upon the loss of control, the Group de-recognises the assets (including goodwill) and liabilities of the subsidiary, any

non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control, is recognised in the statement of changes in equity. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

There are no significant restrictions on the ability of the subsidiaries to transfer funds to the Bank in the form of cash dividends or repayment of loans and advances. All subsidiaries of the Bank as at the reporting date, have been incorporated in Sri Lanka.

The Bank's investments in subsidiaries are carried at cost.

### ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

#### Impairment of Investments in Subsidiaries

The Bank follows the guidance of Sri Lanka Accounting Standard - LKAS 36 - "Impairment of Assets" in determining whether an investment in subsidiary is impaired. This determination requires significant judgement. The Bank evaluates, among other factors, the duration and extent to which the fair value of a subsidiary is less than its cost and the financial health of the near-term business outlook of the investment or the financial asset, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

### 35 (a) Investment in Subsidiaries - Quoted

As at 31st December	2024			2023		
	%	Cost of	Fair Value/	%	Cost of	Fair Value/
	Holding	Investment	Directors' valuation	Holding	Investment	Directors' valuation
		Rs 000	Rs 000		Rs 000	Rs 000
HNB Assurance PLC (89,979,000 ordinary shares)	60.00	384,285	7,207,318	60.00	384,285	5,092,811
HNB Finance PLC [Note 35 (b) i] (724,904,118 ordinary shares)	42.16	660,000	3,407,049	42.16	660,000	3,624,521
<b>Total Investments in quoted subsidiaries</b>		<b>1,044,285</b>			<b>1,044,285</b>	

### 35 (b) Investment in Subsidiary - Unquoted

As at 31st December	2024			2023		
	%	Cost of	Fair Value/	%	Cost of	Fair Value/
	Holding	Investment	Directors' valuation	Holding	Investment	Directors' valuation
		Rs 000	Rs 000		Rs 000	Rs 000
Sithma Development (Pvt) Ltd (206,000,000 ordinary shares)	100	1,973,000	8,690,832	100	1,973,000	9,043,230
<b>Total Investments in quoted subsidiaries</b>		<b>1,973,000</b>			<b>1,973,000</b>	
<b>Total for the Bank [35 (a) and 35 (b)]</b>		<b>3,017,285</b>			<b>3,017,285</b>	

### 35 (b) i HNB Finance PLC

Bank holds a stake of 51% in the voting rights of HNB Finance PLC. Accordingly, the said investment is accounted for as an investment in subsidiary. Since the Bank does not hold non-voting shares of HNB Finance PLC, Bank's holding in the said company is 42.16%.

### 35 (c) Subsidiary Held through HNB Assurance PLC

As at 31st December	2024		2023	
	% Holding	Cost of Investment Rs 000	% Holding	Cost of Investment Rs 000
HNB General Insurance PLC (115,000,000 ordinary shares)	100	1,150,000	100	1,150,000
		1,150,000		1,150,000

### 35 (d) Summarised Financial Position of Subsidiaries

As at 31st December	HNB Assurance PLC		Sithma Development (Pvt) Ltd		HNB Finance PLC	
	2024	2023	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Assets	62,437,072	51,737,402	11,258,394	11,643,471	53,066,750	49,246,593
Liabilities	50,162,452	41,015,942	2,567,562	2,600,241	47,067,691	44,158,311
Equity	12,274,620	10,721,460	8,690,832	9,043,230	5,999,059	5,088,282

### 35 (e) Summarised Financial Performance of Subsidiaries

For the year ended 31st December	HNB Assurance PLC		Sithma Development (Pvt) Ltd		HNB Finance PLC	
	2024	2023	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Revenue	26,725,783	23,284,730	1,229,719	1,443,207	13,232,561	15,524,354
Profit after tax	1,895,998	1,796,633	355,244	580,725	937,590	281,040
Total comprehensive income	1,947,594	2,222,861	347,606	574,051	910,778	308,776

For the year ended 31st December	HNB Assurance PLC		Sithma Development (Pvt) Ltd		HNB Finance PLC	
	2024	2023	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cash flows from operating activities	3,228,226	1,669,131	443,640	539,600	(3,200,678)	(6,988,275)
Cash flows from Investing activities	(2,075,617)	(1,042,621)	281,844	140,623	3,504,439	(3,476,255)
Cash flows from financing activities	(820,909)	(742,545)	(726,824)	(26,776)	(179,459)	(1,795,825)

#### Assessment of Impairment

The Board of Directors has assessed the potential impairment loss on investments in subsidiaries as at 31st December 2024. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date.

# NOTES TO THE FINANCIAL STATEMENTS

## 36 INVESTMENT PROPERTIES

### ACCOUNTING POLICY

#### Basis of Recognition

An investment property is recognised, if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

When a portion of the property is held to earn rentals or for capital appreciation and another portion is held for use in the production or supply of goods or services or for administrative purposes, the Group accounts for the portions separately if these portions could be sold separately (or leased out separately under a finance lease). If the portions could not be sold separately, the property is treated as investment property, only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Where the Group provides ancillary services to the occupants of a property it holds, the Group treats such a property as investment property if the services are insignificant to the arrangement as a whole.

#### Depreciation

Depreciation is provided on a straight line basis over the estimated life of the class of asset, from the date of purchase up to the date of disposal.

Classes of Assets	% per annum
Hatton National Bank PLC	
Freehold buildings (Refer Note 36 (a))	2.50
Sithma Development (Pvt) Ltd	
Freehold buildings	
HNB Tower	1.00
Others	2.50
Plant, Machinery and equipment integral to freehold buildings referred to above	20.00

#### 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".

#### De-recognition

Investment properties are de-recognised when disposed of, or permanently withdrawn from use since no future economic benefits are expected. Gains or losses arising from de-recognition of an investment property are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement.

Transfers are made to and from investment properties only when there is a change in use.

#### Investment Property Leased within the Group

Any property leased out to the parent or a subsidiary in full or where the parent or subsidiary occupies a significant portion of such a property, it is considered as owner-occupied from the perspective of the Group and adjustments are made for consolidation purposes.

### ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

#### Classification of Investment Properties

Management uses its judgment to determine whether a property qualifies as an investment property. The Group has developed criteria so it can exercise its judgement consistently.

A property that is held to earn rentals or for capital appreciation or both, and which generates cash flows largely independent of the other assets held by the Group are accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a standalone asset, are accounted for as property, plant and equipment. The Group assesses on an annual basis, the accounting classification of its properties, taking into consideration the current use of such properties.

**Useful Life Time of Investment Properties**

The Group reviews the residual values, useful lives and methods of depreciation of investment properties at each reporting

date. Management exercises judgement in the estimation of these values, rates, methods and hence those are subject to uncertainty.

	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
<b>Cost</b>				
Balance as at 1st January	507,684	507,684	1,216,713	1,209,059
Transferred from other Assets	-	-	297	7,654
<b>Balance as at 31st December</b>	<b>507,684</b>	<b>507,684</b>	<b>1,217,010</b>	<b>1,216,713</b>
<b>Accumulated depreciation</b>				
Balance as at 1st January	48,580	43,245	302,791	273,510
Charge for the year [Note 18 (b)]	5,335	5,335	46,031	29,281
<b>Balance as at 31st December</b>	<b>53,915</b>	<b>48,580</b>	<b>348,822</b>	<b>302,791</b>
<b>Carrying value as at 31st December</b>	<b>453,769</b>	<b>459,104</b>	<b>868,188</b>	<b>913,922</b>

**36 (a) Valuation of Investment Properties - Bank**

	Cost/Carrying Amount As at 31st December 2024					Fair Value As at 31st December 2024			Fair Value As at 31st December 2023 Total
	Building sq.ft	Land Perches	Land (Cost) Rs 000	Building (Net Book Value) Rs 000	Total Rs 000	Land Rs 000	Building Rs 000	Total Rs 000	Rs 000
23 & 23 1/1, Independence Avenue, Colombo 7 [Note 36 (b) i]	10,490	105.10	37,081	34,093	71,174	-	-	1,071,500	1,061,000
479, T B Jayah Mawatha, Colombo 10 [Note 36 (b) ii]	Land	112.96	126,480	-	126,480	2,654,560	-	2,654,600	2,654,560
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 1 [Note 36 (b) ii]	Land	26.62	34,889	-	34,889	785,300	-	785,300	758,670
451, Kandy Road, Kegalle [Note 36 (b)ii]	Land	56.30	83,400	-	83,400	205,495	-	205,495	205,495
181, High Level Road, Nugegoda.	12,990	16.50	82,500	55,326	137,826	193,900	94,600	288,500	317,800
			364,350	89,419	453,769	3,839,255	94,600	5,005,395	4,997,525

# NOTES TO THE FINANCIAL STATEMENTS

## 36 INVESTMENT PROPERTIES (Contd.)

### 36 (b) Valuation of Investment Properties - Group

	Cost/Carrying Amount As at 31st December 2024					Fair Value As at 31st December 2024			Fair Value As at 31st December 2023 Total
	Building sq.ft	Land Perches	Land (Cost) (Rs 000)	Building (Net Book Value) (Rs 000)	Total (Rs 000)	Land (Rs 000)	Building (Rs 000)	Total (Rs 000)	(Rs 000)
<b>Through the Bank</b>									
23 & 23 1/1, Independence Avenue, Colombo 7 [Note 36 (b) i]	10,645	105.10	37,081	34,093	71,174	-	-	1,071,500	1,061,000
181, High level Road, Nugegoda	11,096	16.50	82,500	55,326	137,826	193,900	94,600	288,500	317,800
<b>Through the Subsidiary -Sithma Development (Pvt) Ltd</b>									
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 1 [Note 36 (b) ii]	49,490	-	-	48,481	48,481	-	484,300	484,300	484,330
451, Kandy Road, Kegalle [Note 36 (b) ii]	16,865	-	-	75,200	75,200	-	194,500	194,500	215,346
<b>Through the Subsidiary -HNB Finance PLC [Note 36 (b) iii]</b>									
249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda	24,952	39.60	151,063	261,980	413,043	533,966	471,034	1,005,000	940,000
Vihara Road, Rankewatte, Matale	-	15.00	9,000	-	9,000	16,500	-	16,500	16,500
465/1, Old Police Station Road, Kahathuduwa, Polgasowita	20,494	182.59	49,008	42,802	91,810	127,813	78,687	206,500	206,500
Adampodaivayal, Adampodaimalaikadu, Trincomalee	-	724.00	14,000	-	14,000	41,000	-	41,000	41,000
Siyabalawalana Village, Katugampola, Giriulla	-	218.00	3,712	-	3,712	5,500	-	5,500	5,500
Kalupahana Village, Horana	-	12.85	3,942	-	3,942	5,200	-	5,200	5,140
			350,306	517,882	868,188	923,879	1,323,121	3,318,500	3,293,116

#### 36 (b) i Valued as a condominium property

36 (b) ii Lands situated at No 479, T B Jayah Mw, Colombo 10 on which HNB Towers is built, No 21, 21A, 23 and 25, Janadhipathi Mawatha, Colombo 01 and No. 451, Kandy Road, Kegalle are leased out to Sithma Development (Pvt) Ltd by the Bank and the Bank receives ground rent and substantial portion of the building is occupied by the third party tenants. Accordingly, these lands have been classified as investment properties in the statement of financial position of the Bank.

36 (b) iii These properties are held by the subsidiary of the Bank, HNB Finance PLC and valuations of the said properties were carried out by Messer's R.S.Wijesuriya, DIV, FIV (Sri Lanka) a professional independent valuer. All these properties other than the property situated in Trincomalee have been mortgaged to Seylan Bank PLC by HNB Finance PLC for the financial facilities obtained by the company. The aggregate mortgage value amounts to Rs 665 Mn.

There are no restrictions on the realisability of investment properties of the Group other than as specified in Note 36 (b) iii to the financial statements.

36 (b) iv Lands situated at No 44/1, Service Road, Puttalam and No 6, Abaya Place, 7th Lane, Anuradhapura held by HNB Finance PLC have been transferred from Investment property to Property Plant and Equipment during the year ended 31st December 2021 since the building constructed in the said location are being used by Company.

### 36 (c) Valuation details of Investment Properties

In determining fair value, the current condition of the properties, future usability and associated development requirements have been considered. Further, the valuers have made reference to market evidence of transaction prices for similar properties with appropriate adjustments for size and locations.

#### 36 (c) i Bank

Property	Name of professional Valuer	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs
23 & 23 1/1, Independence Avenue, Colombo 07	Mr. G. W. G. Abeygunawardene	Investment Method approach - Estimated rent per month - Years since purchase - Outgoing expenses as a percentage of gross annual rent	Rs 5,300,000 22.22 25%
479, T.B. Jayah Mawatha, Colombo 10	Mr G. W. G. Abeygunawardene	Market comparable method - Rate per perch for land	Rs 23,500,000
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 01	Mr G. W. G. Abeygunawardene	Market comparable method - Rate per perch for land	Rs 28,500,000
451, Kandy Road, Kegalle	Mr W.M. S.K. Walisundara	Contractor's method - Rate per perch for land	Rs 3,650,000
181, High Level Road, Nugegoda	Mr G. W. G. Abeygunawardene	Comparison approach - Rate per perch for land - Rate per Sq.ft.	Rs 11,750,000 Rs. 8,500 to Rs. 10,500

#### 36 (c) ii Group

Property	Name of professional Valuer	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs
<b>Through the Bank -</b>			
23 & 23 1/1, Independence Avenue, Colombo 07	Mr G.W.G. Abeygunawardene	Investment Method approach - Estimated rent per month - Years since purchase - Outgoing expenses as a percentage of gross annual rent	Rs 5,300,000 22.22 25%
<b>Through the subsidiary - Sithma Development (Pvt) Ltd</b>			
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 01	Mr G.W.G. Abeygunawardene	Depreciated replacement cost basis - Rate per Sq.ft for building	Rs.7,800-Rs.10,850
451, Kandy Road, Kegalle	Mr W.M.S.K. Walisundara	Depreciated replacement cost basis - Rate per Sq.ft for building	Rs.12,000-Rs.13,500
<b>Through the subsidiary - HNB Finance PLC</b>			
No.249, Stanley Thilekerathna Mawatha, Pagoda, Nugegoda	Ms. R.M.N.Priyadarshani	Income approach - Price per perch for land - Price per Sq.ft for building	Rs.12,400,000-Rs.12,800,000 Rs.16,000-Rs.20,000
Vihara Road, Rakewatta, Matale	Ms. R.M.N.Priyadarshani	Market approach - Price per perch for land	Rs.900,000-Rs.1,300,000
No.465/1, Old Police Station Road, Kahathduwa, Polgasowita	Ms. R.M.N.Priyadarshani	Income approach - Price per perch for land - Price per Sq.ft for building	Rs.500,000-Rs.900,000 Rs.2,000-Rs.6,000



# NOTES TO THE FINANCIAL STATEMENTS

## 36 INVESTMENT PROPERTIES (Contd.)

Property	Name of professional Valuer	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs
Adampodaivayal, Adampodaimlaikadu, Trincomalee	Ms. R.M.N.Priyadarshani	Market approach - Price per perch for land	Rs.55,000-Rs.59,000
Siyabalawalana village, Katugampola, Giriulla	Ms. R.M.N.Priyadarshani	Market approach - Price per perch for land	Rs.28,000-Rs.32,000
Kalupahana Village, Horana	Ms. R.M.N.Priyadarshani	Market approach - Price per perch for land	Rs.300,000-Rs.700,000

### 36 (c) iii Fair Valuation of Investment properties

Fair valuation of investment properties held through the Bank and through the subsidiary, Sithma Development (Pvt) Ltd was carried out in 2024 while the fair valuation of investment properties held through the subsidiary, HNB Finance PLC was carried out in 2022.

Fair value of the investment properties is determined using the income approach, market comparable method and depreciated replacement cost basis as appropriate.

#### Unobservable inputs used in measuring fair value

##### - Depreciated replacement cost basis/Market comparable method

Significant increase/(decrease) in estimated price per perch, price per sq.ft and depreciation rate would result in a significantly higher/(lower) fair value.

##### - Income approach

Significant increase/(decrease) in rent per sq.ft, outgoing expenses and number of years since purchase would result in a significantly higher/(lower) fair value.

### 36 (d) Statement of Income and Expenditure of investment properties

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Rental income derived from the investment properties [Note 14]	130,757	142,904	385,955	434,833
Direct operating expenses (including repair and maintenance generating rental income [Note 18])	170	-	170	48,781

## ACCOUNTING POLICY

### Basis of Recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Group and cost of the asset can be reliably measured.

### Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of, or service it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which those are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment.

When parts of an item of property or equipment have different useful lives, those are accounted for as separate items (major components) of property, plant and equipment.

### Cost Model

The Group applies cost model to property, plant and equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

### Revaluation Model

The Group applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment loss. Freehold land and buildings of

the Group are revalued at least once in every three years on a roll over basis, to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in other comprehensive income and accumulated in equity, under capital reserve, or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the income statement. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the income statement or debited in the other comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset, is transferred directly to retained earnings on retirement or disposal of the asset.

### Reclassification as Investment Property

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified as an investment property. Any gain arising on re-measurement, is recognised in the income statement to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in revaluation reserve in equity. Any loss is recognised immediately in the income statement.

### Subsequent Costs

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic

benefits embodied within that part will flow to the Group and its cost can be reliably measured. The costs of day to day servicing of property, plant and equipment are charged to the income statement as incurred. Costs incurred in using or redeploying an item, is not included under carrying amount of an item.

### De-recognition

The carrying amount of an item of property, plant and equipment is de-recognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property, plant and equipment which is calculated as the difference between the carrying amount and the net disposal proceeds, is included in the income statement when the item is de-recognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is de-recognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is de-recognised.

### Depreciation

The Group provides depreciation from the date the assets are available for use up to the date of disposal. The assets are depreciated at the following rates on a straight line basis over the periods appropriate to the estimated useful lives, based on the pattern in which the asset's future economic benefits are expected to be consumed by the Group other than disclosed separately. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is de-recognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

# NOTES TO THE FINANCIAL STATEMENTS

## 37 PROPERTY, PLANT AND EQUIPMENT (Contd.)

### Hatton National Bank PLC and its Subsidiary Companies (except for Sithma Development (Pvt) Ltd)

Class of Asset	% per annum
Freehold buildings	2.50
Motor vehicles	25.00
Computer equipment	16.67
Office equipment	20.00
Furniture and fittings	10.00
Fixtures	10.00

### Sithma Development (Pvt) Ltd

Class of Asset	% per annum
Generators, generator panels and associated power cables	2.00
Chillers, cooling towers and associated equipment	4.00
Lifts and escalators	4.00
Building management systems	4.00
Plant and machinery	20.00
Equipment	20.00
Furniture and fittings	10.00

#### Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of buildings and major plant and machinery awaiting capitalisation. Capital work-in-progress would be transferred to the relevant asset when it is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

#### Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset

in accordance with Sri Lanka Accounting Standard - LKAS 23 on "Borrowing Costs". A qualifying asset is an asset which takes substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Other borrowing costs are recognised in the income statement in the period in which they incur.

#### Assumptions and estimation uncertainties

##### Fair value of freehold land and buildings

The freehold land and buildings of the Group are reflected at fair value. The Group engages independent valuers to determine the fair value of freehold land and buildings in terms of Sri Lanka Accounting Standard - SLFRS 13 on "Fair Value Measurement".

The methods used to determine the fair value of the freehold land and buildings, are further explained in Note 37 (d) to the financial statements. .

##### Useful Life Time of Property, Plant and Equipment

The Group reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Management exercises judgement in the estimation of these values, rates, methods and hence those are subject to uncertainty.

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Bank	Improvements to Leasehold Buildings Note 37 (b)	Freehold Land and Buildings Note 37 (a)	Computer Equipment Rs 000	Equipment Furniture and Fixtures Rs 000	Motor Vehicles Rs 000	Capital Work-in- Progress Rs 000	2024 Total Rs 000	2023 Total Rs 000
<b>Cost/valuation as at 1st January</b>	2,214,754	22,018,877	7,062,519	7,919,354	142,882	8,354	39,366,740	37,571,031
Accumulated depreciation adjustment on Revaluation	-	(759,928)	-	-	-	-	(759,928)	-
Revaluation surplus	-	4,733,055	-	-	-	-	4,733,055	-
Additions and improvements	90,252	42,482	538,246	805,193	-	40,818	1,516,991	2,082,288
Disposals during the year	-	-	(281,274)	(428,563)	-	-	(709,837)	(286,579)
Net impairment (charge)/reversal	-	37,914	-	-	-	-	37,914	-
Transferred from capital work-in-progress	27,126	-	-	18,804	-	(45,930)	-	-
<b>Cost/valuation as at 31st December</b>	2,332,132	26,072,400	7,319,491	8,314,788	142,882	3,242	44,184,935	39,366,740
<b>Accumulated depreciation as at 1st January</b>	1,953,026	509,449	5,492,949	5,850,836	141,960	-	13,948,220	12,735,302
Accumulated depreciation adjustment on Revaluation	-	(759,928)	-	-	-	-	(759,928)	-
Charge for the year [Note 18 (b)]	123,964	259,151	557,590	638,305	922	-	1,579,932	1,497,194
Disposals during the year	-	-	(281,250)	(428,506)	-	-	(709,756)	(284,276)
<b>Accumulated depreciation as at 31st December</b>	2,076,990	8,672	5,769,289	6,060,635	142,882	-	14,058,468	13,948,220
<b>Carrying value as at 31st December 2024</b>	255,142	26,063,728	1,550,202	2,254,153	-	3,242	30,126,467	
<b>Carrying value as at 31st December 2023</b>	261,728	21,509,428	1,569,570	2,068,518	922	8,354		25,418,520

Group	Improvements to Leasehold Buildings Note 37 (b)	Freehold Land and Buildings Note 37 (a)	Computer Equipment Rs 000	Equipment Furniture and Fixtures Rs 000	Motor Vehicles Rs 000	Capital Work-in- Progress Rs 000	2024 Total Rs 000	2023 Total Rs 000
<b>Cost/valuation as at 1st January</b>	2,214,754	45,904,270	8,102,219	11,328,085	183,247	32,299	67,764,874	65,515,462
Accumulated depreciation adjustment on revaluation	-	(1,119,959)	-	-	-	-	(1,119,959)	-
Revaluation surplus	-	5,490,075	-	-	-	-	5,490,075	-
Additions and improvements	90,252	42,482	789,018	959,328	57,257	55,620	1,993,957	2,580,386
Disposals during the year	-	-	(316,347)	(475,962)	(9,339)	-	(801,648)	(330,974)
Net impairment (charge)/reversal	-	37,914	-	-	-	-	37,914	-
Transferred from capital work-in-progress	27,126	-	-	18,804	-	(45,930)	-	-
<b>Cost/valuation as at 31st December</b>	2,332,132	50,354,782	8,574,890	11,830,255	231,165	41,989	73,365,213	67,764,874
<b>Accumulated depreciation as at 1st January</b>	1,953,026	1,630,163	6,075,129	7,760,349	181,250	-	17,599,917	15,899,124
Accumulated depreciation adjustment on revaluation	-	(1,119,959)	-	-	-	-	(1,119,959)	-
Charge for the year [Note 18 (b)]	123,964	551,367	717,442	806,882	13,225	-	2,212,880	2,027,133
Disposals during the year	-	-	(316,074)	(474,418)	(5,000)	-	(795,492)	(326,340)
<b>Accumulated depreciation as at 31st December</b>	2,076,990	1,061,571	6,476,497	8,092,813	189,475	-	17,897,346	17,599,917
<b>Carrying value as at 31st December 2024</b>	255,142	49,293,211	2,098,393	3,737,442	41,690	41,989	55,467,867	
<b>Carrying value as at 31st December 2023</b>	261,728	44,274,107	2,027,090	3,567,736	1,997	32,299		50,164,957

# NOTES TO THE FINANCIAL STATEMENTS

## 37 PROPERTY, PLANT AND EQUIPMENT (Contd.)

### 37 (a) Information on Freehold Land and Buildings of the Bank - Extents and Locations

As required by the Rule 7.6 (viii) of the Listing Rules of the Colombo Stock Exchange.

Bank	Land Perches	Buildings Sq.ft.	Cost/ Valuation of Land Rs 000	Cost/ Valuation of Buildings Rs 000	Total Value Rs 000	Accumulated Depreciation Rs 000	As at 31st December 2024 Carrying Value Rs 000	As at 31st December 2023 Carrying Value Rs 000
<b>Akkaraipattu Branch</b>								
14, Main Street, Akkaraipattu.	19.32	9,164	125,580	79,420	205,000	127	204,873	168,534
<b>Ambalangoda Branch</b>								
94/1, New Galle Road, Ambalangoda.	29.90	4,960	194,350	33,250	227,600	48	227,552	174,115
<b>Anuradhapura Branch</b>								
30, Maithripala Senanayake Mawatha, Anuradhapura.	48.55	9,406	247,605	62,395	310,000	100	309,900	208,851
<b>Badulla Branch</b>								
15, 15 1/1, Udayaraja Mawatha, Badulla.	28.40	5,715	134,900	20,100	155,000	33	154,967	145,756
<b>Bambalapitiya Branch</b>								
285, Galle Road, Colombo 04.	20.00	19,018	470,000	123,300	593,300	200	593,100	541,568
<b>Boralesgamuwa Branch</b>								
24, Maharagama Road, Boralesgamuwa.	30.34	6,250	197,200	41,600	238,800	67	238,733	210,203
<b>Borella Branch</b>								
53/1, D S Senanayake Mawatha, Colombo 08.	28.00	10,950	434,000	128,000	562,000	206	561,794	501,515
<b>Centre of Aspirations</b>								
90, Vinayalankara Mawatha, Colombo 10.	249.00	10,270	5,478,000	87,600	5,565,600	141	5,565,459	4,309,440
<b>Centralised Operations</b>								
10, Sri Uttarananda Mawatha, Colombo 3	40.00	70,240	1,140,000	628,800	1,768,800	999	1,767,801	1,598,799
<b>City Office</b>								
16, Janadhipathi Mawatha, Colombo 1.	84.00	48,350	2,478,000	350,400	2,828,400	560	2,827,840	2,443,450
<b>Chavakachcheri Branch</b>								
170, Kandy Road, Chavakachcheri .	35.31	5,387	88,000	37,700	125,700	28	125,672	72,007
<b>Dambulla Branch</b>								
700B, Anuradhapura Road, Dambulla.	93.00	7,376	223,200	52,800	276,000	86	275,914	275,378
<b>Fruithill Bungalow</b>								
No 295/6, Dimbula Road, Hatton.	52.00	4,530	31,200	23,800	55,000	38	54,962	44,757
<b>Galle Branch</b>								
3, Wakwella Road, Galle.	13.80	7,920	131,100	53,500	184,600	86	184,514	163,675
<b>Gampaha Branch</b>								
148, Colombo Road, Gampaha.	25.00	16,683	150,000	208,500	358,500	335	358,165	264,491
<b>Gampola Branch</b>								
142, Kandy Road, Gampola.	16.00	13,340	80,000	155,000	235,000	163	234,837	204,423
<b>Grandpass Branch</b>								
182, St Joseph Street, Colombo 14.	24.00	11,240	222,000	127,500	349,500	205	349,295	327,682
<b>Gunasinghapura Stores</b>								
11, Mohandiram's Road, Colombo 12.	48.30	6,030	700,300	33,600	733,900	54	733,846	487,395
<b>Ja-Ela Branch</b>								
73, Old Negombo Road, Kanuwana, Ja-Ela.	19.00	-	76,000	-	76,000	-	76,000	62,000

Bank	Land Perches	Buildings Sq.ft.	Cost/ Valuation of Land Rs 000	Cost/ Valuation of Buildings Rs 000	Total Value Rs 000	Accumulated Depreciation Rs 000	As at 31st December 2024 Carrying Value Rs 000	As at 31st December 2023 Carrying Value Rs 000
<b>Jaffna Metro Branch</b>								
177 & 179, Ponnampalam Road, Jaffna.	62.09	30,988	496,700	381,000	877,700	593	877,107	651,434
<b>Kahawatte Branch</b>								
772 A, Main Street, Kahawatte.	16.28	17,949	48,840	64,160	113,000	103	112,897	80,455
<b>Kalmunai Branch</b>								
30A, Batticaloa Road, Kalmunai.	25.10	6,540	138,050	56,950	195,000	42	194,958	142,341
<b>Kandy Branch</b>								
1, Dalada Veediya, Kandy.	56.00	27,705	1,257,200	292,800	1,550,000	470	1,549,530	1,391,474
<b>Kuliapitiya Branch</b>								
225, Main Street, Kuliapitiya.	24.00	5,490	144,000	46,000	190,000	74	189,926	69,512
<b>Kurunegala Branch</b>								
6, St. Anne's Street, Kurunegala.	22.00	19,646	220,000	177,000	397,000	285	396,715	296,917
<b>Mount Bungalow</b>								
16, Mount Road, Hatton.	159.00	4,728	55,650	24,350	80,000	39	79,961	70,184
<b>Mannar Branch</b>								
68, Main Street, Mannar.	23.00	6,490	69,000	36,000	105,000	58	104,942	60,687
<b>Marawila Branch</b>								
534, Colombo Road, Marawila.	43.80	7,595	87,600	46,000	133,600	74	133,526	105,175
<b>Maskeliya Branch</b>								
7/11, New Town, Maskeliya.	19.00	8,231	47,500	57,500	105,000	92	104,908	90,276
<b>Matara Branch</b>								
58D, Esplanade Road, Matara.	26.00	9,484	156,000	62,000	218,000	99	217,901	142,801
<b>Minuwangoda Branch</b>								
41, Samarakkody Road, Minuwangoda.	20.51	3,232	61,530	24,270	85,800	39	85,761	81,399
<b>Managers' Bungalow</b>								
295, Dimbula Road, Hatton.	41.00	2,060	29,325	8,675	38,000	14	37,986	26,579
<b>Mount Lavinia Branch</b>								
605, Galle Road, Mount Lavinia.	22.60	14,730	214,700	100,800	315,500	162	315,338	283,680
<b>Nawalapitiya Branch</b>								
68, Gampola Road, Nawalapitiya.	9.27	7,134	63,963	59,037	123,000	39	122,961	119,488
<b>Negombo Branch</b>								
18, Rajapakse Broadway, Negombo.	8.88	5,400	57,720	37,780	95,500	63	95,437	59,073
<b>Negombo Metro</b>								
201, Colombo Road, Negombo.	51.81	24,132	233,145	301,655	534,800	484	534,316	383,437
<b>Nittambuwa Branch</b>								
22, Kandy Road, Nittambuwa.	53.44	9,293	160,300	171,300	331,600	275	331,325	308,910
<b>Nochchiyagama Branch *</b>								
10, Puttalam Road, Nochchiyagama.	-	8,280	-	54,000	54,000	87	53,913	45,018
<b>Nuwara Eliya Branch/Bungalow</b>								
42, Queen Elizabeth Drive, Nuwara Eliya.	191.50	13,815	1,077,500	59,500	1,137,000	97	1,136,903	913,460



# NOTES TO THE FINANCIAL STATEMENTS

## 37 PROPERTY, PLANT AND EQUIPMENT (Contd.)

Bank	Land Perches	Buildings Sq.ft.	Cost/ Valuation of Land Rs 000	Cost/ Valuation of Buildings Rs 000	Total Value Rs 000	Accumulated Depreciation Rs 000	As at 31st December 2024 Carrying Value Rs 000	As at 31st December 2023 Carrying Value Rs 000
<b>Nugegoda Branch</b>								
190, 190/1, High Level Road (New), Nugegoda.	39.65	20,160	456,000	229,600	685,600	163	685,437	630,338
<b>Panchikawatte Branch</b>								
168, Panchikawatta Road, Colombo 10.	22.55	16,030	338,300	139,400	477,700	224	477,476	403,138
<b>Pettah Branch</b>								
149-151, Main Street, Colombo 11.	13.03	12,480	495,100	131,200	626,300	211	626,089	499,524
<b>Pettah Metro **</b>								
88, Main Street, Colombo 11.	-	3,708	-	141,900	141,900	228	141,672	116,288
<b>Polonnaruwa Branch *</b>								
467, Main Street, Kaduruwela, Polonnaruwa.	-	9,314	-	72,000	72,000	116	71,884	71,362
<b>Pussellawa Branch</b>								
510, Nuwara Eliya Road, Pussellawa.	13.00	6,590	41,600	65,400	107,000	105	106,895	91,939
<b>Ratnapura Branch</b>								
21 & 23, Senanayake Mawatha, Ratnapura.	50.00	18,970	237,000	85,000	322,000	60	321,940	280,796
<b>Sea Street Branch</b>								
60, Sea Street, Colombo 11.	6.93	9,625	221,800	67,100	288,900	108	288,792	250,068
<b>Trincomalee Branch</b>								
59, Ehamparam Road, Trincomalee.	31.75	9,072	127,000	85,000	212,000	137	211,863	144,909
<b>Vavuniya Branch *</b>								
43, Inner Circular Road, Vavuniya.	-	9,571	-	56,000	56,000	91	55,909	33,095
<b>Wattala Branch</b>								
270, 270/1, Negombo Road, Wattala.	53.00	8,725	318,000	64,100	382,100	103	381,997	369,056
<b>Welimada Branch</b>								
35, Nuwara Eliya Road, Welimada.	14.37	12,568	75,443	55,058	130,501	89	130,412	116,091
<b>Wellawaya Branch</b>								
70, Kumaradasa Mawatha, Wellawaya.	25.50	10,525	34,897	43,102	77,999	69	77,930	72,560
<b>Wellawatte Branch</b>								
100 & 102, Galle Road, Colombo 06.	36.05	16,280	775,000	189,200	964,200	303	963,897	903,925
			20,340,298	5,732,102	26,072,400	8,672	26,063,728	21,509,428

\* Buildings constructed on state land given on lease

\*\* Condominium property

Bank has 53 freehold buildings as at 31st December 2024

### 37 (a) Information on Freehold Land and Buildings of the Group - Extents and Locations

Group	Land Perches	Buildings Sq.ft.	Cost/	Cost/	Total Value	Accumulated Depreciation	As at 31st	As at 31st
			Valuation of Land	Valuation of Buildings			December 2024	December 2023
							Net Book Value	Net Book Value
							Rs 000	Rs 000
Through the subsidiary - Sithma Development (Pvt) Ltd.								
479 T B Jayah Mawatha, Colombo 10	112.96	549,890	2,478,000	19,202,797	21,680,797	973,042	20,707,755	20,283,314
Janadhipathi Mawatha, Colombo 1	26.62	-	785,290	-	785,290	-	785,290	718,700
451, Kandy Road, Kegalle	61.70	-	205,495	-	205,495	-	205,495	202,680
Through the subsidiary - HNB Finance PLC								
94 96/1, Kandy Road, Kurunegala	7.05	5,755	36,504	74,496	111,000	5,537	105,463	107,477
46/A, Tangalle Road, Hambantota	14.20	2,508	6,322	15,678	22,000	1,165	20,835	21,259
677, William Gopallawa Mawatha, Kandy	9.26	5,400	32,101	62,399	94,500	4,638	89,862	91,549
168, Nawala Road, Nugegoda	25.90	30,887	249,062	684,938	934,000	50,907	883,093	901,605
No 67/1, Mahinda Place, Kirulapone, Colombo 5	8.00	5,786	45,695	104,105	149,800	7,738	142,062	144,877
No 10/11, Galle Road, Katubedda, Moratuwa	23.00	-	57,500	-	57,500	-	57,500	57,500
No.56 , Puttalam Service Mawatha, Puttalam	25.60	7,085	44,692	54,308	99,000	3,734	95,266	96,625
No.06 , Abaya Place,7th Lane , Anuradapura.	13.52	11,237	53,713	89,287	143,000	6,138	136,862	139,093
<b>Total freehold land and buildings -Subsidiaries</b>			<b>3,994,374</b>	<b>20,288,008</b>	<b>24,282,382</b>	<b>1,052,899</b>	<b>23,229,483</b>	<b>22,764,679</b>
<b>Total freehold land and buildings - Group</b>			<b>24,334,672</b>	<b>26,020,110</b>	<b>50,354,782</b>	<b>1,061,571</b>	<b>49,293,211</b>	<b>44,274,107</b>

Group has 64 freehold buildings as at 31st December 2024

### 37 (b) Improvements to Leasehold Buildings

As at 31st December	Bank				Group			
	2024		2023		2024		2023	
	Cost of Buildings	Accumulated Depreciation	Net Book Value	Net Book Value	Cost of Buildings	Accumulated Depreciation	Net Book Value	Net Book Value
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
01 - 05 years	1,127,768	1,076,688	51,080	63,422	1,127,768	1,076,688	51,080	63,422
06 - 10 years	1,112,765	945,151	167,614	187,536	1,112,765	945,151	167,614	187,536
11 - 15 years	65,527	38,196	27,331	6,236	65,527	38,196	27,331	6,236
16 - 20 years	26,072	16,955	9,117	4,534	26,072	16,955	9,117	4,534
	<b>2,332,132</b>	<b>2,076,990</b>	<b>255,142</b>	<b>261,728</b>	<b>2,332,132</b>	<b>2,076,990</b>	<b>255,142</b>	<b>261,728</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 37 PROPERTY, PLANT AND EQUIPMENT (Contd.)

### 37 (c) The Details of Freehold Land and Buildings which are Stated at Valuation - Bank

As required by Rule 7.6 (viii) of Listing Rules of Colombo Stock Exchange

Date of valuation: 31st December 2024

Bank	Name of Professional Valuer	Range of Estimates for Unobservable Inputs	Carrying Value before Revaluation of		Revalued Amount of		Revaluation Gain/ (Loss) recognised on	
			Land Rs 000	Buildings Rs 000	Land Rs 000	Buildings Rs 000	Land Rs 000	Buildings Rs 000
Akkaraipattu Branch	Mr. S. Suresh	Rs.6,500,000 p.p/Rs.12,500 p.sq.ft	135,000	31,524	125,580	79,420	(9,420)	47,896
Ambalangoda Branch	Mr. G.K.D.K. Abayathunga	Rs.6,500,000 P P/Rs.9,350- Rs.9,500 p.sq.ft	150,000	23,880	194,350	33,250	44,350	9,370
Anuradhapura Branch	Mr. W. M. S. K.Walisundara	Rs.6,000,000 p.p/Rs.Rs.9,500 p.sq.ft	143,648	61,564	247,605	62,395	103,957	831
Badulla Branch	Mr. E.P.P. Jayaratne	Rs.4,750,000 p.p /Rs.4,000-6,500 p.sq.ft	127,890	17,829	134,900	20,100	7,010	2,271
Bambalapitiya Branch	Mr. G.W.G. Abeygunawardene	Rs.23,500,000 p.p /Rs.3,500- Rs.7,750 P.Sq.ft	450,000	91,373	470,000	123,300	20,000	31,927
Boralesgamuwa Branch	Mr. G.W.G. Abeygunawardene	Rs.6,500,000 p.p /Rs.6,500- Rs.6,750 P.Sq.ft"	176,000	32,118	197,200	41,600	21,200	9,482
Borella Branch	Mr. G.W.G. Abeygunawardene	Rs.15,500,000 p.p /Rs.3,000- Rs.12,750 P.Sq.ft	392,000	102,839	434,000	128,000	42,000	25,161
Centre of Aspiration	Mr. G.W.G. Abeygunawardene	Rs.22,000,000 P.P/Rs.8,150- Rs.8,900 P.Sq.ft	4,233,000	71,780	5,478,000	87,600	1,245,000	15,820
Chavakachcheri Branch	Mr. S. Suresh	Rs.2,500,000 p.p /Rs.7000 p.sq.ft	49,500	21,864	88,000	37,700	38,500	15,836
City Office	Mr. G.W.G. Abeygunawardene	Rs.29,500,000 p.p /Rs.4,500- Rs.7,750 P.Sq.ft	2,184,000	245,250	2,478,000	350,400	294,000	105,150
Dambulla Branch	Mr. W.M. S.K.Walisundara	Rs.3,000,000 p.p/Rs.9,500 p.Sq.ft	224,600	54,257	223,200	52,800	(1,400)	(1,457)
Fruithill Bungalow	Mr. A. Senevirathne	Rs.600,000 p.p /Rs.7,500 p.sq.ft	26,900	16,768	31,200	23,800	4,300	7,032
Galle Branch	Mr. G.K.D.K. Abayathunga	Rs.9,500,000 P. P./Rs.9,250- Rs.10,000 p.sq.ft	117,300	43,548	131,100	53,500	13,800	9,952
Gampaha Branch	Mr. D.C. Sosa	Rs.6,000,000 p.p /Rs.12,500 p.sq.ft	121,250	134,781	150,000	208,500	28,750	73,719
Gampola Branch	Mr. A. Senevirathne	Rs.5,000,000 p.p /Rs.14,500 p.sq.ft	76,725	123,536	80,000	155,000	3,275	31,464
Grandpass Branch	Mr. G.W.G. Abeygunawardene	Rs.9,250,000 p.p/ Rs.9,250- Rs.12,750 P.Sq.ft	216,000	105,089	222,000	127,500	6,000	22,411
Gunasinghapura Stores	Mr. G.W.G. Abeygunawardene	Rs.14,500,000 p.p /Rs.5,250- Rs.6,000 P.Sq.ft	458,900	26,759	700,300	33,600	241,400	6,841
Ja-Ela Branch	Mr. D.C. Sosa	Rs.4,000,000 p.p	62,000	-	76,000	-	14,000	-
Jaffna Metro Branch	Mr. S. Suresh	Rs.8,000,000 p.p /Rs.12,300 p.sq.ft	372,500	273,835	496,700	381,000	124,200	107,165
Kahawatte Branch	Mr. E.P.P.Jayarathne	Rs.3,000,000 p.p /Rs.3,000- Rs.6,500 p.sq.ft	36,315	41,712	48,840	64,160	12,525	22,448
Kalmunai Branch	Mr. S. Suresh	Rs.5,500,000. p.p /Rs.12,500 p.sq.ft	113,000	28,391	138,050	56,950	25,050	28,559

Bank	Name of Professional Valuer	Range of Estimates for Unobservable Inputs	Carrying Value before Revaluation of		Revalued Amount of		Revaluation Gain/ (Loss) recognised on	
			Land Rs 000	Buildings Rs 000	Land Rs 000	Buildings Rs 000	Land Rs 000	Buildings Rs 000
Kandy Branch	Mr. A. Senevirathne	Rs.22,450,000 p.p /Rs.7,000- Rs.17,500 p.sq.ft	1,153,000	225,101	1,257,200	292,800	104,200	67,699
Kuliyapitiya Branch	Mr. W.M. S.K.Walisundara	Rs.6,000,000 p.p /Rs.10,000 p.sq.ft	41,745	26,074	144,000	46,000	102,255	19,926
Kurunegala Branch	Mr. W.M. S.K.Walisundara	Rs.10,000,000 p.p /Rs.12,000 p.sq.ft	150,800	137,217	220,000	177,000	69,200	39,783
Mount Bungalow	Mr. A. Senevirathne	Rs.350,000 p.p /Rs.6,500 p.sq.ft	48,027	20,823	55,650	24,350	7,623	3,527
Mannar Branch	Mr. S. Suresh	Rs.3,000,000 p.p /Rs.5,580 p.sq.ft	40,000	19,431	69,000	36,000	29,000	16,569
Marawila Branch	Mr. W.M. S.K.Walisundara	Rs.2,000,000 p.p /Rs.4,500- Rs.6,500 p.sq.ft	58,800	43,769	87,600	46,000	28,800	2,231
Maskeliya Branch	Mr. A. Senevirathne	Rs.2,500,000 p.p /Rs.4,000- Rs.10,000 p.sq.ft	44,704	42,883	47,500	57,500	2,796	14,617
Matara Branch	Mr. G.K.D.K. Abayathunga	Rs.6,000,000 p.p /Rs.9,250- Rs.9,500 p.sq.ft	90,000	49,602	156,000	62,000	66,000	12,398
Minuwangoda Branch	Mr. D.C. Sosa	Rs.3,000,000 p.p /Rs.7,500 p.sq.ft	51,275	28,326	61,530	24,270	10,255	(4,056)
Managers' Bungalow	Mr. A. Senevirathne	Rs.575,000 p.p /Rs.6,500 p.sq.ft	20,045	6,136	29,325	8,675	9,280	2,539
Mount Lavinia Branch	Mr. G.W.G. Abeygunawardene	Rs.9,500,000 p.p /Rs.5,700- Rs.7,750 p.sq.ft	192,100	86,064	214,700	100,800	22,600	14,736
Nawalapitiya Branch	Mr.W.M.S.K.Walisundara	Rs.6,900,000 p.p /Rs.3,500- 11,000p.sq.ft	67,032	51,238	63,963	59,037	(3,069)	7,798
Negombo Branch	Mr. D.C. Sosa	Rs.6,500,000 p.p /Rs.7,000 p.sq.ft	32,000	32,234	57,720	37,780	25,720	5,546
Negombo Metro Building	Mr. D.C. Sosa	Rs.4,500,000 p.p /Rs.12,500 p.sq.ft	170,000	202,388	233,145	301,655	63,145	99,267
Nittambuwa Branch	Mr. D.C. Sosa	Rs.3,000,000 p.p /Rs.4,500- Rs.21,500 p.sq.ft	155,932	144,000	160,300	171,300	4,368	27,300
Nochchiyagama Branch*	Mr. W.M. S.K.Walisundara	Rs.7,500-Rs.10,000 p.sq.ft	-	42,274	-	54,000	-	11,726
Nugegoda Branch	Mr. G.W.G. Abeygunawardene	Rs.11,500,000 p.p /Rs.6,650- Rs.13,650 p.sq.ft	416,300	208,075	456,000	229,600	39,700	21,525
Nuwara Eliya Branch/ Bungalow	Mr. A. Senevirathne	Rs.5,000,000 p.p-7,000,000P.P / Rs.8,500-Rs.9,000 p.sq.ft	865,150	51,015	1,077,500	59,500	212,350	8,485
Panchikawatta Branch	Mr. G.W.G. Abeygunawardene	Rs.15,000,000 P.P /Rs.4,650- Rs.9,950 P.Sq.ft	281,800	113,970	338,300	139,400	56,500	25,430
Pettah Branch	Mr. G.W.G. Abeygunawardene	Rs.38,000,000 P.P/Rs.6,500- Rs.11,250 P.Sq.ft	390,900	102,020	495,100	131,200	104,200	29,180
Pettah Metro**	Mr. G.W.G. Abeygunawardene	Rs.245 -Rs.290 P.Sq.ft	-	109,234	-	141,900	-	32,666
Polonnaruwa Branch*	Mr. W.M. S.K.Walisundara	Rs.11,500 p.sq.ft	-	67,012	-	72,000	-	4,988
Pussellawa Branch	Mr. A. Senevirathne	Rs.3,200,000 p.p /Rs.11,000 p.sq.ft	39,325	49,407	41,600	65,400	2,275	15,993
Ratnapura Branch	Mr. E.P.P. Jayaratne	Rs.4,750,000 p.p /Rs.3,000- Rs.6,750 p.sq.ft	206,150	74,996	237,000	85,000	30,850	10,004

# NOTES TO THE FINANCIAL STATEMENTS

## 37 PROPERTY, PLANT AND EQUIPMENT (Contd.)

Bank	Name of Professional Valuer	Range of Estimates for Unobservable Inputs	Carrying Value before Revaluation of		Revalued Amount of		Revaluation Gain/ (Loss) recognised on	
			Land Rs 000	Buildings Rs 000	Land Rs 000	Buildings Rs 000	Land Rs 000	Buildings Rs 000
Sea Street Branch	Mr. G.W.G. Abeygunawardene	Rs.32,000,000 p.p./Rs.5,600-Rs.7,650 P.Sq.ft	191,500	55,313	221,800	67,100	30,300	11,787
Trincomalee Branch	Mr. S. Suresh	Rs.4,000,000 p.p./Rs.12,500 p.sq.ft	111,000	31,887	127,000	85,000	16,000	53,113
Vavuniya Branch*	Mr. S. Suresh	Rs.5,890 p.sq.ft	-	34,825	-	56,000	-	21,175
Wattala Branch	Mr. D.C. Sosa	Rs.6,000,000 p.p./Rs.3,500-Rs.8,000 p.sq.ft	318,000	47,953	318,000	64,100	-	16,147
Welimada Branch	Mr. E.P.P.Jayarathne	Rs.5,250,000 p.p./Rs.3,000-Rs.6,500 p.sq.ft	71,850	41,561	75,443	55,058	3,593	13,497
Wellawaya Branch	Mr. E.P.P. Jayaratne	Rs.400,000-Rs.2,250,000 p.p / Rs.1,500-Rs.6,500 p.sq.ft	31,560	38,529	34,898	43,103	3,338	4,574
Wellawatte Branch	Mr. G.W.G. Abeygunawardene	Rs.21,500,000 p.p /Rs.7,750-Rs.12,500 P.Sq.ft	739,000	155,256	775,000	189,200	36,000	33,944
Centralised Operations Building	Mr. G.W.G. Abeygunawardene	Rs.28,500,000 p.p /Rs.7,500-10,500 p.sq.ft	1,080,000	489,599	1,140,000	628,800	60,000	139,201
			16,924,523	4,376,909	20,340,299	5,732,103	3,415,776	1,355,193

\* Buildings constructed on the state land given on lease

\*\* Condominium property

### 37 (d) Fair value measurement of Freehold land and buildings

Given below are the valuation techniques used in measuring freehold land and buildings;

Type	Valuation technique	Inter-relationship between significant unobservable inputs and fair value measurement
Freehold land and buildings	Depreciated replacement cost basis	This method involves the capitalisation of expected cost of construction at appropriate remaining life time of the building. Significant increase/ (decrease) in estimated price per perch, price per sq.ft and depreciation rate would result in a significantly higher/(lower) fair value.
	Market comparable method	Market comparable method considers the selling price of a similar property within a reasonable period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustment for differences in size, nature, location and condition of the specific property. In this process, outlier transactions indicative of particularly motivated buyers or sellers are compensated for, since the price may not adequately reflect the fair market value.
	Investment method	This method involves the capitalisation of the expected rental income at an appropriate rate of years purchased currently characterised by the real estate market. Significant increase/(decrease) in rent per sq.ft, outgoing expenses and number of years since purchase would result in a significantly higher/(lower) fair value.

The fair values of the Group's freehold land and buildings are determined by independent valuers at least once in every three years according to the Group's policy. During the year 2024, the fair values of the Group's freehold land and buildings were determined by independent valuers as per the Group's policy to revalue the freehold land and buildings at least once in every three years.

**37 (e) Temporarily Idle Property, Plant and Equipment - Bank**

There was no temporarily idle property, plant and equipment as at 31st December 2024.

**37 (f) Compensation from Third Parties for Property, Plant and Equipment - Bank**

No compensation was received from third parties for items of property, plant and equipment that were impaired, lost or given up.

**37 (g) Capitalisation of Borrowing Costs**

Borrowing costs were not capitalized in the acquisition of property plant and equipment during the year 2024 (2023 - Nil)

**37 (h) Title restriction on property plant and equipment**

There were no restrictions on the title of the property plant and equipment of the Group/Bank as at the reporting date.

**37 (i) Property plant and equipment pledged as security for liabilities - Bank**

There were no item of property, plant and equipment pledged as securities for liabilities as at the reporting date in the Bank.

**37 (j) Fully Depreciated Property, Plant and Equipment**

The initial cost of fully depreciated property, plant and equipment which are still in use as at the reporting date is as follows;

As at 31st December	Bank	
	2024 Rs 000	2023 Rs 000
Leasehold building	1,751,050	1,656,176
Computer equipment	4,334,967	3,688,528
Office equipment, furniture and fixtures	4,376,136	4,423,449
Motor Vehicle	142,882	139,041
	10,605,035	9,907,194

**37(k) Assessment of Impairment**

The Board of Directors has assessed the potential impairment loss on property, plant and equipment as at 31st December 2024. Based on the assessment, no impairment provision is required to be made in the financial statements as at reporting date.

**37(l) Change in Classification from /(to) Investment Properties**

Group did not reclassify any property, plant and equipment as investment properties during the year. Details of investment properties reclassified as property plant and equipment have been provided in 36 (b) iv.



# NOTES TO THE FINANCIAL STATEMENTS

## 38 RIGHT-OF-USE ASSETS

### ACCOUNTING POLICY

In accordance with Sri Lanka Accounting Standard - SLFRS -16 "Lease" Group accounts for all lease hold rights except for short term leases, which are held for use in the provision of services. At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is a lease or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### • Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration of the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Group has elected not to separate non-lease component and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's

incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in the face of the statement of financial position and lease liabilities within "other liabilities" in the statement of financial position.

#### • Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### • Group acting as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component

on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The details of lease receivables which comprise of finance leases where the group acts as the lessor, are disclosed in Note 31 to the financial statements.

#### • Leases as lessee

The Bank leases a number of branch and office premises. For some leases, payments are renegotiated once in every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

The leases on branch and office premises were entered in to many years ago and previously, these leases were classified as operating leases under LKAS 17.

Information about leases for which the Bank is a lessee is presented in Note 38 (c) to the financial statements.

### ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

#### Right-of-Use Assets and Operating Lease Liability

The Group uses its judgment to determine whether an operating lease contract qualifies for recognition of right-of-use assets. The Group applies judgement in evaluating whether it is reasonably certain

whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic benefit for it to exercise either the renewal or termination. Further, the Group cannot readily determine the interest rate implicit in the lease. Therefore, it uses its incremental borrowing rate to measure operating lease liability. The incremental borrowing rate is the rate

of interest that the Group would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in similar economic environment.

### 38 (a) Movement in Right-of-use Assets

	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
<b>Cost</b>				
Balance as at 1st January	7,802,243	7,738,019	4,787,635	4,448,785
Additions/renewals of operating leases during the year	417,454	510,207	925,585	845,106
Expiration of operating lease agreements during the year	(602,958)	(445,983)	(971,979)	(506,256)
<b>Balance as at 31st December</b>	<b>7,616,739</b>	<b>7,802,243</b>	<b>4,741,241</b>	<b>4,787,635</b>
<b>Accumulated amortisation</b>				
Balance as at 1st January	2,720,905	2,193,703	2,314,186	1,838,415
Amortisation for the year [Note 18 (b)]	848,063	823,040	891,471	820,805
Amortisation of expiring operating lease agreements during the year	(464,575)	(295,838)	(767,363)	(345,035)
<b>Balance as at 31st December</b>	<b>3,104,393</b>	<b>2,720,905</b>	<b>2,438,294</b>	<b>2,314,185</b>
<b>Carrying value as at 31st December</b>	<b>4,512,346</b>	<b>5,081,338</b>	<b>2,302,947</b>	<b>2,473,450</b>

The operating lease liabilities are presented under Note 51 to the financial statements. Given below is the movement of the operating lease liability during the period.

### 38 (b) Movement in lease liabilities

	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Balance as at 1st January	6,342,349	6,453,141	2,877,746	2,817,258
Additions/renewal of operating lease agreements during the year	417,454	510,207	925,585	845,106
Accretion of interest [Note 8 (b)]	879,192	862,480	421,269	385,875
Payments to lease creditors	(1,090,599)	(1,037,496)	(750,431)	(664,236)
Expiration of operating lease agreements during the year	(602,958)	(445,983)	(971,979)	(506,257)
<b>Balance as at 31st December (Note 51)</b>	<b>5,945,438</b>	<b>6,342,349</b>	<b>2,502,190</b>	<b>2,877,746</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 38 RIGHT-OF-USE ASSETS (Contd.)

### 38 (c) Future Minimum Lease Payments under Non-cancellable Operating Leases

As at 31 December	Bank	
	2024 Rs 000	2023 Rs 000
Maturity analysis of contractual undiscounted cash flows		
Less than one year	1,362,327	1,416,850
Between one and five years	4,401,552	4,587,996
More than five years	4,659,147	5,584,441
Total undiscounted lease liabilities	10,423,026	11,589,287

### 38 (d) Sensitivity of Right-of-Use Assets/Lease Liability to Key Assumptions

#### Sensitivity to Incremental Borrowing Rate

Increase/(decrease) in incremental borrowing rate as at 31st December 2024 by 1% would have (decreased)/ increased the lease liability by approximately Rs 28.3 Mn and Rs 28.5 Mn respectively. Had the Bank increased/ (decreased) the incremental borrowing rate by 1%, the Bank's profit before tax for the year would have (decreased)/ increased by approximately Rs 0.73 Mn and Rs 0.82 Mn respectively.

### 38 (e) Amounts Recognised in Profit or loss

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Interest expense on operating lease liabilities	879,192	862,480	421,269	385,875
Amortisation of right-of-use assets	848,063	823,040	891,471	820,805
	1,727,255	1,685,520	1,312,739	1,206,680

**38 (f)** Amounts recognised in statement of cash flows in respect of operating lease liabilities during the year ended 31st December 2024 amounts to Rs 1,555 Mn (2023 - Rs 1,480 Mn)

at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or a significant change in circumstances within its control.

### 38 (g) Extension Options

Some leases of office premises contain options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses

### 38 (h) Leases as Lessor

The details of maturity analysis of finance lease receivables have been provided in Note 61 to the financial statements.

## ACCOUNTING POLICY

**Basis of Recognition**

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. An intangible asset is initially measured at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

**(a) Goodwill**

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill is measured at initial recognition in accordance with Note 3.1.1 to the financial statements.

**Subsequent measurement**

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss in such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of equity accounted investee.

Any gain on bargain purchase is recognised immediately in the income statement.

**(b) Software**

All computer software costs incurred, licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that those will lead to future economic benefits, are included in the statement of financial position under the category "intangible assets" and are carried at cost less accumulated amortisation and any accumulated impairment losses.

**(c) License**

The amount that would be required to obtain a license to operate a registered finance business is recognised as license in the financial statements.

**Subsequent expenditure**

Expenditure incurred on software is capitalised, only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

**Amortisation**

The useful lives of intangible assets are assessed as either finite or infinite.

Intangible assets, with finite lives, are amortised on a straight line basis in the income statement from the date when the asset is available for use, over the best estimate of the useful economic life based on a pattern in which the asset's economic benefits are consumed by the Bank/Group.

The estimated amortisation rates are as follows

Class of Asset	% per annum
Computer software	16.67

Those assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Expenditure on an intangible item that was initially recognised as an expense by the Group in previous annual financial statements or interim financial statements are not recognised as part of the cost of an intangible asset at a later date.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Goodwill and intangible assets with infinite useful lives are not amortised, but are assessed for impairment annually. The assessment of infinite life is reviewed annually to determine whether the infinite life continues to be supportable.

**De-recognition**

An intangible asset is de-recognised on disposal or when no future economic benefits are expected from its use and subsequent disposal. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement.

**ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS****Impairment of Goodwill**

The Group estimates the value in use of the Cash Generating Units (CGU) to which goodwill has been allocated in order to determine whether goodwill is impaired. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value.

**Useful Life Time of Intangible Assets**

The Group reviews the residual values, useful lives and methods of depreciation of intangible assets at each reporting date. Management exercises judgement in the estimation of these values, rates, methods and hence those are subject to uncertainty.

# NOTES TO THE FINANCIAL STATEMENTS

## 39 INTANGIBLE ASSETS AND GOODWILL (Contd.)

	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Cost</b>				
Balance as at 1st January	6,166,525	5,405,888	7,383,367	6,604,649
Additions and improvements during the year	358,166	760,637	499,081	812,659
Disposals during the year	-	-	(75,238)	-
Impairment of goodwill recognised on acquisition of subsidiary through HNB Finance PLC	-	-	(19,395)	(33,941)
<b>Balance as at 31st December</b>	<b>6,524,691</b>	<b>6,166,525</b>	<b>7,787,815</b>	<b>7,383,367</b>
<b>Accumulated amortisation</b>				
Balance as at 1st January	4,606,426	4,155,734	5,373,471	4,833,557
Amortisation for the year [Note 18 (b)]	595,324	450,692	680,592	539,914
Disposals during the year	-	-	(75,001)	-
<b>Balance as at 31st December</b>	<b>5,201,750</b>	<b>4,606,426</b>	<b>5,979,062</b>	<b>5,373,471</b>
<b>Carrying value as at 31st December</b>	<b>1,322,941</b>	<b>1,560,099</b>	<b>1,808,753</b>	<b>2,009,896</b>

### 39 (a) i Analysis of Intangible Assets

	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
<b>As at 31st December</b>				
Computer Software	1,322,941	1,560,099	1,585,812	1,762,711
Goodwill *	-	-	122,941	147,185
License	-	-	100,000	100,000
	<b>1,322,941</b>	<b>1,560,099</b>	<b>1,808,753</b>	<b>2,009,896</b>

\* Goodwill amounting to Rs 122.94 Mn has been recognised in respect of acquisition of HNB Finance PLC in 2014. Further, goodwill amounting to Rs 58.2 Mn was recognised during the year ended 31st December 2021 in respect of acquisition of Prime Finance PLC by HNB Finance PLC and same has been amortised over a 3 years period ending 31st December 2024.

### 39 (a) ii Assessment of Impairment

As at 31st December 2024, the Bank carried out an impairment assessment on the goodwill recognised, on acquisition of HNB Finance PLC.

The recoverable value of the goodwill has been determined based on the residual income method.

Key assumptions used in residual income calculation.

#### Profit Growth

Profit growth was projected based on the forecast given in the strategic plan of the company. Budgeted Profit before taxes, depreciation and

amortization was based on expectation of future outcomes taking into past experience, adjusted for anticipated economic conditions.

#### Discount factor

The discount rate of 20% used is based on the risk free rate, adjusted for temporary fluctuations in interest rates.

#### Inflation

The basis used to determine the value assigned to the budgeted cost inflation is the inflation rate based on projected economic conditions.

The Board of Directors has assessed the potential impairment loss of other intangible assets as at 31 December 2024. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date.

### 39 (a) iii Title Restriction on Intangible Assets

There are no restrictions on the title of the intangible assets of the Group as at the reporting date.

### 39 (a) iv Intangible Assets pledged as Security

None of the intangible assets have been pledged as security as at the reporting date.

### 39 (a) v Acquisition of Intangible Assets During the Year

During the financial year, the Bank and Group acquired intangible assets to the aggregate value of Rs 358 Mn and Rs 499 Mn respectively (2023 - Rs 761 Mn and Rs 813 Mn respectively). Cash

payments amounting to Rs 358 Mn and Rs 499 Mn respectively (2023 - Rs 761 Mn and Rs 813 Mn) were made for purchase of intangible assets by the Bank and Group respectively, during the year.

### 39 (a) vi Fully Amortised Intangible Assets in Use

Intangible assets include fully amortised computer software amounting Rs. 3.5 Bn (2023 - Rs. 3.2 Bn) which are in use in the normal business activities of the Group.

## 40 DEFERRED TAX ASSETS AND LIABILITIES

### ACCOUNTING POLICY

The policy adopted in accounting for deferred tax is given in Note 21 to the financial statements.

### ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

#### Deferred Tax Assets

Deferred tax assets are recognised in respect of loan impairment allowances which will be recovered in the foreseeable future and on tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

	Bank		Group	
	2024	2023	2024	2023
As at 31st December	Rs 000	Rs 000	Rs 000	Rs 000
Net deferred tax liabilities [Note 40 (a)]	-	-	6,731,283	6,552,515
Net deferred tax assets [Note 40 (b)]	3,393,785	33,944,563	3,941,633	33,967,277
	3,393,785	33,944,563	(2,789,650)	27,414,762

### 40 (a) Net Deferred Tax Liabilities

	Bank		Group	
	2024	2023	2024	2023
	Tax Effect	Tax Effect	Tax Effect	Tax Effect
	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January	8,480,149	7,172,809	15,668,716	14,145,933
<b>Recognised in profit or loss</b>				
Originating during the year				
Recognised/(realised) in the income statement	(176,745)	335,829	(395,882)	443,613
	(176,745)	335,829	(395,882)	443,613
<b>Recognised in OCI</b>				
Originating during the year				
Recognised/(realised) in the income statement	2,660,803	971,511	2,886,719	1,079,170
Balance as at 31st December	10,964,207	8,480,149	18,159,553	15,668,716
Offset against deferred tax assets	(10,964,207)	(8,480,149)	(11,428,270)	(9,116,201)
<b>Net deferred tax liabilities (Note 40)</b>	-	-	6,731,283	6,552,515



# NOTES TO THE FINANCIAL STATEMENTS

## 40 DEFERRED TAX ASSETS AND LIABILITIES (Contd.)

### 40 (b) Net Deferred Tax Assets

	Bank		Group	
	2024 Tax Effect Rs 000	2023 Tax Effect Rs 000	2024 Tax Effect Rs 000	2023 Tax Effect Rs 000
Balance as at 1st January	42,424,712	37,644,160	43,083,478	38,444,072
Originating during the year				
Recognised/(realised) in the income statement	(28,066,721)	4,780,552	(27,726,162)	4,628,487
	(28,066,721)	4,780,552	(27,726,170)	4,628,487
Recognised in OCI	-	-	12,587	10,921
Balance as at 31st December	14,357,991	42,424,712	15,369,895	43,083,478
Offset against deferred tax liabilities	(10,964,207)	(8,480,149)	(11,428,270)	(9,116,201)
Net deferred tax assets (Note 40)	3,393,785	33,944,563	3,941,633	33,967,277

### 40 (c) Recognised Deferred Tax Assets and Liabilities

#### 40 (c) i Recognised Deferred Tax Assets/(Liabilities) - Bank

	Temporary Difference	Statement of Financial Position As at 31st December	Temporary Difference	Statement of Financial Position As at 31st December	Statement of Profit or Loss For the year ended 31st December		Other Comprehensive Income For the year ended 31st December	
	2024 Rs 000	2024 Rs 000	2023 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Accelerated depreciation for tax purposes								
Property, plant and equipment	(4,532,247)	(1,359,674)	(3,987,490)	(1,196,247)	(163,427)	(548,979)	-	-
Intangible assets	(432,467)	(129,740)	(563,107)	(168,932)	39,192	(58,230)	-	-
Assets on leasing business	(193,250)	(57,975)	(1,196,523)	(358,957)	300,981	271,380	-	-
Revaluation of government securities	(7,374,660)	(2,212,398)	(3,238,370)	(971,511)	-	-	(1,240,887)	(971,511)
Revaluation surplus on freehold lands	(19,198,880)	(5,759,664)	(15,780,037)	(4,734,011)	-	-	(1,025,653)	-
Revaluation surplus on freehold buildings	(4,821,507)	(1,446,452)	(3,507,297)	(1,052,189)	-	-	(394,263)	-
	(36,553,011)	(10,965,903)	(28,272,824)	(8,481,847)	176,746	(335,829)	(2,660,803)	(971,511)
Operating lease rights	1,433,090	429,927	1,261,010	378,303	51,624	60,469	-	-
Temporary difference on allowance for impairment	46,432,537	13,929,761	140,160,357	42,048,107	(28,118,346)	4,720,083	-	-
	47,865,627	14,359,688	141,421,367	42,426,410	(28,066,721)	4,780,552	-	-
	11,312,616	3,393,785	113,148,543	33,944,563	(27,889,976)	4,444,723	(2,660,803)	(971,511)

#### 40 (c) ii Recognised Deferred Tax Assets/(Liabilities) - Group

	Temporary	Statement of	Temporary	Statement of	Statement of		Other	
	Difference	Financial	Difference	Financial	Profit or Loss		Comprehensive	
		Position		Position	For the year ended		Income	
		As at 31st		As at 31st	31st December		For the year ended	
		December		December			31st December	
	2024	2024	2023	2023	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Accelerated depreciation for tax purposes</b>								
Property, plant and equipment	(5,313,503)	(1,594,051)	(5,680,697)	(1,704,209)	110,158	(569,959)	-	-
Intangible assets	(432,467)	(129,740)	(563,250)	(168,975)	39,235	(58,237)	-	-
Assets on leasing business	(193,250)	(57,975)	(1,196,523)	(358,957)	300,982	271,380	-	-
Revaluation of government securities	(7,813,423)	(2,344,027)	(3,597,233)	(1,079,170)	-	-	(1,264,857)	(1,079,170)
Revaluation surplus on freehold lands	(33,252,357)	(9,975,707)	(29,771,170)	(8,931,351)	-	-	(1,044,356)	-
Revaluation surplus on freehold buildings	(12,367,703)	(3,710,311)	(10,374,753)	(3,112,426)	-	-	(597,885)	-
Undistributed profits of subsidiaries and joint ventures	(1,094,210)	(328,263)	(1,270,407)	(381,122)	52,859	(86,796)	-	-
	(60,466,913)	(18,140,078)	(52,454,033)	(15,736,210)	503,234	(443,612)	(2,907,098)	(1,079,170)
Unutilised tax losses	-	610,883	-	-	610,883	-	-	-
Operating lease rights	1,087,347	326,204	1,226,533	367,960	(41,756)	55,215	-	-
Temporary difference on allowance for impairment	47,500,863	14,250,259	142,176,360	42,652,908	(28,402,649)	4,573,270	-	-
Retirement benefits	543,607	163,082	433,680	130,104	-	-	32,978	10,921
	49,131,817	15,350,424	143,836,573	43,150,972	(27,833,522)	4,628,485	32,978	10,921
	(11,335,110)	(2,789,650)	91,382,540	27,414,762	(27,330,288)	4,184,873	(2,874,120)	(1,068,249)

#### 40 (d) Tax losses - Subsidiaries

##### HNB Finance PLC

##### Unutilised tax credit on amalgamation and tax losses brought forward

During the financial year 2021/22, the Company incurred Rs.2,387 Mn to acquire Prime Finance PLC which was amalgamated with the Company on 12th May 2022. This amount has been confirmed by the Central Bank of Sri Lanka as expenditure incurred

on the amalgamation in accordance with the masterplan for consolidation of non banking financial institutions of Sri Lanka. Accordingly, the company has recognised a deferred tax asset on remaining claimable amount and tax loss brought forward of Rs 610 Mn during the year .

# NOTES TO THE FINANCIAL STATEMENTS

## 41 OTHER ASSETS

### ACCOUNTING POLICY

The financial assets included in other assets have been accounted for based on the accounting policy discussed in Note 3.4 to the financial statements.

As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Un-amortised cost on staff loans	7,801,597	11,596,824	7,885,583	11,715,335
Other debtors	4,736,205	2,684,072	9,792,494	7,371,105
Reimbursement under special senior citizen deposit scheme	3,352,494	6,870,224	3,352,494	6,870,224
Receivable from pension fund	1,394,045	4,158,958	1,394,045	4,158,958
Deposits and prepayments	2,216,774	2,647,450	2,742,064	3,160,668
Stationery and other consumables	216,849	198,312	216,849	198,312
Allowance for impairment [Note 41 (a)]	(845,831)	(59,619)	(845,831)	(59,619)
	18,872,133	28,096,221	24,537,698	33,414,983

As at 31st December 2024 other assets includes Rs 4,746 Mn (2023 - Rs 11,029 Mn) financial assets in the Bank and Rs 8,414 Mn (2023 - Rs 14,269 Mn) in the Group.

### 41 (a) Movement in Impairment Allowance

	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Balance as at 1st January	59,619	108,655	59,619	125,033
Net impairment charge/(reversal) for the year	786,212	(49,036)	786,212	(65,414)
As at 31st December	845,831	59,619	845,831	59,619

### 41 (b) Credit and Market Risk

Information about the Group's credit and market risks for financial assets are included in Note 5 to the financial statements.

## 42 DUE TO BANKS

### ACCOUNTING POLICY

The accounting policy pertaining to due to banks has been given in Note 3.4 to the financial statements.

Due to banks represents refinance borrowings, call and time deposits and borrowings from banks. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "interest expenses" in the Income Statement. Gains and losses are recognised in the Income Statement when the liabilities are de-recognised.

As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Local bank borrowings	100,022	-	100,022	-
Foreign bank borrowings	1,807,927	1,937,620	1,807,927	1,937,620
Refinance borrowings	2,637,794	2,131,420	2,637,794	2,131,420
Other balances	2,049,828	4,950,542	2,049,828	4,950,542
	6,595,571	9,019,582	6,595,571	9,019,582

The maturity analysis of due to banks is given in Note 61 to the financial statements

### 42 (a) Credit and Market Risk

Information about the Group's credit and market risks for due to banks are included in Note 5 to the financial statements.

## 43 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

### ACCOUNTING POLICY

The accounting policy pertaining to securities sold under repurchase agreements has been given in Note 3.4 to the financial statements.

Securities sold under agreements to repurchase at a specified future date are not de-recognised from the statement of financial position, as the Group retains

substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset and a corresponding obligation to return it with accrued interest, as "securities sold under repurchase agreements", reflecting the transaction's economic substance as a loan

to the Group. The difference between the sale and repurchase price is treated as interest expense and is accrued over the life of the agreement using the Effective Interest Rate (EIR). Haircuts for security sold under repurchase agreements comply with direction No. 01 of 2019 dated 20th November 2019.

As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Securities sold under repurchase agreements				
With banks	4,741,107	52,237,933	4,741,107	52,237,933
With customers	21,744,997	9,555,761	21,744,997	9,555,761
	26,486,104	61,793,694	26,486,104	61,793,694

# NOTES TO THE FINANCIAL STATEMENTS

## 44 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - DUE TO DEPOSITORS

### ACCOUNTING POLICY

The accounting policy pertaining to financial liabilities measured at amortised cost- due to depositors has been given in Note 3.4 to the financial statements.

Due to depositors include non-interest bearing deposits, savings deposits, term deposits, deposits payable at call, certificate of deposits and margin deposits.

Subsequent to initial recognition, deposits are measured at their amortised cost using the Effective Interest Rate (EIR) method, except where the Group designates liabilities as measured at fair value through profit or loss. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR

amortisation is included in "interest expenses" in the income statement. Gains and losses are recognised in the income statement when the liabilities are de-recognised. Group has not designated any liabilities at fair value through profit or loss as at the reporting date.

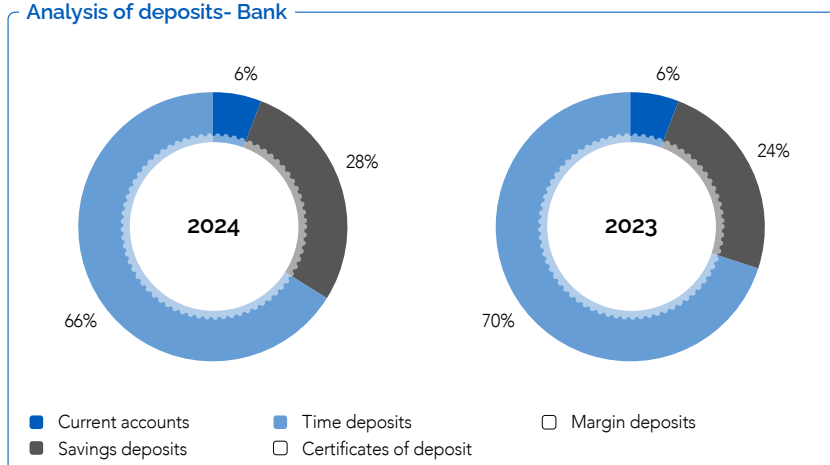
As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Local currency deposits	1,392,959,439	1,218,532,954	1,428,235,119	1,248,490,701
Foreign currency deposits	322,524,688	361,247,274	322,024,114	360,662,984
	1,715,484,127	1,579,780,228	1,750,259,233	1,609,153,685

### Analysis of Due to Customers

#### 44 (a) i By Product

As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Current account deposits	106,836,687	91,111,847	105,967,271	88,272,897
Savings deposits	479,202,503	381,475,208	480,499,923	384,039,187
Time deposits	1,126,853,274	1,105,328,890	1,161,200,376	1,134,977,318
Certificates of deposit	274,153	270,265	274,153	270,265
Margin deposits	2,317,510	1,594,018	2,317,510	1,594,018
	1,715,484,127	1,579,780,228	1,750,259,233	1,609,153,685

### Analysis of deposits- Bank



#### 44 (a) ii By Currency

As at 31st December	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
Sri Lankan Rupees	1,392,959,439	1,218,532,954	1,428,235,119	1,248,490,701
United States Dollars	284,794,164	323,695,081	284,295,799	323,110,791
Great Britain Pounds	13,412,916	13,919,936	13,412,916	13,919,936
Euros	13,868,258	11,066,737	13,866,049	11,066,737
Australian Dollars	8,194,478	9,989,444	8,194,478	9,989,444
Other currencies	2,254,872	2,576,076	2,254,872	2,576,076
	1,715,484,127	1,579,780,228	1,750,259,233	1,609,153,685

The maturity analysis of due to depositors is given in Note 61 to the financial statements.

#### 45 DIVIDENDS PAYABLE

Details of dividends declared for the year after the reporting date are disclosed in Note 23 (a) to the financial statements as an event after the reporting period in accordance with the Sri Lanka Accounting Standard - LKAS 10 on "Events after the reporting period".

	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January	974,790	1,008,325	990,781	1,038,542
Final cash dividends declared in the prior year	2,238,954	-	2,808,797	219,000
Tax attributable to Scrip dividend declared	335,843	401,666	-	401,666
Transfer to retained earnings	(27,394)	(29,270)	(27,394)	(29,270)
Dividends paid during the year	(2,546,164)	(4,265)	(2,778,061)	(237,491)
Balance as at 31st December	976,029	974,790	994,123	990,781

#### 46 FINANCIAL LIABILITIES AT AMORTISED COST - OTHER BORROWINGS

##### ACCOUNTING POLICY

The accounting policy pertaining to financial liabilities at amortised cost - other borrowings has been given in Note 3.4 to the financial statements.

Other borrowings represent refinance borrowings and borrowings from other financial institutions. Subsequent to initial recognition these borrowings are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "interest expenses" in the income statement. Gains and losses are recognised in the income statement when the liabilities are de-recognised.

As at 31st December	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
Refinance borrowings	8,910,047	7,820,770	8,910,047	7,820,770
Foreign borrowings	10,830,088	17,112,445	10,830,088	17,112,445
Local borrowings	-	-	2,017	98,569
	19,740,135	24,933,215	19,742,152	25,031,784

The maturity analysis of financial liabilities at amortised cost – other borrowings is given in Note 61 to the financial statements.



# NOTES TO THE FINANCIAL STATEMENTS

## 47 DEBT SECURITIES ISSUED

### ACCOUNTING POLICY

The accounting policy pertaining to debt securities issued has been given in Note 3.4 to the financial statements.

Debt securities issued represent funds borrowed for long term funding purposes. Subsequent to initial recognition debt securities are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "interest expenses" in the income statement. Gains and losses are recognised in the income statement when the liabilities are de-recognised.

Year of issuance	Colombo Stock Exchange Listing	Interest Payment Frequency	Face Value	Fixed / floating interest rate	Interest rate	Interest rate of comparable government securities (Gross) (p.a)	Repayment Terms	Issue Date	Maturity Date	Bank		Group	
										As at 31.12.2024	As at 31.12.2023	As at 31.12.2024	As at 31.12.2023
										Rs 000	Rs 000	Rs 000	Rs 000
2014/2024	Listed	Semi Annually	84,040	Fixed	8.33%	-	10 Years	15th Dec 2014	15th Dec 2024	-	87,569	-	66,729
2011/2040*	Not Listed	Monthly	665,000	Fixed	1 Year Average T-bill rate	1 Year Average T-bill rate	20 Years	01st Apr 2011	31st Mar 2040	-	-	448,108	483,431
<b>Total debt securities issued</b>										-	87,569	448,108	550,160
<b>Analysis of total debt securities issued</b>													
Due within one year										-	87,569	4,080	72,882
Due after one year										-	-	444,028	477,278
										-	87,569	448,108	550,160

\* Debt securities issued by HNB Finance PLC. Capital repayment commenced from December 2020.

There were no debt securities designated at FVTPL as at 31st December 2024.

The Group did not have any defaults of principal and interest or other breaches with respect to its debt securities during the year ended 31st December 2024.

## 48 CURRENT TAX LIABILITIES

### ACCOUNTING POLICY

The policy adopted in accounting for current tax liabilities is given in Note 21 to the financial statements.

	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January	23,953,823	30,025,919	24,707,679	30,460,242
Provision for the year	10,588,988	16,780,300	11,929,522	17,857,412
Over provision in previous years	-	-	-	(60,856)
Payments during the year	(24,030,467)	(22,757,981)	(25,027,215)	(23,454,531)
Withholding tax/other credits	(76,595)	(94,415)	(222,605)	(94,588)
<b>Balance as at 31st December</b>	<b>10,435,749</b>	<b>23,953,823</b>	<b>11,387,381</b>	<b>24,707,679</b>

## 49 INSURANCE PROVISION - LIFE

The insurance provision-life represents the life fund of the subsidiary HNB Assurance PLC, which is carrying out life insurance business.

### ACCOUNTING POLICY

#### Insurance Provision - Life Insurance

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using a prospective actuarial valuation method. The liability is determined as the sum of the present value of future benefits, the expected future management and distribution expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate discount rate as specified by the Insurance Regulatory Commission of Sri Lanka. The liability is based on best estimate assumptions and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is included in the valuation.

#### Liability Adequacy Test (LAT)

As required by Sri Lanka Accounting Standard - SLFRS 4 - "Insurance Contracts", the entity performed a Liability Adequacy Test (LAT) in respect of life insurance contract liabilities with the assistance of an external actuary. In performing the LAT, current best estimates of future contractual cash flows, including

related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. Number of valuation techniques are applied including discounting cash flow, interest rate applied is based on the management's expectation of current market interest rates. The liability value is adjusted to the extent that it is sufficient to meet future benefits and expenses.

#### ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

##### Valuation of Life Insurance Contract Liabilities of Subsidiary, HNB Assurance PLC (HNBA)

The liability for life insurance contracts with Discretionary Participation Features (DPF) is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time, increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment

returns, expenses, lapse and surrender rates and discount rates. For those contracts that insure risk related to longevity, prudent allowance is made for expected future mortality improvements, as well as wide ranging changes to lifestyle, which could result in significant changes to the expected future mortality exposure.

Estimates are also made as to future investment income arising from the assets backing the life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments. Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation, if appropriate.

Lapse and surrender rates are based on the Group's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates for the non-participating products, whereas it is the expected fund yield of par fund for the policies with discretionary participating benefit.

As at 31st December	Group	
	2024 Rs 000	2023 Rs 000
<b>Insurance Contract Liabilities</b>		
Life Insurance Fund [Note 49 (a)]	38,567,462	30,705,584
Claims Outstanding	310,250	269,676
<b>Total Insurance Contract Liabilities - Life Insurance</b>	<b>38,877,712</b>	<b>30,975,260</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 49 INSURANCE PROVISION - LIFE (Contd.)

### 49 (a) Life Insurance Fund

	Group	
	2024 Rs 000	2023 Rs 000
Balance as at 01st January	30,705,584	24,373,392
Change in contract liabilities - life fund	-	-
Increase in life insurance fund before surplus distribution to shareholders	9,230,552	7,667,521
Surplus distributed to shareholders	(1,350,000)	(1,315,000)
Increase in life insurance fund	7,880,552	6,352,521
Effect of taxation on surplus/bonus transferred to policyholders	(18,674)	(20,329)
Change in contract liabilities - life fund (after tax)	7,861,878	6,332,192
Balance as at 31st December	38,567,462	30,705,584

The valuation of the Life Insurance fund as at 31st December 2024 was carried out by the Appointed Actuary, Mr. Abhishek Chadha, FIA, FIAI for and on behalf of Willis Towers Watson India Private Limited and have ensured adequate provisions have been made in these Financial Statements in line with the Actuarial Valuation.

According to the appointed Actuary's report, the reserve for the year amounted to Rs. 34,983 Mn (2023 - Rs. 30,975 Mn). In opinion of the appointed Actuary, the reserve is adequate to cover the liabilities pertaining to the Life Insurance fund.

### 49 (b) Sensitivity of the Value of Insurance Liabilities

As at 31st December	Change in assumptions	Impact on gross liabilities	
		2024 %	2023 %
Mortality	10%	0.23	0.21
	-10%	(0.23)	(0.20)
Discount rate	+50% basis points	(1.06)	(0.92)
	-50% basis points	1.03	0.92
Expense	10%	0.71	0.51
	-10%	(0.67)	(0.63)

#### Liability Adequacy Testing (LAT)

A Liability Adequacy Test (LAT) for life insurance contract liability was carried out by Mr. Abhishek Chadha, FIA, on behalf of Messrs Willis Towers Watson India Private Limited, as at 31st December 2024 as required by SLFRS 4 - Insurance Contracts. When performing the LAT, the Company discounted all contractual cash flows and compared this amount with the carrying value of the liability. The valuation is based on internationally accepted actuarial methods. According to the consultant actuary's report, assets are sufficiently adequate as compared to the reserves as at 31st December 2024. No additional provision was required against the LAT as at 31st December 2024.

## 50 INSURANCE PROVISION - NON LIFE

The insurance provision non life balance represents the non life fund of subsidiary HNB General Insurance Limited which is carrying out general insurance business.

### ACCOUNTING POLICY

#### Insurance Provision – Non Life Insurance

Non life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities comprise claims liabilities and premium liabilities.

#### Claims liabilities

Claims liabilities are recognised in respect of both with reinsurance and without reinsurance. Claims liabilities refer to the obligation by the insurance company, whether contractual or otherwise to make future payments in relation to all claims that have been incurred as at valuation date. These include provision for claims reported, claims Incurred But Not Reported (“IBNR”) and claims Incurred But Not Enough Reported (“IBNER”) together with related claims handling costs. Claims liabilities consist of the best estimate value of the claim liabilities and the Provision of Risk Margin for Adverse Deviation (PRAD) calculated at line of business level.

#### Premium liabilities

Premium liabilities are the higher of the aggregate of the Unearned Premium Reserve (UPR) and the best estimate value of the insurer’s Unexpired Risk Reserves (URR) at the valuation date and the Provision of Risk Margins for Adverse Deviation (PRAD) calculated at

line of business level. The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as premium income.

Group uses 1/24th basis to defer the gross written premium of all policies, except for the marine insurance policies and title insurance policies, where marine insurance premiums are deferred based on 60:40 basis and title insurance premiums are transferred to reserves for title insurance for reporting period.

#### Liability Adequacy Test (LAT)

As required by Sri Lanka Accounting Standard - SLFRS 4 on “Insurance Contracts”, the entity performed a Liability Adequacy Test (LAT) in respect of General Insurance contract liabilities with the assistance of an external actuary.

#### Title Insurance Reserve

Title insurance reserve is maintained by the Group to pay potential claims arising from the title insurance policies. Title insurance policies are normally issued for a long period such as 5 years or more. Thus, no profit is recognised in the first year of the policy given the higher probability of claims occurring in the first year. From the second year onwards, profit is recognised

by amortising the premium received over a five year period using the straight line method. Profit in the first year will be recognised in the second year and thereafter it will be periodically recognised.

### ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

#### Valuation of Non Life Insurance Contract Liabilities of Subsidiary, HNB General Insurance Limited (HNBGI)

The estimates of general insurance contracts have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims Incurred, But Not yet Reported and claims Incurred, But Not Enough Reported (IBNR/ IBNER) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The main assumption underlying in estimating the amount of outstanding claims is the past claims development experience.

Large claims are usually addressed separately, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios.

# NOTES TO THE FINANCIAL STATEMENTS

## 50 INSURANCE PROVISION - NON LIFE (Contd.)

As at 31st December	Group	
	2024	2023
	Rs 000	Rs 000
Gross unearned premium	4,576,570	3,952,973
Reinsurance	(1,841,922)	(992,827)
<b>Net unearned premium</b>	<b>2,734,648</b>	<b>2,960,146</b>
Reserve for title insurance	75,088	48,980
	<b>2,809,736</b>	<b>3,009,126</b>
<b>Claims outstanding - Gross</b>	<b>1,128,373</b>	<b>1,158,910</b>
Claims incurred but not reported - Gross	568,949	526,267
	<b>4,507,058</b>	<b>4,694,303</b>

### Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER)

IBNR and IBNER claims Reserves as at 31st December 2024 has been actuarially computed by the Appointed Actuary, Ms. Sipika Tandon Mathur, FIA, for and on behalf of Willis Towers Watson India Private Limited. The Appointed Actuary has ensured that adequate reserves are maintained by HNB General Insurance Ltd as at 31st December 2024.

### Sensitivity of claims outstanding

As at 31st December 2024	Change in assumptions	Reported Claim Outstanding Rs 000	Impact on Gross Liabilities Rs 000	Impact on Net Liabilities Rs 000	Impact on Profit before tax Rs 000	Impact on Equity after tax Rs 000
31st December 2024	+/- 10%	1,128,373	+/-112,837	+/-64,089	+/-64,089	-/+44,862

### Liability Adequacy Testing (LAT)

A Liability Adequacy Test (LAT) for General Insurance Contract Liability was carried out by Appointed Actuary, Ms. Sipika Tandon Mathur, FIAI, as at 31st December 2024 for and on behalf of Willis Towers Watson India Private Limited as required by SLFRS 4 - Insurance Contracts. According to the Appointed Actuary's report, HNB General Insurance Limited adequately satisfies the LAT as at 31st December 2024. No additional provision was required against the LAT as at 31st December 2024.

## 51 OTHER LIABILITIES

### ACCOUNTING POLICY

The financial liabilities included in other liabilities have been accounted for based on the accounting policy discussed in Note 3.4 to the financial statements.

The operating lease liability has been accounted for based on the accounting policy discussed in Note 38 to the financial statements.

Employee benefit obligations have been accounted for based on the accounting policy discussed in Note 53 to the financial statements.

As at 31st December	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
Bills payable	1,398,559	1,200,536	1,398,559	1,200,536
Employee benefit obligations [Note 51 (a)]	395,208	281,289	1,245,430	920,008
Impairment allowance for off-balance sheet credit exposures [Note 51 (b)]	3,963,089	4,639,869	3,963,089	4,639,869
Operating lease liability [Note 38 (b)]	5,945,438	6,342,349	2,502,190	2,877,747
Other creditors	5,010,884	5,139,264	10,589,461	9,044,143
Payable to lease creditors	1,356,456	1,722,645	1,850,057	2,013,913
	<b>18,069,634</b>	<b>19,325,952</b>	<b>21,548,786</b>	<b>20,696,216</b>

As at 31st December 2024 other liabilities include Rs 10.5 Mn (2023 - Rs 7.2 Mn) financial liabilities in the Bank and Rs 4,190 Mn (2023 - Rs 2,869 Mn) in the Group.

### 51 (a) Employee Benefit Obligations

As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Liability for EPF interest rate guarantee [Note 53 (d)]	99,455	95,615	99,455	95,615
Liability for leave accrual plan [Note 53 (e)]	295,753	185,674	295,753	185,674
Provision for gratuity benefits [Note 53 (g)]	-	-	850,222	638,719
	395,208	281,289	1,245,430	920,008

### 51 (b) Movement in Impairment for Off Balance Sheet Credit Exposures during the Year

#### ACCOUNTING POLICY

The expected credit losses on off balance sheet credit exposures is measured based on the methodology described in Note 31 (b) to the financial statements.

#### ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Impairment for Financial Guarantees, Letters of Credit and Undrawn Loan Commitments

The Group assesses impairment for off balance sheet exposures such as financial guarantees, letter of credit and undrawn commitments in line with ECL principles as detailed in Note 31 (e) to the financial statements.

	Bank/Group	
	2024 Rs 000	2023 Rs 000
<b>Stage 1</b>		
Balance as at 1st January	3,026,254	2,567,514
Net impairment charge/(reversal) for the year [Note 15]	(1,042,170)	458,740
<b>Balance as at 31st December</b>	<b>1,984,084</b>	<b>3,026,254</b>
<b>Stage 2</b>		
Balance as at 1st January	347,953	517,350
Net impairment charge/(reversal) for the year [Note 15]	(241,073)	(169,397)
<b>Balance as at 31st December</b>	<b>106,880</b>	<b>347,953</b>
<b>Stage 3</b>		
Balance as at 1st January	1,265,662	1,325,651
Net impairment charge/(reversal) for the year [Note 15]	606,463	(59,989)
<b>Balance as at 31st December</b>	<b>1,872,125</b>	<b>1,265,662</b>
<b>Total impairment allowance for off balance sheet credit exposures</b>	<b>3,963,089</b>	<b>4,639,869</b>



# NOTES TO THE FINANCIAL STATEMENTS

## 52 SUBORDINATED TERM DEBTS

### ACCOUNTING POLICY

The accounting policy pertaining to subordinated term debts is given in Note 3.4 to the financial statements.

Subordinated term debts represent funds borrowed for long term funding purposes which are subordinated to the other claims. Subsequent to initial recognition, subordinated term debts are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "interest expenses" in the income statement. Gains and losses are recognised in the income statement when the liabilities are de-recognised.

As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Subordinated debentures [Note 52 (a)]	28,174,227	18,961,556	29,967,185	22,255,164
	28,174,227	18,961,556	29,967,185	22,255,164

### 52 (a) Subordinated Debentures

Year of issuance	Colombo Stock Exchange Listing	Interest Payment Frequency	Face Value Rs 000	Fixed / floating interest rate	Interest Rate	Interest Rate of Comparable Government Securities (Gross) (p.a)	Repayment Terms	Issue Date	Maturity Date	Bank		Group	
										As at 31.12.2024 Rs 000	As at 31.12.2023 Rs 000	As at 31.12.2024 Rs 000	As at 31.12.2023 Rs 000
2006	Listed	At maturity	1,362,800	Fixed	11.25%	-	18 Year	1st Apr 2006	31st Mar 2024	-	1,327,463	-	1,327,463
2019	Listed	Annually	1,922,570	Fixed	12.30%	-	5 Year	23rd Sep 2019	22nd Sep 2024	-	1,987,358	-	1,970,530
2019	Listed	Annually	8,077,430	Fixed	12.80%	9.41%	7 Year	23rd Sep 2019	22nd Sep 2026	8,354,270	8,360,693	8,290,737	8,297,181
2019	Listed	Annually	1,033,820	Fixed	13.20%	-	5 Year	30th Dec 2019	30th Dec 2024	-	-	-	1,169,647
2021	Listed	Annually	7,000,000	Fixed	9.50%	11.07%	10 Year	28th Jul 2021	29th Jul 2031	7,283,443	7,286,042	7,169,614	7,172,242
2022	Unlisted	Annually	2,000,000	Floating	1 year T Bill rate + 3%	1 year T Bill rate 3%	5 Year	25th April 2022	25th April 2027	-	-	2,179,295	2,318,101
2024	Listed	Annually	8,212,500	Fixed	13.00%	10.60%	5 Year	27th August 2024	26th August 2029	8,580,043	-	8,371,068	-
2024	Listed	Semi-Annually	2,198,400	Fixed	12.60%	10.60%	5 Year	27th August 2024	26th August 2029	2,293,760	-	2,293,760	-
2024	Listed	Annually	282,400	Fixed	13.25%	11.07%	7 Year	27th August 2024	26th August 2031	295,282	-	295,282	-
2024	Listed	Annually	1,306,700	Fixed	13.50%	11.75%	10 Year	27th August 2024	26th August 2034	1,367,429	-	1,367,429	-
<b>Total subordinated debentures</b>										<b>28,174,227</b>	<b>18,961,556</b>	<b>29,967,185</b>	<b>22,255,164</b>
<b>Analysis of subordinated debentures</b>													
Due within one year										819,957	3,884,126	804,340	5,053,774
Due after one year										27,354,270	15,077,430	29,162,845	17,201,390
										<b>28,174,227</b>	<b>18,961,556</b>	<b>29,967,185</b>	<b>22,255,164</b>

HNB Assurance PLC has invested Rs 386 Mn (2023 - Rs 194 Mn) in subordinated debentures issued by the Bank while no investment has been made in the debentures issued by HNB Finance PLC in 2024 (2023 - Rs 141 Mn).

The Group did not have any defaults of principal and interest or other breaches with respect to its debt securities during the year ended 31st December 2024.

#### BASEL III Compliant approved Subordinated Debentures

BASEL III compliant subordinated debentures are either perpetual or dated subordinated securities on which there is an obligation to pay coupons with a minimum maturity period of five years and which can be converted to ordinary shares at an objective, pre-specified trigger point determined by the Monetary Board. They may be called before maturity date at the option of the Group and subject

to permission by the Group's lead regulator. These capital securities are included within the Group's regulatory capital base as Tier 2 capital.

The securities would, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.

### 52 (b) Subordinated Debentures Movements

	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Balance as at 1st January	18,961,556	22,914,299	29,967,185	26,151,300
Debentures issued	12,000,000	-	12,000,000	-
Interest accrued	2,433,427	2,502,644	2,685,647	3,028,092
Debentures redeemed	(3,418,114)	(6,000,000)	(4,391,391)	(6,005,946)
Interest paid	(1,802,642)	(455,387)	(10,294,256)	(918,282)
Balance as at 31st December	28,174,227	18,961,556	29,967,185	22,255,164

### 53 EMPLOYEE BENEFIT OBLIGATIONS

#### ACCOUNTING POLICY

##### Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

##### (a) Pension Fund

The Bank operates an approved pension fund to facilitate the following payments for permanent staff of the Bank:

##### i Pensions to Retiring Staff

Pensionable staff members who are in the permanent cadre are eligible to draw pension from the pension fund as per the trust deed dated 24th September 1981.

##### ii Benefits to Staff who Opted for the Optional Scheme for Pension introduced in 2005

Staff members who opted for the optional scheme for pension introduced in 2005 are eligible for the payment in accordance with the terms and conditions agreed upon.

##### iii Gratuity

Gratuity would be the payments to staff who satisfy the criteria as per the Gratuity Act No 12 of 1983 at the time of leaving the services of the Bank without pension rights.

Payment of gratuities to employees who have completed more than five years of service under the said Act is covered

through the Bank's own non-contributory pension scheme which is in force.

These liabilities are assessed by an actuarial valuation using project credit method. The Bank's obligation in respect of defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, and discounting that benefit to determine its present value, then deducting the fair value of any plan assets to determine the net amount to be shown in the statement of financial position. The value of any defined benefit asset is restricted to the present value of any economic benefits available in the

# NOTES TO THE FINANCIAL STATEMENTS

## 53 EMPLOYEE BENEFIT OBLIGATIONS (Contd.)

form of refunds from the plan or reductions in the future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Bank. An economic benefit is available to the Bank if it is realisable during the life of the plan, or on settlement of the plan liabilities.

The Bank determines the net interest expense/(income) on the net defined benefit liability/(asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset) at the beginning of the annual period.

The discount rate is the yield as at the reporting date on government bonds that have maturity dates approximating to the terms of the Bank's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The demographic assumptions underlying the valuation are retirement age, early withdrawals from service and retirement on medical grounds, death before and after retirement etc. The assets of the fund are held separately from those of the Bank's assets and are administered independently by the trustees of the fund.

Details of the pension fund are given in Note 53 (a) to the financial statements.

### (b) Other Long-term Employee Benefits

The Bank's net obligation in respect of long-term employee benefits other than pension fund, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity

dates approximating to the terms of the Bank's obligation. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognised in the other comprehensive income in the period in which they arise. The Bank's liability towards the portion of the accumulated leave which is expected to be utilised beyond one year from the end of the reporting period is treated as other long term employee benefits.

When the benefits of a plan has changed or when a plan is curtailed, the resulting change in benefits that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gain or losses on the settlement of a defined plan when the settlement occurs.

### (c) Gratuity Obligation - Group Companies

The subsidiaries of the Bank do not operate pension funds and make a provision for gratuity obligation. These liabilities are assessed either by actuarial valuations using projected credit method or by the use of gratuity formula. Provision for gratuity benefits of group companies is given in Note 53 (a) to the financial statements.

### (d) Employees' Provident Fund - Bank

Employees' Provident Fund is an approved private provident fund which has been set up to meet the provident fund liabilities of the Bank to which the Bank and employees contribute at 12% and 8% respectively on the salary of each employee. Staff members who are members of the fund are entitled to receive a minimum interest rate which is the higher of one year fixed deposit rate of HNB or National Savings Bank on their balance on a semi-annual basis. Accordingly this obligation was treated as a defined benefit liability and an actuarial valuation was conducted to value the Bank's obligation of the same.

### (e) Widows', Widowers' and Orphans' Pension Fund

The Bank operates a separate Widows', Widowers' and Orphans' Pension Scheme (WW & OP) which was established with effect from 1st September 1995. The contributions are from employees only and the Bank does not have any legal or constructive obligation towards the above scheme.

Details of Widows', Widowers' and Orphans' Pension Fund are given in Note 53 (f) to the financial statements

### (f) Defined Contribution Plans

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay a further contribution if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods. Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as and when they are due.

#### (i) Employees' Trust Fund

The Bank and the Group contribute 3% of the salary of each employee to the Employees' Trust Fund.

#### (ii) Employees' Provident Fund – Group Companies

The Group entities and their employees contribute at 12% and 8% respectively on the salary of each employee to Employees' Provident Fund except for the Bank as explained above.

## ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

### Defined Benefit Obligation

The defined benefit obligation is determined using an actuarial valuation.

The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, increase in cost of living allowances and future pension increases. Due to the long term nature of these plans, such estimates

are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Government of Sri Lanka Treasury

Bonds with maturities corresponding to the expected duration of defined benefit obligation. Future salary increases and pension increases are based on expected future inflation rates, expected future salary increment rates and expected future pension increases.

53	As at 31st December	Bank		Group	
		2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
	Unfunded defined benefit plans [Note 53 (a) i]	395,208	281,289	395,208	281,289
	Funded defined benefit plan [Note 53 (c) i]	(1,394,368)	(4,158,959)	(1,394,368)	(4,158,959)
	<b>Total employee benefit obligations</b>	<b>(999,160)</b>	<b>(3,877,670)</b>	<b>(999,160)</b>	<b>(3,877,670)</b>
53 (a)	<b>Unfunded defined benefit plans</b>				
	Liability for EPF interest rate guarantee plan [Note 53 (d)]	99,455	95,615	99,455	95,615
	Liability for leave accrual plan [Note 53 (e)]	295,753	185,674	295,753	185,674
		395,208	281,289	395,208	281,289

### 53 (b) Implementation of the Provisions of the Minimum Age of Workers Act No 28 of 2021

In accordance with the provisions of the above Act, during the year 2021, the Group extended the minimum retirement age of its employees

Age of Employee	Minimum Retirement Age
54 or above and below 55 years	57 Years
53 or above and below 54 years	58 Years
52 or above and below 53 years	59 Years
Below 52 years	60 Years

### 53 (c) Funded defined benefit plan

#### Pension Fund - Bank

An actuarial valuation of the pension fund was carried out as at 31st December 2024 by Mr. M Poopalanathan, AIA, Messrs Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuaries. The valuation method used by the actuary to value the fund is the

projected unit credit method, the method recommended by the Sri Lanka Accounting Standard - LKAS 19 on "Employee Benefits".

The Bank contributed 9 % out of the pensionable salary, to the pension fund in 2024 (2023 - 9%).

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.

# NOTES TO THE FINANCIAL STATEMENTS

## 53 EMPLOYEE BENEFIT OBLIGATIONS (Contd.)

### 53 (c) i Deficit/(surplus) on funded defined benefit plan - pension fund

As at 31st December	Bank/Group	
	2024	2023
	Rs 000	Rs 000
Present value of funded obligation [Note 53 (c) iii]	25,793,747	20,394,553
Total present value of obligations	25,793,747	20,394,553
Fair value of plan assets [Note 53 (c) ii]	(27,188,115)	(24,553,512)
(Surplus)/deficit on funded defined benefit plan - pension fund	(1,394,368)	(4,158,959)
<b>Recognised (asset)/liability for defined benefit obligations - pension fund</b>	<b>(1,394,368)</b>	<b>(4,158,959)</b>

As per Sri Lanka Accounting Standard LKAS 19 – “Employee Benefits” if a plan is in surplus, the amount recognised as the net defined benefit asset in the statement of financial position is the lower of the surplus in the defined benefit plan and the asset ceiling which is the present value of any economic benefits available to the entity in the form of a refund or a reduction in future contributions. Since the actuarial valuation of the pension fund as at 31st December 2024 resulted in a surplus, Bank assessed the requirement to apply the asset ceiling, and recognised the surplus in the pension fund valuation amounting to Rs 1,394 Mn as a net receivable in respect of pension fund (2023 – Rs 4,158 Mn).

### 53 (c) ii Fair Value of Plan Assets consists of the following

As at 31st December	Bank/Group	
	2024	2023
	Rs 000	Rs 000
Equity securities and debentures	4,988,707	3,861,113
Government securities	13,035,987	9,587,977
Balances with banks	69,662	46,383
Fixed deposits	7,991,362	9,766,517
Others	1,102,397	1,291,522
	<b>27,188,115</b>	<b>24,553,512</b>

### 53 (c) iii Movement in the Present Value of Defined Benefit Obligations

	Bank/Group	
	2024	2023
	Rs 000	Rs 000
Liability for defined benefit obligations as at 1st January	20,394,553	16,352,743
Current service cost [Note 16 (a)]	915,081	652,947
Interest on obligation	2,447,347	3,025,258
Actuarial (gain)/loss	3,857,503	1,246,570
Benefits paid by the plan	(1,820,737)	(882,965)
<b>Liability for defined benefit obligations as at 31st December</b>	<b>25,793,747</b>	<b>20,394,553</b>

### 53 (c) iv Movement in the Present Value of Plan Assets

	Bank/Group	
	2024	2023
	Rs 000	Rs 000
Fair value of plan assets as at 1st January	24,553,512	19,832,322
Expected return on plan assets	2,946,422	3,668,980
Contributions paid into plan	789,499	685,098
Benefits paid by the plan	(1,820,737)	(882,965)
Actuarial gain	719,416	1,250,077
<b>Fair value of plan assets as at 31st December</b>	<b>27,188,112</b>	<b>24,553,512</b>

### 53 (c) v Net Interest on Defined Benefit Asset/(Liability)

For the year ended 31st December	Bank/Group	
	2024	2023
	Rs 000	Rs 000
Interest on obligation	2,447,347	3,025,258
Expected return of plan assets	(2,946,422)	(3,668,980)
<b>Net interest on defined benefit (asset)/liability [Note 16 (a)]</b>	<b>(499,075)</b>	<b>(643,722)</b>

### 53 (c) vi Actuarial Gains and Losses Recognised in Other Comprehensive Income

For the year ended 31st December	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
Actuarial gain/(loss) on present value of defined benefit obligations	(3,857,503)	(1,246,570)	(3,857,503)	(1,246,570)
Actuarial gain/(loss) on provision for gratuity benefits	-	-	(142,149)	(34,190)
Actuarial gain/(loss) on fair value of plan assets	719,416	1,250,077	719,416	1,250,077
<b>Actuarial gain/(loss) recognised during the year</b>	<b>(3,138,087)</b>	<b>3,507</b>	<b>(3,280,236)</b>	<b>(30,683)</b>

### 53 (c) vii Actuarial Assumptions

Type of Assumption	Criteria	Description
Demographic assumptions	Mortality – in service	A 1967-70 Mortality table issued by the Institute of Actuaries, London
	After retirement	A (90) Annuities table (Males and Females) issued by the Institute of Actuaries, London
	Staff turnover	The withdrawal rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The same withdrawal rates which were used in the last valuation (as at 31st December 2023) to determine the liability on account of the active employees in the funded scheme, were used in the actuarial valuation carried out as at 31st December 2024.
	Disability	Assumptions similar to those used in other comparable schemes for disability were used as the data required to do a scheme specific study was not available.
	Normal retirement age	As per the provisions of Minimum Age of Workers Act No. 28 of 2021 [Note 53 (b)]
Financial assumptions	Rate of discount	A long-term interest rate of 11.5% p.a. (2023 – 12.00% p.a.) has been used to discount future liabilities taking into consideration remaining working life of eligible employees.
	Salary increases	A salary increment rate of 10.25% p.a. (2023 – 10.5% p.a.) has been used in respect of the active employees.
	Post-retirement pension increase rate	2024-Nil (2023 - Nil)

The average duration of the pension fund obligation is 12.9 years as at 31st December 2024 (2023 - 12.9 years).



# NOTES TO THE FINANCIAL STATEMENTS

## 53 EMPLOYEE BENEFIT OBLIGATIONS (Contd.)

### 53 (c) viii Sensitivity of Assumptions Employed in Actuarial Valuation

Assumptions regarding discount rate and salary increment rate have a significant effect on the amounts recognised in the statement of comprehensive income and statement of financial position.

The following table demonstrates the sensitivity of a reasonably possible change in such assumptions with all other variables held constant, in the actuarial valuation of the pension fund as at 31st December 2024.

Increase/(decrease) in Discount Rate	Increase/ (decrease) in Salary Increment Rate	Sensitivity Effect on Statement of Comprehensive Income Increase / (decrease) in results for the year	Sensitivity Effect on Pension Fund Surplus Increase/ (decrease)
		Rs 000	Rs 000
1%		2,421,446	2,421,446
-1%		(2,897,528)	(2,897,528)
	1%	(1,925,223)	(1,925,223)
	-1%	1,712,613	1,712,613

### 53 (c) ix Distribution of Present Value of Defined Benefit Obligations - Pension Fund - Bank

Given below is an analysis of the distribution of present value of defined benefit obligation pertaining to the pension fund of the Bank excluding the frozen pension benefit for the employees who have opted for the optional scheme for pensions introduced in 2005.

As at 31st December	2024	2023
	Rs 000	Rs 000
Less than one year	742,017	806,074
1 - 3 years	2,175,147	1,396,717
3 - 5 years	4,016,286	1,956,342
5 - 10 years	7,447,938	4,920,856
Above 10 years	11,412,361	9,183,721
	25,793,749	20,394,553

### 53 (d) Provision for EPF Interest Rate Guarantee Plan - Bank/Group

EPF is an approved provident fund which has been set up to meet the provident fund liabilities of the Bank. Staff members who are members of the fund are entitled to receive a minimum interest rate which is the higher of one year fixed deposit rate of HNB or National Savings Bank on their balance on a semi-annual basis. Accordingly, this obligation was treated as a defined benefit liability and an actuarial valuation was conducted by Mr. M. Poopalanathan, AIA of Messrs Actuarial and Management Consultants (Pvt) Limited to value the Bank's obligation on same with the following actuarial assumptions.

As at 31st December	Bank/Group	
	2024	2023
Discount rate	11.50%	12.00%
Long term interest rate to credit the fund	11.50%	12.00%

Liability for EPF interest rate guarantee

	Bank/Group	
	2024	2023
	Rs 000	Rs 000
Present value of obligation as at 1st January	95,615	88,294
Provision made during the year (Note 16)	3,840	7,321
<b>Present value of obligation as at 31st December [Note 53 (a) i]</b>	<b>99,455</b>	<b>95,615</b>

**53 (e) Provision for Leave Accrual Plan - Bank/Group**

Employees are entitled to accumulate annual leave up to a maximum of ninety days and such accumulated leave to be utilised prior to their retirement. This has been treated as other long term benefit in terms of Sri Lanka Accounting Standards - LKAS 19 on "Employee benefits" and an actuarial valuation has been conducted by Mr. M. Poopalanathan, AIA of Messrs Actuarial and Management Consultants (Pvt) Limited on same with the following assumptions.

Liability for leave accrual plan

As at 31st December	Bank/Group	
	2024	2023
Discount rate	11.50%	12.00%
Future salary increase	10.25%	10.50%

Liability for leave accrual plan

	Bank/Group	
	2024	2023
	Rs 000	Rs 000
Present value of obligation as at 1st January	185,674	180,812
Provision made during the year (Note 16)	110,079	4,862
<b>Present value of obligation as at 31st December [Note 53 (a) i]</b>	<b>295,753</b>	<b>185,674</b>

**53 (f) Widows', Widowers' and Orphans' Pension Fund**

The results of the actuarial valuation of the Widows', Widowers' and Orphans' Pension Fund conducted by Mr. M. Poopalanathan, AIA of Messrs Actuarial and Management Consultants (Pvt) Limited indicate that the actuarial present value of the obligation is Rs 2,661 Mn and that the fair value of the fund assets is Rs 3,700 Mn resulting in a past service surplus of Rs 1,040 Mn (2023 : Rs.1,150 Mn) in the Widows', Widowers' and Orphans' Pension Scheme as at 31st December 2024.

No contribution is made by the Bank and the members' contribution during the period amounted to Rs 73.5 Mn. (2023 - Rs 123.9 Mn)

# NOTES TO THE FINANCIAL STATEMENTS

## 53 EMPLOYEE BENEFIT OBLIGATIONS (Contd.)

### 53 (g) Provision for gratuity benefits

	Group	
	2024	2023
	Rs 000	Rs 000
Balance as at 1st January	638,719	565,772
Provision during the year [Note 16]	170,897	115,611
Actuarial (gain)/loss recognised in OCI	142,149	34,190
Payments during the year	(101,543)	(76,854)
Balance as at 31st December	850,222	638,719

	Group	
	2024	2023
As at 31st December		
Actuarial Assumptions		
Discount rate	12.5% - 17.75%	12.5% - 17.75%
Future salary increment rate	9% - 12.5%	9% - 12.5%

Actuarial valuations for HNB Assurance PLC and HNB Finance PLC as at 31st December 2024 and 31st March 2024 respectively were carried out by actuary, Mr. Pushpakumar Gunasekara, Associate of Institute of Australia of Messrs Smiles Global (Pvt) Ltd.

## 54 STATED CAPITAL

### Ordinary shares

Ordinary shares in the Bank are recognised at the amount paid per ordinary share net of directly attributable issue costs. The shares of the Bank are quoted in the Colombo Stock Exchange. The holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote per share at General Meetings of the Bank.

The non-voting shares rank pari passu in respect of all rights with the ordinary shares of the Bank except voting rights on resolutions passed at general meetings. If the Bank fails to pay dividends for three consecutive years, these shares will automatically be converted into voting ordinary shares.

### 54 (a) Stated Capital - Bank/Group

	2024		2023	
	Number of shares	Value	Number of shares	Value
		Rs 000		Rs 000
<b>Voting ordinary shares</b>				
Balance as at 1st January	446,651,811	33,553,624	428,442,985	31,732,741
Issue of shares through scrip dividend [Note 54 (b)]	9,316,663	1,518,616	18,208,826	1,820,883
Balance as at 31st December	455,968,474	35,072,240	446,651,811	33,553,624
<b>Non-voting ordinary shares</b>				
Balance as at 1st January	113,086,576	7,401,492	107,112,457	6,946,264
Issue of shares through scrip dividend [Note 54 (b)]	2,766,146	384,495	5,974,119	455,228
Balance as at 31st December	115,852,722	7,785,987	113,086,576	7,401,492
	571,821,196	42,858,227	559,738,387	40,955,116

### 54 (b) Issue of Shares through Scrip Dividends

Bank issued 9,316,663 voting shares in the form of scrip dividend at a price of Rs 163 and 2,766,146 non-voting shares at a price of Rs 139 on 15th April 2024.

## 55 STATUTORY RESERVE FUND

	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January	10,410,000	9,310,000	10,410,000	9,310,000
Transfers during the year	2,200,000	1,100,000	2,200,000	1,100,000
<b>Balance as at 31st December</b>	<b>12,610,000</b>	<b>10,410,000</b>	<b>12,610,000</b>	<b>10,410,000</b>

### Nature and purpose of reserve

Statutory reserve fund is maintained as per the statutory requirements in terms of Section 20 (1) and (2) of the Banking Act No 30 of 1988.

This fund is built up by transferring a sum equivalent to not less than 5% of the profit after tax before any dividend is declared or any profits are transferred until the fund equals 50% of the Bank's stated capital. Thereafter, a further sum equal to 2% of profit after tax is transferred until the fund equals to the stated capital of the Bank.

## 56 RETAINED EARNINGS

	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January	56,311,574	40,706,963	68,251,694	50,247,360
Profit for the year	41,341,793	20,353,118	43,538,931	22,770,791
Other comprehensive income for the year	(3,138,087)	-	(3,206,638)	(17,950)
Transfer to other reserves	(12,748,564)	(2,100,000)	(12,748,564)	(2,100,000)
Transfer of unclaimed dividends	27,394	29,270	27,394	29,270
Dividends to equity holders	(4,477,908)	(2,677,777)	(4,477,908)	(2,677,777)
<b>Balance as at 31st December</b>	<b>77,316,202</b>	<b>56,311,574</b>	<b>91,384,909</b>	<b>68,251,694</b>

This represents cumulative net earnings, inclusive of final dividend proposed amounting to Rs 8,577 Mn. The balance is retained and reinvested in the business of the Bank/Group.

## 57 OTHER RESERVES

### 57 (a)

As at 31st December	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
Capital reserve [Note 57 (b)]	17,240,455	13,927,316	32,325,287	28,493,417
General reserve [Note 57 (c)]	60,100,000	59,100,000	60,100,000	59,100,000
Fair value reserve [Note 57 (d)]	11,805,828	4,273,171	11,649,449	4,069,473
Special reserve [Note 57 (e)]	9,548,564	-	9,548,564	-
Life policy holder reserve fund [Note 57 (f)]	-	-	201,549	10,983
Restricted regulatory reserve [Note 57 (g)]	-	-	381,156	381,156
Exchange equalization reserve [Note 57 (h)]	-	-	301,766	568,207
	<b>98,694,846</b>	<b>77,300,487</b>	<b>114,507,771</b>	<b>92,623,236</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 57 OTHER RESERVES (Contd.)

### 57 (b) Capital Reserve

	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January	13,927,316	13,927,316	28,493,417	28,493,417
Other comprehensive income for the period, net of tax	3,313,138	-	3,831,870	-
<b>Balance as at 31st December</b>	<b>17,240,455</b>	<b>13,927,316</b>	<b>32,325,287</b>	<b>28,493,417</b>

#### Nature and purpose of reserve

Capital reserve related to revaluation surplus that resulted from the revaluations of freehold land and buildings.

### 57 (c) General Reserve

	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January	59,100,000	58,100,000	59,100,000	58,100,000
Transfer during the year	1,000,000	1,000,000	1,000,000	1,000,000
<b>Balance as at 31st December</b>	<b>60,100,000</b>	<b>59,100,000</b>	<b>60,100,000</b>	<b>59,100,000</b>

#### Nature and purpose of reserve

General reserve comprises of the amounts appropriated by the Board of Directors as a general banking reserve.

### 57 (d) Fair Value Reserve

	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January	4,273,171	(1,395,906)	4,069,473	(1,182,630)
Net change in fair value during the year	7,532,657	5,669,077	7,579,976	5,252,103
<b>Balance as at 31st December</b>	<b>11,805,828</b>	<b>4,273,171</b>	<b>11,649,449</b>	<b>4,069,473</b>

#### Nature and purpose of reserve

The fair value reserve comprises of net change in fair value of financial assets measured at fair value through other comprehensive income.

### 57 (e) Special Reserve

	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January	-	-	-	-
Transfer during the year	9,548,564	-	9,548,564	-
<b>Balance as at 31st December</b>	<b>9,548,564</b>	<b>-</b>	<b>9,548,564</b>	<b>-</b>

#### Nature and purpose of reserve

The Central Bank of Sri Lanka instructed banks to establish a special temporary reserve equivalent to 15% of the amortised cost of the USD Step-Up Bonds received in settlement of the restructured SLISBs. This requirement is effective for a six-month period starting from 31st December 2024. The amortized cost of the USD Step-Up Bonds stood at Rs 11,070 Mn as of 31st December 2024, requiring the Bank to transfer Rs 1,660.5 Mn to this reserve. Notably, this new reserve shall not be included in the Bank's regulatory capital.

**57 (f) Life Policy Holder Reserve Fund**

	Group	
	2024	2023
	Rs 000	Rs 000
Balance as at 1st January	10,983	(1,347,731)
Transfer to / (from) life policy holder reserve fund	190,566	1,358,714
<b>Balance as at 31st December</b>	<b>201,549</b>	<b>10,983</b>

**Nature and purpose of reserve**

The life policyholders' reserve fund includes the fair value gains/(losses) recorded under other comprehensive income arising from life insurance related financial assets categorised as measured at fair value through other comprehensive income.

**57 (g) Restricted Regulatory Reserve**

	Group	
	2024	2023
	Rs 000	Rs 000
Balance as at 1st January	381,156	381,156
Transfer to/(from) restricted regulatory reserve	-	-
<b>Balance as at 31st December</b>	<b>381,156</b>	<b>381,156</b>

**Nature and purpose of reserve**

Restricted regulatory reserve – HNB Assurance PLC "Company"

As per Direction No. 16 issued by the Insurance Regulatory Commission of Sri Lanka (IRC SL) all life insurance companies were allowed to transfer one - off surplus attributable to policyholders' non participating fund to shareholders' fund with the approval of the IRC SL. This transfer has been presented as a separate reserve as "Restricted Regulatory Reserve" under equity in accordance with the Direction.

**57 (h) Exchange Equalisation Reserve**

	Group	
	2024	2023
	Rs 000	Rs 000
Balance as at 1st January	568,207	611,253
Transfer to/(from) exchange equalization reserve	(266,441)	(43,046)
<b>Balance as at 31st December</b>	<b>301,766</b>	<b>568,207</b>

**Nature and purpose of reserve**

Exchange equalization reserve comprises of all foreign currency differences arising from the translation of the financial statements of foreign operations within the joint venture group.



# NOTES TO THE FINANCIAL STATEMENTS

## 58 NON-CONTROLLING INTERESTS

### ACCOUNTING POLICY

Non-Controlling Interests (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Accordingly, the Bank has non-controlling interest in two subsidiaries namely, HNB Assurance PLC (NCI of 40%) and HNB Finance (NCI of 57.84%) as at the reporting date as follows:

As at 31st December	Group		
	2024	2023	
	Rs 000	Rs 000	
<b>Subsidiaries</b>			
HNB Assurance PLC	4,829,228	4,284,190	
HNB Finance PLC	3,559,338	3,032,545	
	8,388,566	7,316,735	
		HNB Assurance PLC	HNB Finance PLC
<b>NCI percentage</b>		40.00%	57.84%
<b>As at 31st December 2024</b>	Rs 000	Rs 000	Rs 000
Non-current assets	44,264,459	47,834,963	92,099,422
Current assets	18,172,613	5,231,787	23,404,400
Non-current liabilities	(43,384,770)	(44,444,379)	(87,829,149)
Current liabilities	(6,777,682)	(2,623,312)	(9,400,994)
<b>Net assets</b>	12,274,620	5,999,059	18,273,679
Other adjustments	(201,547)	154,708	(46,839)
<b>Net assets</b>	12,073,073	6,153,767	18,226,840
<b>Net assets attributable to NCI</b>	4,829,228	3,559,338	8,388,566
<b>For the year ended 31st December 2024</b>	Rs 000	Rs 000	Rs 000
Revenue	26,725,783	13,232,561	39,958,344
Profit	1,895,998	937,590	2,833,588
Other Comprehensive Income	1,947,594	910,778	2,858,372
<b>Total comprehensive income</b>			
Profit allocated to NCI	758,399	542,302	1,300,701
Other comprehensive income allocated to NCI	779,037	526,794	1,305,831

	HNB Assurance PLC	HNB Finance PLC	Total
<b>NCI percentage</b>	40.00%	57.84%	
<b>As at 31st December 2023</b>	<b>Rs 000</b>	<b>Rs 000</b>	<b>Rs 000</b>
Non-current assets	36,710,347	44,062,850	80,773,197
Current assets	15,027,055	5,183,743	20,210,798
Non-current liabilities	(35,669,563)	(42,243,361)	(77,912,924)
Current liabilities	(5,346,379)	(1,914,950)	(7,261,329)
<b>Net assets</b>	<b>10,721,460</b>	<b>5,088,282</b>	<b>15,809,742</b>
Other adjustments	(10,983)	154,708	143,725
<b>Net assets</b>	<b>10,710,477</b>	<b>5,242,990</b>	<b>15,953,467</b>
<b>Net assets attributable to NCI</b>	<b>4,284,190</b>	<b>3,032,545</b>	<b>7,316,735</b>
<b>For the year ended 31st December 2023</b>	<b>Rs 000</b>	<b>Rs 000</b>	<b>Rs 000</b>
Revenue	23,284,730	15,524,354	38,809,084
Profit	1,796,633	281,040	2,077,673
Other Comprehensive Income	2,222,861	308,776	2,531,637
<b>Total comprehensive income</b>			
Profit allocated to NCI	718,653	117,047	835,700
Other comprehensive income allocated to NCI	889,144	133,089	1,022,233

## 59 CONTINGENT LIABILITIES AND COMMITMENTS

### ACCOUNTING POLICY

#### Commitments and Contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured as defined in the Sri Lanka Accounting Standard LKAS 37 on "Provisions, Contingent Liabilities and Contingent Assets".

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees (including stand by letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of

credit carry a similar credit risk to loans. Operating lease commitments of the Bank (as a lessor and as a lessee) and pending legal claims against the Group also form part of commitments of the Group. Contingent liabilities are not recognised in the statement of financial position but are disclosed unless they are remote. But these contingent liabilities do contain credit risk and therefore form part of the overall risk of the Group.

All discernible risks are accounted for in determining the amount of all known liabilities. The Group's share of any contingencies and capital commitments of a subsidiary or joint venture for which the Group is also liable severally or otherwise are also included with appropriate disclosures.

#### Financial Guarantees

Financial guarantees are initially recognised in the financial statements

within other liabilities at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Expected credit loss provisions recognised for same are set out in Note 51 (b) to the financial statements.

Any increase in the liability relating to financial guarantees is recorded in the income statement. The premium received is recognised in the income statement in "net fee and commission income" on a straight line basis over the life of the guarantee.

No material losses are anticipated as a result of these commitments and contingencies.

# NOTES TO THE FINANCIAL STATEMENTS

## 59 CONTINGENT LIABILITIES AND COMMITMENTS (Contd.)

### ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

#### Provisions and Other Contingent Liabilities

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operation. As a result, it is involved in various litigations and

regulatory investigations and proceedings, arising in the ordinary course of the business. When the Group can reliably measure the outflow of economic benefits in relation to a specific case and such outflows are probable, the Group records a provision against the case. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present

obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the statement of financial position but are disclosed unless those are remote.

### 59 (a) Contingent Liabilities and Commitments - Bank/Group

As at 31st December	2024	2023
	Rs 000	Rs 000
Documentary credit	27,331,743	26,964,874
Guarantees	78,546,123	114,927,736
Acceptances	14,718,038	11,270,528
Bills for collection	33,573,676	27,185,901
Forward exchange contracts		
Forward exchange sales	52,460,878	31,440,180
Forward exchange purchases	140,389,106	122,106,261
Cheques sent on clearing	6,003,716	5,712,132
Commitments for unutilised facilities - direct	271,929,810	269,445,259
Commitments for unutilised facilities - indirect	242,290,749	273,980,241
	867,243,839	883,033,112

### 59 (b) Capital Commitments

Capital expenditure approved by the Board of Directors for which provision has not been made in the accounts amounts to approximately Rs 3,194 Mn.

As at 31st December	Bank/Group	
	2024	2023
	Rs 000	Rs 000
Approved and contracted but not provided for	854,342	1,068,928
Approved and not contracted for	7,980	258,141
	862,322	1,327,069

### 59 (c) Litigation against the Bank

In the banking industry, litigation is a common incidence due to the nature of the transactions agreed between various stakeholders including the customers and the Bank.

The Bank has formal controls and policies in place for managing legal

claims. Once professional advice has been obtained and the amount of loss is reasonably estimated, the Bank makes adjustments to account for any adverse effects of such claims on its financial standing.

Based on the internal assessment, the Bank is of the view that apart from three legal cases pertaining

to guarantee-related issues (viz HC (Civil) 657/2019 MR, M 5491 and HC (Civil) 143/2020) and one legal case pertaining to a LC-related issue (HC (Civil) 663/2019 MR), the other legal cases filed against the Bank as at 31st December 2024, will not have a material impact on the financial position of the Bank.

#### 59 (d) Tax Assessments

##### 59 (d) i Tax assessments against the bank

Assessments to the value of Rs 222.9 Mn on Financial Services VAT (relating to 2003, 2004 and 2021) and an assessment to the value of Rs 471.3 Mn on Surcharge tax applicable for taxable income of Y/A 2020/21 received by the Bank are outstanding and have been duly appealed.

##### 59 (d) ii Tax assessments against Group entity - HNB Assurance PLC (HNBA)

Assessments to the value of Rs 13.37 Mn on VAT on reinsurance claims and commissions (relating to Y/A 2010/11), assessments to the value of Rs 298.94 Mn on VAT on financial services (relating to 2014, 2017,2018,2019 and 2021), an assessment to the value of Rs 202.55 Mn on VAT, and assessments to the value of Rs 2,491 Mn on income tax (relating to Y/A 2011/12, 2012/13, 2013/14, 2014/15, 2015/16, 2016/17, 2017/18,2018/19,2019/20 and 2020/21) received by HNBA are outstanding and have been duly appealed.

##### 59 (d) iii Tax assessments against Group entity - HNB Finance PLC (HNBF)

Assessments to the value of Rs 326.7 Mn on income tax relating to Y/A 2018/19 and 2019/20 received by HNBF are outstanding and have been duly appealed.

##### 59 (d) iv Tax assessments against Group entity - Acuity Partners (Pvt) Ltd

Assessments to the value of Rs 33.35 Mn on income tax (relating to Y/A 2013/14, 2014/15 and 2015/16), assessments to the value of Rs 368.79 Mn on VAT on financial services (relating to 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020 and 2021), assessments to the value of Rs 11.3 Mn on NBT on financial services (relating to 2014, 2015, 2016 and 2017), and assessment to the value of Rs 1 Mn on VAT received by Acuity Partners are outstanding and have been duly appealed.

#### 60 RELATED PARTY DISCLOSURES

The Group carries out transactions with parties who are defined as related parties in the Sri Lanka Accounting Standard - LKAS 24 on "Related party disclosures", in the ordinary course of its business. The details of such transactions are reported below. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Bank and is comparable with what is applied to transactions between the Bank and its unrelated customers.

##### 60 (a) Parent and ultimate controlling party

The Bank does not have an identifiable parent of its own.

#### 60 (b) Transactions with Key Management Personnel (KMP)

According to Sri Lanka Accounting Standard - LKAS 24 on "Related party disclosures", Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity.

Accordingly, the Bank's KMP include the Board of Directors (including executive and non-executive directors) and selected key employees who meet the above criteria.

##### Key Management Personnel (KMP) of the Group

Bank is the ultimate parent of its subsidiaries listed out in Note 35 to the financial statements. Thus the KMPs of the Bank have the authority and responsibility for planning, directing and controlling the activities of the Group and have been identified as KMPs of the Group as well.

Close Family Members (CFMs) of KMPs are those family members who may be expected to influence, or be influenced by that KMP in their dealings with the entity. CFMs may include the domestic partner and children of KMP, the children of KMP's domestic partner and dependents of KMP and the KMP's domestic partner.

#### 60 (b) i Compensation to KMP

For the year ended 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Short term employee benefits	174,285	198,590	178,750	199,960
Post-employment benefits	1,477	2,967	1,477	2,967
	175,762	201,557	180,227	202,927

# NOTES TO THE FINANCIAL STATEMENTS

## 60 RELATED PARTY DISCLOSURES (Contd.)

### 60 (b) ii Transactions, Arrangements and Agreements Involving Key Management Personnel (KMPs) and their Close Family Members (CFMs)

#### Statement of Financial Position - Bank

As at 31st December	Closing Balance		Average Balance	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
<b>Assets</b>				
Financial assets measured at amortised cost				
- loans and advances to customers	77,316	257,861	297,257	325,025
	77,316	257,861	297,257	325,025
<b>Liabilities</b>				
Financial liabilities measured at amortised cost - due to depositors	325,564	867,530	868,756	1,427,039
	325,564	867,530	868,756	1,427,039

#### Commitments and Contingencies

As at 31st December	Closing Balance	
	2024 Rs 000	2023 Rs 000
<b>Commitments for unutilised facilities</b>		
Direct	123,267	296,630
	123,267	296,630

#### Income Statement - Bank

For the year ended 31st December	2024 Rs 000	2023 Rs 000
Interest income	13,182	36,161
Interest expenses	53,675	121,721
Fee and commission income/(expenses)	172	349

#### Number of shares held by KMP

As at 31st December	2024 Rs 000	2023 Rs 000
Voting	5,307	137,983
Non-Voting	12,996	62,786

Cash Dividend paid to KMP in 2024 - Rs 0.14 Mn (2023- Nil)

### 60 (b) iii Transactions, Arrangements and Agreements with Entities which are Controlled and/or Jointly Controlled by the KMP or their Close Family Members (CFMs)

No transactions recorded during the year.

### 60 (c) Transactions with Group Entities

The group entities include subsidiaries and joint venture of the Bank.

60 (c) i Transactions with Subsidiaries

Statement of Financial Position - Bank

As at 31st December	Closing Balance		Average Balance	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>				
Financial assets measured at amortised cost- loans and advances to customers	1,001,640	500,000	628,410	175,140
Other assets	207,143	205,628	56,135	69,718
	1,208,783	705,628	684,545	244,858
<b>Liabilities</b>				
Debt securities issued and subordinated term debt	370,720	207,000	237,387	207,000
Financial liabilities measured at amortised cost - due to depositors	4,608,153	6,968,175	5,413,981	5,673,844
	4,978,873	7,175,175	5,651,368	5,880,844

Commitments and Contingencies

As at 31st December	Closing Balance	
	2024	2023
	Rs 000	Rs 000
Guarantees	232,334	232,334
Letter of credit	23,050	12,474
<b>Commitments for unutilised facilities</b>		
Direct	1,027,310	1,550,360
	1,282,694	1,795,168

Income Statement - Bank

For the year ended 31st December	2024	2023
	Rs 000	Rs 000
Interest income	73,571	49,986
Interest expenses	730,100	1,041,884
Fee and commission income	700,693	605,089
Other income	1,014,311	380,729
Other expenses	1,061,364	1,057,269
<b>Other transactions</b>		
Expenses reimbursed to the bank	57,920	47,496
Expenses reimbursed by the bank	168,920	165,167
Insurance claims received	80,172	93,147



# NOTES TO THE FINANCIAL STATEMENTS

## 60 RELATED PARTY DISCLOSURES (Contd.)

### 60 (c) ii Transactions with the Joint Venture

#### Statement of Financial Position - Bank

As at 31st December	Closing Balance		Average Balance	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>				
Financial assets measured at amortised cost - loans and advances to customers	373,472	263,366	274,461	481,302
	373,472	263,366	274,461	481,302
<b>Liabilities</b>				
Financial liabilities measured at amortised cost - due to depositors	59,644	79,807	72,159	90,820
Securities sold under repurchase agreements	23,300	39,600	84,760	107,840
	82,944	119,407	156,919	198,660

#### Commitments and Contingencies

As at 31st December	Closing Balance	
	2024	2023
	Rs 000	Rs 000
Letter of Guarantees	48,350	33,481
<b>Commitments for unutilised facilities</b>		
Direct	5,487,780	5,579,763
Indirect	13,410	24,015
	5,549,540	5,637,259

#### Income Statement - Bank

For the year ended 31st December	2024	2023
	Rs 000	Rs 000
Interest income	34,328	108,466
Interest expenses	16,444	15,062
Fee and commission income	11,831	11,005
Other expenses	5,367	-
<b>Other transactions</b>		
Expenses reimbursed to the bank	6,629	4,242

### 60 (d) Transactions with Post Employment Benefit Plans of the Bank

As at 31st December	Closing Balance		Average Balance	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Liabilities</b>				
Financial liabilities measured at amortised cost - due to depositors	6,827,132	7,763,974	6,499,092	14,912,883
Debt securities issued and subordinated term debts	988,900	53,860	403,278	104,726
Securities sold under repurchase agreements	-	864,000	2,567,600	1,384,530
	7,816,032	8,681,834	9,469,970	16,402,139
<b>Equity</b>				
Stated capital	68,858	63,227	67,744	61,575
	68,858	63,227	67,744	61,575

## Income Statement - Bank

For the year ended 31st December	2024	2023
	Rs 000	Rs 000
Interest expenses	1,450,850	3,888,935
<b>Other transactions</b>		
Dividends paid	3,342	3,965
Contributions made	2,706,688	2,269,110

## Number of shares held by post employment benefit plans of the Bank

As at 31st December	2024	2023
Voting	172,651	169,124
Non voting	876,684	813,789

### 60 (e) Transactions with Government of Sri Lanka/Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka

The Government of Sri Lanka indirectly holds 25.14% of the voting rights of the Bank as at 31st December 2024 (2023 - 25.14%) 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 2024, 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	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>				
Balances with Central Bank of Sri Lanka	6,913,009	12,234,361	8,986,270	13,231,977
Financial assets measured at amortised cost- debt and other instruments	738,094,252	547,167,740	688,572,073	564,172,305
Financial assets measured at fair value through other comprehensive income	79,506,423	183,097,126	103,021,887	99,787,647
Financial assets measured at fair value through profit or loss	1,677,370	1,947	1,018,613	490
Financial assets measured at amortised cost-loans and advances to customers	69,304,072	66,684,353	63,258,734	63,888,654
	895,495,126	809,185,527	864,857,577	741,081,073
<b>Liabilities</b>				
Financial liabilities measured at amortised cost - due to depositors	27,103,785	9,276,819	17,603,110	11,281,631
Due to banks	11,501,492	7,321,207	10,568,857	7,423,509
Debt securities issued/Subordinated term debts	7,579,300	8,945,200	7,204,300	8,945,200
Securities sold under repurchase agreements	2,829,430	54,042,860	29,815,390	22,830,200
Current tax liabilities	10,302,230	23,953,823	17,843,415	28,292,737
	59,316,237	103,539,909	83,035,072	78,773,277

# NOTES TO THE FINANCIAL STATEMENTS

## 60 RELATED PARTY DISCLOSURES (Contd.)

### Commitments and Contingencies

As at 31st December	Closing Balance	
	2024	2023
	Rs 000	Rs 000
<b>Forward foreign exchange contracts</b>		
Purchases	60,830,900	60,183,000
Documentary credit	921,340	2,252,284
Guarantee	5,853,741	1,438,672
<b>Commitments for unutilised facilities</b>		
Direct	16,776,379	7,162,226
Indirect	15,115,054	22,235,144

## 60 (f) Transactions with Government of Sri Lanka/Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka

### Income Statement - Bank

For the year ended 31st December	2024	2023
	Rs 000	Rs 000
Interest income	98,633,831	132,981,008
Interest expenses	6,730,338	6,698,694
Fee and commission income/(expenses)	378,672	415,077
Impairment charge/(reversal) for loans and advances	(129,148)	(1,934,704)
Tax expenses (income tax, financial services VAT, crop insurance levy, local taxes and stamp duty)	31,446,196	27,220,941

### Number of Shares held by Government

As at 31st December	2024	2023
Voting	115,212,115	115,330,785
Non voting	1,176,416	1,496,703

Cash dividends were paid to government related entities in 2024 Rs 414.6 Mn (2023 - Nil)

### Transactions which are not individually significant

Apart from the transactions listed above the Bank has carried out transactions with the Government of Sri Lanka and other government related entities in the form of utility bills, telephone charges, CRIB charges etc. The total of such payments made during the year ended 31st December 2024 was Rs 1,241 Mn (2023 - Rs 1,074 Mn).

## 60 (g) Restructure of Sri Lanka International Sovereign Bonds

Government of Sri Lanka completed the restructuring of Sri Lanka International Sovereign Bonds in December 2024. The impact to the Bank from the said restructuring is disclosed in Note 32 to the Financial Statements.

## 60 (h) Disclosure Requirement under Section 9.14.8(1) and section 9.14.8(2) of the Listing Rules of Colombo Stock Exchange (CSE)

### • Recurrent related party transactions

In accordance with rule No. 9.3.2 (b) there are no recurrent related party transactions (loans and advances) which in aggregate exceeds more than 10% of the gross revenue of the Bank.

### • Non-recurrent related party transactions .

In accordance with rule No. 9.3.2 (a) the Bank does not have any non-recurrent related party transactions carried out during the financial year under review with a value exceeding 10% of the equity or 5% of the total assets whichever is lower, as per the audited financial statements of the Bank.

## 61 MATURITY ANALYSIS

### 61 (a) As at 31st December 2024

	Bank			Group		
	Within	More than	Total	Within	More than	Total
	12 months	12 months		12 months	12 months	
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>ASSETS</b>						
Cash and cash equivalents	63,356,259	-	63,356,259	64,065,041	-	64,065,041
Placements with banks	41,858,517	-	41,858,517	45,768,216	2,887,794	48,656,010
Balances with Central Bank of Sri Lanka	-	6,913,009	6,913,009	-	6,913,009	6,913,009
Reverse repurchase agreements	-	-	-	5,280,692	-	5,280,692
Derivative financial instruments	375,060	-	375,060	375,060	-	375,060
Financial assets measured at fair value through profit or loss	158,896	1,676,573	1,835,469	606,455	2,356,157	2,962,612
Financial assets measured at amortised cost - loans and advances to customers	594,473,961	469,201,384	1,063,675,345	611,803,307	492,210,012	1,104,013,319
Financial assets measured at amortised cost - debt and other financial instruments	476,400,130	265,361,071	741,761,201	482,781,719	287,238,827	770,020,546
Financial assets measured at fair value through other comprehensive income	8,221,833	88,087,637	96,309,470	10,383,624	102,023,675	112,407,299
Investment in joint venture	-	755,000	755,000	-	5,553,026	5,553,026
Investment in subsidiaries	-	3,017,285	3,017,285	-	-	-
Investment properties	-	453,769	453,769	-	868,188	868,188
Property, plant and equipment	-	30,126,467	30,126,467	-	55,467,867	55,467,867
Right-of-use assets	61,544	4,450,802	4,512,346	285,267	2,017,680	2,302,947
Intangible assets and goodwill	-	1,322,941	1,322,941	-	1,808,753	1,808,753
Deferred tax assets	-	3,393,785	3,393,785	-	3,941,633	3,941,633
Other assets	7,115,671	11,756,462	18,872,133	11,352,894	13,184,804	24,537,698
<b>Total assets</b>	<b>1,192,021,871</b>	<b>886,516,185</b>	<b>2,078,538,056</b>	<b>1,232,702,275</b>	<b>976,471,425</b>	<b>2,209,173,700</b>
<b>LIABILITIES</b>						
Due to banks	3,643,877	2,951,694	6,595,571	3,643,877	2,951,694	6,595,571
Derivative financial instruments	1,573,417	-	1,573,417	1,573,417	-	1,573,417
Securities sold under repurchase agreements	26,486,104	-	26,486,104	26,486,104	-	26,486,104
Financial liabilities measured at amortised cost - due to depositors	1,627,702,601	87,781,526	1,715,484,127	1,642,022,511	108,236,722	1,750,259,233
Dividends payable	976,029	-	976,029	994,123	-	994,123
Financial liabilities measured at amortised cost - other borrowings	7,379,675	12,360,460	19,740,135	7,379,675	12,362,477	19,742,152
Debt securities issued	-	-	-	4,080	444,028	448,108
Current tax liabilities	10,435,749	-	10,435,749	11,387,381	-	11,387,381
Deferred tax liabilities	-	-	-	-	6,731,283	6,731,283
Insurance provision - life	-	-	-	310,249	38,567,463	38,877,712
Insurance provision - non-life	-	-	-	4,431,970	75,088	4,507,058
Other provisions	19,523,788	-	19,523,788	20,306,114	-	20,306,114
Other liabilities	11,809,134	6,260,500	18,069,634	16,495,763	5,053,023	21,548,786
Subordinated term debts	819,957	27,354,270	28,174,227	819,957	29,147,228	29,967,185
Total shareholders' equity	-	231,479,275	231,479,275	-	261,360,907	261,360,907
Non-controlling interests	-	-	-	-	8,388,566	8,388,566
<b>Total equity and liabilities</b>	<b>1,710,350,331</b>	<b>368,187,725</b>	<b>2,078,538,056</b>	<b>1,735,855,221</b>	<b>473,318,479</b>	<b>2,209,173,700</b>
Maturity gap	(518,328,460)	518,328,460		(503,152,946)	503,152,946	
Cumulative gap	(518,328,460)			(503,152,946)		

# NOTES TO THE FINANCIAL STATEMENTS

## 61 MATURITY ANALYSIS (Contd.)

### 61 (b) As at 31st December 2023

	Bank			Group		
	Within	More than	Total	Within	More than	Total
	12 months	12 months		12 months	12 months	
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>ASSETS</b>						
Cash and cash equivalents	73,148,596	-	73,148,596	73,758,907	-	73,758,907
Placements with banks	55,991,134	-	55,991,134	57,000,143	4,836,239	61,836,382
Balances with Central Bank of Sri Lanka	-	12,234,361	12,234,361	-	12,234,361	12,234,361
Reverse repurchase agreements	-	-	-	1,830,461	-	1,830,461
Derivative financial instruments	452,193	-	452,193	452,193	-	452,193
Financial assets measured at fair value through profit or loss	115,627	14	115,641	702,106	98,959	801,065
Financial assets measured at amortised cost - loans and advances to customers	502,138,601	452,741,715	954,880,316	520,263,941	468,337,256	988,601,197
Financial assets measured at amortised cost - debt and other financial instruments	407,286,396	142,485,759	549,772,155	421,866,990	162,264,273	584,131,263
Financial assets measured at fair value through other comprehensive income	146,138,332	43,187,626	189,325,958	146,982,939	48,992,368	195,975,307
Investment in joint venture	-	755,000	755,000	-	4,474,789	4,474,789
Investment in subsidiaries	-	3,017,285	3,017,285	-	-	-
Investment properties	-	459,104	459,104	-	913,922	913,922
Property, plant and equipment	-	25,418,520	25,418,520	-	50,164,957	50,164,957
Right-of-use assets	91,758	4,989,580	5,081,338	300,360	2,173,090	2,473,450
Intangible assets and goodwill	-	1,560,099	1,560,099	-	2,173,090	2,009,896
Deferred tax assets	-	33,944,563	33,944,563	-	33,967,277	33,967,277
Other assets	11,620,888	16,475,333	28,096,221	16,870,074	16,544,909	33,414,983
<b>Total assets</b>	<b>1,196,983,525</b>	<b>737,268,959</b>	<b>1,934,252,484</b>	<b>1,240,028,114</b>	<b>807,012,296</b>	<b>2,047,040,410</b>
<b>LIABILITIES</b>						
Due to banks	7,873,303	1,146,279	9,019,582	7,873,303	1,146,279	9,019,582
Derivative financial instruments	1,365,523	-	1,365,523	1,365,523	-	1,365,523
Securities sold under repurchase agreements	60,843,694	950,000	61,793,694	60,843,694	950,000	61,793,694
Financial liabilities measured at amortised cost - due to depositors	1,507,042,853	72,737,375	1,579,780,228	1,519,864,555	89,289,130	1,609,153,685
Dividends payable	974,790	-	974,790	990,781	-	990,781
Financial liabilities measured at amortised cost - other borrowings	9,536,787	15,396,428	24,933,215	9,538,835	15,492,949	25,031,784
Debt securities issued	87,569	-	87,569	72,882	477,278	550,160
Current tax liabilities	23,953,823	-	23,953,823	24,707,679	-	24,707,679
Deferred tax liabilities	-	-	-	-	6,552,515	6,552,515
Insurance provision - life	-	-	-	269,676	30,705,584	30,975,260
Insurance provision - non-life	-	-	-	4,645,323	48,980	4,694,303
Other provisions	9,079,375	-	9,079,375	9,393,312	303,971	9,697,283
Other liabilities	12,170,009	7,155,943	19,325,952	16,755,731	3,940,485	20,696,216
Subordinated term debts	3,884,126	15,077,430	18,961,556	5,053,774	17,201,390	22,255,164
Total shareholders' equity	-	184,977,177	184,977,177	-	212,240,046	212,240,046
Non-controlling interests	-	-	-	-	7,316,735	7,316,735
<b>Total equity and liabilities</b>	<b>1,636,811,852</b>	<b>297,440,632</b>	<b>1,934,252,484</b>	<b>1,661,375,068</b>	<b>385,665,342</b>	<b>2,047,040,410</b>
Maturity gap	(439,176,584)	439,176,584		(421,112,415)	421,112,415	
Cumulative gap	(439,176,584)			(421,112,415)		

## 62 SEGMENT REPORTING

### ACCOUNTING POLICY

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed

regularly by the chief operating decision maker to make decisions about resources allocated to each segment, assess its performance, and for which discrete financial information is available.

Management monitors the operating results of its business units separately for

the purpose of making decisions about resource allocation and performance assessment. Unallocated items comprise mainly of corporate assets, expenses, tax assets and liabilities.

#### 62 (a) Basis for Segmentation

Group's activities have been segregated into eight different segments based on the business activities that each unit is engaged for the purpose of reviewing the operating results of the Group as well as to make decisions about resource allocation. The operating results of the Bank is split between corporate, retail, SME, micro and treasury. Real estate, insurance and NBFIs represent the operating results and financial position of the subsidiaries, Sithma Development (Pvt) Ltd, HNB Assurance PLC and HNB Finance PLC respectively.

Segment performance is evaluated based on operating income, profits or losses which, in certain respects, are measured differently from operating

profits or losses in the consolidated financial statements.

Inter segment transactions are accounted for at fair market prices charged to inter-bank counterparts for similar services on an arm's length basis. Such transfers are eliminated on consolidation.

Income taxes are not allocated to operating segments. Other expenses which cannot be directly identified against a particular business segment have been treated as consolidation adjustments.

The Group's management reviews internal management reports from each division at least monthly.

#### 62 (b) Information about reportable segments

Segment information is presented in respect of the Group's business segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

# NOTES TO THE FINANCIAL STATEMENTS

## 62 SEGMENT REPORTING (Contd.)

For the year ended 31st December	Corporate		Retail		SME		Micro	
	2024	2023	2024	2023	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Net interest income	16,457,649	22,045,429	36,252,228	49,578,270	15,136,415	19,337,186	2,123,942	1,267,020
Foreign exchange income	632,210	3,008,229	1,401,079	614,220	700,628	837,589	17,012	4,450
Net fee and commission income	4,589,305	4,765,840	9,763,892	7,205,344	3,536,899	3,871,812	325,934	240,737
Other operating income	-	-	-	-	-	-	-	-
<b>Total operating income</b>	<b>21,679,164</b>	<b>29,819,498</b>	<b>47,417,199</b>	<b>57,397,834</b>	<b>19,373,942</b>	<b>24,046,587</b>	<b>2,466,888</b>	<b>1,512,207</b>
Impairment charge for loans and other losses	8,269,695	4,747,389	901,797	587,042	1,185,878	(599,956)	207,844	(186,357)
<b>Net operating income</b>	<b>13,409,469</b>	<b>25,072,109</b>	<b>46,515,402</b>	<b>56,810,792</b>	<b>18,188,064</b>	<b>24,646,543</b>	<b>2,259,044</b>	<b>1,698,564</b>
Profit from operations	-	-	-	-	-	-	-	-
Share of profit of joint venture	-	-	-	-	-	-	-	-
Income tax expenses	-	-	-	-	-	-	-	-
Non - controlling interests	-	-	-	-	-	-	-	-
<b>Net Profit for the year attributable to equity holders of the parent company</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

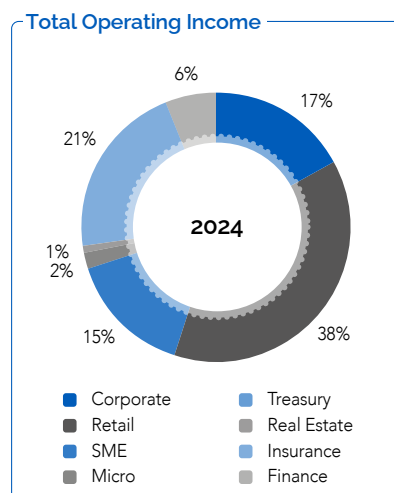
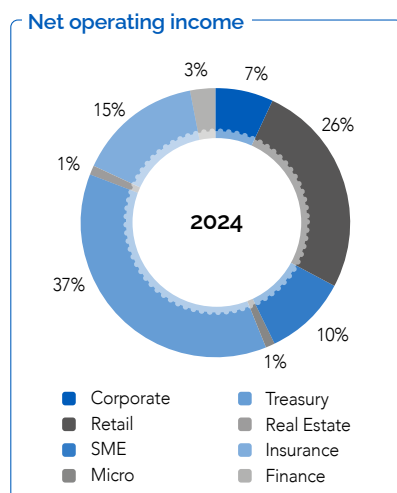
As at 31st December	2024	2023	2024	2023	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Segment assets	589,140,010	527,604,481	285,904,178	268,166,524	185,874,986	159,156,826	32,795,429	26,270,376
Investment in joint venture	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>589,140,010</b>	<b>527,604,481</b>	<b>285,904,178</b>	<b>268,166,524</b>	<b>185,874,986</b>	<b>159,156,826</b>	<b>32,795,429</b>	<b>26,270,376</b>
Segment liabilities	319,289,011	281,331,965	1,029,724,392	935,319,515	300,310,970	268,483,661	33,787,452	26,837,029
<b>Total liabilities</b>	<b>319,289,011</b>	<b>281,331,965</b>	<b>1,029,724,392</b>	<b>935,319,515</b>	<b>300,310,970</b>	<b>268,483,661</b>	<b>33,787,452</b>	<b>26,837,029</b>

For the year ended 31st December	2024	2023	2024	2023	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Information on cash flows</b>								
Cash flows from operating activities	94,361,875	46,631,583	108,425,194	130,966,616	18,235,535	56,560,857	2,340,534	7,444,116
Cash flows from investing activities	-	-	-	-	-	-	-	-
Cash flows from financing activities	-	-	-	-	-	-	-	-
<b>Net cash flow generated during the year</b>	<b>94,361,875</b>	<b>46,631,583</b>	<b>108,425,194</b>	<b>130,966,616</b>	<b>18,235,535</b>	<b>56,560,857</b>	<b>2,340,534</b>	<b>7,444,116</b>
<b>Capital expenditure</b>								
- Property, plant and equipment	-	-	-	-	-	-	-	-
- Intangible assets	-	-	-	-	-	-	-	-
<b>Total Capital Expenditure</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

\* Business of HNB Finance PLC

### Geographic information

The Group functions in one geographic location. Accordingly, geographic information is not presented in these financial statements.

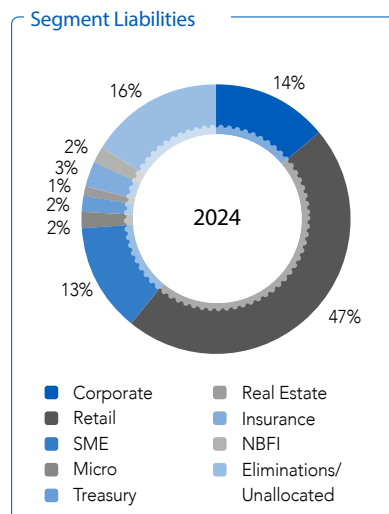
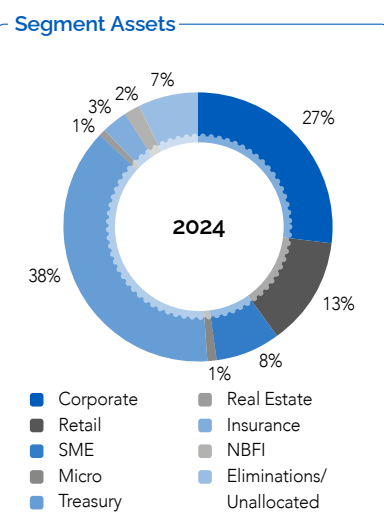




Treasury		Real Estate		Insurance		NBFI*		Eliminations/Unallocated		Consolidated	
2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
25,321,977	17,208,435	143,351	311,203	7,434,738	7,159,312	5,310,093	5,652,291	1,584,586	(4,484,584)	109,764,979	118,074,562
(559,013)	(2,282,712)	-	-	-	-	-	-	(5,057,856)	(4,483,285)	(2,865,940)	(2,301,509)
10,674	32,166	-	-	421,784	317,622	906,293	413,696	(406,056)	(274,564)	19,148,725	16,572,653
(49,212,690)	245,500	1,045,973	1,090,141	18,765,349	15,749,807	1,311,724	960,113	(365,435)	(891,606)	(28,455,079)	17,153,955
(24,439,052)	15,203,389	1,189,324	1,401,344	26,621,871	23,226,741	7,528,110	7,026,100	(4,244,761)	(10,134,039)	97,592,685	149,499,661
(90,268,781)	36,090,229	-	-	864	(34,460)	1,249,575	1,969,078	1,047,579	(49,035)	(77,405,549)	42,523,930
65,829,729	(20,886,840)	1,189,324	1,401,344	26,621,007	23,261,201	6,278,535	5,057,022	(5,292,341)	(10,085,004)	174,998,234	106,975,731
-	-	-	-	-	-	-	-	-	-	82,721,516	36,077,406
-	-	-	-	-	-	-	-	-	-	1,377,926	1,140,769
-	-	-	-	-	-	-	-	-	-	(39,259,810)	(13,611,684)
-	-	-	-	-	-	-	-	-	-	1,300,701	835,700
-	-	-	-	-	-	-	-	-	-	43,538,931	22,770,791

2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
843,337,050	771,434,547	11,258,395	11,643,471	62,437,072	51,737,402	53,066,750	49,246,593	139,806,804	177,305,401	2,203,620,674	2,042,565,621
-	-	-	-	-	-	-	-	5,553,026	4,474,789	5,553,026	4,474,789
843,337,050	771,434,547	11,258,395	11,643,471	62,437,072	51,737,402	53,066,750	49,246,593	145,359,830	181,780,190	2,209,173,700	2,047,040,410
37,055,277	85,438,776	11,258,395	11,643,471	62,437,072	51,737,402	53,066,750	49,246,593	362,244,381	337,001,998	2,209,173,700	2,047,040,410
37,055,277	85,438,776	11,258,395	11,643,471	62,437,072	51,737,402	53,066,750	49,246,593	362,244,381	337,001,998	2,209,173,700	2,047,040,410

2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
14,024,725	76,978,433	443,640	539,600	3,228,226	1,669,131	(3,200,678)	(6,988,275)	(210,638,740)	4,455,575	27,220,311	318,257,636
(49,949,296)	(311,452,319)	281,844	140,623	(2,075,617)	(1,042,621)	3,504,439	(3,476,255)	(6,886,623)	1,047,447	(55,125,253)	(314,783,125)
-	-	(726,824)	(26,776)	(820,909)	(742,545)	(179,459)	(1,795,825)	6,554,398	(4,079,958)	4,827,206	(6,645,104)
(35,924,571)	(234,473,886)	(1,340)	653,447	331,700	(116,035)	124,302	(12,260,355)	(210,970,965)	1,423,064	(23,077,736)	(3,170,593)
-	-	-	-	250,380	400,565	226,586	97,531	1,516,991	2,082,288	1,993,957	2,580,384
-	-	-	-	137,493	45,998	3,422	6,024	358,166	760,637	499,081	812,659
-	-	-	-	387,873	446,563	230,008	103,555	1,875,157	2,842,925	2,493,038	3,393,043



# NOTES TO THE FINANCIAL STATEMENTS

## 63 NET ASSETS VALUE PER ORDINARY SHARE

As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
<b>Amount used as the numerator:</b>				
Equity holders' funds (Rs 000)	231,479,275	184,977,177	261,360,907	212,240,046
<b>Number of ordinary shares used as the denominator:</b>				
Total number of shares* ('000) [Note 22 (c)]	571,821	571,821	571,821	571,821
Net assets value per ordinary share (Rs)	404.81	323.49	457.07	371.17

\*Number of shares used in net assets value per ordinary share calculation of 2023 have been adjusted by the number of shares issued as scrip dividends in 2024.

## 64 EVENTS OCCURRING AFTER THE REPORTING PERIOD

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date the financial statements are authorised for issue.

There are no events material that took place after the reporting date which require adjustments to or disclosure in the financial statements, other than those disclosed below:

### 64 (a) Proposed Dividends

Refer Note 23 (a) to the financial statements.

### 64 (b) Acquisition of remaining 50% shares of Acuity Partners (Pvt) Ltd

Pursuant to the approvals granted by the Central Bank of Sri Lanka and the Securities and Exchange Commission of Sri Lanka, on 21st January 2025, Hatton National Bank PLC (HNB PLC) acquired 75,500,001 ordinary voting shares, representing a 50% stake in Acuity Partners (Pvt) Ltd held by DFCC Bank PLC for a total consideration of Rs 6.5 Bn. With this acquisition, Acuity Partners (Pvt) Ltd, which was subsequently rebranded as HNB Investment Bank (Pvt) Ltd, became a wholly owned subsidiary of HNB PLC.

### Acquisition of remaining 50% shares of Acuity Partners (Pvt) Ltd

The following table summarises the consideration paid, fair value of assets acquired and liabilities assumed at the acquisition date.

	Fair value of Assets and Liability on acquisition date Rs 000
Cash and cash equivalents	2,576,671
Trade and other receivables	2,888,506
Financial investments	56,612,867
Deferred tax assets	11,340
Deposit with Colombo stock exchange	1,000
Investment in associates	5,839,809
Intangible assets	257,169
Property, plant and equipment	1,612,582
Interest bearing borrowings	(3,036,697)
Employee benefit	(93,631)
Lease liability	(95,071)
Deferred tax liability	(57,571)
Trade and other payable	(2,549,752)
Payable under repurchase agreements	(48,102,013)
Current tax liability	(932,951)
Bank overdraft	(471,602)
	14,460,656
Non controlling interest	(3,130,321)
Net Identifiable assets and liabilities	11,330,335
Net Identifiable assets and liabilities - 50%	5,665,168
Consideration paid in cash	6,500,000
<b>Goodwill on acquisition</b>	<b>834,833</b>

### 65 COMPARATIVE INFORMATION

This presentation and classification of the following items in these financials statements are amended to ensure the comparability with the current year

	As disclosed previously Rs 000	Bank/Group Current Presentation Rs 000	Adjustment Rs 000
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods			
Share of other comprehensive income/(loss) of joint venture that will not be reclassified to profit or loss	(43,046)	-	43,046
Other comprehensive income that will be reclassified to profit or loss in subsequent periods			
Share of other comprehensive income/(loss) of joint venture that will be reclassified to profit or loss	(273,289)	(316,335)	43,046

The Bank reclassified the share of other comprehensive income of the joint venture, amounting to Rs 43 Mn, from items that will not be reclassified to profit or loss to items that will be reclassified to profit or loss during the year.

### 66 DIRECTORS' RESPONSIBILITY STATEMENT

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

Please refer page 280 to 281 for the statement of the directors' responsibility for financial reporting.

# NOTES TO THE FINANCIAL STATEMENTS

## 67 SELECTED PERFORMANCE INDICATORS (AS PER REGULATORY REPORTING)

The table below presents selected performance indicators as specified in Circular No. 05 of 2024, issued by the Central Bank of Sri Lanka.

	Bank		Group	
	As at 31.12.2024	As at 31.12.2023	As at 31.12.2024	As at 31.12.2023
<b>BASEL III</b>				
<b>Regulatory Capital</b>				
Common Equity Tier 1. Rs. Mn	190,812	126,927	219,579	148,882
Tier 1 Capital. Rs. Mn	190,812	126,927	219,579	148,882
Total Capital. Rs. Mn	233,314	159,255	262,769	181,877
<b>Regulatory Capital Ratios</b>				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 2024 - 8.00%: 2023 - 8.00%)	19.59%	13.66%	20.64%	14.70%
Tier 1 Capital Ratio (Minimum Requirement - 2024 - 9.50%: 2023 - 9.50%)	19.59%	13.66%	20.64%	14.70%
Total Capital Ratio (Minimum Requirement 2024 - 13.50%: 2023 - 13.50%)	23.96%	17.13%	24.70%	17.95%
Leverage Ratio (Minimum Requirement- 3.00%)	7.93%	5.61%	8.64%	6.27%
<b>Regulatory Liquidity</b>				
Liquidity Coverage Ratio (%) - Rupee (Minimum Requirement - 2024 - 100%, 2023 - 100%)	292.61%	387.17%		
Liquidity Coverage Ratio (%) - All Currency (Minimum Requirement - 2024 - 100%, 2023 - 100%)	331.49%	445.92%		
Net Stable Funding Ratio(Minimum Requirement - 2024 - 100%, 2023 - 100%)	161.18%	150.19%		
<b>Assets Quality (Quality of Loan Portfolio)</b>				
Impaired Loans (Stage 3) Ratio, %*	1.88%	3.76%		
Impairment (Stage 3) to Stage 3 loans Ratio, %*	74.42%	57.49%		
<b>Profitability (Annualised)</b>				
Interest Margin, %***	4.86%	5.66%		
Return on Assets (before Tax), %***	4.03%	1.77%		
Return on Equity, %***	20.40%	11.59%		
Cost to Income, %	66.04%	29.86%		
<b>Memorandum Information</b>				
Credit Rating **	A (lka)	A (lka)		
Number of Employees	5,577	5,492		
Number of Branches	254	254		

\* Including Undrawn Portion of Credit

\*\* Pursuant to the sovereign upgrade and the recalibration of Sri Lanka national rating scale by Fitch Ratings, the National Long-Term rating of the Bank was upgraded to "AA-(lka)" in January 2025.

\*\*\* Computed based on quarterly averages of assets/equity

# Supplementary Information

## Poised to Prosper

Our deep-rooted foundations and expansive network enable us to thrive even in the harshest of environments. As we expand into new territories, we remain focused on the future, committed to ensuring growth and success for years to come.

*The Juniper Tree is a prime example of resilience, thriving in some of the harshest environments—facing fierce winds, intense heat, drought, and extreme cold. Junipers owe their endurance to a substantial root system, which makes up two-thirds of the tree's mass and can reach depths of up to 25 feet in search of water. Despite limited growth opportunities, Junipers can live for 350 to 700 years, with some surviving over 1,000 years—symbolising extraordinary strength and the ability to thrive against all odds.*

*Similarly, HNB is poised to prosper by building on a foundation of resilience and sustainability. Our robust infrastructure and expansive network enable us to navigate challenges and secure long-term growth, ensuring we are well-positioned to endure and flourish for generations to come.*



# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 1

### Key regulatory ratios - Capital and liquidity

As at 31st December	Bank		Group	
	2024	2023	2024	2023
<b>Regulatory Capital</b>				
Common Equity (Rs 000)	190,811,979	126,926,615	219,579,323	148,881,729
Tier 1 Capital (Rs 000)	190,811,979	126,926,615	219,579,323	148,881,729
Total Capital (Rs 000)	233,313,500	159,254,920	262,768,541	181,877,481
<b>Regulatory Capital Ratios</b>				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 2024-8% ; 2023-8% )	19.59%	13.66%	20.64%	14.70%
Tier 1 Capital Ratio (Minimum Requirement - 2024-9.5% ; 2023-9.5%)	19.59%	13.66%	20.64%	14.70%
Total Capital Ratio (Minimum Requirement - 2024-13.5% ; 2023-13.5%)	23.96%	17.13%	24.70%	17.95%
Leverage Ratio (Minimum Requirement - 3%)	7.93%	5.61%	8.64%	6.27%
<b>Regulatory Liquidity</b>				
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement - 2024-100% ; 2023-100%)	292.61%	387.17%		
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement - 2024-100% ; 2023-100%)	331.49%	445.92%		
Net stable funding ratio (minimum requirement : 2024-100% , 2023-100%)	161.18%	150.19%		

## TEMPLATE 2

### Basel III computation of capital ratios

As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
Common equity Tier 1 (CET1) Capital after Adjustments	190,811,979	126,926,615	219,579,323	148,881,729
<b>Total common equity Tier 1 (CET1) Capital</b>	<b>199,639,959</b>	<b>170,009,255</b>	<b>224,195,623</b>	<b>191,079,377</b>
Equity Capital (Stated Capital)/Assigned Capital	42,858,227	40,955,116	42,858,227	40,955,116
Reserve fund	12,610,000	10,410,000	12,610,000	10,410,000
Published retained earnings/(Accumulated retained losses)	77,316,203	56,305,768	92,754,161	68,245,890
Published accumulated other comprehensive income (OCI)	6,755,529	3,238,371	6,600,198	4,470,635
General and other disclosed reserves	60,100,000	59,100,000	60,984,471	59,399,407
Unpublished current year's profit/(losses) and gains reflected in OCI	-	-	-	-
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-	8,388,566	7,598,329
<b>Total adjustments to CET1 Capital</b>	<b>8,827,980</b>	<b>43,082,640</b>	<b>4,616,301</b>	<b>42,197,648</b>
Goodwill (net)	-	-	122,941	247,185
Intangible assets (net)	1,322,941	1,391,167	1,685,812	1,593,779
Deferred tax assets (net)	3,393,785	33,944,568	-	33,967,277
Defined benefit pension fund assets	1,394,045	4,158,958	1,394,045	4,158,958
Revaluation losses of property, plant & equipment	-	-	-	-
Investments in the capital of banking and financial institutions where the bank does not own more than 10 per cent of the issued ordinary share capital of the entity	-	344,997	15,064	238,823
Significant investments in the capital of financial institutions where the bank owns more than 10 per cent of the issued ordinary share capital of the entity	2,089,842	2,618,180	771,071	1,366,856
Shortfall of capital in financial subsidiaries	627,367	624,770	627,367	624,770
<b>Additional Tier 1 (AT1) capital after adjustments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Additional Tier 1 (AT1) capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Qualifying additional Tier 1 capital instruments	-	-	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-	-	-
<b>Total adjustments to AT1 capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Investment in Own Shares	-	-	-	-
Others (specify)	-	-	-	-
<b>Tier 2 capital after adjustments</b>	<b>42,501,520</b>	<b>32,328,305</b>	<b>43,189,218</b>	<b>32,995,753</b>
<b>Total Tier 2 Capital</b>	<b>42,501,520</b>	<b>32,328,305</b>	<b>43,189,218</b>	<b>32,995,753</b>
Qualifying Tier 2 capital instruments	22,230,972	12,496,465	21,847,635	12,160,734
Revaluation gains	9,019,057	9,019,057	9,019,057	9,019,057
General provision/eligible impairment	11,251,492	10,812,784	12,322,526	11,815,963
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-	-	-



# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

As at 31st December	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Total adjustments to Tier 2 capital</b>	-	-	-	-
Investment in own shares	-	-	-	-
Others (specify)	-	-	-	-
Investments in the capital of financial institutions and where the bank does not own more than 10 per cent of the issued capital carrying voting rights of the issuing entity	-	-	-	-
<b>CET1 capital</b>	<b>190,811,979</b>	126,926,615	<b>219,579,323</b>	148,881,729
<b>Total Tier 1 capital</b>	<b>190,811,979</b>	126,926,615	<b>219,579,323</b>	148,881,729
<b>Total capital</b>	<b>233,313,500</b>	159,254,920	<b>262,768,541</b>	181,877,481
Total risk weighted amount (RWA)	<b>973,885,210</b>	929,502,175	<b>1,063,641,201</b>	1,013,065,509
<b>RWAs for Credit Risk</b>	<b>900,119,356</b>	865,022,689	<b>985,802,113</b>	945,277,000
<b>RWAs for Market Risk</b>	<b>1,545,030</b>	534,316	<b>2,130,508</b>	765,987
<b>RWAs for Operational Risk</b>	<b>72,220,824</b>	63,945,171	<b>75,708,579</b>	67,022,522
CET1 capital ratio (including capital conservation buffer, countercyclical capital buffer & surcharge on D-SIBs) (%)	<b>19.59%</b>	13.66%	<b>20.64%</b>	14.70%
Of which: capital conservation buffer (%)	<b>2.50%</b>	2.50%	<b>2.50%</b>	2.50%
Of which: countercyclical buffer (%)				
Of which: capital surcharge on D-SIBs (%)	<b>1.00%</b>	1.00%	<b>1.00%</b>	1.00%
Total Tier 1 capital ratio (%)	<b>19.59%</b>	13.66%	<b>20.64%</b>	14.70%
Total capital ratio (including capital conservation buffer, countercyclical capital buffer & surcharge on D-SIBs) (%)	<b>23.96%</b>	17.13%	<b>24.70%</b>	17.95%
Of which: capital conservation buffer (%)	<b>2.50%</b>	2.50%	<b>2.50%</b>	2.50%
Of which: countercyclical buffer (%)				
Of which: capital surcharge on D-SIBs (%)	<b>1.00%</b>	1.00%	<b>1.00%</b>	1.00%

## TEMPLATE 3

### Leverage ratio

As at 31st December	Bank		Group	
	2024	2023	2024	2023
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Tier 1 capital</b>	<b>190,811,979</b>	126,926,615	<b>219,579,323</b>	148,881,729
<b>Total exposures</b>	<b>2,405,767,807</b>	2,260,649,225	<b>2,540,615,130</b>	2,374,322,143
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	<b>2,063,435,565</b>	1,884,626,278	<b>2,198,282,888</b>	1,998,299,196
Derivative exposures	<b>248,077,994</b>	215,793,812	<b>248,077,994</b>	215,793,812
Securities financing transaction exposures	<b>32,385,555</b>	67,885,068	<b>32,385,555</b>	67,885,068
Other off-balance sheet exposures	<b>61,868,692</b>	92,344,067	<b>61,868,692</b>	92,344,067
<b>Basel III leverage ratio (Tier 1/Total Exposure) (minimum requirement 3%)</b>	<b>7.93%</b>	5.61%	<b>8.64%</b>	6.27%

## TEMPLATE 4

### Liquidity coverage ratio (LCR) - All currency

As at 31st December	2024		2023	
	Total Unweighted Value Rs 000	Total Weighted Value Rs 000	Total Unweighted Value Rs 000	Total Weighted Value Rs 000
Total stock of High-Quality Liquid Assets (HQLA)	854,133,830	841,182,908	671,333,413	662,093,727
Total adjusted level 1 assets	771,199,573	771,199,573	613,076,466	613,076,466
Level 1 assets	768,040,313	768,040,313	609,928,071	609,928,071
Total adjusted level 2A assets	85,988,105	73,089,889	61,322,813	52,124,391
Level 2A assets	85,988,105	73,089,889	61,322,813	52,124,391
Total adjusted level 2B assets	105,412	52,706	82,529	41,264
Level 2B assets	105,412	52,706	82,529	41,264
Total cash outflows	2,005,187,918	366,966,714	1,724,246,714	264,256,668
Deposits	1,266,204,952	126,620,495	1,232,269,148	123,226,915
Unsecured wholesale funding	420,552,146	190,011,691	232,043,461	99,548,714
Secured funding transactions	24,804,863	-	58,047,643	-
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	261,775,892	18,484,462	173,941,554	13,536,131
Additional requirements	31,850,065	31,850,065	27,944,908	27,944,908
Total cash inflows	187,895,404	109,193,731	212,567,005	115,778,746
Maturing secured lending transactions backed by collateral	-	-	-	-
Committed facilities	-	-	-	-
Other inflows by counterparty which are maturing within 30 days	166,500,179	103,717,486	166,070,878	104,266,174
Operational deposits	10,538,279	-	23,751,225	-
Other cash inflows	10,856,946	5,476,244	22,744,902	11,512,572
Liquidity coverage ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100		331.49%		445.92%

## TEMPLATE 5

### Net stable funding ratio (NSFR)

As at 31st December	Bank	
	2024 Rs 000	2023 Rs 000
Total available stable funding (ASF)	1,483,602,474	1,400,762,424
Required stable funding – On balance sheet assets	904,508,010	897,935,193
Required stable funding – Off balance sheet items	15,976,384	34,750,231
Total required stable funding (RSF)	920,484,394	932,685,424
NSFR (minimum requirement - 2024 - 100%, 2023 - 100%)	161.18%	150.19%

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 6

### Main Features of Regulatory Capital Instruments

Description of the capital instrument	Stated Capital	Debentures - 2019 Basel III compliant – Tier 2 listed rated unsecured subordinated redeemable debentures with a non-viability conversion
Issuer	HNB PLC	HNB PLC
Unique identifier		
Governing law(s) of the instrument	Sri Lanka	Sri Lanka
Original date of issuance	Not Applicable	September 23, 2019
Par value of instrument		LKR 100/-
Perpetual or dated	Perpetual	Dated
Original maturity date, if applicable	Not Applicable	September 22, 2026
Amount recognised in regulatory capital (in Rs 000 as at the reporting date)	42,858,227	3,230,972
Accounting classification (equity/liability)	Equity	Liability
Issuer call subject to prior supervisory approval		
Optional call date, contingent call dates and redemption amount (Rs. '000)	Not Applicable	Not Applicable
Subsequent call dates, if applicable	Not Applicable	Not Applicable
Coupons/dividends:	Dividends	Coupons
Fixed or floating dividend/coupon	Not Applicable	Fixed
Coupon rate and any related index		12.8% p.a.
Non-cumulative or cumulative	Non-cumulative	Cumulative
Convertible or non-convertible	Not Applicable	Convertible
If convertible, conversion trigger (s)		<p>A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka (i.e., conversion of the said Debentures upon occurrence of the Trigger Event will be affected by the Bank solely upon being instructed by the Monetary Board of the Central Bank of Sri Lanka), and is defined in the Banking Act Direction No. 1 of 2016 of Web-Based Return Code 20.2.3.1.1.1.(10) (iii) (a&amp;b) as a point/ event being the earlier of –</p> <p>(a) "A decision that a write-down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board, OR</p> <p>(b) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by the Monetary Board.</p>
If convertible, fully or partially	Not Applicable	Fully
If convertible, mandatory or optional	Not Applicable	Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurrence of trigger points as detailed above.
If convertible, conversion rate	Not Applicable	The price based on the simple average of the daily volume of weighted average price (VWAP) of an ordinary voting share of the Bank during the three (03) months period, immediately preceding the date of the Trigger Event.

Debentures - 2021 Basel III compliant – Tier 2 listed rated unsecured subordinated redeemable debentures with a non-viability conversion	Debentures - 2024 Basel III compliant – Tier 2 listed rated unsecured subordinated redeemable debentures with a non-viability conversion
HNB PLC	HNB PLC
Sri Lanka	Sri Lanka
July 28, 2021	August 27, 2024
LKR 100/-	LKR 100/-
Dated	Dated
July 28, 2031	August 27, 2034
7,000,000	12,000,000
Liability	Liability
Not Applicable	Not Applicable
Not Applicable	Not Applicable
Coupons	Coupons
Fixed	Fixed
9.50% p.a.	13.50% p.a.
Cumulative	Cumulative
Convertible	Convertible
A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka (i.e., conversion of the said Debentures upon occurrence of the Trigger Event will be affected by the Bank solely upon being instructed by the Monetary Board of the Central Bank of Sri Lanka), and is defined in the Banking Act Direction No. 1 of 2016 of Web-Based Return Code 20.2.3.1.1.1.(10) (iii) (a&b) as a point/event being the earlier of –	A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka (i.e., conversion of the said Debentures upon occurrence of the Trigger Event will be affected by the Bank solely upon being instructed by the Monetary Board of the Central Bank of Sri Lanka), and is defined in the Banking Act Direction No. 1 of 2016 of Web-Based Return Code 20.2.3.1.1.1.(10) (iii) (a&b) as a point/event being the earlier of –
(a) "A decision that a write-down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board, OR	(a) "A decision that a write-down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board, OR
(b) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by the Monetary Board.	(b) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by the Monetary Board.
Fully	Fully
Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurrence of trigger points as detailed above.	Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurrence of trigger points as detailed above.
The price based on the simple average of the daily volume of weighted average price (VWAP) of an ordinary voting share of the Bank during the three (03) months period, immediately preceding the date of the Trigger Event.	The price based on the simple average of the daily volume of weighted average price (VWAP) of an ordinary voting share of the Bank during the three (03) months period, immediately preceding the date of the Trigger Event.

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 7

### Summary discussion on adequacy/meeting current and future capital requirements

The Bank's tier I and total capital adequacy ratios stood at 19.59% and 23.96% respectively as at end of 2024, against the regulatory requirements of 9.5% and 13.5% indicating the comfortable leeway of 1,009 bps and 1,046 bps available to the Bank. In addition, the Bank has the option to draw down up to 250bps on the capital conservation buffer as per the guidelines issued by the Central Bank of Sri Lanka.

Bank raised Rs 12Bn by way of tier II capital during the year and will continue to look at other options to raise capital based on the need going forward.

## TEMPLATE 8

### Credit risk under standardised approach

#### Credit risk exposures and credit risk mitigation (CRM) effects - Bank

As at 31st December 2024	Bank					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On-balance sheet amount (a)	Off-Balance Sheet Amount (b)	On-balance sheet amount (c)	Off-Balance Sheet Amount (d)	RWA (e)	RWA Density {e/(c+d)}
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	(%)
Claims on Central Government and CBSL	863,747,393	-	831,642,912	-	16,352,479	1.97%
Claims on foreign sovereigns and their Central Banks	7,236,286	-	7,236,286	-	-	-
Claims on public sector entities (PSEs)	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks (MDBs)	-	-	-	-	-	-
Claims on banks exposures	62,543,047	-	62,543,047	-	15,989,632	25.57%
Claims on financial institutions	49,535,718	1,521,035	49,535,718	1,520,535	28,286,870	55.40%
Claims on corporates	499,824,143	513,546,487	481,384,028	48,578,008	489,838,812	92.43%
Retail claims	413,165,372	24,212,519	352,708,313	14,751,578	226,263,202	61.57%
Claims secured by residential property	57,796,947	-	57,796,947	-	40,269,015	69.67%
Claims secured by commercial real estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)(i)	26,474,349	-	26,474,349	-	27,635,749	104.39%
Higher-risk categories	1,935,292	-	1,935,292	-	4,838,230	250.00%
Cash items and other assets	100,549,005	-	100,549,005	-	50,645,367	50.37%
<b>Total</b>	<b>2,082,807,551</b>	<b>539,280,042</b>	<b>1,971,805,896</b>	<b>64,850,121</b>	<b>900,119,356</b>	

## Credit risk under standardised approach

### Credit risk exposures and credit risk mitigation (CRM) effects - Group

As at 31st December 2024	Group					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On-balance sheet amount (a)	Off-Balance Sheet Amount (b)	On-balance sheet amount (c)	Off-Balance Sheet Amount (d)	RWA (e)	RWA Density {e/(c+d)}
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	(%)
Claims on Central Government and CBSL	902,441,197	-	870,336,716	-	16,352,479	1.88%
Claims on foreign sovereigns and their Central Banks	7,236,286	-	7,236,286	-	-	-
Claims on public sector entities (PSEs)	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks (MDBs)	-	-	-	-	-	-
Claims on banks exposures	77,642,260	-	77,642,260	-	23,539,239	30.32%
Claims on financial institutions	53,849,615	1,521,035	53,849,615	1,520,535	31,175,366	56.30%
Claims on corporates	500,412,694	513,546,487	481,972,579	48,578,008	490,353,281	92.42%
Retail claims	459,380,638	24,212,519	398,923,579	14,751,578	265,812,735	64.26%
Claims secured by residential property	57,796,947	-	57,796,947	-	40,269,015	69.67%
Claims secured by commercial real estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)(i)	29,995,984	-	29,995,984	-	32,918,202	109.74%
Higher-risk categories	2,209,778	-	2,209,778	-	5,524,444	250.00%
Cash items and other assets	130,185,525	-	130,185,525	-	79,857,352	61.34%
<b>Total</b>	<b>2,221,150,923</b>	<b>539,280,042</b>	<b>2,110,149,268</b>	<b>64,850,121</b>	<b>985,802,113</b>	

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 9

### Credit risk under standardised approach

#### Exposures by asset classes and risk weights (Post CCF & CRM) - Bank

As at 31st December 2024	Bank											Total credit exposures amount Rs 000
	0%	10%	20%	35%	50%	60%	75%	100%	150%	>150%		
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000		
Claims on Central Government and Central Bank of Sri Lanka	749,880,515	-	81,762,397	-	-	-	-	-	-	-	-	831,642,912
Claims on foreign sovereigns and their Central Banks	7,236,286	-	-	-	-	-	-	-	-	-	-	7,236,286
Claims on public sector entities	-	-	-	-	-	-	-	-	-	-	-	-
Claims on official entities and multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
Claims on banks exposures	-	-	55,299,521	-	4,648,513	-	-	2,574,095	20,918	-	-	62,543,047
Claims on financial institutions	-	-	255,066	-	45,130,660	-	-	5,670,527	-	-	-	51,056,253
Claims on corporates	-	-	32,585,125	-	28,110,248	-	-	469,266,663	-	-	-	529,962,035
Retail claims	-	-	-	-	-	18,677,415	230,928,300	37,660,300	-	-	-	287,266,016
Claims secured by gold	59,192,737	-	21,001,138	-	-	-	-	-	-	-	-	80,193,875
Claims secured by residential property	-	-	26,966,049	-	-	-	-	30,830,897	-	-	-	57,796,947
Claims secured by commercial real estate	-	-	-	-	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	-	-	87,433	-	-	23,976,682	2,410,234	-	-	26,474,349
Higher-risk categories	-	-	-	-	-	-	-	-	-	1,935,292	-	1,935,292
Cash items and other assets	49,903,638	-	-	-	-	-	-	50,645,367	-	-	-	100,549,005
<b>Total</b>	<b>866,213,176</b>	<b>-</b>	<b>190,903,247</b>	<b>26,966,049</b>	<b>77,976,855</b>	<b>18,677,415</b>	<b>230,928,300</b>	<b>620,624,530</b>	<b>2,431,152</b>	<b>1,935,292</b>	<b>-</b>	<b>2,036,656,016</b>



## Credit risk under standardised approach

### Exposures by asset classes and risk weights (Post CCF & CRM) - Group

As at 31st December 2024	Group											Total credit exposures amount Rs 000
	0%	10%	20%	35%	50%	60%	75%	100%	150%	>150%		
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000		
Claims on Central Government and Central Bank of Sri Lanka	788,574,319	-	81,762,397	-	-	-	-	-	-	-	-	870,336,716
Claims on foreign sovereigns and their Central Banks	7,236,286	-	-	-	-	-	-	-	-	-	-	7,236,286
Claims on public sector entities	-	-	-	-	-	-	-	-	-	-	-	-
Claims on official entities and multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
Claims on banks exposures	-	-	55,299,521	-	19,747,726	-	-	2,574,095	20,918	-	-	77,642,260
Claims on financial institutions	-	-	255,066	-	47,981,462	-	-	7,133,622	-	-	-	55,370,150
Claims on corporates	-	-	32,585,125	-	28,258,411	-	-	469,707,051	-	-	-	530,550,586
Retail claims	-	-	-	-	-	18,677,415	230,928,300	75,543,400	-	-	-	325,149,116
Claims secured by gold	59,192,737	-	29,333,304	-	-	-	-	-	-	-	-	88,526,041
Claims secured by residential property	-	-	-	26,966,049	-	-	-	30,830,897	-	-	-	57,796,947
Claims secured by commercial real estate	-	-	-	-	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	-	-	87,433	-	-	23,976,682	5,931,869	-	-	29,995,984
Higher-risk categories	-	-	-	-	-	-	-	-	-	2,209,778	-	2,209,778
Cash items and other assets	50,328,173	-	-	-	-	-	-	79,857,352	-	-	-	130,185,525
<b>Total</b>	<b>905,331,515</b>	<b>-</b>	<b>199,235,413</b>	<b>26,966,049</b>	<b>96,075,032</b>	<b>18,677,415</b>	<b>230,928,300</b>	<b>689,623,099</b>	<b>5,952,787</b>	<b>2,209,778</b>	<b>2,174,999,388</b>	

## TEMPLATE 10

### Market risk under standardised measurement method

As at 31st December	Bank		Group	
	2024 Rs 000	2023 Rs 000	2024 Rs 000	2023 Rs 000
<b>(a) Capital charge for interest rate risk</b>	<b>113,772</b>	<b>14</b>	<b>113,772</b>	<b>14</b>
General interest rate risk				
(i) Net long or short position	113,772	14	113,772	14
(ii) Horizontal disallowance	-	-	-	-
(iii) Vertical disallowance	-	-	-	-
(iv) Options	-	-	-	-
Specific interest rate risk				
<b>(b) Capital charge for equity</b>	<b>28,461</b>	<b>29,810</b>	<b>107,501</b>	<b>61,086</b>
(i) General equity risk	14,231	14,905	53,750	30,835
(ii) Specific equity risk	14,231	14,905	53,750	30,251
<b>(c) Capital charge for foreign exchange &amp; gold</b>	<b>66,346</b>	<b>42,308</b>	<b>66,346</b>	<b>42,308</b>
<b>Capital charge for market risk [(a) + (b) + (c)] * CAR</b>	<b>1,545,030</b>	<b>534,316</b>	<b>2,130,508</b>	<b>765,987</b>

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 11

### Operational Risk- Bank

#### Operational Risk under 'Alternative Standardised Approach'

As at 31st December 2024			Gross Income			Capital Charges		
	Capital Charge Factor	Fixed Factor	1st Year	2nd Year	3rd Year	1st Year	2nd Year	3rd Year
	%		Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
The Alternative Standardised Approach			1,562,414,032	1,819,386,236	1,976,284,793	9,040,371	9,667,926	10,541,136
Sub Total			7,591,100	3,289,582	3,658,931	1,365,862	590,751	654,643
Corporate Finance	18%		-	-	-	-	-	-
Trading and Sales	18%		5,745,701	1,048,212	902,125	1,034,226	188,678	162,383
Payment and Settlement	18%		1,827,529	2,195,593	2,624,638	328,955	395,207	472,435
Agency Services	15%		17,870	45,777	132,169	2,681	6,866	19,825
Asset Management	12%		-	-	-	-	-	-
Retail Brokerage	12%		-	-	-	-	-	-
Sub Total			1,554,822,932	1,816,096,655	1,972,625,862	7,674,509	9,077,175	9,886,494
Retail Banking	12%	0.035	465,058,309	435,554,640	447,421,089	1,953,245	1,829,329	1,879,169
Commercial Banking	15%	0.035	1,089,764,623	1,380,542,015	1,525,204,773	5,721,264	7,247,846	8,007,325
Capital Charges for Operational Risk								9,749,811
The Alternative Standardised Approach								9,749,811
Risk-Weighted Amount for operational Risk								72,220,824
The Alternative Standardised Approach								72,220,824

#### Operational Risk under 'Alternative Standardised Approach'

As at 31st December 2023			Gross Income			Capital Charges		
	Capital Charge Factor	Fixed Factor	1st Year	2nd Year	3rd Year	1st Year	2nd Year	3rd Year
	%		Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
The Alternative Standardised Approach			1,301,384,615	1,563,321,998	1,819,434,859	7,016,987	9,204,128	9,676,679
Sub Total			3,681,664	8,499,065	3,338,205	660,918	1,529,619	599,504
Corporate Finance	18%		-	-	-	-	-	-
Trading and Sales	18%		2,628,236	6,546,302	1,096,835	473,083	1,178,334	197,430
Payment and Settlement	18%		994,047	1,945,679	2,195,593	178,929	350,222	395,207
Agency Services	15%		59,380	7,085	45,777	8,907	1,063	6,866
Asset Management	12%		-	-	-	-	-	-
Retail Brokerage	12%		-	-	-	-	-	-
Sub Total			1,297,702,951	1,554,822,932	1,816,096,655	6,356,069	7,674,509	9,077,175
Retail Banking	12%	0.035	435,115,722	465,058,309	435,554,640	1,827,486	1,953,245	1,829,329
Commercial Banking	15%	0.035	862,587,230	1,089,764,623	1,380,542,015	4,528,583	5,721,264	7,247,846
Capital Charges for Operational Risk								8,632,598
The Alternative Standardised Approach								8,632,598
Risk-Weighted Amount for operational Risk								63,945,171
The Alternative Standardised Approach								63,945,171

## Operational Risk- Group

### Operational Risk under 'Alternative Standardised Approach'

As at 31st December 2024		Gross Income			Capital Charges			
		Capital Charge Factor	Fixed Factor	1st Year	2nd Year	3rd Year	1st Year	2nd Year
		%	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
The Alternative Standardised Approach			1,635,051,403	1,900,256,136	2,063,838,298	9,523,736	10,119,734	11,018,504
Sub Total			8,436,831	3,700,693	4,022,866	1,518,034	664,580	719,756
Corporate Finance	18%		-	-	-	-	-	-
Trading and Sales	18%		6,385,834	1,179,211	991,855	1,149,450	212,258	178,534
Payment and Settlement	18%		2,031,135	2,469,985	2,885,697	365,604	444,597	519,425
Agency Services	15%		19,861	51,497	145,315	2,979	7,725	21,797
Asset Management	12%		-	-	-	-	-	-
Retail Brokerage	12%		-	-	-	-	-	-
Sub Total			1,626,614,572	1,896,555,443	2,059,815,431	8,005,703	9,455,154	10,298,748
Retail Banking	12%	0.035	508,593,993	477,868,908	490,745,704	2,136,095	2,007,049	2,061,132
Commercial Banking	15%	0.035	1,118,020,579	1,418,686,535	1,569,069,727	5,869,608	7,448,104	8,237,616
Capital Charges for Operational Risk								10,220,658
The Alternative Standardised Approach								10,220,658
Risk-Weighted Amount for operational Risk								75,708,579
The Alternative Standardised Approach								75,708,579

### Operational Risk under 'Alternative Standardised Approach'

As at 31st December 2023		Gross Income			Capital Charges			
		Capital Charge Factor	Fixed Factor	1st Year	2nd Year	3rd Year	1st Year	2nd Year
		%	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
The Alternative Standardised Approach			1,352,913,409	1,636,060,526	1,900,310,836	7,308,804	9,705,738	10,129,580
Sub Total			4,011,959	9,445,954	3,755,393	720,211	1,700,035	674,426
Corporate Finance	18%		-	-	-	-	-	-
Trading and Sales	18%		2,864,025	7,275,631	1,233,910	515,524	1,309,614	222,104
Payment and Settlement	18%		1,083,227	2,162,448	2,469,985	194,981	389,241	444,597
Agency Services	15%		64,708	7,875	51,497	9,706	1,181	7,725
Asset Management	12%		-	-	-	-	-	-
Retail Brokerage	12%		-	-	-	-	-	-
Sub Total			1,348,901,450	1,626,614,572	1,896,555,443	6,588,592	8,005,703	9,455,154
Retail Banking	12%	0.035	469,657,535	508,593,993	477,868,908	1,972,562	2,136,095	2,007,049
Commercial Banking	15%	0.035	879,243,914	1,118,020,579	1,418,686,535	4,616,031	5,869,608	7,448,104
Capital Charges for Operational Risk								9,048,040
The Alternative Standardised Approach								9,048,040
Risk-Weighted Amount for operational Risk								67,022,522
The Alternative Standardised Approach								67,022,522

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 12

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank only

As at 31st December 2024	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>	2,078,538,056	2,078,538,056	2,082,807,551	1,835,469	117,808,223
Cash and cash equivalents	63,356,259	63,356,259	63,356,259	-	-
Placements with banks	41,858,517	41,858,517	41,858,517	-	-
Balances with Central Bank of Sri Lanka	6,913,009	6,913,009	6,913,009	-	-
Reverse repurchase agreements	-	-	-	-	-
Derivative financial instruments	375,060	375,060	375,060	-	-
Financial assets measured at fair value through profit or loss	1,835,469	1,835,469	-	1,835,469	-
Financial assets measured at amortised cost - loans and advances to customers	1,063,675,345	1,063,675,345	1,076,586,877	-	111,001,655
Financial assets measured at amortised cost - debt and other financial instruments	741,761,201	741,761,201	741,761,201	-	-
Financial assets measured at fair value through other comprehensive income	96,309,470	96,309,470	96,018,913	-	290,557
Investment in joint venture	755,000	755,000	-	-	755,000
Investment in subsidiaries	3,017,285	3,017,285	1,973,000	-	1,044,285
Investment properties	453,769	453,769	453,769	-	-
Property, plant and equipment	30,126,467	30,126,467	30,126,467	-	-
Right-of-use assets	4,512,346	4,512,346	4,512,346	-	-
Intangible assets and goodwill	1,322,941	1,322,941	-	-	1,322,941
Deferred tax assets	3,393,785	3,393,785	-	-	3,393,785
Other assets	18,872,133	18,872,133	18,872,133	-	-

As at 31st December 2024	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Liabilities</b>	1,847,058,781	1,847,058,781	-	-	-
Due to banks	6,595,571	6,595,571	-	-	-
Derivative financial instruments	1,573,417	1,573,417	-	-	-
Securities sold under repurchase agreements	26,486,104	26,486,104	-	-	-
Financial liabilities measured at amortised cost - due to depositors	1,715,484,127	1,715,484,127	-	-	-
Dividends payable	976,029	976,029	-	-	-
Financial liabilities measured at amortised cost - other borrowings	19,740,135	19,740,135	-	-	-
Debt securities issued	-	-	-	-	-
Current tax liabilities	10,435,749	10,435,749	-	-	-
Deferred tax liabilities	-	-	-	-	-
Other provisions	19,523,788	19,523,788	-	-	-
Other liabilities	18,069,634	18,069,634	-	-	-
Subordinated term debts	28,174,227	28,174,227	-	-	-
<b>Off-Balance Sheet Liabilities</b>	867,243,839	867,243,839	539,280,042	-	-
Guarantees	31,992,060	31,992,060	31,992,060	-	-
Performance Bonds	46,554,063	46,554,063	46,554,063	-	-
Letters of Credit	27,331,743	27,331,743	25,014,597	-	-
Other Contingent Items	247,145,414	247,145,414	163,789,512	-	-
Undrawn Loan Commitments	514,220,559	514,220,559	271,929,810	-	-
Other Commitments	-	-	-	-	-
<b>Shareholders' Equity</b>	231,479,275	231,479,275	-	-	-
Equity Capital (Stated Capital)/Assigned Capital of which Amount Eligible for CET1	42,858,227	42,858,227	-	-	-
Of which Amount Eligible for AT1	-	-	-	-	-
Retained Earnings	77,316,202	77,316,202	-	-	-
Accumulated Other Comprehensive Income	11,805,828	11,805,828	-	-	-
Other Reserves	99,499,018	99,499,018	-	-	-

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 13 : BANK RISK MANAGEMENT APPROACH

The Risk Report from pages 232 to 275 sets out the Bank's approach to risk management including governance structures, policies, processes, limits and the current risk profile of the Bank.

## TEMPLATE 14 : RISK MANAGEMENT RELATED TO KEY RISK EXPOSURES

Risk	Compliance
Section I -Credit Risk	Refer Pages 311 to 330
Section II Market Risk	Refer Pages 336 to 340
Section II (a) IRR	Refer Pages 483 to 484
Section II (b) Equity Position Risk	Refer Page 485
Section II (c) Foreign Exchange	Refer Page 485
<b>Section III Liquidity Risk</b>	
Section III (a) Key Ratios	Refer Page 486
Section III (b) Currency Wise	Refer Pages 487 to 488
Section IV Operational Risk	Refer page 340 to 341
Section V Interest Rate Risk in Banking Book (IRRBB)	Refer page 489

TEMPLATE 14 - SECTION II MARKET RISK -(A) INTEREST RATE RISK

Interest Rate Sensitivity Gap Analysis as at 31st December 2024 - LKR

(Values are in Millions LKR)

			1M	3M	6M	1Y	3Y	5Y	>5Y
Account Type	Product	Product Name Level18							
Rate Sensitive Assets	Inflows	Balances due from Head Office, Affiliates and Own Branches	0.00	0.00	0.00	0.00	0.00	0.00	3,772.29
		Bills of Exchange	145.21	38.06	0.00	0.00	0.00	0.00	0.00
		Cash on hand	49,897.81	0.00	0.00	0.00	0.00	0.00	0.00
		Deposits with CBSL	0.00	0.00	0.00	0.00	0.00	0.00	6,913.01
		Investments (Net of provisions)	62,604.47	83,986.03	257,100.22	73,457.30	101,725.65	83,687.17	82,773.95
		Loans and Advances	382,741.97	43,563.86	76,468.29	103,611.30	113,198.63	48,901.81	41,216.95
		NPLs	0.02	0.02	0.00	4,846.15	0.00	0.00	14,538.46
		Net Inter-Branch Transactions	0.00	0.00	0.00	0.00	0.00	0.00	23.54
		Other Assets	3,075.99	1,677.53	216.85	7,929.97	0.00	4,158.96	8,679.36
		Overdraft	76,554.34	10,520.58	8,611.99	8,359.55	2,747.74	2,969.93	4,046.71
		Accrued Interest	3,024.92	1,018.36	1,176.75	1,743.49	1.85	0.14	0.29
		Balances due from Other Banks	0.00	1,499.52	0.00	0.00	0.00	0.00	0.00
		Fixed Assets L1	0.00	0.00	0.00	0.00	0.00	0.00	31,899.94
			578,044.72	142,303.95	343,574.10	199,947.76	217,673.87	139,718.02	193,864.50
Rate Sensitive Liabilities	Outflows	Balances due to Other Banks	1,907.10	0.00	0.00	0.00	0.00	0.00	0.00
		Bills Payable	1,045.62	0.00	0.00	0.00	0.00	0.00	0.00
		Demand Deposits	1,983.11	4,098.63	6,147.95	12,295.89	11.49	22.97	73,584.16
		Interest Payable	5,751.97	6,626.52	8,104.53	5,769.98	7,603.40	2,272.20	417.38
		Other Liabilities	49.79	60.31	216.81	8,194.24	17,549.87	860.43	21,177.66
		Savings Deposits	3,715.83	26,327.96	10,750.69	21,501.38	57,836.14	115,625.49	173,524.02
		Time Deposits	130,595.07	245,250.13	216,726.78	184,691.93	60,130.16	12,454.92	1,657.41
		Bonds Issued	0.00	0.00	0.00	0.00	8,077.43	10,410.90	8,589.10
		Borrowings	128.58	309.26	637.99	857.35	2,879.01	2,135.48	200.61
		Capital & Reserves	0.00	0.00	0.00	0.00	0.00	0.00	42,858.23
		Repo	24,804.86	982.44	346.50	63.70	0.00	0.00	0.00
		Reserves	0.00	0.00	0.00	0.95	0.00	6,752.90	228,505.03
			169,981.94	283,655.26	242,931.26	233,375.42	154,087.50	150,535.30	550,513.59
Net Gap			408,062.77	(141,351.31)	100,642.85	(33,427.66)	63,586.36	(10,817.28)	(356,649.09)
Cumulative Gap			408,062.77	266,711.46	367,354.31	333,926.65	397,513.01	386,695.73	30,046.65
Rate Sensitive Assets total		(Excl- Cash on hand, Deposits with CBSL)	528,146.91	142,303.95	343,574.10	199,947.76	217,673.87	139,718.02	186,951.49
Rate Sensitive Liabilities total		(Excl- Demand Deposits, Capital)	167,998.83	279,556.63	236,783.31	221,079.52	154,076.01	150,512.32	434,071.20
Net Gap			360,148.08	(137,252.68)	106,790.79	(21,131.76)	63,597.86	(10,794.31)	(247,119.71)
Cumulative Gap			360,148.08	222,895.40	329,686.19	308,554.43	372,152.28	361,357.98	114,238.27



# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## Interest Rate Sensitivity Gap Analysis as at 31st December 2024 - USD

(Values are in Thousands USD)

			1M	3M	6M	1Y	3Y	5Y	>5Y
Account Type	Product	Product Name Level18							
Rate Sensitive Assets	Inflows	Bills of Exchange	1,423.67	2,436.26	611.65	0.00	0.00	0.00	0.00
		Cash on hand	3,452.49	0.00	0.00	0.00	0.00	0.00	0.00
		Investments (Net of provisions)	9,000.00	0.00	4,000.00	12,000.00	0.00	67,143.16	353,198.79
		Loans and Advances	322,253.96	64,927.92	7,949.11	1,587.75	68,218.49	3,148.23	(19,583.74)
		NPLs	0.00	0.00	0.00	3,058.36	0.00	0.00	9,175.08
		Other Assets	1,260.77	1,834.11	0.00	44,934.62	0.00	0.00	141.69
		Overdraft	14,112.38	659.62	15.41	424.07	52.28	104.52	156.84
		Accrued Interest	1,195.41	415.58	93.13	0.00	11.27	0.00	0.00
		Balances due from Other Banks	100,176.46	2,600.00	2,990.00	0.00	0.00	0.00	0.00
					452,875.15	72,873.49	15,659.30	62,004.81	68,282.05
Rate Sensitive Liabilities	Outflows	Balances due to Other Banks	0.00	0.00	37,025.64	0.00	0.00	0.00	0.00
		Demand Deposits	452.57	934.99	1,402.48	2,804.96	145.85	291.59	16,897.26
		Interest Payable	3,624.92	5,340.23	3,407.67	3,728.13	1,829.57	1,214.28	0.00
		Other Liabilities	15.07	135.01	360.42	784.05	246.17	492.13	2,809.38
		Savings Deposits	1,744.66	3,531.97	5,297.96	10,595.92	28,501.76	56,980.46	85,512.97
		Time Deposits	127,700.02	166,692.40	137,713.97	259,476.35	16,812.87	27,787.98	0.00
			133,537.23	176,634.59	185,208.14	277,389.41	47,536.22	86,766.44	105,219.61
Net Gap			319,337.91	(103,761.10)	(169,548.85)	(215,384.61)	20,745.83	(16,370.53)	237,869.05
Cumulative Gap			319,337.91	215,576.82	46,027.97	(169,356.64)	(148,610.81)	(164,981.34)	72,887.71
Rate Sensitive Assets total (Excl - Cash on Hand)			449,422.66	72,873.49	15,659.30	62,004.81	68,282.05	70,395.91	343,088.66
Rate Sensitive Liabilities total (Excl- Demand Deposit)			133,084.66	175,699.60	183,805.66	274,584.45	47,390.37	86,474.85	88,322.35
Net Gap			316,338.00	(102,826.11)	(168,146.37)	(212,579.65)	20,891.68	(16,078.94)	254,766.31
Cumulative Gap			316,338.00	213,511.89	45,365.52	(167,214.13)	(146,322.45)	(162,401.39)	92,364.92

### Notes

- 1) The above figures have been prepared including interest cash flows and may differ from SLFRS figures given in the Statement of Financial Position
- 2) Prepared as per the requirements given in the Banking Act Direction No 7 of 2011 on "Integrated Risk Management Framework".

**TEMPLATE 14 - SECTION II MARKET RISK -(B) EQUITY POSITION RISK**

Equity (Rs Mn)	Carrying Value	Fair Value
Investment Portfolio	13,278	27,221
Trading Portfolio	129	158

**TEMPLATE 14 - SECTION II MARKET RISK -(C) FOREIGN EXCHANGE RISK**
**Report on Liquidity Gap Summary as at 31st Dec 2024 (Consolidated Foreign Currency)**

(Amounts are in Thousands USD)

		1M	3M	6M	1Y	3Y	5Y	>5Y
Particulars	Product							
Total Inflows	Bills of Exchange	1,426.80	2,439.32	611.65	0.00	0.00	0.00	0.00
	Cash on hand	4,842.01	0.00	0.00	0.00	0.00	0.00	0.00
	Investments (Net of provisions)	9,210.33	(0.00)	21,645.37	15,390.28	43,459.80	67,258.40	368,361.02
	Loans and Advances	51,886.47	111,083.58	130,760.81	19,362.80	135,833.64	40,346.80	3,226.74
	NPLs	0.00	0.00	0.00	3,190.32	0.00	0.00	9,570.97
	Other Assets	1,260.77	1,834.11	0.00	43,175.27	0.00	0.00	141.78
	Other	0.00	0.00	1,679.60	3,359.71	0.00	0.00	0.00
	Overdraft	137.69	358.82	495.95	984.73	3,685.54	5,711.68	7,509.99
	Accrued Interest	1,209.17	415.58	94.18	0.00	11.27	0.00	0.00
	Balances due from Other Banks	157,294.47	4,874.96	3,053.85	0.00	0.00	0.00	0.00
	Forward Contracts	252,087.09	170,970.36	85,252.08	4,015.75	9.69	0.00	0.00
		479,354.80	291,976.72	243,593.49	89,478.87	182,999.93	113,316.88	388,810.50
Total Outflows	Balances due to Other Banks	0.00	0.00	1,552.74	9,828.85	29,068.07	0.00	0.00
	Demand Deposits	657.80	1,359.13	2,038.69	4,077.38	158.24	316.36	24,520.70
	Interest Payable	3,787.43	5,761.38	3,686.36	4,040.17	1,865.57	1,300.04	0.00
	Letters of Credit/Guarantees/ Acceptances	0.00	1,693.90	1,693.90	1,694.41	0.00	0.00	0.00
	Other Liabilities	23.33	161.43	500.31	860.91	277.79	555.36	2,905.77
	Savings Deposits	2,574.35	5,153.27	7,735.20	15,394.51	43,298.50	76,374.16	108,096.56
	Time Deposits	139,806.07	193,859.31	156,668.62	304,935.81	24,941.54	35,012.61	0.00
	Forward Contracts Payable	144,114.34	76,012.97	10,467.51	4,015.75	9.69	0.00	0.00
		290,963.31	284,001.39	184,343.33	344,847.79	99,619.41	113,558.54	135,523.03
Net Liquidity Gap		188,391.49	7,975.33	59,250.17	(255,368.91)	83,380.52	(241.66)	253,287.47
Net Gap as % of Total Outflows		64.75	2.81	32.14	(74.05)	83.70	(0.21)	186.90
Cumulative Gap		188,391.49	196,366.82	255,616.98	248.07	83,628.59	83,386.93	336,674.41

**Notes**

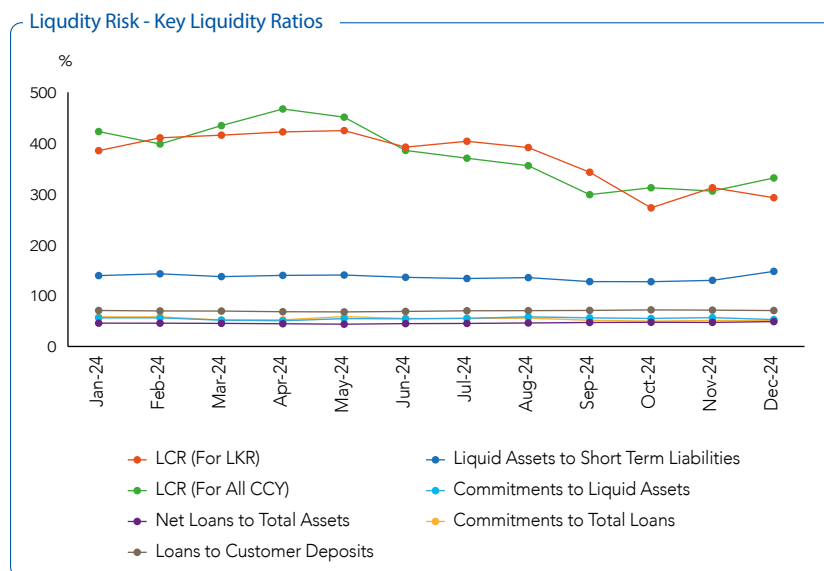
- 1) The above figures have been prepared including interest cash flows and may differ from SLFRS figures given in the Statement of Financial Position
- 2) Prepared as per the requirements given in the Banking Act Direction No 7 of 2011 on "Integrated Risk Management Framework".

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 14 - SECTION III LIQUIDITY RISK - KEY LIQUIDITY RATIOS

Ratio	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
SLAR *	48.52%	48.55%	49.30%	50.83%	51.04%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
LCR (For LKR)	385.20%	410.44%	415.66%	422.05%	424.67%	392.09%	403.64%	391.31%	342.76%	272.68%	312.30%	292.61%
LCR (For All CCY)	422.73%	398.29%	434.44%	467.17%	451.05%	385.62%	370.31%	355.59%	298.64%	312.22%	305.69%	331.49%
Net Loans to Total Assets	45.86%	45.78%	45.38%	44.70%	43.82%	44.92%	45.29%	46.21%	47.16%	47.55%	47.36%	48.91%
Loans to Customer Deposits	70.78%	69.87%	69.64%	68.33%	67.98%	68.92%	70.19%	70.47%	70.90%	71.93%	71.48%	70.64%
Liquid Assets to Short Term Liabilities	139.41%	142.91%	137.41%	139.80%	140.54%	136.02%	133.69%	135.44%	127.61%	127.37%	130.04%	147.74%
Commitments to Liquid Assets	56.20%	56.27%	51.74%	50.50%	54.75%	54.34%	55.35%	58.24%	56.20%	55.11%	56.70%	52.90%
Commitments to Total Loans	58.09%	58.15%	52.13%	52.42%	58.78%	54.97%	55.14%	55.78%	51.59%	49.90%	51.32%	50.56%

\*CBSL has discontinued the requirement to maintain the Statutory Liquid Assets Ratio w.e.f 15th June 2024



TEMPLATE 14 - SECTION III (B) LIQUIDITY RISK- CURRENCY WISE

Report on Liquidity Gap Summary as at 31st Dec 2024 (LKR/ Behavioural)

( Amounts are in Millions LKR )

		1M	3M	6M	1Y	3Y	5Y	>5Y
Particulars	Product							
Total Inflows	Balances due from Head Office, Affiliates and Own Branches	0.00	0.00	0.00	0.00	0.00	0.00	3,772.29
	Bills of Exchange	145.21	38.06	0.00	0.00	0.00	0.00	0.00
	Cash on hand	49,897.81	0.00	0.00	0.00	0.00	0.00	0.00
	Deposits with CBSL	0.00	0.00	0.00	0.00	0.00	0.00	6,913.01
	Investments (Net of provisions)	70,717.64	96,057.23	282,794.12	92,022.04	134,037.98	93,579.24	84,319.04
	Loans and Advances	100,754.54	129,898.99	141,000.52	149,590.64	216,744.53	126,508.69	139,876.72
	NPLs	0.02	0.02	0.00	4,846.15	0.00	0.00	14,538.46
	Net Inter-Branch Transactions	0.00	0.00	0.00	0.00	0.00	0.00	23.54
	Other Assets	3,075.99	1,677.53	216.85	7,929.97	0.00	4,158.96	8,679.36
	Other	0.00	0.00	669.51	1,339.23	0.00	0.00	0.00
	Overdraft	2,505.59	3,579.76	5,480.19	10,985.32	40,530.90	51,427.36	58,315.92
	Accrued Interest	3,024.92	1,018.36	1,176.75	1,743.49	1.85	0.14	0.29
	Balances due from Other Banks	0.00	1,526.32	0.00	0.00	0.00	0.00	0.00
	Fixed Assets L1	0.00	0.00	0.00	0.00	0.00	0.00	31,899.94
	Forward Contracts	21,582.40	19,421.56	2,345.27	1,208.10	2.87	0.00	0.00
	Reverse Repo	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		251,704.12	253,217.82	433,683.22	269,664.94	391,318.13	275,674.39	348,338.57
Total Outflows	Balances due to Other Banks	1,907.12	0.00	0.00	0.00	0.00	0.00	0.00
	Bills Payable	1,045.62	0.00	0.00	0.00	0.00	0.00	0.00
	Demand Deposits	1,983.11	4,098.63	6,147.95	12,295.89	11.49	22.97	73,584.16
	Interest Payable	5,751.97	6,626.52	8,104.53	5,769.98	7,603.40	2,272.20	417.38
	Letters of Credit/Guarantees/ Acceptances	0.00	669.51	669.51	669.71	0.00	0.00	0.00
	Other Liabilities	49.79	60.31	216.81	8,194.24	17,549.87	860.43	21,177.66
	Savings Deposits	5,194.26	10,306.70	15,490.12	30,708.03	89,377.04	142,138.79	189,922.01
	Time Deposits	137,068.85	256,662.31	232,457.91	199,403.07	81,718.66	20,785.71	4,383.05
	Bonds Issued	0.00	140.40	0.00	2,983.87	9,105.69	15,926.75	14,391.12
	Borrowings	160.43	386.21	755.02	1,054.58	3,423.87	2,357.90	213.15
	Capital	0.00	0.00	0.00	0.00	0.00	0.00	42,858.23
	Forward Contracts Payable	57,348.45	52,865.84	25,893.49	1,207.32	2.87	0.00	0.00
	Repo	25,122.00	1,005.30	366.62	69.35	0.00	0.00	0.00
	Reserves	0.00	0.00	0.00	0.95	0.00	6,752.90	228,505.03
		235,631.62	332,821.73	290,101.98	262,356.98	208,792.89	191,117.65	575,451.79
Net Liquidity Gap		16,072.51	(79,603.91)	143,581.25	7,307.96	182,525.24	84,556.74	(227,113.22)
Net Gap as % of Total Outflows		6.82	(23.92)	49.49	2.79	87.42	44.24	(39.47)
Cumulative Gap		16,072.51	(63,531.41)	80,049.84	87,357.81	269,883.04	354,439.78	127,326.56
Adjustments for Behavioural Maturities	Time Deposits	109,655.08	205,329.85	185,966.33	159,522.45	65,374.93	16,628.57	3,506.44
	Unutilised O/D	(17,929.13)	(17,929.13)	(17,929.13)	(35,858.27)	0.00	0.00	0.00
	Undisbursed Loans	(1,375.61)	(1,375.61)	(1,375.61)	(2,751.22)	(2,292.68)	0.00	0.00
	Pawning Rollovers	(1,039.71)	(2,894.33)	(5,059.28)	(24,583.27)	33,576.58	0.00	0.00
Total Adjustments		89,310.63	183,130.77	161,602.31	96,329.70	96,658.83	16,628.57	3,506.44
Adjusted Net Liquidity Gap		105,383.14	103,526.86	305,183.56	103,637.67	279,184.07	101,185.31	(223,606.77)
Adjusted Net Gap as % of Total Outflows		72.02	69.16	237.50	62.42	248.97	57.99	(39.10)
Adjusted Cumulative Gap		105,383.14	208,910.00	514,093.56	617,731.22	896,915.29	998,100.60	774,493.83

Notes

- 1) The above figures have been prepared including interest cash flows and may differ from SLFRS figures given in the Statement of Financial Position
- 2) Prepared as per the requirements given in the Banking Act Direction No 7 of 2011 on "Integrated Risk Management Framework".

# MARKET DISCIPLINE-DISCLOSURE REQUIREMENTS UNDER PILLAR III

## TEMPLATE 14 - SECTION III (B) LIQUIDITY RISK- CURRENCY WISE

Report on Liquidity Gap Summary as at 31st Dec 2024 (USD/ Behavioural)

(Amounts are in Thousands USD)

		1M	3M	6M	1Y	3Y	5Y	>5Y
Particulars	Product							
Total Inflows	Bills of Exchange	1,423.67	2,439.32	611.65	0.00	0.00	0.00	0.00
	Cash on hand	3,452.49	0.00	0.00	0.00	0.00	0.00	0.00
	Investments (Net of provisions)	9,210.33	0.00	21,645.37	15,390.29	43,459.80	67,258.41	368,033.14
	Loans and Advances	51,546.36	109,114.84	129,074.00	19,138.84	135,363.20	39,639.72	1,901.85
	NPLs	0.00	0.00	0.00	3,058.36	0.00	0.00	9,175.08
	Other Assets	1,260.77	1,834.11	0.00	44,934.62	0.00	0.00	141.69
	Other	0.00	0.00	1,430.27	2,860.97	0.00	0.00	0.00
	Overdraft	137.69	358.82	495.95	984.73	3,685.53	5,711.67	7,509.98
	Accrued Interest	1,195.41	415.58	93.13	0.00	11.27	0.00	0.00
	Balances due from Other Banks	100,283.48	2,662.85	3,053.85	0.00	0.00	0.00	0.00
	Forward Contracts	187,750.73	169,799.25	84,653.51	4,015.75	9.69	0.00	0.00
		356,260.93	286,624.77	241,057.73	90,383.55	182,529.48	112,609.80	386,761.74
Total Outflows	Balances due to Other Banks	0.00	0.00	1,552.74	9,828.85	29,068.08	0.00	0.00
	Demand Deposits	452.57	934.99	1,402.48	2,804.96	145.85	291.59	16,897.26
	Interest Payable	3,624.92	5,340.23	3,407.67	3,728.13	1,829.57	1,214.28	0.00
	Letters of Credit/Guarantees/ Acceptances	0.00	1,437.91	1,437.91	1,438.35	0.00	0.00	0.00
	Other Liabilities	15.07	135.01	369.45	798.40	246.17	492.13	2,809.38
	Savings Deposits	2,102.01	4,204.94	6,311.99	12,558.36	35,414.04	61,989.89	87,391.73
	Time Deposits	131,552.39	173,943.26	144,069.39	273,058.73	24,103.73	33,935.08	0.00
	Forward Contracts Payable	141,361.41	74,295.33	9,868.94	4,015.75	9.69	0.00	0.00
		279,108.37	260,291.67	168,420.59	308,231.54	90,817.13	97,922.96	107,098.37
Net Liquidity Gap		77,153	26,333	72,637	(217,848)	91,712	14,687	279,663
Net Gap as % of Total Outflows		27.64	10.12	43.13	(70.68)	100.99	15.00	261.13
Cumulative Gap		77,153	103,486	176,123	(41,725)	49,987	64,674	344,337
Adjustments for Behavioural Maturities	Time Deposits	105,241.91	139,154.61	115,255.51	218,446.98	19,282.99	27,148.06	0.00
	Unutilised O/D	(652.23)	(652.23)	(652.23)	(1,304.46)	0.00	0.00	0.00
	Undisbursed Loans	(232.18)	(232.18)	(232.18)	(232.18)	(386.97)	0.00	0.00
Total Adjustments		104,357.50	138,270.19	114,371.10	216,910.34	18,896.02	27,148.06	0.00
Adjusted Net Liquidity Gap		181,510.06	164,603.30	187,008.25	(937.65)	110,608.38	41,834.90	279,663.37
Adjusted Net Gap as % of Total Outflows		103.87	134.90	345.99	(1.03)	153.79	59.11	261.13
Adjusted Cumulative Gap		181,510.06	346,113.36	533,121.60	532,183.96	642,792.33	684,627.23	964,290.60

### Notes

- 1) The above figures have been prepared including interest cash flows and may differ from SLFRS figures given in the Statement of Financial Position
- 2) Prepared as per the requirements given in the Banking Act Direction No 7 of 2011 on "Integrated Risk Management Framework".

TEMPLATE 14 - SECTION (V) INTEREST RATE RISK IN THE BANKING BOOKS (IRRBB)

Present Market Value of RSA/RSL on Movement of Market Interest Rates - LKR

(Values are in Millions LKR)

	1M	3M	6M	1Y	3Y	5Y	>5Y
Rate Sensitive Assets total	528,146.91	142,303.95	343,574.10	199,947.76	217,673.87	139,718.02	186,951.49
Rate Sensitive Liabilities total	167,998.83	279,556.63	236,783.31	221,079.52	154,076.01	150,512.32	434,071.20
Net Gap	360,148.08	(137,252.68)	106,790.79	(21,131.76)	63,597.86	(10,794.31)	(247,119.71)
Cumulative Gap	360,148.08	222,895.40	329,686.19	308,554.43	372,152.28	361,357.98	114,238.27
Duration weight	0.08	0.25	0.50	1.00	3.00	5.00	30.00
Market Rates	8.15	8.80	8.95	9.14	10.07	10.83	11.16
Present Value at market rates	357,804	134,390	102,311	19,362	47,689	6,456	10,329
Present Value at market rates + 50 basis pt	357,667	134,236	102,077	19,273	47,045	6,313	9,028
Change in Market value for 50 basis point interest movement	(138)	(154)	(234)	(88)	(644)	(144)	(1,301)

Present Market Value of RSA/RSL on Movement of Market Interest Rates - USD

(Values are in Thousands USD)

	1M	3M	6M	1Y	3Y	5Y	>5Y
Rate Sensitive Assets total	449,422.66	72,873.49	15,659.30	62,004.81	68,282.05	70,395.91	343,088.66
Rate Sensitive Liabilities total	133,084.66	175,699.60	183,805.66	274,584.45	47,390.37	86,474.85	88,322.35
Net Gap	316,338.00	(102,826.11)	(168,146.37)	(212,579.65)	20,891.68	(16,078.94)	254,766.31
Cumulative Gap	316,338.00	213,511.89	45,365.52	(167,214.13)	(146,322.45)	(162,401.39)	92,364.92
Duration weight	0.08	0.25	0.5	1	3	5	10
Market Rates	4.9602	4.8537	4.6821	5.0870	4.3820	4.2485	3.7930
Present Value at market rates	315,064	101,615	164,343	202,289	18,369	13,059	175,574
Present Value at market rates + 10 basis pt	315,039	101,591	164,265	202,097	18,317	12,997	173,892
Change in Market value for 10 basis point interest movement	(25)	(24)	(78)	(192)	(53)	(62)	(1,683)

Notes

1) The above figures have been prepared including interest cash flows and may differ from SLFRS figures given in the Statement of Financial Position

2) Prepared as per the requirements given in the Banking Act Direction No 7 of 2011 on "Integrated Risk Management Framework".

# INCOME STATEMENT IN US DOLLARS

For the year ended 31st December	Bank		Group	
	2024 US\$ 000	2023 US\$ 000	2024 US\$ 000	2023 US\$ 000
<b>Gross income</b>	650,877	923,270	780,716	1,039,007
Interest income	759,387	876,845	819,245	940,056
Less : Interest expenses	431,039	554,801	444,940	575,628
<b>Net interest income</b>	328,348	322,044	374,305	364,428
Fee and commission income	62,786	50,336	68,278	53,110
Less: Fee and commission expenses	1,924	1,443	2,980	1,960
<b>Net fee and commission income</b>	60,862	48,893	65,298	51,150
<b>Net interest, fee and commission income</b>	389,210	370,937	439,603	415,578
Net gains/(losses) from trading	(14,692)	(36,888)	(13,523)	(36,577)
Net gain from financial investments at fair value through other comprehensive income	1,293	838	1,728	959
Net insurance premium income	-	-	61,274	47,066
Net losses arising on de-recognition of Sri Lanka International Sovereign Bonds	(168,667)	-	(168,667)	-
Net other operating income	10,770	32,139	12,381	34,393
<b>Total operating income</b>	217,914	367,026	332,796	461,419
Less: Impairment charge / (reversal) for loans and other losses	(268,222)	125,276	(263,958)	131,247
<b>Net operating income</b>	486,136	241,750	596,754	330,172
<b>Less : Operating expenses</b>				
Personnel expenses	72,257	52,297	89,783	64,612
Benefits, claims and underwriting expenditure	-	-	59,042	46,971
Other expenses	71,663	57,283	93,728	74,760
<b>Total operating expenses</b>	143,920	109,580	242,553	186,343
<b>Operating profit before taxes on financial services</b>	342,216	132,170	354,201	143,829
Less: Taxes on financial services	70,022	31,279	72,116	32,479
<b>Operating profit after taxes on financial services</b>	272,194	100,891	282,085	111,350
Share of profit of joint venture (net of income tax)	-	-	4,699	3,521
<b>PROFIT BEFORE INCOME TAX</b>	272,194	100,891	286,784	114,871
Less: Income tax expense	131,216	38,073	133,878	42,011
<b>PROFIT FOR THE YEAR</b>	140,978	62,818	152,906	72,860
Profit attributable to:				
Equity holders of the Bank	140,978	62,818	148,471	70,281
Non-controlling interests	-	-	4,435	2,579
<b>PROFIT FOR THE YEAR</b>	140,978	62,818	152,906	72,860
<b>Earnings per share</b>				
Basic earnings per ordinary share (\$)	0.25	0.11	0.26	0.13
Diluted earnings per ordinary share (\$)	0.25	0.11	0.26	0.13
<b>Dividend per share</b>				
Dividend per share: Gross (\$)	* 0.05	0.02	* 0.05	0.02

Exchange rate of US\$ 1 was Rs. 293.25 as at 31st December 2024 (Rs. 324 as at 31st December 2023)

The income statement given on this page is solely for the convenience of the stakeholders of financial statements and does not form part of the audited financial statements

\*Final dividend proposed, which is to be approved at the Annual General Meeting.



# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME IN US DOLLARS

For the year ended 31st December	Bank		Group	
	2024 US\$ 000	2023 US\$ 000	2024 US\$ 000	2023 US\$ 000
<b>PROFIT FOR THE YEAR</b>				
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods	140,978	62,818	152,906	72,860
Change in fair value of investments in equity instruments designated at fair value through other comprehensive income	10,380	10,490	10,377	10,492
Remeasurement of post-employment benefit obligations	(10,701)	11	(11,186)	(95)
Revaluation gain on freehold land and buildings	16,140	-	18,722	-
Share of other comprehensive income of joint venture that will not be reclassified to profit or loss	-	-	-	(133)
Less: Tax expense relating to items that will not be reclassified to profit or loss including the effect of rate change	(4,842)	-	(5,568)	34
<b>Total other comprehensive income that will not be reclassified to profit or loss</b>	<b>10,977</b>	<b>10,501</b>	<b>12,345</b>	<b>10,298</b>
Other comprehensive income that will be reclassified to profit or loss in subsequent periods				
<b>Debt instruments at fair value through other comprehensive income :</b>				
Net gains / (losses) on investments in debt instruments measured at fair value through other comprehensive income	14,105	9,995	15,216	13,798
Cumulative net gains/(losses) on debt instruments measured at fair value through other comprehensive income that are reclassified to amortised cost	-	-	-	-
Net change in expected credit losses of debt securities measured at fair value through other comprehensive income	5,433	-	5,433	-
Transfer (to)/from life policy holder reserve fund	-	-	(650)	(2,021)
Share of other comprehensive income of joint venture that will be reclassified to profit or loss	-	-	(1,022)	(843)
Less: Tax expense relating to items that will be reclassified to profit or loss including the effect of rate change	(4,231)	(2,999)	(4,233)	(3,331)
<b>Total other comprehensive income that will be reclassified to profit or loss</b>	<b>15,307</b>	<b>6,996</b>	<b>14,744</b>	<b>7,603</b>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<b>26,284</b>	<b>17,497</b>	<b>27,089</b>	<b>17,901</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<b>167,262</b>	<b>80,315</b>	<b>179,995</b>	<b>90,761</b>
Total comprehensive income attributable to:				
Equity holders of the Bank	167,262	80,315	175,542	87,606
Non-controlling interests	-	-	4,453	3,155
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>167,262</b>	<b>80,315</b>	<b>179,995</b>	<b>90,761</b>

Exchange rate of US\$ 1 was Rs. 293.25 as at 31st December 2024 (Rs. 324 as at 31st December 2023)

The statement of profit or loss and other comprehensive income given on this page is solely for the convenience of the stakeholders of financial statements and does not form part of the audited financial statements

# STATEMENT OF FINANCIAL POSITION IN US DOLLARS

As at 31st December	Bank		Group	
	2024 US\$ 000	2023 US\$ 000	2024 US\$ 000	2023 US\$ 000
<b>ASSETS</b>				
Cash and cash equivalents	216,049	225,767	218,466	227,651
Placements with banks	142,740	172,812	165,920	190,853
Balances with Central Bank of Sri Lanka	23,574	37,760	23,574	37,760
Reverse repurchase agreements	-	-	18,007	5,650
Derivative financial instruments	1,279	1,396	1,279	1,396
Financial assets measured at fair value through profit or loss	6,259	357	10,103	2,472
Financial assets measured at amortised cost - loans and advances to customers	3,627,196	2,947,162	3,764,751	3,051,238
Financial assets measured at amortised cost - debt and other financial instruments	2,529,450	1,696,828	2,625,816	1,802,874
Financial assets measured at fair value through other comprehensive income	328,421	584,339	383,316	604,862
Investment in joint venture	2,575	2,330	18,936	13,811
Investment in subsidiaries	10,289	9,313	-	-
Investment properties	1,547	1,417	2,960	2,821
Property, plant and equipment	102,733	78,452	189,149	154,830
Right-of-use assets	15,387	15,683	7,853	7,634
Intangible assets and goodwill	4,511	4,815	6,168	6,203
Deferred tax assets	11,573	104,767	13,441	104,837
Other assets	64,355	86,717	83,675	103,133
<b>Total assets</b>	<b>7,087,938</b>	<b>5,969,915</b>	<b>7,533,414</b>	<b>6,318,025</b>
<b>LIABILITIES</b>				
Due to banks	22,491	27,838	22,491	27,838
Derivative financial instruments	5,365	4,215	5,366	4,214
Securities sold under repurchase agreements	90,319	190,721	90,319	190,721
Financial liabilities measured at amortised cost - due to depositors	5,849,903	4,875,865	5,968,488	4,966,524
Dividends payable	3,328	3,009	3,390	3,058
Financial liabilities measured at amortised cost - other borrowings	67,315	76,954	67,322	77,259
Debt securities issued	-	270	1,528	1,698
Current tax liabilities	35,587	73,931	38,832	76,258
Deferred tax liabilities	-	-	22,954	20,224
Insurance provision - life	-	-	132,575	95,603
Insurance provision - non-life	-	-	15,369	14,488
Other provisions	66,577	28,023	69,245	29,930
Other liabilities	61,619	59,648	73,483	63,877
Subordinated term debts	96,076	58,523	102,190	68,689
<b>Total liabilities</b>	<b>6,298,580</b>	<b>5,398,997</b>	<b>6,613,552</b>	<b>5,640,381</b>
<b>EQUITY</b>				
Stated capital	146,149	126,405	146,149	126,405
Statutory reserve fund	43,001	32,130	43,001	32,130
Retained earnings	263,653	173,801	311,628	210,653
Other reserves	336,555	238,582	390,478	285,874
<b>Total shareholders' equity</b>	<b>789,358</b>	<b>570,918</b>	<b>891,256</b>	<b>655,062</b>
Non-controlling interests	-	-	28,606	22,582
<b>Total equity</b>	<b>789,358</b>	<b>570,918</b>	<b>919,862</b>	<b>677,644</b>
<b>Total equity and liabilities</b>	<b>7,087,938</b>	<b>5,969,915</b>	<b>7,533,414</b>	<b>6,318,025</b>
Contingent liabilities and commitments	2,957,353	2,725,411	2,957,353	2,725,411
Net assets value per ordinary share (\$)	1.38	1.00	1.56	1.15

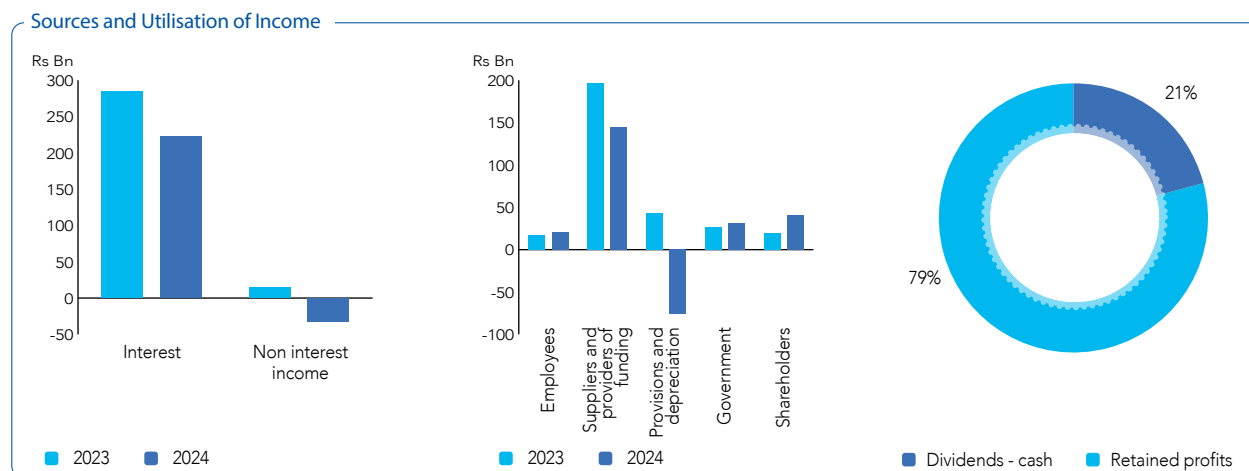
Exchange rate of US\$ 1 was Rs. 293.25 as at 31st December 2024 (Rs. 324 as at 31st December 2023)

The statement of financial position given on this page is solely for the convenience of the stakeholders of financial statements and does not form part of the audited financial statements

# SOURCES AND UTILISATION OF INCOME

For the year ended 31st December	2019	2020	2021	2022	2023	2024
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Sources of income</b>						
Interest	115,210,769	103,944,602	98,600,557	207,019,354	284,097,697	222,690,253
Non interest income	10,787,317	11,869,016	16,446,768	35,393,137	15,041,650	(31,820,341)
<b>Total</b>	<b>125,998,086</b>	<b>115,813,618</b>	<b>115,047,325</b>	<b>242,412,491</b>	<b>299,139,347</b>	<b>190,869,912</b>
<b>Utilisation of income</b>						
<b>Employees</b>						
Salaries and other payment to staff	11,444,259	11,459,352	10,757,563	15,025,888	16,944,206	21,189,328
<b>Suppliers and providers of funding</b>						
Interest paid	65,997,133	59,235,456	49,041,200	104,142,478	179,755,441	126,402,153
Other expenses	10,091,780	8,376,595	9,505,351	12,935,090	15,995,366	18,227,800
	76,088,913	67,612,051	58,546,551	117,077,568	195,750,807	144,629,953
<b>Provisions and depreciation</b>						
Depreciation and amortisation	2,246,114	2,359,326	2,442,964	2,567,704	2,776,261	3,028,654
Impairment for loans and other losses	9,656,010	15,258,468	18,778,047	90,461,305	40,589,311	(78,655,988)
	11,902,124	17,617,794	21,221,011	93,029,009	43,365,572	(75,627,334)
<b>Net income before government taxes and levies</b>	<b>26,562,790</b>	<b>19,124,421</b>	<b>24,522,200</b>	<b>17,280,026</b>	<b>43,078,762</b>	<b>100,677,965</b>
<b>Government</b>						
Income tax, VAT, SSCL, Crop Insurance, DRL	13,399,141	9,788,490	10,699,838	30,880,002	27,170,367	31,446,196
<b>Shareholders</b>						
Dividends - cash	2,251,830	2,303,891	3,418,380	-	2,238,954	8,577,318
Retained through scrip dividend	1,751,423	1,791,915	1,314,761	2,672,884	2,238,954	-
Retained profits	10,028,999	7,366,832	12,566,626	11,360,609	15,875,211	32,764,475
Deferred taxation	(868,603)	(2,126,705)	(3,477,405)	(27,633,469)	(4,444,723)	27,889,976
<b>Total</b>	<b>125,998,086</b>	<b>115,813,618</b>	<b>115,047,325</b>	<b>242,412,491</b>	<b>299,139,347</b>	<b>190,869,912</b>

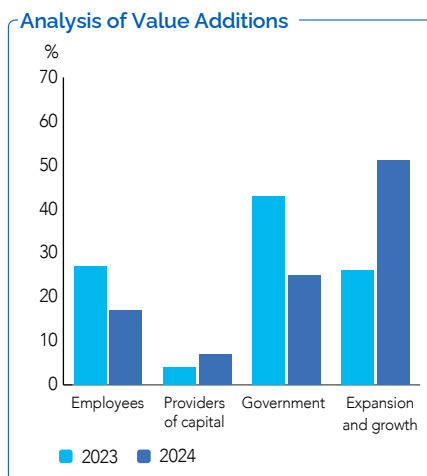
Figures are based on the Bank's financial statements



# VALUE ADDED STATEMENT

For the year ended 31st December	2024		2023			
	Rs 000	%	Rs 000	%		
<b>Value added</b>						
Income earned by providing banking services	243,499,975		310,274,684			
Cost of services	144,629,953		195,700,233			
Value added by banking services	98,870,022		114,574,451			
Non-banking income	1,139,907		544,753			
Net gain/(loss) from trading and financial investment	(53,769,970)		(11,680,090)			
Impairment for loans and other losses	78,655,988		(40,589,311)			
	124,895,947		62,849,803			
<b>Value allocated to employees</b>						
Salaries,wages and other benefits	21,189,328	16.97	16,944,206	26.96		
<b>To providers of capital</b>						
Dividends to shareholders - cash	8,577,318	6.87	2,238,954	3.56		
<b>To the Government</b>						
Income tax	10,588,988		16,780,300			
Value added tax on financial services	18,031,837		8,898,597			
Social security contribution levy	2,555,975		1,286,490			
Crop insurance levy	218,266		206,000			
Local taxes	29,298		24,467			
Stamp duty	21,832	31,446,196	25.18	25,087	27,220,941	43.31
<b>For expansion and growth</b>						
Retained income	32,764,475	26.23	15,875,211	25.26		
Retained through scrip dividend	-	0.00	2,238,954	3.56		
Depreciation and amortisation	3,028,654	2.42	2,776,261	4.42		
Deferred taxation	27,889,976	22.33	(4,444,723)	(7.07)		
	124,895,947	100.00	62,849,803	100.00		

Figures are based on the Bank's financial statements



# VALUE CREATED TO STAKEHOLDERS

For the year ended 31st December	2024 Rs 000	2023 Rs 000
<b>Direct economic value generated</b>		
Interest income	222,690,253	284,097,697
Fee commission income	18,412,099	16,308,907
Net gain/ (loss) from trading and financial investment	(53,390,798)	(11,680,090)
Other operating income	3,158,358	10,412,833
<b>Total direct economic value generated</b>	<b>190,869,912</b>	<b>299,139,347</b>
<b>Economic value distributed</b>		
To depositors/ debenture holders as interest	126,402,153	179,755,441
To employees as emoluments	21,189,328	16,944,206
Depreciation/ amortisation set aside	3,028,654	2,776,261
Impairment charge for loans and other losses	(78,655,988)	40,589,311
To providers of supplies and services	16,620,445	14,413,251
To government as taxation	31,446,196	27,220,941
- Income tax	10,588,988	16,780,300
- VAT and SSCL on financial services	20,587,812	10,185,087
- Crop insurance levy	218,266	206,000
- Stamp duty and other local taxes	51,130	49,554
To Central Bank of Sri Lanka as deposit insurance premium	1,593,025	1,475,073
To shareholders as dividends	8,577,318	4,477,908
To community as donation/CSR	14,331	56,468
<b>Total economic value distributed</b>	<b>130,215,462</b>	<b>287,708,860</b>
<b>Economic value retained</b>	<b>60,654,450</b>	<b>11,430,487</b>

Figures are based on the Bank's financial statements

# TEN YEAR STATISTICAL SUMMARY

Year ended 31st December (Rs Mn)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>OPERATING RESULTS</b>										
Income	61,153	84,351	106,295	121,356	125,998	115,814	115,047	242,412	299,139	190,870
Interest income	52,615	75,608	96,175	108,105	115,211	103,945	98,601	207,019	284,098	222,690
Interest expense	26,280	41,237	56,526	60,525	65,997	59,235	49,041	104,142	179,755	126,402
Non interest income	8,538	8,743	10,120	13,251	10,787	11,869	16,447	35,393	15,042	(31,820)
Operating expenses (Incl. impairment financial VAT and SSCL)	19,824	22,968	27,719	37,879	41,538	41,497	46,181	126,296	86,695	(15,353)
Profit before income tax	15,050	20,146	22,050	22,952	18,463	15,081	19,825	11,974	32,689	79,821
Income tax on profit	4,601	6,002	5,583	7,433	4,431	3,619	2,525	(2,060)	12,336	38,479
Profit after taxation	10,449	14,143	16,467	15,518	14,032	11,463	17,300	14,033	20,353	41,342
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>										
Customer deposits	527,126	623,495	701,519	799,975	810,035	967,821	1,075,709	1,407,800	1,579,780	1,715,484
Refinance borrowings	4,227	4,140	5,244	5,639	6,364	15,089	14,270	9,950	9,952	11,548
Other liabilities	128,424	154,080	134,884	163,312	179,723	174,939	116,316	113,461	159,543	120,027
Deferred tax liabilities	379	231	5,083	1,809	1,382	-	-	-	-	-
Shareholders' funds	65,051	77,017	108,148	115,754	127,504	134,002	152,041	159,327	184,977	231,479
<b>Total</b>	<b>725,208</b>	<b>858,963</b>	<b>954,878</b>	<b>1,086,489</b>	<b>1,125,009</b>	<b>1,291,852</b>	<b>1,358,337</b>	<b>1,690,539</b>	<b>1,934,252</b>	<b>2,078,538</b>
<b>ASSETS</b>										
Loans and receivables to customers (net)	498,342	584,413	639,102	749,049	741,769	772,581	876,255	974,131	954,880	1,063,675
Cash, short term funds and statutory deposits with the Central Bank of Sri Lanka	35,033	52,042	63,533	62,342	59,487	41,336	64,006	112,583	85,383	70,269
Property, plant and equipment	11,474	13,945	17,905	21,304	21,077	20,705	24,954	24,836	25,419	30,126
Deferred tax assets	-	-	-	-	-	807	4,462	30,471	33,945	3,394
Other assets	180,360	208,564	234,337	253,794	302,676	456,423	388,661	548,517	834,626	911,073
<b>Total</b>	<b>725,208</b>	<b>858,963</b>	<b>954,878</b>	<b>1,086,489</b>	<b>1,125,009</b>	<b>1,291,852</b>	<b>1,358,337</b>	<b>1,690,539</b>	<b>1,934,252</b>	<b>2,078,538</b>
<b>RATIOS</b>										
Return on average shareholders funds (%)	16.6	19.9	17.8	13.9	11.5	8.8	12.1	9.0	11.82	19.85
Income growth (%)	2.8	37.9	26.0	14.2	3.8	(8.1)	(0.7)	110.7	23.4	(36.2)
Return on average assets (%)	1.6	1.8	1.8	1.5	1.3	0.9	1.3	0.9	1.1	2.1
Dividend cover (times)	3.0	4.0	4.0	3.7	3.5	2.8	3.7	5.3	4.5	4.8
Property, plant and equipment to shareholders' funds (%)	17.6	18.1	16.6	18.4	16.5	15.5	16.4	15.6	13.7	13.0
Total assets to shareholders' funds (times)	11.1	11.2	8.8	9.4	8.8	9.6	8.9	10.6	10.5	9.0
<b>SHARE INFORMATION</b>										
Market value per share (Rs)										
- Voting	210.60	225.00	249.00	214.00	172.20	126.50	135.00	78.90	169.25	319.75
- Non voting	177.90	190.00	195.00	168.50	135.50	100.60	122.25	70.00	140.00	256.75
Group earnings per share (Rs)	26.09	34.99	35.50	35.25	29.32	25.58	36.18	28.62	40.68	76.14
*Group earnings per share (adjusted) (Rs)	18.46	25.80	27.89	30.84	25.66	22.90	33.27	26.81	39.82	76.14
Price earnings ratio	8.07	6.43	7.01	6.07	5.87	4.95	3.73	2.76	4.16	4.20
Group net assets per share (Rs)	186.20	220.61	247.79	269.28	290.78	301.28	335.93	342.25	379.18	457.07
**Group net assets per share (adjusted) (Rs)	132.15	159.65	213.37	232.00	254.46	269.75	308.96	320.54	371.17	457.07
Dividend per share (Rs)	8.50	8.50	8.50	8.50	8.00	8.00	9.00	5.00	8.00	15.00
Cash dividend per share (Rs)	5.00	5.00	6.50	5.00	4.50	4.50	6.50	-	4.00	15.00
Gross dividends (Rs Mn)	3,451	3,523	4,153	4,188	4,003	4,096	4,733	2,673	4,478	8,577
<b>OTHER INFORMATION</b>										
No. of employees	4,285	4,190	4,348	4,781	4,913	4,836	5,042	5,156	5,492	5,577
No. of customer centres	249	251	251	250	252	252	255	255	254	254
No. of student banking centres	168	150	152	155	156	162	162	162	162	162

\* Adjusted Earnings per share has been computed for the current number of shares outstanding as at 31st December 2024

\* Adjusted Net asset value per share has been computed for the current number of shares outstanding as at 31st December 2024

# QUARTERLY STATISTICS

For the three months ended	2024				*2023											
	December 31st	September 30th	June 30th	March 31st	December 31st	September 30th	June 30th	March 31st								
<b>Statement of Financial Position (Rs Mn)</b>																
Total assets	2,078,538	1,999,701	1,952,911	1,940,900	1,934,252	1,857,538	1,834,992	1,746,583								
Loans and advances to customers	1,063,675	1,020,124	957,757	930,051	954,880	930,909	899,329	926,849								
Due to customers	1,715,484	1,620,614	1,594,583	1,553,074	1,579,780	1,531,801	1,477,206	1,437,240								
Shareholders' funds	231,479	206,055	200,111	190,595	184,977	181,772	168,826	166,800								
Average assets	1,993,013	1,956,941	1,942,688	1,937,576	1,843,341	1,782,413	1,757,371	1,718,561								
<b>Income Statement (Rs 000)</b>																
Net interest income	27,826,169	22,843,731	23,627,725	21,990,475	21,117,895	23,898,946	27,763,862	31,561,553								
Net fee and commission income	4,967,803	4,510,991	4,264,917	4,104,029	4,141,444	3,715,335	3,746,073	4,238,483								
Net gain/(loss) from trading	(225,367)	(3,401,163)	3,457,556	(4,139,455)	(1,988,365)	(1,323,658)	(1,369,787)	(7,269,817)								
Net gain from financial investments at fair value through other comprehensive income	49,761	-	-	329,411	271,537	-	-	-								
Net losses arising on de-recognition of Sri Lanka International Sovereign Bonds	(49,461,541)	-	-	-	-	-	-	-								
Net other operating income	(218,211)	2,811,387	(1,135,158)	1,700,340	2,298,378	2,721,540	(98,837)	5,491,752								
<b>Total operating income / (loss)</b>	<b>(17,061,386)</b>	<b>26,764,946</b>	<b>30,215,040</b>	<b>23,984,800</b>	<b>25,840,889</b>	<b>29,012,163</b>	<b>30,041,311</b>	<b>34,021,971</b>								
Less : Impairment charge / (reversal) for loans and other losses	(81,901,153)	1,757,638	115,961	1,371,566	8,218,133	4,119,429	16,871,891	11,379,858								
<b>Net operating income</b>	<b>64,839,767</b>	<b>25,007,308</b>	<b>30,099,079</b>	<b>22,613,234</b>	<b>17,622,756</b>	<b>24,892,734</b>	<b>13,169,420</b>	<b>22,642,113</b>								
Less : Operating expenses	11,929,513	10,514,710	9,892,800	9,867,562	9,009,065	8,887,782	8,740,244	8,866,724								
Taxes on financial services	9,932,365	3,412,142	4,245,630	2,943,909	2,180,190	3,378,533	1,502,050	3,073,740								
Income tax expenses	23,842,695	4,242,106	6,829,710	3,564,453	2,641,731	4,670,386	1,182,554	3,840,906								
<b>Profit for the quarter ended</b>	<b>19,135,194</b>	<b>6,838,350</b>	<b>9,130,939</b>	<b>6,237,310</b>	<b>3,791,770</b>	<b>7,956,033</b>	<b>1,744,572</b>	<b>6,860,743</b>								
<b>Other comprehensive income for the quarter ended</b>	<b>6,261,497</b>	<b>(894,011)</b>	<b>385,161</b>	<b>1,955,061</b>	<b>(593,904)</b>	<b>4,995,885</b>	<b>266,512</b>	<b>1,000,584</b>								
<b>Total comprehensive income for the quarter ended</b>	<b>25,396,691</b>	<b>5,944,339</b>	<b>9,516,100</b>	<b>8,192,371</b>	<b>3,197,866</b>	<b>12,951,918</b>	<b>2,011,084</b>	<b>7,861,327</b>								
<b>Ordinary share information</b>																
Market price per share (Rs)	V	NV	V	NV	V	NV	V	NV	V	NV	V	NV	V	NV	V	NV
High	324.00	264.50	206.50	170.00	208.00	167.75	182.00	152.00	175.00	149.00	203.50	169.75	141.00	110.00	138.00	114.00
Low	203.00	165.00	153.50	127.00	170.00	139.00	151.00	128.75	158.00	130.25	150.00	110.50	106.00	72.60	75.20	66.50
Closing	319.75	256.75	204.75	165.50	202.75	159.00	180.00	150.25	169.25	140.00	172.00	149.50	140.00	108.00	129.50	88.20
V- Voting NV - Non voting																
Net Asset Value per Share (Adjusted)	404.81	360.35	349.95	333.31	323.49	317.88	295.24	291.70								
<b>Financial measures</b>																
<b>Profitability (Annualised)</b>																
Interest Margin	4.86	4.66	4.70	4.54	5.66	6.23	6.63	7.35								
Return on Assets (before Tax), %**	4.03	2.51	2.65	2.02	1.77	1.96	1.52	2.49								
Return on Equity**	20.40	15.15	16.02	13.29	11.59	13.05	10.26	16.83								
<b>Productivity</b>																
Cost to Income Ratio	66.04	37.39	36.46	41.14	29.86	28.47	27.48	26.06								
<b>BASEL III</b>																
<b>Risk weighted capital ratios</b>																
Common Equity Tier I Capital (%)	19.59	15.51	16.17	14.48	13.66	11.91	12.48	11.41								
Tier I Capital (%)	19.59	15.51	16.17	14.48	13.66	11.91	12.48	11.41								
Total Capital (%)	23.96	20.01	19.69	18.06	17.13	14.73	15.58	14.43								
Leverage Ratio	7.39	6.24	6.42	5.65	5.61	5.51	5.62	5.78								
<b>Asset quality</b>																
Impaired Loans (Stage 3) Ratio, %	1.88	3.32	4.09	4.02	3.76	4.90	4.77	3.82								
Impairment (Stage 3) to Stage 3 loans Ratio, %	74.42	60.50	56.08	55.50	57.49	50.74	51.35	55.52								

\* Quarterly information has been amended based on classification changes made in 2024.

\*\* Calculated based on quarterly average.



# INVESTOR RELATIONS

## 1 STOCK EXCHANGE LISTING

The issued ordinary shares of Hatton National Bank PLC are listed with the Colombo Stock Exchange. The audited income statement for the year ended 31st December 2024 and the audited balance sheet of the bank as at date have been submitted to the Colombo Stock Exchange within three months of the balance sheet date.

Stock Exchange code for Hatton National Bank PLC Voting share is "HNB.N0000". Reuters code of Hatton National Bank PLC is "HNB.CM"

## 2 ORDINARY SHAREHOLDERS

### SHARE INFORMATION - VOTING

There were 8,582 registered voting shareholders as at 31st December 2024 (2023 - 7,645) distributed as follows.

		Resident			Non-resident			Total		
		No of share holders	No of shares	%	No of share holders	No of shares	%	No of share holders	No of shares	%
1	- 1,000	5,492	1,133,386	0.28	47	14,779	0.03	5,539	1,148,165	0.25
1,001	- 10,000	2,032	6,789,140	1.69	45	184,622	0.35	2,077	6,973,762	1.53
10,001	- 100,000	736	23,601,501	5.88	24	675,522	1.27	760	24,277,023	5.34
100,001	- 1,000,000	153	48,521,345	12.08	10	2,161,945	4.05	163	50,683,290	11.14
Over	1,000,000	38	321,526,503	80.07	5	50,318,252	94.30	43	371,844,755	81.74
		8,451	401,571,875	100.00	131	53,355,120	100.00	8,582	454,926,995	100.00

### ANALYSIS OF SHAREHOLDERS

#### Resident / Non-resident

	31st December 2024			31st December 2023		
	No of share holders	No of shares	%	No of share holders	No of shares	%
Resident	8,451	401,571,875	88.27	7,514	389,074,220	87.31
Non-resident	131	53,355,120	11.73	131	56,557,392	12.69
<b>Total</b>	<b>8,582</b>	<b>454,926,995</b>	<b>100.00</b>	<b>7,645</b>	<b>445,631,612</b>	<b>100.00</b>

#### Individuals/Institutions

	31st December 2024			31st December 2023		
	No of share holders	No of shares	%	No of share holders	No of shares	%
Individuals	8,057	84,379,340	18.55	7,221	82,296,358	18.47
Institutions	525	370,547,655	81.45	424	363,335,254	81.53
<b>Total</b>	<b>8,582</b>	<b>454,926,995</b>	<b>100.00</b>	<b>7,645</b>	<b>445,631,612</b>	<b>100.00</b>

As at 31/12/2024 the average size of holding of ordinary shareholding was 53,131 voting shares, (31/12/2023 - 58,424 voting shares), including unregistered shares.

As per the rule No. 7.6 (iv) of the listing rules of the Colombo Stock Exchange, percentage of public holding of voting shares as at 31st December 2024 was 69% approximately (69% as at 31st December 2023).

As per the rule No. 7.13.1 of the listing rules of the Colombo Stock Exchange, Number of shareholders, representing public holding as at 31st December 2024 - 8,563 (7,622 as at 31st December 2023).

1,041,479 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.

### 3 SHARE INFORMATION - NON VOTING

There were 11,090 registered non voting shareholders as at 31st December 2024 (2023 - 10,955) distributed as follows.

		Resident			Non-resident			Total		
		No of share holders	No of shares	%	No of share holders	No of shares	%	No of share holders	No of shares	%
1	- 1,000	6,952	2,320,886	2.03	42	16,497	1.26	6,994	2,337,383	2.02
1,001	- 10,000	3,334	11,200,392	9.78	35	132,032	10.08	3,369	11,332,424	9.78
10,001	- 100,000	637	17,656,698	15.41	13	414,949	31.69	650	18,071,647	15.60
100,001	- 1,000,000	68	19,984,091	17.45	4	746,001	56.97	72	20,730,092	17.89
Over	1,000,000	5	63,381,176	55.33	-	-	-	5	63,381,176	54.71
		10,996	114,543,243	100.00	94	1,309,479	100.00	11,090	115,852,722	100.00

#### ANALYSIS OF SHAREHOLDERS

Resident / non-resident

	31st December 2024			31st December 2023		
	No of share holders	No of shares	%	No of share holders	No of shares	%
Resident	10,996	114,543,243	98.87	10,860	111,808,770	98.87
Non-resident	94	1,309,479	1.13	95	1,277,806	1.13
<b>Total</b>	<b>11,090</b>	<b>115,852,722</b>	<b>100.00</b>	<b>10,955</b>	<b>113,086,576</b>	<b>100.00</b>

Individuals / Institutions

	31st December 2024			31st December 2023		
	No of share holders	No of shares	%	No of share holders	No of shares	%
Individuals	10,734	36,689,786	31.67	10,656	36,277,403	32.08
Institutions	356	79,162,936	68.33	299	76,809,173	67.92
<b>Total</b>	<b>11,090</b>	<b>115,852,722</b>	<b>100.00</b>	<b>10,955</b>	<b>113,086,576</b>	<b>100.00</b>

As at 31/12/2024 the average size of holding of ordinary shareholding was 10,447 non-voting shares, (31/12/2023 - 10,323 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 2024 was 99% approximately. (99% as at 31st December 2023).

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 2024 - 11,077 (10,938 as at 31st December 2023).

# INVESTOR RELATIONS

## 4 SHARE TRADING

VOTING	2024	2023
Number of transactions	37,507	21,571
Number of shares traded (Mn)	151	73
Value of shares traded (Rs Mn)	32,801	10,563
NON VOTING	2024	2023
Number of transactions	14,986	11,585
Number of shares traded (Mn)	22	11
Value of shares traded (Rs Mn)	4,029	1,369

## 5 DIVIDENDS

	2024	2023
Cash dividend (Rs)	15.00	4.00
Scrip dividend (Rs)	-	4.00
Group cash dividend payout ratio (%)	19.7	9.83

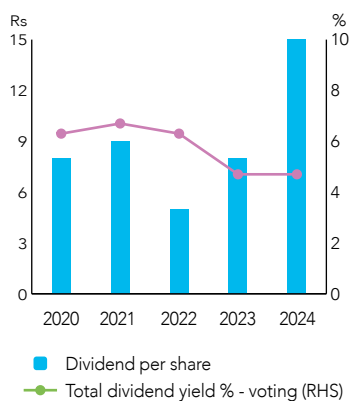
## 6 EARNINGS

VOTING	2024	2023
Group earnings per share (Rs)	76.14	40.68
Price earnings ratio (times) - voting shares	4.20	4.16

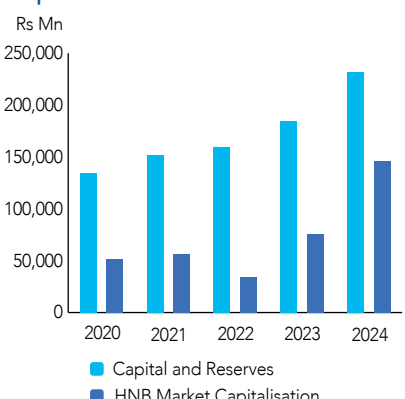
## 7 MARKET VALUES

	Highest Rs	Lowest Rs	Year End Rs
2018 - Voting	257.50	200.00	214.00
- Non Voting	200.00	150.00	168.50
2019 - Voting	214.90	130.50	172.20
- Non Voting	168.50	118.30	135.50
2020 - Voting	173.20	91.70	126.50
- Non Voting	136.20	74.70	100.60
2021 - Voting	170.00	123.50	135.00
- Non Voting	146.75	92.00	122.25
2022 - Voting	142.25	72.10	78.90
- Non Voting	131.50	65.00	70.00
2023 - Voting	203.50	75.20	169.25
- Non Voting	169.75	66.50	140.00
2024 - Voting	324.00	151.00	319.75
- Non Voting	264.50	127.00	256.75

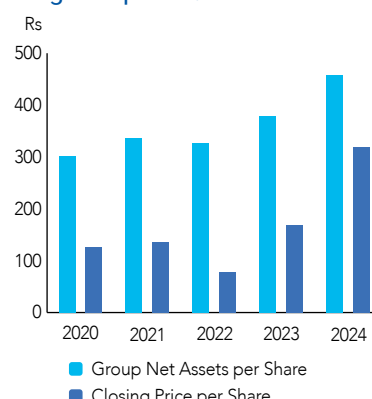
### Dividend per Share and Dividend Yield



### Shareholder Funds and HNB Market Capitalisation



### Group Net Assets per Share and Closing Price per Share



## 8 MARKET CAPITALISATION (AS AT 31ST DECEMBER)

	Capital and reserves	*HNB market capitalisation	CSE market capitalisation	HNB market capitalisation as a % of CSE market capitalisation	Market capitalisation ranking
	Rs Mn	Rs Mn	Rs Mn	%	
2020	134,002	51,905	2,960,648	1.75	16
2021	152,041	56,816	5,489,168	1.04	22
2022	159,327	33,807	3,847,150	0.88	26
2023	184,977	75,596	4,248,935	1.78	12
2024	231,479	145,796	5,695,560	2.56	8

\*HNB market capitalisation include only voting shares

## 9 PUBLIC SHAREHOLDING

	2024	%	2023	%
	Number		Number	
Number of shareholders representing the public holding (voting)	8,563	69	7,622	69
Number of shareholders representing the public holding (non voting)	11,077	99	10,938	99
Compliant under option 1 - float adjusted market capitalisation (Rs Bn)	100.6		52.2	

# INVESTOR RELATIONS

## 10. INFORMATION ON MOVEMENT IN SHARE CAPITAL

Year	Issue	Basis	No of Shares
	Prior to public issue		50,000
1971	Public issue		220,000
1977	Rights issue (@ Rs 10/-)	42:50:00	230,000
1980	Rights issue (@ Rs 10/-)	1:1	500,000
1982	Bonus	1:1	1,000,000
1988	Bonus	1:1	2,000,000
1990	Bonus	1:2	2,000,000
1993	Bonus	1:1	6,000,000
1996	Bonus	2:3	8,000,000
1998	Bonus	1:2	10,000,000
1999	Bonus	2:3	20,000,000
1999	Rights (non-voting @ Rs 70/-)	3:10	15,000,000
2002	Bonus	1:10	6,500,000
2004	Rights (voting @ Rs 55/- and non-voting @ Rs 33/-)	2:5	28,600,000
2005	Issue of underlying shares for GDR		17,664,700
2007	Bonus	1:1	117,764,700
2009	Shares issued under ESOP		240,747
2010	Shares issued under ESOP		2,198,875
2011	Sub division of shares	1:2	119,179,782
2011	Rights (voting @ Rs 219.50/- and non-voting @ Rs 119.50/-)	1:10	21,858,851
2011	Private placement of unsubscribed rights		8,975,700
2011	Shares issued under ESOP		613,488
2012	Scrip dividend		7,890,528
2012	Shares issued under ESOP		759,078
2013	Shares issued under ESOP		2,308,752
2014	Shares issued under ESOP		3,042,455
2015	Shares issued under ESOP		3,223,714
2016	Shares issued under ESOP		1,314,043
2016	Scrip dividend		6,680,061
2017	Shares issued under ESOP		1,201,044
2017	Scrip Dividend		5,830,259
2017	Rights Issue (voting @Rs 220/- and non-voting @Rs 190/-)	1:6	67,706,913
2018	Shares issued under ESOP		263,948
2018	Scrip dividend		3,832,951
2019	Scrip dividend		7,756,118
2020	Scrip dividend		11,569,009
2021	Scrip dividend		13,928,857
2022	Scrip dividend		9,650,869
2023	Scrip dividend		24,182,945
2024	Scrip dividend		12,082,809
	<b>Total</b>		<b>571,821,196</b>

**11 20 MAJOR SHAREHOLDERS (VOTING) OF THE BANK AS AT 31ST DECEMBER 2024**

Name	% on total capital	% on total voting capital	No of shares 2024	No of shares 2023
1. BROWNS INVESTMENTS PLC (CONSISTING OF SAMPATH BANK PLC/BROWNS INVESTMENTS PLC & BROWNS INVESTMENTS PLC ACCOUNTS)	7.96	9.99	45,529,714	44,599,422
2. EMPLOYEE'S PROVIDENT FUND	7.77	9.75	44,443,363	43,535,266
3. SRI LANKA INSURANCE CORPORATION LTD-LIFE FUND	6.59	8.27	37,696,270	36,926,034
4. MILFORD EXPORTS (CEYLON) (PVT) LIMITED	6.31	**7.91	36,055,836	35,319,119
5. STASSEN EXPORTS (PVT) LIMITED	5.47	**6.85	31,252,000	30,613,438
6. SONETTO HOLDINGS LIMITED.	3.92	4.91	22,410,383	21,952,479
7. SRI LANKA INSURANCE CORPORATION LTD-GENERAL FUND	3.39	4.25	19,366,354	18,970,648
8. CITIBANK NEWYORK S/A NORGES BANK ACCOUNT 2	3.01	3.77	17,184,380	17,389,562
9. DISTILLERIES COMPANY OF SRI LANKA PLC	2.45	**3.07	13,982,540	13,696,840
10. NATIONAL SAVINGS BANK	2.29	2.87	13,083,066	12,815,744
11. MR. H.H. ABDULHUSEIN	1.91	2.40	10,940,000	-
12. MR. Y.S.H.I. SILVA	1.88	2.35	10,728,905	-
13. STANDARD CHARTERED BANK SINGAPORE S/A HL BANK SINGAPORE BRANCH	1.50	1.88	8,558,121	8,383,256
14. FIRST CAPITAL HOLDINGS PLC	1.33	1.67	7,600,000	-
15. MR. Y.S.H.R.S. SILVA	0.91	1.15	5,224,858	3,860,684
16. SIMONAS TRUST SERVICE PVT LTD	0.81	1.02	4,640,728	4,545,906
17. GALLE FACE CAPITAL PARTNERS PLC	0.61	0.77	3,500,000	3,520,359
18. JANASHAKTHI INSURANCE PLC-SHAREHOLDERS	0.52	0.66	3,000,000	-
19. DFCC BANK PLC A/C NO .02	0.48	0.60	2,727,476	-
20. JANASHAKTHI INSURANCE PLC - NON PAR	0.43	0.54	2,445,000	-
Sub total	59.54	74.68	340,368,994	296,128,757
*Unregistered shares	0.18	0.23	1,041,479	1,020,199
Balance held by 8,562* voting shareholders (Total voting shareholders - 8,582)	20.03	25.09	114,558,001	149,502,855
Total voting shares	79.74	100.00	455,968,474	446,651,811
Shares held by 11,090 non-voting shareholders	20.26		115,852,722	113,086,576
Total No. of ordinary shares	100.00		571,821,196	559,738,387

\* 1,041,479 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

## 12 20 MAJOR SHAREHOLDERS (NON-VOTING) OF THE BANK AS AT 31ST DECEMBER 2024

Name	% on total capital	% on total voting capital	No of shares 2024	No of shares 2023
1. BROWNS INVESTMENTS PLC (CONSISTING OF SAMPATH BANK PLC/BROWNS INVESTMENTS PLC & BROWNS INVESTMENTS PLC ACCOUNTS)	9.29	45.87	53,140,789	51,871,980
2. ACUITY PARTNERS (PVT) LIMITED/MR.ELAYATHAMBY THAVAGNANASOORIYAM/MR.ELAYATHAMBY THAVAGNANASUNDARAM	0.90	4.44	5,143,513	5,666,420
3. AKBAR BROTHERS PVT LTD A/C NO 1	0.90	4.40	5,096,874	4,975,179
4. PEOPLE'S LEASING & FINANCE PLC/MR. I.D.R. PERERA	0.16	0.80	925,000	820,468
5. SABOOR CHATOOR (PVT) LTD	0.15	0.74	854,000	780,000
6. HATTON NATIONAL BANK PLC A/C NO 2 - (EMPLOYEES PROVIDENT FUND)	0.15	0.72	833,694	813,789
7. EMPLOYEES TRUST FUND BOARD	0.14	0.70	813,775	1,466,366
8. MR. E. CHATOOR	0.13	0.66	762,044	733,097
9. MR. S.E. CAPTAIN	0.11	0.56	651,163	1,078,271
10. SENKADAGALA FINANCE PLC/E.THAWAGNASUNDARAM	0.10	0.50	581,539	-
11. E.W. BALASURIYA & CO. (PVT) LTD ACC NO 01	0.10	0.50	578,704	564,887
12. MR. Y.H. ABDULHUSSEIN	0.09	0.45	517,397	435,000
13. MISS R.H. ABDULHUSSEIN	0.09	0.44	509,800	408,095
14. DFCC BANK PLC A/C .02	0.08	0.43	496,190	-
15. MR. M.J. FERNANDO (DECEASED)	0.08	0.41	474,289	462,965
16. NAGOYA CEYLON TRADING (PVT) LTD	0.08	0.40	463,809	-
17. DR. R.D. BANDARANAIKE / MRS. A.D. BANDARANAIKE (J)	0.08	0.39	448,373	39,452
18. DFCC BANK PLC A/C 1	0.08	0.38	435,463	-
19. LANKA SYNTHETIC FIBRE CO LTD	0.07	0.36	422,039	411,963
20. MR. J.D. BANDARANAYAKE / DR. V. BANDARANAYAKE (J) / MISS I. BANDARANAYAKE (J)	0.07	0.36	413,804	511,450
Sub total	12.86	63.51	73,562,259	71,039,382
Balance held by 11,070 non-voting shareholders	7.40	36.49	42,290,463	42,047,194
(Total non-voting shareholders - 11,090)				
Total non-voting shares	20.26	100.00	115,852,722	113,086,576
Total voting shares	79.74		455,968,474	446,651,811
Total No. of ordinary shares	100.00		571,821,196	559,738,387

\* 1,041,479 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.



### 13 DEBENTURE INFORMATION

#### HNB SUBORDINATED DEBENTURES 2006

##### i) Market Value

12 months ended 31st December 2024

These debentures have not traded during the year ended 31st December 2024

##### ii) Interest Rate

12 months ended 31st December.

	31st December 2024				31st December 2023			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
18-year Fixed Rate (11.25% p.a.)* (Zero Coupon)	N/A	N/A	N/A	N/A	1,327,463	-	11.25	13.46

\* The debentures matured in 2024

#### HNB SENIOR DEBENTURES 2014

##### i) Market Value

12 months ended 31st December 2024

These debentures have not traded during the year ended 31st December 2024

##### ii) Interest Rate

12 months ended 31st December.

	31st December 2024				31st December 2023			
	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.)*	N/A	N/A	N/A	N/A	87,569	8.33	8.50	13.40

\* The debentures matured in 2024

# INVESTOR RELATIONS

## HNB SUBORDINATED DEBENTURES 2019

### i) Market Value

12 months ended 31st December 2024

These debentures have not traded during the year ended 31st December 2024

### ii) Interest Rate

12 months ended 31st December

	31st December 2024				31st December 2023			
	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.)*	N/A	N/A	N/A	N/A	1,987,358	12.30	12.30	13.46
7-year Fixed Rate (12.80% p.a.)	8,360,693	12.80	12.80	9.41	8,360,693	12.80	12.80	13.58

\*The 5-year debentures matured in 2024

## HNB SUBORDINATED DEBENTURES 2021

### i) Market Value

12 months ended 31st December 2024

These debentures have not traded during the year ended 31st December 2024

### ii) Interest Rate

12 months ended 31st December

	31st December 2024				31st December 2023			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
10-year Fixed Rate (9.5% p.a.)	7,286,042	9.50	9.50	11.07	7,286,042	9.50	9.50	13.54

## HNB SUBORDINATED DEBENTURES 2024

### i) Market Value

12 months ended 31st December 2024

These debentures have not traded during the year ended 31st December 2024

### ii) Interest Rate

12 months ended 31st December

	31st December 2024				31st December 2023			
	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 (13.00% p.a.)	8,212,500	13.00	13.00	10.60	N/A	N/A	N/A	N/A
5-year Fixed Rate (12.60% p.a.)	2,198,400	12.60	13.00	10.60	N/A	N/A	N/A	N/A
7-year Fixed Rate (13.25% p.a.)	282,400	13.25	13.25	11.07	N/A	N/A	N/A	N/A
10-year Fixed Rate (12.50% p.a.)	1,306,700	13.50	13.50	11.72	N/A	N/A	N/A	N/A

Note: HNB Senior Debenture information is listed under Debt Securities issued, Note 47 of the Financial Position.

Note: HNB Subordinated Debenture information is listed under Subordinated Term Debts, Note 52 of the Financial Position.

Ratios	2024	2023
Debt to Equity Ratio (%) *	16.85	19.55
Interest Cover (Times) **	22.64	8.49

\* Debt includes Borrowings and Debentures

\*\* Includes interest paid on Borrowings and Debentures

# INDEPENDENT ASSURANCE REPORT TO HATTON NATIONAL BANK PLC



We have been engaged by the Directors of Hatton National Bank PLC ("the Bank") to provide reasonable assurance and limited assurance in respect of the Sustainability Indicators as identified below for the year ended 31 December 2024. The Sustainability Indicators are included in the Hatton National Bank PLC Integrated Annual Report for the year ended 31 December 2024 (the "Report").

The Reasonable Assurance Sustainability Indicators covered by our reasonable assurance engagement are:

Reasonable Assurance Sustainability Indicators as per the Audited Financial Statements for the Year ended 31 December 2024, dated 24th February 2025 and the Audit report dated 24th February 2025 thereon	Integrated Annual Report Page
Financial Highlights	10

The Limited Assurance Sustainability Indicators covered by our limited assurance engagement are:

Limited Assurance Sustainability Indicators	Integrated Annual Report Page
Sustainability Performance Indicators	11
Information provided on following	
Financial Capital	60 to 67
Digital Capital	68 to 73
Human Capital	74 to 83
Social & Relationship Capital	84 to 99
Natural Capital	100 to 107
Intellectual Capital	108 to 111
Manufactured Capital	112 to 116

## Our conclusions

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

## Reasonable Assurance Sustainability Indicators

In our opinion, in all material respects, the Reasonable Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2024, in all material respects, has been prepared and presented by the management of Hatton National Bank PLC in accordance with the Consolidated Set

of Global Reporting Initiative Sustainability Reporting Standards.

## Limited Assurance Sustainability Indicators

Based on the evidence we obtained from the assurance procedures performed, as described below we

are not aware of any material misstatements that causes us to believe that the Limited Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2024, have not in all material respects, been prepared and presented by the management of Hatton National Bank PLC in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards.

## Management's Responsibility

Management is responsible for the preparation and presentation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards.

These responsibilities include establishing such internal controls as management determines are necessary to enable the preparation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators that are free from material misstatement whether due to fraud or error.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Bank complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

## Our responsibility

Our responsibility is to express a reasonable assurance conclusion on the Bank's preparation and presentation of the Reasonable Assurance Sustainability Indicators and a limited assurance conclusion on the preparation and presentation of the Limited Assurance Sustainability Indicators included in the Report, as defined above.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka.

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We have complied with the independence and other ethical requirements of the Code of Ethics for professional Accountants issued by CA Sri Lanka (Code of Ethics).

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether the Reasonable Assurance Sustainability Indicators are free from material misstatement and limited assurance about whether the Limited Assurance Sustainability Indicators are free from material misstatement.

Our firm applies Sri Lanka Standard on Quality Control (SLSQC) 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### **Reasonable assurance over Reasonable Assurance Sustainability Indicators**

The procedures selected in our reasonable assurance engagement depend on our judgment, including the assessment of the risks of material misstatement of the Reasonable Assurance Sustainability Indicators whether due to fraud or error.

In making those risk assessments, we have considered internal controls relevant to the preparation and presentation of the Reasonable Assurance Sustainability Indicators in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Bank's internal controls over the preparation and presentation of the Report.

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Indicators, the suitability of the criteria, being the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards, used by the Bank in preparing and presenting the Reasonable Assurance Sustainability Indicators within the Report, obtaining an understanding of the compilation of the financial and non-financial information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Bank, and re-computation of

the calculations of the Reasonable Assurance Sustainability Indicators.

#### **Limited assurance on the Assured Sustainability Indicators**

Our limited assurance engagement on the Limited Assurance Sustainability Indicators consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Indicators, and applying analytical and other procedures, as appropriate. These procedures included:

- interviews with senior management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- enquiries of management to gain an understanding of the Bank's processes for determining material issues for the Bank's key stakeholder groups;
- enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Indicators;
- enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance Sustainability Indicators, including the aggregation of the reported information;
- comparing the Limited Assurance Sustainability Indicators to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report;
- reading the Limited Assurance Sustainability Indicators presented in the Report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of the Bank;
- reading the remainder of the Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

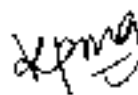
The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Indicators.

#### **Purpose of our report**

In accordance with the terms of our engagement, this assurance report has been prepared for the Bank for the purpose of assisting the Directors in determining whether the Bank's Reasonable and Limited Assurance Sustainability Indicators are prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards and for no other purpose or in any other context.

#### **Restriction of use of our report**

This report has been prepared for the Directors of Hatton National Bank PLC for the purpose of providing an assurance conclusion on the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators included in the Hatton National Bank PLC Integrated Annual Report for the year ended 31 December 2024 and may not be suitable for another purpose. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Directors of Hatton National Bank PLC, or for any other purpose than that for which it was prepared.



CHARTERED ACCOUNTANTS  
Colombo

26th February 2025



SLSAE 3000 requires that we plan and perform the engagement to obtain limited assurance about whether the Integrated Report is free from material misstatement.

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

#### Limited assurance on the Integrated Report

Our limited assurance engagement on the Integrated Report consisted of making enquiries, primarily of persons responsible for the preparation of the Integrated Report, and applying analytical and other procedures, as appropriate. These procedures included:

1. Interviews with executives, senior management and relevant staff to understand the internal controls, governance structure and reporting process relevant to the Integrated Report;
2. Reviewing of the relevant internal policies and procedures developed by the Bank, including those relevant to determining what matters most to the Bank's stakeholders, how the Bank creates value, the Bank's external environment, strategy, approaches to putting members first, governance and reporting.
3. Reviewing the description of the Bank's strategy and how the Bank creates value in the Integrated Report and enquiring of management as to whether the description accurately reflects their understanding;
4. Assessing of the suitability and application of the Content Elements of the <IR> Framework in the Integrated Report;
5. Assessing of the alignment between the Bank's strategy, the disclosures on how the Bank creates value and what matters most to the Bank's stakeholders.
6. Reviewing Board minutes to ensure consistency with the content of the Integrated Report.

7. Reading the Integrated Report in its entirety to ensure it is consistent with our overall knowledge obtained during the assurance engagement.
8. Obtaining a letter of representation from management dated 26th February 2025 on the content of the Bank's Integrated Report.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Integrated Report.

Misstatements, including omissions, are considered material if, individually or in the aggregate, they could reasonably be expected to influence relevant decisions of the Bank.

#### Limitations of our review

The Integrated Report includes prospective information. Inherent to prospective information, the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the Integrated Report.

#### Purpose of our report

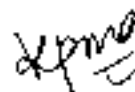
In accordance with the terms of our engagement, this assurance report has been prepared for the Bank for the purpose of assisting the Directors in determining whether the Bank's Integrated Report is prepared in accordance with the IIRC's International <IR> Framework and for no other purpose or in any other context.

#### Restriction of use of our report

This report has been prepared for the Bank for the purpose of providing an assurance conclusion on the Integrated Report and may not be suitable for another purpose. We

disclaim any assumption of responsibility for any reliance on this report, to any person other than the Bank, or for any other purpose than that for which it was prepared.

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Bank, for any purpose or in any other context. Any party other than the Bank who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Bank for our work, for this independent assurance report, or for the conclusions we have reached.



Chartered Accountants  
Colombo

26th February 2025



# ALIGNMENT TO UNITED NATIONS GLOBAL COMPACT (UNGC) PRINCIPLES

## HUMAN RIGHTS

### Principle 1

#### **Businesses should support and respect the protection of internationally proclaimed human rights**

HNB integrates human rights protections into its corporate governance, workplace policies, and business operations. The Bank ensures a fair, inclusive, and non-discriminatory work environment, with strong mechanisms to address workplace concerns. Additionally, regular risk assessments are conducted to ensure continuous improvement of employee well-being and occupational health and safety mechanisms in line with global standards.

Beyond internal operations, the commitment to human rights extends to bank's lending activities, financial inclusion, and community empowerment. By conducting due diligence on lending projects and ensuring fair labour practices, the Bank promotes responsible lending, while initiatives that support SMEs, women entrepreneurs, and rural communities aim to enhance economic opportunities and access to financial services. These efforts, combined with sustainable lending and financial literacy programmes, reflect HNB's broader role in protecting and respecting human rights while driving social progress.

Refer Corporate Governance – page 140-189, Human Capital - page 74-83, Social and Relationship Capital - page 84-99 and Leading the transition towards becoming a fully Sustainable Bank - page 98

### Principle 2

#### **Business should make sure that they are not complicit in human rights abuses**

Strict policies and continuous monitoring ensure HNB does not become complicit in any form of human rights abuse.

In this regard, the Anti-Money Laundering (AML) and Know Your Customer (KYC) policies represent the Bank's commitment by preventing financial crimes that could contribute to human rights violations.

Additionally, the Bank integrates Environmental, Social, and Governance (ESG) criteria into its lending decisions to ensure that businesses receiving financial support align with ethical and sustainable practices. Moreover, the Bank actively avoids financing entities linked to human rights violations and promotes responsible banking through transparent operations and stakeholder engagement.

Refer Corporate Governance – page 140-189, Risk Report - page 231-275 and Leading the transition towards becoming a fully Sustainable Bank - page 98

## LABOUR

### Principle 3

#### **Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining**

HNB fully complies with Sri Lanka's labour laws and international standards, fostering a workplace where employees can voice concerns and engage in collective representation. The Bank's commitment to fair labour practices is reflected in its transparent policies and structured engagements with unions, where collective bargaining agreements allowing employee representatives to negotiate fair wages, benefits, and working conditions

Additionally, the open-door policy and structured grievance mechanisms promote open dialogue between management and employees.

Refer Human Capital – page 74-83

### Principle 4

#### **Elimination of all forms of forced and compulsory labour**

HNB's recruitment framework guarantees that all employees work voluntarily, with fair contracts and without coercion, while regular audits and due diligence processes ensure compliance across the Bank's operations

Refer Human Capital – page 74-83

### Principle 5

#### **Effective abolition of child labour**

HNB complies with Sri Lanka's labour laws and international conventions, ensuring that no individuals under the legal working age are employed directly or indirectly. Additionally, the Bank actively supports education and community initiatives, investing in programmes that enhance access to schooling and reduce the socio-economic factors that contribute to child labour

Refer Human Capital – page 74-83, Social and Relationship Capital - page 84-99

### Principle 6

#### **Elimination of discrimination in respect of employment and occupation;**

HNB has implemented strict policies on non-discrimination policies and promotes fair treatment in recruitment, promotions, and remuneration, regardless of gender, ethnicity, religion, or disability. This is supported by structured training programmes to raise awareness about unconscious bias and workplace equality while providing equal opportunities for career advancement. The bank also actively supports women's empowerment through leadership development initiatives.

Refer Human Capital – page 74-83

## ENVIRONMENT

### Principle 7

#### **Businesses should support a precautionary approach to environmental challenges**

HNB has also introduced sustainability-linked financial products, such as green loans and renewable energy financing, to encourage environmentally responsible investments. This is achieved by embedding environmental risk assessments into its credit evaluation process to ensure high-impact projects comply with national and international environmental best practices and standards, mitigating potential ecological harm.

Refer Natural Capital - page 100-107, Corporate Governance – page 140-189, Risk Report - page 231-275 and Leading the transition towards becoming a fully Sustainable Bank - page 98

### Principle 8

#### **Undertake initiatives to promote greater environmental responsibility**

Further, the Bank strives proactively to reduce its environmental footprint through energy-efficient infrastructure, green buildings, and paperless banking initiatives. Additionally, employee awareness programmes on climate change and sustainable practices have been implemented to foster a culture of environmental responsibility.

Beyond internal sustainability measures, HNB actively supports community-driven environmental initiatives to promote biodiversity conservation and climate resilience. Through partnerships with environmental organisations, the bank has participated in reforestation projects, coastal clean-ups, and water conservation efforts to address pressing environmental concerns.

Refer Natural Capital - page 100-107

### Principle 9

#### **Encourage the development and diffusion of environmentally friendly technologies**

The Bank actively encourages the development and adoption of environmentally friendly technologies by integrating green finance solutions into its product portfolio. The bank has extended specialised loan schemes to support businesses and individuals investing in renewable energy, energy-efficient technologies, and sustainable agriculture. By providing preferential financing for solar panel installations, HNB continues to play a crucial role in accelerating the transition towards a low-carbon economy. Furthermore, its credit evaluation framework incorporates environmental due diligence, ensuring that funded projects align with sustainability objectives.

In addition to financing green initiatives, HNB has embraced digital transformation to minimise its operational footprint. The adoption of paperless banking, e-statements, and digital payment solutions has significantly reduced resource consumption while enhancing customer convenience. Investments in energy-efficient IT infrastructure and cloud-based systems have further reinforced the bank's commitment to reducing its carbon footprint.

Refer Natural Capital - page 100-107, Digital Capital – page 68-73, Business Reviews - page 48-58 and Leading the transition towards becoming a fully Sustainable Bank - page 98

## ANTI CORRUPTION

### Principle 10

#### **Businesses should work against corruption in all its forms, including extortion and bribery**

HNB maintains a zero-tolerance policy towards corruption, extortion, and bribery, ensuring strict compliance with both local regulations and international best practices. The bank's Anti-Bribery and Corruption Policy, endorsed by the Board of Directors, serves as a comprehensive framework to prevent, detect, and address corrupt practices across all levels of operation, while the Know Your Customer (KYC) and Anti-Money Laundering (AML) policies, aim to mitigate risks associated with illicit financial activities. Periodic risk assessments and independent audits are carried out to identify potential vulnerabilities, ensuring continuous improvement in compliance measures.

Regular training programmes and awareness sessions are conducted to reinforce ethical conduct among employees, while stringent internal controls, due diligence procedures, and whistleblowing mechanisms ensure transparency and accountability.

The Bank also collaborates with regulatory bodies and industry stakeholders to combat corruption in the broader financial ecosystem.

Refer Corporate Governance - page 140-189, Intellectual Capital – page 112-116

# GRI INDEX

## STATEMENT OF USE

Hatton National Bank PLC has reported in accordance with the GRI Standards for the period 1st January 2024 to 31st December 2024.

## GRI 1 USED

GRI 1: Foundation 2021

GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	TCFD	Page No	
<b>GRI 2: General Disclosures 2021</b>	2-1	Organisational details				Inner back cover	
	2-2	Entities included in the organization's sustainability reporting				3	
	2-3	Reporting period, frequency and contact point				3	
	2-4	Restatements of information				279-281	
	2-5	External assurance				282-286, 508-511	
	2-6	Activities, value chain and other business relationships				22-23	
	2-7	Employees		8	8.3		74-83
	2-8	Workers who are not employees		8	8.3		74-83
	2-9	Governance structure and composition		5 & 16	5.5,16.7		140-199
	2-10	Nomination and selection of the highest governance body		5 & 16	5.5,16.7		203-207
	2-11	Chair of the highest governance body		5 & 16	5.5,16.7		12-14
	2-12	Role of the highest governance body in overseeing the management of impacts					145-146,160
	2-13	Delegation of responsibility for managing impacts					99, 142
	2-14	Role of the highest governance body in sustainability reporting					145
	2-15	Conflicts of interest		16	16.6		145,167,186,192
	2-16	Communication of critical concerns					148,161
	2-17	Collective knowledge of the highest governance body					122-127
	2-18	Evaluation of the performance of the highest governance body					157
	2-19	Remuneration policies					200-202
	2-20	Process to determine remuneration					200-202
	2-21	Annual total compensation ratio					202
	2-22	Statement on sustainable development strategy					36-40
	2-23	Policy commitments					158
	2-24	Embedding policy commitments					157-159
	2-25	Processes to remediate negative impacts					157-159
	2-26	Mechanisms for seeking advice and raising concerns					157-159
	2-27	Compliance with laws and regulations					157-159
	2-28	Membership associations					116
	2-29	Approach to stakeholder engagement					24-30
	2-30	Collective bargaining agreements					74-83
<b>MATERIAL TOPICS</b>							
GRI 3: Material Topics 2021	3-1	Process to determine material topics				31-35	
	3-2	List of material topics				31-35	
<b>ECONOMIC PERFORMANCES</b>							
GRI 3: Material Topics 2021	3-3	Management of material topics				31-35	
GRI 201: Economic Performance 2016	201-1	Direct economic value generated and distributed	8 & 9	8.1, 8.2, 9.1, 9.4, 9.5		22-23	
	201-2	Financial implications and other risks and opportunities due to climate change	13	13.1		34-35, 100-107, 117,160,189	
	201-3	Defined benefit plan obligations and other retirement plans				77	
	201-4	Financial assistance received from government				36	

GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	TCFD	Page No
<b>MARKET PRESENCE</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				31-35
GRI 202: Market Presence 2016	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	5	5.1		74-83
	202-2	Proportion of senior management hired from the local community	8	8.5		74-83
<b>INDIRECT ECONOMIC IMPACTS</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				34-35
GRI 203: Indirect Economic Impacts 2016	203-1	Infrastructure investments and services supported	9 & 11	9.1, 9.4, 11.2		31-35
	203-2	Significant indirect economic impacts	1, 3 & 8	1.2, 1.4, 3.8, 8.2, 8.3, 8.5		22-23
<b>PROCUREMENT PRACTICES</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				84, 92
GRI 204: Procurement Practices 2016	204-1	Proportion of spending on local suppliers	8,17	8.3, 17.17		11,23,29,92
<b>ANTI CORRUPTION</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				201, 31-35
GRI 205: Anti-corruption 2016	205-1	Operations assessed for risks related to corruption				115, 155-159
	205-2	Communication and training about anti-corruption policies and procedures				155
	205-3	Confirmed incidents of corruption and actions taken				115
<b>ANTI-COMPETITIVE BEHAVIOUR</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				31-35
GRI 206: Anti-competitive Behaviour 2016	206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	16	16.3		197
<b>TAX</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				31-35
GRI 207: Tax 2019	207-1	Approach to tax	1, 10 & 17	1.1, 10.4, 17.1, 17.3		279, 368-371, 425-427
	207-2	Tax governance, control, and risk management	1, 10 & 17	1.1, 10.4, 17.1, 17.3		368-371, 425-427
	207-3	Stakeholder engagement and management of concerns related to tax	1, 10 & 17	1.1, 10.4, 17.1, 17.3		368-371, 425-427
	207-4	Country-by-country reporting				8
<b>ENERGY</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				31-35, 111
GRI 302: Energy 2016	302-1	Energy consumption within the organization	7,8 & 12	7.3, 8.4, 12.2		100-107, 11
	302-2	Energy consumption outside of the organization				100-107
	302-3	Energy intensity				101
	302-4	Reduction of energy consumption	7, 8,12 & 13	7.3, 8.4, 12.2, 13.1		10-107
	302-5	Reductions in energy requirements of products and services				100-107
<b>BIODIVERSITY</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				31-35
GRI 304: Biodiversity 2016	304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	15	15.2		102,100-107
	304-2	Significant impacts of activities, products and services on biodiversity				102
	304-3	Habitats protected or restored				106-107
	304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	Not relevant due to the nature of the operations of the bank			

# GRI INDEX

GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	TCFD	Page No
<b>EMISSIONS</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				31-35, 100-107
GRI 305: Emissions 2016	305-1	Direct (Scope 1) GHG emissions	3,12, 13 & 15	3.9, 12.4, 13.1, 15.2	Metrics & Targets b	105
	305-2	Energy indirect (Scope 2) GHG emissions	3, 15, 12 & 13	3.9, 12.4, 13.1, 15.2	Metrics & Targets b	105
	305-3	Other indirect (Scope 3) GHG emissions				105
	305-4	GHG emissions intensity	13, 14 & 15	13.1, 14.3, 15.2		101
	305-5	Reduction of GHG emissions	13, 14 & 15	13.1, 14.3, 15.2	Strategy b	100-107
	305-6	Emissions of ozone-depleting substances (ODS)	3, 12	3.9, 12.4		104
	305-7	Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	3, 12	3.9, 12.4		104
<b>WASTE</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				31-35, 100-107
GRI 306: Waste 2020	306-1	Waste generation and significant waste-related impacts	3, 6, 12 & 14	3.9, 6.3, 6.4, 6.6, 12.4, 14.1		92
	306-2	Management of significant waste-related impacts	3, 6 & 12	3.9,6.3,12.4,12.5		92,98,
	306-3	Waste generated	3, 6,12, 14 & 15	3.9, 6.3, 6.4, 6.6, 12.4, 14.1, 15.1		100-107
	306-4	Waste diverted from disposal	8 & 12	8.4, 12.4		11,101
	306-5	Waste directed to disposal	6, 14 & 15	6.6, 14.2, 15.1,15.5	No significant waste generation from our operations other than e-waste and paper waste which we manage without directing to landfills	
<b>SUPPLIER ENVIRONMENTAL ASSESSMENT</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				84, 92
GRI 308: Supplier Environmental Assessment 2016	308-1	New suppliers that were screened using environmental criteria				92, 105
	308-2	Negative environmental impacts in the supply chain and actions taken				106
<b>EMPLOYMENT</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				31-35, 74-83
GRI 401: Employment 2016	401-1	New employee hires and employee turnover	5, 8 & 10	5.1, 8.5, 8.6, 10.3		75-76
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	5 & 8	5.4, 8.5		35, 77
	401-3	Parental leave	8	8.5		78
<b>LABOUR/MANAGEMENT</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				31-35
GRI 402 : Labour Management Relations 2016	402 - 1	Minimum notice periods regarding the operational changes				74-83

GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	TCFD	Page No
<b>OCCUPATIONAL HEALTH &amp; SAFETY</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				31-35, 74-83
GRI 403: Occupational Health and Safety 2018	403-1	Occupational health and safety management system	3, 8 & 16	3.3, 3.4, 3.9, 8.8, 16.1		74-83
	403-2	Hazard identification, risk assessment, and incident investigation				74-83
	403-3	Occupational health services				74-83
	403-4	Worker participation, consultation, and communication on occupational health and safety				74-83
	403-5	Worker training on occupational health and safety				74-83
	403-6	Promotion of worker health	3, 8	3.4, 8.8		74-83
	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	3, 8	3.4, 8.8		74-83
	403-8	Workers covered by an occupational health and safety management system	3, 8	3.4, 8.8		74-83
	403-9	Work-related injuries	3	3.4		74-83
	403-10	Work-related ill health	3	3.4		74-83
<b>TRAINING AND EDUCATION</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				31-35, 74-83
GRI 404: Training and Education 2016	404-1	Average hours of training per year per employee	4, 5, 8 & 10	4.3, 4.4, 4.5, 5.1, 8.2, 8.5 & 10.3		74-83
	404-2	Programs for upgrading employee skills and transition assistance programs	8	8.2, 8.5		74-83
	404-3	Percentage of employees receiving regular performance and career development reviews	5, 8 & 10	5.1, 8.5, 10.3		74-83
<b>DIVERSITY AND EQUAL OPPORTUNITY</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				31-35, 74-83
GRI 405: Diversity and Equal Opportunity 2016	405-1	Diversity of governance bodies and employees	5 & 8	5.1, 5.5, 8.5		74-83, 205
	405-2	Ratio of basic salary and remuneration of women to men				74-83
<b>NON DISCRIMINATION</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				74, 158
GRI 406: Non-discrimination 2016	406-1	Incidents of discrimination and corrective actions taken				75, 78
<b>FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				74-83
GRI 407: Freedom of Association and Collective Bargaining 2016	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at a risk				74-83
<b>CHILD LABOUR</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				74
GRI 408: Child Labour 2016	408-1	Operations and suppliers at significant risk for incidents of child labour				76, 92
<b>FORCED OR COMPULSORY LABOUR</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				74, 78
GRI 409: Forced or Compulsory Labour 2016	409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour				78, 92
<b>LOCAL COMMUNITIES</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				31-35
GRI 413: Local Communities 2016	413-1	Operations with local community engagement, impact assessments, and development programs				84-99
	413-2	Operations with significant actual and potential negative impacts on local communities				93

# GRI INDEX

GRI Standards	Disclosures	Reference	SDG Goals	SDG Targets	TCFD	Page No
<b>SUPPLIER SOCIAL ASSESSMENT</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				31-35, 92
GRI 414: Supplier Social Assessment 2016	414-1	New suppliers that were screened using social criteria				92
	414-2	Negative social impacts in the supply chain and actions taken				92
<b>PUBLIC POLICY</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				158
GRI 415: Public Policy 2016	415-1	Political contributions				158-159
<b>CUSTOMER HEALTH AND SAFETY</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				32
GRI 416: Customer Health and Safety 2016	416-1	Assessment of the health and safety impacts of product and service categories	We do not have products or services with health and safety risks to customers			
	416-2	Incidents of non compliance concerning the health and safety impacts of products and services	We have not identified any non-compliance with regulations or voluntary codes			
<b>MARKETING AND LABELLING</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				111-116
GRI 417: Marketing and Labelling 2016	417-1	Requirements for product and service information and labelling	12	12.8		111-116,103
	417-2	Incidents of non-compliance concerning product and service information and labelling	16	16.3		111-116
	417-3	Incidents of non-compliance concerning marketing communications	16	16.3		111-116
<b>CUSTOMER PRIVACY</b>						
GRI 3: Material Topics 2021	3-3	Management of material topics				71-73,89
GRI 418: Customer Privacy 2016	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	16	16.3, 16.10		69



# ANNEXURE

## APPLICATION OF <IR> GUIDING PRINCIPLES

This report is prepared in accordance with the <IR> Framework and has applied the following guiding principles:

IR Guiding Principle	How we have Complied
Strategic Focus and Future Orientation	<p>The strategic focus and future orientation is derived by the management team considering inputs from diverse sources including our risk management process and evaluation of external environment</p> <p>Our Bank strategy related to key material topics are presented on page 31-35 and our future plans are given in all business line reviews and the Chairman's and Managing Director/CEO's messages on pages 12-14 and 15-20 respectively.</p>
Connectivity of Information	<p>We have provided links to other reports for additional and supporting information related to identified material topics. The Business Model on page 22-23 provides an overview of our business operations and interactions between capitals, business lines, risks and opportunities and value delivered to Stakeholders.</p>
Stakeholder Relationships	<p>We have a process of stakeholder identification and engagement and details of stakeholder engagement and relationship management is discussed and signposted on page 24-30</p>
Materiality	<p>The process for determining materiality is based on identifying relevant matters and evaluating importance based in &lt;IR&gt; framework and is described on page 31-35</p>
Conciseness	<p>We have made every effort to present relevant material information, including organisational context, strategy, governance, performance and prospects in a concise and effective manner.</p>
Reliability & Completeness	<p>We have established an internal and external process of evaluating our nonfinancial disclosures further external auditors have provided assurance on financial statements as given page 282-286, and non-financial disclosures related to the integrated reporting framework has been assured by KPMG and their Independent assurance statement is given on page 508-511.</p>
Consistency & Comparability	<p>We have provided possible comparable information on a consistent basis for the benefit of stakeholders to understand our performance trends. Where there has been a departure in computation or measurement criteria or restatements, same has been indicated in the relevant segment</p>

# SUSTAINABILITY DISCLOSURE TOPICS & ACCOUNTING METRICS

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE	PAGE NO
Data Security	(1) Number of data breaches, (2) percentage involving personally identifiable information (PII), (3) number of account holders affected	Quantitative	Number, Percentage (%)	FN-CB-230a.1	212, 243
	Description of approach to identifying and addressing data security risks	Discussion and Analysis	n/a	FN-CB-230a.2	53
Financial Inclusion & Capacity Building	(1) Number and (2) amount of loans outstanding qualified to programs designed to promote small business and community development	Quantitative	Number, Reporting currency	FN-CB-240a.1	50
	(1) Number and (2) amount of past due and nonaccrual loans qualified to programs designed to promote small business and community development	Quantitative	Number, Reporting currency	FN-CB-240a.2	208-209
	Number of no-cost retail checking accounts provided to previously unbanked or underbanked customers	Quantitative	Number	FN-CB-240a.3	48-51
	Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers	Quantitative	Number	FN-CB-240a.4	24, 30, 38-39
Incorporation of Environmental, Social, and Governance Factors in Credit Analysis	Commercial and industrial credit exposure, by industry	Quantitative	Reporting currency	FN-CB-410a.1	190
	Description of approach to incorporation of environmental, social, and governance (ESG) factors in credit analysis	Discussion and Analysis	n/a	FN-CB-410a.2	127
Business Ethics	Total amount of monetary losses as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behaviour, market manipulation, malpractice, or other related financial industry laws or regulations	Quantitative	Reporting currency	FN-CB-510a.1	139-140
	Description of whistleblower policies and procedures	Discussion and Analysis	n/a	FN-CB-510a.2	120
Systemic Risk Management	Global Systemically Important Bank (G-SIB) score, by category	Quantitative	Basis points (bps)	FN-CB-550a.1	196
	Description of approach to incorporation of results of mandatory and voluntary stress tests into capital adequacy planning, long-term corporate strategy, and other business activities	Discussion and Analysis	n/a	FN-CB-550a.2	169-172

## ACTIVITY METRICS

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE	PAGE NO
(1) Number and (2) value of checking and savings accounts by segment: (a) personal and (b) small business	Quantitative	Number, Reporting currency	FN-CB-000.A	50
(1) Number and (2) value of loans by segment: (a) personal, (b) small business, and (c) corporate	Quantitative	Number, Reporting currency	FN-CB-000.B	408

# GLOSSARY OF FINANCIAL/BANKING TERMS

## A

### ACCEPTANCES

The signature on a Bill of Exchange indicates that the person on whom it is drawn accepts the conditions of the Bill. In other words, a Bill of Exchange that has been accepted.

### ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

### 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.

### AVERAGE WEIGHTED DEPOSIT RATE (AWDR)

AWDR is calculated by the Central Bank monthly based on the weighted average of all outstanding Interest-bearing deposits of commercial banks and the corresponding Interest rates.

### AVERAGE WEIGHTED PRIME LENDING RATE (AWPLR)

AWPLR is calculated by the Central Bank weekly based on commercial banks' lending rates offered to their prime customers during the week

### ASSET AND LIABILITY MANAGEMENT COMMITTEE (ALCO)

The ALCO, in a bank is generally composed of members from the Corporate management. Its chief function is to scrutinize, oversee, and sanction policies concerning risks arising from disparities in the bank's capital structure. The committee takes into account various elements such as risks related to liquidity, interest rates, operations, and external occurrences that could influence the bank's projected balance sheet strategies and forecasts.

## B

### BASEL III

The Basel committee on banking Supervision (BCBS) issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

### BASIS POINT(BP)

One hundredth of a percentage point (0.01 per cent); 100 basis points is 1 percentage point. Used in quoting movements in interest rates or yields on securities.

### BILLS SENT FOR COLLECTION

A Bill of Exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his Bank with a request to collect the proceeds.

### BONUS ISSUE

The issue of new shares to existing shareholders in proportion to their shareholdings. It is a process for converting a company's reserves (in whole or part) in to issued capital and hence does not involve an infusion of cash.

### BUSINESS MODEL ASSESSMENT

Business model assessment is carried out as the first step of the financial assets

classification process. Business model refers to how an entity manages its financial assets in order to generate cash flows. It is determined at a level that reflects how groups of financial assets are managed rather than at an instrument level. SLFRS 9 identifies three types of business models: "hold to collect", "hold to collect and sell" and "other". In order to determine the business model, it is necessary to understand the objectives of each business model. An entity would need to consider all relevant information including, for example, how business performance is reported to the entity's key management personnel and how managers of the business are compensated.

### BUSINESS CONTINUITY PLAN

A document that consists of the critical information an organisation needs to continue operating during an unplanned event. The BCP should state the essential functions of the business, identify which systems and processes must be sustained, and detail how to maintain them. It should take into account any possible business disruption.

## C

### CAPITAL ADEQUACY RATIO

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

### CAPITAL RESERVE

Capital reserves consist of revaluation reserves arising from revaluation of properties owned by the Bank.

### CAPITAL CONSERVATION BUFFER

Designed to ensure that banks build up buffers of capital outside any period of stress and avoid breaches of minimum capital requirements.

### CASH EQUIVALENTS

Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

# GLOSSARY OF FINANCIAL/BANKING TERMS

## CASH GENERATING UNIT (CGU)

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

## CEDED INSURANCE ARRANGEMENTS

An arrangement where an insurance company passes the part or all of its risks from its insurance policy portfolio to a reinsurance firm.

## COLLECTIVELY ASSESSED LOAN IMPAIRMENT PROVISIONS

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically, assets within the consumer banking business are assessed on a portfolio basis.

## COMMERCIAL PAPER

An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

## COMMITMENT TO EXTEND CREDIT

Credit facilities available to clients either in the form of loans, bankers' acceptances and other on-balance sheet financing or through off-balance sheet products such as guarantees and letters of credit.

## COMMITMENTS

Credit facilities approved but not yet utilised by the clients as at the reporting date.

## COMPREHENSIVE INCOME

The change in equity of a business enterprise during a period from non-owner sources. This includes all changes in equity during a period except those resulting from investments by owners and distributions to the owners. Comprehensive income equals net income plus other comprehensive income.

## CONTINGENCIES

Conditions or situations at the reporting date, the financial effect of which are to be determined by the future events which may or may not occur.

## CONTRACTUAL MATURITY

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

## CORPORATE GOVERNANCE

The system of internal controls and procedures by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

## CORRESPONDENT BANK

A Bank in a foreign country that offers banking facilities to the customers of a Bank in another country.

## COST INCOME RATIO

Operating expenses excluding loan loss provision as a percentage of total operating income.

## COST METHOD

Cost method is a method of accounting for an investment whereby the investment is recognised at cost. The investor recognises income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

## CREDIT RATINGS

An evaluation of a corporate's ability to repay its obligations or likelihood of not defaulting, carried out by an independent rating agency.

## CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and other banks and investment in debt/equity securities.

## CREDIT RISK MITIGATION

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

## CURRENCY RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

## CURRENCY SWAPS

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of same currency for forward settlement.

## D

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## 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.

## DEFAULT FACTOR

This refers to a measure used in financial risk management to estimate the likelihood that a borrower will default on their debt obligations.

## DELINQUENCY

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed.

## DERECOGNITION

Removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

## DERIVATIVES

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g. an interest rate), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date

## DEMINIMIS

Features that could impact the cash flows of a financial asset by a de minimis amount both on a period by period basis and cumulatively.

## DEPRECIATION

The process of systematically allocating the cost of long - lived (tangible) assets to the periods during which the assets are expected to provide economic benefits.

## DILUTED EARNINGS PER SHARE

The earnings per share that would result if all dilutive securities were converted into common shares.

## DIVIDEND COVER

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by the current year's distributable profits.

## DIVIDEND YIELD

Dividend earned per share as a percentage of its market value.

## DIVIDEND PAYOUT RATIO

It is the percentage of earnings paid to shareholders in dividends

## DOCUMENTARY LETTERS OF CREDIT

Written undertakings by a Bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

## DISCOUNT RATE

The discount rate is a financial tool used to determine the present value of future cash flows, considering the time value of money.

## DOCUMENTARY LETTERS OF CREDIT

Written undertakings by a Bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

## DOMESTIC SYSTEMATICALLY IMPORTANT BANKS (D-SIBS)

Systematically important banks (SIBs) are perceived as banks that are "Too Big To Fail". D-SIBs are critical for the uninterrupted

availability of essential banking services to the country's real economy even during crisis. D-SIBs are determined as per Banking Act Direction No 10 of 2019 "Framework for dealing with Domestic Systemically Important Banks".

## E

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### EARNINGS PER SHARE (EPS)

Profit attributable to ordinary shareholders, divided by the number of ordinary shares in issue.

### ECONOMIC VALUE ADDED (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

### EFFECTIVE INTEREST RATE (EIR)

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.

### EMPLOYEE SHARE OPTION PLAN (ESOP)

A method of giving employees shares in the business for which they work.

## EX-DIVIDEND DATE

The first date that a share trades without the (i.e. "ex") dividend

## EXERCISE PRICE

The fixed price at which an option holder can buy or sell the underlying.

## EXPECTED CREDIT LOSSES (ECL)

Expected credit losses are a probability – weighted estimate of credit losses over the expected life of the financial instrument.

## 12 MONTH EXPECTED CREDIT LOSSES (12MECL)

The portion of life time expected credit losses that represent the expected credit losses resulting from default events of a financial instrument that are possible within 12 months after the reporting date.

## EXPOSURE AT DEFAULT (EAD)

Gross carrying amount of financial instruments subject to impairment calculation.

## F

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### FAIR VALUE

The amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transactions. It is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

### FINANCE LEASE

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of the asset under lease.

### FINANCIAL ASSET OR FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as 'at fair value through profit or loss'.

### FINANCIAL ASSETS MEASURED AT AMORTISED COST

A financial asset is measured at amortised cost if the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the financial asset give rise on

# GLOSSARY OF FINANCIAL/BANKING TERMS

specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

FVOCI include debt and equity instruments measured at fair value through other comprehensive income. A debt instrument is measured at FVOCI, if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## FINANCIAL INSTRUMENT

Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

## FINANCIAL RISK

The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates or credit rating or credit index.

## FOREIGN EXCHANGE INCOME

The gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the reporting date at prevailing rates which differ from those rates in force at inception or on the previous reporting date. Foreign exchange income also arises from trading in foreign currencies.

## FORWARD EXCHANGE CONTRACT

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

## FORWARD-LOOKING INFORMATION

Incorporation of macroeconomic scenarios into the impairment calculations.

## G

### GLOBAL REPORTING INITIATIVES (GRI)

The GRI is an international independent standards organisation that helps businesses,

governments and other organisations to understand and communicate their impacts on issues such as climate change, human rights and corruption. GRI promotes sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

## GOODWILL

An intangible asset that represents the excess of the purchase price of an acquired company over the value of the net assets acquired.

## GROSS DIVIDENDS

The portion of profit inclusive of tax withheld distributed to shareholders.

## GROUP

A group is a parent and all its subsidiaries.

## GUARANTEES

Primarily represent irrevocable assurances that a bank will make payments in the event that its customer cannot meet his/her financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

## H

### HEDGING

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rate, foreign exchange rate, commodity prices, etc.). A hypothetical combination of the derivative and its underlying that eliminates risk.

### HIGH QUALITY LIQUID ASSETS (HQLA)

Assets that are unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible. These include, for example, cash and claims on central governments and central banks.

## IMPAIRED LOANS

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

## IMPAIRMENT

This occurs when recoverable amount of an asset is less than its carrying amount.

## IMPAIRMENT ALLOWANCES

Impairment allowances are provisions held on the statement of financial position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio) respectively.

## INCREMENTAL COST

Costs that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

## INCURRED BUT NOT ENOUGH REPORTED (IBNER)

The reserves for claims that become due with the occurrence of the events covered under the insurance policy, but have not been reported yet.

## INCURRED BUT NOT REPORTED (IBNR)

An estimate of the liability for claim-generating events that have taken place but have not yet been reported to the insurer or self-insurer.

## INDIVIDUALLY SIGNIFICANT LOANS

Exposures which are above a certain threshold decided by the Bank's management which should be assessed for objective evidence, measurement, and recognition of impairment on an individual basis.

## INDIVIDUALLY SIGNIFICANT LOAN IMPAIRMENT PROVISIONS

Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically, assets within the corporate banking business of the Group are assessed individually.

## IRREVOCABLE COMMITMENT

A loan amount that may be drawn down, or is due to be contractually funded in the future.

## INTANGIBLE ASSET

An identifiable non-monetary asset without physical substance held for use in the production/supply of goods/services or for rental to others or for administrative purposes.



## INTEREST MARGIN

Net interest income as a percentage of average interest earning assets.

## INTEREST RATE SWAP

An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified principal amount.

## INTEREST RATE RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

## INTEREST SPREAD

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

## INSURANCE RISK

Risk, other than financial risk, transferred from the holder of a contract to the issuer.

## INVESTMENT PROPERTIES

Investment property is property (land or a building - or part of a building - or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

## INTEREST COVER

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

## J

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### JOINT CONTROL

Joint control is the contractually agreed sharing of the control over an economic activity and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

### JOINT VENTURE

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control

## K

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### KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

## L

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### LETTER OF CREDIT (L/C)

Written undertakings by a Bank on behalf of its customer (typically an importer), authorising a third party (e.g. an exporter) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

### LEVERAGE RATIO

A leverage ratio is any one of several financial measurements that look at how much capital comes in the form of debt (loans) or assesses the ability of a company to meet its financial obligations.

### LIABILITY ADEQUACY TEST (LAT)

Assessment on each reporting date whether the recognised insurance liabilities are adequate, using current estimates of future cash flows under the insurance contract.

### LIFE TIME EXPECTED CREDIT LOSSES (LTECL)

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

### LIQUID ASSETS

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other Banks, Bills of Exchange and Treasury Bills.

### LIQUIDITY RISK

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

### LIQUIDITY COVERAGE RATIO (LCR)

Refers to highly liquid assets held by Banks to meet short - term obligations. The ratio represents a generic stress scenario that aims to anticipate market - wide shocks.

## LOANS AND ADVANCES/RECEIVABLES

Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intended to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

### LOAN - TO - VALUE RATIO (LTV)

The LTV ratio is a mathematical expression which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

### LOSS GIVEN DEFAULT (LGD)

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

## M

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### MARKET CAPITALISATION

Number of ordinary shares in issue multiplied by the market value of each share at the year end.

### MARKET RISK

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

### MATERIALITY

The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of financial statements.

## N

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### NET ASSET VALUE PER SHARE

Shareholders' funds divided by the number of ordinary shares in issue.

### NET-INTEREST INCOME

The difference between what a Bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.



# GLOSSARY OF FINANCIAL/BANKING TERMS

## NET INTEREST MARGIN (NIM)

The margin is expressed as net Interest Income divided by average Interest earning assets.

## NET PREMIUM METHOD

A Net Premium Valuation is an actuarial calculation, used to place a value on the liabilities of a life insurer.

## NET STABLE FUNDING RATIO (NSFR)

Measures the amount of longer - term, stable sources of funding employed by a bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

## NON-CONTROLLING INTEREST

Equity in a subsidiary not attributable, directly or indirectly to a parent.

## NON – GENUINE

A cash flow characteristic that affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

## NOSTRO ACCOUNT

A bank account held in a foreign country by a domestic bank, denominated in the currency of that country. Nostro accounts are used to facilitate the settlement of foreign exchange trade transactions.

## O

### OFF BALANCE SHEET TRANSACTIONS

Transactions that are not recognised as assets or liabilities in the statement of financial position, but which give rise to contingencies and commitments.

### ONEROUS CONTRACT

A type of contract where the costs involved with fulfilling the terms and conditions of the contract are higher than the amount of economic benefits received.

### OPERATIONAL RISK

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

## OVERNIGHT POLICY RATE

Overnight Policy Rate (OPR) is the policy interest rate of the Central Bank under the single policy interest rate mechanism (w.e.f. 27 November 2024). It is the primary monetary policy instrument that signals the Central Bank's monetary policy stance.

## P

### PARENT

A parent is an entity that has one or more subsidiaries.

### PAST DUE

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

### PRICE EARNINGS RATIO (P/E RATIO)

Market price of an ordinary share divided by earnings per share (EPS).

### PROBABILITY OF DEFAULT (PD)

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

### PROVISION COVER

Total provisions for loan losses expressed as a percentage of net non - performing loans and advances before discounting for provisions on non - performing loans and advances.

### PRUDENCE

Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

## R

### REGULAR WAY TRADES

A type of trade that is settled through the regular settlement cycle required for the particular investment being traded. The settlement cycle is the time that the regulations of the securities market allows for the buyer to complete payment and for the seller to deliver the goods being purchased.

## RELATED PARTIES

One party has the ability to control the other party or exercise significant Influence over the other party in making financial and operating decisions, directly or Indirectly.

## RELATED PARTY TRANSACTION (RPT)

RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless whether a price is changed.

## REPURCHASE AGREEMENT

This is a contract to sell and subsequently repurchase government securities at a given price on a specified future date.

## RETURN ON AVERAGE ASSETS (ROA)

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 (ROE)

Profit after tax less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

## REVENUE RESERVE/RETAINED EARNINGS

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 Corporate, Retail, SME, Micro, Treasury, Real estate, Insurance, Non-Banking Financial Institute (NBFI).

### SHAREHOLDERS' FUNDS

Shareholders' funds consist of stated capital, statutory reserves, capital and revenue reserves.

### SIGNIFICANT INCREASE IN CREDIT RISK (SICR)

According to SLFRS 9, an entity should assess whether the risk of default on a financial Instrument has Increased significantly since Initial recognition. The assessment should consider reasonable and supportable Information that is relevant and available without undue cost or effort. There is a rebuttable presumption in the standard that the credit risk on a financial asset has Increased significantly since Initial recognition when contractual payments are more than 30 days past due.

### SOLELY PAYMENTS OF PRINCIPAL AND INTEREST TEST (SPPI)

Classification decision for non-equity financial assets under SLFRS 9.

### SPECIFIC IMPAIRMENT PROVISIONS

Impairment is measured individually for loans that are individually significant to the Bank.

### STATE-OWNED ENTERPRISE

A state-owned enterprise is a legal entity that is created by a government in order to partake in commercial activities on the government's behalf.

### STATUTORY RESERVE FUND

Reserve created as per the provisions of the Banking Act No. 30 of 1988.

Standard Lending Facility Rate (SLFR)

A policy rate used by CBSL before 27th November 2024.

### SUBSIDIARY

A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

### SUBSTANCE OVER FORM

The consideration that the accounting treatment and the presentation in financial statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

## T

### TIER 1 CAPITAL - COMMON EQUITY TIER 1 (CET 1)

Consists of stated capital, other capital, and revenue reserves. CET1 is the element of capital that has the highest quality and is the most effective in absorbing losses.

### TIER 1 CAPITAL - ADDITIONAL TIER 1 (AT 1)

Additional tier 1 capital (AT1) is a component of tier 1 capital, distinct from common equity tier 1 (CET1) capital. It comprises capital instruments that are not included in CET1. These AT1 instruments are subordinated to most other types of debt and have characteristics such as no fixed maturity and the flexibility for the issuing bank to cancel dividends at any time without triggering a default. AT1 plays a supplementary role in a bank's overall capital structure, providing additional financial resilience and capacity to absorb losses.

Tier ii capital consists of the sum total of revaluation reserves, general provisions, hybrid capital instruments and approved subordinated debentures.

### TOTAL CAPITAL

Total capital is the sum of Tier I (both CET 1 and AT 1) capital and Tier II capital.

### TRANSACTION COSTS

Incremental cost that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

### TWELVE MONTH EXPECTED CREDIT LOSSES (12 MONTH ECL)

The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial Instrument that are possible within the 12 months after the reporting date.

## U

### UNEARNED PREMIUM RESERVE

The premium corresponding to the time period remaining on an insurance policy.

### UNIT TRUST

An undertaking formed to invest in securities under the terms of a trust deed.

## V

### VALUE ADDED

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

## Y

### YIELD TO MATURITY

Discount rate which the present value of future cash flows would equal the security's current price.

### YIELD CURVE

A yield curve is a line that plots yields (Interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future Interest rate changes and economic activity. There are three main types of yield curve shapes: normal (upward sloping curve), Inverted (downward sloping curve) and flat.

# OUR BRANCH & SMART SELF-SERVICE MACHINE (SSM) NETWORK



254  
Branches



281  
ATMs



378  
CRMs



14  
CHQ-DMs



159  
BDM

## North Central Province – 30

10 11 14 0 5

## North Western Province - 60

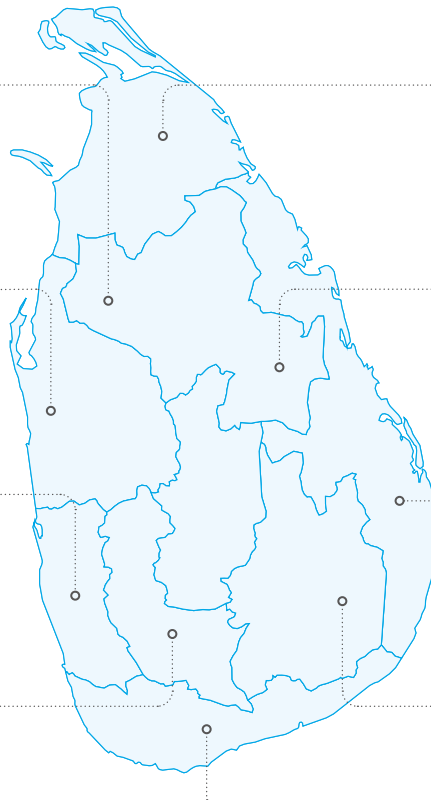
18 18 27 1 14

## Western Province – 385

106 125 169 12 79

## Sabaragamuwa Province – 35

11 12 15 - 8



## 61 – Northern Province

21 22 31 0 8

## 85 – Central Province

26 29 41 1 14

## 64 – Eastern Province

25 22 32 0 10

## 39 – Uva Province

12 15 15 0 9

## 73 – Southern Province

25 27 34 0 12

### NORTHERN PROVINCE – 21

#### JAFFNA - 12

Atchchueli  
Chankanai  
Chavakachcheri  
Chunnakam  
Jaffna  
Jaffna Metro  
Kaithady  
Kodikamam  
Manipay  
Nelliady  
Point Pedro  
Thirunelvely

#### KILINOCHCHI - 02

Kilinochchi North  
Kilinochchi South

#### MANNAR - 03

Mannar  
Mallavi  
Nanattan

#### MULLAITIVU - 02

Mullaitivu  
Mulliyawalai

#### VAVUNIYA - 02

Kurumankadu  
Vavuniya

### NORTH WESTERN PROVINCE - 18

#### KURUNEGALA - 09

Alawwa  
Galgamuwa  
Giriulla  
Hettipola  
Kuliyapitiya  
Kurunegala  
Kurunegala Metro  
Nikaweratiya  
Wariyapola

#### PUTTALAM - 09

Anamaduwa  
Chilaw  
Dankotuwa  
Madampe  
Marawila  
Norochchole  
Puttalam  
Udappuwa  
Wennappuwa

### NORTH CENTRAL PROVINCE - 10

#### ANURADHAPURA - 07

Anuradhapura  
Anuradhapura Metro  
Kekirawa  
Medawachchiya  
Nochchiyagama  
Padavi Parakramapura  
Thambuttegama

#### POLONNARUWA - 03

Aralaganwila  
Medirigiriya  
Polonnaruwa

## WESTERN PROVINCE – 106

### COLOMBO - 65

Aluthkade  
Asiri Surgical Hospital  
Athurugiriya  
Avissawella  
Bambalapitiya  
Boralesgamuwa  
Borella  
Cinnamon Gardens  
City Office  
Dehiwela  
Dematagoda  
Department of Immigration  
and Emigration  
Grandpass  
Greenpath  
Hanwella  
Head Office Branch  
Homagama  
Hulftsdorp  
International Water  
Management Institute  
Islamic Banking Unit

Jampettah  
Sri Jayawardenapura  
Hospital  
Kaduwela  
Kirulapone  
Kohuwela  
Kollupitiya  
Kolonnawa  
Kotahena  
Kottawa  
Rajagiriya  
Kothalwala Defence  
University (KDU)  
Maharagama  
Pettah Metro -IBU  
Malabe  
Maligawatte  
Maradana  
Mirihana  
Moratumulla  
Moratuwa  
Mount Lavinia  
Mutwal  
Narahenpita

Nawala  
Nawaloka Hospital  
Colombo - Metro  
Nugegoda  
Ninewells Hospital  
Overseas School of Colombo  
Padukka  
Pamankada  
Panchikawatte  
Pettah  
Piliyandala  
Ratmalana  
Sea Street  
Sri Lanka Ports Authority  
Battaramulla  
Thalawathugoda  
Asiri Central Hospital  
Thimbrigasyaya  
Wellawatte  
Wijerama  
World Trade Centre  
Orion City  
Lanka Hospital PLC

### GAMPAHA - 32

Airport Departure Counter  
Biyagama  
Delgoda  
Divulapitiya  
Ekala  
Gampaha  
Ganemulla  
Hendala  
Ja-Ela  
Kadawatha  
Kandana  
Katunayake  
Kelaniya  
Kiribathgoda  
Kirindiwela  
Kochchikade  
Marandaghamula  
Minuwangoda  
Mirigama  
Negombo  
Negombo Metro  
Nittambuwa

Pamunugama  
Peliyagoda  
Pugoda  
Ragama  
Seeduwa  
Sri Lankan Airlines  
Veyangoda  
Wattala  
Weliweriya  
Yakkala

### KALUTARA - 09

Aluthgama  
Bandaragama  
Beruwala  
Horana  
Ingiriya  
Kalutara  
Mathugama  
Panadura  
Wadduwa

## CENTRAL PROVINCE - 26

### KANDY - 15

Akurana  
Asiri Hospital  
Digana  
Galaha  
Gampola  
Gelioya  
Kandy  
Kandy City Centre  
Katugastota  
Kundasale  
Kurunduwatte  
Nawalapitiya  
Peradeniya  
Pilimathalawa  
Rikillagaskada

### MATALE - 03

Dambulla  
Galewela  
Matale

### NUWARA ELIYA - 08

Bogawanthalawa  
Ginigathhena  
Hatton  
Maskeliya  
Nuwara Eliya  
Pussellawa  
Ragala  
Thalawakele

## SABARAGAMUWA PROVINCE - 11

### KEGALLE - 04

Mawanella  
Kegalle  
Rambukkana  
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  
Katragama  
Monaragala  
Siyambalanduwa  
Wellawaya

## EASTERN PROVINCE - 25

### AMPARA - 11

Akkaraipattu  
Ampara  
Dehiattakandiya  
Kalmunai  
Karaithivu  
Ninthavur  
Pottuvil  
Samanthurai  
Thandavenvely  
Thirukkivil  
Uhana

### BATTICALOA - 05

Batticaloa  
Eravur  
Valachchenai  
Kaluwanchikudy  
Kattankudy

### TRINCOMALEE - 09

Kantale  
Kinniya  
Marathamunai  
Mullipathana  
Muttur  
Trinco Metro  
Serunuwara  
Trincomalee  
Uppuveli

## SOUTHERN PROVINCE - 25

### GALLE - 09

Ambalangoda  
Batapola  
Elpitiya  
Galle  
Hikkaduwa  
Karapitiya  
Habaraduwa  
Pitigala  
Yakkalamulla

### HAMBANTOTA - 08

Ambalantota  
Angunakolapelessa  
Hambantota  
Middeniya  
Sooriyawewa  
Tangalle  
Tissamaharama  
Walasmulla

### MATARA - 08

Akuressa  
Deniyaya  
Devinuwara  
Dickwella  
Hakmana  
Matara  
Urubokka  
Weligama

# NOTICE OF MEETING

## 1. NOTICE OF MEETING AND AGENDA

Notice is hereby given that the Fifty Sixth (56th) Annual General Meeting of Hatton National Bank PLC (the "Bank") is convened on Thursday, the Twenty Seventh (27th) day of March 2025 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 2024 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 resolution:

### ORDINARY RESOLUTION - DECLARATION OF DIVIDEND:

#### IT IS HEREBY RESOLVED:

- (A) THAT a final dividend of Rupees Fifteen (Rs. 15.00) per share 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 2024 based on the issued ordinary voting shares and ordinary non-voting shares as at the commencement of trading on 21st February 2025;
  - (B) THAT the shareholders entitled to such dividend ("Entitled Shareholders") shall be those shareholders (holders of both ordinary voting shares and ordinary non-voting shares) whose names have been duly registered in the Register of Shareholders and those shareholders whose names appear on the Central Depository Systems (Private) Limited ("CDS") as at end of trading on the second (2nd) Market Day from and excluding the date of the Annual General Meeting (the "Record Date");
- iii. To re-elect Meemanage Nanda Rajarathna Fernando, as a Non-Executive Director of the Bank, in terms of Article 36 (ii) of the Articles of Association of the Bank.
  - iv. To re-elect Sivakrishnarajah Renganathan, as a Non- Executive Director of the Bank, in terms of Article 36 (ii) of the Articles of Association of the Bank.
  - v. To re-elect Suresh Kumar Shah, as a Non- Executive Director of the Bank, in terms of Article 36 (ii) of the Articles of Association of the Bank.
  - vi. To re-elect Dilani Champika Alagaratnam Goonatileke, as a Non-Executive Director of the Bank, in terms of Article 36 (ii) of the Articles of Association of the Bank.
  - vii. To re-elect Wanniarachchi Mudiyansele Madura Duminda Ratnayake, who retires at the Annual General Meeting, as a Non-Executive Director of the Bank, in terms of Article 34 (ii) of the Articles of Association of the Bank.

- viii. To re-elect Prawira Rimoe Saldin, who retires at the Annual General Meeting, as a Non-Executive Director of the Bank, in terms of Article 34 (ii) of the Articles of Association of the Bank.
- ix. (a) To appoint Messrs KPMG - Sri Lanka (Chartered Accountants) as the Bank's Auditors for the ensuing year.  
(b) To authorize the Board of Directors to determine the remuneration for such Auditors for the ensuing year.
- x. To authorize the Board of Directors to determine payments for the year 2025 for charitable and other purposes.
- xi. To consider and if thought fit, pass the following Special Resolutions to amend the Articles of Association of the Bank, subject to the approval of the Central Bank of Sri Lanka:

#### Special Resolution 1:

IT IS HEREBY RESOLVED THAT Article 19 be deleted in the entirety and the following Article be inserted in substitution thereof:

#### "19 METHOD OF HOLDING MEETINGS

Subject to the provisions of the Act, a meeting of shareholders (including a meeting where it is intended to propose a resolution as a special resolution) may be held either:

- (a) by a number of shareholders who constitute a quorum, being assembled together at the place, date and time appointed for the meeting; or
- (b) by means of audio, or audio and visual communication by which all shareholders participating and constituting a quorum, can simultaneously hear each other throughout the meeting."

#### Special Resolution 2:

IT IS HEREBY RESOLVED THAT paragraphs (i) and (ii) of Article 22 be deleted in the entirety and the following paragraphs be inserted in substitution thereof:

- "(i) Voting at a meeting of shareholders held under paragraph (a) of Article 19 above shall, unless a poll is demanded, be by a show of hands, or voting by voice as may be determined by the Chairman. Voting at a meeting of shareholders held under paragraph (b) of Article 19 above shall, unless a poll is demanded, be by shareholders signifying individually their assent or dissent by voice or any other method of expression as may be used in the context of and allowed by the electronic platform and/or application used by the Company to conduct such meeting. No shareholder shall be entitled to vote at a general meeting either personally or by proxy or by attorney or by representative, or to exercise any privilege as a shareholder unless all calls or other sums presently payable by him in respect of the Shares in the Company have been paid.
- (ii) Subject to any rights or restrictions for the time being attached to any class or classes of Shares, on a show of hands, voting by voice or any other method of expression as may be used in the context

of and allowed by the electronic platform and/or application used by the Company to conduct such meeting as aforesaid, every shareholder who is present shall have one (01) vote. Subject as aforesaid, on a poll every shareholder who is present in person at the meeting shall be entitled to one (01) vote for each voting Share held by him."

#### Special Resolution 3:

IT IS HEREBY RESOLVED THAT Article 37 be deleted in the entirety and the following Article be inserted in substitution thereof:

#### "37 ALTERNATE DIRECTORS

- (i) (a) Subject to the Statutes and other laws applicable in respect of the composition of the Board, a Director may, if he is unable to attend to his duties as a Director due to illness or any other exceptional circumstances, by notice in writing under his hand delivered to the Secretary, nominate an individual to be appointed as an alternate Director of the Company for a maximum period of one (1) year from the date of appointment to attend to the duties of the Director in his absence.
- (b) Such Alternate Director shall be entitled to receive notices of all meetings of Directors and to attend and vote as Director at any such meeting at which the Director appointing him is not personally present and to exercise the rights of the appointer at meetings of the Board.
- (c) The attendance of any alternate Director at any meeting, including a Board committee meeting, at which the appointer is absent, shall be counted for the purpose of quorum at such meeting.
- (ii) The appointment of an alternate Director shall be subject to the approval of the Board and the prior approval of the Director of Bank Supervision under the provisions of Section 42 of the Banking Act.
- (iii) An alternate Director shall not in respect of such appointment be entitled to receive any remuneration from the Company, nor be required to hold any Share qualification. However, the Board may reimburse an alternate Director such reasonable expenses as he may incur in attending and returning from meetings of the Board which he is entitled to attend, or as he may otherwise properly incur in or about the business of the Company. Alternatively, the Board may pay such allowances as it considers proper in respect of such expenses.
- (iv) An alternate Director shall (on his giving an address for such notice to be served on him) be entitled to receive notices of all meetings of the Board and to attend and vote as a Director at any such meeting at which the Director appointing him is not personally present, and generally to perform all the functions of his appointer as a Director in the absence of such appointer, due to the reasons stated in Article 37(i) hereof, including the signing of resolutions in writing to be passed by circulation under Article 51 hereof.

- (v) Subject to Article 37(i) hereof, an alternate Director shall ipso facto cease to be an alternate Director on the occurrence of any of the following events:
  - (a) If his appointer ceases for any reason to be a Director. Provided that if any Director retires by rotation but is re-elected at the meeting at which such retirement took effect, any appointment made by him pursuant to this Article which was in force immediately prior to his retirement shall continue to operate after his re-election as if he had not so retired;
  - (b) If the appointment of the alternate Director is revoked by his appointer by a notice in writing delivered to the Secretary;
  - (c) If the Board resolves that the appointment of the alternate Director be terminated on a date determined by it prior to the completion of the period of one (1) year;
- (vi) A Director shall not vote on the question of the approval of an alternate Director to act for him, or on the question of the termination of the appointment of such an alternate under Article 37(v)(c). He shall also not be counted to determine the quorum at meetings when such matters are voted on.
- (vii) If an alternate Director is appointed for a Non-Executive Director, such alternate Director shall not be an executive of the Company.
- (viii) If an alternate Director is appointed to represent an Independent Non-Executive Director, such alternate Director so appointed shall meet the criteria for independence specified in the Statutes.
- (ix) A Director may by notice in writing under his hand, delivered to the Secretary, at any time remove his appointed alternate Director and appoint another person as his alternate Director."

#### Special Resolution 4:

IT IS HEREBY RESOLVED THAT paragraph (i) of Article 57 be deleted in the entirety and the following paragraph be inserted in substitution thereof:

- "(i) Where the Company is required to send any document (including a financial statement or report) to a shareholder or to give notice of any matter to a shareholder, it shall be sufficient for the Company to send the document or notice to the registered address of the shareholder, by courier or ordinary post to his registered address or by electronic mail to an electronic mail account notified by the shareholder in writing to the Company or by any other acceptable means. Any document or notice sent by courier or by registered post is deemed to have been received by the shareholder on the day following the dispatch of a properly addressed and prepaid letter containing the document or notice. Where electronic mail is used, the document or notice shall be deemed to have been received by the shareholder upon the dispatch of the same by the Company through electronic mail."

# NOTICE OF MEETING

## Special Resolution 5:

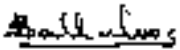
IT IS HEREBY RESOLVED THAT paragraph (vi) of Article 57 be deleted in the entirety and the following paragraph be inserted in substitution thereof:

“(vi) Any notice required to be given by the Company to the shareholders or any of them and not expressly provided for by these Articles shall be sufficiently given if given by way of a public notice in terms of Section 529 (4) of the Act or if the notice is published on the official website of the Company and/or on the official website of the Colombo Stock Exchange (if the Company is listed on the Colombo Stock Exchange) and/or in Sinhala, Tamil and English national daily newspapers.”

## Special Resolution 6:

IT IS HEREBY RESOLVED THAT in order to ensure consistency throughout the Articles of Association, Articles 7 (x), 17 (ii), 23 (vi), 50 (i) (d) and 53 (vi) be amended by deleting the word “member” and inserting the word “shareholder” in substitution thereof.

By order of the Board of Hatton National Bank PLC,



Shiromi Halloluwa  
Assistant General Manager (Legal) /Board Secretary  
Colombo, Sri Lanka

21st February 2025

## NOTES:

- (1) A shareholder entitled to attend or attend, vote and be heard at the Annual General Meeting, is entitled to appoint a proxy to attend or attend, vote and be heard as the case may be, in his stead.
- (2) A proxy need not be a shareholder of the Bank. The Form of Proxy is enclosed.
- (3) The completed Form of Proxy should be emailed to info@hnb.lk or deposited with the Board Secretary at the Registered Office of the Bank at No. 479, T.B. Jayah Mawatha, Colombo 10 (at “HNB Towers”, Level 19), not less than twenty-four (24) hours before the time fixed for the meeting.

## SUMMARY OF ARTICLE 22 OF THE ARTICLES OF ASSOCIATION OF HATTON NATIONAL BANK PLC ON PROCEDURE ON VOTING AND HOW A POLL IS TO BE TAKEN

- (1) Voting at a meeting of shareholders shall, unless a poll is demanded, be by a show of hands or voting by voice, as may be determined by the Chairman.
- (2) Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands or voting by voice as aforesaid every member who is present at the meeting shall have one (01) vote, and on a poll, every shareholder present in person at the meeting shall be entitled to one (1) vote for each voting share held by him/her.
- (3) A declaration by the Chairman of the meeting that a resolution is carried by the requisite majority is conclusive evidence of that fact, unless a poll is demanded.
- (4) At a meeting of shareholders, a poll may be demanded on a particular question as provided for in the Companies Act No. 7 of 2007, by:
  - (i) the Chairman;
  - (ii) not less than five (5) shareholders having the right to vote at the meeting; or
  - (iii) 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.
- (9) Objections to voter qualification must be raised at the meeting where the vote is cast, and any vote not disallowed shall be valid. The Chairman's decision on any objection shall be final.



# FORM OF PROXY (VOTING)

I/We ..... of ..... being \*a shareholder/shareholders of the Hatton National Bank PLC, hereby appoint ..... of .....

or failing him/her, Kuttikande Vidanelage Nihal Jayawardene PC or failing him, Pallewatte Gamaralalage Damith Buddhika Pallewatte or failing him, Wanniarachchi Mudiyansele Madura Duminda Ratnayake or failing him, Mututantrige Parakrama Devaka Cooray or failing him, Prawira Rimoe Saldin or failing him, Goluhewage Bindu Rasitha Poojitha Gunawardana or failing him, Kahandawela Arachige Kithsiri Perera Gunawardena or failing him, Talpawila Kankanamge Don Aruna Prasad Samarasinghe or failing him, Meemanage Nanda Rajarathna Fernando or failing him, Sivakrishnarajah Renganathan or failing him, Suresh Kumar Shah or failing him, Dilani Champika Alagaratnam Goonatileke as \*my/our proxy, to attend, vote and speak on \*my/our behalf and to represent \*me/us at the Fifty Sixth (56th) Annual General Meeting of the Bank to be held at the Auditorium on Level 22 of "HNB Towers" at No. 479, T B Jayah Mawatha, Colombo 10, on the Twenty Seventh (27th) day of March, 2025 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 Rupees Fifteen ( Rs.15.00) per share as the final dividend for the financial year ended 31st December 2024 and to adopt Ordinary Resolution - Declaration of Dividend:	In favour <input type="checkbox"/>
		Against <input type="checkbox"/>
(ii)	To re-elect Meemanage Nanda Rajarathna Fernando as a Director of the Bank	In favour <input type="checkbox"/>
		Against <input type="checkbox"/>
(iii)	To re-elect Sivakrishnarajah Renganathan as a Director of the Bank	In favour <input type="checkbox"/>
		Against <input type="checkbox"/>
(iv)	To re-elect Suresh Kumar Shah as a Director of the Bank	In favour <input type="checkbox"/>
		Against <input type="checkbox"/>
(v)	To re-elect Dilani Champika Alagaratnam Goonatileke as a Director of the Bank	In favour <input type="checkbox"/>
		Against <input type="checkbox"/>
(vi)	To re-elect Wanniarachchi Mudiyansele Madura Duminda Ratnayake, who retires at the Annual General Meeting, as a Director of the Bank	In favour <input type="checkbox"/>
		Against <input type="checkbox"/>
(vii)	To re-elect Prawira Rimoe Saldin, who retires at the Annual General Meeting, as a Director of the Bank	In favour <input type="checkbox"/>
		Against <input type="checkbox"/>
(viii)	To appoint Messrs KPMG - Sri Lanka (Chartered Accountants) as the Bank's Auditors for the ensuing year and authorize the Directors to fix their remuneration	In favour <input type="checkbox"/>
		Against <input type="checkbox"/>
(ix)	To authorize the Directors to determine payments for F/Y 2025 for charitable and other purposes	In favour <input type="checkbox"/>
		Against <input type="checkbox"/>
(x)	To consider and amend Article 19, Articles 22 (i) and 22 (ii), Articles 37 (i) to (ix), Articles 57 (i) and 57 (vi), Articles 7(x), 17(ii), 23(vi), 50 (i) (d) and 53 (vi)	In favour <input type="checkbox"/>
		Against <input type="checkbox"/>

\* Delete inappropriate words \*\* Mark your preference with "✓" or "X"

Signed this ..... day ..... 2025.

Signature/s .....  
.....

# FORM OF PROXY (VOTING)

Please provide the following details:

Shareholder's NIC No/Company Registration No	:	.....
Folio No/Number of Shares held	:	.....
Proxy holder's NIC No (if not a Director)	:	.....

Instructions to complete proxy:

1. The full name and the registered address of the shareholder appointing the Proxy should be legibly entered in the Form of Proxy, duly signed and dated.
2. The completed Proxy should be emailed to info@hnb.lk or deposited with the Board Secretary, at the Registered Office of the Bank at No. 479, T B Jayah Mawatha, Colombo 10 ("HNB Towers", Level 19), not less than twenty-four (24) hours before the time appointed for holding the Meeting.
3. The Proxy shall-
  - (a) in the case of an individual, be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney duly registered at the office of the Registrar General should be attached to the completed Proxy if it has not already been registered with the Bank;
  - (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of the company or corporate body in accordance with the Articles of Association or the Constitution of that company or corporate body. The Bank may but shall not be bound to, require evidence of the authority of any such attorney or officer;
  - (c) in the case of joint-holders, the first joint-holder has the power to sign the proxy without the concurrence of the other joint-holder/s.
4. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

# FORM OF PROXY (NON-VOTING)

I/We ..... of ..... being \*a shareholder/shareholders of the Hatton National Bank PLC, hereby appoint ..... of .....

or failing him/her, Kuttikande Vidanelage Nihal Jayawardene PC or failing him, Pallewatte Gamaralalage Damith Buddhika Pallewatte or failing him, Wanniarachchi Mudiyanseelage Madura Duminda Ratnayake or failing him, Mututantrige Parakrama Devaka Cooray or failing him, Prawira Rimoe Saldin or failing him, Goluhewage Bindu Rasitha Poojitha Gunawardana or failing him, Kahandawela Arachige Kithsiri Perera Gunawardena or failing him, Talpawila Kankanamge Don Aruna Prasad Samarasinghe or failing him, Meemanage Nanda Rajarathna Fernando or failing him, Sivakrishnarajah Renganathan or failing him, Suresh Kumar Shah or failing him Dilani Champika Alagaratnam Goonatilleke as \*my/our proxy, to attend and speak on \*my/our behalf and to represent \*me/us at the Fifty Sixth (56th) Annual General Meeting of the Bank to be held at the Auditorium on Level 22 of "HNB Towers" at No. 479, T B Jayah Mawatha, Colombo 10, on the Twenty Seventh (27th) day of March, 2025 at 10.00 in the forenoon and at any adjournment thereof.

\* Delete inappropriate words

Signed this ..... day ..... 2025.

Signature/s .....  
.....

Please provide the following details:

Shareholder's NIC No/Company Registration No	:	.....
Folio No/Number of Shares held	:	.....
Proxy holder's NIC No (if not a Director)	:	.....

Note – See reverse hereof for instructions to complete the proxy.

# FORM OF PROXY (NON-VOTING)

## *Instructions to complete proxy*

1. The full name and the registered address of the shareholder appointing the Proxy should be legibly entered in the Form of Proxy, duly signed and dated.
2. The completed Proxy should be emailed to info@hnb.lk or deposited with the Board Secretary, at the Registered Office of the Bank at No. 479, T B Jayah Mawatha, Colombo 10 ("HNB Towers", Level 19), not less than twenty-four (24) hours before the time appointed for holding the Meeting.
3. The Proxy shall-
  - (a) in the case of an individual, be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney duly registered at the office of the Registrar General should be attached to the completed Proxy if it has not already been registered with the Bank;
  - (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of the company or corporate body in accordance with the Articles of Association or the Constitution of that company or corporate body. The Bank may but shall not be bound to, require evidence of the authority of any such attorney or officer;
  - (c) in the case of joint-holders, the first joint-holder has the power to sign the proxy without the concurrence of the other joint-holder/s.
4. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

# INVESTOR FEEDBACK FORM

To request information or submit a comment/query to the Bank, please complete the following and return this page to -

Chief Growth 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









# 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 2024

### Stock Exchange Listing

The ordinary shares and senior and subordinated debentures of the Bank are listed on the Colombo Stock Exchange in Sri Lanka.

### Registered Office

“HNB Towers”  
No. 479, T B Jayah Mawatha,  
Colombo 10,  
Sri Lanka.

### Head Office

“HNB Towers”,  
No. 479, T B Jayah Mawatha  
Colombo 10,  
Sri Lanka.

Cable Address : HATNABANK  
Telephone Nos : +94 11 266 4664  
: +94 11 246 2462  
: +94 11 476 4764

Swift : Bic Code - HBLILKLX  
e-mail : hnbconnect@hnb.lk  
Web : www.hnb.net  
Facebook : HNBPLC  
Instagram : hnbrilanka  
X : @hnbplc  
Linkedin : hatton-national-bank-plc  
Youtube : hnbplcsrilanka  
Tiktok : hnb.srilanka

### Credit Ratings

The Bank has been assigned a national long term rating of AA-(lka) by Fitch Ratings Lanka Limited

### Subsidiary Companies

#### HNB Assurance PLC (Insurance Services)

Voting rights - 60%

#### HNB Finance PLC (Financial Services)

Voting rights - 51%

#### HNB Investment Bank (Pvt) Ltd (Financial Services)

*(On January 21, 2025, the Bank acquired the remaining 50% stake in Acuity Partners Limited from DFCC PLC and the company's name has changed as HNB Investment Bank (Pvt) Ltd w.e.f. 31st January 2025)*

Voting rights - 100%

#### Sithma Development (Pvt) Ltd (Property Development)

Voting rights - 100%

### Auditors

#### KPMG Sri Lanka

Chartered Accountants  
32A, Sir Mohamed Macan Markar Mawatha,  
Colombo 03,  
Sri Lanka.

### Investor Information

Institutional Investors, Stockbrokers and Security Analysts requiring financial information should contact the  
– Chief Growth Officer

“HNB Towers”  
Level 16, No. 479,  
T B Jayah Mawatha,  
Colombo 10,  
Sri Lanka.  
Telephone : +94 11 266 1652  
e-mail : investor.relations@hnb.lk

## BOARD OF DIRECTORS AND COMMITTEES

### Board of Directors

(as at 21st February 2025)

Mr Nihal Jayawardene PC (Chairman)  
Mr Damith Pallegatte (Managing Director / CEO)  
Mr Devaka Cooray- Senior Independent Director  
Mr Madura Ratnayake  
Mr Rimoe Saldin  
Mr Rasitha Gunawardana  
Mr Kithsiri Gunawardana  
Dr Prasad Samarasinghe  
Mr Nanda Fernando  
Mr Sivakrishnarajah Renganathan  
Mr Suresh Shah  
Mrs Dilani Champika Alagaratnam Goonatileke

### Board Secretary

Ms Shiromi Halloluwa  
Attorney-at-Law

### Statutory Board Sub- Committees

(as at 31st December 2024)

#### Audit Committee

Mr Devaka Cooray (Chairman)  
Mr Rasitha Gunawardana  
Mr Sivakrishnarajah Renganathan

#### Invitee

Mr P R Saldin - Only on need basis

#### Nominations and Governance Committee

Mr Devaka Cooray (Chairman)  
Mr Madura Ratnayake  
Mr Nihal Jayawardene PC  
Mr Sivakrishnarajah Renganathan

#### HR & Remuneration Committee

Mr Madura Ratnayake (Chairman)  
Mr Nihal Jayawardene PC  
Mr Rasitha Gunawardana  
Mr Suresh Shah

#### Board Integrated Risk Management Committee

Mr Rimoe Saldin (Chairman)  
Dr Prasad Samarasinghe  
Mr Kithsiri Gunawardana  
Mr Suresh Shah

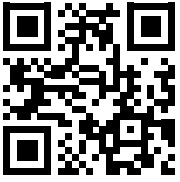
#### Invitee

Mr Devaka Cooray - Only on need basis

#### Related Party Transaction Review Committee

(statutory Committee w.e.f. 1st January 2025)

Mr Rasitha Gunawardana (Chairman)  
Mr Nanda Fernando  
Mr Suresh Shah



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



## **HATTON NATIONAL BANK PLC**

"HNB Towers" No 479, T B Jayah Mawatha (Darley Road),  
P O Box 837, Colombo 10, Sri Lanka  
Telephone Nos : +94 11 266 4664, +94 11 476 4764  
e-mail : [hnbconnect@hnb.lk](mailto:hnbconnect@hnb.lk)