

BUSINESS AS UNUSUAL



HNB

Hatton National Bank PLC

Annual Report 2015

BUSINESS AS UNUSUAL

One bank is just like another.
The same products, the same services, the same promises.
Right?

Wrong.

We would not be looking back at over one hundred and twenty five years of successful business today if we had ever lost sight of our most important obligation: to serve every individual stakeholder with honesty, value and care.

Over the years, we have learned who our customers and other stakeholders really are. We understand their hopes and dreams, their concerns and aspirations, as we work closely together towards our common goal. We're drawing on decades of banking experience and local understanding to meet and exceed our stakeholders' expectations. Today we are as relevant to contemporary Sri Lanka as we were all those years ago, serving thousands of customers who live increasingly digital lives.

We know that we must bring change to the old order of how we work in order to meet the challenges of the future. That's why we are pursuing a bold strategy of doing things differently, in effect reinvent the way we work to better serve our customers.

We are also investing deeply into the relationships we build, that go far beyond the banking transactions we service every day. We command the loyalty and trust of generations of Sri Lankans because they know who we are - a bank that is reputed for effective governance, technologically sophisticated products and services, corporate sustainability and unparalleled integrity.

This report examines in detail how your bank works to create value for the different stakeholders we serve. Whoever they are, whatever their needs, you can be sure that these are partnerships that will endure, because at Hatton National Bank, it's the relationship that matters. It's never just business as usual.

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Key Pages



Chairman's Message

Page 10

Your Bank posted an exceptional performance once again, despite low interest margins that impacted the banking industry. The Group's Profit grew by 10 % to reach Rs. 11 Bn, supported by a Profit After Tax of Rs 10.5 Bn reported by the Bank.



Management Discussion & Analysis

Page 32

We've reported on the capitals which are most relevant to the Bank's value creation, namely Financial, Intellectual, Human, Manufactured, Social and Relationship and Natural Capital.



Managing Director's Review of Operations

Page 19

Cutting edge technology has been the key enabler of the Bank's strategic imperatives such as customer convenience, driving sales, increasing fee based income, optimising costs and making strides towards reducing our carbon footprint.



Risk Management at HNB

Page 168

Throughout its more than 120 years, Hatton National Bank (HNB) has combined prudence in risk management together with the use of quantitative and qualitative risk management techniques which over time have proven to be decisive in generating stable earnings and superior shareholder value.



Read the report online at

Welcome to our annual report for 2015

Defining the Report Content

This is the ninth consecutive year in which we have developed our Sustainability Report according to the GRI Reporting Framework. GRI serves as an universally recognised framework for reporting on an organisation's economic, environmental and social performance. Additionally, Global Reporting Guidelines (GRI G4) provide specific 'Reporting Principles' and 'Reporting Guidance' to assist companies through the decision making processes associated with the preparation of a sustainability report. This report defines the content, the quality of the Report and set out its boundaries as outlined by the GRI Reporting Principles.

Stakeholder Inclusiveness & Engagement

Sustainability Reporting affords the Bank a means to communicate and engage with its stakeholders. Given the disparate nature (and interests) of various stakeholders, the Bank is compelled to strategically define its key stakeholder audience to ensure materiality in engagement and reporting (refer pages 36 to 43).

Sustainability Content

This Report presents the Bank's performance in the wider context of sustainability, providing an insight into the Bank's contribution towards the enhancement of economic, environmental and social conditions within which it operates.

Issue of Materiality

→ G4-19

The Bank is cognizant of the criticality of materiality in reporting. This Sustainability Report therefore, focuses on indicators that reflect the Bank's significant economic, environmental and social impacts or that would influence the assessment and decisions of its stakeholders (refer pages 36 to 43).

Ensuring Completeness

We report against the GRI G4 Sustainability Reporting Guidelines and the GRI Financial Services Sector Supplement, supported by our internally developed policies and procedures. We continue to improve our application of the G4 guidelines and at this stage our report is in accordance with the core GRI G4 level and goes some way towards the comprehensive level. We have also expanded our Report to be more conclusive through a broader projection of Key Performance Indicators.

Defining the Report Quality

Balance, Accuracy and Clarity

This Report endeavours to present an unbiased presentation of the Bank's performance by reflecting positive and negative aspects of the Bank's performance to enable a reasonable assessment of overall performance.

As far as possible, the Report provides accurate information in a manner that is understandable and accessible to its readers.

Reliability, Comparability and Timeliness

Results of performance on key indicators are presented along with the previous reporting period and on a regular schedule to aid informed decision making by our stakeholders.

Defining Report Boundary:

This Report covers only the sustainable performance of the Bank and has not been extended to cover its subsidiaries

Standard Disclosures in the Report

Strategy and Profile:

In this section we provide a high level strategic view of the Bank's relationship to sustainability in order to provide context for understanding the Bank's performance such as its strategy, profile and governance (refer pages 32 to 33).

Management Approach & Performance Indicators:

The Performance Indicators are organised by economic, environmental and social categories as set out in the GRI Table.

Disclosures aligned with GRI G4 requirements are indicated wherever they appear in the text, in the following format

Eg : → G4-6

Report Profile

→ [G4-28](#), [G4-29](#), [G4-30](#), [G4-31](#), [G4-32](#)

This report covers the operations of the Bank during the financial year which ended 31 December 2015. The most recent previous report was for the year 2014. HNB reports on its sustainable performance annually. All questions regarding the report or its contents should be addressed to the Chief Financial Officer. We have selected to report in accordance with the core GRI G4 level, moving towards the comprehensive level.

Independent Assurance

→ [G4-33](#)

Independent Assurance is a widely accepted norm within the process of Sustainability Reporting. The Bank recognises that independent assurance enhances the transparency and credibility of its Sustainability Reporting process through the delivery of superior value to the Bank, users of the Report and broader stakeholder groups and individuals.

M/s Ernst & Young has provided an Independent Assurance Report on Hatton National Bank's Sustainability Performance. The Auditors' review engagement was carried out in accordance with the International Standard on Assurance Engagements (ISAE 3000).

Material Aspects and Boundaries including significant changes during the reporting period

→ [G4-6](#), [G4-13](#), [G4-17](#), [G4-18](#), [G4-19](#), [G4-20](#), [G4-21](#), [G4-22](#), [G4-23](#)

This report is primarily about the performance of Hatton National Bank's operations in Sri Lanka and does not cover in detail the performance of its associates/subsidiaries. Reporting is focused on indicators that reflect on the Bank's performance against defined core sustainability focus areas such as economic, environmental and social impacts or that would influence the assessment and decisions of its stakeholders. Refer pages 36 to 39 for greater detail on identification of material aspects and setting of aspect boundaries. There have been no significant restatements to the information provided in previous reports or to the scope and aspect boundaries.

There were no significant changes regarding the Bank's size, structure, ownership, or its supply chain, including changes in the location of, or changes in operations, including facility openings, closings, and expansions; changes in the share capital structure and other capital formation, maintenance, and alteration operations and changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination.

Stakeholder Feedback

The Bank recognises the critical role of stakeholder feedback in further enhancing its sustainability reporting frameworks. To facilitate better engagement and formal feedback, an Investor/Stakeholder Feedback Form is attached to this Report.

Financial Highlights & Financial Goals / Performance

	Bank			Group		
	2015	2014	%	2015	2014	%
	Rs Mn	Rs Mn	Change	Rs Mn	Rs Mn	Change
Results For the Year						
Income	61,153	59,500	2.8	70,027	65,024	7.7
Net profit before income tax	15,050	12,064	24.8	16,160	13,148	22.9
Income tax on profits	4,601	3,059	50.4	5,064	3,080	64.4
Net profit after taxation	10,449	9,005	16.0	11,096	10,068	10.2
Gross dividends	3,449	3,431	0.5	3,449	3,431	0.5
At the Year End						
Shareholders' funds (Capital and Reserves)	65,051	60,899	6.8	75,564	67,905	11.3
Deposits from customers	527,126	419,327	25.7	536,133	425,620	26.0
Gross loans and receivables to customers	509,525	406,931	25.2	518,586	413,224	25.5
Total assets	725,208	572,851	26.6	757,585	596,491	27.0
Information per ordinary share						
Earnings (Rs)	25.83	22.47	15.0	26.09	24.50	6.5
Dividends (Rs)	8.50	8.50	-	-	-	-
Dividend yield (%) - Voting	4.04	4.36	(7.5)	-	-	-
Dividend yield (%) - Non Voting	4.78	5.56	(14.1)	-	-	-
Net asset value (Rs)	160.29	151.26	6.0	186.20	168.67	10.4
Market value (Rs) - Voting	210.60	194.90	8.1	-	-	-
Market value (Rs) - Non voting	177.90	152.90	16.4	-	-	-
Ratios						
Return on average shareholders' funds (%)	16.59	16.03		14.71	15.65	
Price earning (Times) - Voting	8.15	8.67		8.07	7.96	
Price earning (Times) - Non Voting	6.89	6.81		6.82	6.24	
Dividend cover (Times)	3.03	2.62		3.22	2.93	
Capital Adequacy Ratios						
Tier 1 (%) (Statutory minimum ratio required is 5%)	10.53	12.15		10.99	12.70	
Total capital (%) (Statutory minimum ratio required is 10%)	12.70	14.83		13.11	15.34	

	2011	2012	2013	2014	2015	Medium Term Goals
Key Performance Indicators						
Return on Average Assets (%)	1.8	1.8	1.5	1.7	1.6	Over 1.8
Return on Average Shareholders' Funds (%)	18.2	17.8	14.3	16.0	16.6	Over 20.0
Cost / Net Income Ratio (Excl Financial VAT) (%)	55.3	53.0	45.97	47.41	45.95	Below 50.0
Dividend per Share (Rs)	7.50	8.50	8.50	8.50	8.50	*Payout of 30%
Capital Adequacy (Bank)						
Tier 1 Capital Ratio (%) (Statutory Minimum Ratio Required is 5%)	12.8	13.9	13.0	12.2	10.5	11.0
Total Capital Ratio (%) (Statutory Minimum Ratio Required is 10%)	14.5	16.6	16.5	14.8	12.7	13.5

* Dividend payout of 30% amounts to a dividend per share of Rs 7.70 on 2015 profits.



15.0 Bn

Profit Before Tax

↑ 24.8%



509.5 Bn

Total Gross Loans

↑ 25.2%



527.1 Bn

Total Deposits

↑ 25.7%

45.9%

Cost / Income

2.4%

Gross NPA

16.6%

ROE

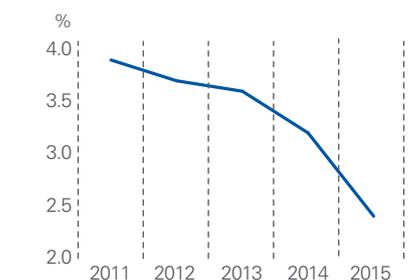
Profit for the Year



Total Deposits and Advances



Gross NPA



Events of 2015



Signing the USD 100Mn loan agreement with ADB



Receiving the ACCA Gold Award for Sustainability Reporting



Signing of the Sri Lanka Sustainable Finance Initiative by 18 Banks



Opening the new ATM at Madu



Accepting the Business Today - Top 25 Award where HNB was ranked no 3



Pledge to create a safe & secure future for children on Children's Day



Receiving the National Productivity Award under the Service Sector - Large category



Being recognised as the 'Best Retail Bank in Sri Lanka' by the Asian Banker for the 7th time



Recognising the staff members with a service of over 25 years



Receiving the Gold Award for 'Corporate Governance' at the Annual Report Awards



Accepting the Ceylon Chamber of Commerce 'Top 10 Best Corporate Citizens' Award

Chairman's Message

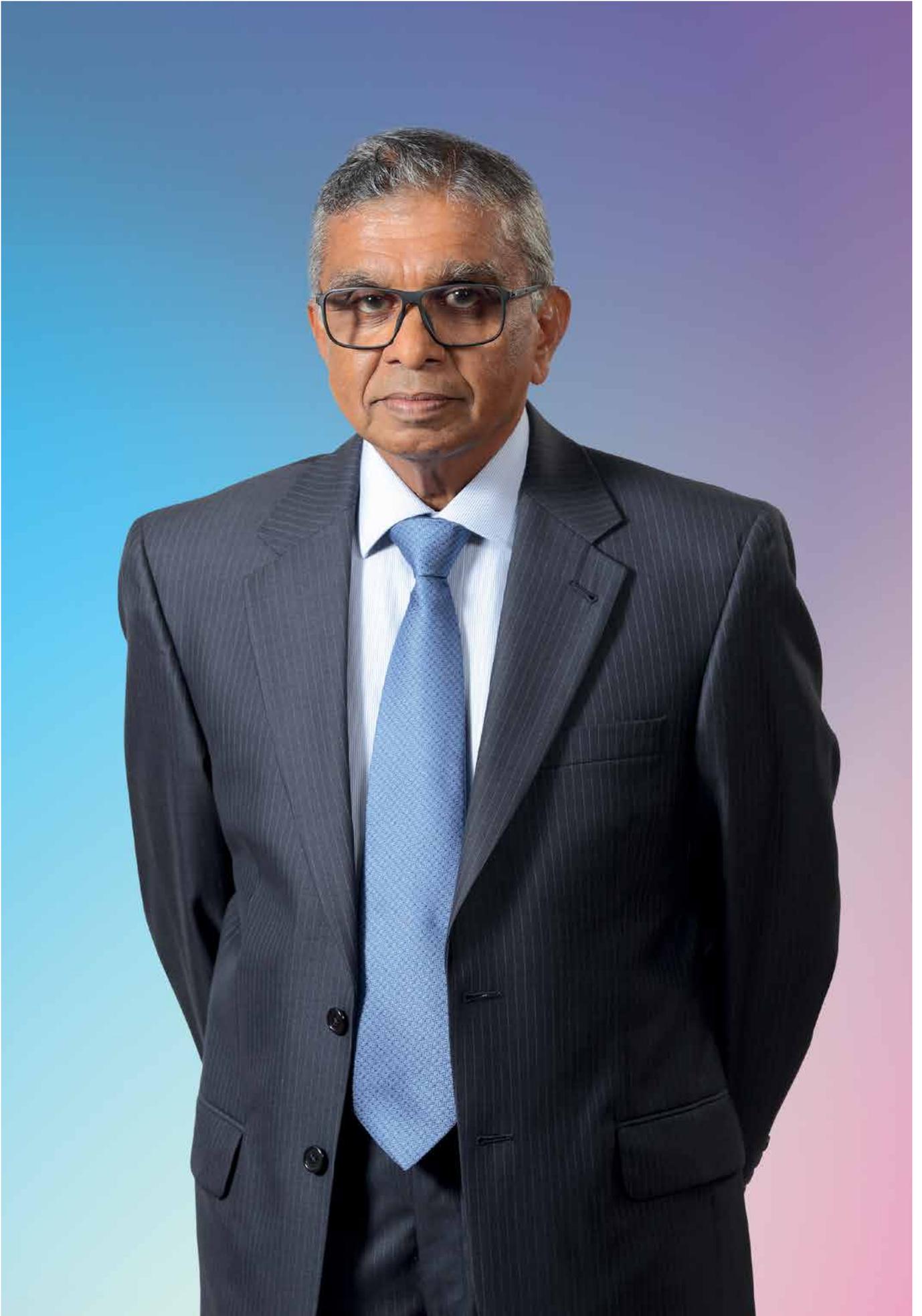
Your Bank posted an exceptional performance once again, despite low interest margins that impacted the banking industry. The Group's Profit grew by 10 % to reach Rs. 11 Bn, supported by a Profit After Tax of Rs 10.5 Bn reported by the Bank.

It is my pleasure to welcome you to the forty seventh annual general meeting of Hatton National Bank PLC and present to you the annual report and audited financial statements for the year ended 31st December 2015.

Backdrop to performance:

Your Bank posted an exceptional performance once again, despite low interest margins that impacted the banking industry. The Group's Profit grew by 10% to reach Rs. 11 Bn, supported by a Profit After Tax of Rs 10.5 Bn reported by the Bank. The Bank's performance is discussed in detail in the MD's Review and the MD&A sections of this report. An environment of moderate economic activity due to two critical elections, and the periods of transition that followed resulted in a slowdown in investments, leading to low credit growth. However, with more clarity on policy direction in the second half of the year, credit growth resumed at a faster pace.

The banking industry continued to be challenged by low net interest margins (NIMs) as the low interest environment of 2014 continued throughout 2015. Inflation which was in single digits for the seventh consecutive year declined further in 2015 and helped facilitate higher disposable incomes amongst consumers, thus contributing to the growth in HNB's personal loans, leasing and credit cards businesses.



Chairman's Message

With margins coming under further pressure in the local market, the Bank ventured out to lend into the regional markets; it continued its lending to Maldives while lending for the first time in Cambodia. In the medium to long term, we will look to expand into other regional markets such as South and East Asia and establish HNB as a financial services provider with a strong regional influence.

The year under review saw the Sri Lankan Rupee depreciate by as much as 9% as the Central Bank of Sri Lanka allowed the exchange rate to be more market determined in September, for the first time in three years. The strengthening of the US economy, led to the appreciation of the US Dollar vis à vis most currencies and the depreciation of regional currencies prompted the Central Bank to allow the Rupee to depreciate in order to protect Sri Lanka's export competitiveness. In addition, the rise in imports exerted further pressure and the Rupee reached Rs 141.94 per US Dollar as at end 2015. This resulted in significant capital gains to the Bank on foreign exchange operations during 2015.

During 2015 the insurance business of general and life operated as two separate companies as per the changes made to the insurance regulation. While the life business continued its strong performance, the general insurance business was adversely impacted from a surge in the claims ratio affecting its performance for 2015. The highlight for 2015 was the exceptional performance by HNB Grameen, which was the most recent addition to the HNB Group. Acuity Partners too contributed positively towards Group performance during the year despite capital markets not being buoyant throughout 2015. Sithma Development, the property development and management arm of the

Group, continued its steady performance with a consistent contribution towards the Group's bottom line.

Dividend

I am happy to announce that the Board has proposed a final dividend of Rs 7.00 per share for both voting and non voting shares in addition to the interim dividend of Rs 1.50 paid in December 2015. This is a dividend payout of 33% on 2015 profits.

Governance

Governance is about engendering trust through transparency and accountability. The Bank's long history of leadership in the financial services industry has been based on its stability, strength, integrity and trust, which are key attributes of brand HNB.

Your Bank believes that the highest standards in governance is indispensable to creating long term value to its stakeholders and must be pursued uncompromisingly. We believe that being a financial institution, which plays the role of being a guardian of peoples' wealth, underscores the importance of the highest standards in governance. HNB is relentless in its commitment to uphold the highest standards of governance and best practice in every avenue of its business and continues to push the bar in its pursuit of excellence.

The Board sets the tone at the top by promoting professional standards and corporate values that cascade down to senior management and other employees of the Bank. The Board has established committees such as the Board Integrated Risk Management Committee and the Board



DIVIDEND PER
SHARE



DIVIDEND PAYOUT

Sustainability has been inherent to the HNB ethos and business long before it became a buzz word. Our business model which has facilitated sustained growth and leadership for over 125 years stands testimony to this fact.

Audit Committee to oversee the discharge of stewardship. The Chairman is responsible at Board level whilst CEO along with his corporate management team which includes Chief Operating Officer, Chief Risk Officer and the Head of Internal Audit hold responsibility at management level.

In addition to the mandatory requirements that are complied with, HNB has established its own set of internal benchmarks, processes and structures to meet accepted best practices in governance. These are attributes which lend credence to the Bank's well established reputation amongst all its stakeholders, as a safe and sound Bank.

During the year, under review HNB conducted a Stakeholder Engagement Survey, to gather input for greater transparency and understanding of stakeholder concerns. There was also further fine tuning of our processes to enhance transparency and these measures are enumerated in the Governance report that appears on page 106 in this report.

Sustainability

Sustainability has been inherent to the HNB ethos and business long before it became a buzz word. Our business model which has facilitated sustained growth and leadership for over 125 years stands testimony to this fact.

Year 2014 saw the Bank publish its first integrated annual report to communicate this approach which it has consciously or otherwise adopted for over a century. It will continue to seek to 'deliver value to all its stakeholders-employees, customers, suppliers and investors' and this year's report continues and builds on this model of reporting.

We expect focus on environmental concerns amongst enterprises to intensify over the next few years with increasing awareness of the importance of doing so and of the consequences of not doing so. Your Bank will incorporate new green imperatives to its strategies and banking products and constantly expand its initiatives to reduce the Bank's

carbon footprint and partner its stakeholders to help reduce theirs.

Outlook

One of the most significant developments in the international landscape with considerable implications for global growth is the uncertainty surrounding the Chinese economy. The anticipated slowdown in China has had implications on capital and commodity markets with oil being one of the worse effected. Price of Brent Crude Oil, (as per the U.S. Energy Information Agency data), declined by more than 42% in 2014 and a further 32% in 2015. Depressed oil prices while effecting the oil exporting countries would boost purchasing power of oil importing countries. The recessionary conditions in some of the Euro economies, slowing growth in China, the political strife in the Middle East and the economic crisis in Russia are factors which pose challenges to global growth and particularly to countries like Sri Lanka whose key export destinations include these countries.

The strengthening of the US economy is likely to see a further appreciation of the US Dollar vis à vis major currencies. The recent increase in the US benchmark interest rates by 25 bps and expected increases in the year ahead is likely to cause a slowdown in investments into emerging and frontier markets such as Sri Lanka. Your Bank, having factored this into its strategy has bolstered its long term foreign borrowing by USD 185 Mn during 2015 while at the same time growing its customer deposits by over Rs 100 Bn during last year.

We expect Sri Lanka's industrial sector to be the key driver of growth in 2016 with the resumption of construction activity which slowed due to political changes in 2015 as the new government has indicated that the major infrastructure development projects would continue. Continuation of these projects, combined with increased consumer demand is likely to stimulate growth in 2016. We are also optimistic

Chairman's Message

Your Bank thus finds itself well poised to meet the challenges that the global and local economic environment could pose and is future ready, nimble and eager to capitalise on the many opportunities it foresees amidst accelerated economic development and renewed investor confidence in Sri Lanka.

that concessionary funding, which is critical for Sri Lanka, will be available to drive infrastructure projects and sustainable growth.

Addressing Sri Lanka's budget deficit and the balance of payment remains vital. In this context, attracting foreign direct investments to commence new industries remains paramount in determining the medium and long term growth prospects for Sri Lanka. Sri Lanka has heralded a new era of improved international relations and greater transparency in the local political culture, which has enhanced Sri Lanka's attractiveness as a destination for foreign investments and the resulting impact will begin to benefit the economy in the years ahead. We hope that FDIs will be supplemented by low cost borrowings in place of commercial borrowings. We are also hopeful that bilateral partnerships and improved relations with a number of nations will help broad base our export sector and create an abundance of new opportunities for the country's SME sector.

We also anticipate interest rates to rise marginally, prodded by the Government's increase in the Statutory Reserve Ratio in December 2015 to 7.5%.

Continuation of lower oil prices, and the lower global commodity prices as projected, will ease some of the inflationary pressure in Sri Lanka. However, the depreciation of the Rupee is likely to cause some upward pressure due to the high import dependency of our economy for consumption as well as for export industry input.

Whilst it is important that Sri Lanka's budget deficit is curtailed and revenue measures are expanded, we remain concerned about the proposed higher taxes on the banking sector due to its significant potential impact on the sector.

The importance of ensuring that Sri Lanka's banking sector remains strong and well capitalised, is worthy of reiteration. Increase in economic activity through higher lending in turn would generate new opportunities for tax revenue generation. Moreover, a country's banking sector is often a barometer of that country's economy and hence its strength and stability are paramount not just to meet regulatory requirements but for investor confidence.

We are confident that the new political landscape will pave the way for political and economic stability and be a platform for rapid growth. The new political leadership has also identified the importance of maintaining governance and independence in the financial industry for sustainable economic growth and stability and has taken every effort towards fostering same within financial institutions.

In Conclusion

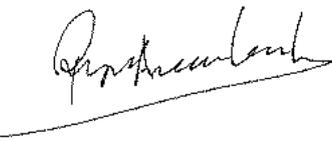
HNB will look to continue the role it plays in the nation's development agenda and to be the undisputed leader amongst Sri Lanka's private commercial banks, and towards this end, will give priority to being the best customer service provider. Whilst technology will be a key driver of growth at HNB as well as for the entire industry, the relationships and the confidence we have built with our employees and they with over 2 million customers across the country, remain our most valuable asset.

Whilst growing organically we will also be open to inorganic growth through mergers & acquisitions in the local and regional markets. We are encouraged by the synergies we have begun to see with the acquisition of HNB Grameen in 2014.

Your Bank thus finds itself well poised to meet the challenges that the global and local economic environment could pose and is future ready, nimble and eager to capitalise on the many opportunities it foresees amidst accelerated economic development and renewed investor confidence in Sri Lanka.

Acknowledgements

I would like to convey my sincere appreciation to my colleagues on the Board for their valuable support and guidance and to the entire team of employees led by the Managing Director whose talents, unreserved effort and commitment propels the Bank to greater heights. I also wish to place on record my appreciation for the contribution made by the employees who retired in 2015 having rendered yeoman service to the Bank over long periods of time, augmenting the collective effort of all the employees of the Bank. I also wish to extend my sincere gratitude to the shareholders and our loyal customers for their support and the confidence placed in us.



Rienzie Arseculeratne
Chairman

19th February, 2016

Managing Director's Review

We are pleased to share our performance that surpassed many milestones during the year. The Bank's Profit Before VAT and Tax improved to Rs 17.9 Bn, whilst Profit After Tax surpassed Rs 10Bn during the year.

Dear Stakeholder,

It gives me great pleasure to share with you the splendid results achieved by HNB.

Performance

We are pleased to share our performance that surpassed many milestones during the year. The Bank's Profit Before VAT and Tax improved to Rs 17.9Bn, whilst Profit After Tax surpassed Rs 10Bn during the year. Both Advances and Deposits increased by over Rs 100 Bn, once again the highest in the Bank's history whilst the NPA ratio improved to 2.43%, the lowest over the past few decades. It is significant that this NPA was achieved whilst attaining a loan growth of over 25% and was a result of the proactive efforts and commitment of our recovery teams at Head Office and across the country. The NPA is also one of the lowest in the industry, well below the industry average of 3.2% as at end 2015.

All our key business segments made excellent contributions to growth, with the loan book of our Corporate Banking business growing by 30%, SME sector by 25%, Micro Finance sector by 35%, Personal Loans by 67% and Leasing by 65%.

The need to bolster alternate sources of income prompted us to develop new products and alternate channels of business. It is thus noteworthy that we continued to enhance our fee generating capacity this year as well, to an 18% growth, driven primarily by off balance sheet guarantee and trade business, cards and electronic delivery channels.

→ G4-1



Managing Director's Review

17.9bn

PROFIT BEFORE
VAT & TAX

Rs 10.5 Bn

PROFIT AFTER TAX

Complementing fee business our foreign exchange income also grew substantially.

We are heartened by several external awards and recognition we received for our efforts to continuously strive for excellence across the board and to do 'business as unusual'. Our focus on building a sales and service culture was key to being recognised as the "Best Retail Bank in Sri Lanka" by The Asian Banker for the 7th occasion. The International Award for 'Marketing Campaign of the Year' from the Golden Globe Tigers Summit Awards 2015, for HNB MOMO typifies our spirit of innovation combined with state-of-the-art technology. It is also particularly noteworthy that our strategic efforts to reengineer and redesign our business processes received accolades during the year, when HNB became the first bank in the Country to win a National Productivity Award in 2015, for its achievements in Business Process Re-engineering (BPR). The key Accolades we received during the year under review are listed on page 63 and 64.

'Business as Unusual' to us is about 'doing things differently' as well as 'doing different things' to what we or the industry did yesterday. The year under review saw us begin to reap the rewards of several of our innovations and initiatives.

The Bank's BPR initiatives, for which we laid the ground work in 2013 with an in-depth analysis of our internal processes and resources, were implemented in 2014 and 2015 to re allocate our resources and optimise value. The Branch Target Operating Model, process automation, centralisation of retail credit operations and trade operations were amongst the key BPR initiatives implemented in 2015. These reengineering and redesign initiatives have begun to

yield a multitude of benefits, and the improvement in cost to income ratio to 45.9% - the lowest ever at HNB, is ample testimony to same.

Cutting edge technology has been the key enabler of the Bank's strategic imperatives such as customer convenience, driving sales, increasing fee based income, optimising costs and making strides towards reducing our carbon footprint. Last year saw the Bank launch the first phase of its 'New World Banking' campaign which created awareness of an exciting 'New World' of possibilities to signal the Bank's intent of securing leadership in the digital, electronic and mobile banking space in the market. This integrated campaign paved the way for a sharp growth in e-banking with 65,000 new registrations and higher utilisation. The phrase 'New World Banking' in fact became synonymous with digital banking and supported the growth in e-banking for the entire industry.

A Sustainable Model

Sustainability at HNB has long been integrated into its strategy and business, as epitomised by the Bank's ability to bring financial security and trust to Sri Lankans for over a century. Our 127 year history has seen us grow in multiple ways in size, speed, strength and stability and with innovative new banking technologies through which we create win-win outcomes for all stakeholders. More recently, the Bank's strategic initiatives which have the long term in mind, have facilitated a convergence of many objectives such as enhanced efficiency, cost optimisation and green banking.

The year under review also saw us spearhead an initiative which brought the banking industry together to commit to a set of Sustainable Banking principles. Following the

development of 11 Sustainable Banking principles for Sri Lanka by a working group of representatives from banks, a pledge was signed by CEOs of 18 banks at our Head Office premises in November 2015.

The role we play in the nation's development is one we hold high and is intrinsic to our triple bottom line approach to business. HNB's involvement with the SME sector of the Country dates back to the Bank's origins in the small hillside town of Hatton. Our engagement with the SME sector has since expanded across the length and breadth of the Country from the rural hinterlands to the bustling cities.

HNB's acquisition of Prime Grameen Micro Finance Ltd. in the last quarter of 2014, has further augmented its strengths and presence in Sri Lanka's Micro Finance sector. The year under review saw this newest addition to the Group, now renamed 'HNB Grameen Micro Finance Ltd.' achieve a remarkable turnaround in its performance and begin to harness and create the many synergies that we had envisaged. The unique Grameen model, with women constituting 98% of its clientele in the Micro Finance segment, affords us an opportunity to expand our role as a conduit for financial empowerment of women and the micro finance segments in the Country. Our engagement with the SME and Micro sectors will continue to extend beyond financial empowerment and the creation of wide ranging livelihood opportunities, to partnering enterprise development and social empowerment through many capacity building initiatives.

The Bank will continue to focus on other sustainability pillars of education and health during the year ahead.

Being in the financial sector, the adverse impact we have on the environment is limited. However, we recognise that we have the potential to make a significant impact through our customers and their business activities. The Bank's Environmental and Social Management System (ESMS) which evaluates social and environmental risks associated with projects we lend to, was approved by the Board and fully implemented during the year. Our officers are provided

with extensive training to implement ESMS during project evaluation and to adopt a participatory approach in helping clients resolve possible issues.

Our Human Capital

The Bank's strategic priorities during the year included focus on developing the HATNA family through mentoring, training and coaching to support the key imperatives of a sales driven and service oriented culture. Whilst the Bank focuses on technology as a key enabler and a competitive advantage, we also remain focused on the indelible value of our human capital and knowledge base, in achieving the goals that we have set for ourselves. The talents, passion and commitment of our people have been the cornerstone of our sustained success for over a century.

HR management during the year focused on optimal deployment of staff based on an analysis of skills and competencies by redeploying employees from operational functions to more value creating activities such as sales and marketing, across the many business verticals and geographies of the Bank.

Your Bank also strengthened its competitive position in rewards making our 'employee value add' a market leader resulting in superior productivity through a competent motivated and engaged workforce. Superior rewards for superior performance is the philosophy that drives the Bank's total rewards philosophy.

The Bank's Leadership Development Model introduced in 2014 for succession planning, was expanded during the year, with the addition of a new group of young executives identified as 'Insights', to the other three groups of high performing executives branded as Aspire, Acumen and Catalysts. The 'Catalysts' comprises senior management whilst 'Acumen' consist of middle level leaders and 'Aspire' of young leaders with high potential, and these groups are offered tailor made personal and management development programmes. Our efforts towards developing and engaging our human capital have been well recognised with

Cutting edge technology has been the key enabler of the Bank's strategic imperatives such as customer convenience, driving sales, increasing fee based income, optimising costs and making strides towards reducing our carbon footprint.

Managing Director's Review

international and local accolades. While we became the Gold Award winner at the HRM awards, we were also recognised for 'Best Results Based Training' for the fourth consecutive year at the Asia's Training & Development Excellence Awards in Singapore.

It is also noteworthy that presently, HNB has a relatively younger and vibrant workforce and a management team that is ready to challenge the status quo and geared to do 'business as unusual'. We believe the workforce now facilitates the right mix of experience, expertise and tacit knowledge, with the energy and passion, drive and innovative spirit to propel the Bank to greater heights.

The Future and our Future Readiness

Whilst the year under review saw a lacklustre economic environment, mainly due to the pre-occupation with elections and ensuing periods of transition; the year ahead is likely to see economic activity resume and accelerate. We are thus buoyant on the prospects for all our business segments in 2016 - 17.

We expect inflation which has remained at low single digits to be under some upward pressure due to continued depreciation of the Rupee and the high import dependency of our economy, although projected low fuel prices and global commodity prices will ease some of the inflationary pressures. Interest rates are also expected to edge up during 2016 as witnessed since the statutory reserve requirement was increased by the Monetary Board in late December. We expect the rising interest rates to have a positive impact on banking sector margins.

Sri Lanka's Banking Industry will remain strong, albeit highly competitive and hence, underscoring the need to augment our ancillary income in the years ahead. We envisage that

digital banking, with very exciting initiatives launched by many in the industry would hold the key to growth in the next few years. Appreciating that technology is an imperative to enhance value creation and sustain our competitiveness amidst rapidly changing life styles and landscapes of the financial industry, we will continue to leverage technology to enhance customer convenience and satisfaction, innovating how and what we deliver. Upgrading our e-banking solution will enable us to deliver a whole new range of products and services to our customers.

Diminishing margins amidst intense competition demands that we continue to give priority to BPR initiatives and new technology, which would facilitate cost optimisation and leaner processes. Our investments into technology and process improvements see us well poised for growth in the years ahead. HNB will continue to optimise and reallocate its assets and resources to harness their full potential. In addition, funding cost will remain a key determinant to growing profitability while the role played by CASA in reducing the cost of funds for the Bank would be immense.

Driven by a demand for consumer credit, all banks thrived in the Leasing and Credit card markets during 2015. The housing sector grew at a much slower pace and we are hopeful that the expected pickup in economic activity in the year ahead will also see a rise in demand for housing; your Bank's housing segment is well positioned to harness this growth.

The SME sector will be a key driver of growth in Sri Lanka's economy, as the pace of economic activity begins to accelerate in 2016 - 17. With financial inclusion being a key focus of the entire banking industry, we expect to see improvements in rural life styles and savings habits, greater entrepreneurship and an increase in vocational skills training which will lead to enhanced capacities for livelihoods and



NPA



COST TO INCOME

In doing 'business as unusual', we have never lost sight of our credo that business is built on relationships. True to our corporate tagline, to be a "Partner in Progress" - we have a rich heritage of partnering with countless millions across several generations, to progress in their lives.

small businesses in the rural sectors of the Country. HNB with its extensive presence and long established history of engagement in this sector will continue to be at the forefront in providing banking solutions to SME and Micro Finance customers.

Following our experience in venturing out to regional markets such as Cambodia in 2015 and expanding our presence in the Maldives this year, we will continue to explore opportunities for profitable transactions and opportunities in the region.

In doing 'business as unusual', we have never lost sight of our credo that business is built on relationships. True to our corporate tag line to be a "Partner in Progress" - we have a rich heritage of partnering with countless millions across several generations, to progress in their lives. At HNB we believe that 'Partnering Progress' begins with understanding customers and gaining insight into their needs. Secondly, it is about 'service', ensuring fast, efficient, accurate and timely delivery of solutions in a friendly manner; and ultimately, about commitment to our customers and to meeting their needs. To this end we have invested heavily over the recent past in improving the total service proposition through cutting edge technology and unparalleled service levels. Our new Corporate Campaign "Banking Beyond Transactions" embodies this philosophy.

It conveys how HNB has been a catalyst for immense transformation through its unique and insightful understanding of this nation and its people; via a wide spectrum of banking products such as incentivised savings, home loans, leasing, technology, national infrastructure development, Microfinance, SME and corporate funding. Whilst this is our history, our legacy and our strength, how we perform today will determine the future of this Bank. Thus, how we will further strengthen this great tradition of partnering people, is the challenge we now embrace.

Appreciation

I would like to convey my sincere appreciation to our former Chairperson Dr Ranee Jayamaha and current Chairman Mr Rienze Arseculeratne for their guidance, constant support and for the confidence placed in me. My sincere thanks to my colleagues on the Board for their support; my heartfelt appreciation to the Corporate Management team, the Senior Management team and to all my colleagues at HNB for their unwavering commitment, passion and tireless efforts that continue to drive growth, bolster the stature and leadership position of the Bank. I also wish to thank the Governor of the Central Bank of Sri Lanka and the management for the guidance and support extended. I also extend a very sincere thank you to our shareholders for the trust and confidence placed in us over the years and most importantly to our customers for patronizing our branches for decades and building lasting relationships to achieve sustainable growth. Finally I would like to thank all the business associates and other stakeholders for their support.

Our rich heritage and strong brand promise of safety, stability and strength, have been a sound platform for market leadership and growth over the decades. As we look to serve generations more, we will constantly reevaluate what we do and how we do in the context of evolving landscapes, never being satisfied with the usual. We will remain focused on the need to be nimble enough to respond to changing market needs, life styles and increasing competition by developing relationships and continuing to adopt cutting edge technology.



Jonathan Alles
Managing Director /CEO

19th February, 2016

Board of Directors



Mr Rienze Arseculeratne
Chairman



Mr Jonathan Alles
Managing Director/Chief Executive Officer



Ms M A R C Cooray
Director



Dr L R Karunaratne
Director



Mr L U D Fernando
Director



Mr D T S H Mudalige
Director



Ms D S C Jayawardena
Director



Mr R S Captain
Director



Mr Amal Cabraal
Director



Mr Palitha Pelpola
Director



Mr D Soosaipillai
Director



Mr A N De Silva
Director



Ms K A L Thushari Ranaweera
Company Secretary

Board of Directors

Mr Rienzie Arseculeratne

Chairman

LL.B (Ceylon), LL.M (Commercial Law) Bristol, Attorney-at-Law, President's Counsel, Solicitor – England, Barrister – Australian Capital Territory (ACT)

(Non-Executive Director)  

Appointed Director in April 2015 and Chairman in May 2015. Mr Rienzie Arseculeratne is an Attorney-at-Law and a Member of Unofficial Bar practicing Criminal Law and Public Law. He was appointed as a President's Counsel in 1998.

He holds a Law Degree, (LL.B) (Ceylon) and a Master's Degree in Commercial Law (LL.M.) – Bristol. He has been admitted as a Solicitor of the Supreme Court of England and as a Barrister of the Australian Capital Territory (ACT).

Mr Arseculeratne was the former Director General of the Commission to Investigate Allegations of Bribery or Corruption. He was also a State Counsel, Senior State Counsel, Deputy Solicitor General and Additional Solicitor from 1975 – 2003 and he was the Head of the Criminal section of the Attorney General's Department until his retirement in 2003. Mr. Arseculeratne was also the Legal Advisor to the Ministry of Fisheries from 1989 to 1993 and served as an Examiner at Sri Lanka Law College.

Mr Arseculeratne is a Member of the Board of Governors of the Office of National Unity and Reconciliation.

Mr Jonathan Alles

Managing Director/ Chief Executive Officer

M.B.A. Finance (Stirling), A.I.B. Sri Lanka

(Executive Director) 

Appointed an Executive Director on 1st May 2013 and Managing Director/Chief Executive Officer on 1st July 2013.

Mr Jonathan Alles holds a MBA from the University of Stirling, U.K. and is an Associate Member of the Institute of Bankers, Sri Lanka. He counts 25 years of banking experience having served International Banks and HSBC, Sri Lanka and also at Hatton National Bank during the period September 2002 to June 2005. Having returned to Sri Lanka from the UAE in September 2010, Mr Alles re-joined Hatton National Bank in the capacity of Chief Operating Officer.

Mr Alles is the Chairman of Sri Lanka Banks' Association (Guarantee) Ltd, Financial Ombudsman Sri Lanka (Guarantee) Limited, Lanka Financial Services Bureau Ltd, Lanka Ventures PLC and HNB Grameen Micro Finance Ltd. He serves as a Director of Acuity Partners (Pvt) Ltd.

Mr Alles is a Member of Sri Lanka Institute of Directors & also serves as a Member of the Advisory Committee of Sri Lanka Business & Biodiversity Platform.

Ms M A R C Cooray

Director

B.A. (Hons) (University of Ceylon, Peradeniya, Sri Lanka), M.Sc (Strathclyde University, U.K.)

(Non-Executive Director)  

Appointed Director in February 2010 and was the Senior Director till the 30th of October 2014. Mrs Rose Cooray is a retired Deputy Governor of the Central Bank of Sri Lanka where she served for over 35 years. She is the Chairperson of HNB Assurance PLC, H N B General Insurance Limited and Sithma Development (Private) Limited. She is also a Director of HNB Grameen Finance Limited, Ceylon Guardian Investment Trust PLC and Ceylon Investment PLC.

On release from the Central Bank, she had served the Ministry of Finance in the capacity of Director General Fiscal Policy and Economic Affairs Department for nearly 6 years, represented the Government on the Boards of DFCC Bank, Sri Lanka Institute of Information Technology, Sri Lanka Telecom, Ceylon Electricity Board, De La Rue Currency and Security Print (Pvt) Ltd, Export Development Board, National Housing and Development Authority and represented the Monetary Board on West Coast Power (Pvt) Ltd.

She has functioned as the Vice Chairperson of the Institute of Bankers of Sri Lanka for 5 years and has served on a number of Committees at national level covering a variety of subjects representing the Ministry of Finance and the Central Bank. She has also represented the Central Bank and the Ministry of Finance at various international meetings/seminars.

Mrs Cooray has been involved extensively in policy making and implementing projects and programmes especially in the area of regional development and microfinance. She has wide experience in negotiating loans with multilateral and other donors as well as bilateral trade agreements on behalf of the Government. Her articles/papers have been published in professional journals.

 Member of HR & Remuneration Committee

 Member of Nomination Committee

 Member of Board Integrated Risk Management Committee

 Member of Audit Committee

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Dr L R Karunaratne

Director

B.E (India), T.Eng (CEI), MIE (Lon), MBA (U.K.), Ph.D (U.K.), FIIM (HK), FCIOB (Ceylon)

(Non-Executive Director) ^(A)

Appointed Director in October 2011, Dr Rohan Karunaratne, a Consultant Engineer, is the incumbent President of the Ceylon Institute of Builders (CIOB), engaged in developing the construction industry and construction builders in Sri Lanka. He is the Managing Director of A.K.K Engineers (Pvt) Ltd, an Engineering Company Specializing in building construction, Civil engineering, water supply and waste water, construction of swimming pools and now in road construction too. Also in the advisory council of mega police development in Sri Lanka and Export Development Board. He is the Chairman of Associated Motor Finance Co Ltd, Pinthaliya Holiday Resorts & Spa and is also the Deputy Chairman of the International Institute of Management.

He has over 30 years of experience in civil Engineering Consultancy, Construction Training, lecturing in civil Construction, Designing & Planning. He was the Past Chairman of the National Construction Association of Sri Lanka and was the first Chairman of Human Resources Development (Pvt) Ltd and Advance Construction Training Academy. He is also a Director in Arpico Finance PLC, Sino Lanka Hotels & Spa (Pvt) Ltd and Canwill Holdings (Pvt) Ltd.

Dr Karunaratne holds a PhD in Management and a MBA from the Sussex University (UK). He is an Engineering Graduate in Civil Engineering and an advanced Diploma holder in HIET (Chennai – India).

He is a Fellow of the International Institute of Management (HK) and a fellow of the Ceylon Institute of Builders.

Mr L U D Fernando

Director

MBA (Sri J), FCMA (U.K.)

(Non-Executive Director) ^{(H) (R)}

Appointed Director in April 2012. Mr Damien Fernando is a Director of Lanka Hospitals Corporation PLC. He was the former Executive Director of Sri Lanka Insurance Corporation Limited. He also had served in the Boards of Distilleries Company of Sri Lanka PLC, Pelwatte Sugar Industries PLC, Melstacorp Limited, Lanka Bell Limited, National Asset Management Limited, Continental Insurance Lanka Limited

and in the Boards of several other Companies in the DCSL Group.

He is a Fellow of Chartered Institute of Management Accountants of United Kingdom. He has been awarded a Master's degree in Business Administration by the Postgraduate institute of Management of University of Sri Jayewardenepura.

Mr D T S H Mudalige

Director

FCA (Sri Lanka), FCMA (UK), FCCA (UK), FCPA (Australia)

(Non-Executive Director) ^{(H) (A)}

Appointed Director in April 2012. Mr Sujeewa Mudalige is a past President of the Institute of Chartered Accountants of Sri Lanka (CA – Sri Lanka) and is the Chairman of the Sri Lanka Accounting Standards Committee. Mr Mudalige has more than 25 years of experience in public accounting practice and in industry. He was a Member of the Securities and Exchange Commission of Sri Lanka (SEC) and chaired its audit committee. He has served as a Board Member of the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) and Financial Systems Stability Consultative Committee (FSSCC) of the Central Bank of Sri Lanka.

Mr Mudalige is the President of the Confederation of Asian and Pacific Accountants (CAPA), the largest regional body of accountants. The confederation includes the professional accountancy bodies of Asian and Pacific nations.

He is a Fellow of the Institute of Chartered Accountants of Sri Lanka (CA-SL), Fellow of the Chartered Institute of Management Accountants (CIMA-UK), Fellow of the Association of Chartered Certified Accountants (ACCA -UK) and Fellow of the Certified Public Accountants (CPA- Australia).

Miss D S C Jayawardena

Director

B.A. Monash University, Australia, Certified Auditor (DNV-Norway), CIM – London, MCIM (U.K), Chartered Marketer

(Non-Executive Director) ^(R)

Appointed Director in April 2012. Miss D S C Jayawardena is a Director of Lanka Milk Foods (CWE) Plc., Lanka Dairies (Pvt) Ltd, Ambewela Livestock Company Ltd, Pattipola

Board of Directors

Livestock Company Ltd, Ambewela Products (Pvt) Ltd and Indo Lanka Exports (Pvt) Ltd, since 2009. She has worked as an Intern for the Clinton Foundation in 2008.

Miss Jayawardena holds a B.A. (Commercial Law, Criminology, Sociology) from the Monash University, Australia, Professional Certificate in Marketing (CIM), Diploma in Marketing (CIM) and a Professional Postgraduate Diploma in Marketing (CIM). She is also a Certified Auditor (DNV-Norway), a Member of the Chartered Institute of Marketing (UK) (MCIM) and a Chartered Marketer.

Mr R S Captain

Director

University of Miami, Florida

(Non-Executive Director) ^(N)

Appointed Director in April 2012. Mr R S Captain is a Director of Polypak Secco Ltd, Paints & General Industries Ltd, Paints & General Industries (Exports) Ltd, Polytex Garments Ltd, CIC Holdings PLC, Propertex Development Ltd, Austin Gloves (Ceylon) Ltd, CEI Plastics Ltd, Ranweli Ltd, Agriland Ltd, Forest Creek Park Ltd, Body Bar (Pvt) Ltd, Horahena Investments Ltd, Palmland Ltd, Parkland Ltd and Randiya Farms Ltd.

Mr Captain has had his Primary education at the Royal College and Secondary education (O/L & A/L) at Millfield, U.K. and the University of Miami, Florida.

Mr D A Cabraal

Director

Alumnus - INSEAD-France, MBA – University of Colombo, Chartered Marketer, FCIM (U.K.)

(Non-Executive Director) ^{(H)(A)}

Appointed Director in April 2014. Mr Amal Cabraal is the former Chairman and Chief Executive Officer of Unilever Sri Lanka. He has over 3 decades of business experience in general management, marketing and sales.

Amal Cabraal is the former Chairman and Chief Executive Officer of Unilever Sri Lanka. He has over 3 decades of business experience in general management, marketing and sales. Apart from Sri Lanka, he has served with Unilever in the United Kingdom, India and Bangladesh. He is an alumnus of INSEAD-France and holds a MBA from the University of Colombo. A Chartered Marketer by profession and a Fellow

^(H) Member of HR & Remuneration Committee

^(N) Member of Nomination Committee

^(R) Member of Board Integrated Risk Management Committee

^(A) Member of Audit Committee

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of the Chartered Institute of Marketing – UK. He is presently the Chairman of CIC Feeds (Private) Ltd., and serves as an independent non-executive Director of John Keells Holdings PLC, Ceylon Beverage Holdings PLC, Lion Brewery (Ceylon) PLC, S A Silva & Sons Ltd and the Supervisory Board of Associated Motorways Ltd. He is a Committee Member of the Ceylon Chamber of Commerce and serves on the Management Committee of the Mercantile Services Provident Society.

Mr Palitha Pelpola

Director

Institute of Cost & Management Accountants Part III

(Non-Executive Director) ^(N)

Appointed Director in April 2015. Mr Palitha Pelpola is currently the Presidential Coordinating Secretary at the Ministry of Defence while being Chairman of Ceybank Asset Management Limited. He also served as Private Secretary to His Excellency the President from January 2015 to November 2015.

Mr. Pelpola has also served the Government of Sri Lanka in the capacities of the Private Secretary to the Minister of Mahaweli Development and Lands & Land Development, Managing Director of Mahaweli Economic Agency, Director of Mahaweli Centre, Special Advisor to the Minister of Plantation Industries and Director General of Mahaweli Authority of Sri Lanka. He has also served as Secretary to the Leader of the Opposition when late Mr. Gamini Dissanayake held that position.

He was the former Chief Executive Officer of Leader Publications Ltd and was the Media Consultant of World Health Organisation. Mr Palitha Pelpola was also the Senior Advisor of the Ministry of Enterprise Development & Investment Promotion and he has also worked as Executive Director of the Sri Lanka Foundation, Los Angeles, California, USA.

Mr D Soosaipillai

Director

FCA (Sri Lanka), FCMA (Sri Lanka),

(Non-Executive Director) ^(R)

Appointed Director in April 2015, Mr D Soosaipillai is a fellow of Institute of the Chartered Accountants of Sri Lanka and a

fellow of the Institute of Certified Management Accountants of Sri Lanka.

He currently serves as the Chief Operating Officer to Dunamis Capital PLC, the holding Company of the First Capital Group of Companies and the Kelsey Group of Companies.

He is also an Independent Non-Executive Director, Chairman of the Board Audit Committee and the Board Executive Committee and Member of the Board Integrated Risk Management Committee of Commercial Credit and Finance PLC.

Mr Soosaipillai has over 30 years of experience in Financial Services and in Risk Management and Compliance, both at the operational and strategic levels. He was engaged by the World Bank as a Short Term Consultant on a Payables Assessment assignment in the Maldives as part of a wider Public Finance Management project. Mr Soosaipillai has served as the Managing Director of the Maldives Finance Leasing Company (Pvt) Limited for more than 7 years and as the CEO of Ceylease Financial Services Ltd – a subsidiary of the Bank of Ceylon.

Mr Nilanth De Silva

Director

Diploma in Banking (Chartered Institute of Bankers, London, UK)

(Non-Executive Director) ^A

Appointed Director in April 2015. Mr A N de Silva counts over 40 years of experience in commercial banking. He successfully completed the final examinations of the Chartered Institute of Bankers, London, in 1978 and was consequently elected an Associate of such Institute.

He functioned as the Chief Operating Officer of Union Bank of Colombo PLC from which he retired after 11 and 1/2 years' service, on 31 March 2015. He was also its Acting CEO for approximately 2 years between 2008 & 2010.

Prior to joining Union Bank, he was with Hatton National Bank for 29 years up to August 2003 and was Deputy General Manager - Corporate Banking and a member of all key Committees. He played a leading role in establishing HNB's Credit Risk Division & also compiled the Bank's Credit Manual. He has received extensive training and exposure in banking & management both locally & overseas at institutions such as Dresdner Bank, Germany, National

Institute of Bank Management, Pune, India, Centre for Financial Engineering in Development, Washington DC USA, Monash University Mt. Eliza Campus, Melbourne, Australia. He also participated in a study tour of the South African Banking System with the Institute of Bankers, South Africa.

Mr de Silva was also actively involved in HNB's take-over of Indosuez Bank & Habib Bank AG Zurich.

He is a Director of Malwatte Valley Plantation PLC. He is also a past Director of Lanka Clear (Pvt) Ltd and an alternate Director of the Credit Information Bureau of Sri Lanka.

Mrs K A L Thushari Ranaweera

Company Secretary

Attorney at Law, Master's Degree in Law (LLM) - University of Cambridge, United Kingdom.,

Diploma in International Affairs - Bandaranaike Centre for International Studies, Sri Lanka

Appointed Company Secretary on 2nd January 2012. She is also the Deputy General Manager - Legal of the Bank. Mrs Ranaweera joined the Bank on 7th October 2010 and counts over 25 years of experience in the field of Banking.

Corporate Management



A J Alles

*M.B.A. - Finance (Stirling),
A.I.B. (Sri Lanka)*

Managing Director/
Chief Executive Officer



D P N Rodrigo

*M.B.A. (Cranfield), F.C.M.A.(UK),
F.C.C.A. (UK)*

Chief Operating Officer



Ms I R D Thenabadu

*F.C.I.B. (London), F.C.M.A.(UK),
C.G.M.A. (UK)*

Deputy General Manager
- Credit & Transaction Banking



P D Hennayake *

*M.B.A. (A.I.T.) Thailand,
P.G. Dip. (Eng.), B.Sc. Eng. (Hons)
Moratuwa, C.Eng., M.I.E. (Sri Lanka)*

Deputy General Manager - Services



Ms K A L T Ranaweera

*Attorney at Law, LL.M. (Cambridge),
Dip. in Int'l Affairs (BCIS)*

Deputy General Manager
- Legal/Company Secretary



N H T I Perera

A.C.A. (Sri Lanka)

Deputy General Manager
(Retail & SME Banking)



R D Manatunga

*F.C.M.A. (UK), C.G.M.A.(UK),
A.C.A. (Sri Lanka)*

Deputy General Manager
- Corporate Banking



R J Thambirajah

Assistant General Manager
- Network Management

* Since retired w.e.f. 30th December 2015



Ms L C Cooray

M.B.A. (Wales), I.P.M.A. - CP (USA)
Chief Human Resource Officer



S N Wijeratne

M.B.A. (Sri J.), B.Sc. (IT) - UK
Chief Information Officer



K L Wijesooriya

LL.B (Sri Lanka)
Assistant General Manager -
Deposits & Remittances



A Goonesekere

*M.B.A. (Sri J.), F.C.A. (Sri Lanka),
F.C.M.A. (Sri Lanka)*
Chief Financial Officer



W J T Fernando

M.B.A. (Sri J.), A.I.B. (Sri Lanka)
Assistant General Manager (SME)



A R Uduwela

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



P L A N Seneviratne

*F.C.A. (Sri Lanka), F.I.B. (Sri Lanka),
C.P.A., C.I.S.A.,*
Chief Internal Auditor



P G D B Pallewatte

*M.B.A. (Sri J.), BSc. Mgmt. (Hons.)
London School of Economics,
F.R.M. (G.A.R.P.)*
Chief Risk Officer

Senior Management

01

U N I Elapata

B.A. (Hons) - Uni. of Texas (Austin)
Chief Manager - Financial Institutions

02

Ms R Prabhakaran

A.I.B. (Sri Lanka)
Chief Manager - Treasury Operations

03

Ms N M C P Wettasinha

Attorney-at-Law & Notary Public
Chief Manager - Legal

04

Ms K Balasubramaniam

LL.B (Sri Lanka)
Chief Manager - Human Resource Management

05

A V Abeygunasekara

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

06

M P Wickramasinghe

M.B.A. - IT (Moratuwa), M.Sc. (Colombo), B.Sc. (Pera.)
Chief Manager/ Head of Cards & Electronic Delivery Channels

07

W M C O Panditharatne

Chief Manager - Procurement & Logistics

08

Ms A C De Silva Gallage

M.B.A. (Sri J.), B.B.A. (Special) - Colombo, A.C.M.A. (UK), C.G.M.A., C.P.A. (Australia), Dip. in Commerce (Uni of PNG), I.C.A. - Licentiate
Chief Manager - Finance

09

M K N S Perera

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

10

A G R Dissanayake

B.B.A. (Colombo), C.F.A. (USA) F.C.M.A.(UK), C.G.M.A. (UK)
Chief Manager - Planning & Investments

11

Ms A F M Fernando

Chief Manager - Corporate Banking

12

C S Weerasinghe

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

13

J C Ilangantileke

M.B.A. (Manipal), B.A. (Hons) - Northumbria(UK), A.I.B. (Sri Lanka), A.C.M.A. (UK), C.G.M.A. (UK)
Chief Manager - Trade Services/Head of Trade Services

14

L A M Hisham

M.I.M. (Sri Lanka)
Head of Islamic Banking

15

C B Wijayaratne

M.B.A. (Manipal), M.A. - Fin. Econ. (Colombo), F.I.B. (Sri Lanka), F.C.P.M.
Chief Compliance Officer

16

R L Maheswaran

Regional Head - North Western Region

17

N Y Liyanage

N.D.T. (Civil Eng.) - Moratuwa, P.G. Dip. in Project Mgmt. (Moratuwa), A.M.I.E. (Sri Lanka), M.S.S.E.(Sri Lanka)
Senior Manager - Premises & Engineering

18

P Paranathan

P.G. Exe.Dip. in Bank Mgmt. (IBSL)
Senior Manager - Pawning

19

N R Somasiri

M.B.A. (Sri J.), B.Sc. (Colombo)
Senior Manager - Credit Supervision & Recoveries

20

B V F Mendis

Head of Personal Financial Services

21

J N Rupasinghe

Senior Manager - Systems Implementation

22

H L J P Bastiansz

M.B.C.S. (UK), C.I.T.P.
Senior Manager - Networks & Payment Systems

23

D Dissanayake

Regional Head - South Western Region

24

F Mohamed

MSc. (IT), (Uni. of Keele) - UK

Senior Manager - Systems Security & Compliance

25

D I V Senadhira

*M.B.A. (Sri J.), M.A.L.S. (Colombo), LL.B (Sri Lanka),
Attorney-at-Law, Dip in Mkt. (S.L.I.D.A.), Dip in Cr. Mgmt. (S.L.I.C.M.)*

Senior Manager - Human Resources Management

26

J Epasinghe

M.B.A. (Australia), A.I.B. (SL), P.M.P.

Head of Process Improvement & Change Management

27

N C Rasiah

*M.B.A. - Finance (Australia), M.A. - Fin. Econ. (Colombo) B.Sc. (Colombo)
A.I.B. (Sri Lanka), Dip. in Int. Trade (IBSL)*

Regional Head - Greater Colombo Region

28

C Jegarajah

A.I.B. (Sri Lanka), C.I.M.A. Adv. Dip. M.A.

Regional Head - Eastern Region

29

T D Ediriweera

*LL.B (Sri Lanka), Attorney-at-Law,
Notary Public & Commissioner for Oaths, M.I.C.M. (UK), F.I.C.M. (Sri Lanka)*

Senior Manager - Legal (Recoveries)

30

M S H Normanbhoy

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

Senior Manager - Internal Audit

31

M S Atapattu

Senior Manager - City Office

32

J N Weerasinghe

Senior Manager - Head Office Branch

33

Ms M P M M Mohotti

Attorney-at-Law, Notary Public & Commissioner for Oaths.

Senior Manager - Legal

34

G Thivakaran

Regional Head - Uva/Sabaragamuwa Region

35

Ms S P Aryasinha

Deputy Regional Head - Colombo Region

36

S Nandakumar

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

Senior Manager - Private Banking

37

K Indravan

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

Regional Head - Northern Region

38

S Parameshwaran

M.B.C.S. (UK)

Senior Manager - IT Operations

39

K S Jayasuriya

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

Senior Manager - Credit Risk

40

P T S Dias

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

Senior Manager - Business Development

41

Ms M Seneviratne

B.A. (Hons.) - Uni. of Sussex (UK)

Senior Manager - Risk (Operational / Market Risk & Special Projects)

42

D U P Hettiarachchi

M.B.A. (Manipal), N.D.H.R.M. (I.P.M.)

Regional Head - Central Region

43

D A V Fernando

Regional Head - North Central Region

44

H J A Ferdinando

Senior Manager - Centralized Operations

Management Discussion & Analysis

INTEGRATING SUSTAINABILITY

Strategy

Sustainable Development, albeit a buzz word today, is also an essential value which enlightens us that a business cannot sustain its success in isolation, and long term profitability ultimately depends on how favourably it impacts the communities and environment of which it is part. Thus arises the need for an enterprise to expand its focus beyond profit to encompass the other two bottom lines that it invariably impacts - people and the planet.

HNB's future strategies, which are influenced by our vision, mission and the external and industrial environments, define how we do business. A set of priorities and the business agenda are then shaped within this broad direction, defining our short and medium term operations. These strategic priorities are reviewed and redefined annually based on the micro and macro environments, and managed to ensure the long term sustainability of the business. In assessing the progress on our strategic priorities we not only assess growth, risks, returns and productivity but also how our actions impact all stakeholders thus ensuring the alignment of business objectives with sustainability objectives.

We identify core growth areas for the future based on projections for social, demographic and economic changes and trends. A constant review of strategies to cater to a rapidly evolving market equips us with adequate readiness to design our operations for the medium term.

With HNB's firm belief in relationships and a commitment to "Banking Beyond Transactions" we place customers at the centre of our strategic and operational focus, and will continue to drive a customer first culture with a focus on customer convenience through digital innovation and service. Research and development into new product needs, delivery mechanisms and tools to empower both the customer and employee base will continue to enable our innovations.

HNB has invested significantly in technology to re-engineer the business, simplify products and processes and drive continuous improvement, focusing on both revenue and cost optimisation. Process mapping to enhance productivity will yield a leaner, more optimal structure. HNB will continue to

drive electronic, mobile and digital banking to transfer more customers from 'brick and mortar' to 'click'.

The Sustainability Committee, comprising of key functional heads including the Chief Human Resource Officer and the Deputy General Manager – Credit & Transaction Banking who are administratively responsible for driving sustainability initiatives, reports directly to the Managing Director / CEO, and is responsible for:

- acting as the think tank in developing the sustainability agenda
- ensuring conformance to all sustainability guidelines
- proactively evaluating decisions that impact on the reputation, ethics and values of the Bank
- identifying and managing areas of non-compliance within the sustainability principles
- setting standards for policies and procedures in meeting sustainability principles
- overseeing progress across the strategic CSR pillars of education, health, entrepreneurship and environment
- review and approve the Bank's sustainability report and ensure that all material aspects are covered.

→ G4-48

The Bank's Risk Committee oversees the Bank's sustainability strategy and its implementation.

The HNB Sustainability Foundation established in 2009 to action the Bank's social responsibility agenda, initiates social projects which are then in turn implemented by the Bank.

Risk and governance for sustainable business

→ G4-35, G4-49, G4-50

HNB's robust corporate governance and risk frameworks play a key role in supporting the business operations and influencing a culture of sustainability through the following practices:

- strategic and operational planning
- risk management and compliance
- financial management and external reporting
- succession planning
- promoting awareness of a risk-based culture achieving a balance between risk and reward for risks accepted

The Board is cognizant of its role which requires it to provide entrepreneurial leadership to the Bank within the framework of prudent and effective controls that enables risks to be managed. One of the primary roles of the Board, is therefore, to advise the Bank's management on the development of a strategy that aligns with the mission of the organisation and with the short and long-term vision of stakeholders.

The Board provides important leadership in the strategic planning process and in continuing the dialogue of monitoring strategic objectives, by asking the right questions while facilitating the required resources.

Our governance and risk management policies and processes are reported in greater detail on pages 106 to 143 and 168 to 190.

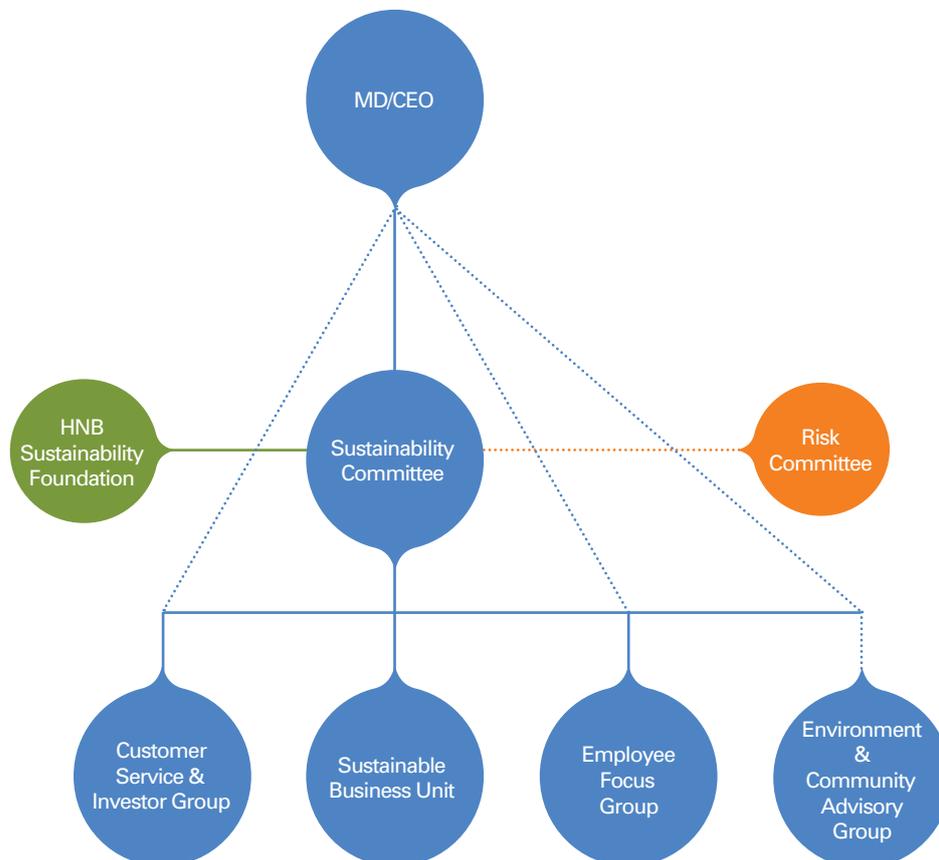
Sustainability as a precautionary approach

→ G4-14

We believe sustainability management is an important precautionary approach to economic, social and environmental risk management. This Bank is committed to serve all strata of society and through careful customer segmentation, provides financial access and services across the continuum of socio-demographic groups. Sustainability is at the very core of the Bank's corporate strategy. By integrating social responsibility into core business processes and stakeholder management, the Bank recognises its ability to achieve the ultimate goal of creating both social value and corporate value.

Sustainability stewardship and structure

→ G4-35, G4-36, G4-37, G4-48, G4-49, G4-50

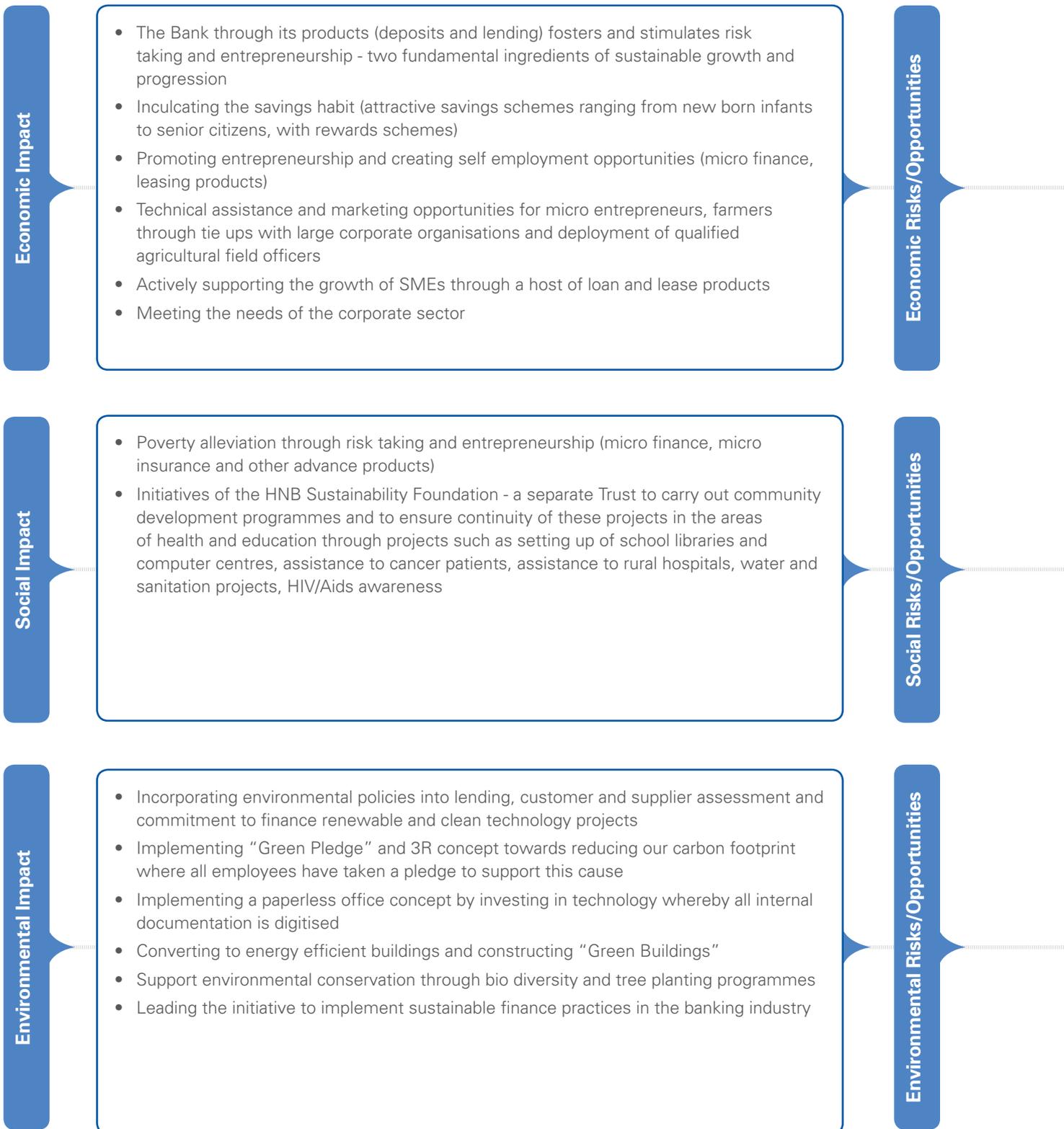


Management Discussion & Analysis

INTEGRATING SUSTAINABILITY

2015 - Sustainability impacts, risks and opportunities identified

→ G4-2, G4-EC-2



Responsive Business Processes

- Our economic impact is seen as both an opportunity and a challenge. There are opportunities for more business growth in terms of increased deposits and lending. The challenge arises from the difficulty of reaching out to different segments, especially those who are inhibited by a lack of education or poverty and are therefore unable to reach or appreciate the benefits of self employment or structured savings schemes. A further challenge is to ensure repayment of facilities. For this purpose the Bank has implemented rigorous screening processes on lending to minimise risk of wilful default

- The social impact of our business is a key conduit for community engagement. A large proportion of Sri Lanka's population is still not part of the formal financial system Through our diverse products and schemes we try to reach out to such segments of people to create awareness and promote inclusion

- The nature of our business is such that we are not directly influenced by environmental considerations in our day-to-day activities, nor do we impact nature on a large scale through our business activities. We do however appreciate the indirect impact we can have through our stakeholders. The fact that we interact with millions on a daily basis enables us to act as a change agent to behaviour and perceptions. We thus play a role in being a good environmental citizen and a role model for the Sri Lankan public by leading from the forefront to create awareness about environmental considerations and incorporate same in our daily activities as far as possible. Further by implementing a supplier screening system and rigorous loan covenants, we are able to influence our business suppliers and customers to adopt eco friendly practices. We also get actively involved in driving biodiversity consciousness among the business community

- Implementation of Know Your Customer (KYC) and anti money laundering policies
- Rigorous monitoring and follow up on loans
- Promote responsible lending practices
- Risk and compliance
- Implement the environmental and social management system (ESMS)
- Move towards a paperless office in pursuing eco-friendly practices
- Further promote e-banking
- Establish green buildings to promote energy conservation
- Cascade the learnings from the Green Building to all the branches and target to reduce electricity and water consumption
- Screening of suppliers processes for purchases exceeding Rs 1,000,000
- Assessment criteria to measure emissions
- Give precedence through business policy to perpetuate human rights, eliminate child labour in customer & supplier businesses, ensure equal opportunities at the workplace, promote diversity, inclusion and woman empowerment, service equality to all, facilitate the differently-abled

Management Discussion & Analysis

INTEGRATING SUSTAINABILITY

Material Aspects and Boundaries

Materiality

→ G4-19

Engaging our stakeholders through dialogue and CSR initiatives is a high priority on the HNB agenda. Our sustainable agenda is reviewed as per emerging and changing needs of our stakeholders, being always mindful that the materiality of issues, and thus our response to them, must evolve over time.

Towards this end we:

- monitor issues and spot trends that may affect future business
- engage with stakeholders and build relationships to create an inclusive business in order to find common ground for more sustainable solutions
- embed a long-term strategic sustainability culture throughout the Bank
- translate and integrate our sustainability approach across all business processes to obtain sustainable competitive advantages in the marketplace

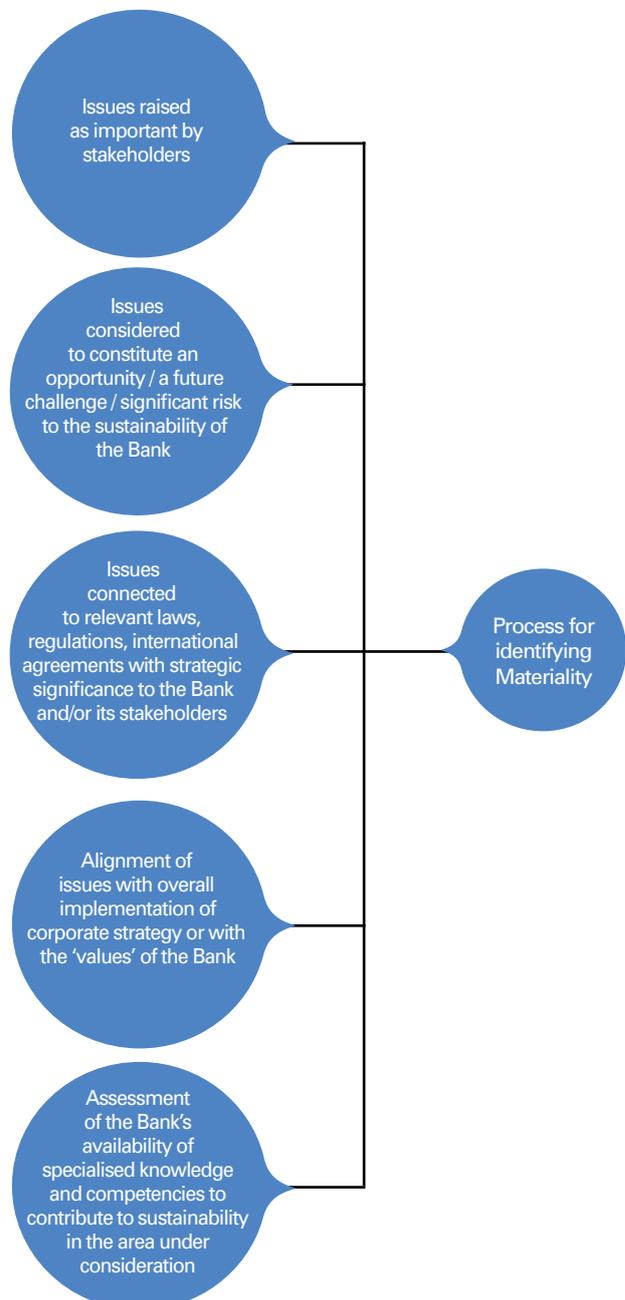
Thus, the materiality assessment process assists the prioritisation of issues based on their potential impact on our business and their significance to our stakeholders. In turn, this process shapes future strategy.

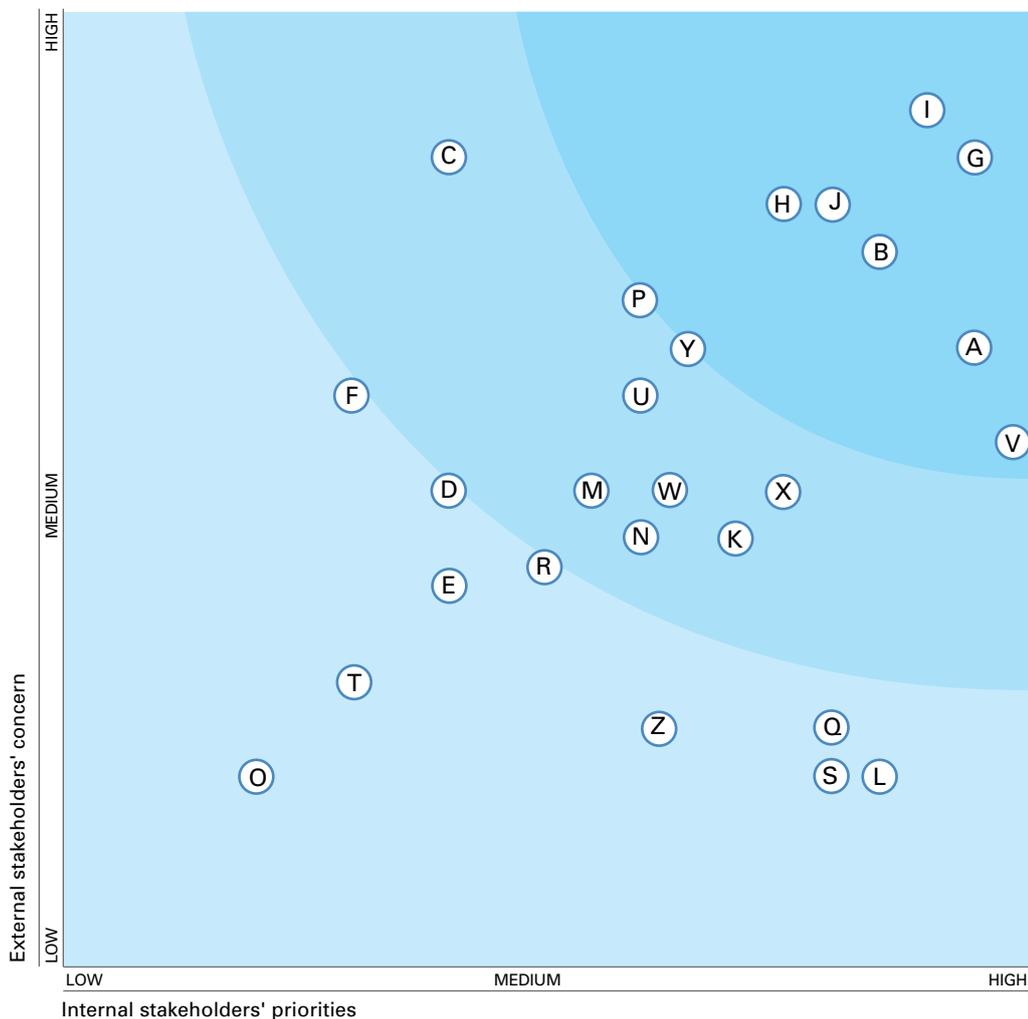
An issue becomes material when it impacts our ability to remain commercially viable and socially relevant to the communities we operate in. In particular, material issues are those which have a strong bearing on our stakeholders' assessments and decisions about HNB's long-term sustainability and its commitment to their needs. We also take into consideration those factors that affect the financial stability and growth of economies and, in turn, our business. Effectively managing our material issues is critical to achieving our strategic objectives. These material aspects are more than primary topics for sustainability reporting. To an increasing degree, they also drive our strategic planning and operations. We know that to remain a leader in our industry, we have to keep evolving and innovating in the ways our stakeholders care about most.

This year, as in the past, key issues that were rated as the most material in respect of both importance to stakeholders as well as potential impact to business were:

- Customer service
- Product range and access
- Business expansion / growth

- Recruitment and retention of the best talent
- Improved internal systems and processes
- Compliance with regulatory requirements
- Financial inclusion and community empowerment
- Environmental citizenship
- Human rights
- Diversity and inclusion
- Ethics and governance





- | | | |
|---|--|--|
| A. Anti-Corruption, Ethical Conduct | J. Direct Economic Value Generated and Distributed | S. Operational Costs |
| B. Brand Management / Reputation | K. Disaster Preparedness and Response | T. Priority Sector Lending |
| C. Climate Change | L. Employee Training and Development | U. Product Portfolio |
| D. Community Development | M. Energy Consumption | V. Regulatory Compliance |
| E. Competition | N. Financial Inclusion | W. Responsible Investing |
| F. Conservation/Protection of Environment, Habitats | O. Global Economy | X. Risk Management |
| G. Corporate Governance | P. Innovation in Process and Products | Y. Talent Attraction / Retention |
| H. Customer Privacy, IT Data Security | Q. Labour Relations | Z. Thought Leadership in Sustainable Finance |
| I. Customer Satisfaction | R. Non Discrimination | |

In 2015, we commissioned M/s Ernst & Young to undertake an extensive materiality and stakeholder engagement survey exercise to update our material issues and to prioritise stakeholders. This exercise which is ongoing at the time of reporting, has so far covered employees and customers, and is expected to be completed by mid 2016.

Management Discussion & Analysis

INTEGRATING SUSTAINABILITY

Material Aspects and Boundaries

Materiality of Aspects as defined by G4

→ G4-20, G4-21

Aspect	Internal stakeholders' priorities	External stakeholders' concern	Reason for Low priority by Internal Stakeholders
Economic			
Economic performance	High	High	
Market presence → G4-EC5, G4-EC6	Low	Low	At HNB the standard entry level wage does not vary by gender and all employees including senior management are hired from the local community i.e citizens of Sri Lanka
Indirect economic impacts	Moderate	Moderate	
Procurement practices	Moderate	Low	
Environmental			
Materials → G4-EN1, G4-EN2	Low	Low	Being a service organisation, the volume of consumption is negligible to our scale of operations
Energy	Moderate	Moderate	
Water	Low	Low	Being a service organisation, the volume of consumption is negligible to our scale of operations
Biodiversity	Low	Low	We adhere to local environmental regulations and do not operate in protected areas. Due to the nature of our business there is no direct impact on biodiversity. During 2015 we have partnered a project to plant 1 million trees which is eventually expected to enhance forest cover and support biodiversity
Emissions	Low	Low	Being a service organisation, the volume of emissions is negligible to our scale of operations
Effluents and waste	Low	Low	Being a service organisation, the volume of waste is negligible to our scale of operations
Products and services	Low	Low	Being a service organisation, the impact of services offered on the environment is minimal
Compliance	Low	Low	Being a service organisation, the potential for environmental non compliance in our operations is low
Transport	Low	Low	Being a service organisation, the amount of fuel consumption is negligible to our scale of operations
Overall	Low	Low	Being a service organisation, our direct impact on the environment is low
Supplier environmental assessment	Moderate	Low	
Environmental grievance mechanisms	Low	Low	Being a service organisation, our direct impact on the environment is low
Social: Labour practices and decent work			
Employment	Moderate	High	
Labour/management relations	Low-Moderate	Moderate	The Bank endeavours to give a minimum of 1 month notice regarding significant operational changes. It is not defined in collective agreements except for notice regarding resignations
Occupational health and safety	Low-Moderate	Low	Being a financial services organisation operating in a relatively safe/ non-hazardous work environment the possibility of diseases related to occupation or injuries is negligible. Further the Bank has implemented a Health & Safety policy and conducts regular training / awareness programmes on healthy living and HIV/Aids
Training and education	High	Low	
Diversity and equal opportunity	Moderate	Low	

Aspect	Internal stakeholders' priorities	External stakeholders' concern	Reason for Low priority by Internal Stakeholders
Equal remuneration for women and men	Moderate	Moderate	
Supplier assessment for labour practices	Moderate	Moderate	
Labour practices grievance mechanisms	Moderate	Moderate	
Social: Human rights			
Investment → G4-HR1	Low-Moderate	Moderate	We adhere to all local laws and regulations in respect of human rights
Non-discrimination	Moderate	Moderate	
Freedom of association and collective bargaining → G4-HR4	Low – Moderate	Moderate	Collective agreements are adhered to
Child labour → G4-HR5	Low	Moderate	The Bank does not employ child labour
Forced or compulsory labour → G4-HR6	Low	Moderate	The Bank does not employ forced or compulsory labour
Security practices → G4-HR7	Low-Moderate	Moderate	Security services are outsourced. All such outsourced security personnel undergo a 2-day orientation programme, on-the-job training, and the Bank conducts workshops and training programmes on a regular basis for the Security deployed
Indigenous rights → G4-HR8	Low	Moderate	The nature of our operations is such that there is relatively low possibility for the infringement of rights of indigenous people
Assessment → G4-HR9	Low – Moderate	Moderate	The scope of the Bank's Human Rights policy includes all its operations
Supplier human rights assessment	Moderate	Moderate	
Human rights grievance mechanisms	Moderate	Moderate	
Social: Society			
Local communities	Moderate	Moderate	
Anti-corruption	Moderate	Moderate	
Public policy → G4-SO6	Low	Moderate	As a policy the Bank does not donate to / sponsor political activities
Anti-competitive behaviour	Moderate	Moderate	
Compliance	Moderate	Moderate	
Supplier assessment for impacts on society	Moderate	Moderate	
Grievance mechanisms for impacts on society	Moderate	Moderate	
Social: Product responsibility			
Customer health and safety	Low	Low	The nature of our operations is such that there is relatively low health and safety risks
Product and service labelling	Moderate	Moderate	
Marketing communications	Moderate	Moderate	
Customer privacy	Moderate	Moderate	
Compliance	Moderate	Moderate	

Management Discussion & Analysis

STAKEHOLDER ENGAGEMENT

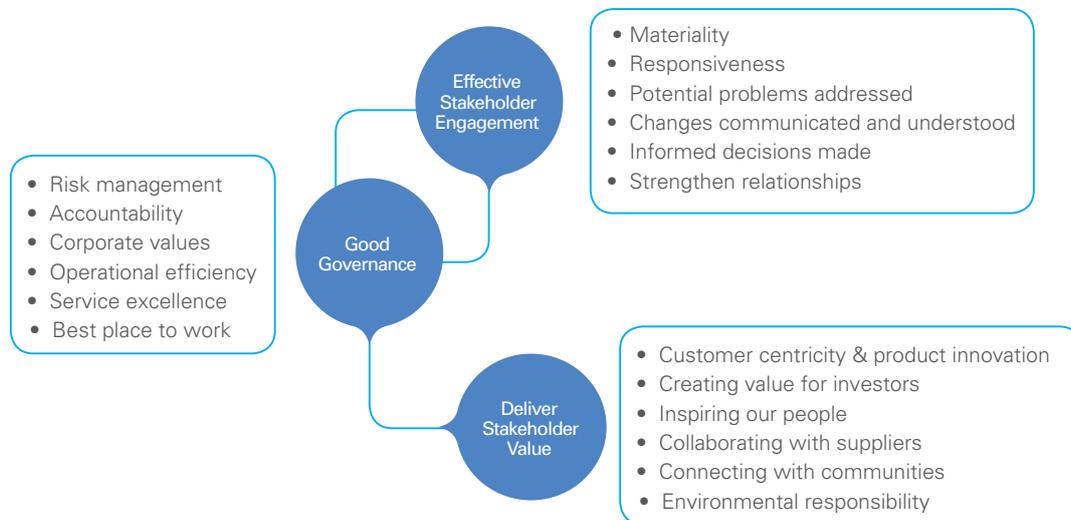
→ G4-24, G4-25, G4-26, G4-27, G4-37, G4-50

At HNB we believe that stakeholder engagement is a strategic activity that is core to creating a sustainable business. Thus connecting with our many and varied stakeholders is a vital aspect of our operations. Maintaining an open and constructive dialogue with our stakeholders helps us understand expectations, and contributes to risk management, learning and innovation. It also helps us to identify emerging issues and opportunities for creating new products and services and improving our performance.

We deploy diverse channels for communication and consultation depending on the stakeholder typology, nature and materiality of the focus area. Nearly all channels deployed provide for two-way consultation and feedback on economic, environmental and social topics are encouraged. Further details of the channels of communication are tabulated below.

We interact with a diverse range of stakeholders but given the criticality of only certain stakeholders to direct business function we choose to have a robust and consistent engagement process. During 2015, we commissioned M/s Ernst and Young to undertake an extensive materiality and stakeholder engagement survey exercise to update our material issues and prioritisation of stakeholders. This exercise which is ongoing at the time of reporting is expected to be completed by mid 2016.

Another aspect of increasing engagement with stakeholders is promoting corporate governance and the Bank's commitment to good governance is reported in detail in the Corporate Governance Section of this report on pages 106 to 143.



Stakeholder and rationale for selections	Sustainable Business Objective	Channels of Communication	Reasons for Engagement	Key Topics/ Issues Raised	Our Responses/ Achievements
<p>Investors</p>  <p>Being the contributors of capital and entrepreneurship</p>	<ul style="list-style-type: none"> To inspire investor confidence by balancing profitability and sustainable growth To deliver returns on investment by reinvesting earnings and strengthening governance to support future growth momentum To establish strong internal processes and policies to combat financial crime and poor quality lending 	<ul style="list-style-type: none"> Annual General Meeting Annual Investor forum and quarterly webex sessions organised by the Bank Road shows, investor forums and meetings organised by third parties Investor feedback forms (Ongoing) Publications and announcements on performance, launch of new products, services and banking access (When required) Access to management via email/telephone (Ongoing) 	<ul style="list-style-type: none"> To review business performance against targets and benchmarks To identify performance drivers, opportunities and risks To review shareholder returns To provide assurance on regulatory and statutory compliance 	<ul style="list-style-type: none"> Increasing shareholder returns and growth Performance drivers and business continuity Share price and dividends Strength of governance mechanisms 	<ul style="list-style-type: none"> Dividends of Rs 3.4 Bn declared for 2015 Dedicated investor relations team Investments in technology to position the Bank at the helm of digital delivery Inculcation of a sales driven culture Business process re-engineering and strong cost management systems
<p>Customers</p>  <p>Being at the core of our customer-centric banking model</p>	<ul style="list-style-type: none"> To treat customers fairly and safeguard their interests To deliver quality service, with passion and dedication To be a responsible lender and comply with all regulatory and statutory obligations To make finance more accessible To promote financial literacy 	<ul style="list-style-type: none"> Monthly/quarterly customer meetings and customer visits/ site visits Annual site visits to factories, project sites and corporate establishments Daily interaction via 249 customer centres located across the country Customer surveys Formal complaint management process and a centralised dedicated unit to manage and resolve customer complaints Suggestion boxes at every customer centre Feedback form on website Access to Financial Ombudsman 	<ul style="list-style-type: none"> To understand customer needs and expectations To obtain feedback on the Bank's products, service quality, reach and brand perception To ascertain information for KYC requirements To foster better awareness of product and service features and terms and conditions 	<ul style="list-style-type: none"> Access and reach Products and service offering Greater customer convenience Relationship management Investment returns and cost of borrowing Compliance 	<ul style="list-style-type: none"> Formalised and Board approved customer charter Multi channel distribution strategy for ease of access, physical presence at 249 locations across Sri Lanka and 462 ATMs Special provisions for senior citizens and access for the disabled

Management Discussion & Analysis

STAKEHOLDER ENGAGEMENT

Stakeholder and rationale for selections	Sustainable Business Objective	Channels of Communication	Reasons for Engagement	Key Topics/ Issues Raised	Our Responses/ Achievements
 <p>Employees</p> <p>Being custodians of customer wealth and guardians of stakeholder interests</p>	<ul style="list-style-type: none"> To foster a diverse talent pool driven to deliver superior, goal-oriented performance in a sustainable manner To ensure workforce productivity in line with corporate values and effective worklife balance To establish a leadership pipeline To position HNB as an Employer of Choice amongst all generational typologies Stability, security and equal opportunity to all our employees 	<ul style="list-style-type: none"> Open door policy Monthly Town Hall meetings & HR roadshows CEO's annual strategy presentation and monthly email "From the CEO's Desk" Weekly divisional heads meetings, monthly corporate management meetings, and quarterly strategic plan review meetings Quarterly In-house magazine 'Hatna Mag' and Weekly Circulars, daily emails notifications Employee engagement surveys HR service days (Monthly) One to one meetings (as required) Structured career conversations (as required) Exit interviews upon resignation 	<ul style="list-style-type: none"> To create two-way relationships that inculcate team spirit To enhance employees' skills and competencies through training and inspired leadership To preserve the psychological contract that exists within an employer employee partnership Hear the voice of employees 	<ul style="list-style-type: none"> Robust talent management system to recruit and retain best talent Ensuring compliance with governance policies, codes of best practice and conduct More direct access to staff from all regions Manage diverse aspirations of a multigenerational workforce 	<ul style="list-style-type: none"> Ensuring value alignment and building a compliant workforce of professional bankers Future ready and tech savvy service providers through up-skilling and multiskilling Transforming HR from an administrative service provider to a business partner and valued creator Virtual learning content delivery to employees' computers at branches and homes Superior rewards for superior performance
 <p>Suppliers</p> <p>Being a direct and indirect source of environmental and social value creation</p>	<ul style="list-style-type: none"> To deeply embed Social, Ethical and Environmental considerations into how we evaluate and select our suppliers. To balance cost considerations with sustainable procurement practices 	<ul style="list-style-type: none"> Annual Registration of suppliers and feedback evaluations Bi-Annual supplier reviews for quality of goods/service and pricing Monthly Procurement committee meetings Annual green audit 	<ul style="list-style-type: none"> To focus on mutually beneficial, long-lasting relationships To foster mutual trust, transparency and accountability 	<ul style="list-style-type: none"> System for handling appeals and other grievances Support micro and SME suppliers Support and guidance to become sustainable businesses 	<ul style="list-style-type: none"> 2 committees to address supplier issues Over 60% of the Bank's suppliers are from the SME and micro category of suppliers Workshops on sustainable business practices and guidance on implementation

Stakeholder and rationale for selections	Sustainable Business Objective	Channels of Communication	Reasons for Engagement	Key Topics/ Issues Raised	Our Responses/ Achievements
Community  Being the provider of our social license to operate	<ul style="list-style-type: none"> To engage with the community at every level towards community development To act as a catalyst for positive change through action in healthcare, education and entrepreneurship 	<ul style="list-style-type: none"> Employee involvement in local community projects (ongoing) Continuous dialogue through network of customer centres (Daily) Visits by field officers to fishing and farmer communities (ongoing) Visits to community leaders, village schools, places of worship and markets 	<ul style="list-style-type: none"> To create sustainable, self sufficient communities through education, micro financing, entrepreneurial assistance and health 	<ul style="list-style-type: none"> Financial awareness and access to funds Links and connections to major supply chains for distribution Access to IT facilities, books and literature to develop and enhance knowledge Basic infrastructure such as health care, access roads and schools 	<ul style="list-style-type: none"> Gami Pubuduwa micro finance scheme to assist young entrepreneurs Provide agricultural expertise and basic financial skills Facilitate connections between rural entrepreneurs and the demand chain HNB Sustainability Foundation to focus on community development Establishment of school libraries and computer centres Counselling centre at the National Cancer Institute Community development through investment in remote rural areas
Environment  Being the provider of the natural capital necessary for sustenance and existence	<ul style="list-style-type: none"> To promote environmental conservation at the work place through the Green Pledge To promote responsible lending practices through green banking and green procurement To implement an environmental management system 	<ul style="list-style-type: none"> Efficiency meetings (monthly) Site visits and annual reviews of facilities Registration of suppliers annually Consultancy audits (as required) 	<ul style="list-style-type: none"> To ensure a sustainable planet through conservation and preservation of the environment by introducing best practices 	<ul style="list-style-type: none"> Climate change Energy conservation Reduction of carbon footprint 	<ul style="list-style-type: none"> Lead and influence implementation of environmental best practices in the banking sector through the Sri Lanka Banks Sustainable Finance Initiative Green buildings and eco-friendly practices The Green Pledge taken by all staff, integrating environmentally friendly practices into daily operations Green banking & Green procurement Systems Tree planting initiatives Implementation of the paperless office concept with all credit and general memo approvals done electronically

EXTERNAL ENVIRONMENT

GDP Growth (%)

Snapshot of 2015

The Country recorded a GDP growth of 4.8% for the third quarter of 2015, while the growth recorded in the first nine months stood at 5.2%. The growth for 2015 is also expected to be 5.2%. All three major sectors witnessed growth during this period with agriculture growing by 6.1%, industry by 3.6% and services by 5.2%. The agriculture growth was driven by paddy which grew by a phenomenal rate of 53.3% from a lower base in 2014. However the drop in global commodity prices restrained the growth in tea and rubber sectors as anticipated. Industrial sector growth during the year was subdued as most infrastructure projects were at a standstill resulting in the construction sector witnessing a negative growth during this period.

Service remained buoyant with trade and financial services contributing significantly towards the growth. The growth witnessed in import trade would be a major contributor toward growth in trade while the growth in leasing and personal loan portfolios of the financial institutions would positively have contributed towards growth from the financial industry. Real estate and ownership of dwellings also contributor towards service sector growth in the first nine months of 2015.

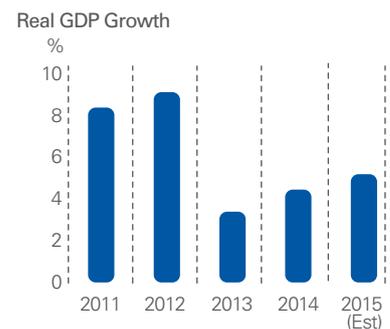
Outlook for 2016

We believe the growth for 2016 will be generated internally with the resumption of few key infrastructure projects which were put on hold during 2015. However rising interest rates, inflation and the depreciated rupee will have a dampening impact on consumer demand.

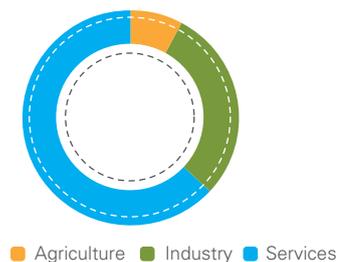
Hence we believe that the government led infrastructure projects would be the key driver of growth in 2016. We also expect the contribution from SMEs to be significant over the next 3 – 5 years.

We believe the global economy will continue to remain impacted by the slowdown in China, keeping commodity markets depressed during major part of 2016.

Hence most commodity exporting economies including the major oil exporting countries will witness dull growth or even recessionary pressure during 2016.



GDP Sectorwise



Source: CBSL and international research forecasts

Monetary Policy

Snapshot of 2015

During 2015 the Country's monetary policy shifted from being loose during the early part of the year where the Central Bank reduced its policy rates by 50 bps in April- to tightening towards the latter part where In December the Monetary Board increased the statutory reserve requirement for banks by 150 bps to 7.5%, as a measure to curtail market liquidity and credit generation. The relaxed monetary policy which was pursued during the major part of 2015 resulted in a sizeable growth in consumer credit which coupled with a relatively low exchange rate fuelled import demand and a drop in the foreign reserves of the Country. This prompted a reversal in monetary policy towards the latter part of last year and a correction in the exchange rate.

The recent tightening in policy has resulted in the Average Prime lending Rate increasing by 107 bps to 8.35%.

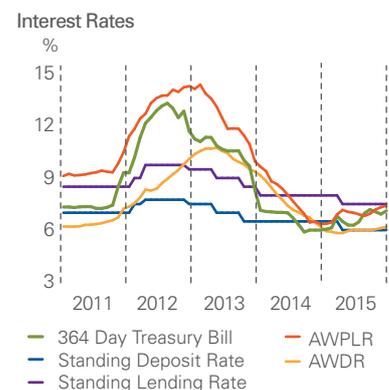
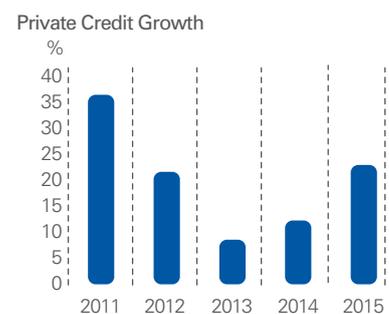
During the first 11 months of 2015 the broad money supply grew by 17.2% YOY while the nominal GDP for the Country grew by 11.1% during the first nine months of the year.

Most other Countries too followed a relaxed monetary policy in 2015 given the depressed outlook for world economic growth. Japan witnessed negative interest rates during the year while China pumped billions of dollars to fuel growth in the economy. To the contrary US Fed increased their policy rates for the first time in seven years ending a decade long monetary easing by the Federal Reserve.

Outlook for 2016

Given the outlook that inflation will edge up and due to the pressure on the rupee, it is likely that Central Bank will continue to follow a tighter monetary policy throughout 2016. The market anticipating a tighter monetary policy could also be seen in a steeper yield curve with long term rates demanding a sizeable premium over the short term rates. Ability of the government to attract foreign funding from either IMF or through Foreign Direct Investments (FDIs) will determine the flexibility that will be available to monetary authorities to relax policy in order to drive growth. However the current uncertainties in the world economy and the higher US interest rates will pose challenges towards attracting FDIs into the Country in the short term.

Given the dismal outlook on global growth and capital markets it is likely that most Central Banks would pursue a relaxed monetary policy during 2016. The Federal Reserve has communicated that they would continue to pursue their plan of tightening monetary policy but would keep a close eye on the developments in the world economy including China and its implications on the US economy. However some analysts believe that the Federal Reserve may not go ahead with the policy rate increases as planned during 2016.



Source: CBSL and international research forecasts

EXTERNAL ENVIRONMENT

Fiscal Policy

Snapshot of 2015

Fiscal policy remains a key determinant of most economic variables in the Country including interest rates and growth. Unfortunately there are significant challenges in moulding an effective fiscal policy for the Country due to political pressure, high government borrowings and debt servicing requirement, low tax collection and significant losses made by most state owned enterprises. For 2015 the estimated budget deficit was at 6% of GDP, however the actual deficit is expected to be much higher. To make matters worse the initial anticipation of financing 23.1% of the deficit through foreign sources did not materialise resulting in significant pressure on the local capital market. As a result government borrowing rates increased significantly during the year with 1 year treasury bill increasing by 129 bps and 5 year bond rate by 66 bps.

In order to contain rates despite higher borrowing requirements of the government, Central Bank increased its government securities holding by Rs 75.9 Bn resulting in a monetary expansion which had adverse implications on the foreign reserve position as explained under monetary policy.

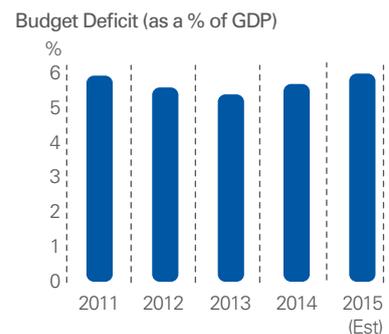
During the latter part of the year the Country managed to raise US\$ 1.5 Bn from international capital markets by way of a bond reducing the pressure on the currency and rates.

Outlook for 2016

The Budget for 2016 which was presented to the parliament in November 2015 depicts a budget deficit of 5.9% of GDP with 75.3% of the deficit being financed through local borrowings and 24.7% to be financed from foreign sources.

However due to most of the revenue generating initiatives not being implemented so far, achieving the target deficit would be a challenge for 2016. In addition the risk spreads in international bond markets have made foreign borrowings more expensive, which could result in the government resorting to more local borrowings, thereby crowding out the private sector. The recent discussions by the government with the IMF would be to reduce local borrowing and thereby stabilise local interest rates and reduce pressure on the exchange rate.

The current low crude oil prices will have a positive impact on government finances as the large state owned enterprises such as Ceylon Petroleum Corporation and Ceylon Electricity Board will benefit from same, thereby reducing the demand on government coffers to finance losses.



Source: CBSL and international research forecasts

External Sector

Snapshot of 2015

External sector remained under significant pressure during 2015. Even though imports declined by 2.1% over the first 11 months of the year, exports witnessed a 4.4% drop mainly due to slow-down in the key export destinations. This resulted in widening the trade deficit by 1%. The inward remittances which absorb a significant part of the trade deficit too witnessed a dismal performance during 2015 as the net remittances dropped by 0.5% compared to 2014. The current account deficit for the Country for the first 9 months of the year amounted to USD 1,194 Mn which is 2% of GDP.

In addition to the current account deficit the Country also witnessed money moving out of the capital account as foreigners in anticipation of a depreciation of the currency, global uncertainties and rising US\$ interest rates moved out of emerging market investments. During 2015 foreign investments in government securities dropped by USD 1,093.4 Mn while the stock market too witnessed foreigners being net sellers in the market. As a result the net foreign reserves of the Country dropped during the year which led to the currency depreciating by 9% against the USD. In addition to the currency being depreciated the government also raised tax on certain non-essential imports which helped curtail the surge in import expenditure.

During the first 9 months of 2015 the Country managed to attract FDIs amounting to USD 400 Mn.

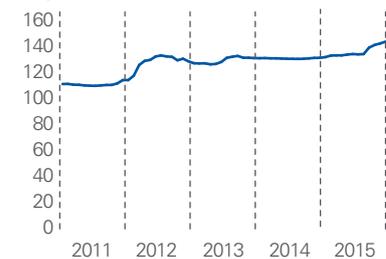
Outlook for 2016

The trade account will continue to remain under pressure as most of the destination countries of Sri Lanka exports are seeing a slowdown in economic activity. In addition, the slow-down in Middle East would have a material impact on worker remittances, as over 50% of the remittances to Sri Lanka is generated from Middle East Countries.

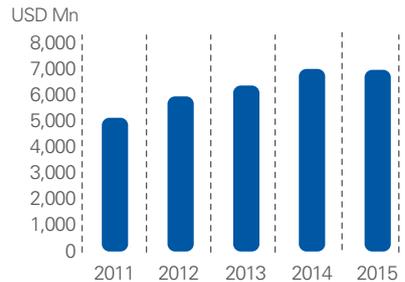
However the currently prevailing low oil prices would positively impact the Country's external performance as 15% of import expenditure in the first 11 months of 2015 was spent on oil and oil related imports. The current outlook is that oil prices will remain sluggish during the major part of 2016 due to the low demand from China.

While foreign portfolio investments will remain slow due to low risk appetite among foreign investors, attracting FDIs will remain a key challenge for the government and a long term sustainable strategy towards improving external sector performance.

Monthly Average Exchange Rate
LKR/USD



Worker Remittances (USD Mn)



Imports and Exports



Source: CBSL and international research forecasts

Management Discussion & Analysis

EXTERNAL ENVIRONMENT

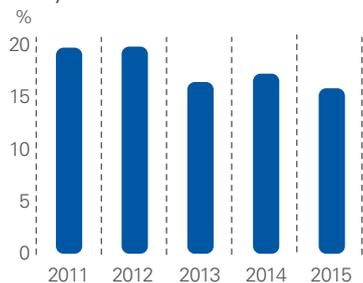
Sri Lanka's Banking Industry

As discussed above the banking sector operated within an environment of compressing margins and sluggish credit growth mainly during the first part of the year. In this background, the performance of the banking sector for the year 2015, is given below as demonstrated by key performance indicators as against the performance of the Bank.

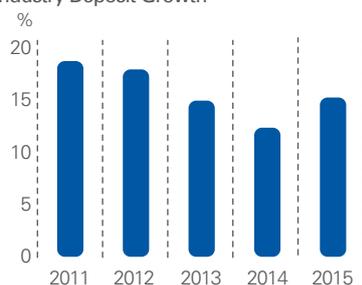
KPIs	Banking Sector*	HNB
Asset growth	15.9%	26.6%
Advances growth	21.1%	25.8%
Deposit growth	15.3%	25.7%
NIM	3.5%	4.5%
Cost to income	49.0%	45.95%
NPA	3.2%	2.43%
ROA	1.3%	1.61%
ROE	16.1%	16.59%

Note : Includes licensed commercial banks and licensed specialised banks

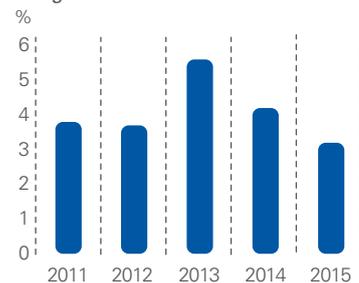
Industry Asset Growth



Industry Deposit Growth



Banking Sector NPA Ratio



VISION

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

MISSION

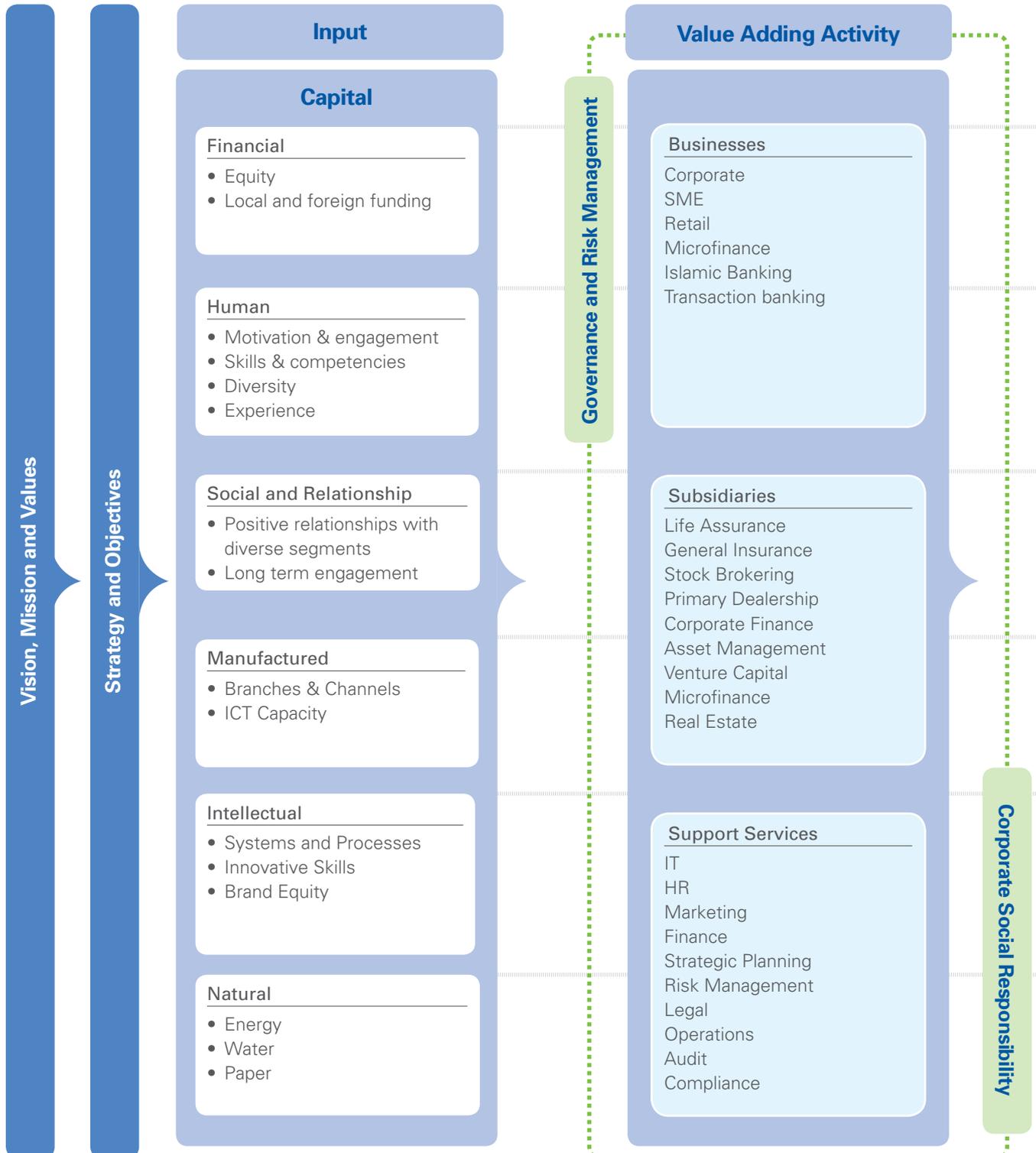
Combining entrepreneurial spirit with empowered people and leading edge technology to constantly exceed stakeholder expectations

OUR VALUES

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

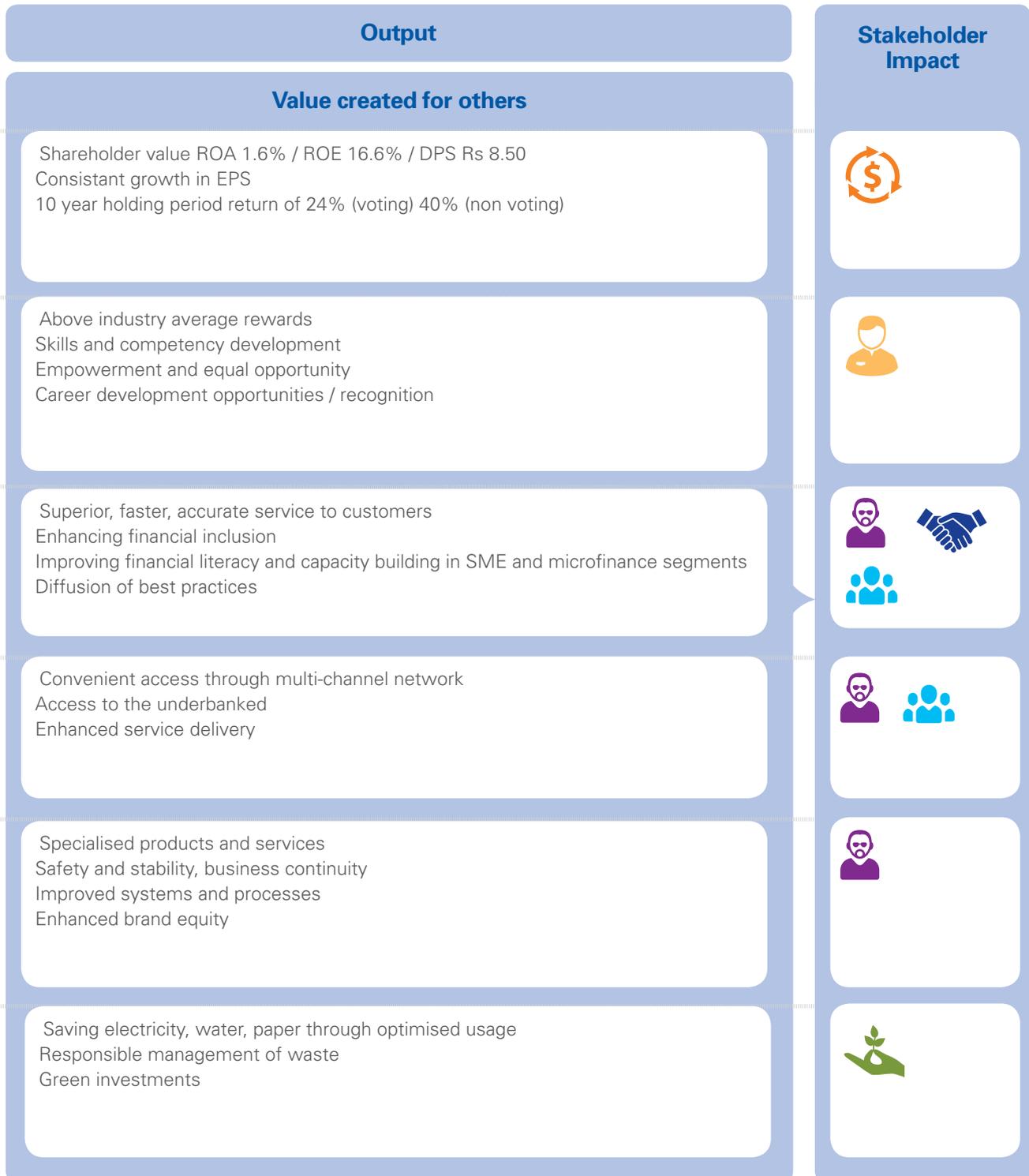
Management Discussion & Analysis

BUSINESS MODEL



Since the publication of our first Integrated Report last year, we have built on the IR approach this year to reflect how HNB derives value from and enhances the value of its capitals, in order to create value for all its stakeholders. We've reported on the capitals which are most relevant to the Bank's value creation, namely Financial, Intellectual, Human, Manufactured, Social and Relationship and Natural Capital and the diagram below depicts the Bank's value creation model. The importance of these capitals is decided by many factors such as the Bank's vision and values, its heritage, its geographic location, stakeholders, the industry environment and trends and Triple Bottom Line objectives.

The strategies through which we strive to enhance value are an outcome of the annual strategic planning process and the insight gained from continuous engagement with our stakeholders. The Bank conducted another formal stakeholder engagement survey during the year to obtain insights into their expectations. The reports on our Capitals as well as the ensuing business reviews also demonstrate the linkages amongst the different business units of the Bank and how they adopt a seamless approach to crafting and achieving the Bank's strategies.



Management Discussion & Analysis

OUR STRATEGIC DIRECTION



Business transformation through people, processes and technology

As we enumerated last year, the Bank's strategic focus for 2015 - 2017 continues to be on the seven strategic pillars depicted above. Towards achieving our vision, mission and objectives we continued to drive our strategies through Processes, People and Technology. The year under review saw us begin to reap the rewards of these multitude of diverse initiatives to position the Bank on a sound platform for sustained future growth.

Several industry and social environmental factors, such as diminishing interest incomes, higher expectations of service, increasing need for convenience, technology drive and intensifying competitiveness in the banking sector, were amongst the key influencing factors which shaped our strategic priorities.

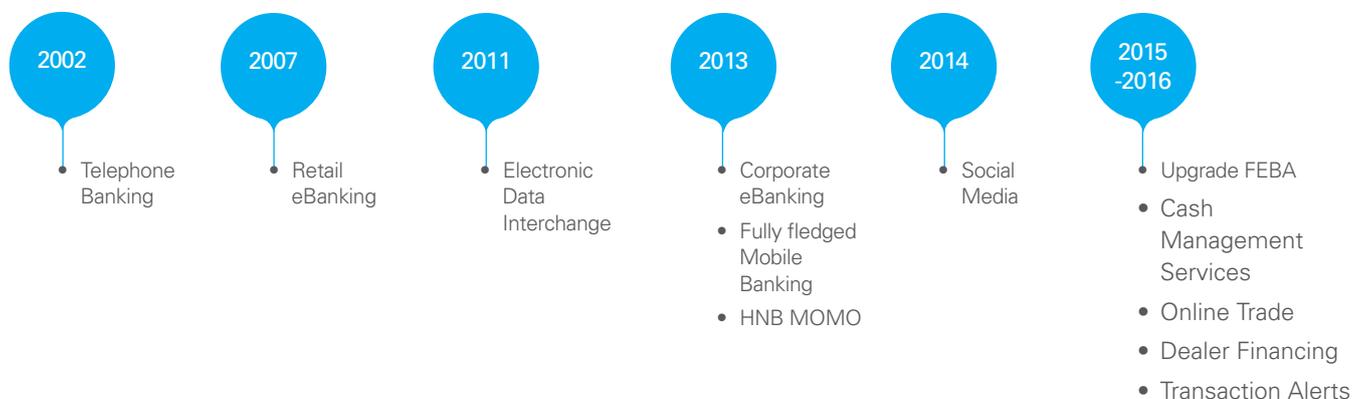
We are mindful that products and electronic channels of delivery are easily replicable, often at a lower cost than that of the initial innovation. Service excellence is thus identified as the ultimate strategic imperative in order to sustain long term leadership in Sri Lanka's banking sector.

Following a review and analysis of our internal operations and processes in 2012, which included discussion and brainstorming of requirements, the Bank began to re-engineer its processes and operations with the main aim of creating a more sales and service focused culture. Realising the value of these initiatives, the Bank took a step forward in 2013 by establishing a dedicated Process Improvement and Change Management (PICM) unit to drive Business Process Re-engineering (BPR) activities. Several key centralisation, process improvement, automation and outsourcing projects have been implemented through 2014 - 2015 enabling optimal allocation of resources and release of staff from operational functions to sales and customer service. Key projects implemented /completed in 2015 are mentioned under the strategic summary.

We focused on our people to create a more sales-driven culture, and to enhance service orientation and some of these initiatives are elaborated on in the Human Capital report.

The Bank in recent years invested significantly in technology to develop new products and channels of delivery via electronic, digital and mobile banking on the one hand, and to facilitate transformation of the Bank's internal processes on

HNB's Digital Journey

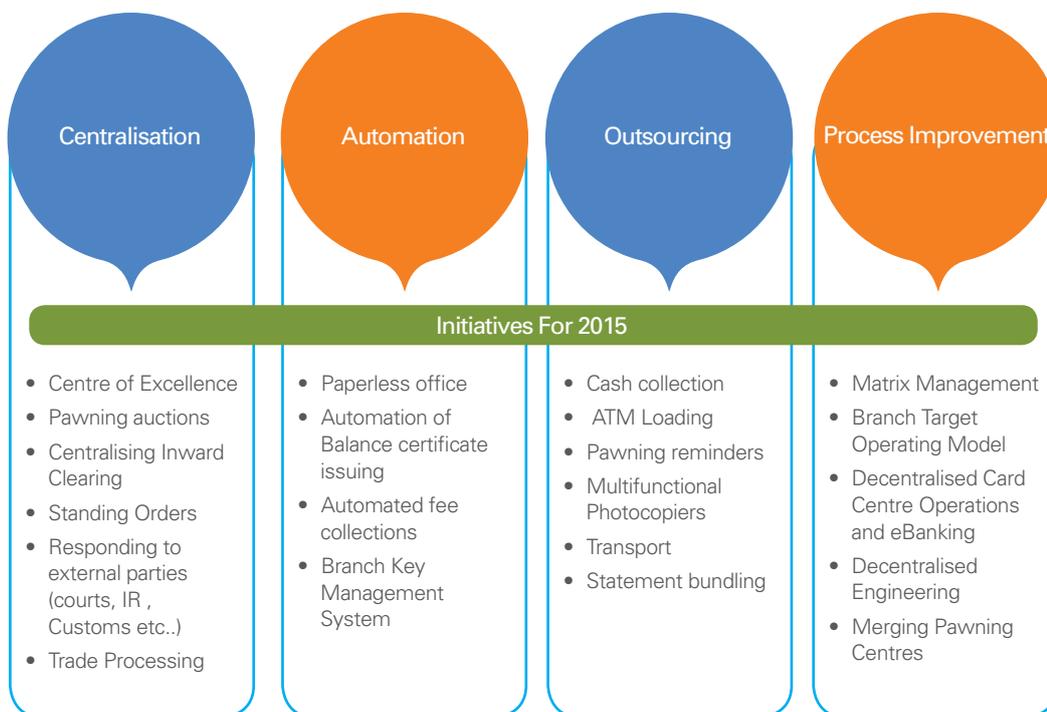


the other hand. Some of our key technology initiatives during 2015 include upgrading of our e-Banking platform to enable the offering of products / services such as Payment and Cash Management solutions. Along with this the installation of utility bill payment kiosks, bulk cash deposit ATMs and cheque deposit machines took place throughout 2015, while the HNB Mobile App which uses the 'Augmented Reality' feature grew in popularity with our mobile banking

customers. HNB will also move towards setting up 100% self service branches in 2016.

Digital channels and technology lead banking services will be one of the most central aspects to future banking. We will continue on our journey to become the most technology ready bank.

Key BPR Initiatives



OUR STRATEGIC DIRECTION

Profitable Balance Sheet Growth

Achievements during 2015

- Advances growth of over 25%
- Deposit growth of 26%
- ROE - 16.59%
- ROA - 1.61%
- Recorded the lowest ever NPA Ratio of 2.43%
- Expanded to overseas markets lending over USD 50Mn in Cambodia, Uganda and Maldives.
- Raised long term funding of USD 185Mn from leading International Financial Institutions viz ADB, Proparco and DEG
- Introduced new products including HNB Sathkara for pensioners, distributor finance and supplier finance

Way forward

- Drive CASA growth
- Obtain funding to support balance sheet growth
- Launch new products to cater to the changing needs of customers
- Pursue growth opportunities via strategic investments locally and overseas

Strong Sales Culture

Achievements during 2015

- Successfully implemented a Matrix Management structure with Branch Managers and Heads of Regions focusing solely on improving sales.
- Set up a direct sales team and outsourced sales teams and incentivised them based on sales performance
- Released staff for sales through BPR initiatives
- Provided training to develop selling skills
- Introduced various incentive schemes based on targets given, top performers identified and recognised

Way forward

- Expand the Outsourced and Direct Sales Force teams
- Continue and intensify organisation wide sales training programmes
- Refine the incentive schemes further to drive sales effort

Higher Fee Income

Achievements during 2015

- Growth of 18.4% in total Fee Income
- Carried out promotional campaigns to drive credit card volumes and remittances
- Offering a superior service through centralisation of trade processing
- Strengthened our number one position in merchant acquisition
- Conducted promotions to increase utilisation of e-banking services
- Revised fee tariffs

Way forward

- Complete the upgrading of the electronic banking solution to enable introduction of new products and services
- Launch payment and cash management services to support corporate and SME business
- Introduce an online trading platform
- Continue to leverage upon and develop our relationships with leading International Exchange Houses and our Correspondent Banking Network to grow Fee Income from International Business

Customer Service Excellence

Achievements during 2015

- Recognised Branch Service Champions
- HNB Private Banking Proposition revamped and rebranded to include high end value added services
- Expanded the own ATM network to 462 by installing 9 cash deposit machines, 3 cheque deposit machines and 6 bill payment kiosks to provide convenience and everyday banking to customers
- Introduced Service Level agreements at the Centre of Excellence for retail products
- Trained 519 staff on customer service excellence

Way forward

- Conduct Mystery Shopping exercises at the branches
- Continue to train staff on customer service
- Inculcate Service Culture across all levels to achieve unparalleled internal and external customer service levels
- Appointing a Customer Experience Officer

Cost Optimisation and Operational Excellence

Achievements during 2015

- The Cost to Income Ratio of the Bank continued to improve and stood at 45.95%
- Improvement in profit per employee by 21%
- Completed centralisation of retail credit processing and underwriting of the entire network thereby releasing branch staff to focus on business opportunities
- Implemented the Branch Target Operating Model to achieve optimal resource allocation and rationalisation.
- Centralisation of the Trade Processing Unit

Way forward

- Complete implementation of a Document Management system alongside a Centralised Security repository
- Centralisation of collections & recoveries
- Introduction of a tracking and scoring system to enhance efficiency and credit quality
- Improve the processes at the Centre of Excellence further to provide a speedier service
- Expand the branch target operating model

Competent, Engaged and Motivated Team

Achievements during 2015

- Implemented a virtual learning system that is accessible at the convenience of employees at any time and from any location
- Expanded the leadership development initiative by introducing a new development programme for young executives titled 'Insight'
- Introduced performance based rewards for Junior Executives
- Maintained an attrition rate of 4%

Way forward

- Upskilling, multi skilling and transforming in line with strategic imperatives of the Bank
- Continuous monitoring and fine tuning of staff deployment across the branches
- Further augment the 'Year of Knowledge' and learning by having a formal mentorship programme to cover 1,000 employees
- Revamp performance appraisal system

Governance, transparency and Compliance

Achievements during 2015

- Was recognised as the gold award winner for 'Corporate Governance' at the Annual Report Awards organised by CA Sri Lanka
- Organised an investor forum for the first time in Colombo and engaged with local and foreign investors through road shows, one on one meeting and quarterly webex presentations
- Complied with all regulatory requirements governed by the CBSL, CSE and SEC
- Further refined the risk management framework within the bank
- Strengthened the Internal Capital Adequacy Assessment Process (ICAAP)
- Implemented the BASEL III guidelines covering capital and liquidity requirements

Way forward

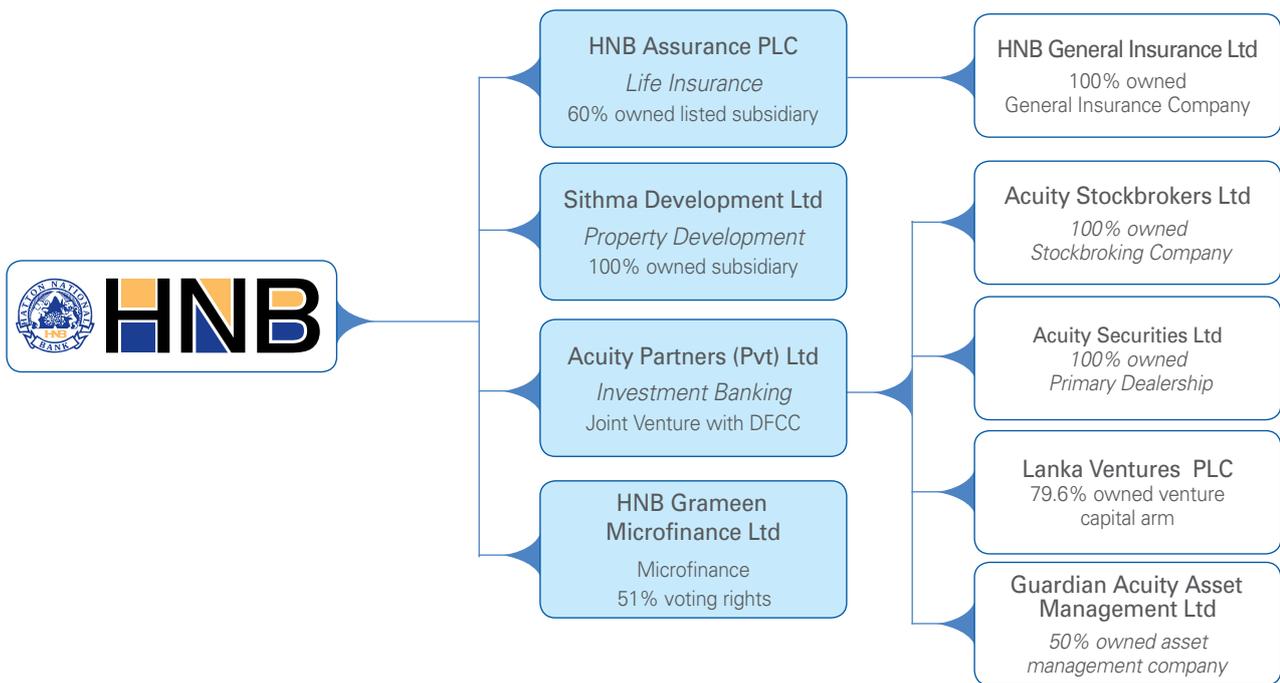
- Continue to strengthen the governance framework of the bank
- Continue to comply with all regulatory requirements
- Restructure Risk Management function to improve the credit evaluation process
- Further strengthen the ICAAP process

Management Discussion & Analysis

OUR PRODUCTS AND SEGMENTS

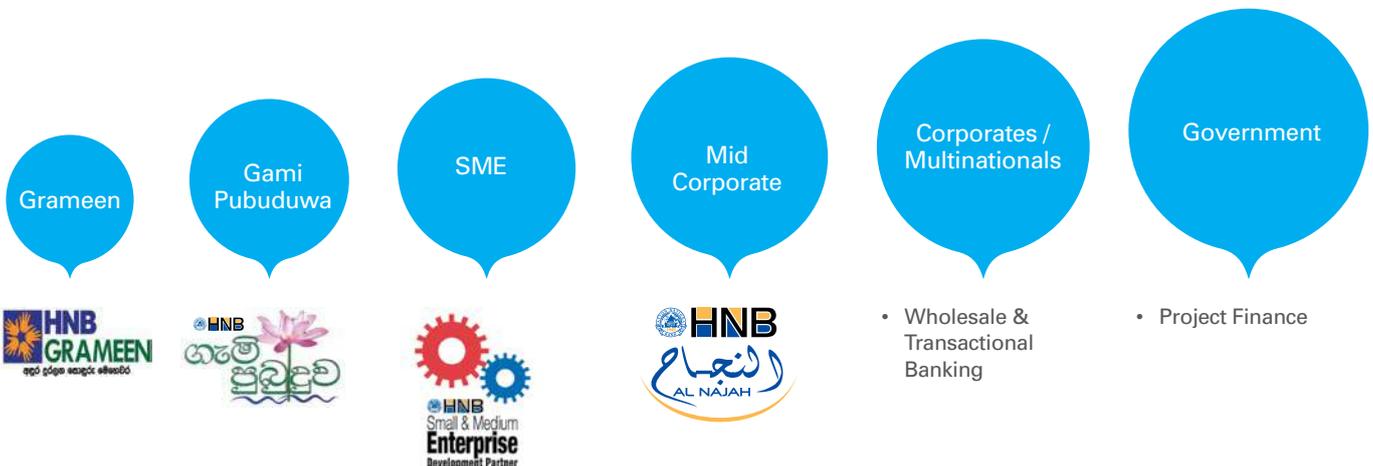
Group Structure

HNB, the oldest private commercial bank today offers a gamut of financial services under one umbrella including life and general insurance, investment banking solutions and microfinancing.



Customer Life Cycle Vs Product Offering (Commercial)

Our products for the business segment range from financial solutions for the micro entrepreneur in the most rural locality across the Country, to the multinational corporate in the city. Towards serving these business segments, the Bank offers a range of products including working capital financing, term loans, project finance, agriculture finance and is complemented by trade finance and treasury products.



Customer Life Cycle Vs Product Offering (Individual)

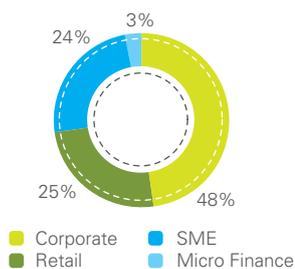
Our retail solutions cater to individuals at every stage of his or her life, from a new born to a senior citizen, a journey as the ‘partner in progress’ throughout the entire life span. Our products for the mass market include ‘Shanthi’ housing loans, leasing, personal loans and credit cards while we have special products and services to cater to the professional and executives. Our private banking proposition which currently offered under ‘Club’ and ‘Crystal’ would be revamped during 2016 and would be offered as a bundled solution. While we have a special account for Senior Citizens, in 2015, the Bank launched ‘Sathkara’ for the pensioners.



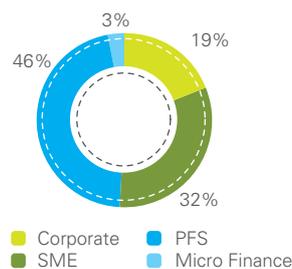
Segmental Performance

Segmental distribution of our advances and the resultant distribution of the net interest income is given below.

Segmental Distribution of Advances



Segmental Distribution of Net Interest Income



→ G4-4, G4-8

Management Discussion & Analysis

CAPITAL MANAGEMENT REPORT

Financial Capital

16.6%

ROE

24%

10 year holding period return (Voting)

40%

10 year holding period return (Non-Voting)

Financial Performance

Yet again HNB has recorded an impressive performance with the Bank's profit after tax surpassing Rs 10 Bn for the first time in history. This is an impressive 16% growth compared to the previous year. The balance sheet too reflected exponential growth with both advances and deposits witnessing a growth of over Rs 100 Bn during the year. This was a phenomenal achievement considering the uncertainty and the slowdown in demand for credit during the early part of the year.

HNB Group achieved a profit after tax of Rs 11.10 Bn, while the profit attributable to Group equity holders was at Rs 10.55 Bn.

Net Interest Income

During 2015 the Bank increased its interest income by 1.4% while interest paid reduced by 2.5%. This resulted in Net Interest Income (NII) for the Bank growing by 5.8% to Rs 26.3 Bn, despite the banking sector margins continuing to drop during 2015.

The Group witnessed a higher growth in NII of 14.3% to Rs 29.7 Bn as a result of the Bank's acquisition of Prime Grameen Micro Finance during the latter part of 2014, now rebranded as HNB Grameen. HNB Grameen has become a formidable force in the micro finance industry in Sri Lanka

with the Company witnessing its loan book growing by 66% and deposits by 46.4% during 2015.

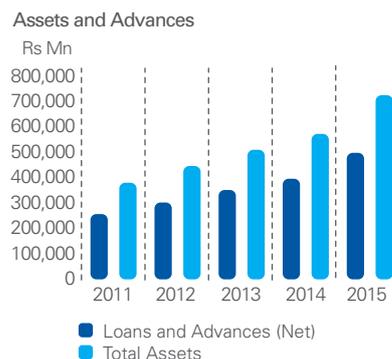
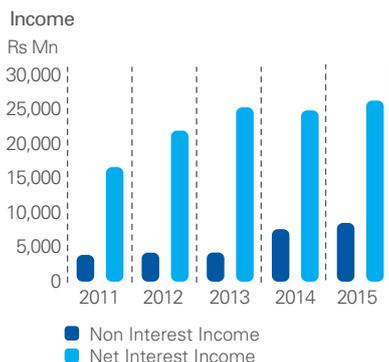
Fee Income and Other income

The Bank's commission income for 2015 grew by 18.4% to Rs 5.8 Bn with major contribution coming from merchant acquisitions, guarantees and trade business. Fee income generated from electronic channels too witnessed significant growth during 2015.

The Group witnessed its fee income growing by 23.1% with the commission income from HNB Grameen and Acuity contributing significantly and complementing the performance of the Bank on commission income.

With the volatility of exchange rates during the year and the significant depreciation of the Rupee, the Bank recorded a significant growth in exchange income. The Bank also saw its dividend income from subsidiaries growing as Sithma Development, the property development arm of the Group, paid a dividend of Rs 833 Mn from its tax exempted income.

During the year 2014, the Bank realised a capital gain of Rs 889 on account of the sale of shares held in Visa Inc and MasterCard. The absence of any significant capital gains from equity investments in 2015, resulted in lower net gain from financial investments for the period under review.



Accordingly the Bank recorded a total operating income of Rs 34.8 Bn for 2015 while the Group recorded Rs 42.6 Bn for the same period with a growth of 12.7%.

Operating Expenses

The Bank continued its efforts towards containing cost during 2015, results of which are seen through recording one of the lowest cost increases in the recent past of just 3.9%, despite this being an year when collective agreement was revised, resulting in increased salaries for non executive staff.

However the Group's cost increase is significantly higher as a result of the additional cost arising from the consolidation of HNB Grameen and due to the high claims ratio experienced by HNB General Insurance for 2015. The Group recorded a total cost of Rs 22.5 Bn for 2015 which is a 13.8% increase from 2014.

The Bank managed to bring its cost to income ratio down to 45.95% in 2015 compared to 47.41% in 2014 which is a significant achievement during the year.

Asset Quality

The recovery efforts and improving asset quality through refining the loan origination processes and risk management along with aggressive recovery efforts, stringent monitoring for early warning signals and recovery camps contributed toward the Bank achieving the lowest gross non performing ratio recorded in decades. The Bank was successful in bringing down the NPA ratio to 2.43% which is significantly below its target of 3% and the industry average of 3.2%. As a result the impairment charges for the Bank reduced significantly by 62.6% to Rs 0.9 Bn.

Profitability and Taxation

The Bank recorded a profit before tax of Rs 15.05 Bn which is a 24.8% growth from the previous year while the Group recorded a 22.9% growth to Rs 16.16 Bn.

The Bank's effective tax rate increased to 30.6% from 25.4% recorded in 2014. During 2014 the Bank received several tax credits resulting in the effective tax rate being significantly low.

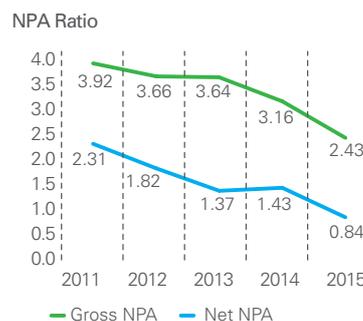
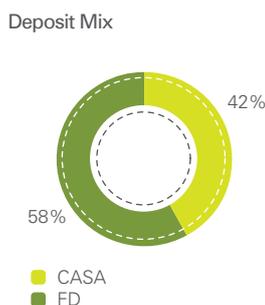
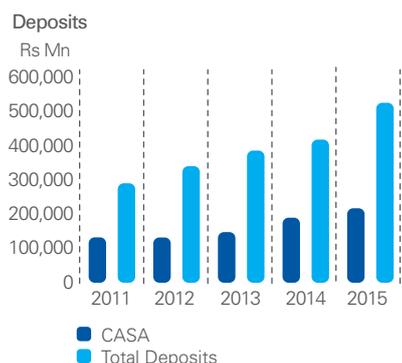
The Bank recorded a Return on Asset (ROA) of 1.61% and Return on Equity (ROE) of 16.59% while the Group recorded a ROA of 1.64% and ROE of 14.71% for 2015.

Balance Sheet Growth

The Balance sheet of the Bank grew by 26.6% during 2015 compared to the previous year. This growth was driven by a 25.7% growth in deposits and 59.7% growth in borrowings. During the year the savings account base grew by 16.7% while fixed deposits grew by 35.5%. The CASA ratio deteriorated marginally to 41.39% due to the exponential growth witnessed in fixed deposits during the year.

The Bank also supplemented its deposit growth with borrowings, of which US\$ 185 Mn was taken as long term funding from Foreign Development Financial Institutions and Multilateral Funding Agencies. These borrowings have been routed mainly toward funding the Bank's infrastructure and SME portfolio.

The Bank's loan book grew by 25.8% during the year despite the pawning portfolio continuing to witness a drop. Personal loans witnessed the largest growth of 66.4% while leasing portfolio grew by 64.6% and SME lending by 24.6%.



Management Discussion & Analysis

CAPITAL MANAGEMENT REPORT

Financial Capital

Capital Adequacy

The significant growth in the loan book and the Super Gains Tax of Rs 2.1 Bn paid during 2015 resulted in the Bank's tier 1 and tier 2 ratios dropping by 162 bps and 213 bps to 10.53% and 12.70% respectively as at 31st December 2015.

Per Share (DPS) of Rs 7.00, while in December it made an interim dividend for 2015 amounting to Rs 608.5 Mn which is a DPS of Rs 1.50.

The proposed final dividend consists of a cash dividend of Rs 3.50 per share and a scrip dividend of Rs 3.50 per share.

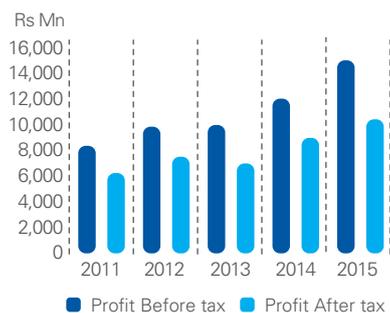
Dividends

The Bank declared a final dividend on account of profits made in 2015 amounting to Rs 2.8 Bn which is a Dividend

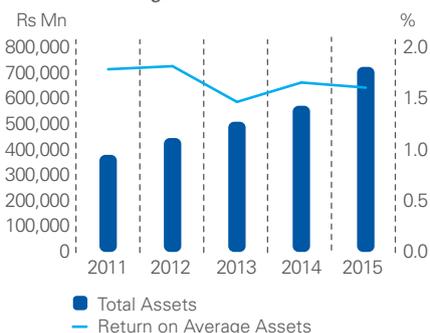
	2011	2012	2013	2014	2015
Earnings per Share (Adjusted) (Rs) *	15.5	18.6	17.3	22.3	25.8
Dividend Yield (%) - Voting	5.0	5.7	5.8	4.4	4.0
Dividend Yield (%) - Non Voting	9.0	7.6	7.1	5.6	4.8
Assets Growth (YOY) (%)	19.0	17.3	14.3	12.3	26.6
Operating Cost - Efficiency Ratio (%)	55.3	53.0	46.0	47.4	45.9
Share Price - Voting (Rs)	151.3	148.0	147.0	194.9	210.6
Share Price - Non Voting (Rs)	83.2	112.5	119.0	152.9	177.9
Gross Dividends (Rs Mn)	2,914.5	3,378.7	3,400.2	3,430.7	3,449.3

* Earnings per share has been calculated using weighted average number of shares during the current year.

Profit for the Year



Return on Average Assets



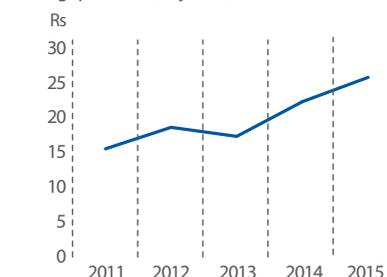
Return on Equity



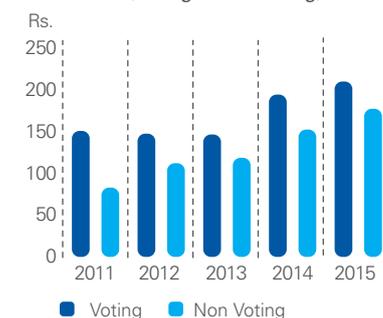
Capital Adequacy Ratio



Earnings per Share (Adjusted)



Market Price (Voting & Non Voting)



CAPITAL MANAGEMENT REPORT

Intellectual Capital

6th

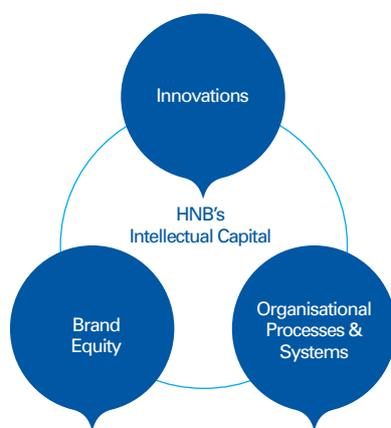
Most Valuable Brand in Sri Lanka
by Brands Finance Lanka

3rd

Most outstanding company in
Sri Lanka by Business Today

40%

Growth in
Online Transactions



Our Brand Equity

HNB's brand equity is unique in the private commercial banking space in Sri Lanka, as the oldest private commercial bank thus a key competitive advantage. Attributes of trust, stability and strength have been synonymous with brand HNB and a key element of its heritage that spans over 125 years.

Enhancing our brand value in 2015

Whilst reinforcing and re-emphasising our brand attributes we also recognised the need to integrate and communicate new strengths and attributes. The "New World Banking" campaign launched in 2015, in addition to driving digital channels, communicated brand attributes of agility, technological advancement and future readiness.

The campaign drove digital banking across the banking industry benefiting all its stakeholders and contributing considerably to the sharp rise in the number of customers registered for e banking:

HNB's e Banking Penetration as at end 2015

	Number of Customers
Retail e Banking	136,000
Corporate e Banking	4,000
Mobile Banking	78,000

There was also brand building amongst more affluent segments of the society with a few high profile sponsorships. The Millennium Golf Tournament which was sponsored for the eighth consecutive time. "HNB High Life", an evening dedicated to offering the best life can offer in terms of selecting a dream space was organised where a multitude of premium condominium developer brands such as Altair, Astoria, Cinnamon Life, Clearpoint Residences, Dynasty and Platinum 1 showcased their luxurious living spaces.

Innovations

Over the past decades HNB has been leading the commercial banking space through our first to market products such as 'Pathum Vimana', 'Shanthi housing loans' and 'Gami Pubuduwa' microfinance programme. In the recent past continuing with the innovative product development capabilities HNB became the first bank in Sri Lanka to launch a fully-fledged mobile banking solution



'HNB High Life' forum



The winners of the Millennium Golf Tournament



Presentation of first NFC enabled ID card at the Sathkara launch.

Management Discussion & Analysis

CAPITAL MANAGEMENT REPORT

Intellectual Capital

and introduce mobile POS technology to Sri Lanka, branded as 'MOMO', providing a more cost effective solution to large scale as well as second tier merchants.

During the year, the progress towards the Bank's key strategic imperatives were fuelled by its IT knowledge and innovations. For example a number of our BPR efforts were made possible by in-house software developments.

Technology-led knowledge based in-house innovations in 2015

Automation was a key driver during 2015 to achieve objectives related to paperless office environment. During the year, all inward and outward SWIFT messages and forms were made electronic, thereby eliminating the need of printing. An in-house solution was developed to host this correspondence and be accessed from anywhere at any time. Further, all paper based customer and merchant statements were converted to consolidated eStatements with the required security and controls, thereby reducing unnecessary expenditure, wastage and operational overheads. Another key initiative was also accommodating all internal approvals on a workflow approval solution. These approvals cover the entire spectrum of customer related approvals, product and process approvals, procurement papers and delegations. The impact we created on the environment through these green initiatives is discussed under the Natural Capital report.

During the last few years the Bank embarked on online integrations with its value adding partners. The primary focus was on large local and multinational corporates where many direct ERP integrations were completed by in-house teams. These integrations allow the Corporates to seamlessly carryout their business activities while the bank is facilitating the payment fulfilment. During the year many large Corporates were added on to this service portfolio. The integrations were also extended to many remittance partners and exchange houses to facilitate realtime money delivery service. Connectivity between corresponding systems were

done in multiple ways by the in-house teams following acceptable industry standards.

The in-house teams also contributed towards developing an incentive computation system to compensate the Direct Sales Force of the bank. The related lead management system also allows the bank to track the business being introduced by these teams and also follow up on future leads and opportunities. Another system was developed in house and rolled out the branches for Key Management, which is an initiative towards monitoring, managing and controlling the 'key' transition process.

All these internal developments were carried out using industry standard Agile development methodologies using newer software tools and components.

New Products

In addition to the technology innovations, during the year the Bank introduced several new products and variations to existing products to fill gaps in the market. These include supplier financing and distributor financing for businesses especially for SMEs. In addition the Bank launched Sathkara a unique product developed with a host of exclusive benefits and privileges for pensioners.

Organisational Processes & Systems

Win-win outcomes from harnessing the potential and enhancing the value of our skill base and processes in 2015:

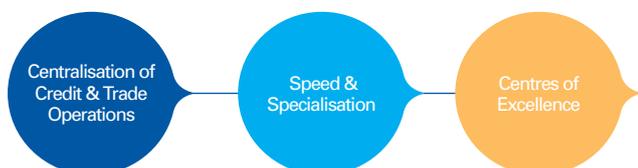
The centralisation of our Trade operations and credit processing carried out through 2014 - 2015 have enhanced the value of our knowledge base by fostering specialisation, leading to enhanced productivity and excellence in processes.

External endorsements

The ISO 9001:2008 certification for Trade operations which endorses HNB's service excellence and quality of processes is a key differentiator which has enabled the Bank to be the leader in the trade solutions market.

A robust Risk Management Framework

Risk management enhances and provides knowledge to an enterprise through the systematic identification, evaluation and control of the risks encountered in doing business. The robust risk management process at HNB has been a key to





its sustained leadership for over a century and we consider it a key intangible in our future readiness as well.

HNB's risk management processes are based on a clear understanding of the various risks the Bank faces and disciplined assessment, measurement and continuous monitoring in the form of risk dashboards against the predetermined risk appetite approved by the Board.

Some of the key initiatives in 2015 include:

- Enhancing the Bank's Internal Capital Adequacy Assessment Process through formalization of the risk appetite statement, capital management based on forecasted balance sheet growth and risk assessments, development of a compliance risk score card and assessment of group risk.
- Enhancing the Credit Appraisal System to include the approval of temporary overdrafts (TODs), thereby increasing the efficiency of system usage and loan processing time.
- Developing funding strategies to offset the Impact of a liquidity shortfall during various stress situations.

Accolades received during the year by HNB PLC and its subsidiaries

The accolades we have received are an endorsement of the quality and excellence we have achieved and we will continue to strive to excel, in how we do what we do.

- "Best Retail Bank in Sri Lanka" presented by "The Asian Banker" in The Asian Banker Excellence in Retail Financial Services Awards 2015, for the 7th time
- Business Today Top 25 awards - 3rd place based on outstanding companies in Sri Lanka for the financial year 2014-2015

- Ranked amongst the 'Top 10 Best Corporate Citizens' at the Best Corporate Citizens Sustainability Awards organised by Ceylon Chamber of Commerce
- 'Gold' Award for Sustainability Reporting (Banking Sector) at the ACCA Sustainability Reporting Awards.
- Gold Award for 'Corporate Governance' at the Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka
- Bronze Award for overall reporting in the Banking Institutions Category at the Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka
- Recognised as one of the 'Ten Best Integrated Reports' at the Certified Management Accountants Excellence in Integrated Reporting Awards 2015
- HRM 'Gold' Award at the HRM Awards 2014 organised by the Association of Human Resource Professionals.
- Overall Award for 'Best Results Based Training' for the fourth consecutive year at the Asia's Training & Development Excellence Awards 2015 organised by the World HRD Congress
- National Productivity Award 2014 - 3rd place - "Service Sector – Large Organization" Category (HNB was the only organisation to be awarded in this category with 1st and 2nd place not being awarded)



HR Leadership Award



Gold Award at NASCO



SLIM Brand Excellence for MOMO

Management Discussion & Analysis

CAPITAL MANAGEMENT REPORT

Intellectual Capital

- International award for Marketing Campaign of the Year – HNB MOMO 'Excellence & Leadership in Branding & Marketing' at the Golden Globe Tigers Summit Awards 2015
- Ms L Chiranthi Cooray, CHRO was the recipient of the Global HR Excellence HR Leadership Award by the World HRD Congress
- Jaffna Green Building won the prestigious 'CIOB Green Mark - Gold Plus' award at the 2nd CIOB Green Mark Awards Ceremony
- Gold award at the National Sales Congress (NASCO) Awards, in Banking and Financial category
- Silver Award under the 'Best New Entrant' category for MOMO at the SLIM Brand Excellence Awards 2015
- First Runner Up in Insurance Sector - at the SAFA Best Presented Accounts Award 2014
- Bronze Award for Emerging Islamic Finance Entity of the Year 2014 Merit Award for Corporate Governance Disclosures - at the SAFA Best Presented Accounts

HNB Grameen Microfinance Ltd

- 'Asia's Most Promising Brand 2014' coveted award in the Micro Finance Industry, organised by the World Consulting & Research Corporation (WCRC) India, a renowned research and Consultancy Corporation having its presence in UK, Singapore & Australia
- Adjudged first in the category of Companies serving a customer base of 100,000 - 300,000 by the Credit Information Bureau

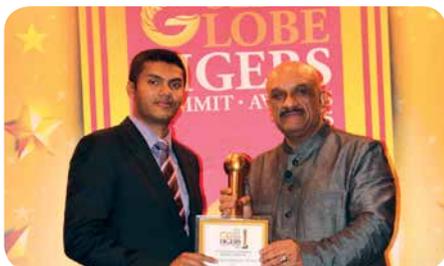
Subsidiaries :

Acuity Partners Pvt Ltd

- 'Bronze' award for best equity research report at the CFA (SL) Capital Markets awards in 2015 by

HNB Assurance PLC

- Gold Award in Insurance Sector - at the CA Sri Lanka 51st Annual Report Award Ceremony 2015
- Silver Award – at the SLITAD People Development Award 2015



Marketing Campaign of the year - MOMO



CIOB Green Mark Gold Plus Award



HRM Gold Awards

CAPITAL MANAGEMENT REPORT

Human Capital Report

<4%

Attrition

Rs 2.4 Mn
Profit per Employee

1.93 times
Average training per Employee

As an organisation with a history that spans more than 125 years in business, HNB's Human Capital truly symbolises the dynamics of continuous enhancement of a vital capital and the ability to derive sustained value. A 4,285 strong team brimming with talent and enthusiasm has adapted to evolving environments over the decades and been change agents to sustain market leadership for HNB.

The tacit knowledge, skills, values and experience handed down explicitly and implicitly have been a key to the Bank's success for over a century.

"We look back at a year of many milestones for HNB across diverse HR frontiers. We launched HNB Talent Space; signed a collective agreement after six years, offering superior rewards for our staff; managed headcount progressively whilst enabling alternate work arrangements and improving productivity. HR's business partnering helped fuel retail banking's thrust on creating a sales driven culture across the Bank."

L. Chiranthi Cooray - Chief Human Resource Officer

The "Unusual" in our employee value proposition :

- A Collective Agreement reached with the Officers Association in 2015, for performance based remuneration for staff in the Junior Executive grade
- Continuing to fund a non-contributory pension scheme for staff in the Junior Executives and below grades and Executives who have not opted for pension buy back
- Continuing to fund a contributory pension scheme for widows/widowers and orphans of staff in the grades of Junior Executives and below and Executives who have not opted for pension buy back
- A staff attrition ratio of 4% which is well below the industry average
- Our Grow Talent model, which was expanded further during the year with the addition of a new group identified as "Insights" as a feeder to the "Aspire" "Acumen" and "Catalysts" Groups
- Our firm ethos that it is the relationship that matters and knowing that the Bank looks back at over 125 years due to enduring relationships. Whilst constantly raising the bar on productivity, we consciously approach our people with empathy; for the women worker who strives to balance home and office, to the concerns of bank staff who are transferred to locations far away from their home town
- Driven by the belief that "Health is Wealth" the Bank focuses on promoting health and wellbeing for all its employees through a concerted effort which ranges from awareness generation to facilitating better employee health through increasing investments into health insurance, reimbursement of medical and health checkups, the facility of a gymnasium at head office and other healthcare initiatives and encouraging wellbeing through work life balance amongst all its people
- Sensitised to the aspirational needs of our employees the Bank established a brand new market savvy designation structure repositioning 'Banking Assistants' as 'Bank Associates'; 'Typists' as 'Business Support Associates'; 'Direct Sales Staff' as 'Business Development Officers' and 'Business Development Associates' and the Corporate Management titles were aligned to the "C-Suite" designations. The continuous improvement in the Bank's structure underpins a core HR strategy of creating a future workplace

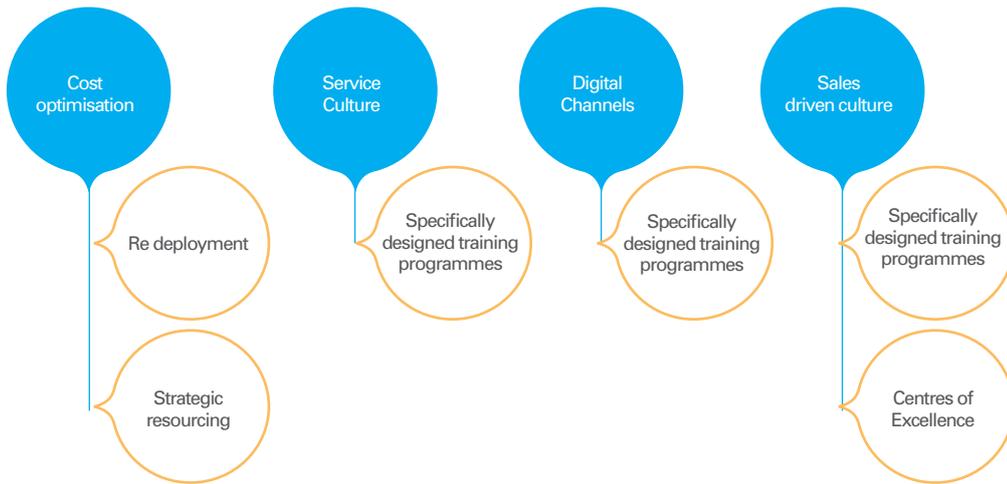
Management Discussion & Analysis

CAPITAL MANAGEMENT REPORT

Human Capital Report

Managing our Human Capital for value creation towards the Bank’s strategic priorities

Below illustrates how HR management supported four of the key imperatives of HNB :



Increasing productivity and encouraging innovation

As enumerated in last year’s report, supporting the Bank’s strategic imperative of increasing productivity has also been a priority of the HNB’s HR Strategic Plan. HR initiated action to optimise the Bank’s investments in its people in many ways, by “right sizing” and focusing on attracting new talent for critical skills or re-skilling. Hence new recruitments that took place during the year under review, were of highly specialised skills whilst generic skills were deployed across the Bank through training and development and cross functionalisation of talent; and through redeployment of employees from operational functions to more value creating activities such as sales and marketing, across the many business verticals and locations of the Bank, supported by a concerted effort at automation and re-engineering of processes.

	2013	2014	2015
Profit per Employee (Rs Mn)	1.5	2.0	2.4

More than one third of the employees comprise of Gen Y’s. In 2013 the Bank introduced a unique programme called ‘Unleash– Ideas to the Board Room’ to develop this category of staff and get them involved in innovation and creativity for the Bank. The unique value proposition of ‘Unleash’ is youth empowerment, new idea generation and creating a voice for young talent.

How it supported business growth / needs:

‘Unleash’ allows setting up of innovative think tanks from an early stage of the career. Being the voice of the Gen Y it provides motivation and opportunities to be part of cross functional teams providing valuable leadership lessons as well as honing the Bank’s products and services to be the best in class.

Success measures / impact:

31 young employees have been recognised for their innovative ideas in the areas of operations and product development upto date and four young employees promoted to management trainee.

A culture of customer service and selling

A new matrix structure created for branch management during the year amply supported the Bank’s thrust on sales and marketing. HR supported the new model, by training Branch Managers, Assistant Managers and Operations Officers on the structure and their new role.

Our focus on driving sales expanded our reach during the year with the Retail Banking’s “Feet on Street” campaign which “took the Bank” to existing and potential customers. HNB created a Direct Sales Force (DSF) by deploying permanent internal cadre from categories of Junior Executive and Banking Assistants and re-designating them as

“Essence” – Customer Focus

One objective of HNB is to achieve customer service excellence and ‘Essence’ is one initiative among many, in this direction. ‘Essence’ is a fully fledged customer service programme for the front line staff of the Bank.

Business Development Officers and Business Development Associates.

We understand that efforts to re-engineer our business processes would not have been successful or even been possible without the support and cooperation of our people. Employee engagement has been a key competitive advantage and the foundation of our stability, strength and industry leadership in a journey which spans over 125 years. It is most heartening that our staff embraced the transition to a productivity and sales driven culture very positively. The fruits of these efforts have been harnessed by the Bank and in the Retail and Corporate banking businesses in particular. Experiencing the win-win impact of these endeavours, after just over an year, have prompted a plethora of suggestions and requests for from the HATNA family to propel growth and continue towards a leaner, more efficient and productive culture which pushes the boundaries of the organisation and the individual.

HR Strategic Pillars

Desired outcome	Progress in 2015
Lean Organisation	Profit per branch increased to Rs 42 Mn in 2015, compared with Rs 36.2 Mn per branch in 2014. Automation paved the way for re deployment of cadre from operational functions to value creating sales and marketing activities. The Bank optimised headcount and managed the resourcing needs of the business with flexible work arrangements and direct distribution channels
Seamless Learning	The Bank increased its investment in virtual learning and implemented a cutting edge revolutionary gamified e-learning system that is accessible at the convenience of employees at any time and from any location
Talent Pipeline	Built on the leadership development model introduced last year, under the categories “Aspire, Acumen and Catalysts” the year under review saw us add a new category branded as “Insight” for young executives. Provided increased opportunities for professionally and academically qualified staff for career progression
Future Organisation	Job enrichment, role enlargement opportunities for young employees, multiskilling and greater opportunities for cross functional teams
Agile Rewards	Increased rewards and incentives for achievement of targets Introduction of variable pay schemes to enhance performance



Annual Bakthi gee



Sports day



HNB Star Night

Management Discussion & Analysis

CAPITAL MANAGEMENT REPORT

Human Capital Report

Supporting the sustainability of the Bank's "Business as Unusual"

As discussed elsewhere in this report, the year under review saw the completion of an initiative to centralise all credit functions of the Bank under a Centre of Excellence. Whilst centralisation and separation of the operational responsibilities from sales and marketing yields significant benefits to an enterprise and to its people, we also understand that specialisation due to the repetitive nature and narrow scope can pose the challenge of reduced motivation for those at our operational centres. Recognising that sustaining the win-win aspects of this new model requires attention, HR designed and implemented a number of initiatives. These include job rotation within the centralised hubs as well as other locations, facilitating opportunities to switch to sales and marketing, providing regular feedback for an employee to feel rewarded in seeing a progressive rise in his/her productivity due to specialisation and maintaining a culture of fun and camaraderie by initiating diverse social activities.

Knowledge base of HNB

A knowledge base is a vital value driver for most organisations in the new world economy and its importance is heightened in industries such as Banking. HNB's strategic priorities to enhance value creation in 2015 - 2017, which have been discussed previously and elsewhere in this report, are significantly contingent on the capacity of its intellectual capital.

The Bank drives a culture of learning, one that is built on a firm foundation of knowledge, skills and attitude. The Bank's employee development programmes are focused on instilling the pursuit of excellence amongst employees. We do not believe in merely developing an individual in his or her current capacity but focus on developing an individual who is inspired to impact on value creation for the Bank.

HNB employees take responsibility for their own work, individual development and career. Performance is continuously followed up through structured dialogues between managers and staff. By doing so, the Bank has been able to create a platform that fosters succession planning and creates leaders through a definitive leadership management process.

The HNB Learning and Development Centre has five learning rooms including a computer lab, a modern library and space for people to interact and enjoy their learning experiences. It caters to the needs of 4,285 employees from all over the country.

The operational aspects of the Learning and Development Centre is fully automated and carried out through an internally developed Learning Management System. The in-house learning is supported by a robust e-Learning System and an online Library System to cater to the staff working in remote locations.

Enhancing the value and harnessing the potential of our knowledge base

The Bank's HR initiatives are geared to foster and enhance the knowledge capital and is with a long term perspective in mind to develop talent for succession planning. Built on the leadership development model introduced last year, under the categories "Aspire, Acumen and Catalyst" the year under review saw us add a new category branded as "Insight" for young executives.



Interbranch quiz competition



Rewarding high performers



Annual Christmas carols

Insight – Leadership training

“Insight” acts as the feeder programme to identify high potentials who in turn will undergo further development such as “Aspire”. Conducted by an external trainer it is spread over a period of 3 months and involves focused learning and activities including critical evaluation of HNB’s products and processes by participants. The participants are given opportunities to work with NPD and BPR teams thus increasing their exposure and introducing them to strategic level.

How it supported business growth / needs:

‘Insight’ acts as the feeder programme for ‘Aspire’ i.e to provide a structured forum to identify potential staff for building a leadership talent pipeline for the future.

Success measures / impact:

24 staff have participated and the impact is being measured.

“Reach-Out” coaching and mentoring programme

Reach-Out is a special development programme designed to pay focused attention towards developing and improving staff members through a coaching and mentoring process. Special focus is given to improve technical skills, selling skills, speed in delivery and overall productivity.

This programme has given an opportunity for senior management officers to contribute with all sincerity towards uplifting the work and personnel life of a co-worker. It is not a mere coaching process but a personnel challenge for each member to reform the assigned mentee through a process of mutual respect and understanding which will be rewarding for both concerned.

40 participants benefited from this programme during 2014 and 44 participants were nominated in 2015 and the programme is underway.

How it supported business growth / needs:

The ‘Reachout’ programme enables motivation and upliftment of staff, thus improving performance and achievement of business goals.

Success measures / impact:

- Improved performance scores
- Many coachees have recommenced studying for their professional banking examinations
- Success in career progression

→ G4-LA9

As a policy the Bank is an equal opportunity employer and does not discriminate based on gender. Training opportunities are availed on strictly need basis.

In-house Learning

Average no. of learning hours per employee category (inhouse – classroom)

- Corporate Management – 2.4 hours
- Senior Management – 18.7 hours
- Managers and Executives – 11.78 hours
- Officers – 10.29 hours
- Banking Associates – 8.86 hours
- Secretarial staff – 0.96 hours
- Support staff – 0.16 hours



Encouraging talent



Award winning HR Team



Triumphant quizzers from Central Trade Processing unit

Management Discussion & Analysis

CAPITAL MANAGEMENT REPORT

Human Capital Report

Training by Category

Category	Number of Participants			Total
	Internal*	External		
		Local	Foreign	
Corporate and Senior Management	116	64	14	194
Managers and Executives	1,187	255	23	1,465
Junior Executives	2,580	59	3	2,642
Bank Associates	4,317	21	1	4,339
Secretaries / Stenographers	53	1	-	54
Minor Staff	7	-	-	7
Contract	-	3	-	3
Total	8,260	403	41	8,704

* (including virtual learning)

→ G4-LA10

Training by Type

Category	Number of Participants			Total
	Internal*	External		
		Local	Foreign	
Leadership and Management Development	710	109	6	825
Marketing, Sales and Customer Service Excellence	519	15	8	542
Banking Operations and Competency Tests	5,228	15	-	5,243
Credit Evaluation and Administration	463	19	5	487
Treasury, Trade Finance and International	1,207	53	4	1,264
Compliance, Assurance, Risk, Legal	-	37	4	41
Electronic Banking	110	-	6	116
IT	-	26	7	33
Communication Skills	23	1	-	24
Financial Reporting and Taxation	-	82	-	82
Environment, Energy Efficiency	-	14	-	14
HR	-	26	1	27
Investment	-	6	-	6
Total	8,260	403	41	8,704

* (including virtual learning)

HNB Talent Space – “Beyond Learning”

Revolutionary futuristic eLearning solution for staff :

The Bank invested in a high end digital solution for the development of its staff by completely revolutionising and overhauling the existing eLearning system. HNB was one of the first organisations to introduce eLearning for its staff. The first eLearning system was developed in-house in 2005 and was the recipient of a Silver Award in the “In-House Applications” category at the National Best Quality Software Awards 2007 conducted by the British Computer Society.

Over the years HNB has progressively used eLearning to strengthen its training and development function. During 2014, 37% of pedagogic training was replaced by virtual learning through the eLearning portal. Mindful of the changing work scenarios with more and more millennials joining the workforce, the Bank has tried to place training on a platform that would appeal to the younger members of its staff and made a strategic decision to make learning seamless. The investment in the HNB Talent Space is part of the long term strategy of the Bank. HNB Talent Space is a cloud based solution and can be accessed anytime, anywhere through any personal device. The system has many features such as courses, library, discussion boards, examination modules, ranks and badges and has been developed as an interactive mechanism for learning with social media aspects to cater to the needs of the Gen Ys in the Bank.

HNB has partnered with M/s Creative E-Learning (Pvt) Ltd, the local branch of Creative Solutions (Pvt) Ltd which is one of the leading software companies in Sri Lanka to develop this eLearning system.

The Bank’s HR function has transformed from an administrator to a synergistic business partner further augmenting the Bank as a learning organisation. We take a long term view of our investment in people and commit resources to provide professional and quality programmes for our staff, designed to meet their growing aspirations as well as our business needs. These programmes extend beyond job training to capacity building for leadership, supporting career progression and personal development. Within a short time the system has gained acceptance amongst the staff and there are many requests for more courses.

The Hatna Family

The Bank's employee relations strategy is multi-pronged and multi-tiered. With engagement activities conducted across all levels from welfare activities, annual designated engagement activities, interaction with relationship officers, customer centre to head office interaction, HRIS and an open door policy, the Bank follows a concerted strategy towards maintaining exceptional employee relations.

Refer Sustainability Reporting Supplement on pages 365 to 367 for more details on HR policies and processes.

Employee Profile

→ G4-9, G4-10, G4-11, G4-LA12

Service analysis

No. of years	2015	2014	2013
<2	661	852	933
2-5	510	555	705
5-10	703	630	493
10-15	396	479	631
15-20	1,052	1,052	1,040
20-25	654	602	509
25-30	205	183	191
30-35	100	96	100
>35	4	2	2
Total	4,285	4,451	4,604

Number of recruitments made permanent

	2015	2014	2013
Number of employees	6	16	104

Category-wise Age / Gender analysis

	18-25		25-35		35-40		40-45		45-50		50-55		> 55	Total
	F	M	F	M	F	M	F	M	F	M	F	M	M	
Corporate Management	-	-	-	-	-	-	1	2	1	6	1	2	2	15
Senior Management	-	-	-	-	-	2	-	6	2	12	6	13	1	42
Managers and Executives	-	1	12	33	13	120	60	136	40	121	34	81	-	651
Junior Executives	-	-	86	124	51	275	143	215	80	103	15	22	-	1,114
Bank Associates	124	246	496	632	66	133	74	79	32	25	13	19	-	1,939
Secretaries	-	-	11	-	45	1	85	2	61	-	62	2	-	269
Support Staff	-	-	-	3	-	28	-	69	-	64	-	64	-	228
Contract Staff	4	1	8	2	-	-	-	1	-	-	-	2	9	27
Total	128	248	613	794	175	559	363	510	216	331	131	205	12	4,285
	3%	6%	14%	18%	4%	13%	8%	12%	5%	8%	3%	5%	<1%	100%

Number of Employees Promoted

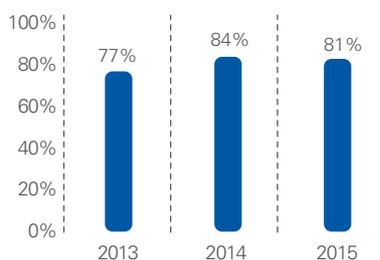
	2015	2014	2013
Number of employees	284	115	131

Employee Diversity Profile

Staff distribution by province

Province	2015	2014	2013
Central	315	322	333
Eastern	211	219	222
North Central	119	119	127
North Western	231	223	216
Northern	214	225	235
Sabaragamuwa	141	144	138
Southern	250	270	272
Uva	113	112	118
Western	2,684	2,808	2,932
Overseas	7	9	11
Total	4,285	4,451	4,604

Employees Covered by Collective bargaining agreements



Management Discussion & Analysis

CAPITAL MANAGEMENT REPORT

Human Capital Report

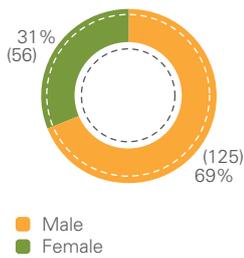
2015 - Employees by Employment type and gender

Employment Contract	2015			2014			2013		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Permanent	2,644	1,614	4,258	2,764	1,669	4,433	2,870	1,714	4,584
Contract	15	12	27	12	6	18	17	3	20
Total	2,659	1,626	4,285	2,776	1,675	4,451	2,887	1,717	4,604

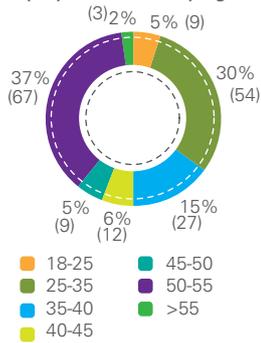
Employment Type	2015			2014			2013		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Full time	2,659	1,626	4,285	2,776	1,675	4,451	2,887	1,717	4,604
Part time	-	-	-	-	-	-	-	-	-
Total	2,659	1,626	4,285	2,776	1,675	4,451	2,887	1,717	4,604

→ G4-LA1

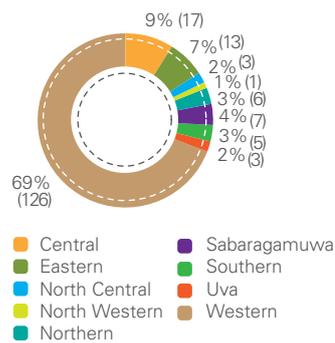
Employee Turnover by Gender



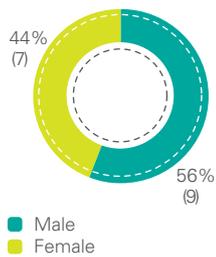
Employee Turnover by Age



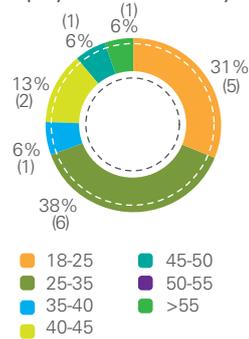
Employee Turnover by Province



Employee Recruitments by Gender



Employee Recruitments by Age



Participants at the Unleash Case presentations



'Aspire' team 2015



Triumphant L & D team

CAPITAL MANAGEMENT REPORT

Manufactured Capital

249
Branches

462
ATMs

Rs 194 Bn
Transactions through ATMs

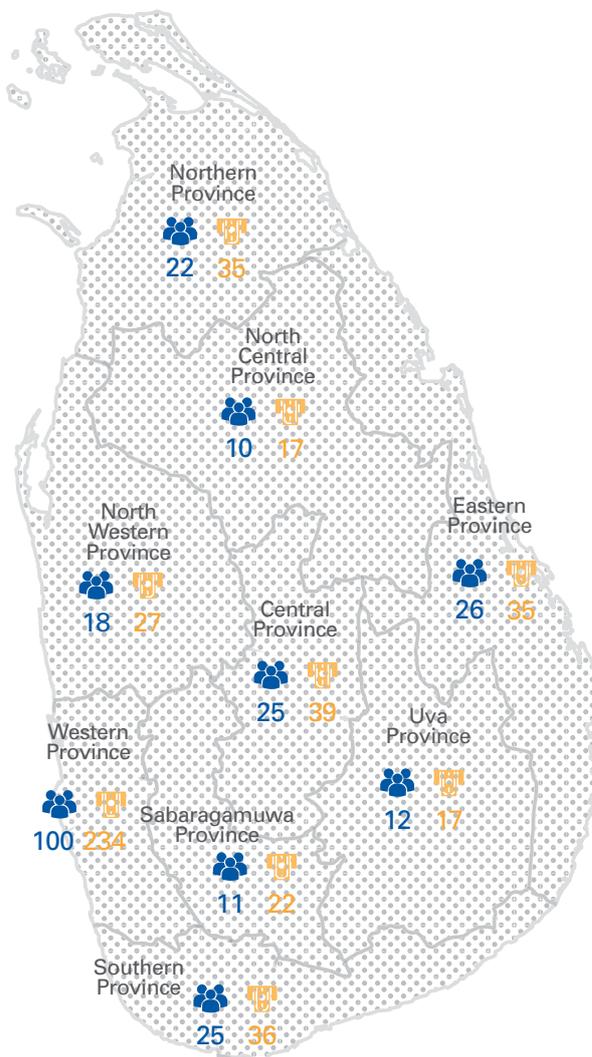
Our Presence

12,000+ POS merchants
60 Payee Partners



The Bank operates in all

09 Provinces
25 Districts



The Bank's Manufactured Capital comprises its extensive branch network and its IT platforms and systems.

Our physical presence, through our extensive network of 249 customer touch points, has been one of our key strengths in reaching customers across the length and breadth of the

Country. However, in keeping with changing environs and customer needs we also now offer multiple channels for banking and in fact focus on driving opportunities to serve our customers at their convenience, at their home or office or while on the move, via e-banking and mobile banking channels.

→ G4-6, G4-8, G4-9

Management Discussion & Analysis

CAPITAL MANAGEMENT REPORT

Manufactured Capital

Customer Touch Points:

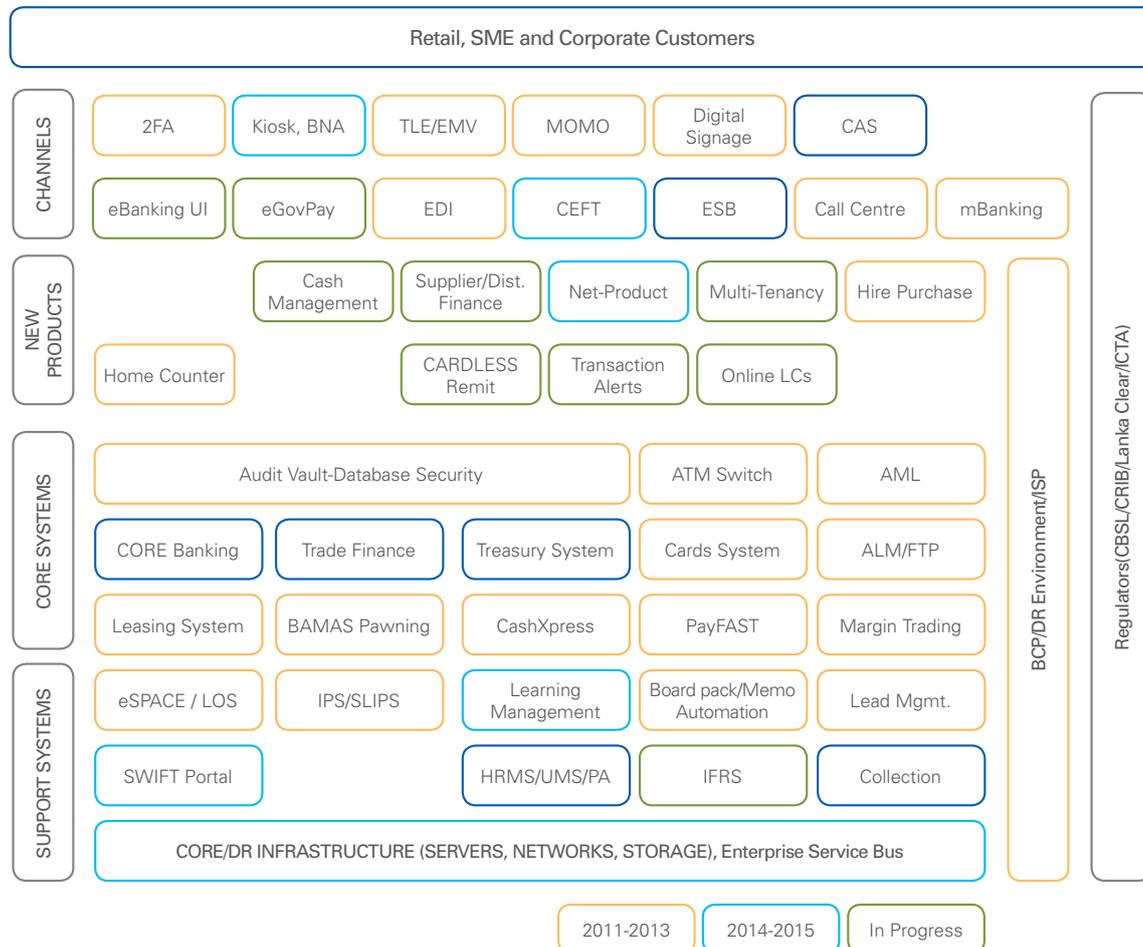
	2015	2014	2013
Customer Centres	249	249	250
HNB Students Banking Centres	168	168	168
Village based Gami Pubuduwa Units	-	2	3
Branch based Gami Pubuduwa Units	127	125	121
Micro Banking Units	9	9	9
HNB Mobile Banking Service Units	1	1	0
Standard ATMs	429	430	413
Cash deposit machines	30	21	-
Cheque deposit machines	3	-	-
Kiosks	6	-	-

Technology at HNB

The Bank's information technology capabilities have been a vital element in sustaining its industry leadership in recent years; in applying knowledge to create new channels of delivery and innovate new opportunities to generate revenue.

It has been Business as Unusual rather than the Usual as HNB maintained its branch network at the same level for the past two years, opting instead to take a long term perspective. Accordingly the Bank invested significantly into alternate digital channels and continuous upgrade of its technological capabilities for enhanced value creation. These technological investments have targeted all aspects of business - ranging from customer service to excellence in HNB's back office processes.

Systems & Solutions Journey



Investments in IT

	2013	2014	2015
Investments in IT (Rs Mn)	928	288	565

Enhancing the value of our Manufactured Capital in 2015

Continuous enhancement of our robust technological platform will remain one of our key priorities.

The year under review saw us initiate the processes for a new state-of-the-art e-banking platform for corporate and retail banking customers which is to be launched in the first quarter of 2016.

We introduced two types of state-of-the-art bill payment kiosks which differ from the standard cash dispensing ATM's, one with the capability to accept cash even from non HNB customers with real time crediting of accounts and the other with added capability to also accept cash on behalf of corporate customers who are part of the Bank's electronic data interchange.

Management Discussion & Analysis

CAPITAL MANAGEMENT REPORT

Social and Relationship Capital

2.4Mn
Customers

250,000
Micro clients served over the years

Rs 9.6Bn
Tax charge for the year including SGT

Our relationships with Customers, Business Partners and the Community are the key constituents of our relationship capital.

Customers

Customers Diversity

As given on page 56 and 57 the Bank's diverse range of products and services cater to all segments of the market while we serve all Sri Lankans across the Country through our extensive distribution network.

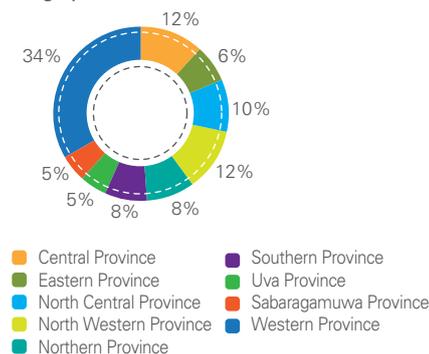
Reaching Customers

The "New World Banking" campaign targeted customers via all channels of media communication, and its first phase, which was completed during the year, contributed considerably to the sharp rise in the number of HNB customers registered for e-banking.

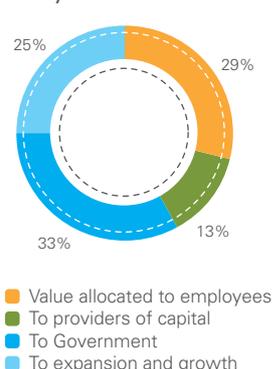
In addition to the enhancements in digital channels discussed in the Manufactured Capital Report, we strengthened our customer reach in 2015 through the following:

- Launch of a new state-of-the-art website which is more user friendly and social media friendly.
- Increased expenditure on social media / digital marketing
- Remained amongst the top 5 spenders on marcom amongst Sri Lankan Banks in 2015.

Geographical distribution of customers



Analysis of Value Addition 2015



facebook 250,341 Likes

twitter 13,000 Followers

You Tube 35,056 Views

Linked in 2,280 Followers

Listening to and Responding to Customers

Understanding customer perceptions and monitoring our service levels is important in managing customer satisfaction and the Bank used customer satisfaction surveys towards this end.

The Bank also conducted a survey amongst a group of its High Net Worth (HNW) customers to gain insight into their expectations and banking needs in order to tailor its high net worth proposition afresh. This new HNW proposition will be launched during the first quarter of 2016.

Enhancing our Customer Service Proposition

As enumerated last year, enhancing our customer service proposition is a key strategic imperative and we continuously strive to raise the bar for ourselves to enhance the customer experience across all channels. The re-engineering of our business processes (BPR) during the year contributed

considerably towards this end. During the year, service level agreements were entered into for speedier delivery while centralisation and specialisation resulted in faster turnaround times.

The Bank also drove digital and mobile banking channels empowering customers with choice and convenience to transact with the Bank or pay their utility bills or other third parties from the convenience of their home or any corner of the world at any time of day without having to come to the bank counter. Further the Bank introduced e saver a fully online account to enable the customer to perform any transaction from a location of their choice.

With a view to improving the customer experience the Bank took appropriate action on complaints by referring to relevant department heads for necessary action through a complaint management system.

Suppliers

→ G4-12

Our procurement strategy promotes sustainable practices by incorporating environmental, ethical and social factors in our sourcing decisions. A tender process is used to ensure transparency of expectations and procurement of goods at fair prices.

Financial empowerment of a large segment of disadvantaged populations also underlies our supplier relationships with nearly 60% of the Bank's supplier portfolio comprising SME / Micro suppliers.

During the year, the Bank introduced a procurement policy which included

- Appointment of independent members to the technical committees
- Limiting the period for staff members to serve in the Procurement Division
- Special Code of Ethics for Procurement Staff

Refer Sustainability Reporting Supplement on pages 369 to 370 for more details on supplier policies and processes.

Community

→ G4-EC8, G4-SO1

Supported by a strong culture of SME lending which dates back to HNB's inception in 1888, and uplifting the microfinance sector through the in-house Gami Pubuduwa initiative as well as through the subsidiary HNB Grameen, our involvement with these segments will continue to expand. The contribution we make towards the country's developmental goals by strengthening small medium and micro entrepreneurs is one which we hold high and is intrinsic to the Triple Bottom Line approach to enterprise that we have adopted.

Our role of supporting these segments has extended beyond mere lending as we continue to provide training to improve financial literacy, management and technical skills, and establish tri partite arrangements to facilitate backward integration to small scale suppliers. These partnerships over the years have helped generate new employment, adopt new technologies and facilitate a transition from subsistence farming to commercial scale. The year under review saw HNB establish partnership with CIC – a leading household brand, to create new market linkages and strengthen existing and prospective rural farmers, and entrepreneurs as mentioned under our Micro Finance Business Review.

Moreover, as part of our efforts to further enhance relationships with SME and Micro clients as well as rural communities the Bank continued to conduct Entrepreneur Development and Customer Awareness programmes across the country and create marketing opportunities through trade fairs. Refer pages 360 and 364 for the details of programmes and indirect economic created.



World Aids Day national programme



At Habitat for Humanity programme



Sorting of Books - Donate a Book Campaign

Management Discussion & Analysis

CAPITAL MANAGEMENT REPORT

Social and Relationship Capital

Impacting a multitude of communities, causes and lives - CSR Initiatives 2015

Education

- Annual Book donation
- Servicing of laptops donated to Visakha Nursery school
- Renovation of a HNB 'Nena Pubuduwa' school library in Karapitiya
- Sponsorship of 2 students for an IT Forum
- Principal sponsor of the National Trust Sri Lanka for protecting cultural heritage

Health

- Principal sponsor of World Aids Day national programme held in Batticaloa, conducted by the National STD/AIDS Control programme of the Ministry of Health
- Sponsored a Rapid Testing Centre where over 400 individuals were screened for HIV
- Financial assistance to selected cancer patients and maintenance of counselling centre at the National Cancer Institute Maharagama, an ongoing CSR project of the Bank was continued during 2015 as well
- Donation to 'Can-survive - cancer detection and counselling project
- Birthday card project with the Paediatric unit of the National Cancer Institute Maharagama - whereby drawings of the children at the Paediatric unit were used in the birthday cards for staff. In return, a payment was made to the unit to purchase expensive medicine for the children admitted to the paediatric unit

Infrastructure

→ G4-EC7

- Renovation of a ward at the Lahugala Divisional Hospital and the Ratnapura Base Hospital
- Continued the renovation of the Idikatupahana restroom at Sri Pada

- Safe drinking water to 3 schools in the Anuradhapura district where chronic kidney disease is prevalent. The schools were provided with RO filters together with clean water storage tanks and plumbing systems according to the numbers of students in each school keeping in line with the recommendations of the Presidential Task Force for CKDu prevention.

Responding to Natural Disasters

- Donation to victims of the Nepal earthquake - which was the most destructive and devastating natural disaster occurred during the year.
- School bags for children impacted by landslides in Koslanda. The people affected by the landslides in Koslanda last year still undergo many hardships.
- Assistance to flood victims of Aralaganwila in North Central Province by way of sanitation facilities to the families affected by floods in the Kurulubedds Village in Aralaganwila.
- Dry rations for flood victims in the Northern Province. - Joint project with the employees
- A donation was made to the Center for Disabled maintained by caritas volvuthayam, Mannar. The centre provides mobility to the people who lost mobility due to various reasons such as war, accidents and diseases to ensure continuation of its services to the needy community

Encouraging Employee Voluntarism

- Contribution to the housing construction programme by Habitat for Humanity International, where a team of staff lent their time and efforts to build houses in Muttur.

HNB pledges to “create a safe and secure future for our children”

HNB celebrated White Balloon day on 1st October 2015, to coincide with World Children’s Day. White Balloon Day is a symbol of support for the prevention of child abuse. It dates back to 1996 where it began after a public meeting in Belgium, when 300,000 people gathered with white balloons to show public sympathy and support for parents of girls who were sexually assaulted by a convicted pedophile.

The day’s activities commenced with the trustees of the HNB Sustainability Foundation and staff members of HNB taking a personal pledge to protect children against child abuse. Children of a reputed school in Colombo who were invited to witness this event were then gifted with HNB Jumbo Tills, thus pledging the Bank’s support to secure and empower children financially.

The spate of recent incidents causes great alarm and action from corporate citizens to sensitise employees, customers and the community at large is required. Building community support is a crucial element of any child abuse prevention programme, and as a pioneer in the banking industry in Sri Lanka, we have the partnerships and networks which once tapped into will aid in making the difference and helping this cause. We have always made it our business in looking after the

next generation and inculcating good values into their day to day lives through our minor saving schemes. Now we take a stand and rise on behalf of these children in protecting them and keeping them safe from the violence and turmoil which is rampant in our society. Although the number of children being abused is on the rise most of these cases are unreported. It’s something that we at HNB have zero tolerance for and we give leadership to take the message out to all our stakeholders and the community at large.

The event was concluded with the students, trustees of the HNB Sustainability Foundation and HNB staff members releasing white balloons into the air affirming their pledge.

The HNB Sustainability Foundation will be organising awareness programmes about child abuse, its prevention, to act vigilantly and how to handle an abused child and develop his/her confidence. During 2015, two programmes were organised on Cyber Exploitation and Violence, and Parenting for the benefit of employees.



Community initiatives



Book donation



Supporting the victims of the Nepal earthquake

Management Discussion & Analysis

CAPITAL MANAGEMENT REPORT

Natural Capital

286MWh
Energy saved

Rs 2.6 Bn
Green investments

432kgs
Paper saved

Being a bank, the direct impact we have on the environment is relatively minimal due to the nature of our business, the comparatively lower consumption of natural resources for our direct activities and the low carbon footprint of our business activities. However, minimising the impact that we make is a key priority in the Bank. The Bank's Green Pledge serves as the fundamental base for impact reduction and is the catalysis for behavioural change both within and outside of the organisation. We are mindful of our responsibility as a financier and our credit evaluation process encompasses a systematic assessment of environmental risk as a key criteria. We support focused environmental preservation initiatives that have far reaching sustainability consequences in the future preservation of Sri Lanka's natural assets and actively seek to support projects that will support biodiversity enrichment.

Green steps in 2015 :

Our continuous efforts to minimise our impact and expand our greening efforts included the following in 2015.

Towards a paperless office

The Bank's Business Process Reengineering (BPR) efforts resulted in a number of automation initiatives which have in turn begun to yield considerable triple bottom line impacts. HNB's processes relating to retail credit evaluations, temporary overdraft sanctioning and a few other miscellaneous approvals are managed through automated workflows. This automation of workflows during the year under review saved an estimated 1,800 papers per day that were generated for workflow related activities. The electronically delivered workflows have improved the ability to track movements of approvals, address bottlenecks much faster, easily access archives and minimised the need for physical document storage space. The automation has thus enabled us to reduce our carbon footprint while also resulting in increased lifespan of printers, reduced usage of envelopes and mail register space.

The annual saving inclusive of paper, printing costs and faxing where required, is estimated at approximately

Accolades for our green efforts as our Jaffna branch wins CIOB Green Mark – Gold Plus award

HNB's Jaffna branch won the prestigious 'CIOB Green Mark - Gold Plus' award at the 2nd CIOB Green Mark Awards. This marks the tenth occasion, and the fifth consecutive year, that HNB has been recognised locally and internationally for its unwavering commitment to environmental sustainability.

The Green Mark is awarded to buildings and projects that meet the green building standards set by the Ceylon Institute of Builders (CIOB), the premier organisation for building and construction professionals in Sri Lanka. The award is accredited by the Building and Construction Authority of Singapore, Council of Research and Innovation in Building and Construction of Netherlands, Green Building Council of Singapore, the Chartered Institute of Builders of UK and the Central Environment Authority of Sri Lanka.

The award is in recognition of the remarkable focus on environment sustainability and energy efficiency, yielding significant results. The Bank has thus been able to reduce its energy and water consumption by 27.61% and by 53%, respectively; while generating 10% of its energy from renewable sources.

The building opened in 2013, was a trailblazer in the Northern Province as it was the first building to employ integrated sustainable services monitored by a Building Management System (BMS), the first building to have a state-of-the-art 260-seat auditorium, and the first building to have elevated gardens along with a solar sensitive automated louvre system.

In addition to the Jaffna building, HNB's branch network includes green buildings in Nittambuwa and Kalmunai, which have also received external accolades of their own.

Spearheading the Sustainable Finance Initiative

Financial institutions including banks have a relatively minimal impact on the environment. However, the positive impact these institutions can create through greening and streamlining the process of their customers and suppliers is immense. Accordingly, the Bank spearheaded a sector wide initiative to strengthen Environmental and Social (E&S) Management in financial institutions in Sri Lanka through the Sri Lanka Banks' Association and co-funded by DEG - Deutsche Investitions- und Entwicklungsgesellschaft (www.deginvest.de), a subsidiary of KfW and one of the largest European development finance institutions for long-term project and company financing. The initiative was launched on 5th June 2015 to commemorate World Environment Day with an online survey conducted by the consultants to the initiative M/s Innovativkonzept Ltd

to understand the current position of E&S management in Banks. This was followed by interviews with CEO's and business heads of public and private banks including foreign banks. Subsequently, a working group of 21 members representing different Banks, chaired by Mrs I.R.D. Thenabadu DGM – Credit and Transaction Banking of HNB, was formed and 11 sustainable banking principles were developed for Sri Lanka by this working committee. Phase I of this initiative was concluded at a CEO Roundtable meeting on 4th November 2015, where CEOs of 18 banks approved a move to create a joint initiative that promotes best practice in sustainable finance. The initiative named as the SLBA Sustainable Finance Initiative (SFI) would explore opportunities for industry alignment while building industry wide capacity in the area of environmental and social risk management.

Rs 3 Mn. We envisage this value to increase as we migrate all processes into automated workflows in 2016 and have flexibility to manage larger volumes without incurring additional paper cost.

Electronic payments to suppliers

The Bank initiated a process to make all payments which were hitherto made by cheque, to the Bank's suppliers (third parties) electronically. As a result, by end 2015, the Bank was able to make 75% of its payments digitally resulting in cost savings and a speedier and more convenient service to suppliers. The remaining 25% of the volume of transactions is to be converted in 2016 thereby eliminating any use of cheques for supplier payments.

Others

- Establishment of an Environmental and Social Integration Committee. A review and a revision of the Bank's ESMS was conducted by experts of FMO and the Asian Development Bank (ADB) with minor changes being made to meet standards stipulated by the ADB

Safeguard Policies and the revised policy approved by HNB's Board.

- Advocacy, promotion, education and awareness creation amongst employees of the need for and importance of E&S risk assessment, E&S policy and procedures. Sustainability bulletins to raise awareness and discussion and motivate action on social and environmental issues on a myriad of topics ranging from 'wetlands and wetland conservation, sustainable consumption, sustainable gardening, managing environmental and social issues of plantation sector when granting credit facilities and dengue and mosquito control.

Support to external environmental initiatives

- The Bank staff has contributed to several national initiatives on the environment such as development of policies and measures for National REDD+ programme, contributing to the development of national tree-planting programme and national e-waste management programme.



Planting of One Tree per Employee



At the National Beach cleaning programme



At the 1 million tree planting event

Management Discussion & Analysis

CAPITAL MANAGEMENT REPORT

Natural Capital

- Sponsorship of the One Million Tree Stories Project of the Rotary District 3220 under the guidance of the Departments of Sri Lanka Irrigation; Agrarian Services and the Road Development Authority, Water and Drainage Development Board and the Provincial Education Department in areas of Deduru Oya basin. In addition to sponsoring the advertising campaign the Bank also supported the project by linking its customers and employees to invest in it. To commemorate World Environment Day the Bank invested in one tree per staff member i.e 4,385 trees which were planted in a site at Ibbagamuwa by a team of voluntary staff members.
- Patron member and a member of the advisory council of Sri Lanka Business and Biodiversity Platform (Presently known as Biodiversity Sri Lanka / BSL). HNB also sponsored the International Biodiversity Day celebrations and the Banking Sector Networking Event on Sustainable Banking organised by the BSL.

→ **G4-EN3, G4-EN6, G4-EN15, G4-EN16, G4-EN19**

Measures taken to reduce energy consumption

- introduce energy efficient lights
- introducing energy efficient signages
- introduce energy efficient inverter type air conditioners
- introduce solar PV systems
- continuous awareness programmes to reduce energy consumption in branches
- maintained correct temperature settings for air conditioners installed in the network branch network to reduce electricity consumption
- maintained correct indoor air quality

Extent to which the measures have reduced environmental damage during the year

- Total savings approximately 285,900 kWh (in comparison to the previous year electricity bills)
- Introduce energy efficient lights for 20 nos. of customer centres 45,110 kWh - Rs 1,172,860.00 (inclusive of all taxes)
- Introduce energy efficient signages 16,800 kWh - Rs 437,000.00 (inclusive of all taxes)
- Introduce 188 nos. of energy efficient inverter type air conditioners 317,196 kWh - Rs 8,247,000.00
- Introduce solar PV system at Kalmunai and Jaffna customer centres 29,000 kWh - Rs 755,000.00

Energy savings measures and renewable energy use

- Direct energy consumption by primary use - Total Diesel usage for Generators = 89,157 Liters
- Indirect energy consumption by primary use - Annual electricity consumption approximately 11,918,475 kWh (Based on average monthly consumption of Greater Colombo, North Western and Central regions and actuals in other regions)

Total direct and indirect greenhouse gas emissions by weight

- Direct green greenhouse gas emissions from diesel generators = 233 metric tons of CO₂ (ref:www.carbonfootprint.com)
- Indirect green greenhouse gas emissions from electricity consumption: 7,061 metric tons of CO₂ (ref:www.carbonfund.org)

Initiatives to reduce greenhouse gas emissions and reduction achieved

- introduce energy efficient lights
- introduce energy efficient corporate signages
- introduce energy efficient inverter type air conditioners

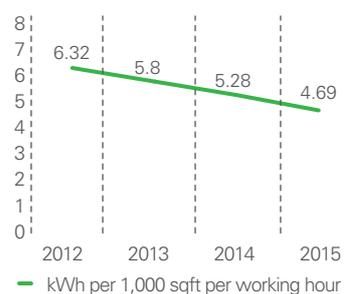
Changes that are likely to take place over the next 3-5 years that may necessitate the Bank to respond in ways that are different to those adopted at present and the our readiness to respond to these changes

- Replace R22 (HCFC) conventional type air conditioners to CFC free R410A (HFC) inverter type air conditioners
- No. of air conditioners consisting with R22 refrigerant = 1362
- No. of air conditioners replaced with CFC free R 410A refrigerant = 364

Recycling measures adopted

Paper Recycling: 126,112 Kg of paper equivalent to 2,144 trees, 4,007,776 litres of water, 504,440 kWh of electricity, 221,323 litres of oil, 378 cubic meter of land fill, reduced greenhouse gas emission by 126,112Kg of carbon equivalent.

Average Power Consumption at HNB Branches



BUSINESS PERFORMANCE REVIEW

Corporate Banking

HNB's Corporate Banking offers a broad range of best in class total financial solutions including project financing and customised solutions for a clientele of multinational, large and mid sized enterprises, served by its islandwide footprint with one of the largest branch networks in the country.

Performance

The year under review was a record breaking year for the Bank's Corporate Banking business. Amidst subdued economic activity, especially with regard to investments in expanding both private and state sector capacity, the Corporate Banking book recorded a growth of 30%. High liquidity in the market and a low interest rate regime mainly during first half of the year exacerbated the challenges in an intensely competitive market, as price-cutting became a common phenomenon to capture limited credit opportunities. It is thus, the depth of our product offering and client relationships, as well as a seamless and strategic marketing effort encompassing support divisions such as Trade, Treasury and e-banking which drove the excellent performance of the Corporate Banking business during the year. The Net Fee Income also grew substantially and contributed 37% to profitability endorsing the success of the Bank's seamless approach of marketing total solutions.

It was also "Business as Unusual" as Corporate Banking ventured overseas for the first time, to lend in Cambodia and Uganda offering facilities amounting to over USD 50 Mn. In the year ahead, the Bank will continue to pay particular focus on expanding its business activities in overseas markets.

Our accomplishments for the year also included the NPA ratio of 1.3% for the business, achieved despite the sharp growth in the lending book. It was an achievement made possible by the strength of the client relationships maintained by our Account Relationship Managers (ARMs), as early identification of potential distress facilities enabled to proactively initiate prompt remedial action to minimise non performing loans. Moreover, the Bank's efforts at further strengthening its credit origination processes, credit reviewing and monitoring of past dues supported this key strategic imperative of reducing NPAs. Additionally, a focus on continuous strengthening of core technical competencies such as credit evaluation skills, financial analysis as well as leadership and relationship management capacities and soft skills of our ARMs and Branch Managers, were other factors which supported our stellar performance during the year. These aspects will continue to receive priority in the year ahead. Moreover, a series of measures to rationalise

processes as part of the Bank's key strategies also led to greater efficiencies and streamlining of operations at Corporate Banking.

The year under review saw the Corporate Banking Division create a "Mid Market Enterprise Group" to focus better on



Banking beyond transactions

Helping local brands become household names. Both within the Country and beyond its borders.

We've helped some of the biggest companies in our Country grow even bigger by allowing them to expand to their true potential. We have provided funding to a multitude of local corporates to a value in excess of Rs 300 Bn for expansion, modernisation, and product improvement. This has brought better quality of life to millions of Sri Lankans. It has also given strength to Sri Lankan organisations to widen their reach and broaden their horizons in vital sectors such as tea, tourism, apparel among others.

We made an investment in the talent and ability of Sri Lankans, because we believe in banking beyond transactions.

Management Discussion & Analysis

BUSINESS PERFORMANCE REVIEW

Corporate Banking

a market segment with significant business potential. This Group consists of SME clients who have grown with the Bank but have now outgrown the status of SME, and hence, requiring more sophisticated financial solutions.

Today, HNB's Corporate Banking business is one of the largest and most profitable amongst all foreign and local private commercial banks in Sri Lanka. During the year under review, the Bank commenced the development of a new state-of-the-art Electronic Banking platform to cater to both cash management and international trade needs of our Corporate customers. This banking platform to be launched in early 2016, will be the first of its kind amongst local banks and be on par with electronic banking platforms of all other international Banks, which have a presence in Sri Lanka. It will reinforce the Bank's leadership position in the Corporate Banking market. The business will focus on harnessing its potential in the year ahead.

Key Strengths:

- The depth and breadth of our product portfolio
- The skills of our Account Relationship Managers
- The depth in relationships built with key clients
- The ability to provide banking solutions to customers across the entire value chain, including supplier and distributor financing
- Ability to support large and complex project financing engagements
- A long and trusted brand name

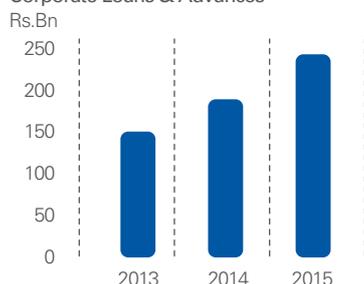
Challenges:

- The depreciation of the Rupee vis a vis the Dollar and possible impact on business activity amongst local corporates
- Intense competition and narrow margins
- Prevailing low credit growth
- Possibility of interest rate rise

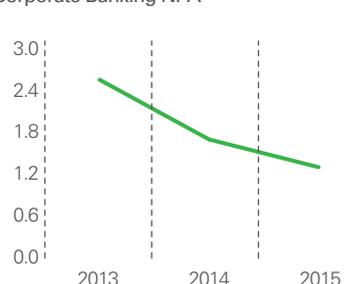
Way Forward :

- Launch of a new state-of-the-art e-banking platform for Corporate clients and harnessing its potential
- Expand overseas lending and venture into new markets.
- Build on the Bank's CASA base by bringing in new clients such as Utility, FMCG, Insurance and Telcos
- Continue to invest in up-skilling of staff to sustain a key competitive advantage
- Continue to support Corporates in their drive to expand business opportunities
- Harness new opportunities, which are anticipated from an improved investor climate, enhanced international image, increase in trade following a possible resumption of the GSP+ and the lifting of sanctions by the EU on Sri Lanka's fish exports

Corporate Loans & Advances



Corporate Banking NPA



BUSINESS PERFORMANCE REVIEW

SME

HNB has played a pioneering role amongst commercial banks in lending to the SME sector in the rural hinterlands of Sri Lanka. Today, it continues to be a market leader, a role which is well sustained and expanding due to the Bank's Triple Bottom Line approach to business. The Bank's SME customers constitute enterprises with an annual business turnover of less than Rs 600 Mn and Bank's exposure of less than Rs 200 Mn; spanning Agriculture, Industry and Services with Agriculture constituting a larger share. HNB's SME portfolio during the year contributed 32% and 25% to the bank's income and loan book respectively.

Performance

The Bank's SME portfolio achieved a 24.6% growth in its SME lending during the year despite challenges to the country's export agriculture. The political and economic crises faced by Sri Lanka's key export markets such as Middle East and Russia as well as the sanctions imposed by the EU on Sri Lanka's fish exports negatively impacted businesses.

Agriculture, agro based industries, exports and import substituting industries make up a significant share of our SME portfolio. Hence, the favourable weather conditions in most parts of the Country, which supported paddy farming and rice milling contributed to the growth in the Bank's SME sector. During the year, the Bank was also able to witness several of its SME clients advancing themselves to become corporate clients. Moreover, the year under review saw commencement of a new channel of business - Distributor Financing by joining hands with corporate world to support their Network, and also partnering with other selected corporates under specially designed credit packages.

The Bank entered into a project partnership agreement in 2015 with GIZ, Germany to educate SMEs to apply energy efficiency in their businesses to improve the profitability. In this connection, the Bank carried out workshops throughout the Country with the participation of approximately 250 entrepreneurs.



Banking beyond transactions

- Helping turn 200,000 SME industries into the powerhouses of tomorrow.
- Nearly 60% of all enterprises in this country are SMEs (small and medium enterprises); the backbone of our economy. That's why some of our most innovative growth oriented financial solutions are customized to serve this sector.
- We have made an investment of over Rs. 500 billion to support the backbone of our economy, because we believe in banking beyond transactions.

Management Discussion & Analysis

BUSINESS PERFORMANCE REVIEW

SME

Key Strengths :

- A strong culture of SME lending, established since the Bank's inception in 1888.
- Wide geographic spread of our branch network and the ability to reach rural markets in hitherto un-accessed geographical locations.
- Participation in almost all credit lines of leading international funding agencies over the past 35 years.
- Efficient and superior service supported by an online credit approval system, regional cells processing and underwriting credit and empowered regional and branch structure.
- Ability to offer a comprehensive financial package to customers with pre-approved limits.
- Robust risk management framework with representations at each level of SME lending for facilities above Rs 25 Mn.

Challenges:

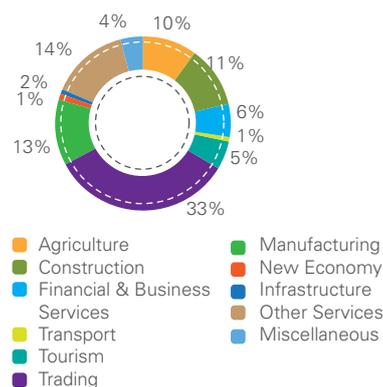
- High capital costs, threat of imported substitutes and inconsistency in policy hindering growth of SMEs thereby limiting business opportunities.
- Impact of climate change on agriculture, which currently constitutes 30% of our portfolio in SME.

- Pricing issues such as changes to price ceilings for agriculture produce.
- The negative impact from global markets on Sri Lankan agricultural exports
- Heavy pressure on maintaining a quality portfolio as a result of interruptions to the cash flows of SMEs due to many external factors.

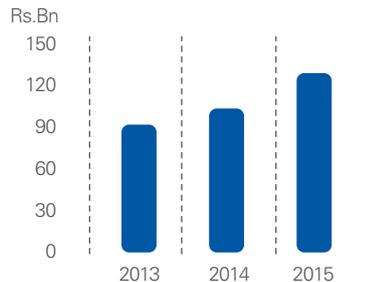
Way Forward :

- Promote use of the Bank's e-banking and mobile channels and other electronic products among all SME clients.
- Enhance system development for Distributor and Supplier financing through leading Corporates in the Country.
- Strengthen Regional SME credit cells to handle entire processes of SME lending with focus to build better relationships.
- Improve portfolio quality.
- Enhance the Bank's exposure to the export sector.

Sector Wise Distribution of SME Advances



SME Loans & Advances



BUSINESS PERFORMANCE REVIEW

Retail Banking

The Bank's Retail Banking business constitutes the branch network, Lending and Investment products which include Leasing, Pawning, Housing Loans, Personal Loans, Credit Card services, Savings Accounts, Fixed Deposits and Current Accounts. It also encompasses Inward and Outward Remittances. True to our brand promise, our products strive to partner an individual as he or she progresses through the different stages in life- from birth to childhood, student and adult life to senior citizen.

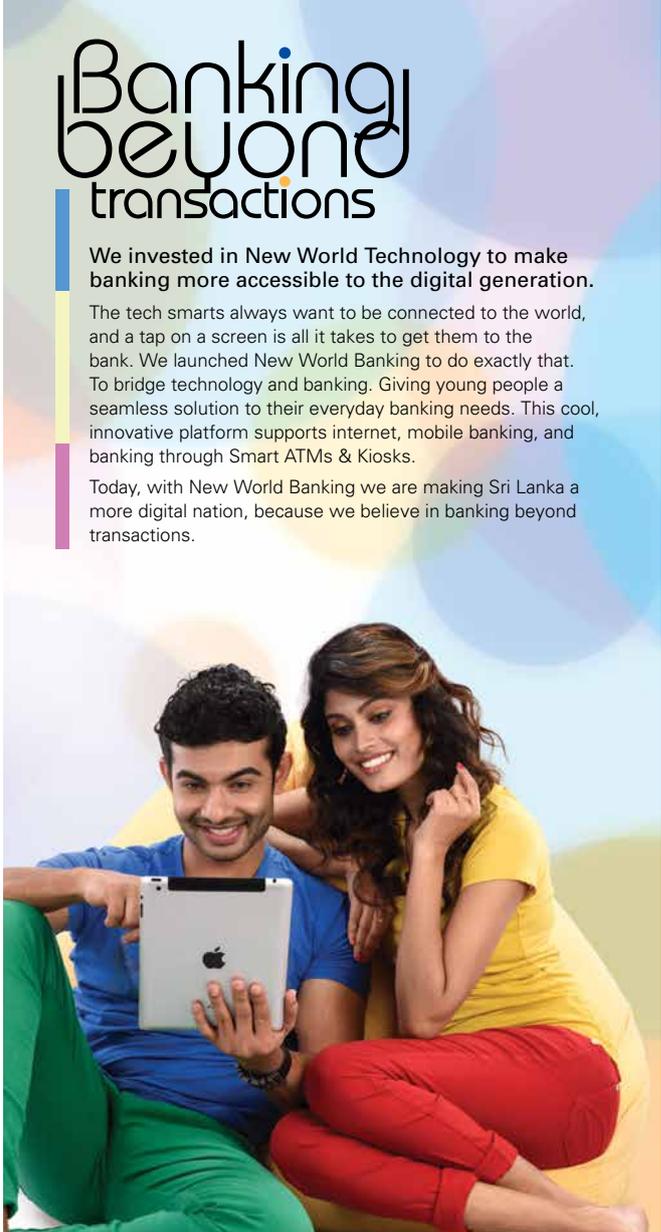
Performance

The Bank's Personal Financial Services achieved an excellent performance despite the continuing low interest regime and an environment of political uncertainty that prevailed during the first half of the year.

HNB's Retail Banking asset portfolio grew by 20.2% whilst total deposits grew by over Rs 100Bn for the first time recording a growth of 25.7% over the previous year. The low interest environment and the gradual rise in interest rates in the second half resulted in a shift towards high yielding fixed deposits in line with the market behaviour leading to an increase of 35.7% in 2015. Our payroll processing business - "PAY FAST" grew sharply with the addition of 739 new employers, following a concerted marketing effort and was a key contribution to growth in CASA during the year. The Bank's number of PAYFAST customers as at year end thus reached 1368. Leveraging technology to Integrate PAY FAST with Cash Management Services and Corporate Solutions during the year, further contributed to enhancing our customer offering whilst also increasing fee income.

The Bank also revamped and re-launched its children's savings proposition as "Singithi Jumboland" during the international thrift month of October. The new proposition offers greater flexibility and rewards and its enhanced appeal bolstered deposits from Children's savings to grow sharply by 13.9% during the year.

Our performance during the year was very much an endorsement of the progress on the Bank's key strategic imperatives. "Embedding a more sales driven culture", thereby diverging from the culture hitherto associated with brand HNB, has been one of them. Doing business unusually helped. The Retail Banking's "Feet on Street" initiative, which "took the bank" to existing and potential customers was one such unique initiative which also contributed significantly to a growth in leasing, credit cards and personal loans. The Bank created a Direct Sales team (DSF) by



Banking beyond transactions

We invested in New World Technology to make banking more accessible to the digital generation.

The tech smarts always want to be connected to the world, and a tap on a screen is all it takes to get them to the bank. We launched New World Banking to do exactly that. To bridge technology and banking. Giving young people a seamless solution to their everyday banking needs. This cool, innovative platform supports internet, mobile banking, and banking through Smart ATMs & Kiosks.

Today, with New World Banking we are making Sri Lanka a more digital nation, because we believe in banking beyond transactions.

BUSINESS PERFORMANCE REVIEW

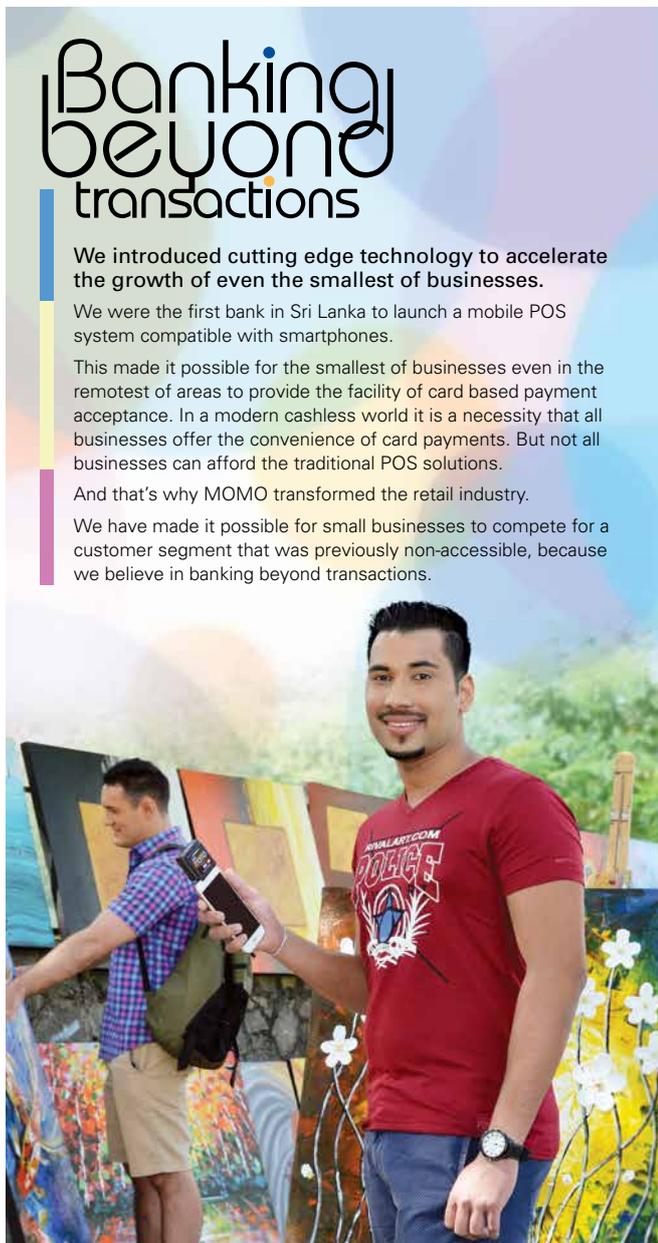
Retail Banking

recruiting permanent internal cadre from categories of Junior Executive and Banking Assistants and re-designating them as Business Development Officers and Business Development Associates. The team was provided extensive training to develop their professional sales skills and product knowledge. In addition to supporting the marketing drive, it also exemplifies a more optimal deployment of human resources, made possible by greater operational efficiencies across all divisions of the Bank as well as a more customer focused selling approach where the Bank takes its

products and services to the customer's doorstep. Process improvements across all sectors also contributed to the Bank's ability to enhance customer experiences at different points of delivery.

Augmenting its sales effort further, the Bank also deployed outsourced staff for sales and marketing of its Credit Cards and Leasing businesses.

As mentioned in last year's report, we identified that customer convenience delivered through technology and the quality of service rather than price, would be the key differentiators in the Personal Financial Services space in the years ahead. Thus, the year under review saw us focus on enhancing technology and customer convenience and driving the usage of electronic channels via the first phase of the New World Banking (NWB) campaign.



Leasing

The Bank's Leasing Business witnessed unprecedented growth achieving an expansion of 64.8% over the previous year. This growth propelled the Bank to undisputed market leadership in leasing as it became the lender of choice for anyone; be it someone who was looking to purchase a motor vehicle or someone requiring machinery or agricultural equipment.

The year under review saw the Bank achieve another first in this market by establishing relationships with almost all the high end motor vehicle dealerships.

Additionally, the Bank pioneered four new product variants, branded as Flexi Plan, Easy Pay, My Dream and Cash Back, offering enhanced convenience and flexibility to potential lessees, and contributing to the significant growth in HNB's market share.

It is also most significant that HNB was also able to reduce its NPAs in Leasing despite this aggressive growth in the portfolio during the year.

Shanthi Housing Loans

In the area of Housing Loans, our flagship product "Shanthi" continued to maintain its leadership position in the housing finance market.

The Bank's concerted efforts to develop and promote this sector helped to maintain its position in the market. Amongst

the measures was the introduction of a number of unusual and novel value adding options to its customer offering, such as variable interest options, permitting grace periods towards capital settlements and longer repayment plans. More importantly, the speed of delivery in granting of the facilities continued to be a key competitive advantage.

The Bank continued its dominance in the condominium market, in which it entered into 21 new Tripartite agreements with developers of new properties in Colombo, its suburbs as well as in some key outstation cities.

“Business as Unusual” continued as the Bank also achieved another first in the market when it organized “The High Life” – a housing showcase that brought together six of the top property developers to present their wide array of developments to a gathering of high net worth clients of the Bank who were at a stage of contemplating investing in a new abode for a residence or as an investment. This forum was a tremendous success with several agreements being reached the same evening.

Personal Loans

The Bank now offers a range of Personal Loan facilities to cater to the many and varied needs of our customers at different stages of their lives; ranging from education to home renovation, purchase of a vehicle to investments and a host of others.

In keeping with HNB’s Green Pledge, the Bank also partnered several Solar energy solution providers to make net metering available to our clients at very affordable rates.

The portfolio grew by 66% over the previous year and the Bank’s key target market predominantly comprised the corporate employees and professional segments of the country’s work force. Our focus on the quality of our portfolio enabled us to enjoy one of the lowest NPA ratios in the industry.

Payment Cards

HNB continued to grow the payment card business capping a very successful year, which saw us retaining market leadership in Merchant Acquiring services with a YoY growth of 20% in volumes. This growth was fuelled by the rapid expansion of HNB MOMO – our award winning mobile POS solution, which contributed a 170% growth in sales volumes over the previous year. New credit card issuance increased by 37.4% over 2014.

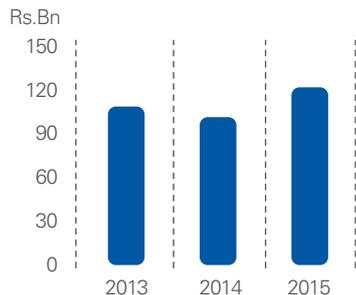
Inward Remittances

HNB’s Inward Remittances grew on par with inflows to the country, by 3.6% in volume terms, despite a challenging environment. A wait and see approach by most Sri Lankan expatriates, due to uncertainty associated with elections and their aftermath also contributed to this subdued growth compared with the previous year. Although volumes grew, Commission Income from Inward Remittances reduced by 9.8% compared with the previous year mainly owing to a shift in the remittance mix, as web based remittances, which derive a lower commission gained a higher share of this market. The long standing relationships established by HNB with overseas remittance partners, combined with operational efficiencies achieved during the year also supported increased volumes in this sector. HNB also entered into a new agreement with Lanka Money Transfer (LMT) thus creating opportunities to enter new countries and markets to which it hitherto had no access.

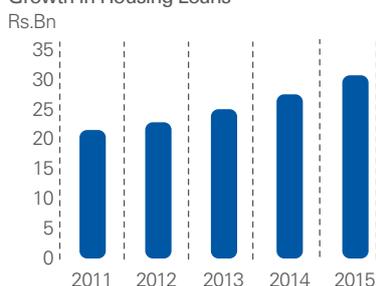
Seasonal promotional campaigns which targeted remitters from across key Middle Eastern and European corridors, as well as recipients in Sri Lanka, were a factor that contributed to growth in our remittances business in 2015. Moreover, the depreciation of the Rupee vis a vis the US Dollar, also supported a rise in the values of remittances into Sri Lanka.

As part of the concerted efforts to achieve a more sales driven culture, the Inward Remittances division designed and

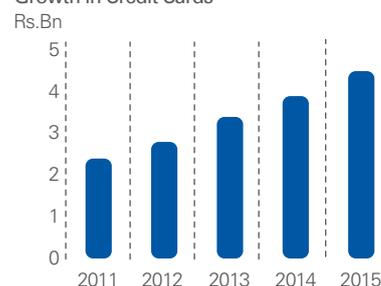
Retail Loans & Advances



Growth in Housing Loans



Growth in Credit Cards



Management Discussion & Analysis

BUSINESS PERFORMANCE REVIEW

Retail Banking

implemented several exclusive incentives schemes for HNB representatives which helped grow our share of wallet.

Our quest to constantly enhance our customer service proposition saw the launch of two new measures during the year. The introduction of a Loyalty Card enabled us to reduce the waiting time required for regular customers to claim remittances. Secondly, the implementation of the “on-line remittance tracker” on our web site has afforded customers the opportunity to track the status of their remittance in real time.

Key Strengths:

- Technological innovations and leadership
- The large and widespread branch network of 249 customers centres
- Extensive product range
- Technological advancements in the electronic banking space which facilitate convenient and hassle free remittance payments to beneficiaries
- Being a bank of choice across all religious and ethnic divides and regions
- ATM distribution of 462 machines across the island
- Brand attributes of strength and stability

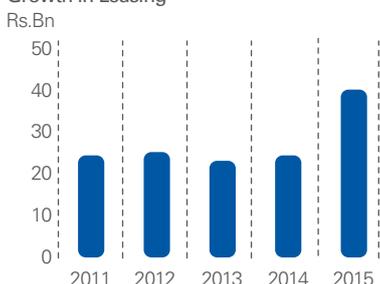
Challenges:

- Continuing low interest regime
- Uncompetitive rates offered by key competitor banks and new entrants to grab market share
- An environment of low economic activity, particularly in the SME and infrastructure sectors
- Possibility of regulations by some countries to impose ceilings on outward remittances as a protective measure due to the fragile state of their economies
- Visa restrictions by some nations which curtail the entry of bank representatives, thus hindering promotional and marketing activities in those markets

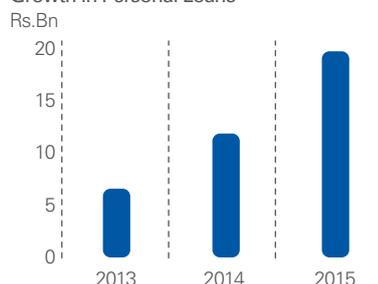
Way Forward :

- Leveraging technology and e-banking platforms to offer an enhanced service proposition
- Installation of ATMs with advanced features and functionalities
- Re-launch of the new High Net worth brand proposition.
- Continue to drive convenience banking and accessibility, through channels and devices of the customers’ choice
- Continue to focus on, build on and expand the strategic initiatives launched up to now
- Implementation of Access Point Integration (API) solutions to enable real time processing to encompass new remitting partners

Growth in Leasing



Growth in Personal Loans



BUSINESS PERFORMANCE REVIEW

Micro Finance

The Bank's micro finance sector constitutes enterprises with an exposure of less than Rs 5 Mn in a multitude of diverse sectors located across the country. HNB's branded micro finance scheme "Gami Pubuduwa" was introduced not only with a view of extending credit but also to provide a comprehensive package of banking solutions to their door steps.

Performance

The Micro Finance sector loan book of the Bank increased by 47% compared to the previous year and is currently touching the livelihoods of over 20,000 micro entrepreneurs.

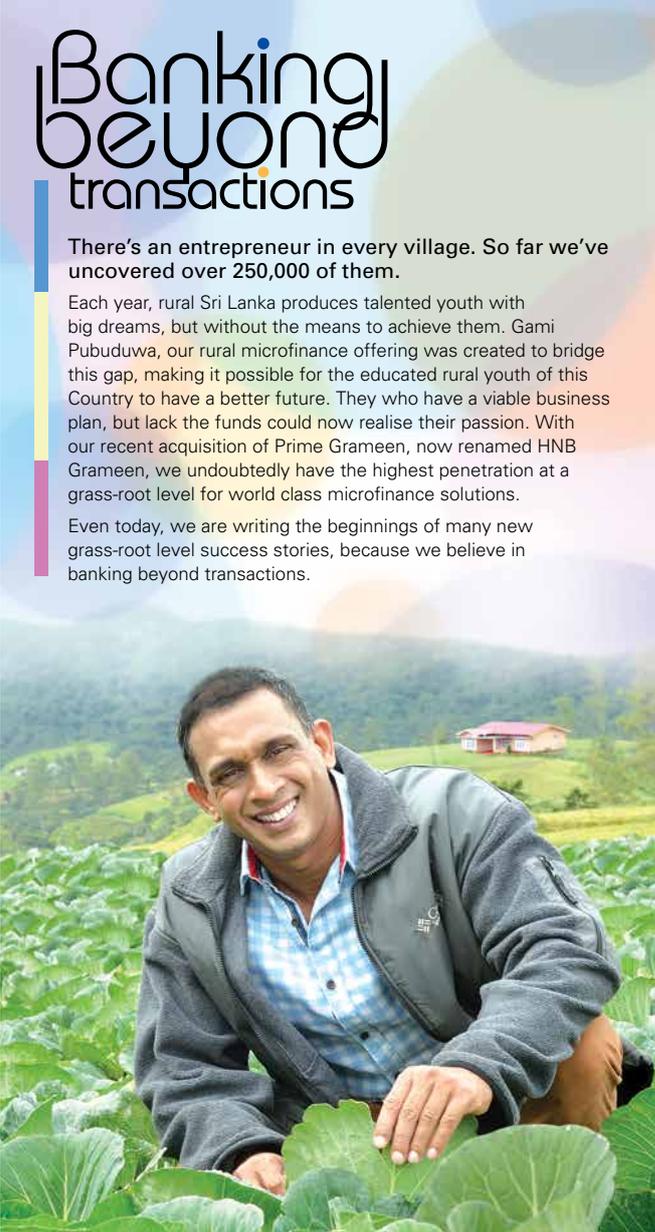
Driven by our Triple Bottom Line approach to business, the Bank has further strengthened the partnering programmes with the leading corporates in the Country. The year under review saw HNB establish partnership with CIC, a leading corporate which has become a household name, to create new market linkages and strengthen existing and prospective rural farmers, and entrepreneurs through the company's out grower network.

Further, the Bank is working with leading milk processing entities to encourage and strengthen the out-grower farmers with financial backing since the dairy industry has potential to contribute considerably to Sri Lanka's economic development.

These partnership programmes would empower farmers with quality agri output while guaranteeing an end market for their farming produce, thus exemplifying the value of truly win-win sustainable solutions. HNB in turn, would focus on financial empowerment of these farming communities by providing credit, building financial literacy and technical knowhow via branch managers, agricultural officers and micro finance officers. Thus, the backward and forward integration that this partnership builds, would generate new employment, enhance awareness of farming communities to adopt new technologies and facilitate a transition from subsistence farming to commercial standards.

During this year, a number of clients graduated to the SME status from the Gami Pubuduwa scheme and simultaneously a new set of clients entered into the banking stream through micro financing from the bottom end of the pyramid.

It was mentioned last year that the Bank would adopt technology to drive growth of its Micro Financing sector to harness the many opportunities in income and employment



Banking beyond transactions

There's an entrepreneur in every village. So far we've uncovered over 250,000 of them.

Each year, rural Sri Lanka produces talented youth with big dreams, but without the means to achieve them. Gami Pubuduwa, our rural microfinance offering was created to bridge this gap, making it possible for the educated rural youth of this Country to have a better future. They who have a viable business plan, but lack the funds could now realise their passion. With our recent acquisition of Prime Grameen, now renamed HNB Grameen, we undoubtedly have the highest penetration at a grass-root level for world class microfinance solutions.

Even today, we are writing the beginnings of many new grass-root level success stories, because we believe in banking beyond transactions.

Management Discussion & Analysis

BUSINESS PERFORMANCE REVIEW

Micro Finance

generating ventures. During the year we provided handheld devices to selected field officers of the Bank to enable online transfer of data to facilitate more expeditious approvals. The use of the Bank’s technological facilities for more convenient and speedier transactions by micro clients however still remains somewhat inhibited due to the fact that this sector still lags behind in the use of technology.

Key Strengths:

- “Gami Pubuduwa” - the only brand identity for micro lending amongst private commercial banks which celebrated its 26th year in 2015
- Our extensive and widespread branch network
- Competent and experienced force of 120 field officers including 47 Agri Officers
- Partnerships with almost all leading international funding agencies for their credit lines and strong local and International collaborations such as : World Bank, IFAD, JICA, BWTP, USAID and GIZ
- Being a participating bank for many donor funded refinance and interest subsidy schemes

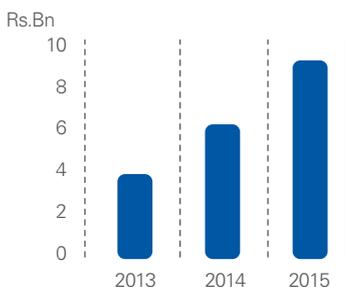
Challenges:

- Lack of formal accounting practices and managerial skills within these enterprises
- Relatively low use of technology by micro entrepreneurs in comparison to the high level of mobile penetration in the country
- Lending by finance companies and microfinance entities without proper assessment, resulting in multiple funding and diversion towards consumption, thus diverting funds from income generating economic activity and sustainable wealth creation
- The Micro Finance Industry remaining unregulated.

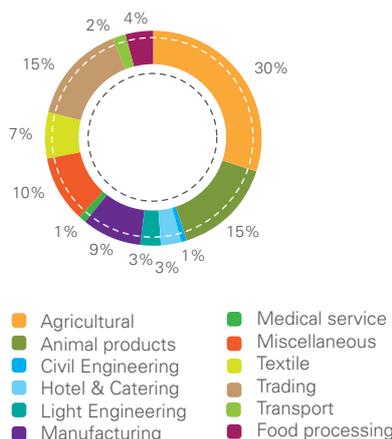
Way Forward :

- Bulk lending via registered micro finance institutions and societies
- Enter into value chain financing arrangements with corporates to support micro entrepreneurs

Micro Finance Loans and Advances



Sector-wise distribution of advances



BUSINESS PERFORMANCE REVIEW

Islamic Banking

“Al Najah” – HNB’s Islamic Banking (IB) brand has grown to become one of the largest IB institutions in the country in every aspect, and the year that just ended saw this business segment achieve its highest ever profits.

Performance

The segment enjoyed significant credit growth of 109% and it is most commendable that this loan growth was achieved whilst maintaining a remarkable NPA of zero percent. Strong relationships and continued dialog with our customers have been key supporting factors in this achievement. The CASA base of the unit improved by 38% during the year, while profits improved to Rs 156.9 Mn.

The year under review also saw Al Najah launch “Wakala”, a new product particularly catering to large corporate entities with a reputation for transparency and ethical standards.

During the year, the unit moved into a new premises dedicated for Islamic Banking, thereby enabling HNB to enhance customer convenience and also reach a larger base of this customer segment.

Moreover, in line with the Bank’s strategic imperative of creating a more sales driven culture, the unit deployed two additional sales staff during the year.

Key Strengths:

- The “first mover advantage”
- The size, strength and brand equity of HNB in a market where most of the other players are smaller banks and financial institutions
- The extensive branch network vis a vis other institutions offering Islamic financing to reach new markets
- A strong and dedicated team that is well experienced and competent in Shariah rules and regulations
- The ability to offer speedy solutions to customers due to agile decision making processes

Challenges:

- High probability of new entrants to a constantly growing and evolving industry thereby increasing the level of competition
- Lack of investment avenues for excess funds, such as Islamic Bonds (Sukuk) and other money market products, which in turn place greater challenge on maintaining satisfactory Advance to Deposit ratios

Way Forward :

- Launch of new Islamic products.
- Raising of funds via Sharia compliant instruments from international markets by harnessing the Bank’s strong relationships with international banks
- Establishing dedicated marketing units in Colombo and satellite marketing units at the regional level
- Increasing the use of e-banking by IBU customers and thus facilitating enhanced convenience to customers

Management Discussion & Analysis

BUSINESS PERFORMANCE REVIEW

Transaction Banking

Financial Institutions

Performance

The Bank's Financial Institutions (FI) Division achieved a commendable performance exceeding its targets despite an environment of subdued economic activity in the Country, which saw project related guarantees decline due to the interruption to infrastructure projects in 2015. In line with one of the Bank's strategic objectives enumerated last year to Increase Fee Income, the FI Division placed emphasis on growing the Bank's International Guarantee Business. The Commission earnings from International Guarantees thus increased by 31% in 2015, despite the said draw backs in the domestic environment. Further, fee sharing income also grew by 33% during the year.

Moreover, we were also able to expand our global network with the addition of 25 new Correspondent Banking Relationships, whilst International Guarantee limits on existing correspondent banks were significantly enhanced as required to accommodate project and non-project related business during the year. Furthermore, we also established new limits during the year for seven overseas banks, to facilitate the International Guarantee business.

Additionally, the FI Division also streamlined its Nostro account operations by reviewing the value addition of each account and selectively terminating non-profitable accounts for a more optimal allocation of resources.

Key Strengths:

- An expansive global network of more than 800 correspondent banking / financial relationships
- The Bank's international rating, which is on par with the Sovereign, eliciting global recognition as an institution
- An extensive island wide branch network, which enables us to offer the convenience of total banking solutions to investors and project contractors at close proximity to their locality
- A dedicated and experienced team, which can advise local and international clients on issuance of Letters of Guarantee that best support their business requirements
- Dedicated personnel to assist customers and the Bank / branch network on regulatory requirements

Challenges:

- Competition from Overseas Banks, which are represented by branch offices in Sri Lanka when vying for issuance of International Bank Guarantees

Way Forward:

- Expanding our relationships with overseas contractors and suppliers to enhance fee based business and open project related accounts for foreign contractors, to increase CASA and the foreign currency deposit base of the Bank
- Establishing relationships with potential overseas contractors and suppliers, through our global correspondent network
- Continued expansion of our Global Correspondent Banking Network, to meet the diverse business requirements of the bank

Trade

Performance

The Trade Services Division recorded an excellent performance during the year, with Turnover and Fee Income growing by 29% and 26% respectively, thus reinforcing HNB's position as a leader in Trade Services. Spurred by the diminished interest margins in 2014 -15, the Bank placed greater emphasis on increasing its Fee Income. This heightened focus enabled Trade one of the most significant contributors to HNB's Fee Income, to achieve commendable growth through its branch network. The continued focus on training and development and relieving branches from operational duties to create an environment which is more conducive to sales, were some of the main internal factors, which contributed to an enhanced growth in Fee Income. As reported last year, the need for knowledge of the numerous technical aspects of Trade Finance, inhibited the confidence of branch managers to market trade solutions. During the year under review, the Bank hence addressed the issue by training non trade officers across the branch network, and it has supported the increase in volumes.

During the year, the Bank initiated a significant step forward towards its strategic priorities by establishing a Special Trade Unit at the centre to integrate the trade operations, which have hitherto been carried out by the branch network. Fourteen of the twenty six Trade units were centralised

during the year and some of the remaining trade units will be centralised in the year ahead, as per business needs. It has proven to be a significant step forward towards the Bank's key strategic objectives, of enhancing operational efficiency and customer convenience.

Moreover, the specialised skills and competencies of our Trade team have been further strengthened, with six more in our Trade team qualifying as Certified Documentary Credit Specialists (CDCS) during the year, bringing the total number of CDCS qualified members in the team to eleven.

Furthermore, imports of consumer goods into Sri Lanka increased by 26% during the first 11 months of the year whilst vehicle imports increased by as much as 65%, thus supporting growth in the Bank's Trade volumes during the year. The Country's Exports however, saw subdued growth due to the political crisis in the Middle East and Russia and economic constraints in the EU, which are key Export Markets of Sri Lanka.

Key Strengths:

- ISO 9001:2008 certification for Trade operations, which endorses HNB's service excellence and quality of processes, continues to be a key differentiator, enabling the bank to be a leader in Trade Services
- A global network of over 800 correspondent Banks
- Skills and competencies of our trade team with a total of 11 Certified Documentary Credit Specialists (CDCS), which enable the Bank to provide customised and structured trade finance solutions to its customers

Challenges:

- The constraints in the local and global economic environment such as the depreciation of the Lankan Rupee, import tariffs and crises impacted export markets, are likely to inhibit imports and exports
- The absence of a mandatory minimum tariff structure for banks has curtailed opportunity for price competitiveness

Way Forward:

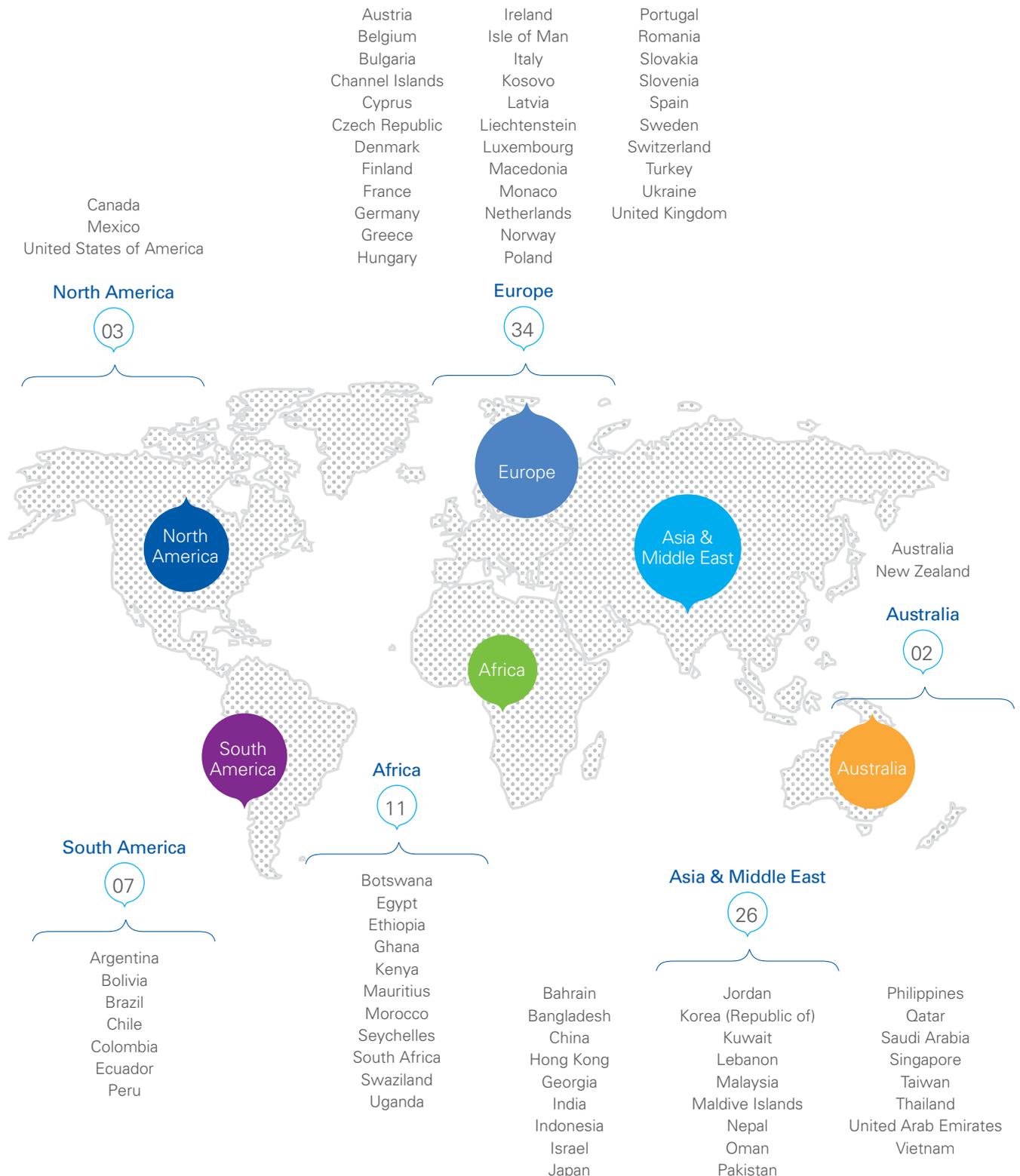
- Garner new business from international markets via stronger correspondent relationships
- Centralisation of the operations of Trade Units, based on business requirements
- Continue to support the development of the export potential of the country via the SME sector
- Provide greater convenience to trade customers by enhancing the electronic delivery channels

Management Discussion & Analysis

BUSINESS PERFORMANCE REVIEW

Transaction Banking

Main Correspondents - Worldwide



TREASURY

Performance

The Treasury achieved an exceptional performance in 2015 exceeding its profitability targets by over 40%, driven by both demand and supply side factors and volatile exchange rates that persisted throughout year 2015. Several occurrences in the global economic landscape supported the increase in trading, namely, the Chinese Renminbi was devalued taking the world by surprise in August, prompted by a slowdown in the Chinese economy whilst a strong US economy, compared with a slowing global economy, saw the US Dollar appreciate vis a vis all its global counterparts. The volatility in the global foreign exchange market thus supported increased trading in the Sri Lankan market.

In the backdrop of an appreciating US Dollar, combined with domestic environmental factors such as a considerable portion of lending being consumption led, and the foreign selling of LKR denominated bonds, exerted pressure on the Sri Lankan Rupee during the latter half of the year. Thus, the Sri Lankan Rupee which traded within a tight margin over the past few years and remained stable in 2014 and the first half of 2015, depreciated sharply by 9% in the third quarter as the Central Bank released its tight control to let market forces of demand and supply determine the rate.

In a highly volatile foreign exchange market, HNB's ability to quote very competitive rates and the customer loyalty it enjoys based on trust, service quality and its longstanding relationships, further supported the growth of the Bank's trading volumes.

Key Strengths:

- Being a market maker for the US Dollar/ LKR exchange rate for spot and inward markets.
- Access to global markets for liquidity and foreign exchange.
- The ability to offer a sophisticated range of Treasury products.
- Experienced and dedicated staff to manage the critical functions of the Treasury

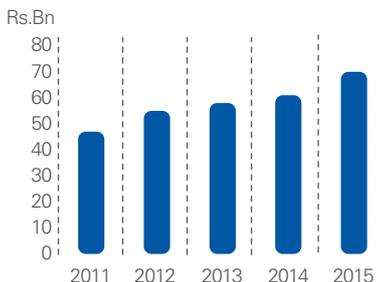
Challenges:

- Diminishing margins which necessitate higher volumes for profitability.
- Lower levels of USD liquidity due to outflow of USD from emerging markets.

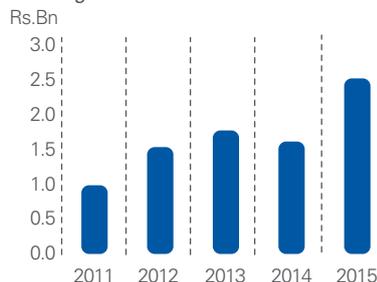
Way Forward :

- Customer specific solutions enabled by advanced technology.
- Participate more actively in bond trading.
- Improve customer orientation and product offering.
- More volume based operations to offset the drop in margins.

T Bills & T Bonds



Exchange Income



Management Discussion & Analysis

BUSINESS PERFORMANCE REVIEW

Performance of the Subsidiaries

Profitability in HNBA's Life Insurance Business grew by 36% and reached Rs 310 Mn during the year.

Gross Written Premium (GWP) of General Insurance Business grew by 16% over the previous year which is a higher growth compared to the market growth of 15%.

HNB Assurance PLC

As required by section 53 of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011, HNB Assurance PLC segregated its Long Term Insurance Business and the General Insurance Business into two separate companies in 2015. Management of the Group's General Insurance portfolio was transferred to HNB General Insurance Limited (HNBGI) on 1st January 2015, and the company continues as a fully owned subsidiary of HNB Assurance PLC while the Life Insurance Business continues to be managed under HNB Assurance PLC.

Life Insurance

The Life Insurance Business performed exceptionally well in 2015 with a 19% growth in the total Gross Written Premium, which reached Rs 2.7 Bn. It is particularly noteworthy that the company achieved an excellent 32% growth in New Business in Life Insurance compared with a growth of 30% in the industry as a whole. Profitability in HNBA's Life Insurance Business also grew by 36% and reached Rs 310 Mn during the year. Endowment Business in total grew by 25% over last year, which is also well above the industry growth average of 17%.

HNBA's Mortgage Reducing Policies (MRP) also achieved a high growth of 52%, mainly due to the increase in the housing loan portfolio of HNB. Prompted by the low profitability and the low market appetite for Single Premium Investment Policies, the Company intentionally reduced its exposure to this product.

A concerted effort over the past few years, to grow HNBA's Endowment Business was the key contributor to an exceptional performance in the Life Business. The lacklustre performance in the equity market however dampened the yield income during the year.

General Insurance (HNB General Insurance Ltd. (HNBGI))

The year under review saw a mixed performance in General Insurance Business. The Company's Gross Written Premium (GWP) grew by 16% over the previous year which is a higher growth compared to the market growth of 15%. Further, this Rs 2.7 Bn GWP achievement was primarily driven by the premium income from Motor Class, which contributed up 76% of the total GWP. The post segregated environment enabled greater focus which helped in growing GWP in General Insurance Business. Despite the growth in GWP the Company recorded a loss of Rs 227 Mn mainly due to an increase in claims in Motor insurance as well as Medical Insurance. Moreover, an inadequate pricing of motor Insurance, due to several market constraints, also contributed to the loss during the year.

In line with the Bank's strategic imperatives to re-engineer its business processes to enhance operational efficiency, the General Insurance Business centralized all underwriting and claims management operations and achieved productivity improvements.

Key Strengths of HNBA:

- HNB Brand Equity and fast developing HNBA & HNBGI Brand identities
- The Bancassurance Network
- The Island-wide Branch Network
- Our presence in Digital and Social Media Marketing
- Network connectivity
- Conventional and Takaful arms of business under one roof

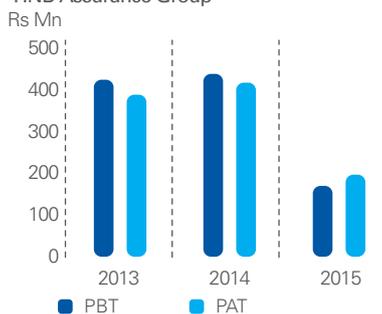
👉 Challenges:

- Depreciation of Sri Lankan Rupee has begun to increase the repair costs in Motor Business thereby increasing claims costs
- Increase in vehicle prices following the duty increases in the recent budget with ceilings on funding, is likely to reduce demand for Motor Insurance
- The continuous increase in rates of road accidents, resulting in high Claims Ratio

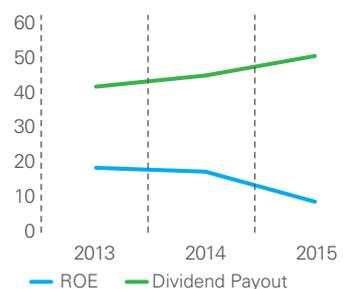
👉 Way Forward :

- Focus on growing the endowment business particularly in Non-Participatory product category
- Reduce dependence on Single Premium Investment products in the total portfolio
- Increase level of activity in the Bancassurance Channel.
- Strengthen the new Direct Channel targeting high net worth customers and corporates
- Upsell to increase customer density
- Develop bundled products by leveraging on group synergies
- Improve profitability of the core business
- Increase the business contribution of the more profitable agency and HNB channels and achieve an optimum channel mix by increasing our investments into these channels

HNB Assurance Group



HNB Assurance ROE and Payout



Management Discussion & Analysis

BUSINESS PERFORMANCE REVIEW

Performance of the Subsidiaries

Acuity Partners (Pvt) Ltd - a joint venture between HNB and DFCC Bank with 50% ownership, is today a leading full service Investment Bank in Sri Lanka. It offers integrated one stop full service solutions for Stock Broking, Fixed Income Securities, Corporate Finance, Asset Management and Venture Capital and enjoys significant market share in all product lines.

Acuity Partners

The Acuity Group recorded a profit after tax of Rs 305 Mn driven primarily by the performance of its subsidiary Lanka Ventures. Additionally, the Company's Corporate Finance and Stock broking (under Acuity Stock Brokers), businesses also made a commendable contribution despite challenging capital market conditions, whilst the joint venture Guardian Acuity Asset Management (GAAM) continued to consolidate its position in the industry by significantly increasing the assets in its management portfolio.

Reversing the trend witnessed in the previous years, the year under review saw a withdrawal of foreign investments, resulting in a net foreign outflow of Rs 5.3 Bn. In addition to the local environment, the outlook for global emerging markets in general, underscored by the economic slowdown in China and other markets were key contributors to this foreign investor sentiment.

The Stock broking arm, Acuity Stockbrokers (ASB), continued to post a commendable performance during the year despite lacklustre equity market conditions. Harnessing the partnerships it entered into with foreign brokerages in the previous year enabled ASB to continue strengthening its foreign distribution capabilities via several roadshows whilst also participating in several roadshows organised by the CSE. In keeping with the Group's IT thrust for enhanced performance and service, the year under review saw ASB procure a state of the art, fully integrated front-end and back office IT system to enable the Company to introduce derivative instruments and be on par with future developments of the CSE such as a Central Clearing House.

The Corporate Finance business significantly improved its market share in the listed debenture space, and the placements of corporate debentures and other debt instruments amounted to Rs 8.2 Bn during the year. Moreover, the Company also concluded a number of Mergers and Acquisition transactions, which further contributed to enhanced profitability of this business segment. The Corporate Finance business maintained its market share and visibility in the IPO and equity private

placement space through its role as Joint Managers for the IPO of Peoples Insurance Limited and Manager for the private placement by LVL Energy Fund. However, the conditions in the equity markets curtailed the roll out of a significant number of IPOs for which the Company is mandated.

Lanka Ventures (LVL) saw its profitability grow significantly during the year, as power sector investments made over the last few years commenced commercial operations. LVL also raised Rs 300 million during the year through its investment vehicle, LVL Energy Fund, and is poised to further expand its portfolio of investments and thereby increase its contribution to profitability.

We previously identified the Private Equity space as a potential growth sphere in which we could harness our existing experience through Lanka Ventures, and thus benefit from having a full service investment banking model. The year under review saw us make significant progress towards this end. Acuity is currently engaged in evaluating a number of prospective investment propositions and is optimistic that the Private Equity business will be able to enhance its contribution to Group earnings in the future.

Key Strengths:

- The brand equity and support of our joint parent companies- HNB and DFCC Bank
- Decades of experience in capital markets and investment
- An unrivalled reputation

Challenges:

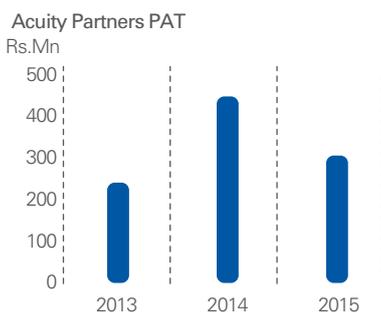
- Intense competition within the investment banking industry which has escalated since the issue of a large number of new Stock Broking licenses since 2009
- Lack of regulation or capital requirements in Corporate Finance / Investment Banking which has facilitated the

emergence of many boutique and fly-by-night operators leading to a further erosion of margins, whilst fees have historically remained amongst the lowest in the region

- Intense competition in the Fund Management segment due to the entry of many unlicensed and unregulated Fund Managers
- Low entry barriers for the regulated segment of the industry has led to the launch of many new unit trusts and unit trust management companies
- The need for increased market activity and resumption of inflows into the equity market in 2016

Way Forward :

- New investments for the Private equity business to further expand its contribution to Group profitability
- Seek to establish a presence in another emerging market for Corporate Finance transactions
- Introduce more IPOs to the market to boost market cap and increase liquidity



Management Discussion & Analysis

BUSINESS PERFORMANCE REVIEW

Performance of the Subsidiaries

Sithma Development (Pvt). Ltd. is the Bank's subsidiary which owns and manages the rental of the premium office space at the HNB Towers.

Sithma Development Pvt. Ltd

Performance :

The Company's revenue increased to Rs 922 Mn whilst Profit After Tax improved by 14% to Rs 576 Mn.

The Grade A office space that we own sees us well poised to leverage growing demand for office space in the market. In addition Sithma will also look to harness opportunities for high quality and energy efficient property development in the sub urban and other locales out of Colombo.

Key Strengths:

- Brand image as an up market Grade A office building developer
- One of only two buildings which comply with requirements of BPO businesses
- High quality of our facilities management
- Technological leadership as a Technically advanced building
- The best fire protection mechanisms and close proximity to Fire department
- Experienced and customer friendly staff

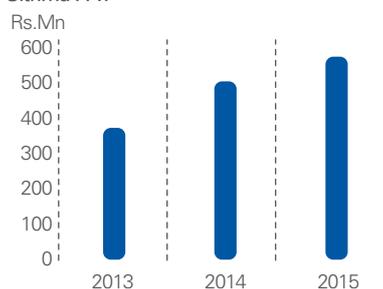
Challenges:

- High operational costs
- Increasing competition as more Grade A office space is being built around Colombo

Way Forward :

- Continue to enhance energy efficiency
- Enhancing our customer service offer through upgrade of the gymnasium
- Based on the outcome of testing done in 2014, implement a revised scheduling to optimize air conditioning usage
- Reduce response times for client complaints through the introduction of new processes

Sithma PAT



HNB Grameen is the newest addition to the Group consequent to HNB's strategic acquisition of a 51% stake of voting rights in Prime Grameen Limited at the end of 2014. Since making its entry into the Micro Finance industry in 2000, as Ceylinco Grameen Credit Co. Ltd., the Company has been the only licensed finance company in the country to engage in micro finance services as its core business. Following a subsequent acquisition by Prime Lands Group in 2011 the Company was re named Prime Grameen Micro Finance Ltd.

HNB Grameen Finance Ltd

Since HNB's acquisition and being renamed as HNB Grameen Finance Ltd., the Company continues to pursue its mission of financial and social empowerment and financial inclusion of the Micro finance sector under the Grameen concept. It is noteworthy that as per the model, 98% of the Company's clientele comprise women entrepreneurs.

The Company's flagship micro finance products continue to uplift thousands of lives across the country, with a client base of over 200,000 female entrepreneurs.

The Company's profitability has grown significantly over the past three years, enabling the company to offset losses carried forward from previous years. The year under review saw a remarkable performance with profit after tax, recording an increase of 43% during the year and the deposit base growing by 46% over 2014. It is significant that the Company managed to maintain the NPA ratio at less than 1% despite a sharp 66% growth in loans and advances during the year. Moreover, it is also commendable that the customer base increased by over 26,000 to reach 236,620 during the year. Equally noteworthy is that the Cost to Income ratio declined to 44% from 68% during the previous year, despite an increase in employee headcount by 217 and the expansion in service centres by 11. This performance was achieved by improving the core business derived through higher business volumes, enhanced fee income coupled with an efficient cost management during the year under review.

Identifying the product gap in SME and to harness the potential in our core business, the Company ventured into Leasing during end 2015. We are now able to offer bundled solutions to customers who hitherto were compelled to go elsewhere to lease a vehicle or machinery they required for their enterprise. We also have a range of products to cater to our Small Sector Enterprises which enables a group of clients to migrate from the micro finance space.

We expect the synergies and shared knowledge with HNB to propel the Company's performance and expand its potential in the next few years, enabling the company to make a visible impact across the country via financial empowerment to a vital sector of the economy.

Key Strengths:

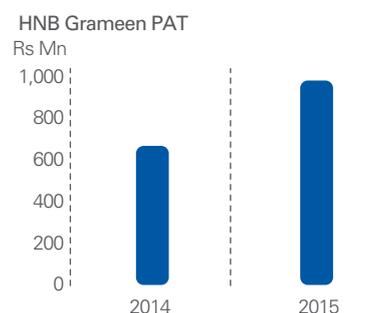
- The model itself which comprises mainly of women, hence a higher propensity to deploy funds, create sustainable income generation, and pay back
- Expanding synergies with HNB as the parent company
- The brand equity of HNB
- HNB's extensive ATM and branch network
- A strong deposit base comprising all segments of the economy
- Passionate and committed workforce, most of whom have been with the company since inception 15 years ago

Challenges:

- The Micro Finance industry remains unregulated
- Lack of formal reporting to CRIB in the Micro Finance sector
- Multiple borrowing in this sector

Way Forward:

- Diversify further into SME / SSE segments
- Venture into new products
- Complete system upgrade and enhance automation
- A public listing of the Company over the next year
- Launching a new savings product



Management Discussion & Analysis

BUSINESS PERFORMANCE REVIEW

Outlook for our Businesses

Whilst the year under review saw a lacklustre economic environment mainly due to the preoccupation with elections during the first half of the year and political uncertainty, followed by periods of transition thereafter; the year ahead is likely to see economic activity resume and accelerate. We are thus buoyant on the prospects for all our business segments in 2016-17.

Expectation	HNB's response / impact
<p>A moderate increase in interest rates is expected during the year as discussed under the economic environment.</p>	<p>The anticipated increase in interest rates would enable the Bank to improve margins as approximately 70% of the Bank's loan book reprices within one year. Although increased rates could have a negative impact on the credit growth, we do not expect the interest rates to increase to an extent that would hamper the growth significantly.</p>
<p>Previously launched infrastructure projects which have been on hold, to resume upon re-evaluation, and combined with new infrastructure projects, to rekindle growth in the next few years.</p>	<p>With the past track record of funding infrastructure development projects relating to road development, energy, water etc the Bank will be well poised to capture the opportunities through corporate banking / project financing capability. Whilst this would result in a significant growth in loan book and interest income, The Bank will also be able to grow fee income through guarantee commissions. Also, the spillover effect would lead to opportunities in financing SMEs and micro entrepreneurs through sub contracts and opportunities surrounding these developments.</p>
<p>Increasing purchasing power amongst Sri Lankan consumers and projected rise in per Capita GDP to USD 4,000 over the next year.</p>	<p>The demand for personal financial services witnessed in 2015 is expected to continue and the Bank is well positioned to seize prospects both in the asset and liability side through the sales and service orientation of the staff, extensive branch network and alternate channels providing choice and convenience.</p> <p>Bank will also focus on increasing its higher net worth customers with the re launch of the HNW brand with a new bundled proposition.</p>
<p>SME and microfinance sector will remain high on the nation's agenda for development, as also indicated by the new government's policies and will account for an increasing share of GDP.</p>	<p>As discussed in this report, HNB has been financing the SME sector since its inception and Microfinance sector for over 25 years. HNB's wide reach covering all corners of the Country, the expertise in serving the segments and the recent process improvements through regional SME cells to provide a faster service. Also the investment in HNB Grameen Microfinance Ltd would enable HNB to capture a larger share of the expected growth in this segment.</p>

Expectation	HNB's response / impact
<p>As discussed under the economic environment, we anticipate a drop in worker remittances due to the slowdown in the Middle East as experienced in 2015.</p> <p>We also anticipate customers to shift from the conventional remittance products to the more instant cash and online fund transfers. In an intensely competitive market, the speed and quality of service with minimum inconvenience to customers will be the key competitive advantages in the Remittances business.</p>	<p>Although this may have an impact on the total remittances to the Country, HNB's focus on providing a superior, faster service through technological advancements and by introducing new products and services, would enable the Bank to strengthen its market position and continue to grow its fee income from remittances.</p>
<p>Imports to Sri Lanka are likely to be dampened by the depreciation of the Rupee as well as a likely decline in vehicle imports on the back of duty increases by the recent budget.</p> <p>Sri Lanka's key export markets remain weak, due to crises in Russia and the Middle East and signs of recessionary conditions in Europe.</p> <p>However, the depreciation of the rupee, prospects for new market opportunities through new bilateral agreements, improved relations with the US and the reactivation of the GSP+ concessions scheme by the EU will have a positive impact on the Country's exports. The local environment is also expected to bolster Sri Lanka's exports as the new government has given priority to exports and to increasing business with the US and the Asia Pacific.</p>	<p>While the Bank's leasing business recorded an exceptional growth in 2015, the market condition would result in a drop in demand for new vehicles.</p> <p>The Bank's expertise, service standards, reputation, network and the technological developments currently underway which would enable an online platform for international trade, payment and cash management amongst others, sees HNB well poised to harness the Country's trade business.</p>
<p>Changing needs of the customers and increasing tendency towards cashless payments.</p>	<p>HNB has identified electronic and mobile payments as a key development as well as an opportunity to harness. The significant investments into developing e-channels which is highlighted in this report were made with a view to seize these market opportunities. We also believe that telcos will play a more significant role in this space going forward. As such while continuing to focus on our own initiatives, we will look at collaborations with telecoms to expand our presence.</p>

Your Board Room Governance Report

Chairman's Statement

The trust we have earned from several generations of Sri Lankans stand as testimony to our stability, integrity and strength; which in turn are a result of as well as a reflection of our adherence to highest standards in governance. Our approach to governance has been based on the belief that high quality governance is essential to the creation of long term shareholder value and must be pursued uncompromisingly.

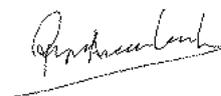
The Bank has in place a well-structured corporate governance framework which exceeds the requirements mandated by law. It plays a vital role in maintaining and enhancing sustainable shareholder value. The framework is designed to not only ensure transparency and accountability to the regulators but also to our other stakeholders and the public. In addition to the mandatory requirements that are complied with, HNB has established its own set of internal benchmarks, processes and structures to meet accepted best practices in governance. These are attributes which lend credence to the Bank's well established reputation amongst all its stakeholders, as a safe and sound Bank.

HNB's business processes are supported by effective controls which drive the business for sustainable performance whilst ensuring that the Bank stays within the ethos of its culture and core values. The Board sets the tone at the top by promoting professional standards and corporate values that cascade to senior management and other employees of the Bank. The codified policies, procedures and processes are some of the key mechanisms

through which these standards and values are cascaded down to ensure adherence across the Bank. The Board is also supported by robust and independent risk, audit and compliance functions that provide effective oversight.

The report below demonstrates how the Bank has embraced and complied with the Corporate Governance regulations issued under the Banking Act Direction No 11 of 2007 and subsequent amendments thereto for Licensed Commercial Banks in Sri Lanka by the Central Bank of Sri Lanka and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in 2013.

As required in the above Code, I hereby confirm that, I am not aware of any material violations of any of the provisions of the Code of Business Conduct and Ethics by any Director or any member of the Corporate Management of the Hatton National Bank PLC.



Rienzie Arseculeratne
Chairman

Colombo, Sri Lanka
19th February 2016

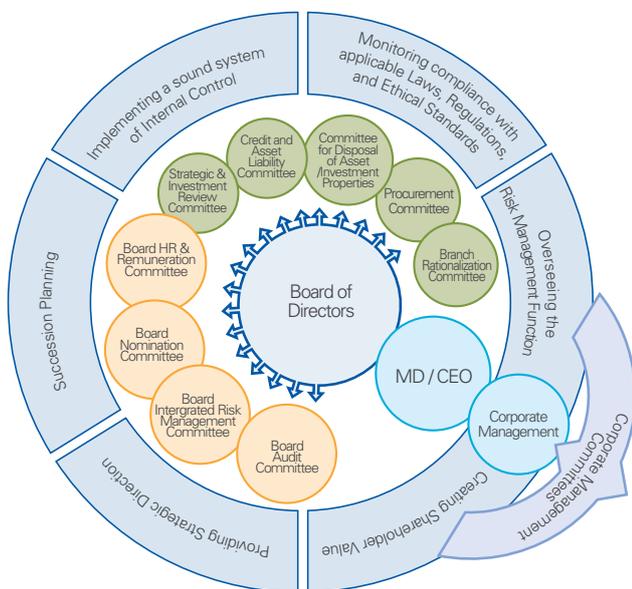
Corporate Governance Initiatives During 2015 at a Glance

- January** Board approval of the policy for engagement of the external auditor to provide non-audit services.
- March** Board approval of the Key Performance Indicators (KPIs) for 2015 for each Board Sub Committee.
- April** Strengthening the composition of the Board by appointment of four (4) Independent Non Executive Directors (INED).
- May** Appointment of Mr Rienzie Arseculeratne as the Independent Non Executive Chairman, following the resignation of Dr Ranee Jayamaha in March 2015.
A review of the Directors' Remuneration Policy was undertaken by the HR & Remuneration Committee.
An induction programme had been organised for the directors appointed during the year, to familiarise them with the Bank's strategy, risk appetite, operations and internal control.
- August** Re composition of Board Sub - committees to include newly appointed Directors and optimise contribution.
The Audit Committee Charter was reviewed by the Board Audit Committee.

Corporate Governance Framework

Good Corporate Governance practices are not just a matter for the Board but are at the heart of everything we do within the Bank.

The Bank operates within an Integrated Governance Framework formulated after taking into consideration the Corporate Governance regulations issued by the Central Bank and Corporate Governance Best Practice issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), which is outlined in the diagram below and set out in the report that follows;



→ G4-34, G4-35, G4-38, G4-42,

Corporate Governance

Corporate Governance is the system by which a company is directed, controlled and managed. At Hatton National Bank, the Corporate Governance Framework guides our Bank and drives towards progress by way of developing and implementing appropriate corporate strategies. The approach to governance is predicated on the belief that there is a link between high-quality governance and the creation of long-term stakeholder value. In pursuing the corporate objectives, we have committed to the highest level of governance and strive to foster a culture that values and rewards exemplary ethical standards, personal and corporate integrity and mutual respect.

The Board of Directors, led by the Chairman, is responsible for the governance of the Bank and developing effective Governance Framework to meet challenges, both in the short and long term. The Board is committed to reviewing and improving our systems to provide transparency and accountability, and initiate transformational changes whenever necessary to ensure adoption of best practice.

We continually review our systems and procedures to provide transparency & accountability and update our Corporate Governance policies to keep in line with the stipulated guidelines.

HNB has incorporated in its Governance Framework and the guidelines prescribed in the Banking Act Direction No 11 of 2007 (as amended) on Corporate Governance for Licensed Commercial Banks in Sri Lanka and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The extent of compliance by HNB for the year ended 31st December 2015 with the above rules, directive principles and best practices are given in the following sections.

The compliance with CSE listing rules on Corporate Governance, has not been disclosed as Listed Banks are exempted from complying with the said rules from 2010 onwards. This is because such governance requirements had been adequately covered in the Banking Act Direction No 11 of 2007 (as amended) on Corporate Governance for Licensed Commercial Banks in Sri Lanka.

Your Board Room Governance Report

SECTION ONE

CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE ISSUED BY THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA (SEC) AND THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA (CA SRI LANKA)

Statement of Compliance

The disclosures below reflect HNB's level of conformance with the above Code which is promulgated around seven (7) key areas and HNB's conformance with the said governance principles in summary is given below.

A. DIRECTORS	<p>The Bank is directed, lead and controlled by a Board of Directors who possess the skills, experience and knowledge complemented with a high sense of integrity and independent judgment. The Board is equipped with members having sufficient financial acumen and knowledge. At HNB there is a clear division of responsibilities between the Chairman and Chief Executive Officer to ensure a balance of power and authority, in such a way that any individual has no unfettered powers of decisions. In May 2015 Mr Rienzie Arseculeratne was appointed as the Independent Non Executive Chairman, following the resignation of Dr Ranee Jayamaha in March 2015. In order to strengthen the composition of the Board, a further three (3) Independent Non Executive Directors (INED) were appointed in 2015. Ms M A R C Cooray, Dr L R Karunaratne and Mr L U D Fernando and Mr Sujeewa Mudalige will retire by rotation at the AGM. They have offered themselves for re-election by shareholders at the next AGM, with the unanimous support of the Board.</p>
B. DIRECTORS' REMUNERATION	<p>HNB has a formal and transparent procedure for executive remuneration and fixing the remuneration packages of individual Directors. The level of remuneration of both Executive and Non Executive Directors is sufficient to attract and retain the Directors needed to run the Bank successfully.</p> <p>The Bank's remuneration framework for the CEO is designed to create and enhance value for all HNB's stakeholders and to ensure there is strong alignment between the short term and long term interest of the Bank.</p>
C. RELATIONS WITH SHAREHOLDERS	<p>The Board uses the Annual General Meeting to communicate with shareholders and encourage their active participation.</p> <p>The Bank focuses on open communication and fair disclosure, with emphasis on the integrity, timeliness and relevance of the information provided. The Bank has ensured that information is communicated accurately and in such a way as to avoid the creation of a false market. Further during 2015, the Bank had not engaged in or committed to any major related party transaction which materially affected HNB's net asset base.</p>
D. ACCOUNTABILITY AND AUDIT	<p>The Board has presented a balanced and understandable assessment of the Bank's financial position, performance and prospects during 2015. The Board has established a sound framework of risk management and internal controls. Through such an effective framework, HNB manages business risks and ensures that the financial information on which business decisions are made and published is reliable, and also ensures that the Bank's assets are safeguarded against unauthorised use or disposition. The Bank has developed a Code of Business Conduct & Ethics and a Policy on Anti-Bribery & Corruption applicable for all employees, which addresses conflict of interest, corporate opportunities, confidentiality of information, fair dealing, protecting & proper use of the Bank's assets, compliance with applicable laws & regulations, encouraging the reporting of any illegal or unethical behaviour, financial integrity, insider trading, accurate accounting & record keeping, receiving gifts & entertainment etc.</p>
E. INSTITUTIONAL INVESTORS	<p>The Annual General Meeting is used to have an effective dialogue with the shareholders on matters which are relevant and concern to the general membership. The Investor Relations team headed by the MD / CEO has regular discussions with key institutional shareholders to share highlights of the Bank's performance and also with the view to obtaining constructive feedback. The feedback obtained from institutional shareholders is communicated to the entire Board by the MD / CEO for necessary action.</p>
F. OTHER INVESTORS	<p>Individual shareholders are encouraged to carry out adequate analysis or seek independent advice on their investing, holding or divesting decisions. Further they are encouraged to participate at Annual General Meetings and exercise their voting rights.</p>

G. SUSTAINABILITY REPORTING

Sustainability is a business approach that creates long term stakeholder value by embracing opportunities and managing risks derived from economic, environmental and social developments and their potential implications and impacts on the business activities of the entity.

Sustainability reporting is the practice of recognising, measuring, disclosing and being accountable to internal and external stakeholders for organisational performance towards the goals of sustainable development in the context of the overall business activities and strategy of the entity and directed to the target stakeholders, usually shareholders, employees, customers, society and government.

For details of sustainability endeavours undertaken by the Bank please refer to the Management Discussion and Analysis on pages 32 to 105.

The structures in place, the conformance with the requirement and expectations of the said Code are tabulated below under the said seven fundamental principles.

Corporate Governance Principles	SEC & CA Sri Lanka Code Reference	Adoption Status	HNB's Extent of Compliance in 2015																																													
A. DIRECTORS																																																
A.1. The Board																																																
The Bank should be headed by a Board, which should direct, lead and control the Bank																																																
All Directors with the exception of the MD / CEO serve the Bank in a Non Executive capacity. The Board consists of professionals in the fields of Banking, Law, Accounting, Management, Economics, Engineering, Marketing, Public Administration and Business. All Directors possess the skills, experience and knowledge complemented with a high sense of integrity and independent judgment. The Board gives leadership in setting the strategic direction and establishing a sound control framework for the successful functioning of the Bank. The Board's composition reflects sound balance of independence and anchors shareholder commitment.																																																
1. Board Meetings	A.1.1	Adopted	<p>The Board usually meets on monthly intervals, but meets more frequently whenever it is necessary.</p> <p>The Board met seventeen (17) times during the year. Scheduled Board and Committee meetings were arranged well in advance and all Directors were expected to attend each Board meeting. Any instance of non-attendance at Board meetings were generally related to prior business, personal commitments or illness.</p> <p>The attendance at Board meetings held in 2015 is set out on page 143.</p> <p>Attendance at Board meetings during 2015</p> <table border="1"> <thead> <tr> <th>Meeting No.</th> <th>Meetings attended</th> <th>Meetings not attended</th> </tr> </thead> <tbody> <tr><td>1</td><td>14</td><td>0</td></tr> <tr><td>2</td><td>14</td><td>0</td></tr> <tr><td>3</td><td>14</td><td>0</td></tr> <tr><td>4</td><td>14</td><td>0</td></tr> <tr><td>5</td><td>14</td><td>0</td></tr> <tr><td>6</td><td>14</td><td>0</td></tr> <tr><td>7</td><td>14</td><td>0</td></tr> <tr><td>8</td><td>14</td><td>0</td></tr> <tr><td>9</td><td>14</td><td>0</td></tr> <tr><td>10</td><td>13</td><td>1</td></tr> <tr><td>11</td><td>12</td><td>2</td></tr> <tr><td>12</td><td>12</td><td>2</td></tr> <tr><td>13</td><td>11</td><td>3</td></tr> <tr><td>14</td><td>10</td><td>4</td></tr> </tbody> </table> <ul style="list-style-type: none"> 1 Mr Rienzie Arseculeratne 2 Mr Jonathan Alles 3 Ms M A R C Cooray 4 Dr L R Karunaratne 5 Mr L U D Fernando 6 Mr Sujeewa Mudalige 7 Ms D S C Jayawardena 8 Mr Rusi S. Captain 9 Mr D A Cabraal 10 Mr Palitha Pelpola 11 Mr D Soosaipillai 12 Mr A N de Silva 13 Dr Ranee Jayamaha 14 Dr W W Gamage <p><i>Note: Dr Ranee Jayamaha and Dr W W Gamage resigned from the Board w.e.f. 30th March 2015 and 29th May 2015 respectively. Mr Rienzie Arseculeratne, Mr Palitha Pelpola, Mr D Soosaipillai and Mr A N de Silva was appointed to the Board w.e.f. 30th April 2015.</i></p>	Meeting No.	Meetings attended	Meetings not attended	1	14	0	2	14	0	3	14	0	4	14	0	5	14	0	6	14	0	7	14	0	8	14	0	9	14	0	10	13	1	11	12	2	12	12	2	13	11	3	14	10	4
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Your Board Room Governance Report

Corporate Governance Principles	SEC & CA Sri Lanka Code Reference	Adoption Status	HNB's Extent of Compliance in 2015
2. Board Responsibilities	A.1.2	Adopted	<p>The Board Charter sets out the responsibility of the Board.</p> <p>The Board is responsible to the shareholders for creating and delivering long term sustainable shareholder value through the oversight of business.</p> <p>The Board has provided strategic direction to the development of short, medium and long term strategy which is aimed at promoting the long term success of the Bank. The business strategy is reviewed at least on a quarterly basis by the Board with updates at each Board meeting on execution of the agreed strategy by the management.</p> <p>The Board has put in place a Corporate Management team led by the MD / CEO with the required skills, experience and knowledge necessary to implement the business strategy of the Bank. The names and the qualifications of the Corporate Management team are provided on pages 28 and 29. The Board has also implemented a structured approach towards succession planning of the Corporate Management and Senior Management team during the past couple of years.</p> <p>The Board recognises its responsibility for the Bank's system of internal control and for reviewing its effectiveness on a continuous basis. These systems manage the risk of the Bank's business and ensure that the financial information on which business decisions are made and published is reliable. It also ensures that the Bank's assets are safeguarded against unauthorised use or disposition.</p> <p>The Board is satisfied with the integrity of financial information and the robustness of the financial controls and systems of risk management of the Bank.</p>
3. Compliance with laws and access to independent professional advice	A.1.3	Adopted	<p>The Board collectively as well the Directors individually, recognise their duty to comply with laws of the country which are applicable to the Bank. The Board of Directors ensures that procedures and processes are in place to ensure that the Bank complies with all applicable laws and regulations.</p> <p>A procedure has been put in place for Directors to seek independent professional advice, in furtherance of their duties, at the Bank's expense. This will be coordinated through the Board Secretary, as and when it is requested.</p>
4. Board Secretary	A.1.4	Adopted	<p>All Directors have access to the Board Secretary, who is an Attorney-at-Law by profession.</p> <p>Her services were available to all Directors, particularly the Non Executive Directors who needed additional support to ensure they receive timely and accurate information to fulfill their duties. The Board Secretary had provided the Board with support and advice relating to corporate governance matters, Board procedures and applicable rules and regulations during the year. Further, she assisted the Chairman and MD / CEO in determining the annual Board plan.</p>
5. Independent Judgment	A. 1.5	Adopted	<p>Non Executive Directors are responsible for bringing independent and objective judgment, and scrutinising the recommendations/ proposals made by the Corporate Management led by the MD / CEO, on issues of strategy, performance, resources utilisation and business conduct. The Board promotes an environment whereby challenging contribution from the Non Executive Directors is welcomed and encouraged, combined with full support for and empowerment of the MD / CEO in implementing decisions.</p>

Corporate Governance Principles	SEC & CA Sri Lanka Code Reference	Adoption Status	HNB's Extent of Compliance in 2015						
6. Dedication of adequate time and effort by the Board and Board Committees	A.1.6	Adopted	<p>The Chairman and members of the Board have dedicated adequate time for the fulfilment of their duties as Directors of the Bank. In addition to attending Board meetings, they have attended Sub-Committee meetings and also have contributed to decision making via circular resolution where necessary. The Board Sub-Committees include:</p> <ul style="list-style-type: none"> - Audit Committee - Board Integrated Risk Management Committee - Human Resources & Remuneration Committee - Nomination Committee - Credit / Asset & Liability Committee - Procurement Committee - Committee for Disposal of Asset / Investment Properties - Strategic & Investment Review Committee → G4-42 - Branch Rationalisation Committee <p>Further, as and when it was required the Board appointed special Sub-Committees to look into specific matters.</p>						
7. Training for Directors → G4-43	A.1.7	Adopted	<p>The Board of Directors recognises the need for continuous training & expansion of knowledge and undertakes such professional development as they consider necessary in assisting them to carry out their duties as Directors.</p> <p>An induction programme had been organised for the directors appointed during the year, to familiarise him with the Bank's strategy, risk appetite, operations and internal control.</p> <p>The Directors have attended the following programmes during the year.</p> <table border="1"> <thead> <tr> <th>Programme</th> <th>Conducted by</th> </tr> </thead> <tbody> <tr> <td>Strategic HR Management for Sustainable Growth</td> <td>Sri Lanka Institute of Directors</td> </tr> <tr> <td>ICT & Cyber Security for better banking</td> <td>Dr Manodha Gamage of Intelligent Solutions and Consultancy (Pvt) Ltd</td> </tr> </tbody> </table>	Programme	Conducted by	Strategic HR Management for Sustainable Growth	Sri Lanka Institute of Directors	ICT & Cyber Security for better banking	Dr Manodha Gamage of Intelligent Solutions and Consultancy (Pvt) Ltd
Programme	Conducted by								
Strategic HR Management for Sustainable Growth	Sri Lanka Institute of Directors								
ICT & Cyber Security for better banking	Dr Manodha Gamage of Intelligent Solutions and Consultancy (Pvt) Ltd								
A.2. Chairman and Chief Executive Officer									
<p>There should be a clear division of responsibilities between the Chairman and Chief Executive Officer to ensure a balance of power and authority, in such a way that any individual has no unfettered powers of decisions.</p> <p>The roles of the Chairman and Chief Executive Officer are segregated at HNB. The Chairman's main responsibility is to lead, direct and manage the Board to ensure that it operates effectively and fully discharges its legal and regulatory responsibilities. MD / CEO is responsible for the day-to-day operations of the Bank.</p>									
8. Division of responsibilities of the Chairman and MD / CEO	A.2.1	Adopted	<p>The roles of the Chairman and Chief Executive Officer are separate. The role of the Chief Executive Officer is to manage the day-to-day running of the Bank. The Board has delegated this responsibility to the Chief Executive Officer and he then leads the Corporate Management team in making and executing operational decisions. The Chief Executive Officer is also responsible for recommending strategy to the Board.</p>						

Your Board Room Governance Report

Corporate Governance Principles	SEC & CA Sri Lanka Code Reference	Adoption Status	HNB's Extent of Compliance in 2015
A.3.Chairman's Role			
<p>The Chairman should lead and manage the Board, ensuring that it discharges its legal and regulatory responsibilities effectively and fully and preserves order and facilitates the effective discharge of the Board function.</p>			
<p>Up to 27th March 2015, Dr Ranee Jayamaha functioned as the Chairperson of the Bank. With effect from 1st May 2015, Mr Rienzie Arseculeratne was appointed as the Chairman. During the interim period (from 27th March to 30th April 2015) Ms M A R C Cooray functioned as the Chairperson of the Bank.</p>			
<p>The profile of Mr Rienzie Arseculeratne is given on page 24.</p>			
<p>9. Role of the Chairman → G4-39</p>	<p>A.3.1</p>	<p>Adopted</p>	<p>The Chairman is responsible for leadership of the Board and ensuring effectiveness in all aspects of its role. The Chairman of HNB is a Independent Non Executive Director, elected by the Board. The Chairman's role encompasses:</p> <ul style="list-style-type: none"> - Ensuring that the new Board Members are given appropriate induction, covering terms of appointment, duties and responsibilities. - Leading the Board and managing the business of the Board while taking full account of the issues and concerns of the Board. - Approving the agenda for each meeting prepared by the Board Secretary. - Ensuring that the Board members receive accurate, timely and clear information, in particular about the Bank's performance to enable the Board to take sound decisions, monitor efficiently and provide advice to promote success of the Bank. - Ensuring regular meetings, the minutes of which are accurately recorded and where appropriate include the individual and collective views of the Directors. - Facilitates and encourages discussions amongst all Directors where decisions are needed on matters of risk and strategy. - Encouraging effective participation of all Directors in the decision making process to optimise contribution. - Representing the views of the Board to the public. - Initiates the process for self assessment of the Board from its members and uses the meaningful feedback to further improve the effectiveness of the Board.
A.4.Financial Acumen			
<p>The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.</p>			
<p>The Board is equipped with members having sufficient financial acumen and knowledge.</p>			
<p>10. Availability of sufficient financial acumen and knowledge</p>	<p>A.4.1</p>	<p>Adopted</p>	<p>All Directors possess financial acumen and knowledge through the experience gained from leading large private and public enterprises coupled with their academic and professional background.</p> <p>The details of their qualifications and experience have been set out on pages 22 to 27.</p>
A.5.Board Balance			
<p>There should be balance of Executive and Non Executive Directors so that no individual or small group of individuals can dominate the Board's decision-taking.</p>			
<p>All Directors are Non Executive Directors except for the MD / CEO. Each of them bring to the Board, wide experience and the ability to exercise independence and judgment when taking informed decisions.</p>			

Corporate Governance Principles	SEC & CA Sri Lanka Code Reference	Adoption Status	HNB's Extent of Compliance in 2015
11. Presence of Non Executive Directors	A.5.1	Adopted	<p>All Directors are Non Executive Directors except for the MD / CEO.</p> <p>The requirement as per the Code has been complied with throughout 2015.</p> <p>Executive Vs Non Executive Directors</p>  <p>11 Non Executive Directors 1 Executive Director</p>
12. Independent Directors	A.5.2	Adopted	<p>Seven (7) Non Executive Directors are independent as defined by the Code as at 31st December 2015</p> <p>Independent Vs Non Independent Directors</p>  <p>7 Independent Directors 5 Non Independent Directors</p> <p>The requirement as per the Code has been complied with throughout 2015.</p>
13. Criteria to evaluate Independence of Non Executive Directors	A.5.3	Adopted	<p>Please refer Section A.5.5 below.</p> <p>The Board considers Non Executive Director's independence on an annual basis, as part of each Director's performance evaluation. The Board reviewed the independence of each Non Executive Director in 2015 and concluded that each of them continues to demonstrate these essential behaviour.</p>
14. Signed declaration of independence by the Non Executive Directors	A.5.4	Adopted	<p>All Non Executive Directors of the Bank have made written submissions as to their independence against the specified criteria set out by the Bank, which is in line with the requirements of Schedule J of the Code.</p>
15. Determination of independence of the Directors by the Board	A.5.5	Adopted	<p>The Board has determined that the submission of declaration/s by the Non Executive Directors, as to their independence, as fair representation and will continue to evaluate their submission annually. Circumstances have not arisen for the determination of independence by the Board, beyond the criteria set out in the Code. The following Directors are Independent as at 31st December 2015;</p> <p>Mr Rienzie Arseculeratne Dr L R Karunaratne Mr Sujeewa Mudalige Mr D A Cabraal Mr Palitha Pelpola Mr D Soosaipillai Mr A N de Silva</p>
16. Alternate Director	A.5.6	Adopted	<p>The requirement as per the Code has been met at the time of appointing of Alternate Directors during 2015</p>

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Corporate Governance Principles	SEC & CA Sri Lanka Code Reference	Adoption Status	HNB's Extent of Compliance in 2015
17. Senior Independent Director	A.5.7	N/A	Although the requirement to appoint a Senior Independent Director does not arise under this Code, Dr W W Gamage functioned as Senior Independent Director up to 29th May 2015, to meet the requirement under Rule 3(5) (ii) of the CBSL Direction on Corporate Governance.
18. Confidential discussion with the Senior Independent Director	A.5.8	N/A	Please refer above comment.
19. Meeting of Non Executive Directors	A.5.9	Adopted	The Chairman meets with the Non Executive Directors without the presence of the Executive Director, on a need basis. The Non Executive Directors met twice (02) without the presence of the Executive Director during 2015.
20. Recording of concerns in Board Minutes	A.5.10	Adopted	All concerns raised and wished to be recorded have been documented in sufficient detail.

A.6. Supply of Information

Management should provide time bound information in a form and of quality appropriate to enable the Board to discharge its duties.

Financial and non-financial information are analysed and presented to the Board to make informed and accurate decisions.

21. Information to the Board by the Management	A.6.1	Adopted	The Board was provided with timely and appropriate information by the Management by way of Board papers and proposals. The Board sought additional information as and when necessary. Members of the Corporate and Senior Management team made presentations to Directors on important issues relating to strategy, risk management, recoveries endeavours and new legal developments. The Chairman ensured that all Directors were briefed on issues arising at Board meetings. The Directors have free and open contact with the Corporate and Senior Management of the Bank.
22. Adequate time for effective Board meetings	A.6.2	Adopted	The Board papers are usually sent to the Directors at least a week before the respective Board meetings giving adequate time for Directors to study the related papers and prepare for a meaningful discussion at the respective meetings.

A.7. Appointments to the Board → G4-40

A formal and transparent procedure should be followed for the appointment of new Directors to the Board.

The Nomination Committee assesses the suitability of the prospective nominees to the Board and recommends persons found to be "fit and proper" for consideration of the entire Board. 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.

Mr Rienzie Arseculeratne, Mr Palitha Pelpola, Mr D Soosaipillai and Mr A N de Silva were appointed to the Board as Independent Non Executive Directors w.e.f. 30th April 2015. Their profiles of are given on pages 26 and 27.

Corporate Governance Principles	SEC & CA Sri Lanka Code Reference	Adoption Status	HNB's Extent of Compliance in 2015
23. Nomination Committee	A.7.1	Adopted	<p>The Nomination Committee made recommendations to the Board on all new appointments. The Terms of Reference for the members of the Nomination Committee are similar to the one set out in Schedule A to the Code. The following Directors served on the Nomination Committee during 2015. The MD / CEO attends these meetings by invitation.</p> <p>Mr Rienzie Arseculeratne (appointed w.e.f. 04th June 2015) Dr Raneer Jayamaha (resigned w.e.f 30th March 2015) Dr W W Gamage (resigned w.e.f 29th May 2015) Ms M A R C Cooray Mr Rusi S Captain Mr Palitha Pelpola (appointed w.e.f. 04th June 2015)</p> <p>Dr Raneer Jayamaha served as the Chairperson of the above Committee up to 19th January 2015. Dr W W Gamage was appointed the Chairman of the Nomination Committee w.e.f. 19th January 2015. On 04th June 2015, Mr Rienzie Arseculeratne appointed as the Chairman of the said committee.</p> <p>Job descriptions of the Senior Management Team of the Bank was tabled at the Nomination Committee meeting in May 2015 and a detailed review of the roles and responsibilities of each was undertaken including a review of their qualifications, experience and skill set required to discharge their duties.</p> <p>The procedure to appoint MD / CEO, KMPs and Directors was reviewed by the Nomination Committee in November 2015.</p> <p>The Nomination Committee report is given on pages 145 and 146.</p>
24. Assessment of Board Composition by the Nomination Committee	A.7.2	Adopted	<p>The Nomination Committee carries out continuous review of the structure, size and composition (including the skills, knowledge, experience and independence required of Directors) of the Board to address and challenge adequately key risks and decisions that confront, or may confront, the Board and makes recommendations to the Board with regard to any changes.</p>
25. Disclosure of details of new Directors to shareholders	A.7.3	Adopted	<p>Details of new Directors are disclosed to the shareholders at the time of their appointment by way of public announcements as well as in the Annual Report. Prior approval for appointment of new Directors is obtained from the Director of Bank Supervision of CBSL and notification is sent to Colombo Stock Exchange. All new appointments as well as continuing Directorships are reviewed by the Nomination Committee. The Directors are required to report any substantial changes in their professional responsibilities and business associations to the Nomination Committee, which will examine the facts and circumstances and make recommendations to the Board.</p>

Your Board Room Governance Report

Corporate Governance Principles	SEC & CA Sri Lanka Code Reference	Adoption Status	HNB's Extent of Compliance in 2015
A.8.Re - election → G4-38			
All Directors should submit themselves for re-election at regular intervals and at least once in every three years, and all Non Executive Directors should be appointed for a specific term and subject to re-election.			
26. Appointment of Non Executive Directors	A.8.1	Adopted	<p>Articles of Association of the Bank require 1/3 of the Directors (other than the MD / CEO) to retire from office at each Annual General Meeting. These Directors are eligible to stand for re-election by the shareholders at the Annual General Meeting. The proposed re-election of Directors is subject to prior recommendation by the full Board.</p> <p>Ms M A R C Cooray, Dr L R Karunaratne, Mr L U D Fernando and Mr Sujeewa Mudalige will retire by rotation at the AGM under the Articles of Association of the Bank. Ms M A R C Cooray, Dr L R Karunaratne, Mr L U D Fernando and Mr Sujeewa Mudalige have offered themselves for re-election, with the unanimous support of the Board.</p> <p>The following Directors joined the Board as an Independent Non Executive Director w.e.f 30th April 2015.</p> <p>Mr Rienzie Arseculeratne Mr Palitha Pelpola Mr D Soosaipillai Mr A N de Silva</p>
27. Election of Directors by the shareholders	A.8.2	Adopted	Please refer to comments above.
A.9.Appraisal of Board Performance			
The Board should periodically appraise its own performance against the pre set targets in order to ensure that the Board responsibilities are satisfactorily discharged.			
28. Appraisal of Board performance → G4-44	A.9.1	Adopted	<p>Goals and targets of the Board of Directors have been clearly set out and evaluated at the end of the year by the members.</p> <p>Further each member of the Board carried out a self assessment of his / her own effectiveness as an individual as well as effectiveness of the Board as a team for the year 2015. The outcome of the assessment was tabled at a meeting of the Board in January 2016. The Sub-Committees, except for the Audit Committee, carries out a self assessment process annually, in accordance with the pre-set criteria, to ensure they function effectively and efficiently with the objective of facilitating continuous improvement individually and collectively in the performance of the Board.</p> <p>The Audit Committee evaluation was conducted by the Non Executive Chairman, with individual assessments from the members of the Audit Committee, MD / CEO, COO, CFO, and the Chief Internal Auditor, in accordance with international best practices.</p>
29. Annual self evaluation of the Board and its Committees	A.9.2	Adopted	Refer to comments given for Section A.9.1

Corporate Governance Principles	SEC & CA Sri Lanka Code Reference	Adoption Status	HNB's Extent of Compliance in 2015																																																																																		
30. Disclosure of the method of appraisal of Board and Board Sub Committee performance	A.9.3	Adopted	Refer to comments given for Section A.9.1																																																																																		
A.10. Disclosure of Information in respect of Directors → G4-38																																																																																					
Details in respect of each Director should be disclosed in the Annual Report for the benefit of the shareholders.																																																																																					
31. Details in respect of Directors	A.10.1	Adopted	<p>Details of the Directors are given on pages 22 to 27 Directors' attendance at the Board and Board Sub-committee meetings are given on page 143.</p> <p>The total number of Board seats (excluding directorship in HNB) held by each director as at 31st December 2015, can be summarised as follows;</p> <table border="1"> <thead> <tr> <th rowspan="2">Name of Director</th> <th rowspan="2">Directorship Status</th> <th colspan="2">No of Board seats held in listed companies</th> <th colspan="2">No of Board seats held in unlisted companies</th> </tr> <tr> <th>Executive Capacity</th> <th>Non Executive Capacity</th> <th>Executive Capacity</th> <th>Non Executive Capacity</th> </tr> </thead> <tbody> <tr> <td>Mr Rienze Arseculeratne</td> <td>Independent Non Executive Chairman</td> <td></td> <td></td> <td></td> <td>2</td> </tr> <tr> <td>Mr Jonathan Alles</td> <td>Managing Director / CEO</td> <td></td> <td>1</td> <td></td> <td>6</td> </tr> <tr> <td>Ms M A R C Cooray</td> <td>Non Executive Director</td> <td></td> <td>3</td> <td></td> <td>3</td> </tr> <tr> <td>Dr L R Karunaratne</td> <td>Independent Non Executive Director</td> <td></td> <td>1</td> <td>1</td> <td>2</td> </tr> <tr> <td>Mr L U D Fernando</td> <td>Non Executive Director</td> <td></td> <td>1</td> <td></td> <td></td> </tr> <tr> <td>Mr Sujeewa Mudalige</td> <td>Independent Non Executive Director</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Ms D S C Jayawardena</td> <td>Non Executive Director</td> <td></td> <td>1</td> <td></td> <td>13</td> </tr> <tr> <td>Mr Rusi S Captain</td> <td>Non Executive Director</td> <td></td> <td>1</td> <td>15</td> <td>1</td> </tr> <tr> <td>Mr D A Cabraal</td> <td>Independent Non Executive Director</td> <td></td> <td>3</td> <td></td> <td>2</td> </tr> <tr> <td>Mr Palitha Pelpola</td> <td>Independent Non Executive Director</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Mr D Soosaipillai</td> <td>Independent Non Executive Director</td> <td></td> <td>2</td> <td></td> <td></td> </tr> <tr> <td>Mr A N de Silva</td> <td>Independent Non Executive Director</td> <td></td> <td>1</td> <td></td> <td></td> </tr> </tbody> </table>	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 Rienze Arseculeratne	Independent Non Executive Chairman				2	Mr Jonathan Alles	Managing Director / CEO		1		6	Ms M A R C Cooray	Non Executive Director		3		3	Dr L R Karunaratne	Independent Non Executive Director		1	1	2	Mr L U D Fernando	Non Executive Director		1			Mr Sujeewa Mudalige	Independent Non Executive Director					Ms D S C Jayawardena	Non Executive Director		1		13	Mr Rusi S Captain	Non Executive Director		1	15	1	Mr D A Cabraal	Independent Non Executive Director		3		2	Mr Palitha Pelpola	Independent Non Executive Director					Mr D Soosaipillai	Independent Non Executive Director		2			Mr A N de Silva	Independent Non Executive Director		1		
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Corporate Governance Principles	SEC & CA Sri Lanka Code Reference	Adoption Status	HNB's Extent of Compliance in 2015
A.11. Appraisal of the CEO			
The Board of Director should at least annually assess the performance of the Chief Executive Officer.			
32. Targets for MD / CEO	A.11.1	Adopted	The MD / CEO's performance objectives are aligned with business sustainability of the Bank. The performance targets for the MD / CEO are set at the commencement of every year by the full Board which are in line with the short, medium and long term objectives of the Bank.
33. Evaluation of the performance of the MD / CEO	A.11.2	Adopted	There is an on going process to evaluate the performance of MD / CEO against the financial and non financial targets set as described above, which is followed by a formal annual review by the Board at the end of each financial year.
B. DIRECTORS' REMUNERATION → G4-51, G4-52			
B.1. Remuneration Procedures			
The Bank should have a formal and transparent procedure for developing policy on executive remuneration and fixing the remuneration packages of individual Directors. No Director should be involved in deciding his / her remuneration in order to avoid the self review threat.			
34. HR & Remuneration Committee	B.1.1	Adopted	<p>The HR & Remuneration Committee is responsible for assisting the Board with regard to the remuneration policy for the Executive Director and the Corporate Management.</p> <p>The Committee determines and agrees with the Board, the broad policy framework for the remuneration of the MD / CEO. The MD / CEO participates at meetings when deciding the remuneration of the Corporate Management in order to recruit, retain and motivate the Corporate Management team.</p>
35. Composition of the HR & Remuneration Committee	B.1.2 B.1.3	Adopted Adopted	<p>The following Non Executive Directors served on the HR & Remuneration Committee during 2015.</p> <p>Mr Rienzie Arseculeratne (appointed w.e.f. 04th June 2015)</p> <p>Dr W W Gamage (resigned w.e.f. 29th May 2015)</p> <p>Dr Rane Jayamaha (resigned w.e.f. 30th March 2015)</p> <p>Mr L U D Fernando</p> <p>Mr Sujeewa Mudalige</p> <p>Mr D A Cabraal</p> <p>Dr W W Gamage served as the Chairman of the above Committee up to 29th May 2015. On 04th June 2015 Mr Rienzie Arseculeratne was appointed the Chairman of the Nomination Committee.</p> <p>A Board approved Terms of Reference of the Committee and a Remuneration Policy for the Board of Directors is in place.</p> <p>The HR & Remuneration Committee report is given on page 144.</p>
36. Remuneration of the Non Executive Directors	B.1.4	Adopted	The Board as a whole decides the remuneration of the Non Executive Directors. The Non Executive Directors receive a fee for being a Director of the Board and additional fee for being a member of a statutory committee. They do not receive any performance related / incentive payments.
37. Consultation of the Chairman and access to professional advice	B.1.5	Adopted	Input of the Chairman is obtained by his involvement as a member (Chairman) of the said Sub - Committee. External professional advice is sought by the HR & Remuneration Committee, on a need basis through the Board Secretary.

Corporate Governance Principles	SEC & CA Sri Lanka Code Reference	Adoption Status	HNB's Extent of Compliance in 2015
B.2. Level and make up of Remuneration			
The level of remuneration of both Executive and Non Executive Directors should be sufficient to attract and retain the Directors needed to run the Bank successfully. A proportion of Executive Directors remuneration should be structured to link rewards to the corporate and individual performance.			
38. Level and make up of the remuneration of MD / CEO	B.2.1	Adopted	<p>The Board is mindful of the fact that the remuneration of Executive and the Non Executive Directors should reflect the market expectations and is sufficient enough to attract and retain the quality of Directors needed to run the Bank. The remuneration package of the MD / CEO is structured to link rewards to corporate and individual performance.</p> <p>The Bank's remuneration framework for the MD / CEO is designed to create and enhance value for all HNB's stakeholders and to ensure there is strong alignment between the short term and long term interest of the Bank.</p>
39. Comparison of remuneration with other companies	B.2.2	Adopted	The HR & Remuneration Committee in deciding the remuneration of the Directors (including the compensation package of the MD / CEO) takes into consideration the level of remuneration paid by the other comparable companies, performance and risk factors entailed in his job.
40. Comparison of remuneration with other companies in the Group	B.2.3	N/A	The size and scale of the Bank is not comparable with any other Group companies.
41. Performance related payment to MD / CEO	B.2.4	Adopted	Please refer to Section B.2.1.
42. Executive share options	B.2.5	Adopted	Share options have been offered to the Executive Director as part of the scheme offered to Senior and Corporate Management which was approved by the shareholders of the Bank.
43. Deciding the Executive Directors remuneration	B.2.6	Adopted	In deciding the remuneration of the MD / CEO the Bank takes note of the provisions set out in Schedule E.
44. Early termination of Directors	B.2.7	N/A	Not applicable to the Board except for the MD / CEO who is an employee of the Bank and his terms of employment is governed by the contract of service.
45. Early termination not included in the initial contract	B.2.8	N/A	Refer to comments above.
46. Remuneration of the Non Executive Directors	B.2.9	Adopted	The Non Executive Directors receive a fee in line with the market practices. Non Executive Directors do not participate in the current share option plans of the Bank and / or other performance related incentive schemes.

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Corporate Governance Principles	SEC & CA Sri Lanka Code Reference	Adoption Status	HNB's Extent of Compliance in 2015
B.3. Disclosure of Remuneration			
The Bank should disclose the remuneration policy and the details of remuneration of the Board as a whole.			
47. Disclosure of remuneration	B.3.1	Adopted	Please refer to Section B.1.2 on page 118 for the details on the composition of the HR & Remunerations Committee. The Committee's report setting out the policy of the Committee is given on page 144. The remuneration paid to the Board of Directors is disclosed in aggregate in note No 17 to the Financial Statements on page 242.
C. RELATIONS WITH SHAREHOLDERS			
C.1. Constructive use of the Annual General Meeting and Conduct of General Meetings			
The Board should use the Annual General Meeting to communicate with shareholders and encourage their active participation.			
48. Use of proxy votes	C.1.1	Adopted	The Bank has a mechanism to record all proxy votes and proxy votes lodged for each resolution prior to the General Meeting.
49. Separate resolution for all separate issues	C.1.2	Adopted	The Board, remains mindful of being accountable to the shareholders and the need for transparency at all levels, striving to maintain its value framework in all shareholder dealings and communications. HNB proposes a separate resolution for each item of business, giving shareholders the opportunity to vote on each such issue, separately.
50. Availability of all Board Sub-committee Chairmen at the AGM	C.1.3	Adopted	The Board, which includes the Chairmen/ Chairpersons of the Audit, HR & Remuneration, Board Integrated Risk Management and Nomination Committees, was present at the 2015 AGM to answer any questions.
51. Adequate notice of the AGM	C.1.4	Adopted	The Annual Report including financial statements and the notice of the meeting are sent to shareholders at least 15 working days prior to the date of the AGM. All shareholders irrespective of their voting status are encouraged to attend the AGM.
52. Procedures of voting at General Meetings	C.1.5	Adopted	Voting procedures at General Meetings are circulated to the shareholders.
C.2. Communication with Shareholders			
The Board should implement effective communication with shareholders			
53. Channel to reach all shareholders of the company	C.2.1	Adopted	The primary modes of communication between HNB and the shareholders are the Annual Report and AGM. Information is provided to the shareholders prior to the AGM to give them an opportunity to exercise the prerogative to raise any issues relating to the business of HNB, either verbally or in writing prior to the AGM. The Bank will post on its website (www.hnb.net) copies of annual reports, interim reports, stock information, stock exchange announcements etc. These will be posted on the website as soon as practicable after they have been released to the stock exchange.
54. Policy and methodology for communication with shareholders	C.2.2	Adopted	The Bank will focus on open communication and fair disclosure, with emphasis on the integrity, timeliness and relevance of the information provided. The Bank will ensure information is communicated accurately and in such a way as to avoid the creation of a false market.

Corporate Governance Principles	SEC & CA Sri Lanka Code Reference	Adoption Status	HNB's Extent of Compliance in 2015
55. Implementation of the policy and methodology for communication with shareholders	C.2.3	Adopted	<p>With a view to build up global trust in HNB's Corporate Brand a formal Corporate Communication policy was put in place in 2014. This policy has been communicated to all staff members.</p> <p>Shareholders are consulted on their preference to receive the Annual Report from the Bank either by means of a CD or in hardcopy form. Shareholders may at any time elect to receive the Annual Report from the Bank in printed form. Printed copies will be provided without charge.</p>
56. Contact person in relation to shareholders' matters.	C.2.4 C.2.6	Adopted	Shareholders may, at any time, direct questions, request for publicly available information and provide comments and suggestions to Directors or Management of the Bank. Such questions, requests and comments should be addressed to the Company Secretary.
57. Process to make all Directors aware of major issues and concerns of shareholders	C.2.5	Adopted	<p>The Company Secretary shall maintain a record of all correspondence received and will deliver as soon as practicable such correspondence to the Board or individual director/s as applicable.</p> <p>The Board or individual director/s, as applicable, will generate an appropriate response to all validly received shareholder correspondence and will direct the Company Secretary to send the response to the particular shareholder.</p>
58. The process responding to shareholder matters	C.2.7	Adopted	Refer to comments given for Section C.2.5
C.3. Major and Material Transactions			
Directors should disclose to shareholders all proposed material transactions which would materially alter the net asset position of the Bank, if entered into.			
59. Major Transactions	C.3.1	Adopted	During 2015, the Bank had not engaged in or committed to any major related party transaction which materially affected HNB's net asset base.
D. ACCOUNTABILITY AND AUDIT			
D.1. Financial Reporting			
The Board should present a balanced and understandable assessment of the company's financial position, performance and prospects.			
60. Statutory and Regulatory Reporting	D.1.1	Adopted	<p>HNB has reported a true and fair view of its financial position and performance for the year ended 31st December 2015 and at the end of each quarter of 2015.</p> <p>In the preparation of quarterly and annual financial statements, HNB had complied with the requirements of the Companies Act No 07 of 2007, the Banking Act No 30 of 1988 and amendments thereto, and are prepared and presented in conformity with Sri Lanka Accounting Standards. HNB has complied with the reporting requirements prescribed by the regulatory authorities such as the Central Bank of Sri Lanka, and the Securities and Exchange Commission.</p>
61. Directors' report in the Annual Report	D.1.2	Adopted	The "Annual Report of the Board of Directors on the Affairs of the Company" which is given on pages 151 to 160 covers all areas of this Section.

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Corporate Governance Principles	SEC & CA Sri Lanka Code Reference	Adoption Status	HNB's Extent of Compliance in 2015
62. Statement of Directors', and Auditor's responsibility for the Financial Statements.	D.1.3	Adopted	The statement of "Directors' Responsibility for Financial Reporting" is given on pages 195 and 196. Auditor's reporting responsibility is given in their report on the Financial Statements on page 197. The Directors' Statement on Internal Control is given on pages 161 and 162.
63. Management Discussion and Analysis	D.1.4	Adopted	The Management Discussion and Analysis is given on pages 32 to 105.
64. Declaration by the Board that the business as a Going Concern	D.1.5	Adopted	This is given in the "Annual Report of the Board of Directors on the Affairs of the Company" on pages 151 to 160.
65. Summoning an EGM to notify serious loss of capital	D.1.6	N/A	Likelihood of such occurrence is remote. However, should the situation arise, an EGM will be called for and shareholders will be notified.
66. Related Party Transactions → G4-41	D.1.7	Adopted	<p>The Directors have instituted an effective and comprehensive system of Internal Controls for identifying, recording and disclosure of related party transactions.</p> <p>Steps have been taken by the Board to avoid any conflict of interest, that may arise, in transacting with related parties. Further, the Board ensures that no related party benefits from favourable treatment. The pricing applicable to such transactions are based on the assessment of risk and pricing model of the Bank and is comparable with that what is applied to transactions between the Bank and its unrelated customers.</p> <p>All related party transactions as defined in Sri Lanka Accounting Standard - 24 (LKAS 24) on "Related Party Transactions" is disclosed in note No 60 to the Financial Statements on pages 326 to 331.</p>
D.2. Internal Control			
The Board should have a sound system of internal controls to safeguard shareholders' investments and the Bank's assets.			
67. Annual evaluation of the risks facing the Bank and the effectiveness of the system of internal controls	D.2.1	Adopted	The Board is responsible for establishing a sound framework of risk management & internal controls and monitoring its effectiveness on a continuous basis. Through such an effective framework, HNB manages business risks and ensures that the financial information on which business decisions are made and published is reliable, and also ensures that the Bank's assets are safeguarded against unauthorised use or disposition.
68. Internal Audit Function	D.2.2	Adopted	The Bank has its in-house Internal Audit Function.

Corporate Governance Principles	SEC & CA Sri Lanka Code Reference	Adoption Status	HNB's Extent of Compliance in 2015
69. Review of the process and effectiveness of risk management and internal controls by the Audit Committee	D.2.3	Adopted	<p>The Internal Audit Division of the Bank carries out regular reviews on the internal control system including internal control over financial reporting.</p> <p>The Audit Committee monitors, reviews and evaluates the effectiveness of the risk management and Internal Control System including the internal controls over financial reporting.</p> <p>In the year 2015, the Board of Directors were satisfied with the effectiveness of the system of internal controls of the Bank. Refer the Directors' Statement on Internal Control on pages 161 and 162 for details.</p> <p>The External Auditors of the Bank have independently reviewed the report of the Directors referred to above and have issued a report which is given on page 163.</p>
70. Responsibilities of Directors in maintain a sound system of internal Control	D.2.4	Adopted	<p>The Directors' responsibility for maintaining a sound system of internal control is given in the Directors' Statement on Internal Control on pages 161 and 162.</p>
D.3. Audit Committee			
<p>The Board should have a formal and transparent arrangements in selecting and applying the accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Bank's External Auditor.</p>			
71. Composition of the Audit Committee	D.3.1	Adopted	<p>The following Directors served on the Audit Committee during 2015.</p> <p>Mr Sujeewa Mudalige - Chairman</p> <p>Dr L R Karunaratne</p> <p>Ms D S C Jayawardena (resigned w.e.f. 04th June 2015)</p> <p>Mr Rusi S Captain (resigned w.e.f. 04th June 2015)</p> <p>Mr D A Cabraal</p> <p>Mr A N de Silva (appointed w.e.f. 04th June 2015)</p> <p>The said Committee met eight (08) times during the year.</p> <p>The Board Secretary functions as the Secretary to the Audit Committee. The Directors, MD/CEO, COO, CFO, Chief Risk Officer/AGM - Risk, Chief Internal Auditor, Senior Manager - Internal Audit, Chief Compliance Officer and the External Auditor attend meetings on invitation.</p>

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Corporate Governance Principles	SEC & CA Sri Lanka Code Reference	Adoption Status	HNB's Extent of Compliance in 2015
72. Review of Objectivity of the External Auditor	D.3.2	Adopted	<p>The 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.</p> <p>The Committee sets out the policy for the engagement of the External Auditor to provide non-audit services, taking into account :</p> <ul style="list-style-type: none"> (a) Relevant regulations with regard to the provision of non-audit services and the guidelines issued by the Central Bank of Sri Lanka. (b) The External Auditor's skills and experience for providing the particular non-audit service. (c) The nature of non-audit services, the related fee levels individually and in aggregate relative to the audit firm. <p>The Audit Committee reviewed the policy for engagement of the external auditor to provide non audit services. The revised policy was approved by the Board in January 2015.</p> <p>The Audit Committee has the primary responsibility for making recommendations on the appointment, re-appointment or removal of the External Auditor in-line with professional standards and regulatory requirements.</p>
73. Terms of reference of the Audit Committee	D.3.3	Adopted	<p>The Audit Committee is guided by the Committee Charter which sets out authority and responsibility of the said Committee. The Charter was reviewed in August 2015. The Board also considered the Code of Best Practice on Audit Committees of CA Sri Lanka in defining the terms of reference for the Audit Committee.</p> <p>Duties of the committee encompasses:</p> <ul style="list-style-type: none"> - Assisting the Board in the preparation and presentation of Financial Statements - Bank's compliance with applicable regulations - Assess the processes to ensure internal controls are adequate, specially in relation to financial reporting - Assess the Bank's ability to continue as a going concern <p>The Audit Committee monitors and reviews the effectiveness of HNB's Internal Audit function. The Chief Internal Auditor reports to the Audit Committee. The Audit Committee reviews and approves the Internal Audit plan and resource requirements. It ensures that the Internal Audit plan adequately covers the significant risks of the Bank, reviews the important Internal Audit findings and follow-up procedures.</p> <p>The Audit Committee is authorised to obtain external professional advice and to invite outsiders with relevant experience to attend if necessary. The Committee also has full access to information in order to investigate into matters relating to any matter within its terms of reference.</p>

Corporate Governance Principles	SEC & CA Sri Lanka Code Reference	Adoption Status	HNB's Extent of Compliance in 2015
74. Disclosures of the Audit Committee	D.3.4	Adopted	<p>The names of the members of the Audit Committee are given in the Audit Committee Report on pages 149 and 150.</p> <p>The External Auditor, has provided an Confirmation of Independence in compliance with the "Guidelines for Appointment of Auditors of Listed Companies" issued by SEC.</p> <p>In order to safeguard the objectivity and independence of the External Auditor, the Audit Committee reviewed the nature and scope taking account of the regulations guidelines stated in Section D.3.2 on page 124.</p>
D.4.Code of Business Conduct and Ethics			
The Bank should develop a Code of Business Conduct and Ethics for Directors and members of the Senior Management team.			
75. Code of Business Conduct and Ethics → G4-58	D.4.1	Adopted	<p>The Bank has developed a Code of Business Conduct & Ethics and a Policy on Anti-Bribery & Corruption applicable for all employees, which addresses conflict of interest, corporate opportunities, confidentiality of information, fair dealing, protecting & proper use of the Bank's assets, compliance with applicable laws & regulations, encouraging the reporting of any illegal or unethical behaviour, financial integrity, insider trading, accurate accounting & record keeping, receiving gifts & entertainment etc. The code of business conduct and ethics for Directors is embodied in the Board Charter.</p> <p>The Board is not aware of any material violations of any of the provisions of the Code of business conduct and ethics by any Director or Corporate Management member of the Bank.</p>
76. Affirmation by the Chairman that there is no violation of the code of conduct & ethics	D.4.2	Adopted	Please refer to Chairman's statement on page 106 for details.
D.5. Corporate Governance Disclosures			
The Bank should disclose the extent of adoption of best practice in Corporate Governance.			
77. Disclosure of Corporate Governance	D.5.1	Adopted	This requirement is met through the presentation of this report.
E. INSTITUTIONAL INVESTORS			
E.1. Shareholders voting			
Institutional shareholders are required to make considered use of their votes and encouraged to ensure their voting intentions are translated into practice.			
78. Institutional shareholders	E.1.1	Adopted	The Annual General Meeting is used to have an effective dialogue with the shareholders on matters which are relevant and concern to the general membership. The Investor Relations team headed by the MD / CEO has regular discussions with key institutional shareholders to share highlights of the Bank's performance and also with the view to obtaining constructive feedback. The feedback obtained from institutional shareholders is communicated to the entire Board by the MD / CEO.

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Corporate Governance Principles	SEC & CA Sri Lanka Code Reference	Adoption Status	HNB's Extent of Compliance in 2015
E.2. Evaluation of Corporate Governance initiatives			
Institutional investors are encouraged to give due weight to all relevant factors in Board structure and composition.			
F. OTHER INVESTORS			
F.1. Investing / Divesting decision			
79. Individual Shareholders	F.1.1	Adopted	Individual shareholders are encouraged to carry out adequate analysis or seek independent advice on their investing, holding or divesting decisions.
F.2. Shareholder Voting			
80. Individual shareholders voting	F.2.1	Adopted	Individual shareholders are encouraged to participate at Annual General Meetings and exercise their voting rights.
G. SUSTAINABILITY REPORTING			
G.1. Principles of Sustainability Reporting			
Sustainability is a business approach that creates long term stakeholder value by embracing opportunities and managing risks derived from economic, environmental and social developments and their potential implications and impacts on the business activities of the entity.			
Sustainability reporting is the practice of recognising, measuring, disclosing and being accountable to internal and external stakeholders for organisational performance towards the goals of sustainable development in the context of the overall business activities and strategy of the entity and directed to the target stakeholders, usually shareholders, employees, customers, society and government.			
81. Economic Sustainability	G.1.1	Adopted	Please refer to the Management Discussion and Analysis on pages 32 to 105 for details
82. The Environment	G.1.2	Adopted	
83. Labour Practice	G.1.3	Adopted	
84. Society	G.1.4	Adopted	
85. Product & Service Responsibility	G.1.5	Adopted	
86. Stakeholder identification, engagement & effective communication	G.1.6	Adopted	
87. Sustainable Reporting and Disclosure	G.1.7	Adopted	

SECTION TWO

The Statement of Compliance

Central Bank of Sri Lanka issued the Direction on Corporate Governance (Banking Act Direction No 11 of 2007 and subsequent amendments thereto), in order to improve and sustain the Corporate Governance processes and practices of the Licensed Commercial Banks in Sri Lanka. The disclosures below reflect HNB's level of conformance to the above Direction which comprises of eight (8) fundamental principles, namely:

1. The responsibilities of the Board
2. The Board's composition
3. Criteria for the assessment of the fitness and propriety of Directors
4. Management functions delegated by the Board
5. The Chairman and Chief Executive Officer
6. Board appointed Sub-committees
7. Related Party Transactions and
8. Disclosures

The structures in place and the conformance to the requirement and expectations are tabulated below, under the said eight fundamental principles.

Corporate Governance Principles	CBSL Rule Reference	Compliance Status	Level of Compliance in 2015
3 (1) The Responsibilities of the Board			
1. Strengthening the safety and soundness of the Bank	Rule 3 (1) (i)	Compliant	<p>The Board Charter sets out the responsibility of the Board.</p> <p>The Board is responsible for formulating strategy, ensuring the adequacy of the risk management processes, review of the internal control system and defining the responsibility of the Corporate Management.</p> <p>The Board has strengthened the safety and soundness of the Bank through the implementation of the following:</p> <p>(a) Strategic Objectives and Corporate Values</p> <p>The Bank's strategic objectives and corporate values which are derived from our vision and mission statement have been communicated to all staff members throughout the Bank. Further, the Bank has developed a Code of Business Conduct and Ethics for all employees, which is in line with our strategic objectives and corporate values. This Code was communicated to all staff members throughout the Bank.</p>

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Corporate Governance Principles	CBSL Rule Reference	Compliance Status	Level of Compliance in 2015
			<p>(b) Overall Business Strategy</p> <p>The Board has provided direction in the development of short, medium and long term strategy of the Bank with the objective of promoting sustainability and profitable growth of the Bank.</p> <p>A Board approved strategic plan, which contains measurable goals covering the period 2015-17 is in place. The business strategy is reviewed usually on a quarterly basis by the Board with updates at Board meetings on execution of the agreed strategy. The Board approves and monitors the annual budget which is derived from Bank's strategic plan.</p> <p>Separate risk management policies for Credit Risk, Market Risk, Treasury Risk and Operational Risk are in place.</p> <p>Further, the risk management procedures and mechanisms with time bound implementation milestones was approved and monitored by the Board Integrated Risk Management Committee on a regular basis.</p> <p>(c) Risk Management</p> <p>The Board takes responsibility for the overall risk framework of the Bank. The Board Integrated Risk Management Committee ensures that the risks taken in Credit, Operational, Market, Strategic and other areas are within the approved risk appetite set out by the Board.</p> <p>The findings of the Board Integrated Risk Management Committee are submitted to the main Board for their review and further action if required.</p> <p>(d) Communication with Stakeholders</p> <p>A Board approved Corporate Communication Policy is in place. This policy was developed with a view to build up global trust in HNB's Corporate Brand. The Corporate Communication Policy was communicated to all staff members.</p> <p>The Board is responsible for ensuring timely and effective communication with shareholders and other stakeholders.</p> <p>The Bank substantially implemented the provisions of Banking Act Direction No 8 of 2011 "Customer Charter of Licensed Banks" which became effective in 2012. This Charter sets key standards of fair banking practices envisaged by customers when they undertake transactions with the Bank and provides guidelines to adopt a "Code of Conduct" on customer protection. The Charter also includes a set of customer obligations towards the Bank in the interest of a stable relationship.</p> <p>The Board has reviewed the adequacy and integrity of the Internal Control System and the Management Information of the Bank and is satisfied with same.</p>

Corporate Governance Principles	CBSL Rule Reference	Compliance Status	Level of Compliance in 2015
			<p>(e) Bank's Internal Control System and Management Information System</p> <p>The Board takes responsibility for the adequacy and integrity of the overall internal control framework of the Bank.</p> <p>The Board Audit Committee has reviewed adequacy and integrity of the Internal Control System and the Management Information of the Bank and reported to the Board.</p> <p>The Board has reviewed the adequacy and integrity of the Internal Control System and the Management Information of the Bank and is satisfied with same.</p> <p>(f) Key Management Personnel (KMP)</p> <p>Members of the Corporate Management (MD/ CEO, COO, DGMs and AGMs), Chief Manager – Treasury & Markets, Chief Manager – Planning & Investments and Chief Compliance Officer have been classified as Key Management Personnel (KMP) as per the guideline on “ Key Management Personnel in Banking Act Direction for Corporate Governance” issued by the Banking Supervision Department of CBSL.</p> <p>(g) Authority and Responsibility of Directors and Key Management Personnel</p> <p>Duties and responsibilities of the Board of Directors are included in the Board Charter. The duties and responsibilities of Key Management Personnel is formally documented through their respective job descriptions which have been approved by the Nomination Committee and the Board.</p> <p>The delegated authority limits for KMPs have been approved by the Board.</p> <p>(h) Oversight of the affairs of the Bank by Key Management Personnel</p> <p>The Board of Directors formulates policies and exercises oversight of the affairs of the Bank through the MD / CEO.</p> <p>(i) Board's own Governance Practices</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 Board on a periodic basis. Implementation of changes required are being discussed and determined by the Board at the year end through the submission of the summary of annual self-evaluations.</p>

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Corporate Governance Principles	CBSL Rule Reference	Compliance Status	Level of Compliance in 2015
			<p>(j) Succession Plan for Key Management Personnel A Board approved succession plan for Key Management Personnel is available.</p> <p>During the year, the Nomination Committee carried out several reviews with regard to roll-out / implementation of the approved succession plan.</p> <p>A comprehensive policy on succession planning for KMPs and Directors had been approved by the Board in February 2016.</p> <p>(k) Regular Meetings with Key Management Personnel The Directors have free and open contact with the Key Management Personnel of the Bank. Key Management Personnel have made presentations to Directors on important issues relating to strategy, risk management, recovery endeavours and new legal developments. Further, Non Executive Directors have the option to attend important management meetings at the invitation of MD / CEO.</p> <p>(l) Regulatory Environment The Board Secretary furnishes the Directors with a set of rules with regard to all regulatory directions and requirements including Corporate Governance, on their appointment.</p> <p>The Chairman, MD/CEO and Directors regularly meet CBSL Officials with regard to specific strategic matters of the Bank.</p> <p>(m) Hiring and Oversight of the External Auditor Article 53 (iv) of Bank's Articles of Association states the general procedure for appointment of the External Auditor by the Bank.</p> <p>The Audit Committee has the primary responsibility for making recommendations to the Board on the appointment, re-appointment or removal of the External Auditor in-line with professional standards and regulatory requirements.</p> <p>On the recommendation of the Board, the shareholders have approved the re- appointment of Messrs Ernest & Young (Chartered Accountants) as the External Auditor of the Bank.</p> <p>The Audit Committee sets out the policy for the engagement of the External Auditor to provide non-audit services. The revised policy for engagement of the external auditor to provide non-audit services was approved by the Board in January 2015.</p>
2. Chairman and CEO	Rule 3 (1) (ii)	Compliant	<p>The Board has appointed the Chairman and the Chief Executive Officer. The roles of the Chairman and the Chief Executive Officer are separate and are in line with Rule 3 (5).</p>
3. Board Meetings	Rule 3 (1) (iii)	Compliant	<p>The Board usually meets on monthly intervals, but meets more frequently whenever it is necessary.</p> <p>The Board met seventeen (17) times during the year.</p> <p>The attendance at Board meetings held in 2015 is set out on page 143.</p>

Corporate Governance Principles	CBSL Rule Reference	Compliance Status	Level of Compliance in 2015
4. Board's procedure for inclusion of proposals by all Directors in the agenda	Rule 3 (1) (iv)	Compliant	The Board approved procedure is in place to enable all Directors to include matters and proposals in the agenda on promotion of business, management of risk and other areas relevant to the progress of the Bank for regular board meetings.
5. Notice of Meetings	Rule 3 (1) (v)	Compliant	The Directors are given adequate time and usually at least seven (7) days of notice is given for regular Board meetings. For all other meetings a reasonable notice period is given.
6. Non attendance of Directors	Rule 3 (1) (vi)	Compliant	All Directors have attended at least two thirds (2/3) of the meetings held during 2015. Further no Director has been absent from three consecutive regular Board meetings during 2015.
7. Board Secretary	Rule 3 (1) (vii)	Compliant	The Board has appointed a Company Secretary who is an Attorney at Law by profession and satisfies the provisions of section 43 of the Banking Act No.30 of 1988. All Directors have access to the Board Secretary. The Board Secretary had provided the Board with support and advice relating to corporate governance matters, Board procedures and applicable rules and regulations during the year.
8. Directors access to Board secretary	Rule 3 (1) (viii)	Compliant	All Directors have access to the Board Secretary. The Board Secretary had provided the Board with support and advice relating to corporate governance matters, Board procedures and applicable rules and regulations during the year.
9. Minutes of the Meetings	Rule 3 (1) (ix) Rule 3 (1) (x)	Compliant	The minutes of the Board meetings are maintained in sufficient detail by the Board Secretary, and is open for inspection by any Director.
10. Independent professional advice	Rule 3 (1) (xi)	Compliant	A Board approved procedure has been put in place for Directors to seek independent professional advice, in furtherance of their duties, at the Bank's expense. This will be coordinated through the Board Secretary, as and when it is requested.
11. Conflicts of Interest → G4-41	Rule 3 (1) (xii)	Compliant	Article 40 of Articles of Association addresses the provision with regard to this requirement. The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and apparent) between their duty to HNB and their other interests. The Board has taken steps to ensure that conflicts and potential conflicts of interest of Directors are disclosed to the Board. Any Director with a material personal interest in a matter being considered by the Board, declares his / her interest and unless the Board resolves otherwise, he / she does not participate in discussions or vote on that specific matter.
12. Formal schedule of matters	Rule 3(1) (xiii)	Compliant	The Board reserves for itself a formal schedule of matters on which it takes the ultimate decision.
13. Situation of Insolvency	Rule 3(1) (xiv)	N/A	This situation has not arisen during the year 2015.
14. Capital adequacy	Rule 3 (1) (xv)	Compliant	The Bank has been fully compliant with the capital adequacy requirements issued by the Monetary Board during 2015.
15. Corporate Governance Report	Rule 3 (1) (xvi)	Compliant	This requirement is met through the publishing of the Corporate Governance report in the annual report.

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Corporate Governance Principles	CBSL Rule Reference	Compliance Status	Level of Compliance in 2015
16. Annual self assessment by the Directors	Rule 3 (1) (xvii)	Compliant	Individual Directors carried out an annual self-assessment of their own performance and the effectiveness of the Board as a whole. The summary findings together with areas for future improvement has been tabled at the Board meeting for discussion and endorsement by the full Board in January 2016 .
3 (2) The Board's Composition			
17. Number of Directors	Rule 3 (2) (i)	Compliant	The Board comprised of twelve (12) Directors as 31st December 2015.
18. Period of service of a Director	Rule 3 (2) (ii)	Compliant	The total period of service of all Non Executive Directors does not exceed nine (9) years.
19. Appointment of an employee as a Director	Rule 3 (2) (iii)	Compliant	Mr Jonathan Alles (MD / CEO) is the only employee appointed to the Board as at date, as such the number of Executive Directors does not exceed one third (1/3) of the number of Directors of the Board throughout the year.
20. Independent Non Executive Director	Rule 3 (2) (iv)	Compliant	The Board includes seven (7) Independent Non Executive Directors as per the definition of this Direction, which is more than one third (1/3) of the Board. The Board considers Non Executive Directors' independence on an annual basis, based on the self declaration and as part of each Director's self assessment.
21. Alternative Director	Rule 3 (2) (v)	Compliant	During the year all alternate directors appointed to represent Independent Non Executive directors were independent.
22. Credibility, skills and experience of Non Executive Directors	Rule 3 (2) (vi)	Compliant	The Board consists of professionals in the fields of Banking, Law, Accounting, Management, Economics, Engineering, Marketing, Public Administration and Business. All Directors possess the skills, experience and knowledge complemented with a high sense of integrity and independent judgment. The Board gives leadership in setting the strategic direction and establishing a sound control framework for the successful functioning of the Bank. The Board's composition reflects sound balance of independence and anchors shareholder commitment. Please refer pages 22 to 27 for the profiles of the Non Executive Directors.
23. Presence of Non Executive Directors in Board Meetings	Rule 3 (2) (vii)	Compliant	At all Board meetings convened during the year, more than one half (1/2) of the Directors present were Non Executive Directors.
24. Details of Directors	Rule 3 (2) (viii)	Compliant	Please refer page 143 for the details of the Directors and their categories.
25. Appointment of new Directors	Rule 3 (2) (ix)	Compliant	The Nomination Committee assesses the suitability of the prospective nominees to the Board and recommends persons found to be "fit and proper" for consideration of the entire Board. 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. The following persons were appointed as an Independent Non Executive Director w.e.f. 30th April 2015. Mr Palitha Pelpola Mr D Soosaipillai Mr A N de Silva Their profiles are given on pages 26 and 27.

Corporate Governance Principles	CBSL Rule Reference	Compliance Status	Level of Compliance in 2015
26. Appointment to fill a casual vacancy	Rule 3 (2) (x)	Compliant	As per Article 36 of Bank's Articles of Association all members elected to fill casual vacancies of the Board shall hold office till the next AGM and then be eligible for re-election. Mr Rienzie Arseculeratne was appointed during the year to fill in casual vacancy which arose due to resignation of Dr Raneey Jayamaha.
27. Resignation / removal of a Director	Rule 3 (2) (xi)	Compliant	The following Directors resigned during the year Dr Raneey Jayamaha - (Resigned w.e.f 30th March 2015) Dr W W Gamage - (Resigned w.e.f 29th May 2015) The above resignations and the reasons were informed to CBSL and CSE.
28. Appointments to other Banks	Rule 3 (2) (xii)	Compliant	None of the Directors are either employees or Directors of other Banks.
3 (3) Criteria to assess the fitness and propriety of Directors.			
29. Directors over 70 years of age	Rule 3 (3) (i)	Compliant	All Directors are below the age of Seventy (70) years as at 31st December 2015.
30. Holding of office in more than 20 companies	Rule 3 (3) (ii)	Compliant	No Director holds office as a Director in more than 20 companies.
3 (4) The Management function delegated by the Board			
31. Delegation of work to the management	Rule 3 (4) (i)	Compliant	As per Article 38(iii) of the Articles of Association of the Bank the Board may delegate to, entrust to and confer upon a committee of Directors or to a Director, or to any officer/employee of the company any of the powers exercisable by which it is permitted to delegate. The Board annually evaluates the delegated authority process to ensure that the delegation of work does not materially affect the ability of the Board as a whole in discharging its' functions. The Financial Authority Manual and the Credit Delegation Authority are reviewed annually by the Board as part of its delegation of authority to the Management through the MD / CEO.
32. Extent of Delegation	Rule 3 (4) (ii)	Compliant	Please refer comments above.
33. Evaluation of the delegated process	Rule 3 (4) (iii)	Compliant	Please refer comments on rule 3(4)(i) above.
3 (5) The Chairman and Chief Executive Officer			
34. Division of Responsibilities of the Chairman and MD / CEO	Rule 3 (5) (i)	Compliant	The roles of the Chairman and Chief Executive Officer are separate.

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Corporate Governance Principles	CBSL Rule Reference	Compliance Status	Level of Compliance in 2015
35. Chairman preferably be an Independent Director and if not designate a Senior Director	Rule 3 (5) (ii)	Compliant	<p>Up to 27th March 2015, Dr Raneey Jayamaha functioned as the Chairperson of the Bank. With effect from 1st May 2015, Mr Rienzie Arseculeratne was appointed as Chairman. During the interim period (from 27th March to 30th April 2015) Ms M A R C Cooray functioned as the Chairperson.</p> <p>Dr Raneey Jayamaha and Ms M A R C Cooray were considered non independent as they held office as Directors of subsidiary companies of the Bank. However, their non independent status was countered by Dr W W Gamage functioning as the Senior Director during this period.</p> <p>Mr Rienzie Arseculeratne is an Independent Non Executive Director.</p>
36. Relationship between Chairman, CEO and other Directors	Rule 3 (5) (iii)	Compliant	As declared by the Directors, there are no material relationship between the Chairman / CEO and / or other members of the Board which will impair their respective roles.
37. Role of the Chairman	3 (5) (iv)	Compliant	The Chairman's main responsibility is to lead, direct and manage the Board to ensure that it operates effectively and fully discharges its legal and regulatory responsibilities.
38. Approval Agenda for Board meetings by the Chairman	3 (5) (v)	Compliant	The Chairman approves the agenda for each Board meeting which is prepared by the Board Secretary.
39. Accurate, timely and clear information to Directors.	3 (5) (vi)	Compliant	<p>The Chairman ensured that the Board was provided with timely and appropriate information by the Management by way of Board papers and proposals. The Board sought additional information as and when necessary. The Chairman ensured that all Directors were briefed on issues arising at Board meetings.</p> <p>The Board papers are usually sent to the Directors at least a week before the respective Board meetings giving adequate time for Directors to study the related papers and prepare for a meaningful discussion at the respective meetings.</p>
40. Contribution of all Directors to the Board's affairs	3 (5) (vii) and 3 (5) (viii)	Compliant	The Chairman has encouraged effective participation of all Directors in the decision making process in order to optimise contribution. The Chairman also encouraged constructive relations between the MD /CEO and the Non Executive Directors.
41. Supervision of KMP's by Chairman	3 (5) (ix)	Compliant	The Chairman does not engage in activities involving the direct supervision KMPs or any other executive duties. The MD/ CEO is empowered by the Board to carry out all operational duties of the Bank who in turn reports to the Board.
42. Communication with Shareholders	3 (5) (x)	Compliant	The Annual General Meeting is used to have an effective dialogue with the shareholders on matters which are relevant to them.
43. The Chief Executive Officer to be the apex executive in-charge of day to day Operations and Business	3 (5) (xi)	Compliant	As per the Board approved organization structure the MD / CEO is responsible for the day-to-day operations and business of the Bank.

Corporate Governance Principles	CBSL Rule Reference	Compliance Status	Level of Compliance in 2015
3 (6) Board appointed Committees			
44. Board appointed four Sub - committees	Rule 3 (6) (i)	Compliant	<p>There are four (4) Board appointed Sub-committees including the Audit Committee, Board Integrated Risk Management Committee, Human Resources & Remuneration Committee and Nomination Committee, which are prescribed by the CBSL Direction (mandatory Sub-Committees).</p> <p>In addition the Bank has established five (5) committees to assist the Bank's operations/ decision making process. These committees include the Credit / Asset & Liability Committee, Procurement Committee, Committee for Disposal of Asset / Investment Properties, Strategic & Investment Review Committee and Branch Rationalisation Committee.</p> <p>Meeting minutes and recommendations of the Sub - Committees are submitted to the Board by the respective secretaries of the Sub-Committees.</p>
45. Audit Committee			
45.01 Chairman of the Audit Committee	Rule 3 (6) (ii) (a)	Compliant	Mr Sujeewa Mudalige (Independent Non Executive Director) is the Chairman of the Audit Committee. Mr Mudalige is a fellow member of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), the Chartered Institute of Management Accountants (CIMA - UK), Fellow of the Association of Chartered Certified Accountants (ACCA - UK) and Fellow of the Certified Public Accountants (CPA - Australia) He is a past president of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).
45.02 Composition of the Audit Committee	Rule 3 (6) (ii) (b)	Compliant	All the members of the Audit Committee are Independent Non Executive Directors as at 31st December 2015. Further the majority of members of the committee were Independent Non Executive Directors throughout the year.
45.03 Recommendation to the Board	Rule 3 (6) (ii) (c)	Compliant	<p>The Audit Committee has the primary responsibility for making recommendations to the Board on the, appointment, re-appointment or removal of the External Auditor in-line with professional standards and regulatory requirements. The Committee also evaluates and makes recommendations to Board with regard to the audit fee.</p> <p>On the recommendation of the Board, the shareholders have approved the re- appointment of Messrs Ernest & Young (Chartered Accountants) as the External Auditor of the Bank.</p> <p>The Committee also reviews the accounting policies to determine the most appropriate accounting policies after considering all options available.</p>
45.04 Monitoring and review of the External Auditor's independence, objectivity and the effectiveness	Rule 3 (6) (ii) (d)	Compliant	The 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.

Your Board Room Governance Report

Corporate Governance Principles	CBSL Rule Reference	Compliance Status	Level of Compliance in 2015
45.05 Policy for the engagement of the External Auditor to provide non-audit services	Rule 3 (6) (ii) (e)		<p>The Committee sets out the policy for the engagement of the External Auditor to provide non-audit services.</p> <p>The Audit Committee reviewed the policy for engagement of the external auditor to provide non audit services. The revised policy was approved by the Board in January 2015.</p> <p>Please refer Section D.3.2 of the SEC & CA Sri Lanka Code table on pages 124 for further details.</p>
45.06 Nature and Scope of External Audit	Rule 3 (6) (ii) (f)	Compliant	The Committee met with the External Auditor twice (2) during the year to discuss their audit approach and procedures including matters relating to the scope of the audit and auditor's independence.
45.07 Review of Financial Information of the Bank	Rule 3 (6) (ii) (g)	Compliant	The Audit Committee has a process to review financial information of the Bank, in order to monitor the integrity of the financial statements of the Bank. The Audit Committee reviewed the Bank's Annual Report and quarterly Financial Statements before the submission to the Board for approval.
45.08 Meeting with External Auditors	Rule 3 (6) (ii) (h) and (l)	Compliant	The Committee met the External Auditor twice (2) without the presence of the Executive Director and the Management.
45.09 External Auditor's Management Letter	Rule 3 (6) (ii) (i)	Compliant	During the year, the Audit Committee reviewed the year end Management Letter for 2014, and the responses thereto with the External Auditor and the Management team.
45.10 Internal Audit	Rule 3 (6) (ii) (j) and (k)	Compliant	<p>During the year, the Audit Committee reviewed the independence, objectivity and performance of the Internal Audit Function. The findings of the internal audits completed during the year and the internal audit department's evaluation of the Bank's internal controls were reviewed by the Audit Committee.</p> <p>The Audit Committee also reviewed the adequacy of coverage of the internal audit plan and approved the same. It also assessed the Department's resource requirements including succession planning. The Committee reviewed the performance appraisal of the Chief Internal Auditor and other senior staff members of the Internal Audit Department. Committee has also considered major findings of internal investigations and management's responses thereto.</p> <p>During the year the committee recommended the appointment of Mr Niroshana Seneviratne to head the Internal Audit function of the Bank.</p>
45.11 Terms of Reference	Rule 3 (6) (ii) (m)	Compliant	The Board Audit Committee is guided by the Committee Charter which sets out authority and responsibility of the said Committee. The Charter was reviewed in August 2015. The Audit Committee is authorized 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 into matters relating to any matter within its terms of reference
45.12 Meetings	Rule 3 (6) (ii) (n) and (o)	Compliant	<p>The Board Audit Committee met eight (8) times for 2015. The attendance at Audit Committee meetings held in 2015 is set out on page 143.</p> <p>The Board Audit Committee report is given on pages 149 and 150 sets out the activities of the Committee during 2015.</p>

Corporate Governance Principles	CBSL Rule Reference	Compliance Status	Level of Compliance in 2015
45.13 Secretary	Rule 3 (6) (ii) (p)	Compliant	The Company Secretary also acts as secretary to the Audit Committee.
45.14 Process by which employees raise concerns in confidence	Rule 3 (6) (ii) (q)	Compliant	<p>A Board approved whistle blowing policy is in place. The whistle blowing policy and the mechanism had been communicated to all staff members.</p> <p>The Audit Committee reviews issues relating to breach of ethics if any and the arrangements by which the staff of the Bank may in confidence 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.</p> <p>The Board Charter addresses the Boards responsibility to encourage any communication regarding non compliances and unethical behaviour within the Bank.</p>
46. Human Resources & Remuneration Committee			
46.01 Remuneration Policy	Rule 3 (6) (iii) (a)	Compliant	<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.</p> <p>The Remuneration Policy for the Board of Directors was reviewed in May 2015. The HR & Remuneration Committee had also put in place a remuneration policy for all employees of the Bank (which includes the Key Management Personnel of the Bank). In addition a specific remuneration policy for the MD / CEO is currently in place.</p>
46.02 Goals and Targets	Rule 3 (6) (iii) (b)	Compliant	<p>The goals and targets of the Board of Directors have been clearly set out. and evaluated at the end of the year.</p> <p>The goals and targets for the MD/CEO and the senior leadership team are documented under the Balance Score Card system.</p>
46.03 Performance Evaluation	Rule 3 (6) (iii) (c)	Compliant	<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 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>
46.04 Meetings	Rule 3 (6) (iii) (d)	Compliant	<p>The Committee met eight (8) times during the year.</p> <p>The MD/CEO attends Human Resources & Remuneration Committee by invitation. The MD/CEO is not present at the time his performance is being discussed.</p>
47. Nomination Committee			
47.01 Procedure to select/ appoint MD / CEO, KMPs and Directors	Rule 3 (6) (iv) (a)	Compliant	A formal procedure to appoint MD/CEO, KMPs and Directors is in place.
47.02 Re- election of Directors	Rule 3 (6) (iv) (b)	Compliant	The Committee considers and recommends the re-election of the Directors to the Board. The Committee also set criteria of the succession of the MD/CEO.

Your Board Room Governance Report

Corporate Governance Principles	CBSL Rule Reference	Compliance Status	Level of Compliance in 2015
47.03 Criteria such as qualifications, experience and key attributes for eligibility to be considered for appointment or promotion to the post of CEO, and Key Management Personnel	Rule 3 (6) (iv) (c)	Compliant	Job descriptions of the Senior Management team of the Bank was tabled at the Nomination Committee meeting in May 2015 and a detailed review of the roles and responsibilities of each was undertaken including a review of their qualifications, experience and skill set required to discharge their duties.
47.03 Fit and proper person to hold office	Rule 3 (6) (iv) (d)	Compliant	Each Director including the MD / CEO carries out an assessment of "fitness and propriety" to serve as a Director of the Bank. These declarations reviewed by the Nomination Committee prior to onward transmission to the Director Bank Supervision of the Central Bank of Sri Lanka.
47.04 Formal Succession plan for the retiring directors and KMPs	Rule 3 (6) (iv) (e)	Compliant	During the year the Nomination Committee reviewed the additional/new expertise requirements and succession arrangements for the MD/ CEO and the Senior Management Cadre, in line with Bank's strategic objectives and specific recommendations were made to the Board to fill the identified gaps with a time bound plan. During 2015 the Nomination Committee has put in place a succession plan for certain key Board Sub-Committee positions.
47.05 Chairman of the Committee	Rule 3 (6) (iv) (f)	Compliant from 19.01.2015	<p>The following Directors served on the Nomination Committee during 2015.</p> <p>Mr Rienzie Arseculeratne (appointed w.e.f. 04th June 2015)</p> <p>Dr Raneer Jayamaha (resigned w.e.f 30th March 2015)</p> <p>Dr W W Gamage (resigned w.e.f 29th May 2015)</p> <p>Ms M A R C Cooray</p> <p>Mr Rusi S Captain</p> <p>Mr Palitha Pelpola (appointed w.e.f. 04th June 2015)</p> <p>Since the Nomination Committee was chaired by a Non Independent Director (Dr Raneer Jayamaha) during the interim period 31.10.2014 - 18.01.2015, the Bank was Non-Compliant with the said CBSL rule up to 18th January 2015. Dr W W Gamage was appointed the Chairman of the Nomination Committee w.e.f. 19th January 2015. On 04th June 2015 Mr Rienzie Arseculeratne was appointed as the Chairman of the said committee</p>

Corporate Governance Principles	CBSL Rule Reference	Compliance Status	Level of Compliance in 2015
48. Integrated Risk Management Committee			
48.01 Composition of the Committee	Rule 3 (6) (v) (a)	Compliant	<p>The following personnel served on the Board Integrated Risk Management Committee during 2015.</p> <p>Ms M A R C Cooray - Non Executive Director</p> <p>Dr Raneey Jayamaha - Non Executive Director (resigned w.e.f 30th March 2015)</p> <p>Mr Jonathan Alles - Managing Director / CEO</p> <p>Dr L R Karunaratne - Independent Non Executive Director (resigned w.e.f 04th June 2015)</p> <p>Ms D S C Jayawardena - Non Executive Director</p> <p>Mr L U D Fernando- Non Executive Director</p> <p>Mr D Soosaipillai - Independent Non Executive Director (appointed w.e.f. 04th June 2015)</p> <p>Ms S Gnanapragasam - Chief Risk Officer /A G M - Risk (resigned w.e.f 9th October 2015)</p> <p>Mr Damith Pallewatte – Chief Risk Officer /A G M - Risk (appointed 01st December 2015)</p> <p>Mr C B Wijayaratne – Chief Compliance Officer</p> <p>The COO, CFO, CIO /AGM – IT and Chief Internal Auditor attend meetings on invitation.</p> <p>Ms M A R C Cooray serves as the Chairperson of the above Committee.</p>
48.02 Process to assess all risks	Rule 3 (6) (v) (b)	Compliant	<p>The Bank's Risk Management function assesses, risks in credit, market, liquidity, and operational areas and reports are submitted to the BIRMC through the Chief Risk Officer.</p> <p>Risk dashboard consisting of credit, recoveries, operational and market risks are reviewed periodically by the BIRMC. The Committee has set up limits wherever required.</p> <p>The risk management process followed by the subsidiary companies has also been reviewed by the BIRMC during 2015.</p>
48.03 Review of specific qualitative and quantitative risk limits for management level Committees	Rule 3 (6) (v) (c)	Compliant	<p>The BIRMC has reviewed specific qualitative and quantitative risk limits for important management committees including the Asset and Liability Committee (ALCO) and the Credit Policy Committee.</p>
48.04 Review of risk indicators which have gone beyond the specified risk limits	Rule 3 (6) (v) (d)	Compliant	<p>The Committee has reviewed and considered number of risk indicators which have gone beyond the specific qualitative and quantitative risk limits through the dash boards.</p>
48.05 Meetings	Rule 3 (6) (v) (e)	Compliant	<p>The BIRMC met nine (9) times during 2015. The Sub-Committee had kept the Board informed of their risk assessment of the Bank continuously during the year.</p>

Your Board Room Governance Report

Corporate Governance Principles	CBSL Rule Reference	Compliance Status	Level of Compliance in 2015
48.06 Action against officers responsible for failure to identify and take prompt corrective action	Rule 3 (6) (v) (f)	Compliant	This process will be coordinated through the Bank's Human Resources Division when deemed necessary by the BIRMC.
48.07 Submission of risk assessment report to the Board	Rule 3 (6) (v) (g)	Compliant	Detailed reports of the BIRMC meetings is submitted to the Board at the subsequent Board meeting
48.08 The Compliance Function	Rule 3 (6) (v) (h)	Compliant	<p>The Integrated Risk Management Committee also oversees the compliance function. The designated Chief Compliance officer reports directly to the BIRMC.</p> <p>The compliance function assesses the Bank's compliance with laws and regulations and reports to the BIRMC on a periodic basis.</p> <p>During the year the Compliance division has also put in place a process for the assessment of the Bank's compliance with internal controls and approved policies.</p>
3 (7) Related Party Transactions			
49. Avoiding conflicts of interest in related party transaction and favourable treatment	Rule 3 (7) (i) Rule 3 (7) (ii) Rule 3 (7) (iii)	Compliant	<p>A formal policy to enhance the transparency of Related Party Transactions had been put in place by the Board of Directors.</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 and Sri Lanka Accounting Standard - 24 (LKAS 24) on "Related Party Transactions". Further, the Board ensures that no related party benefits from favourable treatment. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Bank and is comparable with that what is applied to transactions between the Bank and its unrelated customers.</p> <p>The net accommodation granted to each category of related parties as a percentage of the Bank's regulatory capital is given under Rule 3 (8) (ii) (e).</p>
50. Accommodation to Directors and / or their close relatives	Rule 3 (7) (iv)	Compliant	All accommodations to Directors and / or their close relatives are approved by at least 2/3 of the Board. The Director concerned is not a part of the approval process. All accommodations to Directors and / or their close relatives are secured by security which is prescribed by the Monetary Board.
51. Appointment of Director subsequent to approval of facilities to him / her	Rule 3 (7) (v)	Compliant	As at the balance sheet date accommodations granted to the newly appointed director was within the exemption period of one year allowed by CBSL for providing approved security.
52. Accommodation to employees	Rule 3 (7) (vi) Rule 3 (7) (vii)	Compliant	Accommodation has not been given to employees on a favourable basis other than the general schemes applicable to all employees of the Bank.

Corporate Governance Principles	CBSL Rule Reference	Compliance Status	Level of Compliance in 2015																		
3 (8) Disclosures																					
53. Financial reporting, statutory and regulatory reporting	Rule 3 (8) (i)	Compliant	The Financial Statements for the year ended 31st December 2015, are in conformity with all rules and regulatory requirements and for the quarters then ended have been published in the newspapers in all three languages.																		
54. Minimum disclosure in the Annual Report	Rule 3 (8) (ii)	Compliant	<p>(a) Compliance with applicable accounting standards and regulatory requirements has been reported under the "Directors' Responsibility for Financial Reporting" on pages 195 and 196, the "CEO's and CFO's Responsibility Statement" on page 194 and note No 2.1.1 (Statement of Compliance) to the Financial Statements on page 206.</p> <p>(b) Directors' report on the effectiveness of the internal control system over financial reporting is given under the Directors' Statement on Internal Control on pages 161 and 162.</p> <p>(c) 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 163. The recommendations made by the Auditors where relevant, will be dealt with in 2016.</p> <p>(d) Details of the Directors are given on pages 22 to 27 Directors' transactions with the Bank have been disclosed in note No. 60 to the Financial Statements on pages 326 to 331. The remuneration paid to the Board of Directors is disclosed in aggregate in note No. 17 to the Financial Statements on page 242.</p> <p>(e) The net accommodation granted to each category of related parties is 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>Directors & Key Management Personnel (KMP) and their close family Members</td> <td>161.89</td> <td>0.26</td> </tr> <tr> <td>Subsidiaries</td> <td>162.67</td> <td>0.26</td> </tr> <tr> <td>Joint Venture</td> <td>1,742.14</td> <td>2.75</td> </tr> <tr> <td>Entities controlled by KMPs and their close Family Members</td> <td>3,724.02</td> <td>5.89</td> </tr> <tr> <td>Government of Sri Lanka/ Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka</td> <td>22,874.41</td> <td>36.15</td> </tr> </tbody> </table>	Category of Related Party Transactions	(Rs Mn)	%	Directors & Key Management Personnel (KMP) and their close family Members	161.89	0.26	Subsidiaries	162.67	0.26	Joint Venture	1,742.14	2.75	Entities controlled by KMPs and their close Family Members	3,724.02	5.89	Government of Sri Lanka/ Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka	22,874.41	36.15
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Your Board Room Governance Report

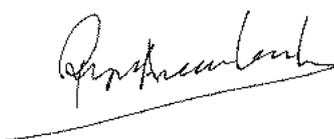
Corporate Governance Principles	CBSL Rule Reference	Compliance Status	Level of Compliance in 2015										
			<p>(f) The aggregate amount of remuneration paid during 2015 to Key Management Personnel and the transaction with Key Management Personnel are given below</p> <table border="1"> <thead> <tr> <th></th> <th>(Rs Mn)</th> </tr> </thead> <tbody> <tr> <td>Remuneration Paid</td> <td>300.11</td> </tr> <tr> <td>Loans and Advances</td> <td>241.03</td> </tr> <tr> <td>Deposits</td> <td>159.90</td> </tr> <tr> <td>Investments in HNB shares</td> <td>83.35</td> </tr> </tbody> </table> <p>(g) 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. Their 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 2016.</p> <p>(h) There were no material non - compliance to prudential requirements, regulations, laws and internal controls affecting the Bank.</p> <p>(i) There were no supervisory concerns on lapses in the Bank's risk management system or non compliance with this Direction that have been pointed out by the Director of the Bank Supervision Department of the CBSL and requiring disclosure to the public.</p>		(Rs Mn)	Remuneration Paid	300.11	Loans and Advances	241.03	Deposits	159.90	Investments in HNB shares	83.35
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55. Transitional and other general provisions	Rule 3 (9)	Compliant	The Bank has complied with the transitional and other general provisions.										

Report from External Auditors

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. Their 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.



Jonathan Alles
Managing Director / Chief Executive Officer



Rienzie Arseculeratne
Chairman

Board and the Committee Attendance

The number of meetings of the Board, Board appointed Sub - committees and individual attendance by members is shown below.

Names	Directorship Status	Board	Audit Committee	Nomination Committee	HR & Remuneration Committee	Board Integrated Risk Management Committee	Strategic Review Committee	Credit Committee	Branch Rationalization Committee	Procurement Committee
Total No. Meetings		17	8	5	8	9	7	6	4	10
Mr Rienzie Arseculeratne	Independent Non Executive Chairman (appointed to the Board w.e.f. 30th April 2015)	*10/10		2/2	4/4		2a	1a	1a	
Mr Jonathan Alles	Managing Director / CEO	15/17	8a	5a	8a	8/9	5a	4a	2a	6a
Ms M A R C Cooray	Non Executive Director	17/17	8a	5/5	1a	9/9	6/7	3/3		
Dr L R Karunaratne	Independent Non Executive Director	15/17	**6/8			4/4	1/2	1/3		10/10
Mr L U D Fernando	Non Executive Director	17/17			8/8	9/9			3/4	2/5
Mr Sujeewa Mudalige	Independent Non Executive Director	***13/17	8/8		7/8	1a	7/7	3/3		
Ms D S C Jayawardena	Non Executive Director	16/17	3/4		1a	9/9			3/4	10/10
Mr Rusi S Captain	Non Executive Director	**14/17	2/4	**2/5					0/4	
Mr D A Cabraal	Independent Non Executive Director	**16/17	8/8	1a	7/8		7/7	0/3		
Mr Palitha Pelpola	Independent Non Executive Director (appointed to the Board w.e.f. 30th April 2015)	*8/10		1/2				1/3		
Mr D Soosaipillai	Independent Non Executive Director (appointed to the Board w.e.f. 30th April 2015)	*10/10			1a	5/5	5/5			5/5
Mr A N de Silva	Independent Non Executive Director (appointed to the Board w.e.f. 30th April 2015)	*10/10	4/4					3/3	2/2	
Dr Rane Jayamaha	Non Executive Chairperson (resigned from the Board w.e.f. 30th March 2015)	5/6	1a	2/2	3/3	2/2	1/1	2/2	1a	3/3
Dr W W Gamage	Senior Independent Non Executive Director (resigned from the Board w.e.f. 29th May 2015)	***7/9		**2/3	4/4				0/2	1/4

The papers relating to Credit are circulated to the members of the respective Board appointed Sub-committees set out below. If a Director has an interest in the relevant subject matter under consideration, he / she declares his / her interest to the respective Committee and withdraws from the approval process.

Names	Total No of Credit papers approved in 2015
Total No. of papers approved in 2015	377
Mr Rienzie Arseculeratne	216
Mr Jonathan Alles	347
Ms M A R C Cooray	274
Dr L R Karunaratne	142
Mr L U D Fernando	38
Mr Sujeewa Mudalige	135
Ms D S C Jayawardena	71
Mr Rusi S. Captain	31
Mr D A Cabraal	148
Mr Palitha Pelpola	10
Mr D Soosaipillai	26
Mr A N de Silva	62
Dr Rane Jayamaha	89
Dr W W Gamage	48

Key:

- * One meeting attended as an observer
- ** In addition 1 meeting was attended by alternate director
- *** In addition 2 meeting was attended by alternate director
- **** In addition 3 meeting was attended by alternate director
- a Meetings attended by invitation
- Chairman/Chairperson of the Board/respective sub-committee as at 31.12.2015

HR and Remuneration Committee Report

Composition of the Committee

The Human Resources & Remuneration Committee ("the Committee"), appointed by the Board of Directors comprises four Non-Executive Directors of whom three including the Chairman are Independent Directors. One member is Non-Independent. The following Directors serve on the HR & Remuneration Committee:

Mr Rienzie Arseculeratne (IND / NED)- Chairman, appointed w.e.f. 4th June 2015

Mr Sujeewa Mudalige (IND / NED)

Mr L U D Fernando (NIND / NED)

Mr Amal Cabraal (IND / NED)

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

Brief profiles of the Directors are given on pages 24 to 27 of the Annual Report.

The Managing Director / Chief Executive Officer (MD / CEO) who is responsible for the overall management of the Bank, attends meetings and participates in the Committee meetings by invitation. The MD / CEO took part in all deliberations except when his own interests, performance and compensation were discussed.

The Chief Human Resource Officer/AGM (Human Resources) functions as the Secretary to the Committee.

Policy

The Bank's remuneration policy aims to attract, motivate and retain talent in a competitive environment with the appropriate professional, managerial and operational expertise necessary to achieve the objectives of the Bank.

It is the focus of the Committee to ensure that the total remuneration package is sufficiently competitive to attract the best available talent to the Bank.

The remuneration of the MD / CEO, COO and corporate management is designed to create and enhance value for all stakeholders of the Bank and to ensure alignment between the short and long term interests of the Bank and its management.

Scope

The Committee is vested with power to examine, evaluate and recommend to the Board of Directors on any matter that may affect the human resources management of the Bank within its Terms of Reference (TOR) and any other matters as may be referred to it by the Board.

The Committee sets targets and goals for the Directors, MD/CEO and the Key Management Personnel annually. It reviews all significant Human Resource policies and initiatives, salary structures and terms and conditions relating to staff at senior management level. In this process, necessary information and recommendations are obtained from the MD/CEO and Chief Human Resource Officer/AGM (Human Resources). The Committee deliberates upon and recommends to the Board of Directors 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.

The organisational structure is also reviewed periodically and adjustments are made according to the focus of the Strategic Plan. An on going priority is to ensure proper succession for key posts. In doing so, the aspirations for career progression of Management are taken into account.

Recruitments and promotions of staff at management level are also considered and approved based on proposals submitted by the MD/CEO and Chief Human Resource Officer/AGM (Human Resources) following a formal process of evaluation and thereafter recommended to the Board for ratification. Interviews are held to assess the core competencies of applicants for key posts.

Reports of meetings of the Committee with its recommendations are referred to the Board for discussion and ratified or otherwise acted upon by the Board of Directors.

During the year under review, Terms of Reference for this Committee together with certain other HR policies were formalized and ratified by the Board on presentation.

Meetings

The Committee met seven (07) times during 2015.

Attendance at the meetings is given in the table at page 143 of the Annual Report.

Fees

All Non-Executive Directors receive a monthly fee for participation in the deliberations of the Board including attendance at meetings as per the Director's Remuneration Policy. They may also receive fees for attending sub-committee meetings, and/or meetings of subsidiary boards. They do not receive any performance or incentive payments.

Professional Advice

The Committee has the authority to seek external professional advice on matters within its purview.

Committee Evaluation

The Committee completed the evaluation process with self-assessment in 2015, which was conducted by the Chairman and Committee Members and was deemed to be satisfactory.



Rienzie Arseculeratne
Chairman
Human Resources & Remuneration Committee

Colombo, Sri Lanka
19th February 2016

Nomination Committee Report

Composition of the Nomination Committee

The Nomination Committee ("the Committee") comprises of four Non-Executive Directors appointed by the Board of Directors of the Bank. The following Directors serve / served on the Nomination Committee during the year under reference:

Mr Rienze Arseculeratne - Chairman (IND/NED) Appointed w.e.f. 4th June 2015

Ms M A R C Cooray (NIND/NED)

Mr R S Captain (NIND/NED)

Mr Palitha Pelpola (IND/NED) Appointed w.e.f. 4th June 2015

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

Brief profiles of the members of the Committee are given at pages 24 to 27 of the Annual Report.

The Board Secretary functions as the Secretary to the Nomination Committee.

Committee Responsibilities

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

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

The Terms of Reference (TOR) of the Nomination Committee, which was adopted by the Board of Directors in 2012 was further refined in 2013 and 2014. Thereafter, it was reviewed and amended by the members at their meeting held on 19th January

2015 as per the latest intimation by the regulator on improvement of Corporate Governance for the banking industry.

Committee Meetings and How it Discharged its Duties

The Nomination Committee met four (4) times during the year under review, and its main focus was on the following:

Board Composition

- Identified skill gaps and vacancies created at Board level and made recommendations for the appointment of 4 new Directors;
- Re-structured the Board statutory and non - statutory Sub - Committees twice during the year and set out clear guidelines/principles on the constitution of such Committees;
- Assessed the fitness and propriety of the Directors holding office in terms of the provisions of the Banking Act and the directions of the Monetary Board relating to Corporate Governance;
- Recommended the re-appointment of Directors who retired by rotation after considering their respective contributions during the previous year;

Succession Planning

- Continuously assessed the adequacy of the expertise available at the Senior Management level;
- Reviewed and discussed the processes, overall methodology and contingency plans in place for senior strategic roles;
- Reviewed the bank's succession and talent management programme below Board level;
- Specifically discussed succession planning for the positions of Key Management Personnel of the Bank and reviewed potential candidates for these roles;

Board Effectiveness

- Reviewed and recommended all new appointments to the Boards of subsidiary and associate companies of the Bank.
- Reviewed and recommended all strategic recruitments to the Senior Management cadre of the Bank;
- Job Descriptions (the JDs) of the Key Management Personnel were analysed in detail and the Committee was satisfied that the JDs are in line with the respective qualifications, experience and key attributes set forth by the Committee pertaining to each office of KMP;
- Recommended that combined meetings of the Board and the management to be held in order to ensure that the Directors contribute effectively to the finalisation of the three year Strategic Plan prepared by the Bank;

Nomination Committee Report

Committee Attendance

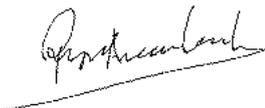
Attendance by the Committee members at the meetings is given in the table on page 143 of the Annual Report. The Chief Executive Officer also attended one (01) meeting by invitation.

Re-election / Re-appointment of Directors at the 47th Annual General Meeting

Four Directors namely Mrs M A R C Cooray, Dr L R Karunaratne, Mr L U D Fernando and Mr Sujeewa Mudalige, representing 1/3rd of the Board, are to retire by rotation and are eligible to be re-elected / re-appointed at the 47th Annual General Meeting to be held on 30th March 2016. The Committee, taking into account their contribution and the manner in which they have discharged their responsibilities, decided to recommend the aforesaid names to be formally approved by the Board of Directors. Accordingly, the Board at its meeting held on 19th February 2016, decided that Mrs M A R C Cooray, Dr L R Karunaratne, Mr L U D Fernando and Mr Sujeewa Mudalige should be re-elected / re-appointed at the next Annual General Meeting.

Committee Effectiveness

- The performance of the Committee is reviewed each year as part of the Board effectiveness review.
- The Committee completed the self-assessment for the year 2015, which was conducted by the Chairman and Committee Members and the review concluded that the Committee continues to operate effectively.



Rienzie Arseculeratne
Chairman
Nomination Committee

Colombo, Sri Lanka
19th February 2016

Board Integrated Risk Management Committee Report

At the end of 2015, the Board Integrated Risk Management Committee (BIRMC) comprised of seven (7) members, of which four (4) members were Non-Executive Directors.

Members

Ms M A R C Cooray, Chairperson (NIND / NED)

Mr L U D Fernando (NIND / NED)

Ms D S C Jayawardena (NIND / NED)

Mr D Soosaipillai (IND / NED)

Appointed w.e.f. 4th June 2015

Mr Jonathan Alles, Managing Director / CEO

Mr Damith Pallewatte, Chief Risk Officer / AGM-Risk

Appointed w.e.f. 1st December 2015

Mr C B Wijyaratne, Chief Compliance Officer

Invitees from the Management

Mr D P N Rodrigo, Chief Operating Officer

Mr Sidath Wijeratne, Chief Information Officer / AGM-IT

Mr Ashok Goonesekere, Chief Financial Officer

Mr Niroshana Seneviratne, AGM - Internal Audit

Appointed w.e.f. 21st August 2015

Other Invitees

Mr Sujeewa Mudalige (IND/NED) was invited to participate at the meetings as an observer.

Brief profiles of the Directors representing the Committee are given on pages 24 to 27 of the Annual Report.

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

Compliance

The BIRMC was established as a Committee of the Board, in compliance with Section 3 (6) of the Banking Act Direction No. 11 of 2007, on "Corporate Governance for Licensed Commercial Banks in Sri Lanka".

The composition and the scope of work of the Committee are in conformity with the provisions of the aforementioned Direction.

The Bank has adopted an Integrated Risk Management (IRM) framework in line with the Central Bank of Sri Lanka Banking Act Direction No. 7 of 2011.

The Primary Responsibilities of the Committee

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

- To ensure that the Bank has a comprehensive risk management framework, appropriate compliance policies and systems in place.
- To assess all risk types, including but not limited to: credit, market, liquidity, operational and strategic/reputational risks to the Bank through appropriate risk indicators and management information.

- To ensure risk decisions are taken in accordance with established delegated authorities and corrective actions are taken to mitigate risks taken beyond the risk tolerance set by the Committee, on the basis of Bank's policies and regulatory and supervisory requirements.
- To monitor and assess the effectiveness of the Bank's Risk Management System and the robustness of the risk management function.
- Periodically assess performance against internally defined risk appetite.
- Review issues raised by Internal Audit that impact upon the Risk Management framework.
- To review progress on the Basel II and Basel III Roadmap implementations.

Other Responsibilities of the Committee

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

The Year in Retrospect

The Committee set a challenging target to reduce NPA below the 3% level at the beginning of the year. Through the continuous monitoring, relentless recovery efforts, improved credit quality and watch-listing, the Bank was able to achieve a NPA rate of 2.43% in 2015 as compared to 3.16% in 2014.

In addition to the regular review and monitoring of the Bank's risk management dashboards, related policies, processes and procedures, the Committee also reviewed the following areas in 2015:

- Initiatives taken to strengthen the Bank's Internal Capital Adequacy Assessment Process (ICAAP) :
 - Formulation of the Bank's risk appetite statement
 - Development of a risk template and score card to assess group risk
 - Setting tolerance levels for the key risk indicators (KRIs) introduced for operational risk
 - Forecasting of the internally assessed capital adequacy ratios for the next three years
- Assessment of the Alternative Standardised Approach (ASA) for the measurement of operational risk
- Implementation of the Basel III guidelines covering capital and liquidity requirements
- Group risk was re-assessed as a result of the newly acquired company Prime Grameen Finance in the 4th quarter of 2014 and also through the segregation of HNB Assurance PLC into two legal entities covering life and non-life insurance business in January 2015. Group risk is reviewed on a quarterly basis

Board Integrated Risk Management Committee Report

through the risk management reports submitted by the Bank's group entities with their representatives making presentations to the Committee at least once a year.

- Two dedicated BIRMC meetings were held to discuss the Compliance Risk report. The following key areas were given due attention, in addition to the other usual items incorporated therein:
 - Review of the CBSL directions issued, to ascertain the level of compliance
 - Progress of the Data Governance project
 - Assessment of adequacy and effectiveness of processes, in meeting the provisions of approved policy documents
 - Assessment of compliance on FATCA regulations whilst ensuring uniformity across the industry
 - Training initiatives via eLearning towards knowledge enhancement and awareness building on regulatory requirements among staff at all levels
 - Improvements in compliance risk monitoring by linking compliance ratings to the performance review of branches

Future Plans

In 2016, the Committee has undertaken to strengthen the ICAAP overview, group risk, operational risk in branches, new system implementations and increased surveillance for centralised operations, digital banking and other areas.

Meetings

Nine (09) meetings were held and at least one in each quarter. Attendances at the meetings are given in table on page 143 of the Annual Report. The discussions and conclusions reached at the meeting are recorded in minutes and circulated to the Board of Directors for information and advice. The Chairperson of the Committee also briefs the Board of Directors on the main findings of the Committee at each Board meeting.

Professional Advice

The Committee has the authority to seek external professional advice on matters within its purview.

Appreciation

The Committee wishes to thank the following members who resigned from the Committee in 2015 and invitees from management who participated regularly at the BIRMC meetings for their valuable contributions over the years:

- Dr L R Karunaratne, (IND/ NED)
- Mrs Shanti Gnanapragasam, Chief Risk Officer / AGM-Risk
- Mr Arjuna Ratnasabapathy, AGM - Recoveries and Credit Quality Management
- Mr Murtaza Normanbhoy, Senior Manager- Internal Audit

Committee Evaluation

The Committee completed the evaluation process with self-assessment in December 2015 which was deemed to be satisfactory.



M A R C Cooray
Chairperson
Board Integrated Risk Management Committee

Colombo, Sri Lanka
19th February 2016

Board Audit Committee Report

Composition of the Committee

The Audit Committee ("the Committee"), appointed by and responsible to the Board of Directors comprises of four Non Executive/Independent Directors.

The following members serve / served on the Audit Committee:

Mr Sujeewa Mudalige (IND / NED) - Chairman

Dr L R Karunarathne (IND / NED)

Mr Amal Cabraal (IND/NED)

Mr Nilanth de Silva (IND / NED) Appointed w.e.f. 4th June 2015

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

Other management officers who attended meetings on invitation;

- **Mr Jonathan Alles** - Managing Director/CEO
- **Mr D P N Rodrigo** - Chief Operating Officer
- **Mrs Shanti Gnanaparagasam** - Chief Risk Officer/AGM (Risk) (Resigned w.e.f. 9th October 2015)
- **Mr Ashok Goonesekere** - Chief Financial Officer
- **Mr Niroshana Seneviratne** - Chief Internal Auditor/ AGM (Internal Audit) (Joined w.e.f. 3rd August 2015)
- **Mr Damith Pallewatte** - Chief Risk Officer/AGM (Risk) (Joined w.e.f. 1st December 2015)
- **Mr Bhanu Wijyaratne** - Chief Compliance Officer

Each of the members of the Committee has a depth of financial expertise and collectively the Committee has considerable financial experience on which to draw. More information on experience of and brief profiles of the members are given on pages 24 to 27 of the Annual Report.

The Board Secretary functions as the Secretary to the Audit Committee.

Audit Committee Charter

The Audit Committee Charter was reviewed on 10th August 2015 and relevant amendments were made.

Audit Committee Responsibilities

The Committee is mainly responsible for:

- Monitoring the integrity of the Bank's financial reporting and satisfying itself that any significant financial judgements by the management are sound.
- Monitoring the Bank's internal controls including controls relating to financial statement reporting; and
- Monitoring and reviewing the activities and performance of the internal, external and outsourced auditor/s, including monitoring their independence and objectivity.

Meetings

For the purpose of discharging the above duties the Audit Committee met Seven (07) times during the year. Attendance by the Committee members at each of these meetings is given in the table on page 143 of the Annual Report. Other Management Officers as mentioned under

"Composition of the Committee" also attended these meetings on invitation. On the invitation of the Committee, the Engagement Partner of the Bank's external auditors, Messrs Ernst & Young attended two (02) Committee meetings during the year.

The Committee is conscious of the need to keep its knowledge up to date and Committee members participated at presentations and workshops conducted internally and externally on relevant topics.

Any individual member of the Committee had the opportunity to raise specific issue at the meetings. The undersigned was in regular contact with the management including the Chief Financial Officer and Chief Internal Auditor/Senior Manager – Internal Audit during 2015 on matters coming under the purview of the Committee.

Financial Reporting

The Committee, as part of its responsibility to oversee the Bank's financial reporting process on behalf of the Board of Directors, has reviewed and discussed with the management, the annual and the quarterly financial statements prior to their release. The review included the extent of compliance with the Sri Lanka Accounting Standards, the Companies Act No 7 of 2007, the Banking Act No 30 of 1988 and amendments thereto. The Committee also reviews the effectiveness of the Financial Reporting Systems in place to ensure reliability of the information provided and the accounting policies to determine the most appropriate accounting policies after considering all choices available. The existing models adopted in reporting of loan impairment were refined during the year to reflect accurate disclosure in consultation with the external auditor. The committee assessed, whether the disclosures made under the financial reporting is appropriate and fair. Matters of special interest in the current environment and the processes that support certifications of the financial statements by the Bank's Chief Executive Officer and Chief Financial Officer were also brought up for discussion.

Risks and Internal Controls

Additionally, the Committee also assessed the effectiveness of the Bank's internal control over financial reporting as of 31st December 2015, as required by the Banking Act Direction No 11 of 2007, Corporate Governance for Licensed Commercial Banks in Sri Lanka, Subsection 3(8)(ii)(b), based on the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). The result of the assessment is given on pages 161 and 162, "Directors' Statement on Internal Control" of the Annual Report.

The external auditors have issued an Assurance Report on Directors' Statement on Internal Controls. The report is given on page 163 of the Annual Report.

The Committee has reviewed the processes for identification, recording, evaluation and management of all significant risks throughout the Bank and other Group entities.

Corporate Governance Report

As required by the Banking Act Direction No 11 of 2007, Corporate Governance for Licensed Commercial Banks in Sri Lanka, Annual

Board Audit Committee Report

Corporate Governance Report for 2015 is provided on pages 106 to 143. The external auditors have performed procedures set out in Sri Lanka Standards on Related Service 4400 (SLSRS 4400) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), to meet the compliance requirement of the Corporate Governance Directive. Their findings to be presented in their report.

External Audit

Messrs Ernst & Young were re-appointed as the external auditor at the last Annual General Meeting held on 30th March 2015.

The Audit Committee undertook the annual evaluation of the independence and objectivity of the external auditor and the effectiveness of the audit process. The Committee also evaluated the external audit fee and made recommendations to the Board.

The Committee met with the external auditor two (02) times during the year to discuss their audit approach and procedures, including matters relating to the scope of the audit and auditor's independence. The Committee reviewed the audited financial statements with the external auditor who is responsible for expressing an opinion on its conformity with the Sri Lanka Accounting Standards.

The Committee reviewed the Interim Management Letters issued by the external auditor together with the management responses thereto, in the presence of relevant business heads and senior management along with the external auditor. Committee also followed up action points taken by the Management in improving the financial reporting based on the 2014 Management Letter by the external auditor Messrs Ernst & Young.

The Committee met the external auditors twice (2) during the year without the presence of MD/CEO and the corporate management to ensure that there was no limitation of scope in relation to the audit and to allow for full disclosure of any incidents which could have had a negative impact on the effectiveness of the external audit, and concluded that there was no cause for concern.

The Committee sets out the policy for the engagement of the external auditor to provide non - audit services. The Audit Committee reviewed the policy for engagement of the external auditor to provide non-audit services. The revised policy was approved by the Board on 19th January 2016. Further, the Audit Committee was of the view that such services were not within the category of services identified as prohibited under:

1. The guidelines issued by the Central Bank of Sri Lanka, for external auditors, relating to their statutory duties in terms of Section 39 of Banking Act No 30 of 1988 and amendments thereto.
2. The Guidelines for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka.

The Letter of Representation issued to the external auditor by the Board and Letter of Independence Confirmation issued by the external auditor was tabled at the Audit Committee Meeting held on 19th February 2016.

Messrs Ernst & Young also acts as the Tax Advisor of the Bank and assist the Bank in managing its taxes effectively.

To fulfil its responsibility to monitor the effectiveness of internal audit function, the Committee received regular report from the Chief Internal Auditor/Senior Manager -Internal Audit, setting out the internal audit function's view of the control environment and performance against any key indicators. During the year, the Audit Committee reviewed the independence, objectivity & performance of the internal audit function, the findings of the internal audits completed and their evaluation of the Bank's internal control including internal control systems. The Audit Committee also reviewed the adequacy of the frequency and coverage of the internal audit plan and approved the same. It also assessed the Internal Audit Department's resource requirements including succession planning.

Regulatory Compliance

The Committee reviewed the procedures established by management for compliance with the requirements of regulatory authorities. The Compliance Officer of the Bank who has oversight of the compliance function, submitted quarterly reports to the Audit Committee on the extent to which the Bank was in compliance with the regulatory requirements.

Whistle-blowing Policy

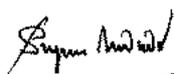
The whistle blowing policy was reviewed again in October 2015 by the Audit Committee with a view to further strengthen the process by which employees raise concerns in confidence. The revised policy was approved by the Board in October 2015. Ms M A R C Cooray, Director to the Board was appointed as the new reporting authority.

Professional Advice

The Committee has the authority to seek external professional advice on matters within its purview.

Committee Evaluation

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



Sujeewa Mudalige
Chairman
Audit Committee

Colombo, Sri Lanka
19th February 2016

Annual Report of the Board of Directors on the Affairs of the Company

1. General

The Board of Directors of Hatton National Bank PLC has pleasure in presenting its Annual Report to the shareholders for the financial year ended 31st December 2015, together with the audited financial statements of the Bank, consolidated financial statements of the Group for that year and the Auditor's Report on those financial statements, conforming to the requirements of the Companies Act No 7 of 2007 and the Banking Act No 30 of 1988. The financial statements were reviewed and approved by the Board of Directors on 19th February 2016.

This Report includes the information as required by the Companies Act No 7 of 2007, Banking Act Direction No 11 of 2007 (Corporate Governance for Licensed Commercial Banks and subsequent amendments thereto) and Listing Rules of the Colombo Stock Exchange (CSE). The Report is also guided by the recommended best practices on Corporate Governance.

Hatton National Bank PLC ("the Bank") is a Licensed Commercial Bank registered under the Banking Act No 30 of 1988 and was incorporated as a public limited liability company in Sri Lanka on

5th March 1970 under the Companies Ordinance No 51 of 1938. The Bank was re-registered as required under the provisions of the Companies Act No 7 of 2007 on 27th September 2007. The re-registration number of the Bank is PQ 82.

The ordinary shares (both voting and non-voting) and unsecured subordinated/senior redeemable debentures of the Bank are listed on the main board of the Colombo Stock Exchange in Sri Lanka.

The Bank has been assigned a National Long Term Rating of AA-(lka) with a Stable Outlook by Fitch Ratings Lanka Ltd and a foreign currency issuer rating of B1 by Moody's Investors Service which is on par with the sovereign rating of B1 of Sri Lanka. This is the first ever international rating obtained by a Sri Lankan Bank.

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

Section 168 of the Companies Act No. 07 of 2007, requires the following information to be published in the Annual Report prepared for the year under review.

Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Level of compliance by the Bank
The nature of the business of the Bank and the Group	Section 168 (1) (a)	Refer section 3 on page 151
Signed financial statements of the Bank and the Group for the accounting period completed	Section 168 (1) (b)	Refer section 7 on page 152
Auditor's Report on financial statements of the Bank and the Group	Section 168 (1) (c)	Refer section 9 on page 152
Changes in accounting policies made during the accounting period	Section 168 (1) (d)	Refer section 10 on page 152
Particulars of entries in the interests register made during the accounting period	Section 168 (1) (e)	Refer section 37 on page 158
Remuneration and other benefits paid to the Directors during the accounting period	Section 168 (1) (f)	Refer section 40 on page 158
Total amount of donations made by the Bank during the accounting period	Section 168 (1) (g)	Refer section 15 on page 154
Information on Directorate of the Bank and its subsidiaries/joint ventures during and at the end of the accounting period	Section 168 (1) (h)	Refer section 28 and 32 on page 155 and 156
Amounts payable to the auditor as audit fees and fees for other services rendered during the accounting period as a separate disclosure	Section 168 (1) (i)	Refer section 53 on page 160
Auditor's relationship or any interest with the Bank and its subsidiaries	Section 168 (1) (j)	Refer section 53 on page 160
Annual Report of the Board signed on behalf of the Board by two Directors and the Company Secretary	Section 168 (1) (k)	Refer section 55 on page 160

2. Vision, Mission and Corporate Conduct

The Bank's Vision and Mission statements are given on page 49 of the report. The business activities of the Bank are conducted in keeping with the highest level of ethical standards in achieving its Vision and Mission. Bank's Code of Ethics reflects our commitment to high standards of business conduct and ethics.

3. Principal Activities

The principal activities of the Bank and the Group during the year were general banking, development banking, offshore banking, mortgage financing, lease and hire purchase financing, corporate banking, dealing in government securities and listed equities, pawn

broking, e - banking facilities, Islamic banking, custodian banking for mobile banking, stock broking, providing life and general insurance services, micro financing, other financial services and property development. There were no significant changes in the nature of the principal activities of the Bank and the Group during the financial year under review.

The names of the Bank's subsidiaries and their nature of principle activities are given in Note 1.3 to the financial statements and are found on page 206.

Annual Report of the Board of Directors on the Affairs of the Company

4. Changes to the Group Structure

The Bank acquired a stake of 51% of voting rights in Prime Grameen Micro Finance Limited on 7th November 2014. Further, Sithma Development (Pvt) Ltd, Bank's fully owned subsidiary disposed its stake of 49.99% in Splendor Media (Pvt) Ltd on the same day.

During the year there were no changes to the Group structure.

5. Review of Operations

A review of the operations of the Bank during the financial year 2015 and results of its operations are contained in the Chairman's Message (pages 10 to 15), the Managing Director's Review (pages 16 to 21) and the Integrated Management Discussion & Analysis (pages 32 to 105). These reports form an integral part of the Annual Report of the Board of Directors.

6. Future Developments

An overview of the future developments of the Bank is given in the Chairman's Message (pages 10 to 15), the Managing Director's Review (pages 16 to 21) and the Integrated Management Discussion & Analysis (pages 32 to 105).

7. Financial Statements

The financial statements of the Bank and the Group have been prepared in accordance with Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and they comply with the requirements of Companies Act No 7 of 2007 and Banking Act No 30 of 1988.

The financial statements of the Bank and the Group for the year ended 31st December 2015 duly signed by the Chief Financial Officer, two of the Directors of the Bank and the Company Secretary are given in pages 198 to 337, which form an integral part of the Annual Report of the Board of Directors.

8. Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the financial statements of the Bank to present a true and fair view of its state of affairs. The Directors are of the view that these financial statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, (SLFRSs and LKASs), Companies Act No 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No 15 of 1995, Banking Act No 30 of 1988 (as amended), Banking Act Direction No 11 of 2007 (Corporate Governance for Commercial Banks in Sri Lanka as amended) and the Listing Rules of the CSE. The Statement of Directors' Responsibility for Financial Reporting is given on page 195 to 196 and forms an integral part of the Annual Report of the Board of Directors.

9. Auditors' Report

Bank's auditors, Messrs. Ernst & Young, carried out the audit on the financial statements of the Bank and the consolidated financial statements of the Group for the year ended 31st December 2015 and their report on those financial statements is given on page 197 of this Annual Report.

10. Significant Accounting Policies

The significant accounting policies adopted in the preparation of the financial statements are given on pages 210 to 337.

11. Going Concern

The Board is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Therefore, the Bank continues to adopt the "going concern" basis in preparing these financial statements.

12. Income

The income of the Group for 2015 was Rs 70,026,698,000/- (2014: Rs 65,023,846,000/-) while the Bank's income was Rs 61,153,466,000/- (2014: Rs 59,500,495,000/-). An analysis of the income is given in Note 07 to the financial statements.

13. Financial Results and Appropriations

The Bank has recorded a growth in profit before tax of 24.76% and a growth in profit after tax of 16.03% in 2015. The Group's profit before tax recorded a growth of 22.91% and a growth in profit after tax of 10.21% in 2015.

The Bank's total other comprehensive income for the year was Rs 9,242,064,000/- (2014: Rs 12,486,813,000/-) while the Group has recorded a total other comprehensive income of Rs 13,388,312,000/- for the year (2014: Rs 13,566,025,000/-).

	2015 Rs 000	2014 Rs 000
The Group profit for the year ended 31st December after payment of all operating expenses and provision for depreciation and contingencies	16,160,268	13,148,453
Less: taxation	(5,064,424)	(3,080,360)
Group net profit after taxation	11,095,844	10,068,093
Other comprehensive income net of income tax		
Gains and losses on re-measuring available-for-sale financial assets		
Change in fair value on available-for-sale financial assets, net of tax	(2,385,983)	3,103,779
Transfer to life policy holder reserve fund	97,098	(44,930)
Net amount transferred to profit or loss (available-for-sale financial assets)	(19,242)	(715,159)
Share of other comprehensive income of equity accounted Joint Venture	17,041	8,378
Re-measurement gains/losses on defined benefit plans	(909,543)	1,145,864
Revaluation of Freehold land and buildings, net of tax	5,493,097	-
Total Group comprehensive income for the year	13,388,312	13,566,025
Non - controlling interests	(532,707)	(252,925)
	12,855,605	13,313,100
Other comprehensive income net of tax relating to:		
Available for sale reserve	2,287,750	(2,351,202)
Capital Reserve	(5,493,000)	-
	9,650,355	10,961,898
Unappropriated profit brought forward from previous year	10,396,517	5,210,488
Balance available before appropriation / adjustments	20,046,872	16,172,386
Deemed disposal gain	9,830	26,777
	20,056,702	16,199,163
Appropriations		
Transfer to general reserve	(6,000,000)	(6,000,000)
Transfer to reserve fund	(600,000)	(500,000)
Transfer to investment fund account	-	(306,821)
Transfer of investment fund account balance	-	4,408,026
Dividends		
Final dividend paid (Cash) 2013		(2,800,912)
Interim dividend paid (Cash) 2014		(602,939)
Final dividend paid (Cash) 2014	(2,827,776)	-
Interim dividend paid (Cash) 2015	(608,548)	-
Others		
Super gain tax	(2,093,074)	-
Transfer of revaluation reserve	22,544	-
Balance carried forward as at 31st December	7,949,848	10,396,517

14. Reserves

The Group reserves consist of:

	31.12.2015 Rs 000	31.12.2014 Rs 000
Capital reserve	14,263,234	8,792,778
Statutory reserve fund	3,760,000	3,160,000
Available for sale reserve	4,518,441	6,806,191
Life policy holder reserve fund	(56,350)	40,748
ESOP reserve	202,356	318,339
Revenue reserve	39,049,848	35,496,517
	61,737,529	54,614,573

Annual Report of the Board of Directors on the Affairs of the Company

The movement in these reserves is shown in the Statement of Changes in Equity on pages 201 to 203 of the Annual Report.

Further, the Directors propose to transfer Rs 600,000,000/- (2014: Rs 500,000,000 /-) to the statutory reserve fund, and Rs 6,000,000,000/- (2014: Rs 6,000,000,000/-) to the general reserve account.

15. Corporate Donations

During the year, the Bank made donations amounting to Rs 12,819,000/- (2014: Rs 1,160,000/-) in terms of the resolution passed at the last Annual General Meeting. Donations made by the Group during the year amounted to Rs 19,110,000/- (2014: Rs 2,059,000/-). The Bank did not make any donations to Government approved charities.

16. Taxation

The income tax rate applicable on the Bank's domestic operations and FCBU on-shore & off-shore banking operations is 28% (2014: 28%).

It is the Bank's policy to provide for deferred taxation on all known temporary differences under the liability method.

The Bank is also liable for Financial Services VAT at 11% (2014: 12%) and NBT on Financial Services VAT at 2% from 1st January 2014.

The Bank is liable to pay Crop Insurance Levy on a quarterly basis at 1% (2014: 1 %) on after tax profit to the National Insurance Trust Fund Board.

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

An interim dividend of Rs 1/50 per share (2014: Rs 1/50 per share) was paid on 14th December 2015 to the holders of the ordinary shares (both voting and non-voting) for the financial year 2015. The interim dividend paid for the year consists of exempt dividends received by the Bank and will therefore be free of income tax in the hands of the shareholders.

The Directors recommend that a final dividend of Rs 7.00 per share by way of Rs 3/50 in cash and Rs 3/50 in the form of scrip (2014: Rs 7/00 per share in cash) on both voting and non-voting shares of the Bank, be paid for the financial year ended 31st December 2015.

The Board of Directors was satisfied that the Bank would meet the solvency test immediately after the interim dividend was paid on 14th December 2015 and the final dividend proposed which will be paid in April 2016 in terms of the provisions of the Companies Act No 7 of 2007 and Listing Rules of the CSE. The Board provided the Statements of Solvency to the auditors and obtained Certificates

of Solvency from the auditors in respect of each dividend payment conforming to the statutory provision.

19. 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 959,997,000/- and Rs 1,251,847,000/- respectively (2014 Bank: Rs 801,065,000/- and Group: Rs 872,732,000/-). Details are given in Note 37,38 and 39 to the financial statements. The capital expenditure approved and contracted for and not contracted for as at Balance Sheet date are given in Note 59(b) to the financial statements.

20. Property, Plant and Equipment (PPE)

Details of property, plant and equipment are given in Note 38 to the financial statements.

21. Net Book Value of Freehold Properties

The net book values of freehold properties owned by the Bank and the Group as at 31st December 2015 are included in the accounts at Rs 9,138,545,000/- and Rs 19,729,723,000/- respectively (2014 Bank: Rs 7,166,488,000/- and Group: Rs 14,344,743,000/-).

A panel of Chartered Valuers / Licensed Surveyors carried out a revaluation of the Bank's freehold properties in 2015. The details of freehold properties owned by the Bank are given in Note 38 (a) to the financial statements.

22. Outstanding Litigation

In the opinion of the Directors and the Bank's Lawyers, pending litigation against the Bank disclosed in Note 59(d) of the financial statements will not have a material impact on the financial position of the Bank or its future operations.

23. Events after the Reporting Date

No circumstances have arisen since the Statement of Financial Position date which would require adjustments to, or disclosure in, the accounts, except those disclosed in Note 64 to the financial statements.

24. Stated Capital and Debentures

The stated capital of the Bank as at 31st December 2015 was Rs 13,826,873,000/- consisting of 405,821,370 ordinary shares, which is the aggregate of 324,405,445 (voting shares) and 81,415,925 (non-voting shares). (2014: Rs 13,289,992,000/-consisting of 402,597,656 ordinary shares, which is the aggregate of 321,736,509 – voting shares and 80,861,147 - non-voting shares.)

The Bank issued 3,223,714 ordinary shares during the year, 2,668,936 shares (voting) at a consideration of Rs 368,785,000/- and 554,778 shares (non-voting) at a consideration of Rs 52,113,000/- under the approved Employee Share Option Plan

(ESOP). Therefore, the Stated Capital increase of the Bank due to employees exercising their options under ESOP amounted to Rs 420,898,000/- (2014: Rs 361,847,000/-). During the year Rs 115,983,000/- got transferred from ESOP reserve to stated capital on account of share options exercised till date. The total increase in the stated capital during the year is Rs 536,881,000/- (2014: Rs 459,724,000/-).

The Bank had issued unsecured, subordinated, redeemable debentures to the value of Rs 8,471,740,000/- as at 31st December 2015. (2014: Rs 8,385,102,000/-). The details of unsecured, subordinated, redeemable debentures issued and redeemed during the year 2014 and those outstanding as at 31st December 2015 are given in Note 47 (a) i to the financial statements.

Further, the Bank had issued unsecured, senior, redeemable debentures to the value of Rs 4,490,742,000/- as at 31st December 2015 (2014 : Rs 4,451,407,000/-). Increase is due to capitalization of interest. The details of this debenture are given in Note 46 (a) to the financial statements.

25. Share Information

Information relating to earnings, dividend, net assets and market price per share is given on page 6 of the Annual Report. Information on share trading is given on page 352 of the Annual Report.

Name of the Director	Status
Mr R A F Arseculeratne – Chairman	IND / NED - Appointed as a Director w.e.f. 30th April 2015
Ms M A R C Cooray	NIND / NED
Dr L R Karunaratne	IND / NED
Mr L U D Fernando	NIND / NED
Mr Sujeewa Mudalige	IND / NED
Ms D S C Jayawardena	NIND / NED
Mr R S Captain	NIND / NED
Mr Amal Cabraal	IND / NED
Mr P S C Pelpola	IND / NED – Appointed as a Director w.e.f. 30th April 2015
Mr E D P Soosaipillai	IND / NED – Appointed as a Director w.e.f. 30th April 2015
Mr A H D A N de Silva	IND / NED – Appointed as a Director w.e.f. 30th April 2015
Mr Jonathan Alles (MD/CEO)	ED

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

29. Retirement / Resignation of Directors

Two Directors resigned during the year 2015.

Dr Raneey Jayamaha resigned from the Board w.e.f. 30th March 2015.

Dr Willie Gamage resigned from the Board w.e.f. 29th May 2015.

30. Appointment of Directors

Four Directors were appointed to the Board during the year 2015.

Mr R A F Arseculeratne, Mr P S C Pelpola, Mr E D P Soosaipillai and Mr A H D A N de Silva were appointed to the Board on 30th April 2015 as Independent/Non-Executive Directors.

26. Shareholdings

As at 31st December 2015 there were 4,804 and 11,331 registered voting and non-voting shareholders respectively (2014: voting 4,376 and non-voting 10,772). Information on the distribution of shareholding and the respective percentages is indicated on pages 351 and 352 of the Annual Report. The twenty largest voting and non-voting shareholders of the Bank as at 31st December 2015, together with an analysis are given on pages 355 to 356 of the Annual Report.

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. The Board of Directors

The Board of Directors of the Bank consists of twelve (2014: ten) Directors with wide financial and commercial knowledge and experience. The following Directors held office as at the Statement of Financial Position date and their brief profiles appear on pages 24 to 27 of the Annual Report.

31. Retirement by rotation and re-election / re-appointment of Directors

(1) Directors – Mrs M A R C Cooray, Dr L R Karunaratne, Mr L U D Fernando and Mr Sujeewa Mudalige are subject to retirement by rotation in terms of Article 34; and (2) Chairman - Mr R A F Arseculeratne, Directors Mr P S C Pelpola, Mr E D P Soosaipillai and Mr A H D A N de Silva are subject to re-election at the Annual General Meeting in terms of Article 36 of the Articles of Association of the Bank.

The Directors referred to in (1) and (2) above will offer themselves for re-election under the said Articles.

Annual Report of the Board of Directors on the Affairs of the Company

32. List of Directors of Subsidiaries and Joint Ventures of the Bank

Subsidiaries

HNB Assurance PLC

Mrs M A R C Cooray - Chairperson
Mr M U de Silva (resigned w.e.f. 8th January 2016)
Mr S C Ratwatte
Mr D P N Rodrigo
Ms S N Wickramasinghe
Dr S Sivakumar
Mr J A P M Jayasekera
Mr K Balasundaram
Mr Thimal Perera (appointed w.e.f. 8th January 2016)

HNB General Insurance Limited

Mrs M A R C Cooray - Chairperson
Mr Faizal Salieh
Mr D P N Rodrigo
Mr Thimal Perera

Sithma Development (Pvt) Ltd

Mrs M A R C Cooray - Chairperson
Mr Ashok Goonesekere
Mr D P N Rodrigo

HNB Grameen Finance Limited

Mr Jonathan Alles – Chairman
Mr B Premalal - Deputy Chairman
Mr B M D C Prabath – MD/CEO
Ms H K S R Perera
Ms M A R C Cooray
Mr Thimal Perera
Mr A L Somaratne
Ms L L C CThambiah
Mr A S Wijesinghe
Mr S W U H Fernando

Joint Ventures

Acuity Partners (Pvt) Ltd

Mr A R Fernando – Chairman
Mr M R Abeywardena - CEO
Mr T W de Silva
Mr D A B Ellepola
Mr Jonathan Alles

Ms I R D Thenabadu
Mr D P N Rodrigo

33. 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.

34. Board Sub-Committees

The Board while assuming the overall responsibility and accountability for the management oversight of the Bank has also appointed Board Sub-Committees to ensure oversight and control over certain affairs of the Bank, conforming to the Banking Act Direction No 11 of 2007 issued by the Monetary Board of the Central Bank of Sri Lanka, on "Corporate Governance for Licensed Commercial Banks of Sri Lanka". Accordingly, the following mandatory Sub-Committees have been constituted by the Board:

Audit Committee comprises:

Mr Sujeewa Mudalige - Chairman
Dr L R Karunaratne
Mr Amal Cabraal
Mr A H D A N de Silva

The Report of the Audit Committee is given on page 149 to 150 and forms part of the Annual Report of the Board of Directors.

Nomination Committee comprises:

Mr R A F Arseculeratne – Chairman (appointed Chairman w.e.f. 4th June 2015)
Ms M A R C Cooray
Mr R S Captain
Mr P S C Pelpola

The Report of the Nomination Committee is given on page 145 to 146 and forms part of the Annual Report of the Board of Directors.

Human Resources & Remuneration Committee comprises:

Mr R A F Arseculeratne - Chairman (appointed Chairman w.e.f. 4th June 2015)
Mr L U D Fernando
Mr Sujeewa Mudalige
Mr Amal Cabraal

The Report of the Human Resources & Remuneration Committee is given on page 144 and forms part of the Annual Report of the Board of Directors.

Board Integrated Risk Management Committee comprises:

Ms M A R C Cooray - Chairperson
Mr L U D Fernando
Ms D S C Jayawardena
Mr E D P Soosaipillai
Mr Jonathan Alles - MD/CEO
Mr Damith Pallewatte - Chief Risk Officer/ AGM (Risk)
Mr C B Wijayarathne - Chief Compliance Officer

Invitees from the Management are as follows:

Mr D P N Rodrigo - Chief Operating Officer
Mr Sidath Wijeratne - Chief Information Officer/AGM (IT)
Mr Ashok Goonesekere - Chief Financial Officer
Mr Niroshana Seneviratne - Chief Internal Auditor/ AGM (Internal Audit)

The Report of the Integrated Risk Management Committee is given on page 147 to 148 and forms part of the Annual Report of the Board of Directors.

Apart from the mandatory Board Sub-Committees, the Board has appointed five other non-mandatory Sub-Committees namely the Board Credit/Assets & Liability Committee, Strategic & Investment Review Committee, Procurement Committee, Committee for Disposal of Assets/Investment Properties and Branch Rationalization Committee to ensure effective discharge of its duties. The composition of these Committees was as follows:-

Credit/Assets & Liability Committee:

Mr A H D A N de Silva – Chairman
(appointed Chairman w.e.f. 4th June 2015)
Mr P S C Pelpola
Dr L R Karunaratne

Management Officers

Mr Jonathan Alles - MD/CEO
Mr D P N Rodrigo - Chief Operating Officer
Ms I R D Thenabadu - Deputy General Manager (Credit & Transaction Banking)
Mr Ruwan Manatunga – Head of Corporate Banking/DGM (Corporate Banking)
Mr Damith Pallewatte – Chief Risk Officer

Strategic & Investment Review Committee:

Mr Amal Cabraal – Chairman
Ms M A R C Cooray
Mr Sujeewa Mudalige
Mr E D P Soosaipillai

Management Officers

Mr Jonathan Alles - MD/CEO
Mr D P N Rodrigo - Chief Operating Officer
Mr Rajive Dissanayake - Chief Manager (Planning & Investments)

Procurement Committee:

Dr L R Karunaratne – Chairman
Ms D S C Jayawardena
Mr E D P Soosaipillai

Management Officers

Mr D P N Rodrigo - Chief Operating Officer

Committee for Disposal of Assets/ Investment Properties

Up to Rs. 10.0 Mn

Ms M A R C Cooray
Mr Jonathan Alles - MD/CEO

Over Rs. 10.0 Mn

(Any two of the following)

Dr L R Karunaratne
Mr L U D Fernando
Ms D S C Jayawardena

Branch Rationalization Committee:

Mr A H D A N de Silva
- Chairman (appointed Chairman w.e.f. 21st August 2015)
Mr L U D Fernando
Ms D S C Jayawardena
Mr R S Captain

Management Officers

Mr Jonathan Alles - MD/CEO
Mr Thimal Perera – Deputy General Manager (Retail & SME Banking)
Mr Rohan Thambirajah – AGM (Network Management)

35. Directors' Meetings

The details of the Directors' meetings which comprise Board meetings, Audit Committee meetings, Nomination Committee meetings, Human Resource & Remuneration Committee meetings and Board Integrated Risk Management Committee meetings and the attendance of Directors at these meetings are given on page 143 of the Annual Report. Furthermore, the Directors contributed towards policy advocacy and direction by participating in the deliberations of the Board appointed Sub-Committees on Strategic & Investment Review, Credit/Assets & Liability, Disposal of Assets/ Investment Properties, Branch Rationalization and Procurement. In furtherance of the deliberations of the Board, special Committees

Annual Report of the Board of Directors on the Affairs of the Company

consisting of Board members were also constituted from time to time to attend to specific tasks.

36. Directors' Interest Register and Directors' Interest in Contracts or Proposed Contracts

The Bank maintains the Directors' Interest Register as required under the provisions of Section 168 (1) (e) of the Companies Act No 7 of 2007. Directors of the Bank have made necessary declarations of their interest in contracts or proposed contracts, in terms of the Sections 192 (1) and 192 (2) of the said Companies Act. These interests have been recorded in the Interest Register which is available for inspection in terms of the Act. The particulars of the Directors' Interest in Contracts are given on pages 164 to 167 of the Annual Report and form an integral part of the Annual Report of the Board of Directors. The Directors have no direct or indirect interest in a contract or a proposed contract with the Company other than those disclosed.

In terms of article 40 of the Articles of Association the Directors did not (i) participate at the discussions or in the approving process; (ii) vote on matters or contracts in which they were interested.

37. Directors' Interests in the Ordinary Shares (Voting and Non-Voting)

The shareholdings of Directors were as follows:

	As at 31st December 2015 No of Shares	As at 31st December 2014 No of Shares
Mr Rienzie Arseculeratne	-	-
Mr. Jonathan Alles	2,000	2,000
Ms M A R C Cooray	5,312	5,312
Dr L R Karunaratne	1,018	1,018
Mr L U D Fernando	509	2,667
Mr Sujeewa Mudalige	-	-
Ms D S C Jayawardena	500	500
Mr R S Captain	6,007	6,007
Mr. Amal Cabraal	-	-
Mr Palitha Pelpola	-	-
Mr D Soosaipillai	-	-
Mr Nilanth de Silva	-	-

** There has been no change in the interests in shares of the Directors mentioned above, between 31st December 2015 and 19th February 2016, being the date of this Report. There are no arrangements enabling the Non Executive Directors of the Bank to acquire shares of the Bank other than via the market.

38. Directors' Interest in Debentures

There were no debentures registered in the name of any Director as at the beginning and at the end of the year.

39. Related Party Transactions

The Directors have also disclosed transactions if any, that could be classified as related party transactions in terms of LKAS 24 "Related

Party Disclosures" which is adopted in the preparation of the financial statements. Those transactions disclosed by the Directors are given in Note 60 to the financial statements forming part of the Annual Report of the Board of Directors.

40. Directors' Remuneration

Details of Directors' emoluments and other benefits paid in respect of the Group and the Bank during the financial year ended 31st December 2015 are given in Note 17 to the financial statements.

41. Human Resources

The employment strategies of the Bank are framed to employ, train, develop and retain the best talent available. Towards this end, employment policies are reviewed periodically to be aligned with organisational needs.

Specific measures taken in this regard are detailed on pages 65 to 72.

42. Employee Share Option Plan (ESOP)

In the year 2008 with the approval of the shareholders, the Bank formulated an Employee Share Option Plan (ESOP) for the staff in the management grades, recognising and rewarding them for their contribution. The scheme was aimed at further motivating the management staff. This gives an option to the management staff to acquire ownership in the ordinary shares (both voting and non-voting) of the Bank, provided the Bank has met certain set profit goals. It was operative for 5 years and the management staff has the option to purchase ordinary shares (voting and non-voting) of the Bank each year up to a limit of 1.25% of the shares issued and up to a maximum of 5% of the total shares issued.

The first option to purchase shares was granted in 2007.

The remaining options from the first offer were expired in 2014.

Based on the performance achieved for the year 2009, second option to purchase shares has been offered to 182 management officers. The option to purchase shares was exercisable up to 1st April 2015. As at date of expiry 174 management officers have exercised the option (some fully and others partially) and purchased shares.

Based on the performance achieved for the year 2011, third option to purchase shares has been offered to 196 management officers.

The option to purchase shares is exercisable up to 29th March 2017. As at 31st December 2015, 136 management officers have exercised the option (some fully and others partially) and purchased shares.

Based on the performance achieved for the year 2012, fourth option to purchase shares has been offered to 192 management officers. The option to purchase shares is exercisable up to 4th June 2018. As at 31st December 2015, 104 management officers have exercised the option (some fully and others partially) and purchased shares.

Having noted that the scheme was to grant share options 1.25% per annum subject to the above ceiling, the Board on 25.9.2014 granted its approval to resolve the ESOP Scheme, as concluded.

The details of the options offered to the employees under ESOP as at 31st December 2015 are as follows:

	2010 Allocation		2012 Allocation		2013 Allocation	
	Voting	Non voting	Voting	Non voting	Voting	Non voting
No of options brought forward	561,139	97,399	2,186,496	387,007	2,819,189	663,827
No of options granted in 2015	-	-	-	-	-	-
No of options exercised during the year	(465,839)	(86,442)	(1,011,688)	(178,226)	(1,191,409)	(290,110)
No of options expired during the year	(95,300)	(10,957)	(53,956)	(13,373)	(49,735)	(8,308)
No of options remaining	-	-	1,120,852	195,408	1,578,045	365,409
Allotment price (Rs)	111.43	65.67	145.79	81.43	142.17	110.04
Funding granted to employees	None	None	None	None	None	None

43. Environmental Protection

To the best of knowledge of the Board, the Bank has complied with the relevant environmental laws and regulations.

The Bank has not engaged in any activity that is harmful or hazardous to the environment. Specific measures taken to protect the environment are given on pages 80 to 82.

44. Risk Management and Internal Control

44.1 Risk Management

The Bank has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Bank. This process is detailed in the Risk Management Report on pages 168 to 190. The Directors on a regular basis review the above mentioned process through the Board Integrated Risk Management Committee (BIRMC).

44.2 Internal Control

The Board considers that strong internal controls are integral to the sound management of the Bank and it is committed to maintain strict financial, operational and risk management controls over all its activities.

The Directors are ultimately responsible for the Bank's system of internal control and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. There is an on going process for identifying, recording, evaluating and managing the risks that are faced by the Bank, and the Directors have reviewed this process, through the Board Audit Committee.

The Board of Directors is satisfied with the effectiveness of the system of internal control for the year under review and up to the date of approval of the Annual Report and financial statements.

45. Directors' Statement on Internal Control

The Board has issued a report on the internal control mechanism of the Bank as per Section 3 (8) (ii) (b) of Banking Act Direction No 11 of 2007 on Corporate Governance. The Board has confirmed that the

financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The above report, which forms an integral part of the Annual Report of the Board of Directors, is given on page 161 to 162.

The Board has obtained an assurance report from the external auditors on Directors' Statement on Internal Control which is given on page 163 of the Annual Report.

46. Corporate Governance

In the management of the Bank, the Directors have placed emphasis on conforming to the best corporate governance practices and procedures. Accordingly, systems and structures have been introduced / improved from time to time to enhance risk management measures and to improve accountability and transparency. A separate report on Corporate Governance is given on pages 106 to 143.

As required by Section 3(8) (ii) (g) of the Direction No 11 of 2007 of the Banking Act on Corporate Governance for Licensed Commercial Banks, issued by the Central Bank of Sri Lanka, the Board of Directors confirms that all the findings of the "Factual Findings Reports" of auditors issued under "Sri Lanka Related Services Practice Statement 4400" have been presented in auditor's report dated 19th February 2016, addressed to the Board of Directors.

47. Appraisal of Board Performance

The Bank has in place a robust scheme whereby the Directors perform a self-assessment of the Board's conduct annually by answering a self-assessment questionnaire. The responses to the self-assessment questionnaire are evaluated by the Chairman and any action, recommendations and/or concerns are discussed with the Board and accordingly noted and action taken where deemed appropriate.

48. Insurance and Indemnity

Pursuant to a decision of the Board, the Bank obtained an Insurance Policy to cover Directors' and Officers' liability.

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49. Compliance with Laws and Regulations

The Bank has at all times ensured that it complied with the applicable laws and regulations including the Listing Rules of the CSE as a listed company. Compliance Officer who reports to Board Integrated Risk Management Committee, tables a report on compliance at the quarterly meetings of the Board Audit Committee.

50. Material Foreseeable Risk Factors (As per Rule No. 7.6 (VI) of the Listing Rules of the Colombo Stock Exchange)

Information pertaining to the material foreseeable risk factors, that require disclosures as per the Rule No. 7.6 (vi) of the Listing Rules of the Colombo Stock Exchange are discussed in the Risk Management Review in pages 168 to 190.

51. 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)

There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year under review which need to be disclosed.

52. Operational Excellence

The Bank achieved greater efficiency, service and quality in its banking operations, credit underwriting as well as non-banking operations through a focused drive of initiatives in operational efficiency, cost optimization, business process re-engineering and optimization of latest technology. In 2015, many of these initiatives were completed with greater emphasis placed on enabling the Bank to achieve better focus on sales and services by moving operational tasks to specialized teams where efficiency is derived through economies of scale due to better service, specialization and standardization. Cost to income ratio reduced from 47.41% to 45.94% year on year.

53. Auditors

The Bank's auditors during the period under review were Messrs. Ernst & Young, Chartered Accountants. Audit fees and reimbursement of expenses paid to Messrs. Ernst & Young during the year under review by the Bank and the Group amounted to Rs 10,283,000/- (2014: Rs 9,850,000/-) and Rs 19,709,000/- (2014: Rs 14,458,000/-) respectively. Further Rs 4,510,000/- (2014: Rs 4,330,000/-) and Rs 5,163,000/- (2014: Rs 5,169,000/-) were paid by the Bank and the Group respectively for audit related and non-audit services including reimbursement of expenses.

Based on the declaration provided by Messrs. Ernst & Young, and as far as the Directors are aware, the auditors do not have any relationship or interest with the Bank that in our judgment, 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 relating to re-appointment of auditors and authorising the Directors to fix their remuneration, will be proposed at the forthcoming Annual General Meeting.

54. Notice of Annual General Meeting

The 47th Annual General Meeting of the Bank is convened on Wednesday 30th March 2016, at 10.00 in the forenoon, at the Auditorium on Level 22 of "HNB Towers" (Registered Office), No 479, T B Jayah Mawatha, Colombo 10. The Notice of the 47th Annual General Meeting is enclosed.

55. Acknowledgement of the Contents of the Report

As required by Section 168 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors hereby acknowledges the contents of this Annual Report.

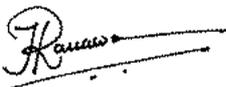
For and on behalf of the Board of Directors.



Jonathan Alles
Managing Director /
Chief Executive Officer



Rienzie Arseculeratne
Chairman



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

Colombo, Sri Lanka
19th February 2016

Directors' Statement on Internal Control

Responsibility

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

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

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

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

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

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

Key Internal Control Processes

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

- The Board Sub Committees are established to assist the Board in ensuring:
 - the effectiveness of the Bank's daily operations.
 - that the Bank's operations are in accordance with the corporate objectives and strategies.
 - that the operations of the Bank are in line with the annual budget as well as the policies and business directions that have been approved by the Board.

- The Internal Audit Division of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. Audits are carried out on majority of units and branches, the frequency of which is determined by the level of risk assessed by the internal audit, to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Division, the external auditors, regulatory authorities and management; and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit function with particular emphasis on the scope of audits and quality of the same. The minutes of the Audit Committee meetings are tabled for the information of the Board on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on pages 149 to 150.
- 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 Management Risk Committee which includes representation from all key business and operating units of the Bank, assists the Board with the implementation of policies advocated at the Board Integrated Risk Management Committee (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 Credit Policy Committee, Investment Committee, the Information Technology Steering Committee and the Executive Risk Management Committee.

In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Bank. These in turn were observed and checked by the internal audit department for suitability of design and effectiveness on an on going basis. The Bank adopted the new Sri Lanka Accounting Standards Comprising LKAS & SLFRS in 2012. Since adoption of such Sri Lanka Accounting Standards, progressive improvements on processes to comply with new requirements of recognition, measurement, classification and disclosure are being made whilst, further strengthening of processes will take place pertaining to impairment of loans and advances and financial statement disclosures. Having recognized the importance of having an automated financial reporting process in place to more effectively comply with the requirements of recognition, measurement, classification and disclosure of financial

Directors' Statement on Internal Control

instruments, the bank commenced the implementation of an automated solution in 2015 with the assistance of a reputed solution provider who has worldwide experience in implementing such solutions. The project is expected to be completed in 2016. The assessment did not include subsidiaries of the Bank.

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 them.

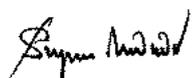
Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide a reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the Statement by External Auditors

The external auditor, Messrs Ernst & Young, have reviewed the above Directors' Statement on Internal Control for the year ended 31st December 2015 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 on page 163 of this Annual Report.

By order of the Board



Sujeewa Mudalige
Chairman - Board Audit Committee



Jonathan Alles
*Managing Director /
Chief Executive Officer*



Rienzie Arseculeratne
Chairman

Colombo, Sri Lanka
19th February 2016

Independent Assurance Report



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

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@tk.ey.com
ey.com

Independent Assurance Report to The Board of Directors of Hatton National Bank PLC

Report on the Directors' Statement on Internal Control over Financial Reporting

We were engaged by the Board of Directors of Hatton National Bank PLC (the "Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting (the "Statement") included in the annual report for the year ended 31 December 2015.

Management's responsibility

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

Our responsibilities and compliance with SLSAE 3050

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

Summary of work performed

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

The procedures performed were limited primarily to inquiries of Bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

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

Our conclusion

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

19 February 2016
Colombo

Partners: A D B Talwalle FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H Fernando FCA FCMA
W K B S P Fernando FCA FCMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D R Hisingamuwu FCA FCMA LLB (Sri Lanka) M A Jayasinghe FCA FCMA
Ms. A A Laidokwye FCA FCMA Ms. C G S Manatunga FCA N M Sulaiman ACA ACMA B E Wijesinghe FCA FCMA

A member firm of Ernst & Young Global Limited

Directors' Interest in Contracts with the Bank

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

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

1. Lending transactions with the Bank

Director/Company	Name of the Director/Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2015		As at 31st December 2014		
			Limit Rs.Mn	Outstanding Rs.Mn	Limit Rs.Mn	Outstanding Rs.Mn	
(A) Ms D S C Jayawardena	Director	Overdraft	50.00	34.64	50.00	34.87	Quoted shares of DCSL
		Letters of Credit	10.00	-	10.00	-	
Ambewela Livestock Company Ltd		Total	60.00	34.64	60.00	34.87	Corporate guarantee
Ambewela Products (Pvt) Ltd	Director	Overdraft	100.00	68.13	100.00	88.16	Quoted shares of DCSL
		Letters of Credit	50.00	0.50	50.00	-	
Ceylon Garden Coir (Pvt) Ltd		Total	150.00	68.63	150.00	88.16	Corporate guarantee
Lanka Dairies (Pvt) Ltd	Director	Letter of Credit	10.00	-	10.00	-	Quoted shares of DCSL
		Total	10.00	-	10.00	-	
Lanka Milk Foods (CWE) PLC	Director	Overdraft	200.00	159.30	200.00	186.18	Quoted shares of DCSL
		Letters of Credit	100.00	-	100.00	-	
Milford Exports (Ceylon) Ltd		Total	325.00	159.30	325.00	186.18	Corporate guarantee
Pattipola Livestock Company Ltd	Director	Overdraft	300.00	221.70	300.00	221.48	Quoted shares of DCSL
		Letters of Credit	595.9	-	578.30	179.93	
		Letter of Guarantee	34.10	34.10	51.75	51.75	
		Term Loan	-	-	500.00	500.00	
Stassen Natural Foods (Pvt) Ltd		Total	930.00	255.80	1,430.05	953.16	Corporate guarantee Clean
Stassen Int'l (Pvt) Ltd	Director	Letters of Credit	50.00	10.42	50.00	-	Quoted shares of DCSL
		Nego. of Doc bills	200.00	-	200.00	-	
		Overdraft	10.00	0.41	10.00	-	
		Letters of Guarantee	40.00	5.35	40.00	-	
Pattipola Livestock Company Ltd		Total	300.00	16.19	300.00	-	Corporate guarantee
Stassen Natural Foods (Pvt) Ltd	Director	Overdraft	50.00	16.58	50.00	29.78	Quoted shares of DCSL
		Letters of Credit	10.00	-	10.00	-	
Stassen Int'l (Pvt) Ltd		Total	60.00	16.58	60.00	29.78	Corporate guarantee
Stassen Natural Foods (Pvt) Ltd	Director	Overdraft	10.00	4.70	10.00	2.33	Quoted shares of DCSL
		Letter of Credit	50.00	-	50.00	-	
		Letters of Guarantee	15.00	15.00	15.00	15.00	
		Nego. of Doc. Bills	200.00	-	200.00	-	
Stassen Int'l (Pvt) Ltd		Total	275.00	19.70	275.00	17.33	Corporate guarantee
Stassen Int'l (Pvt) Ltd	Director	Overdraft	300.00	0.41	300.00	33.64	Quoted shares of DCSL
		Letter of Credit	150.00	10.42	150.00	0.40	
		Letters of Guarantee	125.00	55.00	125.00	55.00	
		Nego. of Doc. Bills	500.00	-	500.00	-	
Stassen Int'l (Pvt) Ltd		Total	1,075.00	65.83	1,075.00	89.04	Corporate guarantee

Director/Company	Name of the Director/ Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2015		As at 31st December 2014		
			Limit Rs.Mn	Outstanding Rs.Mn	Limit Rs.Mn	Outstanding Rs.Mn	
Stassen Exports (Pvt) Ltd	Director	Overdraft	3,048.00	329.41	3,048.5	758.31	Quoted shares of DCSL Corporate guarantee
		Letter of Credit	265.00	146.26	265.00	51.72	
		Letters of Guarantee	100.00	5.35	100.00	-	
		Forward Exchange	1,300.00	-	1,300.00	65.76	
		Nego.of Doc. Bills	500.00	431.33	500.00	-	
		Total	5,213.00	912.35	5,213.50	875.79	
(B)	Spouse of Mr Sujeewa Mudalige						
Capital Maharaja (Pvt) Ltd	Group Director	Term Loan	0.03	0.03	0.19	0.19	Corporate guarantee
		Total	0.03	0.03	0.19	0.19	
Capital holding Maharaja	Group Director	Lease	17.41	17.41	-	-	Corporate guarantee, absolute ownership of vehicles
		Letter of guarantee	0.55	0.55	-	-	
		Overdraft	20.00	-	-	-	
		Total	37.96	17.96	-	-	
Harcros Chemicals (Pvt) Ltd	Subsidiary of Capital Maharaja (Pvt) Ltd	Letters of Credit/ Import loan	305.00	200.96	460.00	11.55	Immovable Property Corporate guarantee
		Overdraft	100.00	5.71	0.79	-	
		Letters of Guarantee	1.50	-	-	-	
		Total	406.5	206.67	460.79	11.55	
International Cosmetics Ltd	Subsidiary of Capital Maharaja (Pvt) Ltd	Overdraft					Mortgage over property, titles of the imported goods/ mortgage over immovable property
		Letter of Credit/ Import Loan	240.00	128.77	240.00	-	
		Short term loan	5.00	-	5.00	-	
		Total	245.00	128.77	245.00	-	
M Chem (Pvt) Ltd	Subsidiary of Capital Maharaja (Pvt) Ltd	Overdraft	5.00	-	5.00	-	Corporate guarantee
		Letters of Credit	25.00	-	25.00	4.77	
		Import Loan	*(25.00)	-	*(25.00)	-	
		Total	30.00	-	30.00	4.77	
MBC Network (Pvt) Ltd	Subsidiary of Capital Maharaja (Pvt) Ltd	Term Loan	30.96	-	39.68	39.68	Immovable property. Leeway available on quarternary Mortgage. Corporate Guarantee.
		Overdraft	80.00	-	80.00	-	
		Letters of Credit	5.00	-	5.00	-	
		Total	115.96	-	124.68	39.68	
MTV Channel (Pvt) Ltd	Subsidiary of Capital Maharaja (Pvt) Ltd	Letters of Credit	15.00	-	15.00	46.75	Immovable property. Goods imported. Leeway available in the existing immovable property. teritory mortgage over imm prope.
		Import Loan	*(15.00)	-	*(15.00)	-	
		Overdraft	65.00	42.69	65.00	49.92	
		Term Loan	304.46	304.46	85.00	85.00	
		Letters of Guarantee	5.00	-	5.00	-	
		Total	389.46	347.15	170.00	181.67	
P E Plus (Pvt) Ltd	Subsidiary of Capital Maharaja (Pvt) Ltd	Letter of Credit I/OD I/ Import Loan I	100.00	82.99	100.00	97.04	Corporate guarantee Immovable Property
		Overdraft II	30.00	-	30.00	-	
		Letter of credit II/ Import loan II	112.00	47.47	112.00	-	
		Total	242.00	130.46	242.00	97.04	

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 2015		As at 31st December 2014		
			Limit Rs.Mn	Outstanding Rs.Mn	Limit Rs.Mn	Outstanding Rs.Mn	
S - Lon Lanka (Pvt) Ltd	Subsidiary of Capital Maharaja (Pvt) Ltd	Overdraft	310.00	26.37	285.00	74.55	Stock in trade Corporate guarantee Goods imported
		Letters of Guarantee	30.00	22.77	25.00	25.98	
		Letters of Credit/Import loan	885.00	369.21	885.00	594.65	
		Term Loan	-	-	*(80.00)	-	
	Total	1,225.00	418.35	1,195.00	695.18		
Tuffline Ltd	Subsidiary of Capital Maharaja (Pvt) Ltd	Letters of Credit /Import Loan	100.00	88.33	221.00	90.00	Trade receivables Mortgage over machinery Board Resolution
		Overdraft	65.00	58.49	65.00	14.79	
		Letters of Guarantee	1.00	-	1.00	-	
		Local Trading Loan	4.97	4.97	5.00	-	
		Term Loan/OD	24.24	-	50.00	41.29	
		Total	195.21	151.79	342.00	146.08	
(C) Mr Amal Cabraal	Director	Overdraft	200.00	-	200.00	-	Board Resolution Commercial paper agreement
John Keells Holdings PLC		Commercial paper	*(200.00)	-	*(200.00)	-	
		Overdraft	*(200.00)	-	*(200.00)	-	
		Term loan	*(200.00)	-	*(200.00)	-	
		Total	200.00	-	200.00	-	
S A Silva & Sons Ltd	Director	Packing credit loan	57.6	-	57.6	26.28	Confirmed export orders & Corp. Guarantee Lien over FD
		Export bill	*(57.6)	-	(57.6)	9.99	
		Overdraft	30.00	9.71	30.00	7.68	
		Total	87.60	9.71	87.60	43.95	
Ceylon Beverage Holding PLC	Director	Overdraft	100.00	103.42	100.00	58.50	Board Resolution
		Term loan	317.40	317.40	408.70	408.70	
		Total	417.40	420.82	508.70	467.20	
Lion Brewery (Ceylon) PLC	Director	Overdraft	100.00	179.36	100.00	-	Board Resolution, Demand promissory notes, LG Indemnity, documents of title
		Letter of guarantee	20.00	0.75	20.00	11.78	
		Money market loan	5,000.00	2,300.00	5,000.00	750.00	
		Term loan	-	-	1,500.00	-	
		Letter of credit	*(5,000.00)	-	-	-	
		(sight)	50.00	-	50.00	-	
		Import loan	*(50.00)	-	*(50.00)	-	
		Total	5,170.00	2,480.11	6,670.00	761.78	
(D) Mr Nilanth de Silva	Director	Overdraft	254.00	242.77	254.00	126.26	Stock & book debts Property Guarantee Board Resolution Dollar bond for \$695,000 Letters of hypothecation vehicles/equipment
Malwatte Valley Plantations PLC		Refinance loan	0.38	0.38	5.70	5.70	
		Term loan	29.23	29.23	70.63	70.63	
		Commercial paper	40.00	-	40.00	-	
		Stand by overdraft	*(40.00)	-	*(40.00)	-	
		packing credit loan	400.00	67.87	400.00	-	
		Export bill	*(400.00)	120.33	*(400.00)	68.41	
		Lease	42.40	42.40	15.10	15.10	
		Total	766.01	502.98	785.43	286.10	
(E) Mr D Soosaipillai		Director	Overdraft	12.00	-	N/A	
Commercial Credit & Finance PLC	Securitisation loan		513.53	513.53	-	-	
	Let of guarantee		2,104.00	2,104.00	-	-	
	Investment loan		91.00	91.00	-	-	
	Total		2,720.53	2,708.53	-	-	

Director/Company	Name of the Director/Relationship	Nature of Transaction	Aggregate Amount of Accommodation				Security
			As at 31st December 2015		As at 31st December 2014		
			Limit Rs.Mn	Outstanding Rs.Mn	Limit Rs.Mn	Outstanding Rs.Mn	
(F)	Ms M A R C Cooray Ceylon Guardian Investment Trust/Ceylon Investment PLC	Director					
		Overdraft/Term loan	300.00	0.23	300.00	-	Short term loan agreement
		Overdraft	*(300.00)	-	-	-	
		Total	300.00	0.23	300.00	-	

* Figures in brackets indicate sub limits granted to respective entities.

2. Other business transactions with the Bank

Company/Director	Name of the Director / Relationship	Nature of Transaction	Amount (Rs Mn)	
			2015	2014
(A)	Ms D S C Jayawardena Stassen Exports (Pvt) Ltd	Director		
		Interest on repurchase agreements	8.15	0.29
		Repo (outstanding as at year end)	130.00	-
(B)	Mr Jonathan Alles Lanka Financial services Beurea	Director		
		Interest on repurchase agreements	-	0.75
		Merchant commission	4.24	4.07
		Other charges	4.055	2.58
(C)	Mrs MARC Cooray Ceylon Guardian Investment Trust PLC	Director		
		Repo (outstanding as at year end)	-	250.00
		Interest on repurchase agreements	4.13	0.53
	Ceylon Investment PLC	Director		
		Repo (outstanding as at year end)	-	650.00
		Interest on repurchase agreements	12.33	1.37

The above entities also held customer deposits with the Bank totalling to Rs 18,042.37 Mn and interest paid was Rs 455.55 Mn.

Interest income earned from loans and advances amounted to Rs 365.08 Mn for the year ended 31/12/2015.

Risk Management Report

Risk Environment

The year 2015 has been a turbulent year for the global economy and 2016 will continue to carry some of these uncertainties. As China struggles through an economic slowdown and the western economies continue to show signs of an uneven recovery with lower than expected growth rates, these events coupled with the instability in the Middle East, the oil price dilemma and the lifting of interest rates in the US for the first time in ten years have led analysts worldwide to predict a challenging year ahead.

As a result of the macro-economic environment in which the Bank operates, there are different potential risks that

could negatively affect HNB's business and impact its strategic objectives. The Bank uses stress tests to analyse the possible changes in risk indicators and their impact on HNB's capital and liquidity. These scenarios are incorporated to risk management when planning capital, risk appetite and management of the different types of risk.

HNB's business model concentrates mainly on lending to the domestic market with a diversified product range, geographical concentration and customer base (Corporate, SME and Retail). The Bank also expanded its overseas lending activities in 2015, which further strengthens the stability of results in the face of macroeconomic uncertainty, ensuring a medium to low risk profile.

Global Landscape

Event	Potential Consequences	Impact on the Bank	Risk Mitigation Strategies
Further hikes in US interest rates	<p>A decline in local equity and bond markets with high interest seeking foreign investors returning to the more liquid and developed markets.</p> <p>A flight to quality.</p> <p>Increase in the cost of dollar-based funding.</p>	<p>Moderate Risk</p> <p>Interest rate risk is minimal as over 70% of advances and 90% of deposits can be re-priced within 1 year.</p> <p>The Loan to Deposit Ratio on the foreign currency book is at 70%.</p> <p>The behavioural liquidity maturity gaps for lending and borrowing are not significant, apart from the over 5 year maturity bucket due to long term funding .</p> <p>Exposure to the equity market is small. Trading and investment portfolios make-up 3.51% of total assets.</p>	<p>The Bank will finance growth in the USD book on a matched funding basis to minimise interest rate risk and liquidity risk.</p> <p>Aggressive strategies in place to continue to mobilise low cost deposits through customised products to attract remittance inflow.</p> <p>The market risk dashboard reviews interest rate stress tests. Liquidity limits are reviewed against internal and regulatory caps.</p> <p>The Bank's equity portfolio is marked-to-market and the profit/loss is monitored on a regular basis.</p>
Economic slowdown in China	<p>Lower investment from China to finance local infrastructure development</p>	<p>Low Risk</p> <p>Managing the credit quality of the lending portfolio is a key focus area at the Bank.</p> <p>The Bank has granted loans in respect of many local infrastructure development projects. The exposure is at 6.4% of the lending portfolio.</p> <p>Overall NPA is at a low of 2.43% as a result of a well-diversified portfolio by industry.</p>	<p>We apply stringent underwriting standards combined with credit limits, internal rating mechanism and portfolio diversification.</p> <p>Caps are set on single industry exposure as a percentage of core capital and monitored on the credit risk dashboard.</p>
Sustained drop in commodity prices for local exports (tea, rubber etc)	<p>Decline in export revenue for companies involved in these sectors.</p>	<p>Low Risk</p> <p>The Bank's exposure through its loan portfolio to the tea sector is 2.5% and to rubber sector 0.6%. Loans to the apparel sector are only 2% of the total loan portfolio.</p>	<p>In addition to the industry reviews carried out for certain high risk sectors, the Bank also monitor industry concentration.</p> <p>Industry limits updated for key industries with a view to communicate the Bank's risk appetite.</p> <p>Recommendations are made to the network to curtail/ increase exposure to certain sectors based on the internal risk classification.</p>

Event	Potential Consequences	Impact on the Bank	Risk Mitigation Strategies
Further decline in gold prices	Losses on gold-backed lending	Low Risk The Bank's pawning portfolio is only 3% of total advances and the impact is minimal due to possible auctioning of gold articles when not redeemed.	Stress tests are carried out regularly to assess the impact of a further decline in gold prices. Recommendations are made to increase provisioning if deemed necessary.
Steep fall in oil prices	Lower oil prices could lead to less prosperity in the Gulf countries and less demand for overseas labour.	Low Risk The inflow of remittances from the Middle East has not been affected.	Arrangements are being made to build-up the relationship network with new potential corridors to increase the inflow of foreign inward remittances.

Local Environment

Event	Potential Consequences	Impact on the Bank	Risk Mitigation Strategies
Increase in interest rates	Decline in bond prices.	Low Risk Our treasury portfolio has a short duration of 1.7 years. Therefore interest rates changes will not affect the portfolio significantly.	Stress tests are carried out regularly to assess the impact of interest rates changes on our income in the trading and investment portfolios.
Exposure to state/ government corporations on infrastructure lending	Foreign currency risk due to loans given in USD.	Moderate Risk Government loans are covered by Treasury Guarantees and Finance Ministry undertakings.	Cap on Government lending as a % of core capital. Cap on FX lending as a % of core capital.
Real Estate bubble	Steep fall in commercial real estate, housing and condominium prices.	Low Risk The Bank's exposure to real estate and condominium construction projects is very low and less than 2.5% of the loan book.	Cap on lending to the construction industry as a % of core capital. The Bank as a policy calls for collateral/ security when granting credit facilities. The amount and type of security taken generally depends on the customer's credit risk assessment. The Bank applies an average loan-to-value ratio of 60%, with a comfortable margin in case of default.

Our Most Important Risks

While risk is indispensable for business, unexpected events can lead to unwanted consequences for a bank and its stakeholders. An effective risk management framework is therefore critical for a safe and sound bank.

Throughout its more than 120 years, Hatton National Bank (HNB) has combined prudence in risk management together with the use of quantitative and qualitative risk management techniques which over time have proven to be decisive in generating stable earnings and superior shareholder value.

We assess the risks originating from our business activities that we can control (our people, processes and systems), as

well as those from external events that we need to respond to (economic, regulatory, technology and other stakeholders).

Credit risk is HNB's most important risk, given the scale and materiality of the Bank's loan book. Utmost importance is therefore given to the monitoring of the loan book and credit operations, starting from the loan origination process, to approval and disbursement of facilities and subsequent measuring and monitoring of the loan portfolio using risk management tools such as watch-listing, internal rating models, loan review mechanism, industry evaluations and sector limits.

Risk Management Report

The Bank is also exposed to market risk through its treasury operations and to operational risk as a result of its business activities including outsourced operations.

Managing liquidity risk is also an integral part of the Bank's risk management framework. The Bank assesses the level of liquidity required for its operations by looking at factors such as cash-flow requirements for the different maturity periods, expected increases and decreases in loan demand, volume

of deposit withdrawals and type of deposits, whether institutional or retail.

The Bank's Asset and Liability Management (ALM) system helps to measure the direction and extent of the asset-liability mismatch. Action is then taken to balance cash-flows or interest rates for a particular time horizon.

A Board approved funding strategy is also in place to deal with liquidity planning under different scenarios, including crisis situations.

Key Initiatives

Over the past year, the Bank has taken steps to strengthen its risk management capabilities. Some of the key initiatives in 2015 and developments planned for 2016 are listed below.

Initiatives in 2015	
Bank's Internal Capital Adequacy Assessment Process (ICAAP)	Enhancements made to the Bank's ICAAP including formalisation of the risk appetite statement, allocation of capital for forecasted balance sheet growth, development of a compliance risk score card and assessment of group risk.
Stress Testing Framework	Stress tests developed to assess the impact of interest rate movements on the banking book. Impact of a liquidity squeeze on the Bank was tested using various scenarios. Funding strategies were developed to bring back liquidity to comfortable levels during the stress events.
Key Risk indicators (KRIs) for Operational Risk	Threshold limits implemented for the main KRIs in operational risk management.
Credit Appraisal System	The credit appraisal system was enhanced to include the approval of temporary overdrafts (TODs), thereby increasing the efficiency of system usage and loan processing time.
Impairment Review Process	Impairment review sheet was modified to include a more comprehensive review of critical risk aspects.
Implementation of the Basel III Liquidity Standards	The Liquidity Coverage Ratio (LCR) was implemented covering the "All Currency" and "LKR" requirements.
Alternative Standardised Approach (ASA) for Operational Risk	Progress made on moving to the ASA for operational risk measurement. Mapping policy approved by the Board and capital requirements under ASA computed parallel to the Basic Indicator Approach (BIA).

Priorities for 2016

Streamline the credit approval limit structure and authorisation levels, while enhancing the effective participation of the Risk Department as an enabler.
Review and validate the existing Internal Risk Rating mechanism.
Strengthen the Loan Review Mechanism, to deliver added value to the underwriting process.
Implementation of a Security Repository system to centralise the security documents of the Bank.
Development of a Risk and Control Self-Assessment (RCSA) program and completion of the independent review process in order to move to the more advanced approaches for the measurement of operational risk.
Strengthen the root cause analysis process for operational loss events.

Regulatory Landscape

Following the global financial crisis in 2008, it was clear that a tough regulatory response would follow world-wide.

The Central Bank of Sri Lanka (CBSL) has embedded the Basel Framework in its supervisory process since 2008 and under the direction issued on "Integrated Risk Management (IRM) Framework for Licensed Banks" in 2011, clear guidelines were formulated on the management of risk in the banking sector. The direction was amended further in 2014 to include the Baseline Security Standard for Information Security Management.

Other measures taken to promote a more resilient banking sector in Sri Lanka was the formalisation of the Internal Capital Adequacy Assessment Process (ICAAP) in 2013, followed by the Revised Guidelines for the measurement of Operational Risk and the Stress Testing framework for Banks, both issued in 2014.

The implementation of the Basel III Liquidity Standards was enforced in 2015 and the introduction of higher capital buffers to improve the capital management process of banks is also in planning.

Basel II/Basel III Framework at the Bank

Basel Framework	Subject Matter	Adopted methodology at HNB
PILLAR 1	Credit Risk	Standardised approach used for the measurement of credit risk as per current regulatory requirements. Internal Rating based methods tested and plausibility data checks being carried out in the systems.
	Market Risk	Standardised approach applied as per current regulatory requirements. Requirements under the Internal Model Approach (IMA) using value at risk (VaR) methodology have been tested. However as the results are very similar due to the Bank's small trading book i.e. 1% of total assets, a parallel run is done once a year for comparative purposes.
	Operational Risk	Basic Indicator Approach (BIA) used for the measurement of operational risk with a parallel run being carried out for the Alternative Standardised Approach (ASA). Based on the results the Bank hopes to move to the more advanced approaches in 2016.
	Capital Adequacy Ratios	Minimum Tier I capital ratio of 5% and Capital Adequacy Ratio of 10% maintained by the Bank. More stringent capital ratios under Basel III (greater focus on common equity) are reported to the regulator for observation purposes.
PILLAR 2	Additional Risks	Risks assessed by the Bank under its ICAAP: <ul style="list-style-type: none"> - Compliance Risk - Concentration Risk - Group Risk - Interest Rate Risk (in the banking book) - IT Security - Liquidity Risk - Residual Credit Risk A stress testing framework is in place to cover the Bank's key risks.
PILLAR 3	Market Disclosures	Risk disclosures made through the Bank's annual report and through the HNB website.
Liquidity Standards	Liquidity Coverage Ratio (LCR)	Bank has implemented the LCR requirement for "LKR" and "All Currencies".

Risk Management Report

Risk Governance

Effective risk management begins with good governance and leadership. HNB has a well-established risk governance framework in place with an informed and engaged Board of Directors, supported by an experienced Corporate Management Team and Risk Management professionals.

The Board of Directors

- ☛ Sets the tone at the top by ensuring that risk management is aligned with the Bank's strategy and risk appetite.

In discharging its risk governance responsibility, HNB's Board operates through two key committees, the Board Integrated Risk Management Committee (BIRMC) and the Board Audit Committee (BAC). The Board receives regular updates through these two committees on the effectiveness of the risk governance framework, review of compliance and internal audit processes.

The Board Integrated Risk Management Committee (BIRMC)

- ☛ Responsible for the oversight of HNB's risk management framework and assists the Board in fulfilling its responsibilities relating to compliance and regulatory risk matters.

The BIRMC also provides direction on risk related matters in the day-to-day decision making process and promotes constructive discussions with the Bank's Chief Risk Officer and other Committee members, challenging management on risk-related decisions and processes.

It reviews and approves key risk policies, limits and strategies and ensures the Bank's risk appetite is maintained at the pre-determined levels.

The effective governance of the Bank's ICAAP and progress made on the Basel II / Basel III roadmap also comes under its purview.

The Committee further drives the Bank's recovery efforts in respect of non-performing advances (NPA).

A challenging target was set to reduce NPA below the 3% level at the beginning of the year. Under the supervision of the BIRMC, the Bank's NPA rate as a % of Loans & Advances reached a record low of 2.43% in 2015 as compared to 3.16% in 2014.

The Board Audit Committee (BAC)

- ☛ Provides an assessment on the effectiveness of internal audit and external disclosures in line with accounting policies and financial reporting to the Board.

Executive Management Committees

A number of Executive Management Committees each with specialised focus are in place to support the BIRMC.

The different Committees are responsible for the coordination of risk matters for the different business areas (see Risk Governance Structure) and review the day-to-day management of the Bank's risk-taking activities.

The **Executive Management Committees** set forth specific risk instructions, supervise the Bank's risk management practices, approve credit applications over and up to a defined limit, and ensure adherence to regulatory and internal risk management policies, processes and procedures.

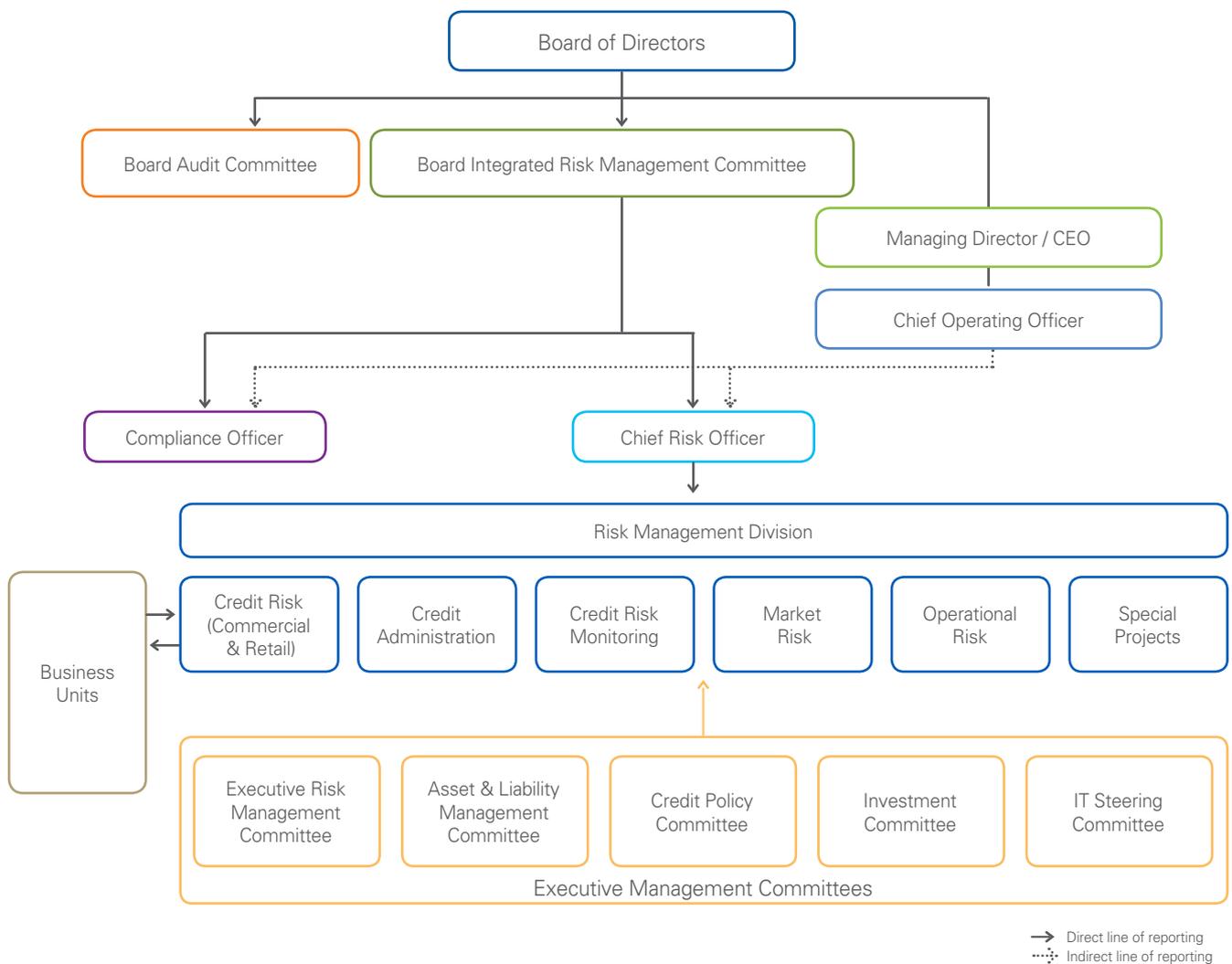
In order to strengthen surveillance on its Group entities, the Bank has also established **Subsidiary Level Risk Management Committees** and instituted a reporting framework for the individual companies. HNB's Group entities report to the Bank's BIRMC on risk matters on a quarterly basis.

The **Risk Management Department** monitors the Bank's risk appetite and partners with the business lines to ensure that risk management is truly ingrained in HNB's corporate culture.

The Bank's Chief Risk Officer (CRO) reports directly to the BIRMC. The CRO has a secondary reporting line to the Chief Operating Officer (COO) on administrative matters.

A separate **Credit Supervision and Recoveries Department** ensures the accuracy of classifications on non-performing loans and provisioning per regulatory requirements. The team also manages problem credits and drives recovery efforts across the Bank.

Risk Governance Structure



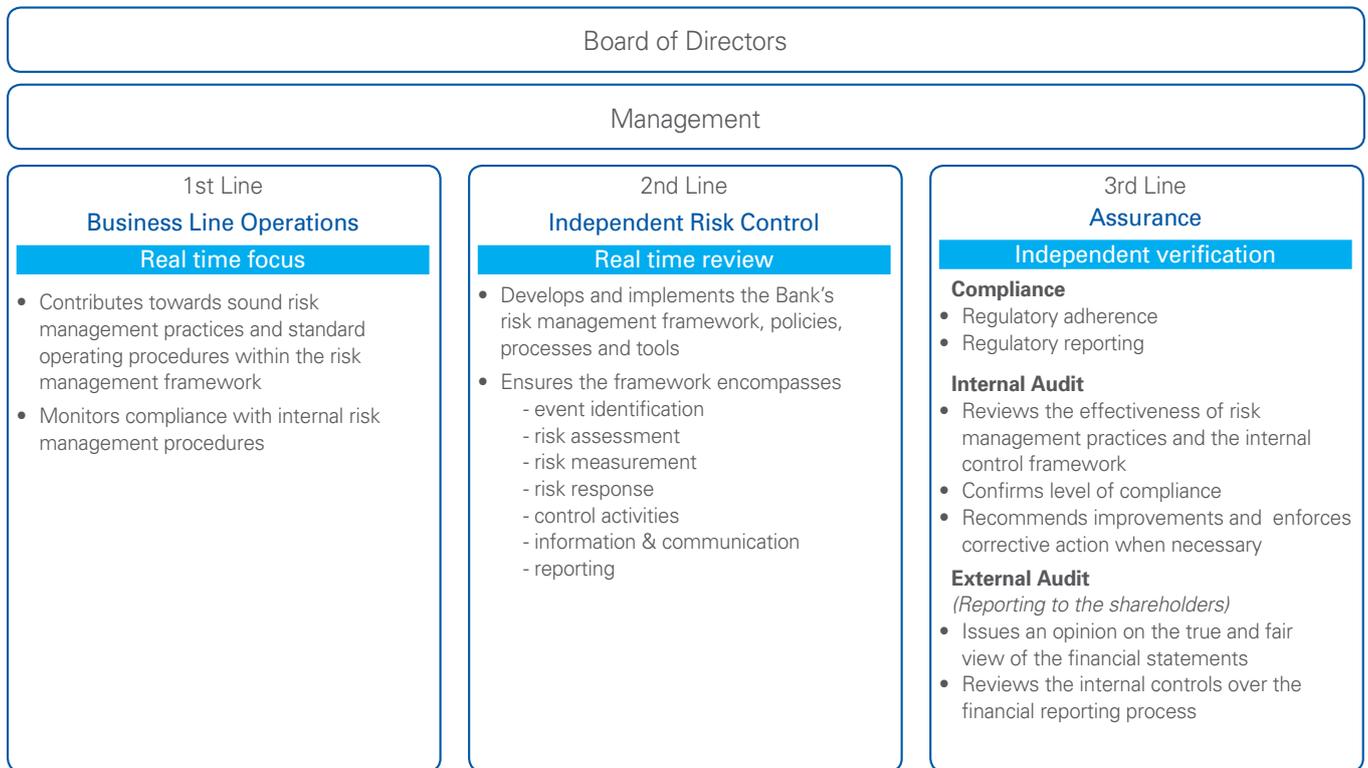
→ G4-45

Three levels of Defence

Managing risk is each and every employee's responsibility. However in order to ensure that essential duties are carried out as intended, the Bank has established three lines of defence with accountability and responsibility being given to three separate groups within the organisation, under the oversight and direction of HNB's Management and Board of Directors.

The three lines work together effectively and efficiently, while maintaining their discrete duties so as to not compromise the defence model.

Risk Management Report



Risk Appetite

HNB's risk appetite governs the amount of risk the Bank is willing to accept in pursuit of its return objectives.

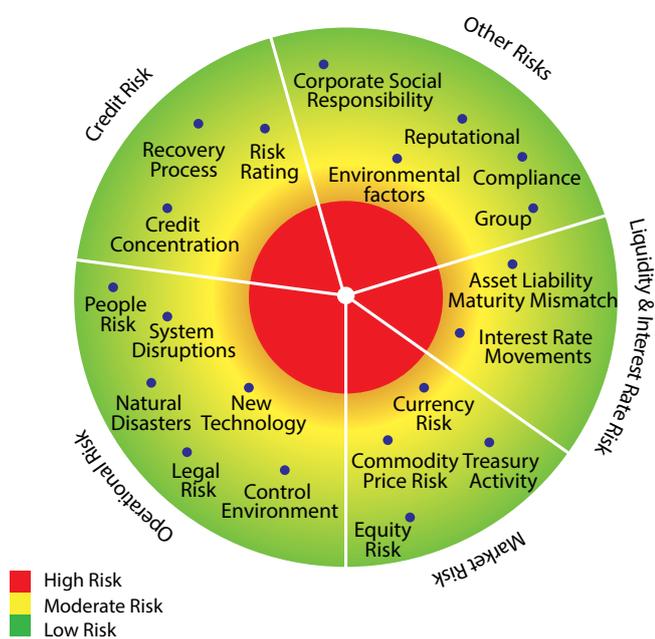
The Bank's risk appetite framework is overseen by HNB's Board and adherence is monitored and controlled by the Risk Management function.

Value Creation	Measurement
<p>Meet risk/return objectives of the Bank , focusing on shareholder-value, in line with regulatory guidelines.</p>	<ul style="list-style-type: none"> Risk measures are tracked and reported regularly to the Board, the responsible Committees and Management with escalation at each level depending on the severity of the breach. Monitoring also takes place through sound policies, procedures and controls. Some of the key performance measures are earnings growth, maintenance of adequate capital, cost to income ratio and availability of liquidity to meet financial obligations in a timely manner. The Bank's risk appetite is also tracked via limits for credit, market and liquidity risk, targets for non-performing advances, operational risk thresholds limits, stress test outcomes and low tolerance for non-compliance with regulatory and internal policies. <p>The limits are essential in controlling the risks associated with the Bank's activities. When the limits are exceeded, decisions are taken to reduce the risk exposures in certain business activities or strengthen operations in vulnerable areas.</p>

Managing the Bank's Risks

HNB's risk management framework incorporates active management and monitoring of credit, market, operational and liquidity risks. The Bank also monitors interest rate risk (in the banking book) as well as compliance risk. Other risk areas identified and monitored are group risk, reputation risk, IT security and business/strategy risk.

The following heat map provides an overview of the Bank's risk profile.



→ G4-45, G4-46, G4-47

Formulated under the Integrated Risk Management (IRM) framework of the Central Bank of Sri Lanka, HNB's risk management policies and processes are based on a clear understanding of the risks the Bank faces, disciplined assessment, measurement and monitoring in the form of risk dashboards in line with a Board approved risk appetite.

Credit Risk

Credit risk can be defined as the risk of a loss to the Bank due to the default of a borrower or counterparty. Default occurs when a borrower or counterparty fails to meet his financial obligations. Credit risk can also be viewed as the risk of a deteriorating credit quality of a borrower.

Granting loans and advances is the core business of the HNB and as such credit risk is the Bank's most important risk. The Bank faces credit risk primarily from Corporate Banking, SMEs and Retail exposure.

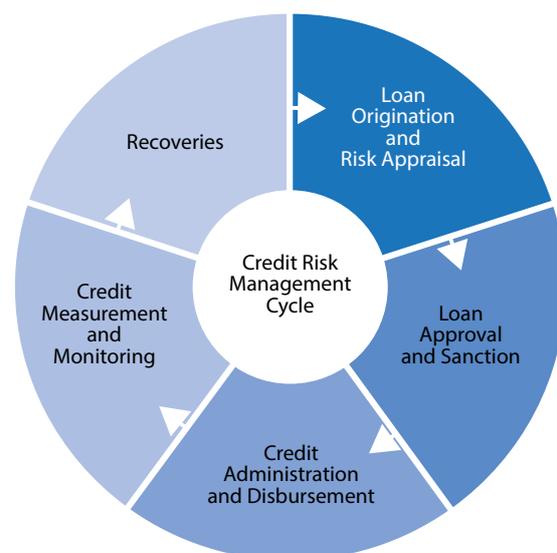
The Bank's credit policy approved by the Board plays a central and strategic role in managing daily business activities. A monthly Credit Policy Committee meeting chaired by the Chief Executive Officer drives policy decisions and implementation plans.

The credit policy defines the principles encompassing client selection, due diligence, early alert reporting, tolerable levels of concentration risk and portfolio monitoring.

The Bank's credit system provides the foundation for an efficient, automated credit appraisal process that allows easy access to details on any given facility. The system is used for Corporate, SME and Retail customer segments across the network. The credit system ensures that a basis for decision-making including case comments, current credit exposure and financial statements is created and stored. Credit exposure is based on real-time information, and a credit file is electronically routed to the appropriate Manager or Committee. The delegated credit approval structure and the associated processes ensure the efficient administration and control of the lending limits given to the officers in the approval cycle.

Managing the credit quality of the lending portfolio is a key area of focus at HNB. The approach is to avoid large credit risk on a counterparty or portfolio level by applying stringent underwriting standards combined with various tools such as credit limits, internal rating mechanism, taking collateral, portfolio diversification, and credit insurance.

Credit processes



Risk Management Report

Loan Origination and Risk Appraisal

The loan origination process comprises of initial screening and credit appraisal. The evaluation focuses on the borrower's ability to meet its obligations in a timely manner. Efforts are made to ensure that consistent standards are maintained in credit approval. Collateral and guarantees form an important part of the credit risk mitigation process and internal policy dictates margins in our favour by type of security offered, standards for periodic valuations and assessment of realisable value of collateral.

A suite of internal risk rating models is in place for corporate, SME and retail customer segments. The internal risk rating is an important part of the risk assessment of customers and incorporated in the credit decision process. Significant strides have been made in internalising this approach with a view to giving due prominence to lending based on cash flow repayment ability as distinct from collateral based lending.

Loan Approval and Sanction

The Bank has established clear guidelines for loan approvals / renewals by adopting a committee-based approval structure, where all approving signatories carry equal responsibility for credit risk. Individual credit facilities beyond a minimum threshold require an independent risk signatory with no revenue targets in respective committees.

Credit Administration and Disbursement

HNB's Corporate Banking and Project Finance loan portfolios are administered through a centralised Credit Administration Division which ensures efficient and effective post sanction customer support including disbursement, settlements, processing renewal notices and advising customers on interest rate amendments.

This division independently reports to the Risk Management function to ensure clear segregation of duties from business origination and disbursements only after stipulated conditions have been met and relevant security documents obtained.

A separate department, the Centre of Excellence is responsible for processing retail loans. SME facilities are handled by the branch network and regional offices.

Credit Measurement and Monitoring

To safeguard the Bank against possible credit losses, problem loans need to be identified early. The Risk Management Division measures and tracks the status of the credit portfolio, undertakes impact studies and detects early warning signals pointing to deterioration in the financial health of a borrower.

A credit risk dashboard is prepared monthly to review high level credit portfolio concentration and assess performance against internal limits (board risk appetite) and regulatory requirements.

An internally developed Business Intelligence System ('KPI Wizard') is in place to evaluate credit risk indicators at branch, regional, zonal and bank level. Accountability for credit risk performance is vested with individual business units and unhealthy trends addressed at all levels.

Recoveries

Problem credits and non performing advances are managed by the Credit Supervision and Recoveries Department. This unit is responsible for all aspects of an overdue facility, follow up of rescheduled facilities, monitoring the value of the applicable collateral and liquidation, scrutiny of legal documents and liaising with the customer until all recovery matters are finalised. This division's activities are seamlessly integrated with Credit Administration and Credit Risk Management to ensure effective follow up. Back Office recovery functions representing Non Performing Advances classification, rescheduling, provisioning and valuation of collateral on delinquent assets was centralised during the year to ensure standardisation and accuracy. The Bank strictly conforms to regulatory requirements in problem loan classification and management.

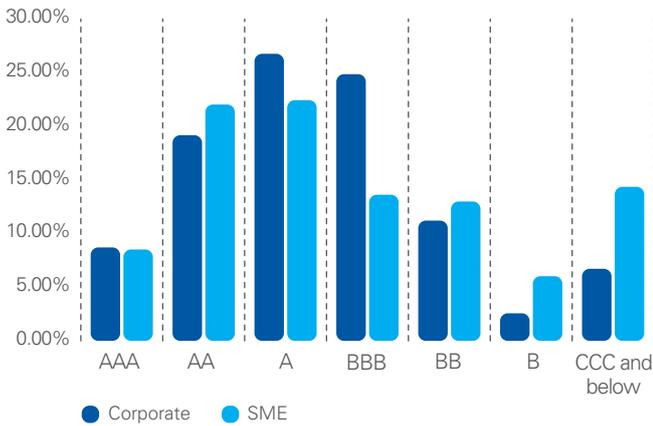
Internal Risk Rating Models

The Bank uses four credit rating models to rate its corporate clients and SMEs, focusing on aspects of operating risks, financial risks and account/facility conduct.

For corporates and SMEs, nine rating grades from AAA to C have been defined. A rating of 'AA' implies for example a very high credit worthiness and very low expectation of credit risk. It indicates a very strong capacity for timely payment of financial commitments and is not significantly vulnerable to foreseeable adverse industry and economic conditions. The rating further denotes a high level of professionalism in management and growing financial position.

The following chart shows the quality of the Corporate Banking and SME portfolios as at December 2015.

Corporate and SME Portfolios based on Internal Risk Ratings



80% of the Bank's corporate loan portfolio and 67% of the SME loan portfolio are in the investment grade category (internally risk rated AAA to BBB), with the rest rated BB and below. Areas of focus over the year have been the high risk accounts (rated B and below) with increased watch-listing on both portfolios.

Unlike the rating models for Corporate and SME, the scoring models for the retail segment were developed using the Bank's internal portfolio characteristics and the account behaviour observed therein. Some of the significant variables derived for instance for the retail segment home loan model are age, gender, civil status, number of dependents, net worth (assets minus liabilities) and income.

Credit Concentration Risk

Credit concentration risk is the risk of a loss to the Bank as a result of excessive build-up of exposure to a single counterparty or counterparty segment, industry, product or geographical location.

The monitoring of credit concentration is an integral part of the credit risk monitoring process. Concentration typically exists where a number of counterparties are engaged in similar activities and have similar characteristics, which could result in their inability to meet contractual obligations being similarly affected by changes in economic or environmental conditions.

The Bank applies the following techniques to measure and monitor credit concentration in the Bank's loan portfolio:

- The Herfindahl-Hirschman Index (HHI)
- Analysis of key ratios

- Internal limits
- Stress testing

To manage industry concentration in the loan book, the Bank has developed a credit model to define limits for the key industries where exposure is high and/or industries where the Bank sees potential for high growth.

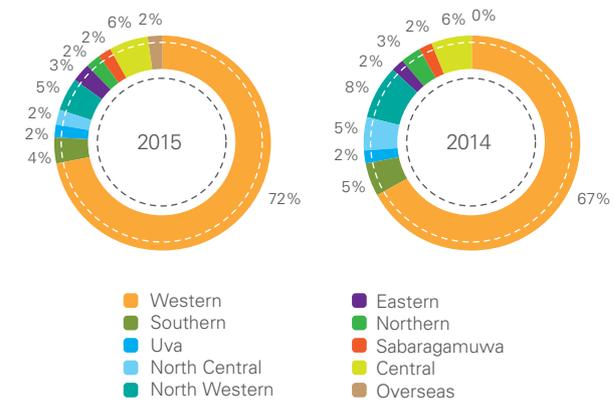
The model is based on factors involving:

- Industry as a percentage of core capital
- Top 20 customer exposure
- Industry risk rating
- Industry exposure relative to country GDP

Regulatory limits for single borrower and selective industry types add another dimension to measuring and monitoring credit concentration risk. The individual industry limits are monitored and reported in the credit risk dashboard.

Furthermore, sensitivity analysis on the likelihood of the Bank's top 20 customers going into default and the impact of this event on the Bank's capital adequacy ratio (CAR) is assessed and results monitored on a regular basis. (See stress testing section).

Geographical Concentration

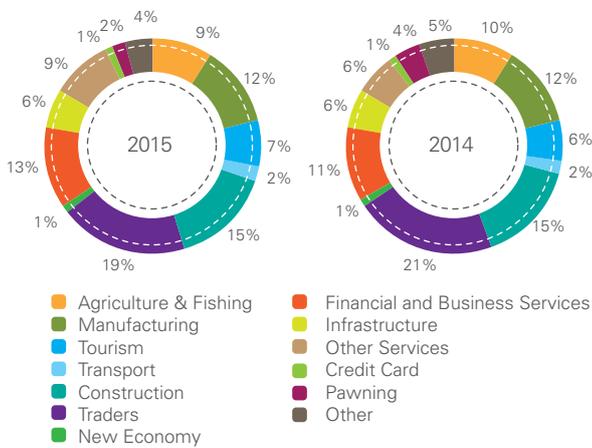


Growth of the credit portfolio continued across all provinces in 2015 with a slight decline witnessed in the North Central and North Western Regions. The Overseas portfolio grew comparatively by 2% during the year. Project accounts are mainly booked in Head Office, hence the high distribution seen in the Western Province.

→ FS 6

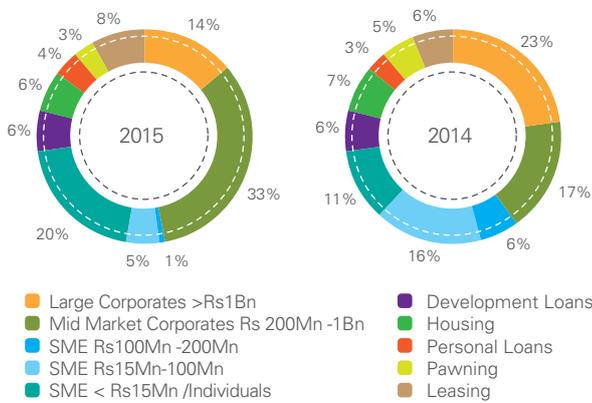
Risk Management Report

Industry-wise Exposure



Due to the continuing decline in gold prices, the pawning portfolio decreased further to 2% in 2015 as compared to 4% in 2014. The industrial concentration of the Bank's credit portfolio remained broadly consistent with 2014.

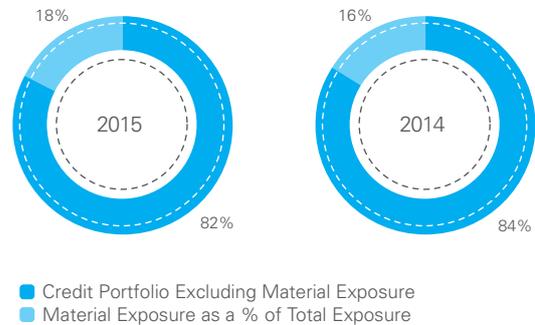
Exposure by Counterparty



Credit growth was mainly led by Mid Market Corporates, SMEs <Rs. 15 Mn/Individuals and Leasing.

➔ FS 6

Material Exposure



The material exposure of the loan book has increased marginally in 2015, as compared to 2014.

Credit Risk Mitigation

The Bank uses a range of strategies to actively mitigate credit risk such as netting and set-off, use of collateral and risk transfer through insurance. Detailed policies and processes are in place to ensure that credit risk mitigation is appropriately applied and recorded.

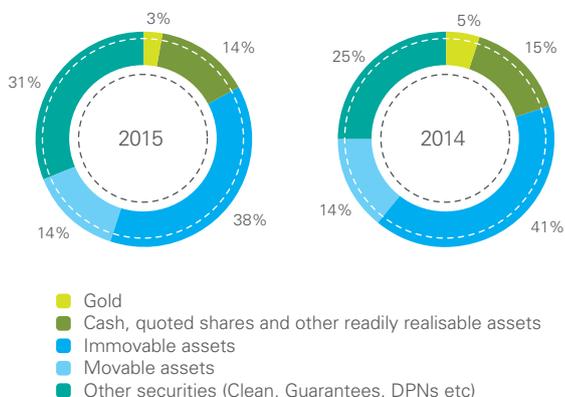
Collateral

Collateral is a key factor used by the Bank to mitigate credit risk when granting loans. Collateral can be seen as security provided by borrowers in the form of an asset or third party obligation which helps the Bank to mitigate a possible credit loss in the event of a default. It also ensures a satisfactory degree of protection for depositors' funds which are used for lending activities. While collateral can be an alternative source of repayment, the Bank is aware that accepting security from creditors does not replace the necessity for high quality standards in its credit granting process.

The Bank as a policy calls for collateral/security when granting credit facilities.

The margin retained on valuation when accepting security will vary according to types of assets taken as security, i.e. for cash deposits held with the Bank it will be 10%, whilst a mortgage over immovable property will be around 35% to 40%. Furthermore guarantees are often required particularly in support of credit facilities granted to group of companies and weaker counterparties. Creditworthiness is established for the guarantor as part of the credit approval process.

Main Types of Collateral

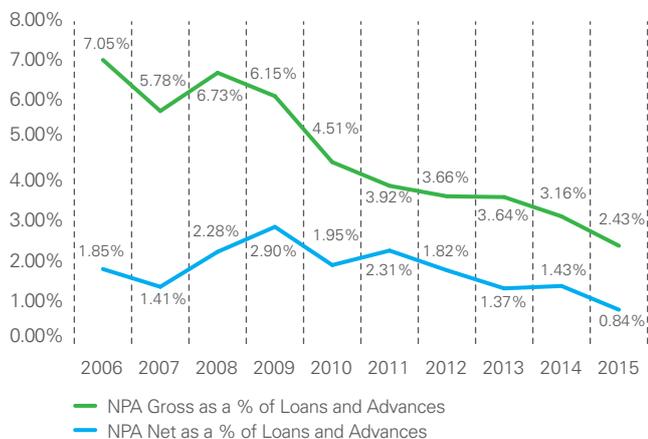


In 2015, collateral in the form of immovable assets decreased to 38% in 2015 as compared to 41% in 2014. Other securities taken as collateral increased to 31% in 2015 from 25% last year as a result of lending to Corporates and Government Agencies.

Managing Non Performing Advances (NPAs)

Despite a prudent credit approval process, borrowers may still default. The Bank has implemented an early warning mechanism to monitor deterioration in the financial health of its borrowers. Early warning signs include for instance arrears in capital and interest, deterioration in the operating environment of the borrower and excessive TODs. Improved credit quality, strong recovery efforts and the growth in loans and advances have also contributed towards the low NPA rate witnessed in 2015. The Bank also monitors the NPA performance of its group entity HNB Grameen Finance which was well below 1% in 2015.

Non Performing Advances 2006 -2015



The Bank's NPA has been on a declining trend over the past 10 years. Due to continuous monitoring, strong recovery efforts across the network and a healthy growth in the loan portfolio, the Bank's Gross NPA ratio declined to a low of 2.43% in 2015.

Market Risk

Market Risk is the risk that changes in equity, bond and commodity prices, as well as movements in foreign exchange rates and interest rates may adversely affect the Bank's trading and banking books.

HNB's Board approves the market risk appetite and related limits for both the banking and the trading portfolios. Treasury Middle Office (TMO) which is part of the independent Risk Management Department, reports on market risk and is instrumental in ensuring that the market risk limits are in line with the level of risk acceptable to the Board. TMO keeps track of price movements and other developments in the market that affect the Bank's risk profile and monitors primarily exchange rate, interest rate and equity price risks. Presently, exposure to the Bank's trading book is less than 1% of its banking book.

The Bank does not deal in commodities and therefore has no direct commodity risk. However, through loans to the Bank's Corporate and SME customers who may be involved in businesses where commodities such as tea, rubber, grain, metal and oil play an important role, the Bank may face counterparty credit risk. Some of the problems these businesses may encounter could be as a result of a decline in commodity prices, higher costs, exchange rate fluctuations or speculating on movements in commodity prices.

The Bank's market risk on long term investments is managed in accordance with the purpose and strategic benefits of such investments, rather than purely on mark to-market considerations. Reviews and assessments on the performance of the investments are undertaken regularly by the Bank's Investment Committee. A Market Risk Dashboard indicates performance against risk appetite for currency, bond and equity positions of the trading and investment portfolios. Most approved products that can be independently priced and properly processed are permitted to be traded. All limits require prior approval from the Asset & Liability Management Committee (ALCO).

Some of the market risk mitigating measures applied by the Bank include, hedging using permissible financial instruments, limiting concentration of exposures, applying stop loss, maximum tenor and dealer limits. The Bank also has a comprehensive Board approved Treasury Policy in place to reflect regulatory and market developments. TMO also independently reviews activities of the Treasury Front Office and adherence to regulatory / internal policy guidelines.

Risk Management Report

Performance of HNB's Equity Portfolio and Stock Markets - 2014 to 2015



The Bank's equity portfolio (trading and investment) outperformed the equity markets over the last two years (2014 -2015) with a return of 57% as compared to the S&P Sri Lanka 20 Index (S&P SL20) with a performance of 11% and the All Share Price Index (ASPI) which recorded a return of 17% over the past two years. The high return achieved by the Bank was due to its large exposure to the banking sector which made a significant comeback in 2014.

The market risk of both individual financial instruments and portfolios of instruments can be a function of one or several factors and, in many cases, can be significantly complex. The Bank's Asset & Liability Management (ALM) system ensures that market risks in the trading and banking books are monitored and managed effectively.

Value-at-Risk Approach

The Bank uses the historical Value-at-Risk (VaR) approach to derive quantitative measures for market risk under normal conditions. VaR measures the expected loss of a financial position over a given holding period for a specific confidence level. Market risk exposures for the Bank's overnight foreign exchange positions and equity portfolio are monitored using VaR methodology. HNB uses a 1 day, 99% VaR for overnight foreign exchange positions to reflect the 99% probability that the daily loss will not exceed the reported VaR. For equity positions the Bank uses a 10 day, 99% VaR measure.

Value at Risk Analysis				
	Dec-15		Dec-14	
	VaR (99%,1d)		VaR (99%,1d)	
	Rs Mn	%	Rs Mn	%
Foreign Currency Risk* (USD net open position)	12.64	0.54%	0.75	0.11%
	VaR (99%,10d)		VaR (99%,10d)	
	Rs Mn	%	Rs Mn	%
Equity Risk (trading portfolio)	26.47	4.29%	22.80	4.19%

* Over 97% of the Bank's foreign currency risk is to the USD.

Although VaR is a valuable guide to risk, the Bank is aware of its limitations such as the use of historical data as a proxy for estimating future events, which may not encompass all potential events, particularly those which are extreme in nature, the assumption that all positions can be liquidated in 1 or 10 days and the use of a 99% confidence level which does not take into account losses that might occur beyond this level of confidence.

Internal Model Approach (IMA)

Capital computations for market risk under Pillar I of the Basel II Accord define two broad approaches, the standardised or internal models approach (IMA). Currently the CBSL has directed banks to adopt the former "Standardised Measurement Method" for the computation of required capital for market risk. However a roadmap for implementation of the IT infrastructure to enable banks to move to the advance approach has also been provided.

The Internal Models Approach (IMA) has several incremental qualitative and quantitative requirements. To analyse the position of HNB in the event of adopting IMA, the Bank started computing the capital charge for market risk since 2013. Due to the size of the trading portfolio (less than 1% of banking book) and the resulting minimal impact on CAR observed in the past three years when applying IMA, the Bank will continue to use the standardised approach in computing the market risk charge, weighing the consequences of added value and cost effectiveness in implementing IMA.

Interest Rate Risk (Banking Book)

Interest rate risk in the banking book arises from the structural interest rate risk caused by the differing re-pricing characteristics of banking assets and liabilities.

The Bank is exposed to interest rate risk arising from a fixed rate liability book where re-pricing is slower than the majority of loan portfolio on fixed rates (notable exceptions being

the entire corporate banking portfolio and some midmarket exposures on floating rates. However, almost the entire deposit base contractually or otherwise can be re-priced within a year which serves to reduce to a certain extent our vulnerability to interest rate risk.

Interest rate risk is reviewed through regular review of net interest yields by product to ensure interest rate margins and spreads are maintained and revisiting asset and liability pricing in line with our expectations on the interest yield curve.

The following report shows the gap between the Bank's interest rate sensitive assets (RSA) and interest rate sensitive liabilities (RSL) for the different maturity buckets. It allows the Bank to determine the change in the Bank's interest income due to a change in interest rates.

Interest Rate Sensitivity Analysis as at 31st December 2015 (in Rs. Mn)

	Upto 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									
Balances due from Head Office, Affiliates and Own Branches	-	-	-	-	-	-	-	3,672	3,672
Bills of Exchange	1,992	703	243	-	-	-	-	-	2,937
Cash on hand	-	-	-	-	-	-	-	12,557	12,557
Deposits with Central Bank	-	-	-	-	-	-	-	20,096	20,096
Investments (Net of provisions)	24,030	15,831	62,157	4,896	13,847	25,009	11,166	-	156,937
Loans and Advances	199,532	43,917	34,461	28,784	61,022	29,990	10,578	-	408,285
Non-Performing Loans	-	-	-	-	2,839	3,042	9,289	-	15,170
Net Inter-Branch Transactions	-	-	-	-	-	-	-	1	1
Other Assets	-	-	-	-	-	-	-	12,749	12,749
Overdrafts	32,663	5,705	3,836	24,004	-	-	-	-	66,207
Accrued Interest	-	-	-	-	-	-	-	2,568	2,568
Balances due from Other Banks	44	-	-	-	-	-	2,050	-	2,094
Fixed Assets	-	-	-	-	-	-	-	12,540	12,540
Reverse Repo	4,869	-	-	-	-	-	-	-	4,869
Total	263,129	66,156	100,697	57,684	77,708	58,041	33,082	64,183	720,682
Liabilities and Off Balance Sheet Exposures									
Balances due to Other Banks	10,969	37,697	21,457	13,282	-	-	322	-	83,728
Bills Payable	2,884	-	-	-	-	-	-	-	2,884
Demand Deposits	-	-	-	-	-	-	-	32,688	32,688
Interest Payable	-	-	-	-	-	-	-	9,564	9,564
Other Liabilities	-	-	-	-	-	-	-	14,477	14,477
Savings Deposits	184,034	-	-	-	-	-	-	-	184,034
Time Deposits	52,976	94,075	57,878	81,261	8,342	4,777	6	-	299,315
Bonds Issued	-	-	-	-	4,659	2,757	5,084	-	12,500
Borrowings	65	198	297	579	2,061	608	546	-	4,353
Capital	-	-	-	-	-	-	-	13,613	13,613
Certificates of Deposits	14	12	23	37	279	-	-	-	365
Repo	15,732	681	152	25	-	-	-	-	16,590
Reserves	-	-	-	-	-	-	-	46,570	46,570
Total	266,674	132,664	79,808	95,183	15,341	8,142	5,958	116,913	720,682
Period Gap	(3,544)	(66,508)	20,889	(37,499)	62,368	49,900	27,125	-	-
Cumulative Gap	(3,544)	(70,052)	(49,163)	(86,663)	(24,295)	25,605	52,730	-	-
RSA/RSL (for period gap)	0.99	0.50	1.26	0.61	5.07	7.13	5.55	-	-

Note:

The above figures have been prepared as per SLAS and may differ from SLFRS figures given in the Statement of Financial Position Prepared as per the requirement given in the Banking Act Direction No 7 of 2011 on "Integrated Risk Management Framework".

Risk Management Report

The Bank manages its structural interest rate risks by setting advisory limits for PV01. PV01 is the present value of the impact of a one basis point movement in interest rates for a given risk position. Considering the interest rate movement patterns in the local market the Bank monitors an interest rate change of 50 basis points (PV50) in both directions. The impact of interest rate changes on the trading portfolio are also monitored regularly.

TMO recommends the PV50 limits which are approved by the ALCO. These advisory limits are allocated to the Central Funding Unit (CFU) for the risk management of the ALCO Book. ALCO further advises on any action necessary in case of a limit excess.

While gap analysis is a useful one, the Bank does recognise its limitations for instance option features of deposit instruments and loans are not readily available, interest rate on assets and liabilities do not always move in the same magnitude and speed, re-pricing of investments or funds may roll over at rates significantly different to current rates.

Liquidity Risk

Liquidity risk arises when the Bank cannot maintain or generate sufficient funds to meet its payment obligations as they fall due or can only do so at a material loss.

This can arise when counterparties who provide funding to the Bank withdraw or do not roll over a line of funding or as a result of a general disruption in financial markets which lead to normal liquid assets becoming illiquid.

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. The Bank's loan book is comfortably financed by retail deposits. Hence reliance on wholesale deposits and the interbank market is low. The lack of long term borrowing instruments at affordable cost results in some maturity mismatch in the asset book (borrow short and lend long).

HNB manages liquidity risk in accordance with regulatory guidelines and international best practices:

- A Board approved Liquidity Policy is in place to manage liquidity on a day-to-day basis
- A Contingency Funding Plan to deal with a crisis situation is part of the liquidity management process.
- Contractual maturity of assets and liabilities and liquidity ratios are monitored and include adherence to regulatory requirements
- Monthly liquidity forecasts generated from the ALM system are reviewed at ALCO meetings
- Liquidity stress tests are carried out to assess the impact of extreme events

TMO under the purview of the Chief Risk Officer monitors the asset-liability position with oversight and supervision from the ALCO. A monthly liquidity gap is computed for each currency together with the overall gap position. Liquidity gap is based on the expected realisation of the assets and liabilities, which are determined based on contractual maturities as well as behavioural assumptions. The net liquidity position reported for the month is monitored against the pre-set limits which have been approved by the ALCO.

The following table shows the liquidity gap analysis (contractual) for the Bank's foreign currency assets and liabilities in 2015.

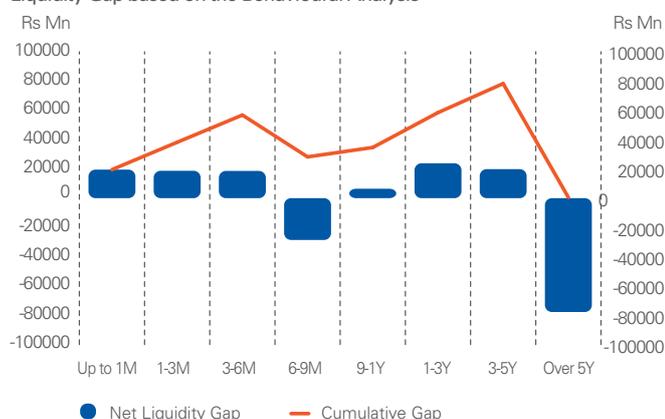
Liquidity Gap Analysis for Foreign Currency denominated Assets & Liabilities as at 31st December 2015 (in LKR Mn)

	Upto 1 Month	1-3 Months	3-6 Months	6-9 Months	9-12 Months	1-3 Years	3-5 Years	Over 5 Years	Total
Total Assets	22,521	35,305	32,811	16,209	14,231	46,635	37,668	10,909	216,289
Total Liabilities	35,232	29,403	36,848	17,654	11,565	24,057	21,996	29,361	206,114
Net Liquidity Gap	(12,710)	5,903	(4,037)	(1,445)	2,666	22,578	15,673	(18,453)	
Cumulative Gap	(12,710)	(6,808)	(10,844)	(12,290)	(9,624)	12,955	28,627	10,175	

The Bank also monitors liquidity gaps based on the behavioural analysis of the Bank's assets and liabilities such as the behaviour of fixed deposit rollovers based on historical rollover patterns, unutilised overdrafts assumed to be utilised on straight line basis over a year and undisbursed loans to be disbursed 75% within the year and 25% within 1 to 3 years.

Liquidity Gap Analysis of the Bank's Total Assets & Liabilities as at 31st December 2015 (in Rs. Mn)

Liquidity Gap based on the Behavioural Analysis



The consolidated liquidity gap for the Bank as at 31st December 2015 based on behavioural analysis shows no significant gaps in the short term (up to 1 year). A maturity mismatch exists in the over 5 Year maturity bucket.

The following table shows the main liquidity ratios monitored by the Bank. Limits are applied in order to monitor liquidity movements in assets and liabilities.

Liquidity Ratios	2015	Limit Monitoring
Net Loans/Total Assets	68.26%	Within limit
Gross Loans/ Customer Deposits	96.66%	Above the set internal limit of 90%. The Bank has covered the loan book, through interbank and long term foreign currency borrowings
Large Deposits/Earning Assets	13.12%	Increase was due to a significant growth in deposits witnessed during the last 3 months of 2015. The limit of 10% will be monitored going forward
Liquid Assets/ST Liabilities	52.71%	Within limit
Purchase funds/Total Assets	13.89%	Above the internal limit of 10% as a result of borrowing from overseas during 2015 to spur credit growth. The limit will be revised in 2016 taking future growth plans into consideration
Commitments/Total Loans	55.83%	Within limit
Statutory Liquid Asset Ratio (LAR)	25.09%	Statutory limit for LAR is a minimum of 20%
Liquidity Coverage Ratio (LKR Requirement)	127.50%	The statutory limit for LCR is a minimum of 60% for both LKR and the All Currency requirement
Liquidity Coverage Ratio (All Currency Requirement)	88.40%	The LCR minimum requirements will increase linearly to 100% by 2019

Note: All limits are internal advisory limits apart from LAR and LCR which are statutory requirements.

The internal advisory limits are reviewed yearly.

Operational Risk

Operational Risk is the risk of losses incurring due to inadequate or failed internal processes, systems, people or external events including legal risk. Legal risk arises when the Bank's business are not conducted in accordance with applicable laws, when the Bank may be liable for damages to third parties or when contractual obligations may be enforced against the Bank resulting from legal proceedings.

effectiveness of the Bank's resources and minimise financial losses. Operational risk is monitored on a regular basis and the operational risk management policy framework is embedded in the daily activities of all employees.

Working in conjunction with business unit managers, the ORM division has developed tools to assist in identifying, measuring, monitoring and reporting operational risk. Risk identification techniques include highlights of audit reports, discussions with network management, branch visits and operational risk review meetings conducted across branches.

The objective of the Operational Risk Management (ORM) division is to establish sound control practices to increase the

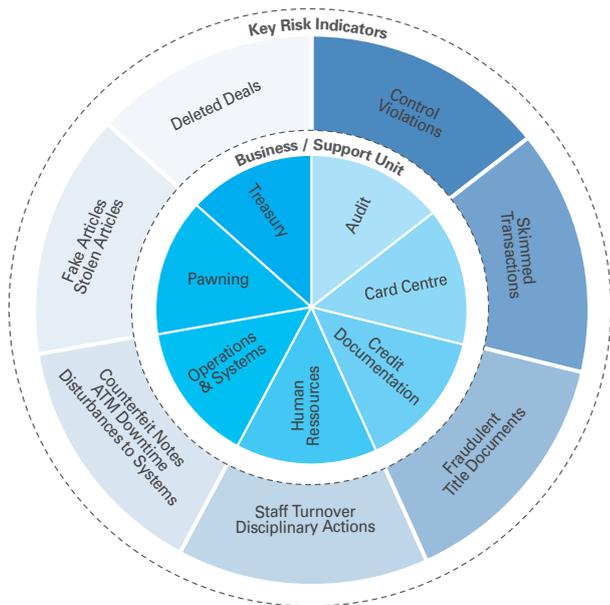
Risk Management Report

Key Risk Indicators

HNB has identified a number of Key Risk Indicators (KRIs) for the different business units in order to increase transparency of operations and identify possible sources of risk to the Bank. The information derived from these KRIs act as an early warning signal to identify a potential event that may harm our daily business activities and consequently have an impact on the Bank.

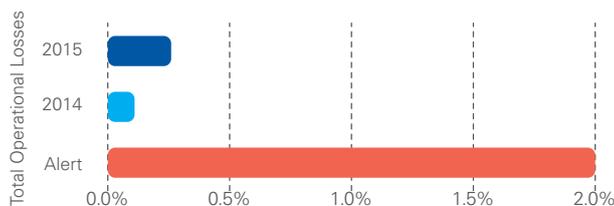
A high level operational risk dashboard is prepared monthly for monitoring purposes and for circulation to Senior Management and the Board. All branch and head office losses over a pre-defined Rupee threshold are reported. Furthermore, tolerance limits for operational losses and KRIs covering lapses in credit and general operations, cash and pawning, legal, card centre and information systems are monitored.

The following chart shows some of the KRIs used at the Bank for the assessment of operational risk.



→ G4-46, G4-47

Operational Losses Alert Levels



Operational loss levels are tracked monthly against the internal alert level. The internal alert level has been defined as 2% of turnover for total losses. Comparison of total losses with the internal alert level over the past 2 years, show low level of losses (0.26% in 2015 and 0.11% in 2014) in comparison to actual turnover.

Trend in Operational Losses



An analysis of the last 5 years operational losses shows a mixed trend with losses increasing in 2013 above the expected average losses. In 2015, operational losses increased to Rs. 160 Mn as compared to Rs. 66 Mn in 2014. The largest contributor to operational losses in 2015 was in the area of Execution Delivery & Process Management.

The Bank uses the Basel II defined event types for loss classification and a comprehensive loss tracking database is in place containing over 5 years of information, analysed by business line and loss incident matrix. Significant loss incidents (above Rs.500,000) are analysed for root causes and lessons learnt are applied for control improvements. This process includes gathering information on external events occurring in the banking industry to ensure similar incidents do not happen to HNB.

Operational Losses as per Basel II Loss Classification



In the past two years, operational losses were spread across four loss event categories, the remaining categories show minimal or no loss. In 2015, 61% of total losses were attributable to "Execution Delivery & Process Management". In 2014, the highest percentage of total losses was in the loss event type "External Frauds" at 43%.

Insurance

Insurance continues to be a key risk mitigation tool for uncontrollable events under operational risk. Particular attention is given to low frequency high severity events for example earthquakes and other natural disasters and also to high frequency low impact events such as counterfeit notes, fake and stolen pawning articles.

The adequacy and effectiveness of insurance coverage is independently reviewed by the ORM division at least annually. The Bank has also retained market expertise in order to assess and improve the insurance coverage of its risks.

Risk Mitigation Action

- Regular meetings with regional management and support functions to ensure effectiveness of Operational Risk Meetings across the network and adequate follow-up of issues identified for implementation.
- Periodic review of information security to ensure data availability, confidentiality and integrity.
- System disruptions reviewed during the year through operational KRIs.
- Due diligence continued on Mobile Banking where HNB acts as custodian bank to a leading telecommunications company.
- Review of insurance adequacy and effectiveness
- Risk assessment of new products and modifications to existing products.
- Review of operational risk processes during the year and updates in line with regulatory developments and internal decisions.

Business Continuity

The Bank has a Business Continuity Plan in order to protect the business functions, assets and employees. Contingency plans for core services, key systems and priority business processes have been developed and are revisited as part of existing management processes to ensure that continuity plans remain relevant. These plans provide each business unit with the necessary guidelines and procedures in case of an emergency.

To address local disaster events, the Bank has established business continuity centres which are capable of carrying out the Bank's major operational activities. Core systems have been tested and at least one test is conducted annually using live data to ensure that the guidelines and procedures are effective. Continuous updates of these plans are performed annually, to ensure that they are kept up to date with changes in systems and business units.

Outsourcing

HNB has a comprehensive Outsourcing Policy and outsourced activities are managed centrally by the Compliance Division.

The Bank carries out a due diligence on potential service providers before entering into a new service agreement or renewing an existing contract. The due diligence process covers the material factors that could impact a service provider's ability to perform the business activity and includes assessing expertise and experience, financial and technical abilities, reputation in the industry and if the service provider is an existing one, a report on its performance to date.

Other important factors the Bank considers are the service provider's internal control framework, performance standards, technology in place and whether the service provider has an adequate Business Continuity Plan.

Some of the business activities outsourced include archival of documents, ATM cash management and cash transport and selected recovery functions. Details of the activities that have been outsourced, the service providers contracted and the basis for payment for such services are submitted to the regulator periodically.

Compliance Risk

 Compliance risk is the risk of regulatory sanctions, financial loss or loss of reputation that the Bank may suffer as a result of its failure to comply with laws, regulations, code of conduct and standards of good practice applicable to the banking industry.

HNB conducts its business in accordance with the Bank's code of conduct, laws and regulations imposed by the regulatory authorities with a broad vision of establishing a high standard of Corporate Governance and risk mitigating culture within the Bank.

The following policies are in place. They are reviewed annually and approved by the Board of Directors.

- Compliance Policy
- Anti-Money Laundering / Combating Financing Terrorism (AML / CFT) Policy
- Related Party Transaction Policy
- Policy covering the transactions with Politically Exposed Persons
- Whistle Blowing Policy
- Outsourcing Policy

Risk Management Report

The Bank's independent Compliance Division is headed by the Chief Compliance Officer who reports directly to the Board Integrated Risk Management Committee (BIRMC), with an indirect line of reporting on administrative matters

to the Bank's Chief Operating Officer. The Bank dedicated two meetings to compliance matters in 2015, in addition to the regular BIRMC meetings where compliance issues are discussed.

Key Initiatives in 2015

Proactive measures in countering and mitigating compliance and regulatory risks. The spot compliance checks commenced in 2014 were further expanded to cover forty branches involving all regions. In addition follow-up checks were conducted in branches where weak compliance standards were detected during 2014.

Staff awareness programs on compliance related issues were further intensified towards creating an effective compliance culture within the Bank. A comprehensive AML/CFT training material was hosted on the new eLearning module "Talent Space".

Action is in place to meet the requirements under Foreign Account Tax Compliance Act. In this regard the Bank with sixteen other banks in the industry, hired the services of Ernst & Young to obtain consultancy services in meeting FATCA regulations whilst maintaining uniformity across the industry.

Conducted post reviews of CBSL directions issued during 2014 with a view to ascertain the level of compliance of the Bank in meeting with the provisions of such regulations & bridge gaps if there were any.

Initiated the Data Governance Project, under which twelve key areas have been identified for improvements. Action is underway and progress being closely monitored.

Initiated action to assess the adequacy and effectiveness of processes that are in place for the purpose of meeting the provisions of the approved policy documents of the Bank.

Intensified the screening of customers and transactions by introducing the French sanction list in addition to the existing sanction lists by the United Nations (UN), European Union (EU) and Office of Foreign Assets Control (OFAC).

Conformity to regulations introduced in 2015

Issued by	Mandatory Regulations / Directions / Determinations	Bank's status of compliance
Bank Supervision Dept	Special Interest Scheme for Senior Citizens announced in the Interim Budget 2015	✓
Monetary Board CBSL	Banking Act Directions No. 01 of 2015-Liquidity Coverage Ratio under Basel III Liquidity Standards for Licensed Commercial Banks and Licensed Specialised Banks	✓
Bank Supervision Dept	Recovery of Accommodation to Exporters	✓
Regional Development Dept	Amendment to the credit guarantee scheme for pawning advances	✓
Bank Supervision Dept	Introduction of Web based returns on operations of Banking Outlets	✓
Bank Supervision Dept	Suspension of Lanka Rating Agency Ltd as an acceptable Credit Rating Agency	✓
Payment & settlement Dept	Maximum limit on transaction fees of Sri Lanka Interbank Payment system (SLIPS)	✓
Payment & settlement Dept	Operator charges and maximum limit on transaction fees of Lanka Settle system	✓
Regional Development Dept	Working Capital Loan Scheme for tea factories	✓
Regional Development Dept	Working Capital Loan Scheme for tea factories amendment to the Operating Instructions	✓

Issued by	Mandatory Regulations / Directions / Determinations	Bank's status of compliance
Monetary Board -CBSL	Loan to value ratio for loans and advances in respect of motor vehicles	✓
Domestic Operations Dept	Margin requirements against letters of credit for importation of motor vehicles	✓

Previous Regulations issued which are being followed up towards necessary compliance

Guidelines on Mobile phone based payment system – Bank led mobile payment guideline and custodian based mobile payment services	<p>Identification of suspicious transaction tracking activities to be intensified further by Dialog PLC.</p> <p>The Bank carried out an onsite visit to Dialog PLC to assess the adequacy and effectiveness of internal procedure of Ez cash product. Final audit report was dispatched to Dialog PLC for action.</p>
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Group Risk

- Group risk can be viewed as the risk of a loss (financial or non-financial) incurred by the Bank through the activities of one of its subsidiaries or other group entities and if severe the loss can cause a spill over and damage the Group's reputation.

Company	Details	Group Entity	% Holding by HNB PLC
HNB Assurance PLC	HNB Assurance PLC together with its new fully owned Subsidiary HNB General Insurance Ltd, offer both Life and General Insurance products. (As of 1st January 2015 all Insurance companies were required to segregate their long term insurance and the general insurance business into two separate Companies).	Subsidiary	60%
HNB Grameen Finance Ltd	Flagship micro finance operator acquired by HNB in 2014. The Bank has a 51% controlling stake in the Company.	Subsidiary	42.16%
Sithma Development (Pvt) Ltd	A fully owned Subsidiary of HNB PLC which owns and manages the rental of premium office space at the HNB Towers.	Subsidiary	100%
Acuity Partners (Pvt) Ltd	Acuity Partners is a joint venture between HNB and DFCC. It operates as an investment company and provides financial services through its subsidiaries Lanka Ventures, Acuity Securities and Acuity Stockbrokers. Acuity Partners has a joint venture with Ceylon Guardian Investment Trust known as Guardian Acuity Asset Management (GAAM).	Joint Venture	50%

The Bank manages group risk by reviewing the activities of its Group entities on a regular basis. The activities of the Group are reviewed by HNB's Board through risk management reports submitted by the Bank entities quarterly with their representatives making presentations to the Bank's BIRMC at least once a year.

A risk template is used to quantify the main risks of the Bank's Group entities and follow up on strategies taken to proactively mitigate these risks. For each company activity, a score is assigned based on the impact and likelihood of occurrence. Corrective measures are proposed, based on the level of the total risk score.

Risk Management Report

Mitigation of Group Risk

Aggregating the risks of the Group companies remains a challenge due to their diverse business models and risk profiles – real estate/property development, insurance, and investment banking. However, the Bank believes group risk is mitigated to a large extent by the following:

- HNB's capital at risk is limited to the amount invested in these companies in the form of equity, at the time the companies were incorporated or acquired.
- HNB Assurance PLC, the largest subsidiary by size, is listed, thereby regulated by the SEC and the IBSL as well.
- HNB's Directors / Key Management Personnel are represented on the Board of Directors / Board Audit Committee / Board Risk Committees of its subsidiaries, thereby ensuring full and sufficient knowledge of subsidiaries' operations and risk profiles.
- HNB Assurance PLC's Board Risk Committee is chaired by the Banks' COO.
- All inter-company transactions are at arms' length and full disclosure of such transactions is made.
- Submission of reports by all subsidiaries and group entities together with presentations and discussions on risk related issues with the Bank's BIRMC.
- The Bank is the holding company and owns the largest balance sheet in the Group (over 95% of total assets and liabilities of the Group in 2015).

Business/Strategy Risk

Business/Strategy risk can be seen as the impact on a company's earnings or capital, due to poor business policy decisions, improper implementation of business strategies or lack of responsiveness to industry changes. This type of risk is a function of the compatibility of a bank's strategic objectives, business decisions developed to achieve these goals, resources deployed and the quality of implementation.

In pursuing its strategic goals and business objectives, HNB has established clear communication channels at all levels of the organisation, allocated resources for operating systems and delivery networks and increased managerial capacities and capabilities.

A formal framework was introduced to assess strategic risks arising from market trends / developments in competition, product, channel, process and other sources. Specific risks are identified, impact on HNB's business plans assessed and mitigating actions reviewed on a regular basis.

Reputational Risk

Reputational risk results from damage to the Bank's image among stakeholders due to negative publicity regarding the Bank's business practices or management, and whether true or false, it can result in a loss of revenue or decline in shareholder confidence. HNB considers reputational risk as the consequence of a failure to manage its key risks and emerging new risk areas.

With rapidly changing technology, banks are becoming more exposed to new channels of risk and cyber risk is receiving more and more attention in the media.

HNB has taken reasonable care in addressing the cyber threats which may impact its business and reputation. Cyber security strategies are adopted by the Bank as per the industry standards and best practices. In addition to the monitoring of system downtimes by the IT Division and remedial action been taken on a real time basis. The Operational Risk Division independently monitors system downtimes and complaints received through several key risk indicators, analyses cause and impact and makes recommendations for preventive action.

IT-based business processes

The Bank's IT-based business processes are exposed to various risks associated with information security, which we classify as medium. Human error, organisational or technical processes and/or security vulnerabilities in information processing can create risks that threaten the confidentiality, availability and integrity of information. For this reason we continually review our processes and technologies. Systems are updated immediately as necessary. The IT based integration of our business processes is subject to the condition that the risks involved for our Group companies and business partners are continuously minimised.

In the reporting year the Bank again carried out measures to further improve its information security management and security technologies. A group of IT security experts set up for the Group supports the early identification of risks.

To secure the sustainability of implemented and planned measures the Group companies are required to regularly demonstrate the maturity levels of their established information security management systems (ISMS). Sensitizing employees to the risks involved in handling business-related information is a very important issue. In this connection the Bank carries out communication campaigns and secures the requisite technical support. Regular information security congresses are held, at which information and experiences with proactive measures to

improve information security and manage risk are exchanged at international level.

Furthermore, business processes and data centres at selected Group companies have achieved security certification, documenting the standards achieved above all to our customers. In addition, vulnerability analyses are carried out with the support of the IT security team and external experts to verify the security of the infrastructure and if necessary increase protection.

Together with the Group's data protection officer, our experts ensure that personal data are processed in accordance with the rules of the German Data Protection Act. All these measures will allow us to continue to protect the Group's business data as well as the privacy of our business partners and employees, and to respond appropriately to potential new risks.

The Bank is committed to managing reputational risk by:

- Promoting strong corporate governance and risk management practices at all levels of the organisation
- Understanding how different aspects of its business activities affect stakeholders' perception of the organisation and therefore communicating effectively in the form of timely and accurate financial reports and news bulletins
- Maintaining strong media presence, valuable client service and investor relationships
- Complying with current laws and regulations.
- Engaging third parties to conduct surveys on customer services, investor perceptions and employee satisfaction.
- Promoting corporate social responsibility (CSR) through ethical banking practices, environmental awareness and a commitment to the local community.
- Maintaining a Business Continuity Plan (BCP) to ensure the continuation of operations in a crisis.
- On-going review, development and introduction of security strategies, policies, procedures and methods to

countermeasure the threats that surface every day in all dimensions of technology engagement.

Stress Testing

Formulated under the Integrated Risk Management (IRM) framework and supported by the implementation of the Internal Capital Adequacy Assessment Process (ICAAP), HNB's stress testing framework has continuously evolved in depth and coverage. The primary focus is to assess how the Bank's portfolios would react if business conditions deteriorated significantly and the consequent impact of these risk scenarios on our capital base. Stress testing may reveal a reduction in surplus capital or a shortfall in capital under specific scenarios. This may then serve as a leading indicator to the Bank to follow different avenues such as raise additional capital, reduce capital outflows/increase capital inflows or adjust the Bank's risk appetite.

With its stress testing initiatives, the Bank hopes to support a number of value-added business processes such as the assessment of potential changes in the risk profile of the Bank, capital planning and management, and strengthening communication with internal and external stakeholders. The Bank's stress testing is updated regularly and reviewed at least annually by the BIRMC. The appropriateness of the stress scenarios and the severity of the relevant scenarios are also reviewed and recommendations made by the Committee for appropriate follow-up action.

Stress Testing Methodology and Results

The Bank uses a number of sensitivity tests to measure the impact on the value of its portfolios due to extreme market movements, applying low, moderate and high impact shocks on hypothetical scenarios.

Management reviews the outcomes of the stress tests and where necessary, determines appropriate mitigating actions such as limiting exposures or reviewing and changing risk limits in order to manage the risks induced by potential stresses. Stress tests scenarios are recommended by the Risk Management Department and reviewed by the ALCO.

Type of Risk	Scenarios	Results
Credit Risk The Bank has implemented stress tests to measure the resilience of its lending and pawning portfolios to adverse movements in NPAs.	A negative shift in NPA categories on the Bank's credit portfolio Increase in NPAs in the loan book Top 20 Customer default scenario Negative shift in NPAs due to fall in forced sale value of mortgaged collateral in credit portfolio Impact of a decline in gold prices on the Bank's pawning portfolio.	All stress tests show comfortable capital adequacy ratios (CAR) apart from the Top 20 Customer default scenario where CAR drops below the 10% regulatory minimum at both medium and severe stress test levels. The pawning portfolio is only 3% of total advances.

Risk Management Report

Type of Risk	Scenarios	Results
Market Risk For market risk, stress tests are carried out to assess the impact of adverse changes in exchange rates, interest rates and prices of financial instruments such as equities and bonds which could affect the Bank's trading and investment portfolios as well as its profits and capital base.	Scenarios covering all foreign currencies and USD/LKR Shocks to the local stock market and impact on the Bank's equity portfolio Impact of interest rate changes on the Bank's fixed income portfolios (investment and trading) Impact of interest rate changes on the banking book	Stress tests for FX, equity and fixed income portfolios show comfortable CARs above the minimum requirement of 10%. The Bank's fixed income trading book was close to 0% at the end of the year due to minimal trading.
Operational Risk Losses arising from operational risks are stressed to assess the impact on internal loss tolerance limits.	Increase in Operational Losses at different thresholds	Losses less than 2% of turnover and below limit threshold.
Liquidity Risk Stress tests are carried out to measure the resilience of the Bank's portfolios to a drop in liquidity. This also involves a liquidity stress simulation over a 30 day period to assess the tolerance level of the Bank to a liquidity crisis.	Loss of short term liquidity in the local market Global banking crisis which could affect interbank liquidity Depreciation of local currency Worst case scenario comprising of a culmination of different stress situations	In all cases the Bank will be able to maintain LAR above 20% using the internally defined funding strategies. In the worst-case (severe) scenario, the Bank will need to resort to the reciprocal funding lines in place with other banks in order to maintain LAR.

As per the Bank's Contingency Funding Plan (CFP), trigger points of impending liquidity stress scenarios are monitored by Treasury Middle Office with relevant Business Units and Management will be immediately alerted to activate the CFP when deemed necessary.

Conclusion

In an increasingly complex world, the notion of risk is taking on a new dimension. While the traditional measures of risk such as credit, market, liquidity and operational risk remain the main pillars of consideration, banks are moving beyond these fundamentals to capture inter-dependencies between their key risks and resulting spillovers to other areas such as reputation, regulatory compliance, environmental and social aspects, IT security and even systemic risk.

Banks are also under increased scrutiny from regulators and combatting money laundering is receiving due attention as cyber criminals find new ways of overcoming system controls and unseen weaknesses.

As HNB's operations grow, the Bank's risk management framework is reviewed regularly to ensure its effectiveness and robustness. The Bank will continue its risk management initiatives across the network, strengthening the front-line and sharing best practices across the organisation, its customers and business partners.

Note: All figures in the risk management section have been prepared as per SLAS unless otherwise stated and may differ from SLFRS figures. For more details on Risk Management please refer to the Financial Risk Management section on pages 215 to 227.

Computation of Capital Adequacy Ratio

The primary objective of the Capital Adequacy Ratio (CAR) defined under Basel II is to protect a bank's depositors, whilst maintaining confidence and giving stability to the world banking system. The regulators attempt to accomplish this by setting the minimum capital reserves a bank needs to hold in relation to the risk the bank exposes itself through its business activities. Keeping in line with international standards, the Central Bank of Sri Lanka has supported these regulatory reforms by enhancing them in accordance with local funding and liquidity requirements.

The Bank computes CAR as a ratio of its capital to its risk weighted assets. Calculations of the risk weightings defined under credit risk and market risk are based on the standardized approach whereas operational risk is computed by using the basic indicator approach. As the Basel II guidelines are phased in and more sophisticated risk measurement systems and models are implemented, banks will be in a position to move from the simple methods to the more refined and robust requirements of the advanced approaches.

As of 31st December 2015, the Bank reported a Tier 1 ratio of 10.53% and a total CAR of 12.70% which remain comfortably above the CBSL's capital requirements.

Capital Base

As at 31st December	2015 Rs Mn	2014 Rs Mn
TIER 1		
Voting ordinary shares	10,931	10,640
Non-voting ordinary shares	2,682	2,650
Statutory reserve fund	3,760	3,160
Published retained earnings (Note 1)	6,640	8,279
General & other reserves	31,100	25,100
Less: Deductions from Tier 1 capital (Note 2)	(2,654)	(2,530)
Eligible Tier 1 capital	52,459	47,299
TIER II		
50% of approved asset revaluation reserves (Note 3)	2,104	938
General provision for loan losses	2,295	1,782
Approved subordinated term debt	9,045	10,261
Tier II capital	13,444	12,981
Less: Deductions from Tier II capital (Note 2)	(2,654)	(2,530)
Eligible Tier II capital	10,790	10,451
Capital Base	63,249	57,750
Risk Adjusted capital ratios		
Tier 1 (Eligible Tier 1 capital / Total risk adjusted balance) *	10.53	12.15
Total (Capital base / Total risk adjusted balance) **	12.70	14.83

* Statutory minimum 5%

** Statutory minimum 10%

Risk adjusted On-Balance sheet exposure

As at 31st December	Balance		Risk Weights %	Risk Adjusted Balance	
	2015 Rs Mn	2014 Rs Mn		2015 Rs Mn	2014 Rs Mn
Exposures					
- To Central Government and CBSL	198,565	147,142	0	-	-
- To banks/foreign sovereigns	4,544	5,174	20-150	2,953	1,976
- To financial institutions	31,265	17,979	20-150	16,830	10,635
- To corporates	177,023	127,293	20-150	164,116	118,013
- To retail sector (excluding claims secured by residential properties)	182,221	143,693	75-100	142,595	112,807
- Secured on residential property mortgages	33,809	30,323	50-100	20,790	19,588
- Non performing advances	6,597	7,751	50-150	7,340	8,799
- Cash and cash items in the process of collection	15,927	15,120	0-20	891	712
- Other assets	17,853	17,768	100	17,853	17,768
Asset base for risk weight	667,804	512,243		373,368	290,298

Computation of Capital Adequacy Ratio

Risk adjusted Off-Balance sheet exposure

As at 31st December	Amount of Off-Balance Sheet Items	Credit Conversion Factor	Credit Equivalent Amount	Risk Weights	Risk Adjusted Balance	
	2015	%	2015	%	2015	2014
	Rs Mn		Rs Mn		Rs Mn	Rs Mn
Financial guarantees, bank acceptances and other guarantees	32,023	100	32,023	0-100	27,371	19,299
Performance related guarantees and warranties and stand by LCs related to particular transactions	41,879	50	20,940	0-100	19,860	18,169
Shipping guarantees, documentary letter of credit and trade related acceptances	37,940	20	7,588	0-100	7,270	6,336
Other commitments with an original maturity of < 1year	66,980	0-20	-	0-100	-	-
> 1year	34,837	50	17,420	0-100	17,420	8,214
Foreign exchange contracts	154,107	2	3,082	0-100	3,082	3,121
Total off- balance sheet exposures	367,766		81,053		75,003	55,139

Capital charge for Market Risk

As at 31st December	Capital Charge		Risk Adjusted Balance	
	2015	2014	2015	2014
	Rs Mn	Rs Mn	Rs Mn	Rs Mn
Interest rate	-	0.1	0	1
Equity	70.9	67.4	709	674
Foreign exchange & gold	239.3	70.6	2,393	706
Total risk adjusted balance for market risk	310.2	138.1	3,102	1,381

Capital charge for Operational Risk

As at 31st December	Capital Charge	
	2015	2014
	Rs Mn	Rs Mn
Average gross income	31,141.4	28,354.7
15% of average gross income	4,671.2	4,253.2
Total capital charge for operational risk	4,671.2	4,253.2

As at 31st December	2015	2014
	Rs Mn	Rs Mn
Total risk adjusted balance for operational risk	46,712	42,532
Total risk adjusted balance (credit risk, market risk, operational risk)	498,185	389,350

NOTES:

- In computing the CAR profits for the year was computed based on SLFRS/LKAS.
- Deductions

As at 31st December	Tier I		Tier II	
	2015	2014	2015	2014
	Rs Mn	Rs Mn	Rs Mn	Rs Mn
Additional investment in Sithma Development (Pvt) Ltd.	450	450	450	450
HNB Grameen Finance Ltd	330	330	330	330
Equity and Debenture investments	1,874	1,750	1,874	1,750
Total deductions	2,654	2,530	2,654	2,530

- Revaluation reserves approved by CBSL is Rs 4,207 Mn.

BUSINESS AS UNUSUAL

Financial Reports

Financial Calendar - 2015

46th Annual General Meeting held on	30th March 2015
Rs 7/- per share Final Dividend for 2014 paid on	06th April 2015
Rs 1/50 per share Interim Dividend for 2015 paid on	14th December 2015
Audited Financial Statements signed on	19th February 2016
47th Annual General Meeting to be held on	30th March 2016
Rs 7/- per share Final Dividend for 2015 payable in	* April 2016

Interim Financial Statements published in terms of Rule 8.3 of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka:

1st Quarter Interim Results released on	13th May 2015
2nd Quarter Interim Results released on	12th August 2015
3rd Quarter Interim Results released on	12th November 2015

Proposed Financial Calendar - 2016

Interim Dividend for 2016 to be payable in **	December 2016
48th Annual General Meeting to be held in	March 2017
Final Dividend for 2016 to be payable in ***	April 2017

Interim Financial Statements to be published in terms of Rule 8.3 of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka:

1st Quarter Interim Results to be released in	May 2016
2nd Quarter Interim Results to be released in	August 2016
3rd Quarter Interim Results to be released in	November 2016

* Subject to confirmation by Shareholders

** Subject to confirmation by Directors

*** Subject to confirmation by Directors and Shareholders

Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The financial statements of Hatton National Bank PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries as at 31st December 2015 are prepared and presented in compliance with the requirements of the following:

- Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka),
- Companies Act No 7 of 2007,
- Sri Lanka Accounting and Auditing Standards Act No 15 of 1995,
- Banking Act No 30 of 1988 (as amended),
- Listing Rules of the Colombo Stock Exchange,
- Banking Act Direction No 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka (as amended from time to time) and
- Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka

The formats used in the preparation of the financial statements and disclosures made comply with the formats prescribed by the Central Bank of Sri Lanka.

The Accounting Policies used in the preparation of the financial statements are appropriate and are consistently applied by the Group. There are no departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation.

The significant accounting policies and estimates that involved a high degree of judgment and complexity were discussed with the Audit Committee and external auditors.

The Board of Directors and the management of the Bank accept responsibility for the integrity and objectivity of these financial statements. The estimates and judgments relating to the financial statements were made on a prudent and reasonable basis; in order that the financial statements reflect in a true and fair manner, the form and substance of transactions and that the Bank's state of affairs is reasonably presented. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an on going basis. It is confirmed that the Bank has adequate resources to continue its operations in the foreseeable future. Therefore, the Bank will continue to adopt the 'going concern' basis in preparing these financial statements.

Our internal auditor has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the

assurances provided by any system of internal controls and accounting. Further, your Board assessed the effectiveness of the Bank's internal controls over financial reporting during the year ended 31st December 2015, as required by the Banking Act Direction No 11 of 2007, result of which is given on page 161 to 162 in the Annual Report, the "Directors' Statement on Internal Control". External auditor's Assurance Report on the "Directors' Statement on Internal Control" is given on page 163 of the Annual Report.

The financial statements of the Group for the year 2015 were audited by Messrs Ernst & Young, Chartered Accountants, the independent external auditors. Their report is given on page 197 of the Annual Report.

The Audit Committee of the Bank meets periodically with the internal audit team and the independent external auditor to review their audit plans, assess the manner in which these auditors are performing their responsibilities and to discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the external auditor and the internal auditor have access to the members of the Audit Committee to discuss any matter of substance. Details of which are given in the 'Audit Committee Report' on pages 149 to 150.

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

We confirm that,

- the Bank and its subsidiaries have complied with all applicable laws, regulations and prudential requirements;
- there are no material non compliances ; and
- there are no material litigations that are pending against the Group other than those disclosed in the Note 59 (d) to the financial statements in this Annual Report.



Jonathan Alles
Managing Director / Chief Executive Officer



Ashok Goonesekere
Chief Financial Officer

Colombo, Sri Lanka
19th February 2016

Directors' Responsibility for Financial Reporting

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

The responsibilities of the external auditor in relation to the financial statements are set out in the report of the auditors given on page 197 of the Annual Report.

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 2015, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes thereto.

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

1. the state of affairs of the Bank and its subsidiaries as at 31st December 2015; and
2. the profit or loss of the Bank and its subsidiaries for the financial year then ended.

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

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

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

Further, the Directors have a responsibility to ensure that the Companies within the Group maintain sufficient accounting records to disclose, with reasonable accuracy the financial position of the Bank and its subsidiaries.

Financial statements prepared and presented in this report have been prepared based on new Sri Lanka Accounting Standards (SLFRS) which came to effect from January 01, 2012 and are consistent with the underlying books of account and are in conformity with the requirements of Sri Lanka Accounting

Standards, Companies Act No 7 of 2007, Sri Lanka Accounting and Auditing Standard Act No 15 of 1995, Banking Act No 30 of 1988 amendments thereto, Banking Act Direction No 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka (as amended from time to time), the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC).

In addition, these financial statements comply with the prescribed format issued by the Central Bank of Sri Lanka for the preparation of annual financial statements of Licensed Commercial Banks.

The Directors have also instituted effective and comprehensive systems of internal control for identifying, recording, evaluating and managing the significant risks faced by the Bank throughout the year and it is being under regular review of the Board of Directors. This comprises internal reviews, internal audit and the whole system of financial and other controls required to carry on the business of banking in an orderly manner, safeguard its assets, prevent and detect frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31st December 2015 are given on pages 161 to 162 of the Annual Report, "Directors' Statement on Internal Control". External Auditor's Assurance Report on the "Directors' Statement on Internal Control" is given on page 163 of the Annual Report.

The Directors have taken appropriate steps to ensure that the Bank and Group maintain proper books of accounts and review the financial reporting system directly by them at their regular meetings and also through the Board Audit Committee, the report of the said Committee is given on pages 149 to 150. The Board of Directors also approves the interim financial statements prior to their release following a review and recommendation by the Board Audit Committee.

The Board of Directors accepts responsibility for the integrity and objectivity of the financial statements presented in this Annual Report.

Directors are required to prepare the financial statements and provide the Bank's external auditor, Messrs Ernst & Young, with every opportunity to carry out whatever reviews and checks on the system of internal control they may consider appropriate and necessary for expressing their independent audit opinion on the financial statements.

The financial statements of the Bank and the Group have been certified by the Chief Financial Officer of the Bank, the officer

Directors' Responsibility for Financial Reporting

responsible for their preparation, as required by the Sections 150 (1) (b) and 152 (1) (b) of the Companies Act. Also the financial statements of the Bank and the Group have been signed by two Directors and the Company Secretary of the Bank on February 19, 2016 as required by Sections 150 (1) (c) and 152 (1) (c) of the Companies Act.

Further, as required by Section 56 (2) of the Companies Act No 7 of 2007, the Directors have confirmed that the Bank, based on the information available, satisfies the solvency test immediately after the distribution of dividends, in accordance with Section 57 of the Companies Act No 7 of 2007, and has obtained a certificate from the auditors, prior to declaring a final dividend of Rs 7 per share for this year to be paid in April 2016.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Bank and its subsidiaries as at the Statement of Financial Position date have been paid or where relevant provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board



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

Colombo, Sri Lanka
19th February 2016

Independent Auditor's Report



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

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eyst@lk.ey.com
ey.com

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF HATTON NATIONAL BANK PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Hatton National Bank PLC, (the "Bank"), and the consolidated financial statements of the Bank and its subsidiaries (the "Group"), which comprise the statement of financial position as at 31st December 2015, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and, statement cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

The Board of Directors (the "Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank's preparation of the financial statements that give a true and fair view 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 internal control. An audit also includes evaluating the appropriateness of

accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31st December 2015, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act No. 7 of 2007, we state the following:

- The basis of opinion and scope and limitations of the audit are as stated above.
- In our opinion :
 - 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 financial statements of the Bank give a true and fair view of the financial position as at 31st December 2015, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, and
 - The financial statements of the Bank and the Group, comply with the requirements of Section 151 and 153 of the Companies Act No. 07 of 2007.

19th February 2016
Colombo

Partners: A D B Talwalle FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H Fernando FCA FCMA
W K B S P Fernando FCA FCMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hukangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Lusowyse FCA FCMA Ms. G G S Manatunga FCA N M Sufaiman ACA ACMA B E Wijesuriya FCA FCMA

A member firm of Ernst & Young Global Limited.

Statement of Profit or Loss

For the year ended 31st December	Note	Bank		Group	
		2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Gross income	7	61,153,466	59,500,495	70,026,698	65,023,846
Interest income		52,615,463	51,868,333	56,893,956	53,062,579
Less: Interest expenses		26,279,934	26,966,826	27,200,236	27,077,830
Net interest income	8	26,335,529	24,901,507	29,693,720	25,984,749
Fee and commission income		5,874,928	4,976,212	6,426,080	5,196,099
Less: Fee and commission expenses		98,622	98,329	182,093	123,290
Net fee and commission income	9	5,776,306	4,877,883	6,243,987	5,072,809
Net interest, fee and commission income		32,111,835	29,779,390	35,937,707	31,057,558
Net gain/(loss) from trading	10	346,577	(570,720)	361,948	(441,618)
Net gain from financial investments	11	253,858	1,398,025	297,978	1,493,975
Net insurance premium income	12	-	-	4,679,897	3,831,288
Other operating income	13	2,062,640	1,828,645	1,366,839	1,881,523
Total operating income		34,774,910	32,435,340	42,644,369	37,822,726
Less: Impairment charge / (reversal) for loans and other losses	14	931,925	2,491,520	1,022,111	2,532,808
Net operating income		33,842,985	29,943,820	41,622,258	35,289,918
Less : Operating expenses					
Personnel expenses	15	7,927,695	7,407,015	9,155,160	8,108,200
Benefits, claims and underwriting expenditure	16	-	-	4,211,996	3,240,203
Other expenses	17	8,050,939	7,971,000	9,093,136	8,385,792
Total operating expenses		15,978,634	15,378,015	22,460,292	19,734,195
Operating profit before Value Added Tax (VAT) and Nation Building Tax (NBT) on financial services		17,864,351	14,565,805	19,161,966	15,555,723
Less: Value Added Tax (VAT) and Nation Building Tax (NBT) on financial services	18	2,814,334	2,501,876	3,061,783	2,550,247
Operating profit after Value Added Tax (VAT) and Nation Building Tax (NBT) on financial services		15,050,017	12,063,929	16,100,183	13,005,476
Share of profits of associate and joint venture (net of income tax)	19	-	-	60,085	142,977
PROFIT BEFORE INCOME TAX		15,050,017	12,063,929	16,160,268	13,148,453
Less: Income tax expense	20	4,601,231	3,058,655	5,064,424	3,080,360
PROFIT FOR THE YEAR		10,448,786	9,005,274	11,095,844	10,068,093
Profit attributable to:					
Equity holders of the Bank		10,448,786	9,005,274	10,553,568	9,819,595
Non-controlling interests		-	-	542,276	248,498
PROFIT FOR THE YEAR		10,448,786	9,005,274	11,095,844	10,068,093
Earnings per share	21				
Basic earnings per ordinary share (Rs)		25.83	22.47	26.09	24.50
Diluted earnings per ordinary share (Rs)		25.72	22.37	25.98	24.39
Dividend per share					
Dividend per share: Gross (Rs)		*8.50	8.50	*8.50	8.50

The notes to the financial statements from pages 206 to 337 form an integral part of these financial statements.

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

Statement of Comprehensive Income

For the year ended 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
PROFIT FOR THE YEAR	10,448,786	9,005,274	11,095,844	10,068,093
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX				
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Available-for-sale financial assets:				
Net change in fair value during the year	(2,450,679)	3,027,688	(2,538,159)	3,144,503
Transfer to life policy holder reserve fund	-	-	97,098	(44,930)
Net amount transferred to profit or loss (available-for-sale financial assets)	-	(645,437)	(19,242)	(715,159)
Deferred tax effect on above	150,890	(40,724)	152,176	(40,724)
Share of other comprehensive income of equity accounted joint venture	-	-	17,041	8,378
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(2,299,789)	2,341,527	(2,291,086)	2,352,068
Other comprehensive income not to be reclassified to profit or loss in subsequent periods				
Re-measurement gains/(losses) on defined benefit plans	(897,969)	1,140,012	(909,543)	1,144,366
Revaluation of freehold land and buildings	2,095,076	-	5,597,137	-
Deferred tax effect on above	(104,040)	-	(104,040)	1,498
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	1,093,067	1,140,012	4,583,554	1,145,864
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(1,206,722)	3,481,539	2,292,468	3,497,932
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	9,242,064	12,486,813	13,388,312	13,566,025
Total comprehensive income attributable to:				
Equity holders of the Bank	9,242,064	12,486,813	12,855,605	13,313,100
Non-controlling interests	-	-	532,707	252,925
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	9,242,064	12,486,813	13,388,312	13,566,025

The notes to the financial statements from pages 206 to 337 form an integral part of these financial statements.

Statement of Financial Position

As at 31st December	Note	Bank		Group	
		2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
ASSETS					
Cash and cash equivalents	24	14,909,598	13,141,295	15,419,654	13,421,850
Balances with Central Bank of Sri Lanka	25	20,096,090	16,907,538	20,096,090	16,907,538
Placements with banks	26	26,827	3,789,538	1,174,326	5,096,455
Reverse repurchase agreements	27	4,869,219	16,930,572	7,782,374	19,575,253
Derivative financial instruments	28	1,302,872	178,370	1,302,872	178,370
Financial investments - fair value through profit or loss	29	593,390	551,371	1,948,772	1,052,727
Non-current assets held for sale	30	20,151	30,238	20,151	30,238
Loans and receivables to customers	31	498,341,628	396,277,166	507,244,329	401,859,754
Financial investments - loans and receivables	32	84,206,702	35,369,035	87,087,205	38,049,100
Financial investments - available-for-sale	33	78,046,505	67,842,229	79,718,231	69,443,057
Financial investments - held to maturity	34	-	-	1,257,433	955,421
Investment in joint venture	35	655,000	655,000	1,253,370	1,196,544
Investment in subsidiaries	36	3,017,285	3,017,285	-	-
Investment properties	37	386,643	392,088	1,041,797	1,042,386
Property, plant and equipment	38	11,473,569	9,304,665	23,908,688	18,290,365
Intangible assets and goodwill	39	659,309	802,728	1,001,230	1,089,759
Deferred tax assets	49	-	287,384	-	199,315
Other assets	40	6,602,922	7,374,846	7,328,053	8,102,644
Total assets		725,207,710	572,851,348	757,584,575	596,490,776
LIABILITIES					
Due to banks	41	58,232,034	43,428,762	58,283,838	43,504,729
Derivative financial instruments	28	304,485	630,598	304,485	630,598
Securities sold under repurchase agreements	42	16,630,201	16,983,545	16,630,201	16,983,545
Due to customers	43	527,126,181	419,327,123	536,132,789	425,620,382
Dividends payable	44	764,771	587,078	764,771	587,078
Other borrowings	45	26,833,109	4,345,285	26,833,109	4,345,285
Debt securities issued	46	4,490,742	4,451,407	4,913,751	4,842,627
Current tax liabilities	48	4,542,977	3,297,530	4,762,707	3,394,992
Deferred tax liabilities	49	378,820	-	579,102	-
Insurance provision - life	50	-	-	7,007,081	5,562,649
Insurance provision - general	51	-	-	1,546,266	1,279,139
Other provisions		2,538,111	1,810,893	2,746,294	2,123,089
Other liabilities	52	6,250,856	5,436,705	7,250,893	6,300,920
Subordinated term debts	47	12,064,370	11,653,759	12,085,598	11,677,046
Total liabilities		660,156,657	511,952,685	679,840,885	526,852,079
EQUITY					
Stated capital	54	13,826,873	13,289,992	13,826,873	13,289,992
Statutory reserves	55	3,760,000	3,160,000	3,760,000	3,160,000
Retained earnings	56	5,270,848	7,808,059	7,949,848	10,396,517
Other reserves	57	42,193,332	36,640,612	50,027,681	41,058,056
Total equity attributable to equity holders of the Bank		65,051,053	60,898,663	75,564,402	67,904,565
Non-controlling interests	58	-	-	2,179,288	1,734,132
Total equity		65,051,053	60,898,663	77,743,690	69,638,697
Total liabilities and equity		725,207,710	572,851,348	757,584,575	596,490,776
Contingent liabilities and commitments	59	423,812,517	396,361,392	423,812,517	396,361,392
Net assets value per share (Rs)	63	160.29	151.26	186.20	168.67

The notes to the financial statements from pages 206 to 337 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.


Ashok Goonesekere
 Chief Financial Officer

For and on behalf of the Board


Jonathan Alles
 Managing Director /
 Chief Executive Officer


Rienzie Arseculeratne
 Chairman


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

19th February 2016
 Colombo

Statement of Changes in Equity

Bank	Stated Capital		Statutory Reserves		Other Reserves				Total	
	Voting Shares Rs 000	Non-Voting Shares Rs 000	Statutory Reserve Rs 000	Investment Fund Account Rs 000	Capital Reserve Rs 000	Available-for-Sale Reserve Rs 000	General Reserve Rs 000	ESOP Reserve Rs 000		Retained Earnings Rs 000
Balance as at 1st January 2014	10,254,944	2,575,324	2,660,000	4,101,205	4,466,918	4,413,828	19,100,000	416,216	3,465,419	51,453,854
Total comprehensive income for the year	-	-	-	-	-	-	-	-	9,005,274	9,005,274
Net profit for the year 2014	-	-	-	-	-	-	-	-	9,005,274	9,005,274
Other comprehensive income, net of tax	-	-	-	-	-	2,341,527	-	-	1,140,012	3,481,539
Total comprehensive income for the year	-	-	-	-	-	2,341,527	-	-	10,145,286	12,486,813
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-
Contributions by and distributions to equity holders	-	-	-	-	-	-	-	-	(2,800,912)	(2,800,912)
Final dividend 2013 - Cash (Note 44)	-	-	-	-	-	-	-	-	(602,939)	(602,939)
Interim dividend 2014 - Cash (Note 44)	-	-	-	-	-	-	-	-	-	-
Issue of shares under ESOP	307,076	54,771	-	-	-	-	-	-	-	361,847
Total contributions by and distributions to equity holders	307,076	54,771	-	-	-	-	-	-	(3,403,851)	(3,042,004)
Transfers during the year 2014	78,371	19,506	500,000	306,821	-	-	6,000,000	(97,877)	(6,806,821)	-
Transfer of investment fund account balance	-	-	-	(4,408,026)	-	-	-	-	4,408,026	-
Balance as at 31st December 2014	10,640,391	2,649,601	3,160,000	-	4,466,918	6,755,355	25,100,000	318,339	7,808,059	60,898,663
Balance as at 1st January 2015	10,640,391	2,649,601	3,160,000	-	4,466,918	6,755,355	25,100,000	318,339	7,808,059	60,898,663
Super gains tax paid [Note 56 (a)]	-	-	-	-	-	-	-	-	(2,074,248)	(2,074,248)
Total comprehensive income for the year	-	-	-	-	-	-	-	-	10,448,786	10,448,786
Net profit for the year 2015	-	-	-	-	-	-	-	-	10,448,786	10,448,786
Other comprehensive income, net of tax	-	-	-	-	1,991,036	(2,299,789)	-	-	(897,969)	(1,206,722)
Total comprehensive income for the year	-	-	-	-	1,991,036	(2,299,789)	-	-	9,550,817	9,242,064
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-
Contributions by and distributions to equity holders	-	-	-	-	-	-	-	-	(2,827,776)	(2,827,776)
Final dividend 2014 - Cash (Note 44)	-	-	-	-	-	-	-	-	(608,548)	(608,548)
Interim dividend 2015 - Cash (Note 44)	-	-	-	-	-	-	-	-	-	-
Issue of shares under ESOP	368,785	52,113	-	-	-	-	-	-	-	420,898
Total contributions by and distributions to equity holders	368,785	52,113	-	-	-	-	-	-	(3,436,324)	(3,015,426)
Transfers during the year 2015	101,513	14,470	600,000	-	(22,544)	-	6,000,000	(115,983)	(6,577,456)	-
Balance as at 31st December 2015	11,110,689	2,716,184	3,760,000	-	6,435,410	4,455,566	31,100,000	202,356	5,270,848	65,051,053

Statement of Changes in Equity

Group	Attributable to Equity Holders of the Bank												
	Stated Capital			Statutory Reserves			Available for sale			Other Reserves			Total
	Voting Shares	Non-Voting Shares	Rs 000	Statutory Reserve	Investment Fund	Account	Capital Reserve	Reserve	Exchange Reserve	Life Policy Holder Reserve	ESOP Reserve	Retained Earnings	
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
Balance as at 1st January 2014	10,254,944	2,575,324	2,660,000	4,101,205	8,792,657	19,100,000	-	(4,182)	416,216	5,210,488	809,240	58,370,881	
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	9,819,595	248,498	10,065,093	
Net profit for the year 2014	-	-	-	-	-	-	-	-	-	1,142,303	4,427	3,497,932	
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	-	10,961,898	252,925	13,566,025	
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	-	
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-	-	-	
Contributions by and distributions to equity holders	307,076	54,771	-	-	-	-	-	-	-	-	-	-	361,847
Final dividend 2013 - Cash (Note 44)	-	-	-	-	-	-	-	-	-	(2,800,912)	(65,000)	(2,865,912)	
Interim dividend 2014 - Cash (Note 44)	-	-	-	-	-	-	-	-	-	(602,939)	-	(602,939)	
Issue of shares under ESOP	-	-	-	-	-	-	-	-	-	-	-	-	
Total contributions by and distributions to equity holders	307,076	54,771	-	-	-	-	-	-	-	(3,403,851)	(65,000)	(3,107,004)	
Transfer to life policy holder reserve fund	-	-	-	-	-	-	-	44,930	-	-	-	44,930	
Deemed disposal gain through joint venture	-	-	-	-	-	-	-	-	-	26,777	-	26,777	
Deferred tax on revaluation of property, plant and equipment	-	-	-	-	-	-	121	-	-	-	-	167	288
Non-controlling interests on acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	-	736,800	736,800
Transfers during the year 2014	78,371	19,506	500,000	306,821	-	6,000,000	-	-	(97,877)	(6,806,821)	-	-	
Transfer of investment fund account balance	-	-	-	(4,408,026)	-	-	-	-	-	4,408,026	-	-	
Balance as at 31st December 2014	10,640,391	2,649,601	3,160,000	-	8,792,778	25,100,000	6,806,191	40,748	318,339	10,396,517	1,734,132	69,638,697	

Other Reserves

	Stated Capital		Statutory Reserves			Other Reserves					Total			
	Voting Shares	Non-Voting Shares	Statutory Reserve	Investment Fund	Capital Reserve	Available for sale Reserve		General Reserve	Exchange Equalisation Reserve	Life Policy Holder Reserve				
						Rs 000	Rs 000			Rs 000		Fund Account	Rs 000	Rs 000
Balance as at 1st January 2015	10,640,391	2,649,601	3,160,000	-	8,792,778	6,806,191	25,100,000	-	-	40,748	318,339	10,396,517	1,734,132	69,638,697
Super gains tax paid [Note 56 (a)]	-	-	-	-	-	-	-	-	-	-	-	(2,093,074)	(12,551)	(2,105,625)
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	10,553,568	542,276	11,095,844
Net profit for the year 2015	-	-	-	-	-	-	-	-	-	-	-	(603,213)	(9,569)	2,292,468
Other comprehensive income, net of tax	-	-	-	-	5,493,000	(2,287,750)	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	5,493,000	(2,287,750)	-	-	-	-	-	9,650,355	532,707	13,388,312
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contributions by and distributions to equity holders	368,785	52,113	-	-	-	-	-	-	-	-	-	-	-	420,898
Final dividend 2014 - Cash (Note 44)	-	-	-	-	-	-	-	-	-	-	-	(2,827,776)	(75,000)	(2,902,776)
Interim dividend 2015 - Cash (Note 44)	-	-	-	-	-	-	-	-	-	-	-	(608,548)	-	(608,548)
Issue of shares under ESOP	368,785	52,113	-	-	-	-	-	-	-	-	-	-	-	420,898
Total contributions by and distributions to equity holders	368,785	52,113	-	-	-	-	-	-	-	-	-	(3,436,324)	(75,000)	(3,090,426)
Transfer to life policy holder reserve fund	-	-	-	-	-	-	-	-	-	(97,098)	-	-	-	(97,098)
Deemed disposal gain through joint venture	-	-	-	-	-	-	-	-	-	-	-	9,830	-	9,830
Transfers during the year 2015	101,513	14,470	600,000	-	(22,544)	-	6,000,000	-	-	-	(115,983)	(6,577,466)	-	-
Balance as at 31st December 2015	11,110,689	2,716,184	3,760,000	-	14,263,234	4,518,441	31,100,000	-	-	(56,350)	202,356	7,949,848	2,179,288	77,743,690

The notes to the financial statements from page 206 to 337 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 short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. The cash and cash equivalents include cash in hand, balances with banks, placements with banks, money at call and short notice.

For the year ended 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Cash flows from operating activities				
Interest and commission receipts	57,870,224	58,459,603	62,541,611	59,237,182
Interest payments	(26,162,039)	(31,065,772)	(26,960,267)	(31,163,966)
Cash payments to employees	(7,787,955)	(7,085,900)	(9,016,129)	(7,747,437)
Cash payments to other operating activities	(9,658,598)	(10,234,794)	(13,221,249)	(11,813,945)
Receipts from other operating activities	2,486,728	1,742,375	7,422,487	5,736,461
Recovery of loans written off in prior years	19,989	8,913	33,267	8,913
Operating profit before changes in operating assets and liabilities [Note (a)]	16,768,349	11,824,425	20,799,720	14,257,208
(Increase) / decrease in operating assets				
Deposits held for regulatory or monetary control purpose	(3,188,552)	(541,170)	(3,188,552)	(541,170)
Loans and receivables to customers	(102,633,950)	(46,508,086)	(106,052,373)	(47,720,799)
Reverse repurchase agreements	11,922,595	(10,513,871)	11,731,355	(10,945,922)
Other short term assets	(1,385,665)	76,151	(1,356,430)	(73,750)
	(95,285,572)	(57,486,976)	(98,866,000)	(59,281,641)
Increase / (decrease) in operating liabilities				
Deposits from customers	106,591,985	34,850,987	109,212,989	35,416,711
Securities sold under repurchase agreements	(342,332)	12,822,441	(342,332)	12,822,441
Other liabilities	686,371	540,741	696,755	654,477
	106,936,024	48,214,169	109,567,412	48,893,629
Net cash generated from operating activities before income tax	28,418,801	2,551,618	31,501,132	3,869,196
Income taxes paid	(2,142,303)	(1,222,240)	(2,340,344)	(1,281,374)
Super gains tax paid	(2,074,248)	-	(2,105,625)	-
Net cash generated from operating activities	24,202,250	1,329,378	27,055,163	2,587,822
Cash flows from investing activities				
Dividend income	1,236,084	368,830	298,749	269,037
Dividend income received from associate / joint venture	-	-	30,130	26,637
Net cash effect on acquisition of subsidiary [Note 39 (b)]	-	(660,000)	-	(342,294)
Net proceeds from sale of associate company	-	-	-	30,519
Net proceeds from sale, maturity and purchase of financial investments	(61,270,202)	(4,375,970)	(62,764,719)	(5,813,664)
Proceeds from deemed disposal of subsidiary company by joint venture	-	-	9,830	26,777
Proceeds from sale of non-current assets held for sale	31,000	-	31,000	-
Proceeds from sale of property, plant and equipment	23,522	49,942	23,593	50,876
Purchase of intangible assets	(77,194)	(104,687)	(156,306)	(120,477)
Purchase of property, plant and equipment	(882,806)	(645,368)	(1,091,320)	(752,255)
Improvements to investment properties	-	(51,010)	(4,221)	-
Net cash used in investing activities	(60,939,596)	(5,418,263)	(63,623,264)	(6,624,844)
Cash flows from financing activities				
Dividends paid	(3,258,631)	(3,243,120)	(3,333,631)	(3,308,120)
Debenture issue expenses	-	(9,898)	-	(9,898)
Decrease in subordinated term debts	-	(318,581)	-	(318,581)
Increase of debt securities issued	-	3,000,000	-	2,949,854
Increase of long term borrowings	37,580,671	8,358,214	37,556,509	8,268,932
Proceeds from issue of shares under ESOP	420,898	361,847	420,898	361,847
Net cash generated from financing activities	34,742,938	8,148,462	34,643,776	7,944,034
Net increase/ (decrease) in cash and cash equivalents	(1,994,408)	4,059,577	(1,924,325)	3,907,012
Cash and cash equivalents at the beginning of the year	16,930,833	12,871,256	18,518,305	14,611,293
Cash and cash equivalents at the end of the year [Note (b)]	14,936,425	16,930,833	16,593,980	18,518,305

For the year ended 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Note (a) - Reconciliation of operating profit before changes in operating assets and liabilities				
Profit before income tax	15,050,017	12,063,929	16,160,268	13,148,453
Amortisation of intangible assets	220,613	296,636	244,835	315,839
Amortisation of leasehold property	96,460	108,150	96,460	108,150
Accrual for interest payable	1,633,362	(3,061,495)	1,721,691	(3,080,441)
Accrual for interest receivable	(56,035)	2,062,739	(123,440)	2,003,059
Accrual for other payable	113,144	(469,691)	110,290	(454,109)
Accrual for other receivable	53,776	111,384	61,900	111,384
Depreciation of investment property	5,445	5,400	4,810	4,778
Depreciation of property, plant and equipment	644,078	716,810	904,939	902,084
Debenture issue expenses	-	9,898	-	9,898
Dividend income	(1,236,834)	(368,830)	(299,499)	(268,854)
Gain / (loss) on FCBU revaluation	(147,688)	3,550	(147,688)	3,550
Gain on disposal of associate company	-	-	-	(426)
Gain on disposal sale of non-current assets held for sale	(763)	-	(763)	-
Gain on disposal sale of property, plant and equipment	(14,805)	(42,070)	(14,722)	(42,350)
Impairment charge for loans and other losses	931,925	2,491,520	1,022,111	2,532,808
Increase in insurance contract liabilities - life	-	-	1,444,432	1,214,158
Movement in general insurance reserve fund	-	-	267,127	268,038
Net capital gain / (loss) from financial investments - available-for-sale	-	(1,158,648)	(44,066)	(1,254,598)
Net capital gain / (loss) from financial investments - fair value through profit or loss	(32,744)	(190,670)	(15,884)	(205,736)
Net gain / (loss) from marked to market valuation of financial investments - fair value through profit or loss	8,825	(126,810)	4,064	(225,801)
Net income from sale of apartments	-	-	-	(4,395)
Notional tax credit and WHT credit	(500,427)	(627,377)	(537,060)	(685,304)
Share of profits of associate and joint venture	-	-	(60,085)	(142,977)
	16,768,349	11,824,425	20,799,720	14,257,208

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Note (b) - Cash and cash equivalents at the end of the year				
Cash and cash equivalents	14,909,598	13,141,295	15,419,654	13,421,850
Placements with banks	26,827	3,789,538	1,174,326	5,096,455
	14,936,425	16,930,833	16,593,980	18,518,305

The notes to the financial statements from pages 206 to 337 form an integral part of these financial statements.

Notes to the Financial Statements

1 REPORTING ENTITY

1.1 Corporate Information

Hatton National Bank PLC (the "Bank") is a public quoted company incorporated on 5th March 1970 with limited liability and domiciled in Sri Lanka. It is a licensed commercial bank registered under the Banking Act No. 30 of 1988 and amendments thereto. The Bank was re-registered under the Companies Act No. 07 of 2007. The registered office of the Bank is situated at No 479, T B Jayah Mawatha, Colombo 10. The shares of the Bank have a primary listing on the Colombo Stock Exchange. The staff strength of the Bank as at 31st December 2015 was 4,285 (2014 - 4,451).

1.2 Consolidated Financial Statements

The consolidated financial statements of the Bank for the year ended 31st December 2015 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 HNB Grameen Finance Ltd, a subsidiary of the bank and Lanka Ventures PLC, a subsidiary of Acuity Partners (Pvt) Limited, the joint venture, whose financial year ends on March 31st.

Hatton National Bank PLC is the ultimate parent of the Group.

There were no significant changes in the nature of the principal activities of the Bank and the Group during the financial year under review.

1.3 Principal Activities and Nature of Operations

Entity	Principal business activities
Bank	Banking and related activities such as accepting deposits, corporate and retail banking, personal financial services, off shore banking, foreign currency operations, trade services, investment banking, development banking, rural finance, project finance, dealing in government securities, leasing, islamic banking etc.
Subsidiaries	
HNB Assurance PLC*	Life insurance
HNB General Insurance Ltd* (Held through HNB Assurance PLC)	General insurance

Entity	Principal business activities
Sithma Development (Pvt) Ltd	Construction and letting of premises for commercial purposes and related services
HNB Grameen Finance Ltd.**	Micro finance facilities and accepting deposits
Joint venture	
Acuity Partners (Pvt) Ltd	Operating as an investment company and providing financial services

* HNB Assurance PLC transferred its general insurance business to the new fully owned subsidiary company HNB General Insurance Ltd w.e.f. 1st January 2015 in line with the segregation guidelines issued by the Insurance Board of Sri Lanka (IBSL).

Accordingly, HNB Assurance PLC became a life insurance company w.e.f. 1st January 2015 and HNB General Insurance Ltd, is a general insurance company.

** The Bank acquired a 42.16% holding in Prime Grameen Micro Finance Ltd on 7th November 2014. The company was subsequently rebranded as HNB Grameen Finance Ltd.

2 BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

2.1.1 Statement of Compliance

The consolidated financial statements of the Group and the separate financial statements of the Bank which comprise of the statement of financial position, statement of profit or loss, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto, have been prepared in accordance with Sri Lanka Accounting Standards (commonly referred as "SLFRS" / "LKAS") laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and comply with the requirements of Companies Act No 7 of 2007, Banking Act No 30 of 1988, Insurance Industry Act No 43 of 2000 and Finance Business Act No 42 of 2011 and amendment thereto.

2.1.2 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the financial statements of the Group and the Bank as per Sri Lanka Accounting Standards and the provisions of the Companies Act No 07 of 2007.

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 19th February 2016.

2.1.4 Basis of Measurement

The financial statements have been prepared on the historical cost basis and applied consistently except for the following items in the statement of financial position.

Item	Basis of measurement
Derivative financial instruments	Fair value
Financial instruments classified as fair value through profit or loss	Fair value
Available-for-sale financial assets	Fair value
Freehold land and buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts (except investment properties), which are the fair values at the date of revaluation
Non-current assets held for sale	Measured at lower of its carrying amount and fair value less costs to sell
Defined benefit obligations	Liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the fair value of the plan assets.

2.1.5 Functional and Presentation Currency

The financial statements of the Group and the Bank 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). Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

Each entity in the Group determines its own functional currency and items included in the financial statements of each individual entity are measured using that functional currency. There was no change in the Group's presentation and functional currency during the year under review.

2.1.6 Presentation of Financial Statements

The assets and liabilities of the Group and the Bank 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.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of profit or loss unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group and the Bank.

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 on "Presentation of Financial Statements".

2.1.7 Changes in Accounting Policies

There were no changes in accounting policies and the accounting policies adopted are consistent with those of the previous financial year.

2.1.8 Comparative Information

The comparative information is re-classified wherever necessary to conform with the current year's classification in order to provide a better presentation. The details of such re-classifications have been provided in Note 65 to the financial statements.

2.2 Significant Accounting Judgements, Estimates and Assumptions

The preparation of financial statements in conformity with Sri Lanka Accounting Standards requires management to make judgements, estimates and assumptions that affects the reported amounts 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.

The most significant areas of estimation uncertainty and critical judgements in applying accounting policies that have most significant effect on the amounts recognised in the financial statements of the Group and the Bank are as follows.

2.2.1 Going Concern

The directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Board is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of

Notes to the Financial Statements

the Group. Therefore, the financial statements continue to be prepared on the going concern basis.

2.2.2 Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The valuation of financial instruments is described in more detail in Note 5 to the financial statements.

2.2.3 Impairment Losses on Loans and Advances

The Group and the Bank review their individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of profit or loss. In particular, management judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance made.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, by categorising them into groups of assets with similar credit risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is an objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio such as number of days in arrears and judgements on the effect of concentrations of risks and economic data (including levels of unemployment, inflation, interest rates, exchange rates, effect of regulatory changes), and trends in non performing loans.

The impairment loss on loans and advances is disclosed in Note 31 (b) to the financial statements.

2.2.4 Impairment of Available for Sale Investments

The Group and the Bank review their debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires application of similar judgements as applied to the individual assessment of loans and advances.

The Group and the Bank also record impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value

below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group and the Bank evaluate, among other factors, historical share price movements, duration and extent to which the fair value of an investment is less than its cost.

The impairment loss on available-for-sale investments is disclosed in Note 33 to the financial statements.

2.2.5 Impairment of Investments in Subsidiaries and Other Financial Assets

The Group and the Bank follow the guidance of Sri Lanka Accounting Standard - LKAS 36 on "Impairment of Assets" and Sri Lanka Accounting Standard - LKAS 39 on "Financial Instruments : Recognition and Measurement" in determining whether an investment or a financial asset is impaired. This determination requires significant judgement. The Group and the Bank evaluate, among other factors, the duration and extent to which the fair value of an investment or a financial asset is less than its cost and the financial health of the near-term business outlook of the investment or the financial asset, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

2.2.6 Impairment of Goodwill

The Group estimates the value in use of the Cash Generating Units (CGU) to which goodwill has been allocated in order to determine whether goodwill is impaired. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. The carrying amount of goodwill as at 31st December 2015 is Rs 122.9 Mn (2014 : Rs 122.9 Mn).

2.2.7 Deferred Tax Assets

Deferred tax assets are recognised in respect of loan impairment allowances which will be recovered in the foreseeable future and tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

Details on deferred tax assets are disclosed in Note 49 (b) to the financial statements.

2.2.8 Defined Benefit Obligation

The cost of the defined benefit pension plan 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 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 Sri Lanka government bonds with maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases and pension increases are based on expected future inflation rates and expected future salary increment rate of the Bank.

Details of the key assumptions used in the estimates are contained in Note 53 to the financial statements.

2.2.9 Fair Value of Freehold Land and Buildings

The freehold land and buildings of the Group and the Bank are reflected at fair value. The Group engaged independent valuers to determine fair value of freehold land and buildings in terms of Sri Lanka Accounting Standard - SLFRS 13 on "Fair Value Measurement". When current market prices of similar assets are available, such evidence is considered in estimating fair values of these assets.

The methods used to determine the fair value of the freehold land and buildings, are further explained in Note 38 to the financial statements.

2.2.10 Useful Life time of Property, Plant and Equipment, Investment Properties and Intangible Assets

The Group and the Bank review the residual values, useful lives and methods of depreciation of property, plant and equipment, investment properties and intangible assets at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.2.11 Classification of Investment Properties

Management uses its judgment to determine whether a property qualifies as an investment property. The Group and the Bank has developed criteria so it can exercise its judgment 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 and the Bank 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 and the Bank assess on an annual basis, the accounting classification of its properties taking into consideration the current use of such properties.

2.2.12 Valuation of Life Insurance Contract Liabilities of Subsidiary HNB Assurance PLC (HNBA)

The liability for life insurance contracts with Discretionary Participation Features (DPF) is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. For those contracts that insure risk related to longevity, prudent allowance is made for expected future mortality improvements, as well as wide ranging changes to life style, which could result in significant changes to the expected future mortality exposure.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation, if appropriate.

Lapse and surrender rates are based on HNBA's historical experience of lapses and surrenders.

Discount rates are based on current industry risk rates, adjusted for the HNBA's own risk exposure.

All life insurance contracts are subject to a Liability Adequacy Test (LAT). The LAT was carried out by Mr. Hassan Scott Ordierno of M/s Actuarial Partners Consulting Sdn Bhd, formerly known as Mercer Zainal Consulting Sdn Bhd.

2.2.13 Valuation of General Insurance Contract Liabilities of Subsidiary HNB Assurance PLC (HNBA)

The estimates of general insurance contracts have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims Incurred, But Not yet Reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty. The main assumption underlying estimating the amounts of outstanding claims is the past claims development experience.

Large claims are usually separately addressed, either by being reserved at the face value of loss adjusted estimates

Notes to the Financial Statements

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.

All general insurance contracts are subject to a Liability Adequacy Test (LAT). The LAT was carried out by M/s. NMG Consulting Ltd, Singapore.

2.2.14 Deferred Acquisition Expenses

Acquisition expenses, representing commissions, which vary with and are directly related to the production of business, are deferred and amortised over the period in which the related written premiums are earned. Reinsurance commission is also treated in the same manner with deferred acquisition costs.

2.2.15 Taxation

The Group and the Bank are subject to income tax and judgment is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exists with respect to the 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.

2.2.16 Share-Based Payments

The Group and the Bank measure the cost of equity settled transactions with employees by reference to the fair value of the equity instruments on the date on which those are granted. Estimating fair value for share based payment transactions require determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

2.2.17 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

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 they are remote.

2.2.18 Provisions for Liabilities and Contingencies

The Group and the Bank receive legal claims against it in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below have been applied consistently to all periods presented in the financial statements of the Group and the Bank, unless otherwise indicated. The accounting policies have been consistently applied by the Group entities where applicable and deviations if any have been disclosed accordingly.

3.1 Basis of Consolidation

The Bank's financial statements comprise the amalgamation of the financial statements of the Domestic Banking unit (DBU) and the Foreign Currency Banking Unit (FCBU). The Group's financial statements comprise consolidation of the financial statements of the Bank, its subsidiaries in terms of the Sri Lanka Accounting Standard - SLFRS 10 on "Consolidated Financial Statements" and the proportionate share of the profit or loss and net assets of its joint venture (equity method) in terms of the Sri Lanka Accounting Standard - SLFRS 11 on "Joint Arrangements".

3.1.1 Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method as per the requirements of Sri Lanka Accounting Standard - SLFRS 3 on "Business Combinations". When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in the statement of profit or loss. Acquisition related costs are expensed as incurred and included in other expenses. Goodwill is initially measured at cost and subsequently at cost less any accumulated impairment losses in

accordance with the Sri Lanka Accounting Standard - SLFRS 3 on "Business Combinations".

Goodwill has to be reviewed for impairment annually or more frequently if events or circumstances indicate that the carrying value may be impaired.

The Group elects on a transaction by transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the statement of profit or loss.

3.1.2 Transactions Eliminated on Consolidation

Intra-group balances, transactions and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, except that they are only eliminated to the extent that there is no evidence of impairment.

3.1.3 Material Gains or Losses, Provisional Values or Error Corrections

There were no material gains or losses, provisional values or error corrections recognised during the year in respect of business combinations that took place in previous periods.

3.2 Foreign Currency

3.2.1 Foreign Currency Transactions and Balances

Transactions in foreign currencies are translated into the functional currency, which is Sri Lankan Rupees (LKR), using the middle rates of exchange prevailing at the dates on which the transactions were affected.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Sri Lankan rupees, using the middle rates of exchange prevailing at that date. All differences arising on non-trading activities are taken to "other operating income" in the statement of profit or loss.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the middle rates of exchange prevailing at the end of the reporting

period. Foreign currency differences arising on retranslation are recognised in the statement of profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Sri Lankan rupees at the exchange rates on the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the transaction.

Foreign exchange differences arising on the settlement or reporting of monetary items at rates different from those which were initially recorded are dealt in the statement of profit or loss.

Forward exchange contracts are valued at the forward market rates prevailing on the reporting date. Resulting net unrealised gains or losses are dealt in the statement of profit or loss.

3.3 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

3.3.1 Date of Recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes "regular way trades". Regular way trades means purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3.3.2 Recognition and Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them.

All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instruments except in the case of financial assets and financial liabilities at fair value through profit or loss according to Sri Lanka Accounting Standard - LKAS 39 on "Financial Instruments: Recognition and Measurement". Transaction costs in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the statement of profit or loss.

In respect of financial assets and liabilities held at fair value through profit or loss, any changes in fair value

Notes to the Financial Statements

from the trade date to settlement date are accounted in the statement of profit or loss, while for available-for-sale financial assets, any changes in fair value from the trade date to settlement date are accounted in the other comprehensive income.

3.3.2 (a) "Day 1" Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group recognises the difference between the transaction price and fair value (a Day 1 profit or loss) over the tenor of the financial instrument using the Effective Interest Rate (EIR) method. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the statement of profit or loss when the inputs become observable, or when the instrument is de-recognised.

3.3.3 Classification and Subsequent Measurement of Financial Instruments

- (i) At inception, a financial asset is classified in one of the following categories:
- Financial assets at fair value through profit or loss
 - Financial assets held for trading
 - Financial assets designated at fair value through profit or loss
 - Loans and receivables
 - Held to maturity financial assets
 - Available-for-sale financial assets
- (ii) At inception, a financial liability is classified in one of the following categories:
- Financial liabilities at fair value through profit or loss
 - Financial liabilities held for trading
 - Financial liabilities designated at fair value through profit or loss
 - Financial liabilities at amortised cost

The subsequent measurement of financial assets and liabilities depend on their classification.

Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value and changes there in are recognised in the statement of profit or loss.

Financial Liabilities held for Trading

Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short term profit or position taking. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships.

Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses in liabilities held for trading are recognised in the statement of profit or loss.

Financial Liabilities Designated at Fair Value through Profit or Loss

The Group designates financial liabilities at fair value through profit or loss in the following circumstances:

- Such designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring the liabilities
- The liabilities are part of a group of financial liabilities, financial assets or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
- The liability contains one or more embedded derivatives that significantly modify the cash flows that would otherwise have been required under the contract.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss as at the reporting date.

Financial Liabilities at Amortised Cost

Financial liabilities issued by the Group that are not designated as fair value through profit or loss are classified as liabilities under 'due to banks', 'due to customers', 'other borrowings', 'debt securities issued' and 'subordinated term debts' as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity, under conditions that are potentially un-favourable to the entity or settling the obligation by delivering variable number of entity's own equity instruments.

The details of financial liabilities measured at amortised cost are given in Note 41, 42, 43, 45, 46 and 47 to the financial statements.

3.3.4 Reclassifications of Financial Instruments

The Group does not reclassify any financial instrument into the 'fair value through profit or loss' category after initial recognition. Further the Group does not reclassify any financial instrument out of the 'fair value through profit or loss' category if upon initial recognition it was designated as at fair value through profit or loss. The Group reclassifies non-derivative financial assets out of the 'held-for-trading' category and into the 'available-for-sale', 'loans and receivables', or 'held-to-maturity' categories as permitted by the Sri Lanka Accounting Standard - LKAS 39 on "Financial Instruments: Recognition and Measurement". Further, in certain circumstances, the Group is permitted to reclassify financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' or 'held-to-maturity' category.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the Effective Interest Rate (EIR). Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the statement of profit or loss.

The Group may reclassify a non-derivative trading asset out of the 'held for trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis.

3.3.5 De-recognition of Financial Instruments

(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 de-recognised when:

- the rights to receive cash flows from the asset have expired
- the Group has transferred its rights to receive cash flows from the asset or

- has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and 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

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less, any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in statement of profit or loss.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that 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 Group 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 that the Group could be required to repay.

(ii) Financial Liabilities

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expired. 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 de-recognition 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 the statement of profit or loss.

3.3.6 Impairment of Financial Assets

At each reporting date, the Group assesses whether there is an objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an

Notes to the Financial Statements

incurred loss event), and that the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Objective evidence that financial assets (including equity securities) are impaired can include and not limited to: significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is an objective evidence of impairment.

3.4 Impairment of Non-financial Assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in the statement of profit or loss, except for property previously revalued where the gain or loss on revaluation was taken to equity. In this case, the impairment is also recognised in equity up to the extent of any previously recognised revaluation gains. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4 FINANCIAL RISK MANAGEMENT

4.1 Introduction and Overview

The Bank manages its exposure to the risks integral to its activities through a process of proper risk identification, analysis, measurement and continuous monitoring. The Bank is exposed to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Bank's exposure to each of the above risks, objectives, policies and processes associated with measuring and managing such risks, and its strategy on capital management is detailed below. Since the Bank (ultimate parent) accounts for more than 95% of the total assets, liabilities, income and expenses of the Group, only the Bank's exposure has been discussed under this note.

4.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. In discharging its governance responsibility it operates through two key committees, the Board Integrated Risk Management Committee (BIRMC) and the Board Audit Committee (BAC).

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. The BIRMC also assists the Board by assessing and approving significant credit and other transactions beyond the discretion of executive management.

The following executive management sub - committees, each with specialised focus, support the BIRMC and are responsible for the co-ordination of risk matters for each of the areas of risk management:

- Executive risk management committee
- Asset and liability committee
- Credit policy committee
- Investment committee
- IT steering committee

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.

The BAC provides its assessment on the effectiveness of internal audit and external disclosure of accounting policies and financial reporting to the Board.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

4.3 Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers, loans and advances to banks, investment in debt and equity securities. 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.).

For risk management purposes, credit risk arising on trading assets is managed independently and information thereon is disclosed below.

The credit risk policy plays a central role in managing daily business activities. The Bank has developed a policy which defines the principles encompassing client selection, due diligence, early alert reporting, tolerable levels of concentration risk and portfolio monitoring in line with Bank's risk appetite. The approach is to avoid a large credit risk on a counterparty or portfolio level by applying

Notes to the Financial Statements

4 FINANCIAL RISK MANAGEMENT (CONTD.)

4.3 Credit Risk (Contd.)

stringent underwriting standards combined with sound collateralisation where feasible. The policy is reviewed at least annually and approved by the Board Credit / Assets and Liabilities Committee (BCALC) ensuring consistency with the Bank's business strategy.

A monthly Credit Policy meeting chaired by the Chief Executive Officer, drives policy decisions and implementation plans.

Bank manages credit risk by focusing on following stages;

The loan origination process comprises initial screening and credit appraisal. The evaluation focuses on the borrower's ability to meet its obligations in a timely manner. Efforts are made to ensure consistent standards are maintained in credit approval. Collateral and guarantees form an important part of the credit risk mitigation process and internal policy dictates margins in Bank's favour by type of security offered, standards for periodic valuations and assessment of realisable value of collateral.

A suite of internal risk rating models are in place for corporate and retail customer segments. The internal risk rating is an important part of the risk assessment of customers and is incorporated in the credit decision process. Significant strides have been made in internalising this approach with a view to giving due prominence to lending, based on cash flow repayment ability as distinct from collateral based lending.

The Bank has established clear guidelines for loan approvals / renewals by adopting a committee based approval structure, where all approval signatories carry equal responsibility for credit risk. Individual credit facilities beyond a minimum threshold require an independent risk signatory with no revenue targets in respective committees.

Bank's corporate banking loan portfolio is administered through a centralised credit administration division which ensures efficient and effective post sanction customer support including disbursement, settlements, processing renewal notices and advising customers on interest rate amendments. This division independently reports to the risk management unit to ensure the availability of clear segregation of duties from business origination. The unit further ensures that the disbursements happen only after stipulated conditions are met and relevant security documents are obtained.

To safeguard the Bank against possible losses, problem loans need to be identified early. The credit risk management division measures and tracks the status of the credit portfolio, undertakes impact studies and detects early warning signals pointing to deterioration in the financial health of a borrower.

A credit risk dashboard is prepared monthly to review high level credit portfolio concentration and assess performance against internal limits (Board risk appetite) and regulatory requirements. An internally developed business intelligence system ('KPI Wizard') is in place to evaluate credit risk indicators at branch, regional, zonal and Bank level. Accountability for credit risk performance is vested with individual business units and unhealthy trends addressed at all levels.

Problem loans are managed by the credit supervision and recoveries division. This unit is responsible for all aspects of an overdue facility, restructuring of the credit, monitoring the value of the applicable collateral and liquidation, scrutiny of legal documents and liaising with the customer until all recovery matters are finalised. This division's activities are seamlessly integrated with credit administration and credit risk management to ensure effective follow up and learning transfer.

Back office recovery functions representing problem loans classification, rescheduling, provisioning and valuation of collateral on delinquent assets is centralised to ensure standardisation and accuracy. The Bank strictly conforms to regulatory requirements in problem loan classification and management.

Regular audits of business units are undertaken by internal audit division in order to ensure smooth functioning of each of these stages.

Impairment assessment

The methodology adopted by the Bank in respect of impairment assessment is given in Note 31 (b).

4 FINANCIAL RISK MANAGEMENT (CONTD.)

4.3 Credit Risk (Contd.)

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.

Credit related commitments risks

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.

4.3.1 (a) Maximum Exposure to Credit Risk

The following table shows the maximum exposure to credit risk and net exposure to credit risk by class of financial asset.

As at 31st December	2015		2014	
	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
Placements with banks	26,827	26,827	3,789,538	3,789,538
Reverse repurchase agreements	4,869,219	-	16,930,572	-
Derivative financial instruments	1,302,872	1,302,872	178,370	178,370
Other financial assets held for trading	593,390	593,390	551,371	551,371
Loans and receivables to customers	509,525,467	195,574,504	406,931,444	140,913,874
Financial investments - available-for-sale	78,046,505	78,046,505	67,842,229	67,842,229
Financial investments - loans and receivables	84,206,702	83,013,332	35,369,035	35,369,035
Other assets	1,565,169	1,565,169	1,954,191	1,954,191
	680,136,151	360,122,599	533,546,750	250,598,608
Guarantees, letters of credit and acceptances	111,842,959	109,917,959	95,464,322	91,368,650

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 Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The proceeds are used to reduce or repay the outstanding claim. The Bank generally does not use non-cash collateral for its own operations.

4.3.1 (b) Credit Quality by Class of Financial Assets

The Bank manages the credit quality of loans and receivables based on an internal credit rating system while the other financial assets are managed based on the external credit ratings of the counterparty. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk based on the credit ratings.

Notes to the Financial Statements

4 FINANCIAL RISK MANAGEMENT (CONTD.)

4.3 Credit Risk (Contd.)

4.3.1 (b) Credit Quality by Class of Financial Assets (Contd.)

As at 31st December 2015	Neither Past Due nor Impaired					Past Due but not Impaired	Past Due and Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Sub-Standard Grade	Unrated	Exposures not Subject to Rating				
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000				
Financial Assets									
Cash and cash equivalents	14,909,598	-	-	-	-	-	-	-	14,909,598
Balances with Central Bank of Sri Lanka	20,096,090	-	-	-	-	-	-	-	20,096,090
Placements with banks	26,827	-	-	-	-	-	-	-	26,827
Reverse repurchase agreements	4,869,219	-	-	-	-	-	-	-	4,869,219
Derivative financial instruments	1,256,294	18,843	-	27,735	-	-	-	-	1,302,872
Financial investments - fair value through profit or loss									
Equity securities	319,995	-	-	273,395	-	-	-	-	593,390
Loans and receivables to customers	107,390,276	98,307,805	12,916,156	113,268,931	48,842,861	116,121,689	7,404,485	5,273,264	509,525,467
Financial investments - available-for-sale									
Government securities	70,911,843	-	-	-	-	-	-	-	70,911,843
Equity securities - quoted	6,635,079	-	-	280,800	-	-	-	-	6,915,879
Equity securities - unquoted	-	-	-	218,783	-	-	-	-	218,783
Financial investments - loans and receivables									
Government securities	71,848,102	-	-	-	-	-	-	-	71,848,102
Debt securities - quoted	9,887,898	1,981,702	-	-	-	-	-	-	11,869,600
Debt securities - unquoted	489,000	-	-	-	-	-	-	-	489,000
Other assets	-	-	-	-	1,565,169	-	-	-	1,565,169
	308,640,221	100,308,350	12,916,156	114,069,644	50,408,030	116,121,689	7,404,485	5,273,264	715,141,839

As at 31st December 2014	Neither Past Due nor Impaired					Past Due but not Impaired	Past Due and Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Sub-Standard Grade	Unrated	Exposures not Subject to Rating				
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000				
Financial Assets									
Cash and cash equivalents	13,141,295	-	-	-	-	-	-	-	13,141,295
Balances with Central Bank of Sri Lanka	16,907,538	-	-	-	-	-	-	-	16,907,538
Placements with banks	2,738,538	1,051,000	-	-	-	-	-	-	3,789,538
Reverse repurchase agreements	16,930,572	-	-	-	-	-	-	-	16,930,572
Derivative financial instruments	84,075	4,259	90,036	-	-	-	-	-	178,370
Financial investments - fair value through profit or loss									

4 FINANCIAL RISK MANAGEMENT (CONTD.)

4.3 Credit Risk (Contd.)

4.3.1 (b) Credit Quality by Class of Financial Assets (Contd.)

As at 31st December 2014	Neither Past Due nor Impaired					Exposures not Subject to Rating Rs 000	Past Due but not Impaired Rs 000	Past Due and Impaired Rs 000	Individually Impaired Rs 000	Total Rs 000
	High Grade	Standard Grade	Sub-Standard Grade	Unrated						
	Rs 000	Rs 000	Rs 000	Rs 000						
Government securities	7,088	-	-	-	-	-	-	-	7,088	
Equity securities	294,292	34,824	215,167	-	-	-	-	-	544,283	
Loans and receivables to customers	82,462,104	86,677,662	5,819,460	1,974,024	132,631,929	80,323,418	7,269,907	9,772,940	406,931,444	
Financial investments - available-for-sale	-	-	-	-	-	-	-	-	-	
Government securities	59,212,841	-	-	-	-	-	-	-	59,212,841	
Equity securities - quoted	8,324,443	-	-	270,300	-	-	-	-	8,594,743	
Equity securities - unquoted	-	-	-	34,645	-	-	-	-	34,645	
Financial investments - loans and receivables	-	-	-	-	-	-	-	-	-	
Government securities	30,598,313	-	-	-	-	-	-	-	30,598,313	
Debt securities - quoted	3,363,796	1,406,926	-	-	-	-	-	-	4,770,722	
Debt securities - unquoted	-	-	-	-	1,954,191	-	-	-	1,954,191	
Other assets	234,064,895	89,174,671	6,124,663	2,278,969	134,586,120	80,323,418	7,269,907	9,772,940	563,595,583	

4.3.1 (c) Loans and Receivables to Other Customers

Allowances for impairment

The Bank established an allowance for impairment losses on assets carried at amortised cost and financial investments - available for sale that represents its estimate of incurred losses in its loans and investments in debt/equity securities portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and for assets measured at amortised cost, a collective loan loss allowance established for groups of homogeneous assets as well as for individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired and exposures found to be impaired but not provided. Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

The Bank regards an individually significant loan and advance or a debt security as impaired where there is an objective evidence that a loss event has occurred since initial recognition and such loss event has an impact on future estimated cash flows from the asset. In addition, other loans are considered impaired if they are overdue for 180 days or more.

Movement of the impairment provision during the year is given in Note 31 (b) to the financial statements.

Past due but not impaired loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Bank.

4.3.1 (d) Age Analysis of Financial Assets that are Past Due but not Impaired

As at 31st December	2015 Rs 000	2014 Rs 000
Past due but not impaired		
1-30 days	92,620,707	62,865,058
31-60 days	21,459,343	14,956,651
61-90 days	910,628	1,269,795
91-120 days	386,006	409,806
121-150 days	500,810	474,408
151-180 days	244,195	347,700
	116,121,689	80,323,418

Notes to the Financial Statements

4 FINANCIAL RISK MANAGEMENT (CONTD.)

4.3 Credit Risk (Contd.)

4.3.1 (d) Age Analysis of Financial Assets that are Past Due but not Impaired (Contd.)

Rescheduled loans

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position, where the Bank has made concessions by agreeing to terms and conditions that are more favourable to the borrower compared to the original contract. The Bank implements forbearance policy in order to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis in situations where the debtor is currently in default on its debt, or where there is a high risk of default, there is evidence that the debtor made all the reasonable effort to pay under the original contractual terms and they are expected to be able to meet the revised terms. The revised terms usually include extending maturity, changing timing of interest payments and amendments to the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring. At the time of restructuring the loan, the Bank determines the fair value of the loan and carrying value is brought down to reflect the fair value charging the difference, if any to the statement of profit or loss under impairment for loans and other losses.

During the year ended 31st December 2015, the Bank restructured loans and advances with a carrying value of Rs 5,528.04 Mn (2014 - Rs 2,606.65 Mn) and recognised an impairment of Rs 100.43 Mn (2014 - Rs 238.63 Mn) in the statement of profit or loss.

The Board Audit Committee regularly reviews reports on forbearance activities.

Write-off policy

The Bank writes off a loan or an investment in debt / equity security balance and any related allowances for impairment losses, when it determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure. For standardised loans with smaller balances, write-off decisions generally are based on a product-specific past due status.

4.3.1 (e) Concentrations of Credit Risk

The Bank monitors concentration of credit risk by sector and by geographic location. An analysis of risk concentration by industry for the financial assets is given below.

4.3.1 (e) i Concentration by Sector

As at 31st December 2015	Agriculture and fishing	Manufacturing	Tourism	Transport	Construction	Traders	New Economy	Financial and Business Services	Infrastructure	Other Services	Other	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets												
Cash and cash equivalents	-	-	-	-	-	-	-	14,909,598	-	-	-	14,909,598
Balances with												
Central Bank of Sri Lanka	-	-	-	-	-	-	-	20,096,090	-	-	-	20,096,090
Placements with banks	-	-	-	-	-	-	-	26,827	-	-	-	26,827
Reverse repurchase												
agreements	-	-	-	-	-	-	-	4,869,219	-	-	-	4,869,219
Derivative												
financial instruments	-	-	-	-	-	-	-	1,302,872	-	-	-	1,302,872
Other financial assets												
held for trading	-	135,722	130,519	17,244	330	13,982	-	198,241	8,700	88,652	-	593,390
Loans and receivables												
to customers	46,969,592	61,730,842	35,180,590	11,455,385	75,857,189	98,073,956	3,721,347	63,769,572	32,661,197	43,955,289	36,150,508	509,525,467
Financial investments												
- available-for-sale	-	-	-	-	-	-	-	78,046,505	-	-	-	78,046,505
Financial investments -												
loans and receivables	-	2,509,590	-	-	-	500,000	-	79,011,112	2,000,000	186,000	-	84,206,702
Other assets	-	-	-	-	-	-	-	1,565,169	-	-	-	1,565,169
	46,969,592	64,376,154	35,311,109	11,472,629	75,857,519	98,587,938	3,721,347	263,795,205	34,669,897	44,229,941	36,150,508	715,141,839

4 FINANCIAL RISK MANAGEMENT (CONTD.)

4.3 Credit Risk (Contd.)

4.3.1 (e) Concentrations of Credit Risk (Contd.)

4.3.1 (e) i Concentration by Sector (Contd.)

As at 31st December 2014	Agriculture and fishing	Manufacturing	Tourism	Transport	Construction	Traders	New Economy	Financial and Business Services	Infrastructure	Other Services	Other	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets												
Cash and cash equivalents	-	-	-	-	-	-	-	13,141,295	-	-	-	13,141,295
Balances with												
Central Bank of Sri Lanka	-	-	-	-	-	-	-	16,907,538	-	-	-	16,907,538
Placements with banks	-	-	-	-	-	-	-	3,789,538	-	-	-	3,789,538
Reverse repurchase agreements	-	-	-	-	-	-	-	16,927,072	-	-	3,500	16,930,572
Derivative financial instruments	-	-	-	-	-	89,587	-	88,783	-	-	-	178,370
Other financial assets held for trading	26,726	98,836	33,386	19,440	63,132	11,319	-	184,937	8,640	104,955	-	551,371
Loans and receivables to customers	38,472,692	48,607,392	25,711,290	8,620,424	60,070,716	86,329,359	3,556,200	46,416,133	25,364,112	23,904,261	39,878,865	406,931,444
Financial investments - available-for-sale	-	-	-	-	-	-	-	67,842,229	-	-	-	67,842,229
Financial investments - loans and receivables	-	609,590	-	-	-	1,809,085	-	32,764,360	-	186,000	-	35,369,035
Other assets	-	-	-	-	-	-	-	1,954,191	-	-	-	1,954,191
	38,499,418	49,315,818	25,744,676	8,639,864	60,133,848	88,239,350	3,556,200	200,016,076	25,372,752	24,195,216	39,882,365	563,595,583

4.3.1 (e) ii Concentration by Location

Concentration of loans and advances by location is given below.

As at	31st December 2015		31st December 2014	
	Rs 000	%	Rs 000	%
Western	369,605,337	72.54	270,727,107	66.53
Southern	22,558,498	4.43	20,043,752	4.93
Uva	7,588,602	1.49	6,713,917	1.65
North central	8,604,336	1.69	21,511,517	5.29
North western	24,586,758	4.83	32,243,356	7.92
Eastern	12,867,433	2.53	9,829,857	2.42
Northern	12,351,575	2.42	11,781,822	2.90
Sabaragamuwa	12,243,551	2.40	8,803,110	2.16
Central	28,707,819	5.63	23,437,268	5.76
Overseas	10,411,558	2.04	1,839,738	0.45
	509,525,467	100.00	406,931,444	100

Concentration by location for loans and advances is measured based on the location of the customer centre that granted the facility, which has a high correlation with the location of the borrower except for loans granted by the Foreign Currency Banking Unit (FCBU).

Notes to the Financial Statements

4 FINANCIAL RISK MANAGEMENT (CONTD.)

4.3 Credit Risk (Contd.)

4.3.1 (e) Concentrations of Credit Risk (Contd.)

4.3.1 (e) ii Concentration by Location (Contd.)

Significant foreign exposures

Gross and net carrying values of significant foreign lending given below is an analysis of exposures. 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	Cambodia		Maldives	
	2015	2014	2015	2014
	Rs 000	Rs 000	Rs 000	Rs 000
Gross carrying value as at 31st December	6,405,650	-	1,808,186	1,602,772
Provision for impairment	(19,363)	-	(461,328)	(110,169)
Net carrying value as at 31st December	6,386,287	-	1,346,858	1,492,603

Total unutilised overdrafts approved to above customers as at 31st December 2015 amounts to Rs 864.66 Mn (2014 : Rs 788.25 Mn).

4.3.1 (f) Commitments and Guarantees

The Bank enters into various irrevocable commitments and 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 they are not recognised on the statement of financial position.

The table below shows the Bank's maximum credit risk exposure for commitments and guarantees.

The maximum exposure to credit risk relating to acceptances, documentary credit and guarantees is the amount the Bank would have to pay in the event those are called upon. The maximum exposure to credit risk relating to loan commitments is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the statement of financial position.

As at 31st December	2015	2014
	Rs 000	Rs 000
Acceptances	10,865,852	10,830,595
Documentary credit	21,730,162	17,915,813
Guarantees	79,246,945	66,717,914
Undrawn commitments to lend - direct facilities	101,817,026	81,422,986
Undrawn commitments to lend - indirect facilities	41,946,000	53,005,667
	255,605,985	229,892,975

4.4 Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its debt obligations associated with its financial liabilities due to lack of funds or having to meet these obligations at excessive cost.

4.4.1 Management of Liquidity Risk

The Bank manages liquidity risk in accordance with regulatory guidelines and international best practices. The objective of the Bank's liquidity and funding framework is to ensure that funding commitments and deposit withdrawals can be met when due and that market access remains cost effective. A Board approved liquidity policy to manage liquidity on a day-to-day basis and a contingency funding plan to deal with crisis situations are in place. Contractual maturity of assets and liabilities, key liquidity ratios and monthly liquidity forecasts and gaps are reviewed at Assets and Liability Committee (ALCO) meetings. The main sources of the Bank's funding are capital, core deposits from retail and commercial clients, wholesale deposits and access to borrowed funds from the interbank money market. The Bank also maintains a portfolio of readily marketable securities to further strengthen its liquidity position. Liquidity risk exposure is managed by treasury with limits and triggers set to ensure that sufficient liquidity surplus and reserves are available to meet daily business requirements and also to deal with a sudden liquidity shock. Treasury reports the Bank's overall liquidity position to management on a daily basis.

4 FINANCIAL RISK MANAGEMENT (CONTD.)

4.4 Liquidity Risk (Contd.)

4.4.1 Management of Liquidity Risk (Contd.)

4.4.1 (a) Exposure to Liquidity Risk

The Bank monitors the following liquidity ratios to assess funding requirements.

	2015 %	2014 %
Net loans / total assets	68.72	69.18
Gross loans / customer deposits	96.66	97.04
Liquid Asset Ratio (LAR)		
As at 31st December	25.09	22.81
Average for the year	24.31	24.06
Maximum for the year	26.48	27.25
Minimum for the year	21.94	21.95

Components of the Bank's liquid assets portfolio used for the purpose of statutory liquid asset ratio calculation as at 31st December 2015 (average balance for the month of December) is given below.

As at 31st December 2015	2015 Rs 000	2014 Rs 000
Cash	13,947,385	10,521,747
Balances with licensed commercial banks	156,736	997,482
Money at call in Sri Lanka	3,695,742	12,806
Treasury bills and securities issued or guaranteed by the Government of Sri Lanka which have a maturity not exceeding one year	130,779,418	92,382,734
Import bills	15,862	206,596
Export bills	1,859,146	1,355,859
Cash items in the process of collection	1,074,133	823,574
Balances with the banks abroad	1,635,933	766,817
Total average liquid assets for the month of December	153,164,355	107,067,615

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 the 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 2015 is presented under credit risk. No assets have been pledged as collateral for borrowings other than treasury bills and bonds which are pledged against repurchase transactions. Details of treasury bills and bonds pledged as collateral against repurchase transactions are disclosed under Note 33 (k) to the financial statements.

4.4.1 (b) Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the 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.

Notes to the Financial Statements

4 FINANCIAL RISK MANAGEMENT (CONTD.)

4.4 Liquidity Risk (Contd.)

4.4.1 Management of Liquidity Risk (Contd.)

4.4.1 (b) Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities (Contd.)

Contractual maturities of undiscounted cash flows of financial assets and financial liabilities

31st December 2015	Upto 3 months	3 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets						
Cash and cash equivalents	14,909,598	-	-	-	-	14,909,598
Balances with Central Bank of Sri Lanka	-	-	-	-	20,096,090	20,096,090
Placements with banks	26,827	-	-	-	-	26,827
Reverse repurchase agreements	4,870,068	-	-	-	-	4,870,068
Derivative financial instruments	278,361	1,024,511	-	-	-	1,302,872
Other financial assets held for trading	593,390	-	-	-	-	593,390
Loans and receivables to customers	209,134,494	113,853,654	147,975,125	76,408,147	74,961,197	622,332,617
Financial investments - available-for-sale	14,038,553	24,383,411	16,297,711	18,479,192	19,204,245	92,403,112
Financial investments - loans and receivables	14,419,556	13,779,143	32,622,517	35,731,034	-	96,552,250
Other assets	-	471,866	1,093,303	-	-	1,565,169
Total undiscounted financial assets	258,270,847	153,512,585	197,988,656	130,618,373	114,261,532	854,651,993
Financial Liabilities						
Due to banks	13,063,401	23,664,773	18,687,149	7,084,231	985,145	63,484,699
Derivative financial instruments	157,154	147,331	-	-	-	304,485
Securities sold under repurchase agreements	16,487,390	183,732	-	-	-	16,671,122
Due to other customers	392,795,746	147,243,100	12,316,092	6,346,352	-	558,701,290
Dividends payable	764,771	-	-	-	-	764,771
Other borrowings	59,787	45,487	61,543	9,954,572	21,625,494	31,746,883
Debt securities issued	-	391,607	930,997	3,295,560	2,592,029	7,210,193
Other liabilities	278,584	-	-	-	-	278,584
Subordinated term debts	-	1,170,262	6,766,190	4,571,267	4,978,004	17,485,723
Total undiscounted financial liabilities	423,606,833	172,846,292	38,761,971	31,251,982	30,180,672	696,647,750
Net undiscounted financial assets/(liabilities)	(165,335,986)	(19,333,707)	159,226,685	99,366,391	84,080,860	158,004,243

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

	Upto 3 months	3 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Total
Acceptances	8,540,327	2,263,053	62,472	-	-	10,865,852
Documentary credit	17,826,795	3,453,886	449,481	-	-	21,730,162
Guarantees	17,618,025	23,749,445	26,129,432	5,350,007	6,400,036	79,246,945
Undrawn commitments to lend - direct facilities	67,877,840	2,783,061	1,336,497	4,715,146	25,104,483	101,817,027
Undrawn commitments to lend - indirect facilities	41,946,000	-	-	-	-	41,946,000
	153,808,987	32,249,445	27,977,882	10,065,153	31,504,519	255,605,986

4 FINANCIAL RISK MANAGEMENT (CONTD.)

4.4 Liquidity Risk (Contd.)

4.4.1 Management of Liquidity Risk (Contd.)

4.4.1 (b) Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities (Contd.)

31st December 2014	Upto 3 months Rs 000	3 - 12 months Rs 000	1 - 3 years Rs 000	3 - 5 years Rs 000	More than 5 years Rs 000	Total Rs 000
Financial Assets						
Cash and cash equivalents	13,141,295	-	-	-	-	13,141,295
Balances with Central Bank of Sri Lanka	-	-	-	-	16,907,538	16,907,538
Placements with banks	3,537,402	265,008	-	-	-	3,802,410
Reverse repurchase agreements	16,999,870	-	-	-	-	16,999,870
Derivative financial instruments	157,363	21,007	-	-	-	178,370
Other financial assets held for trading	544,283	7,197	-	-	-	551,480
Loans and receivables to customers	124,206,365	103,811,410	136,282,990	72,124,229	72,994,161	509,419,155
Financial investments - available-for-sale	18,273,923	42,145,173	111,659	-	8,629,388	69,160,143
Financial investments - loans and receivables	3,038,416	14,325,489	11,412,395	10,180,721	-	38,957,021
Other assets	-	-	1,954,191	-	-	1,954,191
Total undiscounted financial assets	179,898,917	160,575,284	149,761,235	82,304,950	98,531,087	671,071,473
Financial Liabilities						
Due to banks	16,312,324	11,784,521	10,936,557	6,299,381	849,338	46,182,121
Derivative financial instruments	344,624	285,974	-	-	-	630,598
Securities sold under repurchase agreements	16,828,679	185,230	-	-	-	17,013,909
Due to customers	297,700,530	112,592,220	7,407,870	9,458,270	6,170	427,165,060
Dividends payable	587,078	-	-	-	-	587,078
Other borrowings	97,244	4,382,001	95,308	-	-	4,574,553
Debt securities issued	-	391,607	941,917	3,509,246	2,759,030	7,601,800
Other liabilities	373,925	-	-	-	-	373,925
Subordinated term debts	-	1,139,625	2,787,172	5,560,087	8,686,235	18,173,119
Total undiscounted financial liabilities	332,244,404	130,761,178	22,168,824	24,826,984	12,300,773	522,302,163
Net undiscounted financial assets/(liabilities)	(152,345,487)	29,814,106	127,592,411	57,477,966	86,230,314	148,769,310

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

As at 31st December 2014	Upto 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
Acceptances	9,442,430	1,388,165	-	-	-	10,830,595
Documentary credit	16,376,894	1,523,654	15,265	-	-	17,915,813
Guarantees	12,835,187	23,081,270	22,590,308	4,011,844	4,199,305	66,717,914
Undrawn commitments to lend - direct facilities	65,323,100	1,172,008	1,187,486	3,142,706	10,597,686	81,422,986
Undrawn commitments to lend - indirect facilities	53,005,667	-	-	-	-	53,005,667
	156,983,278	27,165,097	23,793,059	7,154,550	14,796,991	229,892,975

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Notes to the Financial Statements

4 FINANCIAL RISK MANAGEMENT (CONTD.)

4.5 Market Risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's or issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters in order to ensure the Bank's solvency while optimising the return on risk.

4.5.1 Management of Market Risk

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolio includes financial assets and liabilities that are managed on a fair value basis. All foreign exchange positions within the Bank are treated as part of the Bank's trading portfolios for risk management purposes. Non trading portfolio is managed in accordance with the purpose and strategic benefits of such investments, rather than purely on fair value basis.

The Bank has a board approved market risk management policy. Treasury middle office monitors the Bank's compliance with the above policy and ensures that the Bank's market risk limits are in line with the level of risk acceptable to the Board. The Bank employs a range of tools to monitor and limit market risk exposures which are discussed below.

4.5.2 Exposure to Market Risk

The principal tool used to measure and control market risk exposure within the Bank is Value at Risk (VaR). The VaR of a portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Bank is based upon a 99 percent confidence level and assumes 1-day and a 10-day holding period. The VaR model used is based mainly on historical simulation. Taking account of market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

The 1 day and 10 day holding periods assumes that it is possible to hedge or dispose of positions within those periods. This may not be the case for illiquid assets or in situations in which there is severe general market liquidity.

A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.

VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if market price volatility declines and vice versa.

The Bank uses VaR limits for foreign exchange and equity risks. The overall structure of VaR limits is subject to review and approval by ALCO. VaR limits are allocated to portfolios. VaR is measured at least monthly and reported to ALCO.

The Bank's VaR models are subject to regular validation by Treasury Mid Office (TMO) to ensure that they continue to perform as expected, and that assumptions used in model development are still appropriate.

A summary of the VaR position of the Bank as at 31st December and during the period is as follows:

	As at 31st December	Average	Maximum	Minimum
	Rs 000	Rs 000	Rs 000	Rs 000
2015				
Foreign currency risk (USD NOP)*	12,647	4,788	12,647	1,059
Equity risk	26,471	27,618	32,432	23,365
2014				
Foreign currency risk (USD NOP)*	747	684	2,145	81
Equity risk	22,794	18,806	22,794	14,548

* Only USD exposure has been considered as it represents over 97% of the foreign currency transactions.

4 FINANCIAL RISK MANAGEMENT (CONTD.)

4.5 Market Risk (Contd.)

4.5.2 Exposure to Market Risk (Contd.)

The limitations of the VaR methodology are recognised by supplementing VaR limits with other risk measures. The Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios such as changes in exchange rates, interest rates and prices of financial instruments such as equities and bonds. The results of the stress tests are reviewed by ALCO.

4.5.3 Exposure to Interest Rate Risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The Bank manages the interest rate risk against interest rate gap limits which is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various rate scenarios. Net interest yields are also calculated for each product to ensure adequate margins are kept.

The Bank holds treasury bills and bonds with shorter maturities, thus the impact of interest rate changes on treasury bill and bond prices are very minimal. Modified duration of both the trading and non-trading portfolios as at 31st December is given below.

As at 31st December	2015	2014
Trading	-	0.5075
Non trading	2.4342	0.8309

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 2015) is as follows.

	Decrease of 100 bps	Decrease of 200 bps	Increase of 100 bps	Increase of 200 bps
LKR Portfolio (Rs 000)	373,481	759,524	(360,122)	(706,461)
USD Portfolio (USD 000)	3,316	6,843	(3,123)	(6,067)

4.6 Capital Management

The Bank's capital management objectives can be summarised as follows:

- Maintain sufficient capital to meet minimum regulatory capital requirements
- Hold sufficient capital to support the Bank's risk appetite
- Allocate capital to businesses to support the Bank's strategic objectives
- Ensure that the Bank maintains capital in order to achieve debt rating objectives and to withstand the impact of potential stress events

Regulatory capital

The Bank manages its capital considering regulatory capital requirements. The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for licensed banks in Sri Lanka based on the Basel Framework. Thus the Bank's operations are directly supervised by the CBSL and the Bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital and capital to cover any additional risk. Commercial banks in Sri Lanka need to maintain a minimum Capital Adequacy Ratio (CAR) of 10% and a core capital ratio (Tier 1) of at least 5%. Historically the Bank has been maintaining CAR well above the regulatory minimum.

Notes to the Financial Statements

5 FAIR VALUE OF ASSETS AND LIABILITIES

Accounting policy

Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets
- Level 2 - Valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 - Valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Level 1

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument or dealer price quotations (assets and long positions are measured at a bid price, liabilities and short positions are measured at an asking price), without any deduction for transaction costs.

A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Level 3

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded (day 1 profit or loss) is deferred and recognised only when the inputs become observable or on de-recognition of the instrument.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

5 FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

5.1 Assets and Liabilities Recorded at Fair Value

A description of how fair values are determined for assets and liabilities that are recorded at fair value using valuation techniques is summarised below which incorporates the bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

Derivative financial instruments such as forward foreign exchange contracts and currency swaps are valued using a valuation technique with market observable inputs (Level 2). The most frequently applied valuation technique is forward pricing model which incorporates various inputs including foreign exchange spot and forward premiums.

Financial investments - available for sale

Government debt securities classified as financial investments - available-for-sale are valued using current yield rates or market rates published by the Central Bank of Sri Lanka and quoted equities classified as financial investments - available-for-sale are valued using quoted market prices in the active markets as at the reporting date (Level 1).

Other financial assets held for trading

Financial assets held for trading consist of government debt securities and quoted equities. Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka while quoted equities are valued using quoted market price in active markets as at the reporting date (Level 1).

Property, plant and equipment

Fair value of the land and buildings (revalued amount) is determined using the current replacement cost basis of valuation (Level 3), which as a basis of valuation is the sum of;

- 1). The open market value of the land for its existing use plus
- 2). The current gross replacement cost of the buildings and their site works less an allowance for all appropriate factors such as age, condition, functional and environmental obsolescence which result in the existing property being worthless than a new replacement.

5.2 Valuation Model

The fair values are measured using the fair value hierarchy.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Bank uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

The methods used to determine the fair value of freehold land and buildings are explained in Note 38 (b) to the financial statements. The independent valuers provide the fair value of the Bank's freehold land and buildings at least once in every three years according to the Bank's policy. The Bank carried out a revaluation of its freehold land and buildings in 2015.

Notes to the Financial Statements

5 FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

5.3 Assets and Liabilities Measured at Fair Value - Fair Value Hierarchy

The following table shows an analysis of assets and liabilities recorded at fair value by level of fair value hierarchy 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 2015	Bank				Group			
	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000
Financial assets measured at fair value								
Derivative financial instruments								
Currency swaps	-	1,163,561	-	1,163,561	-	1,163,561	-	1,163,561
Forward foreign exchange contracts	-	139,311	-	139,311	-	139,311	-	139,311
	-	1,302,872	-	1,302,872	-	1,302,872	-	1,302,872
Financial assets held for trading								
Quoted shares	593,390	-	-	593,390	840,397	229,701	-	1,070,098
Government of Sri Lanka treasury bills and bonds	-	-	-	-	878,673	-	-	878,673
	593,390	-	-	593,390	1,719,070	229,701	-	1,948,771
Financial investments available-for-sale								
Quoted shares and units	6,915,879	-	-	6,915,879	7,116,183	-	-	7,116,183
Unquoted shares	-	-	25,405	25,405	-	-	37,835	37,835
Unquoted units	-	193,377	-	193,377	-	193,377	-	193,377
Government of Sri Lanka treasury bills and bonds	70,911,843	-	-	70,911,843	72,370,836	-	-	72,370,836
	77,827,722	193,377	25,405	78,046,504	79,487,019	193,377	37,835	79,718,231
Non-financial assets measured at fair value								
Freehold land and building	-	-	9,138,588	9,138,588	-	-	19,729,565	19,729,565
Non-current assets held for sale	-	-	20,151	20,151	-	-	20,151	20,151
	-	-	9,158,739	9,158,739	-	-	19,749,716	19,749,716
Financial liabilities measured at fair value								
Derivative financial instruments								
Currency swaps	-	91,490	-	91,490	-	91,490	-	91,490
Forward foreign exchange contracts	-	212,994	-	212,994	-	212,994	-	212,994
	-	304,484	-	304,484	-	304,484	-	304,484

5 FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

5.3 Assets and Liabilities Measured at Fair Value - Fair Value Hierarchy (Contd.)

As at 31st December 2014	Bank				Group			
	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	Total Rs 000
Financial assets measured at fair value								
Derivative financial instruments								
Currency swaps	-	23,400	-	23,400	-	23,400	-	23,400
Forward foreign exchange contracts	-	154,970	-	154,970	-	154,970	-	154,970
	-	178,370	-	178,370	-	178,370	-	178,370
Financial assets held for trading								
Quoted shares	544,283	-	-	544,283	800,331	-	-	800,331
Government of Sri Lanka treasury bills and bonds	7,088	-	-	7,088	22,771	-	-	22,771
Unquoted units	-	-	-	-	-	229,625	-	229,625
	551,371	-	-	551,371	823,102	229,625	-	1,052,727
Financial investments available-for-sale								
Quoted shares and units	8,594,744	-	-	8,594,744	8,707,948	-	-	8,707,948
Unquoted shares	-	-	34,644	34,644	-	234	34,644	34,878
Government of Sri Lanka treasury bills and bonds	59,212,841	-	-	59,212,841	60,700,231	-	-	60,700,231
	67,807,585	-	34,644	67,842,229	69,408,179	234	34,644	69,443,057
Non-financial assets measured at fair value								
Freehold land and building	-	-	7,166,488	7,166,488	-	-	14,344,743	14,344,743
Non-current assets held for sale	-	-	30,238	30,238	-	-	30,238	30,238
	-	-	7,196,726	7,196,726	-	-	14,374,981	14,374,981
Financial liabilities measured at fair value								
Derivative financial instruments								
Currency swaps	-	515,496	-	515,496	-	515,496	-	515,496
Forward foreign exchange contracts	-	115,102	-	115,102	-	115,102	-	115,102
	-	630,598	-	630,598	-	630,598	-	630,598

There have been no transfers between Level 1 and Level 2 during the period.

5.4 Level 3 Fair Value Measurement

5.4 (a) Reconciliation of Fair Value of Assets Classified as "Level 3" in the Fair Value Hierarchy

5.4 (a) i Unquoted Equity Securities accounted as Financial Investments - Available-for-sale

	2015 Rs 000	2014 Rs 000
Balance as at 1st January	34,644	41,955
Impairment provision during the year	(12,384)	(7,311)
Investments made during the year	3,145	-
Balance as at 31st December	25,405	34,644

Rs 12.4 Mn impairment provision was made during the year in respect of investments in Lanka Rating Agency Ltd and S.W.I.F.T. which is recorded in Note 14 'Impairment charge for loans and other losses'.

Notes to the Financial Statements

5 FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

5.4 Level 3 Fair Value Measurement (Contd.)

5.4 (a) ii Property, Plant and Equipment

The reconciliation of property, plant and equipment is given in Note 38 to the financial statements.

5.4 (b) Unobservable Inputs used in Measuring Fair Value

The information about significant unobservable inputs used in measuring financial instruments categorised as Level 3 in the fair value hierarchy as at 31st December 2015 is given in Note 38 (b) to the financial statements.

5.5 Fair Value of Financial Assets and Liabilities not Measured at Fair Value

The following table summarises the carrying amounts and the Bank's estimate of fair values of those financial 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 financial instrument. For certain instruments, the fair value may be determined using assumptions which are not observable in the market. This table does not include the fair values of non-financial assets and liabilities.

As at 31st December 2015	Carrying Value	Bank				Total Fair Value	Carrying Value	Group			Total Fair Value
		Level 1	Level 2	Level 3	Level 1			Level 2	Level 3		
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
Financial Assets											
Loans and receivables to other customers	498,341,628	-	495,961,362	-	495,961,362	507,244,329	-	504,864,063	-	504,864,063	
Financial investments - Held to maturity	-	-	-	-	-	1,257,433	1,274,963	-	-	1,274,963	
Financial investments - Loans and receivables	84,206,702	-	84,152,729	-	84,152,729	87,087,206	-	86,989,529	-	86,989,529	
Financial Liabilities											
Due to customers	527,126,181	-	529,280,510	-	529,280,510	536,132,789	-	538,430,241	-	538,430,241	
Debt securities issued	4,490,742	-	4,615,375	-	4,615,375	4,913,751	-	4,972,240	-	4,972,240	
Subordinated term debts	12,064,370	-	13,809,598	-	13,809,598	12,085,598	-	13,766,240	-	13,766,240	

As at 31st December 2014	Carrying Value	Bank				Total Value	Carrying Value	Group			Total Value
		Level 1	Level 2	Level 3	Level 1			Level 2	Level 3		
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
Financial Assets											
Loans and receivables to other customers	395,699,387	-	396,829,288	-	396,829,288	401,281,976	-	402,286,580	-	402,286,580	
Financial investments - held to maturity	-	-	-	-	-	955,421	993,490	-	-	993,490	
Financial investments - Loans and receivables	36,166,064	-	36,250,178	-	36,250,178	38,846,129	-	38,904,035	-	38,904,035	
Financial Liabilities											
Due to customers	419,327,123	-	422,342,200	-	422,342,200	425,620,382	-	428,729,862	-	428,729,862	
Debt securities issued	4,451,407	-	3,977,873	-	3,977,873	4,842,627	-	4,367,021	-	4,367,021	
Subordinated term debts	11,653,759	-	13,181,586	-	13,181,586	11,677,046	-	13,206,482	-	13,206,482	

5 FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

5.5 Fair Value of Financial Assets and Liabilities not Measured at Fair Value (Contd.)

Fair values of the following assets and liabilities are estimated for the purpose of disclosure as described below:

Loans and receivables 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 investments - Loans and receivables

Financial investments - Loans and receivables comprise of investments in Sri Lanka development bonds, Sri Lanka sovereign bonds and unquoted debentures.

Sri Lanka development bonds are variable rate instruments where the repricing happens semi annually. Thus the carrying value of these bonds approximates to their fair value as at the reporting date.

The fair values of Sri Lanka sovereign bonds and unquoted debentures are estimated using other valuation techniques that are commonly used by market participants.

Due to customers

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

Subordinated term debts include the subordinated debentures and the subordinated loan obtained from German Development Financial Institution (DEG). The subordinated loan has a variable interest rate resulting in a carrying value approximating to fair value as at the reporting date.

In respect of fixed rate subordinated debentures, fair value has been determined by discounting the future cash flows by the interest rates prevailing as at the reporting date for similar instruments.

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

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

Reclassification of financial assets

There have been no reclassifications during 2015 and 2014.

Notes to the Financial Statements

6 NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

Certain new accounting standards and amendments / improvements to existing standards have been published, that are not mandatory for 31st December 2015 reporting period. None of those have been early adopted by the Group.

Sri Lanka Accounting Standard - SLFRS 9 on “Financial Instruments”

SLFRS 9 replaces the existing guidance in Sri Lanka Accounting Standard - LKAS 39 on “Financial Instruments: Recognition and Measurement”. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.

SLFRS 9 is effective for annual reporting periods beginning on or after 1st January 2018, with early adoption permitted.

Sri Lanka Accounting Standard - SLFRS 14 on “Regulatory Deferral Accounts”

SLFRS 14 is an interim standard which provides relief for first time adopters of SLFRS in relation to the accounting for certain balances that arise from rate regulated activities ('regulatory deferral accounts'). The standard permits these entities to continue to apply their previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral accounts.

SLFRS 14 is effective for annual periods beginning on or after 1st January 2016.

Sri Lanka Accounting Standard - SLFRS 15 on “Revenue from Contracts with Customers”

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including Sri Lanka Accounting Standard - LKAS 18 on “Revenue”, Sri Lanka Accounting Standard - LKAS 11 on “Construction Contracts” and IFRIC 13 on “Customer Loyalty Programmes”.

SLFRS 15 is effective for annual reporting periods beginning on or after 1st January 2018, with early adoption permitted.

Management believes that SLFRS 14 would not be applicable for the Group, as it is an existing SLFRS preparer. Pending the completion of the detailed impact analysis, possible impact from SLFRS 9 and SLFRS 15 is not reasonably estimable as of the reporting date.

The following amendments and improvements are not expected to have a significant impact on the Group's financial statements.

- Accounting for acquisition of interests in joint operations (Amendments to Sri Lanka Accounting Standards - SLFRS 11 on “Investments in Joint Venture”).
- Clarification of acceptable methods of depreciation and amortisation (Amendments to Sri Lanka Accounting Standard - LKAS 16 on “Property, Plant and Equipment” and Sri Lanka Accounting Standard - LKAS 38 on “Intangible Assets”).
- Equity method in separate financial statements (Amendments to Sri Lanka Accounting Standard - LKAS 27 on “Separate Financial Statements”).
- Sale or contribution of assets between an investor and its associate or joint venture (Amendments to Sri Lanka Accounting Standard - SLFRS 10 on “Consolidated Financial Statements” and Sri Lanka Accounting Standard - LKAS 28 on “Investments in Associates and Joint Venture”).
- Annual improvements to SLFRSs 2012–2014 Cycle – various standards.
- Investment entities: applying the consolidation exception (Amendments to Sri Lanka Accounting Standard - SLFRS 10 on “Consolidated Financial Statements”, Sri Lanka Accounting Standard - SLFRS 12 on “Disclosure of Interests in Other Entities” and Sri Lanka Accounting Standard - LKAS 28 on “Investments in Associates and Joint Venture”).
- Disclosure initiative (Amendments to Sri Lanka Accounting Standard - LKAS 1 on “Presentation of 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 Bank 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	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Interest income [Note 8 (a)]	52,615,463	51,868,333	56,893,956	53,062,579
Fee and commission income	5,874,928	4,976,212	6,426,080	5,196,099
Net gain / (loss) from trading (Note 10)	346,577	(570,720)	361,948	(441,618)
Net gain from financial investments (Note 11)	253,858	1,398,025	297,978	1,493,975
Net insurance premium income (Note 12)	-	-	4,679,897	3,831,288
Other operating income (Note 13)	2,062,640	1,828,645	1,366,839	1,881,523
	61,153,466	59,500,495	70,026,698	65,023,846

8 NET INTEREST INCOME

Accounting policy

Interest income and expenses are recognised using the Effective Interest Rate (EIR) method for all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments at fair value through profit or loss.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as interest income for financial assets and interest expense for financial liabilities. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

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.

8 (a) Interest Income

For the year ended 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Cash and cash equivalents	15,308	3,862	24,208	6,605
Placements with banks	57,791	29,939	172,399	206,460
Securities purchased under resale agreements	359,740	583,367	598,848	636,931
Interest income accrued on impaired financial assets	37,787	118,247	37,787	118,247
Loans and receivables to customers	43,647,464	43,581,198	47,081,333	44,063,378
Financial investments - available for sale	5,476,808	5,779,836	5,621,962	5,905,250
Financial investments - fair value through profit or loss	706	162,100	9,555	166,030
Financial investments - held to maturity	-	-	70,146	98,026
Financial investments - loans and receivables	2,958,752	1,550,844	3,268,218	1,848,675
Other interest income	61,107	58,940	9,500	12,977
	52,615,463	51,868,333	56,893,956	53,062,579

Notes to the Financial Statements

8 NET INTEREST INCOME (CONTD.)

8 (b) Interest Expenses

For the year ended 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Due to banks	1,637,739	1,467,308	1,643,354	1,470,883
Deposits from customers (due to customers)	21,216,749	23,095,687	22,031,573	23,205,122
Debt securities issued	430,942	202,784	513,805	204,163
Securities sold under repurchase agreements	889,104	502,408	889,104	502,408
Subordinated term debts	1,238,902	1,223,360	1,255,902	1,219,975
Other borrowings	844,599	449,739	844,599	449,739
Other interest expenses	21,899	25,540	21,899	25,540
	26,279,934	26,966,826	27,200,236	27,077,830

8 (c) Net Interest Income from Sri Lanka Government Securities

Interest income	8,137,779	7,846,121	8,678,537	8,314,319
Less : Interest expenses	889,104	502,408	889,104	502,408
Net interest income from Sri Lanka Government securities	7,248,675	7,343,713	7,789,433	7,811,911

Notional tax credit for withholding tax on government securities on secondary market transactions.

Section 137 of the Inland Revenue Act No 10 of 2006 provides that a company which derives interest income from the secondary market transactions in government securities be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the company for that year of assessment.

Accordingly, net income earned from secondary market transactions in government securities for the year by the Bank / Group has been grossed up in the financial statements and the resulting notional tax credit amounted to Rs 486.8 Mn (2014 : Rs 600 Mn) for the Bank and Rs 523.44 Mn (2014 : Rs 658 Mn) for the Group.

9 NET FEE AND COMMISSION INCOME

Accounting policy

The Group earns fee and commission income from a diverse range of services it provides to its customers which can be divided in to the following two categories.

- Fee and commission income earned from services that are provided over a certain period of time
Fee and commission earned for the provision of services over a period of time are accrued over that period.
- Fee and commission income from providing transaction services
Fee and commission income arising from renegotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised as the related services are performed.

Fees and commission expenses relating to transaction and service fees are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

9 NET FEE AND COMMISSION INCOME (CONTD.)

For the year ended 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Fee and commission income	5,874,928	4,976,212	6,426,080	5,196,099
Less: Fee and commission expenses	98,622	98,329	182,093	123,290
Net fee and commission income	5,776,306	4,877,883	6,243,987	5,072,809
Comprising				
Loans	1,017,821	727,706	1,468,930	813,569
Cards	1,530,098	1,338,544	1,530,098	1,338,544
Trade and remittances	1,370,938	1,134,439	1,370,938	1,134,439
Deposits	667,229	706,558	583,362	706,558
Guarantees	699,330	576,260	699,330	576,260
Currency	86,570	57,358	86,570	57,358
Others	404,320	337,018	504,759	446,081
Net fee and commission income	5,776,306	4,877,883	6,243,987	5,072,809

10 NET GAIN / (LOSS) FROM TRADING

Accounting policy

Results arising from trading activities include all gains and losses from changes in fair value, related capital gains and losses, dividend income of financial assets "held for trading" and gains/(losses) from revaluation of derivative financial instruments.

Dividend income is recognised when the Group's right to receive the dividend is established.

Derivative financial instruments are fair valued at each reporting date. Gains and losses arising from changes in fair value are included in the statement of profit or loss in the period in which they arise.

For the year ended 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Financial investments - Held for trading				
Fixed income				
Net marked to market gain / (loss)	(52)	(1,729)	12,926	(1,729)
Net capital gain / (loss)	13,898	208,573	(3,014)	211,433
Equities				
Net marked to market gain / (loss)	(8,773)	128,539	(16,990)	227,530
Net capital gain / (loss)	18,846	(17,903)	18,898	(5,697)
Dividend income	18,117	14,432	45,587	29,477
Derivative financial instruments				
Gain / (loss) on revaluation of foreign currency derivatives				
- With banks	308,066	(980,379)	308,066	(980,379)
- With others	(3,525)	77,747	(3,525)	77,747
Total net gain / (loss) from trading	346,577	(570,720)	361,948	(441,618)

11 NET GAIN FROM FINANCIAL INVESTMENTS

Accounting policy

Net gain from financial investments include capital gains / losses and dividend income of financial investments - available-for-sale.

Dividend income is recognised when the Group's right to receive the dividend is established.

For the year ended 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Fixed income				
Net capital gain	-	269,351	30,358	365,301
Equities				
Net capital gain	-	889,297	13,708	889,297
Dividend income	253,858	239,377	253,912	239,377
Total net gain from financial investments	253,858	1,398,025	297,978	1,493,975

Notes to the Financial Statements

12 NET INSURANCE PREMIUM INCOME

Accounting policy

Insurance Premiums

Life Insurance Business

Gross recurring premiums on life insurance contracts are recognised as revenue when payable by the policyholder (policies within the 30 day grace period are considered as due). Premiums received in advance are not recorded as revenue and recorded as liability until the premium is due unless otherwise the relevant policy conditions require such premiums to be recognised as income. 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.

General Insurance Business

Gross general insurance written premiums comprise the total premiums received /receivable for the whole period of cover provided by contracts entered into during the accounting period. Gross written premium is generally recognised is written upon inception of the policy. Upon inception of the contract, premiums are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage.

Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on 1/24th basis except for the marine policies which are computed on a 60-40 basis, in accordance with the Regulation of Insurance Industry Act, No. 43 of 2000. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are earned over the period of risk in proportion to the amount of insurance protection provided. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums which is included under liabilities.

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. Reinsurance premiums are decided based on rates agreed with reinsurers.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts (using 1/24th basis except for the marine policies which are computed on a 60-40 basis in accordance with the Regulation of Insurance Industry Act, No 43 of 2000).

For the year ended 31st December	Group	
	2015 Rs 000	2014 Rs 000
Gross insurance premium income	5,401,658	4,651,396
Reinsurers' share of gross insurance premium income	(599,084)	(601,022)
Net written premium	4,802,574	4,050,374
Net change in reserves for unearned premium	(122,677)	(219,086)
Net insurance premium income	4,679,897	3,831,288

13 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 Group's right to receive the dividend is established.

Gains and losses on disposal of assets

Net gains and losses of a revenue nature arising from the disposal of property, plant and equipment and other non-current assets including investments in subsidiaries, joint ventures and associates are accounted for in the statement of profit or loss after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

Foreign exchange gain

Foreign currency positions are revalued at each reporting date. Gains and losses arising from changes in fair value are included in the statement of profit or loss in the period in which they arise.

For the year ended 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Auditorium hire income	2,627	4,114	2,627	4,114
Dividend income from subsidiaries and joint venture	964,859	115,021	-	-
Foreign exchange gain / (loss)				
- With banks	(145,693)	800,169	(133,748)	801,126
- With others	1,105,084	740,940	1,105,084	740,940
Gain on disposal of non-current assets held for sale	763	-	763	-
Gain on disposal of property, plant and equipment (net)	14,805	42,070	14,722	42,350
Gain on disposal of associate company	-	-	-	426
Rental income	10,211	6,858	195,829	171,304
Rental income from investment properties	80,978	80,992	101,403	73,494
Recovery of loans written off in prior years	19,989	8,913	33,267	8,913
Recovery of operational losses provided for in prior years	526	1,858	526	1,858
Net income from sale of apartments	-	-	817	4,395
Miscellaneous	8,491	27,710	45,549	32,603
	2,062,640	1,828,645	1,366,840	1,881,523

Notes to the Financial Statements

14 IMPAIRMENT CHARGE / (REVERSAL) FOR LOANS AND OTHER LOSSES

Accounting policy

The Bank and Group recognise the changes in the impairment provisions for loans and receivables, which are assessed as per Sri Lanka Accounting Standard - LKAS 39 on "Financial Instruments : Recognition and Measurement". The methodology adopted for impairment is explained in Note 31 (b) to the financial statements. The Bank also makes provisions/(write-backs) for impairment of financial investments - available-for-sale and financial investments - loans and receivables when there is a permanent diminution in the carrying value of these investments. Further, the Bank/Group recognises an impairment loss when the carrying amount of a non-financial asset exceeds the estimated recoverable amount from that asset.

For the year ended 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Loans and receivables to customers				
Individual impairment	700,325	617,546	758,672	625,374
Collective impairment	137,386	1,688,681	169,225	1,704,719
Direct write offs	2,421	970	2,421	970
Others	40,551	183,458	40,551	183,458
Financial investments - available-for-sale	12,384	7,311	12,384	7,311
Financial investments - loans and receivables	(711)	(6,446)	(711)	(6,446)
Property, plant and equipment (Note 38)	39,569	-	39,569	8,203
Advance payment on software	-	-	-	9,219
	931,925	2,491,520	1,022,111	2,532,808

15 PERSONNEL EXPENSES

Accounting policy

Personnel expenses include salaries and bonus, terminal benefit charges and other related expenses. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans, if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Employees are eligible for Employees' Provident Fund (EPF) contributions and Employees' Trust Fund (ETF) contributions in accordance with the respective statutes and regulations.

Defined benefit plan contributions and changes in the liabilities for EPF interest guarantee and accumulated leave are recognised in the statement of profit or loss based on actuarial valuations carried out in accordance with Sri Lanka Accounting Standard - LKAS 19 on "Employee Benefits".

For the year ended 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Salaries and bonus	6,552,778	5,759,017	7,604,361	6,374,439
Contributions to Employees' Provident Fund	519,905	475,700	615,905	523,807
Contributions to Employees' Trust Fund	129,965	118,640	153,965	130,666
Contribution to defined benefit plan [Note 15 (a)]	404,951	496,131	460,833	521,761
Increase in liability for EPF interest guarantee	15,877	4,079	15,877	4,079
Increase / (decrease) in liability for accumulated leave	(3,244)	(13,339)	(3,244)	(13,339)
Others	307,463	566,787	307,463	566,787
	7,927,695	7,407,015	9,155,160	8,108,200

15 PERSONNEL EXPENSES (CONTD.)

15 (a) Contribution to Defined Benefit Plan

For the year ended 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Current service cost	546,842	507,915	546,842	507,915
Interest on obligation	1,062,533	1,127,245	1,062,533	1,127,245
Expected return on plan assets	(1,204,424)	(1,139,029)	(1,204,424)	(1,139,029)
Provision for gratuities	-	-	55,882	25,630
	404,951	496,131	460,833	521,761

16 BENEFITS, CLAIMS AND UNDERWRITING EXPENDITURE

Accounting policy

Gross Benefits and Claims

Life Insurance Business

Claims by death and maturity are charged against revenue on notification of death or on expiry of the term. The interim payments and surrenders are accounted for only at the time of settlement.

Expenses on life insurance relates to the acquisition expenses and expenses for maintenance of life insurance business, investment related expenses not treated as part of the capital cost of investment, etc which are accounted on accrual basis.

General Insurance Business

General insurance claims include all claims occurring during the year, whether reported or not, together with claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims.

The provision in respect of Claims Incurred But Not Reported (IBNR) and Claims Incurred But Not Enough Reported (IBNER) is actuarially valued to ensure a more realistic estimation of the future liability based on the past experience and trends. Actuarial valuations are performed on a semi-annual basis.

Whilst the directors of HNB Assurance PLC, subsidiary of the Bank consider that the provisions for claims are fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustments to the amounts provided. Such amounts are reflected in the financial statements for that period.

The methods used to estimate claims and the estimates made are reviewed regularly.

Reinsurance Claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

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 within deferred acquisition costs.

Notes to the Financial Statements

16 BENEFITS, CLAIMS AND UNDERWRITING EXPENDITURE (CONTD.)

	Group	
	2015 Rs 000	2014 Rs 000
Net insurance benefits and claims paid	1,984,358	1,528,233
Net change in insurance claims outstanding	133,431	44,871
Change in contract liabilities - Life fund	1,462,100	1,192,273
Underwriting and net acquisition costs	632,107	474,826
	4,211,996	3,240,203

17 OTHER EXPENSES

Accounting policy

Other operating expenses are recognised in the statement of profit or loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and maintaining the property, plant and equipment in a state of efficiency has been charged to the statement of profit or loss in arriving at the profit of 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	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Advertising and related expenses	270,024	273,886	372,254	353,627
Auditors' remuneration [Note 17 (a)]	14,793	14,180	24,872	19,627
Amortisation of intangible assets (Note 39)	220,613	296,636	244,835	315,839
Amortisation of leasehold property	96,460	108,150	96,460	108,150
Depreciation of investment property (Note 37)	5,445	5,400	4,810	4,778
Depreciation of property, plant and equipment	644,078	716,810	904,939	902,084
Direct operating expenses on investment property	3,562	3,142	4,982	9,163
Debenture issue expenses	-	9,898	-	9,898
Deposit insurance premium	448,503	378,545	460,218	378,545
Directors' emoluments	86,905	68,666	96,581	71,565
Donations	12,819	1,160	19,110	2,059
Crop insurance levy	108,379	81,831	118,288	84,774
Legal expenses and professional fees	79,188	75,112	84,374	76,592
Operational risk event losses	81,397	11,315	81,397	11,315
Office administration and establishment expenses	4,908,351	5,092,105	4,979,948	4,932,339
Other overhead expenses	1,070,422	834,164	1,600,068	1,105,437
	8,050,939	7,971,000	9,093,136	8,385,792
17 (a) Auditors' Remuneration				
Audit fees and expenses	10,283	9,850	19,709	14,458
Audit related fee and expenses	1,458	1,440	2,111	2,279
Non-audit expenses	3,052	2,890	3,052	2,890
	14,793	14,180	24,872	19,627

18 VALUE ADDED TAX (VAT) AND NATION BUILDING TAX (NBT) ON FINANCIAL SERVICES

The base of the calculation of Value Added Tax (VAT) and Nation Building Tax (NBT) on financial services is the operating profit before value added tax and nation building tax on financial services adjusted for emoluments of employees and economic depreciation. The applicable VAT rate is 11% (2014 - 12%) and NBT rate is 2% (2014 - 2%).

18 VALUE ADDED TAX (VAT) AND NATION BUILDING TAX (NBT) ON FINANCIAL SERVICES (CONTD.)

For the year ended 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Value added tax on financial services	2,381,359	2,149,971	2,590,622	2,191,591
Nation building tax on financial services	432,975	351,905	471,161	358,656
	2,814,334	2,501,876	3,061,783	2,550,247

19 SHARE OF PROFITS OF ASSOCIATE AND JOINT VENTURE (NET OF INCOME TAX)

Accounting policy

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

For the year ended 31st December	Group	
	2015 Rs 000	2014 Rs 000
Share of profits of associate before income tax	-	2,148
Income tax on share of operating results of associate	-	(485)
Share of profits of associate (net of income tax) [Note 19 (a)]	-	1,663
Share of profits of joint venture before income tax	75,072	176,347
Income tax on share of operating results of joint venture	(14,987)	(35,033)
Share of profits of joint venture (net of income tax) [Note 35 (b)]	60,085	141,314
Share of profits of associate and joint venture (net of income tax)	60,085	142,977

19 (a) Share of profit of associate (net of income tax) Splendor Media (Pvt) Ltd

The Group's investment in associate company, Splendor Media (Pvt) Ltd, held through Sithma Development (Pvt) Ltd, Bank's fully owned subsidiary was disposed on 7th November 2014.

20 INCOME TAX EXPENSE

Accounting policy

As per Sri Lanka Accounting Standard - LKAS 12 on "Income taxes", tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognised in the statement of profit or loss, except to the extent it relates to items recognised directly in Other Comprehensive Income (OCI), in which case it is recognised in OCI.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No 10 of 2006 and the amendments thereto, at the rates specified below.

Applicable Income Tax Rates

Hatton National Bank PLC	28%
HNB Assurance PLC and its subsidiary HNB General Insurance Ltd	28%
HNB Grameen Finance Ltd	28%

Sithma Development (Pvt) Ltd

In accordance with the BOI agreement dated 18th June 1999, the profits and income of Sithma Development (Pvt) Ltd are exempt from income tax until 24th January 2018. After the expiration of the said tax exemption period, the provisions of the Inland Revenue regulations for the time being in force shall apply to the company.

Notes to the Financial Statements

20 INCOME TAX EXPENSE (CONTD.)

20 (a) Current Tax Expense

For the year ended 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Current tax on profit for the year	3,888,177	2,980,204	4,208,488	3,051,825
Notional tax unutilised during the year	-	-	29,383	-
Under / (over) provision in previous years	-	(361,267)	-	(361,267)
	3,888,177	2,618,937	4,237,871	2,690,558

20 (b) Deferred Tax Expense

Recognition of deferred tax liability [Note 49 (a) i and 49 (a) ii]	665,240	278,032	798,092	311,743
Recognition of deferred tax asset [Note 49 (b)]	47,814	161,686	28,461	78,059
	713,054	439,718	826,553	389,802
Total income tax expense [Note 20 (d)]	4,601,231	3,058,655	5,064,424	3,080,360
Effective tax rate	30.57%	25.35%	31.34%	23.43%
Effective tax rate (excluding deferred tax)	25.84%	21.71%	26.22%	20.47%

20 (c) Current Tax on Profit for the year - Subsidiaries

Sithma Development (Pvt)Ltd		4,941	-
HNB Assurance PLC		29,383	12,012
HNB Grameen Finance Ltd		315,370	59,609
Total		349,694	71,621

20 (d) Reconciliation of Effective Tax Rate

For the year ended 31st December	Bank				Group			
	%	2015 Rs 000	%	2014 Rs 000	%	2015 Rs 000	%	2014 Rs 000
Profit before income tax		15,050,017		12,063,929		16,160,268		13,148,453
Tax using the corporate tax rate	28.00	4,214,005	28.00	3,377,900	28.00	4,524,874	28.00	3,681,567
Disallowable expenses	10.66	1,604,802	8.19	987,585	11.71	1,891,762	8.79	1,155,584
Tax effects on:								
Allowable expenses	(25.56)	(3,846,713)	(28.40)	(3,426,177)	(26.20)	(4,233,463)	(26.71)	(3,512,157)
Tax exempt income	(8.52)	(1,282,583)	(5.24)	(631,763)	(8.31)	(1,343,639)	(6.72)	(884,041)
Adjustments for leasing	21.25	3,198,666	22.15	2,672,659	19.79	3,198,666	20.33	2,672,659
Tax loss incurred during the year	-	-	-	-	1.89	306,006	-	-
Tax loss utilised	-	-	-	-	(0.84)	(135,718)	(0.47)	(61,787)
Current tax on profits for the year	25.84	3,888,177	24.70	2,980,204	26.04	4,208,488	23.22	3,051,825
Notional tax unutilised during the year	-	-	-	-	0.18	29,383	-	-
Over provision in prior years	-	-	(2.99)	(361,267)	-	-	(2.75)	(361,267)
Current tax expense [Note 20 (a)]	25.84	3,888,177	21.71	2,618,937	26.22	4,237,871	20.47	2,690,558
Recognition of deferred tax liability on temporary differences	4.42	665,240	2.30	278,032	4.94	798,092	2.37	311,743
Recognition of deferred tax asset on temporary differences	0.32	47,814	1.34	161,686	0.81	28,461	0.59	78,059
Total income tax expense [Note 20 (b)]	30.57	4,601,231	25.35	3,058,655	31.34	5,064,424	23.43	3,080,360

20 (e) Tax Losses Brought Forward and Utilised during the Year

For the year ended 31st December	Group	
	2015 Rs 000	2014 Rs 000
Balance as at 1st January	326,125	23,835
Adjustment for brought forward tax losses	2,804,013	-
Increase in tax losses from acquisition of subsidiary	-	522,958
Tax losses incurred during the year	1,092,878	-
Tax losses utilised during the year	-	(220,668)
Tax losses not utilised and carried forward	4,223,016	326,125

21 EARNINGS PER SHARE

The Bank/Group presents basic and diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees as per Sri Lanka Accounting Standard - LKAS 33 on "Earnings per Share".

21 (a) Basic Earnings per Share

	Bank		Group	
	2015	2014	2015	2014
Amount used as the numerator				
Profit attributable to equity holders of the Bank (Rs 000)	10,448,786	9,005,274	10,553,568	9,819,595
Number of ordinary shares used as the denominator				
Weighted average number of ordinary shares outstanding during the year used as the denominator for basic EPS ('000)	404,496	400,798	404,496	400,798
Basic earnings per ordinary share (Rs)	25.83	22.47	26.09	24.50

21 (b) Diluted Earnings per Share

	Bank		Group	
	2015	2014	2015	2014
Amount used as the numerator				
Profit attributable to equity holders of the Bank (Rs 000)	10,448,786	9,005,274	10,553,568	9,819,595
Number of ordinary shares used as the denominator				
Weighted average number of ordinary shares outstanding during the year used as the denominator for basic EPS ('000)	404,496	400,798	404,496	400,798
Effect of dilution:				
Weighted average number of potential ordinary shares outstanding under ESOP ('000)	4,649	8,773	4,649	8,773
Weighted average number of potential ordinary shares that would have been issued at average market price ('000)	(2,953)	(7,007)	(2,953)	(7,007)
Weighted average number of potential ordinary shares that would have been issued for zero consideration under ESOP	1,696	1,766	1,696	1,766
Weighted average number of ordinary shares outstanding during the year used as the denominator for diluted EPS ('000)	406,192	402,564	406,192	402,564
Diluted earnings per ordinary share (Rs)	25.72	22.37	25.98	24.39

22 DIVIDENDS PAID AND PROPOSED

	2015			2014		
	Gross Dividend Rs 000	Dividend Tax Rs 000	Net Dividend Rs 000	Gross Dividend Rs 000	Dividend Tax Rs 000	Net Dividend Rs 000
Interim dividends paid						
Rs 1.50 cash dividend per share declared and paid in 2014	-	-	-	602,939	26,496	576,443
Rs 1.50 cash dividend per share declared and paid in 2015	608,548	-	608,548	-	-	-
Final dividends paid						
Rs 7.00 cash dividend per share declared in 2013 and paid in 2014	-	-	-	2,800,912	277,092	2,523,820
Rs 7.00 cash dividend per share declared in 2014 and paid in 2015	2,827,776	278,995	2,548,781	-	-	-
Total dividends paid	3,436,324	278,995	3,157,329	3,403,851	303,588	3,100,263

Notes to the Financial Statements

22 DIVIDENDS PAID AND PROPOSED (CONTD.)

22 (a) Proposed Dividends

The directors recommend that a final dividend of Rs 7.00 per share by way of Rs 3.50 cash and Rs 3.50 scrip (2014 : Rs 7.00 per share) on both voting and non-voting shares of the Bank, be paid for the financial year ended 31st December 2015.

Further this dividend is to be approved at the Annual General Meeting to be held on 30th March 2016. In accordance with Sri Lanka Accounting Standard - LKAS 10 on "Events after the reporting period", this proposed final dividend has not been recognised as a liability as at 31st December 2015. In accordance with the Inland Revenue Act No 10 of 2006, a withholding tax of 10% has been imposed on dividends declared. An interim dividend of Rs 1.50 per share (2014 : Rs 1.50) was paid to the shareholders on 14th December 2015. Final dividends proposed for the year 2015 amounts to Rs 2,840.75 Mn (2014 : Rs 2,827.77 Mn).

23 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

The carrying amounts of financial instruments by category as defined in Sri Lanka Accounting Standard - LKAS 39 on "Financial Instruments - Recognition and Measurement" under headings of the statement of financial position are summarised below.

23 (a) Analysis of Financial Instruments by Measurement Basis - Bank

As at 31st December 2015

	Held for Trading	Amortised Cost	Available- for-Sale	Total Carrying Amount
	Rs 000	Rs 000	Rs 000	Rs 000
Assets				
Cash and cash equivalents	-	14,909,598	-	14,909,598
Balances with Central Bank of Sri Lanka	-	20,096,090	-	20,096,090
Placements with banks	-	26,827	-	26,827
Reverse repurchase agreements	-	4,869,219	-	4,869,219
Derivative financial instruments	1,302,872	-	-	1,302,872
Financial investments - fair value through profit or loss	593,390	-	-	593,390
Loans and receivables to customers	-	498,341,628	-	498,341,628
Financial investments - available-for-sale	-	-	78,046,505	78,046,505
Financial investments - loans and receivables	-	84,206,702	-	84,206,702
Other assets	-	1,565,169	-	1,565,169
Total financial assets	1,896,262	624,015,233	78,046,505	703,958,000

	Held for Trading	Amortised Cost	Available- for-Sale	Total Carrying Amount
	Rs 000	Rs 000	Rs 000	Rs 000
Liabilities				
Due to banks	-	58,232,034	-	58,232,034
Derivative financial instruments	304,485	-	-	304,485
Securities sold under repurchase agreements	-	16,630,201	-	16,630,201
Due to customers	-	527,126,181	-	527,126,181
Other borrowings	-	26,833,109	-	26,833,109
Debt securities issued	-	4,490,742	-	4,490,742
Subordinated term debts	-	12,064,370	-	12,064,370
Dividends payable	-	764,771	-	764,771
Other liabilities	-	278,585	-	278,585
Total financial liabilities	304,485	646,419,993	-	646,724,478

23 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

23 (a) Analysis of Financial Instruments by Measurement Basis - Bank (Contd.)

As at 31st December 2014

	Held for Trading	Amortised Cost	Available- for-Sale	Total Carrying Amount
	Rs 000	Rs 000	Rs 000	Rs 000
Assets				
Cash and cash equivalents	-	13,141,295	-	13,141,295
Balances with Central Bank of Sri Lanka	-	16,907,538	-	16,907,538
Placements with banks	-	3,789,538	-	3,789,538
Reverse repurchase agreements	-	16,930,572	-	16,930,572
Derivative financial instruments	178,370	-	-	178,370
Financial investments - fair value through profit or loss	551,371	-	-	551,371
Loans and receivables to customers	-	396,277,166	-	396,277,166
Financial investments - available-for-sale	-	-	67,842,229	67,842,229
Financial investments - loans and receivables	-	35,369,035	-	35,369,035
Other assets	-	1,954,191	-	1,954,191
Total financial assets	729,741	484,369,335	67,842,229	552,941,305

	Held for Trading	Amortised Cost	Available- for-Sale	Total Carrying Amount
	Rs 000	Rs 000	Rs 000	Rs 000
Liabilities				
Due to banks	-	43,428,762	-	43,428,762
Derivative financial instruments	630,598	-	-	630,598
Securities sold under repurchase agreements	-	16,983,545	-	16,983,545
Due to customers	-	419,327,123	-	419,327,123
Other borrowings	-	4,345,285	-	4,345,285
Debt securities issued	-	4,451,407	-	4,451,407
Subordinated term debts	-	11,653,759	-	11,653,759
Dividends payable	-	587,078	-	587,078
Other liabilities	-	373,925	-	373,925
Total financial liabilities	630,598	501,150,884	-	501,781,482

Notes to the Financial Statements

23 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

23 (b) Analysis of Financial Instruments by Measurement Basis - Group

As at 31st December 2015

	Held for Trading	Held to Maturity	Amortised Cost	Available- for-Sale	Total Carrying Amount
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Assets					
Cash and cash equivalents	-	-	15,419,654	-	15,419,654
Balances with Central Bank of Sri Lanka	-	-	20,096,090	-	20,096,090
Placements with banks	-	-	1,174,326	-	1,174,326
Reverse repurchase agreements	-	-	7,782,374	-	7,782,374
Derivative financial instruments	1,302,872	-	-	-	1,302,872
Financial investments - fair value through profit or loss	1,948,772	-	-	-	1,948,772
Loans and receivables to customers	-	-	507,244,329	-	507,244,329
Financial investments - available-for-sale	-	-	-	79,718,231	79,718,231
Financial investments - held to maturity	-	1,257,433	-	-	1,257,433
Financial investments - loans and receivables	-	-	87,087,205	-	87,087,205
Other assets	-	-	1,703,598	-	1,703,598
Total financial assets	3,251,644	1,257,433	640,507,576	79,718,231	724,734,884
Liabilities					
Due to banks	-	-	58,283,838	-	58,283,838
Derivative financial instruments	304,485	-	-	-	304,485
Securities sold under repurchase agreements	-	-	16,630,201	-	16,630,201
Due to customers	-	-	536,132,789	-	536,132,789
Other borrowings	-	-	26,833,109	-	26,833,109
Debt securities issued	-	-	4,913,751	-	4,913,751
Subordinated term debts	-	-	12,085,598	-	12,085,598
Dividends payable	-	-	764,771	-	764,771
Other liabilities	-	-	715,537	-	715,537
Total financial liabilities	304,485	-	656,359,594	-	656,664,079

As at 31st December 2014

	Held for Trading	Held to Maturity	Amortised Cost	Available- for-Sale	Total Carrying Amount
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Assets					
Cash and cash equivalents	-	-	13,421,850	-	13,421,850
Balances with Central Bank of Sri Lanka	-	-	16,907,538	-	16,907,538
Placements with banks	-	-	5,096,455	-	5,096,455
Reverse repurchase agreements	-	-	19,575,253	-	19,575,253
Derivative financial instruments	178,370	-	-	-	178,370
Financial investments - fair value through profit or loss	1,052,727	-	-	-	1,052,727
Loans and receivables to customers	-	-	401,859,754	-	401,859,754
Financial investments - available-for-sale	-	-	-	69,443,057	69,443,057
Financial investments - held to maturity	-	955,421	-	-	955,421
Financial investments - loans and receivables	-	-	38,049,100	-	38,049,100
Other assets	-	-	2,154,664	-	2,154,664
Total financial assets	1,231,097	955,421	497,064,614	69,443,057	568,694,189

23 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

23 (b) Analysis of Financial Instruments by Measurement Basis - Group (Contd.)

As at 31st December 2014

	Held for Trading	Held to Maturity	Amortised Cost	Available for Sale	Total Carrying Amount
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Liabilities					
Due to banks	-	-	43,504,729	-	43,504,729
Derivative financial instruments	630,598	-	-	-	630,598
Securities sold under repurchase agreements	-	-	16,983,545	-	16,983,545
Due to customers	-	-	425,620,382	-	425,620,382
Other borrowings	-	-	4,345,285	-	4,345,285
Debt securities issued	-	-	4,842,627	-	4,842,627
Subordinated term debts	-	-	11,677,046	-	11,677,046
Dividends payable	-	-	587,078	-	587,078
Other liabilities	-	-	832,552	-	832,552
Total financial liabilities	630,598	-	508,393,244	-	509,023,842

24 CASH AND CASH EQUIVALENTS

Accounting policy

Cash and cash equivalents include cash in hand and balances with banks. These are brought to financial statements at their face values or gross values. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Local currency in hand	11,473,785	11,560,814	11,543,049	11,580,610
Foreign currency in hand	1,083,074	484,835	1,087,975	484,835
Balances with banks	2,352,739	1,095,646	2,788,630	1,356,405
	14,909,598	13,141,295	15,419,654	13,421,850

All cash and cash equivalent balances held by the Group entities were available for use by the Group.

25 BALANCES WITH CENTRAL BANK OF SRI LANKA

Balances with Central Bank of Sri Lanka represent the cash balance that is required to be maintained as per the provisions of Section 93 of the Monetary Law Act. The minimum cash reserve requirement on rupee deposit liabilities was 6% as at 31st December 2015 (2014 : 6%).

There are no reserve requirements for deposit liabilities of the Foreign Currency Banking Unit (FCBU) and foreign currency deposit liabilities in the Domestic Banking Unit (DBU).

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Statutory balance with Central Bank of Sri Lanka	20,096,090	16,907,538	20,096,090	16,907,538
	20,096,090	16,907,538	20,096,090	16,907,538

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 changes in their fair value, and are used by the Group and the Bank in the management of its short term commitments. These are brought to financial statements at their face values or gross values.

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Placements - within Sri Lanka	-	3,285,708	1,147,499	4,592,625
Placements - outside Sri Lanka	26,827	503,830	26,827	503,830
	26,827	3,789,538	1,174,326	5,096,455

27 REVERSE REPURCHASE AGREEMENTS

Accounting policy

Securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within "reverse repurchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the Effective Interest Rate (EIR).

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Securities purchased under reverse repurchase agreements				
With banks	4,809,802	16,871,964	4,809,802	16,871,964
With customers	59,417	58,608	2,972,572	2,703,289
	4,869,219	16,930,572	7,782,374	19,575,253

28 DERIVATIVE FINANCIAL INSTRUMENTS

Accounting policy

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as trading unless they are designated as hedging instruments. The Bank uses derivatives such as forward foreign exchange contracts and currency swaps. Bank has not designated any derivatives as hedging instruments and has not followed hedge accounting as at the reporting date. All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains or losses recognised in the statement of profit or loss under "Net gain / (loss) from trading" (Note 10). Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fair value is determined using the forward market rates ruling on the reporting date.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities.

As at 31st December	Bank/Group			
	2015		2014	
	Assets Rs 000	Liabilities Rs 000	Assets Rs 000	Liabilities Rs 000
Currency swaps				
Sales	537	21,815	2,133	5,119
Purchases	1,163,024	69,676	21,267	510,377
Forward foreign exchange contracts				
Sales	5,857	208,417	152,175	23,157
Purchases	133,454	4,577	2,795	91,945
	1,302,872	304,485	178,370	630,598

29 FINANCIAL INVESTMENTS - FAIR VALUE THROUGH PROFIT OR LOSS

Accounting policy

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short term profit or position taking.

Financial assets held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in "net gain / (loss) from trading" (Note 10). Interest income is recorded in "Interest income" and dividend income are recorded in "net gain / (loss) from trading" (Note 10) according to the terms of the contract, or when the right to receive the payment is been established.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets.

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.

As at 31st December

	2015 Fair Value Rs 000	2014 Fair Value Rs 000
Quoted shares - Bank [Note 29 (a)]	593,390	544,283
Government of Sri Lanka treasury bills - Bank [Note 29 (b)]	-	5,404
Government of Sri Lanka treasury bonds - Bank [Note 29 (c)]	-	1,684
Total financial investments - fair value through profit or loss - Bank	593,390	551,371
Quoted shares - Subsidiaries [Note 29 (d)]	236,299	245,740
Government of Sri Lanka treasury bonds - Subsidiaries [Note 29 (e)]	878,676	15,683
Quoted units in unit trusts - Subsidiaries [Note 29 (f)]	10,708	10,308
Unquoted units in unit trusts - Subsidiaries [Note 29 (g)]	229,699	229,625
Total financial investments fair value through profit or loss - Subsidiaries	1,355,382	501,356
Total financial investments fair value through profit or loss - Group	1,948,772	1,052,727

Notes to the Financial Statements

29 FINANCIAL INVESTMENTS - FAIR VALUE THROUGH PROFIT OR LOSS (CONTD.)

29 (a) Quoted Shares Held by the Bank

As at 31st December	2015				2014			
	No of Ordinary Shares	Cost of Investment Rs 000	% of Total Cost	Fair Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	% of Total Cost	Fair Value Rs 000
Banks, Finance and Insurance								
Ceylinco Insurance PLC	34,000	23,035	3.76	27,200	-	-	-	-
Commercial Bank of Ceylon PLC	193,000	30,445	4.98	27,059	-	-	-	-
National Development Bank PLC	250,000	65,925	10.77	48,525	250,000	65,925	11.91	62,500
Nations Trust Bank PLC	-	-	-	-	294,354	28,700	5.19	28,552
Peoples Leasing and Finance PLC	1,000,000	21,000	3.43	22,000	1,000,000	21,000	3.79	24,500
Sampath Bank PLC	296,201	73,120	11.95	73,458	263,634	65,487	11.82	62,297
Sector Total		213,525		198,242		181,112		177,849
Beverage, Food and Tobacco								
Cargills (Ceylon) PLC	73,982	12,207	2.00	13,983	73,982	12,207	2.20	11,319
Ceylon Cold Stores PLC	11,000	4,449	0.73	4,638	-	-	-	-
Distilleries Company of Sri Lanka PLC	274,019	60,591	9.90	67,409	190,019	40,896	7.38	39,904
Sector Total		77,247		86,030		53,103		51,223
Chemicals and Pharmaceuticals								
Chemical Industries (Colombo) PLC	616,396	53,010	8.66	61,825	676,396	58,170	10.50	57,494
Sector Total		53,010		61,825		58,170		57,494
Construction and Engineering								
Access Engineering PLC	14,275	472	0.08	330	1,528,500	50,529	9.12	49,065
Sector Total		472		330		50,529		49,065
Diversified Holdings								
Aitken Spence PLC	400,030	43,987	7.19	38,683	150,030	16,385	2.96	15,528
Ceylon Theatres PLC	25,000	4,013	0.66	3,500	25,000	4,013	0.72	3,575
John Keells Holdings PLC	227,156	50,307	8.22	40,456	198,762	50,307	9.08	49,691
Softlogic Holdings PLC	544,065	8,275	1.35	8,433	-	-	-	-
Sunshine Holdings PLC	669,661	31,809	5.20	35,626	669,661	31,809	5.74	36,162
Sector Total		138,391		126,698		102,514		104,956
Footwear and Textiles								
Hayleys Mgt Knitting Mills PLC	-	-	-	-	82,657	1,496	0.27	1,438
Hayleys Fabrics PLC	82,657	1,496	0.24	1,852	-	-	-	-
Sector Total		1,496		1,852		1,496		1,438
Hotels and Travels								
AHOT Properties	207,476	14,918	2.44	12,262	207,476	14,918	2.69	14,067
Aitken Spence Hotel Holdings PLC	575,301	45,998	7.52	39,120	425,301	36,139	6.52	33,386
Sector Total		60,916		51,382		51,057		47,453
Manufacturing								
Ceylon Grain Elevators PLC	-	-	-	-	651,844	28,681	5.18	26,726
Sector Total		-		-		28,681		26,726
Motors								
United Motors Lanka PLC	187,643	19,796	3.24	17,244	187,643	19,796	3.57	19,440
Sector Total		19,796		17,244		19,796		19,440

29 FINANCIAL INVESTMENTS - FAIR VALUE THROUGH PROFIT OR LOSS (CONTD.)

29 (a) Quoted Shares Held by the Bank (Contd.)

As at 31st December	2015				2014			
	No of Ordinary Shares	Cost of Investment Rs 000	% of Total Cost	Fair Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	% of Total Cost	Fair Value Rs 000
Power & Energy								
Vallibel Power Erathna PLC	977,555	6,122	1.00	8,700	1,200,000	7,515	1.36	8,639
Sector Total		6,122		8,700		7,515		8,639
Telecommunication								
Dialog Axiata PLC	3,840,000	40,876	6.68	41,087	-	-	-	-
Sector Total		40,876		41,087		-		-
Total		611,851	100.00	593,390		553,973	100.00	544,283
Unrealised loss from marked to market valuation		(18,461)				(9,690)		
Total quoted shares - Bank		593,390		593,390		544,283		544,283

29 (b) Government of Sri Lanka Treasury Bills Held by the Bank

As at 31st December Year of Maturity	2015		2014	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
2015	-	-	5,408	5,404
Unrealised loss from marked to market valuation	-	-	(4)	-
Total government of Sri Lanka treasury bills - Bank	-	-	5,404	5,404

29 (c) Government of Sri Lanka Treasury Bonds Held by the Bank

As at 31st December Year of Maturity	2015		2014	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
2015	-	-	1,675	1,684
Unrealised gain from marked to market valuation	-	-	9	-
Total government of Sri Lanka treasury bonds - Bank	-	-	1,684	1,684

Notes to the Financial Statements

29 FINANCIAL INVESTMENTS - FAIR VALUE THROUGH PROFIT OR LOSS (CONTD.)

29 (d) Quoted shares Held by the Subsidiaries

As at 31st December	2015				2014			
	No of Shares	Cost of Investment Rs 000	% of Total Cost	Fair Value Rs 000	No of Shares	Cost of Investment Rs 000	% of Total Cost	Fair Value Rs 000
Banks, Finance and Insurance								
National Development Bank PLC	78,200	9,519	4.64	15,179	78,200	9,519	5	19,550
Sampath Bank PLC	80,477	17,088	8.33	19,958	78,422	17,088	8.40	18,531
Nations Trust Bank PLC	253,261	17,120	8.35	21,856	253,261	17,120	8.42	24,566
DFCC Bank PLC	30,000	3,765	1.84	5,043	30,000	3,765	1.85	6,570
Peoples Leasing & Finance PLC	912,800	16,430	8.01	20,082	912,800	16,430	8.08	22,364
Seylan Bank PLC - (Non Voting)	390,283	14,636	7.13	28,491	390,283	14,636	7.20	22,440
Sector Total		78,558		110,609		78,558		114,021
Beverage Food and Tobacco								
Distilleries Company of Sri Lanka PLC	60,000	10,648	5.19	14,760	60,000	10,648	5.24	12,600
Sector Total		10,648		14,760		10,648		12,600
Diversified Holdings								
John Keells Holdings PLC	54,278	10,185	4.96	9,667	47,494	10,185	5.01	11,874
Richard Peiris and Company PLC	962,851	13,457	6.56	8,184	962,851	13,457	6.62	8,184
Hemas Holdings PLC	-	-	-	-	71,700	3,331	1.64	5,327
Vallibel One PLC	375,000	6,764	3.30	8,063	375,000	6,764	3.33	8,963
Sector Total		30,406		25,914		33,737		34,348
Manufacturing								
Royal Ceramic Lanka PLC	128,000	19,819	9.66	14,234	128,000	19,819	9.75	14,963
Dipped Products PLC	34,220	4,061	1.98	3,764	-	-	-	-
ACL Cables PLC	93,400	7,570	3.69	11,292	50,000	3,555	1.75	3,820
Tokyo Cement Company (Lanka) PLC	435,604	19,072	9.30	21,345	461,359	20,176	9.92	29,942
Kelani Cables PLC	44,300	5,035	2.45	5,679	44,300	5,035	2.48	3,960
Sector Total		55,557		56,314		48,585		52,685
Hotels and Travels								
Palm Garden Hotels PLC	23,000	4,537	2.21	876	23,000	4,537	2.23	1,840
Dolphin Hotels PLC	-	-	-	-	19,500	1,829	0.90	2,789
Sector Total		4,537		876		6,366		4,629
Chemicals and Pharmaceuticals								
CIC Holdings PLC	185,000	15,731	7.67	18,556	185,000	15,731	7.74	15,725
Haycarb PLC	20,500	3,547	1.73	3,380	20,500	3,547	1.74	3,547
Sector Total		19,278		21,936		19,278		19,272
Construction and Engineering								
Access Engineering PLC	255,000	6,163	3.00	5,890	255,000	6,163	3.03	8,186
Sector Total		6,163		5,890		6,163		8,186
Total		205,147		236,299		203,335		245,741
Unrealised gain /(loss)								
from marked to market valuation		31,152				42,405		
Total quoted shares - Subsidiaries		236,299		236,299		245,740		245,741

29 FINANCIAL INVESTMENTS - FAIR VALUE THROUGH PROFIT OR LOSS (CONTD.)

29 (e) Government of Sri Lanka Treasury Bonds Held by Subsidiaries

Year of Maturity	2015		2014	
	Cost of Investment	Fair Value	Cost of Investment	Fair Value
	Rs 000	Rs 000	Rs 000	Rs 000
2018	685,695	699,014	16,370	15,683
2021	16,837	15,738		
2022	182,108	163,924		
Unrealised loss from marked to market valuation	(5,964)		(687)	-
Total Government of Sri Lanka treasury bonds - Subsidiaries	878,676	878,676	15,683	15,683

29 (f) Quoted Units in Unit Trusts Held by Subsidiaries

	2015			2014		
	No of Units	Cost of Investment	Fair Value	No of Units	Cost of Investment	Fair Value
		Rs 000	Rs 000		Rs 000	Rs 000
Namal Acuity Value Fund	114,400	7,203	10,708	114,400	7,203	10,308
Unrealised gain from marked to market valuation		3,505			3,105	
Total quoted units - Subsidiaries		10,708	10,708		10,308	10,308

29 (g) Unquoted Units in Unit Trusts Held by Subsidiaries

	2015			2014		
	No of Units	Cost of Investment	Fair Value	No of Units	Cost of Investment	Fair Value
		Rs 000	Rs 000		Rs 000	Rs 000
Cey Bank	1,800,000	18,000	18,577	1,800,000	18,000	18,797
FC Wealth Fund	56,111	64,000	67,437	56,111	64,000	70,788
Ceylon Income Fund	2,686,703	35,000	36,700	2,686,703	35,000	37,721
Guardian Acuity Fixed Income Fund	4,155,034	45,000	51,772	4,155,034	45,000	49,777
Comtrust Money Market Fund	383,877	4,000	4,498	383,877	4,000	4,375
Comtrust ADL Mudarbah Fund	96,781	1,000	976	96,781	1,000	1,015
Eagle Income Fund	989,198	10,000	10,331	969,932	10,000	10,213
Namal High Yield Fund	2,686,567	27,000	39,408	2,686,567	27,000	36,939
Total		204,000	229,699		204,000	229,625
Unrealised gain from marked to market valuation		25,699			25,625	
Total unquoted units in unit trusts - Subsidiaries		229,699	229,699		229,625	229,625

Notes to the Financial Statements

30 NON CURRENT ASSETS HELD FOR SALE

Accounting policy

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as "held-for-sale". These are assets which are available for immediate sale in their present condition, subject to only the terms that are usual and customary for sale of such assets. Their sale is highly probable and the management has committed to the sale and the sale is expected to have been completed within one year from the date of classification.

Non-current assets held for sale are presented separately on the statement of financial position at the lower of its carrying amount and fair value less costs to sell. Thereafter, the Group assesses at each reporting date or more frequently, if events or changes in circumstances indicate that the investment is impaired. The Group recognises an impairment loss for any initial or subsequent write down of the assets to fair value less cost to sell and also recognises a gain for any subsequent increase in fair value less cost to sell of an asset, only to the extent of the cumulative impairment losses that have been recognised previously. Impairment losses on initial classification as held for sale and subsequent gains and losses on re-measurement are recognised in the statement of profit or loss.

Assets classified as non-current assets held for sale are neither amortised nor depreciated.

In the statement of profit or loss, income and expenses from discontinued operations (if any) are reported separately from income and expenses from continued operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of profit or loss.

As at 31st December	Bank/Group	
	2015 Rs 000	2014 Rs 000
Balance as at 1st January	30,238	-
Classified during the year	20,151	30,238
Disposed during the year	(30,238)	-
Balance as at 31st December	20,151	30,238

30 (a) Analysis of Non-current Assets held for sale

Freehold land and buildings

As at 31st December 2015

	Building sq.ft	Extent Perches	Carrying Value of Land Rs 000	Carrying Value of Buildings Rs 000	Total Rs 000	31st December 2014 Rs 000
12, Kandy Road, Gampola	-	-	-	-	-	30,238
Bank House - No 295/6, Dimbula Road, Hatton	5,496	16	11,760	8,391	20,151	-
	-	-	11,760	8,391	20,151	30,238

31 LOANS AND RECEIVABLES TO CUSTOMERS

Accounting policy

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at fair value through profit or loss
- Those that the Group, upon initial recognition, designates as available-for-sale
- Those for which the Group may not recover substantially all of its initial investment, other than due to credit deterioration

After initial measurement, loans and receivables are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the statement of profit or loss. The losses arising from impairment are recognised in 'impairment charge for loans and other losses' in the statement of profit or loss.

Write-off of loans and receivables

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. If a write-off is later recovered, the recovery is credited to "Impairment charge for loans and other losses".

Collateral Valuation

The Bank / Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting arrangements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's approved valuation policy.

To the extent possible, the Bank / Group uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent professional valuers.

Collaterals repossessed

The Bank / Group's policy is to sell the repossessed assets at the earliest possible opportunity. Such collaterals repossessed are held on a memorandum basis without de-recognising the underlying receivable.

Rescheduled Loans

Loans whose original terms have been modified including those subject to forbearance strategies are considered rescheduled loans. This may involve extending the payment arrangements and the agreement of new loan conditions. If the renegotiations are on terms that are not consistent with those readily available in the market, this provides objective evidence of impairment. Once the terms have been renegotiated, any impairment is measured using the EIR as calculated before the modification of terms and the loan/advance is no longer considered past due. Management continually reviews renegotiated loans and advances to ensure that all criteria are met and the future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Gross loans and receivables [Note 31 (a)]	509,525,467	406,931,444	518,586,177	413,223,520
Less: Individual impairment [Note 31 (b) i]	3,345,714	2,645,389	3,450,410	3,333,404
Collective impairment [Note 31 (b) ii]	7,838,125	8,008,889	7,891,438	8,030,362
Net loans and receivables	498,341,628	396,277,166	507,244,329	401,859,754

Notes to the Financial Statements

31 LOANS AND RECEIVABLES TO CUSTOMERS (CONTD.)

31 (a) Analysis of Loans and Advances

31 (a) i By Product

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Overdrafts	71,566,434	69,118,967	71,566,434	69,118,967
Bills of exchange	3,115,186	2,461,822	3,115,186	2,461,822
Commercial papers	161,270	161,631	161,270	161,631
Short term loans	50,881,880	40,664,653	50,973,872	40,735,735
Credit cards	4,548,111	3,913,915	4,548,111	3,913,915
Pawning advances	16,439,602	23,031,032	16,439,602	23,031,032
Trust receipts	23,669,721	17,867,491	23,669,721	17,867,491
Packing credit loans	9,416,979	9,394,865	9,416,979	9,394,865
Staff loans	10,875,391	9,699,851	11,339,787	10,013,163
Term loans	247,329,286	177,714,834	255,831,049	183,622,516
Lease and hire purchase receivable [Note 31 (c)]	40,341,596	24,482,873	40,344,155	24,482,873
Housing loans	30,808,329	27,622,481	30,808,329	27,622,481
Lease backed securities	371,682	797,029	371,682	797,029
Total gross loans and receivables (Note 31)	509,525,467	406,931,444	518,586,177	413,223,520

31 (a) ii By Currency

Sri Lankan Rupees	446,394,387	359,217,435	455,455,097	365,509,511
United States Dollars	61,821,575	46,245,581	61,821,575	46,245,581
Great Britain Pounds	473,270	480,545	473,270	480,545
Euros	558,902	859,807	558,902	859,807
Other currencies	277,333	128,076	277,333	128,076
Total gross loans and receivables (Note 31)	509,525,467	406,931,444	518,586,177	413,223,520

31 (b) Allowance for Impairment Losses

Accounting policy

The Group considers objective evidence of impairment for loans and advances to customers and held to maturity investments at both specific asset and collective level. All individually significant loans and advances to customers and held to maturity investments are first assessed for specific impairment. All individually significant loans and advances to customers and held to maturity investments found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment. Loans and advances to customers and held to maturity investments that are not individually significant are collectively assessed for impairment by grouping together loans and advances to customers and held to maturity investments with similar risk characteristics.

If there is objective evidence that an impairment loss has been incurred, impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If the loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. If the Group has reclassified trading assets to loans and receivables, the discount rate for measuring any impairment loss is the new effective interest rate determined at the date of reclassification. The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate. Interest on impaired assets continues to be recognised through the unwinding of the discount.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from the foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. The methodology and the assumptions used for estimating future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience.

31 LOANS AND RECEIVABLES TO CUSTOMERS (CONTD.)

31 (b) Allowance for Impairment Losses (Contd.)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss and recorded as part of 'interest income'.

For the purpose of collective evaluation of impairment, financial assets are grouped on a basis which takes in to consideration credit risk characteristics such as asset type, industry past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Details of impairment losses on financial assets carried at amortised cost are given in Note 14 to the financial statements.

Bank ceases the recognition of interest income on assets which are collectively impaired when it is probable that the economic benefit associated will not flow to the 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 by reducing the financial asset impairment allowance account accordingly. The write-back is recognised in the statement of profit or loss.

31 (b) i Movement in Individual Impairment Allowance for Loans and Advances

	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Balance as at 1st January	2,645,389	2,027,843	3,333,404	2,027,843
Increase in individual impairment allowance from acquisition of subsidiary	-	-	-	680,187
Net impairment charge for the year	662,538	499,299	720,885	507,127
Write offs during the year	-	-	(641,666)	-
Interest accrued on impaired loans and receivables	37,787	118,247	37,787	118,247
Balance as at 31st December	3,345,714	2,645,389	3,450,410	3,333,404

31 (b) ii Movement in Collective Impairment Allowance for Loans and Advances

	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Balance as at 1st January	8,008,889	8,586,339	8,030,362	8,588,339
Increase in collective impairment allowance from acquisition of subsidiary	-	-	-	3,435
Net impairment charge for the year	137,385	1,688,681	169,225	1,704,719
Write offs during the year	(308,149)	(2,266,131)	(308,149)	(2,266,131)
Balance as at 31st December	7,838,125	8,008,889	7,891,438	8,030,362

Notes to the Financial Statements

31 LOANS AND RECEIVABLES TO CUSTOMERS (CONTD.)

31 (b) Allowance for Impairment Losses (Contd.)

31 (b) iii Product wise Movement in Allowance for Impairment Losses - Bank

	Lease and Hire Purchases Rs 000	Loans and Receivables Rs 000	2015 Pawning Rs 000	Total Rs 000	2014 Total Rs 000
Balance as at 1st January	541,255	9,871,493	241,529	10,654,277	10,614,182
Net impairment charge for the year	546,625	354,382	(101,084)	799,923	2,187,979
Write offs during the year	(9,971)	(247,625)	(50,553)	(308,149)	(2,266,131)
Interest accrued on impaired loans and receivables	-	37,788	-	37,788	118,247
Balance as at 31st December	1,077,909	10,016,038	89,892	11,183,839	10,654,277

31 (b) iv Product wise Movement in Allowance for Impairment Losses - Product wise - Group

	Lease and Hire Purchases Rs 000	Loans and Receivables Rs 000	2015 Pawning Rs 000	Total Rs 000	2014 Total Rs 000
Balance as at 1st January	541,255	10,580,982	241,529	11,363,766	10,616,182
Increase in allowance for impairment losses from acquisition of subsidiary	-	-	-	-	683,622
Net impairment charge for the year	546,625	444,569	(101,084)	890,110	2,211,846
Write offs during the year	(9,971)	(889,291)	(50,553)	(949,815)	(2,266,131)
Interest accrued on impaired loans and receivables	-	37,788	-	37,788	118,247
Balance as at 31st December	1,077,909	10,174,048	89,892	11,341,849	11,363,766

31 (c) Lease and Hire Purchase Receivables

Accounting policy

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Amounts receivable under finance leases are classified as lease and hire purchase receivables and presented within loans and receivables to customers in the statement of financial position after deduction of unearned lease income and the impairment for rentals doubtful of recovery. Lease receivables are collectively assessed for impairment as stated above in Note 31 (b) to the financial statements.

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Total lease and hire purchase rentals receivable	47,918,782	29,361,114	47,922,562	29,361,114
Unearned lease income	(7,577,186)	(4,878,241)	(7,578,407)	(4,878,241)
Gross lease and hire purchase receivable	40,341,596	24,482,873	40,344,155	24,482,873
Impairment allowance for lease and hire purchase receivable - Collective	(1,077,909)	(541,255)	(1,077,909)	(541,255)
Net lease and hire purchase receivable	39,263,687	23,941,618	39,266,246	23,941,618
Net lease and hire purchase receivables within one year [Note 31 (c) (i)]	12,777,028	9,496,531	12,777,623	9,496,531
Net lease and hire purchase receivables from one to five years [Note 31 (c) (ii)]	26,308,836	14,411,964	26,310,800	14,411,964
Net lease and hire purchase receivables after five years [Note 31 (c) (iii)]	177,823	33,123	177,823	33,123
	39,263,687	23,941,618	39,266,246	23,941,618

31 (c) i Net Lease and Hire Purchase Receivables within one year

Total lease and hire purchase rentals receivable within one year from reporting date	16,681,239	12,216,815	16,682,453	12,216,815
Unearned lease and hire purchase income	(3,553,443)	(2,505,593)	(3,554,062)	(2,505,593)
Impairment allowance for lease and hire purchase receivables	(350,768)	(214,691)	(350,768)	(214,691)
	12,777,028	9,496,531	12,777,623	9,496,531

31 LOANS AND RECEIVABLES TO CUSTOMERS (CONTD.)

31 (c) Lease and Hire Purchase Receivables (Contd.)

31 (c) ii Net Lease and Hire Purchase Receivables from one to five years

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Total lease and hire purchase rentals receivables from one to five years from reporting date	31,042,158	17,108,454	31,044,724	17,108,454
Unearned lease and hire purchase income	(4,011,063)	(2,370,675)	(4,011,665)	(2,370,675)
Impairment allowance for lease and hire purchase receivables	(722,259)	(325,815)	(722,259)	(325,815)
	26,308,836	14,411,964	26,310,800	14,411,964

31 (c) iii Net Lease and Hire Purchase Receivables after five years

Total lease and hire purchase rentals receivable after five years from reporting date	195,385	35,845	195,385	35,845
Unearned lease and hire purchase income	(12,680)	(1,973)	(12,680)	(1,973)
Impairment allowance for lease and hire purchase receivables	(4,882)	(749)	(4,882)	(749)
	177,823	33,123	177,823	33,123

32 FINANCIAL INVESTMENTS - LOANS AND RECEIVABLES

Accounting policy

Financial investments - loans and receivables are initially recognised and subsequently measured based on the accounting policy described in Note 31 to the financial statements. These assets are tested for impairment in accordance with the criteria given in Note 31 (b) to the financial statements.

As at 31st December	2015 Rs 000	2014 Rs 000
Sri Lanka development bonds - Bank [Note 32 (a)]	71,191,194	30,598,313
Sri Lanka sovereign bonds - Bank [Note 32 (b)]	656,908	-
Foreign government bonds - Bank [Note 32 (c)]	-	-
Quoted debentures - Bank [Note 32 (d)]	11,869,600	4,281,722
Other long term investments - Bank [Note 32 (e)]	489,000	489,000
Total financial investments - loans and receivables - Bank	84,206,702	35,369,035
Quoted debentures - Subsidiaries [Note 32 (f)]	2,814,616	2,436,444
Unquoted debentures - Subsidiaries [Note 32 (g)]	65,887	243,621
Total financial investments - loans and receivables - Subsidiaries	2,880,503	2,680,065
Total financial investments - loans and receivables - Group	87,087,205	38,049,100

32 (a) Sri Lanka Development Bonds Held by the Bank

As at 31st December Year of Maturity	2015 Rs 000	2014 Rs 000
2015	-	15,379,871
2016	24,006,577	6,005,671
2017	12,316,205	2,628,100
2018	13,080,141	6,584,671
2020	21,788,271	-
Total Sri Lanka development bonds - Bank	71,191,194	30,598,313

32 (b) Sri Lanka Sovereign Bonds Held by the Bank

As at 31st December Year of Maturity	2015 Rs 000	2014 Rs 000
2019	656,908	-
Total Sri Lanka sovereign bonds - Bank	656,908	-

32 (c) Foreign Government Bonds Held by the Bank

As at 31st December Year of Maturity	2015 Rs 000	2014 Rs 000
2042	56,739	56,739
Allowance for impairment	(56,739)	(56,739)
Total foreign government bonds - Bank	-	-

These bonds were issued by the Government of Greece.

Notes to the Financial Statements

32 FINANCIAL INVESTMENTS - LOANS AND RECEIVABLES (CONTD.)

32 (d) Quoted Debentures Held by the Bank

As at 31st December

	2015		2014	
	No of Debentures	Carrying Value Rs 000	No of Debentures	Carrying Value Rs 000
Abans PLC (9% debentures redeemable on 30th December 2019)	5,000,000	523,178	5,000,000	500,740
Access Engineering PLC (10.25% debentures redeemable on 18th November 2020)	15,000,000	1,518,534	-	-
Alliance Finance Company PLC (9.35% debentures redeemable on 30th December 2019)	3,000,000	328,204	3,000,000	300,000
Central Finance PLC (9.52% debentures redeemable on 01st June 2020)	2,000,000	211,163	-	-
Commercial Leasing & Finance PLC (9.75% debentures redeemable on 21st July 2020)	10,000,000	1,043,808	-	-
DFCC Bank PLC (9.10% debentures redeemable on 10th June 2020)	5,000,000	525,430	-	-
Hayleys PLC (7.85% debentures redeemable on 05th March 2020)	5,000,000	512,582	-	-
HDFC Bank of Sri Lanka (14.5% debentures redeemable on 23rd October 2016)	284,900	29,531	284,900	29,531
Lanka Orix Leasing Company PLC (9% debentures redeemable on 27th November 2019)	5,000,000	511,342	5,000,000	504,685
LB Finance PLC (14% debentures redeemable on 05th December 2018)	4,408,600	446,102	4,408,600	446,102
Lion Brewery Ceylon PLC (7.85% debentures redeemable on 15th December 2019)	4,686,000	477,872	4,686,000	471,019
Mercantile Investment and Finance PLC (10.5% debentures redeemable on 13th November 2018)	418,650	42,539	418,650	42,551
MTD Walkers PLC (10.25% debentures redeemable on 30th September 2020)	5,000,000	513,058	-	-
Nawaloka Hospitals PLC (14.15% debentures redeemable on 06th October 2018)	1,860,000	192,634	1,860,000	192,637
Orient Finance PLC (9.05% debentures redeemable on 30th December 2019)	2,500,000	261,405	2,500,000	250,372
People's Leasing and Finance PLC (9.625% debentures redeemable on 28th September 2018)	201,200	22,057	201,200	20,645
People's Leasing and Finance PLC (9.95% debentures redeemable on 13th November 2020)	20,000,000	2,026,715	-	-
Richard Pieris and Company PLC (10.75% debentures redeemable on 21st May 2017)	1,409,900	144,810	1,409,900	144,810
Sanasa Development Bank PLC (9.6% debentures redeemable on 31st December 2018)	9,433,700	943,619	-	-
Singer Finance (Lanka) PLC (14% debentures redeemable on 16th September 2016)	957,120	99,089	957,120	99,089
Singer (Sri Lanka) PLC (17% debentures redeemed on 30th September 2015)	-	-	12,777,126	1,279,541
Singer (Sri Lanka) PLC (8.25% debentures redeemable on 22nd December 2017)	9,000,000	974,250	-	-
Singer (Sri Lanka) PLC (8.78% debentures redeemable on 08th June 2018)	5,000,000	521,678	-	-
Quoted debentures - Bank		11,869,600		4,281,722

32 (e) Other Long Term Investments Held by the Bank

As at 31st December

	2015 Rs 000	2014 Rs 000
Long term non-negotiable bond maturing on 14th November 2016	489,000	489,000
Total other long term investments - Bank	489,000	489,000

32 FINANCIAL INVESTMENTS - LOANS AND RECEIVABLES (CONTD.)

32 (f) Quoted Debentures Held by Subsidiaries

As at 31st December

	2015		2014	
	No of Debentures	Carrying Value Rs 000	No of Debentures	Carrying Value Rs 000
Abans PLC		195,113		195,114
(14.00% debentures redeemable on 20th December 2016)	100,000	10,702	100,000	10,702
(14.25% debentures redeemable on 20th December 2017)	750,000	80,358	750,000	80,358
(14.50% debentures redeemable on 20th December 2018)	550,000	58,998	550,000	58,998
(09.00% debentures redeemable on 26th December 2019)	450,000	45,055	450,000	45,055
Access Engineering PLC		126,509		-
(10.25% debentures redeemable on 18th November 2020)	125,000	126,509	-	-
Bank of Ceylon		140,965		179,634
(11.50% debentures redeemable on 28th June 2015)	-	-	200,000	21,178
6 month gross T.Bill Rate + 0.75 p.a Debentures redeemable on 28th June 2015)	-	-	150,000	15,620
(11.00% debentures redeemable on 07th December 2016)	150,000	15,163	150,000	15,273
(16.00% debentures redeemable on 29th November 2017)	1,100,000	111,495	1,100,000	113,256
(08.00% debentures redeemable on 21st September 2019)	140,000	14,307	140,000	14,307
Central Finance Company PLC		41,887		41,888
(14.25% debentures redeemable on 17th June 2016)	11,400	11,809	11,400	11,809
(14.75% debentures redeemable on 17th June 2018)	29,000	30,078	29,000	30,079
Commercial Credit and Finance PLC		213,478		-
(10.50% debentures redeemable on 01st June 2020)	1,100,000	112,879	-	-
(10.40% debentures redeemable on 10th December 2020)	1,000,000	100,599	-	-
Commercial Leasing and Finance PLC		62,612		-
(9.75% 600,000 debentures redeemable on 21st July 2020)	600,000	62,612	-	-
DFCC Bank PLC		92,493		49,813
(14.00% debentures redeemable on 26th September 2016)	5,000	5,698	5,000	5,698
(08.50% debentures redeemable on 18th August 2017)	427,700	44,115	427,700	44,115
(09.40% debentures redeemable on 10th June 2020)	405,500	42,680	-	-
Hayleys PLC		46,617		45,180
(14.25% debentures redeemable on 09th July 2016)	45,000	46,617	45,000	45,180
HDFC Bank		68,679		89,313
(15.00% debentures redeemable on 23rd October 2017)	-	-	198,900	20,634
(15.50% debentures redeemable on 23rd October 2018)	600,000	68,679	600,000	68,679
Hemas Holdings PLC		57,553		93,573
(11.00% 557,900 debentures redeemable on 29th April 2019)	557,900	57,553	907,900	93,573
Lanka Orix Leasing Company PLC		135,734		135,419
(11.90% debentures redeemable on 30th June 2016)	750,000	79,499	750,000	79,917
(09.00% debentures redeemable on 24th November 2019)	550,000	56,235	550,000	55,502
LB Finance PLC		97,830		97,830
(15.00% debentures redeemable on 28th November 2018)	851,000	97,830	851,000	97,830
Lion Brewery (Ceylon) PLC		99,333		99,333
(13.50% debentures redeemable on 17th June 2016)	28,800	29,780	28,800	29,780
(13.75% debentures redeemable on 17th June 2017)	28,800	29,798	28,800	29,798
(14.00% debentures redeemable on 17th June 2018)	38,400	39,755	38,400	39,755

Notes to the Financial Statements

32 FINANCIAL INVESTMENTS - LOANS AND RECEIVABLES (CONTD.)

32 (f) Quoted Debentures Held by Subsidiaries (Contd.)

As at 31st December

	2015		2014	
	No of Debentures	Carrying Value Rs 000	No of Debentures	Carrying Value Rs 000
Mercantile Investment & Finance PLC		11,594		11,594
(10.50% debentures redeemable on 05th November 2018)	114,100	11,594	114,100	11,594
Merchant Bank of Sri Lanka & Finance PLC		189,863		258,940
(11.80% debentures redeemable on 15th November 2015)		-	725,000	71,515
(14.25% debentures redeemable on 16th December 2017)	750,000	94,183	750,000	95,425
(17.50% debentures redeemable on 27th March 2018)	197,100	23,150	197,100	23,150
(16.70% debentures redeemable on 27th March 2018)	112,600	12,192	112,600	12,192
(08.75% debentures redeemable on 12th November 2019)	150,000	15,658	150,000	15,173
(09.00% debentures redeemable on 12th November 2019)	410,000	44,680	410,000	41,485
National Development Bank PLC		85,382		55,687
(13.00% debentures redeemable on 19th December 2018)	125,900	13,411	125,900	13,411
(13.40% debentures redeemable on 19th December 2018)	84,200	9,493	184,600	20,874
(13.90% debentures redeemable on 19th December 2023)	-	-	187,500	21,402
(09.40% debentures redeemable on 24th June 2020)	470,200	41,076	-	-
(13.90% debentures redeemable on 19th December 2023)	187,500	21,402	-	-
Nations Trust Bank PLC		35,311		61,940
(13.00% debentures redeemable on 19th December 2018)	331,500	35,311	581,500	61,940
Nawaloka Hospitals PLC		56,940		56,940
(14.15% debentures redeemable on 30th September 2018)	550,000	56,940	550,000	56,940
Pan Asia Banking Corporation PLC		67,680		67,680
(09.52% debentures redeemable on 30th October 2019)	207,340	21,069	207,340	21,069
(09.75% debentures redeemable on 30th October 2019)	458,517	46,611	458,517	46,611
People's Leasing & Finance PLC		118,316		42,848
(08.75% debentures redeemable on 23rd September 2017)	16,300	1,772	16,300	1,668
(17.00% debentures redeemable on 26th March 2018)	300,000	35,086	300,000	35,086
(09.625% debentures redeemable on 23rd September 2018)	59,400	6,510	59,400	6,094
(09.60% debentures redeemable on 12th November 2019)	450,000	45,568	-	-
(09.95% debentures redeemable on 12th November 2020)	290,000	29,380	-	-
Richard Pieris and Company PLC		58,654		58,777
(10.75% debentures redeemable on 16th May 2017)	31,100	3,193	31,100	3,193
(11.00% debentures redeemable on 16th May 2018)	124,000	12,740	124,000	12,740
(11.25% debentures redeemable on 16th May 2019)	408,800	42,721	408,800	42,844
Sampath Bank PLC		321,473		149,439
(16.50% debentures redeemable on 11th October 2017)	283,100	32,971	283,100	32,972
(13.40% debentures redeemable on 04th December 2018)	363,400	41,196	363,400	41,196
(08.25% debentures redeemable on 14th December 2019)	750,000	81,171	750,000	75,271
(09.90% debentures redeemable on 18th November 2020)	1,642,200	166,135	-	-

32 FINANCIAL INVESTMENTS - LOANS AND RECEIVABLES (CONTD.)

32 (f) Quoted Debentures Held by Subsidiaries (Contd.)

As at 31st December

	2015		2014	
	No of Debentures	Carrying Value Rs 000	No of Debentures	Carrying Value Rs 000
Seylan Bank PLC		189,032		182,077
(15.50% debentures redeemable on 21st February 2018)	900,000	101,924	900,000	101,924
(08.60% debentures redeemable on 22nd February 2019)	300,000	32,637	300,000	30,057
(08.75% debentures redeemable on 23rd December 2020)	500,000	54,471	500,000	50,096
Singer (Sri Lanka) PLC		57,209		103,910
(17.00% debentures redeemable on 30th September 2015)	-	-	302,170	30,217
(14.50% debentures redeemable on 29th May 2015)	-	-	180,000	18,658
(14.50% debentures redeemable on 29th May 2016)	270,000	27,987	270,000	27,985
(08.25% debentures redeemable on 23rd December 2019)	270,000	29,222	270,000	27,050
Siyapatha Finance PLC		108,875		100,171
(08.90% debentures redeemable on 24th December 2019)	1,000,000	108,875	1,000,000	100,171
Softlogic Finance PLC		31,148		31,148
(10.00% debentures redeemable on 29th August 2019)	303,900	31,148	303,900	31,148
Softlogic Holdings PLC		58,186		112,795
(15.75% debentures redeemable on 09th September 2016)	550,000	58,186	1,070,000	112,795
Urban Development Authority				115,401
(11.00% debentures redeemable on 05th October 2015)	-	-	1,124,200	115,401
Vallibel Finance PLC		46,150		-
(10.25% debentures redeemable on 31st March 2020)	450,000	46,150	-	-
Total quoted debentures - Subsidiaries		2,814,616		2,436,444

32 (g) Unquoted Debentures Held by Subsidiaries

As at 31st December

	2015		2014	
	No of Debentures	Carrying Value Rs 000	No of Debentures	Carrying Value Rs 000
Abans PLC		25,842		25,825
(13.50% debentures redeemable on 01st March 2016)	25000	25,842	25,000	25,825
National Development Bank PLC		40,045		40,000
(3 months gross T.Bill +1% debentures redeemable on 30th June 2016)	40000	40,045	40,000	40,000
People's Leasing & Finance PLC				75,587
(11.70% debentures redeemable on 30th June 2015)	-	-	750,000	75,587
Singer (Sri Lanka) PLC				50,269
(15.50% debentures redeemable on 09th May 2015)	-	-	490,000	50,269
Siyapatha Finance PLC				51,940
(16.65% debentures redeemable on 31st July 2015)	-	-	350,000	37,922
(12.25% debentures redeemable on 31st December 2015)	-	-	14,000	14,018
Total unquoted debentures held by - Subsidiaries		65,887		243,621

33 FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE

Accounting policy

Available-for-sale investments include equity and debt securities. Equity investments classified as 'available-for-sale' are those which are neither classified as 'held for trading' nor 'designated at fair value through profit or loss'. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions. The Group has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity via 'other comprehensive income' in the 'available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of profit or loss in 'net gain / (loss) from financial investments'. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first in first out basis. Interest earned whilst holding available-for-sale financial investments is reported as 'interest income' using the Effective Interest Rate (EIR). Dividends earned whilst holding available-for-sale financial investments are recognised in the statement of profit or loss as 'net gain / (loss) from financial investments' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the statement of profit or loss in 'impairment losses on financial investments' and removed from the 'available-for-sale reserve'.

Impairment of Financial Investments - Available-for-sale

For available-for-sale financial investments, the Group assesses at each reporting date whether there is an objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is an objective evidence of impairment based on the same criteria as used for the measurement of impairment relating to loans and advances as mentioned in Note 31 (b) to the financial statements. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest income as 'financial investments - available-for-sale'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is an evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss is removed from equity and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through the statement of profit or loss, increases in the fair value after impairment are recognised in 'other comprehensive income'.

The Group writes off certain financial investments – available-for-sale when they are determined to be uncollectible.

33 FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE (CONTD.)

As at 31st December	Fair Value 2015 Rs 000	Fair Value 2014 Rs 000
Quoted shares - Bank [Note 33 (a)]	6,635,080	8,324,444
Quoted units - Bank [Note 33 (b)]	280,800	270,300
Unquoted shares - Bank [Note 33 (c)]	25,405	34,644
Unquoted units - Bank [Note 33 (d)]	193,377	-
Government of Sri Lanka treasury bonds - Bank [Note 33 (e)]	39,354,113	102,814
Government of Sri Lanka treasury bills - Bank [Note 33 (f)]	31,557,730	59,110,027
Total financial investments - available-for-sale - Bank	78,046,505	67,842,229
Government of Sri Lanka treasury bonds - Subsidiaries [Note 33 (g)]	1,410,500	1,345,026
Government of Sri Lanka treasury bills - Subsidiaries [Note 33 (h)]	48,492	142,364
Quoted shares - Subsidiaries [Note 33 (i)]	200,304	113,204
Unquoted shares - Subsidiaries [Note 33 (j)]	12,430	234
Total financial investments - available-for-sale - Subsidiaries	1,671,726	1,600,828
Total financial investments - available-for-sale - Group	79,718,231	69,443,057

33 (a) Quoted Shares Held by the Bank

As at 31st December	No of Ordinary Shares	2015 Cost of Investment Rs 000	Fair Value Rs 000	No of Ordinary Shares	2014 Cost of Investment Rs 000	Fair Value Rs 000
DFCC Bank	32,396,140	942,651	5,471,708	32,396,140	942,651	7,094,755
National Development Bank PLC	4,282,200	694,519	839,312	4,282,200	694,519	1,070,550
Nations Trust Bank PLC	3,703,543	383,236	324,060	1,640,604	156,938	159,139
Total quoted shares - Bank		2,020,406	6,635,080		1,794,108	8,324,444

33 (b) Quoted Units in Unit Trusts Held by the Bank

As at 31st December	No of Ordinary Shares	2015 Cost of Investment Rs 000	Fair Value Rs 000	No of Ordinary Shares	2014 Cost of Investment Rs 000	Fair Value Rs 000
Namal Acuity Value Fund	3,000,000	150,000	280,800	3,000,000	150,000	270,300
Total quoted units in unit trusts - Bank		150,000	280,800		150,000	270,300

Notes to the Financial Statements

33 FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE (CONTD.)

33 (c) Unquoted Shares Held by the Bank

As at 31st December	2015			2014		
	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
Fitch Ratings Lanka Ltd	62,500	625	625	62,500	625	625
Lanka Clear (Pvt) Ltd	2,200,000	22,000	22,000	2,200,000	22,000	22,000
Lanka Financial Services Bureau	225,000	2,250	2,250	225,000	2,250	2,250
Lanka Rating Agency Limited*	1,379,182	16,550	-	1,379,182	16,550	9,239
Magpek Exports Ltd**	359,000	14,360	-	359,000	14,360	-
S.W.I.F.T*	27	5,196	-	21	2,051	-
Allowance for impairment		(36,106)			(23,722)	
		25,405	25,405		34,644	34,644

* Directors carried out an impairment assessment of the unquoted share investments held by the Bank as at 31st December 2015 and concluded that an impairment provision of Rs. 9.24 Mn is to be made against the investment in Lanka Rating Agency Limited while an impairment provision of Rs 3.14 Mn is to be made against the investment in S.W.I.F.T.

** Delisted shares

33 (d) Unquoted Units in Unit Trusts Held by the Bank

As at 31st December	2015			2014		
	No of Units	Cost of Investment Rs 000	Fair Value Rs 000	No of Shares	Cost of Investment Rs 000	Fair Value Rs 000
JB Vantage Value Equity Fund	9,596,825	200,000	193,377	-	-	-
Total unquoted units in unit trusts - Bank		200,000	193,377	-	-	-

33 (e) Government of Sri Lanka Treasury Bonds Held by the Bank

As at 31st December Year of Maturity	2015		2014	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
2016	2,968,456	2,963,085	-	-
2017	3,955,380	3,926,537	100,346	102,814
2018	6,277,602	6,262,922	-	-
2019	12,543,239	12,405,902	-	-
2020	3,007,214	2,995,669	-	-
2021	6,594,498	6,516,790	-	-
2022	284,298	277,383	-	-
2023	3,335,082	3,242,764	-	-
2025	756,939	763,061	-	-
Total government of Sri Lanka treasury bonds - Bank	39,722,708	39,354,113	100,346	102,814

33 FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE (CONTD.)

33 (f) Government of Sri Lanka Treasury Bills Held by the Bank

As at 31st December Year of Maturity	2015		2014	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
	2015	-	-	58,967,053
2016	31,582,588	31,557,730	-	-
Total government of Sri Lanka treasury bills - Bank	31,582,588	31,557,730	58,967,053	59,110,027

33 (g) Government of Sri Lanka Treasury Bonds Held by Subsidiaries

As at 31st December Year of Maturity	2015		2014	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
	2015	-	-	143,437
2016	193,486	203,891	99,978	105,182
2017	108,344	102,642	142,328	154,309
2018	44,974	49,017	108,344	105,306
2019	211,580	214,833	137,256	158,984
2021	132,357	132,827	92,293	100,997
2022	194,301	181,971	49,345	54,205
2024	57,064	56,799	311,594	323,101
2029	135,191	120,396	57,064	63,741
2044	143,435	123,036	135,191	136,063
2045	222,302	225,088	-	-
Total government of Sri Lanka treasury bonds - Subsidiaries	1,443,034	1,410,500	1,276,830	1,345,026

33 (h) Government of Sri Lanka Treasury Bills Held by Subsidiaries

As at 31st December Year of Maturity	2015		2014	
	Cost of Investment Rs 000	Fair Value Rs 000	Cost of Investment Rs 000	Fair Value Rs 000
	2015	-	-	135,467
2016	47,045	48,492	-	-
Total government of Sri Lanka treasury bills - Subsidiaries	47,045	48,492	135,467	142,364

Notes to the Financial Statements

33 FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE (CONTD.)

33 (i) Quoted Shares Held by Subsidiaries

As at 31st December

	No. of Shares	2015 cost of investment Rs 000	Fair Value Rs 000	No. of Shares	2014 cost of investment Rs 000	Fair Value Rs 000
Banks, Finance and Insurance						
Seylan Bank PLC - (Non Voting)	241,000	12,347	17,593	297,000	14,999	17,078
Sampath Bank PLC	108,802	25,352	26,983	67,000	15,921	15,833
Central Finance Company PLC	100,037	25,370	25,309	-	-	-
Sector Total		63,069	69,885		30,920	32,911
Diversified Holdings						
Vallibel One PLC	301,877	7,860	6,490	301,877	7,860	7,215
Sector Total		7,860	6,490		7,860	7,215
Hotels And Travels						
Aitken Spence Hotels Holdings PLC	80,112	6,805	5,448	-	-	-
Palm Garden Hotels PLC	69,000	3,795	2,629	-	-	-
Sector Total		10,600	8,077		-	-
Investment Trusts						
Renuka Holdings PLC	425,000	15,408	11,433	-	-	-
Sector Total		15,408	11,433		-	-
Manufacturing						
Tokyo Cement Company (Lanka) PLC	408,568	23,004	20,020	404,843	22,740	26,274
Royal Ceramic Lanka PLC	83,000	10,072	9,230	83,000	10,071	9,704
Textured Jersey Lanka PLC	863,681	20,118	30,661	-	-	-
Sector Total		53,194	59,911		32,811	35,978
Beverage, Food and Tobacco						
Distilleries Company of Sri Lanka PLC	9,883	2,048	2,431	9,883	2,059	2,075
Sector Total		2,048	2,431		2,059	2,075
Chemicals And Pharmaceuticals						
CIC Holdings PLC - (Non Voting)	141,915	9,698	11,523	-	-	-
Sector Total		9,698	11,523		-	-
Power and Energy						
Lanka IOC PLC	340,000	19,703	12,614	345,000	20,004	20,700
Sector Total		19,703	12,614		20,004	20,700
Land and Property						
Overseas Reality (Ceylon) PLC	773,335	19,564	17,940	544,669	13,602	14,325
Sector Total		19,564	17,940		13,602	14,325
Total quoted shares - Subsidiaries		201,144	200,304		107,256	113,204

33 (j) Unquoted Shares Held by Subsidiaries

As at 31st December

	No of Shares	2015 Cost of Investment Rs 000	Fair Value Rs 000	No of Shares	2014 Cost of Investment Rs 000	Fair Value Rs 000
Credit Information Bureau of Sri Lanka	100	234	234	100	234	234
UB Finance	1,742,326	12,196	12,196	-	-	-
Standard Credit Lanka (Formerly Ceylinco Investment and Reality Ltd)	38,458,474	38,692	-	38,458,747	38,692	-
Allowance for impairment		(38,692)			(38,692)	
Total unquoted shares - Subsidiaries		12,430	12,430		234	234

33 FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE (CONTD.)

33 (k) Assets Pledged as Security

The following amounts of financial investments - available-for-sale are pledged as security for re-purchase agreements entered into by the Bank/Group.

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Treasury bills	13,797,976	16,848,705	13,797,976	16,848,705
Treasury bonds	2,791,821	83,426	2,791,821	83,426
	16,589,797	16,932,131	16,589,797	16,932,131

34 FINANCIAL INVESTMENTS - HELD-TO-MATURITY

Accounting policy

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold till maturity and which are not designated as at fair value through profit or loss or as available-for-sale.

After initial measurement held-to-maturity investments are subsequently measured at amortised cost using the Effective Interest Rate (EIR) less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'interest income' in the statement of profit or loss. The losses arising from impairment of such investments are recognised in 'impairment charge for loans and other losses' in the statement of profit or loss.

A sale or reclassification of a more than an insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value
- sales or reclassifications after the Group has collected substantially all of the asset's original principal and
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

As at 31st December	Group	
	2015 Rs 000	2014 Rs 000
Government of Sri Lanka treasury bills - Subsidiaries [Note 34 (a)]	784,868	172,754
Government of Sri Lanka treasury bonds - Subsidiaries [Note 34 (b)]	472,565	782,667
Total financial investments - Held-to-maturity - Group	1,257,433	955,421

34 (a) Government of Sri Lanka Treasury Bills Held by Subsidiaries

As at 31st December Year of Maturity	2015	2014
	Rs 000	Rs 000
2015	-	172,754
2016	784,868	-
Total government of Sri Lanka treasury bills - Subsidiaries	784,868	172,754

Notes to the Financial Statements

34 FINANCIAL INVESTMENTS - HELD-TO-MATURITY (CONTD.)

34 (b) Government of Sri Lanka Treasury Bonds Held by Subsidiaries

As at 31st December Year of Maturity	2015	2014
	Rs 000	Rs 000
2015	-	320,955
2016	304,278	298,502
2018	168,287	163,210
Total government of Sri Lanka treasury bonds - Subsidiaries	472,565	782,667

35 INVESTMENT IN JOINT VENTURE

Accounting policy

Joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group determines joint control by taking into account similar considerations necessary to determine control over subsidiaries.

The Group's investment in a joint venture is accounted for using the equity method and is recognised initially at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to a joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The statement of profit or loss reflects Group's share of the results of operations of the joint venture. Any change in 'other comprehensive income' of the joint venture is presented as part of the Group's 'other comprehensive income'. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the statement of profit or loss outside operating profit and includes profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

At each reporting date, the Group determines whether there is an objective evidence that the investment in joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognises the loss in impairment for loans and other losses in the statement of profit or loss.

The Group discontinues the use of equity method from the date that it ceases to have joint control over the joint venture and accounts for the investment in accordance with the Group's accounting policy for financial instruments. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in statement of profit or loss.

35 INVESTMENT IN JOINT VENTURE (CONTD.)

35 (a) Investment in Joint Venture - Bank

As at 31st December

	Principal Activity	Principal Place of Business	% Holding	2015 Cost of Investment Rs 000	Directors' Valuation Rs 000	% Holding	2014 Cost of Investment Rs 000	Directors' Valuation Rs 000
Acuity Partners (Pvt) Ltd	Investment banking	Sri Lanka	50.00	655,000	655,000	50.00	655,000	655,000
Total				655,000			655,000	

Bank received Rs 30.1 Mn of dividend income from Acuity Partners (Pvt) Ltd for the year ended 31st December 2015 (2014 : 26.2 Mn).

35 (b) Investment in Joint Venture - Group

	2015 Rs 000	2014 Rs 000
Investment in joint venture (at cost)	655,000	655,000
Group's share of joint venture profit as at 1st January	653,682	503,412
Group's share of net assets of joint venture company as at 1st January	1,308,682	1,158,412
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)	1,196,544	1,046,274
Share of profit of joint venture (net of income tax) (Note 19)	60,085	141,314
Share of other comprehensive income of equity accounted joint venture	17,041	8,378
Deemed disposal gain through joint venture	9,830	26,777
Dividend received during the year	(30,130)	(26,199)
Group's share of net assets of joint venture company as at 31st December	1,253,370	1,196,544

35 (c) Summarised Financial Statements of Joint Venture - Acuity Partners (Pvt) Ltd and its Subsidiaries

For the year ended 31st December

	2015 Rs 000	2014 Rs 000
Revenue	576,723	916,313
Profit after tax	305,980	448,246
Other comprehensive income	64,450	19,345
Total comprehensive income	370,430	467,591

As at 31st December

	2015 Rs 000	2014 Rs 000
Current assets	5,487,054	7,000,804
Non-current assets	3,629,739	3,299,730
Current liabilities	4,348,748	5,915,668
Non-current liabilities	945,056	575,605

Notes to the Financial Statements

36 INVESTMENT IN SUBSIDIARIES

Accounting policy

Subsidiaries are entities that are controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect the returns of those investees through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee
- exposure or rights to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee
- rights arising from other contractual arrangements
- the Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the above.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where Subsidiaries have been sold or acquired during the year, assets, liabilities, income and expenses of the said subsidiary are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of Group are eliminated in full on consolidation.

Non-controlling interests represent the portion of profit or loss and net assets of the subsidiaries not owned directly or indirectly by the Bank. The non-controlling interest is presented in the consolidated statement of financial position within equity, separately from the equity attributable to the equity holders of the Bank. Non-controlling interests in the profit or loss of the Group is disclosed separately in the consolidated statement of profit or loss.

A change in the ownership interest of a subsidiary without a loss of control is accounted for as an equity transaction. Upon the loss of control, the Group de-recognises the assets (including goodwill) and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the statement of changes in equity. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

There are no significant restrictions on the ability of the subsidiaries to transfer funds to the Bank in the form of cash dividends or repayment of loans and advances. All subsidiaries of the Bank as at the reporting date have been incorporated in Sri Lanka.

36 (a) Investment in Subsidiary - Quoted

As at 31st December		2015			2014		
Principal Activity	Principal Place of Business	% Holding	Cost of Investment Rs 000	Directors' Valuation Rs 000	% Holding	Cost of Investment Rs 000	Directors' Valuation Rs 000
HNB Assurance PLC (29,993,000 shares) Insurance	Sri Lanka	60.00	384,285	2,249,475	60.00	384,285	2,504,416
Total quoted subsidiaries			384,285			384,285	

36 INVESTMENT IN SUBSIDIARIES (CONTD.)

36 (b) Investment in Subsidiary - Unquoted

As at 31st December

	Principal Activity	Principal Place of Business	% Holding	2015 Cost of Investment Rs 000	Directors' Valuation Rs 000	% Holding	2014 Cost of Investment Rs 000	Directors' Valuation Rs 000
Sithma Development (Pvt) Ltd (206,000,000 ordinary shares)	Property development	Sri Lanka	100.00	1,973,000	1,973,000	100.00	1,973,000	1,973,000
HNB Grameen Finance Ltd (724,904,118 ordinary shares)	Micro-finance	Sri Lanka	42.16	660,000	660,000	42.16	660,000	660,000
Total unquoted subsidiaries				2,633,000			2,633,000	
Total for the Bank [36 (a) and 36 (b)]				3,017,285			3,017,285	

HNB Grameen Finance Ltd

On 7th November 2014, the Bank acquired a stake of 51% in the voting rights of Prime Grameen Micro Finance Ltd (subsequently rebranded as HNB Grameen Finance Ltd). Accordingly, the said investment is accounted for as an investment in subsidiaries as at 31st December 2014. Since the Bank does not hold non-voting shares of HNB Grameen Finance Ltd, Bank's holding in the said company amounts to 42.16%.

36 (c) Subsidiary Held through HNB Assurance PLC

As at 31st December

	Principal Activity	Principal Place of Business	% Holding	2015 Cost of Investment Rs 000	Directors' Valuation Rs 000	% Holding	2014 Cost of Investment Rs 000	Directors' Valuation Rs 000
HNB General Insurance Limited (115,000,000 ordinary shares)	General Insurance	Sri Lanka	100.00	1,150,000	1,150,000	100.00	100,000	100,000
				1,150,000	1,150,000		100,000	100,000

36 (d) Non-Controlling Interests (NCI) in Subsidiaries

Subsidiary	% of Ownership Interest held by NCI	% of Voting Rights held by NCI	Share of Total Comprehensive Income of NCI for the Year Ended 31st December		NCI as at 31st December		Dividends Paid to NCI	
			2015	2014	2015	2014	2015	2014
			Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
HNB Assurance PLC	40.00	40.00	65,982	166,472	889,105	910,712	75,000	65,000
Sithma Development (Pvt) Ltd	-	-	-	-	-	-	-	-
HNB Grameen Finance Ltd	57.84	49.00	466,725	86,453	1,290,183	823,420	-	-
			532,707	252,925	2,179,288	1,734,132	75,000	65,000

36 (e) Summarised Financial Information of Subsidiaries

As at 31st December	HNB Assurance PLC		Sithma Development (Pvt) Ltd		HNB Grameen Finance Ltd	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Assets	11,640,830	9,969,316	10,231,547	7,585,280	13,490,777	9,251,320
Liabilities	9,356,885	7,555,382	609,327	600,002	11,400,853	8,133,708
Equity	2,340,189	2,373,188	9,622,220	6,985,278	2,089,924	1,117,612
For the year ended 31st December	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Revenue	5,775,631	5,013,421	922,156	916,766	4,024,608	576,305
Profit after tax	196,591	417,225	576,159	505,567	981,518	146,623
Total comprehensive income	185,878	418,393	576,159	505,567	972,311	149,470

Notes to the Financial Statements

37 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 that is held for use in the production or supply of goods or services or for administrative purposes, the Group accounts for the portions separately if these portions could be sold separately (or leased out separately under a finance lease). If the portions could not be sold separately, the property is treated as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Where the Group provides ancillary services to the occupants of a property it holds, the Group treats such a property as investment property if the services are insignificant to the arrangement as a whole.

Measurement

An investment property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The cost of a self-constructed investment property is its cost at the date when the construction or development is complete.

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 losses.

The Group obtains the services of independent valuers who are not connected with the Bank in order to determine the fair value of its investment properties annually for disclosure purposes and such fair values have been disclosed as required by Sri Lanka Accounting Standard - LKAS 40 on "Investment Property".

Depreciation

Depreciation is provided on a straight line basis over the estimated life of the class of asset from the date of purchase up to the date of disposal.

Class of Asset	% per annum
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Hatton National Bank PLC	
Freehold buildings [Refer Note 37 (a)]	2.5

Sithma Development (Pvt) Ltd*	
Freehold buildings [Refer Note 37 (b)]	2.5
Plant, machinery and equipment integral to freehold buildings referred to above	20

* Sithma Development (Pvt) Ltd

The HNB towers which is owned by Sithma Development (Pvt) Ltd ("Sithma"), is leased to occupants including the Bank. However, the ancillary services provided by Sithma Development (Pvt) Ltd to the occupants of HNB towers, is a significant component of the arrangement as a whole. Therefore, HNB towers is not classified as investment property in the financial statements of Sithma, but has been classified under property, plant and equipment in accordance with Sri Lanka Accounting Standard - LKAS 40 on "Investment Property".

37 INVESTMENT PROPERTIES (CONTD.)

De-recognition

Investment properties are de-recognised when disposed of, or permanently withdrawn from use because no future economic benefits are expected. Gains or losses arising from de-recognition of an investment property are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss.

Transfers are made to and from investment properties only when there is a change in use.

Investment Property Leased within the Group

Any property leased out to the parent or a subsidiary in full or where the parent or subsidiary occupies a significant portion of such a property is considered as owner-occupied from the perspective of the Group and adjustments are made for consolidation purposes.

	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Cost				
Balance as at 1st January	435,442	384,432	1,135,963	249,663
Assets acquired through acquisition of subsidiary	-	-	-	886,300
Improvements	-	51,010	4,221	-
Balance as at 31st December	435,442	435,442	1,140,184	1,135,963
Accumulated depreciation				
Balance as at 1st January	43,354	37,954	93,577	88,799
Charge for the year (Note 17)	5,445	5,400	4,810	4,778
Balance as at 31st December	48,799	43,354	98,387	93,577
Net book value as at 31st December	386,643	392,088	1,041,797	1,042,386

37 (a) Valuation of Investment Properties - Bank

As at 31st December 2015

	Building sq.ft	Extent Perches	Cost / Carrying Amount			Fair Value		
			Land (Cost) Rs 000	Building (Net Book Value) Rs 000	Total Rs 000	Land Rs 000	Building Rs 000	Total Rs 000
23 & 23 1/1, Independence Avenue, Colombo 7 [Note 37 (b) i]	10,645	105.10	37,081	36,701	73,782	-	-	739,000
479 T B Jayah Mawatha, Colombo 10 [Note 37 (b) ii]	Land	112.96	126,480	-	126,480	903,680	-	903,680
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 1 [Note 37 (b) ii]	Land	26.62	34,888	-	34,888	159,720	-	159,720
10, Sri Uttarananda Mawatha, Colombo 3 [Note 37 (b) iii]	57,917	40.00	72,000	79,493	151,493	320,000	268,000	588,000
			270,449	116,194	386,643			2,390,400

Notes to the Financial Statements

37 INVESTMENT PROPERTIES (CONTD.)

37 (b) Valuation of Investment Properties - Group

As at 31st December 2015

	Building sq.ft	Extent Perches	Cost / Carrying Amount			Fair Value		
			Land (Cost) Rs 000	Building (Net Book Value) Rs 000		Land Rs 000	Building Rs 000	Total Rs 000
				Total Rs 000				
Through the Bank 23 & 23 1/1, Independence Avenue, Colombo 7 [Note 37 (b) i]	10,645	105.10	37,081	36,701	73,782			739,000
Through the Subsidiary - Sithma Development (Pvt) Ltd 21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 1 [Note 37 (b) ii]	41,688	-	-	77,515	77,515	-	221,280	221,280
Through the Subsidiary - HNB Grameen Finance Ltd [Note 37 (b) iv] No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda	24,952	39.60	151,063	407,937	559,000	151,063	407,937	559,000
Vihara Road, Rankewatte, Matale	Land	15.00	9,000	-	9,000	9,000	-	9,000
44/1, Service Road, Puttalam	Land	25.60	12,800	-	12,800	12,800	-	12,800
465/1, Old Police Station Road, Kahathuduwa, Polgasowita	20,494	182.59	49,008	71,992	121,000	49,008	71,992	121,000
67/1, Mahinda Place, Kirulapone, Colombo 5	5,786	8.00	25,267	90,733	116,000	25,267	90,733	116,000
6, Abaya Place, 7th Lane, Anuradapura	Land	13.52	20,000	-	20,000	20,000	-	20,000
10/11, Galle Road, Moratuwa	Land	23.00	34,500	-	34,500	34,500	-	34,500
Adampodaivayal, Adampodaimalaikadu, Trincomalee	Land	724.00	14,000	-	14,000	14,000	-	14,000
Nalluruwa, Panadura.	Land	17.80	4,200	-	4,200	4,200	-	4,200
			356,919	684,878	1,041,797			1,850,780

The Bank / Group carries investment properties at cost. Market valuations of the above investment properties were carried out as at 31st December 2015. Since the fair values of the investment properties were above the carrying value, the Board of Directors concluded that there was no impairment in investment properties.

37 INVESTMENT PROPERTIES (CONTD.)

37 (b) Valuation of Investment Properties - Group (Contd.)

37 (b) i Valued as a condominium property.

37 (b) ii Land situated at No 479, T B Jayah Mw, Colombo 10 on which HNB Towers is built, and No 21, 21A, 23 and 25, Janadhipathi Mawatha, Colombo 01 are leased to Sithma Development (Pvt) Ltd by the Bank and the Bank receives ground rent. Accordingly, these lands have been classified as investment properties in the statement of financial position of the Bank. However, according to Sri Lanka Accounting Standard - LKAS 40 on "Investment Property", the said lands are treated as property, plant and equipment in the consolidated statement of financial position, since these are leased to a Group entity.

37 (b) iii Building situated at No 10, Sri Uttarananda Mw, Colombo 03 is leased out to HNB Assurance PLC and Royal Ceramics Lanka PLC. Accordingly this building is classified as investment property in the statement of financial position of the Bank. However, according to Sri Lanka Accounting Standard - LKAS 40 on "Investment Property", the said building is treated as property, plant and equipment in the consolidated statement of financial position, since Group uses a significant portion of the building for use in the production or supply of goods and services.

37 (b) iv These properties are held by the subsidiary of the Bank, HNB Grameen Finance Ltd. and valuations of the said properties were carried out by Messer's R.S.Wijesuriya, DIV, FIV (Sri Lanka) a professional independent valuer. All these properties other than the property situated in Trincomalee have been mortgaged to Seylan Bank PLC by HNB Grameen Finance Ltd for the financial facilities obtained by the company. The aggregate mortgage value amounts to Rs 665Mn.

37 (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.

37 (c) i Bank

Property	Name of professional Valuer	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs
23 & 23 1/1, Independence Avenue, Colombo 07	Mr. J.M.J. Fernando	Income approach - Estimated rent per month - Years purchase - Outgoing expenses as a percentage of gross annual rent	Rs 3,284,500 25 25%
479, T.B. Jayah Mawatha, Colombo 10	Mr. J.M.J. Fernando	Market comparable method - Rate per perch for land	Rs 8,000,000
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 01	Mr. J.M.J. Fernando	Market comparable method - Rate per perch for land	Rs 6,000,000
10, Sri Uttarananda Mawatha, Colombo 03	Mr. J.M.J. Fernando	Depreciated replacement cost basis / Market comparable method - Rate per perch for land - Rate per square foot for building - Depreciation rate	Rs 8,000,000 Rs 100,000 53%

Notes to the Financial Statements

37 INVESTMENT PROPERTIES (CONTD.)

37 (c) Valuation details of Investment Properties (Contd.)

37 (c) ii Group

Property	Name of professional Valuer	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs
Through the Bank			
23 & 23 1/1, Independence Avenue, Colombo 07	Mr. J..MJ. Fernando	Income approach - Estimated rent per month - Years purchase - Outgoing expenses as a percentage of gross annual rent	Rs 3,284,500 25 25%
Through the subsidiary - Sithma Development (Pvt) Ltd.			
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 01	Mr. J.M.J. Fernando	Depreciated replacement cost basis - Rate per Sq.ft for building	Rs 5,380
Through the subsidiary - HNB Grameen Finance Ltd			
No.249, Stanley Thilekerathna Mawatha, Pagoda, Nugegoda	Mr. R.S. Wijesuriya	Income approach - Estimated rent per month - Discount rate	Rs 1,700,000 20%
Vihara Road, Rakewatta, Matale	Mr. R.S. Wijesuriya	Market comparable method - Rate per perch for land	Rs 600,000
No.44/1, Service Road, Puttalam	Mr. R.S. Wijesuriya	Market comparable method - Rate per perch for land	Rs 5,000,000
No.465/1, Old police Station Road, Kahathduwa, Polgasowita	Mr. R.S. Wijesuriya	Income approach - Estimated rent per month - Depreciation rate	Rs 450,000 20%
No. 67/1, Mahinda Place, Kirulapone, Colombo 05	Mr. R.S. Wijesuriya	Income approach - Estimated rent per month - Depreciation rate	Rs.450,000 20%
No. 06, Abaya Place, 7th Lane, Anuradapura	Mr. R.S. Wijesuriya	Market comparable method - Rate per perch for land	Rs.1,500,000
No. 10/11, Galle Road, Katubedda, Moratuwa	Mr. R.S. Wijesuriya	Market comparable method - Rate per perch for land	Rs.1,500,000
Adampodaivayal, Adampodaimlaikadu, Trincomalee	Mr. R.S. Wijesuriya	Market comparable method - Rate per perch for land	Rs.20,000
Nalluruwa, Panadura	Mr. R.S. Wijesuriya	Market comparable method - Rate per perch for land	Rs.235,000

38 PROPERTY, PLANT AND EQUIPMENT

Accounting policy

Basis of Recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Group and cost of the asset can be reliably measured.

Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of, or service it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they 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, they 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 losses. Freehold land and buildings of the Group are revalued at least once in every three years on a roll over basis to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in other comprehensive income and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the statement of profit or loss. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the statement of profit or loss or debited in the other comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

Reclassification as Investment Property

When the use of property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified as investment property. Any gain arising on re-measurement is recognised in the statement of profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in revaluation reserve in equity. Any loss is recognised immediately in the statement of profit or loss.

Subsequent Costs

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be reliably measured. The costs of day to day servicing of property, plant and equipment are charged to the statement of profit or loss as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.

Notes to the Financial Statements

38 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

De-recognition

The carrying amount of an item of property, plant and equipment is de-recognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property, plant and equipment which is calculated as the difference between the carrying amount and the net disposal proceeds is included in the statement of profit or loss when the item is de-recognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is de-recognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is de-recognised.

Depreciation

The Group provides depreciation from the date the assets are available for use up to the date of disposal. The assets are depreciated at the following rates on a straight line basis over the periods appropriate to the estimated useful lives, based on the pattern in which the asset's future economic benefits are expected to be consumed by the Group other than disclosed separately. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is de-recognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

Hatton National Bank PLC and its Subsidiary Companies (except for Sithma Development (Pvt) Ltd)

Class of Asset	% per annum
Freehold buildings	2.5
Motor vehicles	25
Computer equipment	16.67
Office equipment	20
Furniture and fittings	10
Fixtures	10
Improvements to leasehold buildings	over the lease period

Depreciation is not provided for freehold land.

Sithma Development (Pvt) Ltd

Class of Asset	% per annum
Freehold buildings - Sithma building	1
Generators, generator panels and associated power cables	2
Chillers, cooling towers and associated equipment	4
Lifts and escalator	4
Building management systems	4
Plant and machinery	20
Equipment	20
Furniture and fittings	10

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. Capital work-in-progress would be transferred to the relevant asset when it is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard - LKAS 23 on "Borrowing Costs". A qualifying asset is an asset which takes substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Other borrowing costs are recognised in the statement of profit or loss in the period in which they incur.

38 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Bank

	Leasehold Buildings Note 38 (c) Rs 000	Freehold Land and Buildings Note 38 (a) Rs 000	Computer Equipment Rs 000	Equipment Furniture and Fixtures Rs 000	Motor Vehicles Rs 000	Capital Work-in Progress Rs 000	2015 Total Rs 000	2014 Total Rs 000
Cost / valuation								
as at 1st January	1,512,032	7,343,501	2,955,262	4,099,751	167,068	9,998	16,087,612	15,642,052
Revaluation adjustment on accumulated depreciation	-	(260,002)	-	-	-	-	(260,002)	-
Revaluation surplus	-	2,095,076	-	-	-	-	2,095,076	-
Net impairment charge (Note 14)	-	(39,569)	-	-	-	-	(39,569)	-
Additions and improvements	29,828	24,240	487,762	220,335	-	120,638	882,803	645,368
Disposals during the year	(2,897)	-	(66,786)	(44,879)	(39,151)	-	(153,713)	(168,802)
Transferred to non-current assets held for sale (Note 30)	-	(20,178)	-	-	-	-	(20,178)	(31,000)
Transferred from capital work-in-progress	8,025	-	-	5,459	-	(13,484)	-	-
Cost / valuation as at 31st December	1,546,988	9,143,068	3,376,238	4,280,666	127,917	117,152	18,592,029	16,087,618
Accumulated depreciation as at 1st January	1,144,052	177,013	2,334,048	2,994,548	133,286	-	6,782,947	6,120,556
Revaluation adjustment on accumulated depreciation	-	(260,002)	-	-	-	-	(260,002)	-
Charge for the year	96,460	87,539	194,490	347,214	14,835	-	740,538	824,960
Transferred to non-current assets held for sale (Note 30)	-	(27)	-	-	-	-	(27)	(756)
Disposals during the year	(2,897)	-	(66,520)	(41,482)	(34,097)	-	(144,996)	(161,807)
Accumulated depreciation as at 31st December	1,237,615	4,523	2,462,018	3,300,280	114,024	-	7,118,460	6,782,953
Net book value as at 31st December 2015	309,373	9,138,545	914,220	980,386	13,893	117,152	11,473,569	
Net book value as at 31st December 2014	367,980	7,166,488	621,214	1,105,203	33,782	9,998		9,304,665

The Bank / Group revalued its freehold land and buildings during 2015. The details relating to the revaluation of freehold land and buildings are given in Note 38 (b).

Based on the assessment of potential impairment carried out internally by the Board of Directors as at 31st December 2015, Rs 39.59 Mn was recognised as impairment losses on property, plant and equipment which is accounted for in "impairment charge / (reversal) for loans and other losses".

Notes to the Financial Statements

38 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Group

	Leasehold Buildings	Freehold Land and Buildings	Computer Equipment	Equipment Furniture and Fixtures	Motor Vehicles	Capital Work-in Progress	2015 Total	2014 Total
	Note 38 (c)	Note 38 (a)						
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cost / valuation as at 1st January	1,512,032	14,729,898	3,179,635	6,430,664	190,598	10,321	26,053,148	24,587,196
Revaluation adjustment on accumulated depreciation	-	(470,972)	-	-	-	-	(470,972)	-
Revaluation surplus	-	5,597,234	-	-	-	-	5,597,234	-
Net Impairment charge (Note 14)	-	(39,569)	-	-	-	-	(39,569)	(8,203)
Assets acquired through acquisition of subsidiary	-	-	-	-	-	-	-	949,777
Additions and improvements	29,828	24,240	543,929	362,185	7,000	124,138	1,091,320	752,255
Disposals during the year	(2,897)	-	(67,836)	(51,287)	(39,325)	-	(161,345)	(196,877)
Transferred to non-current assets held for sale (Note 30)	-	(20,178)	-	-	-	-	(20,178)	(31,000)
Transferred from capital work-in-progress	8,025	-	-	5,459	-	(13,484)	-	-
Cost / valuation as at 31st December	1,546,988	19,820,653	3,655,728	6,747,021	158,273	120,975	32,049,638	26,053,148
Accumulated depreciation as at 1st January	1,144,052	385,155	2,477,645	3,617,045	138,886	-	7,762,783	6,817,316
Revaluation adjustment on accumulated depreciation	-	(470,972)	-	-	-	-	(470,972)	-
Accumulated depreciation on acquisition of subsidiary	-	-	-	-	-	-	-	124,346
Charge for the year	96,460	176,774	223,446	482,099	22,620	-	1,001,399	1,010,234
Disposal of subsidiary	-	-	-	-	-	-	-	-
Transferred to non-current assets held for sale (Note 30)	-	(27)	-	-	-	-	(27)	(762)
Disposals during the year	(2,897)	-	(67,533)	(47,706)	(34,097)	-	(152,233)	(188,351)
Accumulated depreciation as at 31st December	1,237,615	90,930	2,633,558	4,051,438	127,409	-	8,140,950	7,762,783
Net book value as at 31st December 2015	309,373	19,729,723	1,022,170	2,695,583	30,864	120,975	23,908,688	-
Net book value as at 31st December 2014	367,980	14,344,743	701,990	2,813,619	51,712	10,321	-	18,290,365

38 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

38 (a) Information on Freehold Land and Buildings of the Bank - Extents and Locations

	Extent (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 2015 Net Book Value Rs 000	As at 31st December 2014 Net Book Value Rs 000
Akkaraipattu Branch 14, Main Street, Akkaraipattu.	19.32	10,080	48,300	40,700	89,000	51	88,949	46,600
Ambalangoda Branch 94/1, New Galle Road, Ambalangoda.	29.90	14,469	74,500	17,500	92,000	25	91,975	79,060
Anuradhapura Branch 30, Maithripala Senanayake Mawatha, Anuradhapura.	58.99	9,510	106,500	31,500	138,000	53	137,947	92,660
Badulla Branch 15, 15 1/1, Udayaraja Mawatha, Badulla.	27.75	5,629	74,925	18,075	93,000	30	92,970	47,216
Bambalapitiya Branch 285, Galle Road, Colombo 04.	20.00	16,170	160,000	68,700	228,700	115	228,585	219,759
Boralesgamuwa Branch 24, Maharagama Road, Boralesgamuwa.	29.55	5,432	73,875	25,125	99,000	34	98,966	89,552
Borella Branch 53/1, D S Senanayake Mawatha, Colombo 08.	28.00	10,102	140,000	88,000	228,000	118	227,882	202,611
Centralised Operations 90, Vinayalankara Mawatha, Colombo 10.	249.00	10,250	1,419,300	48,700	1,468,000	61	1,467,939	1,031,417
City Office 16, Janadhipathi Mawatha, Colombo 1.	84.00	44,807	504,000	80,373	584,373	302	584,071	292,790
Dambulla Branch 622, Anuradhapura Road, Dambulla.	100.00	7,456	120,000	43,474	163,474	58	163,416	99,563
Fruithill Bungalow No 295/6, Dimbula Road, Hatton.	53.80	4,277	10,760	12,240	23,000	15	22,985	37,260
Galle Branch 3, Wakwella Road, Galle.	13.68	7,920	68,400	11,600	80,000	19	79,981	58,688

Notes to the Financial Statements

38 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

38 (a) Information on Freehold Land and Buildings of the Bank - Extents and Locations (Contd.)

	Extent (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 2015 Net Book Value Rs 000	As at 31st December 2014 Net Book Value Rs 000
Gampaha Branch 148, Colombo Road, Gampaha.	25.00	16,682	65,000	170,929	235,929	216	235,713	198,973
Gampola Branch 142, Kandy Road, Gampola.	17.05	12,825	42,626	59,375	102,001	65	101,936	125,592
Grandpass Branch 182, St Joseph Street, Colombo 14.	24.00	11,220	84,000	75,000	159,000	104	158,896	132,492
Gunasinghapura Stores 11, Mohandiram's Road, Colombo 12.	48.30	6,022	127,740	22,260	150,000	37	149,963	118,704
Hatton Branch*** Bank House, No 88 & 90, Dimbula Road, Hatton.	-	-	-	-	-	-	-	22,274
Ja-Ela Branch 73, Old Negombo Road, Kanuwana, Ja-Ela.	19.00	7,000	28,500	14,000	42,500	23	42,477	53,599
Jaffna Metro Branch 177 & 179, Ponnampalam Rd, Jaffna.	61.36	30,694	276,000	282,385	558,385	307	558,078	565,610
Kahawatte Branch 772 A, Main Street, Kahawatte.	16.14	3,293	24,210	5,790	30,000	7	29,993	40,847
Kalmunai Branch 30A, Batticaloa Road, Kalmunai.	25.10	6,123	50,200	29,800	80,000	32	79,968	72,583
Kandy Branch 1, Dalada Veediya, Kandy.	58.00	26,821	547,675	120,355	668,030	390	667,640	626,887
Kegalle Branch 451, Kandy Road, Kegalle.	61.70	-	83,400	-	83,400	-	83,400	32,300
Kuliyapitiya Branch 225, Main Street, Kuliyapitiya.	32.08	4,500	24,000	16,000	40,000	27	39,973	47,301
Kurunegala Branch 6, St. Anne's Street, Kurunegala.	36.25	5,970	145,000	105,828	250,828	178	250,650	197,556

38 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

38 (a) Information on Freehold Land and Buildings of the Bank - Extents and Locations (Contd.)

	Extent (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 2015 Net Book Value Rs 000	As at 31st December 2014 Net Book Value Rs 000
Managers Bungalow No 295, Dimbula Road, Hatton.	42.20	1,976	8,440	6,560	15,000	11	14,989	16,292
Mannar Branch 68, Main Street, Mannar.	23.00	5,866	11,500	20,000	31,500	25	31,475	37,218
Marawila Branch 534, Colombo Road, Marawila.	43.80	7,217	32,150	25,850	58,000	43	57,957	58,158
Maskeliya Branch 7/11, New Town, Maskeliya.	20.32	8,277	20,320	33,680	54,000	56	53,944	26,476
Matara Branch 58D, Esplanade Road, Matara.	26.00	5,926	52,000	31,000	83,000	52	82,948	68,146
Minuwangoda Branch 41, Samarakkody Road, Minuwangoda.	20.51	3,452	30,765	15,235	46,000	19	45,981	40,279
Mount Bungalow 16, Mount Road, Hatton.	160.09	5,074	28,016	14,984	43,000	25	42,975	29,575
Mount Lavinia Branch 605, Galle Road, Mount Lavinia.	22.66	11,350	73,645	60,755	134,400	102	134,298	117,061
Negombo Branch 18, Rajapakse Broadway, Negombo.	8.88	5,450	15,500	19,500	35,000	33	34,967	30,589
Negombo Metro 190, Colombo Road, Negombo.	51.98	28,081	103,960	211,040	315,000	266	314,734	298,144
Nittambuwa Branch 22, Kandy Road, Nittambuwa.	55.69	10,411	111,380	149,542	260,922	251	260,671	216,762
Nochchiyagama Branch * 10, Puttalam Road, Nochchiyagama.	-	8,652	-	24,700	24,700	41	24,659	22,619

Notes to the Financial Statements

38 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

38 (a) Information on Freehold Land and Buildings of the Bank - Extents and Locations (Contd.)

	Extent (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 2015 Net Book Value Rs 000	As at 31st December 2014 Net Book Value Rs 000
Nugegoda Branch 181, High Level Road, Nugegoda.	19.50	11,096	78,550	62,450	141,000	105	140,895	130,811
Nugegoda Branch 190,190/1, High Level Road, Nugegoda.	39.65	Under Construction	128,863	-	128,863	-	128,863	99,709
Nuwara Eliya Branch / Bungalow 42, Queen Elizabeth Drive, Nuwara Eliya.	149.03	12,929	462,575	47,425	510,000	80	509,920	125,425
Panchikawatte Branch 168, Panchikawatta Road, Colombo 10.	22.55	16,366	112,750	86,331	199,081	176	198,905	157,850
Pettah Branch 149-151, Main Street, Colombo 11.	13.03	11,460	156,360	73,040	229,400	123	229,277	199,398
Pettah Metro ** 88, Main Street, Colombo 11.	-	3,708	-	64,000	64,000	81	63,919	51,256
Polonnaruwa Branch * 467, Main Street, Kaduruwela, Polonnaruwa.	-	9,882	-	56,940	56,940	181	56,759	45,329
Pussellawa Branch 409/9A, Nuwaraeliya Road, Pussellawa.	14.30	4,785	21,450	21,550	43,000	26	42,974	24,433
Ratnapura Branch 21 & 23, Senanayake Mv, Ratnapura.	22.30	6,732	75,000	17,500	92,500	29	92,471	83,528
Sea Street Branch 60, Sea Street, Colombo 11.	6.93	9,608	62,370	43,630	106,000	73	105,927	94,671
Trincomalee Branch 59, Ehamparam Road, Trincomalee.	31.75	9,156	69,850	50,030	119,880	105	119,775	78,449

38 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

38 (a) Information on Freehold Land and Buildings of the Bank - Extents and Locations (Contd.)

	Extent (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 2015 Net Book Value Rs 000	As at 31st December 2014 Net Book Value Rs 000
Vavuniya Branch *								
43, Inner Circular Road, Vavuniya.	-	9,032	-	25,500	25,500	43	25,457	26,994
Wattala Branch								
270, 270/1, Negombo Road, Wattala.	53.00	8,579	145,750	50,250	196,000	75	195,925	162,819
Welimada Branch								
35, Nuwara Eliya Road, Welimada.	14.37	9,909	35,925	47,075	83,000	59	82,941	78,636
Wellawaya Branch								
70, Kumaradasa Mawatha, Wellawaya.	25.50	5,873	2,809	9,953	12,762	12	12,750	30,611
Wellawatte Branch								
100 & 102, Galle Road, Colombo 06.	36.05	16,082	234,325	113,675	348,000	164	347,836	283,356
Total freehold land and buildings			6,373,164	2,769,904	9,143,068	4,523	9,138,545	7,166,488

*Buildings constructed on state land given on lease

** Condominium property

***Transferred to non-current assets held for sale

Notes to the Financial Statements

38 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

38 (b) Information on Valuations of Freehold Land and Buildings of the Bank

The below table summarises the result of the revaluation carried out in 2015

	Name of Professional Valuer	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs
Akkaraipattu Branch 14, Main Street, Akkaraipattu.	Mr. M.H.G.Heenbanda	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.2,500,000 p.p Rs.4,500 p. sq.ft 10.00%
Ambalangoda Branch 94/1, New Galle Road, Ambalangoda.	Mr. G.K.D.K. Abeytunga	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.2,500,000 p.p Rs.4,000 to Rs.4,500 p. sq.ft 15.00%
Anuradhapura Branch 30, Maithripala Senanayake Mawatha, Anuradhapura.	Mr. Tissa Weeratne	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.1,000,000 to Rs.2,850,000 p.p Rs.3,500 to Rs.4,500 p. sq.ft 25.00%
Badulla Branch 15, 15 1/1, Udayaraja Mawatha, Badulla.	Mr. Tissa Weeratne	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.2,700,000 p.p Rs.1,500 to Rs.4,500 p. sq.ft 25.00%
Bambalapitiya Branch 285, Galle Road, Colombo 4.	Mr. J.M.J. Fernando	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.8,000,000 p.p Rs.8,500 p. sq.ft 50.00%
Boralessgamuwa Branch 24, Maharagama Road, Boralessgamuwa.	Mr. J.M.J. Fernando	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.2,500,000 p.p Rs.3,500 to Rs.7,000 p. sq.ft 23.00%
Borella Branch 53/1, D S Senanayake Mawatha, Borella.	Mr. J.M.J. Fernando	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.5,000,000 p.p Rs.3,500 to 11,500 p. sq.ft 20.00%
Centralised Operations Building 90, Vinayalankara Mawatha, Colombo 10.	Mr. J.M.J. Fernando	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.6,000,000 p.p Rs.5,500p. sq.ft 13.00%

Net book value before revaluation of		Revalued amount of		Revaluation Gain/ (Loss) Recognised on	
Land	Building	Land	Building	Land	Building
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
23,000	22,944	48,300	40,700	25,300	17,756
65,000	13,686	74,500	17,500	9,500	3,814
65,114	26,676	106,500	31,500	41,386	4,824
35,000	12,580	74,925	18,075	39,925	5,495
150,000	67,216	160,000	68,700	10,000	1,484
59,022	29,765	73,875	25,125	14,853	(4,640)
119,000	81,140	140,000	88,000	21,000	6,860
996,000	36,857	1,419,300	48,700	423,300	11,843

Notes to the Financial Statements

38 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

38 (b) Information on Valuations of Freehold Land and Buildings of the Bank (Contd.)

	Name of Professional Valuer	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs
City Office 16, Janadhipathi Mawatha, Colombo 1.	Mr. J.M.J. Fernando	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.6,000,000 p.p Rs.3,000 to Rs.7,000 p. sq.ft 71.67%
Dambulla Branch 622, Anuradhapura Road, Dambulla.	Mr. N.M. Jayatilake	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.800,000 to 1,600,000p.p Rs.7,500 to 8,000p. sq.ft 25.00%
Fruithill Bungalow No 295/6, Dimbula Road, Hatton.	Mr. W.M.H.G. Heenbanda	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.200,000p.p Rs.3,500p. sq.ft 30.00%
Galle Branch 3, Wakwella Road, Galle.	Mr. G.K.D.K. Abeytunga	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.5,000,000p.p Rs.2,500 to 3,000p. sq.ft 70.00%
Gampaha Branch 148, Colombo Road, Gampaha.	Mr. N.M. Jayatilake	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.2,600,000p.p Rs.8,000 to 15,000p. sq.ft 15.00%
Gampola Branch 142, Kandy Road, Gampola.	Mr. W.M.H.G. Heenbanda	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building	Rs.2,500,000p.p Rs. 4,500p. sq.ft
Grandpass Branch 182, St Joseph Street, Colombo 14.	Mr. J.M.J. Fernando	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.3,500,000 p.p Rs.8,500p. sq.ft 21.00%
Gunasinghepura Stores 11, Mohandiram's Road, Colombo 12.	Mr. J.M.J. Fernando	Depreciated replacement cost basis - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.3,000,000 p.p Rs.2,000 to 5,000p. sq.ft 21.66%
Ja-Ela Branch 73,Old Negombo Road, Ja-Ela.	Mr. Tissa Weeraratne	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.1,500,000p.p Rs.2,500 to 4,500p. sq.ft 17.00%

Net book value before revaluation of		Revalued amount of		Revaluation Gain/ (Loss) Recognised on	
Land	Building	Land	Building	Land	Building
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
168,000	126,161	504,000	79,800	336,000	(46,391)
80,325	18,779	120,000	43,474	39,675	24,695
16,140	6,117	10,760	12,240	(5,380)	6,123
41,000	17,046	68,400	11,600	27,400	(5,446)
50,000	144,825	65,000	170,929	15,000	26,104
34,000	89,737	42,625	59,375	8,625	(30,362)
66,000	64,455	84,000	75,000	18,000	10,545
96,800	21,068	127,740	22,260	30,940	1,192
33,200	19,794	28,500	14,000	(4,700)	(5,794)

Notes to the Financial Statements

38 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

38 (b) Information on Valuations of Freehold Land and Buildings of the Bank (Contd.)

	Name of Professional Valuer	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs
Jaffna Metro Branch 177 179 Ponnampalam Rd, Jaffna.	Mr. B. Balenthiran	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building	Rs.4,500,000p.p Rs.9,200p. sq.ft
Kahawatte Branch 77 2A, Main Street, Kahawatte.	Mr. G.K.D.K. Abeytunga	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.1,500,000p.p Rs.3,000 to 3,500p. sq.ft 65.00%
Kalmunai Branch 30A, Batticaloa Road, Kalmunai.	Mr. W.M.H.G. Heenbanda	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building	Rs.2,000,000p.p Rs.4,750p. sq.ft
Kandy Branch 1, Dalada Veediya, Kandy.	Mr. W.M.H.G. Heenbanda	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.9,500,000p.p Rs.4,000p. sq.ft - Rs.5,500 sq.ft 40.00%
Kegalle Branch 451, Kandy Road, Kegalle.	Mr. N.M. Jayatilake	Depreciated replacement cost basis - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.2,200,000p.p Rs.6,500 to 8,000p. sq.ft 25.00%
Kuliyapitiya Branch 225, Main Street, Kuliyapitiya.	Mr. Tissa Weeratne	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.425,000 to 850,000p.p Rs.4,300p. sq.ft 17.50%
Kurunegala Branch 6, St. Anne's Street, Kurunegala.	Mr. N.M. Jayatilake	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.4,000,000p.p Rs.4000 to 8,500p. sq.ft 20.00%
Managers Bungalow No 295, Dimbula Road, Hatton.	Mr. W.M.H.G. Heenbanda	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building	Rs.200,000p.p Rs.3,000p. sq.ft
Mannar Branch 68, Main Street, Mannar.	Mr. Tissa Weeraratne	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building	Rs.500,000p.p Rs.2,800 to 3,800p. sq.ft
Marawila Branch 534, Chilaw Road, Marawila.	Mr. Tissa Weeratne	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.500,000 to 1,000,000p.p Rs.3,300 to 4,300p. sq.ft 20.00%

Net book value before revaluation of		Revalued amount of		Revaluation Gain/ (Loss) Recognised on	
Land	Building	Land	Building	Land	Building
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
276,000	283,068	276,000	282,385	-	(683)
16,000	24,695	24,210	5,790	8,210	(18,905)
19,800	51,497	50,200	29,800	30,400	(21,697)
490,025	131,569	547,675	120,325	57,650	(11,244)
32,301	-	83,400	-	51,100	-
37,440	9,659	24,000	16,000	(13,440)	6,341
119,063	78,458	145,000	105,828	25,937	27,371
28,208	8,720	11,760	8,240	(16,448)	(480)
20,300	16,563	11,500	20,000	(8,800)	3,437
32,850	24,371	32,150	25,850	(700)	1,479

Notes to the Financial Statements

38 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

38 (b) Information on Valuations of Freehold Land and Buildings of the Bank (Contd.)

	Name of Professional Valuer	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs
Maskeliya Branch 7/11, New Town, Maskeliya.	Mr. W.M.H.G. Heenbanda	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.1,000,000p.p Rs.4,000 to 4,500p. sq.ft 25.00%
Matara Branch 58D, Esplanade Road, Matara.	Mr. G.K.D.K. Abeytunga	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building	Rs.2,000,000p.p Rs.4,500 to 5,000p. sq.ft
Minuwangoda Branch 41, Samarakkody Road, Minuwangoda.	Mr. J.M.J. Fernando	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.1,500,000 p.p Rs.2,500 to 6,000p. sq.ft 21.00%
Mount Bungalow 16, Mount Road, Hatton.	Mr. W.M.H.G. Heenbanda	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.175,000p.p Rs.3,500p. sq.ft 35.00%
Mount Lavinia Branch 605, Galle Road, Mount Lavinia.	Mr. J.M.J. Fernando	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.3,250,000 p.p Rs.8,000p. sq.ft 33.00%
Negombo Branch 18, Rajapakse Broadway, Negombo.	Mr. Tissa Weeraratne	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.1,750,000p.p Rs.850 to 4,850p. sq.ft 20.00%
Negombo Metro Building 190, Colombo Road, Negombo.	Mr. Tissa Weeraratne	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building	Rs.2,000,000p.p Rs.8,550 to 9,500p. sq.ft
Nittambuwa Branch 22, Kandy Road, Nittambuwa.	Mr. N.M. Jayatilake	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.2,000,000p.p Rs.12,000 to 18,000p. sq.ft 12.00%
Nochchiyagama Branch* 10, Puttalam Road, Nochchiyagama.	Mr. Tissa Weeraratne	Depreciated replacement cost basis/ Market comparable method - Price per square foot for building - Depreciation rate	Rs 1,500 to 4,400p. sq.ft 30.00%

Net book value before revaluation of		Revalued amount of		Revaluation Gain/ (Loss) Recognised on	
Land	Building	Land	Building	Land	Building
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
6,072	19,654	20,320	33,680	14,248	14,026
39,000	28,411	52,000	31,000	13,000	2,589
25,637	14,185	30,765	15,235	5,128	1,050
24,000	5,370	28,016	14,984	4,016	9,614
62,300	53,668	73,645	60,755	11,345	7,087
22,000	8,398	15,500	19,500	(6,500)	11,102
103,900	188,949	103,960	211,040	60	22,091
67,000	144,246	111,380	149,588	44,380	5,342
-	21,788	-	24,700	-	2,912

Notes to the Financial Statements

38 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

38 (b) Information on Valuations of Freehold Land and Buildings of the Bank (Contd.)

	Name of Professional Valuer	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs
Nugegoda Branch 181, High Level Road, Nugegoda.	Mr. J.M.J. Fernando	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs 5,000,000 p.p Rs.8,500p. sq.ft 33.00%
Nugegoda Branch (Under construction) 190,190/1, High Level Road, Nugegoda	Mr. J.M.J. Fernando	Depreciated replacement cost basis/ Market comparable method - Price per perch for land	Rs.3,250,000 p.p
Nuwara Eliya Branch / Bungalow 42, Queen Elizabeth Drive, Nuwara Eliya.	Mr. W.M.H.G. Heenbanda	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.2,500,000 to 4,000,000p.p Rs.4,500p. sq.ft 40.00%
Panchikawatta Branch 168, Panchikawatta Road, Colombo 10.	Mr. J.M.J. Fernando	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.5,000,000 p.p Rs.2,500 to 8,000 p. sq.ft 33.00%
Pettah Branch 149-151, Main Street, Colombo 11.	Mr. J.M.J. Fernando	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.12,000,000 p.p Rs.8,500p. sq.ft 25.00%
Pettah Metro ** 88, Main Street, Colombo 11.	Mr. J.M.J. Fernando	Investment basis - Rent per sqft - Out-going expenses - Years purchase	Rs 150.00 35% of the gross annual rent 16
Polonnaruwa Branch * 467, Main Street, Kaduruwela, Polonnaruwa.	Mr. N.M. Jayatilake	Depreciated replacement cost basis/ Market comparable method - Price per square foot for building - Depreciation rate	Rs.6,500 to 7,500p. sq.ft 20.00%
Pussellawa Branch 409/9A, Pussellawa Road, Pussellawa.	Mr. W.M.H.G. Heenbanda	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.1,500,000p.p Rs.4,500p. sq.ft 5.00%
Ratnapura Branch 21 & 23, Senanayake Mw, Ratnapura.	Mr. G.K.D.K. Abeytungga	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.2,000,000p.p Rs.4,000p. sq.ft 65.00%

Net book value before revaluation of		Revalued amount of		Revaluation Gain/ (Loss) Recognised on	
Land	Building	Land	Building	Land	Building
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
74,000	54,901	78,550	62,450	4,550	7,549
99,709	-	128,863	-	29,154	-
89,418	35,998	462,575	47,425	373,157	11,427
78,900	76,817	112,750	86,250	33,850	9,433
130,000	67,044	156,360	73,040	26,360	5,996
-	49,884	-	64,000	-	14,115
-	46,159	-	56,884	-	10,725
10,840	13,259	21,450	21,550	10,610	8,291
64,800	18,041	75,000	17,500	10,200	(541)

Notes to the Financial Statements

38 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

38 (b) Information on Valuations of Freehold Land and Buildings of the Bank (Contd.)

	Name of Professional Valuer	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs
Sea Street Branch 60, Sea Street, Colombo 11.	Mr. J.M.J. Fernando	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.9,000,000 p.p Rs.8,500p. sq.ft 46.00%
Trincomalee Branch 59, Ehampraram Road, Trincomalee.	Mr. N.M. Jayatilake	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.2,200,000p.p Rs.6,500 to 8,000p. sq.ft 25.00%
Vavuniya Branch * 43, Inner Circular Road, Vavuniya.	Mr. Tissa Weeraratne	Depreciated replacement cost basis/ - Price per square foot for building - Depreciation rate	Rs.1,500 to 4,250p. sq.ft 28.00%
Wattala Branch 270, 270/1, Negombo Road, Wattala.	Mr. J.M.J. Fernando	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.2,550,000 p.p Rs.4,750p. sq.ft 25.00%
Welimada Branch 35, Nuwara Eliya Road, Welimada.	Mr. W.M.H.G. Heenbanda	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building	Rs.2,750,000p.p Rs.3,500p. sq.ft to 8,500p sq.ft
Wellawaya Branch 70, Kumaradasa Mawatha Wellawaya.	Mr. G.K.D.K. Abeytungu	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.100,000p.p Rs.1,000 to 3,500p. sq.ft 65.00%
Wellawatte Branch 100 & 102, Galle Road, Wellawatte.	Mr. J.M.J. Fernando	Depreciated replacement cost basis/ Market comparable method - Price per perch for land - Price per square foot for building - Depreciation rate	Rs.6,500,000 p.p Rs.9,000 p. sq.ft 21.00%

* Buildings constructed on state land given on lease

** Valued as a condominium property

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.

- Investment method

Significant increase / (decrease) in rent per sq.ft, outgoing expenses and number of years since purchase would result in a significantly higher / (lower) fair value.

Net book value before revaluation of		Revalued amount of		Revaluation Gain/ (Loss) Recognised on	
Land	Building	Land	Building	Land	Building
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
55,440	38,041	62,370	43,630	6,930	5,589
47,625	30,144	69,850	49,623	22,225	19,479
-	25,967	-	25,500	-	(467)
119,200	42,245	145,750	50,250	26,550	8,005
19,500	56,683	35,925	47,075	16,425	(9,608)
12,110	21,600	2,550	9,950	(9,560)	(11,650)
180,250	99,851	234,325	113,675	54,075	13,824
4,501,289	2,588,749	6,376,224	2,770,480	1,874,936	181,701

Notes to the Financial Statements

38 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

38 (c) Leasehold Buildings

As at 31st December	Bank				Group			
	2015		2014		2015		2014	
	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	583,472	556,051	27,421	22,706	583,472	556,051	27,421	22,706
06 - 10 years	916,262	648,191	268,071	326,601	916,262	648,191	268,071	326,601
11 - 15 years	35,202	22,260	12,942	15,729	35,202	22,260	12,942	15,729
16 - 20 years	12,052	11,113	939	2,944	12,052	11,113	939	2,944
Total	1,546,988	1,237,615	309,373	367,980	1,546,988	1,237,615	309,373	367,980

38 (d) Fully Depreciated Property, Plant and Equipment - Bank

The initial cost of fully depreciated property, plant and equipment which are still in use as at reporting date is as follows.

As at 31st December	2015 Rs 000	2014 Rs 000
Motor vehicles	93,923	44,456
Leasehold buildings	841,671	254,202
Computer equipments	1,899,291	1,133,133
Equipment, furniture and fixtures	2,095,622	1,692,211
Intangible assets	1,434,224	614,091

38 (e) Temporarily Idle Property, Plant and Equipment - Bank

There was no temporarily idle property, plant and equipment as at 31st December 2015.

39 INTANGIBLE ASSETS AND GOODWILL

Accounting policy

Basis of Recognition

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. An intangible asset is initially measured at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

(a) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill is measured at initial recognition in accordance with Note 3.1.1.

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 the equity accounted investee.

Any gain on bargain purchase is recognised immediately in the statement of profit or loss.

(b) Software

All computer software costs incurred, licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that those will lead to future economic benefits, are included in the statement of financial position under the category 'intangible assets' and are carried at cost less accumulated amortisation and any accumulated impairment losses.

39 INTANGIBLE ASSETS AND GOODWILL (CONTD.)

License

The amount that would be required to obtain a license to operate a registered finance business is recognised as license in the financial statements.

Subsequent expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

Amortisation

The useful lives of intangible assets are assessed as either finite or infinite. Intangible assets, with finite lives, are amortised on a straight line basis in the statement of profit or loss from the date when the asset is available for use, over the best estimate of the useful economic life based on a pattern in which the asset's economic benefits are consumed by the Group, at 16.67% per annum.

Those assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Expenditure on an intangible item that was initially recognised as an expense by the Group in previous annual financial statements or interim financial statements are not recognised as part of the cost of an intangible asset at a later date. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Goodwill and intangible assets with infinite useful lives such as license are not amortised, but are assessed for impairment annually. The assessment of infinite life is reviewed annually to determine whether the infinite life continues to be supportable.

De-recognition

An intangible asset is de-recognised on disposal or when no future economic benefits are expected from its use and subsequent disposal. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss.

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Cost				
Balance as at 1st January	2,573,534	2,468,847	2,979,122	2,608,449
Additions and improvements during the year	77,194	104,687	156,306	120,477
Intangible assets acquired through acquisition of subsidiary	-	-	-	250,196
Balance as at 31st December	2,650,728	2,573,534	3,135,428	2,979,122
Accumulated amortisation				
Balance as at 1st January	1,770,806	1,474,170	1,889,363	1,559,583
Amortisation for the year (Note 17)	220,613	296,636	244,835	315,839
Accumulated amortisation on intangible assets acquired through acquisition of subsidiary	-	-	-	13,941
Balance as at 31st December	1,991,419	1,770,806	2,134,198	1,889,363
Net book value as at 31st December	659,309	802,728	1,001,230	1,089,759

39 (a) Analysis of Intangible Assets

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Computer Software	659,309	802,728	778,289	866,818
Goodwill *	-	-	122,941	122,941
License	-	-	100,000	100,000
	659,309	802,728	1,001,230	1,089,759

* Goodwill amounting to Rs 122.94 Mn has been recognised in respect of acquisition of HNB Grameen Finance Ltd. The details on purchase consideration allocation is given in Note 39 (b).

The Bank carried out an impairment assessment as at 31st December 2015 on the goodwill recognised on acquisition of HNB Grameen Finance Ltd.

Notes to the Financial Statements

39 INTANGIBLE ASSETS AND GOODWILL (CONTD.)

39 (a) Analysis of Intangible Assets (Contd.)

Assessment of Goodwill Impairment

The recoverable value of the goodwill has been determined based on the residual income method.

Key assumptions used in residual income calculation

Profit Growth

Profit growth for the next five years was projected at Compound Annual Growth Rate (CAGR). This was based on a reasonable value growth taking into account the anticipated growth in micro finance industry and the existing interest margin of the company. Beyond five years terminal growth was assumed to be 0%.

Discount factor

The discount rate used is the risk free rate, adjusted by the addition of an appropriate risk premium.

Inflation

The basis used to determine the value assigned to the budgeted cost inflation is the inflation rate based on projected economic conditions.

39 (b) Purchase Consideration Allocation

The Bank acquired a 42.16% stake in Prime Grameen Micro Finance Ltd in 2014 which was subsequently rebranded as HNB Grameen Finance Ltd. This acquisition had the following effect on the Group's assets and liabilities on the date of acquisition.

	Pre-acquisition Carrying Amounts Rs 000	Fair Value Adjustments Rs 000	Recognised on Acquisition Value Rs 000
Cash and cash equivalents	317,706		317,706
Reverse repurchase agreements	1,495,877		1,495,877
Loans and receivables to customers	4,588,932		4,588,932
Financial Investments - available-for-sale	234		234
Financial Investments - held-to-maturity	47,195		47,195
Investment properties	886,300		886,300
Property, plant and equipment	825,429		825,429
Intangible assets	13,311		13,311
License	-	100,000	100,000
Other assets	208,846		208,846
Due to banks	(49,066)		(49,066)
Due to customers	(6,005,786)		(6,005,786)
Other borrowings	(116,181)		(116,181)
Debt securities issued	(668,391)	206,004	(462,387)
Current tax liabilities	(48,370)		(48,370)
Deferred tax liabilities	(27,714)		(27,714)
Other liabilities	(400,467)		(400,467)
Subordinated term debts	(100,000)		(100,000)
	967,855	306,004	1,273,859
Non-controlling interest	(559,807)	(176,993)	(736,800)
Net identifiable assets and liabilities			537,059
Goodwill on acquisition			122,941
Consideration paid in cash			660,000
Cash acquired			(317,706)
Net cash outflow - Group			342,294

Pre-acquisition carrying amounts were determined based on applicable SLFRSs immediately before the acquisition and the goodwill recognised on the acquisition is attributable mainly to the skills and service quality of the acquired business work force which was gained through being in the micro finance business for a long period.

40 OTHER ASSETS

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Cheques sent on clearing	-	19,357	-	19,357
Deposits and prepayments	1,149,211	959,527	841,268	572,423
Items held for use	31,778	33,740	31,778	33,740
Items in transit	12,557	17,663	12,557	17,663
Receivable from pension fund	1,093,303	1,533,954	1,093,303	1,533,954
Un-amortised cost on staff loans	2,633,289	3,177,586	2,707,835	3,192,019
VAT recoverable	162,528	151,400	162,528	151,400
Other debtors	1,520,256	1,481,619	2,478,784	2,582,088
	6,602,922	7,374,846	7,328,053	8,102,644

41 DUE TO BANKS

Accounting policy

Due to banks represents refinance borrowings, call and time deposits and borrowings from banks. Subsequent to initial recognition these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "interest expenses" in the statement of profit or loss. Gains and losses are recognised in the statement of profit or loss when the liabilities are de-recognised.

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Call and time deposits	6,495,946	4,222,932	6,495,946	4,222,932
Foreign bank borrowings	31,794,480	26,190,296	31,794,480	26,190,296
Local bank borrowings	15,876,680	8,319,308	15,928,484	8,395,275
Refinance borrowings	4,064,928	4,696,226	4,064,928	4,696,226
	58,232,034	43,428,762	58,283,838	43,504,729

42 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Accounting policy

Securities sold under agreements to repurchase at a specified future date are not de-recognised from the statement of financial position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset and a corresponding obligation to return it with accrued interest, as 'securities sold under repurchase agreements', reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the Effective Interest Rate (EIR).

Notes to the Financial Statements

42 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (CONTD.)

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Securities sold under repurchase agreements				
With banks	3,303,720	1,550,238	3,303,720	1,550,238
With customers	13,326,481	15,433,307	13,326,481	15,433,307
	16,630,201	16,983,545	16,630,201	16,983,545

43 DUE TO CUSTOMERS

Accounting policy

Due to customers include non-interest bearing deposits, savings deposits, term deposits, deposits payable at call and certificate of 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 at fair value through profit or loss. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "interest expenses" in the statement of profit or loss. Gains and losses are recognised in the statement of profit or loss when the liabilities are de-recognised.

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Local currency deposits	438,253,261	352,732,715	447,347,346	359,128,926
Foreign currency deposits	88,872,920	66,594,408	88,785,443	66,491,456
	527,126,181	419,327,123	536,132,789	425,620,382

43 (a) Analysis of Due to Customers

43 (a) i By Product

Current account deposits	33,958,697	32,608,645	33,676,332	32,220,067
Savings deposits	184,204,894	157,946,623	185,608,355	158,803,308
Time deposits	305,945,326	225,812,375	313,830,838	231,637,527
Certificates of deposit	1,092,264	1,374,807	1,092,264	1,374,807
Margin deposits	1,925,000	1,584,673	1,925,000	1,584,673
	527,126,181	419,327,123	536,132,789	425,620,382

43 (a) ii By Currency

Sri Lankan Rupees	438,253,261	352,732,715	447,347,346	359,128,926
United States Dollars	67,911,332	49,335,862	67,823,855	49,232,910
Great Britain Pounds	6,361,377	5,685,523	6,361,377	5,685,523
Euros	9,795,940	6,905,604	9,795,940	6,905,604
Australian Dollars	4,047,365	3,885,325	4,047,365	3,885,325
Other currencies	756,906	782,094	756,906	782,094
	527,126,181	419,327,123	536,132,789	425,620,382

44 DIVIDENDS PAYABLE

Accounting policy

Provision for final dividends is recognised at the time the dividend recommended and declared by the Board of Directors, is approved by the shareholders. Interim dividends payable is recognised when the Board of Directors approves such dividends in accordance with the Companies Act No. 7 of 2007.

Details of dividends declared for the year after the reporting date are given in Note 64 (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	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Balance as at 1st January	587,078	426,347	587,078	426,347
Final cash dividends declared in the prior year	2,827,776	2,800,912	2,902,776	2,865,912
Interim cash dividends declared during the year	608,548	602,939	608,548	602,939
Dividends paid during the year	(3,258,631)	(3,243,120)	(3,333,631)	(3,308,120)
Balance as at 31st December	764,771	587,078	764,771	587,078

45 OTHER BORROWINGS

Accounting policy

Other borrowings represent refinance borrowings and borrowings from other financial institutions. Subsequent to initial recognition these borrowings are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "interest expenses" in the statement of profit or loss. Gains and losses are recognised in the statement of profit or loss when the liabilities are de-recognised.

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Refinance borrowings	162,362	193,090	162,362	193,090
Foreign borrowings	26,670,747	-	26,670,747	-
Others	-	4,152,195	-	4,152,195
	26,833,109	4,345,285	26,833,109	4,345,285

Notes to the Financial Statements

46 DEBT SECURITIES ISSUED

Accounting policy

Debt securities issued represent funds borrowed for long term funding purposes. Subsequent to initial recognition debt securities are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "interest expenses" in the statement of profit or loss. Gains and losses are recognised in the statement of profit or loss when the liabilities are de-recognised.

	Colombo Stock Exchange Listing	Interest Payment Frequency	Face Value Rs 000	Interest Rate	Repayment Terms	Issue Date	Maturity Date	Bank		Group	
								As at 31.12.2015 Rs 000	As at 31.12.2014 Rs 000	As at 31.12.2015 Rs 000	As at 31.12.2014 Rs 000
(i) Year of issuance 2013*	Listed	Annually	2,000,000	8.00%	10 Years	30th Aug 2013	29th Aug 2023	1,490,742	1,451,407	1,470,125	1,432,670
(ii) Year of issuance 2014*	Listed	Semi Annually	158,720	6.88%	3 Years	15th Dec 2014	15th Dec 2017	158,720	158,720	158,720	158,720
		Semi Annually	2,757,240	7.75%	5 Years	15th Dec 2014	15th Dec 2019	2,757,240	2,757,240	2,725,029	2,724,810
		Semi Annually	84,040	8.33%	10 Years	15th Dec 2014	15th Dec 2024	84,040	84,040	63,200	64,040
(iii) Year of issuance 2011**	Not Listed	Monthly	665,000	1 Yr Avg TB rate	20 Years	30th Jun 2014	30th Jun 2034	-	-	496,677	462,387
Total debt securities issued								4,490,742	4,451,407	4,913,751	4,842,627
Due within one year								-	-	-	-
Due after one year								4,490,742	4,451,407	4,913,751	4,842,627
Total debt securities issued								4,490,742	4,451,407	4,417,074	4,380,240

* HNB Assurance PLC, subsidiary of the Bank has invested Rs 73.66 Mn in debt securities issued by the Bank.

** Debt securities issued by HNB Grameen Finance Ltd. Capital repayment will commence from 2024.

47 SUBORDINATED TERM DEBTS

Accounting policy

Subordinated term debts represent funds borrowed for long term funding purposes which are subordinated to the other claims. Subsequent to initial recognition subordinated term debts are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "interest expenses" in the statement of profit or loss. Gains and losses are recognised in the statement of profit or loss when the liabilities are de-recognised.

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Subordinated debentures [Note 47 (a)]	8,471,740	8,385,102	8,492,968	8,408,389
Subordinated loan [Note 47 (b)]	3,592,630	3,268,657	3,592,630	3,268,657
	12,064,370	11,653,759	12,085,598	11,677,046

47 SUBORDINATED TERM DEBTS (CONTD.)

47 (a) Subordinated Debentures

	Colombo Stock Exchange Listing	Interest Payment Frequency	Face Value Rs 000	Interest Rate	Repayment Terms	Issue Date	Maturity Date	Bank		Group	
								As at 31.12.2015 Rs 000	As at 31.12.2014 Rs 000	As at 31.12.2015 Rs 000	As at 31.12.2014 Rs 000
(i) Year of issuance 2006*	Listed	At maturity	514,345	11.00%	15 Year	1st Apr 2006	31st Mar 2021	297,488	268,022	276,709	260,522
		At maturity	1,362,800	11.25%	18 Year	1st Apr 2006	31st Mar 2024	565,709	508,535	565,709	508,535
(ii) Year of issuance 2007	Listed	Annually	500,000	16.00%	10 Year	1st Aug 2007	31st Jul 2017	540,000	540,000	540,000	540,000
		Annually	700,000	16.75%	15 Year	1st Aug 2007	31st Jul 2022	758,625	758,625	758,625	758,625
(iii) Year of issuance 2011	Listed	Semi Annually	2,000,000	11.50%	10 Year	5th Sep 2011	4th Sep 2021	2,000,000	2,000,000	2,000,000	2,000,000
(iv) Year of issuance 2013*	Listed	Annually	4,000,000	14.00%	5 Year	13th Jun 2013	12th Jun 2018	4,309,918	4,309,920	4,251,925	4,240,707
(v) Year of issuance 2013	Not Listed	Monthly	100,000	17.50%	5 Year	17th Jun 2013	16th Jun 2018	-	-	100,000	100,000
Total subordinated debentures								8,471,740	8,385,102	8,492,968	8,408,389
Due within one year								-	-	-	-
Due after one year								8,471,740	8,385,102	8,492,968	8,408,389
Total subordinated debentures								8,471,740	8,385,102	8,492,968	8,408,389

* HNB Assurance PLC, subsidiary of the Bank has invested Rs 78.77 Mn in subordinated debentures issued by the Bank

47 (b) Subordinated Loan

Subordinated loan represents eight year subordinated loan of USD 25 Mn from German Development Financial Institution (DEG).

48 CURRENT TAX LIABILITIES

Accounting policy

Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted on the reporting date

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Economic Service Charges (ESC)

With effect from 1st April 2012 as per the ESC amendment Act No 11 of 2012, ESC is payable at 0.25% on exempt turnover of the Bank and is deductible from income tax payable. ESC is not payable on turnover on which income tax is payable.

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Tax payable	4,542,977	3,297,530	4,762,707	3,394,992
	4,542,977	3,297,530	4,762,707	3,394,992

Notes to the Financial Statements

49 DEFERRED TAX

Accounting policy

Deferred Tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes for all Group entities.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses (if any), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the unused tax credits and unused tax losses carried forward can be utilised except;

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction, that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date, and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Un-recognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates, that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. The rates applicable as at reporting date are given in Note 20 to the financial statements.

Deferred tax relating to items recognised directly in equity are also recognised in equity, through other comprehensive income and not in the statement of profit or loss.

Deferred 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 at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Deferred tax liabilities [Note 49 (a) ii]	2,573,495	1,955,105	2,981,800	2,231,844
Deferred tax assets [Note 49 (b)]	(2,194,675)	(2,242,489)	(2,402,698)	(2,431,159)
	378,820	(287,384)	579,102	(199,315)

49 DEFERRED TAX (CONTD.)

49 (a) Deferred Tax Liabilities

49 (a) i Deferred Tax Liabilities on Other Temporary Differences

	Bank				Group			
	2015		2014		2015		2014	
	Temporary Difference Rs 000	Tax Effect Rs 000						
Balance as at 1st January	6,982,518	1,955,105	5,844,104	1,636,349	7,611,839	2,131,315	5,888,415	1,648,756
Increase in deferred tax liabilities through acquisition of subsidiary	-	-	-	-	-	-	467,743	130,971
Originating during the year								
Recognised in the statement of profit or loss	2,375,857	665,240	992,971	278,032	2,296,300	642,964	1,110,239	310,864
Recognised in OCI	-	-	-	-	-	-	-	-
Revaluation surplus charged to equity	371,571	104,040	-	-	371,571	104,040	-	-
Others	(538,894)	(150,890)	145,443	40,724	(543,486)	(152,176)	145,443	40,724
Balance as at 31st December	9,191,052	2,573,495	6,982,518	1,955,105	9,736,224	2,726,143	7,611,840	2,131,315

49 (a) ii Deferred Tax Liabilities on Undistributed Profits of Subsidiaries

	Bank				Group			
	2015		2014		2015		2014	
	Temporary Difference Rs 000	Tax Effect Rs 000						
Balance as at 1st January	-	-	-	-	1,005,290	100,529	996,500	99,650
Originating during the year	-	-	-	-	1,551,280	155,128	8,790	879
Balance as at 31st December	-	-	-	-	2,556,570	255,657	1,005,290	100,529
Total deferred tax liabilities (Note 49)	9,191,052	2,573,495	6,982,518	1,955,105	12,292,794	2,981,800	8,617,130	2,231,844

49 (b) Deferred Tax Assets

	Bank				Group			
	2015		2014		2015		2014	
	Temporary Difference Rs 000	Tax Effect Rs 000						
Balance as at 1st January	8,008,889	2,242,489	8,586,339	2,404,175	8,682,709	2,431,159	8,586,347	2,404,175
Increase in deferred tax assets through acquisition of subsidiary	-	-	-	-	-	-	369,783	103,545
Originating during the year								
Recognised in the statement of profit or loss	(170,764)	(47,814)	(577,450)	(161,686)	(101,646)	(28,461)	(278,771)	(78,059)
Recognised in OCI	-	-	-	-	-	-	5,350	1,498
Balance as at 31st December (Note 49)	7,838,125	2,194,675	8,008,889	2,242,489	8,581,063	2,402,698	8,682,709	2,431,159

Notes to the Financial Statements

49 DEFERRED TAX (CONTD.)

49 (c) Recognised Deferred Tax Assets and Liabilities

49 (c) i Recognised Deferred Tax Assets and Liabilities - Bank

Deferred tax assets and liabilities are attributable to the following.

	Statement of Financial Position As at 31st December		Income Statement For the year ended 31st December		Other Comprehensive Income For the year ended 31st December	
	2015	2014	2015	2014	2015	2014
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Accelerated depreciation for tax purposes						
- Property, plant and equipment	(486,975)	(503,912)	16,937	(56,941)	-	-
- Intangible assets	(106,585)	(95,793)	(10,792)	5,965	-	-
- Assets on lease business	(1,794,754)	(1,123,369)	(671,385)	(227,056)	-	-
Revaluation of government securities	110,166	(40,724)	-	-	150,890	(40,724)
Revaluation of freehold buildings	(295,347)	(191,307)	-	-	(104,040)	-
Temporary difference on provisions	2,194,675	2,242,489	(47,814)	(161,686)	-	-
	(378,820)	287,384	(713,054)	(439,718)	46,850	(40,724)

49 (c) ii Recognised Deferred Tax Assets and Liabilities - Group

Deferred tax assets and liabilities are attributable to the following.

	Statement of Financial Position As at 31st December		Income Statement For the year ended 31st December		Other Comprehensive Income For the year ended 31st December	
	2015	2014	2015	2014	2015	2014
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Accelerated depreciation for tax purposes						
- Property, plant and equipment	(616,806)	(655,925)	63,603	(89,773)	-	-
- Intangible assets	(106,585)	(95,793)	(10,792)	5,965	-	-
- Assets on lease business	(1,794,754)	(1,123,369)	(671,385)	(227,056)	-	-
Revaluation of government securities	111,452	(215,504)	-	-	152,176	-
Revaluation of freehold buildings to fair value	(319,449)	(40,724)	(24,390)	-	(104,040)	(40,724)
Undistributed profits of subsidiaries	(255,657)	(100,529)	(155,128)	(879)	-	-
Unutilised tax losses	164,289	147,493	16,799	70,444	-	-
Temporary difference on provisions	2,238,408	2,283,666	(45,260)	(148,503)	-	1,498
	(579,102)	199,315	(826,553)	(389,802)	48,136	(39,226)

50 INSURANCE PROVISION - LIFE

Accounting policy

Insurance Provision - Life Insurance

The insurance provision - life balance represents the life fund of the subsidiary HNB Assurance PLC, which is carrying out life insurance business.

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the net premium method as specified by the Insurance Board of Sri Lanka (IBSL) based on the recommendation of the independent consultant actuary. The liability is determined as the sum of the discounted value of the expected future benefits, less the discounted value of the expected future premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is computed based on IBSL specified guidelines and current assumptions which vary based on the contract type.

Furthermore, adjustments are performed to capture the likely liabilities that may arise due to currently lapsed contracts getting revived in the future.

Liability Adequacy Test (LAT)

As required by Sri Lanka Accounting Standard - SLFRS 4 on "Insurance Contracts", the entity performed a Liability Adequacy Test (LAT) in respect of life insurance contract liabilities with the assistance of an external actuary. In performing the LAT, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used.

Insurance provision - life balance represents the amounts attributable to life policy holders included in the Group's net assets. The valuation of the insurance provision - life as at 31st December 2015 was made by Mr. Hassan Scott Odierno, of M/s Actuarial Partners Consulting Sdn Bhd, formerly known as Mercer Zainal Consulting Sdn Bhd whereas prior year valuation was done by Mr. M Poopalanathan, (AIA), of M/s Actuarial and Management Consultants (Pvt.) Ltd on behalf of HNB Assurance PLC.

The life fund stands at Rs 7,007.08 Mn as at 31st December 2015 (2014 : Rs 5,562.6 Mn) and in the opinion of the actuary this amount is adequate to cover the liabilities pertaining to the long term insurance business of HNB Assurance PLC, as per the actuary's report dated 20th January 2016.

51 INSURANCE PROVISION - GENERAL

Accounting policy

Insurance Provision – General Insurance

General insurance contract liabilities include the outstanding claims provision including the Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER), the provision for unearned premium and the provision for premium deficiency.

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date.

The valuation of unearned premium reserves are measured in accordance with guidelines of the Regulation of Insurance Industry Act, No. 43 of 2000 (i.e. based on the 1/24th basis except for the marine policies which are computed on a 60-40 basis).

The IBNR and Incurred IBNER claims reserve are actuarially computed.

The liability is IBNR and IBNER discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are de-recognised when the obligation to pay a claim expires, is discharged or is cancelled.

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.

Notes to the Financial Statements

51 INSURANCE PROVISION - GENERAL (CONTD.)

As at 31st December	Group			
	2015		2014	
	Rs 000	Rs 000	Rs 000	Rs 000
Unearned premium				
Gross		1,301,243		1,187,153
Reinsurance		(203,026)		(209,325)
Net		1,098,217		977,828
Deferred acquisition expenses		-		-
Reserve for title insurance		19,154		16,866
Unexpired risk reserve		-		-
		1,117,371		994,694
Claims outstanding - gross	359,921		228,229	
Claims incurred but not reported - gross	68,974	428,895	56,216	284,445
Total		1,546,266		1,279,139

52 OTHER LIABILITIES

As at 31st December	Bank		Group	
	2015	2014	2015	2014
	Rs 000	Rs 000	Rs 000	Rs 000
Cheques sent on clearing	27,290	-	27,290	-
Bills payable	2,970,847	1,958,253	2,970,847	1,958,253
Items in transit	52,772	52,069	52,772	52,069
Refundable deposits and advances	-	-	60,186	14,969
Balance held o/a of pension fund	240,599	198,095	240,599	198,095
Balance held o/a of Widows', Widowers' and Orphans' Pension Fund (WW&OP)	33,526	110,402	33,526	110,402
Balance held o/a of Employees' Provident Fund (EPF)	4,460	65,428	4,460	65,428
Liability for EPF interest rate guarantee [Note 53 (b)]	54,236	38,360	54,236	38,360
Liability for leave accrual plan [Note 53 (c)]	110,854	114,099	110,854	114,099
Provision for retiring benefits	-	-	228,176	181,824
Payable to vendors for lease equipments	582,087	692,735	582,087	692,735
Other creditors	2,174,185	2,207,264	2,885,860	2,874,686
	6,250,856	5,436,705	7,250,891	6,300,920

53 EMPLOYEE RETIREMENT BENEFITS

Accounting policy

Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

Pension Fund

The Bank operates an approved pension fund to facilitate the following payments for permanent staff of the Bank:

Pensions to Retiring Staff

Pensionable staff members who are in the permanent carder are eligible to draw pension from the pension fund as per the trust deed dated 24th September 1981.

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.

53 EMPLOYEE RETIREMENT BENEFITS (CONTD.)

Gratuity

Gratuity would be the payments to staff who satisfy the criteria as per the Gratuity Act No 12 of 1983 at the time of leaving the services of the Bank without pension rights. Payment of gratuities to employees who have completed more than five years of service under the said act is covered through the Bank's own non-contributory pension scheme which is in force.

The Bank's obligation in respect of defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, and discounting that benefit to determine its present value, then deducting the fair value of any plan assets to determine the net amount to be shown in the statement of financial position. The value of any defined benefit asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Bank. An economic benefit is available to the Bank if it is realisable during the life of the plan, or on settlement of the plan liabilities.

The Bank determines the net interest expense / (income) on the net defined benefit liability / (asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability / (asset) at the beginning of the annual period.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating to the terms of the Bank's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The Bank recognises the total actuarial gains and losses that arise in calculating the Bank's obligation in respect of a plan in other comprehensive income during the period in which it occurs.

The demographic assumptions underlying the valuation are retirement age (55 yrs), early withdrawals from service and retirement on medical grounds, death before and after retirement etc. The assets of the fund are held separately from those of the Bank's assets and are administered independently by the trustees of the fund.

Details of pension fund are given in Note 53 (a) to the financial statements.

Gratuity Obligation

The subsidiaries of the Bank do not operate pension funds and make a provision for gratuity obligation. These liabilities are assessed either by actuarial valuations or by the use of gratuity formula, the details of which are given in Note 52 to the financial statements.

Other Long-term Employee Benefits

The Bank's net obligation in respect of long-term employee benefits other than pension fund is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating to the terms of the Bank's obligation. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognised in the statement of profit or loss in the period in which they arise. The Bank's liability towards the portion of the accumulated leave which is expected to be utilised beyond one year from the end of the reporting period is treated as other long term employee benefits.

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 (d) to the financial statements.

Notes to the Financial Statements

53 EMPLOYEE RETIREMENT BENEFITS (CONTD.)

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.

Defined Contribution Plans

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay a further contribution if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods. Obligations for contributions to defined contribution plans are recognised as an expense in the statement of profit or loss as and when they are due.

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.

Employees' Trust Fund

The Bank and the Group contribute 3% of the salary of each employee to the Employees' Trust Fund.

53 (a) Pension Fund - Bank

An actuarial valuation of the pension fund was carried out as at 31st December 2015 by Mr M Poopalanathan, AIA, M/s Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuaries. The valuation method used by the actuaries 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 contributes 20% of the basic salary to the pension fund in respect of all employees. (2014: 20%)

The assets of the fund, which are independently administered by the trustees as per the provision of the Trust Deed are held separately from those of the Bank.

No additional provision has been made in the financial statements of the Bank for gratuities to employees who have completed five or more years of service, payable under the Payment of Gratuity Act No 12 of 1983 as the Bank contributes for all permanent employees to its own non-contributory pension scheme, which is in force.

53 (a) i Net Asset / (Liability) Recognised in the Statement of Financial Position

As at 31st December

	2015 Rs 000	2014 Rs 000
Present value of funded obligation [Note 53 (a) iii]	12,425,853	11,486,841
Total present value of obligations	12,425,853	11,486,841
Fair value of plan assets [Note 53 (a) ii]	(13,519,157)	(13,020,795)
Present value of net surplus [Note 53 (a) iv]	(1,093,304)	(1,533,954)
Recognised asset for defined benefit obligations	(1,093,304)	(1,533,954)

The Bank is expecting to recover the above surplus by way of reduced future contributions to the pension fund and accordingly the Bank recognised a net receivable of Rs 1,093.3 Mn from the pension fund as the present value of the reduction in future contributions.

53 EMPLOYEE RETIREMENT BENEFITS (CONTD.)

53 (a) Pension Fund - Bank (Contd.)

53 (a) ii Fair Value of Plan Assets consist of the following

	2015 Rs 000	2014 Rs 000
Equity securities and debentures	2,332,155	2,251,042
Government securities	5,185,470	5,173,249
Balance with Hatton National Bank PLC	231,810	198,095
Fixed deposits	5,649,561	5,282,200
Others	120,161	116,209
	13,519,157	13,020,795

53 (a) iii Movement in the Present Value of Defined Benefit Obligations

	2015 Rs 000	2014 Rs 000
Liability for defined benefit obligations as at 1st January	11,486,841	11,272,452
Current service cost	546,842	507,915
Interest on obligation	1,062,533	1,127,245
Actuarial gains / (losses)	192,323	(797,298)
Benefits paid by the plan	(862,686)	(623,473)
Liability for defined benefit obligations as at 31st December	12,425,853	11,486,841

53 (a) iv Movement in Fair Value of Plan Assets

	2015 Rs 000	2014 Rs 000
Fair value of plan assets as at 1st January	13,020,795	11,390,292
Expected return on plan assets	1,204,424	1,139,029
Contributions paid into plan	862,270	772,233
Benefits paid by the plan	(862,686)	(623,473)
Actuarial gains / (losses)	(705,646)	342,714
Fair value of plan assets as at 31st December	13,519,157	13,020,795

53 (a) v Actuarial Gains and Losses Recognised in Other Comprehensive Income

For the year ended 31st December	2015	2014
Actuarial gains / (losses) on present value of defined benefit obligations	(192,323)	797,298
Actuarial gains / (losses) on fair value of plan assets	(705,646)	342,714
Actuarial gains / (losses) recognised during the year	(897,969)	1,140,012

53 (a) vi Actuarial Assumptions

As at 31st December	2015	2014
Discount rate	9.90%	9.25%
Expected return on plan assets as at 1st January	9.25%	10.00%
Future salary increment rate	9.00%	8.51%
Future pension increments	Nil	Nil
Increase in cost of living allowance	9.00%	8.51%
Normal retirement age	55 years	55 years
Mortality	1967-70	1967-70
	Mortality Table issued by the Institute of Actuaries	Mortality Table issued by the Institute of Actuaries

The average duration of the pension fund obligation is 26 years as at 31st December 2015 (2014 - 23 years).

Notes to the Financial Statements

53 EMPLOYEE RETIREMENT BENEFITS (CONTD.)

53 (a) Pension Fund - Bank (Contd.)

53 (a) vii Sensitivity of Assumptions Employed on Actuarial Valuation

Assumptions regarding discount rate and salary increment rate have a significant effect on the amounts recognised in 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 2015.

Increase / (decrease) in Discount Rate	Increase / (decrease) in Salary Increment Rate	Sensitivity Effect on Statement of Comprehensive Income Increase / (decrease) in Results for the year Rs 000	Sensitivity Effect on Pension Fund Surplus Increase / (decrease) Rs 000
1%		1,122,895	1,122,895
-1%		(1,370,230)	(1,370,230)
	1%	(828,032)	(828,032)
	-1%	732,370	732,370

53 (b) 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 to value the Bank's obligation of same with the following actuarial assumptions.

As at 31st December	2015	2014
Discount rate	6.95%	9.25%
Long term interest rate to credit the fund	7.00%	8.51%
	Bank	
	2015	2014
	Rs 000	Rs 000
Present value of obligation as at 1st January	38,360	34,281
Provision made during the year	15,876	4,079
Present value of obligation as at 31st December (Note 52)	54,236	38,360

53 (c) 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 on same with the following assumptions.

As at 31st December	2015	2014
Discount rate	9.90%	9.25%
Future salary increase	9.00%	8.51%
	Bank	
	2015	2014
	Rs 000	Rs 000
Present value of obligation as at 1st January	114,099	127,438
Reversal of provision during the year	(3,245)	(13,339)
Present value of obligation as at 31st December (Note 52)	110,854	114,099

53 EMPLOYEE RETIREMENT BENEFITS (CONTD.)

53 (d) Widows', Widowers' and Orphans' Pension Fund

The results of the actuarial valuation of the Widows', Widowers' and Orphans' Pension Fund indicate that the actuarial present value of the promised benefit is Rs 569.4 Mn and that the fair value of the fund assets is Rs 1,169.46 Mn resulting in a past service surplus of Rs 600.63 Mn (2014 : Rs 519.46 Mn) in the Widows', Widowers' and Orphans' Pension Scheme as at 31st December 2015.

No contribution is made by the Bank and the members' contribution during the period amounted to Rs 79.3 Mn.

54 STATED CAPITAL

In accordance with Section 58 of Companies Act No 7 of 2007, which became effective from 3rd May 2007, share capital and share premium have been classified as stated capital.

54 (a) Stated Capital - Bank / Group

	2015 Rs 000	2014 Rs 000
Voting ordinary shares		
Balance as at 1st January	10,640,391	10,254,944
Issue of shares under ESOP	368,785	307,076
Transfer from ESOP reserve *	101,513	78,371
Balance as at 31st December	11,110,689	10,640,391
Non-voting ordinary shares		
Balance as at 1st January	2,649,601	2,575,324
Issue of shares under ESOP	52,113	54,771
Transfer from ESOP reserve *	14,470	19,506
Balance as at 31st December	2,716,184	2,649,601
Stated capital as at 31st December	13,826,873	13,289,992

54 (b) Reconciliation of Number of Shares

	2015	2014
Voting ordinary shares		
Balance as at 1st January	321,736,509	319,353,829
Issue of shares under ESOP	2,668,936	2,382,680
Balance as at 31st December	324,405,445	321,736,509
Non-voting ordinary shares		
Balance as at 1st January	80,861,147	80,201,372
Issue of shares under ESOP	554,778	659,775
Balance as at 31st December	81,415,925	80,861,147
Total number of shares as at 31st December	405,821,370	402,597,656

* Fair value of options on the grant date relating to options exercised during the year has been transferred from the ESOP reserve to stated capital.

The non-voting shares rank pari passu in respect of all rights with the ordinary shares of the Bank except voting rights on resolutions passed at general meetings. If the Bank fails to pay dividends for three consecutive years, these shares will automatically be converted into voting ordinary shares.

Notes to the Financial Statements

54 STATED CAPITAL (CONTD.)

54 (c) Share-Based Payment Transactions

Accounting policy

Equity Settled Share Based Payment Transactions

Fair value of equity settled share based payment awards granted to employees on the grant date is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally became entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that, the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. For share based payment awards with non-vesting conditions, the grant date fair value of the share based payment is measured to reflect such conditions and there is no true-up for difference between expected and actual outcomes.

On 28th March 2008 the Bank established an employee share option scheme that entitled employees in the rank of management and above to purchase shares in the Bank. Holders of vested options are entitled to purchase shares at the given exercise prices. The total number of share options available to the eligible employees per year was 1.25% of shares issued by the Bank up to a maximum limit of 5% of the shares issued (both voting and non-voting) by the Bank in 4 years. The benefits under ESOP accrued to eligible employees of the Bank in any particular year only if the conditions set out in the ESOP are met.

An eligible employee qualified to receive share options in a particular year by achieving a positive performance rating in the annual performance assessment. The amount of share options granted to each qualified eligible employee depended on his/her seniority in the Bank. This employee share option plan has potential dilutive effect on the earnings per share of the Bank.

The recognition and measurement principles in Sri Lanka Accounting Standard - SLFRS 2 on "Share Based Payment" have not been applied to the grants made in 2008 and 2010 based on the transitional provisions available in SLFRS 2. The standard is applied for share options granted after 1st January 2012 and have not been vested on the effective date of SLFRS 2.

The Bank made two further grants under the Employee Share Option Scheme on 30th March 2012 and 05th June 2013, which are recognised and measured in terms of SLFRS 2.

All options are to be settled by physical delivery of shares.

54 (c) i Employee Share Option Plan (Equity-Settled Share Based Payment Scheme)

The number and the weighted average exercise price of share options are as follows:

	2015		2014	
	Weighted Average Exercise Price Rs	Number of Options	Weighted Average Exercise Price Rs	Number of Options
Outstanding as at 1st January	132.99	6,715,057	128.58	10,248,389
Exercised during the year	130.56	(3,233,714)	118.93	(3,042,455)
Expired during the year	122.69	(231,629)	127.93	(490,877)
Outstanding as at 31st December	136.17	3,259,714	132.99	6,715,057
Exercisable as at 31st December	136.17	3,259,714	132.99	6,715,057

The options outstanding as at 31st December 2015 have exercise prices in the range of Rs 81.43 to Rs 145.79 (2014: Rs 65.67 to Rs 142.17) and a weighted average contractual life of 1.95 years (2014 : 2.67 years)

The weighted average share price at the date of exercise, for share options exercised during the year ended 31st December 2015 was Rs 226.01 for voting shares and Rs 178.68 for non-voting shares (2014: Rs 174.34 voting and Rs 135.49 non-voting).

55 STATUTORY RESERVES

55 (a) Statutory Reserve

	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Statutory reserve fund [Note 55 (b)]	3,760,000	3,160,000	3,760,000	3,160,000
Investment fund [Note 55 (c)]	-	-	-	-
Balance as at 31st December	3,760,000	3,160,000	3,760,000	3,160,000

55 (b) Statutory Reserve Fund

	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Balance as at 1st January	3,160,000	2,660,000	3,160,000	2,660,000
Transfers during the year	600,000	500,000	600,000	500,000
Balance as at 31st December	3,760,000	3,160,000	3,760,000	3,160,000

Statutory reserve fund is maintained as per the statutory requirement 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.

	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
55 (c) Investment Fund Account				
Balance as at 1st January	-	4,101,205	-	4,101,205
Transfers during the year	-	306,821	-	306,821
Transferred to retained earnings	-	(4,408,026)	-	(4,408,026)
Balance as at 31st December	-	-	-	-

From 1st January 2012 onwards Bank transferred 8% of the profits calculated for the payment of value added tax and 5% of the profit before tax calculated for payment of income tax purposes to the investment fund account. The operations of this fund was ceased with effect from 1st October 2014 and the balance as at that date was transferred to retained earnings.

56 RETAINED EARNINGS

	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Balance as at 1st January	7,808,059	3,465,419	10,396,517	5,210,488
Profit for the year	10,448,786	9,005,274	10,553,568	9,819,595
Other comprehensive income for the year	(897,969)	1,140,012	(903,213)	1,141,671
Deferred tax effect	-	-	-	632
Transfer to other reserves	(6,577,456)	(6,806,821)	(6,577,456)	(6,806,821)
Transfer of investment fund account balance to retained earnings	-	4,408,026	-	4,408,026
Dividends	(3,436,324)	(3,403,851)	(3,436,324)	(3,403,851)
Deemed disposal gain through joint venture	-	-	9,830	26,777
Super gains tax paid	(2,074,248)	-	(2,093,074)	-
Balance as at 31st December	5,270,848	7,808,059	7,949,848	10,396,517

Notes to the Financial Statements

56 RETAINED EARNINGS (CONTD.)

56 (a) Super Gains Tax

A Super Gains Tax (SGT) was imposed by the Finance Bill passed in Parliament on 20th October 2015, where by SGT was payable by every company or individual whose profit before income tax as per the audited financial statements for the year of assessment 2013/2014 exceeds Rs 2 Bn, at the rate of 25% on its taxable profits for the said year of assessment. SGT payments were made in three equal instalments on 30th October 2015, 30th November 2015 and 31st December 2015. the impact for the Bank/Group from SGT amounted to Rs 2,074 Mn / Rs 2,105 Mn respectively.

57 OTHER RESERVES

57 (a) 2015

	Bank			Group		
	Opening Balance As at 1st January 2015 Rs 000	Movement/ Transfers Rs 000	Closing Balance As at 31st December 2015 Rs 000	Opening Balance As at 1st January 2015 Rs 000	Movement/ Transfers Rs 000	Closing Balance As at 31st December 2015 Rs 000
Capital reserve [Note 57 (c)]	4,466,918	1,968,492	6,435,410	8,792,778	5,470,456	14,263,234
Available for sale reserve [Note 57 (d)]	6,755,355	(2,299,789)	4,455,566	6,806,191	(2,287,750)	4,518,441
General reserve [Note 57 (e)]	25,100,000	6,000,000	31,100,000	25,100,000	6,000,000	31,100,000
ESOP reserve [Note 57 (f)]	318,339	(115,983)	202,356	318,339	(115,983)	202,356
Life policy holder reserve fund [Note 57 (i)]	-	-	-	40,748	(97,098)	(56,350)
	36,640,612	5,552,720	42,193,332	41,058,056	8,969,625	50,027,681

57 (b) 2014

	Bank			Group		
	Opening Balance As at 1st January 2015 Rs 000	Movement/ Transfers Rs 000	Closing Balance As at 31st December 2015 Rs 000	Opening Balance As at 1st January 2015 Rs 000	Movement/ Transfers Rs 000	Closing Balance As at 31st December 2015 Rs 000
Capital reserve	4,466,918	-	4,466,918	8,792,657	121	8,792,778
Available for sale reserve	4,413,828	2,341,527	6,755,355	4,454,989	2,351,202	6,806,191
General reserve	19,100,000	6,000,000	25,100,000	19,100,000	6,000,000	25,100,000
ESOP reserve	416,216	(97,877)	318,339	416,216	(97,877)	318,339
Life policy holder reserve fund	-	-	-	(4,182)	44,930	40,748
	28,396,962	8,243,650	36,640,612	32,759,680	8,298,376	41,058,056

57 (c) Capital Reserve

	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Balance as at 1st January	4,466,918	4,466,918	8,792,778	8,792,657
Revaluation during the year	2,095,076	-	5,597,040	-
Deferred tax effect on				
Revaluation of freehold land and buildings	(104,040)	-	(104,040)	121
Amount transferred to retained earnings				
on disposal of property, plant and equipment	(22,544)	-	(22,544)	-
Balance as at 31st December	6,435,410	4,466,918	14,263,234	8,792,778

Capital reserve relates to revaluation surplus that resulted from the revaluation of freehold land and buildings carried out in 1989, 1993, 2007, 2012 and 2015.

57 OTHER RESERVES (CONTD.)

57 (d) Available-for-sale Reserve

	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Balance as at 1st January	6,755,355	4,413,828	6,806,191	4,454,989
Net change in fair value during the year	(2,450,679)	3,027,688	(2,420,684)	3,107,085
Net amount transferred to profit or loss on disposal of available for sale financial assets	-	(645,437)	(19,242)	(715,159)
Deferred tax effect	150,890	(40,724)	152,176	(40,724)
Balance as at 31st December	4,455,566	6,755,355	4,518,441	6,806,191

The available for sale reserve comprises of the cumulative net change in fair value of available-for-sale financial investments until the assets are de-recognised or impaired.

57 (e) General Reserve

	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Balance as at 1st January	25,100,000	19,100,000	25,100,000	19,100,000
Transfer during the year	6,000,000	6,000,000	6,000,000	6,000,000
Balance as at 31st December	31,100,000	25,100,000	31,100,000	25,100,000

General reserve comprises of the amounts appropriated by the Board of Directors as a general banking reserve.

57 (f) ESOP Reserve

	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Balance as at 1st January	318,339	416,216	318,339	416,216
Transfer to stated capital	(115,983)	(97,877)	(115,983)	(97,877)
Balance as at 31st December	202,356	318,339	202,356	318,339

ESOP reserve consists of the liability recognised on account of the ESOP allocations granted in 2012 and 2013.

57 (g) Life Policy Holder Reserve Fund

	Group	
	2015 Rs 000	2014 Rs 000
Balance as at 1st January	40,748	(4,182)
Transfer to life policy holder reserve fund	(97,098)	44,930
Balance as at 31st December	(56,350)	40,748

Notes to the Financial Statements

58 NON-CONTROLLING INTERESTS

As at 31st December	Group	
	2015 Rs 000	2014 Rs 000
Subsidiaries		
HNB Assurance PLC	889,142	910,712
HNB Grameen Finance Ltd	1,290,146	823,420
Total	2,179,288	1,734,132

59 CONTINGENT LIABILITIES AND COMMITMENTS

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 Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees (including standby letters of credit) commit the Bank 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 Bank also form part of commitments of the Bank. 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 are therefore form part of the overall risk of the Bank.

All discernible risks are accounted for in determining the amount of all known liabilities. The Bank's share of any contingencies and capital commitments of a subsidiary, associate or joint venture for which the Bank 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 Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the statement of profit or loss. The premium received is recognised in the statement of profit or loss in 'net fee and commission income' on a straight line basis over the life of the guarantee.

No material losses are anticipated as a result of these commitments and contingencies.

59 (a) Commitments and Contingent Liabilities - Bank / Group

As at 31st December	2015	2014
	Rs 000	Rs 000
Documentary credit	21,730,162	17,915,813
Guarantees	79,246,945	66,717,914
Acceptances	10,865,852	10,830,595
Bills for collection	9,532,904	6,807,547
Forward exchange contracts		
Forward exchange sales	76,878,745	78,411,807
Forward exchange purchases	77,228,208	77,615,669
Cheques sent on clearing	4,566,674	3,633,394
Commitments for unutilised facilities - direct	101,817,027	81,422,986
Commitments for unutilised facilities - indirect	41,946,000	53,005,667
Total - Bank / Group	423,812,517	396,361,392

59 CONTINGENT LIABILITIES AND COMMITMENTS (CONTD.)

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 524 Mn.

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Approved and contracted but not provided for	524,137	387,809	524,137	387,809
Approved and not contracted for	-	-	-	-
	524,137	387,809	524,137	387,809

59 (c) Operating leases

Operating leases are those leasing arrangements that do not transfer to the Bank, substantially all the risks and rewards incidental to ownership of the leased items.

When the Bank is the lessee, leased assets are not recognised in the statement of financial position. Rentals payable under operating leases are accounted for on a straight line basis over the periods of the leases and are included in the statement of profit or loss.

59 (c) i Future Monthly Commitments on Operating Leases

As at 31st December	Bank		Group	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Less than 1 year	725,566	1,015,768	745,944	1,034,014
1-5 years	946,785	1,234,194	975,779	1,262,261
6-10 years	205,817	243,301	205,817	243,301
11-15 years	660	14,218	660	14,218
	1,878,828	2,507,481	1,928,200	2,553,794

59 (d) Litigation against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken.

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.

The Bank confirms that there is no case (including the LT cases) filed against the Bank, which is not disclosed that would have a material impact on the financial position of the Bank.

59 (e) Tax Assessments against the Bank

The following tax assessments are outstanding, against which the Bank has duly appealed,

- (i) VAT on financial services for 2003 and 2004, taxes amounting to Rs 207 Mn, on Assessment Nos. VATFS/06/0312/06, VATFS/U6/0401/01, VATFS/J6/0402/02, VATFS/U6/0403/03, VATFS/U6/0404/04 and VATFS/U6/0405/05. (Pursuant to the determination made by the Board of Review on the appeal made for VAT on financial Services, the Bank filed a case in the Court of Appeal - CA No.01/2010 – BRA/VAT- 06)
- (ii) VAT on financial services for 2012 taxes amounting to Rs 23.9 Mn, on Charge No.VATFS/BFSU/2014/614.
- (iii) Income tax for the Year of Assessment 2012/13 taxes amounting to Rs 329.7 Mn, on Assessment No. ITA 15091200110 V1.

The Bank is of the view that the above assessments will not have any material impact on the financial statements.

Notes to the Financial Statements

60 RELATED PARTY DISCLOSURES

The Bank carries out transactions with parties who are defined as related parties in the Sri Lanka Accounting Standard - LKAS 24 on "Related Party Disclosures", in the ordinary course of its business. The details of such transactions are reported below. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Bank and is comparable with what is applied to transactions between the Bank and its unrelated customers.

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 36 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	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Short term employment benefits				
Board of Directors and other KMP's	110,377	89,316	111,933	89,686

60 RELATED PARTY DISCLOSURES (CONTD.)

60 (b) Transactions with Key Management Personnel (KMP) (Contd.)

60 (b) ii Transactions, Arrangements and Agreements involving Key Management Personnel (KMPs) and their Close Family Members (CFMs)

Statement of Financial Position-Bank

	Closing Balance		Average Balance	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Assets				
Loans and receivables to customers	77,601	22,998	66,744	24,327
	77,601	22,998	66,744	24,327
Liabilities				
Due to customers	171,803	230,095	170,234	130,900
	171,803	230,095	170,234	130,900

	Closing Balance	
	2015 Rs 000	2014 Rs 000
Commitments for unutilised facilities		
Direct	33,847	46,239
Total	33,847	46,239

Statement of Profit or Loss - Bank

For the year ended 31st December

	2015 Rs 000	2014 Rs 000
Interest income	4,291	993
Interest expenses	9,631	8,893

KMPs paid Rs 0.213 Mn (2014 - Rs 0.36 Mn) to HNB Assurance PLC as insurance premiums during the year.

Details of ESOPs granted to KMP are given below.

	2015	2014
Number of options exercised during the year	34,342	-
Number of options remaining as at 31st December	199,852	234,194

Notes to the Financial Statements

60 RELATED PARTY DISCLOSURES (CONTD.)

60 (b) iii Transactions, Arrangements and Agreements with Entities which are controlled and/or jointly controlled by the KMP's or their Close Family Members (CFMs)

Statement of Financial Position - Bank

	Closing Balance		Average Balance	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Assets				
Loans and receivables to customers	2,811,384	1,241,880	2,451,868	1,363,299
	2,811,384	1,241,880	2,451,868	1,363,299
Liabilities				
Due to customer	84,049	109,256	77,816	72,871
	84,049	109,256	77,816	72,871

Commitments and contingencies

	Closing Balance	
	2015 Rs 000	2014 Rs 000
Guarantees	60,290	47,510
Documentary credit	81,600	171,820
Commitments for unutilised facilities		
Direct	837,160	2,150,900
Indirect	866,722	120,800
Total	1,845,772	2,490,130

Statement of Profit or Loss - Bank

For the year ended 31st December

	2015 Rs 000	2014 Rs 000
Interest income	173,025	103,823
Interest expenses	1,742	2,954

60 (c) Transactions with Group Entities

The Group entities include subsidiaries and joint venture of the Bank.

60 RELATED PARTY DISCLOSURES (CONTD.)

60 (c) Transactions with Group Entities (Contd.)

60 (c) i Transactions with Subsidiaries

Statement of Financial Position - Bank

	Closing Balance		Average Balance	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Assets				
Loans and receivables to customers	112,675	-	65,603	217,972
Other assets	496,327	493,641	490,300	490,727
	609,002	493,641	555,903	708,699
Liabilities				
Securities sold under repurchase agreements	-	-	117,000	70,750
Debt securities issued and subordinated term debt	146,215	131,073	144,251	99,510
Due to customers	948,230	506,289	293,078	378,680
	1,094,445	637,362	554,329	548,940

Commitments and contingencies

	Closing Balance	
	2015 Rs 000	2014 Rs 000
Commitments for unutilised facilities		
Direct	54,110	200,000
	54,110	200,000

Statement of Profit or Loss - Bank

For the year ended 31st December

	2015 Rs 000	2014 Rs 000
Interest income	58,548	67,125
Interest expenses	42,292	29,508
Other income	979,756	141,873
Other expenses	719,150	776,620
Other transactions		
Reimbursement of expenses	273,654	289,060
Insurance claims received	9,360	9,839

Notes to the Financial Statements

60 RELATED PARTY DISCLOSURES (CONTD.)

60 (c) Transactions with Group Entities (Contd.)

60 (c) ii Transactions with the Joint Venture

Statement of Financial Position - Bank

	Closing Balance		Average Balance	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Assets				
Loans and receivables to customers	388,593	-	249,373	19,786
	388,593	-	249,373	19,786
Liabilities				
Due to customers	55,430	115,010	50,437	49,443
Securities sold under repurchase agreements	8,020	83,000	52,700	70,860
	63,450	198,010	103,137	120,303

Commitments and Contingencies

	Closing Balance	
	2015 Rs 000	2014 Rs 000
Commitments for unutilised facilities		
Direct	1,353,310	3,330,000
	1,353,310	3,330,000

Statement of Profit or Loss - Bank

For the year ended 31st December

	2015 Rs 000	2014 Rs 000
Interest income	17,023	1,213
Interest expenses	1741	820
Other income	4,724	12,370
Other expenses	10,855	7,880

60 (d) Transactions with Post Employment Benefit Plans of the Bank

Statement of Financial Position - Bank

	Closing Balance		Average Balance	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Liabilities				
Due to customers	12,670,073	6,004,185	10,015,651	5,671,984
Debt securities issued and subordinated term debts	106,299	106,299	106,298	78,436
Securities sold under repurchase agreements	73,089	425,000	87,657	1,536,546
	12,849,461	6,535,484	10,209,606	7,286,966
Equity				
Stated capital	130,288	112,051	130,288	98,127
	130,288	112,051	130,288	98,127

Statement of profit or loss - Bank

For the year ended 31st December

	2015 Rs 000	2014 Rs 000
Interest expenses	658,054	1,308,001
Other Transactions		
Dividends paid	5,452	5,405
Contributions made	1,382,131	1,234,293

60 RELATED PARTY DISCLOSURES (CONTD.)

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 more than 25% of the voting rights of the Bank as at 31st December 2015 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 2015, 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

	Closing Balance		Average balance	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Assets				
Balances with Central Bank of Sri Lanka	20,096,090	16,907,538	18,929,352	18,403,587
Reverse repurchase agreements	-	16,300,000	1,000,000	3,638,410
Financial investments - held for trading and available for sale	140,754,595	83,373,000	123,759,536	91,266,760
Loans and receivables to customers	34,586,278	23,773,965	29,754,202	18,005,238
Placements with banks	3,809,000	15,000	3,024,771	605,279
Financial investments - loans and receivables	2,351,454	552,370	702,870	671,295
	201,597,417	140,921,873	177,170,731	132,590,569
Liabilities				
Due to customers	9,351,516	5,365,015	6,516,950	5,474,816
Due to banks	8,679,283	1,741,030	9,657,174	2,831,892
Debt securities issued and subordinated term debts	6,133,797	6,097,256	6,089,522	3,812,506
Securities sold under repurchase agreements	6,333,060	79,000	2,774,030	3,799,410
Other borrowings	-	4,000,000	2,083,333	4,000,000
Taxation	4,542,977	3,297,530	3,861,085	3,742,480
	35,040,633	20,579,831	30,982,094	23,661,104

Commitments and Contingencies

Balance as at 31st December	Closing Balance	
	2015	2014
Forward foreign exchange contracts		
Sales - LKR 000	14,065,140	14,835,690
Purchases - USD 000	101,000	110,000
Commitments for unutilised facilities		
Direct - LKR 000	12,352,870	26,663,219
Indirect - LKR 000	1,312,842	-

Statement of Profit or Loss - Bank

For the year ended 31st December	2015 Rs 000	2014 Rs 000
Interest income	9,613,162	8,654,918
Interest expenses	1,548,900	1,266,021
Tax expenses (income tax, financial VAT, NBT, ESC etc.)	6,836,275	5,227,421

Transactions which are not individually significant

Apart from the transactions listed above the Bank has carried out transactions with the Government of Sri Lanka and other government related entities in the form of utility bills, telephone charges, deposit insurance payments, crib charges etc. The total of such payment made during the year ended 31st December 2015 was Rs.575.10 Mn (2014 - Rs. 376.18 Mn).

Notes to the Financial Statements

61 MATURITY ANALYSIS

61 (a) As at 31st December 2015

	Within 12 months Rs 000	Bank After 12 months Rs 000	Total Rs 000	Within 12 months Rs 000	Group After 12 months Rs 000	Total Rs 000
Assets						
Cash and cash equivalents	14,909,598	-	14,909,598	15,419,654	-	15,419,654
Balances with Central Bank of Sri Lanka	-	20,096,090	20,096,090	-	20,096,090	20,096,090
Placements with banks	26,827	-	26,827	388,230	786,096	1,174,326
Reverse repurchase agreements	4,869,219	-	4,869,219	7,782,374	-	7,782,374
Derivative financial instruments	1,302,872	-	1,302,872	1,302,872	-	1,302,872
Other financial assets held for trading	593,390	-	593,390	773,053	1,175,719	1,948,772
Non-current assets held for sale	20,151	-	20,151	20,151	-	20,151
Loans and receivables to customers	234,104,217	264,237,411	498,341,628	242,405,760	264,838,569	507,244,329
Financial investments - available-for-sale	34,520,815	43,525,690	78,046,505	34,773,197	44,945,034	79,718,231
Financial investments - held-to-maturity	-	-	-	1,089,146	168,287	1,257,433
Financial investments -						
Loans and receivables	24,275,024	59,931,678	84,206,702	24,626,349	62,460,856	87,087,205
Investment in joint venture	-	655,000	655,000	-	1,253,370	1,253,370
Investments in subsidiaries	-	3,017,285	3,017,285	-	-	-
Investment properties	-	386,643	386,643	-	1,041,797	1,041,797
Property, plant and equipment	-	11,473,569	11,473,569	-	23,908,688	23,908,688
Goodwill and other intangible assets	-	659,309	659,309	-	1,001,230	1,001,230
Other assets	2,257,750	4,345,172	6,602,922	3,142,472	4,185,581	7,328,053
Total assets	316,879,863	408,327,847	725,207,710	331,723,258	425,861,317	757,584,575
Liabilities						
Due to banks	33,795,056	24,436,978	58,232,034	33,842,840	24,440,998	58,283,838
Derivative financial instruments	304,485	-	304,485	304,485	-	304,485
Securities sold under repurchase agreements	16,630,201	-	16,630,201	16,630,201	-	16,630,201
Due to other customers	513,964,760	13,161,421	527,126,181	519,558,971	16,573,818	536,132,789
Dividends payable	764,771	-	764,771	764,771	-	764,771
Other borrowings	312,142	26,520,967	26,833,109	312,141	26,520,968	26,833,109
Debt securities issued	-	4,490,742	4,490,742	-	4,913,751	4,913,751
Current tax liabilities	4,542,977	-	4,542,977	4,762,707	-	4,762,707
Insurance provision - life	-	-	-	284,280	6,722,801	7,007,081
Insurance provision - general	-	-	-	1,546,266	-	1,546,266
Deferred tax liabilities	-	378,820	378,820	-	579,102	579,102
Other provisions	2,538,111	-	2,538,111	2,746,294	-	2,746,294
Other liabilities	5,833,151	417,705	6,250,856	6,529,273	721,620	7,250,893
Subordinated term debts	-	12,064,370	12,064,370	-	12,085,598	12,085,598
Shareholders' funds	-	65,051,053	65,051,053	-	77,743,690	77,743,690
Total liabilities	578,685,654	146,522,056	725,207,710	587,282,229	170,302,346	757,584,575
Maturity gap	(261,805,791)	261,805,791		(255,558,971)	255,558,971	
Cumulative gap	(261,805,791)	-		(255,558,971)	-	

61 MATURITY ANALYSIS (CONTD.)

61 (b) As at 31st December 2014

	Within 12 months Rs 000	Bank After 12 months Rs 000	Total Rs 000	Within 12 months Rs 000	Group After 12 months Rs 000	Total Rs 000
Assets						
Cash and cash equivalents	13,141,295	-	13,141,295	13,421,850	-	13,421,850
Balances with Central Bank of Sri Lanka	-	16,907,538	16,907,538	-	16,907,538	16,907,538
Placements with banks	3,789,538	-	3,789,538	4,274,326	822,129	5,096,455
Reverse repurchase agreements	16,930,572	-	16,930,572	19,575,253	-	19,575,253
Derivative financial instruments	178,370	-	178,370	178,370	-	178,370
Other financial assets held for trading	551,371	-	551,371	1,052,727	-	1,052,727
Non-current assets held for sale	30,238	-	30,238	30,238	-	30,238
Loans and receivables to customers	177,261,784	219,015,382	396,277,166	182,531,297	219,328,457	401,859,754
Financial investments - available-for-sale	59,110,027	8,732,202	67,842,229	59,357,808	10,085,249	69,443,057
Financial investments - held-to-maturity	-	-	-	493,709	461,712	955,421
Financial investments						
- Loans and receivables	15,788,956	19,580,079	35,369,035	16,239,342	21,809,758	38,049,100
Investment in joint venture	-	655,000	655,000	-	1,196,544	1,196,544
Investments in subsidiaries	-	3,017,285	3,017,285	-	-	-
Investment properties	-	392,088	392,088	-	1,042,386	1,042,386
Property, plant and equipment	-	9,304,665	9,304,665	-	18,290,365	18,290,365
Intangible assets and goodwill	-	802,728	802,728	-	1,089,759	1,089,759
Deferred tax assets	-	287,384	287,384	-	199,315	199,315
Other assets	1,589,271	5,785,575	7,374,846	2,520,127	5,582,517	8,102,644
Total assets	288,371,422	284,479,926	572,851,348	299,675,047	296,815,729	596,490,776
Liabilities						
Due to banks	26,979,000	16,449,762	43,428,762	27,044,294	16,460,435	43,504,729
Derivative financial instruments	630,598	-	630,598	630,598	-	630,598
Securities sold under repurchase agreements	16,983,545	-	16,983,545	16,983,545	-	16,983,545
Due to customers	405,951,411	13,375,712	419,327,123	410,117,899	15,502,483	425,620,382
Dividends payable	587,078	-	587,078	587,078	-	587,078
Other borrowings	4,236,810	108,475	4,345,285	4,236,810	108,475	4,345,285
Debt securities issued	54,356	4,397,051	4,451,407	54,356	4,788,271	4,842,627
Current tax liabilities	3,297,530	-	3,297,530	3,394,992	-	3,394,992
Insurance provision - life	-	-	-	1,096,930	4,465,719	5,562,649
Insurance provision - general	-	-	-	1,279,139	-	1,279,139
Other provisions	1,810,893	-	1,810,893	2,072,815	50,273	2,123,089
Other liabilities	5,128,282	308,423	5,436,705	5,662,145	638,775	6,300,920
Subordinated term debts	411,446	11,242,313	11,653,759	411,446	11,265,600	11,677,046
Shareholders' funds	-	60,898,663	60,898,663	-	69,638,697	69,638,697
Total liabilities	466,070,949	106,780,399	572,851,348	473,572,048	122,918,728	596,490,776
Maturity gap	(177,699,527)	177,699,527		(173,897,003)	173,897,003	
Cumulative gap	(177,699,527)	-		(173,897,003)	-	

62 SEGMENT REPORTING

Accounting policy

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

Group's activities have been segregated into five different segments (banking, leasing / hire purchase, property, insurance and others) based on the business activities that each unit is engaged in for 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 banking and leasing / hire purchase activities. Property and insurance represent the operating results and financial position of the subsidiaries, Sithma Development (Pvt) Ltd and HNB Assurance PLC respectively. Operating results and financial position of HNB Grameen Finance Ltd is presented as others.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the consolidated financial statements.

Inter segment transactions are accounted for at fair market prices, charged to inter-bank counterparts for similar services on an arm's length basis. Such transfers are eliminated on consolidation.

Income taxes are not allocated to operating segments. Other expenses which cannot be directly identified against a particular business segment have been treated as consolidation adjustments.

No revenue from transactions with a single external customer or counter party amounted to 10% or more of the Bank's total revenue in 2015 or in 2014.

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.

Business segments - Group

	Banking		Leasing / Hire Purchase		Property		Insurance		Others*		Eliminations / Unallocated		Consolidated	
	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000	2015 Rs 000	2014 Rs 000
Net interest income	24,335,892	23,472,948	1,994,644	1,388,078	-	-	814,610	782,511	2,582,316	341,212	(33,742)	-	29,693,720	25,984,749
Net fee and commission income	5,775,910	4,877,835	-	-	-	-	100,439	134,072	367,638	60,902	-	-	6,243,997	5,072,809
Net gain/(loss) from trading	346,577	(570,720)	-	-	-	-	30,263	126,242	(14,892)	2,860	-	-	361,948	(441,618)
Net gain/(loss) from financial investments	253,868	1,398,025	-	-	-	-	31,870	95,950	12,250	-	-	-	297,978	1,493,975
Net insurance premium income	-	-	-	-	-	-	4,679,897	3,831,288	-	-	-	-	4,679,897	3,831,288
Other operating income	2,032,527	1,798,531	-	-	194,444	204,779	44,076	2,676	60,650	9,501	(964,858)	(133,964)	1,366,839	1,881,523
Operating income by segment	32,744,764	30,976,619	1,994,644	1,388,078	194,444	204,779	5,701,155	4,972,739	3,007,962	414,475	(988,600)	(133,964)	42,644,369	37,822,726
Inter-segment revenue	35,502	70,643	-	-	676,104	645,046	74,476	40,682	(396)	(48)	(755,686)	(756,323)	-	-
Total operating income	32,780,266	31,047,262	1,994,644	1,388,078	870,548	849,825	5,775,631	5,013,421	3,007,566	414,427	(1,784,286)	(690,287)	42,644,369	37,822,726
Impairment charge for loans and other losses	385,300	2,479,888	546,625	11,632	-	-	350	1,109	89,836	40,179	-	-	1,022,111	2,632,808
Net operating income	32,394,966	28,567,374	1,448,019	1,376,446	870,548	849,825	5,775,281	5,012,312	2,917,730	374,248	(1,784,286)	(690,287)	41,622,258	35,289,918

	Banking			Leasing /Hire Purchase			Property			Insurance			Others*			Eliminations /Unallocated			Consolidated		
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
Segment result	14,639,538	11,873,863	1,377,075	1,317,072	702,362	639,793	237,361	496,872	1,403,851	150,791	(1,008,950)	(142,054)	17,351,227	14,336,327							
Unallocated operating expenses													(1,251,044)	(1,330,851)							
Operating profit													16,100,183	13,005,476							
Share of profit of associate and joint venture													60,085	142,977							
Income tax expense													(5,064,424)	(3,080,360)							
Profit for the year													11,095,844	10,068,093							
Non-controlling interests													(542,276)	(248,498)							
Profit attributable to the equity holders of the Bank													10,553,568	9,819,595							
Profit for the year													11,095,844	10,068,093							
Other comprehensive income ,net of tax	(1,206,722)	3,481,539	-	-	2,899,381	-	(10,608)	1,168	(9,207)	6,847	625,624	8,378	2,292,468	3,497,932							
Total comprehensive income													13,388,312	13,566,025							
Non controlling interests													(532,707)	(252,925)							
Total comprehensive income attributable to the equity holders of the Bank													12,855,605	13,313,100							
Segment assets	663,129,143	527,045,496	39,263,688	23,941,618	10,231,547	7,585,280	11,640,828	9,969,316	13,490,777	9,251,320	30,996	(149,203)	737,786,979	577,643,827							
Investment in associates													1,041,797	1,196,544							
Unallocated assets													18,755,799	17,660,405							
Total Assets													757,684,575	596,490,776							
Segment liabilities	606,417,434	476,878,861	39,263,688	23,941,618	609,327	600,002	9,356,883	7,555,382	11,400,854	8,133,708	(1,682,838)	(1,389,698)	665,365,348	515,719,873							
Unallocated liabilities													14,475,537	11,132,206							
Total liabilities													679,840,885	626,852,079							
Cash flows from operating activities	42,749,948	2,696,018	(18,547,698)	(1,366,640)	624,955	628,878	1,120,736	236,396	1,108,879	1,901,786	(1,857)	(1,508,616)	27,055,163	2,587,822							
Cash flows from investing activities	(60,939,596)	(5,418,263)	-	-	(761,180)	30,519	(869,553)	(200,863)	(971,257)	1,478,256	(81,678)	(2,514,473)	(63,623,264)	(6,624,844)							
Cash flows from financing activities	34,742,938	8,148,462	-	-	-	(502,982)	(37,500)	(162,500)	(54,604)	(214,493)	(7,058)	675,547	34,643,776	7,944,034							
Capital expenditure	959,588	792,823	-	8,242	3,638	-	64,384	53,538	224,237	18,129	-	-	1,251,847	872,732							
Depreciation	745,573	830,163	410	197	135,207	132,544	51,115	40,814	70,687	8,654	3,217	2,640	1,006,209	1,015,012							
Amortization	202,452	280,114	18,161	16,522	67	68	17,225	17,975	6,930	1,160	-	-	244,835	315,839							

* Business of HNB Grameen Finance Ltd

Notes to the Financial Statements

63 NET ASSETS VALUE PER ORDINARY SHARE

As at 31st December	Bank		Group	
	2015	2014	2015	2014
Amount used as the numerator:				
Equity holders funds (Rs 000)	65,051,053	60,898,663	75,564,402	67,904,565
Number of ordinary shares used as the denominator:				
Total number of shares	405,821,370	402,597,656	405,821,370	402,597,656
Net assets value per share (Rs)	160.29	151.26	186.20	168.67

64 EVENTS OCCURRING AFTER THE REPORTING PERIOD

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date the financial statements are authorised for issue.

There are no events occurring after the reporting date which require adjustments to or disclosure in the financial statements, other than those disclosed below:

64 (a) Proposed Dividends

Refer Note 22 (a).

65 COMPARATIVE INFORMATION

The presentation and classification of the following items in these financial statements are amended to ensure the comparability with the current year.

65 (a)

	Note	Group		Adjustment Rs 000
		As disclosed previously Rs 000	Current Presentation Rs 000	
Statement of profit or loss				
Other operating income	65 (a) i	5,712,811	1,881,523	(3,831,288)
Net insurance premium income	65 (a) i	-	3,831,288	3,831,288
Fee and commission expenses	65 (a) ii	617,275	123,290	(493,985)
Benefits, claims and underwriting expenditure	65 (a) ii	-	3,240,203	3,240,203
Other expenses	65 (a) ii	11,132,010	8,385,792	(2,746,218)

65 (a) i Reclassification of Rs 3.8 Bn relating to HNB Assurance PLC as net insurance premium income which was previously classified as other operating income.

65 (a) ii Reclassification of Rs 3.2 Bn relating to HNB Assurance PLC as benefits, claims and underwriting expenditure which was previously classified as fee and commission expenses and other expenses.

65 COMPARATIVE INFORMATION (CONTD.)

65 (b)

	Note	As disclosed previously Rs 000	Bank Current Presentation Rs 000	Adjustment Rs 000	As disclosed previously Rs 000	Group Current Presentation Rs 000	Adjustment Rs 000
Statement of Financial Position							
Loans and receivable to customers	65 (b) i, ii	395,699,387	396,277,166	577,779	401,281,976	401,859,754	577,778
Financial investments - loans and receivable	65 (b) i	36,166,064	35,369,035	(797,029)	38,846,129	38,049,100	(797,029)
Other assets	65 (b) ii, iii	10,940,270	7,374,843	(3,565,427)	11,668,060	8,102,644	(3,565,416)
Other liabilities	65 (b) iii	9,221,380	5,436,705	(3,784,675)	10,085,587	6,300,920	(3,784,667)
Contingent liabilities and commitments	65 (b) iv	339,722,332	396,361,392	56,639,060	339,722,332	396,361,392	56,639,060

65 (b) i Lease backed securities of Rs 797 Mn previously classified as financial investments - loans and receivables have been reclassified as loans and receivable to customers.

65 (b) ii Interest received in advance of Rs 219.25 Mn previously classified as other liabilities have been reclassified as loans and receivables to customers.

65 (b) iii Set off of balances relating to cheques sent on clearing of Rs 3,784.67 Mn included in other liabilities against other assets.

65 (b) iv Classification of cheques sent on clearing and unutilised commitments on indirect exposures as contingent liabilities and commitments.

66 DIRECTORS' RESPONSIBILITY STATEMENT

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

Please refer to page 195 for the statement of the Directors' Responsibility for Financial Reporting.

Compliance with Other Disclosure Requirements

Bank's level of compliance with the other disclosure requirements given in the specified format for the preparation of annual financial statements of licensed commercial banks issued by the Central Bank of Sri Lanka is detailed below.

1	Information about the significance of financial instruments for financial position and performance	
1.1	Statement of Financial Position	
1.1.1	Disclosures on categories of financial assets and financial liabilities	Note 23 to the financial statements
1.1.2	Other disclosures	
	(i) Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement	N/A
	(ii) Reclassifications of financial instruments from one category to another	N/A
	(iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral	Note 33 (k) and 37 (b) to the financial statements
	(iv) Reconciliation of the allowance account for credit losses by class of financial assets	Note 31 (b) to the financial statements
	(v) Information about compound financial instruments with multiple embedded derivatives	N/A
	(vi) Breaches of terms of loan agreements	N/A
1.2	Statement of Comprehensive Income	Statement of Comprehensive Income
1.2.1	Disclosures on items of income, expense, gains and losses	Note 8,9,10,11, 12,13, 14, 15, 16 and 17 to the financial statements
1.2.2	Other disclosures	
	(i) Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss	Note 8 to the financial statements
	(ii) Fee income and expense	Note 9 to the financial statements
	(iii) Amount of impairment losses by class of financial assets	Note 14 to the financial statements
	(iv) Interest income on impaired financial assets	Note 8 (a) to the financial statements
1.3	Other disclosures	
1.3.1	Accounting policies for financial instruments	Note 3,3,29,31,32 and 33 to the financial statements
1.3.2	Information on hedge accounting	N/A
1.3.3	Information about the fair values of each class of financial asset and financial liability, along with:	Note 5 to the financial statements
	(i) Comparable carrying amounts	Note 5 to the financial statements
	(ii) Description of how fair value was determined	Note 5 to the financial statements
	(iii) The level of inputs used in determining fair value	Note 5 to the financial statements
	(iv) Reconciliations of movements between levels of fair value measurement hierarchy, additional disclosures for financial instruments that fair value is determined using level 3 inputs	Note 5 to the financial statements
	(v) Information if fair value cannot be reliably measured	N/A

2	Information about the nature and extent of risks arising from financial instruments	
2.1	Qualitative disclosures	
2.1.1	Risk exposures for each type of financial instrument	Note 4 to the financial statements and "Risk Management report"
2.1.2	Management's objectives, policies, and processes for managing those risks	Note 4 to the financial statements and "Risk Management report"
2.1.3	Changes from the prior period	"Risk Management report"
2.2	Quantitative disclosures	
2.2.1	Summary of quantitative data about exposure to each risk at the reporting date	Note 4 to the financial statements
2.2.2	Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed	
	(i) Credit Risk	
	(a) Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets	Note 4.3 to the financial statements and "Risk Management report"
	(b) For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset	Note 4.3 to the financial statements
	(c) Information about collateral or other credit enhancements obtained or called	Note 4.3 to the financial statements and "Risk Management report"
	(d) For other disclosures, refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H)	Note 4.3 to the financial statements and "Risk Management report"
	(ii) Liquidity Risk	
	(a) A maturity analysis of financial liabilities	Note 61 to the financial statements
	(b) Description of approach to risk management	Note 4.4 to the financial statements and "Risk Management report"
	(c) For other disclosures, refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H)	Note 4.4 to the financial statements and "Risk Management report"
	(iii) Market Risk	
	(a) A sensitivity analysis of each type of market risk to which the entity is exposed	Note 4.5 to the financial statements and "Risk Management report"
	(b) Additional information, if the sensitivity analysis is not representative of the entity's risk exposure	Note 4.5 to the financial statements and "Risk Management report"
	(c) For other disclosures, refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H)	Note 4.5 to the financial statements and "Risk Management report"
	(iv) Operational Risk	
	Refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H)	"Risk Management report"
	(v) Equity risk in the banking book	Note 4.5 to the financial statements and "Risk Management report"
	(a) Qualitative disclosures	
	*Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.	Note 3.3,29,31,32 and 33 to the financial statements
	*Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	Note 3.3,29 and 33 to the financial statements
	(b) Quantitative disclosures	

Compliance with Other Disclosure Requirements

*Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	Note 5, 29 and 33 and 34 to the financial statements
*The types and nature of investments.	Note 29 and 33 to the financial statements
* The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.	Note 10, 11 and 14 to the financial statements
(vi) Interest rate risk in the banking book	Note 4.5.3 to the financial statements and "Risk Management report"
(a) Qualitative disclosures	
Nature of interest rate risk in the banking book (IRRBB) and key assumptions	Note 4.5.3 to the financial statements and "Risk Management report"
(b) Quantitative disclosures	
The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).	"Risk Management report"
2.2.3 Information on concentrations of risk	"Risk Management report"
3 Other disclosures	
3.1 Capital	
3.1.1 Capital structure	
(i) Qualitative disclosures	
Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.	Note 4.6 to the financial statements
(ii) Quantitative disclosures	"Computation of Capital Adequacy Ratio"
(a) The amount of Tier 1 capital, with separate disclosure of:	
*Paid-up share capital / common stock	"Computation of Capital Adequacy Ratio"
*Reserves	
*Non-controlling interests in the equity of subsidiaries	
*Innovative instruments	
*Other capital instruments	
*Deductions from Tier 1 capital	
(b) The total amount of Tier 2 and Tier 3 capital	
(c) Other deductions from capital	
(d) Total eligible capital	
3.1.2 Capital adequacy	
(i) Qualitative disclosures	"Computation of Capital Adequacy Ratio"
A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.	
(ii) Quantitative disclosures	
(a) Capital requirements for credit risk, market risk and operational risk	
(b) Total and Tier 1 capital ratio	

Statement of Profit or Loss in US Dollars

For the year ended 31st December	Bank		Group	
	2015 US\$ 000	2014 US\$ 000	2015 US\$ 000	2014 US\$ 000
Gross Income	424,353	452,905	485,925	494,948
Interest income	365,106	394,811	394,795	403,902
Less: Interest expenses	182,360	205,266	188,746	206,111
Net interest income	182,746	189,545	206,049	197,791
Fee and commission income	40,767	37,878	44,591	39,551
Less: Fee and commission expenses	684	748	1,263	938
Net fee and commission income	40,083	37,130	43,328	38,613
Net interest, fee and commission income	222,829	226,675	249,377	236,404
Net gain/(loss) from trading	2,405	(4,344)	2,512	(3,362)
Net gain from financial investments	1,762	10,641	2,068	11,372
Net insurance premium income	-	-	32,474	29,163
Other operating income	14,313	13,919	9,485	14,322
Total operating income	241,309	246,891	295,916	287,899
Less: Impairment charge / (reversal) for loans and other losses	6,467	18,965	7,093	19,279
Net operating income	234,842	227,926	288,823	268,620
Less : operating expenses				
Personnel expenses	55,011	56,381	63,529	61,718
Benefits, claims and underwriting expenditure	-	-	29,228	24,664
Other expenses	55,867	60,673	63,098	63,831
Total operating expenses	110,878	117,054	155,855	150,213
Operating profit before Value Added Tax (VAT) and Nation Building Tax (NBT) on financial services	123,964	110,872	132,968	118,407
Less: Value Added Tax (VAT) and Nation Building Tax (NBT) on financial services	19,529	19,044	21,246	19,412
Operating profit after Value Added Tax (VAT) and Nation Building Tax (NBT) on financial services	104,435	91,828	111,722	98,995
Share of profits of associate and joint venture (net of income tax)	-	-	417	1,088
PROFIT BEFORE INCOME TAX	104,435	91,828	112,139	100,083
Less: Income tax expense	31,929	23,282	35,143	23,447
PROFIT FOR THE YEAR	72,506	68,546	76,996	76,636
Profit attributable to:				
Equity holders of the Bank	72,506	68,546	73,233	74,745
Non-controlling interests	-	-	3,763	1,891
PROFIT FOR THE YEAR	72,506	68,546	76,996	76,636
Earnings per share				
Basic earnings per ordinary share (\$)	0.18	0.17	0.18	0.19
Diluted earnings per ordinary share (\$)	0.18	0.17	0.18	0.19
Dividend per share				
Dividend per share: Gross (\$)	*0.06	0.06	*0.06	0.06

Exchange rate of US\$ 1 was Rs 144.11 as at 31st December 2015 (Rs 131.375 as at 31st December 2014)

The statement of profit or loss given on this page is solely for the convenience of the stakeholders of financial statements and do not form part of the audited financial statements.

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

Statement of Comprehensive Income in US Dollars

For the year ended 31st December	Bank		Group	
	2015 US\$ 000	2014 US\$ 000	2015 US\$ 000	2014 US\$ 000
PROFIT FOR THE YEAR	72,506	68,546	76,996	76,636
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX				
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Available-for-sale financial assets:				
Net change in fair value during the year	(17,006)	23,046	(17,613)	23,935
Transfer to life policy holder reserve fund	-	-	674	(342)
Net amount transferred to profit or loss (available-for-sale financial assets)	-	(4,913)	(133)	(5,444)
Deferred tax effect on above	1,047	(310)	1,056	(310)
Share of other comprehensive income of equity accounted joint venture	-	-	118	64
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(15,959)	17,823	(15,898)	17,903
Other comprehensive income not to be reclassified to profit or loss in subsequent periods				
Re-measurement gains/(losses) on defined benefit plans	(6,231)	8,678	(6,311)	8,711
Revaluation of freehold land and buildings	14,538	-	38,840	-
Deferred tax effect on above	(722)	-	(723)	12
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	7,585	8,678	31,806	8,723
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(8,374)	26,501	15,908	26,626
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	64,132	95,047	92,904	103,262
Total comprehensive income attributable to:				
Equity holders of the Bank	64,132	95,047	89,207	101,337
Non-controlling interests	-	-	3,697	1,925
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	64,132	95,047	92,904	103,262

Exchange rate of US\$ 1 was Rs 144.11 as at 31st December 2015 (Rs 131.375 as at 31st December 2014)

The statement of comprehensive income given on this page is solely for the convenience of the stakeholders of financial statements and do not form part of the audited financial statements.

Statement of Financial Position in US Dollars

As at 31st December	Bank		Group	
	2015 US\$ 000	2014 US\$ 000	2015 US\$ 000	2014 US\$ 000
ASSETS				
Cash and cash equivalents	103,460	100,029	106,999	102,164
Balances with Central Bank of Sri Lanka	139,450	128,697	139,450	128,697
Placements with banks	186	28,845	8,149	38,793
Reverse repurchase agreements	33,788	128,872	54,003	149,003
Derivative financial instruments	9,041	1,358	9,041	1,358
Financial investments - fair value through profit or loss	4,117	4,197	13,523	8,013
Non-current assets held for sale	140	230	140	230
Loans and receivables to customers	3,458,064	3,016,382	3,519,841	3,058,875
Financial investments - loans and receivables	584,322	269,222	604,311	289,622
Financial investments - available-for-sale	541,576	516,401	553,176	528,587
Financial investments - held to maturity	-	-	8,725	7,272
Investment in joint venture	4,545	4,986	8,697	9,108
Investment in subsidiaries	20,937	22,967	-	-
Investment properties	2,683	2,984	7,229	7,935
Property, plant and equipment	79,617	70,825	165,906	139,223
Intangible assets and goodwill	4,576	6,110	6,948	8,295
Deferred tax assets	-	2,188	-	1,517
Other assets	45,819	56,136	50,850	61,676
Total assets	5,032,321	4,360,429	5,256,988	4,540,368
LIABILITIES				
Due to banks	404,080	330,571	404,440	331,149
Derivative financial instruments	2,113	4,800	2,113	4,800
Securities sold under repurchase agreements	115,399	129,275	115,399	129,275
Due to customers	3,657,804	3,191,834	3,720,302	3,239,737
Dividends payable	5,307	4,469	5,307	4,469
Other borrowings	186,199	33,076	186,199	33,075
Debt securities issued	31,162	33,883	34,097	36,861
Current tax liabilities	31,524	25,100	33,049	25,842
Deferred tax liabilities	2,629	-	4,019	-
Insurance provision - life	-	-	48,623	42,342
Insurance provision - general	-	-	10,730	9,737
Other provisions	17,612	13,784	19,057	16,161
Other liabilities	43,376	41,383	50,315	47,961
Subordinated term debts	83,717	88,706	83,864	88,883
Total liabilities	4,580,922	3,896,881	4,717,514	4,010,292
EQUITY				
Stated capital	95,947	101,161	95,947	101,161
Statutory reserves	26,091	24,053	26,091	24,053
Retained earnings	36,575	59,433	55,165	79,136
Other reserves	292,786	278,901	347,149	312,526
Total equity attributable to equity holders of the Bank	451,399	463,548	524,352	516,876
Non-controlling interests	-	-	15,122	13,200
Total equity	451,399	463,548	539,474	530,076
Total liabilities and equity	5,032,321	4,360,429	5,256,988	4,540,368
Contingent liabilities and commitments	2,940,896	3,017,023	2,940,896	3,017,023
Net assets value per share (\$)	1.11	1.15	1.29	1.28

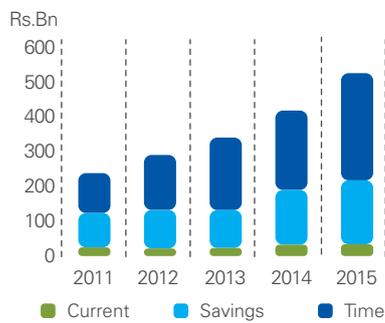
Exchange rate of US\$ 1 was Rs 144.11 as at 31st December 2015 (Rs 131.375 as at 31st December 2014)

The statement of financial position given on this page is solely for the convenience of the stakeholders of financial statements and do not form part of the audited financial statements.

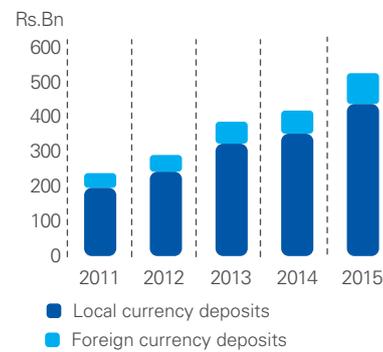
Analysis of Deposits

	2011 Rs 000	2012 Rs 000	2013 Rs 000	2014 Rs 000	2015 Rs 000
Analysis of Total Deposits					
Local currency deposits	243,138,771	280,644,471	323,925,015	352,732,715	438,253,261
Foreign currency deposits	48,217,807	60,779,515	63,233,375	66,594,408	88,872,920
	291,356,578	341,423,986	387,158,390	419,327,123	527,126,181
Product wise analysis of Deposits					
Current	21,771,048	23,390,690	23,837,932	32,608,645	33,958,697
Savings	111,121,508	109,176,640	124,510,240	157,946,623	184,204,894
Time	158,464,022	208,856,656	238,810,218	228,771,855	308,962,590
	291,356,578	341,423,986	387,158,390	419,327,123	527,126,181

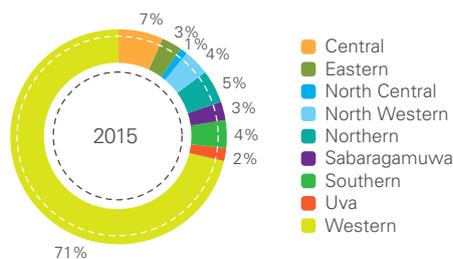
Analysis of Product-wise Deposits



Analysis of Total Deposits



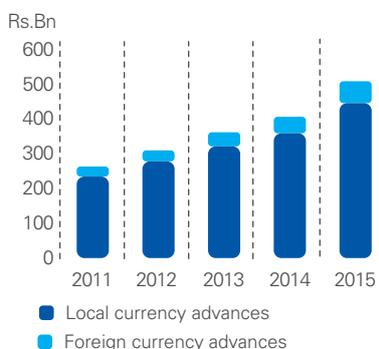
Province-wise Deposits



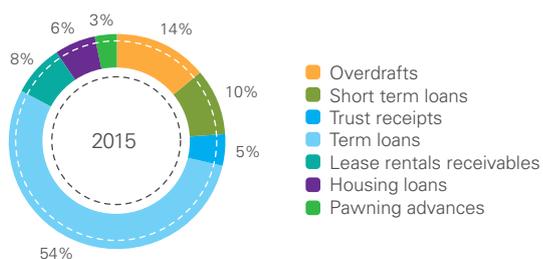
Analysis of Loans and Receivables

	2011 Rs 000	2012 Rs 000	2013 Rs 000	2014 Rs 000	2015 Rs 000
Analysis of Loans and Receivables to customers (Gross)					
Local currency advances	234,850,162	278,597,183	321,888,416	359,217,435	446,394,387
Foreign currency advances	29,013,089	31,767,370	40,691,142	47,714,009	63,131,080
Total advances (Gross)	263,863,251	310,364,553	362,579,558	406,931,444	509,525,467
Product wise analysis of loans and receivables to customers (Gross)					
Overdrafts	48,088,165	61,160,391	62,458,953	69,118,967	71,566,434
Short term loans	13,254,457	16,756,644	36,200,888	40,664,653	50,881,880
Trust receipts	11,152,041	13,059,931	13,820,841	17,867,491	23,669,721
Term loans	107,510,467	121,856,986	155,626,639	204,143,947	275,817,905
Lease rentals receivables	24,568,780	25,280,078	23,152,822	24,482,873	40,341,596
Housing loans	21,800,114	22,990,253	25,084,496	27,622,481	30,808,329
Pawning advances	37,489,227	49,260,270	46,234,919	23,031,032	16,439,602
	263,863,251	310,364,553	362,579,558	406,931,444	509,525,467

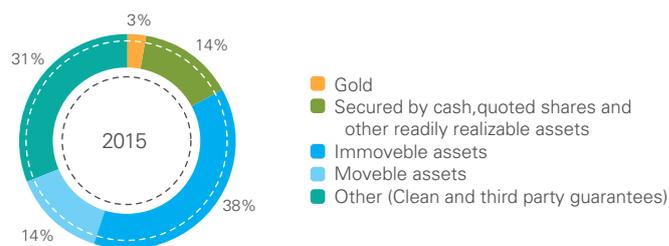
Analysis of Total Advances



Product wise analysis of loans and receivables (Gross)



Analysis of advances by securities



Note: Province-wise loans and receivables are under Note 4.3.1 (e) ii

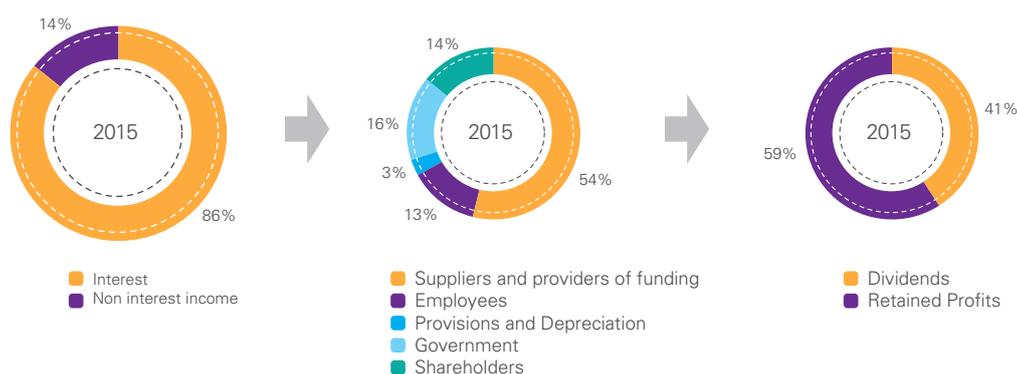
Sources and Utilisation of Income

	2011 Rs 000	2012 Rs 000	2013 Rs 000	2014 Rs 000	2015 Rs 000
Sources of Income					
Interest	33,175,928	47,326,377	56,770,713	51,868,333	52,615,463
Non interest income	3,890,373	4,212,402	4,235,701	7,632,162	8,538,003
Total	37,066,301	51,538,779	61,006,414	59,500,495	61,153,466
Utilisation of income					
Employees					
Salaries and other payment to Staff	4,987,287	6,689,864	5,453,778	7,407,015	7,927,695
Suppliers and providers of funding					
Interest paid	16,530,253	25,368,432	31,423,945	26,966,826	26,279,934
Other expenses	5,438,484	6,214,551	6,759,719	6,824,411	6,967,804
	21,968,737	31,582,983	38,183,664	33,791,237	33,247,738
Provisions and depreciation					
Depreciation and amortisation	915,126	975,700	1,084,256	1,126,995	966,596
Impairment for loans and other losses	(434,400)	1,150,887	4,513,900	2,502,835	1,013,322
	480,726	2,126,587	5,598,156	3,629,830	1,979,918
Net Income before Government Taxes and Levies	9,629,551	11,139,345	11,770,816	14,672,414	17,998,115
Government					
Income Tax, VAT, SGT, Crop Insurance, Debit Tax* (Incl. Deferred Tax)	3,364,886	3,605,190	4,760,710	5,667,139	9,623,577
Shareholders					
Dividends	2,914,624	3,378,684	3,400,244	3,430,715	3,449,298
Retained income**	3,350,041	4,155,471	3,609,862	5,574,559	4,925,240
Total	37,066,301	51,538,779	61,006,414	59,500,495	61,153,466

*Debit tax abolished from 01st April 2011.

**Retained income has been adjusted for the payment of Super Gain Tax (SGT) which was imposed by the Finance Bill passed in the parliament on 20th October 2015

Sources and utilisation of income

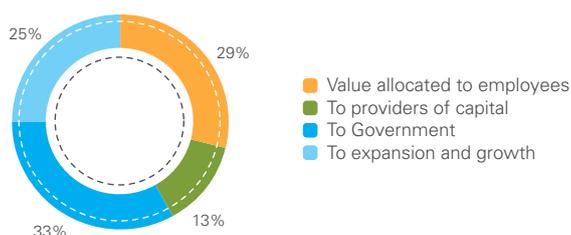


Value Added Statement

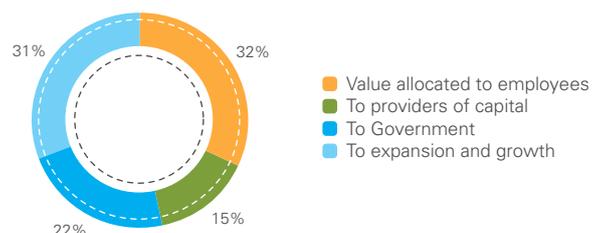
	2015 Rs 000	%	2014 Rs 000	%	
Value Added					
Income earned by providing banking services	59,469,771		58,394,567		
Cost of services	33,329,135		33,802,549		
Value added by banking services	26,140,636		24,592,018		
Non-banking income	1,083,260		278,622		
Net Gain/(loss) from trading & Financial investment	600,435		827,305		
Impairment for loans and other losses	(931,925)		(2,491,520)		
	26,892,406		23,206,425		
Value allocated to employees					
Salaries, wages & other benefits	7,927,695	29.48	7,407,015	31.92	
To providers of capital					
Dividends to shareholders	3,449,298	12.83	3,430,715	14.78	
To Government					
Value Added tax	2,381,359		2,149,971		
Income tax	3,888,177		2,618,937		
Super gain tax	2,074,248		-		
Nation building tax on financial services	432,975		351,904		
Crop insurance levy	108,379		81,831		
Local Taxes	13,047		11,093		
Stamp Duty	12,338	8,910,523	13,685	5,227,421	22.53
To expansion and growth					
Retained income*	4,925,240	18.31	5,574,559	24.02	
Depreciation & Amortization	966,596	3.59	1,126,997	4.86	
Deferred Taxation	713,054	2.65	439,718	1.89	
	26,892,406	100.00	23,206,425	100.0	

*After adjusting for the payment of Super Gains Tax (SGT) which was imposed by the Finance Bill passed in Parliament on 20th October 2015.

Analysis of Value Addition 2015



Analysis of Value Addition 2014



Ten Year Statistical Summary

Year ended 31st December (Rs Mn)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
OPERATING RESULTS										
Income	21,168	29,565	36,615	38,811	34,870	37,066	51,539	61,006	59,500	61,153
Interest income	18,452	26,250	32,431	34,620	30,249	33,176	47,326	56,771	51,868	52,615
Interest expense	9,797	15,190	19,752	20,040	14,703	16,530	25,368	31,424	26,967	26,280
Non interest income	2,716	3,315	4,184	4,191	4,621	3,890	4,212	4,236	7,632	8,538
Operating expenses (Incl. impairment, financial VAT & NBT)	8,352	10,041	12,079	12,854	13,436	12,148	16,294	19,575	20,470	19,824
Profit before income tax	3,019	4,335	4,785	5,918	6,731	8,388	9,876	10,008	12,064	15,050
Income tax on profit	799	1,312	1,566	1,566	2,267	2,123	2,342	2,998	3,059	4,601
Profit after taxation	2,220	3,022	3,219	4,352	4,464	6,265	7,534	7,010	9,005	10,449
LIABILITIES AND SHAREHOLDERS' FUNDS										
Customer deposits	147,557	175,660	186,770	210,507	239,034	291,357	341,424	387,158	419,327	527,126
Refinance borrowings	3,583	5,750	6,424	6,169	6,435	7,045	6,429	5,615	4,889	4,227
Other liabilities	31,687	32,472	42,064	38,773	42,572	42,923	50,496	66,084	87,736	128,803
Deferred tax liabilities	314	606	872	939	891	1,175	1,111	-	-	-
Shareholders' funds	12,930	18,419	20,581	23,900	30,775	37,984	46,899	51,454	60,899	65,051
Total	196,070	232,906	256,711	280,289	319,708	380,484	446,358	510,310	572,851	725,208
ASSETS										
Loans and receivables to customers (Net)	133,460	160,343	174,808	169,639	202,253	257,198	302,761	351,965	396,277	498,342
Cash, short term funds and statutory deposits with the Central Bank of Sri Lanka	30,200	32,565	35,149	38,216	30,600	33,446	39,025	29,238	33,838	35,033
Property, plant and equipment	2,908	6,083	6,866	7,180	7,428	7,835	9,418	9,521	9,305	11,474
Deferred tax assets					506	314	-	768	287	-
Other assets	29,503	33,916	39,888	65,254	78,921	81,690	95,155	118,818	133,144	180,360
Total	196,070	232,906	256,711	280,289	319,708	380,484	446,358	510,310	572,851	725,208
RATIOS										
Return on average shareholders funds (%)	18	19	17	20	16	18	18	14	16	17
Income growth (%)	27	40	24	6	(10)	6	39	18	(2)	3
Return on average assets (%)	1.2	1.4	1.3	1.6	1.5	1.8	1.8	1.5	1.7	1.6
Dividend cover (Times)	3.8	3.7	3.4	2.8	2.7	2.1	2.2	2.1	2.6	3.0
Property, plant and equipment to shareholders' funds (%)	22	33	33	30	24	21	20	19	15	18
Total assets to shareholders' funds (Times)	15	13	12	12	10	10	10	10	9	11
Liquid assets to liabilities (%)	22	22	22	29	24	22	22	23	23	24
SHARE INFORMATION										
Market value per share (Rs)										
- Voting	155.75	122.50	69.75	170.25	399.90	151.30	148.00	147.00	194.90	210.60
- Non Voting	70.00	53.25	32.00	104.75	214.60	83.20	112.50	119.00	152.90	177.90
Earnings per share (Rs)	18.86	12.83	13.67	18.47	18.84	16.60	18.94	17.59	22.47	25.83
Earnings per share (Adjusted) (Rs) *	5.49	7.47	7.96	10.76	11.04	15.49	18.63	17.33	22.26	25.83
Price earnings ratio	8.26	9.55	5.10	9.22	21.23	9.11	7.81	8.36	8.67	8.15
Net assets per share (Adjusted) (Rs) **	31.86	45.39	50.71	58.89	75.83	93.60	115.57	126.79	150.06	160.29
Dividend per share (Rs)	5.00	3.50	4.00	6.50	7.00	7.50	8.50	8.50	8.50	8.50
Gross dividends (Rs Mn)	589	824	942	1,533	1,650	2,915	3,379	3,400	3,431	3,449
OTHER INFORMATION										
No of employees	4,287	4,334	4,395	4,302	4,352	4,584	4,679	4,604	4,451	4,285
No of customer centres	151	167	177	186	205	240	247	250	249	249
No of student banking centres	152	152	152	153	159	164	166	168	168	168

* Earnings per share has been adjusted for weighted Average number of shares outstanding during the current year.

** Net Assets per share has been computed for the current number of shares issued as at 31st December 2015

Highlighted Information is based on LKASs/SLFRSs.

Quarterly Statistics

For the three months ended	* 2015				* 2014											
	December 31st	September 30th	June 30th	March 31st	December 31st	September 30th	June 30th	March 31st								
Statement of financial position																
(Rs. Million)																
Total assets	725,208	673,078	630,843	596,566	572,851	553,011	529,487	519,700								
Loans and receivables to banks and other customers	498,342	462,030	427,354	408,171	396,277	380,662	360,327	362,878								
Due to other customers	527,126	496,808	461,202	435,898	419,327	405,625	407,519	393,239								
Shareholders' funds	65,051	63,638	62,506	59,525	60,899	56,676	52,344	50,387								
Average assets	639,709	618,335	600,087	584,709	536,480	527,387	518,845	513,524								
Statement of profit or loss data																
(Rs 000)																
Net interest income	6,966,545	6,525,810	6,653,823	6,189,351	6,561,175	5,971,413	6,189,113	6,179,806								
Net fee and commission income	1,624,927	1,482,898	1,336,539	1,331,942	1,275,418	1,220,204	1,185,738	1,196,523								
Net gain/(loss) from trading	(444,434)	1,322,292	(602,657)	71,376	109,291	(411,080)	(532,134)	263,203								
Net gain/(loss) from financial investments	36,831	16,791	177,940	22,296	305,010	18,895	1,052,798	21,322								
Other operating income	1,203,821	(716,218)	1,298,919	276,118	262,013	765,380	717,742	83,510								
Total operating income	9,387,690	8,631,573	8,864,564	7,891,083	8,512,907	7,564,812	8,613,257	7,744,364								
Less : Impairment (charge)/reversal for loans and other losses	(784,871)	296,941	844,746	575,109	(72,768)	(128,039)	683,251	2,009,076								
Net operating income	10,172,561	8,334,632	8,019,818	7,315,974	8,585,675	7,692,851	7,930,006	5,735,288								
Less : Operating expenses	3,677,293	4,243,749	4,073,527	3,984,065	3,928,099	3,766,071	3,833,528	3,850,317								
VAT & NBT on financial services	948,819	664,885	642,331	558,299	761,388	704,275	618,008	418,205								
Provision for income tax	1,927,144	908,439	830,082	935,566	579,458	917,099	1,114,966	447,132								
Profit for the year	3,619,305	2,517,559	2,473,878	1,838,044	3,316,730	2,305,406	2,363,504	1,019,634								
Other comprehensive income for the year	435,157	(1,444,373)	356,658	(554,164)	1,397,270	1,886,681	(453,371)	650,959								
Total comprehensive income for the year	4,054,462	1,073,186	2,830,536	1,283,880	4,714,000	4,192,087	1,910,133	1,670,593								
Ordinary share information																
Market price per share (Rs)	V	NV	V	NV	V	NV	V	NV	V	NV	V	NV	V	NV		
High	222.00	183.40	230.50	184.50	239.50	182.50	242.00	187.00	205.00	153.20	192.70	146.00	159.30	128.00	162.00	129.00
Low	207.50	175.00	203.00	170.00	213.50	164.60	192.00	150.00	175.10	142.00	155.60	127.00	150.00	118.00	145.10	116.60
Closing	210.60	177.90	214.00	175.10	216.00	173.00	222.00	165.00	194.90	152.90	190.40	146.00	157.00	127.00	150.00	120.00
V - Voting NV - Non Voting																
Book value per ordinary share	160.29	156.93	154.30	147.35	151.26	141.09	130.69	126.11								
Financial measures																
Profitability																
Return on average shareholders' equity (annualised) (%)	16.77	14.77	14.14	12.21	16.57	14.39	13.17	8.01								
Productivity																
Non interest expenses to total revenue (%)	39.17	49.17	45.95	50.49	46.14	49.78	44.51	49.72								
Capital																
Risk weighted capital ratios																
Tier 1 (%)	10.53	10.60	10.45	10.87	12.15	12.05	11.78	11.67								
Total (Tier 1+2) (%)	12.70	13.04	13.01	13.70	14.83	15.13	15.00	15.08								
Asset quality																
Gross NPA ratio (%) **	2.43	2.98	3.24	3.62	3.16	3.71	4.06	4.53								
Net NPA ratio (%) **	0.84	1.29	1.49	1.89	1.43	1.86	1.88	2.22								

Note

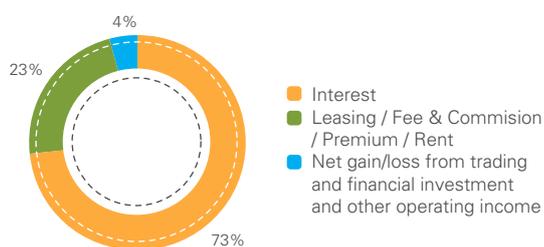
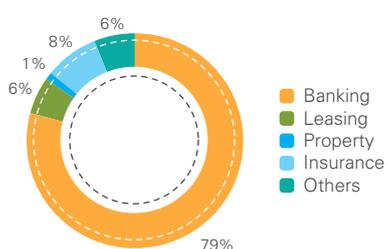
* Quarterly information has been amended based on classification changes made in 2015.

** This information has been compiled in accordance with the instructions issued by the Central Bank of Sri Lanka for interim publication which may differ from information in other disclosures.

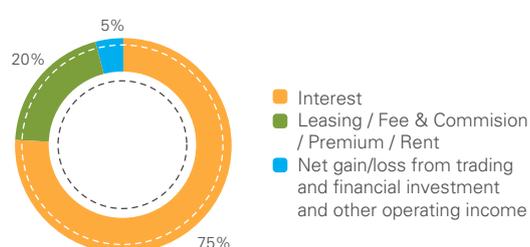
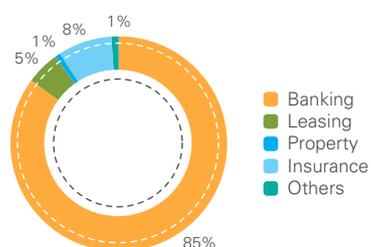
Segmental Analysis

Business Segments	Banking		Leasing/Hirepurchase		Property		Insurance		Others		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Interest	48,630,385	48,581,012	-	-	17,645	595	843,580	808,971	3,515,491	478,081	53,007,101	49,868,659
Leasing / Fee & Commission / Premium / Rent	5,968,744	5,068,176	3,985,078	3,287,321	903,694	892,840	4,825,842	3,979,582	493,638	91,911	16,176,996	13,319,830
Net Gain / (loss) from Trading & financial investment	600,435	827,305	-	-	-	-	62,133	222,192	(2,642)	2,860	659,926	1,052,357
Other operating income	1,968,824	1,736,681	-	-	817	23,331	44,076	2,676	18,121	3,453	2,031,838	1,766,141
Total Revenue	57,168,388	56,213,174	3,985,078	3,287,321	922,156	916,766	5,775,631	5,013,421	4,024,608	576,305	71,875,861	66,006,987

Segmental Analysis 2015



Segmental Analysis 2014



Investor Relations

1 STOCK EXCHANGE LISTING

The issued ordinary shares of Hatton National Bank PLC are listed with the Colombo Stock Exchange. The audited Statement of profit or loss for the year ended 31st December 2015 and the audited Balance Sheet of the Bank as at date have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

Stock Exchange code for Hatton National Bank PLC shares is "HNB". Reuter code of Hatton National Bank PLC is "HNBL"

2 ORDINARY SHAREHOLDERS

SHARE INFORMATION - VOTING

There were 4,619 registered Voting Shareholders as at 31st December 2015 (2014 - 4,376) 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	2,636	730,962	0.34	41	16,946	0.02	2,677	747,908	0.24
1,001 - 10,000	1,240	4,111,140	1.89	52	198,299	0.22	1,292	4,309,439	1.41
10,001 - 100,000	492	14,250,543	6.56	32	1,025,638	1.16	524	15,276,181	5.00
100,001 - 1,000,000	59	15,260,168	7.02	30	11,353,471	12.83	89	26,613,639	8.71
Over 1,000,000	13	182,893,342	84.19	24	75,880,772	85.77	37	258,774,114	84.64
	4,440	217,246,155	100.00	179	88,475,126	100.00	4,619	305,721,281	100.00

ANALYSIS OF SHAREHOLDERS

Resident / Non-Resident

	31st December 2015			31st December 2014		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Resident	4,440	217,246,155	71.06	4,238	211,892,327	69.92
Non-Resident	179	88,475,126	28.94	138	91,160,018	30.08
Total	4,619	*305,721,281	100.00	4,376	303,052,345	100.00

Individuals / Institutions

	31st December 2015			31st December 2014		
	No Share holders	No of Shares	%	No of Share holders	No of Shares	%
Individuals	4,287	55,579,308	18.18	4,055	51,684,426	17.05
Institutions	332	250,141,973	81.82	321	251,367,919	82.95
Total	4,619	*305,721,281	100.00	4,376	303,052,345	100.00

As at 31/12/2015 the average size of holding of ordinary shareholding was 66,188 voting shares. (31/12/2014 - 69,253 voting shares)

As per 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 2015 was 61% (61% as at 31st December 2014).

As per Rule No. 7.13.1 of the Listing Rules of the Colombo Stock Exchange, No. of shareholders representing the public holding as at 31st December 2015 was 4,804 (4,349 as at 31st December 2014).

*18,684,164 shares remain unregistered arising from a direction given by the CBSL dated 26th August 2010 in terms of Sec. 12(IC)(c) of the Banking Act, and these unregistered shares are not included herein.

Investor Relations

SHARE INFORMATION - NON VOTING

There were 10,660 registered Non Voting Shareholders as at 31st December 2015 (2014 - 10,772) 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	6,443	2,201,268	4.37	53	19,985	0.06	6,496	2,221,253	2.73
1,001 - 10,000	3,434	10,649,489	21.16	59	189,485	0.61	3,493	10,838,974	13.31
10,001 - 100,000	577	15,735,939	31.27	18	668,962	2.15	595	16,404,901	20.15
100,001 - 1,000,000	57	16,051,854	31.90	7	3,321,518	10.68	64	19,373,372	23.80
Over 1,000,000	4	5,685,448	11.30	8	26,891,977	86.50	12	32,577,425	40.01
	10,515	50,323,998	100.00	145	31,091,927	100.00	10,660	81,415,925	100.00

ANALYSIS OF SHAREHOLDERS

Resident / Non-Resident

	31st December 2015			31st December 2014		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Resident	10,515	50,323,998	61.81	10,635	46,936,057	58.05
Non-Resident	145	31,091,927	38.19	137	33,925,090	41.95
Total	10,660	81,415,925	100.00	10,772	80,861,147	100.00

Individuals / Institutions

	31st December 2015			31st December 2014		
	No Share holders	No of Shares	%	No of Share holders	No of Shares	%
Individuals	10,376	34,743,795	42.67	10,505	34,350,659	42.48
Institutions	284	46,672,130	57.33	267	46,510,488	57.52
Total	10,660	81,415,925	100.00	10,772	80,861,147	100.00

As at 31/12/2015 the average size of holding of ordinary shareholding was 7,638 non-voting shares. (31/12/2014 - 7,507 non-voting shares)

As per Rule No. 7.6 (iv) of the Listing Rules of the Colombo Stock Exchange, percentage of public holding of non-voting shares as at 31st December 2015 was 99% (99% as at 31st December 2014).

As per Rule No. 7.13.1 of the Listing Rules of the Colombo Stock Exchange, No. of shareholders representing the public holding as at 31st December 2015 was 11,331 (10,757 as at 31st December 2014).

3 SHARE TRADING

VOTING	2015	2014
Number of transactions	8,287	6,660
Number of shares traded (Mn)	35	44
Rank (As per CSE)	57	78
Value of shares traded (Rs Mn)	7,701	7,381
Rank (As per CSE)	5	5
NON VOTING	2015	2014
Number of transactions	6,051	7,217
Number of shares traded (Mn)	15	18
Value of shares traded (Rs Mn)	2,611	2,467

4 DIVIDENDS

	2015		2014	
Interim (Rs)	1.50	Paid in December 2015	1.50	Paid in December 2014
Final (Rs) - Cash Dividend	3.50	Propose to be paid in April 2016	7.00	Paid in April 2015
Final (Rs) - Scrip Dividend	3.50	Propose to be paid in April 2016		
Dividend payout ratio (%)	33.01		38.10	

5 EARNINGS

	2015	2014
Earnings per share (Rs)	25.83	22.47
Price earnings ratio(Times)-Voting Shares	8.15	8.67

6 MARKET VALUE

	Highest Rs.	Lowest Rs.	Year End Rs.
2011 - Voting	410.00	120.00	151.30
- Non Voting	228.00	79.00	83.20
2012 - Voting	170.00	130.00	148.00
- Non Voting	121.70	77.50	112.50
2013 - Voting	176.00	140.00	147.00
- Non Voting	132.50	108.20	119.00
2014 - Voting	205.00	145.10	194.90
- Non Voting	153.20	116.60	152.90
2015 - Voting	242.00	192.00	210.60
- Non Voting	187.00	150.00	177.90

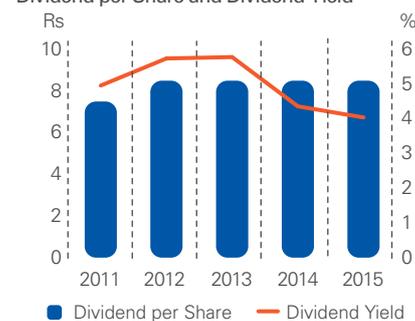
Shareholders' Funds and Market Capitalisation



Net Asset Per Share and Closing Price Per Share



Dividend per Share and Dividend Yield



7 MARKET CAPITALISATION (AS AT 31ST DECEMBER)

	Capital & Reserves Rs Mn	HNB Market Capitalization Rs Mn	CSE Market Capitalization Rs Mn	HNB Market Capitalization as a % of CSE Market Capitalization	Market Capitalization Ranking
2011	37,984	47,116	2,213,873	2.13	10
2012	46,899	47,012	2,167,134	2.17	11
2013	51,454	46,945	2,459,897	1.91	11
2014	60,899	62,697	3,104,864	2.02	11
2015	65,051	68,320	2,937,998	2.33	9

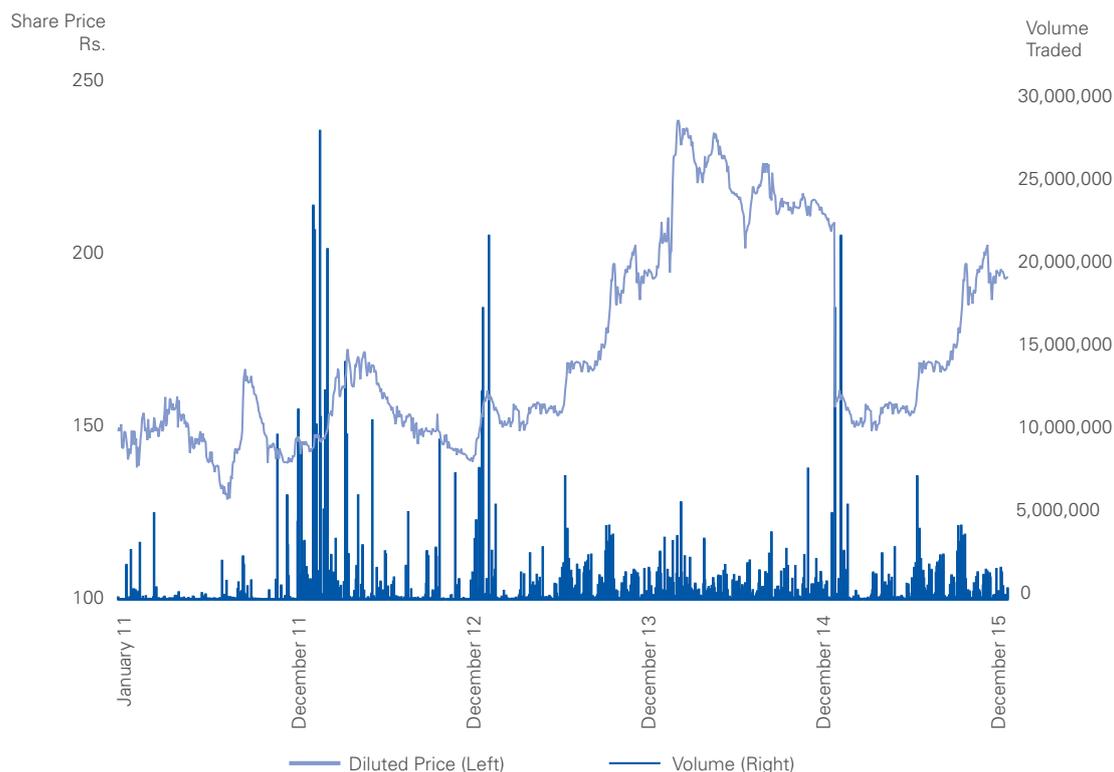
* HNB Market Capitalization includes only Voting shares

Investor Relations

8 INFORMATION ON MOVEMENT IN SHARE CAPITAL

Year	Issue	Basis	No of Shares
	Prior to public issue		50,000
1971	Public issue		220,000
1977	Rights issue (@ Rs 10/-)	42:50	230,000
1980	Rights issue (@ Rs 10/-)	1:1	500,000
1982	Bonus	1:1	1,000,000
1988	Bonus	1:1	2,000,000
1990	Bonus	1:2	2,000,000
1993	Bonus	1:1	6,000,000
1996	Bonus	2:3	8,000,000
1998	Bonus	1:2	10,000,000
1999	Bonus	2:3	20,000,000
1999	Rights (non voting @ Rs 70/-)	3:10	15,000,000
2002	Bonus	1:10	6,500,000
2004	Rights (voting @ Rs 55.00 and non voting @ Rs 33.00)	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
	Total		405,821,370

9 PRICE VOLUME CHART



20 MAJOR SHAREHOLDERS (VOTING) OF THE BANK AS AT 31ST DECEMBER 2015

	Name	% on total capital	% on total voting capital	No. of Shares 2015	No. of Shares 2014
1.	Sri Lanka Insurance Corporation Ltd.	11.74	14.68	47,635,487	47,635,487
2.	Employees Provident Fund	7.84	9.81	31,836,612	31,836,612
3.	Milford Exports (Ceylon) Limited	6.36	**7.96	25,828,280	25,828,280
4.	Mr.Sohli Edelji Captain	5.84	7.31	23,705,220	23,705,220
5.	Stassen Exports Ltd	5.52	**6.90	22,387,096	22,387,096
6.	Sonetto Holdings Limited	3.62	4.53	14,697,921	14,697,921
7.	HSBC Int'l Nominees Ltd-JPMLU-Franklin Templeton Investment	2.96	3.70	12,012,761	13,876,398
8.	Distilleries Company of Sri Lanka PLC	2.47	**3.09	10,016,272	10,016,272
9.	National Savings Bank	2.31	2.89	9,371,940	9,371,940
10.	Standard Chartered Bank Singapore S/A HL Bank Singapore	1.58	1.98	6,420,188	6,420,188
11.	The Bank of New York Mellon SA/NV-CF Ruffer Total return Fund	1.27	1.58	5,138,289	5,138,289
12.	Citi Group Global Markets Ltd Agency Trading Prop. Sec.	0.97	1.22	3,949,446	8,764,778
13.	The Bank of New York Mellon SA/NV-CF Ruffer Absolute return	0.85	1.06	3,448,972	3,448,972
14.	Ms.Leesha Anne Captain	0.71	0.88	2,870,020	2,870,020
15.	Mrs. Cheryl Susan De Fonseka	0.67	0.84	2,719,898	1,696,175
16.	CitiBank Newyork S/A Norges Bank Account 2	0.67	0.84	2,711,926	-
17.	BNY-CF Ruffer Investment Funds : CF Ruffer Pacific Fund	0.65	0.81	2,628,518	2,628,518
18.	HSBC INTL Nom Ltd-UBS AG Zurich	0.64	0.79	2,578,841	2,619,841
19.	BNYM SA/NV-Blackrock Frontiers Investment Trust PLC	0.52	0.66	2,129,201	2,129,201
20.	BNYM SA/NV-Neon Liberty Lorikeet Master Fund LP	0.51	0.64	2,067,294	-
	Sub total	57.70	72.18	234,154,182	235,071,208
	* Unregistered Shares	4.60	5.76	18,684,164	18,684,164
	Balance held by 4,808 voting shareholders	17.64	22.06	71,567,099	67,981,137
	(Total voting shareholders- 4,828)				
	Total voting shares	79.94	100.00	324,405,445	321,736,509
	Shares held by 10,772 Non-voting shareholders	20.06		81,415,925	80,861,147
	Total No. of Ordinary shares	100.00		405,821,370	402,597,656

*18,684,164 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 17.95% of the voting shares of the Bank) are limited to 10% of the total voting rights of the Bank with effect from 15th March 2012 as the voting rights in excess of such percentage is deemed invalid from that date.

20 MAJOR SHAREHOLDERS (NON-VOTING) OF THE BANK AS AT 31ST DECEMBER 2015

	Name	% on total capital	% on total voting capital	No. of Shares 2015	No. of Shares 2014
1.	HSBC Intl nominees Ltd-JPMLU-Franklin Templeton Invest	1.88	9.37	7,625,980	8,026,537
2.	HSBC Int'l Nom Ltd-UBS AG Zurich	1.75	8.70	7,083,734	7,045,334
3.	BNYM SA/NV-Frontaura Global Frontier Fund LLC	1.12	5.59	4,547,707	7,334,507
4.	The Bank of New York Mellon SA/NV-CF Ruffer Total Return Fund	0.63	3.14	2,557,103	2,557,103
5.	Akbar Brothers Pvt Ltd A/c No. 01	0.50	2.49	2,030,748	1,838,157
6.	The Bank of New York Mellon SA/NV-CF Ruffer Absolute Return	0.42	2.09	1,703,364	1,703,364
7.	Mr. Sohli Edelji Captain	0.36	1.77	1,442,839	1,442,839
8.	Northern Trust Company S/A Polar Capital Funds PLC	0.30	1.50	1,220,030	1,503,570
9.	Rubber Investment Trust Limited A/c # 01	0.29	1.43	1,164,083	-
10.	CITI Bank NY S/A Forward International Dividend Fund	0.28	1.40	1,142,944	1,542,944
11.	Union Assurance PLC No. 1 A/c	0.26	1.29	1,047,778	1,047,778
12.	BNY-CF Ruffer Investment Funds:CF Ruffer Pacific Fund	0.25	1.24	1,011,115	1,011,115
13.	Mr. Jayampathi Divale Bandaranayake	0.24	1.20	980,022	1,000,022
14.	Employees Trust Fund Board	0.22	1.10	894,238	897,453
15.	CITI Bank Newyork S/A Norges Bank Account 2	0.22	1.10	893,383	-
16.	Commercial Bank of Ceylon PLC/Dunamis Capital PLC	0.19	0.96	783,463	-
17.	Deutsche Bank AG Singapore Branch	0.19	0.93	757,634	467,424
18.	BNYM SA/NV-Neon Liberty Lorikeet Master Fund LP	0.18	0.92	745,545	-
19.	Deutsche Bank AG as Trustee for JB Vantage Value Equity Fund	0.16	0.82	667,731	667,731
20.	The Ceylon Investment PLC A/c No. 2	0.15	0.74	603,721	-
	Sub total	9.59	47.78	38,903,162	38,085,878
	Balance held by 11,324 Non-voting shareholders	10.47	52.22	42,512,763	42,775,269
	(Total Non-voting shareholders-11,344)				
	Total Non-voting shares	20.06	100.00	81,415,925	80,861,147
	Shares held by 4,828 voting shareholders	75.34		305,721,281	303,052,345
	* Unregistered voting Shares	4.60		18,684,164	18,684,164
	Total voting shares	79.94		324,405,445	321,736,509
	Total No. of Ordinary shares	100.00		405,821,370	402,597,656

*18,684,164 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.

12 RELATED PARTY TRANSACTIONS EXCEEDING 10% OF THE EQUITY OR 5% OF THE TOTAL ASSETS OF THE BANK

The Bank carried out transactions in the ordinary course of business with the following parties and the aggregate monetary value of these transactions exceeded 10% of the share holders' equity of the Bank as at 31st December 2015.

Government of Sri Lanka and other government related entities

Post employment benefit plans of the Bank

The details of these transactions are given in Note 60 (d) 'Transactions with the Government of Sri Lanka/ Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka' and Note 60 (c) 'Transactions with post employment benefit of the Bank' respectively.

13. DEBENTURE INFORMATION

HNB SUBORDINATED DEBENTURES 2006

i) Market Value

12 months ended 31st December 2015

These debentures have not traded during the year ended 31st December 2015

ii) Interest Rate

	2015				2014			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
15 year Fixed Rate (11.00% p.a.)	297,488	0	11.00	10.72	268,022	0	11.00	8.53
18 year Fixed Rate (11.25% p.a.)	565,709	0	11.25	11.18	508,535	0	11.25	8.94

HNB SUBORDINATED DEBENTURES 2007

i) Market Value

12 months ended 31st December 2015

These debentures have not traded during the year ended 31st December 2015

ii) Interest Rate

12 months ended 31st December

	2015				2014			
	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 (16.00% p.a.)	540,000	16.00	16.00	8.73	540,000	16.00	16.00	7.71
15 year Fixed Rate (16.75% p.a.)	758,625	16.75	16.75	10.80	758,625	16.75	16.75	8.76

HNB SUBORDINATED DEBENTURES 2011

i) Market Value

12 months ended 31st December 2015

These debentures have not traded during the year ended 31st December 2015

ii) Interest Rate

12 months ended 31st December

	2015				2014			
	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %	Amount Rs 000	Coupon Rate %	Annual Effective Rate %	Interest Rate of comparable Govt. Security %
10 year Fixed Rate (11.50% p.a.)	2,000,000	11.50	11.83	10.68	2,000,000	11.50	11.83	8.55

HNB SUBORDINATED DEBENTURES 2013

i) Market Value

12 months ended 31st December 2015

Market Value			Traded Yield		
12 months ended 31st December 2015			12 months ended 31st December 2015		
Highest Rs	Lowest Rs	Last Traded Rs	Highest %	Lowest %	Last Traded %
112.90	111.92	112.90	9.04	8.64	8.64

ii) Interest Rate

12 months ended 31st December

	2015				2014			
	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 (14.00% p.a.)	4,309,918	14.00	14.00	8.47	4,309,920	14.00	14.00	7.06

Note: HNB Debenture information is listed under Subordinated Term Debts, Note 47 of the Financial Position.

HNB SENIOR DEBENTURES 2013

i) Market Value

12 months ended 31st December 2015

These debentures have not traded during the year ended 31st December 2015

ii) Interest Rate

12 months ended 31st December

	2015				2014			
	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	1,490,742	8.00	14.25	9.98	1,451,407	8.00	14.25	7.97

HNB SENIOR DEBENTURES 2014

i) Market Value

12 months ended 31st December 2015

Market Value			Traded Yield		
12 months ended 31st December 2015			12 months ended 31st December 2015		
Highest Rs	Lowest Rs	Last Traded Rs	Highest %	Lowest %	Last Traded %
95.33	95.33	95.33		8.75	8.75

ii) Interest Rate

12 months ended 31st December

	2015				2014			
	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 %
03 year Fixed Rate (6.88% p.a.)	158,720	6.88	7.00	8.21	158,720	6.88	7.00	7.01
05 year Fixed Rate (7.75% p.a.)	2,757,240	7.75	7.90	9.25	2,757,240	7.75	7.90	7.29
10 year Fixed Rate (8.33% p.a.)	84,040	8.33	8.50	9.97	84,040	8.33	8.50	8.14

Note: HNB Senior Debenture information is listed under Debt Securities issued, Note 46 of the Financial Position.

Ratios

	2015	2014
Listed Debentures to Equity Ratio (%)	19.93	21.08
Listed Debentures Interest Cover (Times)	10.97	10.47
Liquidity Asset Ratio (LAR)	23.89	22.81

Sustainability Reporting Supplement

Engaging stakeholders through sustainable business practices

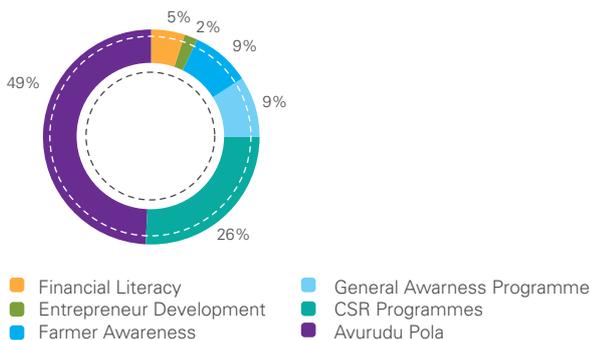
We aim on consistently achieving a balance through the infusion of practices towards the realisation of social and environmental consideration in business. To this end, we are aware of the role of and the need for stakeholder inclusiveness as a core driver of sustainable business practice. This is aptly illustrated through the following:

→ G4-14, G4-SO1, FS-1

Policies with specific environmental and social components applied to business lines

- The HNB Green Pledge – commenced in 2009 the HNB Green Pledge has focused on creating awareness for employees, customers and suppliers on decreasing the impact on the environment through adoption of green practices.
- Customised training programmes for employees on customer service followed by mystery shopping exercises
- Sustainable procurement policy that necessitates that suppliers comply with and adopt sustainability precepts in the functioning of their own businesses. Education of suppliers towards the needs of the procurement policy is an ongoing process
- Green Financing has become a key area of focus for the Bank and we have proactively driven this area of business through lending schemes that afford better terms than the conventional lending tools
- Enhancing capacities by imparting financial and specialist know-how to customers. As depicted below, the Bank through a well-defined stakeholder engagement process undertakes customer education with initiatives that enhance the beneficiary’s financial literacy as well as general business and sector related skills.

Participation at training programmes and community initiatives for micro entrepreneurship development



→ FS-2, FS-3

Procedures for assessing / screening environmental and social implications of business operations with Processes for monitoring clients’ implementation / compliance

Performance evaluation and measurement of sustainability criteria within the functions of the Bank are carried out through a range of energy efficiency, waste improvement and environmental performance criteria. The Bank meets and benchmarks against key performance indicators and undertakes initiatives to enhance the environmental credibility of the Bank whilst minimising our carbon footprint.

We adopt a systematic process to assess the environmental and social risks and opportunities arising from our customers’ business activities, manage the Bank’s exposure to them, and improve operating efficiency and effectiveness. The Bank’s Environmental and Social Management System (ESMS) ensures that sustainability considerations play a part in the Bank’s decision making processes, including credit assessments and portfolio analysis. It enables the Bank to consider environmental and socio-economic issues comprehensively, and by so doing, move beyond simply complying with regulations to taking advantage of sustainability opportunities.

Score-cards and rating systems are implemented to assess risks especially in lending. Covenants placed in offer letters and agreements and is followed by regular monitoring and inspections. As a policy the Bank endeavours to balance financial gain with sustainable practices.

→ FS-4

Processes for improving staff competency to implement the environmental and social policies and procedures as applied to business lines

Changing behaviours is deemed critical to the long-term effectiveness of HNB’s sustainability strategy. Towards this end, we continue to initiate programmes that instill the values of social responsibility and which aim towards the achievement of social reform.

By commencing with our own employees, we undertook a Green Pledge coinciding with the World Environment Day in 2009. The Bank drew inspiration from the United Nations theme for 2009 “Your planet needs you. Unite to combat climate change” to compose the actions stated in the Green Pledge. Since then we have consistently driven the message our internal communication strategy to support increasing awareness amongst employees and customers on an individuals’ desired action towards a greener planet.

In 2015 we further honed on the importance of moving towards green banking to facilitate better customer convenience and minimise impact on the environment with green banking products and services. Further our investment towards a paperless office was intensified and nearly all internal correspondence and approvals are now digitised including all approvals for credit facilities.

→ G4-EC8, G4-SO1, FS-5

Interactions with clients/investees/business partners regarding environmental and social risks and opportunities and significant indirect economic impacts

We also consider the behaviours of all of our stakeholders in championing change towards sustainability awareness and empathy. From a supplier perspective, the Bank adopts a sustainability conscious procurement strategy which gives precedence to suppliers who follow sustainability requirements as laid out in the procurement guidelines.

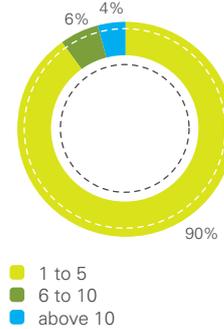
From a national and business perspective, we consider behavioural change to a more conducive social and economic focus, a dire need for the future development of the country. In addressing these needs, we initiated and facilitated development of sustainable finance principles for the banking sector under the aegis of the Sri Lanka Banks Association. 18 local banks have pledged to support the initiative by adopting sustainable social and environmental principles.

On an inclusive note HNB's "Divi Saviya" programme aims to create financial inclusion for rural micro-entrepreneurs. Started over two decades ago the programme has facilitated over 250,000 youth micro-entrepreneurs to date. Working in tandem with the Bank's Micro-financing programme "Gami-Pubuduwa" or "Village Re-awakening", the financial literacy efforts are compounded by giving the youth of rural Sri Lanka the opportunity and the accessibility to financial services. As a part of its innovative initiatives to develop the rural economy in Sri Lanka and in part to further augment the "Divi Saviya" Programme the Bank has collaborated with corporate partners to go beyond the normal engagement of providing financial assistance to customers. Through tripartite agreements – with the Bank, its customers and corporate buyers – the Bank assists customers to find markets for their products. In establishing "to market" linkages, the Bank has conducted trade fairs, utilised information technology to actively promote customer products and linked the producers to online buyers, and assisted towards quality improvements through introduction of quality assurance experts. The Bank's collaborative programme aims to build and strengthen new linkages within these communities enabling them to meet sustainability opportunities and risks with greater confidence.

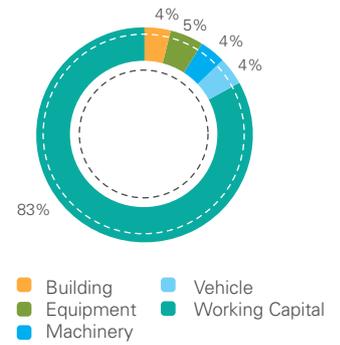
→ G4-EC8

HNB Gami Pubuduwa

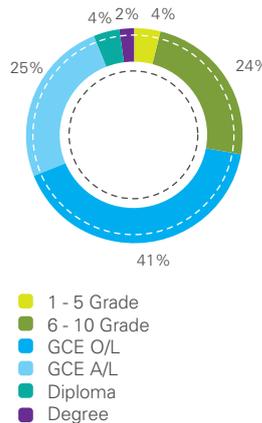
Employment Generation: No. of employees including promoter*



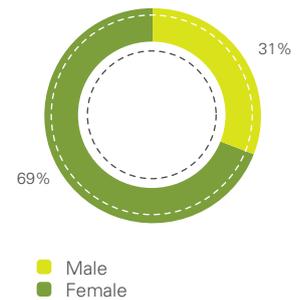
Main purpose of Loan*



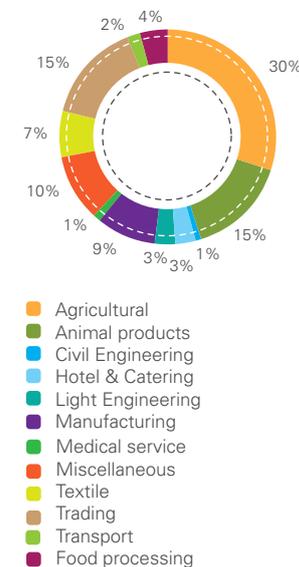
Educational Background of Customers*



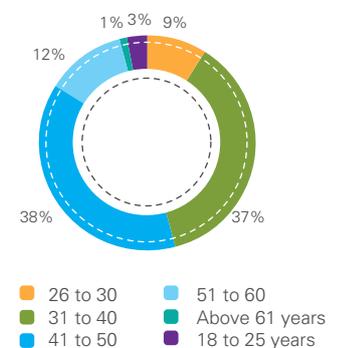
Gender (main promoter)*



Sector*



Age (main promoter)*



Sustainability Reporting Supplement

→ FS-6

Percentage of the portfolio for business lines by specific region, size (eg. Micro/SME/large) and by sector

Refer pages 177 to 178

→ FS-7

Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose

Value creation to our customers forms the core of our business model. Our value proposition to our customers thus offers more than funding and access to capital in addressing their expectations and needs. We offer customised and tailor made solutions using our wide range of products and services, speed and efficient service, choice and convenience in accessing our products and services. We also provide peace of mind and partner in their progress using one of our core competencies of relationship management.

Description	Purpose
HNB Singithi and student savings units	Encourage the savings habit in children
Yauwanabhimana	Empowerment of youth
Micro finance	Foster commercial viability for entrepreneurs from disadvantaged communities
Adhistana	Value creation for migrant workers

→ FS-8

Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose

Integrating environmental and social risks into core business processes forms the basis of our Environmental and Social Management System. It plays a paramount role for business transactions sensitive to any potentially negative impact on the environment or society. Over the years we have also positively encouraged the investment in renewable energy and increased our exposure over time. During 2015 we have continued to confirm our commitment to finance renewable energy projects.

→ FS-9, FS-10, FS-11

Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures including percentage and number of companies held in the institution's portfolio with which the reporting organisation has interacted on environmental or social issues and percentage of assets subject to positive and negative environmental or social screening

As part of our pre-credit application process, our environmental and social risk appraisal tool is applied to all debt transactions such as project finance and corporate loans. The tool provides a risk management approach to mitigate potential environmental, financial, credit, reputational, regulatory and operational risk and links directly with lender liability associated with environmental and social mismanagement. It is designed to identify the risks associated with a customer's ability to manage environmental and social issues, as well as those of the transaction itself such as the nature and value of the loan, the industry sector involved and the actual environmental impacts.

The upfront screening outcome determines whether to proceed with a transaction or not, or whether further assessment is required. The due diligence highlights any aspects requiring more work such as further baseline studies and provides us with recommendations that need to be implemented to ensure transactions are in compliance with applicable international and national standards. The level of due diligence depends on the financial product type, level of environmental and social risk and the industry sector. A detailed due diligence process, utilising internal or independent external consultants, is undertaken for all category A (high risk), and where appropriate, category B (medium risk) transactions.

During 2015, the number of requests declined at the final credit assessment stage was nil as transactions that did not meet our requirements were either screened out during the pre-credit stage or required actions were undertaken by the customer to enable funding to be granted.

→ FS-12

Voting polic(ies) applied to environmental or social issues for shares over which the reporting organisation holds the right to vote shares or advises on voting

We believe that incorporating environmental, social and governance (ESG) issues into investment decisions leads to management quality and an indication of the soundness of a company's long-term planning. We believe that

ESG performance is essential for quality management and that companies well positioned to manage ESG risk and opportunities are likely to outperform others over the long-term. Accordingly, ESG issues are incorporated into our investment research process and issues such as remuneration, social and environmental responsibility, board independence and transparency form part of the evaluation of a potential investment interest.

→ **FS-13**

Access points in low populated or economically disadvantaged areas by type

From a national and business perspective, in a country that was affected by 30 years of civil war HNB has invested considerably to develop talent and resources in the northern and eastern provinces of Sri Lanka.

Province	Number of customer centres	Number of ATMs
Northern province	22	37
Eastern province	26	35

→ **FS-14**

Initiatives to improve access to financial services for disadvantaged people

HNB has systematically invested in a mechanism to convert our existing offices to meet the needs of disadvantaged people ranging from wheel chair access to low counters and disable friendly rest rooms.

→ **FS-15**

Policies for the fair design and sale of financial products and services

Fair design

Sustainability, responsibility and fair treatment of our customers form the basis for our new product development process. Various product committees within HNB provide final oversight for the introduction of new or changes to existing products and services. Business heads are required to confirm that applicable regulatory requirements are considered, including those for consumer protection and anti-money laundering.

We work to ensure that our products and services are designed to meet the needs of identified consumer

groups, that our products perform to the standards that are customers generally expect and that our services are of an acceptable standard and do not unfairly impact on them. Changes to credit-related products are also reviewed by credit risk management committees.

Fair sale

We aim to give our customers clear information and keep them appropriately informed before, during and after the point of sale. We also ensure that the advice we give is suitable and takes the customer’s circumstances into account, and that there are no unreasonable post-sale barriers to request for a change in product terms or make a complaint. Our product brochures which are available in all 3 national languages describe the products and costs to the customer, allowing the customer to make an informed choice. Our employees are trained to dispense financial advice and to complete a financial needs analysis with our customers, explaining the characteristics, benefits and implications of products so that customers are able to make informed choices.

→ **FS-16**

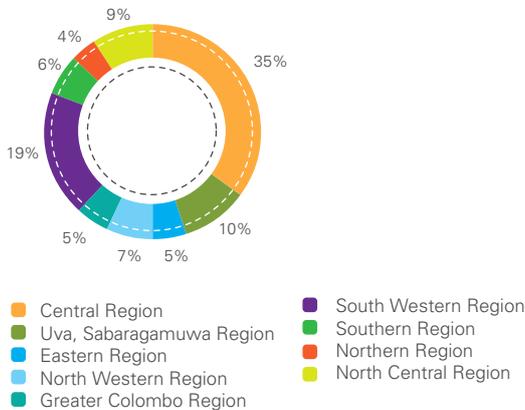
Initiatives to enhance financial literacy by type of beneficiary

The Bank entered into a project partnership Agreement in 2015 with GIZ to Educate SME’s to apply energy efficiency in their businesses to improve the profitability. 9 workshops were conducted throughout the country with the assistance SLEMA & GIZ benefitting approximately 250 entrepreneurs. In addition the Bank continued with its capacity building programmes for SMEs during 2015 as well and conducted 10 workshops for 310 entrepreneurs mainly focusing on Financial Management and Management Skills Development.

The Bank’s financial literacy programme aims to create financial inclusion for rural micro-entrepreneurs. Since its inception over 25 years ago the “Divi Saviya” has facilitated several thousands of youth micro entrepreneurs to date. Working in tandem with the Bank’s Micro-financing programme “Gami-Pubuduwa” or “Village Reawakening”, the financial literacy efforts are compounded by giving the youth of rural Sri Lanka the opportunity and the accessibility to financial services.

Sustainability Reporting Supplement

Participation at training programmes and community initiatives for micro entrepreneurship development



Product stewardship for fair banking

The business case for sustainable banking is strongest when a bank can focus on a business line where it can take advantage of scale, become a first mover, or find a niche market. HNB has demonstrated its ability to focus on key business lines that have been fully explored through the infusion of innovation across time.

→ G4-EC8

Our size and scale entails freedom of operations from the smallest to the largest financial need. As a partner in large-scale infrastructure development, we have demonstrated our ability to service the financial needs across the chain of sub-contractors. From a business strategy perspective this has enabled the Bank to capture cash flows, thus enhancing its resource-base, whilst providing services across the product and service continuum of the Bank, thereby facilitating small time operators to participate on an equal footing to that of large and medium scale operators through financial inclusion.

Similarly, our role in serving the migrant workers of Sri Lanka has been a mainstay of the business strategy for many decades. Through our inward remittance services, HNB provides a cost effective, secure and speedy service to Sri Lankan migrant labour placed across the globe. Moreover, HNB has played a vital role in minimising the unnecessary consumption of foreign exchange by inculcating a savings habit amongst its client base. In turn, we have effectively cross-sold a range of financial instruments and services such as agricultural loans whilst retaining foreign exchange savings. Thus, capacity building through savings and recycling and capture of capital has enabled HNB to effectively sustain the livelihoods of its client base whilst also meeting national objectives towards the augmentation of foreign exchange reserves.

The balancing of business strategy with sustainable development of the nation, thus, has consistently delivered win-win solutions to both the Bank as well as to our customers and the country at large.

→ G4-PR1, G4-PR2

Customer health and safety

Due to the nature of our products and services assessment of health and safety impacts are not remarkable and there were no incidents of non compliance reported during the year.

→ G4-PR3, G4-PR4

Product and service labelling

We adhere to the requirements of the Central Bank of Sri Lanka customer charter which that requires that any information displayed or provided to our customers, including our written agreements with our customers, is in plain language and easy to understand. This also applies when communicating our pricing structures. All communication is carried out in the 3 national languages.

There were no significant incidents of non compliance reported during the year regarding product and services information labelling.

→ G4-PR5

Results of surveys measuring customer satisfaction

Understanding customer perceptions and monitoring our service levels is important in managing customer satisfaction and the Bank uses Mystery Shopper exercises and Customer Satisfaction surveys towards this end. The Bank also conducted a survey amongst a group of its High Net Worth (HNW) customers to gain insight into their expectations and banking needs in order to tailor our high net worth proposition afresh.

→ G4-PR6, G4-PR7

Marketing communications

We strengthened our customer reach in 2015 through the launch of a new state of the art web site which is more user friendly and social media friendly. Increased expenditure on social media/digital marketing ensured that we remained amongst the top 5 spenders on marcom amongst Sri Lankan Banks in 2015.

We do not sell banned or disputed products and services.

No incidents were reported during the year on non compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship.

→ G4-PR8

Customer privacy

Due to the nature of our business, we have access to the personal information of customers and keeping this information private and confidential is a key aspect of good market conduct. Our code of ethics and data privacy policy applies across the Bank. Several controls are already in place on our IT systems that house personal information and are considered business as usual.

During 2015, no complaints concerning breach of customer privacy or loss of data was reported.

→ G4-PR9

Compliance

No significant fines were charged on the Bank during the year for non-compliance with laws and regulations concerning the provision and use of products and services

Labour Practices

Rewarding performance

→ G4-EC5, G4-LA11, G4-LA13

Every employee participates in the formal performance management and career development review process. The Bank follows an annual review cycle for all employees excepting banking trainees whose performance is reviewed on a quarterly basis. The measurement of values, conduct and behaviour is an integral part of this assessment process.

During the year under review whilst we continued on the various rewards and incentive schemes introduced in the previous years to reward superior performance, a significant milestone was achieved by including the Junior Executive category who were on fixed pay into a performance based remuneration scheme.

The Bank is an equal opportunity employer and does not tolerate any form of unfair discrimination. We monitor income differentials within and across job bands and levels to ensure that our remuneration practices do not discriminate on the basis of race, gender or disability. The ratio of basic salary at entry level for men and women is 1:1.

There is no standard entry level wage imposed by regulations. The Bank partakes in various salary surveys

and results have shown that we are one of the highest remunerators compared to our peers.

The Bank does not recruit temporary or part-time employees. Benefits provided to full time employees including career progression opportunities are determined on achievement of business goals especially for Executives and above through the annual performance management system. For Junior Executives and below grades, internal and external pressures are managed through a process of collective bargaining with emoluments being revised periodically.

During 2015 the Bank did not employ any part time employees.

→ G4-LA2

Significant benefits provided to full-time employees

- Non-contributory pension scheme provided at 20% monthly contribution of basic salary with a current portfolio value of Rs 12.0 Bn for staff in the Junior Executive and below grades and Executives who have not opted for pension buy back
- Contributory pension scheme for Widows/Widowers and Orphan with a current portfolio value of approximately Rs 1.0 Bn for staff in the Junior Executive and below grades and Executives who have not opted for pension buy back
- Private Provident Fund with the option for increased contribution
- Loans for employees at concessionary rates of interest for 2 houses, motor vehicles, education, wedding, service loans, investment loans, computer loan, furniture loans, pilgrimage loans and festival advances, distress loans, funeral loans
- Medical, personal accident, life insurance
- Reimbursement of surgical/hospitalisation expenses and other medical expenses
- Non-surgical expenses schemes such as spectacle, dentures/nerve filling & hearing aids
- Annual health check ups
- Maternity grants
- Scholarships for children of staff members
- Honorarium payments on successful completion of professional qualification in banking
- Payment of membership subscriptions of professional bodies for executive staff
- Financial relief for staff members for serious illnesses; OPD and hospitalisation medical benefits extended to the immediate family members; OPD benefits for parents
- Holiday bungalows

Sustainability Reporting Supplement

- Payment on transfers to locations away from home
- Travel allowances
- Uniforms and shoes

Other awards and recognitions

- Incentives for marketing and selling of bank products for individual high performers
- Awards for high performing teams overall
- Attendance/Incentive Bonus
- Recognition of long standing employees - 25 years' service awards
- Awards for knowledge development - Inter Branch Quiz Competitions
- Awards for best housekeeping practices - 5 S and green offices
- Individual commendation letters
- Awards for outstanding staff suggestions - Unleash, 'SPARK' online suggestion schemes

→ [G4-LA4](#)

Minimum notice periods regarding operational changes

As part of sound employee practices we aim to introduce (or practice already) operational changes with adequate notice and minimum disruption.

	Minimum notice period
Transfers	1 week
Resignations	4 weeks
Retirements	24 weeks
Dismissals	Immediate

→ [G4-LA5](#), [G4-LA6](#), [G4-LA7](#), [G4-LA8](#)

Occupational health & safety

We have always been passionate about taking care of our employees providing them with a safe and sound place to work, an ambiance that stimulates thought, ideation, physical comfort, recreation and physical wellbeing.

The Bank recognises that work-life balance is imperative for the wellbeing of employees and therefore supports and promotes a balance between work and life for all employees. The Bank acknowledges that this enhances the overall productivity of employees, increases staff retention, reduces absenteeism and raises employee morale. The scope of the work-life balance policy is organisation wide and is applicable to all employees. It specifically covers provisions for employee leave, career breaks, financial assistance towards

achieving personal objectives, integration of family in sports and social activities, access to health related information and guidance, as well as employees' access to counselling where necessary. The policy on Work Life Balance is hosted on the Bank's intranet and is accessible to all employees.

The Bank promotes high standards of health and safety (H&S) at the workplace and an accident free occupational environment. The H&S policy is one that is holistic and inclusive, and is a priority consideration for all business operations. By complying with the above standards which supersede the minimum H&S regulations laid out by the relevant authorities, the Bank creates a safe environment for employees, customers and other stakeholders. The Health and Safety policy hosted on the Bank's intranet is accessible to all employees.

We are also aware of the significant risks faced by our employees regarding threats and violence such as bank robberies. We have also invested in adequate precautionary such as CCTV cameras, security service providers and insurance companies to minimise the risk to our employees. In addition regular newsletters and awareness programmes are initiated by the inhouse security coordinator to promote vigilance.

During 2015 a key HR theme was to increase employee awareness on non communicable diseases.

By way of access to medical care, the Bank provides medical reimbursements for hospitalisation and outpatient treatment for employees and their dependents as well as for regular health check ups.

Type of injury and rates of injury, occupational diseases, and total number of work-related fatalities, by region and by gender

- No. of injuries - 1
- Type - Minor (dislocation of shoulder)
- Cause - While on duty at client premises slipped and fallen on a newly waxed floor
- Gender - Male
- Region - Western province

Other measures in place

- Provision of indoor gymnasium facilities at head office, with all the branches arranging recreational activity through their sports clubs
- Organisation of sponsored athletics, leagues and sport teams

- Access to in house cafeteria facilities run by a reputed caterer offering subsidised meals
- Payment of professional membership fees, leave pay and leave encashment
- Sports club and welfare associations conduct several sports and welfare activities throughout the year
- State of the art buildings including 3 green buildings which provide a great ambiance and comfort, in addition to being environmentally friendly
- Sponsorship for two toastmasters clubs

Whilst there is no formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes all employees are given membership to the corporate sports club which includes representation at corporate management level.

There were no workers who were involved in occupational activities which have a high incidence or high risk of diseases.

The nature of our business is such that the exposure/risk to occupational diseases is not relevant and as such it is not covered in formal agreements with trade unions excluding the provision for reimbursement of medical expenses.

Our sustainability precepts

Commitment to Sustainability

To fully integrate the consideration of ecological limits, social equity and environmental justice into corporate strategies and core business areas, to put sustainability objectives on an equal footing to shareholder maximisation and client satisfaction, and to actively strive to finance transactions that promote sustainability.

Commitment to 'Do No Harm'

Commit to do no harm by preventing and minimising the environmentally and/or socially detrimental impacts of the Bank's portfolios and operations by creating policies, procedures and standards based on the Precautionary Principle to minimise environmental and social harm, improve social and environmental conditions where the Bank operates, and avoid involvement in transactions that undermine sustainability.

Commitment to Responsibility.

The Bank bears full responsibility for the environmental and social impacts of its transactions including financial risks, as well as social and environmental costs that are borne by communities.

Commitment to Accountability

The Bank is accountable to its stakeholders. Accountability means that stakeholders have an influential voice in financial decisions that affect the quality of their environments and their lives - both through ensuring that stakeholders rights are protected by law, and through practices and procedures adopted by the Bank itself

Commitment to Transparency

The Bank is at all times transparent to its stakeholders, not only through robust, regular and standardised disclosures, but also by being responsive to stakeholder needs for specialised information on the Bank's policies, procedures and transactions.

Commitment to Sustainable Markets and Governance

The Bank ensures that markets are more capable of fostering sustainability by actively supporting public policy, regulatory and/or market mechanisms that facilitate sustainability.

Policies that shape our management approach

Work Life Balance Policy

The Bank recognises that work-life balance is imperative for the well-being of the employees, and therefore supports and promotes a balance between work and life for all employees. The Bank fully endorses the maintenance of a sound balance in work and life and acknowledges that this enhances the overall productivity of employees; increasing staff retention, reducing absenteeism and raising employee morale. The scope of the work-life balance policy is organisation-wide and is applicable to all the employees. It specifically covers provisions for employee leave, career breaks, financial assistance towards achieving personal objectives, integration of family in sports and social activities, access to health related information and guidance, as well as employees access towards counselling where necessary.

Health and Safety Policy

The Bank is committed to achieving high standards of health and safety (H&S) at the workplace and strives to achieve an incident free occupational environment. The H&S policy is one that is holistic and inclusive, and is a priority consideration for all business operations. By complying above to standards that supersede the minimum H&S regulations laid out by the relevant authorities, the Bank creates a secure environment for employees, customers and other stakeholders.

Sustainability Reporting Supplement

Equity and Diversity Policy

Equity and diversity is promoted at the Bank through policies in place to eradicate discrimination. The Bank actively strives to ensure that its workforce reflects diverse populations and intends to create a place where employees hold common values about respect for others, and respecting differences between people. The principles of the Equity & Diversity policy ensures that the Bank adopts a non-discriminatory approach to employment, career development, training, and all other recognition and reward.

Grievance Handling Policy

The Bank's grievance handling policy ensures that its employees have the opportunity to make presentations to the Management for redress. This is aimed at improving employee-employer relations and thereby instituting sound industrial relations. The grievance handling procedure is a three-step approach that allows the grievance to be escalated to the highest level of authority within the organisation ensuring fairness and transparency of the process.

The HNB Green Pledge

The Green Pledge commits every employee to act with environmental consciousness. Every employee at the Bank is committed to the pledge and not only limits his or her behaviour to the precepts of the pledge but also commits to cascade the awareness across his family and peers.

→ [G4-HR1](#), [G4-HR4](#), [G4-HR5](#), [G4-HR6](#), [G4-HR9](#)

Human Rights Policy

Human rights are upheld at every aspect of the Bank's operations. The Human Rights policy reflects the Bank's commitment to conduct business in a manner consistent with the principles of the policy. The Bank also strives to protect human rights within the Bank's areas of influence.

The Bank does not employ workers under the legal minimum age, prohibits the use of all forms of forced labour, respects employees rights to join, form or not join a labour union, respects the principles of collective bargaining, provides health & safety at work, is non-discriminatory to age, race, religion or sex, prohibits sexual harassment, limits work to standard accepted hours and condones the use of corporal punishment.

→ [G4-56](#), [G4-57](#), [G4-58](#); [G4-SO3](#), [G4-SO4](#), [G4-SO5](#)

Our Values, code of conduct, ethics and integrity

Adhering to our values and code of ethics in everything we do, guides us in our objective of doing the right business in the right way and is imperative to building the trust of our

stakeholders, particularly given an environment of increasing fraudulent activity.

Our values, provide a shared frame of reference for what we as a Bank believe in and what matters most to us. As such, they guide our geographically and culturally diverse operations towards unified and consistent behaviour which helps us keep to the highest standards of responsible business practice in our interactions with stakeholders. Our code of ethics defines our values in greater detail and serves as a reference for values-based decision-making. In an environment of increasing fraudulent activity, together with the decrease in trust in the banking sector globally, it is imperative that we adhere to our values and code of ethics in everything we do.

The Bank's Code of Conduct and Compliance and Integrity Programme is at the heart of its management approach to sustainable business. The Code is applicable to all employees and calls for honest and ethical conduct, outlines conflict of interests, misuse of corporate opportunities specifically information security, defines gifts and entertainment, calls for financial integrity in disclosure to investors and regulators, calls for compliance with laws, regulations and rules, and commits every employee to report concerns where the code has been breached.

Implementation

Our Code of Ethics and the compliance and integrity frameworks have been signed by all employees. Given their role in guiding the behaviour and decision-making of our people, our code of ethics and values are continuously embedded into the working lives of our people and serve as the primary reference for employees when resolving any ethical issue.

Employees are required to read, understand and become familiar with the Code of Ethics and how it relates to their roles. We ensure that the code of ethics is implemented and managed effectively across our operations, covering areas ranging from leadership commitment and custodianship through to assessment, monitoring and reporting.

Our values and ethics also form part of our performance management system, with employees and executives holding themselves and each other accountable for appropriate behaviour in their day-to-day responsibilities.

New employees are inducted into our ethics culture as part of the formal induction programme. In addition to the support functions provided by direct line manager or Human Capital representatives where employees can confidentially seek advice a formal whistle blowing mechanism was implemented in 2014 for employees and other stakeholders

to seek advice or report concerns about unethical or unlawful behaviour.

Topics addressed in our code of ethics

- Treating customers fairly.
- Providing secure banking facilities.
- Providing professional development opportunities.
- Evaluating performance objectively.
- Sustainable value creation for shareholders.
- Adhering to good corporate governance.
- Engaging in political activities responsibly.
- Protecting intellectual property.
- Avoiding anti-competitive behaviour.
- Rewarding innovation.
- Working in unity.
- Respecting human dignity.
- Protecting our physical assets.
- Honesty.
- Addressing conflicts of interest.
- Combating unethical and criminal activities.
- Prohibiting giving and receiving of bribes.
- Prohibiting facilitation payments.
- Responsibly giving and receiving gifts.

Combating fraud and corruption through Values, Ethics, Compliance training and awareness

The Bank's 6 Values, Code of Ethics, Employee Code of Conduct, Compliance & Integrity programme, training on AML/ KYC, Green Pledge training and awareness initiatives and Competency Tests on the topic entrench compliance and values based behaviour at every level of the Bank. Further as the Bank operates in a highly regulated sector with a strong anti corruption system, all operations are assessed for risks related to corruption and all staff members are required to complete mandatory regulatory and business compliance training. Our interventions are delivered through various means, including staff induction programmes, e-learning and competency tests. The Bank has a very vigorous and transparent disciplinary procedure in place and we practice zero tolerance policy regarding any form of fraud. The disciplinary procedure is iterated in the collective agreements entered into by the management and the 2 employee unions thereby endorsing the commitment of all staff of the need for compliance and the consequences of any deviant behaviour. During 2015, 4 employees were terminated consequent to disciplinary enquiries and 14 were disciplinarily dealt with.

→ G4-LA16, G4-HR3, G4-HR12

Handling Grievances

Various mechanisms are in place for employees to communicate their grievances. A dedicated Employee Relations manager and formal grievance handling procedures, staff meetings, dialogues with staff representatives, employee focus group meetings chaired by MD/CEO, HR Service Days, whistle blowing mechanisms. Issues discussed include transfer, feedback on promotion interview and career conversations. No cases of discrimination or human rights violations were reported during the year.

Our Supply Chain

→ G4-12

Suppliers play a fundamental role in how we execute our commercial activities and are a core element in the various facets that promote our business. Moreover being an organisation that has always looked to contribute to the broader perspective of national development, we consider management of our supply chain as an avenue to promote and stimulate greater economic activity especially in the arena of micro-enterprise.

We have inspired several success stories of suppliers who have grown from micro suppliers to the SME level.

Sustainable Procurement Policy

In recognition of our responsibility to carry out procurement activities in an environmentally and socially responsible manner we are in the process of incorporating environmental and social considerations into the procurement process.

We aim to encourage our suppliers to minimise negative environmental and social effects associated with the products and services they provide. Our procurement policy ensures that sustainability criteria are included in specifications to suppliers and that sustainability criteria are met in the award of contracts by ensuring that suppliers' environmental credentials are considered in the supplier appraisal process.

We continue to engage and communicate with its supplier base in the recognition that consistent education and awareness towards compliance will foster a relationship that not only benefits the Bank and its suppliers but will also cascade the positives of sustainability to a greater audience. We are confident that engagement and education of green policies for sustainable business will foster greater empathy towards ethical manufacturing processes.

Sustainability Reporting Supplement

Objective	Process
Sustainable practice at supplier level	<ul style="list-style-type: none"> • Pre-evaluation of suppliers' business processes • Inspection of suppliers premises and business practices on an ongoing basis
Selection of suppliers	<ul style="list-style-type: none"> • Selection process goes beyond the financial benefits to take into account other factors such as level of compliance with the procurement policy
Creating greater awareness of the "green" aspects of business	<ul style="list-style-type: none"> • Engagement with suppliers that have a turnover in excess of Rs. 1 million through a comprehensive engagement process
Determining one supplier over another	<ul style="list-style-type: none"> • Through a rating process based on criteria laid out in the procurement policy
Policy of nondiscrimination	<ul style="list-style-type: none"> • Encourage SME and micro enterprises to enter into partnership with the Bank
Upholding of Human Rights and containment of environment and social risks	<ul style="list-style-type: none"> • During the pre-evaluation of the supplier's business process prior to rating the supplier, the Bank investigates into practices such as child labour, forced labour, human rights, environment, health and safety issues
<p>→ G4-EN32, G4-LA14, G4-HR10, G4-SO9</p>	

Ethical procurement practices

We consider ethical conduct as the pivot upon which supplier relations are built. A code of conduct governs the ethical expectations of the Bank and its tenets are shared between employees as well as suppliers through frequent engagement activities, a process which strives to impart and maintain the highest standards of integrity across every aspect of the business relationship. We are of the view that ethical behaviour must be promoted and supported by appropriate systems and procedures. Likewise the Bank expects the highest ethical standards from its suppliers. The following outlines the practices and process followed by the Bank towards the upholding of ethical practices in procurement.

Expectation	Process
Transparency	<ul style="list-style-type: none"> • Tender process ensures transparency of expectations • More than one procurement evaluation committee • Final approval by Board of Directors
Confidentiality	<ul style="list-style-type: none"> • Suppliers and supplier information treated with confidentiality and fair trading
Supplier concerns/discontent	<ul style="list-style-type: none"> • Raised through supplier engagement • Appeal schemes allow suppliers to directly raise issue or whistle-blow to the Deputy General Manager Services and thereafter to the Managing Director/Chief Executive Officer
Facilities to promote supplier relations	<ul style="list-style-type: none"> • Credit accommodation
Termination of suppliers	<ul style="list-style-type: none"> • Based on stringent review process that allows for a dialogue with the supplier and subsequent to other mechanism such as penalties
Service quality improvements	<ul style="list-style-type: none"> • Operation and procedure manuals on service quality checks

Our commitment to local suppliers

→ [G4-EC9](#)

Nearly all our procurement is from local (Sri Lankan) suppliers or appointed agents/dealers operating in Sri Lanka. Further, over 60% of our sourcing is from local suppliers at the SME/micro level. All suppliers are required to register with the Bank and are conform to the prescribed sustainability agenda. The contract terms require suppliers to meet minimum regulatory requirements relevant to the sourcing. Further all assets are subject to an environmental and social screening (including human rights) at the time of purchase.

Type of Suppliers	Location
Stationery	Sri Lanka
Fixed Assets	Sri Lanka
Out sourced services	Sri Lanka
Premises	Sri Lanka
Computer hardware & software / communication equipment	Sri Lanka & Foreign
Utilities	Sri Lanka

Endorsement and / or subscription to externally developed charters & principles

→ G4-15

In addition to all applicable legal and regulatory frameworks and charters HNB also endorses and / or subscribes to the following externally developed charters & principles

- Principles stipulated by “International Convergence of Capital measurement and Capital standards” widely

known as Basel II, which provides a framework to foster integrated Risk Management in the Bank

- International Finance Corporation (IFC) guidelines and performance standards
- Sri Lanka Banks Association - Sustainable Finance Principles
- The Global Reporting Initiatives for Sustainability Reporting (GRI)

Membership in associations

→ G4-16

HNB is a member and/or represented at the following membership forums with the objective of having access to new insights, trends and research on various business related topics pertaining to the management of economic, social and environmental impacts, continuous learning and development and to influence sustainable business practices.

Corporate Memberships	Corporate Training Partners	Significant Involvement by our Key Management Personnel
<ul style="list-style-type: none"> • American Chamber of Commerce (Amcham) • Asian Bankers Association • Association of Professional Bankers, Sri Lanka • Banking with the Poor Network, Singapore • Biodiversity Sri Lanka • CSR Sri Lanka • Employers Federation of Ceylon • International Chamber of Commerce Sri Lanka • Lanka Business Coalition for HIV/AIDS (dissolved in 2015) • Lanka SWIFT User Group • Sri Lanka Banks Association • Sri Lanka Forex Association • The Ceylon Chamber of Commerce • The Clearing Association of Bankers • The Institute of Bankers of Sri Lanka • The National Chamber of Commerce Sri Lanka 	<ul style="list-style-type: none"> • The Chartered Institute of Management Accountants (UK) - Sri Lanka Division • Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) 	<ul style="list-style-type: none"> • Association of Compliance Officers of Banks, Sri Lanka - President • Association of Professional Bankers, Sri Lanka - Immediate Past President, Treasurer • Association of Human Resource Professionals - President • Bio Diversity Sri Lanka - Advisory Committee Member • Credit Information Bureau - Alternate Director • Financial Ombudsman Sri Lanka - Chairman • Lanka Financial Services Bureau Ltd - Chairman • Sri Lanka Banks Association - Chairman

Sustainability Reporting Supplement

Our commitment to sustainable business practices

→ G4-EN29, G4-EN34, G4-HR12, G4-SO2, G4-SO7, G4-SO8, G4-SO11, G4-PR2, G4-PR7, G4-PR8, G4-PR9

Measurement	Achievement
Grievances about environmental and human rights impacts and discriminations filed, addressed, and resolved through formal grievance mechanisms	No significant incidents recorded during the year under review
Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	
Significant fines and total number of non-monetary sanctions for non-compliance with environmental and social laws and regulations	
Negative impact on local communities due to business operations and grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	
Incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling	
Incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship	
Substantiated complaints regarding breaches of customer privacy and losses of customer data	
Significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	

2015 - DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

→ GRI G4 EC1

For the year ended 31st December	2015 Rs 000	2014 Rs 000
Direct Economic Value Generated		
Interest Income	52,615,463	51,868,333
Fee Commission Income	5,874,928	4,976,212
Net Gain/(loss) from trading & Financial investment	600,435	827,305
Other operating income	2,062,640	1,828,645
	<u>61,153,466</u>	<u>59,500,495</u>
Economic Value Distributed		
To Depositors/Debenture Holders as Interest	26,279,934	26,966,826
To Employees as Emoluments	7,927,695	7,407,015
Depreciation/ Amortisation Set Aside	966,596	1,126,997
Impairment charge for loans and other losses	931,925	2,491,520
To providers of Supplies and services	6,587,879	6,456,018
To Government as Taxation		
- Income tax	3,888,177	2,618,937
- Super gain tax (SGT)	2,074,248	-
- VAT and NBT on Financial Services	2,814,334	2,501,876
- Crop Insurance Levy	108,379	81,831
- Stamp duty and Other Local taxes	25,385	24,778
To Central Bank of Sri Lanka as Deposit insurance premium	448,503	378,545
To Shareholders as Dividends	3,349,298	3,430,715
To Community as Donation/CSR	12,819	1,160
	<u>55,415,172</u>	<u>53,486,218</u>
Economic Value Retained	<u>5,738,294</u>	<u>6,014,277</u>

Independent Assurance Report



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

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eyst@k.ey.com
ey.com

INDEPENDENT ASSURANCE REPORT TO HATTON NATIONAL BANK PLC ON THE SUSTAINABILITY REPORTING CRITERIA PRESENTED UNDER THE INTEGRATED ANNUAL REPORT- 2015

Introduction and scope of the engagement

The management of Hatton National Bank PLC ("the Bank") engaged us to provide an independent assurance on the following elements of the sustainability reporting indicators under the annual report- 2015 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 372 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative G4 'In accordance' - Core guidelines.

Basis of our work and level of assurance

We performed our procedures to provide limited assurance in accordance with International Standard on Assurance Engagements (ISAE 3000): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ("CASL").

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI G4 'In accordance' - Core guideline publication, publicly available at GRI's global website at "www.globalreporting.org".

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with ISAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

Management of the Bank's responsibility for the Report

The management of the bank is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustaining reporting process in line with the GRI Sustainability Reporting Guidelines.

Ernst & Young's responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative G4 'In accordance' - Core guidelines. This report is made solely to the Bank in accordance with our engagement letter dated 11 January 2016. We disclaim any assumption of responsibility for any reliance on this report to any person other than the bank or for any purpose other than

that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the CASL.

Key assurance procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- Interviewing relevant bank's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the bank on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the bank's audited financial statements for the year ended 31 December 2015.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative G4 'In accordance' - Core guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

Limitations and considerations

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

Conclusion

Based on the procedures performed, as described above, we conclude that;

- The information on financial performance as specified on page 372 of the Report are properly derived from the audited financial statements of the Bank for the year ended 31 December 2015.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Bank's sustainability practices and policies some of which are derived from GRI-G4-'In accordance' Core Sustainability Reporting Guidelines.

Chartered Accountants

19th February 2016
Colombo

Partners: A D B Telwalle FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H Fernando FCA FCMA
W K B S P Fernando FCA FCMA Ms. L K H L Fonseka FCA A P A Gurussekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Lusowyke FCA FCMA Ms. G G S Manatunga FCA N M Sultaiman ACA ACMA B E Wijesuriya FCA FCMA

GRI G4 Content Index

We report against the GRI G4 Sustainability Reporting Guidelines and the GRI Financial Services Sector Supplement, supported by our internally developed policies and procedures. We continue to improve our application of the G4 guidelines and at this stage our report is in accordance with the core GRI G4 level and goes some way towards the comprehensive level.

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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.

AVAILABLE FOR SALE FINANCIAL ASSETS

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

B

BILLS SENT FOR COLLECTION

A Bill of Exchange drawn by an exporter usually at a term, on an importer overseas and

brought by the exporter to his Bank with a request to collect the proceeds.

BONUS ISSUE

The issue of new shares to existing shareholders in proportion to their shareholdings. It is a process for converting a company's reserves (in whole or part) in to issued capital and hence does not involve an infusion of cash.

C

CAPITAL ADEQUACY RATIO

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

CAPITAL RESERVE

Capital reserves consist of revaluation reserves arising from revaluation of properties owned by the Bank.

CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

CASH GENERATING UNIT (CGU)

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

CEDED INSURANCE ARRANGEMENTS

An arrangement where an insurance company passes the part or all of its risks from its insurance policy portfolio to a reinsurance firm.

COLLECTIVELY ASSESSED LOAN IMPAIRMENT PROVISIONS

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically assets within the consumer banking business are assessed on a portfolio basis.

COMMERCIAL PAPER

An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt

is usually issued at a discount, reflecting prevailing market interest rates.

COMMITMENT TO EXTEND CREDIT

Credit facilities available to clients either in the form of loans, bankers' acceptances and other on-balance sheet financing or through off-balance sheet products such as guarantees and letters of credit.

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 process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

CORRESPONDENT BANK

A Bank in a foreign country that offers banking facilities to the customers of a Bank in another country.

COST INCOME RATIO

Operating expenses excluding loan loss provision as a percentage of total operating income.

COST METHOD

Cost method is a method of accounting for an investment whereby the investment is recognised at cost. The investor recognises income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

COST-PUSH INFLATION

A continuous increase in average price levels due to an increase in production costs.

CREDIT RATINGS

An evaluation of a corporate's ability to repay its obligations or likelihood of not defaulting, carried out by an independent rating agency.

CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and other banks and investment in debt/ equity securities.

CURRENCY RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

CURRENCY SWAPS

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of same currency for forward settlement.

D

DEBT RESTRUCTURING / RESCHEDULING

This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedule as well as debt or interest charge reduction.

DEFERRED TAX

Sum set aside in the financial statements for taxation that may become payable in a financial year other than the current financial year.

DELINQUENCY

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

DERECOGNITION

Removal of a previously recognised financial asset or financial liability from an entity's Statement of Financial Position.

DERIVATIVES

A derivative is a financial instrument or other contract, the value of which changes in

response to some underlying variable (eg. an interest rate), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

DEPRECIATION

The systematic allocation of the depreciable amount of an asset over its useful life.

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.

DOCUMENTARY LETTERS OF CREDIT (L/ Cs)

Written undertakings by a Bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

E

EARNINGS PER SHARE (EPS)

Profit attributable to ordinary shareholders, divided by the number of ordinary shares in issue.

ECONOMIC VALUE ADDED (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

EFFECTIVE INTEREST RATE

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

EFFECTIVE TAX RATE

Income tax expense for the year divided by the profit before tax.

EQUITY INSTRUMENT

Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

EQUITY METHOD

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

EMBEDDED DERIVATIVES

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

ESOP (EMPLOYEE SHARE OPTION PLAN)

A method of giving employees shares in the business for which they work.

EX-DIVIDEND DATE

A classification of trading shares when a declared dividend belongs to the seller rather than the buyer. A stock will be given ex-dividend status if a person has been confirmed by the company to receive the dividend payment. The date on or after which a security is traded without a previously declared dividend or distribution.

F

FAIR VALUE

Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

FINANCE LEASE

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of the asset under lease.

FINANCIAL ASSET OR FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as 'at fair value through profit or loss'.

FINANCIAL INSTRUMENT

Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Glossary of Financial / Banking Terms

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 or other variable provided in the case of a non financial variable that the variable is not specific to the party to the contract.

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.

G

GOODWILL

An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

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.).

HELD TO MATURITY INVESTMENTS

Non derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

I

IMPAIRED LOANS

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

IMPAIRMENT

This occurs when recoverable amount of an asset is less than its carrying amount.

IMPAIRMENT ALLOWANCES

Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio) respectively.

INCREMENTAL COST

Costs that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

INCURRED BUT NOT ENOUGH REPORTED (IBNER)

The reserves for claims that become due with the occurrence of the events covered under the insurance policy, but have not been reported yet.

INCURRED BUT NOT REPORTED (IBNR)

An estimate of the liability for claim-generating events that have taken place but have not yet been reported to the insurer or self-insurer.

INDIVIDUALLY SIGNIFICANT LOANS

Exposures which are above a certain threshold decided by the Bank's management which should be assessed for objective evidence, measurement, and recognition of impairment on an individual basis.

INDIVIDUALLY SIGNIFICANT LOAN IMPAIRMENT PROVISIONS

Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the corporate

banking business of the Group are assessed individually.

IRREVOCABLE COMMITMENT

A loan amount that may be drawn down, or is due to be contractually funded in the future.

INTANGIBLE ASSET

An identifiable non-monetary asset without physical substance held for use in the production / supply of goods / services or for rental to others or for administrative purposes.

INTEREST MARGIN

Net interest income as a percentage of average interest earning assets.

INTEREST RATE SWAP

An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified principal amount.

INTEREST RATE RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

INTEREST SPREAD

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

INSURANCE RISK

Risk, other than financial risk, transferred from the holder of a contract to the issuer.

INVESTMENT PROPERTIES

Investment property is property (land or a building - or part of a building - or both) held (by the owner or by the lessee under a finance lease)

to earn rentals or for capital appreciation or both, rather than for use or sale.

INTEREST COVER

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

J

JOINT CONTROL

Joint control is the contractually agreed sharing of the control over an economic activity and exists only when the strategic financial and operating decisions relating to the activity

require the unanimous consent of the parties sharing control.

JOINT VENTURE

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

K

KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L

LETTER OF CREDIT (L/C)

Written undertakings by a Bank on behalf of its customer (typically an importer), authorising a third party (e.g. an exporter) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

LIABILITY ADEQUACY TEST (LAT)

Assessment on each reporting date whether the recognized insurance liabilities are adequate, using current estimates of future cash flows under the insurance contract.

LIQUID ASSETS

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other Banks, Bills of Exchange and Treasury Bills.

LIQUIDITY RISK

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

LOANS AND RECEIVABLES

Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intended to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

LOSS GIVEN DEFAULT (LGD)

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

M

MARKET CAPITALISATION

Number of ordinary shares in issue multiplied by the market value of each share at the year end.

MARKET RISK

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

MATERIALITY

The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of financial statements.

N

NET ASSET VALUE PER SHARE

Shareholders' funds divided by the number of ordinary shares in issue.

NET-INTEREST INCOME

The difference between what a Bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

NON CONTROLLING INTEREST

Equity in a subsidiary not attributable, directly or indirectly to a parent.

NET PREMIUM METHOD

A Net Premium Valuation is an actuarial calculation, used to place a value on the liabilities of a life insurer.

O

OFF BALANCE SHEET TRANSACTIONS

Transactions that are not recognised as assets or liabilities in the Statement of Financial Position, but which give rise to contingencies and commitments.

ONEROUS CONTRACT

A type of contract where the costs involved with fulfilling the terms and conditions of the contract are higher than the amount of economic benefit received.

OPERATIONAL RISK

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

P

PARENT

A parent is an entity that has one or more subsidiaries.

PAST DUE

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

PRICE EARNINGS RATIO (P/E RATIO)

Market price of an ordinary share divided by earnings per share (EPS).

PROBABILITY OF DEFAULT (PD)

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

PRUDENCE

Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

R

REGULAR WAY TRADES

A type of trade that is settled through the regular settlement cycle required for the particular investment being traded. The settlement cycle is the time that the regulations of the securities market allows for the buyer to complete payment and for the seller to deliver the goods being purchased.

REPURCHASE AGREEMENT

This is a contract to sell and subsequently repurchase government securities at a given price on a specified future date.

RETURN ON AVERAGE ASSETS (ROAA)

Profit after tax expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

RETURN ON AVERAGE EQUITY (ROAE)

Profit after tax less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Glossary of Financial / Banking Terms

REVENUE RESERVE

Reserves set aside for future distribution and investment.

REVERSE REPURCHASE AGREEMENT

Transaction involving the purchase of government securities by a Bank or dealer and resale back to the seller at a given price on a specific future date.

RIGHTS ISSUE

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

RISK-WEIGHTED ASSETS

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per rupee among all types of assets. The risk inherent in off-balance sheet instruments is also recognised, first by adjusting notional values to balance sheet (or credit) equivalents and then by applying appropriate risk weighting factors.

S

SEGMENT REPORTING

Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealings, property and insurance.

SHAREHOLDERS' FUNDS

Shareholders' funds consist of stated capital, statutory reserves, capital and revenue reserves.

SPECIFIC IMPAIRMENT PROVISIONS

Impairment is measured individually for loans that are individually significant to the Bank.

STATUTORY RESERVE FUND

Reserve created as per the provisions of the Banking Act No. 30 of 1988.

SUBSIDIARY

A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

SUBSTANCE OVER FORM

The consideration that the accounting treatment and the presentation in financial statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

T

TIER I CAPITAL

Consists of the sum total of paid up ordinary shares, non cumulative, non redeemable preference shares, share premium, statutory reserve fund, published retained profits, general and other reserves, less goodwill.

TIER II CAPITAL

Consists of the sum total of revaluation reserves, general provisions, hybrid capital instruments and approved subordinated debentures.

TOTAL CAPITAL

Total capital is the sum of Tier I capital and Tier II capital.

TRANSACTION COSTS

Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

U

UNEARNED PREMIUM RESERVE

The premium corresponding to the time period remaining on an insurance policy.

UNIT TRUST

An undertaking formed to invest in securities under the terms of a trust deed.

V

VALUE ADDED

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Y

YIELD TO MATURITY

Discount rate which the present value of future cash flows would equal the security's current price.

Branch Network

Central Province - 39

Kandy - 14

- Akurana
- Digana
- Galaha
- Gampola
- Geliyoa
- Kandy
- Kandy City Centre (Extension Office)
- Katugastota
- Kundasale
- Kurunduwatte
- Nawalapitiya
- Peradeniya
- Pilimathalawa
- Rikillagaskada

Matale - 03

- Dambulla
- Galewela
- Matale

Nuwara Eliya - 08

- Bogawanthalawa
- Ginigathhena
- Hatton
- Maskeliya
- Nuwara Eliya
- Pussellawa
- Ragala
- Thalawakele

Eastern Province - 35

Ampara - 11

- Akkaraipattu
- Ampara
- Dehiattakandiya
- Kalmunai
- Karaitivu
- Ninthavur
- Pottuvil
- Samanthurai Thandavenvely Thirukkivil

Batticaloa - 05

- Batticaloa
- Eravur
- Valachchenai
- Kaluwanchikudy
- Kattankudy

Trincomalee - 10

- Kantale
- Kallady
- Kinniya
- Marathamunai
- Mullipathana
- Muttur
- Trinco Metro
- Serunuwara
- Trincomalee
- Uppuveli

North Central Province - 17

Anuradhapura - 07

- Anuradhapura
- Anuradhapura Metro
- Kekirawa
- Medawachchiya
- Nochchiyagama
- Padavi Parakramapura
- Thambuttegama

Polonnaruwa - 03

- Aralaganwila
- Medirigiriya
- Polonnaruwa

North Western Province - 27

Kurunegala - 09

- Alawwa
- Galgamuwa
- Giriulla
- Hettipola
- Kuliypitiya
- Kurunegala
- Kurunegala Metro Nikaweratiya
- Wariyapola

Puttalam - 09

- Anamaduwa
- Chilaw
- Dankotuwa
- Madampe
- Marawila
- Norochhole
- Puttalam
- Udappuwa
- Wennappuwa

Northern Province - 35

Jaffna - 13

- Atchchuveli
- Chankanai
- Chavakachcheri
- Chunnakam
- Jaffna
- Jaffna Metro
- Kaithady
- Kodikamam
- Manipay
- Nelliady
- Point Pedro
- Thirunelvely
- Velanai

Kilinochchi - 02

- Kilinochchi
- Kilinochchi North

Mannar - 03

- Mannar
- Mallavi
- Nanattan

Mullaitivu - 02

- Mullaitivu
- Mulliyawalai

Vavuniya - 02

- Kurumankadu
- Vavuniya

Sabaragamuwa Province - 22

Kegalle - 04

- Mawanella
- Kegalle
- Pinnawala
- Warakapola

Ratnapura - 07

- Balangoda
- Embilipitiya
- Godakawela
- Kahawatta
- Kalawana
- Pelmadulla
- Ratnapura

Branch Network

Southern Province - 36

Galle - 09

- Ambalangoda
- Batapola
- Elpitiya
- Galle
- Hikkaduwa
- Karapitiya
- Koggala
- Pitigala
- Yakkalamulla

Hambantota - 8

- Ambalantota
- Angunakolapelessa
- Hambantota
- Middeniya
- Sooriyawewa
- Tangalle
- Tissamaharama
- Walasmulla

Matara - 08

- Akuressa
- Deniyaya
- Devinuwara
- Dickwella
- Hakmana
- Matara
- Urubokka
- Weligama

Uva Province - 17

Badulla - 06

- Badulla
- Bandarawela
- Haputale
- Mahiyanganaya
- Passara
- Welimada

Monaragala - 06

- Buttala
- Bibile
- Kataragama
- Monaragala
- Siyambalanduwa
- Wellawaya

Western Province - 234

Colombo - 61

- Aluthkade
- Athurugiriya
- Avissawella Bambalapitiya
- Boralessgamuwa
- Borella
- Cinnamon Gardens
- City Office
- Dehiwela
- Dematagoda
- Grandpass
- Greenpath
- Hanwella
- Head Office Branch
- Homagama
- Hulftsdorp
- International Water Management Institute (Pay Office)
- Jampettah
- Sri Jayawardenapura Hospital (Pay Office)
- Kaduwela
- Kelaniya
- Kiribathgoda
- Kirulapone
- Kohuwela
- Kollupitiya
- Kolonnawa
- Kotahena
- Kottawa
- Kotte
- Maharagama
- Main Street (Extension Office)
- Malabe
- Maligawatte
- Maradana
- Mirihana
- Moratumulla
- Moratuwa
- Mount Lavinia
- Mutwal
- Narahenpita
- Nawala
- Nawaloka (Pay Office)
- Nawam Mawatha
- Nugegoda
- Overseas School of Colombo (Pay Office)
- Padukka
- Pamankada
- Panchikawatte
- Peliyagoda
- Pettah
- Piliyandala
- Ratmalana
- Sea Street
- SLPA Ext (Pay Office)
- Thalagama
- Thalawathugoda
- Asiri Central Hospital (Pay Office)
- Thimbirigasyaya
- Wellawatte
- Wijerama
- World Trade Centre

Gampaha - 30

- Airport Departure Counter (Pay Office)
- Biyagama
- Delgoda
- Divulapitiya
- Ekala
- Gampaha
- Ganemulla
- Hendala
- Ja-Ela
- Kadawatha
- Kandana
- Katunayake
- Kirindiwela
- Kochchikade
- Marandagahamula
- Minuwangoda
- Mirigama
- Negombo
- Negombo (Extension Office)
- Negombo Metro
- Nittambuwa Pamunugama
- Pugoda
- Ragama
- Seeduwa
- Sri Lankan Airlines (Pay Office)
- Veyangoda
- Wattala
- Weliweriya
- Yakkala

Kalutara - 09

- Aluthgama
- Bandaragama
- Beruwala
- Horana
- Ingiriya
- Kalutara
- Mathugama
- Panadura
- Wadduwa

Corporate Information

NAME OF COMPANY

HATTON NATIONAL BANK PLC

LEGAL FORM

A public limited Company incorporated on 5th March 1970 under the Laws of the Republic of Sri Lanka. The Company was re-registered under the Companies Act No 7 of 2007 on 27th September 2007. It is a Licensed Commercial Bank under the Banking Act.

COMPANY REGISTRATION NUMBER

PQ 82 (previous PBS 613)

ACCOUNTING YEAR END

31st December

STOCK EXCHANGE LISTING

The ordinary shares and the unsecured subordinated redeemable debentures of the Bank are listed on the Colombo Stock Exchange in Sri Lanka.

REGISTERED OFFICE

"HNB Towers"
No. 479, T B Jayah Mawatha (Darley Road),
P O Box 837, Colombo 10,
Sri Lanka.

HEAD OFFICE

"HNB Towers",
No. 479, T B Jayah Mawatha (Darley Road),
P O Box 837,
Colombo 10,
Sri Lanka.

Cable Address : HATNABANK
Telephone Nos : +94 11 2664664
 : +94 112662772
 : +94 11 4764764
Fax No : +94 112662832
Swift : Bic Code - HBLILKLX
e - mail : moreinfo@hnb.net
Web : www.hnb.net

CREDIT RATINGS

The Bank has been assigned a national long term rating of AA-(lka) by Fitch Ratings Lanka Limited and a Foreign Currency Issuer rating of B1 by Moody's Investors Service.

BOARD OF DIRECTORS

Mr Rienzie Arseculeratne (Chairman)
Mr Jonathan Alles (Managing Director / CEO)
Ms M A R C Cooray
Dr L R Karunaratne
Mr L U D Fernando
Mr Sujeewa Mudalige
Ms D S C Jayawardena
Mr R S Captain
Mr Amal Cabraal
Mr Palitha Pelpola
Mr D Soosaipillai
Mr Nilanth de Silva

BOARD SECRETARY

Ms K A L Thushari Ranaweera
Attorney-at-Law, LL.M (Cambridge),
Dip in Int'l Affairs (BCIS)

AUDIT COMMITTEE

Mr Sujeewa Mudalige (Chairman)
Dr L R Karunaratne
Mr Amal Cabraal
Mr Nilanth de Silva

NOMINATION COMMITTEE

Mr Rienzie Arseculeratne (Chairman)
Ms M A R C Cooray
Mr R S Captain
Mr Palitha Pelpola

HR & REMUNERATION COMMITTEE

Mr Rienzie Arseculeratne (Chairman)
Mr L U D Fernando
Mr Sujeewa Mudalige
Mr Amal Cabraal

Corporate Information

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

Ms M A R C Cooray (Chairperson)*
Mr L U D Fernando*
Ms D S C Jayawardena*
Mr D Soosaipillai*
Mr Jonathan Alles - Managing Director/CEO**
Mr D P N Rodrigo - Chief Operating Officer***
Mr Sidath Wijeratne – Chief Information Officer/AGM (IT)***
Mr Ashok Goonesekere - Chief Financial Officer***
Mr Niroshana Seneviratne - Chief Internal Auditor***
Mr Damith Pallewatte-Chief Risk Officer ***
Mr C B Wijayarathne – Chief Compliance Officer***

* Representatives of the Board

** Representatives of the Board & the Management

***Representatives of the Management

JOINT VENTURE COMPANIES

Acuity Partners (Pvt) Ltd 50%
(Financial Services)

SUBSIDIARY COMPANIES

HNB Assurance PLC 60%
(Insurance Services)

Sithma Development (Pvt) Ltd 100%
(Property Development)

HNB Grameen Finance Limited 51%
(Financial Services)

AUDITORS

Ernst & Young
Chartered Accountants
201, De Saram Place
Colombo 10,
Sri Lanka.

INVESTOR INFORMATION

Institutional Investors, Stock Brokers and Security Analysts requiring financial information should contact the Chief Manager (Planning & Investments)

“HNB Towers”, Level 16,
No. 479, T B Jayah Mawatha (Darley Road),
Colombo 10, Sri Lanka.
Telephone : +94 11 2661555
Fax : +94 11 2662815
e-mail : rajive.dissanayake@hnb.lk

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Notice of Meeting

Notice is hereby given that the Forty Seventh (47th) Annual General Meeting of Hatton National Bank PLC (the "Bank") is convened on Wednesday, the Thirtieth (30th) day of March 2016 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 2015 and the Auditors' Report thereon.
- ii. To declare a final dividend as recommended by the Board of Directors and to consider and if thought fit, to pass the following resolutions:

Ordinary Resolution - Declaration of Dividend and approval of its method of satisfaction

IT IS HEREBY RESOLVED:

- (a) THAT a final dividend of Rupees Seven (Rs. 7/-) per share constituting a total sum of Rs. 2,840,749,590/- be paid on the issued and fully paid ordinary (voting) and (non-voting) shares of the Bank for the financial year ended 31st December 2015 based on the issued ordinary voting shares and ordinary non-voting shares as at February 19, 2016, subject to any necessary revision being made to such amount to be distributed in order to include and accommodate the dividends pertaining to any new shares to be issued by the Bank to its employees under the Hatton National Bank PLC ESOP scheme;
- (b) THAT such dividend be paid out of exempt dividends received (if any), dividends received on which Withholding Tax has already been paid by the paying companies (if any), and the balance out of the profits of the Bank, which balance would be liable to a Withholding Tax of ten per centum (10%).
- (c) THAT the shareholders entitled to such dividend would be those shareholders (holders of both ordinary voting shares and ordinary non-voting shares), whose names have been duly registered in the Register of Shareholders and those shareholders whose names appear on the Central Depository Systems (Pvt) Ltd ('CDS') as at end of trading on the date on which the requisite resolution of the Shareholders in regard to the final dividend is passed ('entitled Shareholders');
- (d) THAT the said final dividend of Rs. 7/- per share be distributed and satisfied partly by the payment of cash and partly by the allotment and issue of new ordinary voting shares and ordinary non-voting shares (the "distribution scheme") based on the share prices of ordinary voting shares and ordinary non-voting shares as at February 19, 2016 in the following manner, subject however to any necessary revision being made to the amount of dividends to be distributed and the number of shares to be issued, in order to include and accommodate the dividends pertaining to any new shares that may be issued by the Bank to its employees under the Hatton National Bank PLC ESOP scheme:
 - (i) **By way of a cash distribution**
A cash distribution of (A) a sum of Rs 1,135,419,057/50 be made to the holders of ordinary voting shares and (B) a sum of Rs 284,955,737/50 be made to the holders of ordinary non-voting shares respectively, on the basis of Rupees Three Cents Fifty (Rs 3.50) per each share (less withholding tax)
 - (ii) **By way of the allotment of and issue of new shares**

A. For voting shares:

THAT a sum of Rs 1,135,419,057/50 (less any withholding tax) be distributed to the holders of ordinary voting shares in the form of a scrip dividend at the rate of Rupees Three Cents Fifty (Rs 3.50) per each share, by the issue of a total of 5,259,275.10 ordinary voting shares computed on the basis of one (1) ordinary voting share for every sixty one decimal six eight (61.68) ordinary voting shares currently in issue (which computation is based on a valuation of Rs. 194.30 per each ordinary voting share).

B. For non-voting shares

THAT a sum of Rs 284,955,737/50 (less any withholding tax) be distributed to the holders of ordinary non-voting shares in the form of a scrip dividend at the rate of Rupees Three Cents Fifty (Rs 3.50) per each share, by the issue of 1,416,906 ordinary non-voting shares computed on the basis of one (1) ordinary non-voting share for every fifty seven decimal four six (57.46) non-voting shares currently in issue (which computation is based on a valuation of Rs. 181.00 per each ordinary non-voting share).

- (e) THAT the shares arising from the aggregation of the residual fractions consequent to the scrip dividend be disposed of in the market by a trustee to be nominated by the Board of Directors and the proceeds to be distributed to a charitable organization.
- (f) THAT (a) the new ordinary voting shares to be issued in pursuance of the distribution scheme shall, immediately consequent to the allotment thereof to the entitled Shareholders rank equal and *pari passu* in all respects with the existing issued and fully paid ordinary voting shares of the Bank and (b) the new ordinary non-voting shares to be issued in pursuance of the distribution scheme shall, immediately consequent to the allotment thereof to the entitled Shareholders rank equal and *pari passu* in all respects with the existing issued and fully paid ordinary non-voting shares of the Bank, and shall be listed on the Colombo Stock Exchange.

Notice of Meeting

- (g) THAT the new ordinary voting shares and ordinary non-voting shares to be so allotted and issued shall not be eligible for the payment of dividend declared hereby.
- (h) THAT accordingly the Bank's management be and is hereby authorized to take all necessary steps to give effect to the aforesaid proposed issue of new ordinary voting shares and ordinary non-voting shares of the Bank.

Special Resolution – Approval of the holders of voting shares under section 99 of the Companies Act No. 7 of 2007, for the issue of shares by scrip dividend

IT IS HEREBY RESOLVED THAT the issue by the Bank of (a) 5,259,275.10 ordinary voting shares to the holders of ordinary voting shares on the basis of one (1) ordinary voting share for every sixty one decimal six eight (61.68) ordinary voting shares currently in issue and (b) 1,416,906 ordinary non-voting shares to the holders of ordinary non-voting shares on the basis of one (1) ordinary non-voting share for every fifty seven decimal four six (57.46) ordinary non-voting shares currently in issue, by way of a scrip dividend [subject to any necessary revision being made to the number of shares to be so issued to include and accommodate any dividends pertaining to any new shares to be issued by the Bank to its employees under the Hatton National Bank PLC ESOP scheme], be and is hereby approved.

- iii. To re-elect Mrs M A R C Cooray, who retires at the Annual General Meeting, as a Director of the Bank in terms of Article 34 of the Articles of Association of the Bank.
- iv. To re-elect Dr L R Karunaratne, who retires at the Annual General Meeting, as a Director of the Bank in terms of Article 34 of the Articles of Association of the Bank.
- v. To re-elect Mr L U D Fernando, who retires at the Annual General Meeting, as a Director of the Bank in terms of Article 34 of the Articles of Association of the Bank.
- vi. To re-elect Mr D T S H Mudalige, who retires at the Annual General Meeting, as a Director of the Bank in terms of Article 34 of the Articles of Association of the Bank.
- vii. To re-elect Mr R A F Arseculeratne, as a Director of the Bank in terms of Article 36 of the Articles of Association of the Bank.
- viii. To re-elect Mr P S C Pelpola, as a Director of the Bank in terms of Article 36 of the Articles of Association of the Bank.
- ix. To re-elect Mr E D P Soosaipillai, as a Director of the Bank in terms of Article 36 of the Articles of Association of the Bank.
- x. To re-elect Mr A H D A N de Silva, as a Director of the Bank in terms of Article 36 of the Articles of Association of the Bank.
- xi. To re-appoint Messrs Ernst & Young (Chartered Accountants) as the Bank's Auditors for the ensuing year and to authorize the Directors to fix their remuneration.
- xii. To authorize the Directors to determine payments for the year 2016 for charitable and other purposes.

By order of the Board of Hatton National Bank PLC,



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

Colombo, Sri Lanka.
19th February 2016

Notes :

1. A member entitled to attend or attend and vote at the meeting, is entitled to appoint a proxy to attend or attend and vote as the case may be, in his stead.
2. A proxy need not be a member of the Company. The Form of Proxy is enclosed.
3. The completed Form of Proxy should be deposited with the Board Secretary at the Registered Office of the Company at No. 479, T.B. Jayah Mawatha, Colombo 10 (at "HNB Towers", Level 18), not less than 48 hours before the time appointed for holding the meeting.

Summary of Article 22 of the Articles of Association of Hatton National Bank PLC

PROCEDURE ON VOTING AND HOW A POLL IS TO BE TAKEN

- 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.
- Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands or voting by voice as aforesaid every member who is present at the meeting shall have one (01) vote, and on a poll every member who is present in person at the meeting shall be entitled to one (01) vote for each voting share held by him.
- 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.
- At a meeting of shareholders, a poll may be demanded on a particular question as provided for in the Companies Act No.7 of 2007 by,
 - the Chairman;
 - not less than five (5) shareholders having the right to vote at the meeting; or
 - a shareholder or shareholders representing not less than ten per centum (10%) of the total voting rights of all shareholders having the right to vote at the meeting.
- 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.
- If a poll is taken, votes shall be counted according to the votes attached to the shares of each shareholder present and voting.
- 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.
- A declaration by the Chairman of the meeting that a resolution has been carried, or carried unanimously or by a particular majority, or lost, and an entry made to that effect in the minute book, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such a resolution.

Form of Proxy [Voting]

I/We of being *a member/members of the Hatton National Bank PLC, hereby appoint of or failing him/her, Rienzie Anicetus Fernando Arseculeratne or failing him, Antonio Jonathan Alles or failing him, Mirihana Arachchige Rose Chandralatha Cooray or failing her, Lokuwithanage Rohan Karunaratne or failing him, Lintotage Udaya Damien Fernando or failing him, Don Tiburtius Sujeeva Handapangoda Mudalige or failing him, Don Sanjivani Clarinda Jayawardena or failing her, Rusi Sohli Captain or failing him, Damian Amal Cabraal or failing him, Palitha Srideva Chulakumara Pelpola or failing him, Eugen Duliksha Pratharp Soosaipillai or failing him, Appu Hennadige Don Anthony Nilanth de Silva as *my/our proxy, to represent *me/us at the Forty Seventh (47th) Annual General Meeting of the Bank to be held at the Auditorium on Level 22 of "HNB Towers" at No. 479, T B Jayah Mawatha, Colombo 10, on the Thirtieth (30th) day of March, 2016 at 10.00 in the forenoon and at any adjournment thereof.

(i)	To declare the recommended dividend of Rs. 7/- per share as the final dividend for 2015 and		
	(a) to adopt Ordinary Resolution - Declaration of Dividend and approval of its method of satisfaction	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
	(b) to adopt Special Resolution – Approval of the holders of voting shares under section 99 of the Companies Act No. 7 of 2007, for the issue of shares by scrip dividend	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(ii)	To re-elect Mrs M A R C Cooray as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(iii)	To re-elect Dr L R Karunaratne as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(iv)	To re-elect Mr L U D Fernando as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(v)	To re-elect Mr D T S H Mudalige as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(vi)	To re-elect Mr R A F Arseculeratne as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(vii)	To re-elect Mr P S C Pelpola as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(viii)	To re-elect Mr E D P Soosaipillai as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(ix)	To re-elect Mr A H D A N de Silva as a Director of the Bank	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(x)	To re-appoint Messrs Ernst & Young (Chartered Accountants) as the Bank's Auditors for the ensuing year/authorize the Directors to fix their remuneration	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>
(xi)	To authorize the Directors to determine payments for charitable and other purposes	In favour	<input type="checkbox"/>
		Against	<input type="checkbox"/>

Mark your preference with "✓"

Signed this day 2016.

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) :

* *Delete inappropriate words*

Instructions to complete proxy

1. The full name and the registered address of the shareholder appointing the Proxy should be legibly entered in the Form of Proxy, duly signed and dated.
2. The completed Proxy should be deposited with the Board Secretary, at the Registered Office of the Bank at No. 479, T B Jayah Mawatha, Colombo 10 ("HNB Towers", Level 18), not less than 48 hours before the time appointed for holding the Meeting.
3. The Proxy shall -
 - (a) in the case of an individual, be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Bank.
 - (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of the Company or corporate body in accordance with the Articles of Association or the Constitution of that Company or corporate body.

The Bank may but shall not be bound to, require evidence of the authority of any such attorney or officer.
 - (c) in the case of joint-holders, the first joint-holder has the power to sign the proxy without the concurrence of the other joint-holder/s.
4. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

Form of Proxy [Non-Voting]

I/We of
..... being *a member/members of the Hatton National Bank PLC, hereby appoint
..... of
..... or failing him/her, Rienzie Anicetus Fernando Arseculeratne or failing him, Antonio Jonathan Alles or failing him, Mirihana Arachchige Rose Chandralatha Cooray or failing her, Lokuwithanage Rohan Karunaratne or failing him, Lintotage Udaya Damien Fernando or failing him, Don Tiburtius Sujeewa Handapangoda Mudalige or failing him, Don Sanjivani Clarinda Jayawardena or failing her, Rusi Sohli Captain or failing him, Damian Amal Cabraal or failing him, Palitha Srideva Chulakumara Pelpola or failing him, Eugen Duliksha Pratharp Soosaipillai or failing him, Appu Hennadige Don Anthony Nilanth de Silva as *my/our proxy, to represent *me/us at the Forty Seventh (47th) Annual General Meeting of the Bank to be held at the Auditorium on Level 22 of "HNB Towers" at No. 479, T B Jayah Mawatha, Colombo 10, on the Thirtieth (30th) day of March, 2016 at 10.00 in the forenoon and at any adjournment thereof.

Signed this day 2016.

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.

** Delete inappropriate words*

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 deposited with the Board Secretary, at the Registered Office of the Bank at No. 479, T B Jayah Mawatha, Colombo 10 ("HNB Towers", Level 18), not less than 48 hours before the time appointed for holding the Meeting.
3. The Proxy shall -
 - (a) in the case of an individual, be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Bank.
 - (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of the Company or corporate body in accordance with the Articles of Association or the Constitution of that Company or corporate body.

The Bank may but shall not be bound to, require evidence of the authority of any such attorney or officer.
 - (c) in the case of joint-holders, the first joint-holder has the power to sign the proxy without the concurrence of the other joint-holder/s.
4. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

Investor Feedback Form

To request information or submit a comment / query to the Company, please complete the following and return this page to -

Chief Manager – Planning & Investments,

Hatton National Bank PLC,
No. 479, T.B. Jayah Mawatha (Darley Road) Colombo 10.
Sri Lanka

Email : rajive.dissanayake@hnb.lk

Name		
Permanent Mailing Address		
Contact Numbers	(Tel)		
		<i>Country Code</i>	<i>Area Code</i>
			<i>Number</i>
	(Fax)		
		<i>Country Code</i>	<i>Area Code</i>
			<i>Number</i>
E-mail		
Name of Company <i>(If Applicable)</i>		
Designation <i>(If Applicable)</i>		
Company Address <i>(If Applicable)</i>		

Queries / Comments

Please tick "✓" the appropriate box

	Yes	No
Would you like to receive soft copies of the HNB annual and interim reports via e-mail?	<input type="checkbox"/>	<input type="checkbox"/>
Would you like to receive news and press releases of HNB via e-mail?	<input type="checkbox"/>	<input type="checkbox"/>
Would you like to receive any information on our products / services?	<input type="checkbox"/>	<input type="checkbox"/>

