# The Bigger Picture

Annual Report
2020/21

HNB FINANCE

# The Bigger Picture

In a year of unprecedented challenge, there may sometimes be a tendency to become myopic, to focus on the here and now and forget the bigger picture. At HNB Finance, we felt it imperative to keep our eyes on the future. Backed by sound fundamentals and composite strengths, we pursued our long-term strategic objectives of value creation, sustainability, and financial inclusivity with passion and vigour. It is this approach of always looking forward that makes us unique, and provides our stakeholders with confidence.

HNB FINANCE

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# Contents

# WELCOME TO OUR FIFTH INTEGRATED ANNUAL REPORT

AN OVERVIEW OF THE COMPANY

## About this Report

### Presenting our fifth integrated annual report

This is HNBF's fifth integrated annual report, which has been compiled to communicate to the Company's stakeholders material information regarding the Company's strategy, governance, performance, and outlook within the context of its operating environment. Through this report the Company hopes to explain how it created value in the short, medium, and long term for its customers, employees, and the broader community.

### Assurance on the integrity of this report

The Board of Directors is responsible for ensuring the integrity of this Integrated Annual Report. The Board believes that the report addresses all material issues and presents a balanced and fair account of the Company's performance. A combined assurance model is used to provide assurance regarding information obtained from the management and from other internal and external sources. HNBF's Board Audit Committee provides internal assurance to the Board on an annual basis on the execution of the combined assurance plan, based on the assessment of the Company's financial, operating, compliance, and risk management controls, a process that is overseen by the Board Audit Committee and the Board Integrated Risk Management Committee. The Company's External Auditors, Messrs KPMG, Chartered Accountants, have provided an independent assurance regarding HNBF's Financial Statements for the year ended 31 March 2021, which is included in this report.

### Forward-looking statements

This report contains, where applicable or helpful, plans for the future. These statements reflect HNBF's position and beliefs as at the time of writing. However, since the Company operates in a dynamic environment where uncertainties or new developments could cause actual results or actions to differ from those stated in these forward-looking statements, such statements should not be interpreted as a guarantee of results or of the course of action that will be taken.

### Report boundary

This integrated annual report provides a comprehensive review of the operations, strategy, business model, risks and opportunities, and governance aspects of HNB Finance PLC (referred to as "HNBF" or the "Company") only, unless otherwise stated. Through an integrated approach, the 2020/21 Annual Report aims to highlight HNBF's contribution to its various stakeholders by providing both financial and non-financial information.

### Reporting period

The 2020/21 Annual Report covers the period from 1 April 2020 to 31 March 2021 and is consistent with HNBF's usual annual reporting cycle for financial and sustainability reporting. There are no restatements of information provided in previous reports and no significant changes from previous reporting periods in the scope and aspect boundaries. The most recent integrated annual report for HNBF covered the 12-month period ended 31 March 2020.

# About this Report

## Materiality

The materiality analysis provides insight into the choices made in developing the content shown in the Annual Report. This is illustrated in a materiality matrix that identifies the topics that have had a substantial impact on stakeholders and the Company. Information about the process of determining materiality and the boundaries of the topics are provided in this report.

## Key frameworks, guidelines, policies, and compliance

The information contained within this report is in compliance with all applicable laws, regulations, and standards. The preparation of this report has drawn on concepts, principles, and guidelines established in the International Integrated Reporting Framework and the Smart Integrated Reporting Methodology™. This integrated annual report has been prepared in accordance with the GRI Standards: Core option. This integrated annual report adheres to the following frameworks and guidelines:

### Financial Reporting

- Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRSs)
- Sri Lanka Accounting Standards (LKASs) promulgated by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)
- Companies Act No. 07 of 2007
- Finance Business Act No. 42 of 2011
- Finance Leasing Act No. 56 of 2000
- Directions, rules, determinations, notices, and guidelines issued by the Central Bank of Sri Lanka applicable to licensed finance companies
- Inland Revenue Act No. 24 of 2017 (as amended)

### Sustainability Reporting

- Global Reporting Initiative (GRI)
- UNGC Principles and Sustainable Development Goals
- International Integrated Reporting Council's (IIRC) Integrated Reporting Framework
- "A Preparer's Guide to Integrated Corporate Reporting", published by CA Sri Lanka

### Corporate Governance and Risk Management

- Corporate Governance Direction No. 03 of 2008 (as amended) issued by the Central Bank of Sri Lanka
- Listing Rules of the Colombo Stock Exchange
- Directions, rules, determinations, notices, and guidelines issued by the Central Bank of Sri Lanka applicable to licensed finance companies

### Financial statements

- Sri Lanka Auditing Standards (SLAuSs)
- Sri Lanka Standard on Assurance Engagements SLSAE 3000; Assurance Engagements other than Audits or Review of Historical Financial Information, issued by CA Sri Lanka

Through this integrated annual report, HNB Finance aims to convey to its stakeholders material information regarding the Company's strategy, governance, performance, and outlook within the context of the operating environment, and how the Company creates value in the short, medium, and long term for its customers, employees, and the broader community.

## Feedback and queries

Any feedback and/or queries regarding this annual report should be directed to:

**W S P Arangala**
Chief Operating Officer
HNB Finance PLC
No. 168, Nawala Road,
Nugegoda
Email: arangala@hnbfinance.lk

# About HNBF

HNB Finance PLC is the pioneer in commercial-based microfinance in Sri Lanka. Established in 1999, the Company's objective is to develop Sri Lanka's small-scale entrepreneurs through specialised products and services. The Company's pioneering commercial-microfinance model has received international acclaim for its support to grassroots entrepreneurs that are marginalised by the traditional banking system.

## Vision

To be the recognised leader in providing innovative, technology-driven financial solutions with a human touch for all.

## Mission

We aim to provide customer centric, well diversified products and services, responsibly and sustainably, while creating stakeholder value through our passionate team.

## Values that inspire:

- Integrity
- Socially conscious
- Professionalism
- Innovation
- Respect
- Relevance
- Empathy

Today, HNBF has expanded beyond microfinance to offer a range of products to different customer segments through a network of 60 branches and 10 service centres, and its parent HNB's 650 ATM machines, scattered across the island. Customers now have access to business loans, savings, gold loans, fixed deposit facilities, and leasing facilities, to meet their financial requirements. Backed by HNB, one of the country's systemically important banks, HNBF is at the forefront of the country's non-bank financial industry, offering high quality, reliable financial solutions.

HNBF is licensed by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011 and holds the National Long-term Rating of 'A(lka)' as affirmed by Fitch Ratings.

# Our journey

**1999**

- Launched as a limited liability company with the objective of offering microfinancing facilities

**2000**

- Opened the first branch (City branch) with 2,500 customers

**2008**

- Expanded by opening 78 branches in all districts across Sri Lanka with a team of 2,498 employees

**2009**

- Rebranded the Company as Grameen Micro Credit Ltd.

**2010**

- Received license from the Monetary Board of the CBSL, to operate as a licensed finance company

**2011**

- Prime Lands Group, a leading real estate conglomerate of the country acquired ownership of the Company and paved the way for the revival of the Company by infusing LKR 700 Mn. in equity and LKR 350 Mn. as debt. Following the acquisition, rebranded as Prime Grameen Microfinance Ltd.

**2012**

- Achieved an annual profit for the first time in the Company's history with a growth of 362% compared to the previous year, considered as a great milestone for the Company

## 2014

- HNB PLC, Sri Lanka's leading and oldest private sector commercial bank, acquired 51% of Prime Grameen Microfinance Limited, from Prime Lands Group
- Prime Grameen Microfinance Limited was renamed as HNB Grameen Finance Ltd. (HNBG)
- Diversified the portfolio with the launch of three new products: *Abilasha*, Easy and *Swashakthi* loans to cater to a new segment of Small-Scale Enterprises

## 2015

- Received international recognition as "Asia's Most Promising Brand 2014"
- "Best Achiever of the Year 2014" awarded by the Credit Information Bureau (CRIB) of Sri Lanka becoming the first LFC to receive this prestigious award
- Launched leasing solutions

## 2016

- The Company crossed a milestone of over LKR 1 Bn. in profits
- Launched Relax and Saviya loan schemes for Small and Medium Enterprises

## 2017

- Developing World Markets (DWM) invested in a 7.93% ownership share of HNB Grameen Finance Ltd., which was acquired from Prime Lands' shareholding
- Launched ATM facilities for microfinance customers
- HNBG was selected amongst the top "25 Great Places to Work in Sri Lanka". HNBG also won the award for the Best in "Pride and Advocacy" and the Bronze award in the Large Companies category
- Launch of *Nivahana* product.

## 2018

- Reached an asset base of LKR 25 Bn.
- Rebranded from HNB Grameen Finance to HNB Finance Ltd.
- Introduced two new products to the market – Gold Loans and *Divi Saru*
- Runner-up at the National Business Excellence Award 2018 under Non-Banking and Financial Services sector
- HNBG was amongst the "25 Great Places to Work in Sri Lanka" for the second consecutive year and was also awarded silver under the extra-large category

## 2019

- Savings deposits crossed LKR 3 Bn.
- HNB Finance partnered with mCash and eZ Cash to offer leasing and loan repayments

## 2020

- Initial Public Offering (IPO) on the Colombo Stock Exchange oversubscribed
- Renamed HNB Finance Ltd. as HNB Finance PLC

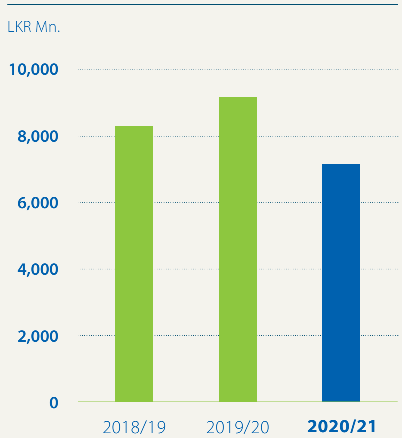
## 2021

- Operations expanded to 60 branches and 10 service centres

## Financial capital

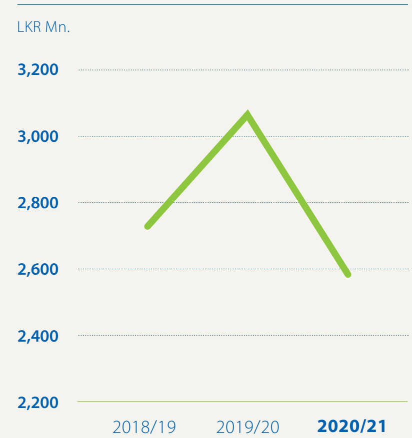
| | 2020/21 | 2019/20 (Restated) |
|---|---|---|
| **Financial performance (LKR Mn.)** | | |
| Income | **7,167** | 9,170 |
| Net interest income | **2,957** | 4,386 |
| Net fee and commission income | **407** | 684 |
| Total operating income | **3,550** | 5,291 |
| Total operating expenses | **2,579** | 3,077 |
| Operating profit/(loss) before tax and financial services | **(74)** | 1,128 |
| Taxes (VAT, DRL, NBT and IT) | **(49)** | (732) |
| Profit/(loss) after tax | **(124)** | 395 |
| **Financial position (LKR Mn.)** | | |
| Deposits from customers | **28,047** | 27,529 |
| – Savings | **3,122** | 2,717 |
| – FD | **24,925** | 24,811 |
| Lending portfolio | **28,778** | 28,303 |
| – Lease rental receivables | **10,296** | 9,943 |
| – Loans and advances | **18,481** | 18,360 |
| Total assets | **36,755** | 37,942 |
| Total liabilities | **31,860** | 32,942 |
| **Ratios** | | |
| Return on assets (%) | **(0.33)** | 1.12 |
| Return on equity (%) | **(2.50)** | 8.21 |
| Cost to income ratio (%) | **72.65** | 58.16 |
| Earnings per share (LKR) | **(0.07)** | 0.23 |
| Net assets per share (LKR) | **2.85** | 2.91 |
| Net interest margin (%) | **8.86** | 13.85 |
| Non-performing accommodations ratio (NPA) (%) | **17.68** | 12.25 |
| Core capital to risk-weighted assets ratio (Tier I) (%) | **9.94** | 10.16 |
| Total risk-weighted capital ratio (Tier I and II) (%) | **14.12** | 14.02 |

### Income




### Deposits from customers


### Total operating expenses



# Performance highlights

## Intellectual capital

| | Investment in intangible assets (LKR Mn.) | Fitch Ratings |
|---|---|---|
| 2020/21 | 80 | 'A(lka)' |
| 2019/20 | 198 | 'AA-(lka)' |

## Human capital

| | Number of employees | Turnover ratio (%) |
|---|---|---|
| 2020/21 | 1,851 | 7.91 |
| 2019/20 | 1,965 | 10.70 |

Gender distribution:

| | Male | Female |
|---|---|---|
| 2020/21 | 1,700 | 151 |
| 2019/20 | 1,813 | 152 |

## Natural capital

| | Electricity consumption (kWh) | Water consumption ($m^3$) |
|---|---|---|
| 2020/21 | 1,693,110 | 16,496 |
| 2019/20 | 1,973,585 | 14,560 |

## Manufactured capital

| | Service centres (Nos.) | Leasing units (Nos.) |
|---|---|---|
| 2020/21 | 10 | 25 |
| 2019/20 | 21 | 25 |

| | Branches (Nos.) | Property plant and equipment (LKR Mn.) |
|---|---|---|
| 2020/21 | 60 | 1,590 |
| 2019/20 | 48 | 1,626 |

## Social and relationship capital

| | Investment in CSR (LKR Mn.) | Cross – Sell ratio (%) |
|---|---|---|
| 2020/21 | – | 1.6 |
| 2019/20 | 0.8 | 1.6 |

| | Number of customers |
|---|---|
| 2020/21 | 316,768 |
| 2019/20 | 258,346 |

# THINKING BEYOND THE PRESENT MOMENT

## CHAIRMAN'S MESSAGE

The experiences of the current financial year have added to the intellectual capital base of the Company while demonstrating HNBF's resilience and stability to successfully navigate through trying times. Oriented by a new 3-year strategic plan that is aligned to post-COVID-19 market conditions and customer needs, HNBF is now ready and equipped to expedite growth.

Dear Stakeholders,

The financial year 2020/21, in spite of its many ordeals, was a decisive point in HNB Finance's history, triggering the acceleration of the Company's envisioned transformation from a primarily microfinance centred institution to a diversified financial services provider.

Propelled by its affiliation with HNB, a bank with a legacy spanning over 130 years, and one of four systemically important banks in the country, a strong presence at the grassroots level, and a specialisation in SME and micro finance, HNBF has made giant strides. Guided by an ambitious but pragmatic vision, a business which was 95% microfinance-based has been able to build up a diversified portfolio of leasing, pawning, and specialised business loans that now represents 39% of its loan book, creating value for rural and grassroots communities above and beyond microfinance. This has entailed radical changes to the Company's business model, operations, management systems, culture, and mindset.

Above and beyond these changes, HNBF has withstood protracted pressure on its operations for three consecutive years from 2018/19 to 2020/21. In 2018/19, due to the high exposure to rural and agricultural economies, HNBF had to weather a disproportionately high impact on its portfolios from extreme climate events, and in 2019/20 the Company had to absorb the economic aftershocks of the Easter bombings. The financial year 2020 commenced in the midst of a full-blown global pandemic. A company with a weaker financial standing could not have endured such prolonged pressure on its cashflows, but HNBF has emerged stronger with prospects of better times ahead.

## Creating value in difficult times

In a nutshell, the main challenge faced by the Company during the financial year under review was difficulties in achieving the collection targets due to lockdowns imposed to combat the spread of COVID-19 along with the economic fallout of the pandemic. This situation led to an unavoidable spike in the NPL portfolio. The HNBF team responded by driving a rapid, island-wide transition to a digital collection model, allowing the Company to pivot from reacting to the pandemic to regaining lost ground. By the last quarter of the year, the Company was out of the red and once more on a profitable trajectory. This resurgence was achieved through hard work and was a collective effort. The HNBF team rallied behind the Company in support. At times, they persevered even in spite of potential risks to their health, going as far as physically visiting customers when absolutely crucial. Ultimately, the HNBF team conquered all challenges to get the Company back on track. At the Company level, the policy was no lay-offs, and no pay-cuts, and all efforts were made to support the safety of staff and their families.

Another outstanding achievement was the record deposit mobilisation even during the height of COVID-19 disruptions, which demonstrated the public trust in the HNBF brand. This growth in the deposit base allayed initial concerns of potential liquidity constraints during the year and some of the funds were in fact utilised to repay a portion of bank borrowings.

Throughout the year, we responded to the needs of our customers with a sense of empathy and collaboration. Agreements entered into with mCash and eZ Cash facilitated our micro and SME customers in timely repayments in a safe and convenient fashion. Multiple moratoria were extended immediately to assist COVID-19 affected businesses and entrepreneurs. At the conclusion of each moratorium, HNBF proactively worked with customers to arrive at repayment solutions, including the re-structuring of facilities. This helped improve cash inflows, enabling HNBF to re-engage with new credit facilities and advisory services to resurrect and revive businesses that were affected by COVID-19 containment measures.

As the country gradually reopened for business in 2020, a two-pronged growth strategy was adopted: penetrate existing markets in the micro and non-micro finance sectors on one end, while simultaneously targeting emerging opportunities, especially in the non-micro finance segments, on the other. Despite these efforts, HNBF recorded a net loss of LKR 123 Mn. for the financial year 2020/21, mainly as a result of the increase in impairment provisioning consequent to the rise in the NPA portfolio.

## Sustainability

Despite the challenges of the year, HNBF continued to uphold its community obligations and persisted with its strong programme of social responsibility and sustainability initiatives with a special emphasis on responding to the pandemic. Beyond the moratoriums and concessions extended as part of our core business operations, the Company donated one day's salary of the staff, totalling LKR 2.5 Mn., to the Itukama COVID-19 Fund established by the Government.

The main CSR project for the year was a COVID-19 awareness programme that supplied polythene partitions (passenger safety screens) for 3-wheelers to prevent COVID-19 transmission. In addition, the Swashakthi savings-based lending product sponsored the provision of QR codes for business premises, which encouraged business and customers to start using QR codes, promoting contactless transactions.

## Resolute in our standards

It is also noteworthy that in spite of all the uncertainty, HNBF continued to maintain the highest standards of good governance in all its activities. Although registered as a Licensed Finance Company, governance standards at HNBF continue to be well above the industry standards. The Board and Board subcommittees maintained unwavering oversight encompassing all internal controls and good governance criteria during the year ensuring industry best practices in all operational aspects. HNBF's capital position remains strong and liquidity is high, consequent to growth in deposits and availability of undrawn funding lines with banks. Risk management was strengthened with the new anti-money laundering and Privilege Access Management (PAM) systems. In addition, a full disaster recovery drill was conducted successfully during the year, confirming the Company's ability to continue uninterrupted operations under any unexpected eventuality.

## Future direction

While gearing for faster growth in 2021/22, we are mindful of the challenging operating environment in the country. Among others, a chief concern is the lack of standardisation across the myriad players operating in the microfinance sector, which is largely comprised of informal institutions.

# Chairman's message

Strengthened regulation and oversight will enhance the credibility and reputation of the sector and, in particular, bolster the public's faith and trust in formal microfinance institutions.

Oriented by a new 3-year strategic plan that is aligned to post-COVID-19 market conditions and customer needs, HNBF is now ready and equipped to expedite growth. As part of this process, the ongoing portfolio rebalancing and portfolio diversification into different asset classes will be accelerated. This will be achieved through relatively faster growth in non-microfinance business.

While driving organic growth, I would like to mention that HNBF is also actively examining opportunities for inorganic growth through strategic partnerships, which is in line with Central Bank directives. HNBF has a capital base that is well in excess of the regulatory minimum, presenting potential for uninterrupted growth. In addition to HNB, the Company is backed by strong shareholders including the Prime Group, one of the largest real estate developers in Sri Lanka, and the Development World Market´s (DWM) Inclusive Finance Equity Fund that provides equity to inclusive financial institutions in Asia and Latin America.

In sustaining this strategic course, the Board and the management are cognisant of the potential threats to asset quality, liquidity, and income generation. Hence, the digitisation and business process re-engineering exercises will continue in the new financial year, generating cost and efficiency advantages and offering simplicity, convenience, and seamless user experiences to the customer.

Rich in experience and expertise, the collective organisational wisdom of the Company will be directed towards fuelling sustainable and long-term value creation. The experiences of the current financial year have added to this intellectual capital base of the Company while demonstrating HNBF's resilience and stability to successfully deploy its latest 3-year plan. Therefore, HNBF can look to the future with confidence and enthusiasm.

## Acknowledgements

As we enter the new financial year motivated by our passion to develop the country's rural economy, I would like to acknowledge the unstinting support extended by my fellow directors as well as the dedication and hard work by the HNBF team led by the MD/CEO, Mr Chaminda Prabhath during this unprecedented time. This commitment of our team will make it possible to deliver on our vision in the new financial year. I also wish to express my appreciation to the Governor and the officials at the Central Bank of Sri Lanka for their guidance. Our customers, suppliers, and, in particular, our investors have been a source of strength, and I thank them all for their trust in us and assure them of our commitment to create sustainable value.

**Jonathan Alles**
Chairman

29 June 2021

# SEIZING THE INITIATIVE IN UNCERTAIN TIMES

MANAGING DIRECTOR/CEO'S REVIEW

HNBF continued to closely monitor the economic dynamics of the COVID-19 aftermath and responded by rapidly deploying a range of financial recovery and business revival measures. Effective improvements to the existing microfinance model were already mapped out, coupled with convenient digital solutions. These farsighted initiatives proved invaluable in the new normal, where social distancing was the prescription for survival.

Dear stakeholders,

HNB Finance encountered a gamut of challenges in the financial year 2020/21, some unique to it, following the unforeseen onset of the COVID-19 pandemic but had the resourcefulness and resilience to surmount these obstacles to close the year on a resurgent and hopeful note. As the general economic effects of the pandemic have, by now, been widely deliberated, I will limit my review to the specific impacts of the pandemic on HNBF's performance.

## The impact of COVID-19 on our results

HNBF's revenue model places high reliance on continuous, short-term cycles of microfinance lending, recovery and relending. Despite ongoing, significant product diversification within the past several years, microfinance continued to account for almost 50% of HNBF's total lending portfolio and for over 40% of the Company's annual interest income. During the first three months of the financial year under review, microfinance activities came to a halt due to COVID-19 containment measures. Consequently, there was a disproportionately high impact on HNBF's business volumes

# Managing Director/ CEO's review



as well as revenues. The income from microfinance for the first quarter of 2020/21 declined by 36.5% against the first quarter of the previous year, and total interest income declined by 17.8%, which caused total revenue to nosedive by 24.4% for the quarter.

The leasing and small-scale industry sectors that benefitted from government moratoria also experienced a decline in demand for new credit. In addition, due to the uncertain market conditions, particularly following import restrictions on vehicles and the steep rise in the prices of second-hand vehicles, HNBF adopted a cautious approach towards expanding the leasing portfolio. Therefore, revenues from these segments also remained below the previous financial year. Revenue from leasing and small-scale industries increased by 21.1% year-on-year and as at 31 March 2021, the leasing portfolio stood at LKR 10.4 Bn. with approximately 40% of the portfolio coming under moratoria.

Customer demand for deposits remained strong, attesting to the HNBF brand strength even under uncertain economic conditions. Overall, the deposit base increased by 2% year-on-year. While deposits are an excellent source of low-cost funding, demand for credit did not keep pace and hence, deposit growth could not be channelled to high-yielding assets. Therefore, during the latter part of the year, we took a conscious decision to reduce the interest rates on deposits, which limited the growth in the total deposit base to LKR 27.1 Bn. yet provided adequate liquidity for business expansion in the new financial year.

Delays in loan repayments were experienced across all business sectors, causing the NPL ratio, which was at 12.25% as at the end of the previous financial year, to balloon by 5.43% to its peak of 17.68% in 2021, reflecting the rising NPL trend across the financial services industry.

## Managing the COVID-19 impacts

HNBF continued to closely monitor the economic dynamics of the COVID-19 aftermath and responded by rapidly deploying a range of financial recovery and business revival measures. It is indeed fortunate that HNBF had the strategic foresight to have instigated a digitalisation drive across the Company and had also initiated in-depth evaluations of the microfinance model. Therefore, effective improvements to the existing microfinance model were already mapped out, coupled with convenient digital solutions. These farsighted initiatives proved invaluable in the new normal, where social distancing was the prescription for survival. Within record time the traditional Grameen women's group model was transformed into a more practical format and the rollout of multiple digital payment channels was extended further into the interiors to reach the island-wide customer base. During the year, much of the remaining manual processes in relation to lending and credit evaluation across all business sectors were digitalised, which has improved overall operational efficiency, slashed approval times, and cut costs.

Efficiency gains in the credit decisions and qualitative improvements in approval mechanism were achieved through the Document Management System, which contributed towards drastically reducing the Turnaround Time in disbursing loans. Expediting loan documentation and credit decisions electronically, compared to the previous manual transfer of documents, has dramatically reduced processing time by eliminating the need for physical movements.

A welcome success story for the year is the substantial reduction in overall operating expenses achieved by the Company. During these difficult times, the Company policy was to support all employees by ensuring that all salaries, allowances, and welfare benefits were continued. The Company also invested in the health and safety of all employees in all branches, service centres and the call centre. Given the pandemic's impact on the Company's performance and the uncertainties that prevailed during the year, increments, bonuses and staff entertainment activities were curtailed to some extent. Significant cost savings were achieved against the previous financial year through operational enhancements.

The NPLs were continually monitored and contained within industry levels. Although the regulatory requirement for the classification of loans in to NPLs is 180 days past due (DPD), which HNBF uses for regulatory reporting and market disclosures, the Company internally monitors NPLs based on 90 DPD, a more stringent standard, enabling the Company to arrest bucket movements early and maintain portfolio quality. Consequently, the expansion of the 180 DPD portfolio was contained at 15.62% at the year end (after scheduled write offs). This is commendable under the market conditions that prevailed, including the repeated moratoriums that were awarded to different sectors.

The microfinance sector, which was quick to be impacted, was also quick to recover, resulting in lending recommencing towards end-June. As an additional oversight measure, micro credit was defined as lending below LKR 800,000, including lending to individuals in addition to groups. This classification makes it possible to observe how micro enterprises graduate into the next level. By the fourth quarter, microlending interest incomes had returned to almost pre-COVID-19 levels. These measures reversed the downward trajectory of the revenue curve and by the last quarter of the year, the Company returned to profitability.

# Managing Director/ CEO's review

The last quarter of the current financial year recorded an overall revenue of LKR 2,020 Mn. against a revenue of LKR 2,242 Mn. in the last quarter of the previous financial year, and a profit of LKR 351 Mn. against the loss of LKR 33 Mn. This momentum has continued into the first quarter of the new financial year, signalling a positive outlook for the future. However, it was not possible, within the short span of the last quarter of the year, to bridge the steep revenue losses sustained during the first half of the year and the Company recorded a net loss of LKR 123 Mn. The main contributory factor was the decline in total operating income by LKR 1,741 Mn. (33%) which was partly offset by the decrease in impairment charges by LKR 41 Mn. (4%) and savings on operating expenses of LKR 498 Mn. (16%).

Despite the modest financial performance for the year, the far-reaching improvements to the operating model effected during the year have equipped HNBF to face the future with confidence.

## Outlook for the future

Comprehensive strategies have been developed and deployed to expand the market share in leasing, mortgage loans, and gold loans in the new financial year. Accordingly, HNBF will be launching tab banking, digital customer on-boarding, and digital lending in the new financial year. Supply Chain Finance will be introduced to the market as a new product development initiative that will enhance the value offering to the customer base. During the year, gold loans performed exceptionally well in catering to urgent financial needs of customers, and the portfolio recorded a robust growth year-on-year.

HNBF also plans to grant loans to certain identified granular segments, particularly among microfinance recipients, based on deep dive segmental lending. These segments will include cashew farmers, corn farmers and the fisheries sector, where seasonal variations in harvest are experienced. For these segments, HNBF will employ what is termed seasonality-adjusted flexible microcredit schemes, i.e. allowing for lower or zero repayment instalments during off-seasons, when these clients may not be generating an income, and regular or ballooned instalments during harvest seasons. Loans will be granted with the recommendation of relevant trade associations.

Additional plans include improvements to decision-making processes to eliminate delays and inefficiencies. These improvements will contribute towards efficiency gains and cost savings in the new financial year, and cost control will remain a priority. However, we are once again in uncertain times given the resurgence of the third wave of COVID-19 from April 2021, and we are closely monitoring the market for further developments. The inorganic growth opportunities presented through the CBSL reforms are under consideration as a favourable option and will be further advanced in the new financial year.

## Acknowledgements

As we conclude one of the most challenging years faced by the Company in its 20 years of history, I wish to thank the Chairman and other members of the Board for their guidance in navigating this difficult period. I also extend my appreciation to the officials of the Central Bank of Sri Lanka and the Department of Supervision of Non-Bank Financial Institutions for their guidance.

Our employees, who have worked together as a team to overcome the many challenges of the year, have been the strength behind the Company and I acknowledge their dedication with gratitude. As always, I am grateful to our shareholders and customers for standing by the Company and I look forward to better serving their needs in the new financial year.

**B M D Chaminda Prabhath**
Managing Director/
Chief Executive Officer

29 June 2021

# IDENTIFYING AND ENGAGING CRITICAL STAKEHOLDERS

OPERATING ENVIRONMENT

## Stakeholder engagement

Continuous engagement with critical stakeholders was essential for business sustainability during the months of unprecedented changes following the emergence of COVID-19. However, the trusted, traditional engagement method of physical/face-to-face meetings could not be continued during the year, particularly with regard to engaging our customers and potential customers, due to nation-wide COVID-19 containment measures. Establishing reliable communications channels between internal and external stakeholders was also vital for business continuity and for market visibility within an environment where traditional sales, marketing, and promotional activities could not be continued.

Therefore, significant changes had to be effected to our stakeholder engagement model during the financial year 2020/21, through rapid deployment of digital and telephone-based engagement mechanisms across our stakeholder groups. This change in method of engagement was particularly significant with regard to our microfinance customers who represent HNBF's largest customer base and are predominantly rural with limited access to digital facilities. Nevertheless, we are pleased to report a successful transition in our customer engagement model, which continues to evolve and improve.

### HNBF Call Centre

Our Call Centre played an indispensable central role in interconnecting our personnel with our customers and vice versa, not only for customer inquiries and complaints but also to coordinate customer repayments and collections, update customers and promote products and services.

### Digital platforms

As COVID-19 containment measures restricted travel and physical meetings, our traditional model of interacting with customers at our meeting centres scattered across the island, had to be discontinued during the year. Hence, a range of user-friendly digital and mobile phone solutions were introduced among both internal and external stakeholders, to maintain uninterrupted communications. Our digital channels were also utilised for employee training, health and safety awareness, marketing and for entertainment activities. Please refer the Relationships chapter for details.

# Stakeholder engagement

## HNBF Stakeholder engagement model

| Stakeholder | Mode | Frequency of engagement | Concerns and expectations | HNBF response |
|---|---|---|---|---|
| **Employees** | Digital platforms | Continuous | • Attractive remuneration packages<br>• Regular updates on Company performance<br>• Recognition and appreciation<br>• Development of skills and experience in respective fields<br>• Communication with the Management<br>• Career development and growth<br>• Work life balance | • Ensure safety of employees and provide them with job security and social events.<br>• Provide competitive salaries on par with industry.<br>• Provide a monthly summary on Company performance, HR details, and other important aspects regarding monthly review meetings.<br>• Quarterly update of Company events, appreciating employee performance, and showcasing achievements of staff's children.<br>• Training and development programmes for all staff, diploma programmes for managers, outbound training to build close relationships.<br>• An open organisational culture where employees are free to communicate with all senior level Management.<br>• BPR exercise to improve work life balance.<br>• Communication with employees about their current performance and internal career opportunities. |
| | User-friendly and comprehensive HR system | Continuous | | |
| | Grievances Officer | Continuous | | |
| | Company News Letter | Monthly | | |
| | *Mehewara* Magazine | Quarterly | | |
| | Company emails, memos, training | Continuous | | |
| | Open-door culture | Continuous | | |
| | Performance reviews | Bi-annual | | |
| **Customers** | Call centre, customer visits | Continuous | • Details on loans, payments, interest rates, new product developments<br>• Access to Company information<br>• Ensure customers are treated fairly<br>• Products that meet their needs<br>• Acceptance and no discrimination<br>• Satisfaction with services provided and quality of service<br>• Financial literacy | • Provide customer-centric and well-diversified products and services to customers.<br>• HNBF Loan Executives conduct weekly meetings at 11,000 meeting centres across the island to better serve customers.<br>• Maintain a continuous relationship with customers and improve services.<br>• Conduct surveys to obtain feedback and improve the Company's strategies to meet the needs of customers.<br>• Respect customers and show compassion towards them while being professional.<br>• Financial inclusion. |
| | Company website, social media | Continuous | | |
| | Product development | Continuous | | |
| | Anti-discrimination policy for all cultures | Continuous | | |
| | TV, Radio, Press | Continuous | | |
| **Community and the environment** | Social media | Continuous | • Obtaining loans to develop their businesses<br>• Support in carrying out day-to-day activities<br>• Ensure that the Company is not causing harm to the environment | • Microfinance is one of HNBF's main services to female customers in the community, empowering women across the island and enhancing their living standards.<br>• HNBF works in the best interests of its customers.<br>• Through the *Mehewara* Fund, the Company improves the well-being of community members who are also customers.<br>• HNBF does not provide loans to projects that harm the environment.<br>• The Company has initiatives in place to reduce paper, water, and energy consumption.<br>• Continuous engagement and being close to them.<br>• Creating job opportunities.<br>• Making them part of the supply chain wherever possible. |
| | Microfinance for female customers | Continuous | | |
| | Community projects | Continuous | | |
| | Conscious discussions about the environment | Continuous | | |
| | Information published on Company website and social media | Continuous | | |
| | Press releases | Continuous | | |

# Stakeholder engagement

| Stakeholder | Mode | Frequency of engagement | Concerns and expectations | HNBF response |
|---|---|---|---|---|
| **Investors** | Digital platforms | Continuous | • Sustainability of business operations<br>• Sound risk management methodologies<br>• Ensure that proper governance mechanisms are upheld<br>• Timely dividend payments | • HNBF complies with all regulations and ensures the highest ROI for investors.<br>• HNBF undertakes continuous risk assessment exercises to identify risks faced by the Company and the necessary actions to address them.<br>• HNBF ensures that all corporate governance requirements are adhered to.<br>• Continuous monitoring of capital and liquidity requirements to ensure viability and sustainability of the operations. |
| | Annual reports | Annual | | |
| | Annual General Meeting | Annual | | |
| | Interim Financial Statements | Quarterly | | |
| | Company website | Continuous | | |
| | Press and media releases | Ad-hoc | | |
| **Suppliers** | Digital platforms | Continuous | • Support given to local small-scale suppliers<br>• On time payments | • HNBF primarily sources from local suppliers to support the upliftment of local industries.<br>• HNBF ensures that ethical procurement practices are upheld within the Company. |
| | Regular meetings | Ad hoc | | |
| | Telephone calls, letters, and emails | Continuous | | |
| **Regulators** | Audits and other reviews by CBSL and other regulatory bodies | Annual | • Compliance with regulations<br>• Responsible and sustainable business practices<br>• Timely responses | • HNBF ensures that sound internal controls are in place and undertakes regular reviews to ensure compliance at all levels of the Organisation.<br>• Immediate responses to queries raised. |
| | Report submission | Ad-hoc | | |
| | Press releases | Ad-hoc | | |
| | Discussions and meetings by Senior Management | Ad-hoc | | |
| | Directives and circulars | Continuous | | |

# ASSESSING THE ISSUES THAT CAN AFFECT HNBF

## Materiality

The materiality analysis constitutes a critical part of HNBF's strategic planning and reporting process. HNBF conducts a materiality analysis using the PESTEL model, against the interests of different key stakeholder groups, to map developments that will impact the Company's ability to achieve its objectives.  The analysis provides insights into trends and business risks and opportunities and their potential impact on the business. Material issues are reviewed and prioritised on an annual basis. These issues are identified through stakeholder engagement activities and the Company's annual risk assessment programmes which take into consideration the risks posed by the current operating environment.

| Stakeholders | Political | Economic | Social | Technological | Environmental | Legal/Regulatory |
|---|---|---|---|---|---|---|
| **Employees** | | 1 Employee productivity | 2 Staff recruitment and retention | 3 Technology driving change in job skills | | 4 Human and labour rights |
| | | | 5 Employee satisfaction and engagement | 6 Operational efficiency | | |
| | | | 7 Training and development | | | |
| | | | 8 Equal opportunity and anti-discrimination | | | |
| **Customers** | | 9 Increase in non-performing loans | 10 Changing customer expectations | 11 Technological developments, including digitalisation and automation | | |
| | | 12 Import restrictions | 13 Customer satisfaction | 14 Data security and privacy | | |
| | | | 15 Customer engagement | | | |

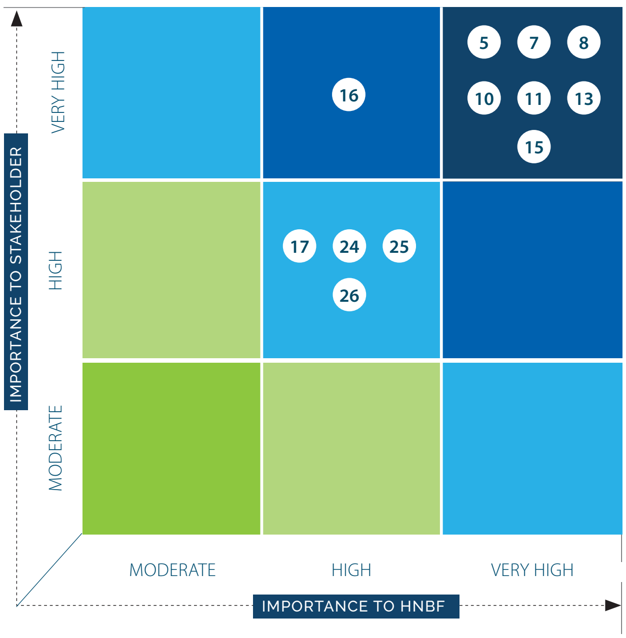
# Materiality

| Stakeholders | Political | Economic | Social | Technological | Environmental | Legal/Regulatory |
|---|---|---|---|---|---|---|
| **Community and the environment** | | | 16 Community investment and engagement<br>19 Need to commit to Sustainable Development Goals (SDGs)<br>21 Impact of COVID-19 | | 17 Reduction of environmental impact from operations<br>20 Natural disasters and poor disaster preparedness | 18 Compliance with regulations |
| **Investors** | 22 Political instability | 23 Economic slowdown | 24 Demand for increased transparency and accountability | | | |
| **Suppliers** | | | 25 Sustainable procurement<br>26 Strengthening relationships | | | |
| **Regulators** | | | | | | 27 Prevention of financial crime |

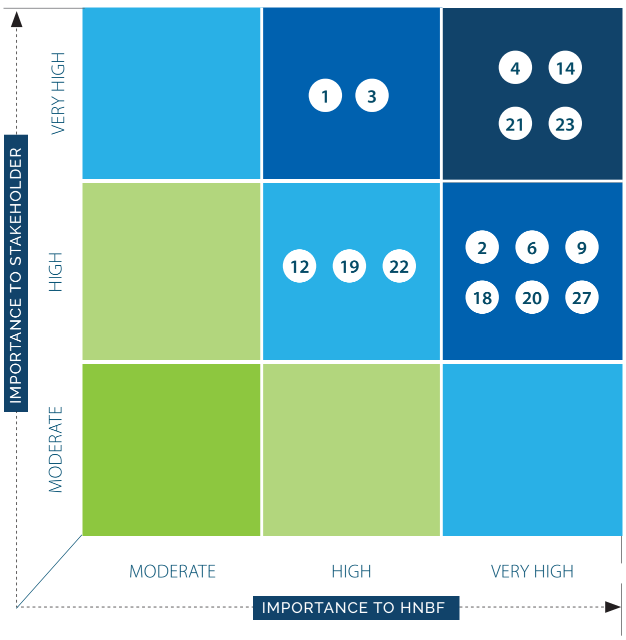
# Materiality

The next step in the process is to map the topics by the impact they have on HNBF and its stakeholders. Topics are categorised as either risks or opportunities or both. The materiality analysis plays a role in the formulation of HNBF's strategies and strategic imperatives. The materiality of a topic is assessed by its relevance to the Company or the stakeholder and its significance, as determined by the likelihood of its occurrence and the magnitude of its impact. The importance of material risks and opportunities is then assessed on a scale of high, moderate, and low importance to the Company and its stakeholders.

## Opportunities to be seized




## Risks to be mitigated



# DEFINING HNBF'S STRATEGY

## Strategy

### SWOT Analysis

#### Strengths

1. Listed entity in the Colombo Stock Exchange
2. Pioneer in the microfinance segment in Sri Lanka
3. Experienced staff
4. Island-wide branch network
5. Backing of HNB, a systemically important bank in the country
6. Relatively large customer base
7. Diversified product portfolio
8. Strong corporate governance practices
9. Customer-centric services
10. Brand perception among the community
11. Quick and positive cash flow, strong balance sheet with positive net assets, strong total asset base, steady core capital balance
12. Continuously awarded as "Great Place to Work"

#### Weaknesses

1. Relatively fewer number of branches in Colombo District and the Western Province compared to competitors
2. High operations and personnel costs
3. Difficulties in dealing with millennials
4. Dependency on external service providers and vendors
5. Lack of innovative product promotions
6. Lack of unique/ customised savings propositions
7. Customer drop-outs

#### Threats

1. Stiff competition from banks, peers in the NBFI sector, and the informal sector
2. Strict regulatory controls
3. Political and economic instability
4. Unethical practices/tactics of certain players having damaging consequences on the entire industry
5. Uncertainty and instability caused by COVID-19 pandemic and its consequences
6. Adverse weather conditions/natural disasters

#### Opportunities

1. Expansion through cross-selling with the existing customers
2. Leverage on parent HNB brand to unlock potential synergies
3. Expand outreach through new technology solutions, business/product diversification
4. Appealing to an expanded audience through the new corporate identity and branding
5. Ability to strengthen the mortgage-based product to reduce risk-weighted assets to increase the capital adequacy
6. Ability to increase leasing portfolio
7. Ability for a rights issue to increase the core capital ratios
8. Government backing towards SME/SSE/ agricultural segments

# Strategy

Strategic priorities were reviewed during the year, in response to the dramatic macro environment changes following the emergence of COVID-19. However, HNBF remained focused on its broader strategic objectives, despite the continuous market disruptions that had unavoidable adverse impacts on strategy progress.

HNBF's strategy is defined by six strategic objectives that encompass the needs of its stakeholders, the materiality of relevant issues, the operating environment, and the Company's objectives.

Upon determining the materiality of topics by their relevance to HNBF and its stakeholders, the material topics are managed in line with the Company's strategic plan. Accordingly, responsibilities are assigned to the appropriate functional unit heads. Resources are allocated based on the degree of materiality of a risk or opportunity. As the Company transitions from a Grameen-based operation to a fully-fledged financial services institution, it has undertaken several initiatives as part of its strategic plan that aims to position the Company as the preferred financial services provider for the mainstream finance services market. Furthermore, a SWOT analysis of the Company and a detailed competitor analysis were used in the drafting of the "HNBF 2020 Agenda" that identified six core strategic objectives in HNBF's transformation into a fully-fledged financial services institution.

## Strategies

Strategies were developed for key aspects of the business, such as business development, marketing, customer service, technology applications, human resource management, and sustainable growth, which were deployed across the Organisation to sustain business activities during the year. The Company continued to place emphasis on improving systems and processes to achieve operational excellence, by extending BPR initiatives across the entire network, to review existing processes and address weaknesses and to digitise manual processes to realise efficiency and productivity gains, coupled with significant cost savings and greater convenience for customers. Technology remained a key driver of business in the post-COVID environment of restricted movements and gatherings, with innovative and cost efficient technology solutions taking the lead in facilitating internal and external communications, customer services, financial transactions, and back office functions. While marketing and branding remained a priority, traditional marketing activities were curtailed due to COVID containment measures, resulting in greater emphasis on digital marketing and branding activities, which were conducted with a high level of effectiveness reaching many urban and rural communities. Despite COVID constraints on business activities, business development initiatives were continued unabated with new market segments identified and innovative offerings developed to cater to specific requirements of these customer groups. Please refer the sections on Human Capital on page 49, Intellectual Capital on page 40 and Social and Relationship Capital on page 60, for further details on strategy implementation and outcomes during the year.

### Business development

- Market segmentation to identify customer requirements and to provide solutions
- Business innovation
- Use technology effectively to improve business
- Competitive strengths
- Stakeholder relationship and alliances

### Branding and marketing

#### Through the line marketing

- Social media/email/ SMS marketing
- Search engine optimisation
- Content marketing
- Earned media/PR
- Seasonal campaigns
- Digital advertising

#### Offline marketing

- Direct selling
- Co-branded promotions
- Referral programmes
- Staff sales drive
- Outdoor visibility

### Technology for growth and security

- Moving into digitalisation
- Improving operational efficiencies
- Mitigating risk with improved security
- Improving compliance

# Strategy



### High capacity human resources

- Identifying the gaps and up-skilling the staff
- Arrest staff attrition
- Optimisation of the human resources

### Operational excellence

- Improving process efficiency
- Reducing the cost
- Transferring manual work into digital platforms
- Branch evaluation
- Improving staff efficiency

### Superior customer service

- Creating a customer centric culture across the Organisation

### Business sustainability

- Inorganic growth
- Compliance with regulation
- Improving asset quality
- Sustainable fixed income and profitability
- Environmental challenges

## Our strategic objectives for 2020/21

| Strategic objective | Progress |
|---|---|
| **1.** Develop and retain high quality human resources | • Performance-based incentive scheme<br>• Organisation re-structuring<br>• Performance management system |
| **2.** Growth, sustainability, and development of customer–centric products | • Established central credit and credit administration departments<br>• Strict monitoring of non-performing assets and strengthened evaluation of customers' creditworthiness<br>• Strengthened the recovery function |
| **3.** Explored partnerships with third-party mobile financial services solutions (Dialog eZ Cash, Mobitel mCash) | • Provide customers the option to pay loan or lease instalments via mCash and eZ Cash<br>• Existing POS machines and field operations were optimised; utility bill payment collection function was deployed |
| **4.** Leverage technology to drive growth | • Invested in new hardware<br>• Developed effective and practical work from home systems<br>• Implemented new SD WAN network for branch level connectivity<br>• Document management system implemented<br>• Implemented a recovery call centre application<br>• Introduced anti-money laundering (AML) system |
| **5.** Superior branding and marketing strategy | • Ten service centres were upgraded to branch status<br>• New Head Office branch was opened<br>• Branch rebranding<br>• Sustainability projects and CSR activities were conducted at a lower scale<br>• Ground-level promotions are ongoing to capture new SSE/SME/leasing/gold loan customers.<br>• Digital marketing strategy implementation and lead generation are ongoing. Social media engagement has increased through social media platforms |
| **6.** Strive for operational excellence | • A Business Process Re-engineering exercise is underway to achieve operational excellence |

## Product strategies

The Company has also established strategies around each of its products and to also improve productivity and portfolio quality of each business sector. Our strategy is to focus on the potential of any business segment and promote products according to specific customer requirements, thereby enhancing customer satisfaction. Product strategies include implementing new schemes for gold loans and extending gold loans to additional branches and offering customers the option to pay instalments in cash, without having to visit a branch. gold loan expansion strategies will focus on presenting customers with the opportunity to benefit from different schemes for different requirements, as well as the opportunity to invest in gold. The microfinance product was improved with new staff for loan evaluation at Head Office, introducing new corporate social responsibility projects, reducing unnecessary variation in non-performing loans, targeting a maximum recovery rate, improving the loan arrears to zero days and introducing a collection mechanism through the centre leaders via digital payment system. To penetrate microfinance services deeper into rural areas the Company will be entering into strategic alliances with well-established regional and city-based societies to facilitate society-based lending. Strategies for business loans include enhancing the business in Colombo and suburbs, productivity enhancement, improvement of portfolio quality, marketing activities for business development and diversification of business. The high level of flexibility afforded by the product will make it possible to cater to all customer requirements in the market. In addition, strategic alliances will be entered into with selected companies to provide value added solutions for customers. Already an alliance with Prime Lands is underway to provide housing loan facilities for customers purchasing lands, apartments etc from Prime Lands.

The leasing business has adopted strategic alliances to grow the business while increasing direct business, and is gaining support from the HNB network and is also developing business relationships with dealers of two-wheel and three-wheel vehicles. The leasing facilities will be expanded to cater to different market segments through leasing and draft products, which will provide unique benefits for customers.

Plans for savings aims to increase promotional activities to increase the customer base and key strategies are in place to expand savings options for minors. In addition, we are also planning to promote savings products for the employees of our supply chain finance customers. Personal loans will be revamped and will provide an opportunity for customers to obtain cash for urgent financial needs. Internet banking will be introduced for savings and E-statements have been introduced to digitalise the process, making it easier for savings customers to check their account balances and transfer money to their savings accounts. In addition, digital solutions to enable customers to save with greater convenience, are also being examined.

## Re-engineering for sustainability

A Business Process Re-engineering (BPR) exercise was deployed across the Company to ensure sustainability of operations. The actions under the BPR exercise has resulted in cost savings by limiting stationery and printing and re-modifying loans and deposits applications, and improved business efficiency by streamlining leasing/SSE/SME areas of business. In addition, during the current financial year, a separate Credit Department and Credit Administration Department were established to improve business efficiency. Centralised bank accounts were opened for deposit collection daily by field officers and wastage was addressed by restructuring the branch and Head Office layout for efficient staff mobility and controlling stationary usage. Process variations were minimised by mapping all the processes in branches and conducting work studies to identify areas to reduce the cycle time and improve customer satisfaction. Stress on human resources was reduced by streamlining staff requirements, centralising back office functions, load balancing of tellers, empowering cashiers, and implementing the re-engineering exercise to adhere to standard operating hours, thus minimising variations on wastage. Process quality was improved by implementing processes in line with technology, such as the Document Management System and the Stock Management System. Manual work was transferred to digital platforms by migrating hard copies to soft copies and reducing the need to maintain physical filing systems.

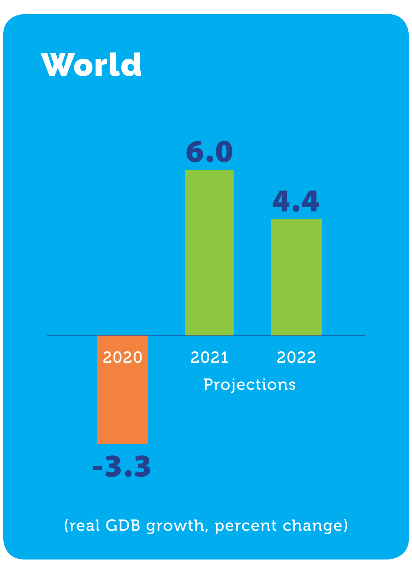
# THE GLOBAL AND DOMESTIC ECONOMY IN PERSPECTIVE

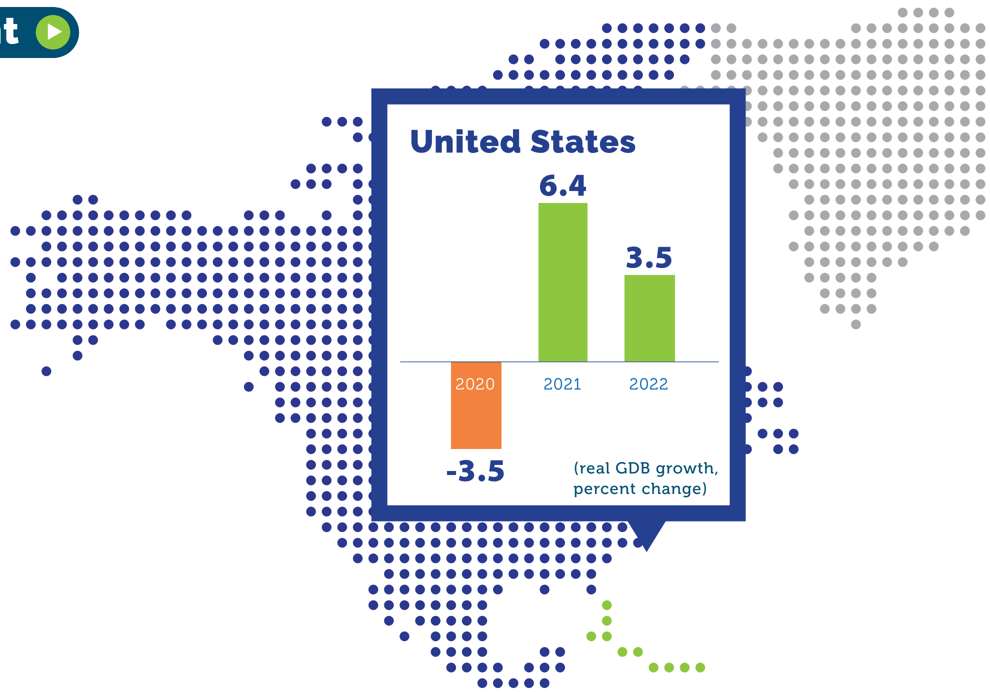
**Operating environment**

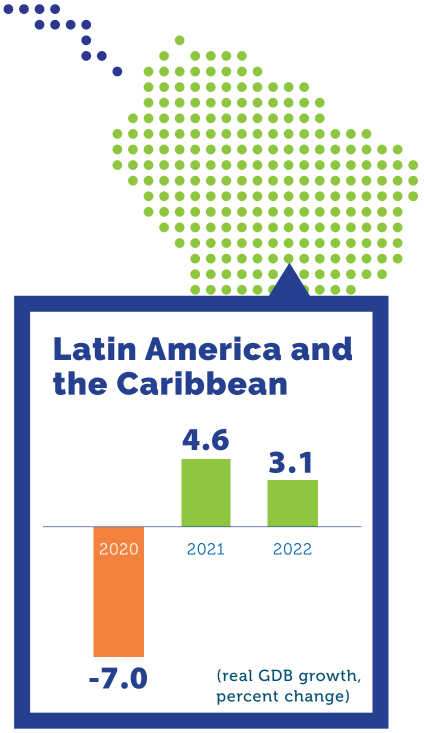
### A global decline but a positive outlook

In 2020, the global economy continued the downward trend of 2019 amidst COVID-19 market and trade disruptions, contracting by an estimated 3.3%, according to the International Monetary Fund's World Economic Outlook report of April 2021. This prolonged global economic downturn resulted in close to 95 million more people across the globe falling below the threshold of extreme poverty in 2020, compared to pre-pandemic estimates. Emerging market economies and low-income developing countries have been hit harder and are expected to suffer more significant medium-term losses. Countries that rely on tourism and commodity exports and those with limited policy space to respond, have been severely impacted. Youth, women, workers with relatively lower educational attainment, and the informally employed, have generally been worse affected. Based on these developments, the IMF estimates that income inequality is likely to increase significantly because of the pandemic.

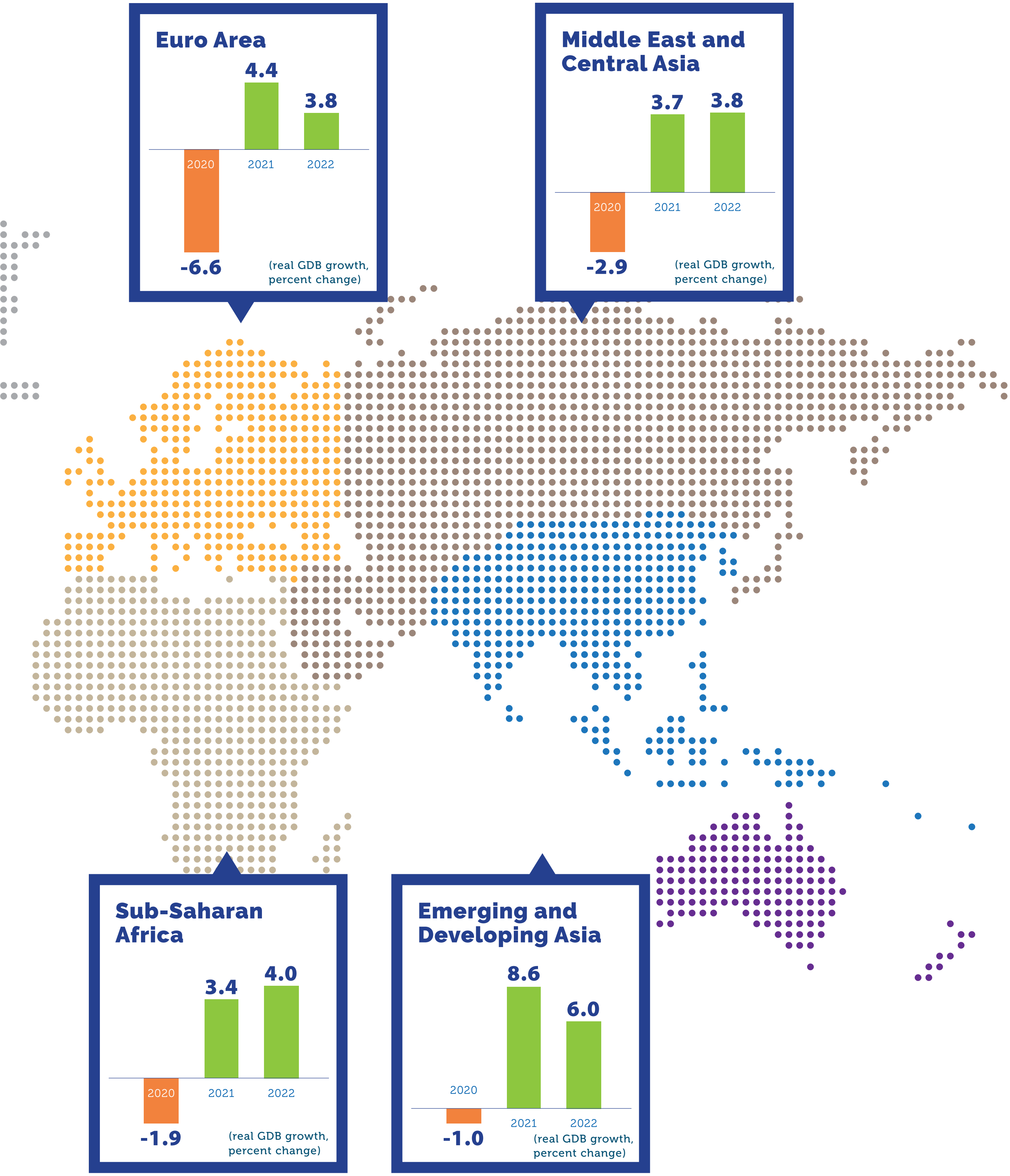
The outlook improved in late 2020 after successful COVID-19 vaccine trials. However, by mid-2021, mutations of the virus and the uncertain speed of the vaccine delivery process has once more created an environment of uncertainty and instability, making the financial ecosystem highly volatile. On a more positive note, due to the unprecedented



# Operating environment



policy responses from countries, the COVID-19 recession is likely to leave smaller scars than the 2008 global financial crisis and the IMF projection for 2021 remains optimistic. The global economy is expected to grow at 6% in 2021, moderating to 4.4% in 2022, but is contingent on how the pandemic is contained and the speed of vaccination.

## Regional and domestic economies expected to recover

All regions are expected to realise strong recoveries in 2021. The US economic outlook has been strengthened to a 6.4% growth in 2021 following increased economic activity as a successful vaccination programme eased COVID-19 regulations. The Euro area is to recover from the 6.6% contraction of 2020 to a growth of 4.4%, while emerging and developing Asia is projected to show the strongest growth of 8.6% from a 1% contraction.

South Asia, excluding India, is recovering, led by Bangladesh, due to higher-than-expected exports and remittances, notwithstanding the recent spike in infections. Outlooks in Maldives, Nepal, and Sri Lanka are affected by weak tourism and limited policy space.

The Sri Lankan economy contracted by 3.6% in 2020, compared to the 2.3% growth recorded in the preceding year with some sectors such as tourism, hotel, and related leisure activities, construction, manufacturing, and certain service industries such as transportation being significantly impacted by COVID-19 containment measures. All sectors of the economy declined during 2020 with agriculture shrinking by 2.4%, industry by 6.9%, and services by 1.5%, compared to the previous year. The depreciation of the Sri Lankan rupee caused a contraction in the overall size of the economy to US$ 80.7 Bn. in 2020, from US$ 84.0 Bn. in the previous year. According to the Central Bank, the depreciation of the rupee against the US dollar was contained at 2.6% in the last year. Meanwhile, sovereign rating agencies downgraded Sri Lanka's sovereign rating amidst limited access to foreign financing in 2020.

The Central Bank implemented extremely accommodative monetary policy measures during 2020, through the reduction of the key policy interest rates by 250 basis points in total, and the lowering of the Statutory Reserve Ratio (SRR) applicable on rupee deposit liabilities of licensed commercial banks (LCBs) by a total of 300 basis points and the Bank Rate by 650 basis points. Maximum interest rates on deposits and debt instruments were further reduced since April 2020 with the objective of reducing interest rates on lending. Consequently, market deposit rates decreased and the Average Weighted New Deposit Rate (AWNDR) and the Average Weighted New Fixed Deposit Rate (AWNFDR) recorded their lowest levels of 4.93% in December 2020. Meanwhile, the weekly Average Weighted Prime Lending Rate (AWPR) reduced to 5.81% by end 2020 and the Average Weighted New Lending Rate (AWNLR) and the Average Weighted Lending Rate (AWLR) declined to 8.38% and 10.29% respectively, by end 2020.

The accommodative monetary conditions improved access to credit for the private sector from August 2020. Credit extended to the private sector increased by LKR. 374.1 Bn. during the year, recording a growth of 6.5%, year-on-year, by end 2020. This was mainly driven by personal loans and advances, that grew to 15.1%, year-on-year by end 2020, while direct credit to activities in the agriculture, industry and services sectors of the economy remained low during the year. Pawning advances grew by 17.9% but credit card advances contracted by 2.5%, year-on-year, in comparison to the growth of 22.9% as at end 2019.

## Non-bank financial sector remains under pressure

The Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector performance deteriorated during the year, with negative credit growth and high NPLs. Assets of the sector contracted, recording a negative growth rate of 2.2% (LKR 31.0 Bn.) reaching LKR 1,401.6 Bn. compared to the 0.1% growth reported in 2019. Net interest income of the sector during the year was LKR 111.2 Bn., which was a decline of 5.3% (LKR 6.2 Bn.) compared to 2019. This was due to the decline in economic activities with the COVID-19 outbreak. The interest income and interest expenses declined by 12.0% (LKR 31.3 Bn.) and 17.6% (LKR 25.0 Bn.), respectively. The net interest margin of the sector declined to 7.3% in 2020 from the 7.7% in 2019. The sector posted a profit after tax of LKR 13.7 Bn., a decline of 6.1% compared to the profit recorded in year 2019, mainly due to the significant decline in interest income recorded during the period.

# Operating environment

The loan loss provisions made against NPLs during the year was LKR 38.2 Bn., which was an increase of 26.4% (LKR 8.0 Bn.), when compared with the provision made in 2019. The gross NPL ratio increased to 13.9% by end December 2020 from 10.6% reported as at end December 2019, showing a severe deterioration in the asset quality of the sector. The net NPL ratio also increased to 4.2% by end December 2020 from 3.4% reported at end December 2019.

Finance leases accounted for the highest share of loans and advances, representing 53.7% which slowed considerably during the year due to business reductions amidst the COVID-19 lockdowns and curtailment of vehicle imports. The lack of brand-new vehicles in the market saw a sharp increase in the demand for second-hand vehicles. This rise had a positive impact in that the defaulting of existing leases saw a decline – with lease payments being honoured effectively for the most part – but carried a high-risk factor when granting new leases, as higher Loan to Value ratios had to be accommodated to be competitive in the market due to sharp price increases. Pawning and gold loans was another area that saw a rapid rise due to a large number of people resorting to borrowing against the collateral of their jewellery and gold as the pandemic took a toll on their income.

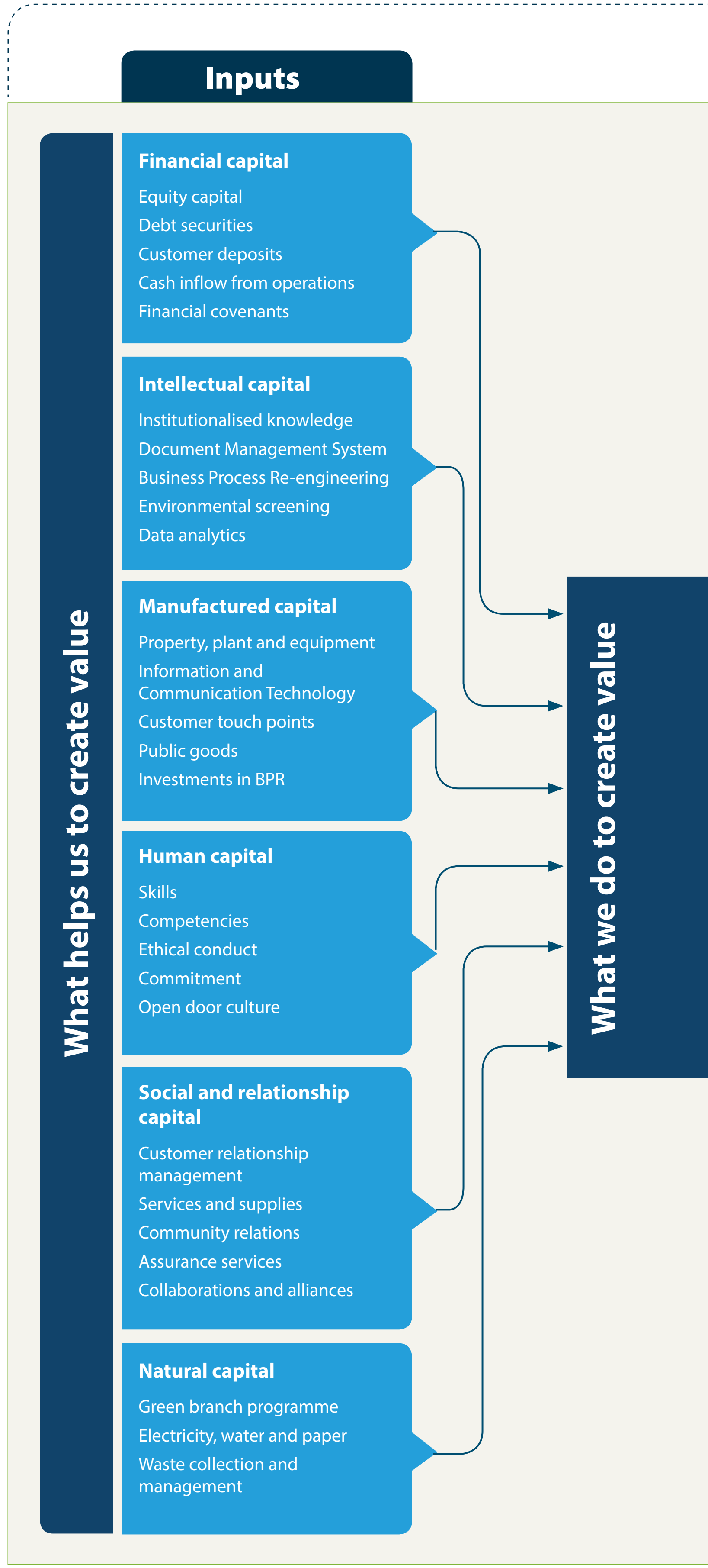
The Central Bank also continued its support to the sector, introducing measures to maintain its stability and giving it a measure of regulatory support in order to help mitigate COVID-19 challenges.

Outlook improved in late 2020 after successful COVID-19 vaccine trials. However, by mid-2021, mutations of the virus and the uncertain speed of the vaccine delivery process has once more created an environment of uncertainty and instability, making the financial ecosystem highly volatile globally. Outlook improved in late 2020 after successful COVID-19 vaccine trials. However, by mid-2021, mutations of the virus and the uncertain speed of the vaccine delivery process has once more created an environment of uncertainty and instability, making the financial ecosystem highly volatile globally.

# BUSINESS MODEL FOR SUSTAINABLE VALUE CREATION

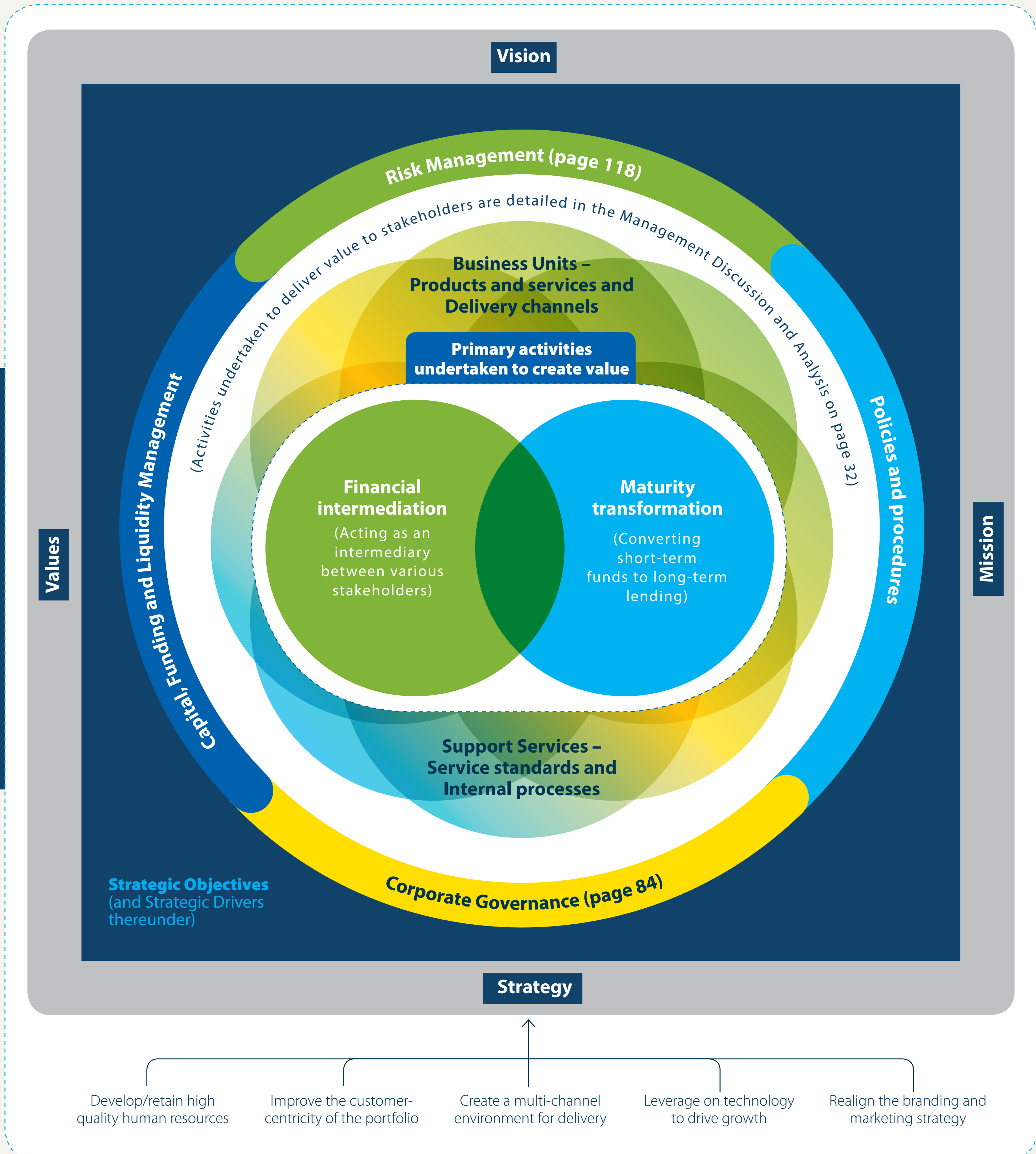
BUSINESS MODEL

## Being a Finance Company, our business model revolves around the two primary activities of financial intermediation and maturity transformation.



## HNB Finance PLC

## Activities




## Outputs

**A diversified products and services portfolio**

### Lending products

**Micro-finance segment**

- *Diriya*
- *Sahana*

**Gold loans**

**Business loans**

- Easy Loan
- *Saviya*
- Relax
- *Nivahana*

**Leasing**

### Deposit products

- HNBF Savings account
- *Miyulasi*
- *Yalu*
- *Sureki*
- Term deposits

### Services

- *Financial advice*
- *Finding markets*

## Outcomes

**Results of our outputs**

### Financial capital

- Profitable growth
- Satisfactory shareholder returns
- Well capitalised, funded and liquid
- Optimum risk-return trade-off
- Well governed and fully compliant

### Intellectual capital

- Enhanced brand equity
- Customer privacy
- Integrity
- Compliance
- Awards and accolades

### Manufactured capital

- Digital prowess
- Omni-channel presence
- Innovation
- Enhanced capacity
- Productivity improvements

### Human capital

- Job security and safe working environment
- Equal opportunity employer
- Training and development and career progression
- Work life balance
- Cordial industrial relations

### Social and relationship capital

- Customer experience, convenience and simplicity
- Financial literacy
- Financial inclusion and women empowerment
- Strong supplier relationships and collaborations
- "Social license" to operate

### Natural capital

- Responsible lending
- Green processes and facilities
- Sustainable consumption
- Energy conservation
- Environmental consciousness

**Operating environment** Please refer page 16 for details.

The robustness of our business model enables us to create value for all the stakeholders in the short, medium and long term which is the essence of sustainability. Leveraging the inputs from our various stakeholders, as well as those built by ourselves over the years in the form of capitals, a gamut of activities centred around financial intermediation and maturity transformation generates outputs for the benefit of the same stakeholders, leading to certain desired outcomes.





# FINANCIAL PERFORMANCE IN A CHALLENGING ENVIRONMENT

MANAGEMENT DISCUSSION AND ANALYSIS

## Financial capital

### An overview

HNB Finance PLC reported a below par performance for the financial year under review, a performance that is uncharacteristic of our ethos.
A multitude of external and internal factors contributed to this performance. Externally, the operating environment turned out to be highly volatile with the COVID-19 pandemic spreading in waves and the resultant lockdowns and curfews affecting the lives and livelihoods of a majority of Sri Lankans. The worst affected included the lowest strata of the society, which is one of our primary market segments for our micro lending products. In addition, various measures taken by the Government to maintain macro-economic stability, such as restrictions on imports (vehicles in particular), moratoriums and related concessions etc., affected our business.

Internally, the Company encountered certain issues due to the very nature of its business model, which relies heavily on micro financing lending with relatively short tenure maturities (12 months on average). Short tenure lending has its own advantages from a cash flow and re-pricing perspective, and the Company has benefitted from this model in the past; however, the low interest rate regime and the effects of the pandemic on the micro financing market segment together with the intermittent lockdowns and curfews prevented the Company from re-lending the cash inflows from the maturing loans, leading to a substantial decrease in interest income.

Over the past several years, the Company has been pro-actively taking various measures to balance its market segments and product portfolio by increasing its exposure to long tenure and secured products such as leasing, which has gradually reduced the proportionate exposure to micro finance lending. But for such initiatives, the adverse impact on our performance could have been greater.

Quarterly performance for the three months ended 31 March 2021 given on page 222 as reported to the Colombo Stock Exchange reveals "a profit in the loss", in that the Company returned to making profits in the fourth quarter with a profit after tax of LKR 351 Mn., which, however, was more than offset by the losses reported for the first three quarters.

We wish to assure our investors that we will continue to take further measures to contain the impact of the pandemic on our business and to optimally balance the product portfolio by finetuning the business model, leveraging the lessons the pandemic has taught us.

The financial review given below will have to be read in the context of the operating environment detailed on page 16.

## A summary of KPIs

A summary of Key Performance Indicators for the year under review in comparison to the preceding year is given below:

| Indicator | **As at 31 March 2021/ For the year 2020/21** | As at 31 March 2020/ For the year 2019/20 | Variance % |
|---|---|---|---|
| Shareholders' funds (LKR Mn.) | **4,895** | 5,000 | (2.10) |
| Subordinated liabilities (LKR Mn.) | **3,814** | 5,414 | (29.55) |
| Customer deposits (LKR Mn.) | **28,047** | 27,529 | 1.88 |
| Net cash flow (LKR Mn.) | **(857)** | 132 | (751) |
| Risk weighted capital ratio (%) – Tier I | **9.94** | 10.16 | (2.17) |
| – Tier I and II | **14.12** | 14.02 | 0.71 |
| Interest earning assets/total assets (%) | **89.15** | 89.54 | (0.44) |
| Debt/Equity (Times) | **6.51** | 6.59 | (1.21) |
| Earnings per share (LKR) | **(0.07)** | 0.23 | (130.44) |
| Return on assets (%) | **(0.33)** | 1.12 | (130.44) |
| Return on equity (%) | **(2.50)** | 8.21 | (130.45) |

## Net interest income (NII)

Interest income for the year under review declined by LKR 1.63 Bn. or 20.1% compared to the financial year 2019/20, which can primarily be attributed to a drop in interest income from micro loans. Although the Company managed to sustain the total portfolio when compared to the previous year, there was a significant impact on the interest income generation mechanism during the pandemic. Short tenure loans require that the loan renewal cycle is not broken, enabling the Company to re-lend the cash inflows from the maturing loans. However, with the impact of COVID-19 on the micro sector being significantly higher than that on the leasing business, the pandemic-related restrictions severely affected new loan disbursements, leading to a contraction of the micro lending by LKR 6.3 Bn. from LKR 17.2 Bn. a year ago to LKR 10.8 Bn. as at 31 March 2021. This caused excess liquidity to be invested in low yielding assets. Prior to the pandemic, high yielding, short tenure products such as micro loans generated the highest interest income for the Company.

## Product-wise composition of the lending portfolio

| Remaining period to maturity | **2020/21 LKR Mn.** | 2019/20 LKR Mn. | 2018/19 LKR Mn. | 2017/18 LKR Mn. | 2016/17 LKR Mn. |
|---|---|---|---|---|---|
| Micro finance | **12,641** | 12,147 | 12,715 | 11,047 | 10,047 |
| Business loans | **6,245** | 6,435 | 5,451 | 3,437 | 1,650 |
| Leasing | **10,830** | 10,406 | 8,445 | 4,518 | 1,704 |
| Gold loans | **1,650** | 1,081 | 78 | – | – |
| Other loans | **1,458** | 1,003 | 1,143 | 1,025 | 732 |
| Total | **32,824** | 31,071 | 27,832 | 20,028 | 14,133 |

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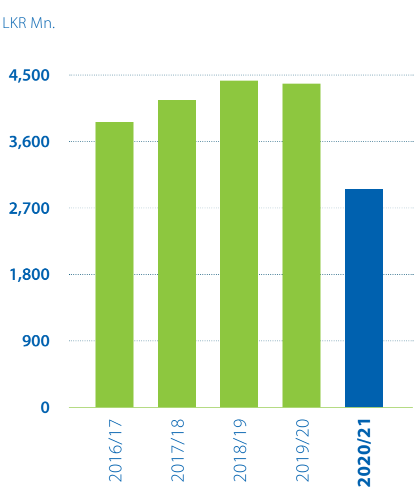
# Financial capital

In addition, consequent to the management decision to recognise the concessions granted to COVID-19-affected customers as a non-substantial modification to the loans and receivables in line with SLFRS 9, the Company recognised a Day One Loss of LKR 43 Mn. in interest income during the year, being the difference between the gross carrying amount of the loans and receivables subject to moratorium and the present value of the modified cash flows discounted at the original effective interest rate (EIR). Moratorium-related concessionary interest rates also contributed to a lower interest income as soft loan interest income was lower than our usual lending rates. The Company experienced a deterioration in asset quality during the year, which also had an impact on interest income.

Although relatively small, the Gold Loan portfolio made a stable and increasing contribution.

### Net interest income



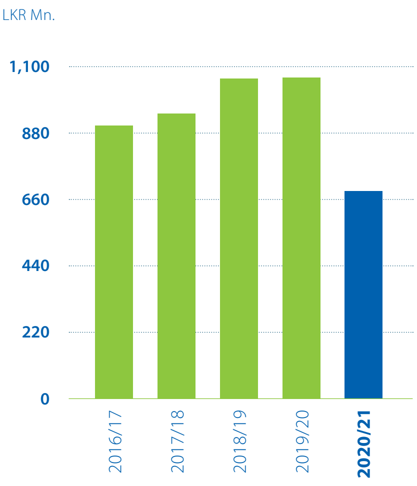

In comparison to the interest income, interest expense for the year under review declined only by LKR 0.198 Bn. or 5.3% despite a conscious decision taken to lower cost of funds by re-pricing deposits and optimising sources of funding.

Consequently, net interest income for the year under review decreased by LKR 1.429 Bn. or 38.4%. Yet, NII continued to account for approximately 83% of the total operating income, almost at the same level recorded in 2019/20.

## Non-interest income

Net fee and commission income decreased by 40.6% during the year under review. This was a result of the fee and commission income declining by a substantial LKR 342 Mn. or 40.4% due to the drop in fee and commission income from micro loan by LKR 323 Mn., which was partly offset by fee and commission expenses declining by LKR 64 Mn. or 39.8%. Other operating income declined by LKR 34 Mn. or 15.4% during the year. Consequently, total non-interest income recorded a drop of 34.5%, accounting for 16.7% (17.1% in 2019/20) of the total operating income.

### Non interest income




## Impairment charges

Impairment charges for the year amounted to LKR 1.045 Bn., reflecting only a marginal decline compared to LKR 1.086 Bn. provided in the previous year. As moratorium relief was given for leasing and longer tenure products but not for micro loans, the Company could reduce impairment charges by LKR 41 Mn. Taking into account the fact that the Expected Credit Loss models may not be fully capturing the impact of prevailing unprecedented volatile market conditions, impairment charges for the year includes LKR 153 Mn. provided as management overlays by way of economic factor adjustments and notionally moving the stages forward for exposures to risk elevated industries.

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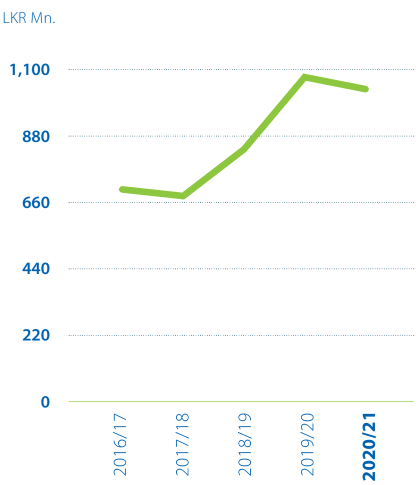
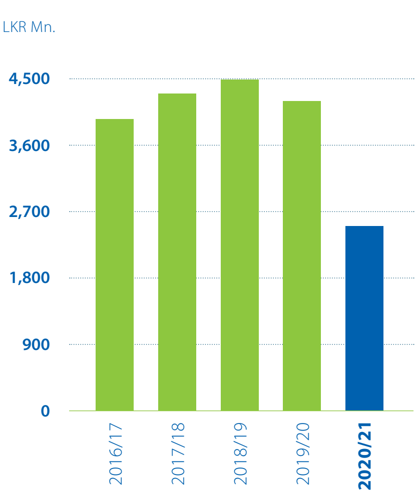
## Impairment




## Net operating income

Reflecting the substantial decrease in the net interest income and the non-interest income, net operating income declined by LKR 1.700 Bn. or 40.4% for the year.

## Net operating income



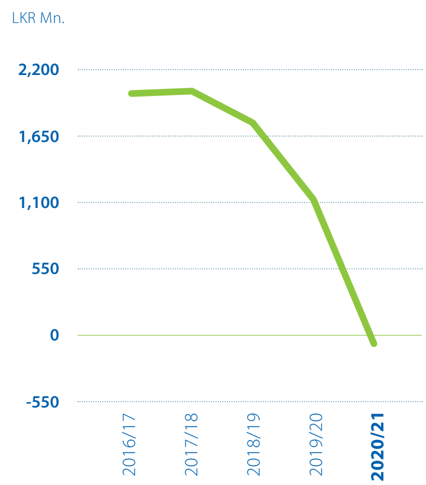

## Operating expenses

Total operating expenses for the year recorded a decrease of LKR 498 Mn. compared to the previous year. Both personnel expenses and other expenses contributed to this decrease.
A collaborative cost management approach adopted within the Company with the help of the Cost Management Committee led by Business Process Re-engineering Dept. led to a saving of LKR 379 Mn. while changes to the working arrangements, such as working from home, and curtailing of some discretionary expenses too contributed to the cost savings. The decrease in the net operating income being more pronounced than the decrease in operating expenses, the cost to income ratio increased to 72.65% from 58.16% in 2019/20.

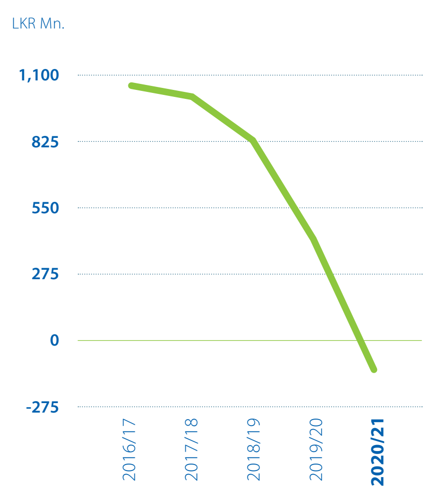
## Profit before and after taxes

Consequent to the substantial drop in net operating income, which was only partly offset by savings on operating expenses as detailed above, the Company recorded a loss before taxes of LKR 74.2 Mn. for the year in comparison to the profit before tax of LKR 1.128 Bn. reported for the 2019/20 financial year. The decrease in profit before taxes coupled with changes to the tax rates on financial services proposed in the third quarter of the financial year 2019/20, Value Added Tax and Nation Building Tax for the year came down to LKR 122.1 Mn. from LKR 468.0 Mn. in 2019/20. This resulted in the loss before income tax for the year increasing to LKR 196.3 Mn. compared to the profit of LKR 659.6 Mn. recorded for the year before. Consequently, there was a reversal of income tax of LKR 72.7 Mn. for the year in comparison to the income tax expense of LKR 264.4 Mn. in 2019/20. Loss after tax for the year was LKR 123.6 Mn., a substantial reduction from the profit after tax of LKR 395.2 Mn. reported in the previous year.

## Profit before tax




## Profit after tax



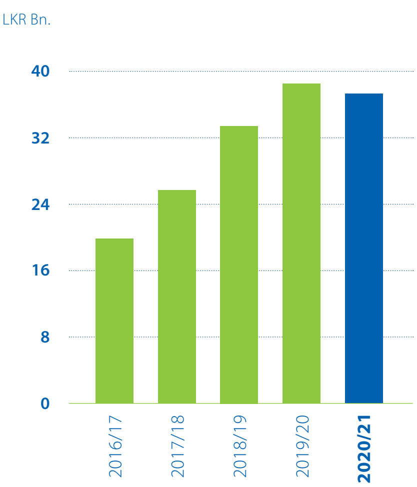
# Financial capital

## Total assets

Net loans and advances recorded a marginal growth of 1.7% during the year to LKR 28.777 Bn. as at 31 March 2021 compared to LKR 28.303 Bn. as at the previous year end. The growth is noteworthy given that it was achieved despite a substantial decrease in the micro finance loan book and against the backdrop of a projected contraction in the lending portfolio in the industry as a whole.

Total assets, however, decreased by 3.1% to LKR 36.7 Bn. as at 31 March 2021. This was primarily attributable to a reduction in financial assets at amortised cost–debt and other instruments and cash & cash equivalents.

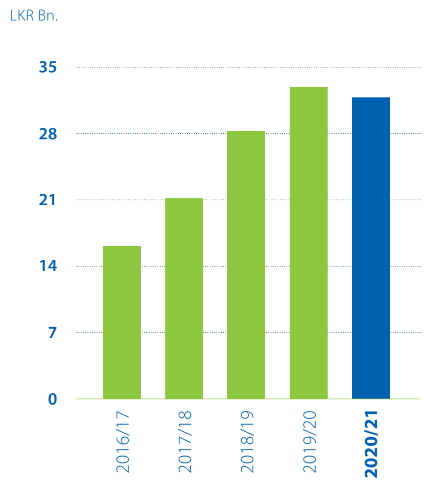
### Total assets




## Total liabilities

Total liabilities decreased by 3.3% to LKR 31.860 Bn. as at 31 March 2021 despite a growth in deposits of 1.9%. This was primarily due to a 31.0% reduction in financial liabilities at amortised cost – debts issued and other borrowed funds consequent to repayment of some of the borrowings on maturity. Savings deposits grew by a remarkable 14.9% during the year while fixed deposits grew only 0.5%. The CASA ratio improved to 11.13% from 9.87% a year ago.

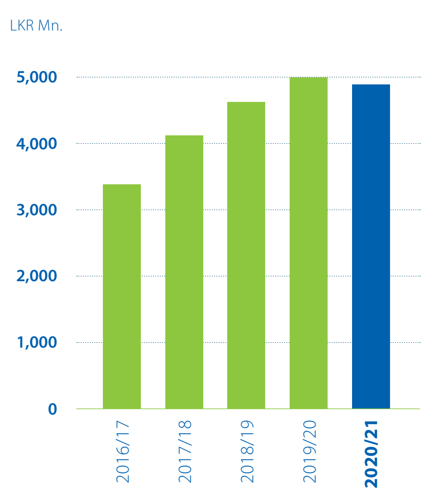
### Total liabilities




## Net assets

The loss for the year caused a contraction in net assets from LKR 5.0 Bn. as at 31 March 2020 to LKR 4.9 Bn. as at 31 March 2021. Consequently, the net assets value per share declined marginally from LKR 2.91 to LKR 2.85 as at 31 March 2021.

### Net assets



# Financial capital

## Statement of value added

| | 2020/21 | 2019/20 | 2018/19 | 2017/18 | 2016/17 |
|---|---|---|---|---|---|
| **Direct economic value generated** | | | | | |
| Interest income | **6,478** | 8,106 | 7,229 | 6,538 | 5,327 |
| Fee and commission income | **503** | 845 | 778 | 702 | 670 |
| Other operating income | **186** | 220 | 285 | 242 | 237 |
| **Value generated** | **7,167** | 9,171 | 8,292 | 7,483 | 6,234 |
| | | | | | |
| **Value distributed** | **7,194** | 8,770 | 7,378 | 6,916 | 5,347 |
| **Employee wages and benefits** | | | | | |
| Salaries and other benefits | **1,123** | 1,337 | 1,236 | 1,108 | 944 |
| **Community investments** | | | | | |
| CSR projects | **–** | 1 | 2 | 2 | 2 |
| Donations | **–** | 0 | 0 | 0 | 3 |
| **Payments to providers of capital** | | | | | |
| Dividends | **–** | – | – | 327 | 189 |
| Interest to deposit holders | **3,184** | 3,257 | 2,454 | 2,223 | 1,352 |
| Interest on borrowings | **338** | 463 | 348 | 150 | 114 |
| **Payments to government** | | | | | |
| Income Tax (reversal)/expense | **(73)** | 264 | 346 | 687 | 647 |
| VAT and NBT expense | **131** | 292 | 408 | 445 | 381 |
| Other taxes and levies (reversal)/expense | **(9)** | 176 | 104 | 11 | 12 |
| **Operating costs** | | | | | |
| Depreciation and amortisation | **214** | 214 | 182 | 165 | 134 |
| Impairment for loans and other losses | **1,045** | 1,086 | 843 | 685 | 708 |
| Other operating costs | **1,241** | 1,680 | 1,455 | 1,114 | 863 |
| **Economic value retained** | **-27** | 401 | 914 | 567 | 887 |

## Capital adequacy/ capital management

The multiple roles capital plays for ensuring stability, solvency and viability in an entity engaged in financial services carrying out financial intermediation and maturity transformation cannot be overemphasised. It is capital that enables our business expansion, provides a buffer to absorb any unanticipated losses, and protects uninsured depositors. Most importantly, the regulatory requirements on capital place a restraint on unjustified asset expansion. From the perspective of the financial services sector, however, rising capital requirements exert pressure on institutions, inhibiting growth, impacting costs of operations, and lowering the returns. Therefore, at HNB Finance, we accord the highest priority to maintaining capital requirements at levels higher than those prescribed by the regulator both in terms of quantity as well as quality.

We assess our capital requirements periodically during the annual strategic planning and budgeting exercise in particular in order to accurately align it with our growth plans, risk profile and regulatory requirements. We also manage available capital prudently by deploying such tools as balancing risk-weighted assets, monitoring on-balance sheet gearing levels, timely pricing of products & services, maintaining a dividend policy, continuous engagement with investors and maintaining access to a range of capital instruments.

# Financial capital





Objectives of our Capital Management efforts include:

- Compliance with the regulatory requirements
- Maintaining stringent internal capital targets
- Meeting investor expectations
- Supporting future business expansion
- Supporting desired credit rating

## Capital requirements

During the year under review, HNBF maintained capital at comfortable levels throughout the year, allowing sufficient leeway for future business expansion. Our regulatory capital already exceeds the levels prescribed by the regulator for compliance over the next several years. Capital, risk weighted assets and capital adequacy ratios as at current and previous year end are given below.

| | **As at 31.03.2021** | As at 31.03.2020 |
|---|---|---|
| Risk weighted assets (LKR Mn.) | **38,827.69** | 40,390.77 |
| Core capital (LKR Mn.) | **3,858.30** | 4,102.27 |
| Core capital adequacy ratio (%) (minimum requirement 6.5%) | **9.94** | 10.16 |
| Total capital (LKR Mn.) | **5,482.96** | 5,664.05 |
| Total capital adequacy ratio (%) (minimum requirement 10.5%) | **14.12** | 14.02 |
| On balance sheet gearing (times) | **6.51** | 6.59 |

HNB Finance has a loyal base of shareholders who takes a long-term view of their investment in the Company and is ever willing to be supportive in times when additional capital is required for business expansion.

## Funding and liquidity management

Recent history is replete with examples that demonstrate liquidity to be the lifeblood of an organisation; it is as important, if not more, as capital for ensuring the resilience of a financial institution. Liquidity plays an immense role in maintaining public trust in the Company. Hence, HNB Finance accords the highest priority to funding and liquidity as it does to capital and maintains sustainable sources of funding and adequate levels of liquidity at all times. The Company never compromises on liquidity in order to generate returns to investors.

The Assets and Liabilities Committee (ALCO) of the Company meets on a monthly basis, or more frequently if the circumstances so require, to closely monitor the current and future funding and liquidity requirements as well as pricing of products and services. ALCO extensively deliberates various developments that affect funding and liquidity such as market liquidity, current and perceived interest rates, changes in policy rates, regulatory directions, credit growth and facilities in the pipeline, capital market developments, capital expenditure commitments, contingency funding arrangements etc. at these meetings.

Deposits and capital funded 76% and 13%, respectively, of the asset base as at 31 March 2021. The Company has a relatively stable funding structure to be used for onward lending and therefore, places less reliance on borrowings.

Objectives of our funding and liquidity management efforts include:

- Honouring customer deposit maturities/withdrawals
- Honouring other cash commitments under both normal as well as stressed conditions
- Compliance with the regulatory requirements
- Maintaining stringent internal funding and liquidity targets
- Optimally balancing liquid assets and profitability in order to meet expectations of investors
- Funding future business expansion at optimum cost
- Supporting desired credit rating

Contrary to the expectations of potential liquidity concerns for the industry at the beginning of the year, HNB Finance and the majority of the players in the industry continued to maintain comfortable levels of liquidity, mainly due to the lacklustre economic conditions, lower demand for credit and the maintenance of deposit bases. At the year end, our liquid assets ratio remained at 20% compared to 17% a year ago. Plans for contingency funding and liquidity requirements in the event of any stressed conditions are also in place.

## Financial soundness indicators

| Financial soundness indicator (%) | **2020/21** | 2019/20 | 2018/19 | 2017/18 | 2016/17 |
|---|---|---|---|---|---|
| **Capital adequacy** | | | | | |
| Tier 1 capital ratio | **9.94** | 10.16 | 8.34 | 15.71 | 17.43 |
| Total capital ratio | **14.12** | 14.02 | 10.09 | 15.63 | 18.37 |
| **Asset quality** | | | | | |
| Gross NPL ratio | **17.68** | 12.25 | 8.85 | 3.79 | 2.47 |
| **Earnings and profitability** | | | | | |
| Net interest income to total operating income | **83.31** | 82.91 | 82.96 | 83.48 | 82.68 |
| Net interest margin | **8.86** | 13.85 | 17.35 | 21.42 | 26.66 |
| Operating expenses to gross income | **35.98** | 33.56 | 32.90 | 30.42 | 31.37 |
| Impairment charge to total operating income | **29.45** | 20.52 | 15.79 | 13.74 | 15.15 |
| Return on assets | **(0.33)** | 1.12 | 2.85 | 4.51 | 6.24 |
| Return on equity | **(2.50)** | 8.21 | 18.96 | 26.91 | 36.62 |
| Cost to income ratio | **72.65** | 58.16 | 51.12 | 46.76 | 41.87 |
| **Liquidity** | | | | | |
| CASA ratio | **11.13** | 9.87 | 13.08 | 14.39 | 16.14 |
| Gross Loans to deposits ratio | **115.50** | 114.16 | 122.59 | 105.56 | 100.68 |
| **Assets and funding structure** | | | | | |
| Deposits to total assets | **76.31** | 72.55 | 68.73 | 74.28 | 71.81 |
| Borrowings to total assets | **7.17** | 10.07 | 12.81 | 4.65 | 6.82 |
| Equity to total assets | **13.32** | 13.18 | 14.06 | 16.30 | 17.34 |
| Deposits to gross loans | **86.58** | 87.60 | 88.86 | 98.83 | 102.01 |

# HNBF'S INTANGIBLE VALUE

The intellectual capital base of HNBF is the sum total of all knowledge-based assets owned by the Company. These assets include the HNBF brand, the Company's ethics and values, culture, policies and procedures, and collective knowledge and competencies that drive innovation and improve processes. Collectively, they define the Company's competitive advantage in the market.

## Intellectual capital

### HNBF's Intellectual Capital base in a nutshell

| Investment in intangible assets (LKR Mn.) | Fitch rating (National long-term) | Rating of subordinated debt |
|---|---|---|
| **80** 2020/21 | **'A(lka)'** 2020/21 | **'BBB+(lka)'** 2020/21 |
| **198** 2019/20 | **'AA-(lka)'** 2019/20 | **'A(lka)'** 2019/20 |
| Variance % **-59.6** | | |

### Activities undertaken to create intellectual capital

- An effective work from home model was designed and implemented for employees across the country
- New software applications were implemented across the business operation
- New business functions were created, leading to specialisation in key technical areas
- BPR exercise was continued and new systems and processes were established
- Training and development activities were continued for staff to enhance organisational knowledge
- New health and safety protocols were developed and implemented

## The HNBF Brand

The HNBF brand, backed by one of the country's largest banks HNB, is the Company's greatest intangible asset in the crowded and highly competitive non-bank financial services market. The strength and stability and island wide brand presence of the Parent HNB, ensures market prominence and recognition across the country for the HNBF brand. The brand association with HNB, coupled with HNBF's unblemished track record in microfinance, were significant factors in maintaining market share in the current challenging financial year. While the market instability of the COVID-19 aftermath caused consumer behavioural changes, HNBF retained its lending customer base and experienced a continuous growth in its public deposits that had to be deliberately curtailed during the year, demonstrating the public trust in the Company.

## Brand building amidst COVID-19

Within the uncertain environment of COVID-19, HNBF, like many other businesses, took a conscious decision to reduce its marketing and promotional budget for the year, particularly as traditional outdoor brand building activities could not be conducted under COVID-19 containment restrictions. Even though the marketing budget was slashed brand building activities were continued through non-traditional channels, with the major share of brand building activities being transferred to digital platforms, together with standard promotional activities at branches. For leasing, the HNBF brand was given new exposure among vehicles dealers creating brand partnerships that added value to the brand. For ground level brand consolidation, mobile promotion campaigns were conducted and a number of street promotions were held across the country.

In addition, high profile corporate social responsibility activities such as the COVID-19 safety campaign for 3-wheelers, ensured brand visibility at ground level.

At an industry level, the HNBF brand retained its prominent status by being recognised at a number of national and international award ceremonies for a range of achievements. In particular, the awards recognised HNBF's emergence as a digital brand in Sri Lanka.

At the Asian Banking and Finance Awards 2020, HNBF received international recognition for the Marketing and Brand Initiative of the Year–Sri Lanka and for Website of the Year–Sri Lanka. This is indeed a significant brand boost as the Asian Banking and Finance Awards drew entries from a wide spectrum of exceptional financial institutions based all across Asia.

At the ACEF Global Customer Engagement Awards 2020, HNBF was awarded two gold awards, including the Grand Prix Gold Awards for the Most Admired Customer Engaged Brand (Sri Lanka) and the Social Media Brand of the Year in the Banking and Finance industry.

Demonstrating HNBF's creative digital branding capabilities, at the Vega Digital Awards 2020, HNBF won the Arcturus Award for social content and marketing for its unique "*Ape Gedara Avurudu*" digital platform. Again, at the SLIM DIGI Awards 2021, HNBF won bronze for superior Search Engine Optimisation and Search Engine Marketing, demonstrating HNBF's success in building digital brand presence.

# Intellectual capital

## Digital branding

HNBF took its digital brand building to new heights during the year consolidating its digital footprint using its website and social media platforms to engage with customers at their homes at a rate never before achieved by the Company. A focused approach ensured that relevant digital platforms were leveraged to promote the full range of HNBF products and services.

The main objectives were twofold. The first objective was to generate customer leads. Social media platforms were utilised for lead generation through advertisements for products such as leasing and business loans. Through this mechanism, details of potential customers were collected and then channelled through the Customer Relationship Management System for further follow-up. This initiative has resulted in acquiring successful leads for loans, leasing and savings product offerings, and created a new low-cost sales channel. In comparison with the previous year, the cost per lead has seen a significant decrease, down by over 43%, during this reporting period. Over 15,000 leads were acquired through digital channels alone.

The second objective was to develop brand visibility, awareness and engagement. Our Social Media Communications Strategy was centred on driving engagement and awareness towards HNBF and its product offerings. Visibility and awareness were further improved by utilising targeted display advertisements on leasing, business loans, gold loans and savings. These digital advertisements direct customers to the HNBF website, which acts as the centre point of the HNBF digital ecosystem. Customers who raised their queries through the website were contacted by our customer service agents for further assistance.

Adding to the above, Search Engine Optimisation and Search Advertising were used simultaneously to optimise results. SEO was carried out to create visibility for generic search terms related to the finance industry. HNBF's content marketing strategy focused on creating informative blog articles related to loans, leasing, savings and customer success stories that also helped to create additional visibility.

Due to the combination of SEO, Social Media and Google Ads, the HNBF website metrics have grown significantly. The HNBF site recorded an increase in overall traffic by 93% compared to the previous year. The SEO efforts alone resulted in an improvement in organic traffic compared to the previous year by 81%. We have been able to cater to a broader market within the country by developing a multi-language website with English, Sinhala and Tamil versions.

Brand engagement was significantly improved through a range of engagement activities and giveaways revolving around the social media pages of HNBF. Engagement happens on a daily basis and targeting special festivities and occasions as well. HNBF social media pages offer corporate and product information, financial literacy and social messaging to educate and update customers in real time. HNBF currently maintains official social media pages for Facebook, Instagram, YouTube, LinkedIn and Twitter. Over 2,500,000 people were reached though HNBF social media pages with these integrated activities.

## Institutional knowledge

HNBF has pools of specialists under its separate dedicated departments ranging from experts in the microfinance industry, to leasing, to credit management, to gold loans, and also experts in recoveries that contribute directly to the Company's intellectual capital. The skills and experience of these personnel are a competitive advantage for HNBF. During the current financial year, the Company continued to hone its specialisations.

In December 2019, a centralised Credit Administration Department was formed, which is an independent unit under the Credit Department, tasked with monitoring compliance with regulations and ensuring creditworthiness, security documents, quality of credit and other key aspects of ensuring asset quality of the Company. Another new department called the Corporate Business Unit was established under the Product Development Department, to develop specialised solutions for corporate customers, which is a new market segment for HNBF.

In September 2018, the Product Development function was initiated specialising in developing new products and enhancing the features of existing products.

The Legal Department specialises in recoveries, handling all legal proceedings related to recoveries. The Legal Department also serves in an advisory role to the top management on legal and business matters pertaining to the financial services industry, ensuring that HNBF's interests are protected.

# Intellectual capital

## Business continuity planning

A disaster recovery drill was conducted during the year, covering the entire operational sphere in order to prepare the Company for any unforeseen disaster. This is a critical step, where all systems at HNBF Data Centre were put to the test to physically verify the Company's ability to continue operations in the event of a disaster. All critical functions in all business verticals were identified and minimum resources needed for these functions to operate, have been identified in the event of a disaster. Infrastructure at the DR site makes it possible for the entire Company to operate as usual. A Business Operations Resumption Centre has been established in the Gampaha Branch, where 35 officers can work and operate the entire system, if the head office becomes inaccessible. Key personnel from head office and branches have been identified to step-in, to resume operations, in such an unlikely eventuality.

HNBF's Business Continuity Plan (BCP) ensures that the Company's operational capability is maintained during times of emergency like the COVID-19 pandemic. The BCP enables the Company to continue operations and deliver critical products and services with minimal downtime. The Risk Department and ICT Department hold overall responsibility for the BCP, while individual department heads are responsible for BCP within their departments. The BCP is reviewed at least once a year as per globally accepted best practices. The Board is responsible for approving revisions made to the BCP, which are then made available to all employees, stakeholders, and relevant parties.

## Systems and processes

Under the BPR programme, workflow and processes were continually evaluated and streamlined for efficiency gains and cost reductions. These process changes are creating customised systems and operational procedures specific to HNBF, that add to the intangible assets of the Company. Please refer the Re-engineering for Tomorrow chapter on page 75 for details on the impacts of the BPR exercise during the period under review.

## Software solutions and mobile applications

HNBF's digital solutions were critical to business continuity during the current financial year when traditional work practices and communications had to be replaced by work-from-home models and traditional financial transactions were replaced by digital transactions. As HNBF continues to expand its digital services, specialised and customised IT solutions will become a growing intellectual asset for the Company. The IT and BSD Departments are also in the process of obtaining ISO 27001 by 2023 and policies will be reviewed to align with ISO 27001 requirements.

During the year, HNBF successfully deployed an effective work-from-home system that enabled full time employment, supervision of work and continuous training and development. Business focused changes were made within the existing system for efficiency improvements, such as implementing a stationery management solution for centralised disbursement of stationery. A new branch level SD WAN was implemented for better interconnectivity, which also lowered communication costs significantly. A business intelligence dashboard was introduced starting with gold loans. This useful decision, making tool will be expanded to other products in the new financial year. A Recovery Call Centre application was implemented to support the recovery drive during the year. Recovery was traditionally a manual process but HNBF is using an innovative model involving its Call Centre, to expedite recoveries with greater efficiency. The app allows the Management to view the state of follow-ups and recoveries in real time.

In addition, a range of user-friendly digital solutions were made available for customers and other external stakeholders to interact and transact with the Company. HNBF partnered with Dialog and Mobitel to enable customers to make their repayments via the eZ Cash and mCash platforms, with the goal of converting 30% of customer payments into digital transactions.

## Ethics and integrity

The highest ethical standards are upheld at HNBF across all its business activities and employees are trained regarding the Company's ethical standards. The Company does not engage in anti-competitive behaviour and adopts a zero-tolerance policy towards bribery and corruption with systems in place to counter bribery. HNBF acts with fairness, transparency, integrity, and professionalism in its dealings with its business partners and suppliers. HNBF has an Assurance Framework made up of routine internal processes, the annual external audit, and the annual CBSL audit. In addition to these, a dedicated audit team established by a third-party conducts routine branch audits, covering the entire branch network at least once a year. The Company has a governance and oversight structure headed by the Board of Directors and seven Board-appointed subcommittees and several management-level committees.

HNBF is the only financial services institution in Sri Lanka to have been awarded the GIIRS (Global Impact Investment Survey) Platinum Rating (awarded in 2017), which the Company received for its efforts in promoting socially responsible lending through its microfinance business. HNBF has also received the highest ranking under the disclosure and transparency of information category by the Credit Information Bureau of Sri Lanka.

# Intellectual capital

For the year under review, HNBF did not directly or indirectly make any political contributions, financially or otherwise. HNBF did not receive any fines or have any sanctions imposed for non-compliance with laws and regulations.

## Culture

HNBF has a unique organisation culture based on transparent communications and ethical and compliant business practices. The Company interacts with its stakeholders based on the core values of InSPIRRE – Integrity, Social-consciousness, Professionalism, Innovation, Respect, Relevance, and Empathy. These are the values that HNBF employs to fulfil its core mission responsibly.

HNBF follows a top-down approach in establishing the culture of the Company. The Board of Directors promotes an ethical and responsible culture through policies and procedures that align with the Company's core values and business principles.

Formal, Board-approved policies and procedures are in place to support the Company's business culture setting the framework for employees to conduct themselves. Policies and procedures at HNBF include:

- The Code of Conduct for all employees
- The Code of Conduct and Governance requirements for the Board of Directors
- Whistle-blower Policy
- Anti-Money Laundering and Terrorism Financing Risk Policy
- Policy on Communication
- Policy on Managing Conflicts of Interest
- Procedures for Handling Related Party Transactions

### Priorities for the future

Technology systems that combine customised software with state-of-the-art hardware will be the main contributor towards developing the Company's intellectual asset base in the new financial year and will be leveraged to enhance the specialised skills and expertise available within the Company. New and better technology solutions will be deployed to enhance productivity, reduce costs, gain market share and grow the bottom line. A Digital Finance Services Unit will be set up to lead this transformation. These efforts will be supported by a strong island wide marketing and promotional drive to add to brand equity.

A priority for the new financial year will be to improve ICT security and proposals have been submitted by Auditors to strengthen security infrastructure.

In addition, improvements are being implemented to anti-money laundering solutions, as required by the Central Bank making HNBF an early adapter of AML in the finance companies sector.

A major project in the pipeline is for data warehousing with AI to consolidate multiple data sources into one point for data analytics and predictions. This will create systems where Management will have information in real time and will indicate patterns and trends to forecast market direction and to customise products. Robotics Process Automation (RPA) solutions will be introduced to manage the impairment process to enhance efficiency and speed of impairment management. Other in house improvements include a centralised asset management solution and comprehensive work flow solutions that will eliminate duplication and cut paper usage by 60-70% by 2023 and improve service efficiency.

The development of systems and processes is in line with HNBF's strategic planning process. In addition to business objectives, the values, ethics, and policies of the Company are also taken into consideration in the development process.

# PHYSICAL ASSETS THAT HNBF DERIVES VALUE FROM

## Manufactured capital

The manufactured capital base of HNBF comprises all types of physical assets that are used by the Company to undertake its business activities.

### HNBF's Manufactured Capital base in a nutshell

| | Cumulative investment in PPE (at carrying value) (LKR Mn.) | Branch network (Nos.) | Service centres (Nos.) | Gold loan centres (Nos.) | CAPEX incurred during the year (LKR Mn.) |
|---|---|---|---|---|---|
| 2020/21 | 2,687 | 60 | 10 | 48 | 147 |
| 2019/20 | 1,626 | 48 | 21 | 44 | 97 |
| Variance % | 65 | 25 | -52.3 | 9 | 52 |

### Activities undertaken to create manufactured capital

- IT hardware systems were upgraded
- Computers and other hardware for work-from-home model were purchased
- Branches and service centres were maintained
- Safety equipment and facilities were installed at branches and service centres
- Head Office branch was established

# Manufactured capital

As a commercial enterprise, HNBF does not own plant and equipment and manufactured products. The Company's manufactured capital is limited to premises housing HNBF branches and service centres, the Call Centre, vehicles, technology hardware, and office furnishings and equipment. These physical assets establish the physical brand presence of the Company in the market and facilitates interactions between the Company and its various stakeholders through physical outlets, mobility, communication channels and devices, and other infrastructure. Therefore, the manufactured capital base is integral for the delivery of value to and deriving of value from stakeholders.

Manufactured capital and financial capital are interrelated in that, it is the latter that enabled the acquisition of the former that is owned by the Company and both are shown in the Statement of Financial Position. The cumulative amount invested over the years in manufactured capital was LKR 2,687 Mn. as at 31 March 2021 at their carrying value.

## Branches and service centres

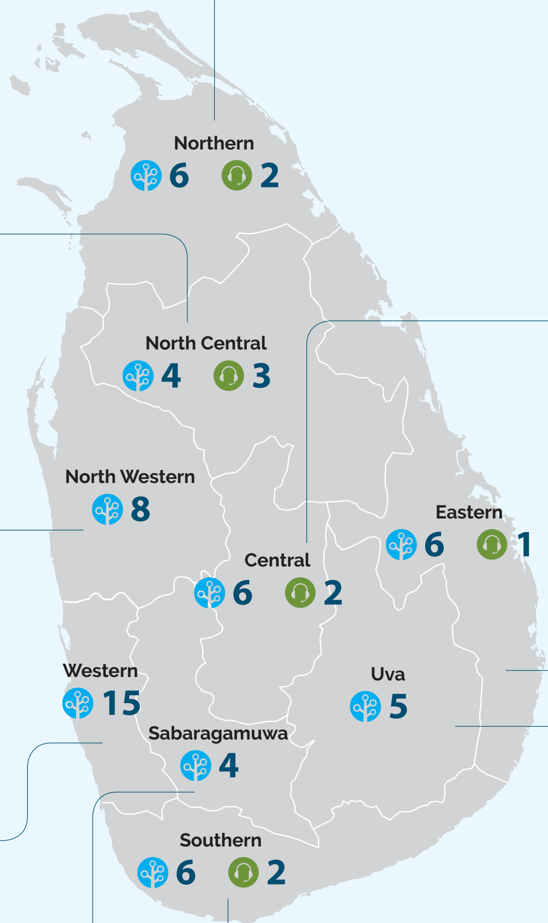
HNBF branches and service centres are the physical representation of the Company and display the HNBF brand in front of the building for market differentiation. They are also the main channel of service delivery to the public and are a channel to market existing and new financial products developed by the Company. In HNBF's case, the branches also accommodate microfinance meeting centres, acting as a community gathering point for microfinance recipients. Therefore, all HNBF branches are located in strategic points of the country and have been designed to establish brand visibility in the market. They are equipped with the latest ICT facilities to network with the head office in Colombo. During the current financial year, the networking infrastructure was further enhanced by deploying a SD WAN across the branch network for faster communications and better network security. Physical security is provided through security services providers to all branches and service centres to protect these assets and customer funds.

The branch and service centre network is distributed among 17 geographic locations. During 2020/21, 11 service centres were upgraded to branch status and a new head office branch was opened at the HNBF head office in Colombo. Following this upgrade of service centres, HNBF had 60 branches and 10 service centres operating by the end of the financial year.

Despite COVID-19 disruptions to branch activities, the branches and service centres were maintained in excellent condition throughout the year. With the upgrade in status from service centre to branches, these locations are now licenced to accept deposits from customers and have been equipped with the correct infrastructure to expand their service offering. As part of the national COVID-19 prevention drive, all branches and service centres have been equipped with sinks and sanitizers.

During the year, the total investment in branch and service centre maintenance came to LKR 187 Mn.

## Branch network




**Northern Province**
- Jaffna Branch
- Kilinochchi Branch
- Mallavi S.C.
- Mannar Branch
- Mullaitivu Branch
- Nedunkerni S.C.
- Nelliyady Branch
- Vavuniya Branch

**North Central Province**
- Anuradapura Branch
- Galenbindunuwewa S.C.
- Kekirawa S.C.
- Medawachchiya Branch
- Nochchiyagama S.C.
- Padaviya Branch
- Polonnaruwa Branch

**Central Province**
- Dambulla Branch
- Hatton Branch
- Kandy Branch
- Matale Branch
- Nawalapitiya Branch
- Nuwara Eliya Branch
- Rikillagaskada S.C.
- Walapane S.C.

**North Western Province**
- Chilaw Branch
- Galgamuwa Branch
- Kuliyapitiya Branch
- Kurunegala Branch
- Nikaweratiya Branch
- Norochcholai Branch
- Puttalam Branch
- Wennappuwa Branch

**Eastern Province**
- Ampara Branch
- Batticaloa Branch
- Dehiattakandiya S.C.
- Kalmunei Branch
- Kanthale Branch
- Pottuvil Branch
- Trincomalee Branch

**Western Province**
- Avissawella Branch
- Bandaragama Branch
- City Branch
- Gampaha Branch
- Head Office Branch
- Homagama Branch
- Horana Branch
- Ja-Ela Branch
- Kaduwela Branch
- Kalutara Branch
- Mathugama Branch
- Moratuwa Branch
- Negombo Branch
- Nittambuwa Branch
- Wattala Branch

**Sabaragamuwa Province**
- Balangoda Branch
- Embilipitiya Branch
- Kegalle Branch
- Ratnapura Branch

**Southern Province**
- Ambalangoda Branch
- Beliatta Branch
- Galle Branch
- Hambantota Branch
- Matara Branch
- Morawaka S.C.
- Pitigala S.C.
- Thissamaharamaya Branch

**Uva Province**
- Badulla Branch
- Bandarawela Branch
- Mahiyanganaya Branch
- Monaragala Branch
- Welimada Branch

Branches    Service centres

### HNBF Call Centre

The HNBF Call Centre is equipped with modern ICT facilities to communicate with both customers and HNBF branches.

The Call Centre operated continually throughout the year, and during the year LKR 4.2 Mn. was invested in equipment and maintenance of the Call Centre.

# Manufactured capital

## ICT hardware

Investments in ICT hardware increased during the year due to replacing older hardware and by purchasing new ICT equipment to be distributed among employees to work from home. Hardware that was about 5 - 6 years old was replaced with new equipment to enable capacity and performance improvements, and the entire hardware platform was migrated to the latest versions. With islandwide curfews declared, the Company also acquired laptops, tablets, dongles and other equipment to enable all employees to continue working from the safety of their homes. During the year ICT capital expenditure amounted to LKR 98.6 Mn., including both hardware and software.

## Priorities for the future

In the new financial year, the remaining service centres will be upgraded to branch status. In addition, a branch rationalisation exercise will commence where smaller operational points will be merged and/or relocated for greater efficiency. A new concept of HNBF City Centres will be introduced during the year, modelled on the Head Office Branch, which was set up in the current financial year, to target a new customer base of large corporates and urban populations and will primarily focus on business loans, leasing and gold loans. The proposed 8 City Centres will be located in strategic growth cities of Colombo, Gampaha, Wellawatta, Kotahena, Kiribathgoda, Malabe, Maharagama, and Piliyandala. Adopting a low cost model, the City Centres will deploy only eight staff members, but will target maximum market reach and large volume business. These plans entail further significant investments in the Company's physical asset base in the new financial year.

National COVID-19 prevention measures permitting, the branch network will also revert to its traditional role as the central marketing and promotional channel, and primary customer contact point for HNBF to expand market share islandwide. Therefore, investments into health and safety of employees and customers within HNBF premises islandwide will remain a priority.

HNBF listens to customers' feedback to understand their needs and preferences to make products and services simple and accessible. The Company strives to provide customers with the convenience and innovation that they expect from HNBF.

# HNBF'S MOST VALUABLE CAPITAL

The HNBF team was the unstoppable engine that continued business operations to overcome hitherto never before experienced challenges during the country's first COVID-19 outbreak year. The HNBF team, through its collective and individual skills, professionalism, adaptability and consideration for customers and Company, demonstrated the value of the Company's human capital base as an indispensable component of the Company's value creation process.

## Human capital

### HNBF's Human Capital base in a nutshell

| | Number of employees | Number of new recruits | Staff turnover ratio (%) | Investment in T&D (LKR Mn.) | Training hours per employee |
|---|---|---|---|---|---|
| 2020/21 | 1,851 | 165 | 7.91 | 5.5 | 6.9 |
| 2019/20 | 1,965 | 547 | 10.7 | 10.4 | 9.1 |
| Variance % | -5.8 | -69.8 | -26 | -47.1 | -24.1 |

# Human capital

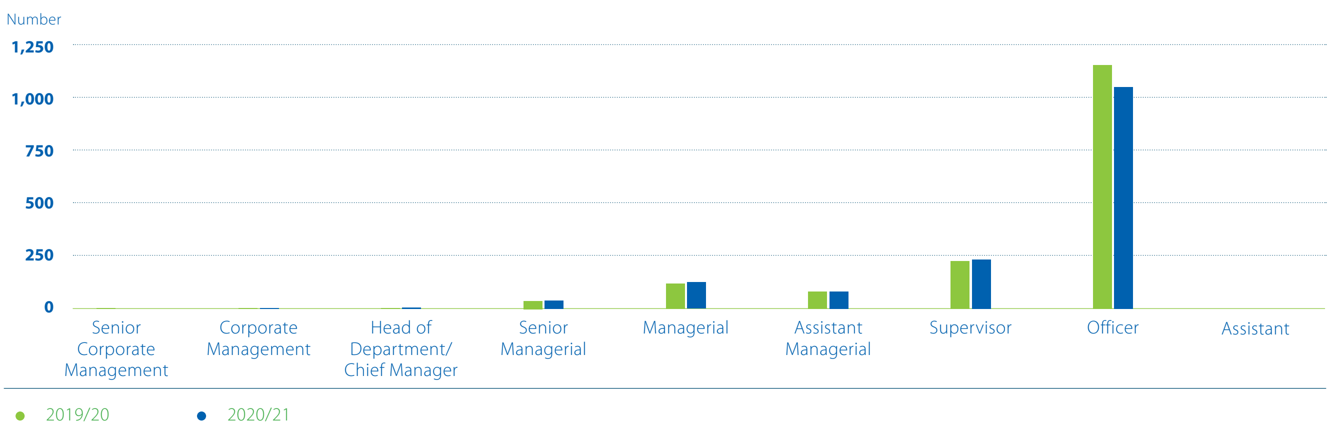
| Profit per employee (LKR) | Employee diversity (Male:Female) | Average service period per employee (Years) | Accumulated service period of employees (Years) |
|---|---|---|---|
| **(66,450)** 2020/21 | **11:1** 2020/21 | **6.0** 2020/21 | **11,657** 2020/21 |
| **214,002** 2019/20 | **12:1** 2019/20 | **5.3** 2019/20 | **10,429** 2019/20 |
| Variance % **-131** | | Variance % **13.2** | Variance % **11.7** |

## Activities to strengthen Human capital

- Continued training programmes to ensure continuous skill and capacity developments to meet new challenges
- Provided employees with technological infrastructure for uninterrupted work
- Clear reporting and communication structures were established, together with-up-to date operational parameters
- Educated employees on health and safety guidelines for employee and customer safety in the COVID-19 environment

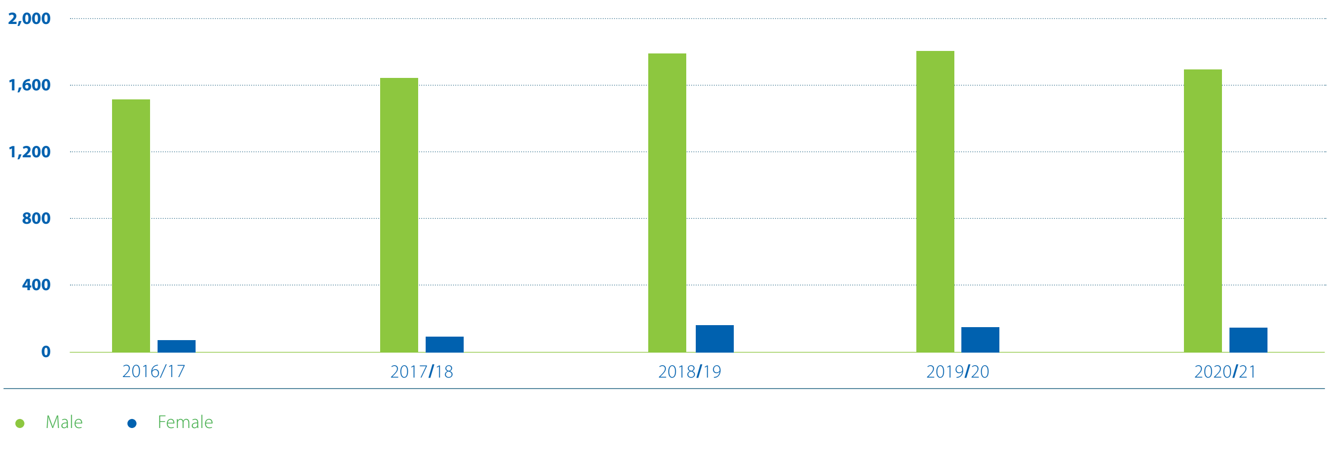
## HNBF employee profile

### Number of employees




| As at 31 March 2021 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | **2020/21** |
|---|---|---|---|---|---|---|
| Senior Corporate Management | 7 | 7 | 7 | 7 | 6 | **4** |
| Corporate Management | 5 | 6 | 7 | 7 | 7 | **7** |
| Head of Department/Chief Manager | 5 | 5 | 9 | 10 | 16 | **17** |
| Senior Managerial | 33 | 35 | 36 | 39 | 44 | **46** |
| Managerial | 96 | 111 | 134 | 140 | 145 | **148** |
| Assistant Managerial | 88 | 97 | 93 | 98 | 100 | **100** |
| Supervisor | 174 | 206 | 216 | 242 | 269 | **276** |
| Officer | 949 | 1,121 | 1,239 | 1,413 | 1,374 | **1,249** |
| Assistant | 5 | 6 | 5 | 5 | 4 | **4** |
| Total | 1,362 | 1,594 | 1,746 | 1,961 | 1,965 | **1,851** |

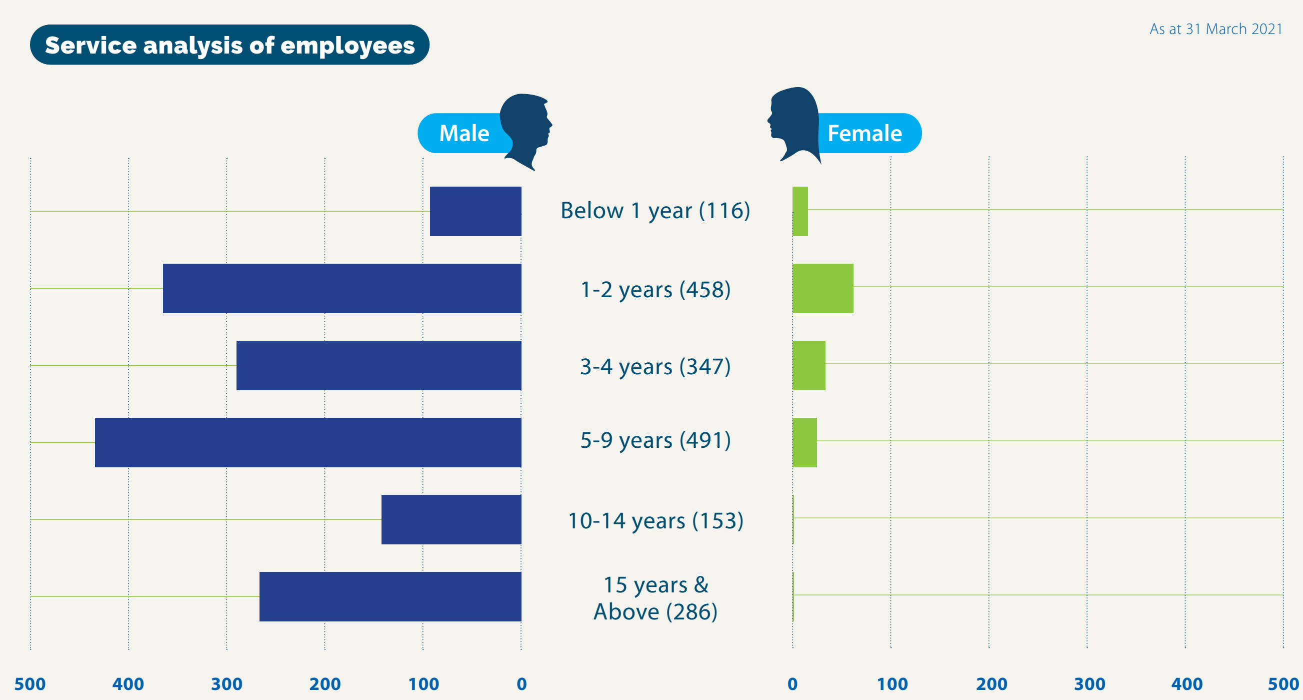
## Gender distribution



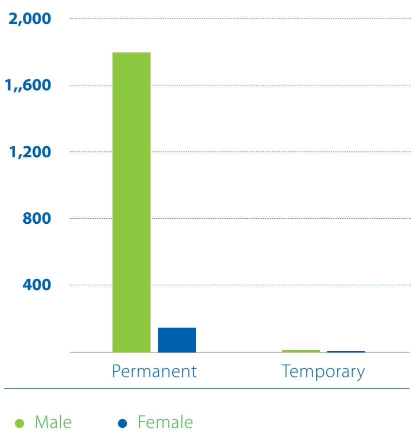

As at 31 March 2021

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | **2020/21** |
|---|---|---|---|---|---|
| Male | 1,521 | 1,650 | 1,798 | 1,813 | **1,700** |
| Female | 73 | 96 | 163 | 152 | **151** |
| Total | 1,594 | 1,746 | 1,961 | 1,965 | **1,851** |

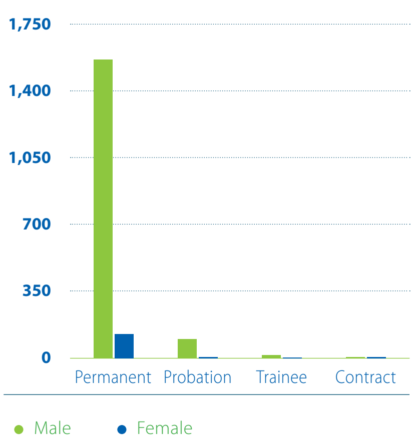
## Service analysis of employees



## Workforce by gender




## Workforce by employment type and gender




## Workforce by employment type

As at 31 March 2021

| Provinces | Permanent | Probation | Trainee | Contract | **Total** |
|---|---|---|---|---|---|
| Northern | 146 | 11 | 1 | 1 | **159** |
| North Western | 175 | 5 | 1 | 2 | **183** |
| Western | 562 | 38 | 6 | 12 | **618** |
| North Central | 147 | 9 | 2 | 1 | **159** |
| Central | 160 | 15 | 4 | | **179** |
| Sabaragamuwa | 107 | 7 | 0 | | **114** |
| Eastern | 133 | 12 | 8 | 2 | **155** |
| Uva | 115 | 4 | 1 | | **120** |
| Southern | 151 | 9 | 1 | 3 | **164** |
| Total | 1,696 | 110 | 24 | 21 | **1,851** |

## Key events

Human resource administration across the HNBF's island wide branch and service network, is managed as a centralised function through the Human Resource (HR) Department, which has oversight over all functions, activities, and strategies related to human capital.

The financial year 2020/21 was exceptionally challenging for HNBF's HR Department, as the year commenced minus traditional physical operations, due to COVID-19 containment measures imposed island wide. To ensure business continuity, while also enabling for the safety of all staff and customers, the HR Department coordinated closely with the Administration Department and the IT Department.

New procedures were developed and deployed to immediately effect a work-from-home model island wide, for all employees, facilitated by in-house IT solutions, to maintain continuous inter-communications among different staff grades, Management, branches and head office. Required IT equipment were distributed among the island wide HNBF team. New IT solutions were continually monitored and improved, to develop practical and user-friendly systems and processes that enabled an effective work- from-home model.

The HR Department understood that frequent and sudden lockdowns of different parts of the country would lead to income losses as salaries are linked to attendance. To address this disadvantage to employees in isolated and travel restricted areas, a system was implemented to report to work-from-home, without any additional cost to employees, or the Company. The HR system was improved with a facility to monitor employee activities and to monitor progress of allocated tasks.

# Human capital

**During the current financial year HR strategic priorities were:**

### 1. Employee safety:

Educating employees on health and safety guidelines, implementing and monitoring application of health and safety standards

### 2. Development and deployment of a work-from-home model:

This involved the development of technology solutions coupled with monitoring and supervision systems to facilitate an effective work-from-home eco-system for all employees across the country.

### 3. Employee motivation:

Maintaining employee morale and optimism through continuous communications, engagement activities and support systems, particularly for employees and families in COVID-affected parts of the country, was important to motivate employees.

### 4. Efficiency improvement:

HNBF's USP of service-to-the-doorstep could not be maintained due to travel restrictions, which had direct and significant impacts on revenues. Therefore, HR initiatives were used to contain costs while improving operational efficiencies, to support the bottom-line.

### 5. Training and development:

New skills and skill upgrades were considered essential to compete in the new post-COVID-19 new normal.

## Health and safety

Employee health and safety was a top priority during the year and the Company went above and beyond health guidelines to create safe work environments for all employees with the provision on all hygiene products and equipment.

In addition, all HNBF branches are equipped with mandatory safeguards and comply with national building safety regulations. Field staff who have to use vehicles such as motorcycles to conduct their work are outfitted with the requisite protective clothing and regular maintenance is conducted on vehicles.

Many new health and safety protocols and procedures, as stipulated by the health authorities, had to be communicated to employees all over the country, and enforced at all branches and service centres with regards to behaviour of employees and customers, while complying with national safety guidelines on what branches/service centres could be opened for business and on what dates, and how such locations could be manned with a skeleton staff.

Together with the Administration Department, all sanitary facilities such as sinks for handwashing, sanitisers, temperature machines, surface cleaners, face shields, gloves and face masks were distributed among branches/service centres and staff. When some remote branches could not acquire such items from local sources, HR had to obtain such items and ensure they were distributed in adequate volumes.

HNBF incurred a cost of between LKR 8-10 Mn. during the year to provide for employees and customer hygiene, which was a sharp increase in employee health and safety provisioning, compared to the previous year.

## Training and development

Employee training and skills development remained a high priority for the Company during the current financial year to equip employees with IT skills and other essential technical skills to face the new normal of the COVID-19 era.

## Product-wise Training

As at 31 March 2021

| Product | Number of employees | Duration (hours) | Total hours |
|---|---|---|---|
| Leasing, saving and FD | 318 | 20.5 | 608 |
| Micro finance | 323 | 14.5 | 500 |
| SME | 984 | 51.5 | 1,609 |
| Gold loans | 299 | 14.5 | 439 |

A majority of training programmes were conducted online with resource personnel sourced through Company connections. Online training events, while being equally effective, was more cost effective and helped lower the training costs. In total, 65 training events were conducted online, while only 15 physical training programmes were held. Altogether, 80 training events were held, out of which, 59 were conducted using internal resource personnel and 21 programmes sourced external experts.

# Human capital



## In-house/external training

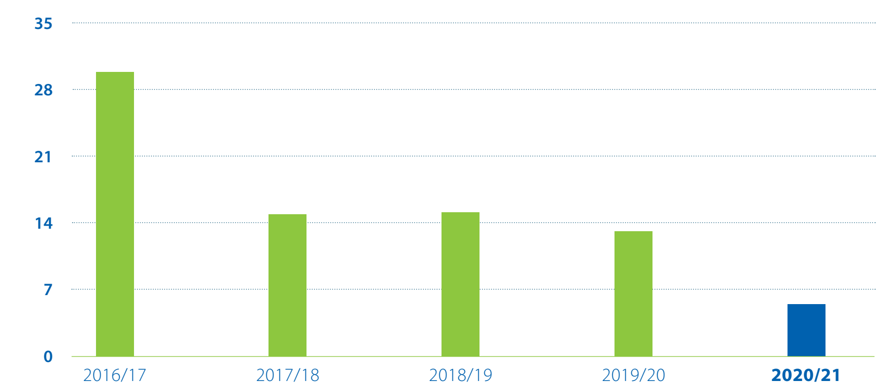
| As at 31 March 2021 | Number of training programmes | Duration (hours) | Total hours |
|---|---|---|---|
| In-house | 80 | 303.5 | 9,714 |
| External | 25 | 57 | 3,113 |

HNBF views the investment in the training and development of its human resources as an asset to both the Company and its employees as it helps to build up the individual capabilities of employees, which in turn contributes to fulfilling the strategic objectives, achievements, and long-term sustainability of the business. An annual training plan and budget is prepared based on the training requirements of all departments and branches and the results of the annual performance evaluation, and lays out the schedule of training activities for the year. HNBF uses an e-learning platform through which employees can take training courses about products and the Company. It is mandatory for new recruits to complete a knowledge assessment form on the platform upon their induction. The e-learning platform, along with various other training and development initiatives, has also greatly contributed to improved cost efficiencies, enabling HNBF to lower its annual training budget while addressing the training and development needs of employees. Employees can also request for specific training as part of an employee-requisitioned training initiative. These requests are reviewed on an individual basis by the HR Department.

## Investment in training

During the year HNBF invested LKR 5.5 Mn. on training and development. As a majority of the training events were held online, the programmes were short 1-2 hour events. However, employee feedback was obtained to improve the quality and relevance of the programmes.

## Investment in training




A total of 8,898 training hours were conducted compared to 36,350 hours in the previous year. However, participation levels were much higher during the current year at 4,429 compared to only 412 in the previous year, as the use of technology platforms made it possible to reach out to much larger numbers with no physical accommodation needs.

## Employee category-wise training

**Senior Corporate Management**

Number of employees
**105**

Duration
**21**

Total hours
**167**

**Managerial**

Number of employees
**2,713**

Duration
**208.5**

Total hours
**5,643.5**

**Officer**

Number of employees
**4,286**

Duration
**124.5**

Total hours
**6,573.5**

**Total**

Number of employees
**7,270**

Duration
**362.5**

Total hours
**12,826**

**Trainee**

Number of employees
**166**

Duration
**8.5**

Total hours
**442**

## Training partners

- Development Facilitators (Pvt) Ltd.
- Skill Power Training
- Wisdom Trainer International
- Sri Lanka Business Development Centre
- Sri Lanka Institute of Training and Development
- Institute of Bankers of Sri Lanka
- Central Bank of Sri Lanka
- The Finance Houses Association of Sri Lanka
- Sri Lanka Institute of Credit Management

## Staff Training

| Training Programme conducted | Number of Employees | Duration | Total hours |
|---|---|---|---|
| Central Bank of Sri Lanka | 5 | 11.5 | 14 |
| Gold Loan Division | 299 | 14.5 | 438.5 |
| HNB Finance (Internal Resource Persons) | 2,009 | 163 | 3,311.5 |
| HR Department/other departments | 1,229 | 114.5 | 3435 |
| ICT Department/BSD Department | 412 | 6.5 | 825.5 |
| Out Side Resource Person | 909 | 12 | 1,459.5 |
| Vision 8 Academy | 8 | 8 | 64 |
| HNB Finance (Digital Academy–Internal) | 1,479 | | 2,018 |
| SME Division | 118 | 1.5 | 177 |
| NIPE Institute | 197 | 3 | 295.5 |
| Employees Federation of Ceylon | 11 | 9 | 25 |
| Saru Training Institute | 316 | 2.5 | 384 |
| Life Skill Academy | 11 | 4 | 22 |
| Audit Division | 13 | 5 | 13 |
| Lanka Microfinance Association | 154 | 6.5 | 243.5 |
| Accounts Division (HNB Finance) | 100 | 1 | 100 |

## Training hours by employee by gender

As at 31 March 2021

| Type | Number of employees | Duration | Total hours |
|---|---|---|---|
| **Gender** | | | |
| Male | 6,760 | 355.5 | 11,887 |
| Female | 510 | 7 | 940 |
| **Total** | **7,270** | **362.5** | **12,826** |

## Special training programmes

As at 31 March 2021

| | Number of employees | Duration | Total hours |
|---|---|---|---|
| Health and safety | 209 | 16 | 371 |

## Recruitment

During the year new recruitments were halted, while efficiencies were improved through process and system improvements, including the incorporation of IT solutions.

Traditionally, the HR Department prepares an annual manpower plan, subject to approval from the HNBF Board, based on input from the different departments and branches of the Company. The plan accounts for the Company's strategic objectives and employee movements (promotions, transfers, retirements, maternity leave, etc.), as well as correcting for overstaffing and understaffing in departments.

Following the annual manpower plan prepared by the HR Department, HNBF sets about recruiting candidates who can fit within the culture of the Company and can potentially add value to the business through their self-development. Current employees are given the first opportunity to take on open positions within the Company before they are made public. The Company looks for potential recruits through a variety of methods.

HNBF keenly targets school leavers for sales positions as the Company invests heavily in developing them and grooming them to take on bigger roles in the future. School leavers undergo a three-month training programme to gain a better understanding about the industry and their role with HNBF, while the Company also identifies their skills and capabilities to find a good fit for them within Microfinance, SME, or Leasing.

For higher grades, the Company searches for candidates through websites like LinkedIn and TopJobs.lk, recommendations from current employees, and headhunting. As the Company continues to expand and diversify its offerings, it has looked to hiring candidates with relevant experience and qualifications that meet its requirements.

HNBF also has a policy of hiring locally whenever possible. The Company strives to have 90% of branch staff live within a 5 km radius.

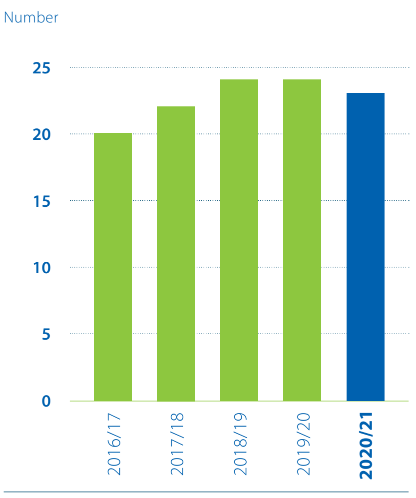
HNBF seeks potential recruits through a variety of avenues such as social media advertising, job fairs, recruitment websites, and campaigns at local schools across the country.

During the current financial year HNBF did not recruit new staff, instead opting to rationalise existing staff by adopting a replacement strategy, resulting in staff numbers decreasing by 114 between the 12 months of the year. The total workforce declined from 1,965 as at end March 2020 to 1,851 by end March 2021.

Replacement interviews for applicants were conducted through online platforms such as MS Teams and Zoom, which eliminated the difficulties and safety hazards of travelling to the head office to face interviews.

The average staff per branch declined from 24 in the previous year, to 23, while efficiency levels improved due to enhanced technology solutions applied across all operational aspects, which contributed towards cost and time savings and reducing wastage. Please refer the chapter on intellectual capital for further details on technology and process improvement solutions implemented during the year.

### Operational efficiency – Average staff per branch



## Equal opportunity employer

HNBF did not deviate from its policy as an equal opportunity employer and did not discriminate against any employee on grounds of gender, age, race, or religion. The Company takes a non-discriminatory approach to the recruitment process and every stage of the employment lifecycle. Equal pay is offered to both men and women in similar roles, and all employees are entitled to equal opportunities for their growth and development. A grievance process is in place should an employee report any case of discrimination with the aim of effective rectification of any such situation.

No incidents of discrimination were reported during the year under review. HNBF complies with all applicable labour laws and regulations and does not engage in child labour. The Company does not recruit anyone under the age of 18 for any of its operations.

## Turnover

HNBF has maintained a lower turnover than the industry experience, averaging approximately 1% per month. During the current financial year, despite the challenges faced by employees due to COVID-19 containment measures, the Company contained its total turnover to 156 men and women, compared to 211 in the previous year. Highest turnover levels continued to be in the below 30-years age group due to the high mobility of the age bracket.

HNBF goes to great lengths to train and develop its employees, which can pose a challenge to the business when a position is left vacant. It is therefore in the Company's best interests to build a strong relationship with its employees and compensate them fairly in line with industry standards.

### Employee turnover (Region-wise)

| Region | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | **2020/21** |
|---|---|---|---|---|---|---|
| Ampara Region | 11 | 8 | 11 | 9 | 22 | **7** |
| Anuradhapura Region | 12 | 10 | 10 | 7 | 8 | **11** |
| Badulla Region | 6 | 5 | 3 | 9 | 11 | **8** |
| Colombo Region | 14 | 13 | 10 | 13 | 8 | **1** |
| Dambulla Region | 9 | 11 | 15 | 8 | 14 | **7** |
| Galle Region | 7 | 7 | 9 | 9 | 13 | **10** |
| Gampaha Region | 8 | 12 | 6 | 7 | 13 | **8** |
| Hambantota Region | 14 | 4 | 13 | 6 | 10 | **6** |
| Jaffna Region | 5 | 14 | 12 | 11 | 9 | **10** |
| Kalutara Region | 4 | 10 | 9 | 11 | 23 | **7** |
| Kandy Region | 9 | 8 | 6 | 9 | 10 | **11** |
| Kurunegala Region | 8 | 15 | 5 | 4 | 8 | **5** |
| Puttalam Region | 8 | 11 | 10 | 11 | 10 | **9** |
| Ratnapura Region | 14 | 19 | 10 | 8 | 5 | **1** |
| Trincomalee Region | 6 | 6 | 9 | 15 | 15 | **18** |
| Vavuniya Region | 0 | 0 | 0 | 0 | 10 | **12** |
| Wattala Region | 10 | 11 | 17 | 7 | 5 | **8** |
| Head Office | 6 | 3 | 4 | 18 | 17 | **17** |

### Employee turnover (Gender-wise)

| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | **2020/21** |
|---|---|---|---|---|---|---|
| Male | 138 | 158 | 154 | 149 | 183 | **130** |
| Female | 13 | 9 | 5 | 13 | 28 | **26** |

### Employee turnover (Age group)

| Year | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | **2020/21** |
|---|---|---|---|---|---|---|
| Below 30 Years | 116 | 143 | 139 | 138 | 167 | **114** |
| 30–50 Years | 35 | 24 | 20 | 24 | 44 | **42** |
| Over 50 Years | 0 | 0 | 0 | 0 | 0 | **0** |

# Human capital

## Return to work and retention rates after maternity leave

| | 2019/20 | **2020/21** |
|---|---|---|
| Total number of female employees | 152 | **151** |
| Total number of employees who took maternity leave | 4 | **11** |
| Number of employees who returned to work after maternity leave ended | 4 | **10** |
| Number of employees who returned to work after maternity leave ended and still employed 12 months after their return to work | – | **–** |
| Return to work rate | 100% | **100%** |
| Retention rate | 100% | **91%** |

## Performance management

The performance of each employee at HNBF is monitored on an annual basis, with certain employees in departments such as Microfinance subject to monthly evaluations. Using the Management by Objective (MBO) methodology, the performance of employees is measured using quantitative and qualitative metrics which determine the progress they have made in five core areas: goals, competencies, key result areas, values, and additional accomplishments. Employees are encouraged to meet performance targets, with incentives provided for meeting monthly objectives where applicable. The benefits of HNBF's performance management system are twofold: it enables employees to realise their full potential within the Company, and for the Company, it helps to ensure that employees are treated fairly and equally and given every possible opportunity and advantage to perform at their best. If employees are unable to meet their targets, the Company analyses why they may not be able to do so and takes the necessary actions. For instance, an employee may not be able to perform optimally within his/her current working environment so they may be shifted to a different position or branch. Guidance in the form of training programmes may also be provided to help employees perform better.

## Succession planning

While the annual performance evaluation has historically been used to identify potential candidates for promotions, HNBF has shifted to the 9-Box model as a more structured method to encourage career growth for employees. This method sees each employee's performance measured against his/her potential and helps to facilitate succession planning at HNBF. Employees can track their performance on the internal HR system. In the new financial year, the succession management programme will be strengthened by identifying 50 emerging leaders for grooming. The selected candidates will go through continuous training and mentoring to fill in key positions within the Company, in the future, making a pool of trained and experienced personnel available to the Company at any moment. This in-house pool of competence will address business continuity risks and interruptions due to sudden vacancies.

## Remuneration and benefits

8 DECENT WORK AND ECONOMIC GROWTH

All employee benefits were maintained during the year to support and motivate the HNBF team. Employment benefits and minimum salaries were continued with no delays in payments and no reduction, to retain and motivate employees. Nevertheless, the cost per employee was contained at previous levels due to deferment of increments and the adoption of a rationalisation and replacement strategy, in-place of new recruitments.

HNBF offers its employees remuneration and benefits that are competitive with industry standards and comply with all applicable statutory labour laws. Some of the benefits that HNBF employees are entitled to include:

- Performance-based incentives
- Reimbursement for travelling, vehicle, and rent expenses
- Medical insurance cover for employees and their immediate family members and Critical Illness Cover
- Life and personal accident insurance cover
- Personal, mortgage, educational, festival, and vehicle loans/leasing facilities
- Benefits provided by the Welfare Fund (monetary contributions for childbirth, weddings, funerals, scholarships, etc.)
- Mobile phone allowance (data and voice)

## Welfare fund

HNBF maintains a Welfare Fund for the benefit of all employees, which is funded by a Company contribution and monthly voluntary contributions from employees. The Fund provides financial assistance to employees on special occasions such as marriage and childbirth, and also provides assistance during difficult circumstances such as funerals, natural disasters, hospitalisation, and funds for medical facilities such as for surgery. The Welfare Fund falls under the stewardship of the CEO and the management of a committee that is appointed every two years. The committee ensures adherence to Company policies and ethical guidelines in the disbursement of funds. The Fund is subject to an annual independent audit. For the year under review, a total of LKR 6.09 Mn. was disbursed to 256 employees for the following reasons:

- Death donation to parent/s
- Death donation to both mother and father-in-law
- Donations for wedding gifts
- Childbirth donation
- Staff death donation
- Medical treatment for staff members
- Medical treatment for family members
- House damages
- Grade five scholarship
- Flood damages

## Employee engagement

Employee engagement activities were migrated to online platforms wherever possible during the year and were designed to allow employees to connect and interact with each other. This was particularly important to motivate employees in isolated areas of the country.

HNBF views its employees as strategic business partners. To this end, the Company is committed to engaging and building a strong relationship with them. An open-door policy helps employees feel that they are heard and have access to top management at any time. Management teams are encouraged to regularly engage with their staff. A dedicated employee engagement officer is appointed to liaise between employees and Management and handle grievances. Employees are kept up-to-date with corporate information and news through email, SMS, and the *Mehevara* corporate magazine. Circulars and email campaigns are used to relay specific information to employees.

## Annual Night of Star

This is an annual employee recognition celebration, attended by employees representing all branches of HNBF. The fun filled and glamorous event is an occasion for employees to showcase their talents and receive official recognition for outstanding achievements at work. Employees are recognised for their achievements under several categories such as 'Best Executive', 'Company's Best Performer' and other annual employee recognition awards. The top performers receive certificates and trophies, together with cash awards.

## Great Place to Work award

HNBF was certified as a 'Great Place to Work' for the fourth successive year with a Bronze Award under the Extra Large Enterprise Category. The Great Place to Work certification involves an independent survey of employee opinions, including a Trust Index® Employee Survey and Culture Audit®, among others, to recognise companies that have excellent work environments. Companies receive awards exclusively based on unbiased employee feedback. HNBF participated in this evaluation process for the fourth consecutive year in 2020/21, to once more be named a Great Place to Work, demonstrating the exceptionally good work environment made available to its employees.

## Collective bargaining agreements

There are no collective bargaining agreements in place at HNBF. The Company is committed to building strong relationships with its employees on the grounds of mutual trust and respect and has policies in place to ensure that all employees are heard.

### Priorities for the future

HNB Finance will continue to migrate HR administration to more efficient digital platforms, to deliver an enhanced experience and service to all staff. Training will be conducted through online sessions via e-learning systems, thus facilitating the development of the Company's employees. The Company will also be focusing on improving employee retention by increasing employee engagement and motivation by re-introducing activities that could not be continued in the current year such as the IQ competition. New events have also been planned to engage employees and their families with the management through informal meetings such as a coffee and chat event via online platforms.

Employee motivation and engagement will remain a high top priority together with mechanisms to enhance efficacies. This includes introducing a performance-based remuneration system, where reimbursements for fuel and rent will also be linked to performance.

# RELATIONSHIPS THAT ENSURE THE SUSTAINABILITY OF THE BUSINESS

## Social and relationship capital

The value of relationships built over the years with customers, suppliers, and the communities was felt more than ever when overcoming the challenges faced by the Company during the year. The goodwill and trust associated with the HNBF brand and HNBF personnel, made sure HNBF customers and suppliers remained with the Company and returned for repeated business transactions, and diverse communities across the country supported HNBF personnel in discharging their duties.

### HNBF's Social and Relationship Capital base in a nutshell

| | Number of customers | Cross sell ratio (%) | Number of customer complaints | Number of suppliers | Total payments local suppliers (LKR Mn.) | Expenditure on CSR activities (LKR Mn.) |
|---|---|---|---|---|---|---|
| 2020/21 | 316,768 | 1.6 | 372 | 254 | 347 | 0 |
| 2019/20 | 258,346 | 1.6 | 268 | 57 | 421 | 0.8 |
| Variance % | 22.6 | – | 38.8 | 345.6 | -17.6 | – |

# Social and relationship capital

### Activities undertaken to create social and relationship capital

- Ensured the safety of customers and suppliers at HNBF premises at all times
- Deployed digital transaction mechanisms to provide uninterrupted customer services
- Provided multiple communications and engagement platforms
- Collaborated with business partners
- Improved capacity of SMEs
- Supported the community

## Supporting our customers

With deep roots in microfinance, HNBF has a long tradition of holding out a helping hand to men and women striving to achieve a better life. As the country experienced prolonged and widespread economic disruptions during the year under review following the emergence of the COVID-19 pandemic, HNBF remained true to its tradition of reaching out to those in need and supporting those in difficulties. Throughout the year, HNBF remained in close contact with its customers, by deploying award winning digital solutions for transactions and communications, while protecting the health and safety of customers. The full range of products and services was made available at all times to support entrepreneurs, individuals, families, and businesses, and new products, and customised solutions were developed to immediately respond to customer needs in the COVID-19 aftermath.

## A new microfinance model

HNBF has continued to preserve the original Grameen microfinance model and values, where credit is considered seed capital to create entrepreneurs. As at the end of the current financial year, the HNBF microfinance customer base grew to 195,000 customers with the active portfolio totalling LKR 12.5 Bn. Despite COVID-19 restrictions, LKR 12.5 Bn. was disbursed in microcredit during the year.

Microcredit is traditionally granted to women and even male entrepreneurs had to dependent on their wives to obtain such microfinance facilities. The group meetings, which were established as a monitoring mechanism, were an integral component of the Grameen model, making it compulsory for the women in the groups to attend meetings at a designated meeting centre, every week. The repayments were physically collected at the meetings in front of the entire group. The current financial year became a landmark year for HNBF's microfinance business, with the launch of a new microfinance model. Far reaching changes were introduced to the traditional microfinance model, to make it more accessible to more people. These changes include:

1. Extending the model to include men as recipients of microfinance;
2. Dispensing with the group meeting requirement and providing the opportunity to invest more time on the business they are involved in;
3. Simplified the product portfolio and created one product to cater to the requirements in the market, instead of operating two different products for women who are in a group, and for individual male applicants;
4. Deploying alternative payment mechanisms for loan repayment, including digital channels such as eZ Cash and mCash.

Instead of the centre concept, the new model uses a mini-group concept with a designated agent point for repayment. With COVID-19 restrictions triggering alternative payment platforms, already about 30% of microcredit repayments are channelled through digital mediums.

Therefore, the new HNBF microfinance model is more flexible and accessible and is expected to rapidly expand the microfinance portfolio in the new financial year.

## Customer support

During the current financial year, the Call Centre, which was traditionally a support service to operations, emerged as a central stakeholder engagement point, interconnecting internal and external communications. Operating for both inbound and outbound calls, the Call Centre operated 7 days a week during the COVID-19 lockdowns to provide an essential contact point for customers – with no physical risks, making it possible for HNBF to overcome travel restrictions. A wide range of services were provided ranging from customer inquiries, complaints, advisory services regarding the lending moratorium and its application, updating customers on their repayment status and contacting defaulters. The Call Centre also doubled as a marketing and promotional channel to inform customers of products and services. Maintaining a high level of efficiency, around 99% of the customer complaints were resolved within 48 working hours.

## Extending moratoriums

HNBF immediately took steps to extend the Government moratorium to all customers who qualified for, and requested the facility and also granted a second and a third moratorium too. Moratoriums were granted smoothly to customers, by utilising existing documentation and customers were not required to spend time on negotiating the moratorium, or to physically visit HNBF premises.

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# Social and relationship capital



## Extending gold loan services

Gold loan availability was extended further during the year, to 48 branches, to provide customers with a trusted source of funds for financial emergencies. During the year, gold loan disbursements totalled LKR 4.48 Bn. with the Vavuniya Branch accounting for the highest disbursement. As HNBF has the customers' best interest at heart, the gold loans are structured to be flexible, to allow the customer every opportunity to redeem their valuables. This customer welfare-based business ethic is evidenced in HNBF's exceptionally high rate of redemption of 99.41%, compared to the market average of 96.1%. As families and enterprises faced severe cash constraints during lockdowns, the HNBF gold loan services provided an invaluable service by facilitating fast access to funds, at an extremely reasonable rate of interest. Our exceptionally faster service delivery will reduce customer waiting time.

## Service centre upgrades

During the year, 11 more branches were upgraded from Service Centres to branches with Central Bank approval. The upgrade allows HNBF to provide a wider range of financial services including deposit taking, to customers in more remote parts of the country. This expands opportunities for formal financial services for more rural customers, who would otherwise have to travel further to reach such services, or would have to depend on informal financial services providers. A new Head Office branch was added during the year for specialised services specifically for corporate clientele.

## Alternate transaction facilities

Responding to the urgent safety needs under pandemic conditions, HNBF took immediate steps to open up digital transaction avenues for even its most remote and rural customers for their safety. Savings customers who previously used only passbooks were migrated to e-Statements and fixed deposit holders were updated on the status of their deposits through SMS messages, instead of a letter.

The mobile money and other digital repayment options which were available helped the customers to repay their loan instalments without visiting a branch.

Digital payment platforms allowed customers, particularly individuals, micro and small scale businesses, to easily utilise HNBF Gold Loans to repay their gold loan interest.

## Alternate marketing channels

As traditional physical marketing and sales activities had to be curtailed, digital channels were used effectively to notify customers of products and services and special offers, and to cross sell to existing customers, giving customers the opportunity to benefit from a range of financial services from a trusted provider. Social media platforms and SMS platforms were used to educate and engage customers, and also for entertainment and edutainment activities. In addition, mobile promotions were conducted using a vehicle with a PA system, to travel into interiors and raise awareness on HNBF products and services. The main focus was to raise awareness regarding the availability of business loans, leasing and gold loans, and social media was used for lead generation, which were disseminated to branches and sales teams, to bring the most suitable products to the customer at the right time.

## Safe customer engagement

Given the enhanced health and safety risks during the year, HNBF mobilised a customer engagement strategy using online channels. Ground level, physical customer engagements were minimised. Stringent branch level safety measures included setting up of wash stations, temperature checks and admittance of only 50% of total customers to a branch at any given time.

HNBF's digital customer engagement solutions were recognised at the Asian Banking & Finance Awards 2020, where the Company won as Website of the Year– Sri Lanka and at the SLIM DIGI Awards 2021 where the Company was recognised for superior Search Engine Optimisation and Search Engine Marketing.

The Company managed to bag the Grand Prix Gold Awards for the Most Admired Customer Engaged Brand (Sri Lanka) and the Social Media Brand of the Year in the Banking and Finance industry.

**Digital festivities:** The HNBF digital *Avurudu* platform, which included the auspicious times for New Year activities, games, facts regarding *Avurudu* traditions and other interactive facilities, was a great success and helped families in isolation enjoy the season in the safety of their own homes. Over 100,000 people actively participated in the digital *Avurudu* festivities demonstrating the reach of HNBF's digital channels. Winners of *Avurudu* games were announced and awarded prizes. The HNBF "*Ape Gedara Avurudu*" digital platform closed the year by winning international acclaim at the annual Vega Digital Awards 2020.

Following the success of the digital *Avurudu* festival, HNBF organised a digital Christmas event with online games and prizes. The Christmas Giveaway provided entertaining online challenges on the Company's Facebook and Instagram pages. Winners of the online challenges were awarded valuable prizes.

# Social and relationship capital

**Digital competitions:** HNBF's '*Hariyata Kiyamuda*' social media competition that was launched to coincide with the inauguration of HNBF's New Head Office branch in Nawala, saw thousands of participants. Participants had to guess where the next HNBF branch will be located, based on clues dissipated through Facebook and Instagram. Five lucky winners were rewarded from five different locations. The winners received their prizes at the respective HNBF branch in their locality, with strict adherence to Government health regulations imposed to curb the COVID-19 pandemic.


**Street promotions:** While ensuring the safety of customers, HNBF conducted a number of street promotions to bring its financial services close to customers, instead of waiting for customers to come to the Company. The street promotions allowed the public to access HNBF services without having to visit branches. All health and safety protocols were stringently observed when engaging the public. The HNBF teams visited customers and potential customers at their doorstep to bring financial solutions to get their businesses back on track after COVID-19 disruptions.

## Success stories

### Skilled hands

Kanthi's husband is a hereditary brass-maker manufacturing hand-made traditional brassware, using techniques and designs handed down for generations through his family. He has also benefited from formal vocational training at various Government and non-governmental institutions. The casts for the parts of individual brass items are hand-made and the melted liquid brass is poured into the cast. For a smooth finish, chemicals are used and the pieces are welded together. The inlays and carvings are now done by hand. As the final step, the item is polished to a high golden shine. It was Kanthi, who approached HNBF for their first loan, having been introduced to HNBF by a friend. She obtained a LKR 60,000 loan as her first credit line. Since then, the family business has grown, through a number of credit cycles.

"HNBF is a friendly, service-oriented company with a humane attitude towards customers. Compared to other companies, it is very people oriented. We know this because we have worked with other companies. HNBF comes to our doorstep and asks us what we need and gives their service in a way that is easy for us. I will recommend HNBF to anyone."

**Kanthi Jayamangala,** Pilimathalawa, Kandy

### Fans of success

Vasantha Kumari and her family live in Handessa, which is a village known for winnowing fan makers in Kandy. Making bamboo winnowing fans is the hereditary occupation of her husband's family. This traditional occupation is continued to this day. Bamboo shoots are harvested, on a permit by external parties, who sell the bamboo to the village. Like all the other families, Vasantha's family buys the bamboo, which is then spliced into thin, pliable strips that are sun-dried and treated into a pliable consistency. The family then weave the bamboo stripes into the traditional Sri Lankan winnowing fans. All told, it takes 4-5 days to make 1 fan. Her husband travels to distant parts of the country, in a hired van, to sell the fans.

"We have worked with HNBF for about 10 years. They have helped us a lot. They don't waste our time and they give us our money at the exact time we need it, so we can do our business smoothly. Now, we work only with HNBF. Even recently we got a loan and stocked up on bamboo."

**Vasantha Kumari,** Handessa, Kandy

# Social and relationship capital

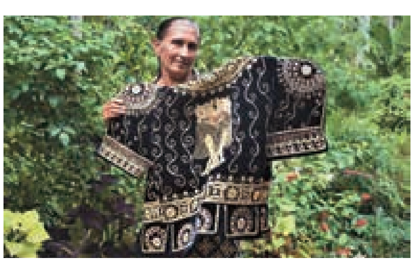


### Muthubanda's Quarry

Muthubanda who has been making his living from the granite business for over 20 years says –

"I've been running this quarry for about eight years now. When I wanted to get a business loan, I went to the nearest bank, but for several years now, the finance company I have been dealing with has been HNB FINANCE. The Saviya business loan scheme is a great comfort and strength to my business. I have 11 permanent employees in the business now. I should make special mention of the convenience of getting a loan from HNB FINANCE as well as of the convenience of repaying it. We have the facilities to repay the loan without any hassle through standing orders and modern technologies such as mCash and eZ Cash. For anybody who seeks success in life, I recommend joining hands with HNB FINANCE and getting the maximum benefits of the services they offer."

**Malaviachchilage Muthubanda,** Helamada



### Keeping traditions alive

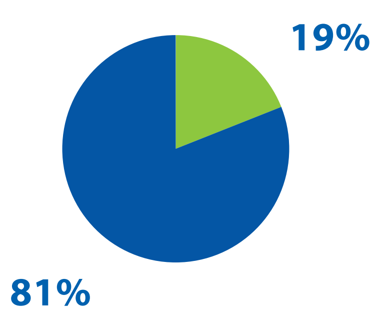
Making *Mul* clothing (traditional Kandyan clothing) is an industry that is unique to the upcountry, and the knowledge is limited to traditional upcountry costumiers. Mrs P V S Iranganie of Hindagala in Kandy represents the present generation of such traditional clothiers.

"I became a customer of HNB Finance a few years ago. I first took a loan of LKR 50,000, and then I took another loan of LKR 150,000. Ever since I went to HNB Finance to get my first loan, I have been greatly impressed with the way the Company and its staff have treated me, and whenever I think of a business loan, no financial institute other than HNB Finance comes to mind. I should make special mention of this: when I was about to lose some of my pawned gold jewellery, I told it to the officials of the Gold Loans Division of HNB Finance. They paid the money, and redeemed my gold jewellery. I think of HNB Finance not as a business entity, but as a place of our own."

**P V S Iranganie,** Hindagala

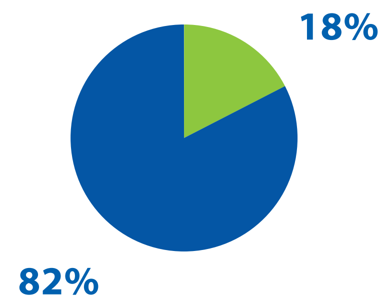
## Analysis of customers

### Fixed deposits analysis – Institutional vs. retail – 2020/21



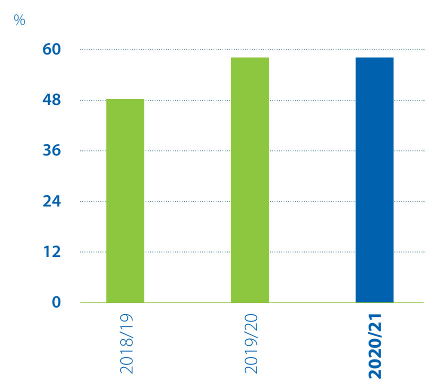

- Institutional – LKR 4.65 Bn.
- Retail – LKR 19.52 Bn.

### Fixed deposits analysis – Institutional vs. retail – 2019/20




- Institutional – LKR 4.37 Bn.
- Retail – LKR 19.59 Bn.

### Fixed deposits analysis – Average renewal ratio



## Product-wise analysis of customer base – 2016/17 to 2020/21

### Total (numbers)

| Product | 2016/17 | 2017/18 | 2018/19 | 2019/20 | **2020/21** |
|---|---|---|---|---|---|
| *Diriya* | 265,675 | 252,925 | 258,495 | 256,709 | **263,538** |
| *Divi Saru* | | | 398 | 3,608 | **2,973** |
| Easy | 4,680 | 7,537 | 9,732 | 9,058 | **6,543** |
| *Swashakthi* | 1,929 | 3,033 | 3,860 | 4,359 | **4,251** |
| *Saviya* | 34 | 225 | 551 | 900 | **1,026** |
| Relax | 74 | 229 | 357 | 397 | **343** |
| *Niwahana* | | 30 | 274 | 579 | **658** |
| *Nenasara* | | | | 3 | **3** |
| Supply Chain | | | | | **30** |
| Leasing | | 5,272 | 9,717 | 15,441 | **15,354** |
| Gold Loans | | | 1,151 | 16,534 | **21,090** |
| Cash Loans | | 386 | 380 | 361 | **333** |
| Staff Loans | 0 | 888 | 966 | 906 | **626** |
| Total | 272,392 | 270,525 | 285,881 | 308,855 | **316,768** |

### Active (numbers)

| Product | 2016/17 | 2017/18 | 2018/19 | 2019/20 | **2020/21** |
|---|---|---|---|---|---|
| *Diriya* | 226,670 | 213,427 | 217,246 | 206,200 | **198,581** |
| *Divi Saru* | | | 398 | 3,608 | **2,973** |
| Easy | 4,680 | 7,537 | 9,732 | 9,058 | **6,543** |
| *Swashakthi* | 1,929 | 3,033 | 3,860 | 4,359 | **4,251** |
| *Saviya* | 34 | 225 | 551 | 900 | **1,026** |
| Relax | 74 | 229 | 357 | 397 | **343** |
| *Niwahana* | | 30 | 274 | 579 | **658** |
| *Nenasara* | | | | 3 | **3** |
| Supply Chain | | | | | **30** |
| Leasing | | 5,272 | 9,717 | 15,441 | **15,354** |
| Gold Loan | | | 1,151 | 16,534 | **21,090** |
| Loan against FD | | 386 | 380 | 361 | **333** |
| Staff Loans | | 888 | 966 | 906 | **626** |
| Total | 233,387 | 231,027 | 244,632 | 258,346 | **251,811** |

### Fixed deposits (numbers)

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | **2020/21** |
|---|---|---|---|---|---|
| Number of depositors | 3,251 | 3,465 | 3,368 | 3,855 | **3,822** |

# Social and relationship capital



### Savings deposits (numbers)

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | **2020/21** |
|---|---|---|---|---|---|
| HNBF Savings Deposits | 49,427 | 52,917 | 70,446 | 86,277 | **95,768** |
| *Yalu* Savings Deposits | 75,028 | 78,005 | 88,194 | 95,821 | **99,450** |
| *Piripun* Savings Deposits | 2,430 | 2,693 | 4,067 | 5,115 | **5,710** |
| HNBF *Sureki* Deposits | – | – | 25,428 | 91,140 | **104,177** |
| HNBF Staff Savings | 1,962 | 2,056 | 2,644 | 3,110 | **3,269** |

### Digital channels uptake (customers who have migrated to digital channels) – 2020/21

| Average number of customers that used mobile money repayment methods for all 4 products during the last four months | Microfinance (average of last four months) | Business loans (average of last four months) | Leasing and gold loans (average of last four months) |
|---|---|---|---|
| **18,252** | **17,932** | **191** | **129** |

## Product portfolio

HNBF has developed a range of products designed to meet specific needs of identified customer segments. The products are classified under business: financing, leasing, and investment. All HNBF products have been carefully designed to comply with all applicable legal and regulatory frameworks relevant to the NBFI sector and no incidents of non-compliance with regulations and/or voluntary codes related to the health and safety impacts of products and services occurred, or were reported, during the year under review. During the current financial year, all precautions were implemented to ensure the safety of customers obtaining HNBF products and services.

### Microfinance

With a customer base of over 195,000, the Microfinance segment holds significant importance for HNBF. The target market is primarily low-income customers who reside in rural and suburban areas who are unable to fulfil the loan requirements of the banks and other financial institutions. HNBF strives to deliver knowledge about the market and other services to its customers with the intent of building long-term relationships with them.

HNB FINANCE
### Diriya

HNBF's flagship product and the most trusted microfinance solution in the market. It is available to men and women through a group, and even as individuals. Together with the microfinance solution, HNBF delivers the knowledge on operating a business and finding a suitable market segment to its customers.

HNB FINANCE
### Sahana

Interim loan facility available to *Diriya* loan customers who require urgent funding for consumption requirements.

### Business Loans

Products aimed at the SSE & SME segments are designed to fund short to medium-term capital. Based on the customer's credit and transaction history, HNBF grants loans based on their savings.

HNB FINANCE

## Easy Loan

A scheme aimed at male and female entrepreneurs, offering flexibility and long repayment periods.

HNB FINANCE

## Saviya

Aimed at SMEs who require financial assistance to develop their businesses.

HNB FINANCE

## Swashakthi

Aimed at HNBF's savings customer base to offer financial assistance.

HNB FINANCE

## Relax

Specially aimed at salaried individuals working for state institutions or private sector businesses.

HNB FINANCE

## Nivahana

The *Nivahana* Housing Loan facility provides customers the ease of building, or purchasing their own house or property, and improving and extending an existing property.

### Supply Chain Financing

HNB FINANCE

## Supply Chain Financing

HNBF SCF model is specially designed to optimise the cash flow of the customer's company. The process is designed to benefit both the buyer and the supplier. HNBF SCF provides a convenient, fast and secure service to our customers with the highest repayment period.

HNB FINANCE

## Leasing

Leasing facilities for your needs from a motorbike to the most sophisticated modern vehicle for new or registered vehicles.

HNB Finance has been offering leasing facilities for over five years now to finance a range of vehicles and machinery. It comes with flexible terms to match the unique requirements and cash flows of each lessee and personalised customer service.

The range of vehicles and machinery we currently finance include cars, buses, lorries, jeeps (SUVs), three-wheelers, tractors, and agricultural machinery. Our leasing facilities are available to purchase brand new or reconditioned vehicles as well as re-financing registered motor vehicles (sale and lease back) enabling our customers to fulfil their working capital requirements and urgent financial needs through our "Flexi Draft" facility.

Our island wide branch network, well-experienced leasing officers, minimum documentation, offer of easy payment plans and repayment methods such as e-Payments and online payments make it very convenient for customers to finance their leasing requirements from HNB Finance.

HNB FINANCE

## Gold Loan

A product launched in late 2018 and the product is gradually being rolled out to more branches. Through HNBF gold loans, customers can avail themselves of the highest gold values and loans provided at concessional interest rates with no service charges. The Company offers concessional instalment basis payments to settle gold items and customers can make partial payments of any amount at any time. Moreover, customers can settle gold items without having to give prior notice and collect gold items partially.

### Investing

Investment products are aimed at existing customers and employees and are available for new customers as well.

HNB FINANCE

## General Savings

Mainstream savings product that provides customers with an ATM debit card, enabling them to access their savings via HNB's island wide ATM network and HNBF's ATMs at Kurunegala, Kandy, Padaviya and Head Office.

HNB FINANCE

## Miyulasi

Savings product aimed at female entrepreneurs who are utilising the *Diriya* microfinance scheme.

# Social and relationship capital



HNB FINANCE
**Yalu**

Savings product aimed at children to encourage developing a savings habit by offering exciting rewards.

HNB FINANCE
**Sureki**

A savings product that rewards depositors for maintaining invaluable savings habits with a minimum deposit of LKR 50 a week. Specialised unique savings product to *Diriya* Microfinance Loan borrowers.

HNB FINANCE
**Fixed Deposits**

Long-term fixed deposits that offer HNBF customers higher interest rates as per the Central Bank Guidelines and assured guarantee for their funds.

## New products

HNBF reviews its existing product portfolio regularly against customer demands to improve product features and service standards and to also develop new products based on changing customer requirements. During the year, a number of products improvements were introduced together with new products.

A significant improvement to the product portfolio was implemented through a product rationalisation exercise, where some products with similar offerings were merged to allow better administration of the product portfolio and less product complexity for the customer. Two separate loan products Easy and *Abilasha* were merged under this programme, and *Diriya*, the main microfinance product, and *Divisaru* a credit line for individual customers, were also merged into one product with customisation options. Consequently, the three products under business loans – Easy, *Abilasha* and *Saviya*–have now been merged into one product.

To cater to the growing demand for non-traditional financial services from businesses, such as working capital, HNBF introduced supply chain financing with a maximum 120 days repayment period. This affords them the rare opportunity to maximise and profit off their production order to settle their outstanding finances in the meantime

Therefore, we are confident that the new supply chain financing facilities is a practical, strong solution that was carefully curated to create a win-win situation for both companies and suppliers to improve their cash flow in a sustainable, convenient and smart manner.

A new department called the Corporate Business Unit was established to design a bundle product, which will allow corporates to access a range of financial solutions for their business needs, through one product. This will be a new customer category for HNBF going forward.

The *Nivahana* Plus housing loan was introduced specially for customers of the Prime Lands Group, and will facilitate the purchase of housing and/or lands from Prime Lands at a special interest rate.

## Suppliers

HNBF has a large pool of suppliers providing a wide range of goods and services that are essential for uninterrupted business operations. Therefore, HNBF maintains regular communications and systems to ensure reliable supplies of goods and services. Established procurement systems and policies are in place to ensure ethical, transparent dealings.

### Fair and equitable procurement policy

HNBF has a fair and equitable procurement policy in place that requires at least three vendor quotations for all purchases above LKR 100,000 (excluding special requirements, such as furniture). Quotations are evaluated by the Company's procurement Management Team against benchmarks for cost, quality, and delivery. Further background checks are conducted to verify the authenticity of vendor credentials and financial background. A completely transparent process is followed for the procurement of ICT hardware and software systems or solutions, as expert advice is required in terms of evaluating requirements. The procurement process follows approval by the ICT Steering Committee and Internal Procurement Committee at Management level. In the event special procurements are required, it is referred to the Board ICT Procurement Committee for recommendation, and thereby referred to the Board for final approval.

### Supporting local suppliers

As a part of the Company's business model to support local and small-scale enterprises, HNBF has a decentralised procurement policy to purchase routine items including stationery, building maintenance, security, janitorial and tea services. This is to encourage procurement from suppliers local to each branch, thereby supporting local economies.

# Social and relationship capital

| | 2020/21 | 2019/20 |
|---|---|---|
| Total value distributed to suppliers (LKR Mn.) | **347** | 421 |
| Percentage of local suppliers (%) | **100** | 100 |
| Value distributed to local suppliers (LKR Mn.) | **347** | 421 |

## Leasing dealer branding programme

Leasing dealers were provided with co-branded name boards and signage, which assists dealers to promote their brand names FOC, while depicting and building strong partnerships with HNBF.


## Community engagements

As one of the country's oldest and largest microfinance services providers, HNBF has built strong community networks and relationships across the island. These networks are leveraged not only to disburse credit but are also used to educate communities and enterprises and to build support networks for HNBF customers. This community-based business model is central to the sustainability of HNBF's business, by creating public trust and support in the HNBF brand. Therefore, the Company regularly organises community-based projects to support local communities in diverse ways. During the current financial year, the line-up of community projects could not be continued as envisaged due to restrictions on gatherings and travel. However, new, relevant community welfare projects were immediately developed and deployed to support the health and safety of local communities under COVID-19 conditions.

## QR Codes for small businesses

The *Swashakthi*, savings-based lending product, sponsored the provision of QR Codes for business premises, which were displayed at the business premises. This encouraged business and customers to start using QR Codes and supported the national COVID-19 safety drive. The QR code is the Stay Safe Code from the Government to be displayed outside all business premises that can be scanned with a mobile phone, eliminating the need to write down contact details. The data is used to track the route of COVID-19 transmission.

## Partition for 3-wheelers

The main CSR project for the year, was a COVID-19 awareness programme that supplied polythene partitions (passenger safety screens) for three-wheelers, separating the driver and passenger to prevent possibilities of COVID-19 transmission during trishaw trips. The partitions provide safety for both the driver and the passengers. Three-wheeler drivers were also given medical grade face masks. The partitions contain dockets for the Government Stay Safe QR Code. The project was launched at the Mirihana Police Station Ground in Nugegoda under strict guidelines set by the Regional Medical Officer of Health and Public Health Officers. The three-wheelers were branded as educated on COVID-19 prevention protocols and awareness, so that passengers can identify them before entering the vehicle, to travel with their minds at ease.

Three-wheeler drivers were comprehensively briefed on the stringent health and safety protocols to be followed while carrying passengers. The awareness programme was attended by over 250 drivers who operate passenger vehicles in Nugegoda and suburbs. This was the first of a series of awareness campaigns conducted by HNBF's island wide branch network. During the year, HNBF extended this project to 1,000 three-wheeler drivers.


## Children's Day celebrations

HNBF celebrated Children's Day 2020 with educational events at two rural pre-schools in Maharambaikulam, Vavuniya and Dampe, Meegoda, with participation from parents, students and teaching staff. Sponsored by the popular *Yalu* children's savings account, the programme educated parents on how to better support their children's needs and held a fun and educational art workshop for children. School books and special educational kits were distributed among all students at the two pre-schools. The event was spearheaded by HNBF branches in Vavuniya and Homagama.

# Social and relationship capital



## HNBF Polonnaruwa branch anniversary

HNBF Polonnaruwa branch celebrated its 16th anniversary by successfully concluding an environment clean-up project along the *Parakrama Samudraya*.

## Contributing to *Itukama*

HNBF employees donated LKR 2.5 Mn. to the *Itukama* COVID-19 Healthcare and Social Security Fund. The '*Itukama*' project is a fundraising initiative for the COVID-19 Healthcare and Social Security Fund, which will address the critical healthcare needs brought on by the COVID-19 pandemic and improve Sri Lanka's long-term preparedness for health emergencies.

### Priorities for the future

In the new financial year, the focus will be on strengthening and developing the new microfinance model, to enhance value for existing and potential customers. To reach more rural entrepreneurs, HNBF is looking into society-based lending, which will channel credit to members of established rural societies, supporting their businesses. A customer rating and customer grading system will be deployed to channel specialised services to customers based on their growth requirements and also their credit history with HNBF. The Member Insurance Scheme for microfinance customers will be automated for insurance and claims, making claim processing faster and reducing paper consumption.

The VIP concept will also be extended to other HNBF products to reward loyal customers and to engage more closely with them to support their growth. VIP gold loan customers, that engage in large scale gold-based transactions, will be provided a more convenient and private service to ensure confidentiality of their transactions. A new product called Gold Dream will be introduced to facilitate gold purchases. This is to meet the growing demand for funds to purchase gold jewellery. Through Gold Dream, a customer can make a 30% down payment of the value of the item, which will be purchased by HNBF immediately and a loan facility will be opened to the customer. The article will remain with HNBF until the customer settles the loan amount.

As the country starts to recover from COVID-19 setbacks, HNBF will introduce new products to support businesses and entrepreneurs. A mechanism to provide specialised support for start-up businesses will be introduced that will provide end-to-end financial solutions, which includes not only financial support, but also business management and marketing support, for start-ups. Another new product will assist exiting businesses expand and grow to the next level.

These businesses may have started as micro enterprises but are now ready to upgrade and require careful financial planning to ensure sustainable expansion. A range of new loan products are also on the cards for the new financial year. These include personal loans for Government employees, auto loans under leasing and a personal loan facility which is three times the gross salary of the customer.

The island wide leasing dealer base will be developed by offering financial and promotional opportunities for their businesses. A strong marketing drive is planned for businesses and large-scale institutional customers with specialised leasing packages, coupled with continuous branch promotions and outdoor promotions.

New systems to track the Net Promoter Score and Customer Satisfaction Score will be implemented to understand customer loyalty and customer perceptions of service standards to address service delivery weaknesses and grow the customer base.

Savings customers will benefit from internet and mobile banking in the new financial year with credit card facilities. Internet and mobile banking activation will position HNBF on par with other financial services providers in the country, giving HNBF customers maximum convenience and value. A new savings product will also be introduced for LKR 10,000 deposits, to encourage customers to save during the uncertain COVID-19 environment. The HNBF tradition of personalised service and convenience, by visiting the customer at their doorstep, will be reintroduced, subject to health and safety guidelines, while also providing savings services through digital platforms.

Digital integration will remain a priority to facilitate greater customer convenience and accessibility. Therefore, existing products and processes will be continually reviewed for digital upgrades and customers and suppliers will be onboarded to digital platforms.

# TAKING STOCK OF THE NATURAL RESOURCES THAT HNBF DERIVES VALUE FROM

**Natural capital**

HNBF's natural capital base refers to the natural resources that underpin all our activities. They are essential for the HNBF and its staff for conducting the business.

**HNBF's Natural Capital base in a nutshell**

| | Energy consumption (kWh) | Water consumption ($m^3$) | Paper consumption (A4 bundles) |
|---|---|---|---|
| 2020/21 | 1,693,110 | 16,496 | 7,131 |
| 2019/20 | 1,973,585 | 14,560 | 11,063 |
| Variance | -14.2% | 13.2% | -35.5% |

### Activities undertaken to create natural capital

- Using a work-from-home model to reduce travel and resource consumption
- System improvements to cut printing and paper use
- Digitising manual processes to reduce travel, energy and paper consumption
- Environmental screening
- Use of renewable energy
- Switching to energy-efficient equipment and appliances
- Creating awareness about sustainable use of utilities

As a service provider, HNBF has a comparatively lower environmental impact than large scale manufacturers. However, the Company acknowledges its

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# Natural capital

responsibility towards conserving natural resources and minimising any negative environmental impacts that could arise due to its operations.

As HNBF expands its business activities, it seeks to achieve sustainable growth by becoming a "green company". Therefore, an Environmental Management Framework has been developed to reduce the Company's carbon footprint and contribute towards an environmentally conscious society. The Company's BPR exercise has contributed directly towards this objective by identifying duplication and waste and re-engineering systems to conserve natural resources.

## Work-from-home model

By transitioning all employees to a work-from-home model, HNBF was able to significantly reduce its environmental impacts compared to previous years. The number of employees travelling to and from work, was reduced, thereby reducing fuel consumption and emissions from travel and overall consumption of electricity and water at head office and branches also decreased.

## Digitising manual processes

As a financial service institution, HNBF was required to utilise large volumes of paper on a daily basis and obtaining approval signatures required extensive travelling. The BPR exercise has helped to digitise and automate exceptionally heavy paper consuming manual processes, which has generated significant cost savings while lightening HNBF's environmental impact. The Company hopes to transition all its processes online and create a paperless work environment in the near future. By digitising workflows, it is now not necessary to physically take documentation between branches and head office for signatures, thereby reducing fuel consumption, vehicle emissions and wastage of valuable staff time. With the integration of SLIPS and CEFTS, money transfers can be made directly to customers' accounts without having to rely on printed cheques.

Already internal communications are handled primarily via email and documentation processes associated with leasing and lending are being digitised. A Document Management System has been introduced to reduce paper usage by virtually eliminating the need for photocopies and physical storage of documents.

| Reduction in paper consumption (Units) | Printing costs (LKR Mn.) | Fuel consumption (Litres – Company vehicles only) |
|---|---|---|
| **1,793** | **18** | **5,717** |
| 2020/21 | 2020/21 | 2020/21 |
| **2,139** | **3** | **2,697** |
| 2019/20 | 2019/20 | 2019/20 |

## Green branch programme

The HNBF "Green Branch" programme was initiated to make its branches more environment-friendly through a variety of measures taken to reduce consumption of natural resources, such as energy and water, and adopting sustainable construction practices.

To reduce energy consumption solar power has been introduced in branches located in Company-owned buildings, thereby increasing HNBF's renewable energy footprint. Furthermore, regular maintenance of electrical equipment is undertaken to ensure optimal operation and reduce the risk of energy wastage. Finally, branches constructed on Company-owned premises are constructed according to globally accepted best practices for sustainable construction. Buildings will be designed to reduce reliance on artificial lighting by allowing for more natural lighting. Eco-friendly air conditioning systems and rooftop solar panels will also form an integral part of such "green buildings". The Puttalam and Anuradhapura branches are the first buildings to be built under this programme.

## Energy conservation

To contain energy consumption while expanding its branch network, HNBF has adopted energy conserving solutions such as LED lighting in all branches and electricity reduction targets as part of monthly KPIs. The Company also encourages employees through campaigns to be mindful of their energy usage patterns and use staircases instead of elevators whenever possible.

| Electricity consumption (kWh) | |
|---|---|
| **1,693,110** | 2020/21 |
| **1,973,585** | 2019/20 |

## Water consumption

HNBF's water consumption is limited to the utility purposes of its staff across the branch network and HNBF does not pollute water sources. The Company makes every effort to limit the wastage of water and promote conservative consumption wherever possible.

| | Municipal water supplies ($m^3$) | Water Board ($m^3$) | Other sources ($m^3$) | Total water consumption ($m^3$) |
|---|---|---|---|---|
| 2020/21 | **0** | **16,479** | **17** | **16,496** |
| 2019/20 | **540** | **13,705** | **315** | **14,560** |

## Waste management

Waste across the Company's branch network is segregated and handed to the local municipal waste disposal unit. The Head Office monitors daily food waste and displays this information in the canteen to encourage employees to be mindful of minimising their food wastage. The Company has also placed a strict ban on polythene. To encourage employees to cooperate with the ban, the Company provided employees with reusable metal lunch containers, thus contributing to the Company's commitment to reduce its usage of non-recyclable materials.

Non-Crumbling of recrement (polythene) (kg)

**363**

2020/21

Crumbling of recrement (paper and cardboards) (kg)

**347**

2020/21

Food of recrement (kg)

**3,017**

2020/21

# Natural capital



## Raising employee awareness

Through its paper saving programmes, and waste reduction programmes, HNBF has changed employee behaviour regarding natural resources and started to inculcate a conservation mindset. Employees are now consciously aware of wastage of natural resources and unnecessary consumption of paper and printing. HNBF also provides ongoing training to instil a green mindset in its employees and encourages them to submit ideas that can support the Company's efforts to reduce its carbon footprint.

## Responsible lending

As HNBF expands its portfolio of lending products and activities, the Company has integrated environmental concerns into its daily operations via the adoption of a triple-bottom line approach. Environmental screening is included in the SME lending model, which sees customers being evaluated based on the availability of valid permits, licenses, and approvals, thus ensuring that they are eligible to conduct environmentally sensitive businesses.

### Priorities for the future

The digitisation and automation drive will continue in the new financial year, thereby continually reducing wastage of resources and enhancing efficiencies contributing towards lowering the consumption of electricity, fuel and paper. The solar energy conversion will also continue as HNBF expands its branch network.

HNBF will continue to support environmental conservation projects within the communities it operates, thereby helping to create a greener environment.

As much as the Company has a social responsibility to support the communities it is a part of and help the disadvantaged, it also strongly believes that continued long-term value creation is dependent on the proper conservation of natural resources. Thus HNBF strives to look for ways to continually minimise its environmental footprint.

## Reengineering for tomorrow

Business process re-engineering (BPR) played a crucial role in HNBF's performance during the financial year 2020/21, by facilitating direct and indirect cost savings, coupled with efficiency and productivity gains. The BPR exercise which was commenced by HNBF in 2018, had been extended across all operations by 2020/21, thereby expanding the economic, social and environmental benefits accruing towards the Company, through a range of BPR initiatives. During the year, regular cost control meetings were conducted that enabled the Company to achieve significant savings through the successful implementation of various targeted cost containment measures across daily operational areas. The BPR team played the lead role in the cost control meetings by providing initiatives and strategies for cost savings and improvements. During the last financial year, with the involvement of the BPR team, the Company revised the projected budget and amended it accordingly aiming to save costs. This led to a cost-saving of LKR 379 Mn., compared to the prior year actual expenses.

**BPR earnings (LKR Mn.)**

**60**

2020/21

**40**

2019/20

BPR earnings growth

**50%**

**Cumulative BPR earnings (LKR Mn.)**

**100**

(as at 31 March 2021)

**Total Company savings including savings via the Cost Control Committee (LKR Mn.)**

**379**

2020/21

## 1.

### Reducing costs of operations:

The BPR exercise targets each line item of the Company's Profit and Loss statement with specific strategies to control costs. These strategic cost containment measures have been operationalised and are reviewed continuously for improvements and enhanced gains. In order to reduce costs, strategies were implemented under each Profit and Loss line item. These savings were achieved from cost saving measures targeting the expenditure categories of administration and related expenses, fee, commission and other expenses, document related expenses, maintenance and related expenses, marketing and promotional expenses and professional and related expenses.

## 2.

### Enhancing operational efficiency:

Enhancing operational efficiencies is a key component of the BPR exercise and has been implemented through extensive and ongoing reviews of all activities of the Company. The innovative mechanism was introduced which enabled staff to deposit collections directly to an account without physically visiting a branch office, and strategies to reduce turnaround time, have significantly boosted efficiency of operational processes. This strategy was extremely advantageous for the Company during the COVID-19 containment measures as it facilitated uninterrupted daily operations.

## 3.

### Minimising wastage:

By eliminating duplication, identifying redundancies and targeting wastage the BPR exercise has contributed towards the establishment of a streamlined and more cost efficient business model. Following the commencement of the BPR exercise significant savings have accrued by minimising wastage in daily resource consumption within the Company and its branches. The implementation of systems which have been designed to reduce unnecessary paper consumption and unnecessary printing, have contributed towards major savings on document and stationery related costs of the Company. These initiatives have also contributed towards minimising employee time wastage. The BPR process will continue to focus on targeting wastage in every aspect of the HNBF business model, from both a quantitative and qualitative perspective.

## 4.

### Enhancing employee productivity:

BPR initiatives have been successfully harnessed towards enhancing employee productivity across the HNBF Head Office and branch network, with the objective of human resource maximisation across the Company. The BPR team analyses a selected job function and redesigns the job function to match the process and to achieve operational excellence. This is continually monitored to effect further improvements. While a range of productivity enhancement measures have been instituted through changes introduced by the BPR process, a noteworthy initiative during the current financial year was the system of direct account collections, which enabled staff to utilise time that would have otherwise been spent on visiting the Company offices, to focus on business growth related activities.

## 5.

### Improving work-life balance of staff:

Improving the work-life balance of employees is an aspect of the BPR exercise which is aimed at reducing stress of employees while creating a more efficient work environment. Through the BPR process timely functioning of all branches was strictly adhered to, which has contributed towards improvements in the work-life balance of staff. Due to the reduction of duplicate work, branches that had to work for a considerable number of hours after closing hours, were able to close on time. This has made it possible for staff to allocate more spare time to spend with their families.

## 6.

### Digital transformation:

BPR contributed as a major stakeholder in the implementation of digital projects, along with other teams. Significantly, digitisation activities not only digitalise manual activities but also analyse the process and identify areas where technology initiatives are needed to streamline and enhance process efficiency.

## Operational level improvements introduced

Following a workflow mapping, major business sectors of micro, leasing, business loan have been streamlined to eliminate duplications and to achieve faster turnaround times.

A separate credit department and credit administration department were established to improve business efficiency through centralised approvals and administration of credit. This has contributed directly towards credit quality improvement during the year, and containing NPL expansion.

## Productivity enhancement initiatives

Workflow mapping has enabled optimum staff deployment addressing redundancies across functions and minimising the requirement for new recruitments. Through the workflow mapping exercise the BPR function has also developed a list of staff found to be in excess of actual requirements, or has spare capacity in branches and Head Office departments. Therefore, during the current financial year new recruitments were minimised, opting instead, for a replacement and redeployment strategy, that resulted in savings on personnel costs.

## Digitisation progress

The BPR team worked closely with the IT Department and Business System Development Department in order to identify systems and processes that could be migrated to digital platforms, how new technologies can be utilised to reduce manual work and create a paperless work environment. During the past two years a number of digital transformation projects were successfully implemented, that have directly contributed towards operational efficiency enhancements.

### BPR plans for the future

Some projects in the pipeline for the new financial year include:

1. **Continuous efficiency improvements:** In the new financial year, the BPR unit will focus on reducing the turnaround time of loan products, to reach the targeted disbursements for each month, while enhancing the quality of loans.
2. **Continuous cost savings:** The BPR team evaluates all strategies of the last year and cost initiatives and their success, and carry forward successful strategies and add new strategies for future cost saving goals.
3. **Maximise staff productivity:** The back office to front office staff deployment ratio will be further improved.
4. **Managing recruitment:** Recruitment will be rationalised using a minimum staff plan to achieve the Company's objectives and profit targets.
5. **Introducing Service Level Agreements (SLAs):** SLAs will be introduced for workflow management and process maps will be revised. Already 80% of the process mapping has been completed and 100% of loan products process mapping has been concluded.
6. **Build a lean culture:** Implement a yellow belt system in 2021 with a 100 member team for large cost saving projects. Projects will be evaluated on a competitive basis and winning teams will be rewarded.
7. **Expand the Lean Six Sigma Knowledge Base:** Currently, staff are aware of the basic Lean Six Sigma methodology but this will be expanded further, while conducting more programmes.
8. **Continue the digital transformation journey:** Continuously review these activities to ensure that the benefits are realised as expected. Areas for further technology development will also be identified in order to minimise wastage and increase efficiency.
9. **Continuous revisions to business processes:** All existing process will be continually revised and changed, in order to align with industry expectations and customer expectations.
10. **Focus on improving quality:** Strategies will be implemented from every aspect, to improve quality, while improving the current efficiency levels. These would include strategies to improve quality of documents, recoveries etc.

# SOUND LEADERSHIP AND GOVERNANCE

GOVERNANCE

## Board of Directors

**Mr Jonathan Alles**
Chairman/
Non-Independent, Non-Executive Director

An experienced banker counting over 34 years in the industry with experience in both international and Sri Lankan Banks, within the country and overseas. Holds an MBA from the University of Stirling, UK and is an Associate Member of the Institute of Bankers of Sri Lanka.

Mr Alles is the Chairman of HNB Finance Plc and Acuity Partners (Pvt) Ltd., Managing. Director/CEO of HNB PLC and a Director of Lanka Financial Services Bureau Ltd., Lanka Ventures. PLC, LVL Energy Fund, Lanka Clear (Pvt) Ltd., Sri Lanka Banks' Association, and Lanka Clear (Pvt) Ltd. Appointed as the Chairman of Asian Bankers Association for the period 2018-2021.

Mr Alles is a dynamic Banker and a corporate leader; he has contributed to HNB's macro development with the Bank now operating through 253 customer centres, using cutting edge technological platforms and enabling a new paradigm in Sri Lanka's banking culture. Under his leadership, HNB has received recognition from numerous international and local institutions and continues to set new benchmarks in the Sri Lankan banking industry.

**Mr B M D C Prabhath**
Managing Director/CEO, Executive Director

Mr Chaminda Prabhath is qualified in both finance and marketing, and has experience of over 28 years in the private sector. He holds a Master's Degree in Business Administration (Sp. in Finance) from the University of Southern Queensland, Australia and he is a Fellow Member of the Chartered Institute of Management Accountants [FCMA (UK)]. He is a Member of the Chartered Institute of Marketing (MCIM) and is also a Certified Management Accountant of the Institute of Certified Management Accountants of Australia (CMA, AUS). He was awarded the Lean Six Sigma Black Belt (CLSSBB) from Dr Mikel J Harry Six Sigma Management Institute Asia. He also holds a Postgraduate Diploma in Business and Financial Administration from The Institute of Chartered Accountants of Sri Lanka. He is an internationally certified microfinance expert from the Frankfurt School in Germany and also a winner of the prestigious award "Game Changer of the Year 2014" from World Consulting and Research Corporation (WCRC), India, awarded in recognition of his contribution to the microfinance industry in Sri Lanka.

**Mr Anushka Wijesinha**
Independent Non-Executive Director

Anushka Wijesinha is an economist specialising in trade, competitiveness and innovation, with experience in Government, private sector and think tanks. He consults for international organisations in Sri Lanka, Myanmar, Pakistan, and Maldives, including the International Trade Centre (ITC), UNCTAD, and USAID. Formerly he held a senior position in the Government of Sri Lanka as Advisor to the Minister of Development Strategies and International Trade, where he led initiatives on trade competitiveness, export diversification, innovation, and investment promotion.

In the private sector, he serves in a non-executive capacity on the Boards of Seylan Bank PLC, Fairfirst Insurance Ltd., HNB Finance PLC, Capital Alliance Investments Ltd., and he chairs the investment commitment of a high net-worth family office. Anushka also serves on the Board of the Sri Lankan chapter of the Global Entrepreneurship Network.

He has served on the World Economic Forum's Global Future Council on Innovation Ecosystems. Until recently he also served on the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka.

Anushka holds a Masters in Economics from the University of Leeds, BSc in Economics from University College London, and is an alumnus of the Harvard Kennedy School's "Leading Economic Growth" executive programme. He has worked in South Korea as an Asia Foundation Development Fellow.

He is passionate about wildlife, travel, development-oriented photography, and cycling.

# Board of Directors

**Dr Udan Fernando**
Independent Non-Executive Director

Dr Udan Fernando is Head of Colombo Charter of the Asian Civil Society Research Network, based in the Asia Centre, University of Melbourne. Until March 2020, he was the Executive Director of Centre for Poverty Analysis (CEPA), a Colombo-based Think Tank. He has also held leadership positions in the Sri Lankan development organisations and also served as a Guest Researcher at University of Amsterdam, Senior Consultant of Context International, Netherlands. Dr Fernando, who focuses on areas of development cooperation and aid policy, has worked in Sri Lanka, Europe, East and West Africa, and South East Asia. Dr Fernando is also a visiting academic at the Open University of Sri Lanka. He holds a PhD in International Development Cooperation from the University of Amsterdam. His specialisation at Bachelor's and Master's level has been Law, Economics, Management, and Labour Studies.

**Mr Hasitha Wijesundara**
Independent Non-Executive Director

Mr Hasitha Wijesundara is an International Consultant in Trade and Private Sector Development. Currently, he is attached to Deloitte Consulting Overseas Projects LLC and performs as the Team Leader – Trade, in the USAID funded Partnership for Accelerating Results in Trade, National Expenditure and Revenue (PARTNER) Activity. He counts over a decade of experience in SME development, policy matters, micro/ SME finance, trade facilitation, regulatory issues, social performance management, and inclusive finance. He holds a Master's Degree in Economics from the University of Colombo, a Bachelor's Degree in Laws, and a Bachelor's Degree in Science. He also has fellowships with several local and international professional bodies. He is an Attorney-at-Law of the Supreme Court of Sri Lanka since 2009. Mr Wijesundara is an accredited trainer of microfinance and SME finance certified by reputed international bodies such as the Frankfurt School of Finance and Management, Germany, and CGAP based in Washington DC, USA. Mr Wijesundara serves as a senior trainer under the YouLead programme and thus far trained over 350 senior-level bank officials on SME Finance topics. Further to that, he serves as a Visiting Senior Lecturer at several universities and higher educational institutions in Sri Lanka. In addition to his experience within Sri Lanka; he has hands-on experience regionally. Being a team member of appraisal missions for the Sustainable Regional Economic Growth and Investment Programme (SREGIP) in Indonesia and the Promotion of Green Economic Development (ProGED) Programme in the Philippines, he contributed to the project design and shaping-up. He is conversant with the financial systems and SME development issues in India, Bangladesh, Myanmar, Cambodia, Malaysia, and Pakistan and is involved in numerous consultancy assignments overseas.

**Mr Rajive Dissanayake**
Non-Independent Non-Executive Director

Mr Rajive Dissanayake counts nearly two decades of experience covering banking sector and capital markets. He currently serves as the Chief Financial Officer of Hatton National Bank PLC. In addition to being on the Board of HNB Finance PLC, Mr Dissanayake is also a Director of Acuity Partners (Pvt) Ltd. and Lanka Venture PLC. He currently chairs the Board Audit Committee while also being a member of Strategic and Investment Review Committee of the Company. Mr Dissanayake also chaired the Board Integrated Risk Management Committee of HNB Finance until May 2021.

Mr Dissanayake is a CFA Charter holder, a Fellow Member of the Chartered Institute of Management Accountants (UK) and a Chartered Global Management Accountant. He also holds a Bachelor's Degree in Business Administration from the University of Colombo.

# Board of Directors

**Mr Mahinda Perera**
Non-Independent Non-Executive Director

Mr Mahinda Perera is a Commercial Lawyer and counts many years of experience in advising on Commercial, Corporate, and Employment Law as well as on compliance and regulatory aspects. He also provides financial and business consultancy services to clients in the corporate sector. In addition to being a qualified Management Accountant [FCMA (UK), CGMA], he has obtained a LLB from the Open University of Sri Lanka and an MBA from the Postgraduate Institute of Management, Sri Jayewardenepura University. He counts over 30 years of professional experience in the fields of finance and operational management in the commercial sector holding senior positions in management including Chief Executive Officer of several listed and unlisted companies. At present, Mr Perera is a Non-Executive Director of Prime Finance PLC. He was appointed to the Board in September 2017.

**Mr Kovinda Gimnada Perera**
Non-Independent Non-Executive Director

Mr Kovinda Gimnada Perera has been appointed to the Company's Board of Directors as a non-independent, non-executive director, effective from 10 December 2020. Mr Perera, a graduate from the prestigious Imperial College of London is a highly qualified strategist, who has demonstrated experience in the fields of Real Estate, financial projection and bespoke investment advisory. He is currently the Head of Strategy and Business Development at Prime Group, Sri Lanka's foremost Real Estate conglomerate. Mr Perera is also actively involved in the Group's foreign market arena where he plays a pivotal role in consultation.

**Mr Ruwan Manatunga**
Non-Independent Non-Executive Director

Mr Ruwan Manatunga was appointed as a Non-Independent Non-Executive Director of HNB Finance PLC with effect from 15 February 2021. Mr Manatunga is the Chief Risk Officer/ Deputy General Manager of Hatton National Bank PLC. He has a wealth of experience spanning over two decades in the banking and finance services sector. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants of the United Kingdom.

## Our Corporate Management Team

**B M D C Prabhath**
MD/CEO

**W S P Arangala**
Chief Operating Officer

**Ruwan Fernando**
DGM – HR and Administration/CHRO

**Bimal Seneviratne**
DGM – Operations

**Kamal Priyanga**
AGM – Administration

**Mahinda Tissa**
AGM – Micro Finance

**Pathum Sampath Cooray**
AGM – Branch Network

**Prabath Kathriarachchi**
AGM – Branch Network

**Pradeepa Dias**
AGM – ICT/CIO

# Our Corporate Management Team

**Chandra Bhanu Wijayaratne**
AGM – Risk

**Thushara Wijewardena**
AGM – Credit

**Luxman Eraj**
Chief Manager/Head of Business Loan

**Sujith Kumara**
Chief Manager/
Head of Recoveries

**Anura Udawatta**
Head of Training

**Harshana Prasad Kulathilaka**
Chief Manager/
Head of Corporate Planning

**Lalanga Senaweera**
Head of Internal Audit

**Shanaka Rameish Lanka Perera**
Chief Manager/Head of Product Development and Corporate Business

**Ushan Hapuarachchi**
Senior Manager/Head of Business
Process Re-engineering

# Our Corporate Management Team

**Manjula Kumara Munasingha**
Head of BSD

**Sameera Chandranath Gunasekara**
Chief Accountant/Head of Finance

**Dishan Andrew**
Chief Manager/Head of Fixed Deposits

**Amila Gunawardana**
Chief Manager/Head of Compliance

**Chamara Tharanga**
Chief Manager/Head of Legal

**Lakshman Ranasinghe**
Chief Manager/Head of Gold Loan

**Udara Gunasinghe**
Senior Manager/Head of Marketing

**Indrajith Rajakarunaratne**
Senior Manager/
Head of Credit Administration

**Rangana Shamil**
Senior Manager – Leasing

# Governance report

## Statement of Compliance

At HNB Finance PLC, we believe that the highest standards of Corporate Governance are vital to warrant the trust of our valued stakeholders, which in turn is crucial for maintaining the solid performance of the Company. These standards are captured in our governance framework, policies and documents, and compliance highlights which are detailed in this report.

The Board of Directors of the Company wishes to confirm that the Company has complied throughout the year with the mandatory provisions on corporate governance such as Finance Companies (Corporate Governance) Direction No. 3 of 2008 as amended and Listing Rules of the Colombo Stock Exchange, to the extent hereinafter disclosed in this report.

## Governance Philosophy

Good governance practices result from the dynamic culture and positive mindset of the Organisation and thus, remain integral to the way HNB Finance PLC (HNBF) operates. This is well demonstrated in the good credit ratings, shareholder returns, governance processes and the entrepreneurial performance focused work environment at HNBF.

HNBF firmly believes that the essence of corporate governance results in promoting and maintaining responsibility, accountability, transparency and impartiality at all levels of the Organisation.

Corporate culture is based on an organisational environment where sound governance practices have become a way of life in daily operations for each member within the Company. This encompasses four key practices instilled into the Company strategy.

- Compliance with the law and commercial legitimacy,
- Fair treatment of employees and business partners,
- Responsibility to the environment and the community in which it operates and,
- Probity, integrity and business ethics in its operational practices.


## Governance Framework

At HNBF, the ultimate responsibility to ensure that it operates within a robust and sound governance framework rests with the Board of Directors. Accordingly, the Board provides entrepreneurial leadership within a framework of prudent and effective controls enabling risks to be assessed and managed whilst setting the Company's values and standards to meet the obligations towards the shareholders and other stakeholders.

The Governance Framework of the Company is based on the following key elements:

A. **Internal Governance Structure** comprising the units and components within the Company that ensures effective monitoring and execution of governance-related initiatives, systems and processes thus inculcating a culture of good governance and sustainability of the Company business model.

B. **External Governance Structure** within which the Company enables conformance to applicable laws, regulations and best practices.

C. **Assurance** which is the supervisory mechanism of the Company's Governance Framework that ensures integrity of the operations.

## A. Internal governance structure

Internal governance structure of HNBF, which allows for effective and efficient decision-making with accountabilities, is based on the following:

### The Board of Directors

The Board is the highest decision-making body and is ultimately responsible for governance. Governance framework/ structure enables the Board to balance its role of providing risk oversight and strategic counsel ensuring adherence to regulatory requirements and risk tolerance.

The Board of Directors sets the strategic objectives of HNBF, determines its operational policies and performance criteria and delegates to the Management the detailed planning and implementation of those objectives and policies in accordance with appropriate risk parameters. The Board also monitors compliance with policies and actual performance against set objectives by holding the Management accountable for its activities through regular dialogue.

### Board Subcommittees

Some functions of the Board are delegated to Board subcommittees. However, the Board as a whole remains responsible for the areas covered by these subcommittees.

The Board has delegated its functions to a number of subcommittees as shown in the Diagram below. These subcommittees are provided with sufficient resources enabling them to focus on their designated areas of responsibility, and ensure independent oversight.

### Board Subcommittees

Composition of Board Subcommittees as of 31 March 2021.

| Name of the subcommittee | Role of the Committee | Members |
|---|---|---|
| Audit Committee | Assist the Board of Directors in its oversight on financial reporting, internal controls, internal and external audits and compliance with legal and regulatory requirements. | Mr Rajive Dissanayake – Chairman<br>Mr Anushka Wijesinha – Member<br>Mr Hasitha Wijesundara – Member |
| Integrated Risk Management Committee | Assist the Board of Directors in reviewing and assessing the adequacy and effectiveness of the risk management framework of the Company. | Mr Rajive Dissanayake – Chairman<br>Mr Hasitha Wijesundara – Member<br>Mr Chaminda Prabhath – Member<br>Mr Mahinda Perera – Member<br>Mr Ruwan Manatunga – Member<br>Mr W S P Arangala – COO<br>Mr Bhanu Wijeratne – AGM Risk |
| Strategic/Investment Committee | Assist the Board of Directors in overseeing the achievement of the Company's strategic objectives and overall strategy. | Mr Jonathan Alles – Chairman<br>Mr Anushka Wijesinha – Member<br>Mr Rajive Dissanayake – Member<br>Mr Kovinda Perera – Member |
| Credit Committee | Assist the Board of Directors in overseeing the credit management function, strategies and objectives. | Mr Hasitha Wijesundara – Chairman<br>Mr Chaminda Prabhath – Member<br>Mr Anushka Wijesinha – Member<br>Mr Ruwan Manatunga – Member<br>Mr Kovinda Perera – Member |
| HR/Remuneration Committee | Assist the Board of Directors in evaluating, assessing and recommending the Company's remuneration structure align with performance parameters. | Mr Hasitha Wijesundara – Chairman<br>Mr Jonathan Alles – Member<br>Mr Udan Fernando – Member |
| Nomination Committee | Assist the Board of Directors in reviewing the composition of the Board to ensure that the Board is properly constituted and balanced in terms of skills, experience and diversity. | Dr Udan Fernando – Chairman<br>Mr Jonathan Alles – Member<br>Mr Mahinda Perera – Member |
| Related Party Transactions Review Committee | Assisting the Board of Directors in ensuring that the Company takes the interest of shareholders as a whole into consideration in a manner of avoiding conflict of interest. | Mr Anushka Wijesinha – Chairman<br>Mr Ruwan Manatunga – Member<br>Mr Chaminda Prabhath – Member<br>Dr Udan Fernando – Member |

# Governance report

### Management Committees

Under the supervision and directions of the Board of Directors, the Management Committees implement the policies and strategies determined by the Board and Board subcommittees and manage the business and affairs of HNBF.

### Internal Charters and Policies

The internal policies support a higher growth, best processes for governance, management of risk, controls and compliance across the Organisation. These form a basis for the Board and the Management to develop and maintain a transparent and effective internal control system.

## B. External governance structure

The external governance structure, one of the three main components of the governance framework at HNBF comprises the laws, regulations and best practices as mentioned below that enable HNBF to operate within a sound corporate governance framework. Internal governance structure at HNBF is modeled to create necessary checks and balances and controls to ensure that it conforms to and complies with the external governance structure.

### Applicable major Laws/ Regulations/Best practices

- Companies Act No. 07 of 2007.
- Finance Business Act No. 42 of 2011 and Directions, Rules, Determinations, Notices and Guidelines issued thereto.
- Finance Companies (Corporate Governance) Direction No. 03 of 2008 and subsequent amendments thereto issued by the Central Bank of Sri Lanka.
- Listing Rules of the Colombo Stock Exchange.
- Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 (as amended).

## C. Assurance

Different components within the assurance act as the supervisory module of HNBF's Corporate Governance Framework which ensures integrity of its operations and existence of a sound governance system and practices.

### Compliance

Recognising the importance of strengthening governance with internal control, HNBF has established a compliance function whose task is to monitor and assess the Company's compliance with laws, regulations, regulatory guidelines and other approved policies.

The Compliance Officer reviews the changes in regulatory environment and takes necessary action to ensure that the Company is in compliance with applicable regulatory requirements. An advanced monitoring mechanism is adopted by HNBF to monitor reporting and compliance with all mandatory reporting requirements with the intention of establishing a fully compliant corporate governance and risk mitigating culture.

### Internal Audit

HNBF's internal audit function which focuses on providing an independent risk-based oversight to the Board Audit Committee on the processes and controls within the Company and level of compliance with laws and regulations plays a vital role in the governance structure of the Company. The Internal Audit is responsible for independent, objective assurance on internal control mechanism, in order to systematically evaluate and propose improvements for more effective internal control processes and governance. Internal Audit also carries out independent reviews of compliance with risk policies and procedures to ensure the effectiveness of risk management procedures in place at HNBF. To maintain its independence, the internal audit function reports to the Board through the Board Audit Committee.

### External Audit

External audit report enables the Board with necessary proof to determine the appropriateness, adequacy, and effectiveness of the Company's internal controls which form an essential part of a sound corporate governance mechanism.

In addition to the audit at the financial year-end, HNBF performs an interim audit to obtain assurance that the internal controls that are in place for the preparation and presentation of the Financial Statements are adequate and effective.

Messrs KPMG, Chartered Accountants are the External Auditors of HNBF. In addition to the normal audit services, the External Auditors also provide certain non-audit services to the Company. All such services have been provided with the approval of the Board Audit Committee and in a manner to ensure that there are no adverse effects on the independence of their audit work or the perception of such independence. The External Auditors also provide a certificate of independence on an annual basis.

### External Auditor's Certification on Compliance

In terms of the requirements of the Finance Companies (Corporate Governance) Directions, the External Auditors perform procedures in line with the Sri Lanka Standard on Related Services (SLSRS) issued by the Institute of Chartered Accountants of Sri Lanka, to assess the Company's level of compliance to the requirements of the above direction and provide a certification thereon to the Board. Findings reported by the External Auditors for the preceding year were deliberated by the Board and their recommendations for further improvements were implemented within the financial year.

## HNBF governance structure

Effective governance is, at its core, simply about doing the right things for stakeholders. It is enabled by having the right checks and balances throughout the Organisation to ensure that the right things are always done. It comprises the processes and structures which affect the way an organisation is directed, managed and monitored and its activities are reported, including: the elements of internal control, ethics, various risk functions, policies and procedures, internal audit, external audit and formal committees that promote greater transparency and facilitate efficient and effective management for the best interests of shareholders/stakeholders.

HNBF operates within a clearly defined governance structure. Through this structure, the Board balances its role of providing risk oversight and strategic counsel whilst ensuring adherence to regulatory requirements and risk tolerance. The governance structure provides for delegation of authority whilst enabling the Board to retain effective control. The Board delegates authority to relevant Board committees and the Management with clearly defined mandates and authorities, while preserving its accountability.

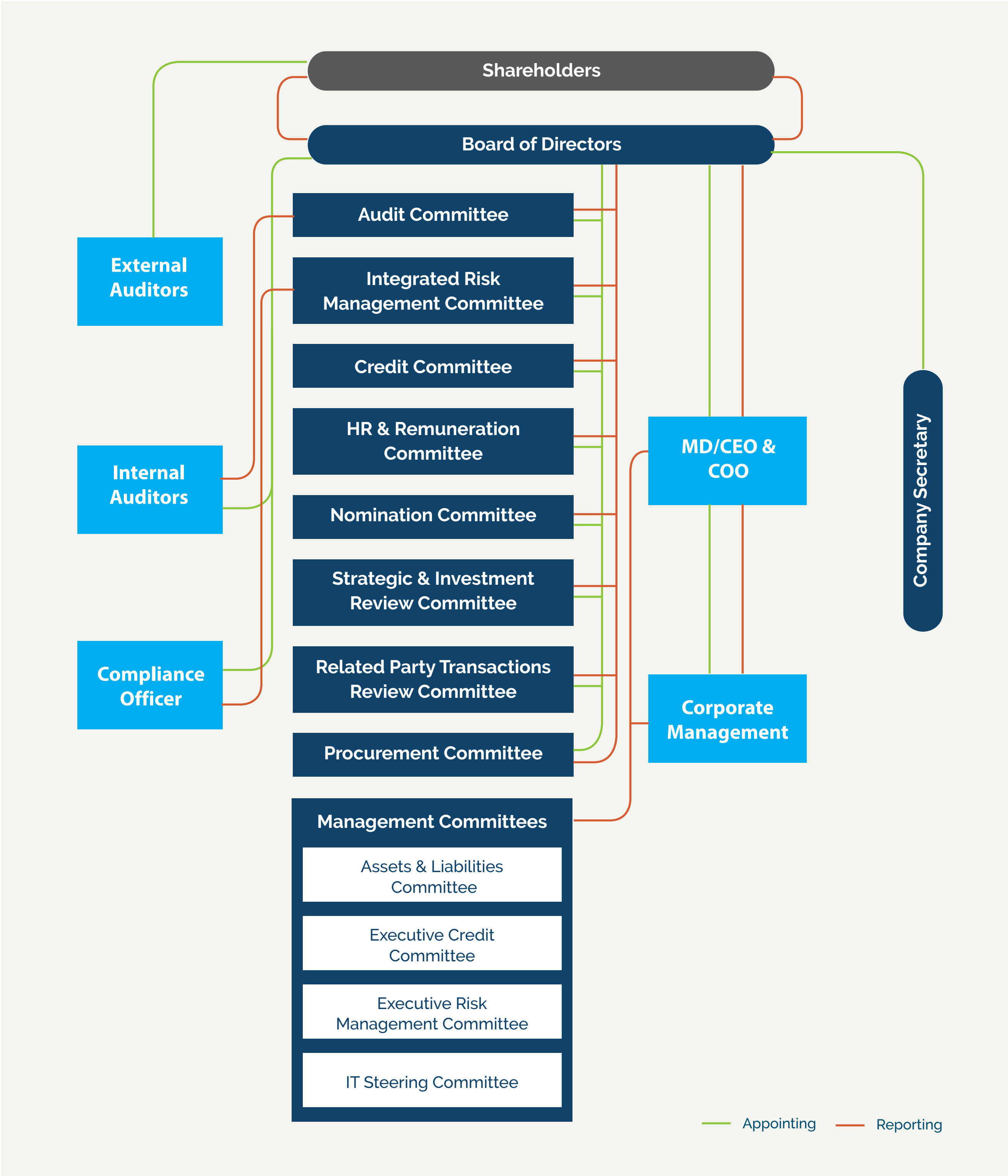
Board committees facilitate the discharge of Board responsibilities and provide in-depth focus on specific areas. Each committee has a mandate setting out its role, responsibilities, scope of authority, composition, and procedures. The Committees' report to the Board through their respective Chairmen and minutes of all committee meetings are submitted to the Board Committees.

The Board of Directors sets the strategic objectives of HNBF, determines its operational policies and performance criteria and delegates authority to the Chief Executive Officer (CEO). In turn, the CEO is responsible for detailed planning and implementation of those objectives and policies in accordance with appropriate risk parameters. The responsibilities entrusted to the CEO by the Board of Directors cascade down to the Senior Management and then to the heads of the respective business units and ultimately to individual employees with clearly defined job descriptions, authority levels and responsibilities. The Company operating committees comprising the heads of all operational units and the Management committees assist the CEO in the day-to-day management of affairs, subject to statutory parameters and matters reserved for the Board.

The business plan and the annual budget which are focused on the core value triad of economic viability, environmental responsibility and social accountability are approved annually and achievement of the objectives set out therein is closely monitored by the Board of Directors. Affairs of the Company are reviewed and discussed by the Board at Board meetings on a monthly basis. At these meetings, the Management is represented by the CEO who apprises the Board on the operations and performance of the Company against set targets.

# Governance report






AN OVERVIEW OF THE COMPANY
PERFORMANCE REVIEW
OPERATING ENVIRONMENT
BUSINESS MODEL
MANAGEMENT DISCUSSION AND ANALYSIS
GOVERNANCE
FINANCIAL REPORTS
SUPPLEMENTARY INFORMATION

# Governance report

## The Board

The Board is responsible for the overall stewardship of HNB Finance PLC. The Directors are elected by the shareholders to supervise management of the business and affairs of the Organisation with the goal of enhancing long-term shareholder value. The Board has adopted a diversity policy, which recognises the importance of having an appropriate balance of industry knowledge, skill, experience, professional qualifications, and nationalities to build an effective and cohesive Board. Board members have a broad range of experience and deep industry expertise.

## The Key Board Responsibility

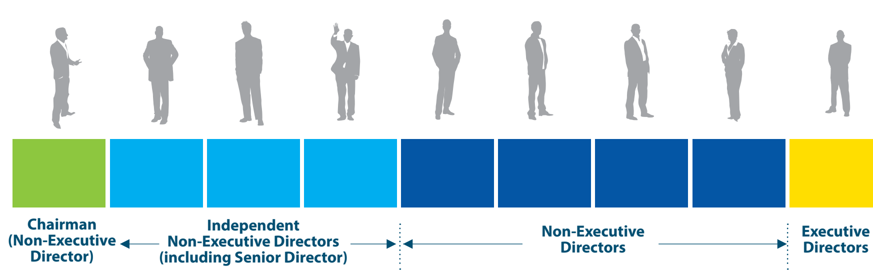
The Board is elected by the shareholders to supervise the management of the business and affairs of the Company. The prime stewardship responsibility of the Board is to ensure the viability of the HNBF and to ensure that it is managed in the best interests of the shareholders as a whole while taking into account the interest of the other stakeholders. The responsibilities of the Board include the following summarised:

- reviewing and approving overall business strategy as well as Organisation structure, as developed and recommended by Management;
- ensuring that decisions and investments are consistent with long-term strategic goals;
- ensuring that the Company operates in such a way as to preserve its financial integrity and in accordance with policies approved by the Board;
- overseeing, through the Audit Committee, the quality and integrity of the accounting and financial reporting systems, disclosure controls and procedures and internal controls;
- overseeing, through the Risk Management Committee, the establishment and operation of risk management system for managing risks on an enterprise-wide basis, the adequacy of the risk management function and the quality of the risk management processes and systems;
- providing oversight in ensuring that the Company's risk appetite and activities are consistent with its strategic intent, the operating environment and effective internal controls as well as regulatory standards;
- ensuring that the necessary human resources are in place for the Company to meet its objectives;
- overseeing the related party transactions through the Related Party Transactions Review Committee;
- reviewing Management performance and ensuring that management formulates policies and processes to promote fair practices and high standards of business conduct by staff;
- overseeing, through the Remuneration Committee, the design and operation of an appropriate remuneration framework, and ensuring that remuneration practices are aligned to and in accord with the remuneration framework;
- establishing corporate values and standards, emphasising integrity, honesty and proper conduct at all times with respect to internal dealings and external transactions;
- ensuring that obligations to shareholders and others are understood and met;
- providing a balanced and understandable assessment of the Company's performance, position and prospects, including interim and other price-sensitive public reports as well as reports to regulators;
- maintaining records of all meetings of the Board and Board committees, particularly records of discussion on key deliberations and decisions taken; and
- identifying the key stakeholder groups, recognising that perceptions affect the Company's reputation.

## Board composition

As at 31 March 2021, the Board comprised nine (09) Directors of whom one (1) was an Executive Director and eight (8) were Non-Executive Directors. Out of the Non-Executive Directors, three (3) were independent with sufficient knowledge of the finance industry's operations among them on a collective basis facilitating their active participation. Directors' profiles are given on pages 78 to 80 in this Annual Report. The MD/CEO is an Executive Director, who is an experienced professional with industry expertise. Non-Executive Directors are eminent professionals in their respective fields. The Board is balanced in age, experience, expertise and tenure and is of appropriate composition and size for the Company. All Directors possess financial acumen and knowledge through experience gained from leading large private and public enterprises coupled with their academic and professional background.

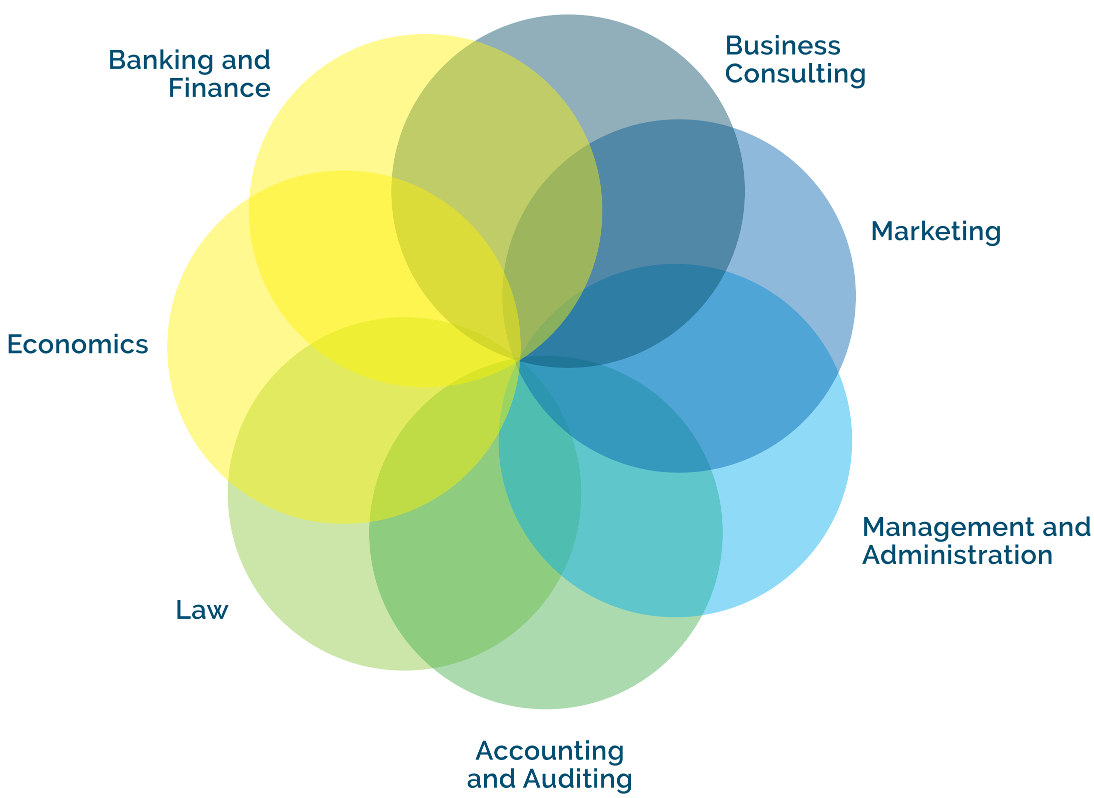
### Board composition



| No. | Name of the Director | Date of Appointment | Board Composition | Period of service up to 31 March 2021 |
|---|---|---|---|---|
| 1. | Mr A J Alles | 18 November 2014 | Chairman – Non-Independent Non-Executive Director | 6 years and 4 months |
| 2. | Mr B M D C Prabhath | 29 June 2011 | Executive Director/ Chief Executive Officer/ Managing Director | 9 years and 9 months |
| 3. | Mr A S Wijesinha | 18 June 2015 | Independent Non-Executive Director (Senior Director) | 5 years and 9 months |
| 4. | Dr S U H Fernando | 25 June 2015 | Independent Non-Executive Director | 5 years and 9 months |
| 5. | Mr P A H D Wijesundara | 27 September 2016 | Independent Non-Executive Director | 4 years and 6 months |
| 6. | Mr A G R Dissanayake | 29 August 2017 | Non-Independent Non-Executive Director | 3 years and 7 months |
| 7. | Mr M Perera | 29 September 2017 | Non-Independent Non-Executive Director | 3 years and 6 months |
| 8. | Mr D K G Perera | 10 December 2020 | Non-Independent Non-Executive Director | 3 months |
| 9. | Mr R D Manatunga | 15 February 2021 | Non-Independent Non-Executive Director | 1 month |

### Skills, Expertise, and Experience

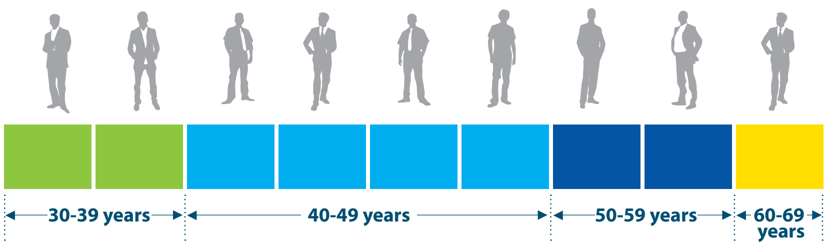
The Board having the optimal mix of skills, expertise and experience is of paramount importance to ensure that the Board as a collective body is equipped to guide the business and strategy of the Company.



## Age Diversity

These elements are some of the most emphasised forms of diversity in the Boardroom. The HNBF Board and shareholders have recognised the benefits of having age diversity. Age diversity is an often-overlooked element in the HNBF Boardroom.

### Age of Directors

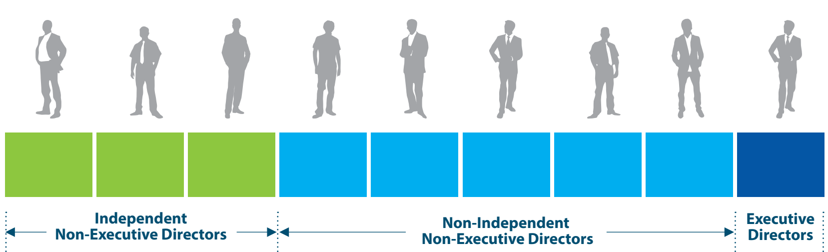



## Independence

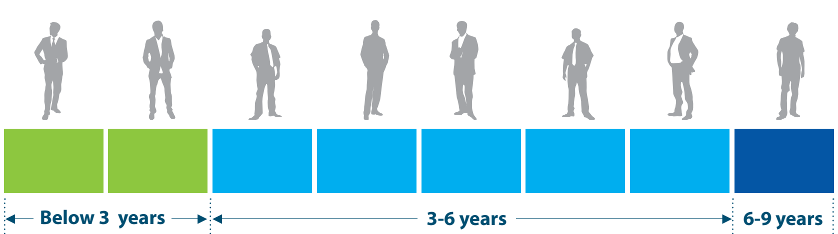
The Board evaluates annually whether each of the Non-Executive Directors is independent. The Non-Executive Directors submit declarations on their independence in terms of rule 7.10.2(b) of the Listing Rules of the Colombo Stock Exchange to facilitate the Board to decide on their independence. The Board further considers criteria for independence set out in the Finance Companies (Corporate Governance) Direction No. 03 of 2008.

The Board is satisfied that each Non-Executive Director who served on the Board during the financial year of 2020/21 has retained independence of character and judgement and has not formed associations with Management or others that might compromise their ability to fulfil role as an Independent Director.

### Independence




### Tenure of Non-Executive Directors



# Governance report

## Board Meetings

The Board calendar with tentative dates for Board and Board subcommittee Meetings for the following year is sent to all members approximately one month before the end of the current financial year. The agenda and Board Papers for Meetings are generally sent seven (7) days before the Meeting, allowing Members sufficient time to review the same. Urgent Board Papers are included on an exceptional basis. The Chairman sets the Board agenda, assisted by the Company Secretary and MD/CEO. The agenda is prioritised and timed to ensure sufficient time for discussion. During the year under review, the Board held thirteen (13) meetings.

## Directors' Attendance at Board and Board Subcommittee Meetings

| Name of the Director | Board | Board Audit Committee | Board Integrated Risk Management Committee | Nomination Committee | HR and Remuneration Committee | Board Credit Committee | Related Party Transactions Review Committee | Strategy and Investment Review Committee |
|---|---|---|---|---|---|---|---|---|
| Number of meetings held | 13(1) | 6 | 12 | 2 | 4 | 6 | 4 | 3 |
| Mr A J Alles | 13/13 | | | 2/2 | 4/4 | | | 3/3 |
| Mr B M D C Prabhath | 13/13 | | 12/12 | | | 6/6 | 4/4 | |
| Mr A S Wijesinha(2) | 13/13 | 6/6 | 10/10 | | | 6/6 | 4/4 | 1/1 |
| Dr. S U H Fernando(3) | 13/13 | | | 2/2 | 4/4 | | 1/1 | |
| Mr P A H D Wijesundara(4) | 13/13 | 6/6 | 2/2 | | 4/4 | 6/6 | 3/3 | |
| Mr A G R Dissanayake | 13/13 | 6/6 | 12/12 | | | | | 3/3 |
| Mr M Perera(5) | 13/13 | | 12/12 | | | | | |
| Mr D K G Perera(6) | 4/4 | | | | | 2/2 | | 1/1 |
| Mr R D Manatunga(7) | 2/2 | | 2/2 | | | 1/1 | 1/1 | |
| Mr B Premalal(8) | 4/4 | | | | | | | |

Notes

(1) Includes the Board meeting scheduled to be held in March 2020, which was held in April 2020 due to COVID-19 outbreak.

(2) Was a member of Board Integrated Risk Management Committee up to 26 January 2021 and appointed as a member of Strategy and Investment Review Committee w.e.f. 26 January 2021

(3) Appointed as a member of Related Party Transactions Review Committee w.e.f. 26 January 2021

(4) Was a member of Related Party Transactions Review Committee up to 26 January 2021 and appointed as a member of Board Integrated Risk Management Committee w.e.f. 26 January 2021

(5) Appointed as a member of Nomination Committee w.e.f. 26 January 2021

(6) Appointed to the Board w.e.f. 10 December 2020 and appointed as a member of Board Credit Committee and Strategy and Investment Review Committee w.e.f. 26 January 2021

(7) Appointed to the Board, Board Integrated Risk Management Committee, Board Credit Committee and Related Party Transactions Review Committee w.e.f. 15 February 2021

(8) Retired from the Board w.e.f. 29 June 2020

## Directors Training and Development

The Nomination Committee oversees Director education, providing Directors with an ongoing programme to assist them in understanding their responsibilities, as well as keeping current their knowledge and understanding of the industry within which the Company operates. Directors identify their continuing education needs through Annual Board and Board subcommittee performance assessments and regular feedback to the Board Chairperson and subcommittee Chairs. Members of the Board participated in Seminars and Conferences held throughout the financial year.

## Supply of and Access to Information

The Board pack generally circulated seven (7) days in advance, provides comprehensive qualitative and quantitative information on issues to be raised at the Board meeting. Further, Executive Management and external experts make regular presentations regarding the business environment and in relation to operations of the Company. Directors also have unrestricted access to Bank Management, Organisation information, and resources to facilitate discharge of their duties. They may seek independent professional advice, coordinated through the Company Secretary, at the Company’s expense and copies of such advice obtained are circulated to other Directors who request for it.

### Board Evaluation

Goals and targets of the Board of Directors have been clearly set out and evaluated at the end of the year by the members. Further, each member of the Board carries out a self-assessment of his/her own effectiveness as an individual as well as effectiveness of the Board as a team. The outcome of the assessment carried out in 2020/21 was tabled at the Board meeting.

### Appraisal of MD/CEO

The Board assesses the performance of the MD/CEO annually. Assessment criteria aligned to the short, medium and long-term objectives of the Company, is agreed with the MD/CEO at the beginning of the year. Performance is reviewed at the end of the financial year against the backdrop of the operating environment. The evaluation is discussed by the Chairman with the MD/CEO and responses documented prior to approval by the Board as a whole. The HRRC assists the Board in the above evaluation process.

### Related party transactions

The Company has established policies and procedures on related party transactions. These include definitions of relatedness, limits applied, terms of transactions, and the authorities and procedures for approving and monitoring the transactions. The Related Party Transactions Review Committee reviews non-recurrent-related party and interested person transactions and keeps the Board informed of such transactions, if any. Measures are taken to ensure that terms and conditions for related party lending are not more favourable than those granted to non-related obligors under similar circumstances are.

### Whistleblower protection

The Company places great importance on fostering a culture that encourages its people to speak up about issues and conduct that cause them concern. The Whistleblower Policy is designed to encourage and support individuals in reporting such matters, knowing that it is safe to do so, they will receive support and they will not be subject to retaliation or victimisation in response. Further, the Company is in the process of developing the "Speak-Up Hotline" offering a trusted avenue for its people and external partners to report issues and concerns.

### Communication with Shareholders

The Board welcomes engagement with shareholders and encourages them to express their views. To allow shareholders to provide timely and meaningful feedback, the Board has developed practices appropriate for the Company's investor base to facilitate constructive engagement. Examples of these practices include methods of hearing from shareholders and responding to their inquiries on an ongoing basis. The Board continues to proactively consider and adapt, as suitable to the circumstances of HNBF, emerging practices of Board engagement with shareholders. Procedures are in place to provide timely information to current and potential investors. The Board reviews and approves the contents of major disclosure documents, including the Management's Discussion and Analysis of the Annual Report.

### Conduct of Shareholder Meetings

The Annual General Meeting (AGM) provides shareholders with the opportunity to share their views and to meet the Board, including the Chairpersons of the Board committees and members of Key Management Personnel. Our External Auditor is available to answer shareholders' queries.

At the AGM, HNBF's financial performance for the preceding year is presented to shareholders. At general meetings, the Chairman plays a pivotal role in fostering constructive dialogue between shareholders, Board members and the Management. HNBF encourages and values shareholder participation at its general meetings. In accordance with the recommendations contained in the Code and the Guidelines, resolutions requiring shareholder approval are tabled separately for adoption at the Company's general meetings unless they are closely related and are more appropriately tabled together.

# Statement of Compliance

The Company complies with Finance Companies (Corporate Governance) Direction No. 03 of 2008 as amended by Finance Companies (Corporate Governance) Direction No. 04 of 2008 and No. 06 of 2013 issued by the Central Bank of Sri Lanka ("Corporate Governance Directions")

The Monetary Board of the Central Bank of Sri Lanka has issued the above Directions which shall apply to every finance company licensed in terms of Section 02 of the Finance Business Act No. 42 of 2011 and came into operation with effect from 01 January 2009. The directions based on the following fundamental principles set out the corporate governance requirements to be adhered by finance companies:

- Responsibilities of the Board
- Meetings of the Board
- Composition of the Board
- Fitness and Propriety of Directors
- Delegation of Functions
- The Chairman and the Chief Executive Officer
- Board Appointed Committees
- Related Party Transactions
- Disclosures

The Company's compliance with the Corporate Governance Directions is tabulated below:

| Rule Reference | Corporate Governance Principle | HNBF's Level of Compliance |
|---|---|---|
| **2** | **Responsibilities of the Board of Directors** | |
| **2 (1)** | **Responsibilities of the board of directors** | |
| | (a) Approve, oversee and communicate strategic objectives and corporate values. | Complied with. The Company's strategic objectives and corporate values are determined by the Board views relating to the above are communicated to all levels of staff through structured meetings. |
| | (b) Approve the overall business strategy, including the overall risk policy and risk management | Complied with. The Company's strategic plan was approved by the Board for three years covering the period from 2021 to 2023. Risk Management Policy was reviewed and recommended by the Integrated Risk Management Committee (IRMC) and was approved by the Board. |
| | (c) Identifying and managing risk | Complied with. The Board-appointed Integrated Risk Management Committee (BIRMC) is tasked with defining risk appetite, identifying, overseeing and managing the overall risk of the Company. The Risk Management Report in this Annual Report provides further details in this regard. |
| | (d) Communication policy with all stakeholders | Complied with. The Board-approved communication policy is available and ensures the effective internal and external communication of corporate information with all stakeholders including depositors, creditors, shareholders and borrowers of the Company. |
| | (e) Adequacy and integrity of the internal control system and Management information system | Complied with. The Board has overall responsibility for ensuring that the Company maintains an adequate system of internal control and Management Information System and for reviewing their effectiveness. The Board Audit Committee, on behalf of the Board undertakes detailed monitoring and reviewing of the internal controls and reports to the Board on its findings.<br><br>Board-approved Information System Security Policy is in place. Internal Auditors reviewed the integrity of the Management Information System and Internal Control System and observations were monitored by the Board and confirmed that the Internal Control System and the Management Information System provide a reasonable assurance over financial reporting. |

# Statement of Compliance

| Rule Reference | Corporate Governance Principle | HNBF's Level of Compliance |
|---|---|---|
| | (f) Identifying and designating Key Management Personnel | Complied with. Board-identified Key Management Personnel according to the Sri Lanka Accounting Standards and as per the guidelines issued by the Central Bank of Sri Lanka for the purpose of corporate governance and they include members of the Board of Directors including the Chief Executive Officer/Managing Director, Chief Operating Officer, DGM – HR and Administration and DGM – Operations. The Compliance Officer's function is designated as Key Management Personnel under Corporate Governance Requirement. |
| | (g) Authority and responsibilities of the Board and Key Management Personnel | Complied with. The Company has a Board-approved schedule of matters specifically reserved for the Board defining the areas of authority and key responsibilities of Key Management Personnel and their job descriptions. |
| | (h) Oversight of affairs of the Company by Key Management Personnel | Complied with. Oversight of the affairs of the Company by its Key Management Personnel takes place at the regular Board meetings and subcommittee meetings and Key Management Personnel make regular presentations to the Board on matters under their purview. |
| | (i) Assess the effectiveness of own governance practice | Complied with. According to the Company's Articles of Association, the Board has delegated functions of selection and nomination of Directors and Key Management Personnel to the Board Nomination Committee.<br><br>The Board appraises its own performance by submission of performance evaluation forms to be filled by each Director. A summary of this has been submitted to the Board Chairman by the Company Secretaries for further recommendations. |
| | (j) Succession plan of Key Management Personnel | The succession plan of Key Management Personnel of the Company has to be approved by the Board. |
| | (k) Regular meeting with the Key Management Personnel | Complied with. The Key Management Personnel regularly make presentations and participate in discussions on their areas of responsibility at respective subcommittee meetings where progress towards corporate objectives is also reviewed, and where necessary make representations to the Board as well. |
| | (l) Regulatory environment | Complied with. The Board of Directors of the Company monitors closely, regulatory compliance at monthly Board meetings and reviews new Directions issued from time to time by the regulator. All Board members attend the Directors' and CEOs' forums arranged by the CBSL and the Management personnel of the Company maintain dialogues on an ongoing basis. |
| | (m) Hiring and oversight of External Auditors | Complied with. The Board Audit Committee is responsible for hiring and oversight of the External Auditors. On the recommendation of the Board, External Auditors are appointed by the shareholders of the Company, at the AGM. External Auditors annually submit a statement confirming their independence as required by the regulatory authorities in connection with external audit. |
| **2 (2)** | Appointment of the Chairman and the Chief Executive Officer and defining and approving functions and responsibilities | Complied with. The Chairman and the Chief Executive Officer are appointed by the Board and their functions and responsibilities are separated and further defined and approved by the Board of Directors.<br><br>The Chairman is a Non-Independent Non-Executive Director. The Chief Executive Officer is in charge of the overall management of the Company. |

# Statement of Compliance

| Rule Reference | Corporate Governance Principle | HNBF's Level of Compliance |
|---|---|---|
| 2 (3) | Availability of a procedure determined by the Board to enable Directors, to seek independent professional advice at the Company's expense | Complied with. The Directors are able to obtain independent professional advice as and when necessary at the Company's expense and a Board-approved procedure is in place. |
| 2 (4) | Avoidance of conflicts of interest | Complied with. The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and implied) between their duty to HNBF 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. Independent Directors do participate in such meetings.<br>We confirm that such a situation has not arisen during the financial year under review. |
| 2 (5) | Availability of a formal schedule of matters specifically reserved to the Board for a decision | Complied with. A formal schedule of matters specifically reserved for the Board is in place. |
| 2 (6) | Disclosure of insolvency to the Director of the Department of Supervision of Non-Bank Financial Institutions. | No such situation has arisen during the period. |
| 2 (7) | Inclusion of an annual Corporate Governance Report on compliance with the Corporate Governance Directions in the Annual Report | Complied with. This report addresses the requirement. |
| 2 (8) | Annual self-assessment by the Directors | Complied with. The Board has developed a scheme of self-assessment to be undertaken by each Director which had been approved by the Board. |

## 3 Meetings of the Board

| Rule Reference | Corporate Governance Principle | HNBF's Level of Compliance |
|---|---|---|
| 3 (1) | Convening Board meetings at least twelve times a financial year at monthly intervals. | Complied with. The Board met 13 times during the financial year under review and ensured that the performance of the Company for the financial year has been duly assessed at those meetings. |
| 3 (2) | Inclusion of proposals by all Directors in the agenda | Complied with. The Board has put in place a process that enables all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business, management of risks and finances. |
| 3 (3) | Notice of Meetings | Complied with. The Directors are given adequate time, at least seven (7) days of Notice for regular Board meetings. For all other meetings a time period as set out in the respective TOR is given. |
| 3 (4) | Directors attendance at Board meetings | Complied with. All Directors have attended at least two-thirds of the meetings held during the year, and no Director has been absent from three consecutive regular Board meetings during the period from 1 April 2020 to 31 March 2021. |

# Statement of Compliance

| Rule Reference | Corporate Governance Principle | HNBF's Level of Compliance |
|---|---|---|
| 3 (5) | Appointment of a Company Secretary to handle the secretarial services to the Board | Complied with. SSP Corporate Services (Private) Limited, a Company registered with the Registrar General of Companies as a qualified Secretary, handles secretarial services for the Board and shareholder meetings and carries out other functions specified in related laws and regulations. |
| 3 (6) | Preparation of agenda for a Board meeting by the Company Secretary | Complied with. The Company Secretary prepares the agenda and is approved by the Chairman. |
| 3 (7) | Directors access to advice and services of the Company Secretary. | Complied with. All Directors have access to Company Secretary and records of Board meetings.<br>Board has introduced a procedure to comply with the direction. |
| 3 (8 ) | Maintenance of minutes of Board meetings and inspection thereof by the Directors | Complied with. The Company Secretary maintains meeting minutes and circulates them to all Board members which is open for inspection at any reasonable time to any Director. Additionally, Directors have access to past Board papers and minutes through a secured electronic link. |
| 3 (9) | Recording of Minutes of Board meetings in sufficient detail | Complied with. Minutes of all meetings are duly recorded with sufficient details and retained by the Company Secretary under the supervision of the Chairman. |

## 4 Composition of the Board

| Rule Reference | Corporate Governance Principle | HNBF's Level of Compliance |
|---|---|---|
| 4 (1) | The number of Directors | Complied with. As at 31 March 2021, Board comprised nine Directors with five of them being Non- Independent Non-Executive, three Independent Non-Executive, and one Executive Director. |
| 4 (2) | Period of service of a Director | Complied with. The total period of service of any of the Non-Executive Directors does not exceed the nine years. |
| 4 (3) | Board balance | Complied with. As at 31 March 2021, there was one Executive Director who is the Chief Executive Officer out of eight Directors which is within the requirement of the CBSL. The number of Executive Directors has not exceeded one-half of the number of Directors of the Board. |
| 4 (4) | Independent Non-Executive Directors and the criteria for independence | Complied with. As at 31 March 2021, three out of nine Directors were Independent Non-Executive Directors. The Board evaluates Independence of the Directors annually based on the Directors' self-declaration. |
| 4 (5) | Appointment of Alternative Director | Such a requirement has not arisen during the financial period from 01 April 2020 to 31 March 2021. |
| 4 (6) | Skills and experience of Non-Executive Directors | Complied with. Directors including Non-Executive Directors are eminent persons with knowledge, expertise and experience to bring an independent judgement and their detailed profiles are provided in this Annual Report. |
| 4 (7) | More than half of the quorum to be Non-Executive Directors in Board meetings | Complied with. One-half of the quorum consisted of Non-Executive Directors at all Board meetings held. |
| 4 (8) | Expressly identify the Independent Non-Executive Directors in all corporate communications that contain the names of Directors of the Company and disclose the details of Directors | Complied with. Please refer the profiles of Board of Directors on pages 78 and the Annual Report of the Board of Directors on page 128. |

# Statement of Compliance





| Rule Reference | Corporate Governance Principle | HNBF's Level of Compliance |
|---|---|---|
| 4 (9) | Procedure for the appointment of new Directors and for the orderly succession of appointments to the Board. | Complied with. The new appointments to the Board are based on the recommendations made by the Board Nomination Committee and there is a procedure in place for the appointments to the Board. After complying with this procedure, names are referred to the CBSL for approval prior to appointment.<br><br>During the financial year 2020/21, the followings Directors were appointed to the Board:<br>• Mr D K G Perera – Non-Independent Non-Executive Director<br>• Mr R D Manatunga – Non-Independent Non-Executive Director |
| 4 (10) | Directors appointed to fill a casual vacancy to be re-elected at first General Meeting after their appointment | All Directors appointed to the Board are subject to re-election by the shareholders at the first Annual General Meeting after their appointments and there were no casual vacancies during the year. |
| 4 (11) | Disclosure of resignations/removal of Directors by the shareholders and the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka | Complied with. Appointment, removal or resignations of Directors are informed to shareholders, with immediate notification to the Colombo Stock Exchange (CSE). Prior approval is obtained from the Central Bank of Sri Lanka (CBSL) on such circumstances.<br><br>During the year under review, Mr B Premalal resigned as a Non-Independent Non-Executive Director with effect from 29 June 2020. |
| **5 Criteria to assess the fitness and propriety of Directors** | | |
| 5 (1) | The age of a Director shall not exceed 70 years | Complied with. There are no Directors who are over 70 years of age. |
| 5 (2) | Holding office as Director of more than 20 companies/entities/ institutions including associate and subsidiary companies. | Complied with. There are no Directors who hold office as a Director of more than 20 companies. |
| **6 Delegation of functions** | | |
| 6 (1) | Delegation of Board functions | Complied with. By Article 113, the Board is empowered to delegate its powers to a committee of Directors or to any other person as it deems fit. |
| 6 (2) | Periodical evaluation of the delegation process. | Delegation arrangements are reviewed periodically to ensure that they remain relevant to the needs of the Company. |
| **7 The Chairman and the Chief Executive Officer** | | |
| 7 (1) | Division of Responsibilities of the Chairman and the Chief Executive Officer | Complied with. The roles of Chairman and the Chief Executive Officer are separated and held by two individuals appointed by the Board. |
| 7 (2) | Chairman preferably to be an Independent Non- Executive Director and if not, appoint a Senior Director | Complied with. Chairman is a Non-Executive Director. The Board designated Mr A S Wijesinhe (Independent Non-Executive Director) as the Senior Director in accordance with the CBSL directive. |
| 7 (3) | Disclosure of the identity of the Chairman and the CEO and any relationship with the Board members. | Complied with. No material relationship including financial, business or family exists between the Chairman Mr A J Alles and the Managing Director/ Chief Executive Officer, Mr B M D C Prabhath. |

# Statement of Compliance

| Rule Reference | Corporate Governance Principle | HNBF's Level of Compliance |
|---|---|---|
| 7 (4) | Chairman to –<br>(a) provide leadership to the Board;<br>(b) ensure that the Board works effectively and discharges its responsibilities; and<br>(c) ensure that all key and appropriate issues are discussed by the Board in a timely manner | Complied with. The Chairman provides leadership to the Board as required.<br>All key and appropriate issues are discussed by the Board on a timely basis. |
| 7 (5) | Role of the Chairman in the preparation of the agenda for Board meetings | Complied with. The Chairman has delegated the function of preparing the agenda to the Company Secretary. |
| 7 (6) | The Chairman to ensure that all Directors are informed adequately and timely of the issues arising at Board meetings | Complied with. The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings through submission of agenda and Board papers with sufficient time prior to meetings. |
| 7 (7) | Encourage all Directors to actively contribute and ensure that they act in the best interest of the Company | Complied with. All Directors actively participate in Board affairs and act in the best interest of the Company. |
| 7 (8) | Facilitate effective contribution of Non-Executive Directors and relationships between Executive and Non-Executive Directors | Complied with. Non-Executive and Executive Directors work together in the best interest of the Company. Non-Executive Directors participate in Board subcommittees, providing further opportunities for their active participation. |
| 7 (9) | Avoidance of engaging in activities involving direct supervision of Key Management Personnel or any other executive duties by the Chairman | Complied with. The Chairman is a Non-Executive Director who does not directly get involved in any of the executive duties of the Company. |
| 7 (10) | Maintain effective communication with shareholders | Complied with. The Company maintains effective communication with shareholders at the AGM of the Company and views of shareholders are communicated to the Board. |
| 7 (11) | MD/Chief Executive Officer functions as the apex executive-in-charge of the day-to-day operations and businesses | Complied with. As per the Company's organisation structure, the CEO/MD functions as the apex executive-in-charge of the day-to-day management of the Company's operations and business. |

## 8 Board appointed committees

| Rule Reference | Corporate Governance Principle | HNBF's Level of Compliance |
|---|---|---|
| 8 (1) | Establishing Board committees, their functions and reporting | Complied with. The following Board subcommittees have been appointed by the Board and each such committee is required to report to the Board:<br>1. Credit Committee<br>2. Integrated Risk Management Committee<br>3. Nomination Committee<br>4. Human Resource and Remuneration Committee.<br>5. Audit Committee<br>6. Related Party Transactions Review Committee<br>7. Strategic and Investment Committee.<br>8. Procurement Committee<br>Recommendations of these committees are addressed directly to the Board and minutes of meetings are tabled and discussed at the main Board meetings.<br>The Company has presented a report on the performance, duties and functions of each committee in the Annual Report. |

# Statement of Compliance



| Rule Reference | Corporate Governance Principle | HNBF's Level of Compliance |
|---|---|---|
| 8 (2) | **Audit Committee**<br>(a) The Chairman to be a Non-Executive Director with relevant qualifications and experience | Complied with. The Chairman of the Audit Committee, Mr A G R Dissanayake is a Non-Executive Director, a Chartered Financial Analyst and a Certified Global Management Accountant. He is also a Fellow Member of the Chartered Institute of Management Accountants of UK.<br>Qualifications and experience are disclosed on page 79 of this Annual Report. |
| | (b) All members of the Committee to be Non-Executive Directors | Complied with. All members of the Audit Committee are Non-Executive Directors. |
| | (c) Responsibilities of the Audit Committee to recommend: | Complied with. The Board Audit Committee (BAC) has, at its meetings: |
| | i. The appointment of the External Auditors; | recommended that M/s KPMG, Chartered Accountants be reappointed as the External Auditors of the Company for the financial period from 01 April 2021 to 31 March 2022; |
| | ii. The implementation of the Central Bank guidelines; | reviewed and implemented the Central Bank guidelines issued to Auditors from time to time; |
| | iii. The application of the relevant accounting standards; and | ensured the application of International Financial Reporting Standards;( IFRS's) is compiled; |
| | iv. The service period, audit fee and any resignation or dismissal of the Auditor | M/S E & Y (Chartered Accountants) was retired at the last AGM which was held on 29 September 2020. |
| | (d) Review and monitor the External Auditors' independence, objectivity and the effectiveness of the audit processes | Complied with. The Board Audit Committee monitors and reviews the External Auditor's independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements. External Auditors directly report to the Board Audit Committee. |
| | (e) Develop and implement a Policy on the engagement of an External Auditor to provide non-audit services | Complied with. The Board-approved policy is in place. When such services are obtained from the External Auditor, prior approval is obtained from the Audit Committee as per the above policy. |
| | (f) Responsibility of the Audit Committee to discuss and finalise with the External Auditors the nature and scope of the audit | Complied with. The Board Audit Committee meets with the External Auditors to discuss their audit plan, nature and the scope of the audit before the commencement of an audit. Accordingly, the Board Audit Committee met the External Auditors, during the year under review to discuss and finalise the scope of the audit. |

# Statement of Compliance

| Rule Reference | Corporate Governance Principle | HNBF's Level of Compliance |
|---|---|---|
| | (g) The committee shall review the financial information of the finance company, in order to monitor the integrity of the financial statements of the finance company, its Annual Report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgements contained therein. In reviewing the finance company's Annual Report and accounts and periodical reports before submission to the Board, the Committee shall focus particularly on:<br>(i) major judgemental areas;<br>(ii) any changes in accounting policies and practices;<br>(iii) significant adjustments arising from the audit;<br>(iv) the going concern assumption; and<br>(v) the compliance with relevant accounting standards and other legal requirements. | Complied with. Quarterly, bi-annual financial statements as well as year-end financial statements are submitted to the Audit Committee. A detailed discussion focused on major judgmental areas, changes in accounting policies, significant audit adjustments and compliance with statutory requirements take place and obtain required clarifications in respect of all areas, before the Committee makes its recommendations for Board's approval. |
| | (h) Meeting of External Auditors to discuss issues and problems of interim and final audits in the absence of Key Managerial Personnel | Complied with. The Committee has met External Auditors without the presence of the Executive Directors and Corporate Management. |
| | (i) Reviewing of the External Auditors' Management Letter and the response thereto | Complied with. During the year, the Board Audit Committee reviewed External Auditor's Management Letter for the year 2019/20 and the Management's responses thereto. |
| | (j) Review of the internal audit function:<br>• the adequacy of the scope, functions and resources of the internal audit department; | Complied with. The Committee reviewed the scope, functions and the resources of the Internal Auditors. |
| | • internal audit programme and results of the internal audit process; | The Committee has reviewed and approved the Internal Audit Plan for the financial period 01 April 2020 to 31 March 2021 presented by the Internal Auditors prepared on overall risk assessment and the significant observations made during the previous year. |
| | • review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; | The Committee has reviewed appraisal and assessment of the performance of the head and senior staff members of the internal audit department during the F/Y 2020/21. |
| | • recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; | Circumstances to this effect have not arisen during the year under review. |

# Statement of Compliance



| Rule Reference | Corporate Governance Principle | HNBF's Level of Compliance |
|---|---|---|
| | • ensure that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers; | No such situation has arisen during the period from 01 April 2020 to 31 March 2021. |
| | • ensure that the internal audit function is independent of the activities it audits | The Committee ensured the independence of the Internal Audit Function. |
| | (k) consideration about the major findings of internal investigations and Management's responses thereto; | Complied with. Based on reports submitted by the Internal Auditor, the Board Audit Committee reviews and considers major audit findings and the Management's responses thereto. However, no such major audit findings have been reported during the period from 01 April 2020 to 31 March 2021. |
| | (l) Participants at the Audit Committee meetings and the need to meet with the External Auditors without the presence of the Executive Directors | Complied with. The Committee met two times with the External Auditors without the presence of Executive Directors.<br>The Managing Director/CEO, Chief Operating Officer, AGM – Risk, Head of Internal Audit, Head of Compliance, and other Corporate Management members attend the meetings by invitation. The Internal Auditors normally attend all meetings. Where it is deemed necessary, other members of the Corporate Management also attend meetings by invitation, when required. |
| | (m) Terms of reference of the Audit committee will ensure that there is –<br>(i) explicit authority to investigate into any matter within its terms reference;<br>(ii) the resources which it needs to do so;<br>(iii) full access to information; and<br>authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary. | Complied with. Approved Terms of Reference of the Committee evidence that it contains the matters stipulated. |
| | (n) Regular meetings of the Audit Committee | Complied with. The Board Audit Committee met six times during the financial year under review. |
| | (0) Disclosure of activities of the Audit Committee and attendance of members at meetings thereof in the Annual Report | Complied with. The Report of the Audit Committee is on pages 109 and includes the detailed activities, meetings held during the year and Directors' attendance at the Audit Committee meetings. |
| | (p) Recording and maintenance of detailed minutes of the Audit Committee meetings. | Complied with. The Company Secretary acts as the secretary of the Audit Committee and records and maintains all minutes of the meetings. |
| | (q) Responsibility of the Audit Committee to review the process by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters | Complied with. The Company has a Board-approved Whistleblowing Policy whereby employees of the Company raise concerns in confidence about any malpractices of the Company. |

| Rule Reference | Corporate Governance Principle | HNBF's Level of Compliance |
|---|---|---|
| 8 (3) | **Integrated Risk Management Committee** | |
| | (a) Composition of the Integrated Risk Management Committee and the duty of the Committee to work with Key Management Personnel closely and make decisions on behalf of the Board within the framework of authority | Complied with. The Integrated Risk Management Committee comprises four (4) Non-Executive Directors including the Chairperson to the Committee, Chief Executive Officer (MD/CEO), Chief Operating Officer (COO), and AGM Risk and supervises broad risk categories such as credit, market, liquidity, operational and strategic risk. Head of Compliance and Senior Manager – Risk attend meetings by invitation. |
| | (b) The committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and Management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis. | Complied with. BIRMC has a process to assess risks, i e., Credit, Market, Liquidity and Operational risks of the Company on a regular basis through appropriate risk indicators. The Company will continue to strengthen the assessment process by adding more risk indicators and causality variables. |
| | (c) Responsibility of the Integrated Risk Management Committee to review the adequacy and effectiveness of all management level committees | Complied with. ALCO reviews and monitors the liquidity and investment policies and reports submitted to the Board Integrated Risk Management Committee. It also carries out a maturity gap analysis of any mismatch of assets and liabilities. Further, the Company has identified risks and monitors them through relevant risk indicators such as NPL and increase in NPA ratio, risks arising out of internal and external frauds through BIRMC. The Committee reviews the adequacy and effectiveness of all management level committees benchmarking against their TOR. |
| | (d) Responsibility of the Integrated Risk Management Committee to take prompt corrective action to mitigate the effects of specific risks which are at levels beyond the prudent levels decided by the Committee | Complied with. The risk indicators introduced have been reviewed against the benchmarks and corrective actions are taken to mitigate the effects of such risks that are at levels beyond the prudent levels decided by the Committee. |
| | (e) Responsibility of the Integrated Risk Management Committee to meet at least quarterly to assess all aspects of risk management | Complied with. The Integrated Risk Management Committee met 12 times during the financial year 2020/2021. |
| | (f) Responsibility of the Integrated Risk Management Committee to take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka | Complied with. The Committee refers such matters, if any, to the HR Department for necessary action. However, the specific risks and limits identified by the Integrated Risk Management Committee and such decisions are taken collectively. |
| | (g) Responsibility of the Integrated Risk Management Committee to submit a risk assessment report within a week of each meeting to the Board | Complied with. Risk assessment reports have been submitted to the Board within the specified time frame. |

# Statement of Compliance

| Rule Reference | Corporate Governance Principle | HNBF's Level of Compliance |
|---|---|---|
| | (h) Establishment of a compliance function | Complied with. The Company's compliance with laws and regulations was monitored by the Compliance Officer (Head of Compliance).<br><br>The Company has established a process to assess the compliance with internal controls and approved policies pertaining to all areas of business operations. |
| **9 Related party transactions** | | |
| 9 (2) | Responsibility of the Board to take necessary steps to avoid any conflicts of interest that may arise from any transaction of the Company with related parties | Complied with. A Board approved Related Party Transactions Policy is in place where the categories of persons considered as "related parties" and "types of transactions" have been identified. Further, the Company is not involved in any transactions, which gives favourable treatment to such parties.<br><br>Transactions carried out with Related Parties in the normal course of business are disclosed in the Financial Statements on 'Related Party Disclosures' under Note 44 of Financial Statements. |
| 9 (3) | Nature of transactions with related parties to which the Corporate Governance Directions apply | Complied with. The Related Party Transactions Policy of the Company addresses all the transactions with related parties irrespective of their nature and value. Related Party Transactions Review Committee further ensures that the transactions with related parties are on an arm's length basis. |
| 9 (4) | Monitoring of Related Party Transactions defined as more favourable treatment. | Complied with. The Board-approved Related Party Transactions Policy provides for the procedure to ensure that the Company does not engage in transactions with related parties in a manner that would grant such parties "more favourable treatment" as defined in this rule. |
| **10 Disclosures** | | |
| 10 (1) | (a) Preparation and publication of annual audited financial statements and periodical financial statements in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards | Complied with. The Board ensured that the annual audited Financial Statements and periodical Financial Statements of the Company for the period from 01 April 2020 to 31 March 2021 were prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards. |
| | (b) Publication of above-mentioned statements in the newspaper in an abridged form, in Sinhala, Tamil and English | Complied with. Such statements are published in the newspapers in compliance with CBSL regulations. |
| 10 (2) | The Board shall ensure that at least the following disclosures are made in the Annual Report: | Complied with. |
| | (a) A statement to the effect that The annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures | Compliance with applicable accounting standards and regulatory requirements has been reported under the "Directors' Responsibility for Financial Reporting" on page 140. |

| Rule Reference | Corporate Governance Principle | HNBF's Level of Compliance |
|---|---|---|
| | (b) A report by the Board on the finance company's internal control mechanism | Directors' Statement on Internal Control System over Financial Reporting is given on page138. |
| | (c) The External Auditor's Certification on the effectiveness of the internal control mechanism | The Company obtained a certification from the External Auditors on the effectiveness of the internal control mechanism. |
| | (d) Details of Directors including names, transactions with the Finance Company | This is disclosed under Annual Report of the Board of Directors on page 128. |
| | (e) Fees/remuneration paid by the Finance Company to the Directors in aggregate | Refer Note 12 to the Financial Statements on fees/remuneration paid by the Company to the Directors in aggregate in the Annual Report. |
| | (f) Total net accommodation and the net accommodation outstanding to the related parties as a percentage of the capital funds | As at 31 March 2021, HNBF has not granted any accommodations to related parties. |
| | (g) The aggregate values of remuneration paid and the value of transactions with the Key Management Personnel | Aggregate remuneration paid to the KMPs as defined in LKAS 24 – "Related Party Disclosures" for financial reporting purpose, is disclosed under Note 44 to Financial Statements on page 196. |
| | (h) A report confirming compliance with prudential requirements, regulations, laws and internal controls | Refer the Report of the Board of Directors' on the Affairs of the Company and Financial Review in this Annual Report. |
| | (i) a statement of the regulatory and supervisory concerns on lapses in the company's risk management, or non-compliance (if any) with the Finance Business Act, and rules and directions that need to be disclosed to the public as directed by the Monetary Board. | There were no significant lapses which require to be disclosed to the public. |
| | (j) The External Auditor's certification of the compliance with the Corporate Governance directions. | The Company has obtained a certificate from the External Auditors of the compliance with the corporate governance directions. |

## 11 Transitional provisions

| | | |
|---|---|---|
| | Transitional and other general provisions | The Company has complied with transitional provisions when applicable. |

# Statement of Compliance



## Report on Compliance with the Rules on the Content of the Annual Report According to Section 7.6 of the Listing Rules of the Colombo Stock Exchange (Listing Rules)

Colombo Stock Exchange (CSE) Listing Rules aim to boost the confidence of investors of companies by requiring the companies to publish accurate information on a timely basis to evaluate companies and help investors to make wise decisions on investing. These rules also depict governance rules which should be adhered to by all listed companies. Level of compliance by HNBF with such rules is highlighted in the following table:

| Rule Number | Disclosure requirement | Section reference | Page Reference |
|---|---|---|---|
| 7.6 (1) | Name of persons who held the positions of Directors during the financial year | Annual Report of the Board of Directors | 128-135 |
| 7.6 (ii) | Principal activities of the Entity and its Subsidiaries during the year and any changes therein | Annual Report of the Board of Directors | 128-135 |
| 7.6 (iii) | The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentages of such shares held | Share Information | 227-231 |
| 7.6 (iv) | The public holding percentage | Share Information | 227-231 |
| 7.6 (v) | A statement of each Director's and Chief Executive Officer's holding in shares and the percentage of such shares held | Share Information | 227-231 |
| 7.6 (vi) | Information pertaining to material foreseeable risk factors of the Entity | Risk Management | 118-126 |
| 7.6 (vii) | Details of material issues pertaining to employees and industrial relations of the Entity | N/A | |
| 7.6 (viii) | Extent, locations, valuations, and the number of buildings of the Entity's land holdings and investment properties | Notes to the Financial Statements | 152-219 |
| 7.6 (ix) | Number of shares representing the Entity's stated capital | Share Information | 227-231 |
| 7.6 (x) | A distribution schedule of the number of holders in each class of equity securities and the percentage of their total holdings | Share Information | 227-231 |
| 7.6 (xi) | Ratios and market price information:<br>• Equity<br>• Debt<br>• Any changes in credit rating | Share Information | 227-231 |
| 7.6 (xii) | Significant changes in the Entity's or its subsidiaries fixed assets and the market value of land, if the value differs substantially from the book value | Notes to the Financial Statements | 152-219 |
| 7.6 (xiii) | Details of funds raised through Public Issues, Rights and Private Placements during the year | Share Information | 227-231 |
| 7.6 (xiv) | Information in respect of Employee Share Option Schemes and Employee Share Purchase Schemes | N/A | |
| 7.6 (xv) | Disclosure pertaining to Corporate Governance Practices in terms of Rules 7.10.3, 7.10.5 c and 7.10.6 c of Section 7 of the Rules | Corporate Governance Report | 107-108 |
| 7.6 (xvi) | Disclosure on Related Party Transactions exceeding 10% of the Equity or 5% of the total assets whichever is lower, of the entity as per the latest Audited Financial Statements | Related Party Transactions Review Committee Report | 116-117 |

# Statement of Compliance

## Compliance Requirements on Corporate Governance Rule 7.10 of the Listing Rules

The Continuing Listing Rule Section 7.10 of the Colombo Stock Exchange (CSE) mandates companies listed on the Colombo Stock Exchange to publish a table in the Annual Report, confirming that as at the date of the Annual Report they comply with the Corporate Governance rules. The rule addresses the following areas:

| Rule Number | Disclosure requirement | Section reference |
|---|---|---|
| **7.10.1** | **Non-Executive Directors** | |
| 7.10.1 (a) | Two or one-third of the Directors, whichever is higher, should be Non-Executive Directors | Complied with. For the year under review, eight of the nine Directors were Non-Executives (NED), which is more than the requirement of the rule. |
| 7.10.1 (b) | The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting | Complied with. The Board comprised seven Directors as at the conclusion of the immediately preceding AGM. |
| 7.10.1 (c) | Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change | N/A |
| **7.10.2** | **Independent Directors** | |
| 7.10.2 (a) | Two or one-third of Non-Executive Directors, whichever is higher, should be independent | Complied with. For the year under review, three out of eight Non-Executive Directors are Independent. |
| 7.10.2 (b) | Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format | Complied with. All Directors have submitted annual declarations in respect of the year under review. |
| **7.10.3** | **Disclosures Relating to Directors** | |
| 7.10.3 (a) | The Board shall make determination of independence/ non-independence annually and Names of Independent Directors should be disclosed in the Annual Report | Complied with. Please refer page 78 of the Annual Report. |
| 7.10.3 (b) | In the event a Director does not qualify as independent as per the rules on Corporate Governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report | Not applicable. |
| 7.10.3 (c) | A brief résumé of each Director should be published in the Annual Report including the areas of expertise | Complied with. Please refer page 78 for the profiles of the Board of Directors to the Annual Report. |
| 7.10.3 (d) | Brief résumé of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public | Complied with. The resumes of newly appointed two Non-Independent Non-Executive Directors, Mr D K G Perera and Mr R D Manatunga were published in the Colombo Stock Exchange website for dissemination to the public. |
| **7.10.4** | **Criteria for Determination of Independence of Directors** | |
| 7.10.4 (a - h) | Requirements for meeting criteria to be independent | Complied with. All Independent Directors of the Company met the criteria for independency specified in this Rule. |

# Statement of Compliance





| Rule Number | Disclosure requirement | Section reference |
|---|---|---|
| **7.10.5** | **Remuneration Committee** | |
| 7.10.5 (a) | A listed company shall have a Remuneration Committee. The Remuneration Committee shall comprise a minimum of two Independent Non-Executive Directors or Non-Executive Directors a majority of whom shall be independent, whichever shall be higher | Complied with. Remuneration Committee comprised of three Directors, out of which two are Independent Non-Executive Directors. |
| 7.10.5 (b) | Functions of Remuneration Committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors | Complied with. Please refer the Report of the Remuneration Committee on page 111 to the Annual Report. |
| 7.10.5 (c) | The Annual Report shall set out –<br>(i) The names of the Directors that comprise the Remuneration Committee;<br>(ii) A statement of remuneration policy;<br>(iii) Aggregate remuneration paid to Executive and Non-Executive Directors. | Complied with. Please refer the page 111 of Remuneration Committee Report. |
| **7.10.6** | **Audit Committee** | |
| 7.10.6 (a) | The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors whichever is higher | Complied with. Audit Committee comprised of three Directors, out of which two are Independent Non-Executive Directors. |
| | One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board | Mr A G R Dissanayake (Non-Independent Non-Executive Director) functions as the Chairman of the Board Audit Committee. |
| | The Chief Executive Officer and the Chief Financial Officer shall attend Audit Committee meetings | Both the Chief Executive Officer and the Head of Finance attended the Audit Committee meetings by invitation. |
| | The Chairman or one member of the Committee should be a member of a recognised professional accounting body | The Chairman of the Audit Committee is a Chartered Financial Analyst and a Certified Global Management Accountant. He is also a Fellow Member of the Chartered Institute of Management Accountants of UK. |
| 7.10.6 (b) | The functions of the Audit Committee shall be as set out in Section 7.10 of the Listing Rules | Complied with. Please refer Audit Committee Report on page 109 of the Annual Report. |
| 7.10.6 (c) | Annual Report shall set out –<br>(i) The names of the Directors who comprise the Audit Committee;<br>(ii) The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination;<br>(iii) A report by the Audit Committee setting out the manner of compliance of the functions set out in Section 7.10 of the Listing Rules. | Complied with. Please refer the Audit Committee Report on page 109 for the required disclosure. |

# Board Subcommittee Reports

## Board Audit Committee Report

The Board Audit Committee is a subcommittee of the Board of Directors and comprising exclusively of Non-Executive Directors. During the year Committee has continued to review and report to the Board on the Company's financial reporting, internal control and risk management processes and the performance, independence and effectiveness of External Auditors.

### Composition of the Committee

The Audit Committee ("the Committee"), appointed by the Board of Directors comprises of Non-Executive Directors in accordance with the Finance Companies (Corporate Governance) Direction, No. 3 of 2008.

### Invitees

- **Mr Chaminda Prabhath** – MD/CEO
- **Mr W S P Arangala** – COO
- **Mr L N Senaweera** – Head of Internal Audit
- **Mr C B Wijayaratne** – AGM – Risk
- **Mr S C Gunasekara** – Chief Accountant
- **Mr Amila Gunawardena** – Chief Manager – Compliance

The Board Secretary functions as Secretary to the Audit Committee.

### Committee

| Name of the Member | Directorship Status | Membership Status |
|---|---|---|
| Mr A G R Dissanayake | Non-Independent Non-Executive Director | Chairman |
| Mr A S Wijesinha | Independent Non-Executive Director | Member |
| Mr P A H D Wijesundera | Independent Non-Executive Director | Member |

### Terms of Reference

The scope and responsibilities of the Board Audit Committee emanates from its Terms of Reference. Committee assists the Board of Directors of the Company in fulfilling its oversight responsibilities for the financial reporting process, internal control, the audit process and the monitoring process for compliance with laws and regulations.

The Board periodically reviews the Terms of Reference of the Committee.

### Authority

Committee is empowered to;

- Investigate into any matter within its Terms of Reference.
- Seek any information it requires from the Management and staff (all of whom are directed to cooperate with the Committee's requests) or external parties.
- Meet with the Management and staff, External and Internal Auditors, regulators, or outside counsel as necessary.
- Obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.

### Meetings

For the purpose of discharging its duties the Audit Committee met six times

# Board Audit Committee Report

during the period. The attendance of the members at Audit Committee meetings was as follows:

| Member | Number of meetings |
|---|---|
| Mr A G R Dissanayake | 06/06 |
| Mr A S Wijesinha | 06/06 |
| Mr P A H D Wijesundera | 06/06 |

## Financial Reporting

The Committee, as part of its responsibility, oversee the Company's financial reporting process on behalf of the Board of Directors. Accordingly, the Committee reviewed and discussed Financial Statements with the Management prior to their release. The review included the extent of compliance with the Sri Lanka Accounting Standards, the Companies Act No. 07 of 2007, the Finance Business Act No. 42 of 2011 and any other regulations relating to financial reporting.

The Committee also reviewed 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 upon considering all choices available. The Committee assessed, whether the disclosures made under the financial reporting is appropriate and fair.

## Risk and Internal Control

The Company has an internal control environment designed to protect the business from the material risks which have been identified. Management is responsible for establishing and maintaining adequate internal controls and the Committee has responsibility for ensuring the effectiveness of these controls. The Committee assessed the effectiveness of the Company's internal controls in order to meet the requirements of the Sri Lanka Auditing Standards. The Committee discussed Internal and External Auditors' review of risk management and internal control systems and made appropriate recommendations. The External Auditors have issued an Assurance Report on Directors' Statement on Internal Controls. The Committee has reviewed the processes for identification, recording, evaluation and management of all significant risks throughout the Company.

## External Audit

In compliance with the Group policy on appointment and rotation of External Auditor, following a formal tender process at Group level and the Committee's recommendation to the Board, shareholders appointed Messrs. KPMG as the Company's External Auditor for financial year 2020/21.

The Committee reviewed the services provided by the External Auditors, Messrs. KPMG, to evaluate their independence and objectivity. It also reviewed, agreed, and discussed their audit plan, including their assessment on Key Audit Matters. The Committee reviewed and approved the scope of non-audit services provided by the External Auditors, to ensure that there was no impairment to their independence.

Accordingly, the Committee has recommended to the Board of Directors that Messrs KPMG be appointed as auditors for the ensuing financial year. The reappointment of the auditor and the authorising of the Board to determine their fee will be subject to the approval of the shareholders at the next Annual General Meeting.

## Internal Audit

The internal audit function is an independent and objective assurance function which supports Company in improving its overall control framework. The internal audit function contributes to the maintenance of a systematic and disciplined approach to evaluate and improve the design and effectiveness of Company's risk management, control and governance processes.

The Committee is responsible for reviewing the role and effectiveness of the internal audit function by monitoring the results of its work and the responses of Management to its recommendations. The Committee approved the annual risk-based internal audit plan for the year and agreed its budget and resource requirements. The reports submitted by the Internal Audit Department were reviewed and discussed at Committee meetings.

## Conclusion

Based on the review of reports submitted by the External and Internal Auditors, the information obtained by the Committee and having examined the adequacy and efficacy of the internal controls which have been designed to provide reasonable assurance to Directors that the assets of the Company are safeguarded; the Audit Committee is satisfied that the financial position of the Company is regularly monitored and steps are being taken continuously to improve the control environment in which the Company operates.

**A G R Dissanayake**
**Chairman**
Audit Committee

29 June 2021

Colombo,
Sri Lanka

# Human Resources and Remuneration Committee Report

## Composition of the Committee

The Human Resource and Remuneration Committee is appointed by the Board of Directors of the Company. As at 31 March 2021, the Committee comprised the following Directors.

| Name of the member | Directorship status | Membership status |
|---|---|---|
| Mr P A H D Wijesundara | Independent Non-Executive Director | Chairman |
| Mr A J Alles | Non-Independent Non-Executive Director | Member |
| Dr Udan Fernando | Independent Non-Executive Director | Member |

## The Policy

The Company's remuneration policy aims to attract, inspire, and retain the skilled employees in a competitive environment with the appropriate expertise on managerial, operational, and professional fields necessary to achieve the objectives of the Company.

The focus of the Committee is to ensure that the total remuneration packages of the Company are competitive to attract the best available talent to the Company and sustainably build the competencies of the employees at all level.

It also aims to remunerate all its employees rightly that will commensurate with their achievements by Key Performance Indicators (KPI).

It also continuously assess the adequacy of the expertise available at the Senior Management level and ensures that the Company maintains a succession plan for the key management positions of the Company. The Company is also mindful in arranging proper training programmes in order to improve the competency development.

## Committee Responsibilities

### Human Resources and Remuneration Related:

The Committee is vested with powers to;

- Determine the remuneration policies (salaries, allowances, and other incentives) relating to Directors, Managing Director and Key Management Personnel (KMP) of the Company.
- Determine and recommend to the Board of Directors, annual increments, bonuses and incentives for the Managing Director and the Senior Management team including KMPs and all employees, based on corporate and individual performance against set targets and goals.
- Make recommendations from time to time to the Board of Directors, on the additional/new expertise required by the Company.
- Interview applicants and support the selection process for Senior Management positions based on recommendations by the Managing Director/CEO, taking into account their qualifications, performance and achievements. Also, decide on new recruitments, extensions and terminations after evaluating criteria for same.
- Make recommendations, decisions, and directions pertaining to the statutory payments made by the Company on behalf of its employees (EPF, ETF, terminal benefits etc) ensuring the effective fulfillment of all commitments arising from the employer-employee relationship.
- Recommend/decide/provide directions on disciplinary matters, concerning Key Management Personnel which have caused a significant financial and integrity loss to the Company and otherwise.
- In consultation with Managing Director/CEO, succession planning of the Company.
- Ensure sustainable competency building of employees, particularly at management level.

## Meetings of the Committee

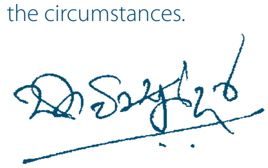
The Committee met four times during the year in reference. The attendance of the members at these meetings are given on page 132.

## Fees

All Non-Executive Directors receive a monthly attendance fee for participation in the deliberations at the Board as per the Director's Remuneration Policy approved by the Board. They may also receive an attendance fee for attending and deliberations at subcommittee meetings. 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, as the members deem required and relevant with the circumstances.



**Hasitha Wijesundara**
**Chairman**
Human Resources and
Remuneration Committee

29 June 2021

Colombo,
Sri Lanka

# Nomination Committee Report

## Composition of the Committee

The Nomination Committee is appointed by the Board of Directors of the Company. As at 31 March 2021, the Committee comprised the following Directors.

| Name of the Member | Directorship Status | Membership Status |
|---|---|---|
| Dr S U H Fernando | Independent Non-Executive Director | Chairman |
| Mr A J Alles | Non-Independent Non-Executive Director | Member |
| Mr Mahinda Perera | Non-Independent Non-Executive Director | Member |

## The Policy

The Company aims to assist the Board in fulfilling its statutory and fiduciary responsibilities relating to the selection/ appointment of new Directors, reappointment of current Directors, selection and appointment of the CEO and the Key Management Personnel and to recommend the remuneration (cash and non-cash benefits) payable to the Chairman, Board members, The Managing Director/Chief Executive Officer (MD/CEO), the Non-Executive Directors and other executive management officers, to the Board.

It also aims to remunerate all its employees rightly that will commensurate with their achievements by key performance Indicators.

## Committee Responsibilities

### Nomination Related:

The Committee works closely with the Board of Directors to review the structure and skills needed for a dynamic and stable organisation. Further, the Committee also reviews annually its own performance, constitution and terms of reference to ensure that it is operating effectively and if required recommends necessary changes to the Board. The main responsibilities entrusted to the Committee include the following;

- Select/appoint new Directors/ Managing Director/CEO and the Key Management Personnel.
- Ensure that Directors are fit and proper to hold office as per the criteria set out in the Direction issued by the Central Bank of Sri Lanka.
- Review the structure, size, composition, and competencies of the Board regularly.
- Consider and recommend the re-election of the current Directors, taking into account their calibre and capability for the Company to reach greater heights and the contribution made towards the overall discharge of the Board's responsibilities.
- Establish criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of Managing Director and other key management positions.
- Determine the independence of the Directors of the Board. The independence should be based on standards and norms set out in regulations by the Central Bank and the Colombo Stock Exchange amongst others.

## Meetings of the Committee

The Committee met two times during the year in reference. The attendance of the members at these meetings are given in page 132.

## Fees

All Non-Executive Directors receive a monthly attendance fee for participation in the deliberations at the Committee as per the Director's Remuneration Policy approved by the Board. They may also receive an attendance fee for attending subcommittee meetings. 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.

## Succession Planning

The Committee continuously assesses the adequacy of the expertise available at the Senior Management level and ensures that the Company maintains a succession plan for the Key Management positions of the Company.

**Dr Udan Fernando**
**Chairperson**
Nomination Committee

29 June 2021

Colombo,
Sri Lanka

# Board Integrated Risk Management Committee Report

## Composition

Board Integrated Risk Management Committee (BIRMC) of HNB Finance PLC (HNBF) is a Board subcommittee formed in terms of Section 7.2 of Finance Companies (Corporate Governance) Direction No. 3 of 2008 issued by Monetary Board of Sri Lanka.

The Committee was comprised of three Non-Executive Directors, Chief Executive Officer, Chief Operating Officer, and AGM Risk. The Chief Operating Officer represent the relevant Key Management Personnel (KMPs) supervising broad risk categories such as credit, operational, market, liquidity and financial risks at the BIRMC meetings.

## Regular Invitees

- **Mr Ruwan Manathunga**
  CRO – HNB
  - from 30 April 2020 – 14 February 2021 (was appointed as a Director of the Company and a member of BIRMC w.e.f. 15 February 2021)
- **Mr Ramesh Fonseka**
  AGM Compliance –
  Retired from service w.e.f. 1 May 2020
- **Mr Padmasiri Dayawansa**
  DGM-Business –
  Resigned from service
  w.e.f. 18 July 2020
- **Mr Amila Gunawardana**
  Head of Compliance
  w.e. f. 4 June 2020
- **Mr Pradeepa Dias**
  AGM ICT
- **Mr Thushara Wijewardena**
  AGM Credit and Recoveries
  w.e.f. 28 July 2020
- **Mr Lalanga Senaweera**
  Head of Internal Audit
- **Mr S N Kothalawala**
  Senior Manager Risk

## Members

| Name of the Member | Directorship Status | Membership Status |
|---|---|---|
| Mr Rajive Dissanayake | Non-Independent Non-Executive Director | Chairman |
| Mr Chaminda Prabhath | Managing Director/CEO | Member |
| Mr Anushka Wijesinha | Independent/Non-Executive Director | Member – Up to 26 Jan. 2021 |
| Mr Mahinda Perera | Non-Independent/Non-Executive Director | Member |
| Mr Hasitha Wijesundara | Independent/Non-Executive Director | Member – w.e.f. 26 Jan. 2021 |
| Mr Ruwan Manatunga | Non-Independent/Non-Executive Director | Member – w.e.f. 15 Feb. 2021 |
| Mr Priyalal Arangala | Chief Operating Officer | Member |
| Mr Bhanu Wijayaratne | AGM – Risk | Secretary to BIRMC |

## Terms of Reference

The Terms of Reference of BIRMC as set out by the Board of Directors of HNBF, includes the followings.

- The Committee shall ensure that the Risk Management Division assesses on a monthly basis, all relevant risks such as Credit, Operational, Market, Financial, and Liquidity etc., faced by the Company, through appropriate risk indicators and management information.
- The Committee shall review the adequacy and effectiveness of relevant management level committees to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.
- The Committee shall recommend and review prompt corrective action to mitigate the effects of specific risks in the event such risks are at levels beyond the prudent levels determined by the Committee, on the basis of the BOD approved risk appetite statement, company policies and regulatory and supervisory requirements, which need to be duly taken care of by the Management headed by MD/CEO.

# Board Integrated Risk Management Committee Report

- The Committee shall direct Management to take appropriate action against the officers responsible for breaches, violations of regulations and laid down procedures including risk mitigating controls. Prompt corrective action shall be initiated by the Management as recommended by the Committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka and other regulatory bodies that regulate the operations of the Company.
- The Committee shall establish a Compliance Function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls, and approved policies on all areas of business operations. A dedicated Compliance Officer selected from Key Management Personnel, shall carry out the Compliance Function and report to the Committee periodically.
- The Committee shall update the Board of Directors on matters that merit the attention of the BOD for its review, concurrence and / or any other specific directives. Further, the minutes of the BIRMC shall be submitted to the BOD at the next immediate Board meeting, after same being reviewed by the Chairman – BIRMC.

## Mandate and Authority

- The Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties, covering all aspects and entire operations of the Company. Such authority of the Committee may be delegated to the Head of Risk or any other officer as appropriate, to facilitate sourcing of relevant information and also for perusal of any document for the purposes of identifying, reviewing, assessing and monitoring of subject risks that may stem from the operations of the Company.
- The Committee may, with the approval of the Board of Directors, obtain outside legal or other professional advice and /or consultancy services at the expense of the Company on matters falling within the scope of the Committee.

## Risk Assessment

The Committee assesses, reviews, and monitors the risks that may arise when transacting business of the Company as stated below.

### Credit Risk

- Ensure appropriate credit risk strategies are developed, implemented and monitored.
- Ensure risk policies and framework are periodically reviewed and monitored.
- Ensure corrective action taken to mitigate identified risks and avoid repetition.

### Operational Risk

- Review the operational risks faced by the Company.
- Review operational losses and near misses incurred by the Company.
- Review adequacy of Business Continuity Planning framework subject to ongoing reviews towards due implementation.
- Ensure corrective action taken to mitigate such risks and avoid repetition.
- Review the PAM solution implementation and directed the Management to resolve the identified issues in connection with integration with application level.

### Market Risk

- Review the gold loan operations and the risk involved and ensure timely action is taken to avoid/mitigate relevant risks.
- Review the gold loan exposure as against the risk appetite limits and recommend appropriate changes to mitigate sudden shocks.

### Compliance Risk

- Review regular compliance briefings on adherence to regulations/ directions/guidelines issued by the regulators from time to time, including any other reports or correspondence exchanged, if any.
- Ensure adequacy and effectiveness of the compliance function on corporate governance and other regulatory requirements.
- Review of periodic reports issued by the regulators and ensure corrective action as appropriate has been taken in a timely manner.
- Review periodic progress updates on CBSL supervisory concerns, ML Points and any other reports issued by the regulators towards appropriate corrective action.
- Review the new AML/CFT System implementation and directed the Management to resolve the identified issues keeping in line with the regulatory requirements.

## Technology and Systems Risk

- Review and follow up on work from home solution implementation, Business Continuity Planning and Disaster Recovery preparedness of technology and systems that are identified as critical to the Company's business success and for compliance with regulation, with a view to avoid/ minimise instances of system/service interruptions.
- Review the Assessments on Network Security Vulnerability and Ransomware Readiness and directed the management to fix the identified gaps to mitigate the risks involved in cyber security.
- Review DLP mechanism which is in place to address the critical end points and directed the Management to implement the identified solutions to mitigate the risks involved.

## Liquidity Risk

- Review the liquidity risk periodically in order to ascertain the ability of the Company to fund its operations uninterruptedly specially in times of market distress and monitor the Company's contingency funding plan and strategy.
- Review the liquid assets ratio and ensure maintaining of same within the Statutory Levels as prescribed by CBSL.
- Review the stress testing on liquidity position on a periodic basis.

## Meetings

The BIRMC met twelve times during the subject period under review, for the purpose of discharging the duties assigned to the Committee. During the subject period, the BIRMC reviewed the Integrated Risk Management policy, Credit policy, Operation Risk policy, Risk Appetite Statement, Key Risk Indicators (KRIs), Loan Review Mechanism (LRM) Findings, Full DR Drill Report, TORs of ERMC and BIRMC and quarterly Heat Maps presented by the Risk Management Division.

Also, the BIRMC assessed, reviewed and monitored the risks faced by the Company, using the risk assessment reports and dashboards presented by the Risk Management Division. The attendance of the Directors at the BIRMC meetings are indicated elsewhere in this report under Annual Report of the Board of Directors.

## Board reporting

At the Board meetings, the Chairman keeps the Directors appraised of the key findings and issues highlighted in the risk reports, which merit the attention of the Board of Directors, supported by the other members of BIRMC. In addition, the minutes and the dashboard of the BIRMC meetings are regularly presented to the Board, for its information and action as appropriate.

**Rajive Dissanayake**
**Chairman**

29 June 2021

Colombo,
Sri Lanka

# Report of the Related Party Transactions Review Committee

The Related Party Transactions Review Committee was established by the HNBF Board on 18 November 2016 to assist the Board in ensuring that interest of shareholders as a whole are taken into account when entering into transactions with related parties and in enhancing the Company's internal control mechanisms and corporate governance.

## Composition of the Committee

The Committee, as at 31 March 2021 comprised the following members:

### Committee

| Name of the member | Directorship status | Membership status |
|---|---|---|
| Mr A S Wijesinha | Independent Non-Executive Director | Chairman |
| Mr Hasitha Wijesundera | Independent Non-Executive Director | Member (Resigned from the Committee w.e.f. 26 January 2021) |
| Mr Udan Fernando | Independent Non-Executive Director | Member (Appointed to the Committee w.e.f. 26 January 2021) |
| Mr Ruwan Manatunga | Non-Independent Non-Executive Director | Member (Appointed to the Committee w.e.f. 26 January 2021) |
| Mr B M D C Prabhath | Managing Director/ CEO | Member |

## Invitees

- Mr Sameera Gunasekera – Chief Accountant/Head of Finance, Secretary to the RPT Committee
- Mr Amila Gunawardena – Chief Manager (Compliance)
- Mr Chamara Tharanga – Chief Manager – Legal

## Purpose of the Committee

The purpose of the Committee is to review all proposed related party transactions other than those transactions explicitly exempted in the Code.

Accordingly, except for transactions mentioned under Rule 27 of the Code, all other related party transactions require review by the Committee either prior to entering into a transaction or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction.

## Scope of the Committee:

- Adopting policies and procedures to review related party transactions of the Company and reviewing and overseeing existing policies and procedures;
- Reviewing in advance all propose related party transactions of the Company except those explicitly exempted by the Code under Rule 27;
- Determining whether related party transactions to be entered into by the Company require Board or shareholder approval;
- Establishing a set of guidelines as explained in the Code where related party transactions are "recurrent in nature", for the Senior Management to follow in their continuing dealings with the relevant related party.
- Ensuring that no Director of the Company participates in any discussion of a proposed related party transaction for which he or she is a related party, unless such Director is requested to do so by the Committee for the expressed purpose of providing information concerning the related party transaction to the Committee.
- If there is any potential conflict in any related party transaction, the Committee may recommend the creation of a special committee (including independent consultant if necessary) to review and approve the proposed related party transaction.
- Ensuring that immediate market and Annual Report disclosures are made in a timely and detailed manner as required by the Code.

## Policies and Procedures

The Company has in place a comprehensive Related Party Transaction (RPT) policy whereby the categories of persons who will be considered as "related parties" have been identified. This was further updated to be in full compliance with the rules and regulations applicable to related party transactions as set out in the Finance Companies (Corporate Governance) Direction No. 3 of 2008 (as amended) and the Listing Rules. The Company has developed a mechanism which enables to obtain, monitor, and report transactions with identified related parties.

# Report of the Related Party Transactions Review Committee

## Meetings

The Committee had four meetings during the period under review.

## Review of Transactions for the Financial Period ended 31 March 2021

During the twelve-month period ended 31 March 2021, the Committee reviewed and confirmed that there were no non-recurrent or recurrent related party transactions which exceeded the respective thresholds mentioned in the Listing Rules of the Colombo Stock Exchange. Further, all the related party transactions which occurred during the year are disclosed in the Audited Financial Statements. Please refer pages 196 to 200 for RPTs published in the Note 44 to the Financial Statements.

## Initiatives of the Committee

During the year under review, the Committee guided the development of new systems and measures to govern related party transactions, including the strengthening of internal IT systems to better track and trace related party transactions. The Committee also oversaw the development and introduction of a conflict of interest policy, according to the requirement of the CBSL, and guided its deployment and dissemination across the Organisation.

**Anushka Wijesinha**
**Chairman**
Board Related Party Transactions Review Committee

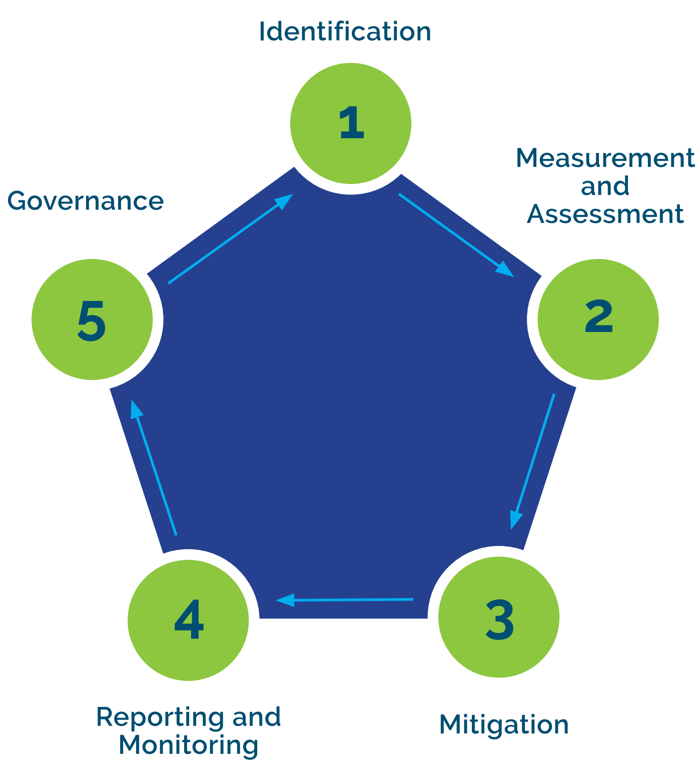
29 June 2021

Colombo,
Sri Lanka

# Risk management

## Risk management framework of HNBF

HNBF has established an Integrated Risk Management Framework to identify, assess, review, monitor, control and mitigate all types of broad risk categories that could create an impact towards the Company. The importance of a robust Risk Management Framework cannot be overemphasised during unprecedented times such as the year under review. We have been upgrading the framework on an ongoing basis with the support of our prestigious parent and will continue to do so in preparation for more volatile, uncertain, complex and ambiguous times ahead.




The risk management framework is underpinned by a robust risk governance structure – the organisational arrangement required to ensure high standard of governance. Risk management being a collective responsibility of the Board of Directors and each and every employee of the Company, the Framework has clearly defined their roles and responsibilities, segregated their duties and assigned required authority. The Board is supported by the Board Integrated Risk Management Committee (BIRMC), the Executive Risk Management Committee (ERMC) and Risk Management Department. Together, they ensure that the Company's Risk Management Framework is effectively managed, covering broad risk categories such as Credit Risk, Operational Risk, Liquidity Risk and Financial Risk, in order to avoid possible surprises and sudden shocks.

The Risk Management Department of the Company assists the ERMC, the Corporate Management and the BIRMC in driving the risk management function. In the process, it monitors and reviews risk exposures and risk-related policies/procedures affecting credit, operation, market, financial, liquidity, and any other category of risk that may arise when transacting business operations of the Company, keeping in line with the directives issued by BIRMC and regulators as appropriate. The Risk Management Department submits periodic risk assessments and analytics to the ERMC and the BIRMC for their perusal and decision-making. The Corporate Management with the guidance of the ERMC supports such initiatives by conducting the business of the Company in line with the Board approved Risk Management Policy.

# Risk management

## Key initiatives taken during the year

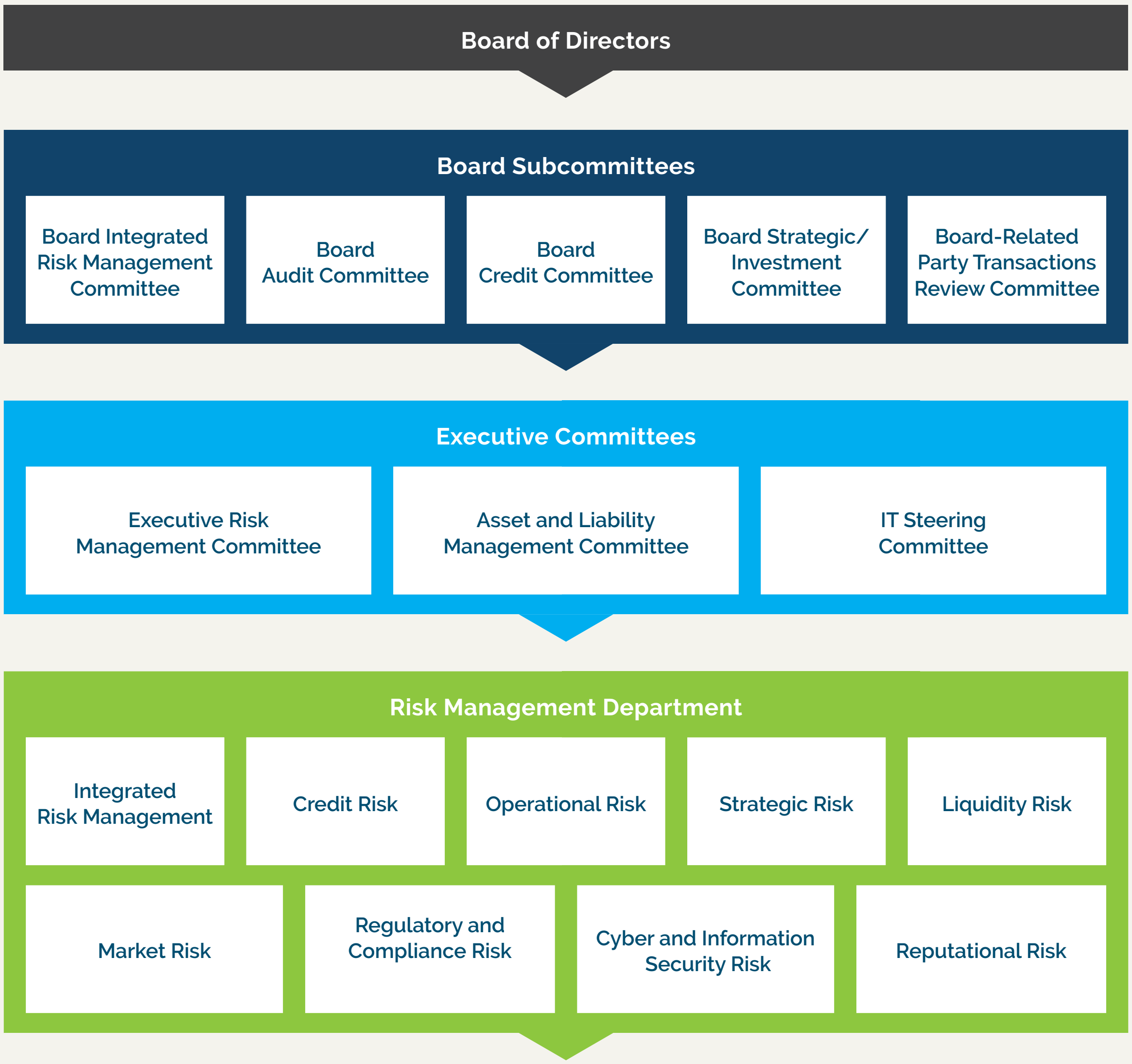
1. Actively involved in reduction of NPAs by providing improved risk-related MIS and drive portfolio Risk Management Techniques to improve asset quality
2. Review and expedite the recovery processes in line with market conditions and guide and provide leadership to the Recovery teams to achieve the NPL targets.
3. Formulation and implementation of the Risk Management Policy, Systems and Procedures towards developing and institutionalising a risk culture within the Organisation
4. Development of a Risk Appetite Statement (RAS)
5. Development of a comprehensive Risk Dashboard and presenting same to the ERMC and the BIRMC
6. Carrying out appropriate Stress Testing and Scenario Analysis
7. Carrying out Risk Assessment for new products/modification of existing products
8. Involvement in revamping of BCM (Business Continuity Management), its successful implementation, coordination and initiation of the DR Drill and formulating the call tree testing
9. Conducting training programmes to improve awareness, knowledge, skills and expertise in Credit Risk Management techniques
10. Taking steps to establish the IT Steering Committee (ITSC)
11. Taking steps to establish the Product Development Committee
12. Involved in drafting the IT Procurement Policy
13. Capturing of Operational Losses and Near Misses on a periodic basis
14. Introduction of improved Credit appraisal formats
15. Introduction of Credit Risk Rating Models
16. Commenced evaluation of all credit facilities above Rs.5 Mn. and providing recommendations for risk mitigation and/or clearance

## Priorities for the year 2021/22

1. Documenting, establishing, and complying division-wise Risk Control Self-Assessment (RCSAs)
2. Developing a robust KRI library to facilitate a helicopter view of risks associated with the Company's day-to-day operations
3. Taking initiatives to mitigate the IT system-related risks, including Cyber Risks, in liaison with the IT Division
4. Ensuring that the BCM framework is effectively executed across the Company, in liaison with the IT Division
5. Formulating and implementing the BCP policy of HNBF
6. Reviewing the product policies & procedures, and enlightening the Management towards necessary corrective action to be taken to mitigate identified risks and avoid repetition
7. Reviewing the gold loan operations and the risks involved to ensure that timely action is taken to avoid/mitigate relevant risks
8. Quarterly review of the Risk Appetite Statement and recommending appropriate changes to mitigate sudden shocks
9. Regular review of the liquidity and capital position of the Company and enlightening the Management to take necessary actions as appropriate towards meeting the regulatory requirements
10. Review the CBSL supervisory concerns, Management Letter points and any other reports issued by the regulators and Internal Auditors towards appropriate corrective action
11. Review and follow up on work from home solution implementation that is identified as critical to the Company's business success with a view to avoid/minimise instances of system/service interruptions

# Risk management

## Risk governance framework



## Board Integrated Risk Management Committee (BIRMC)

The objectives of the Board Integrated Risk Management Committee (BIRMC) is to assess, review and monitor risks that may arise when transacting business of the Company in order to assist the Board of Directors in fulfilling its oversight responsibilities in relation to risk management.

The Committee closely worked with Key Management Personnel and made decisions on behalf of the Board of Directors (BOD) in the above process, within the scope of the authority and responsibility assigned to the Committee by BOD.

The Committee consists of three Non-Executive Directors, Chief Executive Officer, Chief Operating Officer and AGM Risk. The Chief Operating Officer represents the relevant Key Management Personnel (KMP) supervising broad risk categories such as credit, operational, liquidity and strategic risks at the BIRMC meetings. AGM Credit, Head of Compliance and Senior Manager Risk of the Company and the Chief Risk Officer of HNB attend the meetings as regular invitees.

However, the Committee may summon any other officers of the Company as deemed necessary, should circumstances warrant for same.

The AGM Risk functions as the Secretary to the Committee.

## Duties and responsibilities of BIRMC

1. The Committee shall ensure that the Risk Management Department assesses on a monthly basis, all relevant risks such as Credit, Operational, Market, Financial and Liquidity etc., faced by the Company, through appropriate risk indicators and Management information.
2. The Committee shall review the adequacy and effectiveness of relevant management level Committees to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.
3. The Committee shall recommend and review prompt corrective action to mitigate the effects of specific risks in the event such risks are at levels beyond the prudent levels determined by the Committee, on the basis of the BOD-approved risk appetite statement, Company policies and regulatory and supervisory requirements, which need to be duly taken into account by the Management headed by the MD/CEO.
4. The Committee shall direct management to take appropriate action against the officers responsible for breaches and violations of regulations and laid down procedures including risk mitigating controls. Prompt corrective action shall be initiated by the Management as recommended by the Committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka and other regulatory bodies that regulate the operations of the Company.
5. The Committee shall establish a Compliance Function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated Compliance Officer selected from among Key Management Personnel, shall carry out the Compliance Function and report to the Committee periodically.
6. The Committee shall update the Board of Directors on matters that merit the attention of the BOD for its review, concurrence and/or any other specific directives. Further, the minutes of the BIRMC shall be submitted to the BOD at the next immediate Board Meeting, after same being reviewed by the Chairman – BIRMC.

## Executive Risk Management Committee (ERMC)

The Executive Risk Management Committee (ERMC) is responsible for reviewing the risks associated with the Company's business model and its operations and ascertaining the Company's appropriate risk tolerance for such risks whilst ensuring necessary mitigation strategies and corrective action as appropriate. Also, the ERMC would ensure that such measures are duly integrated with existing initiatives to enhance growth objectives of the Company and other operations in general. It works closely with the Risk Management Department and coordinates communication with the BIRMC on all matters relating to risk management.

The Committee shall take prompt corrective action to mitigate the effects of identified risks in the event such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Company's policies and regulatory and supervisory requirements.

# Risk management



## Duties and responsibilities of ERMC

1. The Committee shall ensure that Company has a comprehensive Risk Management Framework in place, keeping in line with the standard risk norms and Company/Group risk appetite.
2. The Committee shall ensure establishment of an effective Compliance Function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations.
3. The Committee shall assess the effectiveness of the Company's Risk Management System and monitor the possible impact of risk types such as Credit, Market, Liquidity, Financial, Operational and Strategic or any other risks as appropriate, on a monthly basis through appropriate risk indicators and management information.
4. The Committee shall take prompt corrective action to mitigate the effects of identified risks in the event such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Company's policies and regulatory and supervisory requirements.
5. The Committee shall take appropriate action against the officers responsible for breaches and violations of regulations and laid down procedures, including risk mitigating controls under advice to BIRMC. Prompt corrective action should be initiated by the Management as recommended by the Committee.
6. The Committee shall monitor and review the Company's Risk Appetite Statement towards due adherence.
7. The Committee shall monitor and review the Company's progress towards implementation of the Risk Management Framework.
8. The Committee shall develop risk awareness at all levels of Management and staff, and Initiate/oversee formal training programmes on Risk Management to entire Company staff.
9. The Committee shall ensure sound risk management policies and practices are implemented whilst ensuring adequate procedures are in place to manage identified risks of the Company.
10. The Committee shall review regular compliance briefings on adherence to regulations/directions/guidelines issued by the regulator from time to time including any other reports or correspondence exchanged, if any; with special focus on AML/CFT regulatory requirements.
11. The Committee shall bring to the notice of BIRMC for their attention and action as appropriate, of any risk that could create an impact on the Group, Company, its business operations and all stakeholders.

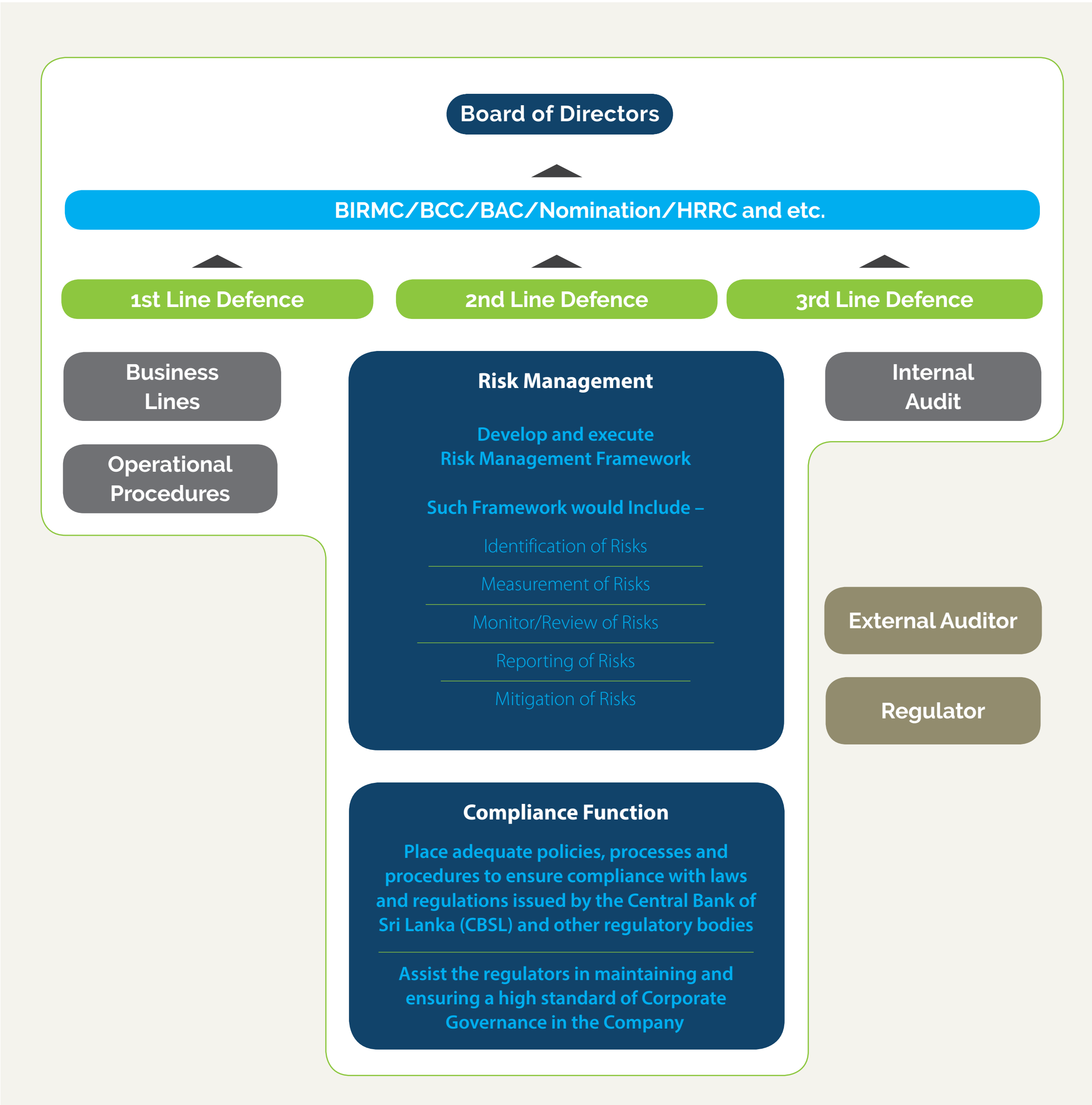
## Risk Management Department (RMD)

Headed by the AGM Risk, key roles of the Division include independently monitoring compliance of the first line of defence to the laid down policies, thereby ensuring that the Governance, Risk, Compliance and Control Frameworks of the Company are operating effectively within the defined risk levels.

### Duties and responsibilities of the risk management department

1. Establishing a Risk Governance Framework for the Company.
2. Establishing the Risk Appetite Statement (RAS) for the Company
3. Establishing risk tolerance, formulating risk-related strategies and policies, overseeing adherence to policy requirements and the effectiveness of the risk framework.
4. Designing and implementing policies, systems and procedures with a view to developing an effective preventative Risk Management Culture and ensuring that the Company adheres to Board defined risk mandate for Credit, Operations, Market, Legal, Liquidity and other relevant risks.
5. Driving Best in Class Risk Management systems in line with Regulatory Norms
6. Risk Identification, Assessment and Measurement including identification of emerging trends that may present new regulatory, fraud or money laundering risks, which also include the risks associated with products and services, customer types, geographies, and delivery channels.

## Three lines of defence




## Credit risk

Credit risk can be defined as the risk of a potential loss to the Company when a borrower or counterparty is either unable or unwilling to meet its financial obligations to the Company on time. Granting loans and advances is the core business of HNBF and as such, credit risk is its most material risk from a capital allocation perspective. Given the scale and materiality of the HNBF's loan book, managing the credit quality of the lending portfolio is a key focus area with the objective of minimising probable credit losses and maintaining credit risk exposure within acceptable parameters. The HNBF's credit portfolio remains well diversified in terms of customers, product types, business segments, geographical spread and sectors, etc.

# Risk management

## Key initiatives taken to mitigate credit risk

1. Driving a robust Loan Review Mechanism (LRM) and timely delivery of established targets under the LRM function.
2. Evaluating new credit proposals submitted for risk clearance and also providing recommendations on risk mitigation.
3. Evaluating restructuring / rescheduling proposals submitted for risk clearance and also providing recommendations on risk mitigation.
4. Driving watch-listing initiatives.
5. Conducting comprehensive training programmes to improve awareness and knowledge with regard to credit risk management activities of HNBF and implement same.
6. Timely preparation of Credit Risk Dashboard for ERMC /BIRMC.
7. Carrying out Independent Credit Reviews which include Concentration risk on Industry, Products, Geographies and any other factor that could adversely affect the credit quality of the portfolio of the Company.
8. Drive Portfolio Risk Management techniques to improve Asset Quality.
9. Carrying out stress testing and scenario analysis and periodic review of results of such actions at ERMC and BIRMC meeting.
10. Continuous assessment of the NPL movement and submitting periodical reports to the BIRMC with appropriate action plans.

## Gross loan portfolio growth


## Total active clients


## NPL


## Loan Review Mechanism (LRM)

Risk Management Department carries out the LRM function in order to continuously evaluate the quality of the Loan Book and bring about qualitative improvements in credit function in general.

LRM includes following attributes:

- Loan reviews should focus on the approval process, accuracy and timeliness of credit ratings assigned by loan officers, adherence to internal policies and procedures, and applicable laws/regulations, compliance with loan covenants, post-sanction follow-up action, sufficiency of documentation, portfolio quality, timelines in delivery and maintenance of required standards etc. based on which, recommendations for improving portfolio quality are made.
- When selecting a sample for LRM, consideration should be given to high value facilities, covering all products except micro products, facilities which indicate a potential for deterioration in the credit quality and facilities that has already turned NPL, etc.
- All in all, the LRM function shall provide reasonable assurance that all major credit risks embedded in the balance sheet are tracked, as a post-mortem, using a sample check method.
- At least 30%-40% of the loan portfolio are subject to LRM each year to provide reasonable assurance, that all major credit risks are effectively monitored.

### Risk clearance at approval level

All facilities granted in excess of Rs. 5 Mn. is subject to Risk Clearance prior to being granted. If any such facility is not cleared by the Risk Management Department or has been cleared subject to fulfilment of certain conditions, such facilities shall be submitted to the MD/CEO for approval, who in-turn should critically evaluate the risks involved and possible impacts of such risks to the Company, if such credit is to be approved.

## Operational risk

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events, which includes legal risk. This definition excludes strategic and reputation risks. Therefore, in line with the leading practices, operational risk in the Company comprises of the following risk types: operations risk, legal risk, regulatory/ compliance risk, financial crime risk, people risk, property risk, technology risk, vendor risk, financial risk and environmental risk. While the overall Operational Risk management responsibility is with RMD, different departments such as Legal, Compliance, IT manage the individual risks, which can be classified as operational risk.

Operational risk exposure is managed through a comprehensive set of internal controls and management processes that include risk assessment (identification, description and estimation), risk evaluation, reporting, mitigation, residual risk reporting and monitoring and control associated with the Company's business operations as an on-going activity. Operational risk is recognised as a distinct risk category, which the Company strives to manage within acceptable levels through sound operational risk management practices. The Company's approach to managing Operational risk is to adopt practices that are fit and prudent to suit the organisational maturity and relevant business environments.

### Key initiatives taken to mitigate operational risk

1. Formulation and implementation of the Operational Risk Management Policy.
2. Development of a Risk Heat Map / action taken towards risk mitigation.
3. Execution of the full DR Drill of the Company in liaison with ICT.
4. Driving initiatives towards mitigating IT related risks which included establishment of the IT Steering Committee (ITSC), conducting a Network Security Vulnerability Assessment and introduction of Change Management Procedure.
5. Intensified the Operational Risk Management function by capturing of Operational Losses and Near Misses on a periodic basis.

Managing Operational Risk forms part of the day-to-day responsibilities of management at all levels. The objectives in managing Operational Risk are to increase the efficient and effective utilisation of the Company's resources, minimise losses and optimise opportunities. The Company's framework defines the minimum requirements for Operational Risk management and is supported by specific policies and procedures.

### Key initiatives taken to mitigate compliance risk

1. Review regular compliance briefings on adherence to regulations/ directions/guidelines issued by the regulator from time to time including any other reports or correspondence exchanged, if any; with special focus on AML/CFT regulatory requirements.
2. Ensure adequacy and the effectiveness of the compliance function on Corporate Governance.
3. Ensure submission of periodic reports covering any concerns raised by the regulator.
4. Review periodic progress updates on CBSL supervisory concerns and ML Points towards corrective action.
5. Key initiatives taken to mitigate Strategic/Reputational Risk.
6. All strategic initiatives including new products introduced, changes done to existing products including withdrawal of products if any, to be reviewed.
7. To ensure the developments in regulatory and/or competitive environment that has strategic implications.
8. Ensure effective disclosures and external communication.

### Key initiatives taken to mitigate technology and systems risk

Review and follow up on implementation, business continuation planning and disaster recovery preparedness of technology and systems that are identified as critical to the Company's business success and for compliance with regulation, with a view to minimise instances of system/ service non-availability.

AN OVERVIEW OF THE COMPANY
PERFORMANCE REVIEW
OPERATING ENVIRONMENT
BUSINESS MODEL
MANAGEMENT DISCUSSION AND ANALYSIS
GOVERNANCE
FINANCIAL REPORTS
SUPPLEMENTARY INFORMATION

## Liquidity risk management

Given its importance, particularly in times of distress, Company accords highest priority in maintaining liquidity at comfortable levels at all times. During the year, Company maintained Liquid Assets Ratio well above the minimum regulatory requirement as prescribed by the CBSL. Requirement to invest in Government Securities was also maintained at not less than 7.5% of rupee deposit liabilities at all times as prescribed by CBSL.

Stress testing was done on a periodic basis in order to ascertain the ability of the Company to fund its operations uninterruptedly specially in times of market distress and monitor the Company's contingency funding plan and strategy.

## Capital management

The level of the Company's capital is aligned to the Risk Appetite and risk profile. It is the Responsibility of the Chief Operating Officer (COO) to manage the Company's capital at appropriate levels, with due regard to key objectives of capital management which include ensuring ability to support its envisioned growth and compliance with the CBSL minimum capital adequacy ratios as detailed below.

Capital Adequacy Ratios were maintained within the Statutory Level as prescribed by CBSL and have complied CBSL regulatory requirements relating to capital adequacy and to adhere to regulatory standards and guidelines.

| Capital Requirement | Minimum Requirement | Actual Ratio as at 31 March 2020 | **Actual Ratio as at 31 March 2021** |
|---|---|---|---|
| Tier – 1 Capital | 6.50% | 10.16% | **9.94%** |
| Total Capital | 10.50% | 14.02% | **14.12%** |

## Stress testing

The Company carries out stress testing to ascertain its resilience in case of any adverse developments. The stress tests are based on various economic scenarios and specific portfolio movements, developed and agreed with the ERMC and the BIRMC.

Although there are no specific directions/ guidelines/circulars issued by the CBSL with regard to this, the Company has, as a matter of prudence, proactively carried out stress testing on a monthly basis with the objective of identifying and estimating the likely losses that the Company may suffer under exceptional, but plausible scenarios. Besides liquidity as referred to earlier, stress testing covered the areas of credit quality, impairment and profitability ratios such as ROA, ROE, etc. Test results are documented together with any of the sensitivity tests and scenario analysis undertaken as part of the details of those tests and analyses, the key assumptions including the aggregation of the results. The outcome of the stress testing carried out by the Risk Management Department is discussed and reviewed on a monthly basis at both ERMC and BIRMC meetings and action taken as appropriate towards remedying concerns, if any.

# FINANCIAL REPORTS

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

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

The Directors of HNB Finance PLC (HNBF) have pleasure in presenting to shareholders this report together with Audited Financial Statements of the Company for the period ended 31 March 2021 together with the Auditor's Report on those Financial Statements, conforming to the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011, Finance Leasing Act No. 56 of 2000, and amendments thereto and the Directions issued on the same. The details set out herein provide appropriate information required by the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011, and subsequent amendments thereto and recommended Best Practices on Corporate Governance and Finance Companies – (Corporate Governance) Direction No. 03 of 2008 and the Listing Rules of the Colombo Stock Exchange. This Report was approved by the Board of Directors on 29 June 2021.

## General

HNB Finance PLC (HNBF) is a licensed Finance Company registered under the Finance Business Act No. 42 of 2011 and was incorporated as a public limited liability Company on 20 December 1999 under the provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007 under the Company Registration Number PB 965. Upon listing of the Company on the Colombo Stock Exchange in 2020, the status of the Company was changed from a public company to a public listed company . Consequently, the Company's registration no. issued by the Department of Registrar of Companies was changed to PB 965 PQ. The Company is registered under the Finance Leasing Act No. 56 of 2000.

The Company's shares are now listed on the Colombo Stock Exchange under the *Diri-Savi* Board. The Initial Public Offering (IPO) via an Offer for Sale on the Colombo Stock Exchange was oversubscribed by a significant 32% on its opening day of 17 February 2020.

Fitch Ratings Lanka Limited has assigned "A"(lka); Outlook Stable Rating to the Company.

The registered office of the Company is at "HNB Finance Building", No. 168, Nawala Road, Nugegoda, at which the Company's Head Office is also situated.

As per the requirements set out in Section 168 of the Companies Act No. 07 of 2007, the following information is disclosed in this Report 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 Company |
|---|---|---|
| The nature of the business of the Company | Section 168 (1) (a) | Complied – Page 237 |
| Signed Group Financial Statements of the Company for the accounting period under review | Section 168 (1) (b) | Complied – Page 148 |
| Auditor's Report on Group Financial Statements of the Company | Section 168 (1) (c) | Complied – Page 142 |
| Changes in Accounting Policies during the accounting period | Section 168 (1) (d) | Complied – Page 152 |
| Particulars of entries in the Interests Register made during the accounting period | Section 168 (1) (e) | Complied – Page 131 |
| Remuneration and other benefits paid to the Directors during the accounting period | Section 168 (1) (f) | Complied – Page 131 |
| Total amount of donations made by the Company during the accounting period | Section 168 (1) (g) | Complied – Page 134 |
| Information on directorate of the Company at the end of the accounting period | Section 168 (1) (h) | Complied – Page 130 |
| 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) | Complied – Page 134 |
| Auditors' relationship or any interest with the Company | Section 168 (1) (j) | Complied – Page 142 |
| Annual Report of the Board of Directors on the affairs of the Company to be signed on behalf of the Board by two Directors and the Company Secretaries | Section 168 (1) (k) | Complied – Page 135 |

# Annual Report of the Board of Directors

## Vision, Mission and corporate conduct

The Company's Vision, Mission are given on page 6 of this Annual Report. In achieving its set goals and objectives all Directors, Management and employees conduct their activities to highest level of ethical standards and integrity as set out in the Code of Ethics.

## Principal activities

The Company's principal activities during the period were providing microfinance facilities, finance leases, vehicle loan facilities, mortgage loans, gold loans, other credit facilities, acceptance of fixed deposits, maintenance of savings accounts, and value added services to the finance sector.

There were no significant changes in the nature of the principal activities of the Company during the period under review.

## Review of operations

A review of Company's business and its performance during the twelve-month period with comments on financial results and future developments are contained in the Chairman's Review on pages 10 to 12 the Managing Director's Review on pages 13 to 15 the Management Discussion on pages 32 to 74.

Present an overall appraisal of the business operations, financial performance and the overall financial position of the Company which form an integral part of this Report.

## Future developments

An overview of the future development of the Company is given in the Chairman's Review on page 10, Managing Director's Review on page 13 and the Management Discussion and Analysis on page 32 to 74.

## Financial Statements

The Financial Statements of the Company have been prepared in accordance with the Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011, and Finance Leasing Act No. 56 of 2000 as amended.

Consequent to the Audit Committee's recommendations, Financial Statements were reviewed and approved by the Board of Directors on 29 June 2021.

The Financial Statements of the Company duly signed by the Chief Operating Officer and two Directors on behalf of the Board are given on pages 146 to 219, which form an integral part of the Annual Report of the Board of Directors on the Affairs of the Company.

## Directors' responsibility for financial reporting

The Statement of Directors' Responsibility for Financial Reporting is given on page 140 and forms an integral part of the Annual Report of the Board of Directors on the Affairs of the Company.

## Directors' statement of internal controls

As per Section 10 of the Direction No. 03 of 2008 of Central Bank of Sri Lanka on Corporate Governance, the Board of Directors issued a report in relation to the internal control mechanism of the Company. As such, the Board authenticates that the financial reporting system is designed to assure the reliability of financial reporting in relation to the preparation of Financial Statements. When preparing such Financial Statements, the Board has complied with relevant accounting principles and regulatory requirements. The said report is given on page 138 of the Annual Report. The Board has also obtained an assurance report from the External Auditors on Directors' Statement of Internal Control which is given on page 136 of the Annual Report.

## Internal Controls

The Board of Directors has instituted an effective and comprehensive system of implementing internal control measures. As such the Internal Control system covers financial operations, compliance, control and risk management while safeguarding assets and ensuring the security of the records to the best of its ability.

## Auditors' Report

The Company's Auditor, KPMG Sri Lanka (Chartered Accountants) performed the audit on the Financial Statements for the period ended 31 March 2021 and the Auditor's Report issued thereon is given on page 142 as required by Section 168 (1) (c) of the Companies Act No. 07 of 2007.

## Accounting Policies and changes during the year

The Financial Statements for the period ended 31 March 2021 are prepared in accordance with the Sri Lanka Accounting Standards. The significant accounting policies adopted in the preparation of the Financial Statements of the Company is given on pages 152 to 164.

## Review of the financial performance during the twelve-month period

### Income

The Income of the Company for the period from 1 April 2020 to 31 March 2021 was LKR 7,167,025,059/- (From 1 April 2019 to 31 March 2020 it was LKR 9,170,137,700/-). An analysis of the Income is given in Note 05 to the Financial Statements.

# Annual Report of the Board of Directors

## Financial results and appropriations

The net loss of the Company from 1 April 2020 to 31 March 2021 was LKR (123.61) Mn. (profit of LKR 395.24 Mn. from 1 April 2019 to 31 March 2020). Details regarding the (loss)/profit and appropriations of the Company are given below:

| | Company | |
|---|---|---|
| | 2020/21 LKR | 2019/20 Restated LKR |
| (Loss)/profit before tax | (196,307,312) | 659,647,311 |
| Income tax reversal/(expense) | 72,694,187 | (264,403,871) |
| Net (loss)/profit | (123,613,125) | 395,243,440 |
| Retained earnings brought forward | 3,010,466,073 | 2,704,730,273 |
| Profit available for appropriation | 2,886,852,948 | 3,099,973,713 |
| **Appropriation** | | |
| Statutory reserve fund | – | (84,102,915) |
| Re-measurement of define benefit liability, net of tax | 19,547,058 | (5,404,725) |
| Equity investments at FVOCI – Net change in fair value | (9,774,473) | – |
| Balance carried forward | 2,896,625,533 | 3,010,466,073 |

## Reserves

The reserves of the Company with the movements during the period are given in the Statement of Changes in Equity of the Financial Statements on page 149.

## Taxation

The Income Tax rate applicable to the Company's operations at present is 24 percent (28 percent in 2019/20). It is the Company's policy to provide for deferred taxation on all known temporary differences under the liability method.

The Company was also liable for Value Added Tax (VAT) on Financial Services at 15 percent (2019/20: 15 percent). NBT application was abolished from 1 December 2020. (2019/20: 2 percent)

## The Board of Directors

The Board of Directors of the Company as at 31 March 2021, comprised 09 Directors with extensive financial and commercial knowledge and experience. The qualifications and experience of the Directors are given in the "Board of Directors' – Profile" on pages 78 to 80 of this Annual Report.

Names of the persons holding office as Directors of the Company as at 31 March 2021 as required by Section 168 (1) (h) of the Companies Act No. 07 of 2007 are given below:

| Name of the Director | Date of appointment | Other information |
|---|---|---|
| Mr A J Alles | 18 November 2014 | Chairman – Non-Independent Non-Executive Director |
| Mr B M D C Prabhath | 29 June 2011 | Executive Director/ Chief Executive Officer/Managing Director |
| Mr A S Wijesinha | 18 June 2015 | Independent Non-Executive Director (Senior Director) |
| Dr S U H Fernando | 25 June 2015 | Independent Non-Executive Director |
| Mr P A H D Wijesundara | 27 September 2016 | Independent Non-Executive Director |
| Mr A G R Dissanayake | 29 August 2017 | Non-Independent Non-Executive Director |
| Mr M Perera | 29 September 2017 | Non-Independent Non-Executive Director |
| Mr D K G Perera | 10 December 2020 | Non-Independent Non-Executive Director |
| Mr R D Manatunga | 15 February 2021 | Non-Independent Non-Executive Director |

# Annual Report of the Board of Directors

## New appointments during the year and up to the date of this report

There were 2 new appointments during the year and up to the date of this report as follows:

1. Mr D K G Perera – Non-Independent Non-Executive Director (w.e.f. 10 December 2020)
2. Mr R D Manatunga – Non-Independent Non-Executive Director (w.e.f. 15 February 2021)

## Resignations during the year

Mr B Premalal who served as a Non-Independent Non-Executive Director of the Company retired from the Board with effect from 29 June 2020.

## Cessations during the year

There were no cessations during the financial year.

## Directors of the subsidiary

There are no subsidiaries.

## Retirement by rotation and re-election of Directors

In terms of Article 27 of the Articles of Association of the Company, Dr S U H Fernando and Mr P A H D Wijesundara retire by rotation and being eligible, offer themselves for re-election as Directors at the forthcoming Annual General Meeting of the Company.

In terms of Finance Companies (Corporate Governance) Direction No. 03 of 2008, Mr D K G Perera and Mr R D Manatunga offer themselves for election as Directors at the forthcoming Annual General Meeting of the Company.

## The re-election/election of the aforesaid Directors has the unanimous approval of the Board

In compliance with the Finance Business Act No. 42 of 2011 and Clause 3.4 of the Finance Companies (assessment of fitness and propriety of Directors and officers performing Executive function) Direction 3 of 2011 issued by the Department of Supervision of Non-bank Financial Institutions of Central Bank of Sri Lanka, the Company has obtained the approval of Monetary Board of Central Bank of Sri Lanka for the re-election/election of the above mentioned Directors.

## Directors' Interests Register and Directors' Interests in contracts or proposed contracts

The Company maintains Directors' Interests Register in terms of the Companies Act No. 07 of 2007. The Directors have made necessary declarations of their interests in contracts and proposed contracts in terms of Sections 192 (1) and 192 (2) of the Companies Act as at date. These interests are entered in the Interests Register which is deemed to form part and parcel of this Annual Report and available for inspection upon request.

The particulars of the Directors' Interests in Contracts with the Company are given in Related Party Disclosures to the Financial Statements on page 199 and form an integral part of this Annual Report.

The remuneration paid to the Directors during the period under review is entered in the Interests Register and the aggregate of such remuneration is disclosed in this Annual Report under "Directors' Remuneration" on page 131.

The relevant interests of Directors in the shares of the Company as at 31 March 2021 as recorded in the Interests register are given in this Report under Directors' shareholdings.

The Directors have no direct or indirect interest in any contract or proposed contracts with the Company.

## Related party transactions with the Company

The Directors have disclosed transactions if any that could be classified as related party transactions in terms of Sri Lanka Accounting Standard LKAS 24 – "Related Party Disclosures", which is adopted in preparation of the Financial Statements. This Disclosure is given in Note 44 to the Financial Statements, which form an integral part of the Annual Report of the Board of Directors.

## Directors' remuneration

The Directors' remuneration is disclosed under Key Management Personnel compensation in Note 12 to the Financial Statements on page 168.

## Relevant interests of Directors' in shares

In compliance with Section 200 of the Companies Act, the Board of Directors of HNB Finance PLC who hold applicable interest in the shares of the respective companies, have thus disclosed details of their shareholdings and acquisitions/ disposals to the Board.

# Annual Report of the Board of Directors

The Directors shareholdings and the relevant interests of Directors in the shares of the Company as at 31 March 2021 and 31 March 2020 are as follows:

| Name | As at 31 March 2021 | | | | As at 31 March 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Ordinary voting | | Ordinary non-voting | | Ordinary voting | | Ordinary non-voting | |
| | Number of shares | % | Number of shares | % | Number of shares | % | Number of shares | % |
| Mr A J Alles | – | – | – | – | – | – | – | – |
| Mr B M D C Prabhath | 1,000,000 | 0.070 | – | – | 1,000,000 | 0.070 | – | – |
| Mr A S Wijesinha | – | – | – | – | – | – | – | – |
| Dr S U H Fernando | – | – | – | – | – | – | – | – |
| Mr P A H D Wijesundara | – | – | – | – | – | – | – | – |
| Mr A G R Dissanayake | – | – | – | – | – | – | – | – |
| Mr M Perera | 25,000 | 0.002 | – | – | 25,000 | 0.002 | – | – |
| Mr D K G Perera | – | – | – | – | – | – | – | – |
| Mr R D Manatunga | – | – | – | – | – | – | – | – |

## Directors' interest in debentures

There were no debentures registered in the name of any Director as at 31 March 2021.

## Board Subcommittees

The Board of Directors while assuming the overall responsibility and accountability for the Management of the Company has also appointed Board Subcommittees to ensure oversight and control over certain affairs of the Company, conforming to Finance Companies (Corporate Governance) Direction No. 03 of 2008 issued by the Central Bank of Sri Lanka issued under the Finance Business Act No. 42 of 2011 and adopting the best practices accordingly.

## Directors' meetings

The number of Directors' meetings, which comprise Board meeting, Audit Committee meeting, Integrated Risk Management Committee meeting, Credit Committee meeting, Human Resources and Remuneration Committee meeting, Nomination Committee meeting, Related Party Transactions Review Committee meeting, and Strategic/Investment Committee meeting together with the attendance of each Director at these meetings during the twelve-month period is tabulated below (1 April 2020/31 March 2021):

| Name of the Director | Board | Board Audit Committee | Board Integrated Risk Management Committee | Nomination Committee | HR and Remuneration Committee | Board Credit Committee | Related Party Transactions Review Committee | Strategy and Investment Review Committee |
|---|---|---|---|---|---|---|---|---|
| Number of meetings held | 13[(1)] | 6 | 12 | 2 | 4 | 6 | 4 | 3 |
| Mr A J Alles | 13/13 | | | 2/2 | 4/4 | | | 3/3 |
| Mr B M D C Prabhath | 13/13 | | 12/12 | | | 6/6 | 4/4 | |
| Mr A S Wijesinha[(2)] | 13/13 | 6/6 | 10/10 | | | 6/6 | 4/4 | 1/1 |
| Dr S U H Fernando[(3)] | 13/13 | | | 2/2 | 4/4 | | 1/1 | |
| Mr P A H D Wijesundara[(4)] | 13/13 | 6/6 | 2/2 | | 4/4 | 6/6 | 3/3 | |
| Mr A G R Dissanayake | 13/13 | 6/6 | 12/12 | | | | | 3/3 |
| Mr M Perera[(5)] | 13/13 | | 12/12 | | | | | |
| Mr D K G Perera[(6)] | 4/4 | | | | | 2/2 | | 1/1 |
| Mr R D Manatunga[(7)] | 2/2 | | 2/2 | | | 1/1 | 1/1 | |
| Mr B Premalal[(8)] | 4/4 | | | | | | | |

# Annual Report of the Board of Directors

Notes:

(1) Includes the Board meeting scheduled to be held in March 2020, which was held in April 2020 due to COVID-19 outbreak.

(2) Was a member of Board Integrated Risk Management Committee up to 26 January 2021 and appointed as a member of Strategy and Investment Review Committee w.e.f. 26 January 2021.

(3) Appointed as a member of Related Party Transactions Review Committee w.e.f. 26 January 2021.

(4) Was a member of Related Party Transactions Review Committee up to 26 January 2021 and appointed as a member of Board Integrated Risk Management Committee w.e.f. 26 January 2021.

(5) Appointed as a member of Nomination Committee w.e.f. 26 January 2021.

(6) Appointed to the Board w.e.f. 10 December 2020 and appointed as a member of Board Credit Committee and Strategy and Investment Review Committee w.e.f. 26 January 2021.

(7) Appointed to the Board, Board Integrated Risk Management Committee, Board Credit Committee, and Related Party Transactions Review Committee w.e.f. 15 February 2021.

(8) Retired from the Board w.e.f. 29 June 2020.

| Committee | Members/Directors |
|---|---|
| Audit Committee | Mr A G R Dissanayake – Non-Independent Non-Executive Director (Chairman)<br>Mr A S Wijesinha – Independent Non-Executive Director<br>Mr P A H D Wijesundara – Independent Non-Executive Director |
| Integrated Risk Management Committee | Mr A G R Dissanayake – Non-Independent Non-Executive Director (Chairman)<br>Mr P A H D Wijesundara – Independent Non-Executive Director<br>Mr B M D C Prabhath – Executive Director – Managing Director/CEO<br>Mr M Perera – Non-Independent Non-Executive Director<br>Mr Ruwan Manatunga – Non-Independent Non-Executive Director<br>Mr W S P Arangala – COO<br>Mr Bhanu Wijeratne – AGM Risk |
| Credit Committee | Mr P A H D Wijesundara – Independent Non-Executive Director (Chairman)<br>Mr A S Wijesinha – Independent Non-Executive Director<br>Mr B M D C Prabhath – Executive Director – Managing Director/CEO<br>Mr Ruwan Manatunga – Non-Independent Non-Executive Director<br>Mr Kovinda Gimnada Perera – Non-Independent Non-Executive Director |
| Human Resources and Remuneration Committee | Mr P A H D Wijesundara – Independent Non-Executive Director (Chairman)<br>Mr A J Alles – Non-Independent Non-Executive Director<br>Mr Udan Fernando – Independent Non-Executive Director |
| Nomination Committee | Dr Udan Fernando – Independent Non-Executive Director (Chairman)<br>Mr A J Alles – Non-Independent Non-Executive Director<br>Mr M Perera – Non-Independent Non-Executive Director |
| Related Party Transactions Review Committee | Mr A S Wijesinha – Independent Non-Executive Director (Chairman)<br>Mr Ruwan Manatunga – Non-Independent Non-Executive Director<br>Mr B M D C Prabhath – Executive Director – Managing Director/CEO<br>Dr Udan Fernando – Independent Non-Executive Director |
| Strategic/Investment Committee | Mr A J Alles – Non-Independent Non-Executive Director (Chairman)<br>Mr A S Wijesinha – Independent Non-Executive Director<br>Mr A G R Dissanayake – Non-Independent Non-Executive Director<br>Mr Kovinda Gimnada Perera – Non-Independent Non-Executive Director |

# Annual Report of the Board of Directors

## Stated capital and debentures

The stated capital of the Company as at 31 March 2021 was LKR 223,545,481/- consisting of ordinary voting shares of 1,421,380,624 and ordinary non-voting shares of 298,200,000 (2019/20 – LKR 223,545,481/- consisting of ordinary voting shares of 1,421,380,624 and ordinary non-voting shares of 298,200,000).

The redeemable debentures of the Company as at 31 March 2021 was LKR 665 Mn. consisting of 665 debentures at LKR 1 Mn. (2019/20 – LKR 665 Mn.). Subordinated, Listed, rated, Unsecured, Redeemable Debenture of the Company as at 31 March 2021 was 1,158,820,000 consisting of 11,588,200 debentures at LKR 100/-.

## Share information and substantial shareholdings

### Share holding

The shareholding distribution is reflected on pages 227 to 231 as at 31 March 2021. 20 voting registered shareholders and 20 non-voting registered shareholders were recorded.

## Distribution schedule of shareholders, major shareholders, public holding and ratios and market price information

Information as required by the Listing Rules on distribution of shareholding with the respective percentages, 20 largest shareholders, public holding and ratios and market price information are set out on pages 227 to 231 under share information.

## Major shareholders

Page 227 indicates the shareholding analysis of the top 20 voting (volume-wise) and non-voting (volume-wise) shareholders of the Company, as at 31 March 2021.

## Ratios and market prices of debentures

Debentures were not traded as at 31 of March 2021.

## Dividends on ordinary shares

There were no dividends declared to the holders of the ordinary shares (both voting and non-voting) for the financial period from 1 April 2020 to 31 March 2021.

## Property, plant and equipment and significant changes in the Company's and its subsidiary's fixed assets/market value of land

### Capital expenditure

The total capital expenditure on acquisition of Property, Plant and Equipment and intangible assets during the period of the Company amounted to LKR 94 Mn. (2019/20 Company: LKR 91 Mn. Details are given in Notes 26 and 27 to the Financial Statements.

## Market value of freehold property

All freehold lands and buildings of the Company were revalued by a professionally qualified Independent Valuer and brought into the Financial Statements. The Directors are of the opinion that the revalued amounts are not in excess of the current market values of such properties. The details of the freehold properties owned by the Company are given in Note 27.1 to the Financial Statements.

## Human resources

The employment strategies of the Company are framed to recruit, train, develop, and retain the best talent available within the industry. In order to facilitate the process of matching people to jobs, the Company's employment policy is structured to include recruitment from external sources as well as through internal promotions. The Company always respects the merits of the individual and provides equal career opportunities irrespective of gender, race or religion. The Company has not experienced any employee-related issues during the period under review.

## Material issues pertaining to employees and industrial relations pertaining to the Company

There are no material issues pertaining to employees or industrial relations of the Company, which occurred during the year under review which required disclosure under Rule 7.6(vii) of the Listing Rules.

## Employee share option schemes/employee share purchase schemes

The Company has not implemented any Share Option/Share Purchase Schemes for its employees.

## Donations

During the year under review, the Company has not made any donations.

## Corporate social responsibility

During the year under review, the Company has not carried out any CSR activities.

## Auditors

The Financial Statements for the period ended 31 March 2021, have been audited by KPMG Sri Lanka (Chartered Accountants) and the Auditors' Report issued thereon is given on page 142 as required by Section 168 (1) (c) of the Companies Act No. 07 of 2007.

The Auditors have been paid a fee of LKR 3.75 Mn. as audit fee for the period ended 31 March 2021, which has been approved by the Board.

## Risk management and internal control

An ongoing process is in place to identify and manage the risks that are associated with the business and operations of the Company. The Directors review this process through the Audit Committee and the Integrated Risk Management Committee. Specific steps taken by the Company to manage the risks are detailed in the section

# Annual Report of the Board of Directors

on Risk Management on pages 118 to 126 Directors' Statement on Internal Controls over Financial Reporting is on page 138.

## Corporate governance

The significance of maintaining an effective corporate governance framework in relation to the Management and operations of the Company was reiterated by the Directors. As such, with the purpose of enhancing risk management measures while improving accountability and transparency of the Company, systems and structures were implemented for continuous improvement of all such practices. The Corporate Governance Report is given on from pages from 84 to 108 of the Annual Report.

## Compliance with laws and regulations

The Board of Directors along with all personnel responsible for legal compliance warrants that the Company has not carried out any activities that breach the applicable laws and regulations. As such, the relevant officers confirm their compliance to the Board on a monthly basis.

## Statutory payments

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of, and in respect of employees of the Company and all other known statutory dues as were due and payable by the Company as at the reporting date have been paid or, where relevant provided for, except for certain assessments where appeals have been lodged.

## Environmental protection

There have been no activities carried out by the Company that were detrimental to the environment. As such, the Board of Directors affirms that to the best of their knowledge, the Company has complied with the applicable environmental laws and regulations.

## Outstanding litigation

In the opinion of the Directors and Company's Lawyers, pending litigation by and against the Company will not have a material impact on the financial position of the Company or its future operations.

## Contingent liabilities

As disclosed in Note 43 to the Financial Statements, there were no material contingent liabilities as at the reporting date.

## Events occurring after the reporting date

As disclosed in Note 42 to the Financial Statements on page 196 there are no material events as at the date of the Auditors' Report which require adjustment to or disclosure in the Financial Statements.

## Going concern

The Board of Directors has reviewed the Company's corporate/business plans and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Company are prepared based on the going concern concept.

## Minimum capital requirement

The Company ensures that it maintains the statutory requirement on minimum capital, to mitigate the liquidity, credit and other associate risks and safeguarding the depositors, thus ensuring the sustainability of the Company and the industry as a whole. The information on Minimum Capital Requirement is given in the Annual Report.

## Register of Directors and Secretaries

As required under Section 223 (1) of the Companies Act No. 07 of 2007, the Secretaries of the Company maintains a Register of Directors and Secretaries on behalf of the Company, which contains information of each Director and the Secretary.

## Annual General Meeting

The 11th Annual General Meeting of the Company will be held as a hybrid meeting at the Auditorium on Level 6 of "HNB Finance Building" at No. 168, Nawala Road, Nugegoda, on 13th of August 2021 at 10.00am. The Notice of the 11th Annual General Meeting is given on page 238 on behalf of the Board.

## Acknowledgement of the contents of the report

The Board of Directors does hereby acknowledge the contents of this Annual Report as per the requirement of Section 168 (1) (k) of the Companies Act No. 07 of 2007.

Signed in accordance with the resolution adopted by the Directors.

By Order of the Board,

**A J Alles**
Chairman

**B M D C Prabhath**
Managing Director/Chief Executive Officer

**SSP CORPORATE SERVICES (PRIVATE) LIMITED**
Company Secretaries

29 June 2021
Colombo

# AUDITORS' ASSURANCE REPORT ON THE DIRECTORS' STATEMENT ON INTERNAL CONTROL

KPMG
(Chartered Accountants)
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## THE BOARD OF DIRECTORS OF HNB FINANCE PLC

### Report on the Directors' statement on internal control over financial reporting

We were engaged by the Board of Directors of HNB Finance PLC ("the Company") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in pages 138 to 139 of the Annual Report for the year ended 31 March 2021.

### Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company on the Directors' Statement on Internal Control" issued in compliance with the Section 10 (2) (b) of the Finance Companies Direction No. 3 of 2008, by the Institute of Chartered Accountants of Sri Lanka.

### Our independence and quality control

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

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

### Auditors' responsibilities

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

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3051, Assurance Report for License Finance Companies and Finance Leasing Companies on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

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

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

# Auditors' Assurance Report on the Directors' Statement on Internal Control

## Summary of work performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control of the Company.

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

(a) Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the Directors in the Annual Report.

(b) Reviewed the documentation prepared by the Management to support their Statement made.

(c) Related the Statement made by the Directors to our knowledge of the Company obtained during the audit of the Financial Statements.

(c) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.

(e) Considered whether the Directors' Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.

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

SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

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

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

## Auditor's 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 have adopted in the review of the design and effectiveness of internal control over financial reporting of the Company.

**Chartered Accountants**
Colombo

29 June 2021

AN OVERVIEW OF THE COMPANY
PERFORMANCE REVIEW
OPERATING ENVIRONMENT
BUSINESS MODEL
MANAGEMENT DISCUSSION AND ANALYSIS
GOVERNANCE
FINANCIAL REPORTS
SUPPLEMENTARY INFORMATION

# DIRECTORS' RESPONSIBILITY STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

## Responsibility

In line with Section 10 (2) (b) of the Finance Companies Direction No. 03 of 2008 as amended by the Direction No. 06 of 2013, the Board of Directors presents this report on internal controls over financial reporting.

The overall responsibility for internal controls and financial reporting and reviewing their adequacy and effectiveness rests with the Board of Directors of HNB Finance PLC.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of internal control over financial reporting as and when changes occur in the operating business environment or to regulatory guidelines. This process is regularly reviewed by the Board.

The Board is of the view that the system of internal control over financial reporting which is in place at HNB Finance PLC is adequate to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of the Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the policies and procedures on risk and control, by identifying and assessing the risks faced and in design, operation and monitoring of suitable internal controls over financial reporting to mitigate and control these risks.

## Key Internal Control Processes

The key mechanisms that have been established to review the adequacy and integrity of the system of internal controls over financial reporting include the following:

- The Board has appointed various subcommittees to assist in ensuring the effectiveness of the Company's day-to-day operations and to ensure that all such operations are carried out in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions approved by the Board.
- Policies/procedures/charters are in place covering key functional areas of the Company and these are recommended by the Board-appointed Committees and are approved by the Board. Such policies/procedures/charters are regularly reviewed, updated and approved by the Board.
- To comply with the circular No. 07 of 2018 issued by the Central Bank of Sri Lanka on 4 September 2018, the Company has established an in-house internal audit department by recruiting personnel with appropriate qualifications and experience during 2019/20. With the establishment of this in-house internal audit team, responsibilities of testing operating effectiveness relating to controls linked to key processes were entrusted with this in-house team during the year under review. As part of the continuous improvement to this process, the Board of Directors expects to further improve the documentation relating to tests carried out internally.
- The Internal Audit Department of the Company checks compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. The annual audit plan is reviewed and approved by the Board Audit Committee. Branches and service departments are audited regularly, the frequency of which is determined by the level of risk assessed by the internal audit, to provide independent and objective assurance reports on operations and performance.
- The Board Audit Committee reviews internal control issues identified by the Internal Audit Department, regulatory authorities, External Auditors and the Management. The Board Audit Committee also evaluates the effectiveness of the internal audit function with particular emphasis on the scope and independence of internal audit and the resources. The minutes of the Board Audit Committee meetings are forwarded to the Board on a periodic basis. Details of the activities undertaken by the Board Audit Committee are set out in the Board Audit Committee Report.
- In assessing the Internal Control System over financial reporting, identified officers of the Company compiled all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. These in turn are being observed and checked by the Internal Audit Department of the Company for suitability of the design and implementation effectiveness, on an ongoing basis.

# Directors' Responsibility Statement on Internal Control over Financial Reporting

- The Company adopted the SLFRS 9 – "Financial Instruments" with effect from 1 April 2018. This replaced the calculation of impairment based on "incurred loss model" with "expected credit loss" model. Estimation of impairment based on the requirements of SLFRS 9 continued to be calculated using models developed in spread sheet application. Required adjustments to these models on spread sheet were incorporated during the year ended 31 March 2021 considering the impact of COVID-19 pandemic and the resulting changes in the credit risk characteristics of the customers.
- Comments made by the External Auditors in connection with the internal control system during the financial year 2020/21 were taken into consideration and appropriate steps will be taken to incorporate them where appropriate during the ensuing year.

## Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

## Review of the Statement by External Auditors

The External Auditors have reviewed the above Directors' Responsibility Statement on Internal Control over Financial Reporting included in the annual report of the Company for the year ended 31 March 2021 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over financial reporting.

By Order of the Board,

**A G R Dissanayake**
Audit Committee
Chairman

**B M D C Prabhath**
Managing Director/CEO

**W S P Arangala**
Chief Operating Officer

29 June 2021

Colombo,
Sri Lanka

# DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The following statement sets out responsibility of Directors in relation to the Financial Statements of the Company prepared in accordance with the provisions of the Companies Act No. 07 of 2007.

The responsibility of the External Auditor in relation to Financial Statements is set out in the Report of the Auditors given on page 142 of the Annual Report.

As per provisions of Sections 150 (1) and 151 of the Companies Act No. 07 of 2007, Directors are required to prepare Financial Statements for each financial period, which should give a true and fair view of the state of affairs of the Company as at each financial period end and its profit or loss for the financial period then ended, and place them before a General Meeting. The Financial Statements comprise the Statement of Financial Position as at31 March 2021, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flow for the year then ended and notes thereto.

In preparing Financial Statements, Directors are responsible to ensure that appropriate accounting policies have been selected and applied consistently, reasonable and prudent judgements and estimates have been made and all applicable accounting standards have been complied with.

Directors are also required to ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements. This year the Directors also are required to take into consideration the potential implications of COVID-19 pandemic on the Group's business, operations and financial performance. 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 Company.

Further, Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose with accuracy, the financial position of the Company.

Financial Statements prepared and presented in this Annual Report have been based on Sri Lanka Accounting Standards (SLFRS/LKAS) which came to effect from 1 January 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. 07 of 2007, Directions issued under the Finance Business Act No. 42 of 2011, Sri Lanka Accounting and Auditing Standards Act No. 16 of 1995 and the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance 2017 issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The Directors have also instituted effective and comprehensive systems of internal control for identifying, recording evaluating and managing the significant risks faced by the Company throughout the period. This comprises internal reviews, internal audit and the whole system of financial and other controls required to carry on the business of financial service 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 31 March 2021 are given on page 138 in the Annual Report, Directors' Statement on Internal Control Over Financial Reporting. External Auditor's Assurance Report on the Directors' Statement on Internal Control is given in Annual Report page 136.

The Directors have taken appropriate steps to ensure that the Company maintain proper books of accounts and review the financial reporting system at their regular meetings and also through the Board Audit Committee. The report of the Board Audit Committee is given on pages 109 to 110 in Annual Report. The Board of Directors also approves the interim and annual Financial Statements prior to their release based on review and recommendation by the Board Audit Committee.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

Directors are required to prepare the Financial Statements and provide the Company's External Auditor, Messrs KPMG, with every opportunity to carry out whatever reviews and checks on the system of internal control they may consider appropriate and necessary for expressing their independent audit opinion on the Financial Statements.

They have examined the Financial Statements made available to them by the Board of Directors of the Company together with all the financial records, related data and minutes of shareholders' and Directors' meetings and expressed their opinion which appears as reported by them on pages 128 to 135 in Annual Report.

# Directors' Responsibility for Financial Reporting

The Financial Statements of the Company have been certified by the Chief Operating Officer of the Company, as the officer responsible for their preparation as required by the Section 150 (1) (b) and they have also been signed by two Directors and the Company Secretary on 29 June 2021 as required by Sections 150 (1) (c) and 152 (1) (c) of the Companies Act.

As required by the Sections 166 (1) and 167 (1) of the Companies Act, the Board of Directors has prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Company, who express desire to receive a hard copy of the Annual Report within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) on Continuing Listing Requirements of the Listing Rules of the CSE. Further, that all shareholders in each category have been treated equitably in accordance with the original terms of issue. The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Company as at the Statement of Financial Position date have been paid or where relevant provided for, except as provided in Note 43 to the Financial Statements covering contingent liabilities.

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 Company as at the reporting 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,

**A J Alles**
Chairman

**B M D C Prabhath**
Managing Director

29 June 2021

Colombo,
Sri Lanka

# INDEPENDENT AUDITOR'S REPORT

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

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**To the Shareholders of HNB Finance PLC**

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of HNB Finance PLC ("the Company"), which comprise the statement of financial position as at 31 March 2021, and the statement of income, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies set out on pages 146 to 219 in the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter– Restatement of Comparative Balances

We draw attention to Note 51 to the financial statements which indicates that the comparative balances presented as at and for the year ended 31 March 2020 have been restated and disclosed in these financial statements. Our opinion is not modified in respect of this matter.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### 1. Impairment allowance for loans, advances and lease rentals receivables

(Refer to Note 3.2.7 of significant accounting policies and explanatory Notes 18, 19, 23, and 50.5 to the financial statements).

#### Risk Description

As disclosed in Notes 18 and 19 to the financial statements, the Company has recorded impairment allowance of LKR 2,767 Mn. relating to loans and advances to customers and LKR 849 Mn. relating to lease rentals receivables as at 31 March 2021.

The determination of provision for impairment allowances using the expected credit loss model is subject to a number of key parameters, key assumptions and judgements, including the identification of loss stages, probability of default (PD), loss given default (LGD), macroeconomic scenarios including their weighting and judgements over the use of data inputs required. These models are reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk (SICR).

Management judgement is involved in the selection of those parameters and the application of assumptions. Additionally, the COVID-19 pandemic has led the Company to use assumptions regarding the economic outlook becoming more uncertain which, combined with varying Government responses, increases the level of judgement required by the Company in calculating the ECL.

Impairment allowance for loans and advances and lease rentals receivables was considered as a key audit matter due to the significance to the financial statements, Management assumption, judgements and estimation uncertainty associated with the impairment allowance calculation.

Our audit procedures included –

- Obtaining an understanding of and assessing the design, implementation, and operating effectiveness of Management's key internal controls related to the measurement of allowance for impairment.
- Evaluating the appropriateness of the accounting policies for ECL and underlying methodology applied based on the requirements of SLFRS 9 with our business understanding and industry practices.
- Evaluating the completeness of customers/facilities assessed individually based on the criteria set for the same and checking the accuracy of the provision for impairment for such identified individually significant exposures.
- Assessing the appropriateness of identified "risk-elevated industries" by the Management for the identification of SICR of the exposures due to the economic impact of COVID-19 Pandemic and independently calculating the stages of loans based on the set criteria for the collectively assessed exposures. Along with this, we reviewed the reasonableness of the Company's treatment for COVID-19 payment relief customers (moratorium/debt concessions) in staging the exposure for the collective assessment.
- Assessing the appropriateness of key parameters and assumptions particularly related to the macroeconomic scenarios used in the expected credit loss model by considering the uncertainties pursuant to the COVID 19 outbreak.
- Evaluating the appropriateness and testing the mathematical accuracy of the estimation of allowance for impairment.
- Evaluating the completeness, accuracy and relevance of underlying data used for the calculation of impairment allowance on sample basis by agreeing to the source documents and IT systems.
- Assessing the adequacy and appropriateness of disclosures made in the financial statements with reference to the requirements of relevant accounting standards.

## 2. IT systems and controls over financial reporting

### Risk Description

The Company's key financial accounting and reporting processes are highly dependent on the automated controls over the Company's information systems. Automated accounting procedures and IT environment controls, which include IT governance, controls over programme development and changes, access to programmes, and data and IT operations, are required to be designed and to operate effectively to ensure accurate financial reporting.

System calculations including interest calculations and interfaces between business management systems and accounting systems are the significant areas which could result in the financial records being materially misstated.

We identified IT systems and controls over financial reporting as a key audit matter because the Company's financial accounting and reporting systems are fundamentally reliant on complex IT systems and control processes which are driven by significant transaction volumes caused by the size of the customer base.

We used our KPMG IT specialists to perform audit procedures to assess IT systems and controls over financial reporting, which included –

- Obtaining an understanding of an assessing the design, implementation, and operating effectiveness of Management key internal controls over the continued integrity of all major IT systems fundamental to dealing with the financial data, particularly financial reporting.
- Examining the framework of governance over the Company's IT organisation and the controls over programme development and changes, access to programmes and data and IT operations, including compensating controls where required.
- Evaluating the design, implementation, and operating effectiveness of the significant accounts related IT process controls by assessing the operating effectiveness of IT application controls, assessing the operating effectiveness of certain automated controls and system calculations which are relevant to the Company's compliance activities.
- Assessing the availability and stability of key operating systems, taking into consideration the rapid development of businesses types and transaction volumes as well as IT projects that have an impact on the financial reporting process.
- Assessing the Management's evaluation of access right granted and removed to applicants relevant to financial accounting and reporting systems.
- Testing preventative controls designed to enforce segregation of duties between users within particular systems.

# Independent Auditor's Report

## Other Matter Relating to Comparative Balances

The financial statements of the Company as at and for the year ended 31 March 2020, excluding the retrospective adjustments described in Note 51 to the financial statements, were audited by another auditor who expressed an unmodified opinion on those financial statements on 29 July 2020.

As part of our audit of the financial statements as at and for the year ended 31 March 2021, we also audited the retrospective adjustments described in Note 51 to the financial statements that were applied to restate the comparative information.

We were not engaged to audit, review, or apply any procedures to the comparative information, other than with respect to the retrospective adjustments described in Note 51. Accordingly, we do not express an opinion or any other form of assurance on comparative information. However, in our opinion, the retrospective adjustments described in Note 51 to the financial statements are appropriate and have been properly applied.

## Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also –

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related

# Independent Auditor's Report

disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 3029.

KPMG

**Chartered Accountants**
Colombo
Sri Lanka

29 June 2021

# INCOME STATEMENT

| Year ended 31 March | Note | 2021 LKR | 2020 LKR (Restated)* |
|---|---|---|---|
| **Gross income** | | 7,167,025,059 | 9,170,137,700 |
| Interest income | 5 | 6,478,389,314 | 8,105,612,178 |
| Interest expenses | 6 | (3,521,400,330) | (3,719,330,982) |
| **Net interest income** | | 2,956,988,984 | 4,386,281,196 |
| Fee and commission income | | 503,020,936 | 844,610,196 |
| Fee and commission expenses | | (96,508,777) | (160,405,038) |
| **Net fee and commission income** | 7 | 406,512,159 | 684,205,158 |
| **Net interest, fee and commission income** | | 3,363,501,143 | 5,070,486,354 |
| Other operating income | 8 | 185,614,809 | 219,915,326 |
| Net Change in fair value of financial instruments at FVTPL | 17 | 391,472 | 178,128 |
| **Total operating income** | | 3,549,507,424 | 5,290,579,808 |
| Impairment charges for loans, leases and other advances | 9 | (1,045,177,165) | (1,085,863,153) |
| **Net operating income** | | 2,504,330,259 | 4,204,716,655 |
| Personnel expenses | 10 | (1,123,140,907) | (1,336,693,187) |
| Other expenses | | (1,455,439,465) | (1,740,353,618) |
| **Total operating expenses** | | (2,578,580,372) | (3,077,046,805) |
| **Operating (Loss)/Profit Before Taxes on Financial Services** | | (74,250,113) | 1,127,669,850 |
| Taxes on financial services | 11 | (122,057,199) | (468,022,539) |
| **(Loss)/Profit before income tax expense** | 12 | (196,307,312) | 659,647,311 |
| Income tax reversal/(expenses) | 13 | 72,694,187 | (264,403,871) |
| **(Loss)/Profit for the year** | | (123,613,125) | 395,243,440 |

* Refer Note 51 to the Financial Statements.

Figures in brackets indicate deductions.

The Notes on pages 152 through 219 form an integral part of these Financial Statements.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| For the year ended 31 March | Note | 2021 LKR | 2020 LKR (Restated)* |
|---|---|---|---|
| **Loss/(Profit) for the year** | | (123,613,125) | 395,243,440 |
| **Other comprehensive income, net of tax** | | | |
| Items that will not be reclassified to profit or loss | | | |
| Actuarial gain/(losses) on retirement benefit obligation | 35.1 | 25,719,813 | (7,506,562) |
| Deferred tax effect on remeasurement of retirement benefit obligation | 13 | (6,172,755) | 2,101,837 |
| Deferred tax effect on revaluation reserve due to change in tax rate | 29.4 | 9,024,878 | – |
| Items that are or may be reclassified subsequently to profit or loss | | | |
| Equity Investments at FVOCI – net change in fair value | 22.1 | (9,774,473) | – |
| **Other comprehensive income/(expense) for the year, net of tax** | | 18,797,463 | (5,404,725) |
| **Total Comprehensive (Expense)/Income for the year** | | (104,815,662) | 389,838,715 |
| Basic (loss)/earnings per share | 14 | (0.07) | 0.23 |

* Refer Note 51 to the Financial Statements.

Figures in brackets indicate deductions.

The Notes on pages 152 through 219 form an integral part of these Financial Statements.

# STATEMENT OF FINANCIAL POSITION

| As at 31 March | Note | 2021 LKR | 2020 LKR (Restated)* |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 16 | 645,635,660 | 1,502,773,059 |
| Financial assets measured at FVTPL | 17 | 16,704,000 | 16,192,528 |
| Financial assets at amortised cost – Loans and advances to customers | 18 | 18,075,473,229 | 17,775,565,585 |
| Financial assets at amortised cost – Lease rentals receivables | 19 | 10,296,416,174 | 9,942,881,802 |
| Financial assets at amortised cost – Loans and advances to others | 21 | 405,765,402 | 584,123,014 |
| Financial assets measured at FVOCI | 22 | 2,655,810 | 12,430,283 |
| Financial assets at amortised cost – Debt and other instruments | 23 | 3,482,764,544 | 4,231,143,039 |
| Other assets | 24 | 460,828,759 | 421,096,821 |
| Current tax asset | 32 | 8,392,657 | – |
| Investment properties | 25 | 1,105,000,000 | 1,077,800,000 |
| Intangible assets | 26 | 254,263,673 | 298,713,377 |
| Property, plant and equipment | 27 | 1,590,028,807 | 1,625,569,182 |
| Right-of-use assets | 28 | 257,470,889 | 286,728,068 |
| Deferred tax assets | 29 | 153,987,656 | 167,121,098 |
| **Total assets** | | 36,755,387,260 | 37,942,137,856 |
| **Liabilities and Equity** | | | |
| **Liabilities** | | | |
| Financial liabilities at amortised cost – Due to customers | 30 | 28,046,962,308 | 27,528,789,668 |
| Financial liabilities at amortised cost – Debt issued and other borrowed funds | 31 | 2,636,572,519 | 3,822,043,053 |
| Current tax liability | 32 | – | 133,467,472 |
| Value added tax payable | 33 | 61,155,046 | 59,079,643 |
| Other liabilities | 34 | 834,933,191 | 1,138,517,580 |
| Retirement benefit obligation | 35 | 280,857,939 | 260,518,521 |
| **Total liabilities** | | 31,860,481,003 | 32,942,415,937 |
| **Equity** | | | |
| Stated capital | 36 | 223,545,481 | 223,545,481 |
| General reserve | 37 | 82,897,989 | 82,897,989 |
| Statutory reserve fund | 38 | 1,091,098,380 | 1,091,098,380 |
| Revaluation reserve fund | 39 | 600,738,874 | 591,713,996 |
| Retained earnings | 40 | 2,896,625,533 | 3,010,466,073 |
| **Total equity** | | 4,894,906,257 | 4,999,721,919 |
| **Total equity and liabilities** | | 36,755,387,260 | 37,942,137,856 |

* Refer Note 51 to the Financial Statements.

The Notes on pages 152 through 219 form an integral part of these Financial Statements.
These Financial Statements are prepared in compliance with the requirements of the Companies Act No. 07 of 2007 and Finance Business Act No. 42 of 2011.

W S P Arangala
Chief Operating Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Approved and signed for and on behalf of the Board of Directors by,

A J Alles
Chairman
29 June 2021
Colombo

B M D C Prabhath
Managing Director/CEO

# STATEMENT OF CHANGES IN EQUITY

| For the year ended 31 March | Stated capital LKR | General reserves LKR | Statutory reserve LKR | Revaluation reserve LKR | Retained earnings LKR | Total LKR |
|---|---|---|---|---|---|---|
| **Balance as at 1 April 2019 (As reported previously)** | 223,545,481 | 82,897,989 | 1,006,995,465 | 591,713,996 | 2,724,314,273 | 4,629,467,204 |
| Impact of Error correction (Note 51) | – | – | – | – | (19,584,000) | (19,584,000) |
| **Restated balance as at 1 April 2019** | 223,545,481 | 82,897,989 | 1,006,995,465 | 591,713,996 | 2,704,730,273 | 4,609,883,204 |
| Restated profit for the year (Note 51 (b)) | – | – | – | – | 395,243,440 | 395,243,440 |
| **Total comprehensive income for the year, net of tax** | | | | | | |
| Actuarial loss on defined benefit plans (Note 35.1) | – | – | – | – | (7,506,562) | (7,506,562) |
| Deferred tax effect on actuarial loss on defined benefit plans (Note 13) | – | | – | – | 2,101,837 | 2,101,837 |
| **Restated total comprehensive income for the year** | – | – | – | – | 389,838,715 | 389,838,715 |
| **Transactions recorded directly in equity** | | | | | | |
| Transfer to statutory reserve (Note 38) | – | – | 84,102,915 | – | (84,102,915) | – |
| **Restated balance as at 31 March 2020** | 223,545,481 | 82,897,989 | 1,091,098,380 | 591,713,996 | 3,010,466,073 | 4,999,721,919 |
| **Balance as at 1st April 2020** | 223,545,481 | 82,897,989 | 1,091,098,380 | 591,713,996 | 3,010,466,073 | 4,999,721,919 |
| Loss for the year | – | – | – | – | (123,613,125) | (123,613,125) |
| **Total comprehensive expense for the year** | | | | | | |
| Actuarial gain on defined benefit plans (Note 35.1) | – | – | – | – | 25,719,813 | 25,719,813 |
| Deferred tax effect on actuarial gain on defined benefit plans (Note 13) | – | – | – | – | (6,172,755) | (6,172,755) |
| Equity Investments at FVOCI - net change in fair value (Note 22.1) | – | – | – | – | (9,774,473) | (9,774,473) |
| Deferred tax effect on revaluation reserve due to change in tax rate | – | – | – | 9,024,878 | – | 9,024,878 |
| **Total comprehensive expense for the year** | – | – | – | 9,024,878 | (113,840,540) | (104,815,662) |
| **Balance as at 31 March 2021** | 223,545,481 | 82,897,989 | 1,091,098,380 | 600,738,874 | 2,896,625,533 | 4,894,906,257 |

Figures in brackets indicate deductions.

The Notes on pages 152 through 219 form an integral part of these Financial Statements.

# STATEMENT OF CASH FLOWS

| For the year ended 31 March | Note | 2021 LKR | 2020 LKR |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| **(Loss)/Profit before tax** | | (196,307,312) | 659,647,311 |
| **Adjustments for:** | | | |
| Interest expenses on borrowings | 6 | 114,984,475 | 366,529,507 |
| Interest expenses on debentures | 6 | 190,844,594 | 96,222,013 |
| Interest income from financial assets at amortised cost – debt and other instrument | 5 | (309,943,358) | (276,484,158) |
| Interest income on financial assets measured at fair value through profit or loss | 5 | (1,440,000) | (1,440,000) |
| Dividend income | 8 | (320,000) | (280,000) |
| Profit/(loss) on disposal of property, plant and equipment | 8 | (122,294) | 378,232 |
| Impairment charge for loans and other assets | 9 | 1,045,177,165 | 1,085,863,153 |
| Provision for value added tax | 33 | 131,029,620 | 292,320,954 |
| Provision for debt repayment levy | | – | 149,867,264 |
| (Reversal)/provision for crop insurance levy | 12 | (1,145,747) | 4,550,000 |
| Provision for nation building tax | 11 | (8,972,421) | 25,834,321 |
| Amortisation on intangible assets | 26 | 71,514,522 | 67,155,195 |
| Amortisation of right of use assets | 28 | 72,192,148 | 80,729,862 |
| Interest expense from lease liability | 34.1.1 | 31,882,993 | 31,737,496 |
| Depreciation – on property, plant and equipment | 27 | 142,261,636 | 146,598,191 |
| Provision for retirement benefit obligation | 10 | 56,149,981 | 52,208,063 |
| Gain from revaluation of investment properties | 8 | (27,200,000) | – |
| Change in fair value of financial assets measured at FVTPL | 17 | (391,472) | (178,128) |
| Provision for amount payable under sip *saviya* scheme | | 1,100,000 | 1,200,000 |
| **Cash flows from operating activities before working capital changes** | | 1,311,294,530 | 2,782,459,276 |
| **Changes in Operating Assets and Operating Liabilities** | | | |
| Financial assets at amortised cost – Loans and advances to customers | | (972,853,730) | (1,754,662,580) |
| Financial assets at amortised cost – Lease rentals receivables | | (740,031,655) | (1,960,679,270) |
| Financial assets at amortised cost – Loans and advances to others | | 178,357,614 | 57,589,426 |
| Other assets | | (39,731,939) | (471,426,929) |
| Financial Liabilities at Amortised cost – Due to Customers | | 507,602,548 | 4,879,496,558 |
| Other liabilities | | (315,956,905) | 33,060,006 |
| **Cash flows (used in)/generated from operations** | | (71,319,537) | 3,565,836,488 |
| Gratuity paid | 35 | (10,090,750) | (6,998,925) |
| Income tax paid | 32 | (53,197,448) | (118,347,646) |
| Other taxes paid | | (129,736,752) | (520,817,017) |
| **Net cash flows (used in)/generated from operating activities** | | (264,344,487) | 2,919,672,900 |

# Statement of Cash Flows

| For the year ended 31 March | Note | 2021 LKR | 2020 LKR |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 27 | (53,986,835) | (97,200,044) |
| Purchase of intangible asset | 26 | (27,064,818) | (91,326,923) |
| Proceeds from sale of property, plant and equipment | | 221,531 | 378,232 |
| Net of investment in financial assets at amortised cost – Government securities | 23.1 | 608,771,551 | (350,225,698) |
| Proceeds from debentures investments | 23 | 150,000,000 | – |
| Net investment in financial assets at amortised cost – Fixed deposits | 23 | (25,000,000) | (1,638,451,247) |
| Financial assets at amortised cost – Fixed deposit interest received | 23 | 166,484,515 | 59,159,149 |
| Financial assets at amortised cost – Treasury bill interest received | 23 | 122,891,193 | 155,893,822 |
| Financial assets measured at fair value thorough profit or loss interest received | 17 | 1,440,000 | 1,440,000 |
| Dividend income | 8 | 320,000 | 280,000 |
| Financial assets at amortised cost – debentures interest received | | 16,875,000 | 16,875,000 |
| **Net cash flow generated from/(Used in) investing activities** | | 960,952,137 | (1,943,177,709) |
| **Cash flows from financing activities** | | | |
| Interest payments on debentures | 6 | (192,250,762) | (54,980,724) |
| Interest payments on borrowings | 6 | (114,984,475) | (334,792,011) |
| Net proceeds from debentures issued | 31.1 | (33,250,000) | 1,200,541,206 |
| Proceeds from long-term interest-bearing loans and borrowings | 31.2 | 1,300,000,000 | 1,900,000,000 |
| Loans repayments during the year | 31.2 | (2,450,814,366) | (3,495,003,992) |
| Lease rental payments | 34.1.1 | (62,445,446) | (60,582,983) |
| **Net cash flow used in Financing Activities** | | (1,553,745,049) | (844,818,504) |
| Net increase/(decrease) in cash and cash equivalents | | (857,137,399) | 131,676,687 |
| Cash and cash equivalents at the beginning of the year | 16 | 1,502,773,059 | 1,371,096,372 |
| **Cash and cash equivalents at the end of the year** | 16 | 645,635,660 | 1,502,773,059 |

Figures in brackets indicate deductions.

The Notes on pages 152 through 219 form an integral part of these Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Reporting Entity

HNB Finance PLC (the "Company") is a Licensed Finance Company regulated under the Finance Business Act No. 42 of 2011 and listed on Colombo Stock Exchange as a public limited liability company with effect from 20 May 2020.

On 17 February 2010, the Company was registered as a Finance Company by the Monetary Board of the Central Bank of Sri Lanka in terms of Section 2 of the Finance Companies Act No. 78 of 1988 and is permitted in terms of Section 7 (1) of the said Act to carry on finance business. The registered office of the Company is situated at No. 168, Nawala Road, Nugegoda.

The Company has been registered as a "Registered Finance Leasing Establishment" under Section 5 of the Finance Leasing Act No. 56 of 2000 and is permitted to carry on Finance Leasing Business with effect from 31 March 2014.

The name of the Company was changed from HNB Grameen Finance Limited to HNB Finance Limited on 2 October 2018 and to HNB Finance PLC from 16 September 2020. The Company's ultimate parent entity is HNB Bank PLC which is incorporated in Sri Lanka. The staff strength of the Company as at 31 March 2021 was 1,851 (31 March 2020 – 1,964).

### 1.2 Principal Activities

The principal activities of the Company comprised of leasing, hire purchase, secured loans, Microfinance, gold loans, property mortgaged loans, and mobilization of public deposits. The Company has more focused on the growth of leasing and micro loan business during the financial period under review. There were no significant changes in the nature of principal activities of the Company during the financial period under review.

## 2 Basis of Preparation of Financial Statements

### 2.1 Statement of Compliance

The Financial Statements of the Company have been prepared in accordance with the Sri Lanka Accounting Standards (LKASs/SLFRSs) laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the requirements of the Companies Act No. 07 of 2007.

The presentation of these Financial Statements is also in compliance with the requirements of the Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

### 2.2 Approval of Financial Statements by Directors

The Financial Statements were authorised for issue by the Board of Directors on 29 June 2021.

### 2.3 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis except for the following:

- Non-derivative financial instruments held at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI) are measured at fair value.
- Liability for defined benefit obligations is measured as the present value of the defined benefit obligation.
- Investment property are measured at cost at the time of acquisition and subsequently at revalued amounts.
- Lands and Buildings are measured at cost at the time of acquisition and subsequently at revalued amounts.

### 2.4 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees (LKR), which is the Company's functional currency. Financial information presented in Sri Lankan Rupees has been rounded to the nearest rupee value unless indicated otherwise.

There was no change in the Company's presentation and functional currency during the year under review.

### 2.5 Materiality and Aggregation

Each material class of similar item is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

### 2.6 Offsetting

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs/LKASs, or for gains and losses arising from a company of similar transactions such as in the Company's trading activity.

### 2.7 Comparative Information

Comparative information is reclassified wherever necessary to conform with the current year›s classification in order to provide better presentation.

### 2.8 Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards and as per the provisions of the Companies Act No. 07 of 2007. This responsibility includes: designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

These Financial Statements include the following components:

- A Statement of Financial Position providing the information on the financial position of the Company as at the year-end;
- A Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Company for the period under review;
- A Statement of Changes in Equity depicting all changes in shareholders' funds during the period under review of the Company;
- A Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of entities to utilize those cash flows; and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

## 2.9 Use of Estimates and Judgements

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standards (SLFRSs/LKASs) requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements are described in the following notes:

### 2.9.1 Coronavirus (COVID-19) pandemic

The COVID-19 pandemic and its effect on the global economy have impacted the customers, operations and Company performance. The outbreak necessitated the Government to respond at unprecedented levels to protect the health of the population, local economy and livelihoods. Thus, the pandemic has significantly increased the estimation uncertainty in the preparation of these Financial Statements including, the extent and duration of the disruption to businesses, expected economic downturn, and subsequent recovery.

The most significant accounting estimates impacted by these forecasts and associated uncertainties is predominantly related to expected credit losses. The impact of the COVID-19 pandemic on this estimates is discussed further in Notes to these Financial Statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

### 2.9.2 Classification and impairment of financial assets

The Company used judgements when assessing the business model within which the assets are held and assessment whether the contractual terms of the financial assets are solely-payment-of-principal-and-interest (SPPI) on the principal amount of the outstanding.

The Company also used judgements when establishing the criteria for determining whether credit risk on the financial assets has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of Expected Credit Losses (ECL) and selection and approval of models to measure ECL.

### 2.9.3 Going concern

The Management has made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Management is not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

### 2.9.4 Fair value of financial instruments

When 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 valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values.

The Company uses estimates when determining inputs into the ECL measurement model, including incorporation of forward looking information.

This includes an element of Management's judgement, in particular for the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, the change of which can result in different levels of allowances.

### 2.9.5 Deferred tax assets

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.

# Notes to the Financial Statements



### 2.9.6 Fair valuation of investment property

Fair valuation of investment property are determined using an external independent valuer. Valuation of these properties involves significant judgement, that are disclosed in Notes to these Financial Statements.

### 2.9.7 Measurement of defined benefit obligation

The costs of the defined benefit plans are determined using an actuarial valuation. The actuarial valuation involves making assumptions about mortality rates, staff turnover, disability rate, retirement age, rate of discount, salary increments etc.

## 3 Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements unless otherwise indicated.

### 3.1 Foreign Currency Transactions and Balances

Transactions in foreign currencies are translated to the respective functional currency (Sri Lankan Rupees) at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items are the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in Statement of Profit or Loss.

### 3.2 Financial Assets and Financial Liabilities

### 3.2.1 Recognition and initial measurement

The Company initially recognises loans and advances, deposits and debt securities issued on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

### 3.2.2 Classification

#### Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI). A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL. In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

#### Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to Management. The information considered includes –

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's Management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g.: whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised. Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

**Assessment of whether contractual cash flows are Solely Payments of Principal and Interest (SPPI)**

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g.: liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instruments. This includes assessing whether the financial asset contains a contractual term that could change the timing or contractual cash flows such that it would not meet this condition. In making the assessment the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g.: non-recourse loans); and
- features that modify consideration of the time value of money (e.g.: periodical reset of interest rates).

### 3.2.3 Reclassifications

#### Financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

#### Financial liabilities

The Company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

### 3.2.4 De-recognition

#### Financial assets

The Company de-recognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial 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 de-recognised) and the sum of: (i) the consideration received (including any new asset obtained less any new liability assumed); and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on de-recognition of such securities, as explained. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Company is recognised as a separate asset or liability.

The Company enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not de-recognised. Examples of such transactions are securities lending and sale-and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions, because the Company retains all or substantially all of the risks and rewards of ownership of such assets. In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

#### Financial liabilities

The Company de-recognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

### 3.2.5 Modification of financial assets and liabilities

#### Financial assets

If the terms of a financial asset are modified, then the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is de-recognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and

# Notes to the Financial Statements



- other fees are included in profit or loss as part of the gain or loss on de-recognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Company plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the de-recognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in de-recognition of the financial asset, then the Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

### Financial liabilities

The Company de-recognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability de recognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as de-recognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

**Subsequent measurement and gains or losses**

| | |
|---|---|
| Financial assets at FVTPL | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. |
| Financial assets at amortized cost | These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income and impairment are recognized in profit or loss. Any gain or loss on de-recognition is recognized in profit or loss. |
| Equity investments at FVOCI | These are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss. |

### 3.2.6 Fair value measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as "active" if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e., the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price. Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Company on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio level adjustments – e.g., bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

### 3.2.7 Impairment recognition of ECL

The Company recognises loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- Loans and Advances to customers;
- lease receivables; and
- undrawn credit commitments.

No impairment loss is recognised on equity investments. The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the definition of "investment grade". The Company does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as "Stage 1 financial instruments". Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as "Stage 2 financial instruments".

#### Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit impaired at the reporting date: as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive.

#### Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be de-recognised and ECL are measured as follows:

- If the expected restructuring will not result in de-recognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its de-recognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

#### Credit-Impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as "Stage 3 financial assets"). A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is past due for a period more than 90 days and a lease receivable that is past due for a period more than 180 days. or classified as non-performing under CBSL Directions is considered credit-impaired.

### Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the Statement of Financial Position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments: as a provision under other liabilities;
- debt instruments measured at FVOCI: no loss allowance is recognised in the Statement of Financial Position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

### Write-Off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in "impairment losses on financial instruments" in the Statement of Profit or Loss and OCI. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

### 3.2.8 Designation at fair value through profit or loss

The Company does not have any financial liabilities designated as at FVTPL, but the Company has designated its investments in Treasury Bond issued by the Government of Sri Lanka as at FVTPL.

### 3.3 Securities Purchased Under Resale Agreements

These are loans collateralised by the purchase of Treasury Bills and/or Guaranteed Commercial Papers from the counterparty to whom the loans are granted. The sale by the counterparty is subject to a commitment by the Company to sell back the underlying debt securities to the borrower at a predetermined price. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

### 3.4 Leases

At the inception of a contract, the Company assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company use the definition of a lease in SLFRS 16.

This policy is applied to contracts entered into (or changed) after 1st April 2019.

### 3.4.1 Company acting as a lessee

At commencement or modification of a contract that contains a lease component, the Company allocates consideration in the contract to each lease component on the basis of its stand-alone price. However, for lease of branches the Company has elected not to separate non-lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The Company determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of the lease asset.

### Lease payments included in the measurement of lease liability includes –

- Fixed payments
- Variable lease payments that depend on an index or rate
- Amount expected to be payable under residual value guarantee
- The exercise price under a purchase option that the Company is reasonably certain to exercise

Lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable or if there is a fixed in substance lease payment.

When the lease liability is remeasured as such, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents the right-of-use asset as separate line item in the Statement of Financial Position while the lease liability is presented under other liabilities

### Short-term leases and leases of low value assets

The Company elected not to recognize right-of-use assets and lease liabilities for lease of low-value assets and short-term leases. The Company recognizes the lease payments associated with these leases as an expense on the straight-line basis.

### 3.4.2 The Company acting as a lessor

When the Company acts as the lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Company makes and overall assessment of whether the lease transfers substantially all of risks and rewards incidental to ownership of the underlying asset. If this is the case, lease is a finance lease; if not it is an operating lease.

The Company applies the de-recognition and impairment requirements in SLFRS 9 to the lease rental receivables.

## 3.5 Property, Plant and Equipment

### 3.5.1 Basis of recognition

Property, plant and equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the Company and cost of the asset can be reliably measured.

### 3.5.2 Basis of measurement

Items of property, plant and equipment except for land and buildings are measured at cost less accumulated depreciation and accumulated impairment losses. Land and buildings are measured at revalued amounts.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

### 3.5.3 Cost model

The Company applies the cost model to all property, plant and equipment except freehold land and buildings; which records at cost of purchase together with any incidental expenses thereon less any accumulated depreciation and accumulated impairment losses if any.

### 3.5.4 Revaluation model

The Company 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 of buildings and subsequent accumulated impairment losses.

Freehold land and buildings of the Company is revalued at least once in every three years on a roll over basis to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in other comprehensive income and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the income statement. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the income statement or debited in the other comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

### 3.5.5 Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

### 3.5.6 Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified as investment property. Any gain arising on re-measurement is recognized in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognized and presented in the revaluation reserve in equity. Any loss is recognized immediately in profit or loss.

### 3.5.7 Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful

# Notes to the Financial Statements

life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Lands are not depreciated.

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is de-recognized. Depreciation methods, useful life values are assessed at the reporting date. The estimated useful lives for the current year are as follows:

| | |
|---|---|
| Buildings | 40 years |
| Motor Vehicles | 05 years |
| Furniture and Fittings | 05 years |
| Computer and Accessories | 05 years |
| Machinery and Equipment | 05 years |
| Fixtures and Fittings | 05 years |

### 3.5.8 De-recognition

An item of property, plant and equipment is de-recognized upon disposal or when no future economic are expected from its use or disposal.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognized net within other income/ other expenses in the Statement of Profit and Loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

### 3.5.9 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.

## 3.6 Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The Company's corporate assets do not generate separate cash inflows and are utilized 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 CGUs to which the corporate asset is allocated.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (Company of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (Company of CGUs) on a *pro rata* basis. An impairment loss recognized 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 amortization, if no impairment loss had been recognized.

## 3.7 Investment properties

### 3.7.1. Basis of recognition

Investment properties are the properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes.

### 3.7.2 Basis of measurement

#### 3.7.2.1 Fair value model

Investment properties are initially recognized at cost. Subsequent to initial recognition the investment properties are stated at fair values, which reflect market conditions at the reporting date. Gains or losses arising from changes in fair value are included in the other income of Statement of Profit or Loss in the year in which they arise.

#### 3.7.2.2 De-recognition

Investment properties are de-recognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the Statement of Profit or Loss in the year of retirement or disposal.

#### 3.7.2.3 Subsequent transfers to/ from investment property

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development.

Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

For a transfer from investment property to owner occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Company as an owner-occupied property becomes an investment property, the Company, accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the Statement of Profit or Loss. When the Company completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the Statement of Profit or Loss.

#### 3.7.2.4 Determining fair value

External and independent valuers, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, values the investment property portfolio as at the end of each financial year. In financial periods within that period the fair value is determined by the Board of Directors.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

### 3.8 Other Non-Financial Liabilities and Provisions

Liabilities are recognized in the Statement of Financial Position when there is a present obligation as a result of a past event, the settlement of which is expected to result in an outflow of resources embodying economic benefits. Obligations payable at the demand of the creditor within one year of the reporting date are treated as current liabilities. Liabilities payable after one year from the reporting date are treated as non-current liabilities.

### 3.9 Deposits due to Customers

Deposits include term deposits and saving deposits. They are stated in the Statement of Financial Position at amount payable. Interest paid/payable on these deposits based on effective interest rate is charged to the Statement of Profit or Loss.

### 3.10 Deposit Insurance Scheme

In terms of the Finance Companies Direction No. 2 of 2010 "Insurance of Deposit Liabilities" issued on 27 September 2010, all Registered Finance Companies are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No. 1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1 October 2010.

Deposits to be insured include time and savings deposit liabilities and exclude the following:

- Deposit liabilities to member institutions
- Deposit liabilities to Government of Sri Lanka
- Deposit liabilities to shareholders, Directors, Key Management Personnel and other related parties as defined in Finance Companies Act Direction No. 3 of 2008 on Corporate Governance of Registered Finance Companies
- Deposit liabilities held as collateral against any accommodation granted
- Deposit liabilities falling within the meaning of dormant deposits in terms of the Finance Companies Act, funds of which have been transferred to Central Bank of Sri Lanka

Registered finance companies are required to pay a premium of 0.15% on eligible deposit liabilities as at end of the month to be payable within a period of 15 days from the end of the respective month.

### 3.11 Debt Securities Issued

These represent the funds borrowed by the Company for long-term funding requirements. Subsequent to initial recognition debt securities issued are measured at their amortized cost using the effective interest method, except where the Company designates debt securities issued at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

### 3.12 Other Liabilities

Other liabilities are recorded at amounts expected to be payable at the reporting date.

### 3.13 Employee benefits

#### 3.13.1 Defined contribution plans

A Defined Contribution Plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in the Statement of Comprehensive Income in the periods during which services are rendered by employees.

# Notes to the Financial Statements



#### 3.13.1.1 Employees' Provident Fund (EPF)

The Company and employees contribute 12% and 8% respectively on the salary of each employee to the above-mentioned funds.

#### 3.13.1.2 Employees' Trust Fund (ETF)

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund.

### 3.13.2 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating 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. Any unrecognized past service costs are deducted.

The calculation is performed every year by a qualified actuary using the projected unit credit method. For the purpose of determining the charge for any period before the next regular actuarial valuation falls due, an approximate estimate provided by the qualified actuary is used.

When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Company recognizes all actuarial gains and losses arising from the defined benefit plan in other comprehensive income (OCI) and all other expenses related to defined benefit plans are recognize as personnel expenses in Statement of Profit or Loss. This retirement benefit obligation is not externally funded.

However, according to the Payment of Gratuity Act No.12 of 1983, the liability for the gratuity payment to an employee arises only on the completion of five years of continued service with the Company.

#### 3.13.2.1 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus, if the Company 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.

### 3.14 Provisions, contingent assets and contingent liabilities

Provisions are made for all obligations (legal or constructive) existing as at the reporting date when it is probable that such an obligation will result in an outflow of resources and a reliable estimate can be made of the quantum of the outflow. The amount recognized is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date.

All contingent liabilities are disclosed as a note to the Financial Statements unless the outflow of resources is remote. Contingent assets are disclosed, where inflow of economic benefit is probable.

## Statement of Profit or Loss and Other Comprehensive Income

### 3.15 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company, and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

### 3.15.1 Interest income on leases, loans and advances

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the Statement of Profit or Loss includes –

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;
- interest on investment securities calculated on an effective interest basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Company›s trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the Statement of Profit or Loss.

The excess of aggregated contract receivable over the cost of the assets constitutes the total unearned income at the commencement of a contract. The unearned income is recognized as income over the term of the facility commencing with the month that the facility is executed in proportion to the declining receivable balance, so as to produce a constant periodic rate of return on the net investment.

### 3.15.2 Fees and commission income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees are recognized as the related services are performed.

Profit or loss on contracts terminated, collections on contracts written off, interest on overdue rentals, interest earned on property sale and buy back agreements are accounted for on cash basis.

### 3.15.3 Other income

Rent income and non-operational interest income are accounted for on accrual basis. Dividend income is recognized when the right to receive payment is established.

Gain on disposal of property, plant and equipment and other non-current assets, including investments held by the Company have been accounted for in the Statement of Profit or Loss, after deducting from the net sales proceeds on disposal of the carrying amount of such assets.

### 3.16 Expenses recognition

Expenses are recognized 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 in maintaining the property, plant and equipment in a state of efficiency has been charged to income in arriving at the profit for the year. For the presentation of the Statement of Profit or Loss the Directors are of the opinion that the nature of the expenses method present fairly the element of the Company's performance, and hence such presentation method is adopted.

### 3.17 Tax expense

Tax expense comprises current, deferred tax and other statutory taxes. Income tax and deferred tax expense is recognised in Statement of Profit or Loss except to the extent that it relates to items recognized in the Statement of Other Comprehensive Income or Statement of Changes in Equity.

### 3.17.1 Current tax expense

Current tax is the expected tax payable or recoverable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes. Current tax payable also includes any tax liability arising from the tax on dividend income.

Current tax assets and liabilities are offset only if certain criteria are met.

### 3.17.2 Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for –

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are not discounted.

The net increase in the carrying amount of deferred tax liability net of deferred tax asset is recognized as deferred tax expense and conversely any net decrease is recognized as reversal to deferred tax expense, in the Statement of Profit or Loss.

### 3.17.3 Withholding tax on dividends

Dividend distributed out of taxable profit of the local companies attracts a deduction at source and is not available for set off against the tax liability of the Company. Withholding tax that arises from the distribution of dividends by the Company is recognized at the same time as the liability to pay the related dividend is recognized.

# Notes to the Financial Statements



### 3.17.4 Value Added Tax on Financial Services (VAT on FS)

VAT on Financial Services is calculated in accordance with the amended VAT Act No. 7 of 2003 and subsequent amendments thereto. The base for the computation of VAT on Financial Services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees.

The VAT on Financial service is recognized as expense in the period it becomes due.

### 3.17.5 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1 April 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

### 3.18 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets that take a substantial period of time to get ready for its intended use or sale, are capitalized as part of the assets.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

### 3.19 Earnings per Share

The Company presents basic earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

### 3.20 Statement of Cash Flow

The Statement of Cash Flows has been prepared using the ‹Indirect Method› of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard 7 "Cash Flow Statements." 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 changes in value.

Cash and cash equivalents comprise cash in hand and cash at banks and other highly liquid financial assets which are held for the purpose of meeting short-term cash commitments with original maturities of less than three months which are subject to insignificant risk of changes in their fair value.

### 3.21 Movement of Reserves

Movement of reserves is disclosed in the Statement of Changes in Equity.

## 4 New/Amendments to Accounting Standards Issued but Not effective as at the Reporting Date

The Institute of Chartered Accountants of Sri Lanka has issued following amendments to Sri Lanka Accounting Standards (SLFRSs/LKASs) which will become applicable for financial periods beginning after 1 April 2021. Accordingly, the Company has not applied these amendments in preparing these Financial Statements.

The following amended standards and interpretations are not expected to have a significant impact on the Company's Financial Statements.

### 4.1 Onerous contracts – Cost of fulfilling contracts (amendments to LKAS 37)

Companies currently applying the "incremental cost" approach will need to recognize bigger and potentially more provisions for onerous contracts.

### 4.2 Property, plant and equipment: Proceeds before intended use (amendments to LKAS 16)

Under the amendments, proceeds from selling items before the related item of PPE is available for use should be recognised in profit or loss, together with the costs of producing those items.

Companies will therefore need to distinguish between:

- costs associated with producing and selling items before the item of PPE is available for use; and
- costs associated with making the item of PPE available for its intended use.

### 4.3 Classification of liabilities as current or non-current (amendments to LKAS 1)

Under existing LKAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, IASB has removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period.

### 4.4 Annual Improvements to SLFRS Standards 2018-2020

## 5 Interest income

| Year ended 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| **Interest calculated using effective interest method** | | |
| Loans and advances to customers (Note 5.1) | 3,943,138,581 | 5,872,907,528 |
| Lease rentals receivables | 2,056,293,543 | 1,833,094,839 |
| Loans and advances to others | 69,269,161 | 68,578,536 |
| | 6,068,701,285 | 7,774,580,903 |
| **Other interest income** | | |
| Financial assets at amortised cost – Debt and other instruments | 309,943,358 | 276,484,158 |
| Financial assets measured at fair value through profit or loss | 1,440,000 | 1,440,000 |
| Savings deposits | 98,304,671 | 53,107,117 |
| | 409,688,029 | 331,031,275 |
| | 6,478,389,314 | 8,105,612,178 |

Interest Income from Loans and advances to customers includes modification loss made to loans due to moratorium/debt concessionary schemes implemented by the Government as a measure to support the recovery of businesses/customers affected by COVID-19 pandemic.

## 6 Interest expense

| Year ended 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Deposits from customers | 3,183,688,268 | 3,256,579,463 |
| Debentures | 190,844,594 | 96,222,013 |
| Other borrowings | 146,867,468 | 366,529,506 |
| | 3,521,400,330 | 3,719,330,982 |

## 7 Net fee and commission income

| Year ended 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Fee and commission income | 503,020,936 | 844,610,196 |
| Fee and commission expenses | (96,508,777) | (160,405,038) |
| | 406,512,159 | 684,205,158 |

# Notes to the Financial Statements



## 8 Other operating income

| Year ended 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Rent income | 63,511,220 | 49,142,947 |
| Recovery of loan balance written-off | 5,794,254 | 10,991,957 |
| Default income | 57,228,378 | 120,888,935 |
| Profit/(loss) from disposal of property, plant and equipment | 122,294 | (378,232) |
| Dividend income | 320,000 | 280,000 |
| Sundry income | 31,438,663 | 38,989,719 |
| Change in fair value of investment properties (Note 25) | 27,200,000 | – |
| | 185,614,809 | 219,915,326 |

## 9 Impairment charges for loans, leases and other advances

| Year ended 31 March | Note | 2021 LKR | 2020 LKR |
|---|---|---|---|
| Financial assets at amortised cost – Loans and advances to customers | 9.1 | 672,946,086 | 734,705,658 |
| Financial assets at amortised cost – Lease rentals receivables | 9.1 | 386,497,283 | 91,187,026 |
| Financial assets at amortised cost – Debt and other Instruments | 9.2 | – | 245,731,234 |
| Other Impairment (reversals) /charges | 9.3 | (14,266,204) | 14,239,235 |
| | | 1,045,177,165 | 1,085,863,153 |

### 9.1 Impairment charges – Loans and leases

| Year ended 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| **Financial assets at amortised cost – Loans and advances to customers** | | |
| Stage 1 | 124,127,638 | 139,375,124 |
| Stage 2 | 14,865,009 | 124,057,387 |
| Stage 3 | 533,953,439 | 471,273,147 |
| | 672,946,086 | 734,705,658 |
| **Financial assets at amortised cost – Lease rentals receivables** | | |
| Stage 1 | 39,038,969 | (65,535,217) |
| Stage 2 | 85,368,261 | (29,565,172) |
| Stage 3 | 262,090,053 | 186,287,415 |
| | 386,497,283 | 91,187,026 |
| **Total impairment charge for loans and leases** | 1,059,443,369 | 825,892,684 |

### 9.2 Financial assets at amortised cost – Debt and other instruments

| Year ended 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Financial assets at amortised cost – Debt and other Instruments | – | 245,731,234 |
| | – | 245,731,234 |

### 9.3 Other Impairment

| Year ended 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Impairment (reversal)/charges for debt relief loan receivable | (14,239,235) | 14,239,235 |
| Impairment reversal on loans and advances to others | (26,969) | – |
| | (14,266,204) | 14,239,235 |

### 9.4 Comparison between provision for impairment as per SLFRS 9 and Central Bank (CBSL) requirements

| Year ended 31 March | Impairment charge to profit or loss LKR | Written off during the year LKR | Charge to profit or loss net of write-offs LKR | Provision for the year as per CBSL requirements (Unaudited) LKR |
|---|---|---|---|---|
| Loans and Advances to customers | 672,946,086 | 567,023,253 | 105,922,833 | 570,484,339 |
| Lease rental receivables | 386,497,283 | – | 386,497,283 | 393,951,744 |
| | 1,059,443,369 | 567,023,253 | 492,420,116 | 964,436,083 |

## 10 Personnel Expenses

| Year ended 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Salaries and bonus | 900,454,492 | 1,080,763,741 |
| Other personnel expenses | 23,309,181 | 54,660,311 |
| Employer's contribution to Employees' Provident Fund | 114,596,129 | 119,248,860 |
| Employer's contribution to Employees' Trust Fund | 28,631,124 | 29,812,212 |
| Retirement benefit cost (Note 35.1) | 56,149,981 | 52,208,063 |
| | 1,123,140,907 | 1,336,693,187 |

## 11 Taxes on financial services

| Year ended 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Value added tax on financial services | 131,029,620 | 292,320,954 |
| Debt recovery levy | – | 149,867,264 |
| Nation building tax on financial services | (8,972,421) | 25,834,321 |
| | 122,057,199 | 468,022,539 |

# Notes to the Financial Statements

### Value Added Tax (VAT) on financial services

VAT on financial services is calculated in accordance with Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. The base for the computation of value added tax on financial services is the accounting profit before VAT and NBT on financial services and income tax adjusted for economic depreciation and emoluments payable to employees including cash benefits, non-cash benefits and provisions relating to terminal benefits.

VAT rate applied for the current financial period is 15% (2019 – 15% up to 30 November 2019 and 15% thereafter).

### Nation Building Tax (NBT) on financial services

As per the provisions of the Nation Building Tax (NBT) Act No. 09 of 2009 and amendments thereto. NBT on financial services is payable at 2% on the Company's value additions attributable to financial services with effect from 1 January 2014. The value addition attributable to financial services is same base used to calculate VAT on financial services. NBT was abolished w.e.f. 1 December 2019.

### Debt Repayment Levy (DRL) on financial services

As per the Finance Act No. 35 of 2018, with effect from 1 October 2018, DRL of 7% was introduced on the value addition attributable to the supply of financial services by each financial institution. DRL is chargeable on the same base used for calculation of VAT on financial services. DRL was abolished w.e.f. 1 January 2020.

## 12 Profit before income tax

| Year ended 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| **Profit before tax has is stated after charging all expenses including the followings:** | | |
| Depreciation on property, plant and equipment | 142,261,636 | 146,598,194 |
| Amortisation of intangible assets | 71,514,522 | 67,155,195 |
| Directors remuneration | 22,319,000 | 25,062,600 |
| Auditors' remuneration – Audit fees | 3,750,000 | 3,985,000 |
| – Other services | 875,000 | 2,012,701 |
| Legal charges | 13,169,260 | 22,624,352 |
| Donation | – | 42,470 |

## 13 Income tax (reversal)/expense

| Year ended 31 March | Note | 2021 LKR | 2020 LKR (Restated) |
|---|---|---|---|
| **Recognised in the profit or loss** | | | |
| Income tax on profit for the year | 13.1 | 536,102 | 273,445,294 |
| Over provision for previous year | | (89,215,854) | (44,155,025) |
| Deferred tax Reversal | 29.2 | 15,985,565 | 35,113,602 |
| | | (72,694,187) | 264,403,871 |
| **Recognised in the Other Comprehensive Income** | | | |
| Deferred tax charge/(reversal) | 29.2 | 6,172,755 | (2,101,837) |
| | | 6,172,755 | (2,101,837) |

### 13.1 Numerical reconciliation of accounting profits to income tax expense

| Year ended 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Accounting (loss)/profit before income tax expense | (196,307,312) | 659,647,311 |
| **Add:** | | |
| Disallowable expenses | 2,079,386,208 | 2,489,168,000 |
| Allowable expenses | (1,870,284,671) | (2,172,224,976) |
| Tax exempt income | (10,560,462) | – |
| **Taxable income** | 2,233,763 | 976,590,335 |
| **Income tax** | | |
| At 28% | – | 273,445,294 |
| At 24% | 536,102 | – |
| **Current income tax expense** | 536,102 | 273,445,294 |

The Company has calculated the provision for income tax at the rate of 24% on its profits for the year ended 31 March 2021 (2020 : 28%).

As per the tax rates notified through the IRD Notice No. PN/IT 2020-03 dated 12 February 2020, the Company was liable to pay income tax at 24% on the profits with effect from 1 January 2020. However, these amendments were not passed in the Parliament as at 31 March 2020. Therefore, the Company considered the revised rate to be substantively not enacted as at the reporting date (i.e., 31 March 2020). This resulted in calculating the provision for income tax on the total profits for the year ended 31 March 2020 at the rate of 28%.

However, the Bill relating to these amendments was placed on the Order Paper of the Parliament for the First Reading on 26 March 2021. Subsequently, the said amendments relating to these changes in tax rates were enacted through the Inland Revenue Amendment Act No. 10 of 2021. As such, in line with the Guideline on "Application of Tax Rates in Measurement of Current Tax and Deferred Tax in LKAS 12" issued by the Institute of Chartered Accountants of Sri Lanka on 23 April 2021, the Company calculated the provision for income tax at the rate of 24% for the year ended 31 March 2021.

## 14 (Loss)/Earnings per share

### 14.1 Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to ordinary shareholders for the year divided by the weighted average number of ordinary shares outstanding during the year and is calculated as follows:

| Year ended 31 March | 2021 | 2020 (Restated) |
|---|---|---|
| Net (loss)/profit attributable to the ordinary shareholders for the year (LKR) | (123,613,125) | 395,243,440 |
| Weighted average number of ordinary shares outstanding during the year | 1,719,580,624 | 1,719,580,624 |
| Basic (loss)/earnings per share (LKR) | (0.07) | 0.23 |

### 14.2 Diluted (loss)/earnings per share

There were no potential dilutive ordinary shares outstanding at any time during the year. Therefore, diluted (loss)/earnings per share is same as basic earnings per share as shown above.

# 15 Analysis of financial instruments by measurement basis

## 15.1 Classification of financial assets and liabilities as per SLFRS 9 – "Financial Instruments"

| As at 31 March 2021 | Financial assets measured at fair value through profit or loss (FVTPL) LKR | Financial assets measured at fair value through other comprehensive income (FVOCI) LKR | Financial assets measured at amortised cost LKR | Total LKR |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | – | – | 645,635,660 | 645,635,660 |
| Financial assets measured at FVTPL | 16,704,000 | – | – | 16,704,000 |
| Financial assets at amortised cost – Loans and advances to customers | – | – | 18,075,473,229 | 18,075,473,229 |
| Financial assets at amortised cost – Lease rentals receivables | – | – | 10,296,416,174 | 10,296,416,174 |
| Financial assets at amortised cost – Loans and advances to others | – | – | 405,765,402 | 405,765,402 |
| Financial assets measured at FVOCI | – | 2,655,810 | – | 2,655,810 |
| Financial assets at amortised cost – Debt and other instruments | – | – | 3,482,764,544 | 3,482,764,544 |
| Other Financial Assets | – | – | 113,445,878 | 113,445,878 |
| **Total financial assets** | 16,704,000 | 2,655,810 | 33,019,500,887 | 33,038,860,697 |

| As at 31 March 2021 | Financial liabilities measured at fair value through profit or loss (FVTPL) LKR | Financial liabilities measured at amortised cost LKR | Total LKR |
|---|---|---|---|
| **Liabilities** | | | |
| Financial liabilities at amortised cost – Due to customers | – | 28,046,962,308 | 28,046,962,308 |
| Financial liabilities at amortised cost – Debt issued and other borrowed funds | – | 2,636,572,519 | 2,636,572,519 |
| Other financial liabilities | | 784,449,488 | 784,449,488 |
| **Total financial liabilities** | – | 31,467,984,315 | 31,467,984,315 |

| As at 31 March 2020 | Financial assets measured at fair value through profit or loss (FVTPL) LKR | Financial assets measured at fair value through other comprehensive income (FVOCI) LKR | Financial assets measured at amortised cost LKR | Total LKR |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | – | – | 1,502,773,059 | 1,502,773,059 |
| Financial assets measured at FVTPL | 16,192,528 | – | – | 16,192,528 |
| Financial assets at amortised cost – Loans and advances to customers | – | – | 17,775,565,585 | 17,775,565,585 |
| Financial assets at amortised cost – Lease rentals receivables | – | – | 9,942,881,802 | 9,942,881,802 |
| Financial assets at amortised cost – Loans and advances to others | – | – | 584,123,014 | 584,123,014 |
| Financial assets measured at FVOCI | – | 12,430,283 | – | 12,430,283 |
| Financial assets at amortised cost – Debt and other instruments | – | – | 4,231,143,039 | 4,231,143,039 |
| Other Financial Assets | – | – | 163,504,046 | 163,504,046 |
| **Total financial assets** | 16,192,528 | 12,430,283 | 34,199,990,545 | 34,228,613,356 |

| As at 31 March 2020 | Financial liabilities measured at fair value through profit or loss (FVTPL) LKR | Financial liabilities measured at amortised cost LKR | Total LKR |
|---|---|---|---|
| **Liabilities** | | | |
| Financial liabilities at amortised cost – Due to customers | – | 27,528,789,668 | 27,528,789,668 |
| Financial liabilities at amortised cost – Debt issued and other borrowed funds | – | 3,822,043,053 | 3,822,043,053 |
| Other financial liabilities | – | 1,060,010,345 | 1,060,010,345 |
| **Total financial liabilities** | – | 32,410,843,066 | 32,410,843,066 |

## 16 Cash and cash equivalents

| | 2021 LKR | 2020 LKR |
|---|---|---|
| Cash in hand | 155,997,670 | 78,734,396 |
| Balances with banks | 489,637,990 | 1,424,038,663 |
| **Total** | 645,635,660 | 1,502,773,059 |

# Notes to the Financial Statements

## 17 Financial assets – Fair value through profit or loss

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Cost of treasury bond investments | 16,250,272 | 16,250,272 |
| Interest receivable | 600,000 | 480,000 |
| | 16,850,272 | 16,730,272 |
| Less: Change in fair value | (146,272) | (537,744) |
| | 16,704,000 | 16,192,528 |

| As at 31 March 2021 | Face value | Carrying |
|---|---|---|
| Treasury bond | 16,000,000 | 16,704,000 |
| | 16,000,000 | 16,704,000 |

## 18 Financial assets at amortised cost – Loans and advances to customers

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Loans and advances to customers | 20,843,118,675 | 20,437,288,199 |
| Less: Allowance for impairment losses (Note 18.1) | (2,767,645,446) | (2,661,722,614) |
| | 18,075,473,229 | 17,775,565,585 |

### 18.1 Financial assets at amortised cost – Loans and advances to customers product-wise

| As at 31 March | | 2021 | | 2020 | |
|---|---|---|---|---|---|
| | Note | Amortised cost LKR | Impairment LKR | Amortised cost LKR | Impairment LKR |
| Loans and advances | 18.2 | 18,821,820,146 | 2,750,815,279 | 18,917,172,980 | 2,650,498,124 |
| Gold loans | 18.3 | 1,683,016,739 | 16,830,167 | 1,122,448,993 | 11,224,490 |
| Loans against fixed deposits | 18.4 | 338,281,790 | – | 397,666,226 | – |
| | | 20,843,118,675 | 2,767,645,446 | 20,437,288,199 | 2,661,722,614 |

### 18.2 Loans and advances

#### 18.2.1 Net loans and advances to customers

| As at 31 March | Gross loans and advances to customers | Allowance for impairment losses | Net loans and advances to customers |
|---|---|---|---|
| Stage 1 | 12,975,158,615 | 726,850,270 | 12,248,308,345 |
| Stage 2 | 1,688,131,332 | 218,922,496 | 1,469,208,836 |
| Stage 3 | 4,158,530,199 | 1,805,042,513 | 2,353,487,686 |
| | 18,821,820,146 | 2,750,815,279 | 16,071,004,867 |

### 18.2.2 Allowance for impairment losses

#### (a) Allowance for individually significant impairment

| As at 31 March | Individual | | | Total |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | |
| Balance as at 1 April 2020 | – | – | – | – |
| Charge for the year | – | – | 23,986,030 | 23,986,030 |
| Amount written off | – | – | – | – |
| **Balance as at 31 March 2021** | – | – | 23,986,030 | 23,986,030 |

#### (b) Allowance for collectively assessed portfolio

| As at 31 March | Individual | | | Total |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | |
| Balance as at 1 April 2020 | 607,364,738 | 205,839,026 | 1,837,294,360 | 2,650,498,124 |
| Charge for the year | 119,485,532 | 13,083,470 | 510,785,376 | 643,354,378 |
| Amount written off | – | – | (567,023,253) | (567,023,253) |
| **Balance as at 31 March 2021** | 726,850,270 | 218,922,496 | 1,781,056,483 | 2,726,829,249 |

#### (c) Movement in impairment allowance

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Balance as at 1 April | 2,650,498,124 | 1,924,739,756 |
| Charge for the year | 667,340,408 | 725,758,368 |
| Amount written off | (567,023,253) | – |
| **Balance as at 31 March** | 2,750,815,279 | 2,650,498,124 |

### 18.2.3 Sensitivity analysis of accumulated impairment for loan rentals receivable as at 31 March 2021 – Collective assessment

| Changed criteria | Changed factor | Impairment Allowance increase LKR |
|---|---|---|
| Loss given default (LGD) | Increase 1% | 27,268,292 |
| Probability of default (PD) | Increase 1% | 37,543,375 |
| Economic factor adjustment (EFA) | Increase 1% | 9,457,727 |

## 18.3 Gold loans

### 18.3.1 Net receivables on gold loans

| As at 31 March | Gross Receivables | Allowance for Impairment losses | Net receivables |
|---|---|---|---|
| Stage 1 | 1,347,730,914 | 13,477,309 | 1,334,253,605 |
| Stage 2 | 334,348,647 | 3,343,486 | 331,005,161 |
| Stage 3 | 937,178 | 9,372 | 927,806 |
| | 1,683,016,739 | 16,830,167 | 1,666,186,572 |

### 18.3.2 Allowance for Impairment Losses

(a) Movement in impairment allowance during the year

| As at 31 March | Collective | | | Total |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | |
| Balance as at 1 April 2020 | 8,835,205 | 1,561,947 | 827,338 | 11,224,490 |
| Charges/(Reversals) for the year | 4,642,104 | 1,781,539 | (817,966) | 5,605,677 |
| **Balance as at 31 March 2021** | 13,477,309 | 3,343,486 | 9,372 | 16,830,167 |

(b) Movement in impairment allowance

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Balance as at 1 April | 11,224,490 | 2,277,200 |
| Charges for the year | 5,605,677 | 8,947,290 |
| Balance as at 31 March | 16,830,167 | 11,224,490 |
| Collective impairment | 16,830,167 | 11,224,490 |
| **Total** | 16,830,167 | 11,224,490 |

## 18.4 Loan against deposits

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Loan against deposits | 328,488,381 | 388,139,984 |
| Interest receivable on loan against deposits | 9,793,409 | 9,526,242 |
| | 338,281,790 | 397,666,226 |

### 18.5 Movement in allowance for expected credit losses

#### Financial assets at amortised cost – Loans and advances to customers

| As at 31 March 2021 | Stage 1<br>12-month ECL<br>LKR | Stage 2<br>Lifetime ECL not credited impaired<br>LKR | Stage 3<br>Lifetime ECL credited impaired<br>LKR | Total<br>LKR |
|---|---|---|---|---|
| Balance as at 1 April | 607,364,738 | 205,839,026 | 1,837,294,360 | 2,650,498,124 |
| **Changes due to loans and advances recognised in opening balance that have been –** | | | | |
| Transferred from 12 month ECL | (276,933,295) | 39,324,732 | 237,608,563 | – |
| Transferred from Lifetime ECL not credit impaired | (12,202,631) | (150,126,251) | 162,328,882 | – |
| Measurement of loss allowances for others | 408,621,458 | 123,884,989 | (432,189,292) | 100,317,155 |
| **Balance as at 31 March** | 726,850,270 | 218,922,496 | 1,805,042,513 | 2,750,815,279 |

#### Financial assets at amortised cost – Loans and advances to customers

| As at 31 March 2020 | Stage 1<br>12-month ECL<br>LKR | Stage 2<br>Lifetime ECL not credited impaired<br>LKR | Stage 3<br>Lifetime ECL credited impaired<br>LKR | Total<br>LKR |
|---|---|---|---|---|
| Balance as at 1 April | 474,616,798 | 83,274,407 | 1,366,848,551 | 1,924,739,756 |
| **Changes due to loans and advances recognised in opening balance that have been;** | | | | |
| Transferred from 12 month ECL | (304,582,998) | 41,050,391 | 263,532,607 | – |
| Transferred from Lifetime ECL not credit impaired | (939,803) | (58,126,443) | 59,066,246 | – |
| Measurement of loss allowances for others | 438,270,741 | 139,640,671 | 147,846,956 | 725,758,368 |
| **Balance as at 31 March** | 607,364,738 | 205,839,026 | 1,837,294,360 | 2,650,498,124 |

## 19 Lease rentals receivables

| As at 31 March | 2021<br>LKR | 2020<br>LKR |
|---|---|---|
| Lease rental receivable | 14,317,280,092 | 14,275,368,681 |
| Less: Unearned interest income | (3,171,579,707) | (3,869,699,951) |
| **Net receivable** | 11,145,700,385 | 10,405,668,730 |
| Less: Rental received in advance | – | – |
| **Net rentals receivables before charging allowance for impairment losses** | 11,145,700,385 | 10,405,668,730 |
| Less: Allowance for impairment losses | (849,284,211) | (462,786,928) |
| **Total net rentals receivable** | 10,296,416,174 | 9,942,881,802 |

# Notes to the Financial Statements



## 19.1 Lease rentals receivable

| As at 31 March | Gross rentals receivables LKR | Allowance for impairment losses LKR | Net rentals receivable LKR |
|---|---|---|---|
| Stage 1 | 8,856,784,503 | 148,994,947 | 8,707,789,556 |
| Stage 2 | 1,059,281,899 | 147,366,849 | 911,915,050 |
| Stage 3 | 1,229,633,983 | 552,922,415 | 676,711,568 |
| | 11,145,700,385 | 849,284,211 | 10,296,416,174 |

## 19.2 Allowance for impairment losses

### (a) Movement in impairment allowance during the year

| As at 31 March | Collective | | | Total |
|---|---|---|---|---|
| | Stage 1 LKR | Stage 2 LKR | Stage 3 LKR | |
| Balance as at 1 April 2020 | 109,955,978 | 61,998,588 | 290,832,362 | 462,786,928 |
| Charge for the year | 39,038,969 | 85,368,261 | 262,090,053 | 386,497,283 |
| **Balance as at 31 March 2021** | **148,994,947** | **147,366,849** | **552,922,415** | **849,284,211** |

### (b) Movement in impairment allowance

| As at 31 March 2020 | 2021 LKR | 2020 LKR |
|---|---|---|
| Balance as at 1 April | 462,786,928 | 371,599,902 |
| Charge/(reversal) for the year | 386,497,283 | 91,187,026 |
| Amount written off | – | – |
| **Balance as at 31 March** | 849,284,211 | 462,786,928 |
| Collective impairment | 849,284,211 | 462,786,928 |
| **Total** | 849,284,211 | 462,786,928 |

## 19.3 Sensitivity analysis of accumulated impairment for lease rentals receivables as at 31 March 2021

| Changed criteria | Changed factor | Sensitivity effect on impairment allowance increase LKR |
|---|---|---|
| Loss given default (LGD) | Increase 1% | 5,844,689 |
| Probability of default (PD) | Increase 1% | 33,884,309 |
| Economic factor adjustment (EFA) | Increase 1% | 2,963,618 |

### 19.4 Contractual maturity analysis of lease rentals receivables

| As at 31 March 2021 | Within one year LKR | 1 to 5 years LKR | Over 5 years LKR | Total LKR |
|---|---|---|---|---|
| Gross rentals receivables | 5,851,434,539 | 8,460,439,449 | 5,406,104 | 14,317,280,092 |
| Less: Unearned income | (1,364,095,106) | (1,807,432,444) | (52,157) | (3,171,579,707) |
| | 4,487,339,433 | 6,653,007,005 | 5,353,947 | 11,145,700,385 |
| Less: Allowance for impairment losses | | | | (849,284,211) |
| **Net rentals receivable before charging allowance for impairment losses** | | | | 10,296,416,174 |

| As at 31 March 2020 | Within one year LKR | 1 to 5 Years LKR | Over 5 Years LKR | Total LKR |
|---|---|---|---|---|
| Gross rentals receivables | 5,503,858,128 | 8,793,392,742 | 3,432,404 | 14,300,683,274 |
| Less: Unearned income | (1,804,957,271) | (2,089,844,039) | (213,234) | (3,895,014,544) |
| | 3,698,900,857 | 6,703,548,703 | 3,219,170 | 10,405,668,730 |
| Less: allowance for impairment losses | | | | (462,786,928) |
| **Net rentals receivable before charging allowance for impairment losses** | | | | 9,942,881,802 |

### 19.5 Movement in allowance for expected credit losses

| As at 31 March 2021 | Stage 1 12-month ECL LKR | Stage 2 Lifetime ECL not credited impaired LKR | Stage 3 Lifetime ECL credited impaired LKR | Total LKR |
|---|---|---|---|---|
| Balance as at 1 April | 109,955,978 | 61,998,588 | 290,832,362 | 462,786,928 |
| **Changes due to lease rental receivables recognised in opening balance that have been –** | | | | |
| – Transferred from 12-month ECL | (144,240,750) | 41,233,936 | 103,006,814 | – |
| – Transferred from Lifetime ECL not credit impaired | (9,863,117) | (65,594,564) | 75,457,681 | – |
| – Transferred from Lifetime ECL credit impaired | (75,798,362) | – | 75,798,362 | – |
| Measurement of loss allowance for others | 268,941,199 | 109,728,889 | 7,827,195 | 386,497,283 |
| **Balance as at 31 March** | 148,994,948 | 147,366,849 | 552,922,414 | 849,284,211 |

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| As at 31 March 2020 | Stage 1 12-month ECL LKR | Stage 2 Lifetime ECL not credited impaired LKR | Stage 3 Lifetime ECL credited impaired LKR | Total LKR |
|---|---|---|---|---|
| Balance as at 1 April | 175,491,195 | 91,563,760 | 104,544,947 | 371,599,902 |
| **Changes due to lease rental receivables recognised in opening balance that have –** | | | | |
| – Transferred from 12-month ECL | (144,240,751) | 41,233,937 | 103,006,814 | – |
| – Transferred from Lifetime ECL not credit impaired | (18,364,713) | 6,038,337 | 12,326,376 | – |
| – Transferred from Lifetime ECL credit impaired | (371,819) | (49,371) | 421,190 | – |
| Measurement of loss allowance for others | 97,441,796 | (76,788,075) | 70,533,305 | 91,187,026 |
| **Balance as at 31 March** | 109,955,708 | 61,998,588 | 290,832,632 | 462,786,928 |

## 20 Allowance for impairment losses – Loans and advances, lease rental receivables

| As at 31 March | Note | Amount LKR |
|---|---|---|
| Balance as at 1 April 2019 | | 2,298,616,859 |
| Charge for the year – Loans and advances to customers | | 734,705,658 |
| Charge for the year – Lease rentals receivables | | 91,187,026 |
| Written off during the year | | – |
| **Balance as at 31 March 2020** | | 3,124,509,543 |
| Charge for the year – Loans and advances to customers | 9.1 | 672,946,086 |
| Charge for the year – Lease rentals receivable | 9.1 | 386,497,283 |
| Amount written off during the year | | (567,023,253) |
| **Balance as at 31 March 2021** | | 3,616,929,659 |

## 21 Financial assets at amortised cost – Loans and advances to others

| As at 31 March | Note | 2021 LKR | 2020 LKR |
|---|---|---|---|
| Staff loans | 21.1 | 144,206,602 | 269,933,350 |
| Mortgage loans | | 261,558,800 | 314,216,633 |
| | | 405,765,402 | 584,149,983 |
| Less: Allowance for impairment losses | 21.2 | – | (26,969) |
| | | 405,765,402 | 584,123,014 |

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### 21.1 Staff loans

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Balance as at 1 April | 269,933,350 | 344,338,944 |
| Loan granted during the year | 8,995,000 | 69,062,000 |
| Recovered during the year | (134,721,748) | (143,467,594) |
| **Balance as at 31 March** | 144,206,602 | 269,933,350 |

### 21.2 Allowance for impairment losses

| | Balance as at 1 April 2020 LKR | Provision reversed during the year LKR | Written off during the year LKR | Balance as at 31 March 2021 LKR |
|---|---|---|---|---|
| Staff loans | 26,969 | (26,969) | – | – |
| | 26,969 | (26,969) | – | – |

| | Balance as at 1 April 2019 LKR | Provision made during the year LKR | Written off during the year LKR | Balance as at 31 March 2020 LKR |
|---|---|---|---|---|
| Staff loans | 26,969 | – | – | 26,969 |
| | 26,969 | – | – | 26,969 |

## 22 Financial assets measured at fair value through other comprehensive income

| As at 31 March | Note | 2021 LKR | 2020 LKR |
|---|---|---|---|
| Unquoted equity securities | 22.1 | 2,655,810 | 12,430,283 |
| | | 2,655,810 | 12,430,283 |

### 22.1 Investments in un-quoted shares

| As at 31 March | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Number of shares | Cost LKR | Fair value LKR | Number of shares | Cost LKR | Fair value LKR |
| Credit Information Bureau of Sri Lanka | 100 | 234,000 | 2,098,266 | 100 | 234,000 | 234,000 |
| Standard Credit Lanka Ltd. | 38,458,474 | 38,458,474 | – | 38,458,474 | 38,458,474 | – |
| UB Finance Ltd. | 1,742,326 | 12,196,283 | 557,544 | 1,742,326 | 12,196,283 | 12,196,283 |
| | | 50,888,757 | 2,655,810 | | 50,888,757 | 12,430,283 |

These investments are unquoted and has no active market from which a reliable fair value could be obtained. As a result these are valued using the respective net asset values attributable to each investee. This fair valuation can be classified as a Level 3 valuation as per SLFRS 13 – "Fair Value Measurement". The Company designated these investments as FVOCI because these investments represent investments, that the Company intends to hold for the long-term strategic purposes.

### 22.2 Significant unobservable inputs used in the valuation and their sensitivity – Investments at FVOCI

| Input | Change | Fair value increase/(decrease) by LKR |
|---|---|---|
| Net assets per share | +10% | 265,581 |
| (LKR 0.32 – LKR 20,983) | -10% | (265,581) |

## 23 Financial assets at amortised cost – Debt and other instruments

| As at 31 March | Note | 2021 LKR | 2020 LKR |
|---|---|---|---|
| Fixed deposits | | 1,990,060,273 | 1,948,642,754 |
| Debentures | | – | 166,875,000 |
| Sri Lanka Government Securities | 23.1 | 1,492,704,271 | 2,115,625,285 |
| Reverse repurchase agreements | 23.2 | – | – |
| | | 3,482,764,544 | 4,231,143,039 |

### 23.1 Sri Lanka Government Securities

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Treasury bills | 1,476,701,198 | 2,085,472,749 |
| Interest receivable | 16,003,073 | 30,152,536 |
| | 1,492,704,271 | 2,115,625,285 |

### 23.2 Reverse repurchase agreements

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Reverse repurchase agreements | 773,091,682 | 773,091,682 |
| Impairment losses on other – Loans and receivables | (773,091,682) | (773,091,682) |
| | – | – |

The Company has made a provision for its investments in reverse repurchase agreements entered into with Entrust Securities PLC.

## 24 Other assets

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Other financial assets | 113,445,878 | 163,504,046 |
| Other non-financial assets | 347,382,881 | 257,592,775 |
| | 460,828,759 | 421,096,821 |

## 25 Investments properties

| As at 31 March | Note | 2021 LKR | 2020 LKR (Restated) |
|---|---|---|---|
| **Land** | | | |
| Balance as at 1 April | | 448,992,098 | 562,969,416 |
| Adjustment due to correction of prior period errors | 51 | – | (27,200,000) |
| Adjusted balance as at 1 April | | 448,992,098 | 535,769,416 |
| Change in fair value for the year | | 27,200,000 | – |
| Transferred to property, plant and equipment | | – | (86,777,318) |
| Balance as at 31 March | | 476,192,098 | 448,992,098 |
| **Building** | | | |
| Balance as at 1 April | | 628,807,902 | 732,030,584 |
| Transferred to property, plant and equipment | | – | (103,222,682) |
| **Balance as at 31 March** | | 628,807,902 | 628,807,902 |
| **Net book value** | | 1,105,000,000 | 1,077,800,000 |

### 25.1 Valuation of investment properties

The Company carries investment properties at fair value. valuations of below investment properties were carried out as at 31 March 2021 by Mr R S Wijesuriya, Professional Independent Valuer. The Company earned LKR 62,718,896/– as rental income for the year ended 31 March 2021 (2020 : LKR 48,512,947/–).

| Location | Significant Unobservable Input | Value range LKR | Method of valuation | Land extent | Number of Buildings | Building extent (Sq. ft.) | Fair value 2021 LKR | Fair value 2020 LKR (Restated) |
|---|---|---|---|---|---|---|---|---|
| No. 06, Abaya Place, 7th Lane, Anuradhapura. | Price per perch for land | 2,000 – 3,700 | Market approach | 0A–0R–13.52P | – | – | 50,000,000 | 33,800,000 |
| No. 37, Vihara Mw., Matale. | Price per perch for land | 500 –1,000 | Market approach | 0A–0R–15.00P | – | – | 10,500,000 | 10,500,000 |
| No. 56, Puttalam Service Mw., Puttalam. | Price per perch for land | 750 –1,350 | Market approach | 0A–0R–25.60P | – | – | 31,500,000 | 20,500,000 |
| Adampodaivayal, Adampodaimalaikadu, Trincomalee. | Price per perch for land | 25 – 28 | Market approach | 04A–02R–4.0P | – | – | 18,000,000 | 18,000,000 |
| No. 249, Stanley Thilakarathna Mw, Nugegoda. | Price per perch for land | 7,000 – 8,000 | Income Approach | 0A–0R–39.60P | 1 | 24,952 | 840,000,000 | 840,000,000 |
| | Price per sq. ft. for building | 18 – 23 | Income Approach | | | | | |
| No. 465/1, Old Police Station Road, Kahathuduwa, Polgasovita. | Price per perch for land | 370 – 420 | Income Approach | 1A–0R–22.59P | 1 | 20,494 | 155,000,000 | 155,000,000 |
| | Price per sq. ft. for building | 3.8 – 4.3 | Income Approach | | | | | |

Valuation of Investment Properties have been classified as a Level 3 valuation as per SLFRS 13 – "Fair Value Measurement".

The Company has incurred LKR 700,678/– as insurance expenses on these properties during the year ended 31 March 2021. (2020 : LKR 700,678/–)

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**25.2** Carrying amounts of revalued investment properties if they were carried at cost less depreciation would be as follows:

| | 31 March 2021 | | 31 March 2020 | |
|---|---|---|---|---|
| | Land LKR | Buildings LKR | Land LKR | Buildings LKR |
| Cost | 164,108,781 | 343,847,202 | 164,108,781 | 343,847,202 |
| Accumulated depreciation | – | (116,867,745) | – | (108,271,566) |
| | 164,108,781 | 226,979,457 | 164,108,781 | 235,575,636 |

## 25.3 Sensitivity analysis

Fair values of the investment properties are sensitive to the changes in assumptions used in the valuation as follows:

| Location | Significant unobservable input | Sensitivity of fair value to the increase/ (decrease) of the input | Impact to the fair value: If input is increased by 5% LKR | Impact to the fair value: If input is decreased by 5% LKR |
|---|---|---|---|---|
| Anuradhapura | Price per perch | Increase/(decrease) | 184,911 | (184,911) |
| Matale | Price per perch | Increase/(decrease) | 35,000 | (35,000) |
| Puttalam | Price per perch | Increase/(decrease) | 62,500 | (62,500) |
| Trincomalee | Price per perch | Increase/(decrease) | 1,243 | (1,243) |
| Nugegoda | Price per perch | Increase/(decrease) | 374,373 | (374,373) |
| | Price per sq. ft | Increase/(decrease) | 1,089 | (1,089) |
| Kahathuduwa | Price per perch | Increase/(decrease) | 19,083 | (19,083) |
| | Price per sq. ft | Increase/(decrease) | 208 | (208) |

# 26 Intangible assets

| As at 31 March | Note | 2021 LKR | 2020 LKR |
|---|---|---|---|
| **Cost** | | | |
| Balance as at 1April | | 400,651,221 | 309,324,298 |
| Additions during the year | | 93,531,961 | 91,326,923 |
| **Balance as at 31 March** | | 494,183,182 | 400,651,221 |
| Capital work in progress | 26.1 | 34,532,610 | 100,999,753 |
| | | 528,715,792 | 501,650,974 |
| **Amortisation** | | | |
| Balance as at 1April | | 202,937,597 | 135,782,402 |
| Charge for the year | | 71,514,522 | 67,155,195 |
| Balance as at 31 March | | 274,452,119 | 202,937,597 |
| **Net book value** | | 254,263,673 | 298,713,377 |

### 26.1 Capital work in progress

Capital work in progress represents costs incurred by the Company on software developments which are to be completed as at the reporting date.

### 26.2 Intangible assets by class

| As at 31 March | Cost | Accumulated Amortisation | Net book value |
|---|---|---|---|
| **As at 31 March 2020** | | | |
| Software | 278,095,803 | 128,143,919 | 149,951,884 |
| License | 122,555,418 | 74,793,678 | 47,761,740 |
| Capital work in progress | 100,999,753 | – | 100,999,753 |
| | 501,650,974 | 202,937,597 | 298,713,377 |
| **As at 31 March 2021** | | | |
| Software | 340,166,694 | 176,305,306 | 163,861,388 |
| License | 154,016,488 | 98,146,813 | 55,869,675 |
| Capital work in progress | 34,532,610 | – | 34,532,610 |
| | 528,715,792 | 274,452,119 | 254,263,673 |

# Notes to the Financial Statements



## 27 Property, plant and equipment

| | Land LKR | Building LKR | Furniture and fittings LKR |
|---|---|---|---|
| **Cost/Fair value** | | | |
| Balance as at 1April 2019 | 253,944,038 | 814,055,964 | 87,813,555 |
| Additions during the year | – | – | 19,638,483 |
| Transfer to revaluation Reserve | 86,777,318 | 103,222,682 | – |
| Disposals during the year | – | – | (999,921) |
| **Balance as at 31 March 2020** | 340,721,356 | 917,278,646 | 106,452,117 |
| Balance as at 1 April 2020 | 340,721,356 | 917,278,646 | 106,452,117 |
| Additions during the year | – | – | 875,733 |
| Disposals during the year | – | – | (1,975,703) |
| **Balance as at 31 March 2021** | **340,721,356** | **917,278,646** | **105,352,147** |
| **Accumulated depreciation** | | | |
| Balance as at 1 April 2019 | – | – | 50,287,920 |
| Charge for the year | – | 22,358,332 | 13,507,736 |
| Disposals during the year | – | – | (928,401) |
| **Balance as at 31 March 2020** | – | 22,358,332 | 62,867,255 |
| Balance as at 1 April 2020 | – | 22,358,332 | 62,867,255 |
| Charge for the year | – | 23,075,506 | 14,054,450 |
| Disposals during the year | – | – | (1,952,192) |
| **Balance as at 31 March 2021** | – | **45,433,838** | **74,969,513** |
| **Carrying amount** | | | |
| **As at 31 March 2021** | **340,721,356** | **871,844,808** | **30,382,634** |
| **As at 31 March 2020** | 340,721,356 | 894,920,314 | 43,584,862 |

### Capital work in progress (CWIP)

Capital work in progress represents the costs incurred on buildings under construction.

# Notes to the Financial Statements

| Office equipment LKR | Computer LKR | Motor vehicles LKR | Fixtures and fittings LKR | Network accessories LKR | CWIP LKR | Total LKR |
|---|---|---|---|---|---|---|
| 244,541,298 | 202,682,934 | 19,300,000 | 108,736,190 | 130,256,958 | 32,029,079 | 1,893,360,016 |
| 36,175,503 | 22,493,375 | – | 17,609,357 | 1,283,326 | 65,047,613 | 162,247,657 |
| – | – | – | – | – | – | 190,000,000 |
| – | (32,700) | – | (2,575,591) | – | – | (3,608,212) |
| 280,716,801 | 225,143,609 | 19,300,000 | 123,769,956 | 131,540,284 | 97,076,692 | 2,241,999,461 |
| 280,716,801 | 225,143,609 | 19,300,000 | 123,769,955 | 131,540,284 | 97,076,691 | 2,241,999,459 |
| – | 5,072,015 | – | 42,223,292 | 5,815,795 | 52,833,665 | 106,820,500 |
| (450,185) | (243,450) | – | (2,196,904) | (571,707) | – | (5,437,949) |
| **280,266,616** | **229,972,174** | **19,300,000** | **163,796,343** | **136,784,372** | **149,910,356** | **2,343,382,010** |
| | | | | | | |
| 138,166,551 | 117,832,127 | 18,133,331 | 59,230,335 | 89,232,882 | – | 472,883,146 |
| 41,388,996 | 31,485,008 | 1,166,669 | 16,957,603 | 19,733,847 | – | 146,598,191 |
| – | (30,958) | – | (2,091,699) | – | – | (3,051,058) |
| 179,555,547 | 149,286,177 | 19,300,000 | 74,096,239 | 108,966,729 | – | 616,430,279 |
| 179,555,547 | 149,286,177 | 19,300,000 | 74,096,239 | 108,966,729 | – | 616,430,279 |
| 41,000,927 | 31,288,671 | – | 22,857,191 | 9,984,891 | – | 142,261,636 |
| (435,605) | (242,133) | – | (2,137,075) | (571,707) | – | (5,338,712) |
| **220,120,869** | **180,332,715** | **19,300,000** | **94,816,355** | **118,379,913** | **–** | **753,353,203** |
| | | | | | | |
| **60,145,747** | **49,639,459** | **–** | **68,979,988** | **18,404,459** | **149,910,356** | **1,590,028,807** |
| 101,161,254 | 75,857,432 | – | 49,673,717 | 22,573,555 | 97,076,692 | 1,625,569,182 |

# Notes to the Financial Statements

## 27.1 Valuation of Land and Building

The Company carries its land and building at fair value. Valuations of the above land and building were carried out as at 31 March 2019 by Mr R S Wijesuriya, Professional Independent Valuer.

| Location | Unobservable input | Value range LKR '000 | Method of valuation | Land extent | Number of buildings | Building extent (Sq. ft.) | Revalued amount LKR |
|---|---|---|---|---|---|---|---|
| No. 94 96/1, Kandy Rd., Kurunegala. | Price per perch for land | 3,000 – 3,700 | Income approach | 7P | | | 24,186,785 |
| | Price per sqft for building | 10 – 12 | Income approach | | 1 | 5,755 | 65,813,215 |
| No. 46/A, Tangalle Rd., Hambanthota. | Price per perch for land | 800 – 870 | Income approach | 14P | | | 11,666,667 |
| | Price per sqft for building | 5 – 7 | Income approach | | 1 | 2,113 | 13,333,333 |
| No. 677, William Gopallawa Mw., Kandy. | Price per perch for land | 2,300 – 2,800 | Income approach | 9P | | | 24,305,250 |
| | Price per sqft for building | 9 – 12 | Income approach | | 1 | 5,400 | 56,694,750 |
| No.168, Nawala Rd., Nugegoda. | Price per perch for land | 7,000 – 7,600 | Income approach | 25.9P | | | 193,785,335 |
| | Price per sqft for building | 15 – 19 | Income approach | | 1 | 39,887 | 678,214,665 |
| No. 67/1, Mahinda Place, Kirulapone, Colombo 05. | Price per perch for land | 4,800 – 5,300 | Income approach | 8P | | | 40,777,318 |
| | Price per sqft for building | 16 – 20 | Income approach | | 1 | 5,786 | 103,222,682 |
| No. 9/10/11, Galle Rd., Katubedda, Moratuwa. | Price per perch for land | 1,800 – 2,200 | Market approach | 23P | – | – | 46,000,000 |

Valuation of lands and buildings have been classified as a Level 3 valuation as per SLFRS 13 – "Fair Value Measurement". The Board of Directors has determined that the fair value has not changed significantly from the previous date of the valuation to the reporting date.

**27.2** Carrying amounts of revalued property, plant and equipment if they were carried at cost less depreciation would be as follows:

| | 31 March 2021 | | 31 March 2020 | |
|---|---|---|---|---|
| | Land LKR | Buildings LKR | Land LKR | Buildings LKR |
| Cost | 162,128,786 | 352,208,282 | 162,128,786 | 352,208,282 |
| Accumulated depreciation | – | (110,396,275) | – | (101,591,068) |
| | 162,128,786 | 241,812,007 | 162,128,786 | 250,617,214 |

### 27.3 Sensitivity analysis

Fair values of the investment properties are sensitive to the changes in assumptions used in the valuation as follows:

| Location | Significant unobservable input | Sensitivity of fair value to the increase/(decrease) of the input | Impact to the fair value | |
|---|---|---|---|---|
| | | | If input is increased by 5% LKR | If input is decreased by 5% LKR |
| Kurunegala | Price per perch | Increase/(decrease) | 89,448 | (89,448) |
| | Price per sq. ft. | Increase/(decrease) | 571 | (571) |
| Hambanthota | Price per perch | Increase/(decrease) | 38,889 | (38,889) |
| | Price per sq. ft. | Increase/(decrease) | 316 | (316) |
| Kandy | Price per perch | Increase/(decrease) | 47,471 | (47,471) |
| | Price per sq. ft. | Increase/(decrease) | 525 | (525) |
| Nugegoda | Price per perch | Increase/(decrease) | 13,383 | (13,383) |
| | Price per sq. ft. | Increase/(decrease) | 850 | (850) |
| Moratuwa | Price per perch | Increase/(decrease) | 12,597 | (12,597) |
| Colombo 05 | Price per perch | Increase/(decrease) | 51,487 | (51,487) |
| | Price per sq. ft. | Increase/(decrease) | 892 | (892) |

### 27.4 Cost of fully depreciated Assets as at the reporting date

| | 2021 LKR | 2020 LKR |
|---|---|---|
| Computer | 125,835,098 | 58,280,434 |
| Fixtures and Fitting | 48,730,276 | 37,626,900 |
| Furniture and Fittings | 39,804,183 | 32,566,795 |
| Motor vehicles | 19,300,000 | 19,300,000 |
| Network accessories | 95,648,746 | 81,743,783 |
| Office equipment | 100,023,169 | 64,308,558 |
| | 429,341,472 | 293,826,470 |

**27.5** Details of assets pledged on securities are disclosed in Note 45 to the Financial Statements.

**27.6** No borrowing costs were capitalized during the year (2020: Nil).

**27.7** There were no idle property, plant and equipment as at 31 March 2021 (2020: Nil).

**27.8** There are no restrictions that existed on the title of the property, plant and equipment of the Company as at the reporting date.

## 28 Right of use assets

### 28.1 Movement of right–of–use of assets

| | 2021 LKR | 2020 LKR |
|---|---|---|
| **Cost** | | |
| Balance as at 1 April | 367,457,930 | – |
| Adjustment on initial application of SLFRS 16 | – | 266,355,354 |
| Additions during the year | 54,545,771 | 75,107,515 |
| Advances paid during the year | – | 37,404,122 |
| Terminations during the year | (11,610,802) | (11,409,061) |
| **Cost as at 31 March** | 410,392,899 | 367,457,930 |
| **Accumulated amortisation** | | |
| Balance as at 1 April | 80,729,862 | – |
| Charge for the year | 72,192,148 | 80,729,862 |
| **Balance as at 31 March** | 152,922,010 | 80,729,862 |
| **Net book value as at 31 March** | 257,470,889 | 286,728,068 |

Branches of the Company are operated in lease locations. The above right–of–use asset represents the lease right relating to lands and buildings available for the Company's use at these locations.

## 29 Deferred tax asset

### 29.1 Summary of net deferred tax assets movement

| As at 31 March | Note | 2021 LKR | 2020 LKR (Restated) |
|---|---|---|---|
| Balance as at 1 April (as previously reported) | | 167,121,098 | 189,768,513 |
| Adjustment due to correction of prior period error | 51 | – | 7,616,000 |
| **Restated balance as at 1 April** | | 167,121,098 | 197,384,513 |
| Amounts Reversed during the year | 29.2 | (13,133,442) | (30,263,415) |
| Balance as at 31 March | | 153,987,656 | 167,121,098 |

### 29.2 Charge/(Reversal) for the Year

| As at 31 March | Note | 2021 LKR | 2020 LKR (Restated) |
|---|---|---|---|
| Recognised in profit or loss | | 15,985,565 | 35,113,602 |
| Recognised in other comprehensive income | 29.3 | 6,172,755 | (4,850,187) |
| Recognised revaluation reserve | | (9,024,878) | – |
| | | 13,133,442 | 30,263,415 |

**29.3** The deferred tax impact on the revaluation of land and buildings included in property, plant and equipment was recognised within the revaluation reserve as at 31 March 2019 at the rate of 28%. The impact on the deferred tax liability arising out of the taxable temporary difference of revaluation reserve due to change in the tax rate from 28% to 24% as at 31 March 2021 has been adjusted in the other comprehensive income for the year ended 31 March 2021.

Deferred tax assets as at the period end is made up as follows:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | (Taxable)/Deductible temporary difference LKR | Tax effect on temporary difference LKR | (Taxable)/Deductible temporary difference LKR (Restated) | Tax effect on temporary difference LKR (Restated) |
| On property, plant and equipment | (703,111,493) | (168,746,758) | (688,593,311) | (192,806,127) |
| On lease receivables | (312,412,755) | (74,979,062) | (256,174,914) | (71,728,976) |
| On retirement benefit obligation | 280,857,939 | 67,405,905 | 260,518,521 | 72,945,186 |
| On impairment provision | 2,000,100,824 | 480,024,198 | 1,919,359,743 | 537,420,728 |
| On net ROU asset | (3,497,329) | (839,359) | (45,127,025) | (12,635,567) |
| On investment property | (394,700,001) | (94,728,000) | (367,500,000) | (102,900,000) |
| On revaluation reserve | (225,621,950) | (54,149,268) | (225,621,950) | (63,174,146) |
| | 641,615,235 | 153,987,656 | 596,861,064 | 167,121,098 |

The Company has calculated the deferred tax asset at the rate of 24% on its temporary differences as at 31 March 2021. (2020 : 28%).

**29.4** Deferred tax charge/(reversal) for the year attributable to the change in effective tax rate is as follows:

| | 2021 LKR |
|---|---|
| Recognised in profit or loss | 34,936,398 |
| Recognised in other comprehensive income | (246,910) |
| Recognised revaluation reserve | (9,024,878) |
| | 25,664,610 |

## 30 Financial liabilities at amortised cost – Due to customers

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Fixed deposits | 24,074,006,881 | 23,962,117,718 |
| Deferred transaction cost | (10,842,438) | (21,412,530) |
| Interest payable on fixed deposits | 861,791,032 | 870,759,547 |
| | 24,924,955,475 | 24,811,464,735 |
| Savings deposits | 3,122,006,833 | 2,717,324,933 |
| | 28,046,962,308 | 27,528,789,668 |

## 31 Financial liabilities at amortised cost – Debt issued and other borrowed funds

| As at 31 March | Note | 2021 LKR | 2020 LKR |
|---|---|---|---|
| Redeemable debentures | 31.1 | 1,836,572,519 | 1,871,228,687 |
| Borrowings | 31.2 | 800,000,000 | 1,950,814,366 |
| | | 2,636,572,519 | 3,822,043,053 |

### 31.1 Redeemable debentures

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| **Secured redeemable** | | |
| Balance as at 1 April | 665,000,000 | 665,000,000 |
| Payment of the Year | (33,250,000) | – |
| Interest payable to debenture holders | 5,178,965 | 9,335,507 |
| **Balance as at 31 March** | 636,928,965 | 674,335,507 |

### Subordinated, listed, rated, unsecured, redeemable debenture

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Balance as at 1 April | 1,158,820,000 | 1,158,820,000 |
| Interest payable to debenture holders | 40,823,554 | 38,073,180 |
| | 1,199,643,554 | 1,196,893,180 |
| **Total redeemable debentures** | 1,836,572,519 | 1,871,228,687 |

### 31.1.1 Redeemable debentures

| | | | | Capital balance | |
|---|---|---|---|---|---|
| Year of issue | Description | Certificate number | Type of debenture | 2021 LKR | 2020 LKR |
| 2010 | Seylan Bank PLC | 001 | Secured | 118,750,000 | 125,000,000 |
| 2010 | Seylan Bank PLC | 002 | Secured | 190,000,000 | 200,000,000 |
| 2010 | Seylan Bank PLC | 003 | Secured | 190,000,000 | 200,000,000 |
| 2010 | Seylan Bank PLC | 004 | Secured | 133,000,000 | 140,000,000 |
| 2019 | Subordinated listed, rated, redeemable | 001 | Unsecured | 1,158,820,000 | 1,158,820,000 |
| | | | | 1,790,570,000 | 1,823,820,000 |

The outstanding debentures amounting to LKR 665,000,000 issued to Seylan Bank PLC in 2010 is redeemable from 2020 to 2040 with interest payments at monthly average Treasury Bill rate as per the rescheduling terms agreed with Seylan Bank PLC.

### 31.2 Borrowings

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Balance as at 1 April | 1,950,814,366 | 3,545,818,358 |
| Loans obtained | 1,300,000,000 | 1,900,000,000 |
| Interest recognised | 107,234,758 | 319,805,157 |
| Repayment: Capital | (2,450,814,366) | (3,495,003,992) |
| Interest | (107,234,758) | (319,805,157) |
| **Balance as at 31 March** | 800,000,000 | 1,950,814,366 |

Details of the outstanding borrowings are as follows:

| Lender | Interest rate | Outstanding balance 2021 LKR | Outstanding balance 2020 LKR |
|---|---|---|---|
| HNB Bank PLC | AWLPR+1 | 500,000,000 | 1,192,481,052 |
| DFCC Bank PLC | AWLPR+1.25 | 300,000,000 | 758,333,314 |
| | | 800,000,000 | 1,950,814,366 |

Details of the assets pledged against these borrowings are disclosed in Note 45 to these Financial Statements.

## 32 Current tax (assets)/Liabilities

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Balance as at 1 April | 133,467,472 | 80,353,556 |
| Provision for the year | 536,102 | 273,445,994 |
| Over/under provision during previous year | (89,215,854) | (44,155,025) |
| | 44,787,720 | 309,644,525 |
| Payment made during the year | (53,197,448) | (118,347,646) |
| WHT paid | 17,071 | (12,068,391) |
| ESC receivables | – | (45,761,016) |
| **Balance as at 31 March** | (8,392,657) | 133,467,472 |

## 33 Value added tax payable

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Balance as at 1 April | 59,079,643 | 49,704,847 |
| Provision made during the year | 131,029,620 | 292,320,954 |
| Payment made during the year | (128,954,217) | (282,946,158) |
| **Balance as at 31 March** | 61,155,046 | 59,079,643 |

## 34 Other liabilities

| As at 31 March | Note | 2021 LKR | 2020 LKR |
|---|---|---|---|
| Other financial liabilities | 34.1 | 784,449,488 | 1,060,010,345 |
| Other non–financial liabilities | 34.2 | 50,483,703 | 78,507,235 |
| | | 834,933,191 | 1,138,517,580 |

### 34.1 Other financial liabilities

| As at 31 March | Note | 2021 LKR | 2020 LKR |
|---|---|---|---|
| Other payables | | 530,475,928 | 818,409,301 |
| Lease Liabilities | 34.1.1 | 253,973,560 | 241,601,044 |
| | | 784,449,488 | 1,060,010,345 |

### 34.1.1 Other non–financial liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the year:

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Balance as at 1 April | 241,601,044 | – |
| Adjustment on initial application of SLFRS 16 | – | 206,748,077 |
| Adjusted balance as at 1 April | 241,601,044 | 206,748,077 |
| Additions during the year | 54,545,771 | 75,107,515 |
| Terminations during the year | (11,610,802) | (11,409,061) |
| Lease interest for the year | 31,882,993 | 31,737,496 |
| Payments during the year | (62,445,446) | (60,582,983) |
| **Balance as at 31 March** | 253,973,560 | 241,601,044 |

### 34.1.2 Sensitivity of Right-of-use asset/Lease liability to key assumption

#### Sensitivity to incremental borrowing rate

Increase/(decrease) in the incremental borrowing rate as at 31 March 2021 by 1% would have (decreased)/increased the lease liability by approximately LKR 13.7 Mn. and LKR 1.4 Mn. respectively. Had the Company increased /(decreased) the discount rate by 1% the Company's profit before tax for the year would have (decreased)/increased by approximately LKR 1.6 Mn. and LKR 1.6 Mn. respectively.

### 34.1.3 Maturity analysis – Contractual undiscounted cash flows

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Less than one year | 89,492,276 | 56,613,179 |
| Between one and five years | 234,069,132 | 292,394,098 |
| More than five years | 83,264,310 | 106,772,255 |
| **Total undiscounted lease liability as at 31 March** | 406,825,718 | 455,779,532 |

Lease interest expense mentioned Note 34.1.1 is included in the profit/loss for the year under interest expense and payments during the year is included under cash flows from financing activities.

### 34.2 Other non-financial liabilities

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| NBT payable | – | 8,917,420 |
| WHT payable | – | (1,925,776) |
| Other payables | 50,483,703 | 71,515,591 |
| | 50,483,703 | 78,507,235 |

## 35 Retirement benefit obligation

| As at 31 March | Note | 2021 LKR | 2020 LKR |
|---|---|---|---|
| Balance as at 1 April | | 260,518,521 | 207,802,822 |
| Add: Expense for the year | 35.1 | 30,430,168 | 59,714,624 |
| | | 290,948,689 | 267,517,446 |
| Less: Benefits paid during the year | | (10,090,750) | (6,998,925) |
| **Balance as at 31 March** | | 280,857,939 | 260,518,521 |

### 35.1 Expense for the year

| | 2021 LKR | 2020 LKR |
|---|---|---|
| **Amounts recognised in profit/loss for the year** | | |
| Current service cost | 30,098,129 | 29,349,752 |
| Interest cost | 26,051,852 | 22,858,310 |
| | 56,149,981 | 52,208,062 |
| **Amounts recognised in other comprehensive income for the year** | | |
| Actuarial (gain)/loss | (25,719,813) | 7,506,562 |
| | 30,430,168 | 59,714,624 |

Retirement benefit obligation is based on the actuarial valuation carried out by Smiles Global (Pvt) Limited, on 31 March 2021 using "Projected Unit Credit method" as recommended by Sri Lanka Accounting Standard 19 (LKAS 19) – Employee Benefits.

The principal assumptions used in the actuarial valuations are as follows:

| | 2021 | 2020 |
|---|---|---|
| Long-term interest rate | 8.00% | 10.00% |
| Retirement age | 55 years | 55 years |
| Future salary increase rate | 6.00% | 8.00% |

Assumptions regarding future mortality is based on 1967–70 mortality table issued by the Institute of Actuaries, London. The defined benefit obligation is not externally funded. Actuarial gain on defined benefit plan is recognised in Other Comprehensive Income.

# Notes to the Financial Statements

In order to illustrate the significance of the salary escalation rate and discount rates assumed in this valuation, a sensitivity analysis has bee carried our as follows:

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| **Present value of defined benefit obligation** | | |
| **Discount rate** | | |
| 1% Less | 299,478,078 | 278,748,659 |
| 1% More | (264,249,352) | (244,335,647) |
| **Salary escalation rate** | | |
| 1% Less | 262,654,471 | 242,868,820 |
| 1% More | (300,958,936) | (280,109,567) |

## 35.2 The expected benefit payout in the future years for retirement gratuity

| | 2021 LKR | 2020 LKR |
|---|---|---|
| **Future expected working life** | | |
| Within the next 12 months | 4,034,718 | 7,146,375 |
| Between 1–2 years | 14,620,103 | – |
| Between 2–5 years | 259,763,557 | 14,641,707 |
| Between 5–10 years | 2,439,561 | 238,730,439 |
| | 280,857,939 | 260,518,521 |

The expected benefits are estimated based on the same assumptions used to measure the benefit obligation of the Company at the end of the financial year and include benefits attributable to estimated future employee service.

## 36 Stated capital

`

| | Issued and fully paid | | |
|---|---|---|---|
| | Number of ordinary shares | Number of non–voting ordinary shares | Total Number of ordinary shares |
| Balance on 1 April 2019 | 1,421,380,624 | 298,200,000 | 1,719,580,624 |
| Shares Issued during the year | – | – | – |
| **Balance on 31 March 2020** | 1,421,380,624 | 298,200,000 | 1,719,580,624 |
| Shares issued during the year | – | – | – |
| **Balance on 31 March 2021** | 1,421,380,624 | 298,200,000 | 1,719,580,624 |
| Balance on 1 April 2019 (LKR) | 184,779,481 | 38,766,000 | 223,545,481 |
| Shares issued during the year (LKR) | – | – | – |
| **Balance on 31 March 2020 (LKR)** | 184,779,481 | 38,766,000 | 223,545,481 |
| Shares issued during the year (LKR) | – | – | – |
| **Balance on 31 March 2021 (LKR)** | 184,779,481 | 38,766,000 | 223,545,481 |

### Ordinary shares

The holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote per share at general meetings of the Company.

### Non-voting ordinary shares

The non-voting shares rank *pair passu* in respect of all rights with the ordinary shares of the Company except voting rights on resolutions passed at general meetings.

## 37 General reserve

| | 2021 LKR | 2020 LKR |
|---|---|---|
| Balance as at 1 April | 82,897,989 | 82,897,989 |
| **Balance as at 31 March** | 82,897,989 | 82,897,989 |

This is a capital reserve created at the discretion of the Company. The Board of Directors of the Company has the authority to determine the utilisation of this reserve at their meetings.

## 38 Statutory reserve fund

| | 2021 LKR | 2020 LKR |
|---|---|---|
| Balance on 1 April | 1,091,098,380 | 1,006,995,465 |
| Transferred during the year | – | 84,102,915 |
| **Balance on 31 March** | 1,091,098,380 | 1,091,098,380 |

### 38.1 Statutory reserve fund

Twenty percent of the net profits for the year is transferred to the reserve fund as required by Direction (No. 01 of 2003 Capital Fund) issued by the Central Bank of Sri Lanka. No transfer from profit for the year has been made during the year ended 31 March 2021 as the Company has incurred a loss for the year ended 31 March 2021.

## 39 Revaluation reserve

| | Note | 2021 LKR | 2020 LKR |
|---|---|---|---|
| Balance on 1 April | | 591,713,996 | 591,713,996 |
| Deferred tax impact due to change in effective tax rate | 29.2 | 9,024,878 | – |
| **Balance on 31 March** | | 600,738,874 | 591,713,996 |

Revaluation reserve represents fair value changes related to land and buildings carried at fair value.

# Notes to the Financial Statements

## 40 Retained earnings

| | 2021 LKR | 2020 LKR |
|---|---|---|
| Balance on 1 April | 3,010,466,073 | 2,704,730,273 |
| (Loss)/Profit for the year | (123,613,125) | 395,243,440 |
| Other comprehensive income for the year | 9,772,585 | (5,404,725) |
| Transfer to other reserves | – | (84,102,915) |
| **Balance on 31 March** | 2,896,625,533 | 3,010,466,073 |

## 41 Capital commitments

No capital expenditure approved by the Board and contracted for remaining at the end of the reporting date.

## 42 Events after the reporting date

Subsequent to the reporting date, no circumstances have arisen which would require adjustments to or disclosure in these Financial Statements.

## 43 Contingent liabilities

There are no material contingent liabilities as at the reporting date that require disclosure in the Financial Statements.

## 44 Related party transactions

The Company carries out transactions in the ordinary course of business with parties who are defined as "Related Parties" as per Sri Lanka Accounting Standards (LKAS 24) – Related Party Disclosures. The Terms and Conditions of such transactions are disclosed in Notes 44.1 and 44.2 to these Financial Statements.

### 44.1 Transactions with parent company and related companies

During the year ended 31 March 2021 and March 2020, the Company has carried out transactions with it's related companies, 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 Company and was comparable with what was applied to transactions between the Company and its unrelated customers.

### 44.1.1 Transactions with the parent company

Hatton National Bank PLC is the parent and the ultimate controlling party of the Company.

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| **Statement of Profit or Loss** | | |
| Interest income – Debentures | 16,875,000 | 16,875,000 |
| Interest income – Savings deposits | 84,016,554 | 32,736,016 |
| Interest income – Fixed deposits | 12,602,740 | 15,348,822 |
| Interest expense – Borrowings | 54,335,824 | 208,886,053 |
| Interest expense – Bank overdraft | 7,749,717 | 14,986,679 |
| Other expenses – Bank charges | 377,494 | 835,466 |
| **Statement of Financial Position** | | |
| Cash and cash equivalents – Balances with banks | 33,866,234 | 1,096,680,379 |
| Financial assets – Debentures | – | 166,875,000 |
| *Debt issued and other borrowed funds – Borrowings* | | |
| Balance as at 1 April | 1,192,481,052 | 2,587,485,028 |
| Loan obtained during the year | 500,000,000 | 1,000,000,000 |
| Loan repayments made during the year | (1,192,481,052) | (2,395,003,976) |
| **Balance as at 31 March** | 500,000,000 | 1,192,481,052 |
| Other liabilities | 75,002,187 | 27,379,976 |

### 44.1.2 Transactions with Prime Lands (Private) Limited
Relationship: Shareholder

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| **Statement of profit or loss** | | |
| Other operating income – Rent income | 630,000 | 607,500 |
| Interest expenses – Fixed deposits | 61,695 | 61,695 |

# Notes to the Financial Statements

### 44.1.3 Transactions with HNB Assurance PLC

Relationship: Common control

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| **Statement of Profit or Loss** | | |
| Interest expense – Fixed deposits | 7,500,000 | 7,500,000 |
| General insurance expense | 25,411,101 | 25,411,101 |
| **Statement of Financial Position** | | |
| *Financial liabilities at amortised cost – Due to customers* | | |
| Balance as at 1 April | 50,000,000 | 50,000,000 |
| Interest payable | 616,438 | – |
| **Balance as at 31 March** | 50,616,438 | 50,000,000 |
| *Financial liabilities at amortised cost – Savings deposits* | | |
| Balance as at 1 April | 66,276 | 323,308 |
| Deposits made during the year | 1,458,412 | 4,056,849 |
| Interest Paid | 15,452 | 15,342 |
| Withdrawals of Capital | (990,100) | (4,329,223) |
| **Balance as at 31 March** | 550,040 | 66,276 |
| Other payables – Insurance premium payable | 8,978,214 | 2,893,871 |

### 44.1.4 Transactions with Seylan Bank PLC

Relationship: Common Director

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| **Statement of Profit or Loss** | | |
| Interest income – Fixed deposits | 59,221,918 | 61,500,438 |
| Interest expense – Debentures | 36,793,175 | 58,609,596 |
| Bank charges | 334,272 | 554,246.07 |
| **Statement of Financial Position** | | |
| Cash and cash equivalents – Balances with banks | 58,665,779 | 220,932,689 |
| *Investments in fixed deposits* | | |
| Balance as at 1 April | 1,746,360,562 | 810,191,507 |
| Invested during the year | 2,600,000,000 | 1,900,000,000 |
| Interest receivable | 33,232,877 | 46,360,562 |
| Interest received | (46,360,562) | (10,191,507) |
| Matured during the year | (2,900,000,000) | (1,000,000,000) |
| **Balance as at 31 March** | 1,433,232,877 | 1,746,360,562 |
| *Financial liabilities at amortised cost – Debentures* | | |
| Balance as at 1 April | 665,000,000 | 665,000,000 |
| Interest payable | 5,178,965 | – |
| Withdrawals during the year | 33,250,000 | – |
| **Balance as at 31 March** | 636,928,965 | 665,000,000 |

### 44.1.5 Transactions with Fairfirst Insurance

Relationship: Common Director

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| **Statement of financial position** | | |
| Other payables – Insurance premium payable lease | 7,530,734 | 3,642,698 |

### 44.1.6 Transactions with Government of Sri Lanka

Relationship: Shareholder of the parent company

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| **Statement of Profit or Loss** | | |
| Interest income – Debt and other instruments | 110,166,323 | 162,105,063 |
| Interest income – Financial assets measured at FVTPL | 1,440,000 | 1,440,000 |
| Tax expenses | 121,521,097 | 697,312,809 |
| **Statement of Financial Position** | | |
| Financial assets at amortised cost – Debt and other instruments | 1,492,704,271 | 2,115,625,285 |
| Financial assets measured at FVTPL | 16,704,000 | 16,192,528 |
| Debt relief loan receivable – Other assets | 51,272,613 | 88,691,537 |
| Tax payable/(receivable) | 52,762,389 | 192,547,115 |
| Tax paid | 182,151,665 | 639,164,663 |

### Transactions which are not individually significant

Apart from the transactions listed above, the Company has carried out transactions with the Government of Sri Lanka and other Government-related entities in the form of Electricity, Water, Postage, Telephone charges, Deposit insurance payments, Crib charges etc. The total of such payments made during the year ended 31 March 2021 was LKR 160.76 Mn. (2020 – LKR 131.09 Mn.).

### 44.2 Transactions with the Key Management Personnel of the Company or their close family members

According to Sri Lanka Accounting Standards (LKAS 24) – Related Party Disclosures, Key Management Personnel are those having authority and responsibility for planning, directing, and controlling the activities of the entity. Accordingly, the Key Management personnel of the Company are the members of its Board of Directors and that of its Parent.

### 44.2.1 Compensation paid to Key Management Personnel of the Company

The following represents the compensation paid to Key Management Personnel of the Company.

| As at 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| Short-term benefits | 22,319,000 | 25,062,600 |
| | 22,319,000 | 25,062,600 |

The Company enters in to transactions, arrangements and agreements with Key Management Personnel and the close family members of Key Management Personnel in the ordinary course of business. The transactions listed below were made in the ordinary course of business and on substantially the same terms, including interest/commission rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

# Notes to the Financial Statements

| Year ended 31 March | 2021 LKR | 2020 LKR |
|---|---|---|
| **Statement of Profit or Loss** | | |
| Interest expense – Deposits from customers | 23,040,328 | 23,040,328 |
| **Statement of Financial Position** | | |
| Due to customers – Savings and fixed deposits | 153,866,646 | 153,866,646 |

## 45 Assets pledged as securities against borrowings and debts

| Nature of assets | Nature of liability | Carrying amount pledged 2021 LKR | Carrying amount pledged 2020 LKR |
|---|---|---|---|
| Freehold land and building | Redeemable Debentures (Note 31.1) | 1,235,641,671 | 1,235,641,671 |
| Freehold land and building | Redeemable Debentures (Note 31.1) | 1,087,000,000 | 1,087,000,000 |

## 46 Financial risk management

### 46.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these Financial Statements.

### 46.2 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's Risk Management Framework. The Board has established the Integrated Risk Management Committee (IRMC), which is responsible for developing and monitoring the Company's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyses the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Audit Committee of the Company is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

### 46.3 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk is mainly arising from Company's receivable from customers and investment in debt securities.

#### a. Allowances for impairment

Credit risk is managed by evaluating the credit worthiness and by periodical review on the credit granted.

The Company establishes an allowance for impairment that represents its estimate of expected credit losses in respect of customer receivables. The Company policy on impairment consists of allowance for individual impairment that identified based on specific loss event and a collective impairment established for similar receivables in term of their Credit risk on product basis where the loss event have incurred but not yet identified. The collective impairment is determined based on the historical data of payments statistics for similar financial assets.

Additional information on the changes to the methodology used in the calculation of ECL due to COVID-19 pandemic is disclosed in Note 50.4 to these Financial Statements.

### b. Write-off policy

The Company writes-off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Board of Directors determines that the loan or security is uncollectible. This determination is made after considering information such as 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 as the last resort after considering the legal recoveries. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

Micro finance concept works with the Group Peer Pressure where members being pressurised by the other members to pay instalments without any defaults. Some loans advance requires guarantees from third parties. There are two types of guarantees obtained by the Company. Immovable assets are taken as securities for high-valued loan disbursements such as *Abhilasha*. Other Securities such as personal guarantees are taken for *Diriya* and *Swashakthi* loan facilities. In this context group members will be cross-guarantors each other by which they are pressurised to maintain the non-default of the particular group. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral usually is not held against investment securities, and no such collateral was held at 31 March 2021 (2020: No collaterals held).

### c. Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Company Internal Credit Committee. Internal Credit Committee, reporting to the Board Credit Committee, is responsible for management of the Company's credit risk, including:

1. Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
2. Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to Business Unit Credit Officers. Larger facilities require approval by Head Office Credit Committee which consists of two Directors.
3. Reviewing and assessing credit risk. Company's credit team assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the Business Unit concerned.
4. Providing advice, guidance and specialist skills to Business Units to promote best practice throughout the Company in the management of credit risk.

### d. Credit quality by class of financial assets

| As at 31 March 2021 | Current LKR | Overdue LKR | Impaired LKR | Total LKR |
|---|---|---|---|---|
| Cash and cash equivalents | 645,635,660 | – | – | 645,635,660 |
| Financial assets – Fair value through profit or loss | 16,704,000 | – | – | 16,704,000 |
| Financial assets at amortised cost – Loans and advances to customers | 12,400,566,719 | 8,442,551,956 | (2,767,645,446) | 18,075,473,229 |
| Financial assets at amortised cost – Lease rentals receivables | 5,302,681,848 | 5,843,018,537 | (849,284,211) | 10,296,416,174 |
| Financial assets at amortised cost – Loans and advances to others | 404,890,737 | 874,665 | – | 405,765,402 |
| Financial assets measured at fair value through other comprehensive income | 2,655,810 | – | – | 2,655,810 |
| Financial assets at amortised cost – Debt and other instruments | 4,255,856,226 | – | (773,091,682) | 3,482,764,544 |
| Other financial assets | 113,445,878 | – | – | 113,445,878 |
| **Total financial assets** | 23,142,436,878 | 14,286,445,158 | (4,390,021,339) | 33,038,860,697 |

# Notes to the Financial Statements

| As at 31 March 2021 | Overdue | | | | Total |
|---|---|---|---|---|---|
| | Less than 30 Days LKR | 30 to 60 Days LKR | 60 to 90 Days LKR | More than 90 Days LKR | LKR |
| Financial assets at amortised cost – Loans and advances to customers | 1,912,980,278 | 896,963,980 | 555,439,508 | 5,077,168,190 | 8,442,551,956 |
| Financial assets at amortised cost – Lease rentals receivables | 2,054,624,307 | 1,406,587,673 | 925,639,284 | 1,456,167,273 | 5,843,018,537 |
| Financial assets at amortised cost – Loans and advances to others | 406,743 | 227,644 | 6,629 | 233,649 | 874,665 |
| | 3,968,011,328 | 2,303,779,297 | 1,481,085,421 | 6,533,569,112 | 14,286,445,158 |

| As at 31 March 2020 | Current LKR | Overdue LKR | Impaired LKR | Total LKR |
|---|---|---|---|---|
| Cash and cash equivalents | 1,502,773,059 | – | – | 1,502,773,059 |
| Financial assets – Fair value through profit or loss | 16,192,528 | – | – | 16,192,528 |
| Financial assets at amortised cost – Loans and advances to customers | 13,534,845,988 | 6,902,442,211 | (2,661,722,614) | 17,775,565,585 |
| Financial assets at amortised cost – Lease rentals receivables | 4,402,315,539 | 6,003,353,191 | (462,786,928) | 9,942,881,802 |
| Financial assets at amortised cost – Loans and advances to others | 546,364,609 | 37,785,374 | (26,969) | 584,123,014 |
| Financial assets measured at fair value through other comprehensive income | 12,430,283 | – | – | 12,430,283 |
| Financial assets at amortised cost – Debt and other instruments | 5,004,234,721 | – | (773,091,682) | 4,231,143,039 |
| Other financial assets | 163,504,046 | – | – | 163,504,046 |
| **Total financial assets** | 25,182,660,773 | 12,943,580,776 | (3,897,628,193) | 34,228,613,356 |

| As at 31 March 2020 | Overdue | | | | Total |
|---|---|---|---|---|---|
| | Less than 30 Days LKR | 30 to 60 Days LKR | 60 to 90 Days LKR | More than 90 Days LKR | LKR |
| Financial assets at amortised cost – Loans and advances to customers | 1,625,007,730 | 673,788,336 | 885,298,244 | 3,718,347,901 | 6,902,442,211 |
| Financial assets at amortised cost – Lease rentals receivables | 2,009,091,248 | 1,429,431,584 | 1,134,178,878 | 1,430,651,481 | 6,003,353,191 |
| Financial assets at amortised cost – Loans and advances to others | 33,278,179 | 1,494,417 | 2,533,133 | 479,645 | 37,785,374 |
| | 3,667,377,157 | 2,104,714,337 | 2,022,010,255 | 5,149,479,027 | 12,943,580,776 |

### e. Maximum exposure disclosure of financial assets

| As at 31 March 2021 | Gross carrying amount LKR | Net exposure LKR |
|---|---|---|
| Cash and cash equivalents | 645,635,660 | 645,635,660 |
| Financial assets measured at FVTPL | 16,704,000 | – |
| Financial assets at amortised cost – Loans and advances to customers | 20,843,118,675 | 18,376,207,109 |
| Financial assets at amortised cost – Lease rentals receivables | 11,145,700,385 | 382,950,962 |
| Financial assets at amortised cost – Loans and advances to others | 405,765,402 | 144,206,602 |
| Financial assets measured at FVOCI | 2,655,810 | – |
| Financial assets at amortised cost – Debt and other instruments | 3,482,764,544 | – |
| Other financial assets | 113,445,878 | 113,445,878 |
| | 36,655,790,354 | 19,662,446,211 |

| As at 31 March 2020 | Gross carrying amount LKR | Net exposure LKR |
|---|---|---|
| Cash and cash equivalents | 1,502,773,059 | 1,502,773,059 |
| Financial assets measured at FVTPL | 16,192,528 | – |
| Financial assets at amortised cost – Loans and advances to customers | 20,437,288,199 | 17,989,416,005 |
| Financial assets at amortised cost – Lease rentals receivables | 10,405,668,730 | 273,730,653 |
| Financial assets at amortised cost – Loans and advances to others | 584,149,983 | 269,933,350 |
| Financial assets measured at FVOCI | 12,430,283 | – |
| Financial assets at amortised cost – Debt and other instruments | 4,231,143,039 | – |
| Other financial assets | 163,504,046 | 163,504,046 |
| | 37,353,149,867 | 20,199,357,113 |

### f. Concentration of credit risk

The Company monitors concentration of credit risk by sector and by geographic location

### Concentration by location

Concentration of loans and advances by location is given below:

| As at 31 March | 2021 | | 2020 | |
|---|---|---|---|---|
| | LKR | % | LKR | % |
| Western | 10,030,478,032 | 31 | 6,461,836,394 | 21 |
| Southern | 2,514,899,984 | 8 | 5,780,702,194 | 18 |
| Uva | 1,965,819,218 | 6 | 2,288,402,628 | 7 |
| North Central | 2,831,655,018 | 9 | 2,116,083,617 | 7 |
| North Western | 4,852,058,261 | 15 | 3,636,934,823 | 12 |
| Eastern | 2,514,143,418 | 8 | 3,406,040,640 | 11 |
| Northern | 2,750,828,119 | 8 | 2,375,724,501 | 8 |
| Sabaragamuwa | 2,014,798,035 | 6 | 2,154,890,843 | 7 |
| Central | 2,919,904,375 | 9 | 3,206,491,272 | 10 |
| | 32,394,584,461 | 100 | 31,427,106,912 | 100 |

## Concentration by sector

| As at 31 March 2021 | Agriculture LKR | Commercial LKR | Consumers LKR |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | – | – | – |
| Financial assets measured at FVTPL | – | – | – |
| Financial assets at amortised cost – Loans and advances to customers | 5,866,817,207 | 10,078,971,594 | 64,254,137 |
| Financial assets at amortised cost – Lease rentals receivables | 863,973,382 | 2,839,735,900 | 24,161,031 |
| Financial assets at amortised cost – Loans and advances to others | 265,808 | 18,841,765 | 44,114,328 |
| Financial assets measured at FVOCI | – | – | – |
| Financial assets at amortised cost – debt and other Investment | – | – | – |
| Other assets | – | – | – |
| | 6,731,056,397 | 12,937,549,259 | 132,529,496 |

| As at 31 March 2020 | Agriculture LKR | Commercial LKR | Consumers LKR |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | – | – | – |
| Financial assets measured at FVTPL | – | – | – |
| Financial assets at amortised cost – Loans and advances to customers | 5,735,506,433 | 9,100,433,670 | 57,616,857 |
| Financial assets at amortised cost – Lease rentals receivables | 1,135,444,020 | 2,156,153,150 | 32,980,057 |
| Financial assets at amortised cost – Loans and advances to others | | 36,024,842 | 72,500,933 |
| Financial assets measured at FVOCI | – | – | – |
| Financial assets at amortised cost – debt and other Investment | – | – | – |
| Other assets | – | – | – |
| | 6,870,950,453 | 11,292,611,662 | 163,097,847 |

### 46.4 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company uses the maturity analysis of all the financial instruments to manage the liquidity risk.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking the financial position of the Company while maintaining regulatory requirements. The Treasury manages the liquidity position as per the treasury policies and procedures.

The Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, funding arrangements, to ensure that sufficient liquidity is maintained within the Company.

The liquidity requirements of Business Units are discussed at Company ALCO meetings (Asset Liability Committee) and are arranged by the Treasury.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Company. A summary report, including any exceptions and remedial action taken, is submitted regularly to monthly ALCO meetings.

# Notes to the Financial Statements

| Financial LKR | Housing and property development LKR | Industrial LKR | Services LKR | Tourism LKR | Others LKR | Total LKR |
|---|---|---|---|---|---|---|
| 645,635,660 | – | – | – | – | – | 645,635,660 |
| 16,704,000 | – | – | – | – | – | 16,704,000 |
| 41,946,909 | 526,908,739 | 2,191,940,112 | 1,933,051,297 | 69,649,971 | 69,578,709 | 20,843,118,675 |
| 318,119,790 | 90,945,120 | 511,756,952 | 2,648,456,508 | 544,900,232 | 3,303,651,470 | 11,145,700,385 |
| 105,909,721 | 229,929,866 | – | 6,703,914 | – | – | 405,765,402 |
| 2,655,810 | – | – | – | – | – | 2,655,810 |
| 3,482,764,544 | – | – | – | – | – | 3,482,764,544 |
| 113,445,878 | – | – | – | – | – | 113,445,878 |
| 4,727,182,312 | 847,783,725 | 2,703,697,064 | 4,588,211,719 | 614,550,203 | 3,373,230,179 | 36,655,790,354 |

| Financial LKR | Housing and property development LKR | Industrial LKR | Services LKR | Tourism LKR | Others LKR | Total LKR |
|---|---|---|---|---|---|---|
| 1,502,773,059 | – | – | – | | – | 1,502,773,059 |
| 16,192,528 | – | – | – | | – | 16,192,528 |
| 38,290,659 | 591,697,880 | 2,503,614,196 | 1,901,757,052 | 76,184,004 | 432,187,448 | 20,437,288,199 |
| 346,617,740 | 110,093,190 | 328,553,303 | 2,271,595,090 | 822,855,140 | 3,201,377,040 | 10,405,668,730 |
| 215,450,163 | 258,730,508 | | 1,443,537 | | | 584,149,983 |
| 12,430,283 | – | – | – | | – | 12,430,283 |
| 4,231,143,039 | – | – | – | | – | 4,231,143,039 |
| 163,504,046 | – | – | – | | – | 163,504,046 |
| 6,526,401,517 | 960,521,578 | 2,832,167,499 | 4,174,795,679 | 899,039,144 | 3,633,564,488 | 37,353,149,867 |

The Company relies on Fixed Deposits, savings and debt facility by banks were main primary sources of funding. Company actively manages this risk through maintaining competitive pricing and constant adaptation.

Management of the Company is instrumental in maintaining a stable liquidity position even during the COVID-19 outbreak and closely monitoring the position on daily basis and taking necessary measures to ensure the safeguard of the entity. The Company introduced more rigour to the processes already in place to manage its liquid assets including cost saving measures. These actions assisted in maintaining a suitable liquidity position while ensuring the interest of Company's stakeholders despite of disruptive effect on liquidity arose due to the continuously evolving nature of the pandemic.

Management considered different possible outcomes to assess the possible impact from COVID-19 to the Company's operations and forecasted cash flows in order to absorb sudden liquidity shock to comply with financial commitments and CBSL Liquidity Requirement. i.e., consider sufficient cash and unused credit lines, deposits renewal ratio, customer collection ratios, availability of negotiate borrowing facilities to meet short-term needs, restructure operations to reduce operating costs and defer capital expenditure.

# Notes to the Financial Statements

### 46.4.1 The maturity analysis of financial assets and liabilities based on undiscounted gross inflow and outflow is reflected below:

| As at 31 March 2021 | Carrying amounts LKR | Gross nominal cash flow LKR | Up to 3 Months LKR | 3 to 12 Months LKR | More than 1 Year LKR |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 645,635,660 | 645,635,660 | 645,635,660 | – | – |
| Financial assets measured at FVTPL | 16,704,000 | 16,704,000 | – | – | 16,704,000 |
| Financial assets at amortised cost – Loans and advances to customers | 18,075,473,228 | 24,629,156,734 | 10,417,392,744 | 9,412,858,694 | 4,798,905,296 |
| Financial Assets at amortised cost – Lease rentals receivables | 10,296,416,174 | 14,468,542,274 | 2,250,259,003 | 1,187,626,956 | 11,030,656,315 |
| Financial assets at amortised cost – Loans and advances to others | 405,765,402 | 11,091,914,504 | 31,165,711 | 30,092,478 | 11,030,656,315 |
| Financial assets measured at FVOCI | 2,655,810 | 2,655,810 | – | – | 2,655,810 |
| Financial assets at amortised cost – Debt and other instruments | 3,482,764,544 | 3,509,116,153 | 2,908,453,889 | 600,662,264 | – |
| Other financial assets | 113,445,878 | 114,616,076 | 114,616,076 | – | – |
| | 33,038,860,696 | 54,478,341,211 | 16,367,523,083 | 11,231,240,392 | 26,879,577,736 |
| **Liabilities** | | | | | |
| Financial liabilities at amortised cost – Due to customers | 28,046,962,308 | 28,447,866,838 | 10,382,054,187 | 10,798,882,658 | 7,266,929,993 |
| Financial liabilities at amortised cost – Debt issued and other borrowed funds | 2,636,572,519 | 3,419,932,253 | 574,551,588 | 511,989,605 | 2,333,391,060 |
| Other financial liabilities | 784,449,488 | 1,274,188,827 | 784,449,490 | 489,739,337 | – |
| | 31,467,984,315 | 33,141,987,918 | 11,741,055,265 | 11,800,611,600 | 9,600,321,053 |
| Liquidity gap related period | – | 21,336,353,293 | 4,626,467,818 | (569,371,208) | 17,279,256,683 |
| **Liquidity gap cumulative** | – | – | 4,626,467,818 | 4,057,096,610 | 21,336,353,293 |

| As at 31 March 2020 | Carrying amounts LKR | Gross nominal cash flow LKR | Up to 3 Months LKR | 3 to 12 Months LKR | More than 1 Year LKR |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 1,502,773,059 | 1,502,773,059 | 1,502,773,059 | – | – |
| Financial assets measured at FVTPL | 16,192,528 | 16,192,528 | – | – | 16,192,528 |
| Financial assets at amortised cost – Loans and advances to customers | 17,775,565,585 | 23,543,954,112 | 10,774,569,608 | 8,156,039,355 | 4,613,345,149 |
| Financial Assets at amortised cost – Lease rentals receivables | 9,942,881,802 | 14,293,492,639 | 1,794,162,802 | 3,429,766,416 | 9,069,563,421 |
| Financial assets at amortised cost – Loans and advances to others | 584,123,014 | 749,824,222 | 42,102,932 | 123,607,130 | 584,114,160 |
| Financial assets measured at FVOCI | 12,430,283 | 12,430,283 | – | – | 12,430,283 |
| Financial assets at amortised cost – Debt and other instruments | 4,231,143,039 | 4,376,842,831 | 1,927,367,308 | 2,449,153,185 | 322,337 |
| Other financial assets | 163,504,046 | 163,504,046 | 36,589,047 | 26,088,610 | 100,826,389 |
| | 34,228,613,356 | 44,659,013,720 | 16,077,564,756 | 14,184,654,696 | 14,396,794,267 |
| **Liabilities** | | | | | |
| Financial liabilities at amortised cost – Due to customers | 27,528,789,668 | 30,989,589,251 | 5,594,872,040 | 15,252,853,767 | 10,141,863,443 |
| Financial liabilities at amortised cost – Debt issued and other borrowed funds | 3,822,043,053 | 6,017,305,295 | 755,050,001 | 729,582,479 | 4,532,672,814 |
| Other financial liabilities | 1,060,010,345 | 1,274,188,827 | 682,162,581 | 186,777,251 | 405,248,996 |
| | 32,410,843,066 | 38,281,083,372 | 7,032,084,622 | 16,169,213,497 | 15,079,785,253 |
| Liquidity gap related period | – | 6,377,930,347 | 9,045,480,134 | (1,984,558,801) | (682,990,986) |
| **Liquidity gap cumulative** | – | – | 9,045,480,134 | 7,060,921,333 | 6,377,930,347 |

## 46.5 Market risk

### a. Interest rate risk

The Company is exposed to market risk due to changes in interest rates.

The Company ensures the mix of variable and fixed rate borrowings to manage the exposure due to interest rate movement in the market. These are monitored by the treasury division and significant movements are discussed at ALCO meetings.

ALCO closely scrutinizing the probable impact on Net interest impact resulting from interest rate-related relief measures announced by CBSL to the COVID-19 affected the Company. Management is in the process of finalizing the impact of the same.

### 46.5.1 Sensitivity analysis

An analysis of the Company's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

| As at 31 March 2021 | Up to 3 Months LKR | 4 to 12 Months LKR | 1 to 5 Years LKR | More than 5 Years LKR | Total as at 31 March 2021 LKR |
|---|---|---|---|---|---|
| **Interest-earning assets** | | | | | |
| Cash and cash equivalents | 645,635,660 | – | – | – | 645,635,660 |
| Financial assets measured at FVTPL | 16,704,000 | – | – | – | 16,704,000 |
| Financial assets at amortised cost – Debt and other instruments | 2,893,483,425 | 589,281,119 | – | – | 3,482,764,544 |
| Financial assets at amortised cost – Loans and advances to customers | 9,468,873,407 | 8,040,047,223 | 3,286,249,722 | 47,948,322 | 20,843,118,674 |
| Financial assets at amortised cost – Lease rentals receivables | 1,885,659,511 | 2,615,923,183 | 6,642,877,386 | 1,240,305 | 11,145,700,385 |
| Financial assets at amortised cost – Loans and advances to others | 21,908,313 | 65,385,741 | 224,599,060 | 93,872,288 | 405,765,402 |
| **Total interest-earning assets** | 14,932,264,316 | 11,310,637,266 | 10,153,726,168 | 143,060,915 | 36,539,688,665 |
| **Interest-bearing liabilities** | | | | | |
| Financial liabilities at amortised cost – Due to customers | 10,381,631,484 | 10,525,183,579 | 7,140,147,245 | – | 28,046,962,308 |
| Financial liabilities at amortised cost – Debt issued and other borrowed funds | 546,002,519 | 300,000,000 | 1,158,820,000 | 631,750,000 | 2,636,572,519 |
| **Total interest-bearing liabilities** | 10,927,634,003 | 10,825,183,579 | 8,298,967,245 | 631,750,000 | 30,683,534,827 |
| Gap in interest-earning assets and interest-bearing liabilities – Net | 4,004,630,313 | 485,453,687 | 1,854,758,922 | (488,689,084) | 5,856,153,839 |
| Effect on profitability by 1% increase | 40,046,303 | 4,854,537 | 18,547,589 | (4,886,891) | – |
| Effect on profitability by 1% decrease | (40,046,303) | (4,854,537) | (18,547,589) | 4,886,891 | – |

# Notes to the Financial Statements

| As at 31 March 2020 | Up to 3 Months LKR | 4 to 12 Months LKR | 1 to 5 Years LKR | More than 5 Years LKR | Total as at 31 March 2020 LKR |
|---|---|---|---|---|---|
| **Interest-earning assets** | | | | | |
| Cash and cash equivalents | 1,502,773,059 | – | – | – | 1,502,773,059 |
| Financial assets measured at FVTPL | 16,192,528 | – | – | – | 16,192,528 |
| Financial assets at amortised cost – Debt and other instruments | 1,899,720,228 | 2,331,422,811 | – | – | 4,231,143,039 |
| Financial assets at amortised cost – Loans and advances to customers | 9,796,394,895 | 6,977,042,233 | 3,604,577,778 | 59,273,293 | 20,437,288,199 |
| Financial assets at amortised cost – Lease rentals receivables | 1,282,524,970 | 2,142,645,235 | 6,703,548,703 | 276,949,822 | 10,405,668,730 |
| Financial assets at amortised cost – Loans and advances to others | 28,108,133 | 87,051,203 | 354,512,686 | 114,477,961 | 584,149,983 |
| **Total interest-earning assets** | 14,525,713,813 | 11,538,161,482 | 10,662,639,167 | 450,701,076 | 37,177,215,538 |
| **Interest-bearing liabilities** | | | | | |
| Financial liabilities at amortised cost – Due to customers | 5,546,363,468 | 14,088,912,724 | 7,577,380,120 | 316,133,356 | 27,528,789,668 |
| Financial liabilities at amortised cost – Debt issued and other borrowed funds | 696,139,687 | 400,000,000 | 2,060,903,366 | 665,000,000 | 3,822,043,053 |
| **Total interest-bearing liabilities** | 6,242,503,155 | 14,488,912,724 | 9,638,283,486 | 981,133,356 | 31,350,832,721 |
| Gap in interest earning assets and interest-bearing liabilities – Net | 8,283,210,658 | (2,950,751,242) | 1,024,355,680 | (530,432,279) | 5,826,382,817 |
| Effect on profitability by 1% increase | 82,832,107 | (29,507,512) | 10,243,557 | (5,304,323) | – |
| Effect on profitability by 1% decrease | (82,832,107) | 29,507,512 | (10,243,557) | 5,304,323 | – |

## b. Currency risk

The Company does not engage in transactions denominated in foreign currencies. Therefore, exposure to currency risk is not significant.

### 46.6 Capital management

The Company's capital management is performed primarily considering regulatory capital.

The Company's lead regulator, the Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for the Company.

The Company is required to comply with the provisions of the Finance Companies (Capital Funds) Direction No. 01 of 2003, Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 02 of 2006 and Finance Companies (Minimum Core Capital) Direction No. 01 of 2011 in respect of regulatory capital.

The Company's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

## 47 Maturity analysis of assets and liabilities

| As at 31 March 2021 | Less than 1 Year LKR | More than 1 Year LKR | Total LKR |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 645,635,660 | – | 645,635,660 |
| Financial assets measured at FVTPL | 16,704,000 | – | 16,704,000 |
| Financial assets at amortised cost – Loans and advances to customers | 14,741,275,185 | 3,334,198,043 | 18,075,473,229 |
| Financial assets at amortised cost – Lease rentals receivables | 3,652,298,484 | 6,644,117,690 | 10,296,416,174 |
| Financial assets at amortised cost – Loans and advances to others | 87,294,054 | 318,471,348 | 405,765,402 |
| Financial assets measured at FVOCI | – | 2,655,810 | 2,655,810 |
| Financial assets at amortised cost – Debt and other instruments | 3,482,764,544 | – | 3,482,764,544 |
| Other assets | 426,541,632 | 34,287,127 | 460,828,759 |
| Current tax asset | 8,392,657 | – | 8,392,657 |
| Investment properties | – | 1,105,000,000 | 1,105,000,000 |
| Intangible assets | – | 254,263,673 | 254,263,673 |
| Property, plant and equipment | – | 1,590,028,807 | 1,590,028,807 |
| Right of use the asset | 69,954,218 | 187,516,670 | 257,470,889 |
| Deferred tax assets | – | 153,987,656 | 153,987,656 |
| | 23,130,860,434 | 13,624,526,824 | 36,755,387,260 |
| **Liabilities** | | | |
| Financial liabilities at amortised cost – Due to customers | 20,906,815,063 | 7,140,147,245 | 28,046,962,308 |
| Financial liabilities at amortised cost – Debt issued and other borrowed funds | 846,002,519 | 1,790,570,000 | 2,636,572,519 |
| Value added tax payable | 61,155,046 | – | 61,155,046 |
| Other liabilities | 562,486,522 | 272,446,669 | 834,933,191 |
| Retiring benefit obligation | – | 280,857,939 | 280,857,939 |
| Shareholder's fund | – | 4,894,906,257 | 4,894,906,257 |
| | 22,376,459,150 | 14,378,928,110 | 36,755,387,260 |

# Notes to the Financial Statements

| As at 31 March 2020 | Less than 1 Year LKR | More than 1 Year LKR | Total LKR |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 1,502,773,059 | – | 1,502,773,059 |
| Financial assets measured at FVTPL | 16,192,528 | – | 16,192,528 |
| Financial assets at amortised cost – Loans and advances to customers | 14,111,714,514 | 3,663,851,071 | 17,775,565,585 |
| Financial assets at amortised cost – Lease rentals receivables | 2,962,383,276 | 6,980,498,526 | 9,942,881,802 |
| Financial assets at amortised cost – Loans and advances to others | 115,132,367 | 468,990,647 | 584,123,014 |
| Financial assets measured at FVOCI | – | 12,430,283 | 12,430,283 |
| Financial assets at amortised cost – Debt and other instruments | 4,231,143,039 | – | 4,231,143,039 |
| Other assets | 319,990,196 | 101,106,629 | 421,096,821 |
| Investment properties (restated) | – | 1,105,000,000 | 1,077,800,000 |
| Intangible assets | – | 298,713,377 | 298,713,377 |
| Property, plant and equipment | – | 1,625,569,182 | 1,625,569,182 |
| Right of use the asset | – | 286,728,068 | 286,728,068 |
| Deferred tax assets (restated) | – | 167,121,098 | 167,121,098 |
| | 23,259,328,979 | 14,710,008,881 | 37,942,137,856 |
| **Liabilities** | | | |
| Financial liabilities at amortised cost – Due to customers | 19,635,276,191 | 7,893,513,477 | 27,528,789,668 |
| Financial liabilities at amortised cost – Debt issued and other borrowed funds | 1,096,139,687 | 2,725,903,366 | 3,822,043,053 |
| Income tax payable | 133,467,472 | – | 133,467,472 |
| Value added tax payable | 59,079,643 | – | 59,079,643 |
| Other liabilities | 905,081,500 | 233,436,080 | 1,138,517,580 |
| Retiring benefit obligation | – | 260,518,521 | 260,518,521 |
| Shareholder's fund | – | 4,999,721,919 | 4,999,721,919 |
| | 21,829,044,493 | 16,113,093,363 | 37,942,137,856 |

# Notes to the Financial Statements

*As at 31 March*

## 48 Fair value measurement

### 48.1 Assets and liabilities measured at fair value

A description of how fair values are determined for assets and liabilities that are recorded at fair value using valuation techniques are summarised below which incorporates the Company's estimate of assumptions that a market participant would make when valuing the instruments.

### 48.1.1 Financial assets measured at fair value through other comprehensive income

Financial assets measured at FVOCI valued using valuation techniques or pricing models primarily consist of unquoted investment securities.

### 48.1.2 Financial assets - Fair value through profit or loss

Financial assets held for trading consist of Government Debt Securities. Government Debt Securities are valued using yield curves published by the Central Bank of Sri Lanka as at the reporting date.

### 48.1.3 Property, plant and equipment

The methods used to determine the fair value of freehold land and buildings are explained in Note 27.1. The independent valuers provide the fair value of the Company›s freehold land and buildings at least once in every three years.

### 48.1.4 Investment properties

The independent valuers provide the fair value of the Company's investment properties annually as per Sri Lanka Accounting Standards (LKAS 40) – Investment Properties. Details of the valuations are disclosed in Note 25.1.

### 48.2 Fair value of financial assets and liabilities not measured at fair value

Fair values of the following assets and liabilities are estimated for the purpose of disclosure as described below:

### 48.2.1 Financial assets at amortised cost – Loans and advances to customers

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.

### 48.2.2 Financial assets at amortised cost–Debt and other instruments

Financial assets held to maturity consist of Government Debt Securities. Government Debt Securities are valued using yield curves published by the Central Bank of Sri Lanka as at the reporting date.

### 48.2.3 Financial liabilities at amortised cost–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.

### 48.2.4 Financial liabilities at amortised cost–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.

### 48.3 Fair value of financial assets and liabilities

The following table summarises the carrying amounts and the Company'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.

# Notes to the Financial Statements

| As at 31 March 2021 | Carrying amount LKR | Fair value LKR | Fair value hierarchy LKR |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 645,635,660 | 645,635,660 | Level II |
| Financial assets at amortised cost – Debt and other instruments | | | |
| – Investments in fixed deposits | 1,990,060,273 | 1,990,060,273 | Level III |
| – Investments in treasury bills | 1,492,704,270 | 1,492,704,270 | Level II |
| Financial assets at amortised cost – Loans and advances to customers | 18,075,473,228 | 22,320,244,698 | Level III |
| Financial assets at amortised cost – Lease rentals receivables | 10,296,416,174 | 9,768,984,842 | Level III |
| Financial assets at amortised cost – Loans and advances to others | 405,765,402 | 457,160,483 | Level III |
| Other financial assets | 113,445,878 | 113,445,880 | Level III |
| | 33,019,500,885 | 36,788,236,106 | |
| **Financial Liabilities** | | | |
| Financial liabilities at amortised cost – Due to customers | 28,046,962,308 | 24,557,935,592 | Level III |
| Financial liabilities at amortised cost – Debt issued and other borrowed funds | 2,636,572,519 | 2,066,392,742 | Level III |
| Other financial liabilities | 784,449,488 | 784,449,488 | Level III |
| | 31,467,984,315 | 27,408,777,822 | |

| As at 31 March 2020 | Carrying amount LKR | Fair Value LKR | Fair Value Hierarchy LKR |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 1,502,773,059 | 1,502,773,059 | Level II |
| Financial assets at amortised cost – Debt and other instruments | | | |
| – Investments in treasury bills | 2,115,625,285 | 2,115,625,285 | Level II |
| – Investments in fixed deposits | 1,948,642,754 | 1,948,642,754 | Level III |
| – Investments in debentures | 166,875,000 | 166,875,000 | Level III |
| Financial assets at amortised cost – Loans and advances to customers | 20,437,288,199 | 20,719,964,962 | Level III |
| Financial assets at amortised cost – Lease rentals receivables | 10,405,668,730 | 10,591,017,922 | Level III |
| Financial assets at amortised cost – Loans and advances to others | 584,149,983 | 502,688,684 | Level III |
| Other financial assets | 223,111,323 | 223,111,323 | Level III |
| | 35,881,361,274 | 36,267,925,930 | |
| **Financial Liabilities** | | | |
| Financial liabilities at amortised cost – Due to customers | 27,528,789,668 | 25,609,772,794 | Level III |
| Financial liabilities at amortised cost – Debt issued and other borrowed funds | 3,822,043,053 | 3,841,917,524 | Level III |
| Other financial liabilities | 826,298,365 | 826,298,365 | Level III |
| | 32,177,131,086 | 30,277,988,683 | |

## 49 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the Company'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.

The Company has three main segments, namely Finance, Leasing and Others, based on the business activities that each unit is engaged in for purpose of reviewing the operating results of the Company as well as to make decisions about resource allocation.

Management monitors the operating results of its business units separately for the purposes 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 Financial Statements.

There are no inter-segment transactions occurred during the year.

Income taxes are allocated to specific segments. Other expenses which cannot be directly identified against a particular business segment have been treated as consolidated adjustments.

No revenue from transactions with a single external customer or counter party amounted to 10% or more of HNB Finance PLC's total revenue in 2019/20 and 2020/21 financial years.

| | Financial | |
|---|---|---|
| | 2021 LKR | 2020 LKR |
| Net interest income | 1,466,900,849 | 3,323,892,582 |
| Net fee and commission income | 479,391,792 | 654,823,638 |
| Net gain/(Loss) from trading | – | – |
| Net gain/(Loss) from financial investments | – | – |
| Other operating income | 72,988,866 | 69,370,482 |
| **Total operating income** | 2,019,281,507 | 4,048,086,702 |
| Impairment charges for loan and other losses | (653,074,204) | (739,997,603) |
| **Net operating income** | 1,366,207,303 | 3,308,089,099 |
| Operating profit/(Loss) | (667,442,744) | 509,974,213 |
| Income tax expenses | – | (201,757,935) |
| **Profit/(Loss) for the year** | (667,442,744) | 308,216,278 |
| **Total assets** | 20,643,286,732 | 21,743,237,586 |
| **Total liabilities** | 19,422,040,594 | 20,285,984,310 |

| Leasing | | Gold Loan | | Others | | Consolidated | |
|---|---|---|---|---|---|---|---|
| 2021 LKR | 2020 LKR | 2021 LKR | 2020 LKR | 2021 LKR | 2020 LKR | 2021 LKR | 2020 LKR |
| 1,342,200,590 | 929,250,527 | 140,085,939 | 66,016,695 | 7,801,606 | 67,121,393 | 2,956,988,984 | 4,386,281,197 |
| 20,810,000 | 23,363,451 | 2,819,143 | 6,018,071 | – | – | 503,020,935 | 684,205,160 |
| – | – | – | – | 391,472 | 178,128 | 391,472 | 178,128 |
| – | – | – | – | – | – | – | – |
| 45,298,021 | 149,445,571 | 40,127,920 | 1,099,274 | – | – | 158,414,807 | 219,915,327 |
| 1,408,308,611 | 1,102,059,549 | 183,033,003 | 73,134,040 | 8,193,078 | 67,299,521 | 3,618,816,199 | 5,290,579,812 |
| (386,497,283) | (91,187,026) | (5,605,677) | (8,947,290) | – | (245,731,234) | (1,045,177,164) | (1,085,863,153) |
| 1,021,811,328 | 1,010,872,523 | 177,427,325 | 64,186,750 | 8,193,078 | (178,431,713) | 2,573,639,035 | 4,204,716,659 |
| 437,477,022 | 374,277,801 | 25,465,335 | (45,079,721) | 8,193,074 | (179,524,979) | (196,307,312) | 659,647,314 |
| 72,694,187 | (36,757,169) | – | (617,635) | – | – | 72,694,187 | (239,132,739) |
| 510,171,209 | 337,520,632 | 25,465,335 | (45,697,356) | 8,193,074 | (179,524,979) | (123,613,125) | 420,514,575 |
| 10,425,281,448 | 9,670,654,171 | 1,683,537,231 | 1,123,427,976 | 4,003,281,849 | 5,449,673,260 | 36,755,387,260 | 37,986,992,992 |
| 10,112,122,215 | 10,601,867,890 | 489,745,675 | 183,335,049 | 1,836,572,519 | 1,871,228,687 | 31,860,481,003 | 32,942,415,936 |

## 50 The impact of Covid-19 pandemic on business

### 50.1 Background

With emergence of the COVID19 pandemic from March 2020 and the island wide curfew being imposed by the Government on 20 March 2020, the Company took immediate measures to manage the business impacts including day to day operations. Steps were taken to facilitate work from home measures for all employees ensuring their safety and well-being in the period of uncertainty.

Soon after curfew was lifted on 11 May 2020, the Company gradually started normal business operations but strictly adhered to social distancing guidance and established other precautionary measures to safeguard workplace health and safety.

Due to the Government imposed curfew and other operating difficulties, the performance of the finance sector in particular was challenging, with decreasing the quality of the assets and the recovery of debts. Relief measures for affected businesses and individuals in line with the directions issued by the CBSL (debt moratorium) mitigated the impact on individuals and businesses but increased non-performing loans in 2021. However, the liquidity position of the financial sector affected by the debt moratorium, was balanced to some extent by the lowering of liquidity requirements for financial institutions by CBSL.

### 50.2 Impact to the liquidity and steps taken

The Company maintained a sufficient liquid position to meet any urgent needs of customers throughout the year which enabled the Company to meet liabilities falling due during the COVID-19 Pandemic. Necessary measures were taken by treasury division to maintain a strong liquidity position going forward, to meet any further future needs, capitalizing on banking partnerships and strategic funding to further bolster the already solid liquidity foundation sustained over the years. This was further assisted by the strong initiatives taken by the Company to recover dues from customers to whom the impact of the pandemic was minimal. Teams responsible for collections together with the assistance of the branch managers and regional managers took initiatives to visit these customers and collect the related due amounts.

Additionally, with the guidance of the Board of Directors, the Company took measures to control costs, to focus over the essentials during the COVID-19 peak period. Through digitalization and other technology-based enhancements coupled with continuous business process re-engineering initiatives, the Company was able to smoothen their operations during the second wave of the impact.

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### 50.3 Use of estimate uncertainty

The significant accounting estimate impacted by the associated uncertainties is the estimation of expected credit losses of the financial assets. As required by SLFRS 9, measurement of ECL incorporates forward-looking reasonable and supportable information available without undue cost or effort at the reporting date. As such, application of judgement requires and allows entities to adjust their approach to determining ECL based on the situation. Several assumptions used in the estimation of ECL in the past were no longer valid in the current year due to the COVID-19.

As such a considerable degree of judgement was involved in the estimation of ECL. These judgements included the impacts of actions of Governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the economy. Mostly, these are out of the control of the Company. Hence the actual economic conditions are likely to be different from the anticipated events.

### 50.4 Impact on the collective assessment of ECL

The Collective assessment of expected credit losses is based on a statistical model using certain management assumptions and judgements. Statistical models applied as such in estimating the collectively assessed ECL reported in these Financial Statements is consistent with that of applied in Financial Statements for the year ended 31 March 2020.

The Company has considered the impact of the debt moratorium granted as directed by the Central Bank of Sri Lanka. As such, for the estimation of ECL the past due status of customers to whom the moratorium has been granted is arrived at based on the past due status at the time of granting such moratorium.

In addition to the above, the Company reviewed its exposure towards different industries to determine whether the portfolio of Loans and Leases is exposed to any industry for which the risk of default has elevated due to COVID-19 pandemic. Identified exposures to these "risk-elevated industries" were dealt within the collective assessment of impairment to recognise an additional provision for the year ended 31 March 2021.

Further, the Company has made appropriate adjustments to the base case and worst case scenarios used in the calculation of ECL to reflect the current economic down turn. As such more weightage has been assigned to worst case scenario compared to that used as at 31 March 2020.

### 50.5 Financial impact of the debt moratorium granted to customers

Based on the Circular Nos. 4 and 5 of 2020 issued by the Central Bank of Sri Lanka (CBSL) NBFIs were required to provide extension of payment holidays granted to borrowers in stressed/specific industries. This required the Company to modify certain contracts.

Gains /losses arising from the modification of such contracts are required to be charged to profit/loss immediately if such modifications are not considered as substantial. However, if there is a substantial modification, that would result in derecognition of the financial asset. Consequently, a new financial asset would be recognised and the EIR used would be restated.

As such, based on the assessment carried out by the Company as a day one loss of LKR 43,500,597 Mn. has been recognized against the interest income from loans and advances to customers as mentioned in Note 5.1 to these financial statements.

## 51 Correction of prior period errors

The Board of Directors are of the view that adjusting the cumulative impact of LKR 44,155,832/- arising out of the errors mentioned in below Notes 51.1 and 51.2 through the loss for the year ended 31 March 2021 would result in a material adjustment and accordingly the Board of Directors of the Company decided to adjust these errors by restating the amounts presented in previous years in line with LKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

### 51.1 Incorrect recognition of change in fair value of investment property

The Company's policy is to carry lands and buildings classified under investment property under fair value model. However, the fair value of lands as at 31 March 2019 has been overstated by LKR 27,200,000/- due to an error.

As such this error and the related deferred tax impact of LKR 7,616,000/- have been adjusted in the Financial Statements for the year ended 31 March 2021 as a restatement of comparative amounts.

### 51.2 Non-Recognition of Deferred Tax Liability

The Company has incorrectly recorded the deferred tax liability of LKR 12,635,566/- arising out of the taxable temporary differences related to right–of–use asset as a deferred tax asset in the Statement of Financial Position as at 31 March 2020. This error is corrected in the current year by restating the comparative amounts presented as at 31 March 2020. However, this restatement does not result in a change to the balances presented as at 1 April 2019.

The above restatements do not result in change in the cash flows presented previously. Therefore, restated cash flows are not presented.

# Notes to the Financial Statements

Considering the impact of above restatements to the balances presented as at 31 March 2019, the Board of Directors of the Company decided not to present the third Statement of Financial Position as at the beginning of the preceding period in line with paragraph 40 A of LKAS 1 – "Presentation of Financial Statements". However, the impact to the numbers previously reported as at 1 April 2019 are disclosed below:

**The financial impact of these restatements are as follows:**

**A) As at 1 April 2019**

| Statement of Financial Position | As previously reported LKR | Impact of corrections<br>Error explained in Note 50.1 LKR | Adjusted balance LKR |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 1,371,096,372 | – | 1,371,096,372 |
| Financial assets measured at FVTPL | 16,014,400 | – | 16,014,400 |
| Financial assets at amortised cost – Loans and advances to customers | 16,755,608,663 | – | 16,755,608,663 |
| Financial assets at amortised cost – Lease rentals receivables | 8,073,389,558 | – | 8,073,389,558 |
| Financial assets at amortised cost – Loans and advances to others | 641,712,440 | – | 641,712,440 |
| Financial assets measured at FVOCI | 12,430,283 | – | 12,430,283 |
| Financial assets at amortised cost – Debt and other instruments | 2,487,353,578 | – | 2,487,353,578 |
| Other assets | 492,794,672 | – | 492,794,672 |
| Investment properties | 1,295,000,001 | (27,200,000) | 1,267,800,001 |
| Intangible assets | 173,541,897 | – | 173,541,897 |
| Property, plant and equipment | 1,420,476,897 | – | 1,420,476,897 |
| Right-of-use assets | – | – | – |
| Deferred tax assets | 189,768,514 | 7,616,000 | 197,384,514 |
| **Total assets** | 32,929,187,275 | (19,584,000) | 32,909,603,275 |
| **Liabilities and Equity** | | | |
| **Liabilities** | | | |
| Financial liabilities at amortised cost – Due to customers | 22,632,141,889 | – | 22,632,141,889 |
| Financial liabilities at amortised cost – Debt issued and other borrowed funds | 4,217,579,835 | – | 4,217,579,835 |
| Current tax liability | 80,353,556 | – | 80,353,556 |
| Value added tax payable | 49,704,847 | – | 49,704,847 |
| Other liabilities | 1,112,137,121 | – | 1,112,137,121 |
| Retirement benefit obligation | 207,802,822 | – | 207,802,822 |
| **Total Liabilities** | 28,299,720,070 | – | 28,299,720,070 |
| **Equity** | | | |
| Stated capital | 223,545,481 | – | 223,545,481 |
| General reserve | 82,897,989 | – | 82,897,989 |
| Statutory reserve fund | 1,006,995,465 | – | 1,006,995,465 |
| Revaluation reserve fund | 591,713,996 | – | 591,713,996 |
| Retained earnings | 2,724,314,274 | (19,584,000) | 2,704,730,274 |
| **Total Equity** | 4,629,467,205 | (19,584,000) | 4,609,883,205 |
| **Total Equity and Liabilities** | 32,929,187,275 | (19,584,000) | 32,909,603,275 |

# Notes to the Financial Statements

**The financial impact of these restatements are as follows:**

**B) As at 31 March 2020**

| Statement of Financial Position | As previously reported LKR | Impact of error corrections | | Adjusted balance LKR |
|---|---|---|---|---|
| | | Error explained in Note 50.1 LKR | Error explained in Note 50.2 LKR | |
| **Assets** | | | | |
| Cash and cash equivalents | 1,502,773,059 | – | – | 1,502,773,059 |
| Financial assets measured at FVTPL | 16,192,528 | – | – | 16,192,528 |
| Financial assets at amortised cost – Loans and advances to customers | 17,775,565,585 | – | – | 17,775,565,585 |
| Financial assets at amortised cost – Lease rentals receivables | 9,942,881,802 | – | – | 9,942,881,802 |
| Financial assets at amortised cost – Loans and advances to others | 584,123,014 | – | – | 584,123,014 |
| Financial assets measured at FVOCI | 12,430,283 | – | – | 12,430,283 |
| Financial assets at amortised cost – Debt and other instruments | 4,231,143,039 | – | – | 4,231,143,039 |
| Other assets | 421,096,821 | – | – | 421,096,821 |
| Investment properties | 1,105,000,000 | (27,200,000) | – | 1,077,800,000 |
| Intangible assets | 298,713,377 | – | – | 298,713,377 |
| Property, plant & equipment | 1,625,569,182 | – | – | 1,625,569,182 |
| Right-of-use assets | 286,728,068 | – | – | 286,728,068 |
| Deferred tax assets | 184,776,230 | 7,616,000 | (25,271,132) | 167,121,098 |
| **Total assets** | 37,986,992,988 | (19,584,000) | (25,271,132) | 37,942,137,856 |
| **Liabilities and Equity** | | | | |
| **Liabilities** | | | | |
| Financial liabilities at amortised cost – Due to customers | 27,528,789,668 | – | – | 27,528,789,668 |
| Financial liabilities at amortised cost – Debt issued and other borrowed funds | 3,822,043,053 | – | – | 3,822,043,053 |
| Current tax liability | 133,467,472 | – | – | 133,467,472 |
| Value added tax payable | 59,079,643 | – | – | 59,079,643 |
| Other liabilities | 1,138,517,580 | – | – | 1,138,517,580 |
| Retirement benefit obligation | 260,518,521 | – | – | 260,518,521 |
| **Total Liabilities** | 32,942,415,937 | – | – | 32,942,415,937 |
| **Equity** | | | | |
| Stated capital | 223,545,481 | – | – | 223,545,481 |
| General reserve | 82,897,989 | – | – | 82,897,989 |
| Statutory reserve fund | 1,091,098,380 | – | – | 1,091,098,380 |
| Revaluation reserve fund | 591,713,996 | – | – | 591,713,996 |
| Retained earnings | 3,055,321,205 | (19,584,000) | (25,271,132) | 3,010,466,073 |
| **Total Equity** | 5,044,577,051 | (19,584,000) | (25,271,132) | 4,999,721,919 |
| **Total Equity and Liabilities** | 37,986,992,988 | (19,584,000) | (25,271,132) | 37,942,137,856 |

# Notes to the Financial Statements

**The financial impact of these restatements are as follows:**

**b) For the year ended 31 March 2020**

| Statement of Comprehensive Income | As previously reported LKR | Impact of corrections Error explained in Note 50.2 LKR | Adjusted balance LKR |
|---|---|---|---|
| **Gross Income** | 9,170,137,700 | – | 9,170,137,700 |
| Interest income | 8,105,612,178 | – | 8,105,612,178 |
| Interest expenses | (3,719,330,982) | – | (3,719,330,982) |
| **Net Interest Income** | 4,386,281,196 | – | 4,386,281,196 |
| Fee and commission income | 844,610,196 | – | 844,610,196 |
| Fee and commission expenses | (160,405,038) | – | (160,405,038) |
| **Net fee and commission income** | 684,205,158 | – | 684,205,158 |
| Net Interest, Fee and Commission Income | 5,070,486,354 | – | 5,070,486,354 |
| Other operating income | 219,915,326 | – | 219,915,326 |
| Net Change in fair value of financial instruments at FVTPL | 178,128 | – | 178,128 |
| **Total Operating income** | 5,290,579,808 | – | 5,290,579,808 |
| Impairment charges for loans, leases and other advances | (1,085,863,153) | – | (1,085,863,153) |
| **Net Operating income** | 4,204,716,655 | – | 4,204,716,655 |
| Personnel expenses | (1,336,693,187) | – | (1,336,693,187) |
| Other expenses | (1,740,353,618) | – | (1,740,353,618) |
| **Total Operating expenses** | (3,077,046,805) | – | (3,077,046,805) |
| **Operating profit before taxes on financial services** | 1,127,669,850 | – | 1,127,669,850 |
| **Taxes on financial services** | (468,022,539) | – | (468,022,539) |
| **Profit before income tax expense** | 659,647,311 | – | 659,647,311 |
| Income tax expense | (239,132,739) | (25,271,132) | (264,403,871) |
| **Profit for the Year** | 420,514,572 | (25,271,132) | 395,243,440 |
| **Other comprehensive income** | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Actuarial loss on retirement benefit obligation | (7,506,562) | – | (7,506,562) |
| Deferred tax effect on remeasurement of retirement benefit obligation | 2,101,837 | – | 2,101,837 |
| **Other Comprehensive Income/(Expense) for the Year, Net of Tax** | (5,404,725) | – | (5,404,725) |
| **Total Comprehensive Income for the Year** | 415,109,847 | (25,271,132) | 389,838,715 |
| **Basic earnings per share** | 0.24 | (0.01) | 0.23 |

# SUPPLEMENTARY INFORMATION

# QUARTERLY FINANCIAL INFORMATION

## Summary of Income Statement – 2020 and 2021

| | 1st Quarter ended 30 June | |
|---|---|---|
| | 2020 LKR '000 | 2019 LKR '000 |
| Net interest income | 769,758,115 | 1,076,396,170 |
| Net fee and commission income | (4,264,597) | 141,088,732 |
| Other operating income (net) | 46,180,974 | 103,774,168 |
| Less: Impairment charges other losses | 135,530,968 | 195,508,456 |
| **Net operating income** | 676,143,525 | 1,125,750,614 |
| Less: Expenses | 664,105,079 | 913,445,485 |
| **Profit before income tax** | 12,038,446 | 212,305,129 |
| Less: Income tax expense | 17,767,521 | 66,985,524 |
| **Profit for the period** | (5,729,076) | 145,319,605 |
| Quarterly profit as a pecentage of the profit after tax (%) | 4.63 | 36.77 |
| Cumulative quarterly profit as a pecentage of the profit after tax (%) | 4.63 | 36.77 |

## Statement of Financial Position – 2020 and 2021

| | 1st Quarter ended 30 June | |
|---|---|---|
| | 2020 LKR '000 | 2019 LKR '000 |
| **Assets** | | |
| Cash and cash equivalents | 3,770,966,449 | 1,358,698,743 |
| Financial assets measured at Fair value through profit or loss | 15,832,528 | 15,654,400 |
| Financial assets at amortised cost – Loans and receivables | 16,612,858,302 | 17,086,847,205 |
| Financial assets at amortised cost – Lease rentals receivable and stock out on hire | 9,802,527,561 | 8,383,623,456 |
| Financial assets at amortised cost – Loans and advances to others | 552,295,571 | 639,904,910 |
| Financial assets measured at fair value through other comprehensive income | 12,430,283 | 12,430,283 |
| Financial assets at amortised cost – Debt and other instruments/financial investments | 4,119,426,739 | 3,682,120,024 |
| Other financial assets | 156,788,440 | 273,829,504 |
| Other non-financial assets | 510,044,499 | 373,213,914 |
| Investment properties | 1,105,000,000 | 1,295,000,001 |
| Property, plant and equipment | 1,643,667,655 | 159,285,890 |
| Intangible assets | 281,080,724 | 1,402,630,005 |
| Deferred tax assets | 184,776,230 | 189,768,514 |
| **Total assets** | 38,767,694,980 | 34,873,006,848 |

# Quarterly financial information

| | 2nd Quarter ended 30 September | | 3rd Quarter ended December 31 | | 4th Quarter ended March 31 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2020 LKR '000 | 2019 LKR '000 | 2020 LKR '000 | 2019 LKR '000 | 2021 LKR '000 | 2020 LKR '000 | 2021 LKR '000 | 2020 LKR '000 |
| | 412,800,639 | 1,079,789,326 | 776,424,576 | 1,137,226,782 | 998,005,654 | 1,092,868,920 | 2,956,988,984 | 4,386,281,196 |
| | 117,030,119 | 220,649,429 | 123,206,328 | 218,774,478 | 170,540,308 | 103,692,518 | 406,512,159 | 684,205,158 |
| | 21,242,717 | 3,443,315 | 42,710,830 | 59,692,296 | 75,871,760 | 53,183,676 | 186,006,281 | 220,093,454 |
| | 166,142,472 | 134,501,684 | 495,870,163 | 288,721,920 | 247,633,563 | 467,131,094 | 1,045,177,165 | 1,085,863,153 |
| | 384,931,004 | 1,169,380,386 | 446,471,571 | 1,126,971,636 | 996,784,159 | 782,614,020 | 2,504,330,259 | 4,204,716,655 |
| | 695,817,465 | 938,485,244 | 622,582,140 | 974,593,298 | 718,132,887 | 718,545,318 | 2,700,637,571 | 3,545,069,344 |
| | (310,886,462) | 230,895,142 | (176,110,568) | 152,378,338 | 278,651,272 | 64,068,703 | (196,307,312) | 659,647,311 |
| | 11,523,884 | 60,293,354 | (29,291,406) | 39,886,315 | (72,694,187) | 97,238,678 | (72,694,187) | 264,403,871 |
| | (322,410,346) | 170,601,788 | (146,819,163) | 112,492,023 | 351,345,459 | (33,169,975) | (123,613,125) | 395,243,440 |
| | 260.82 | 43.16 | 118.77 | 28.46 | -284.23 | -8.39 | 100.00 | 100.00 |
| | 265.45 | 79.93 | 384.22 | 108.39 | 100.00 | 100.00 | | |

| | 2nd Quarter ended 30 September | | 3rd Quarter ended 31 December | | 4th Quarter ended 31 March | |
|---|---|---|---|---|---|---|
| | 2020 LKR '000 | 2019 LKR '000 | 2020 LKR '000 | 2019 LKR '000 | 2021 LKR '000 | 2020 LKR '000 |
| | 4,506,658,334 | 1,035,443,355 | 1,254,090,104 | 1,205,770,530 | 645,635,660 | 1,502,773,059 |
| | 16,192,528 | 16,014,400 | 16,224,000 | 15,654,400 | 16,704,000 | 16,192,528 |
| | 16,829,430,928 | 17,935,397,681 | 17,036,398,803 | 18,795,397,108 | 18,075,473,229 | 17,775,565,585 |
| | 9,931,405,015 | 9,267,641,959 | 10,139,897,102 | 9,443,223,685 | 10,296,416,174 | 9,942,881,802 |
| | 495,919,057 | 626,181,735 | 446,657,183 | 605,781,922 | 405,765,402 | 584,123,014 |
| | 12,430,283 | 12,430,283 | 234,000 | 12,430,283 | 2,655,810 | 12,430,283 |
| | 4,899,247,754 | 2,896,650,998 | 4,677,827,071 | 3,063,874,514 | 3,482,764,544 | 4,231,143,039 |
| | 398,402,429 | 230,609,565 | 375,196,489 | 247,597,601 | 460,828,759 | 421,096,821 |
| | 273,897,441 | 294,937,439 | 303,347,180 | 335,402,398 | 1,105,000,000 | 1,077,800,000 |
| | 1,105,000,000 | 1,151,000,000 | 1,105,000,000 | 1,105,000,000 | 254,263,673 | 298,713,377 |
| | 1,627,199,242 | 1,605,124,358 | 1,605,840,634 | 1,637,146,972 | 1,590,028,807 | 1,625,569,182 |
| | 314,870,693 | 224,536,468 | 317,609,257 | 216,710,523 | 257,470,889 | 286,728,068 |
| | 184,776,230 | 189,768,514 | 183,698,774 | 189,768,514 | 153,987,656 | 167,121,098 |
| | 40,595,429,934 | 35,485,736,755 | 37,462,020,597 | 36,873,758,449 | 36,746,994,603 | 37,942,137,856 |

# Quarterly financial information

| | 1st Quarter ended 30 June | |
|---|---|---|
| | 2020 LKR '000 | 2019 LKR '000 |
| **Liabilities** | | |
| Bank overdraft | – | – |
| Financial liabilities at amortised cost – Due to depositors | 29,141,025,916 | 24,904,409,877 |
| Debt instruments issued and other borrowed funds | 3,211,011,095 | 3,635,577,634 |
| Other financial liabilities | 893,488,272 | 1,095,195,680 |
| Other non-financial liabilities | 47,411,195 | 71,409,418 |
| Current tax liabilities | 165,094,747 | 172,679,902 |
| Post-employment benefit liability | 270,815,772 | 218,970,697 |
| **Total liabilities** | 33,728,846,997 | 30,098,243,208 |
| **Equity** | | |
| Stated capital | 223,545,481 | 223,545,481 |
| Reserves | 1,765,710,366 | 1,681,607,451 |
| Retained earnings | 3,049,592,136 | 2,869,610,708 |
| **Total equity attributable to equity holders of the Company** | 5,038,847,983 | 4,774,763,640 |
| **Non-controlling interest** | | |
| **Total equity** | 5,038,847,983 | 4,774,763,640 |
| **Total liabilities and equity** | 38,767,694,980 | 34,873,006,848 |
| **Net asset value per share (LKR)** | 2.93 | 2.78 |
| **Quarterly growth** | | |
| **Financial assets at amortised cost – Loans and receivables, lease rentals receivables and loans and advances to others (%)** | (4.72) | 2.51 |
| **Financial liabilities at amortised cost – Due to depositors (%)** | 5.86 | 10.04 |
| **Total assets (%)** | 2.18 | 5.90 |

# Quarterly financial information

| 2nd Quarter ended 30 September | | 3rd Quarter ended 31 December | | 4th Quarter ended 31 March | |
|---|---|---|---|---|---|
| 2020 LKR '000 | 2019 LKR '000 | 2020 LKR '000 | 2019 LKR '000 | 2021 LKR '000 | 2020 LKR '000 |
| – | 493,327,572 | – | – | – | – |
| 31,214,820,505 | 25,033,018,333 | 29,678,018,536 | 26,454,636,320 | 28,046,962,308 | 27,528,789,668 |
| 3,118,052,603 | 3,026,134,757 | 1,794,667,070 | 3,936,518,394 | 2,636,572,519 | 3,822,043,053 |
| 947,225,925 | 1,501,965,534 | 991,726,209 | 954,737,691 | (8,392,657) | 133,467,472 |
| 162,249,647 | 67,782,713 | 53,340,100 | 77,165,908 | 61,155,046 | 59,079,643 |
| 158,849,094 | 188,789,850 | 101,743,496 | 153,569,620 | 834,933,191 | 1,138,517,580 |
| 277,794,522 | 229,329,397 | 288,016,897 | 239,249,897 | 280,857,939 | 260,518,521 |
| 35,878,992,297 | 30,540,348,156 | 32,907,512,308 | 31,815,877,829 | 31,852,088,346 | 32,942,415,937 |
| 223,545,481 | 223,545,481 | 223,545,481 | 223,545,481 | 223,545,481 | 223,545,481 |
| 1,765,710,366 | 1,681,607,451 | 1,765,710,366 | 1,681,607,451 | 1,774,735,243 | 1,765,710,365 |
| 2,727,181,790 | 3,040,235,666 | 2,565,252,442 | 3,152,727,688 | 2,896,625,533 | 3,010,466,073 |
| 4,716,437,637 | 4,945,388,598 | 4,554,508,289 | 5,057,880,620 | 4,894,906,257 | 4,999,721,919 |
| 4,716,437,637 | 4,945,388,598 | 4,554,508,289 | 5,057,880,620 | 4,894,906,257 | 4,999,721,919 |
| 40,595,429,934 | 35,485,736,755 | 37,462,020,597 | 36,873,758,449 | 36,746,994,603 | 37,942,137,856 |
| 2.74 | 2.88 | 2.65 | 2.94 | 2.85 | 2.91 |
| 1.07 | 6.58 | 1.34 | 3.65 | 4.18 | (1.88) |
| 7.12 | 0.52 | (4.92) | 5.68 | (5.50) | 4.06 |
| 4.71 | 1.76 | (7.72) | 3.91 | (1.91) | 2.90 |

AN OVERVIEW OF THE COMPANY
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# EIGHT YEAR STATISTICAL SUMMARY

| Year ended 31 March | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|---|
| **Operating results** | | | | | | | | |
| Income | 7,167,025,059 | 9,170,137,700 | 8,291,663,723 | 7,482,548,192 | 6,234,033,583 | 4,485,107,633 | 2,838,662,640 | 1,976,092,911 |
| Interest income | 6,478,389,314 | 8,105,612,178 | 7,229,168,801 | 6,537,663,310 | 5,327,018,057 | 3,906,231,603 | 2,467,538,240 | 1,689,119,884 |
| Interest expense | 3,521,400,330 | 3,719,330,982 | 2,802,086,025 | 2,373,460,579 | 1,465,618,208 | 995,689,242 | 713,714,381 | 542,348,293 |
| Non-interest income | 689,027,217 | 1,064,703,650 | 1,062,494,921 | 945,987,922 | 907,097,366 | 552,297,228 | 379,415,418 | 392,443,251 |
| Non-interest expense | 1,141,685,942 | 1,246,268,191 | 995,829,256 | 795,655,675 | 805,903,349 | 185,973,091 | 180,958,701 | 116,426,773 |
| Operating expense (Incl. VAT,NBT & DRL) | 2,700,637,571 | 3,545,069,344 | 3,231,816,948 | 2,731,867,199 | 2,336,212,991 | 1,732,024,360 | 1,294,940,905 | 946,041,047 |
| Profit/(Loss) before income tax | (196,307,312) | 659,647,311 | 1,261,931,494 | 1,582,667,779 | 1,626,380,875 | 1,544,842,138 | 657,339,671 | 549,776,609 |
| Income tax on profit | 72,694,187 | 264,403,871 | 431,335,672 | 570,884,458 | 567,546,689 | 434,748,933 | 122,793,299 | 71,282,393 |
| Profit/(Loss) after taxation | (123,613,125) | 395,243,440 | 830,595,822 | 1,011,783,321 | 1,058,834,186 | 1,110,093,205 | 534,546,372 | 405,464,629 |
| **Liabilities and shareholders' funds** | | | | | | | | |
| Customer deposits | 28,046,962,308 | 27,528,789,668 | 22,632,141,889 | 18,821,363,686 | 14,040,245,231 | 10,420,418,906 | 7,557,913,372 | 3,547,151,734 |
| Borrowings | 2,636,572,519 | 3,822,043,053 | 4,217,579,835 | 1,178,231,116 | 1,333,380,268 | 909,572,460 | 780,301,120 | 1,015,562,057 |
| Other liabilities | 1,176,946,176 | 1,591,583,216 | 1,449,998,346 | 1,208,903,672 | 772,847,350 | 604,790,040 | 475,027,607 | 494,993,503 |
| Deferred tax liabilities | – | – | – | – | 16,115,738 | 49,026,181 | – | 27,714,187 |
| Shareholders' funds | 4,894,906,257 | 4,999,721,919 | 4,629,467,205 | 4,130,296,294 | 3,390,204,237 | 2,392,022,626 | 1,272,625,812 | 740,152,093 |
| **Total** | 36,755,387,260 | 37,942,137,856 | 32,929,187,275 | 25,338,794,768 | 19,552,792,824 | 14,375,830,213 | 10,085,867,911 | 5,825,573,574 |
| **Assets** | | | | | | | | |
| Loans and leases receivables to customers (Net) | 28,777,654,805 | 28,302,570,401 | 25,470,710,661 | 19,044,674,591 | 13,763,766,163 | 9,138,489,796 | 5,724,678,523 | 3,591,478,617 |
| Cash, short-term deposits and balances with Central Bank of Sri Lanka | 4,145,104,204 | 5,750,108,626 | 3,874,464,350 | 3,136,605,336 | 2,962,784,849 | 3,105,494,885 | 2,421,352,222 | 374,622,155 |
| Property, plant and equipment | 1,590,028,807 | 1,625,569,182 | 1,420,476,897 | 1,158,835,158 | 1,119,409,029 | 950,441,553 | 880,474,986 | 820,863,343 |
| Deferred tax assets | 153,987,656 | 167,121,098 | 189,768,514 | 124,848,966 | – | – | 5,978,982 | – |
| Other Assets | 2,088,611,788 | 2,096,768,549 | 1,973,766,853 | 1,873,830,717 | 1,706,832,783 | 1,181,403,979 | 1,053,383,198 | 1,038,609,459 |
| **Total** | 36,755,387,260 | 37,942,137,856 | 32,929,187,275 | 25,338,794,768 | 19,552,792,824 | 14,375,830,213 | 10,085,867,911 | 5,825,573,574 |
| **Ratios** | | | | | | | | |
| Return on average shareholders' funds (%) | (2.50) | 8.21 | 18.06 | 26.91 | 36.62 | 60.58 | 53.12 | – |
| Income growth variance (%) | (21.84) | 10.59 | 10.81 | 20.03 | 38.99 | 58.00 | 43.65 | – |
| Return on average assets (%) | (0.33) | 1.12 | 2.85 | 4.51 | 6.24 | 9.08 | 6.72 | – |
| Dividend cover (Times) | – | – | – | 2.57 | 4.66 | – | – | – |
| Property, plant and equipment to shareholders' funds (%) | 32.48 | 32.51 | 30.68 | 28.06 | 33.02 | 39.73 | 69.19 | 110.9 |
| Total assets to shareholders' funds (Times) | 7.51 | 7.59 | 7.11 | 6.13 | 5.77 | 6.01 | 7.93 | 7.87 |
| Liquid assets to liabilities (%) | 12.96 | 17.41 | 39.67 | 23.60 | 34.23 | 41.81 | 43.88 | – |
| **Share information** | | | | | | | | |
| Earnings per share (LKR) | (0.07) | 0.23 | 0.48 | 0.59 | 0.62 | 0.65 | 0.31 | |
| Dividend per share (LKR) | – | – | – | 0.23 | 0.13 | – | – | – |
| Gross Dividends (LKR) | – | – | – | 326,720,318 | 189,153,868 | – | – | – |
| **Other information** | | | | | | | | |
| Number of employees | 1,851 | 1,964 | 1,961 | 1,746 | 1,594 | 1,362 | 1,126 | 1,035 |
| Number of branches | 60 | 48 | 48 | 48 | 48 | 48 | 48 | 48 |
| Number of service centres | 10 | 21 | 21 | 21 | 21 | 21 | 21 | 5 |

# SHARE INFORMATION

## List of 20 Major Shareholders – Voting as at 31 March 2021

| | As at 31 March 2021 | |
|---|---|---|
| Name | Number of shares | Percentage |
| Hatton National Bank PLC A/C. No. 1 | 724,904,118 | 51.00 |
| Prime Lands (Pvt.) Ltd. | 551,184,291 | 38.78 |
| DWM Funds S.C.A, SICAV – SIF | 112,700,000 | 7.93 |
| Mr B M D C Prabhath | 1,000,000 | 0.07 |
| Mrs L L C C Thambiah | 1,000,000 | 0.07 |
| LAUGFS Gas PLC | 460,369 | 0.03 |
| Mr M Sundaresan | 260,153 | 0.02 |
| Mr R L Maheswaran | 218,509 | 0.02 |
| Mr S Sivadharshan | 210,001 | 0.01 |
| Mr A J C L Perera | 199,660 | 0.01 |
| Mr R N Munasinghe | 171,414 | 0.01 |
| H M U Senevirathna | 150,000 | 0.01 |
| Merchant Bank of Sri Lanka & Finance PLC/N P Gunarathna | 146,131 | 0.01 |
| Dr H S D Soysa | 131,700 | 0.01 |
| Seylan Bank PLC/Somasarage Mangala Wijesinghe | 128,125 | 0.01 |
| Mrs G Soysa | 110,600 | 0.01 |
| Mr W S P Arangala | 110,000 | 0.01 |
| S L Y Liyanawatte | 102,500 | 0.01 |
| Mr K D A M Kumarage | 101,217 | 0.01 |
| S T D Peris | 101,000 | 0.01 |
| | 1,393,389,788 | 98.04 |
| **Others** | 27,990,836 | 1.96 |
| **Total** | 1,421,380,624 | 100.00 |

## Analysis of shareholders according to the number of shares – Voting

As at 31 March 2021

| | Resident | | | Non-Resident | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| Shareholdings | Number of share-holders | Number of shares | % | Number of share-holders | Number of shares | % | Number of share-holders | Number of shares | % |
| 1 to 1000 | 100,221 | 17,455,328 | 1.23 | 1 | 1,000 | 0 | 100,222 | 17,456,328 | 1.23 |
| 1,001 to 10,000 | 1,722 | 4,773,243 | 0.34 | 1 | 2,500 | 0 | 1,723 | 4,775,743 | 0.34 |
| 10,001 to 100,000 | 187 | 5,316,665 | 0.37 | 2 | 40,000 | 0 | 189 | 5,356,665 | 0.37 |
| 100,001 to 1,000,000 | 21 | 5,003,479 | 0.35 | 0 | 0 | 0 | 21 | 5,003,479 | 0.35 |
| Over 1,000,000 Shares | 3 | 1,276,088,409 | 89.78 | 1 | 112,700,000 | 7.93 | 4 | 1,388,788,409 | 97.71 |
| | 102,154 | 1,308,637,124 | 92.07 | 5 | 112,743,500 | 7.93 | 102,159 | 1,421,380,624 | 100 |

# Share information

As at 31 March 2020

| Shareholdings | Resident | | | Non-Resident | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of share-holders | Number of shares | % | Number of share-holders | Number of shares | % | Number of share-holders | Number of shares | % |
| 1 to 1000 | 99,984 | 17,451,804 | 1.23 | 0 | 0 | 0 | 99,984 | 17,451,804 | 1.23 |
| 1,001 to 10,000 | 1,711 | 4,820,243 | 0.34 | 0 | 0 | 0 | 1,711 | 4,820,243 | 0.34 |
| 10,001 to 100,000 | 160 | 4,985,226 | 0.35 | 0 | 0 | 0 | 160 | 4,985,226 | 0.35 |
| 100,001 to 1,000,000 | 20 | 4,127,700 | 0.29 | 0 | 0 | 0 | 20 | 4,127,700 | 0.29 |
| Over 1,000,000 Shares | 2 | 1,277,295,651 | 89.86 | 1 | 112,700,000 | 7.93 | 3 | 1,389,995,651 | 97.79 |
| | 101,877 | 1,308,680,624 | 92.07 | 1 | 112,700,000 | 7.93 | 101,878 | 1,421,380,624 | 100 |

## Categories of Shareholders - Voting

| Categories of shareholders | As at 31 March 2021 | | As at 31 March 2020 | |
|---|---|---|---|---|
| | Number of shareholders | Number of shares | Number of shareholders | Number of shares |
| Individual | 102,124 | 31,170,163 | 101,869 | 31,073,973 |
| Institutional | 35 | 1,390,210,461 | 9 | 1,390,306,651 |
| | 102,159 | 1,421,380,624 | 101,878 | 1,421,380,624 |

## List of 20 Major Shareholders – Non-voting as at 31 March 2021

| Name | As at 31 March 2021 | |
|---|---|---|
| | Number of shares | Percentage |
| Seylan Bank PLC - A/C. No. 3 | 233,200,000 | 78.20 |
| Prime Lands (Pvt) Ltd. | 35,972,653 | 12.06 |
| Wealth Guard (Pvt) Ltd. | 27,227,852 | 9.13 |
| Mr W A R Gunawardhana | 219,535 | 0.07 |
| Mr M L I Dissanayake | 168,900 | 0.06 |
| Merchant Bank of Sri Lanka & Finance PLC/S Gobinath | 110,000 | 0.04 |
| DFCC Bank PLC/ M I I Ahamed | 85,047 | 0.03 |
| Mr E Perera | 74,500 | 0.02 |
| Mr S Ramanathan | 48,015 | 0.02 |
| Mr R A S Madusanka | 46,598 | 0.02 |
| Mr P L R A Jayawardena | 44,015 | 0.01 |
| Mr R S P Hewage | 40,000 | 0.01 |
| Mrs M Arudpragasam | 40,000 | 0.01 |
| Mr W Lokuranamuka | 32,005 | 0.01 |
| Mr M F Cader | 30,400 | 0.01 |
| Mr P Nagendran | 30,000 | 0.01 |
| Mr K Arasaratnam | 30,000 | 0.01 |
| Mr L L K D Fernando | 29,759 | 0.01 |
| CDB Finance PLC/ W G J Banda | 25,000 | 0.01 |
| Mr M Sundaresan | 25,000 | 0.01 |
| | 297,479,279 | 99.75 |
| **Others** | 720,721 | 0.25 |
| **Total** | 298,200,000 | 100.00 |

# Share information

## Analysis of shareholders according to the number of shares – Non-voting

As at 31 March 2021

| Shareholdings | Resident | | | Non-Resident | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of shareholders | Number of shares | % | Number of shareholders | Number of shares | % | Number of shareholders | Number of shares | % |
| 1 to 1000 | 92 | 29,229 | 0 | 0 | 0 | 0 | 92 | 29,229 | 0 |
| 1,001 to 10,000 | 87 | 352,074 | 0.12 | 0 | 0 | 0 | 87 | 352,074 | 0.12 |
| 10,001 to 100,000 | 35 | 919,757 | 0.31 | 0 | 0 | 0 | 35 | 919,757 | 0.31 |
| 100,001 to 1,000,000 | 3 | 498,435 | 0.17 | 0 | 0 | 0 | 3 | 498,435 | 0.17 |
| Over 1,000,000 Shares | 3 | 296,400,505 | 99.40 | 0 | 0 | 0 | 3 | 296,400,505 | 99.4 |
| | 220 | 298,200,000 | 100.00 | 0 | – | – | 220 | 298,200,000 | 100 |

As at 31 March 2020

| Shareholdings | Resident | | | Non-Resident | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of shareholders | Number of shares | % | Number of shareholders | Number of shares | % | Number of shareholders | Number of shares | % |
| 1 to 1000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1,001 to 10,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 10,001 to 100,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 100,001 to 1,000,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Over 1,000,000 Shares | 3 | 298,200,000 | 100 | 0 | 0 | 0 | 3 | 298,200,000 | 100 |
| | 3 | 298,200,000 | 100.00 | 0 | – | – | 3 | 298,200,000 | 100 |

## Categories of Shareholders – Non-voting

| Categories of shareholders | As at 31 March 2021 | | As at 31 March 2020 | |
|---|---|---|---|---|
| | Number of shareholders | Number of shares | Number of shareholders | Number of shares |
| Individual | 208 | 1,533,209 | – | – |
| Institutional | 12 | 296,666,791 | 3 | 298,200,000 |
| | 220 | 298,200,000 | 3 | 298,200,000 |

## Public holding

Public Holding percentage as at 31 March 2021 being 10.13 % comprising 102,151 shareholders.

The float adjusted Market Capitalisation as at 31 March 2021 – LKR 1,281,474,129.18

The Float adjusted market capitalisation of the Company falls within the option 1 of the Rule 7.13.1 (b), of the Listing Rules of the Colombo Stock Exchange and the Company has complied with the minimum public holding requirement applicable under the said option.

The Company's shares were listed on 20 May 2020 on the *Diri Savi* Board of the Colombo Stock Exchange.

# Share information



## Directors and Chief Executive Officer's shareholding

| | As at 31 March 2021 | | As at 31 March 2020 | |
|---|---|---|---|---|
| Ordinary voting shares | Number of shares | % | Number of shares | % |
| Mr A J Alles | – | – | – | – |
| Mr B M D C Prabhath – MD/CEO | 1,000,000 | 0.070 | 1,000,000 | 0.070 |
| Mr A S Wijesinha | – | – | – | – |
| Dr S U H Fernando | – | – | – | – |
| Mr P A H D Wijesundara | – | – | – | – |
| Mr A G R Dissanayake | – | – | – | – |
| Mr M Perera | 25,000 | 0.002 | 25,000 | 0.002 |
| Mr D K G Perera | – | – | – | – |
| Mr R D Manatunga | – | – | – | – |

The Directors of the Company do not hold non-voting shares as at 31 March 2021 and 31 March 2020

## Information on shares

### Market prices for period ended 31 March 2021

| | Ordinary voting shares | | Ordinary non-voting shares | |
|---|---|---|---|---|
| | 31 March 2021 | 31 March 2020 | 31 March 2021 | 31 March 2020 |
| Highest price | 11.50 | N/A | 10.00 | N/A |
| Lowest price | 7.80 | N/A | 6.00 | N/A |
| Last traded | 8.90 | N/A | 6.80 | N/A |

### Market capitalisation as at 31 March 2021

| | 31 March 2021 | 31 March 2020 |
|---|---|---|
| Ordinary voting shares | 12,650,287,553.60 | N/A |
| Ordinary non-voting shares | 2,027,760,000.00 | N/A |

The shares of HNB Finance PLC were listed on 20 May 2020 on *Diri Savi* Board of the Colombo Stock Exchange.

# Share information



## Information on listed debentures

### Market Price for the Quarter ended 31 March 2021

### Subordinated, unsecured, listed, redeemable, rated debentures December 2019 – December 2024

| Debenture type | Highest price LKR | Lowest price LKR | Last traded LKR |
|---|---|---|---|
| Type A | Not Traded | Not Traded | Not Traded |
| Type B | Not Traded | Not Traded | Not Traded |

### Interest rates

| Debenture type | Interest payment fequency | Coupon rate % | Annual effective rate % |
|---|---|---|---|
| Type A | Annually | 13.20 | 13.20 |
| Type B | Semi-annually | 12.79 | 13.20 |
| **Interest rate of comparable Government Securities** | | | |
| Five year Treasury Bond (Excluding 10% Withholding Tax) | 6.63% | | |

### Current yield and yield to maturity

### Subordinated, unsecured, listed, redeemable, rated debentures December 2019 – December 2024

| Debenture type | Current yield % | Yield to maturity % |
|---|---|---|
| Type A | Not Traded | Not Traded |
| Type B | Not Traded | Not Traded |

## Utilisation of funds raised via capital market

### Debenture issue December 2019

| Objective number | Objective as per prospectus | Amount allocated as per prospectus in LKR | Proposed date of utilisation as per prospectus | Amount allocated from proceed in LKR (A) | % of total proceeds | Amounts utilised in LKR (B) | % of utilisation against allocation (B/A) | Clarification if not fully utilised including where the funds are invested (eg: whether lent to related party/s,etc.) |
|---|---|---|---|---|---|---|---|---|
| 1 | Improving the capital Adequacy of the Companies Balance Sheet, by strengthening its Tier II Capital | 1,158,820,000 | With effect from the closure of issue | 1,158,820,000 | 100% | 1,158,820,000 | 100% | N/A |
| 2 | Supporting the general business growth opportunities of the Company | | Within 12 months from date of cash receipts | | | | | |

**Note**: These Debentures were listed on 8 January 2020.

# BRANCH AND SERVICE CENTRE INFORMATION

| Province | Branch name | Branch address | Telephone |
|---|---|---|---|
| Central Province | Dambulla Branch | No. 818, Dambulugama Junction, Dambulla | +94 66 211 7760 |
| | Hatton | No. 167, MR Town, Dickoya Road, Hatton | +94 51 211 7750 |
| | Kandy Branch | No. 677, Viliyam Gopallawa Mawatha, Kandy | +94 81 211 7750 |
| | Mathale Branch | No. 19, Kandy Road, Mathale | +94 66 211 7750 |
| | Nawalapitiya Branch | No. 30/2, Ambagamuwa Road, Nawalapitiya | +94 54 211 7750 |
| | Nuwara Eliya Branch | No. 5, Srimath Jayathilaka Mawatha, Nuwara Eliya | +94 52 211 7750 |
| | Rikillagaskada S.C. | No. 06, Athula Agro Service, Dimbulkumbura Road, Rikillagaskada | +94 81 211 7760 |
| | Walapone S.C. | 98 (98/01), Gammanpila Niwasa, Kandy Road, Walapone | +94 52 211 7760 |
| Eastern Province | Ampara Branch | No. 27, Nidahas Mawatha, Ampara and<br>No. 28, Nidahas Mawatha, Ampara | +94 63 211 7750 |
| | Batticaloa Branch | 39/2, Central Road, Batticaloa | +94 65 211 7750 |
| | Dehiattakandiya S.C. | No. 08, New Town, Dehiattakandiya | +94 27 211 7760 |
| | Kalmunei | No.1119 (formerly 117/A), Main Road, Periyaneelawanai-2, Kalmunai | +94 67 211 7750 |
| | Kanthale Branch | No. 58/G, Agrabhodhi Mawatha, Kanthale | +94 26 211 7760 |
| | Pottuvil | Bus Stand, Main Street, Pottuvil | +94 63 211 7760 |
| | Trincomalee Branch | No. 124/02, Main street, Trincomalee | +94 26 211 7750 |
| North Central Province | Anuradhapura Branch | No. 64, Abhaya Place, New Town, Anuradhapura | +94 25 211 7750 |
| | Galenbindunuwewa S.C. | No. 87/62, Opposite People's Bank, Galenbindunuwewa | +94 25 211 7780 |
| | Kekirawa S.C. | No. 36 A, Yakalla Road, Kekirawa | +94 25 211 7740 |
| | Medawachchiya Branch | No. 36, Kandy Road, Medawachchiya | +94 25 211 7760 |
| | Nochchiyagama S.C. | Buddhist Centre Junction, Galadivulweva, Nochchiyagama | +94 25 211 7770 |
| | Padaviya Branch | Bandaranaike Mawata, Parakramapura, Padaviya | +94 25 211 7790 |
| | Polonnaruwa Branch | No. 57/4, Batticaloa Road, Polonnaruwa | +94 27 211 7750 |
| North Western Province | Chilaw Branch | G1/F1, New Shopping Complex, Court Road, Chilaw | +94 32 211 7750 |
| | Galgamuwa Branch | No. 349, 349A, Anuradhapura Road, Galgamuwa | +94 37 211 7760 |
| | Kuliyapitiya | No. 355, Madampe Road, Kuliyapitiya | +94 37 211 7780 |
| | Kurunegala Branch | No. 94, Kandy Road, Kurunegala | +94 37 211 7750 |
| | Nikaweratiya Branch | No. 189, Puttalam Road, Nikaweratiya | +94 37 211 7770 |
| | Norochcholai | Kalpitiya Road, Norochcholai | +94 32 211 7760 |
| | Puttalam Branch | No. 44/A, Service Road, Puttalam | +94 32 211 7780 |
| | Wennappuwa Branch | No. 153/C, Chilaw Road, Dummaladaniya Meda, Wennappuwa | +94 31 212 7470 |

# Branch and Service Centre information

| Province | Branch name | Branch address | Telephone |
|---|---|---|---|
| Nothern Province | Jaffna Branch | No.149/A, K K S Road, Jaffna | +94 21 211 7750 |
| | Kilinochchiya | No. 08, Kanakapuran Road, Uthayanager- North, Kilinochchi | +94 21 211 7780 |
| | Mallavi S.C. | Thunukkai Road, Mallavi | +94 21 211 7760 |
| | Mannar Branch | No. TV-5/1, Ward No. 04, Aalamara Veethy, Mannar | +94 23 211 7750 |
| | Mullaitivu | No. 94, PWD Road, Mullaitivu | +94 21 211 7790 |
| | Nedunkerni S.C. | Oddusudan Junction, Mullaitivu Road, Nedunkerni | +94 24 211 7750 |
| | Nelliyady | Jaffna-Point Pedro Road, Nelliyady, Karaveddy | +94 21 211 7770 |
| | Vavuniya Branch | 65A/1, 1st Cross Street, Vavuniya | +94 24 211 7760 |
| Sabaragamuwa Province | Balangoda | No. 71/C, Old Road, Balangoda | +94 45 211 7760 |
| | Embilipitiya Branch | No. 59, Rathnaweera Building, Pallegama, Embilipitiya | +94 47 211 7780 |
| | Kegalle Branch | No. 290/28, Main Street, Kegalle | +94 35 211 7750 |
| | Rathnapura Branch | No. 298, Kudugalwatta, Main Street, Ratnapura | +94 45 211 7750 |
| Southern Province | Ambalangoda Branch | No. 273, Main Street, Ambalangoda | +94 91 211 7760 |
| | Beliatta Branch | No. 51/1, Matara Road, Beliatta | +94 47 211 7770 |
| | Galle Branch | No. 48, Olcott Mawatha, Galle | +94 91 211 7750 |
| | Hambantota Branch | Assessment No. 21A, Jail Street, Hambantota | +94 47 211 7750 |
| | Matara Branch | No. 386/1/1, Anagarika Darmapala Mawatha, Matara | +94 41 211 7750 |
| | Morawaka S.C. | No. 07, Nilwala Building, Morawaka | +94 41 211 7760 |
| | Pitigala S.C. | No. 290/1A, Elpitiya Road, Pitigala | +94 91 211 7770 |
| | Thissamaharamaya | No. 29, Palliyawatta Road, Thissamaharama | +94 47 211 7760 |
| Uva Province | Badulla Branch | No. 24/1/1, Anagarika Dharmapala Mawatha, Badulla | +94 55 211 7750 |
| | Bandarawela | No. 496, Badulla Road, Bandarawela | +94 57 211 7750 |
| | Mahiyanganaya Branch | No. 207, Padiyathala Road, Mahiyanganaya | +94 55 211 7760 |
| | Monaragala Branch | No. 306, Wallawaya Road, Monaragala | +94 55 211 7770 |
| | Welimada Branch | No. 44, Nuwara Eliya Road, Welimada | +94 57 211 7760 |
| Western Province | Avissawella Branch | No. 117, Ratnapura Road, Avissawella | +94 36 211 7750 |
| | Bandaragama Branch | No. 12, Panadura Road, Bandaragama | +94 38 211 7750 |
| | City Branch | No. 67/1, Mahinda Place, High Level Road, Kirulapone, Colombo-05 | +94 11 212 7600 |
| | Gampaha Branch | No. 103, Baudhaloka Mawatha, Gampaha | +94 33 211 7750 |
| | Head Office | No. 168, Nawala Road, Nugegoda | +94 11 217 6262 |
| | Homagama Branch | No. 62/A, High Level Road, Homagama | +94 11 212 7650 |
| | Horana Branch | No. 161, Ratnapura Road, Horana | +94 34 211 7770 |
| | Ja-Ela Branch | No. 59/A, Negombo Road, Ja-Ela | +94 11 212 7680 |
| | Kaduwela Branch | No. 155/2A, Avissawella Road, Hewagama, Kaduwela | +94 11 212 7670 |
| | Kalutara Branch | No. 427, Galle Road, Kalutara | +94 34 211 7750 |
| | Mathugama Branch | No. 141/2, Agalawatta Road, Mathugama/<br>No. 143/2, Agalawatta Road, Mathugama | +94 34 211 7760 |
| | Moratuwa Branch | No. 597, Galle Road, Rawathawatta, Moratuwa | +94 11 212 7630 |
| | Negombo Branch | No. 58, St. Joseph Street, Negombo | +94 31 211 7750 |
| | Nittambuwa Branch | No. 9, Colombo Kandy Road, Nittambuwa | +94 33 211 7760 |
| | Wattala Branch | No. 34/1/1, Negombo Road, Wattala | +94 11 212 7660 |

# GRI CONTENT INDEX

| GRI Standard | Disclosure | Page Number | Remarks |
|---|---|---|---|
| **GRI General Disclosures** | | | |
| GRI 102: General Disclosures | 102-1 Name of the organisation | 6, 128 and 237 | |
| | 102-2 Activities, brands, products, and services | 6, 41-42, 66-68 and 129 | |
| | 102-3 Location of headquarters | 128 and 237 | |
| | 102-4 Location of operations | 46-47, 128-129 and 237 | |
| | 102-5 Ownership and legal form | 128 and 237 | |
| | 102-6 Markets served | 46-47, 128-129 and 237 | |
| | 102-7 Scale of the organisation | 6-9 and 129-130 | |
| | 102-8 Information on employees and other workers | 9 and 49-59 | |
| | 102-9 Supply Chain | 68-69 | |
| | 102-10 Significant changes to the organisation and its supply chain | – | None |
| | 102-11 Precautionary principle or approach | 4-5 | |
| | 102-12 External initiatives | 4-5, 43, 48, 53-56, 59, 61-66, 68-70, 72 and 74 | |
| | 102-13 Membership of associations | 237 | |
| | 102-14 Statement from senior decision maker | 10-15 | |
| | 102-15 Key impacts, risks, and opportunities | 19-21 and 118-126 | |
| | 102-16 Values, principles, standards, and norms of behaviour | 6 and 43-44 | |
| | 102-18 Governance structure | 87-93 and 130-135 | |
| | 102-40 List of stakeholder groups | 16-18 | |
| | 102-41 Collective bargaining agreements | 59 and 134 | |
| | 102-42 Identifying and selecting stakeholders | 16-18 | |
| | 102-43 Approach to stakeholder engagement | 16-18 | |
| | 102-44 Key topics and concerns raised | 17-18 | |
| | 102-45 Entities included in the consolidated financial statements | 4, 129, 142-145 and 152 | |
| | 102-46 Defining report content and topic boundaries | 4-5 and 19-20 | |
| | 102-47 List of material topics | 19-20 | |
| | 102-48 Restatements of information | 4, 142 and 216-219 | |
| | 102-49 Changes in reporting | – | None |
| | 102-50 Reporting period | 4 | |
| | 102-51 Date of most recent report | 4 | |
| | 102-52 Reporting cycle | 4 | |
| | 102-53 Contact point for questions regarding the report | 5 | |
| | 102-54 Claims of reporting in accordance with the GRI Standards | 5 | |
| | 102-55 GRI content index | 234-236 | |
| | 102-56 External assurance | Voluntary reporting under GRI sustainability reporting guidelines | |

# GRI Content Index

| GRI Standard | Disclosure | Page Number | Remarks |
|---|---|---|---|
| **Management Approach** | | | |
| GRI 103: Management Approach | 103-1 Explanation of the material topics and its boundaries | 19-21 | |
| | 103-2 The management approach and its components | 19-21, 22-25, 40, 45, 49-50, 60-61 and 71 | |
| | 103-3 Evaluation of the management approach | 22-25 | |
| GRI 201: Economic Performance | 201-1 Direct economic value generated and distributed | 37 | |
| | 201-2 Financial implications and other risks and opportunities due to climate change | – | None. COVID-19 implications discussed where relevant |
| | 201-3 Defined benefit plan obligations and other retirement plans | 58-59, 134 and 161 | |
| GRI 202: Market Presence | 202-1 Ratios of standard entry level wage by gender compared to local | 56 and 58-59 | |
| | 202-2 Proportion of senior management hired from the local community | 52 and 56-57 | |
| GRI 203: Indirect Economic Impacts | 203-1 Infrastructure investments and services supported | 61-64, 66, 68-70 | |
| | 203-2 Significant indirect economic impacts | 37, 61-64, 66 and 68-70 | |
| GRI 204: Procurement Practices 2016 | 204-1 Proportion of spending on local suppliers | 68-69 | |
| GRI 205: Anti-Corruption | 205-1 Operations assessed for risks related to corruption | – | None |
| | 205-2 Communication and training about anti-corruption policies and procedures | – | None |
| | 205-3 Confirmed incidents of corruption and actions taken | – | None |
| GRI 302: Energy | 302-1 Energy consumption within the organisation | 71-73 | |
| | 302-4 Reduction of energy consumption | 71-73 | |
| GRI 303: Water and Effluents | 303-1 Water withdrawal by source | 71-73 | |
| | 303-2 Water sources significantly affected by withdrawal of water | 71-73 | |
| GRI 307: Environmental Compliance | 307-1 Non-compliance with environmental laws and regulations | – | None |
| GRI 401: Employment | 401-1 New employee hires and employee turnover | 9, 49-52 and 56 | |
| | 401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees | 57-59 | |
| | 401-3 Parental leave | 58 | |
| GRI 402: Labor/Management Relations | 402-1 Minimum notice periods regarding operational changes | – | Adequate notice is given as the situation requires |

# GRI Content Index



| GRI Standard | Disclosure | Page Number | Remarks |
|---|---|---|---|
| GRI 403: Occupational Health and Safety | 403-1 Workers representation in formal joint management–worker health and safety committees | – | Not applicable |
| | 403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities | – | None |
| | 403-3 Workers with high incidence or high risk of diseases related to their occupation | – | Not applicable |
| | 403-4 Health and safety topics covered in formal agreements with trade unions | – | Not applicable |
| | 403-4 Worker participation, consultation, and communication on occupational health and safety | 53 | |
| | 403-5 Worker training on occupational health and safety | 53 | |
| | 403-6 Promotion of worker health | 53 | |
| | 403-9 Work-related injuries | – | None |
| | 403-10 Work-related ill health | 53 | Risks related to COVID-19 |
| GRI 404: Training and Education | 404-1 Average hours of training per year per employee | 49 and 53-54 | |
| | 404-2 Programmes for upgrading employee skills and transition assistance programmes | 53-56 | |
| | 404-3 Percentage of employees receiving regular performance and career development reviews | 58 | |
| GRI 405: Diversity and Inclusion | 405-1 Diversity of governance bodies and employees | 49-52 and 84-93 | |
| GRI 406: Non- discrimination | 406-1 Incidents of discrimination and corrective actions taken | – | None |
| GRI 407: Freedom of Association and Collective Bargaining | 407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk | – | No restrictions for the formation of associations and collective bargaining |
| GRI 408: Child Labour | 408-1 Operations and suppliers at significant risk for incidents of child labour | 68-69 | |
| GRI 409: Forced or Compulsory Labour | 409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour | 68-69 | |
| GRI 413: Local Communities | 413-1 Operations with local community engagement, impact assessments, and development programmes | 68-70 | |
| GRI 416: Customer Health and Safety | 416-1 Assessment of the health and safety impacts of product and service | – | Not applicable |
| | 416-2 Incidents of non-compliance concerning the health and safety impacts of products and services | – | Not applicable |
| GRI 417: Marketing and Labelling | 417-2 Incidents of non-compliance concerning product and service information and labelling | – | None |
| GRI 418: Customer Privacy | 417-3 Incidents of non-compliance concerning marketing communications | – | None |

# CORPORATE INFORMATION

**Name**
HNB Finance PLC
(Subsidiary of Hatton National Bank PLC)

**Nature of Business**
Acceptance of Fixed Deposits and Savings Accounts; provision of Microfinance Loans; Finance Leasing, Business Loans, Housing Loans, Gold Loans and other value added services

**Legal Status**
A public limited liability company incorporated in Sri Lanka under the Companies Act No. 17 of 1982 and reregistered under the Companies Act No. 7 of 2007. The company is registered under the Finance Companies Act No. 78 of 1988 & re-registered under the Finance Business Act No.42 of 2011. The Company is registered under the Finance Leasing Act No. 56 of 2000.

**Date of Incorporation**
20 December 1999

**Business Registration No.**
PB 965

**Central Bank Registration No.**
RFC/036

**Accounting Year-End**
31 March

**Tax Payer Identification No.**
134008555

**VAT Registration No.**
134008555-7000

**SVAR Registration No.**
SVAT007287

**Memberships**
- Lanka Microfinance Practitioners' Association.
- The Finance House Association of Sri Lanka.
- Credit Information Bureau of Sri Lanka.
- FinCSIRT.
- Banking with the poor.
- International Chamber of Commerce

**Registered Office and Principal Place of Business**
HNB Finance PLC
No. 168, Nawala Road, Nugegoda,
Sri Lanka.
Tel: +94 11 202 4848
Fax: +94 11 217 6263
Email: info@hnbfinance.lk
Website: www.hnbfinance.lk

**Outlets**
- Branches – 60
- Service Centres – 10

**Company Secretaries**
SSP Corporate Services (Pvt) Ltd.
101, Inner Flower Road, Colombo 03,
Sri, Lanka.
Tel: +94 11 257 3894
Fax: +94 11 257 3609
Email: sspsec@sltnet.lk

**External Auditors**
KPMG Sri Lanka
No. 32A,
Sir Mohamed Macan Markar Mawatha,
Colombo, Sri Lanka.
Tel: +94 11 542 6426

**Credit Rating Agency**
'A (lka)' Outlook Stable Fitch Ratings Lanka Ltd.
No. 15-04, East Tower,
World Trade Centre,
Colombo 01, Sri Lanka.
Tel: +94 11 254 1900
Fax: +94 11 254 1903

**Bankers**
- Hatton National Bank PLC
- Seylan Bank PLC
- DFCC Vardhana Bank PLC
- Bank of Ceylon
- Sampath Bank PLC
- People's Bank
- Nations Trust Bank
- National Development Bank
- Cargills Bank

# NOTICE OF MEETING

Notice is hereby given that the 11th Annual General Meeting of the shareholders of HNB Finance PLC (the Company) will be held as a Hybrid Meeting at the "Auditorium", Level 06, Head Office of HNB Finance PLC, No. 168, Nawala Road, Nugegoda, on the13 day of August 2021 at 10.00 am to conduct the following business:

## AGENDA

1. Notice of Meeting.
2. To receive and consider the Report of the Board of Directors and the Statements of Accounts for the year ended 31 March 2021 together with the Report of the Auditors thereon.
3. To re-elect as a Director , Dr Sampathawaduge Udan Hithesi Fernando, who will be retiring from the Board by rotation in terms of Article 27 of the Articles of Association of the Company.
4. To re- elect as a Director, Mr Pathirana Arachchige Hasitha Danushka Wijesundara who will be retiring from the Board by rotation in terms of Article 27 of the Articles of Association of the Company.
5. To elect as a Director, Mr Deyalage Kovinda Gimnada Perera who was appointed to the Board on 10 December 2020, in terms of Finance Companies (Corporate Governance) Direction No. 03 of 2008.
6. To elect as a Director, Mr Ruwan Damintha Manatunga who was appointed to the Board on 15 February 2021, in terms of Finance Companies (Corporate Governance) Direction No. 03 of 2008 .
7. To re-appoint Messrs KPMG, Sri Lanka, Chartered Accountants, as the Auditors of the Company for the ensuing year and to authorise the Directors to determine their remuneration.
8. To authorise the Board of Directors to determine contributions to charities and other donations for the financial year 2021/2022.

By Order of the Board of Directors of

**HNB Finance PLC**

**S S P Corporate Services (Private) Limited**
Secretaries

Colombo, Sri Lanka.
16 July 2021

**Notes:**
1. A shareholder entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote on his/her behalf.
2. A proxy so appointed need not be a member of the Company.
3. A Form of Proxy accompanies this Notice.

# FORM OF PROXY

I/We* .......................................................................................................................................................... (please indicate

full name) holder of NIC No. ........................................................................ of ..........................................................................................

being a member/members* of HNB Finance PLC hereby appoint: Mr/Ms ..................................................................................

........................................................................ (please indicate full name) holder of NIC No. ........................................................................ of

........................................................................................................... or failing him/her

| | |
|---|---|
| Mr B M D C Prabhath | of Colombo or failing him |
| Mr A J Alles | of Colombo or failing him |
| Mr A S Wijesinha | of Colombo or failing him |
| Dr S U H Fernando | of Colombo or failing him |
| Mr P A H D Wijesundara | of Colombo or failing him |
| Mr A G R Dissanayake | of Colombo or failing him |
| Mr M Perera | of Colombo or failing him |
| Mr D K G Perera | of Colombo or failing him |
| Mr R D Manatunga | of Colombo |

as my/*our Proxy to represent me/us* and to vote as indicated below on my/our* behalf at the Annual General Meeting of the Company to be held on 13 August 2021 and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid Meeting.

| | | FOR | AGAINST |
|---|---|---|---|
| (1) | To receive and consider the Report of the Directors and the Statements of Accounts for the year ended 31 March 2021 together with the Report of the Auditors thereon. | | |
| (2) | To re-elect as a Director, Dr Sampathawaduge Udan Hithesi Fernando, who will be retiring from the Board by rotation in terms of Article 27 of the Articles of Association of the Company. | | |
| (3) | To re-elect as a Director, Mr Pathirana Arachchige Hasitha Danushka Wijesundara, who will be retiring form the Board by rotation in terms of Article 27 of the Articles of Association of the Company. | | |
| (4) | To elect as a Director, Mr Deyalage Kovinda Gimnada Perera who was appointed to the Board on 10 December 2020, in terms of Finance Companies (Corporate Governance) Direction No. 03 of 2008. | | |
| (5) | To elect as a Director, Mr Ruwan Damintha Manatunga who was appointed to the Board on 15 February 2021, in terms of Finance Companies (Corporate Governance) Direction No. 03 of 2008. | | |
| (6) | To re-appoint Messrs KPMG, Sri Lanka, Chartered Accountants, as the Auditors of the Company for the year 2021/22 and to authorise the Directors to determine their remuneration. | | |
| (7) | To authorise the Board of Directors to determine contributions to charities and other donations for the year 2021/22. | | |

As witness my/our hand set hereto this ............................................ day of ................................................................................ Two Thousand and Twenty One.

................................................................

Signature

**Note:**
Instructions as to completion are given below. Please delete the words which are not applicable and mark 'X' in the appropriate cages to indicate your instructions as to voting.
A proxy need not be a member of the Company.

**INSTRUCTIONS AS TO COMPLETION OF FORM OF PROXY**

1. Kindly perfect the Form of Proxy by filling in legibly your full name, NIC Number, address, instructions as to voting and by signing and filling in the date of signature in the space provided.
2. Please indicate with a "X" in the cages provided how your proxy is to vote on the Resolutions. If no indication is given, the proxy in his/her discretion may vote as he/she thinks fit.
3. To be valid, the completed Form of Proxy should be deposited at the Registered Office of the Company, No. 168, Nawala Road, Nugegoda, not less than 48 hours before the time appointed for holding the Meeting.
4. If the Shareholder is a Company or a body corporate, a Form of Corporate Representation executed under the Common Seal in accordance with the Articles of Association or the Constitution should be submitted.
5. Where the Form of Proxy is signed under a Power of Attorney (POA) which has not been registered with the Company, the original POA together with a photocopy of same or a copy certified by a Notary Public must be lodged with the Company along with the Form of Proxy.
6. Any Shareholder/Proxy attending the Annual General Meeting is kindly requested to produce the National Identity Card or any other form of valid identification at the time of Registration.

★

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Email : info@hnbfinance.lk
Website : www.hnbfinance.lk

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