

REACHING FOR NEW HEIGHTS

ANNUAL REPORT
2021/22



Reaching for New Heights

This has been a year of significant achievement for HNB Finance. The Company successfully reversed the negatives of the previous year into a position of profit, where achievement of key strategic goals was fortified with new product and service offerings. The Company has also acquired Prime Finance PLC, thus growing in financial strength and presence through inflows to our asset base and a widening of our reach. HNB Finance is well positioned to reach new heights in the years ahead.

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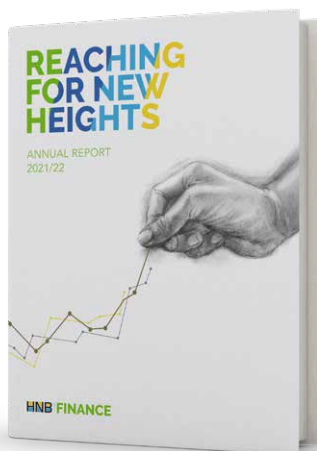
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Presenting Our Sixth Integrated Annual Report

The sixth Integrated Annual Report of HNB Finance PLC has been compiled to present to the Company's stakeholders the material information relating to its strategy, governance, performance, and outlook, within the context of its operating environment. This Report serves as a medium through which the Company wishes to communicate how it created value in the short, medium, and long term for its customers, employees, and the broader community, including the natural environment.

Assurance on the Integrity of this Report

The Board of Directors assumes responsibility for assuring the veracity of this Integrated Annual Report. The Board is of the view that the report addresses all material issues, and presents a balanced and fair account of the Company's performance. This is based on a combined assurance model, which is used to provide assurance concerning the information obtained from the Management, as well as other internal

and external sources. HNB's Board Audit Committee provides internal assurance to the Board each year on the execution of the combined assurance plan. This is based on the assessment of the Company's financial, operating, compliance, and risk management controls, which are 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 HNB's Financial Statements for the year ended 31 March 2022, which forms part of this Report.

Forward-looking Statements

This Report contains the Company's plans for the future, reflecting HNB's position and beliefs at the time of writing. However, due to uncertainties of the operating environment, and the possible occurrence of unforeseen events or new developments, the actual results or actions could differ from those stated in these forward-looking statements. Hence, such statements should not be construed as a guarantee of occurrence or that the course of action outlined will be adopted in the year ahead.

Reporting Boundary

This Integrated Annual Report is intended to offer a comprehensive, inclusive review of the operations, strategy, business model, risks and opportunities, in addition to the governance aspects of HNB Finance PLC (referred to as "HNB" or the "Company") only, unless otherwise stated. Through an integrated approach, the 2021/22 Annual Report aims to highlight HNB's contribution to its various stakeholders by providing both financial and non-financial information.

Reporting Period

The 2021/22 Annual Report covers the period from 1 April 2021 to 31 March 2022 and is in keeping with HNB's customary annual reporting cycle for financial and sustainability reporting. The information provided in previous reports has not been restated, nor significant changes made from previous reporting periods, in terms of the scope and aspect boundaries. The most recent Integrated Annual Report issued by HNB covered the 12-month period ended 31 March 2021.

Materiality

The materiality analysis reflects the insights which formed the basis of choices made in developing the content shown in this Annual Report. The materiality matrix provided in this Report illustrates and identifies the topics that have not had any substantial impact on stakeholders and the Company. Information concerning the process of determining materiality and the boundaries of the topics are provided in this Report.

Key Frameworks, Guidelines, Policies, and Compliance

All applicable laws, regulations, and standards have been complied with in gathering and presenting the information contained within this Report. The preparation of this Report draws on concepts, principles, and guidelines that are 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	Sustainability Reporting	Corporate Governance and Risk Management	Financial Statements
- Sri Lanka Accounting Standards comprising SLFRSs and 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)	- Global Reporting Initiative (GRI) Standards: Core option - 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 Direction No. 03 of 2008 (as amended) issued by the Central Bank of Sri Lanka - Handbook on Integrated Corporate Reporting by CA 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	- 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

This Integrated Annual Report from HNB Finance is intended to convey to its stakeholders all material information pertaining to the Company's strategy, governance, performance, and outlook within the context of the operating environment. It also indicates 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 HNB Finance PLC

HNB Finance PLC
Annual Report 2021/22

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As Sri Lanka's pioneer in commercial-based microfinance since 1999, HNB Finance PLC operates in accordance with the overarching objective of developing Sri Lanka's small-scale entrepreneurs, through a range of specialised products and services. The Company's commercial-microfinance model has been the subject of international acclaim for its strategic and effective support to grassroots entrepreneurs who have been 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

While having deeply entrenched roots in microfinance, HNB Finance PLC has expanded beyond, offering a range of products and services to a multitude of customer segments. This is extended through a network of 70 branches, and its parent HNB's 794 ATM machines, in strategic locations across the island. Customers now have access to business loans, savings, Gold Loans, fixed deposit facilities, leasing facilities and supply chain financing, which cater to their financial needs for personal and business purposes. With the backing of its parent company, HNB, which is ranked among the country's systemically important banks, HNB Finance PLC is positioned at the forefront of the country's non-bank financial industry for its innovative product portfolio and customer-centric orientation.

HNB Finance PLC 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) (RWN) as affirmed by Fitch Ratings.

Milestones

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

1999

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

2008

- Received license from the Monetary Board of the CBSL, to operate as a Licensed Financial Company

2010

- 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

2012

2000

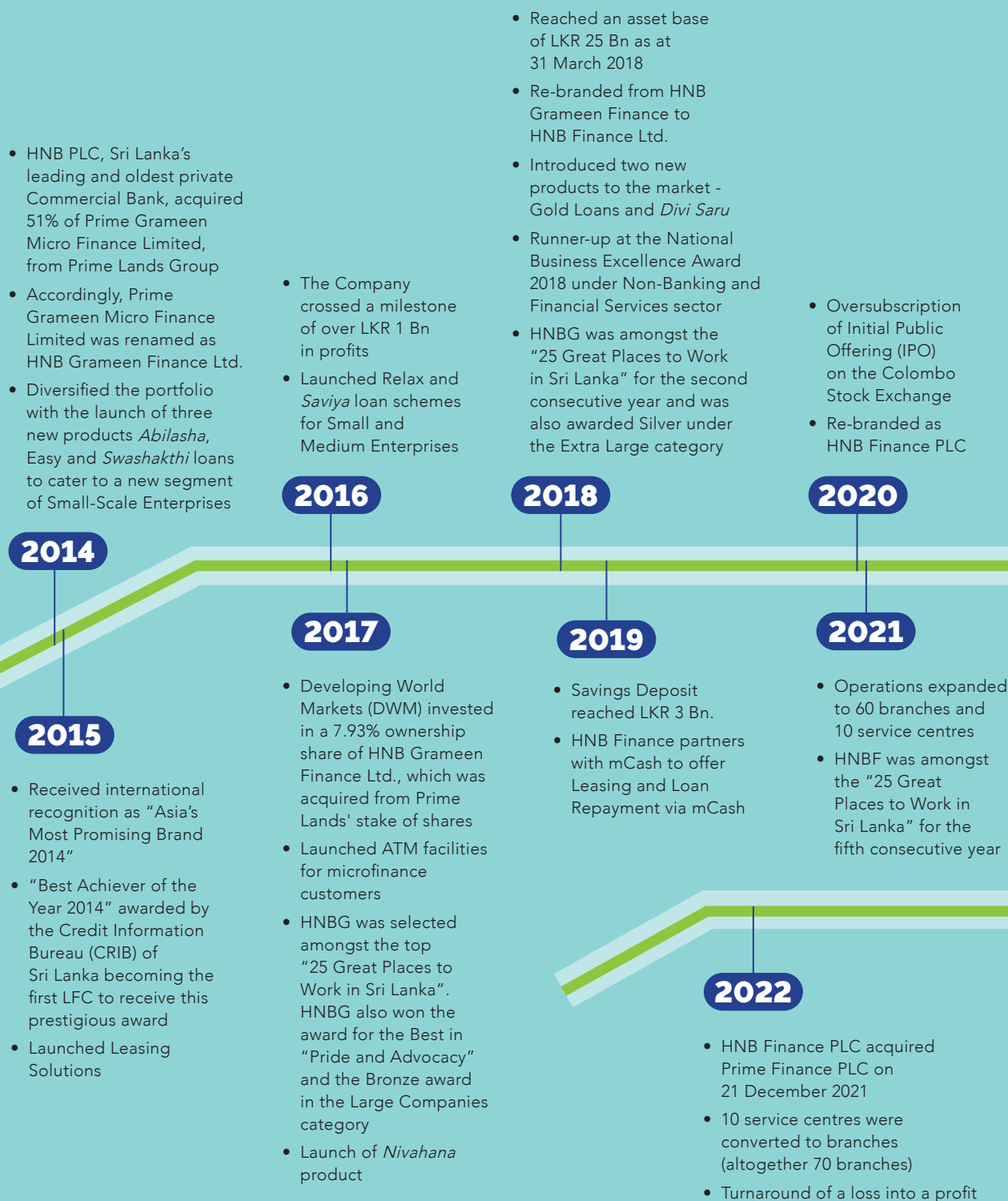
- Opened the first branch (City branch) with 2,500 customers

2009

- Re-branded the Company as Grameen Micro Credit Ltd.

2011

- Prime Lands Group 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, re-branded as Prime Grameen Micro Finance Limited



Performance Highlights

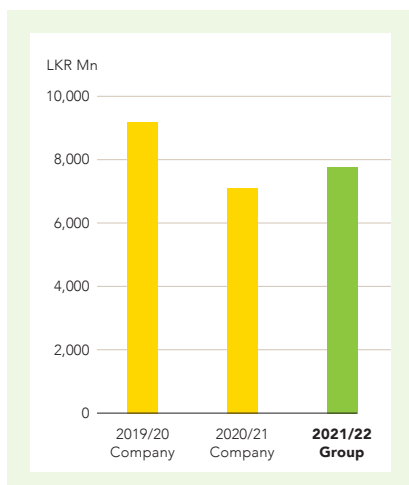
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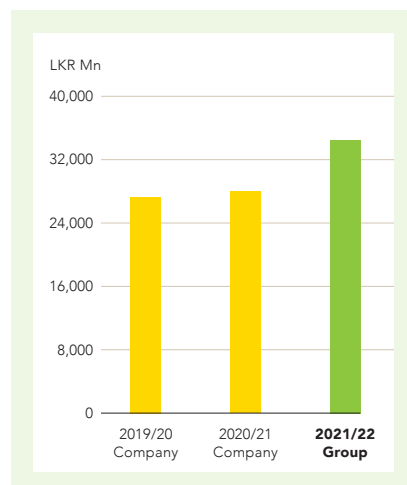
Financial Capital

	Group	Company	
	2021/22	2021/22	2020/21
Financial performance (LKR Mn)			
Income	7,789	7,408	7,167
Net interest income	3,904	3,689	2,957
Net fee and commission income	435	428	407
Total operating income	4,930	4,625	3,550
Total operating expenses	3,046	2,944	2,579
Operating profit/(loss) before tax and financial services	895	783	(74)
Taxes (VAT, DRL, NBT and IT)	380	365	49
Profit/(loss) after tax	516	418	(124)
Financial position (LKR Mn)			
Deposits from customers	34,703	31,593	28,047
– Savings	3,422	3,358	3,122
– FD	31,281	28,236	24,925
Lending portfolio	37,640	32,065	28,778
– Lease rental receivables	13,616	11,456	10,296
– Loans and advances	24,024	20,610	18,481
Total assets	46,557	42,247	36,755
Total liabilities	40,938	36,774	31,860
Ratios			
Return on assets (%)	1.11	1.06	(0.33)
Return on equity (%)	9.18	8.06	(2.50)
Cost to income ratio (%)	61.79	63.64	72.65
Earnings per share (LKR)	0.30	0.24	(0.07)
Net assets per share (LKR)	3.27	3.18	2.85
Net interest margin (%)	8.44	9.73	8.10
Non-performing accommodations ratio (NPA) (%)	11.99	11.51	17.68
Core capital to risk-weighted assets ratio (Tier I) (%)	9.62	9.62	9.94
Total risk-weighted capital ratio (Tier I and II) (%)	12.16	12.16	14.12

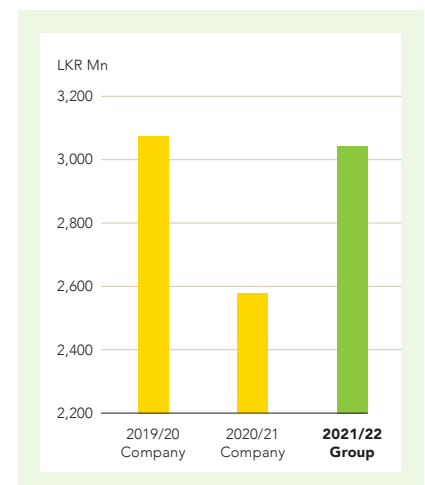
Income



Deposits from Customers



Total Operating Expenses





Intellectual Capital

Investment in
intangible assets
(LKR Mn)

68

2021/22

80

2020/21

Fitch
rating

'A'(lka) (RWN)

2021/22

'A'(lka)

2020/21



Human Capital

Number of
employees

1,878

2021/22

1,851

2020/21

Turnover
ratio (%)

19.68

2021/22

7.91

2020/21

Gender distribution

Male

1,696

2021/22

1,700

2020/21

Female

182

2021/22

151

2020/21



Natural Capital

Electricity
consumption (kWh)

1,654,793

2021/22

1,693,110

2020/21

Water
consumption (m³)

16,735

2021/22

16,496

2020/21



Manufactured Capital

Service centres
(Nos.)

—

2021/22

10

2020/21

Gold Loan
centres (Nos.)

50

2021/22

48

2020/21

Branches
(Nos.)

70

2021/22

60

2020/21

Property, plant
and equipment
(LKR Mn)

1,914

2021/22

1,590

2020/21



Social and Relationship Capital

Cross-sell
ratio (%)

1.9

2021/22

1.6

2020/21

Number of
customers

323,678

2021/22

316,768

2020/21

Chairman's Message

HNB Finance PLC
Annual Report 2021/22



The need of the hour is to be mindful of our responsibilities giving hope to the communities we are involved in, women empowerment, strengthening entrepreneurial culture among rural and urban poor and to support national imperatives drive a production led economic revival, supporting value addition, supply chain linkages, financial inclusion and strengthen formal economy.

When I took over as Chairman of HNB Finance PLC in September 2021, the nation was facing unprecedented turbulence: the pandemic was still raging, the economy in the doldrums, foreign exchange situation had reached crisis proportions, and the country was facing the prospect of a series of sovereign downgrades from international rating agencies. The Company had also made a loss, in addition to having over 45% of its loans under moratorium and another 11.5% classified as Non-Performing Assets (NPA). The mood was anxious, and highly trained staff members, who

had been an integral part of our team for years, were even considering their future at the Company. Firm, decisive action was needed to get back on track.

Charting a new Course

At the very first meeting with the Management of HNB Finance, I set forth a series of ambitious, yet attainable goals: grow selective business lines based on risk return, strengthen business revival and asset quality, pursue inorganic growth, and prioritise talent retention and development. Setting our quantified

plans in motion, we renewed our focus on the branch network, addressing those performing below expectations.

These initiatives resulted in a strong rebound in our performance. HNB Finance Group comprising the Company and Prime Finance PLC recorded a Net Profit of LKR 515.6 Mn for the 2021/22 financial year compared to the net loss of the Company for 2020/21 of LKR 123.6 Mn. Total assets of the Group too recorded an impressive growth of 26.67% and reached LKR 46.56 Bn as at year end from LKR 36.76 Bn as at the previous year end for the Company. The Group's

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Loan-to-Deposit ratio for the year was 123.36%, which reflects its strong liquidity position. This makes HNB Finance safe, stable and growing – with shareholder backing, strong liquidity, well diversified portfolio, and a strong foundation for growth.

Successful Turnaround

This resurgence has been marked by a significant improvement in business revival, moratoria management and the overall asset quality coupled with the contribution from Prime Finance. The liquidity ratio, which stands at around 12% above the statutory requirement, is among the best in the industry. In terms of capital, we have experienced a slight decline over last year as a result of the Prime Finance acquisition, and the need for capital augmentation is likely to arise in the near future. On the operations side, we have re-energised our focus on recoveries and the deposit mobilisation efforts, improved cost-income ratios and net interest margins.

Furthermore, our microfinance business, which was facing a negative growth streak, has been successfully revitalised. This is an area of particular importance, as the roots of this business goes back 22 years, when it commenced operations as Ceylinco Grameen Company Ltd, which later became part of the Prime Lands Group, and eventually coming within the fold of HNB Finance.

Facing a Challenging Environment

Yet despite the successes of the year under review, we are well aware that the future is fraught with challenges as the country is facing an unparalleled economic crisis. The Rupee has plunged almost 70% during the past two months, and we are faced with an increase of 700 basis points in interest rates. Furthermore, the Colombo Stock Exchange (CSE) has lost over half a trillion Rupees in market capitalisation. Inflation is hovering at around 40%. In such a daunting environment, the most important objective for an NBFI

is to be sustainable, by retaining and growing its franchise while maintaining adequate capital and sound liquidity.

Looking Ahead with Resolve

The need of the hour is to be mindful of our responsibilities giving hope to the communities we are involved in, women empowerment, strengthening entrepreneurial culture among rural and urban poor and to support national imperatives, drive a production led economic revival, supporting value addition, supply chain linkages, financial inclusion and strengthen the formal economy.

Growing the SME and micro businesses is a very important aspect of national development, especially in terms of bringing people out of poverty, strengthening the rural economy, creating entrepreneurs, reducing regional economic imbalances, and fostering overall opportunities for employment generation. Enabling the SME sector to embrace digital adoption and transformation provides enormous opportunities for growth and empowerment in terms of improving financial literacy training and creating supply chain linkages by bringing together the farmer or producer with traders and distributors, thereby preventing exploitation by middlemen. It also opens up opportunities for eco-friendly farming and cottage industries. All these initiatives can lead to a virtuous cycle of positive change, and our microfinance business can make a significant contribution to this national imperative.

In the overall gold financing segment of the NBFI sector, our market share is less than 5%, which is less than 1% of the overall market when the informal sector is factored in. This provides an aggressive growth opportunity, especially through an inorganic growth strategy. We need to choose winning niche players in microfinance, micro leasing and gold financing, and this will be a key focus of the Company in the near future.

We are of the firm conviction that the regulators have a significant role to play in this area by helping to drive the consolidation of the NBFI sector. At present, there are over 100 NBFIs registered with the Central Bank of Sri Lanka (CBSL), with over 20,000 informal players, of which about 10% are running their business quite well in their respective territories. It is up to us to identify where these jewels are, and to see whether we can absorb them, and expand this Organisation while contributing towards overall industry consolidation.

The Senior Management of HNB is also intrinsically involved in managing this Organisation at the highest level. In addition to myself, the Chief Strategy Officer and the Chief Risk Officer of HNB also function as Directors on the Board. This is an organisation that has inherited a 22-year legacy as a pioneer in microfinance in the country and supporting rural livelihoods while being a household name for empowering women in the field of self-employment. We also have a customer base of over 100,000, have garnered recognition as a "Great Place to Work", and have been rated "A" by Fitch Ratings Lanka Ltd.

Adding to Our Strengths

During the time I took over as Chairman, HNB Finance was in the early stages of negotiations regarding a merger with Prime Finance PLC, that had a rich and pioneering legacy in microfinance in addition to specialised expertise and experienced staff in that field. The negotiations were fruitful and HNB Finance acquired Prime Finance in December 2021. The merger took place in May 2022 based on a project plan developed by MTI Consultants and we now look forward to the prospects of the merged entity with great optimism as it is an opportunity to leverage on real estate and property financing. It is an important milestone for the HNB Group, being the first acquisition made in over a decade. The merged entity will be backed by two giants, HNB and Prime Lands, in addition to DWM global impact investor who has a minority shareholding.

A further advantage lies in the relative quality of the loan portfolios of both institutions. HNB Finance has a mix of about 50% secured and 50% unsecured loans in its portfolio. Personal loans and business loans are also largely unsecured, while the leasing and the Gold Loan businesses are secured. In contrast, the Prime Finance portfolio is mostly secured by real estate. It is among the largest real estate groups in the country, comprising a portfolio of lands, housing, and condominiums, and acquiring close to LKR 2 Bn worth of land stock every month. By taking over Prime Finance, we inherit their considerable real estate stock in addition to absorbing a team of talented staff to address the critical talent gaps in this highly profitable niche.

With a view to optimising the outcomes of the union, we continue to partner with MTI Consultants to develop the strategic plan for the merged entity. Further, envisaged roles of our consultants include improvements in corporate governance, risk management, overall capital management and liquidity. They will be assisting us to set our sights for the future – refocus strategy, ambitious plans for organic and inorganic growth, supporting businesses to thrive in adversity, Digital Transformation of internal and external stakeholders.

My Sincere Gratitude

I take this opportunity to thank the Chairman and the Board of Directors of HNB, the CEO, and the Senior Management of HNB Finance PLC for their unwavering support in guiding this Company on its onward journey. The Chairman and the Board of Directors of Prime Lands too deserve our appreciation for their understanding and support extended during the acquisition and the subsequent merger of Prime Finance with the Company. The loyalty and commitment of our team will continue to be a source of strength. I also wish to express my sincere appreciation to the Governor and officials at the Central Bank of Sri Lanka for their guidance. Our customers, suppliers, and investors have played a tremendous role in our success to date, for which we express our gratitude. We assure you our utmost commitment in creating sustainable value in the years ahead.



Dilshan Rodrigo
Chairman

28 June 2022

Managing Director/ CEO's Review



Growth in business volumes coupled with significant improvements in asset quality, managing liquidity at optimal levels and cost containment measures enabled the Company to record a profit before tax and profit after tax of LKR 509.2 Mn and LKR 417.8 Mn respectively for the year, compared to the loss before tax and the loss after tax of LKR 196.3 Mn and LKR 123.6 Mn respectively for 2020/21.

Dear Stakeholders,

The year under review could be best described as a “turnaround year”, as it has been, indeed, a year of dramatic changes unlike any other in the recent past. While challenges of the recent past have persisted, this year set the tone and pace for the recalibration of our strategies, getting us back on track to improving performance on all fronts.

After nearly two years of pandemic-enforced lockdowns and economic turbulence, the nation began inching towards near-normalcy during the latter part of the year. Business sentiment and

economic indices commenced a gradual ascent, and HNB Finance PLC recorded an improvement in its financial outlook, reversing the previous year’s dismal performance. It was also during this year that our merger with Prime Finance PLC reached its culmination. We consider this as a significant milestone, which portends immense potential for exponential growth in the years ahead.

A series of directions on moratoriums and restructuring of loans issued by the Central Bank of Sri Lanka (CBSL), though helpful to our borrowing customers, created a strain on our finances. During this period, we had

been cautious in granting moratoriums, taking into consideration our customers’ repayment capacity, the viability of their businesses, and the overall economic climate. As a consequence of this prudent policy, loans under moratorium were brought under control with the exception of those in the tourism sector, which is expected to improve during the coming year.

However, this year also proved beyond doubt our resilience in overcoming tremendous obstacles, and emerging successful in achieving our objectives. Having meticulously analysed the circumstances and reasons for our

failure, and studied the realities of the market and the evolving scenario, we embarked on a multipronged strategy of making rapid progress on revitalising our products, optimising costs, improving efficiency, productivity, and profitability.

Overcoming the colossal challenges which characterised the year under review, we were able to achieve a remarkable turnaround in performance. Growing organically, the Company managed to enhance its loans and advances, as well as deposits by 11.42% and 12.64% respectively, year on year, leading to a growth in assets of 14.92%. Growth in business volumes coupled with significant improvements in asset quality, managing liquidity at optimal levels and cost containment measures enabled the Company to record a profit before tax and profit after tax of LKR 509.2 Mn and LKR 417.8 Mn respectively for the year, compared to the loss before tax and the loss after tax of LKR 196.3 Mn and LKR 123.6 Mn respectively for 2020/21. With the contribution from Prime Finance PLC, which was acquired on 31 December 2021, the Group profit before tax, and profit after tax improved to LKR 615.9 Mn and LKR 515.6 Mn respectively for the year. The Company reported an impressive overall improvement in asset quality, operational efficiency and profitability during the year.

New Leadership and Direction

Under the guidance of our new Chairman, Mr Dilshan Rodrigo, we undertook a number of strategic initiatives, prioritising key areas where changes were most urgently required, and identifying products with the greatest revenue potential, in addition to setting ambitious yet achievable targets in terms of increasing recoveries, revenues, costs and liquidity. .

Moving forward, we redirected our efforts towards improving recoveries in order to increase our cash-flow as well as reduce the NPAs, which had reached 37% with absolute figures in excess of LKR 11 Bn. We embarked on a very strict recoveries and monitoring programme to reduce NPAs to a manageable level. Loans overdue over 90 days or more were reduced to LKR 4.8 Bn.

With established limits available with other financial institutions for draw down, our liquidity position is more than sufficient to meet our requirements. This is further strengthened by the fact that we are a subsidiary of HNB. However, due to the amalgamation, our capital adequacy has been somewhat impacted, but the CBSL has granted us sufficient time to address the issue.

Focusing on Our Brand

During this period, we set out to reinvigorate the HNBF brand using content marketing, social media, and digital advertising. As part of this effort, we engaged in cobranded promotions for Gold Loans and pawning. We introduced two products under Gold Loans: Gold Plan and Gold VIP scheme, increasing the duration from the initial one month to three months, which better reflected current market realities such as fluctuating prices, and the attendant risks.

Our leasing product underwent improvements on internal processes and service levels, in addition to higher lending targets, making it one of our most profitable products. Our lending rates have been reduced, making it more competitive compared to prevailing market rates.

The microfinance business, which is essentially labour-intensive, suffered most due to difficulties in deploying staff in view of travel restrictions and the ever-present fear of infection. This required continuous changes to our business model to suit emerging realities. The situation also entailed proper evaluation of customers, identifying their business potential and repayment capacity. During the course of the year, we strengthened our evaluation mechanisms, and the sector registered a successful rebound in due course.

Going Digital on all Fronts

Digitalising our operations has been among our strategic objectives aimed at improving the efficiency, service levels and turnaround time of our processes. Several of our manual processes have been automated in addition to a

reduction in the loan processing time, automated collections, and repayment through mobile platforms. These could be further improved once we finalise and implement our internet banking platform.

We have also tied up with eZCash and mCash, which would enable customers to pay their instalments online in addition to our mobile recovery app which provides realtime information that is updated to reflect the current status of customers' recovery position and other details. Digital onboarding will soon be introduced for our leasing customers, which will take our performance in customer acquisition, service and recoveries to the next level. We have also encouraged our staff and customers to adopt SOLO and MOMO offered by HNB to make use of these channels for making payments. Introduction of the Document Management System (DMS) and DocuSign have helped speed up communications while reducing the overall time and effort required in a number of processes, as well as wastage of paper.

Social and Environmental Initiatives

We have always had an active Corporate Social Responsibility (CSR) programme, such as our project to provide library books and computers, along with help to conduct online classes to a school located in a remote area in Ampara during the previous financial year. However, we could not carry out CSR activities during the year under review due to pandemic-related restrictions and the closure of some of our branches for extended periods of time.

On the environmental front, energy conservation and waste management initiatives are gradually being introduced, with two of our branches already converted to solar power, and work being commenced on converting another two. As the energy crisis grips Sri Lanka, we will increasingly prioritise finding sources of renewable energy to run our operations – a clear instance where financial and environmental sustainability go hand-in-hand.

Corporate Governance and Risk Management

We have emerged strong in corporate governance and risk management due to the extensive support we receive from HNB. As a result, we comply with related guidelines of the HNB Group, as well as the CBSL, which has brought us virtually on a par with the banks, in this respect. We also have a Board Integrated Risk Management Committee (BIRMC) and the Executive committees, in addition to monitoring from HNB. Accordingly, we are required to prepare and present our status on risk and compliance, in addition to results of operations and financial position, on a quarterly basis.

Banking on our Merger

During the year under review, our negotiations with Prime Finance PLC reached a decisive phase. Following the MOU and completion of due diligence, we were finally able to acquire about 87% of the Company's shares in December 2021. The merger was completed within six months, making it one of the fastest mergers in the financial industry in Sri Lanka.

This merger brings together the resources and specialised skills of HNB, a top-notch player in the retail banking industry, and Prime Lands, the undisputed market leader in the real estate business.

As a result of this merger, HNB Finance acquires a captive business of about LKR 600 Mn to LKR 1 Bn each month in real estate, which was formerly the exclusive preserve of Prime Finance. The Company also gains access to high net worth real estate investors, HNBF also benefits from the expertise in small ticket micro-leasing where Prime Finance has captured a sizable share of the market. In addition, Prime Finance has enjoyed a relatively lower Cost-to-Income ratio which will enable HNBF to benchmark its operating model and the branch operations to improve its performance. In return, Prime Finance customers will get the assurance of dealing with a well-established company that's part of the HNB Group.

"Ground-Zero" Structure

The merged entity will assume a "Ground-Zero" structure, which takes a futuristic perspective on organisational design, based on a ground-up approach, without considering legacy structures. This approach links the Organisation's design to strategic priorities, as well as the talent and capabilities required in the future. It is a structure that can evolve as business priorities change. This is aimed at turning us into one of the best three finance companies in Sri Lanka, if not the best, within the next five years. This will involve organic and inorganic growth during the coming years, for which we look forward to the strategic plan developed by MTI Consultants to provide the necessary guidance and direction.

Product Offerings

We intend offering new products in the real estate sector based on the synergy arising from our merger with Prime Finance. We are currently focused more on auto-leasing, and their strength lies in micro-leasing, enjoying a high level of presence and expertise in that segment. In addition to enhancing our knowledge and improving our processes, offering both products will help us to vastly enhance our presence and profitability in vehicle leasing.

Branch Network

HNB Finance has 70 branches, including service centres which were converted to fully-fledged branches during the year. Adding the seven branches from Prime Finance brings our total network to 77 branches. Due to overlapping of regions and changing market realities, some of the branches will be relocated to new areas with better business potential.

Future Outlook

Due to the prevailing high interest regime, we do not foresee any significant improvement in our lending portfolio. Skyrocketing prices of essentials, overall increase in the cost of living, decline in discretionary income, and the overall drop in economic activity are likely to dampen entrepreneurial effort in the near future. Asset quality is expected to deteriorate, and impairment provisioning is likely to rise, impacting profitability and capital. Our intention is to continue with collection and maintain liquidity

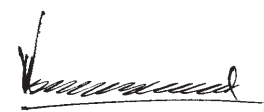
to the maximum level possible. Our lending portfolio consists of short as well as long-term loans in the ratio of 40:60. While microfinance and Gold Loans are likely to be repriced quickly, leasing could take time.

The Government's negotiation with the IMF, overseas lenders and the international community could result in an improvement in the economic environment in the short term, while overall economic performance in terms of tourism, exports and remittances is likely to improve in the long term.

We are also looking forward to funding and technical support from our foreign partners, which will pave the way for vastly improved performance on all fronts from HNB Finance PLC in the years ahead.

Expressing my Gratitude

I would like to express my sincere thanks to our current Chairmen, as well as the members of the Board of Directors, for their support, especially during the latter part of the year, when they helped us implement some of our important strategies. Our outgoing Chairman, Mr Jonathan Alles, has been a cornerstone of our success since HNB acquired the Company in 2014. I would like to recognise and thank him for his pivotal role in transforming HNB Finance into what it is today, and we look to build on his tremendous contribution as we take the Company into the future. I highly appreciate the dedication of my team, including those who have come on board recently. They are highly experienced and very capable, joining us at the top level. They are a great strength to the Company and we look forward very positively in working together, and executing our strategies in taking the Company further. I also wish to thank the staff from the CBSL, regulators, all stakeholders, especially our shareholders, and assure you of a great performance in the years ahead.



B M D C Prabhath
Managing Director/
Chief Executive Officer

28 June 2022

Stakeholder Engagement

OPERATING ENVIRONMENT

Identifying and Engaging Critical Stakeholders

As a leading Non-Banking Financial Institution (NBFI), we consider our stakeholders as crucial for our continuing operations, as well as success in all our endeavours. While our internal stakeholders comprise staff members, Board of Directors and shareholders, our external stakeholders include customers, the Central Bank of Sri Lanka (CBSL) and other regulatory authorities, competitors, other financial institutions, suppliers, partners, communities and the environment. Having clearly identified and defined our range of stakeholders, we continue to engage with them in a collaborative and mutually beneficial manner.

Such engagement enabled us to have a positive impact on the local economies, promoting economic inclusivity, empowering underserved communities, helping towards balanced regional development, fostering an entrepreneurial culture especially among women, employment generation and infusion of capital in environmentally sustainable projects, while also providing excellent returns to our investors.

As the COVID-19 pandemic raged across the country, we continued our engagement with critical stakeholders, which was crucial for business sustainability. Time-tested, traditional engagement method of physical, face-to-face meetings could not be continued, due to travel restrictions and Government-mandated health protocols. This made it virtually impossible to engage with our present and potential customers. Such a scenario entailed the establishment of reliable communications channels between internal and external stakeholders, in order to ensure business continuity and market visibility.

It was considered imperative in an environment where traditional sales, marketing, and promotional activities could not be continued, resulting in significant changes to our stakeholder engagement model. Deployment of digital and telephone-based engagement mechanisms became the default mode for reaching out to our stakeholder groups. This move had a considerable impact on engaging with our microfinance customers, who represent HNBF's largest customer base, living in rural locations with limited access to digital communication facilities. However, we were successful in transitioning our customer engagement model to face this new reality, making every effort to evolve and improve this model of reaching out and fulfilling the needs of customers.

HNBF Call Centre

In the wake of widespread adoption of mobile phones across Sri Lanka, Call Centres play an invaluable role for companies to reach out to a wide range of stakeholders. During times of lockdowns and restricted mobility, the HNBF Call Centre became virtually the default mode for keeping customers and other stakeholders informed of the latest developments taking place in the Company. Due to the absence of direct, face-to-face communications, our Call Centre played a vital central role in enabling our personnel to connect to customers and vice-versa. This was crucial for the purpose of receiving customer inquiries and complaints, in addition to coordinating customer repayments and collections, updating customers on the latest developments in our offerings, and promoting products and services. The Call Centre played a crucial role in our effort to continue with a seamless service during trying times. This also helped us strengthen our relationships with customers and other stakeholders due to the direct communication carried out by our Call Centre operators.

Digital Platforms

Due to the restrictions caused by pandemic-induced lockdowns and the need to observe social distancing, we adopted a series of user-friendly digital and mobile phone solutions to maintain uninterrupted communications with both internal and external stakeholders. Our digital channels were also optimised for carrying out employee training, health and safety awareness and marketing, as well as entertainment activities.

By adopting a digital approach to stakeholder engagement, we were able to achieve cost-efficiencies in terms of reducing material costs, in addition to repetitive, labour-intensive activities, and travel expenses. This also helped us effectively engage with diverse stakeholder groups. It also helped us maintain details of our engagement, and carry out effective follow-up activities, as and when required.

This is referred to in detail in the Social and Relationship Capital section on pages 58 to 73.

HNB Finance Stakeholder Engagement Model

Stakeholder	Mode	Frequency of engagement	Concerns and expectations	HNB's response
 Employees	Digital Platforms	Continuous	Attractive remuneration, career prospects	Ensuring safety of employees, job security and social events
	User-friendly, comprehensive HR system	Continuous	Regular updates on Company performance	- Competitive salary on par with industry norms - Monthly summary on Company performance, HR details, other aspects regarding monthly review meetings
	Grievance Officer	Continuous	Recognition and appreciation	Quarterly updates on Company events, appreciating employees' performance, showcasing achievements of children of staff members
	Company Newsletter	Monthly	Development of skills and experience in their fields	Training and development for all staff, diploma programmes for managers, Outward Bound training for relationship building
	Mehewara Magazine	Quarterly	Communications with the Management	Open door culture enabling communications with Senior Management
	Company emails, memos, and training	Continuous	Career development and growth	BPR for improving work-life balance
	Open door culture	Continuous	Work-life balance	Communicating with employees regarding current performance and career prospects
	Performance Review	Biannual		
 Customers	Call Centre, customer visits	Continuous	Details on loans, payments, interest rates, new products	Customer-centric and well developed products and services
	Company website, social media	Continuous	Access to Company information	Maintain continuous service to improve customer relationships
	Press, Radio, TV, PR articles	Continuous	Fair and equitable treatment for all customers	Conduct surveys to obtain customer feedback to improve Company's strategy to improve its products and services
	Product development	Continuous	Products that meet current and latent needs	Respect customers, show compassion, while being professional
	Anti-discrimination policy for all	Continuous	- No discrimination on any grounds - Assuring satisfaction with quality of products and services - Improving financial literacy	Financial inclusion of all, especially those who are marginalised
 Community and the environment	Social media	Continuous	Obtaining loans to develop their businesses	Empowering women and improving their livelihoods through microfinance
	Microfinance for female customers	Continuous	Support in carrying out day-to-day activities	Working in the best interests of the customers
	Community projects	Continuous	Proactively ensuring that the Company does not cause any harm to the environment	Improving the well-being of community members, who are also customers, through Mehewara Fund
	Focused discussion on the environment	Continuous		Not providing loans for projects which harm the environment
	Information published on Company website	Continuous		Implementing initiatives to reduce energy, water and paper consumption
	Press releases	Continuous		- Continuous engagement for closer relationships with stakeholders - Employment generation activities - Making them part of the supply chain whenever possible

Stakeholder	Mode	Frequency of engagement	Concerns and expectations	HNBF's response
 Investors	Digital platforms	Continuous	• Sustainability of business operations	• HNBF complies with all regulatory requirements and ensures the highest ROI for investors
	Annual Reports	Annual	• Sound risk management methodologies	• HNBF undertakes continuous risk assessment exercises to identify risks faced by the Company, and takes the necessary actions to address them
	Annual General Meetings	Annual	• Ensuring that proper governance mechanisms are upheld	• HNBF ensures that all corporate governance requirements are adhered to
	Interim Financial Statements	Quarterly		• Continuous monitoring of capital and liquidity requirements to ensure viability and sustainability of the operations
	Company website	Continuous		
	Press and media releases	Ad hoc		
 Suppliers	Digital platforms	Continuous	• Support for local, small time suppliers	• HNBF primarily sources its supplies from local vendors to support local entrepreneurs and industries
	Regular meetings	Ad hoc	• Payments made on time	• HNBF ensures that ethical procurement practices are followed within the Company
	Telephone calls, letters, emails	Continuous		
 Regulators	Audits and other reviews by CBSL and other regulatory bodies	Annual	• Compliance with regulatory requirements	• HNBF ensures that internal controls are in place, and undertakes regular reviews to ensure compliance at all levels of the Organisation
	Report submissions	Ad hoc	• Responsible and sustainable business practices	• Immediate responses to queries raised by regulators
	Press releases	Ad hoc	• Timely responses	
	Discussions and meetings by Senior Management	Ad hoc		
	Directives and circulars	Continuous		
	Press and media releases	Ad hoc		

Materiality

Assessing the Issues that can Affect HNB

Materiality analysis is a critical component of this Integrated Annual Report, as it presents HNB's strategic planning and reporting process. The Company conducts a materiality analysis using the PESTEL framework in the context of varied

key stakeholder groups, in order to analyse developments that will impact the Company's prospects in terms of achieving its objectives. The analysis provides insights into trends and business risks in the macro environment, as well as the available opportunities and their potential

impact on the business. Material issues are reviewed and prioritised each year, after being identified through stakeholder engagement activities and the Company's annual risk assessment programmes which considers the risks posed by the current operating environment.

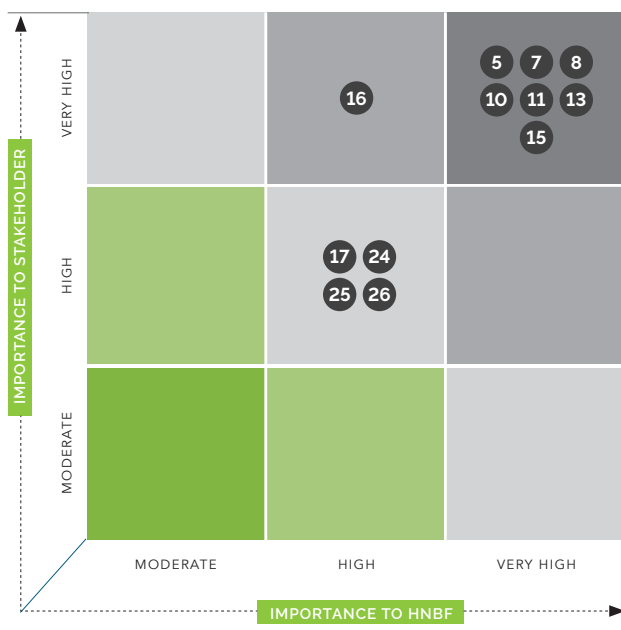
Stakeholders	Political	Economic	Social	Technological	Environmental	Legal/Regulatory
 Employees		1 Employee productivity	2 Staff recruitment and retention	3 Technology driving change in job skills		4 Human and labour rights
			5 Employee satisfaction and engagement	6 Operational efficiency		
			7 Training 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			
 Community and the environment			16 Community investment and engagement		17 Reduction of environmental impact from operations	18 Compliance with regulations
			19 Need to commit to Sustainable Development Goals (SDGs)		20 Natural disasters and poor disaster preparedness	
			21 Impact of COVID-19			

Stakeholders	Political	Economic	Social	Technological	Environmental	Legal/Regulatory
 Investors	22 Political instability	23 Economic slowdown	24 Demand for increased transparency and accountability			
 Suppliers			25 Sustainable procurement 26 Strengthening relationships			
 Regulators						27 Prevention of financial crime

The next step in the process is to map the topics by the impact they have on HNB Finance and its stakeholders. Topics are categorised as either risks or opportunities or both. The materiality analysis plays a role in the formulation of HNB Finance'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



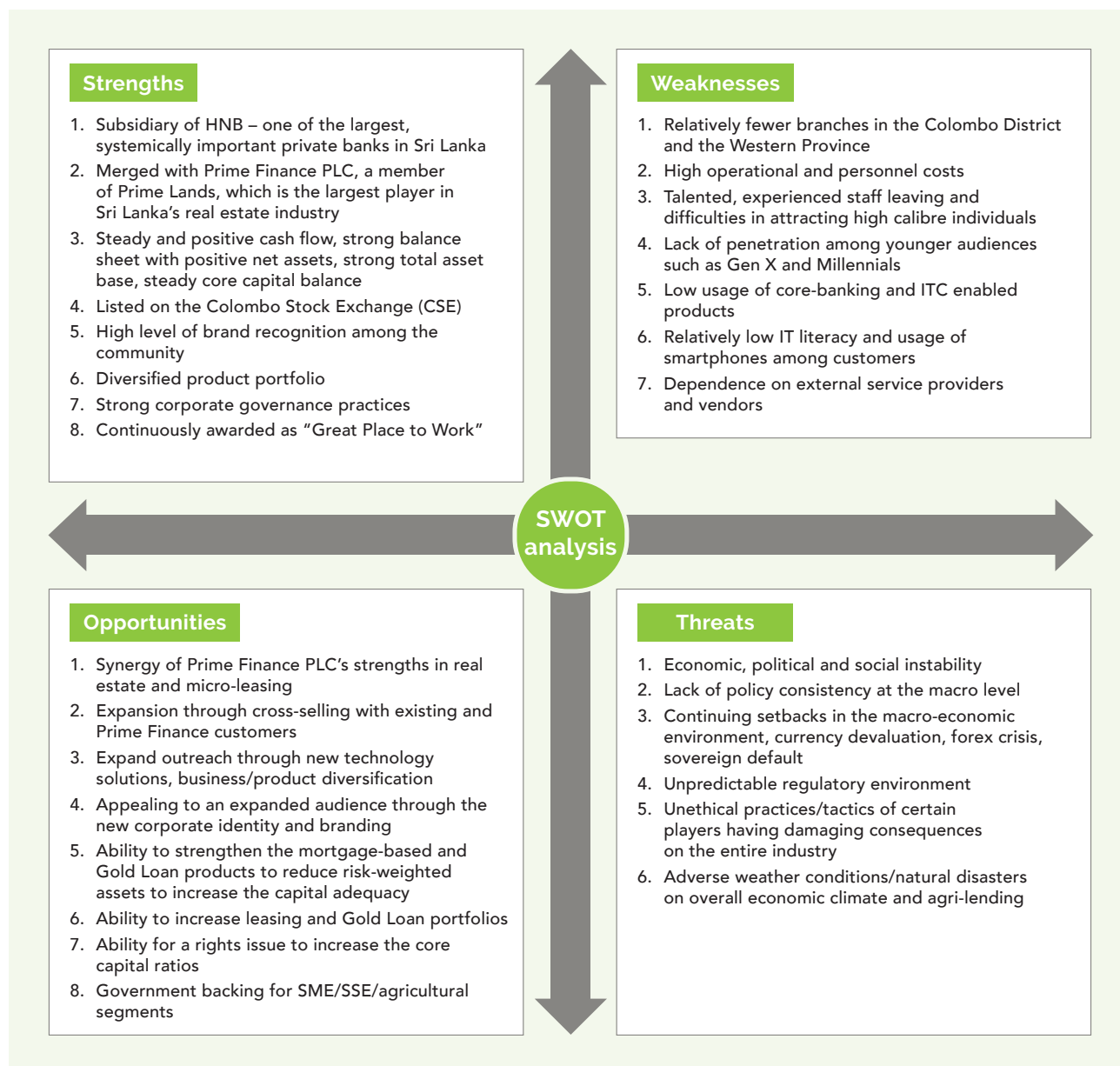
Risks to be Mitigated



Defining and Refining the Strategy at HNBF

HNB Finance has been guided by a well-structured and clearly formulated strategy which is annually reviewed and refined to take into account the challenges in the operating environment, changing customer needs and regulatory developments. Following the acquisition of Prime Finance in December 2021 and the subsequent merger with the Company in May 2022, a new strategic plan is, currently being developed for the merged entity by a firm of consultants which will define the direction and strategies for the next phase of growth of the Company.

Our strategy development process commences with an evaluation of our Strengths, Weaknesses, Opportunities and Threats in the form of a SWOT analysis as given below:



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

- Business Growth
- NPA Management
- Digital Literacy and Capacity Building
- Liquidity Management
- Customer Experience
- Harnessing Merger Strategies

Transitioning from a Grameen-based operation to a fully-fledged financial services institution, HNB Finance has undertaken several organic as well as inorganic initiatives as part of its strategic plan, aiming to position the Company as the preferred financial services provider for the mainstream finance services market.

With the easing of the COVID-19 pandemic, the Company was able to shift its strategic priorities and focus on turning around the Company from the loss making position last year to a position of making profits. This involved renewed efforts on asset quality and recoveries and emphasis on products such as Gold Loans and the micro-leasing segment, in addition to the real estate industry following our acquisition of Prime Finance, as our lending-based growth strategy.

We have innovated a real estate product called Zero Interest, which enables customers to pay 40% of the value of an investment in land, and the remainder on easy payment with a tenure of 18 months. Such investments account for about 40% of our business. In this segment, we have captured about 35% of the market from Prime Lands Group, which amounts to around LKR 500 Mn to LKR 600 Mn per month.

We also entered the Three Wheeler business where we have captured about 11% market share of the entire industry, recording a turnover of about LKR 350 Mn per month.

Following the merger, we are planning to introduce a few more new products to the market.

The Management of the Company also intends bringing down the microfinance component to about 20% to 25% of the total portfolio while growing the book to about LKR 20 Bn. This is likely to be achieved during the next three to five years.

In terms of the funding mix, we enjoy some competitive advantage over other industry players, as we are highly focused on fixed deposits, which get repriced relatively quicker. Our deposit base was about 50% of our funding mix and equity accounted for around 10% to 15%. It was the long-term debt that was funding the rest of the business.

As a new wave of technological innovations transform the business landscape, the old brick and mortar model is undergoing a drastic change. Accordingly, our Board of Directors has decided to shift focus towards digitalisation of our operations, processes and channels in order to differentiate our offering, and have a competitive advantage in the market. While our current branch network stands at 77, including the Prime Finance branches, we are likely to settle with a network of 90 branches at most, with a strong focus on digitalisation.

This will give us a definite advantage over the informal lending sector which has about 22,000 plus players, due to their engagement in microfinance, as well as a deeply entrenched access to the rural community channels that they have built over the years. In such a scenario, it is better to integrate via digitisation rather than invest in further brick and mortar operations, which will provide a greater competitive advantage while also lowering our cost-to-income ratio.

Business Development

- Market segmentation to identify customer requirements and to provide appropriate solutions
- Business innovation, effective use of Business Process Re-engineering (BPR)
- Use technology effectively to improve business, especially emerging technologies such as Artificial Intelligence and Machine Learning to segment and target new audiences, improve product offerings
- Improve competitive strengths
- Stakeholder relationship and alliances

Branding and Marketing

Through the Line Marketing

- Social media/email/ SMS marketing, digital advertising for improving reach and precise targeting for regions, social segments, age groups, gender
- Search Engine Optimisation (SEO) content marketing
- Earned media/PR
- Seasonal campaigns

Offline Marketing

- Traditional media, town storming, co-branded promotions with dealers, referral programmes, staff sales drive
- Outdoor visibility

Technology for Growth and Security

- Moving towards digital transformation of the entire Organisation
- Improving operational efficiencies through automation, introducing new software applications, restructuring workflow processes
- Gradual migration to the cloud for low-risk applications
- Mitigating risk with improved cybersecurity
- Improving compliance

Maximising Customer Experience

- Creating a customer-centric culture across the Organisation through:
- Customer-first thinking
 - Renewed focus on Gen X and Millennials
 - Improving the customer journey to maximise customer engagement
 - Inspiring customers with relationship management
 - Focusing on data-driven marketing and product design

High-calibre Human Resources

- Identifying, attracting, retaining and promoting high-calibre individuals
- Identifying the gaps and up-skilling the staff, providing growth opportunities, work-life balance
- Arresting staff attrition
- Optimisation of human resources through training and development

Improving Business Sustainability

- Inorganic growth, focusing on top performers in high growth segments
- Compliance with regulations, rethinking strategies to suit changing regulations
- Improving asset quality
- Sustainable fixed income and profitability
- Environmental challenges

Operational Excellence

- Improving process efficiency through streamlined processes, workflow optimisation and automation
- Reducing the cost and turnaround time of processes
- Transferring manual work to digital platforms
- Branch evaluation
- Improving staff efficiency and productivity

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 stationery 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.

Operating Environment

An Assessment of the Operating Context

As a player in the Non-Banking Financial Institutions (NBFI) sector, the operating environment comprising the global economic outlook, current state of the Sri Lankan economy and the financial sector in particular, has a bearing on the performance and prospects of HNB Finance PLC. Hence, we give below a narrative of the developments in the outlook for 2022 in the global and Sri Lankan economies as well as in the NBFI sector in Sri Lanka, which provided context to our performance and expectations. Hence, we advise the readers of this Annual Report to give due regard to the backdrop of the global and local developments elaborated below that contextualise the Company's performance.

Global Economy

Though the adverse impact of the pandemic on the global economy has waned to a considerable extent, current negative developments in raw material and supply chain issues, as well as the continuing war in Ukraine, are set to hinder growth prospects in 2022. Russia and Ukraine account for 16% and 11% respectively of global wheat production while Europe depends on Russia for 40% of its natural gas and 27% of its oil.

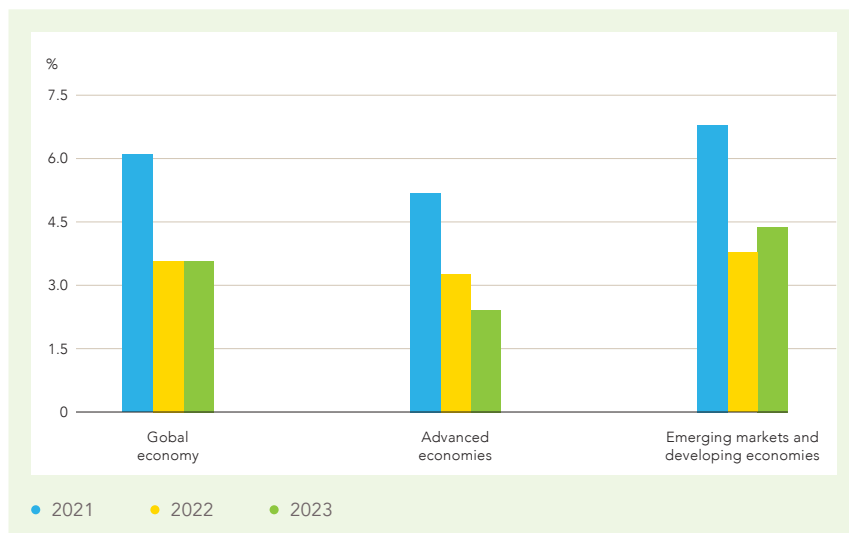
The IMF projects that global growth will slowdown from an estimated 6.1% in 2021 to 3.6% in 2022 and 2023. War-induced commodity price increases and broadening price pressures forecast inflation projections of 5.7% in advanced economies and 8.7% in emerging market and developing economies in 2022.

Meanwhile, the World Bank states that energy prices will rise more than 50% in 2022 before easing in 2023 and 2024. Wheat prices are forecast to increase more than 40%, which will put pressure on developing economies. Metal prices are projected to increase by 16% in 2022 before easing in 2023, but will remain at elevated levels. The sharp rise in input prices, such as energy and fertilisers, could lead to a reduction in food production, particularly in developing economies such as Sri Lanka, which imports all its needs in crude oil and a sizable portion of its food requirements, especially wheat.

Sri Lankan Economy

Improvements in the Sri Lankan economy, which is currently at its lowest point since gaining independence in 1948, hinges largely on aid and grants from the international community and aid partners.

Growth Projections



Source: IMF

The World Bank has stated that it would disburse approximately USD 700 Mn within the next few months, and is also working with other organisations, such as ADB, Asian Infrastructure Investment Bank (AIIB), and the UN office to "re-purpose" their already committed projects to help Lanka. Combined with expected infusions from the IMF, this could ease short-term pressures on the economy while helping it to rebound to a certain extent.

The Government is expected to negotiate with China, sovereign debt holders and international aid partners to restructure outstanding debt, amounting to over USD 51 Bn, with the help of international experts.

Though exports indicate a healthy growth, revenue from tourism has come to a standstill at this moment of writing, though it could improve as the year progresses. Foreign remittances could rise due to the prevailing high exchange rate.

In order to boost revenue, the Government has hiked a number of taxes. Accordingly, the value added tax (VAT) has been increased from 8% to 12%, Telecommunication Levy has been increased from 11.5% to 15% while personal income tax threshold will be reduced from LKR 3 Mn to LKR 1.8 Mn, and tax slabs on the taxable income reduced from LKR 3 Mn to LKR 1.2 Mn with tax rates of 4% to 32% on each progressive slab, in addition to a number of other taxes such as Withholding Tax (WHT) on service payments and corporate income tax to 30%. The Government expects an estimated LKR 125 Bn in additional revenue for 2022 from these measures.

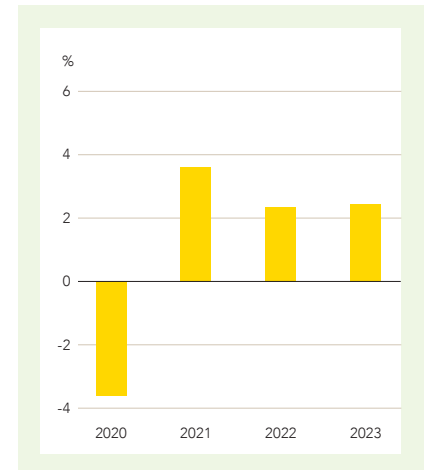
The envisaged privatisation of several State Owned Enterprises (SOEs), especially SriLankan Airlines, will boost state coffers while reducing any further drain on the treasury. Development of SOEs under private sector management could also play an important role in economic revival in the long-term.

The impact of Sri Lanka's sovereign default cannot be correctly estimated, as defaulting countries have historically taken an average of 15 years to recover, due to difficulties in attracting foreign aid and foreign direct investment which are needed for development. The case in Sri Lanka may prove to be different, as the international community has largely responded positively to the nation's economic situation.

Growth Prospects

The Asian Development Bank (ADB) has forecast a GDP growth rate of 2.4% for Sri Lanka in 2022, which could marginally rise to 2.5% during the following year. This is grossly insufficient for any growth prospects in the near future.

GDP Growth

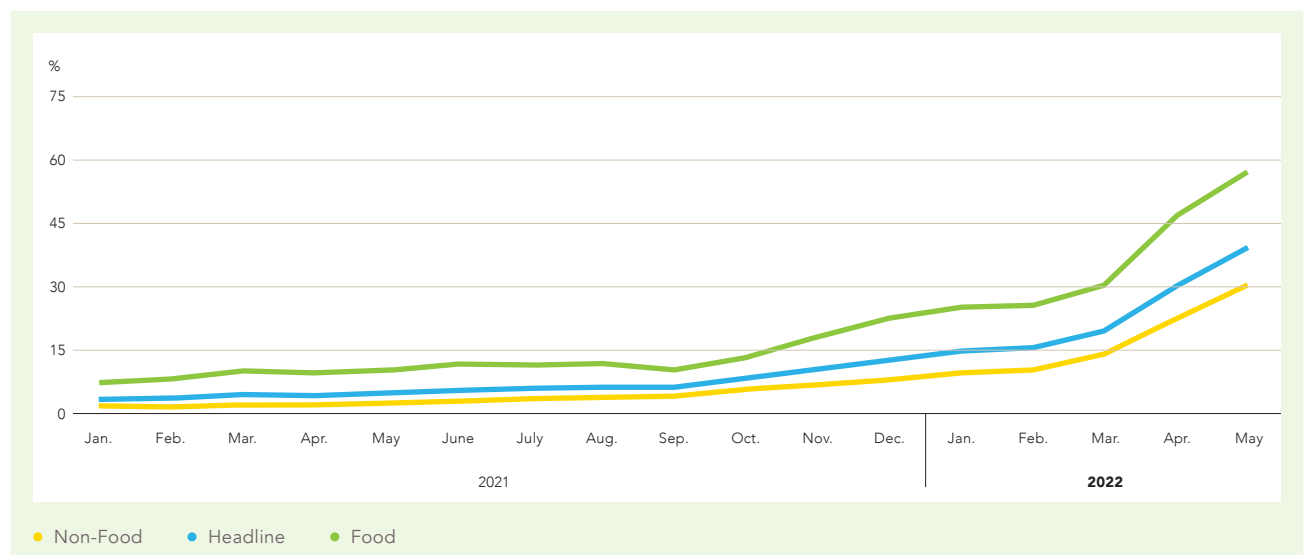


Source: ADB

Inflation

At the time of writing, Sri Lanka is experiencing exceptionally high levels of inflation as reflected in the movements of the Colombo Consumer Price Index (CCPI) given below:

Movement of CCPI Based Inflation (YoY % Change)



Source: Department of Census and Statistics

As we write, Sri Lanka is in uncharted territory with a confluence of events which is unprecedented. In terms of outlook for 2022 and beyond, headline inflation is around 40%, and is likely to rise further due to built-up aggregate demand, domestic supply disruptions, sharp depreciation of the Rupee by over 85% over the past few months, and increase in global commodity prices, and peak by mid-year. In order to pre-empt further inflationary pressures, the Central Bank of Sri Lanka increased the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) by 700 basis points each to 13.50% and 14.50% respectively, effective from the close of business on 8 April 2022. Besides the impact of a sharp rise in interest rate regime on lending rates and cost of funds of financial institutions, the ongoing economic meltdown, disruptions to power supply, political uncertainty and social unrest are bound to have serious implications on the country's growth prospects.

Banks and the NBFIs Sector

The developments in the global and Sri Lankan operating environment as detailed above are expected to exert severe pressure on the financial services sector in the coming year, as aptly elaborated in the following quote from a Fitch Ratings report in February 2022 with reference to banks.

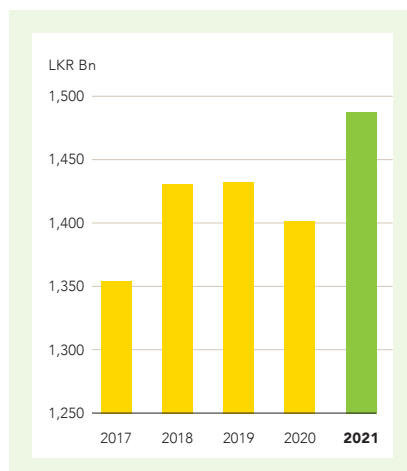
"Sri Lankan banks are likely to face continued asset-quality pressure in 2022 as rising macroeconomic stresses stemming from the sovereign credit profile pose a threat to borrowers' repayment capacity, alongside the conclusion of most relief measures in 2021". Credit costs are likely to remain high, although below 2021. We believe Sri Lankan banks face added asset-quality pressure from their government securities holdings, particularly those denominated in foreign currency"

Source: Fitch Ratings, Sri Lanka

Despite the challenging operating environment in the country as described earlier, based on the results published by the players in the Non-Bank Financial Institutions (NBFI)

sector for the nine months ended 31 December 2021, overall, the sector has performed well compared to the reported results for the financial year 2020/21, a trend that was observed across the banking sector as well for the year ended 31 December 2021.

Total Assets of the NBFIs Sector



Based on the figures published by the Central Bank of Sri Lanka, total assets of the NBFIs sector grew by 6.19% to LKR 1.49 Tn. as at end 2021. Loans and advances recorded a higher growth of 9.87% for the year while deposit growth was limited to 4.73%. Nevertheless, profit for the period of nine months ended 31 December 2021 recorded a substantial growth to LKR 34.4 Bn from LKR 8.5 Bn for the comparable period in 2020. The contributory factors were decreases in interest expenses, impairment provision and operating expenses coupled with savings on the lower income tax rate. Consequently, almost all the key financial soundness indicators improved during the year. Net interest margin, efficiency ratio, return on assets and return on equity improved reflecting the improved profitability. The sector managed to maintain liquidity too at satisfactory levels. Asset quality in terms of both gross and net non-performing advances to total advances as well as provision coverage recorded notable improvements. Stability of the sector in terms of capital adequacy ratios, borrowings to equity and capital funds to equity too improved notably.

Outlook

In terms of an outlook for 2022 and beyond, the prevailing economic, political and social situation will present enormous challenges to the Sri Lankan financial services industry. Unprecedented increase in policy interest rates on 8 April 2022, while welcomed by the depositors who earned negative real interest rates so far, will affect borrowing customers leading to rising default of loans and advances extended by financial institutions. Steep rise in interest rates can also exert pressure on net interest margins since a substantial portion of the assets of the NBFIs sector such as leasing is medium term while funding is essentially from short-term sources.

The Central Bank of Sri Lanka has since revoked the maximum interest rate that was applicable on microfinance loans in terms of the Finance Business Act Direction (maximum rate of interest on microfinance loans) No.10 of 2018 as well as the Finance Leasing Act Direction (maximum rate of interest on microfinance loans) No. 8 of 2018. The applicable interest rates were previously capped at 35% p.a. Revocation of this ceiling on rates will have a direct positive impact on our performance in the coming year.

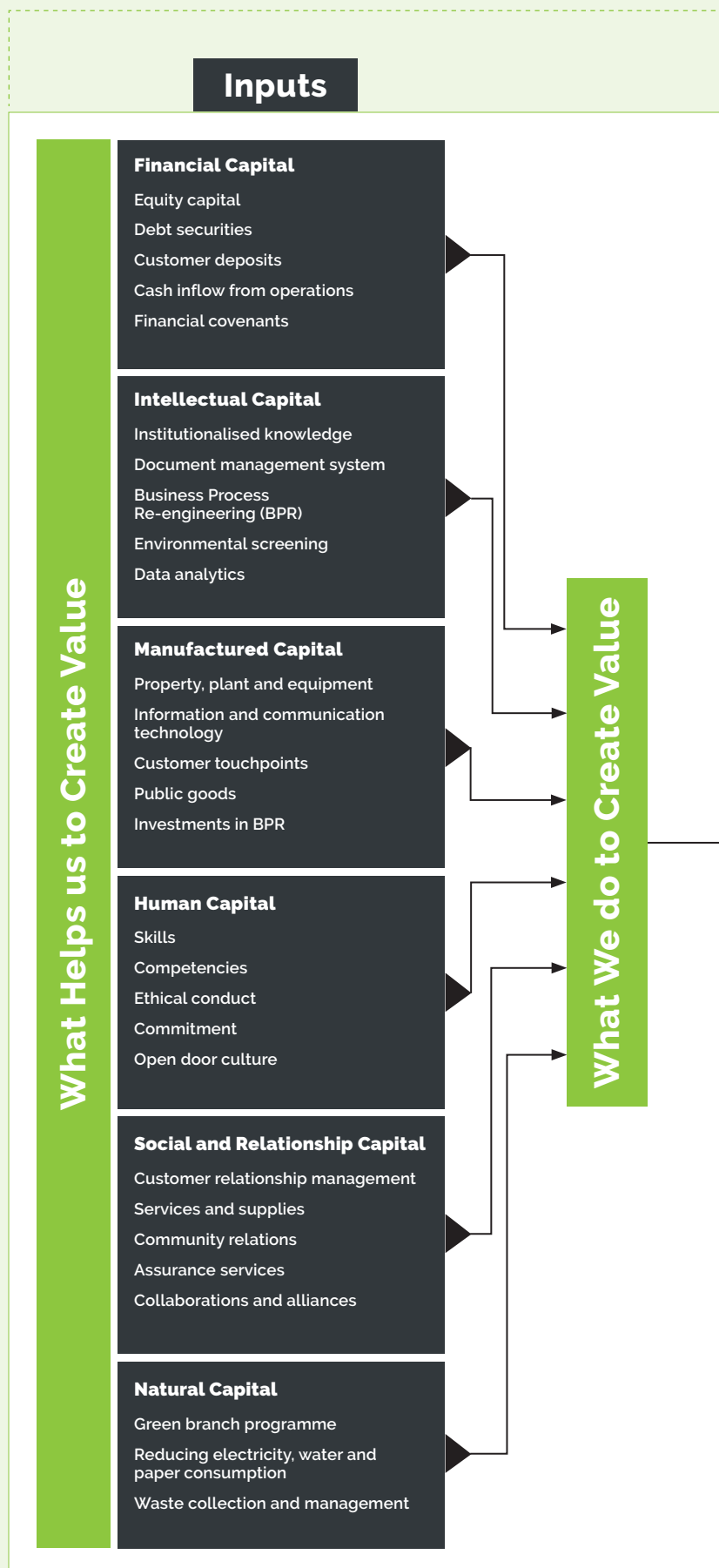
A World Bank report in April 2022 observed that, given certain structural sources of vulnerabilities, the Sri Lanka's economic outlook is highly uncertain due to the fiscal and external imbalances and stressed the importance of urgent policy measures needed to address the high levels of debt and debt service, reduce the fiscal deficit, restore external stability, and mitigate the adverse impacts on the poor and vulnerable, which requires reducing fiscal deficits especially through strengthening domestic revenue mobilisation restoring debt sustainability.

The overall performance of the Sri Lankan economy is expected to be beset with numerous challenges over the next few years and the financial sector should be well-prepared to face potential stresses on profitability, liquidity and capital.



Business Model to Create Value Profitably and Sustainably

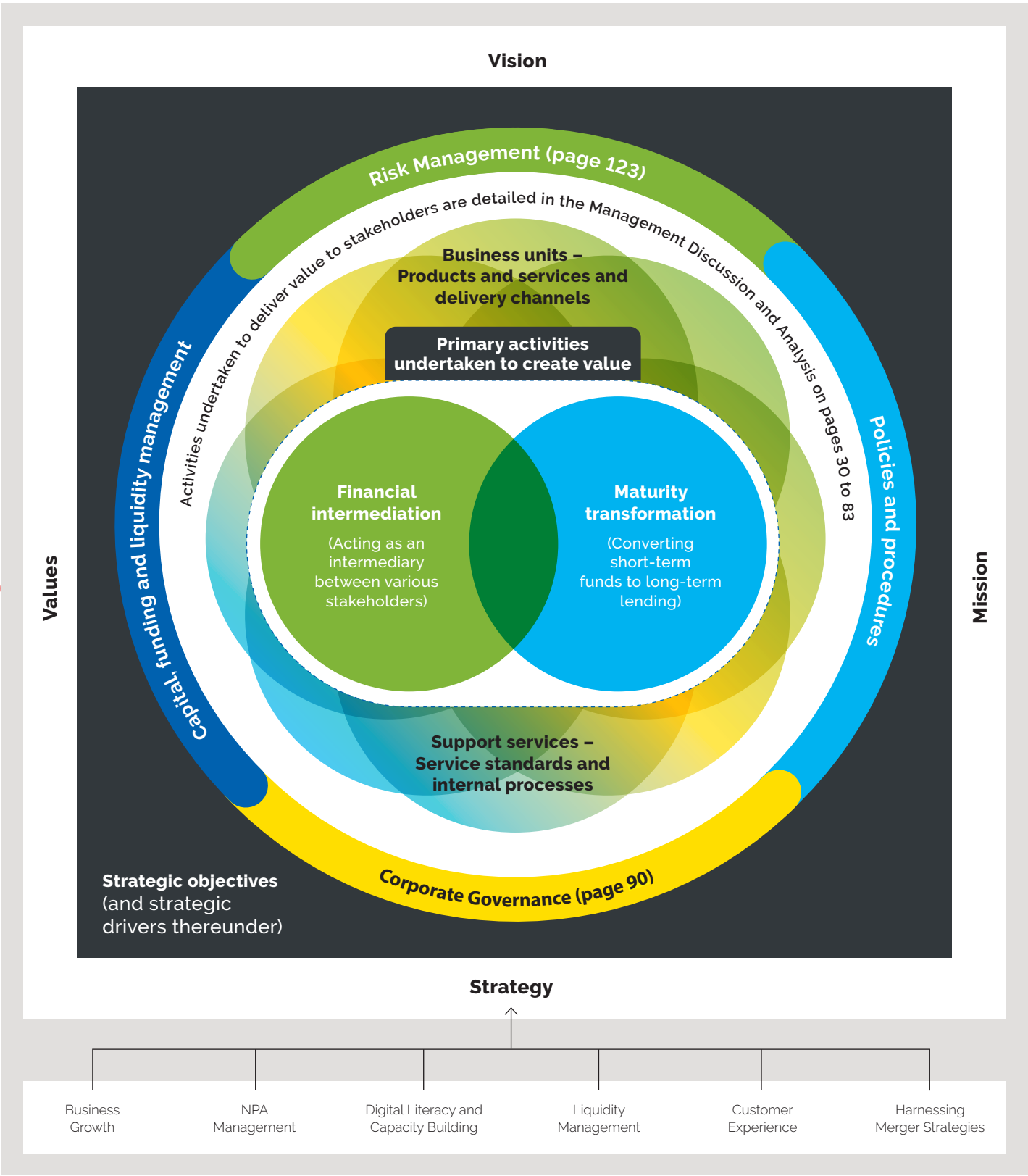
HNBF's business model encapsulates our core strategy for profitably engaging in business, and includes the activities undertaken to create value, as well as support services, service standards and internal processes. This provides an overview of our primary activities as a finance company: Financial Intermediation and Maturity Transformation. This model is updated regularly to reflect the changing business landscape, in addition to helping us to anticipate trends and overcome challenges that lie ahead.



Activities

Outputs

Outcomes



A Diversified Products and Services Portfolio Offered

Lending products

Microfinance segment

- *Diriya*
- *Sahana*
- *Swashakthi*

Gold products

- Gold Loans
- Gold Plan
- Gold VIP

Business loans

- Easy Loan
- *Saviya*
- Relax
- *Nivahana*
- Supply chain

Leasing

- Auto leasing
- Micro leasing

Deposit products

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

Real estate

- Financing for lands, housing units and condominiums

Services

- Financial advice

Financial Capital

Profitable growth
Optimising shareholder returns
Well-capitalised, funded and liquid
Optimum risk-return trade-off
Well-governed and fully compliant with all laws and regulations

Intellectual Capital

Enhanced brand equity
Customer privacy
Cutting-edge software and applications
Integrity
Compliance
Awards and accolades

Manufactured Capital

Digital prowess
Modern ITC infrastructure
Omnichannel presence
Expanding branch network
Innovation
Enhanced capacity
Productivity improvements

Human Capital

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

Social and Relationship Capital

Customer experience, convenience and simplicity
Improving financial literacy among customers
Financial inclusion and women empowerment
Strong supplier relationships and collaborations
"Social license" to operate
CSR and empowering communities

Natural Capital

Responsible lending
Green processes and facilities
Sustainable consumption
Energy conservation
Environmental consciousness among staff, customers and communities

Results of our Outputs



Business Model



Financial Capital

A Turnaround in Financial Performance Despite the Challenging Environment

An Overview

Reflecting a turnaround and demonstrating stability, resilience and growth prospects, HNB Finance PLC managed to report a solid performance for the financial year under review, a performance that is exceptional when compared to the loss reported for the previous financial year and the highly volatile operating environment. The Company reported a profit for the year of LKR 417.80 Mn compared to the loss of LKR 123.61 Mn reported in 2020/21. Factors that contributed to this performance included a significant improvement in asset quality, growth in new business, timely repricing of products, maintaining optimal funding mix and successful cost optimisation. With the post-acquisition contribution from Prime Finance PLC, the Group (comprising the Company and Prime Finance PLC) reported a profit for the year of LKR 515.62 Mn Compared to the previous year, the Company witnessed a demand for new loans across all market segments which enabled the Company to relend the cash inflows from maturing short tenure loans. However, the operating environment continued to be highly volatile with the COVID-19 re-emerging in waves, leading to sporadic lockdowns and curfews affecting the lives and livelihoods of Sri Lankans. The lowest strata of the society and the SME

sector, which are our primary market segments for our lending products bore the brunt of these disturbances. In addition, various measures taken by the Government to maintain macroeconomic stability in the wake of a severe foreign currency liquidity constraint and the pandemic, such as restrictions on imports (vehicles in particular), moratoriums and related concessions etc., too affected our business.

The Company continued to take measures to balance its market segments and diversify the product portfolio by increasing its exposure to long tenure and secured products such as leasing and Gold Loans, which has reduced the proportionate exposure to microfinance lending further. The acquisition of Prime Finance during the year is of special relevance in this regard since it has given us access to a new market segment, and a captive business in real estate, which has widened our product portfolio.

Having returned to making profits in the fourth quarter of the previous year, the Company continued to improve on its profitability quarter on quarter during the year under review as seen in the quarterly performance reported to the Colombo Stock Exchange, given on page 248 of the Annual Report.

The financial review given below will have to be read in the context of the operating environment detailed on page 25. This review is based on a comparison of financial statements of the Company for 2021/22 and 2020/21. Reference has also been made to the Group financial statements prepared for the first time for the year ended 31 March 2022 which includes the contribution from Prime Finance PLC which was acquired on 31 December 2021 (which has since been merged with HNB Finance in May 2022).

A Summary of KPIs

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

Indicator	Group	Company		Variance %
	As at 31 March 2022/ For the year 2021/22	As at 31 March 2022/ For the year 2021/22	As at 31 March 2021/ For the year 2020/21	
Shareholders' funds (LKR Mn)	5,619	5,473	4,895	11.81
Customer deposits (LKR Mn)	34,703	31,593	28,047	12.64
Net cash flow (LKR Mn)	(917)	(491)	(857)	(42.71)
Risk weighted capital ratio (%) – Tier I	9.62	9.62	9.94	–
– Tier I & II	12.16	12.16	14.12	–
Interest earning assets/total assets (%)	99.33	93.47	98.92	(16.81)
Debt/Equity (Times)	7.29	6.72	6.51	3.23
Earnings per share (LKR)	0.30	0.24	(0.07)	442.86
Return on assets (%)	1.11	1.06	(0.33)	421.21
Return on equity (%)	9.18	8.06	(2.50)	422.40

Net Interest Income (NII)

Interest income of the Company for the year under review decreased marginally by 2.10% to LKR 6.34 Bn from LKR 6.48 Bn in 2020/21, which can primarily be attributed to a decrease in the average rate of interest on the average interest earning assets by 103 bps to 16.72% during the year under

review which more than offset the benefit of a significant increase in the average interest earning assets to LKR 37,922 Mn from LKR 36,481 Mn in 2020/21 and a substantial improvement in asset quality. Company recorded a notable growth in the total lending portfolio during the year. Contribution from high yielding, short tenure products such as micro

loans returned to pre-pandemic levels. These positive developments enabled the Company to manage liquidity at an optimum level. Consequently, net interest margin improved to 9.73% from 8.11% in 2020/21. With the post-acquisition contribution from Prime Finance PLC, the interest income of the Group for the year was LKR 6.63 Bn.

Product-wise Composition of the Lending Portfolio

Product	2021/22 LKR Mn	2020/21 LKR Mn	2019/20 LKR Mn	2018/19 LKR Mn	2017/18 LKR Mn
Microfinance	13,736	12,641	12,147	12,715	11,047
Business loans	7,881	6,928	6,435	5,451	3,437
Leasing	11,651	10,830	10,406	8,445	4,518
Gold Loans	2,604	1,650	1,081	78	–
Other loans	718	775	1,003	1,143	1,025
Total	36,589	32,824	31,071	27,832	20,028

Net Interest Income (NII)



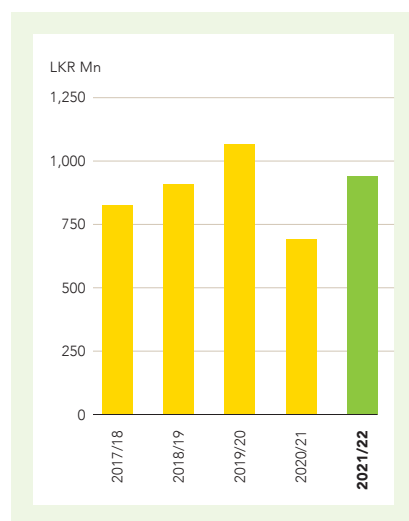
In comparison to the marginal decrease in interest income, interest expense of the Company for the year declined substantially by LKR 0.87 Bn or 24.66% to LKR 2.65 Bn which can primarily be attributed to the success of managing excess liquidity. Due to lower growth in assets as well as a conscious decision to hold excess liquidity during the previous year, the Company started the current financial year with over LKR 4 Bn in low yielding liquid assets for which the Company was incurring a substantial funding cost. However, with the gradual growth of the lending portfolio and also by maintaining interest rates on fixed deposits somewhat below the ceiling rates on the strength of our brand image and that of our parent, the Company was able to optimise the funding mix. The Company maintained approved limits in excess of LKR 6 Bn with banks and other financial institutions which was available for draw down in case of a liquidity shortfall. As a result of these initiatives, the impact of the significant increase in the average interest bearing liabilities to LKR 31,861 Mn from LKR 30,120 Mn during the year was more than offset by a decrease in the average rate of interest thereon by 336 bps to 8.33%. Group interest expense for the year was LKR 2.73 Bn.

Consequently, net interest income of the Company for the year under review increased by LKR 0.73 Bn or 24.77% to LKR 3.69 Bn. Yet, as a result of a substantial increase in other operating income, the contribution from NII to the total operating income of the Company declined to 80% from 83% in 2020/21. Net interest income of the Group for the year under review was LKR 3.90 Bn.

Non-Interest Income

Net fee and commission income of the Company increased only by 5.21% during the year under review. This was as a result of the fee and commission income increasing by 10.84% but fee and commission expenses increasing by a higher 34.56%. Other operating income recorded a substantial growth of 173.82% to LKR 508.25 Mn during the year due to increase in new business volumes, recovery of loans written off and revaluation of investment properties. Consequently, total non-interest income grew to LKR 935.94 Mn for the year from LKR 592.13 Mn in 2020/21, recording a growth of 58.06%, accounting for 20% (17% in 2020/21) of the total operating income. This coupled with real estate income from Prime Finance, the Group reported LKR 1,026.07 Mn in other operating income and LKR 4,929.95 Mn in total operating income.

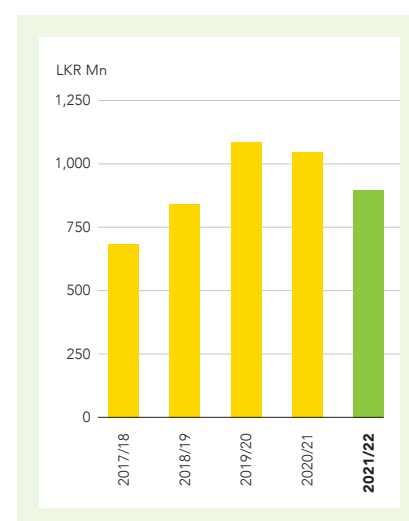
Non-Interest Income



Impairment Charges

Impairment charges of the Company for the year amounted to LKR 0.90 Bn, reflecting a decline compared to LKR 1.05 Bn provided in the previous year. Heightened recovery efforts were successful in bringing down the non-performing loans to 11.51% as at March 2022 from 17.68% as at March 2021, reflecting a remarkable improvement in asset quality. As a result, impairment provision required purely based on ECL models came down drastically. However, taking into account the fact that the Expected Credit Loss models may not be fully capturing the impact of prevailing unprecedented volatile market conditions. As a prudent measure, the Company made additional provisions based on management overlays on account of exposures to transportation and tourism sectors identified as risk elevated industries, loans that went under moratorium by notionally moving a stage forward only for impairment provision computation and also taking the existing economic conditions into account. Accordingly, impairment provision for the year comprises LKR 899 Mn arising out of the ECL model and LKR 390 Mn on account of management overlays. With the impairment provision for the exposures of Prime Finance PLC, the impairment charge of the Group for the year was LKR 0.99 Bn.

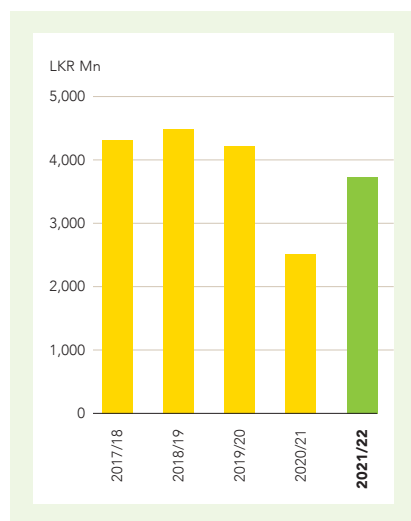
Impairment Charges



Net Operating Income

Reflecting the increase in both the net interest income and the non-interest income and the decrease in impairment charges, the net operating income of the Company increased by LKR 1.22 Bn or 48.80% to LKR 3.7 Bn for the year. The net operating income of the Group was LKR 3.94 Bn for the year.

Net Operating Income



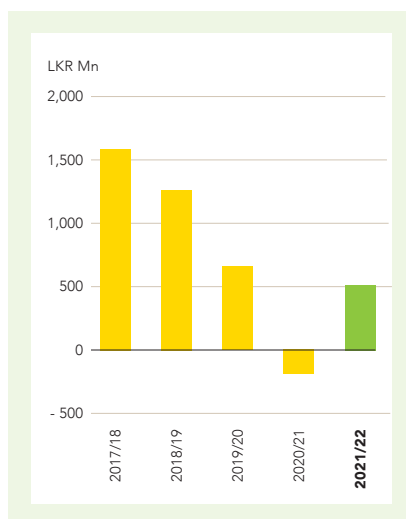
Operating Expenses

Total operating expenses of the Company for the year increased by LKR 365 Mn or 14.15% compared to the previous year. Both personnel expenses and other expenses contributed to this increase due to inflationary pressures during the year and the relatively lower base in 2020/21 as a result of non-payment of bonuses to the staff and curtailment of some discretionary expenses. The increase would have been even higher if not for the cost savings of LKR 274 Mn secured through Business Process Re-engineering Department led initiatives (Refer section on Business Process Re-engineering for more details on page 78). The higher increase in total operating income than the increase in operating expenses led to an improvement in the cost to income ratio to 63.64% from 72.65% in 2020/21. Total operating expenses of the Group was LKR 3.05 Bn with a cost to income ratio of 61.79%.

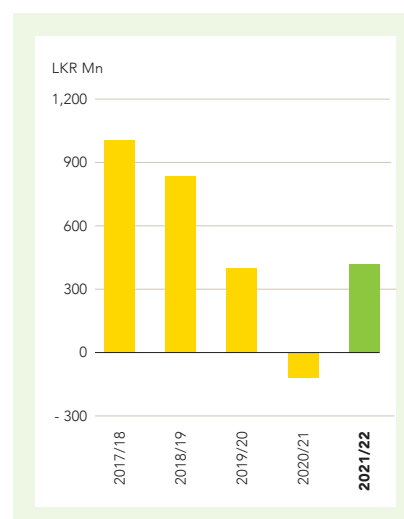
Profit Before and After Taxes

Consequent to the substantial increase in net operating income and the relatively lower increase in operating expenses as detailed above, the Company recorded a turnaround in performance with a profit before income tax of LKR 509.18 Mn for the year in comparison to the loss before income tax of LKR 196.31 Mn reported for the 2020/21 financial year: a growth of 359.38%. Permission to claim the cost of acquisition of Prime Finance PLC as a tax deductible expense over a period of three years helped the Company contain the income tax charge, leading to a lower effective income tax rate. Profit after tax for the year increased by 437.99% to LKR 417.79 Mn, a significant improvement from the loss after tax of LKR 123.61 Mn reported in the previous year. Group profit before tax and after tax for the year were LKR 615.91 Mn and LKR 515.62 Mn respectively.

Profit Before Tax



Profit After Tax

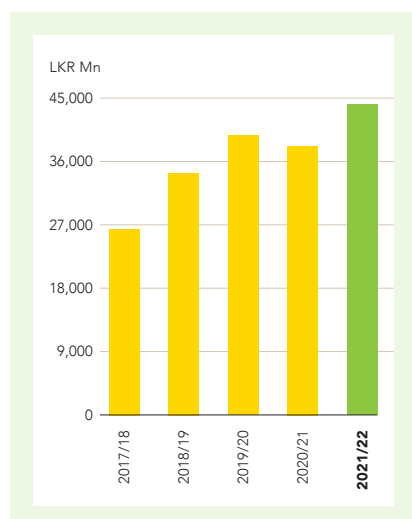


Total Assets

Company recorded a growth of 14.94% in net loans and advances during the year which stood at LKR 32.06 Bn as at 31 March 2022 compared to LKR 28.78 Bn as at the previous year end. All four major product categories, viz. microfinancing, leasing, business loans and Gold Loans contributed to this growth. Company managed to record highest ever disbursement in leasing during the year. Gold Loan stock grew by LKR 953.59 Mn or 56.66% during the year.

Growth in loans and advances coupled with the revaluation gains on property, plant and equipment and the investment in subsidiary caused the total assets to increase by 14.94% to LKR 42.25 Bn as at 31 March 2022. Reflecting the consolidation of assets of Prime Finance, loans and advances in particular, total assets of the Group was LKR 46.56 Bn as at 31 March 2022, a 26.67% growth when compared to the total assets of the Company as at 31 March 2021.

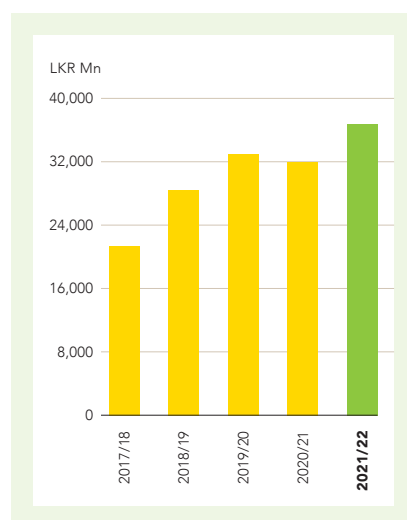
Total Assets



Total Liabilities

Total liabilities increased by 15.42% to LKR 36.78 Bn as at 31 March 2022, primarily contributed by a growth in deposits of 12.64%. Fixed deposits recorded a growth of 13.28% while savings deposits grew only by 7.56% during the year resulting in a slight drop in the CASA ratio to 11.89% from 12.53% a year ago. Total liabilities of the Group as at 31 March 2022 was LKR 40.94 Bn.

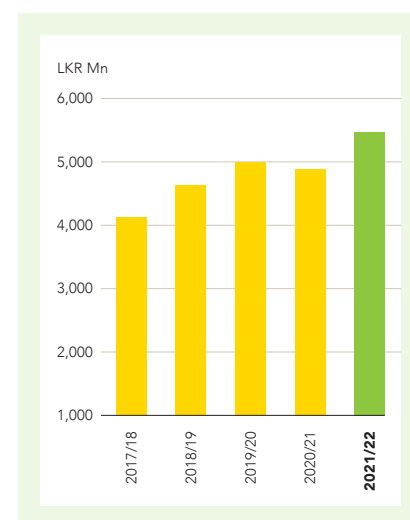
Total Liabilities



Net Assets

The profit for the year and the revaluation surplus from property, plant and equipment contributed to grow the net assets of the Company from LKR 4.89 Bn as at 31 March 2021 to LKR 5.47 Bn as at 31 March 2022. Consequently, the net assets value per share increased from LKR 2.85 to LKR 3.18 as at 31 March 2022. With the post-acquisition contribution from Prime Finance PLC, the net assets of the Group as at 31 March 2022 was LKR 5.62 Bn.

Net Assets



Statement of Value Added

	2021/22 LKR Mn	2020/21 LKR Mn	2019/20 LKR Mn	2018/19 LKR Mn	2017/18 LKR Mn
Direct economic value generated					
Interest income	6,342	6,478	8,106	7,229	6,538
Fee and commission income	558	503	845	778	702
Other operating income	508	186	220	285	242
Value generated	7,278	7,167	9,171	8,292	7,483
Value distributed	6,860	7,194	8,770	7,378	6,916
Employee wages and benefits					
Salaries and other benefits	1,349	1,123	1,337	1,236	1,108
Community investments					
CSR projects	-	-	1	2	2
Donations	-	-	-	-	-
Payments to providers of capital					
Dividends	-	-	-	-	327
Interest to deposit holders	2,395	3,184	3,257	2,454	2,223
Interest on borrowings	258	338	463	348	150
Payments to Government					
Income tax (reversal)/expense	91	(73)	264	431	571
VAT and NBT expense	274	122	292	408	445
Other taxes and levies (reversal)/expense	-	(9)	176	104	11
Operating costs					
Depreciation and amortisation	212	214	214	182	165
Impairment for loans and other losses	899	1,045	1,086	843	685
Other operating costs	1,383	1,241	1,526	1,310	1,003
Economic value retained	418	(27)	401	914	567

Capital Adequacy/ Capital Management

HNB Finance accords 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, promoting securitised, capital friendly assets, monitoring on-balance sheet gearing levels, timely pricing of products and services, maintaining a dividend policy, continuous engagement with investors and maintaining access to a range of capital instruments.

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

Acquisition of Prime Finance PLC in December 2021 exerted pressure on the capital adequacy ratios of the Company as at the current year end compared to previous year end as evident from the summarised data relating to risk weighted assets and capital tabulated below. However, as part of the terms and conditions relating to the acquisition, the Central Bank has given certain interim relief measures and a timeline of three years to rebuild the capital to the enhanced minimum requirements that are going to be effective with effect from 1 July 2022. The Company is in the process of developing a capital augmentation plan which will be submitted to the Central Bank for approval and is committed to ensure building the capital buffers to comfortable levels as per the said plan.

	As at 31 March 2022	As at 31 March 2021
Risk weighted assets (LKR Mn)	41,534.03	38,827.69
Core capital (LKR Mn)	3,994.14	3,858.30
Core capital adequacy ratio (%) (minimum requirement 7.0%)	9.62	9.94
Total capital (LKR Mn)	5,050.78	5,482.96
Total capital adequacy ratio (%) (minimum requirement 11.0%)	12.16	14.12
On balance sheet gearing (times)	6.72	6.51

The fact that HNB Finance has a loyal base of shareholders who take a long-term view of their investment in the Company and are ever willing to be supportive in times when additional capital is required, organic as well as inorganic growth is an enormous strength in this regard.

Funding and Liquidity Management

Liquidity being the lifeblood of any organisation, it is as important, if not more, as capital for a financial institution for ensuring its stability and in maintaining public trust thereon. Therefore, 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. As a policy, the Company never compromises on liquidity in order to generate returns to investors.

The Assets and Liabilities Committee (ALCO) that is responsible for ensuring the availability of funding and liquidity requirements of the Company meets on a monthly basis, or more frequently if the circumstances so require, and closely monitors the current and future funding and liquidity requirements, pricing of products and service and deliberates extensively on various macroeconomic developments such as market liquidity, current and perceived interest rates, changes in policy rates, regulatory directions, projected credit growth and facilities in the pipeline, capital market developments, capital expenditure commitments, contingency funding arrangements, stress testing results etc. which are likely to affect liquidity.

Deposits and borrowings 74.78% and 6.88% respectively, of the total assets of the Company as at 31 March 2022. 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

As referred to earlier in this review, the Company paid considerable attention to managing liquidity during the year. The initiatives taken enabled the Company to maintain liquidity at optimal levels and to minimise the related cost of funds with a positive impact on profitability.

Financial Soundness Indicators

Financial soundness indicator (%)	2021/22	2020/21	2019/20	2018/19	2017/18
Capital adequacy:					
Tier 1 capital ratio	9.62	9.94	10.16	8.34	15.71
Total capital ratio	12.16	14.12	14.02	10.09	15.63
Asset quality:					
Gross NPL ratio	11.51	17.68	12.25	8.85	3.79
Earnings and profitability:					
Net interest income to total operating income	79.77	83.31	82.91	82.96	83.48
Net interest margin	9.73	8.10	13.85	17.35	21.42
Operating expenses to gross income	39.73	35.98	33.56	32.90	30.42
Impairment charge to total operating income	19.43	29.45	20.52	15.79	13.74
Return on assets	1.06	(0.33)	1.12	2.85	4.51
Return on equity	8.06	(2.50)	8.21	18.96	26.91
Cost to income ratio	63.64	72.65	58.16	51.12	46.76
Liquidity:					
CASA ratio	11.89	12.53	9.87	13.08	14.39
Gross loans to deposits ratio	113.68	115.50	114.16	122.59	105.56
Assets and funding structure:					
Deposits to total assets	74.78	76.31	72.55	68.73	74.28
Borrowings to total assets	6.88	7.17	10.07	12.81	4.65
Equity to total assets	12.95	13.32	13.18	14.06	16.30
Deposits to gross loans	87.97	86.58	87.60	88.86	98.83

AN OVERVIEW OF
THE COMPANY

PERFORMANCE
REVIEW

OPERATING
ENVIRONMENT

BUSINESS MODEL

MANAGEMENT DISCUSSION
AND ANALYSIS

GOVERNANCE

FINANCIAL
REPORTS

SUPPLEMENTARY
INFORMATION



Intellectual Capital

HNB Finance PLC
Annual Report 2021/22

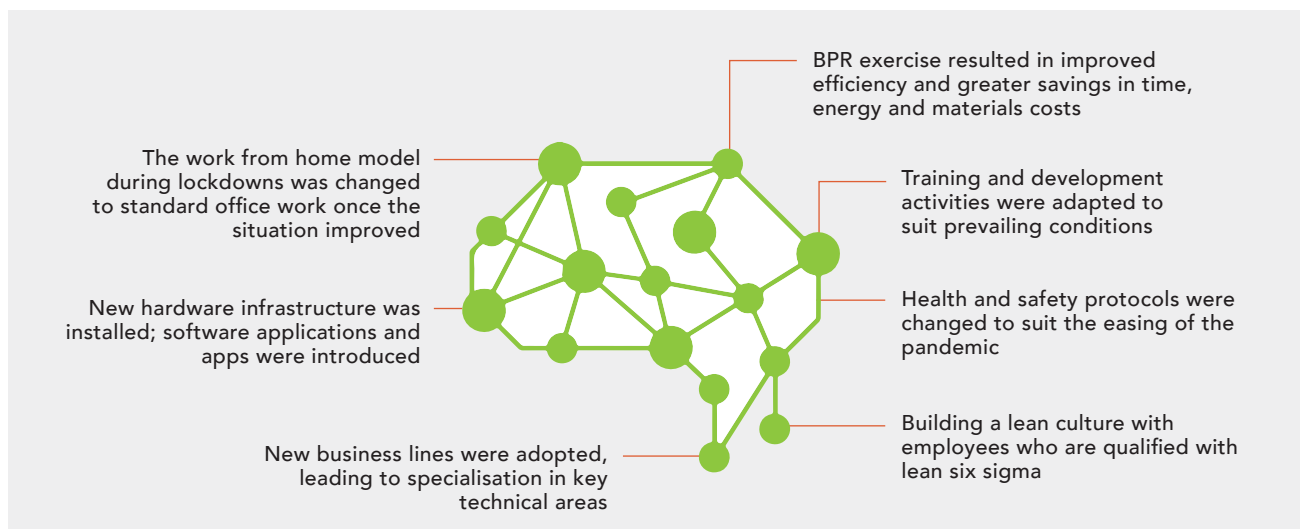
Intellectual Capital refers to the organisational, knowledge-based intangibles, including: intellectual property such as patents, copyrights, software, rights and licences, in addition to tacit knowledge, systems, procedures and protocols.

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

Intellectual Capital Base in a Nutshell



Activities Undertaken to Enhance Intellectual Capital



Awards and Accolades



In today's challenging business environment, intellectual capital stands out as an intangible value driver which encompasses all knowledge, information, and resources that a company uses to acquire customers, develop new products and services, streamline processes and service standards, which have the combined effect of leading to improvements in its overall business performance. At HNB Finance PLC, we have been passionate about our pursuit of intellectual capital, as we strive to improve its quality and applicability across all aspects of our Organisation, regarding it as a critical contributor towards the economic success and the value creation process of our Organisation.

Strengthening the Brand

The HNB Finance PLC brand continues to be our foremost intangible asset, growing in strength through the

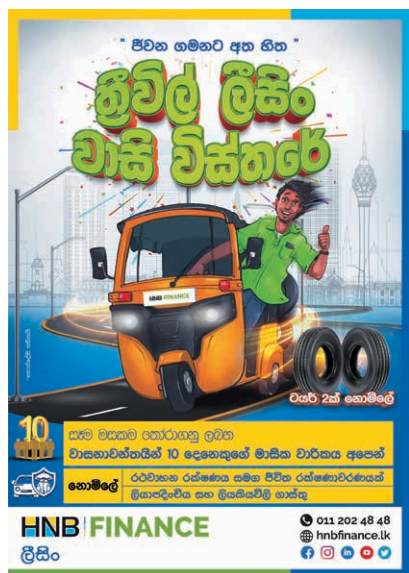
Company's organic growth based on a judiciously formulated strategy, and is likely to assume greater significance following the merger with Prime Finance. This will help us achieve further inroads into untapped market segments and regions, while combining their strengths and resources with our own specialised knowledge. Being a subsidiary of HNB continues to yield synergistic benefits, as they provide us with new business opportunities in small loans and micro-leasing, in addition to sales leads derived from their promotional campaigns.

Brand-building during the Pandemic

The widely-held belief that the pandemic has accelerated digital adoption by five years is especially true of social media marketing. Not only has it become more widespread in its acceptance, social

media and digital channels have emerged as our principal source of brand-building and lead-generation, with such leads being conveyed to the Marketing Executives who work on converting them into actual customers. Though the marketing and promotion budget was reduced considerably, we were able to engage in campaigns focusing mainly on digital media, followed by Below the Line (BTL) activities, and Above the Line (ATL) advertising, to a lesser extent.

- **Digital:** Email, SMS marketing, Google Ads, SEO, and lead generation activities resulting in a substantial number of leads every month
- **Social Media:** Facebook campaigns on customer success stories, engagement activities for Avurudu, Children's Day, Cricket World Cup, and Christmas
- **BTL:** Dealer branding, branch branding, activations for all products, including leasing and Gold Loans
- **ATL:** Auto Loan, Gold Plan and 3-Wheel Leasing



Social media marketing will remain among our topmost lead-generation tools in the years ahead. We are also enhancing our digital transformation to capture the synergies arising out of HNB's highly developed digital infrastructure and financial capabilities.

Our efforts in building the HNB brand has earned us recognition as being among:

- 50 most valuable brands in Sri Lanka with a brand value of LKR 1,819 Mn – Compiled by LMD and Brand Finance
- AA- Brand Rating by Brand Finance

This is the first time that HNB has entered this prestigious list, ranking us among the top corporate entities in Sri Lanka.

Business Process Re-engineering (BPR)

During the year under review, we continued our comprehensive engagement in Business Process Re-engineering with a view to achieving further far-reaching improvements in critical aspects such as cost optimisation, quality, efficiency, customer service, flexibility and digitalisation. This did not merely involve the automation of existing processes, but a complete redesign which reduced several steps in certain processes. Our BPR objective was to make the entire Organisation more agile and responsive to the ever-changing needs of customers and the business environment. This includes fostering a

company-wide "Lean" culture. A more comprehensive discussion on how BPR facilitated improvements in critical aspects during the reporting period is provided on pages 78 to 83.

Business Systems Development (BSD)

In close collaboration with the ICT team, the Business Systems Development (BSD) team has been engaged in applications support, and also working with vendors and handling deliverables, along with testing and deploying new product developments, and carrying out allied functions.

The BSD Division is focused on systems modifications according to change requests made by the Business Departments, policy changes and CBSL instructions with regard to Customer Response Application (CRA). The BSD Division acts as a facilitator between the Company and the vendors, analysing and assessing business needs, testing and deploying the products in the live environment, and carrying out the required training for staff members based on change requests and changing needs.

New Product Development

The BSD Division was involved in deploying a Gold Loan product named, "Dream Loan", a highly differentiated product, in addition to products in the leasing and the loan portfolios. The Division is also involved in the development of a few other products which could be deployed towards the end of the financial year, including mobile banking, which will be a significant milestone in the Company's onward journey. The Call Centre is in the process of being upgraded to support some of the new products being launched, in addition to making it more agile and responsive to emerging needs of the business environment, in keeping with our go-to-market strategy for new product offerings.

Achieving Key Performance Indicators (KPI)

- **Customers** - During the year under review, we commenced surveys to evaluate Net Promoter Score (NPS) and Customer Satisfaction (C-Sat) scores, concentrating on our leasing product customers at the initial stages. NPS improved to 71% by the year end from 55% at the beginning of the year, compared to the industry average of 35%. Similarly, C-Sat score too improved to 90% by the year end from 85% at the beginning of the year, compared to the industry average of 78%. This will be extended to encompass all products during the course of next year.
- **Leasing** – Each department in the Organisation has been assigned relevant KPIs, which they are expected to achieve. Our processes are monitored by the Business Process Re-engineering Unit, in order to make further improvements.
- **Credit/Risk Rating** - Our future plans include the introduction of risk-rating at the branch level, which would enable our marketing executives to make quick decisions regarding the granting of loan facilities. Such decisions could be made and conveyed to the customer, subject to subsequent examination of the relevant documents, which would help build customer confidence. This feature would be initially introduced for our leasing and micro-leasing products.

Future Plans

Deposit mobilisation is likely to receive a further boost, as we augment our offering with internet and mobile banking facilities, in addition to the envisaged signing up with VISA and MasterCard. We are in the process of converting the current ATM card used by customers to a debit card, adding more value and convenience to the primary transaction accounts of our customers. This will enable Prime Finance customers too to access our vastly superior service offering such as ATMs, SMS alerts, set transfer facilities and e-statements.

Institutional Knowledge

HNB Finance has pools of specialists under its separate dedicated departments. This covers virtually all aspects of our operations, resulting in vastly improved performance, as well as a significant contribution towards our intellectual capital. These are dealt with in detail below.

Business Continuity Planning

We have made considerable progress with Business Continuity Planning (BCP) in order to establish risk management processes and procedures that will prevent or minimise interruptions to mission-critical services. This includes keeping essential functions up and running during a disaster, and to recover with as little downtime as possible.

Disaster Recovery

We were also able to perform a full Disaster Recovery (DR) drill, by carrying out operations from the DR site. This was to give an assurance to the Board that we had conducted a true DR drill covering all critical and non-critical functions, and that we can guarantee resumption of operations within two hours, in the event of a catastrophic shut-down. This is well above the minimum one day time frame stipulated by the CBSL for the DR drill, which is a remarkable achievement for HNB Finance PLC.

Cybersecurity

We have strengthened our cybersecurity processes based on internal and external audits, as well as inputs from HNB. We have also appointed an external consultant to review our IT infrastructure, especially in terms of security, and also provide recommendations for the internal and external audit findings and observations. As per a Board recommendation, we are in the process of drawing up a three-year road map for strengthening the cybersecurity infrastructure, incorporating recommendations of the external consultant.

Based on the recommendations of the audit findings, we have strengthened our documentation and the processes in line with the ISO 27001 and Information Technology Infrastructure Library (ITIL) compliant operations, and we intend achieving ISO 27001 standard for the ICT and BSD Departments by 2026. As a result, we have revised our Information Systems Security Policy (ISSP), which include 29 sub-policies, to align them with the ISO 27001 requirements. The remaining infrastructure, policies and procedures will also be aligned with these requirements.

Data Security

Data security at HNB Finance PLC is implemented through the Information or Data Leakage Prevention (DLP) solution and the Privileged Access Management (PAM) system in place. These are monitored by the internal audit and operations departments, and reported to the Risk Management Department. Data Loss Prevention (DLP) is also monitored internally, and reported to the Risk Management Department. The Management and the Board are fully focused on strengthening this area further on an ongoing basis, and every effort is being made to achieve the required milestones in the three-year plan, according to schedule.

Systems and Process Improvements

A series of systems and software improvements were undertaken to enhance the efficiency of the Organisation across many fronts. These include:

- **Workflow Process** – One of the planned initiatives is to reduce or even eliminate the dependence on manual process, paper, and switch to the workflow process. All changes to processes are being closely monitored for making improvements where necessary, finding and correcting the root cause of delays, and determining the viability of the process.

- **Emerging Technologies** – We have also initiated moves to incorporate predictive analysis using historical data. We are in the process of integrating such technologies into existing loan and deposit products to help the Management in their decision-making. We are also in the process of deploying a fully-fledged data warehouse.
- **Multichannel Payments** – To further improve our recoveries function, we have enabled customers to make payments through multiple channels such as standing orders, cheque payment, eZCash, mCash, or visiting a branch for cash payment.
- **Screening Customers** – We have implemented Anti-Money Laundering (AML) solution by Infracore Technologies – India, since the screening of customers is the foremost risk faced by the Company from the standpoint of money laundering. This system works in real-time in conjunction with the core system, which confers a tremendous advantage, in terms of AML/CFT. HNB Finance PLC has the distinction of being among the earliest Licenced Finance Companies (LFC) to implement AML screening.
- **Monitoring Transactions** – We have also started transaction monitoring, which works in parallel with the core system, thereby expanding the role of compliance. We have in place a Transaction Monitoring System which provides regular alerts on all types of suspicious transactions, ranging from lending and deposits, to interest payments, covering 25 possible scenarios.
- **Customer Relationship Management (CRM)** – As we increase our share of voice in marketing communications, our CRM system is being upgraded to capture the data arising from the responses to our social media campaigns and other marketing activities. Combined with developments in our customer-facing digital channels, this will enable us to segment our current and potential client base more precisely, and present our various offers in a targeted manner.

- **Document Management System (DMS)** – The introduction of the Document Management System (DMS) has led to profound and far-reaching changes in our work processes. DMS has replaced the manual processes formerly in place, vastly improving the tracking of documentation and the decision-making process, in addition to moving towards a paperless working environment. In the case of leasing, we have achieved this to a considerable extent by shifting to the DMS.
- **Remote Auditing** – Due to the pandemic-induced lockdowns, we were compelled to engage in remote auditing, which was carried out by examining documents through the DMS, as well as the use of the Continuous Auditing and Continuous Monitoring (CACM) software, which generates a number of reports. This process had its limitations, as certain audit functions such as cash counts could not be conducted remotely. Despite such issues, we were able to complete the auditing functions to the maximum possible extent, given the circumstances. Once the travel restrictions were lifted, we began to work towards completing the remaining tasks, including branch visits. IT audit function comes under the Internal Audit Department.

New Product Development

A new product development policy has been formulated, and approved by the Board. All new products and changes to existing products are reported to the Board Credit Committee.

We are in the process of introducing MoneyGram, and have received the required clearance from the Central Bank of Sri Lanka (CBSL). This product will be introduced to the market during the course of this year. We have already introduced the E-Signature solution from DocuSign, which securely associates the signatory with a document in a recorded transaction, in addition to having high levels of security and acceptance. This also results in considerable savings in time, and resources such as printed material.

New products introduced during the year include VIP Gold Loan for high-end customers who obtain more than LKR 1 Mn in Gold Loan facilities, and Gold Plan which enables customers to purchase gold on an instalment basis, in anticipation of a future event where gold will be required, such as weddings and birthdays, for instance.

New products are developed, based on market research, competitor analysis, product differentiation and testing, in order to achieve a competitive advantage in the market. Once the product is launched, we track all required KPIs pertaining to market performance and customer sentiment, and refine the product further, until it reaches the desired level of acceptance and traction in the market. At this stage, the product is handed over to the business team to carry out their strategic initiatives.

One of our most successful products to date is Supply Chain Financing, which is a unique product that is the first of its kind from any bank or financial institution in Sri Lanka. Since its introduction in 2020, Supply Chain Financing has registered an exceptionally high level of acceptance in the market, and continues to grow at a tremendous pace.

Outlook

We intend introducing Margin Trading in the near future. Due to the highly competitive nature of this product and the prevailing market conditions, we intend proceeding with caution. We are currently engaged in research on market conditions and product viability, and formulating a go-to-market strategy. We are also looking at money exchange, as the CBSL has authorised banks and finance companies to engage in this business.

Agri-business presents another exciting opportunity, as current competitive offerings do not consider the seasonality of various agricultural sectors. As a result, farmers have to commence repayment of the loan, irrespective of when they have the funds to repay. In response to this gap in the market, we are exploring ways of introducing

a unique agri-loan product, which understands the needs of the farmer, and offers a repayment plan that is linked to the seasonality of their respective crops. Since 27.1% of the Sri Lankan population is engaged in agricultural activities, which account for 7.4% of the Gross Domestic Product (GDP), we are confident that this product will perform well above expectations.

The current boom in online delivery of food and other items, as well as the street food industry, provides further avenues for expansion, which we are considering. This would also help us reach out to the marginalised segments of the society, who would warmly welcome a helping hand to expand their businesses.

Legal

During the past few years, Legal Department has been successful in recovering substantial amounts from non-performing loans through legal action. At the same time, the number of cases requiring litigation has also been reduced considerably, which we regard as a positive development. The restructuring of loans, as well as initiatives by the Recoveries Department, contributed towards this drop in the number of cases as well as the cost of litigation.

During the year under review, the Legal Department undertook a number of initiatives aimed at improving efficiency and efficacy within the Department, in alignment with the strategic plan. Having identified causes for the delays in turnover time for the clearance of files and opinions relating to mortgage and related issues, and having implemented a number of new initiatives, files are now cleared promptly, which is a significant improvement. Dashboards which identify gaps have been implemented, which further helps minimise turnaround time and save man hours.

The implementation of the Delinquency Management System enabled the team members (Head Office and Branches) to access all documents with ease, which has facilitated the effective management of over 8,000 cases last year. This also facilitated migration of data with ease in respect of the amalgamation process with Prime Finance.

Future Plans

Plans for the coming year include the recovery of an even higher amount from the legal portfolio, and evaluating the panel of lawyers to better streamline the legal process to achieve qualitative goals. With the amalgamation, the Department will be required to handle a large number of asset-based legal cases of Prime Finance.

The acquisition and amalgamation with Prime Finance remains one of the primary activities concerning the Legal Department at present. The current talent pool in the Legal Department is multifaceted and highly capable of handling all in-house legal work spanning from litigation, conveyancing, corporate, company secretarial to intellectual property matters. The Legal Department is looking forward to expanding the intellectual capital pursuant to the forthcoming amalgamation with Prime Finance PLC.

Ethics and Integrity

We uphold the highest standards in ethics and integrity across all our business activities. Regular training is provided to employees to ensure that this is strictly enforced. As a policy, HNBF does not engage in anti-competitive behaviour, with policies and systems in place to ensure zero-tolerance towards bribery. The Company rigidly adheres to its policy on fairness, transparency,

integrity, and professionalism in dealings with business partners and suppliers. Annual external audit and the annual CBSL audit are conducted, in addition to routine branch audits, covering the entire branch network by a dedicated audit team sourced from a third party.

The Company has in place a governance and oversight structure headed by the Board of Directors, seven Board appointed subcommittees and several management level committees. We take pride in being the only financial services institution in Sri Lanka to have been awarded the Global Impact Investing Rating System (GIIRS) Platinum Rating (awarded in 2017) for promoting socially responsible lending through our 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.





Manufactured Capital

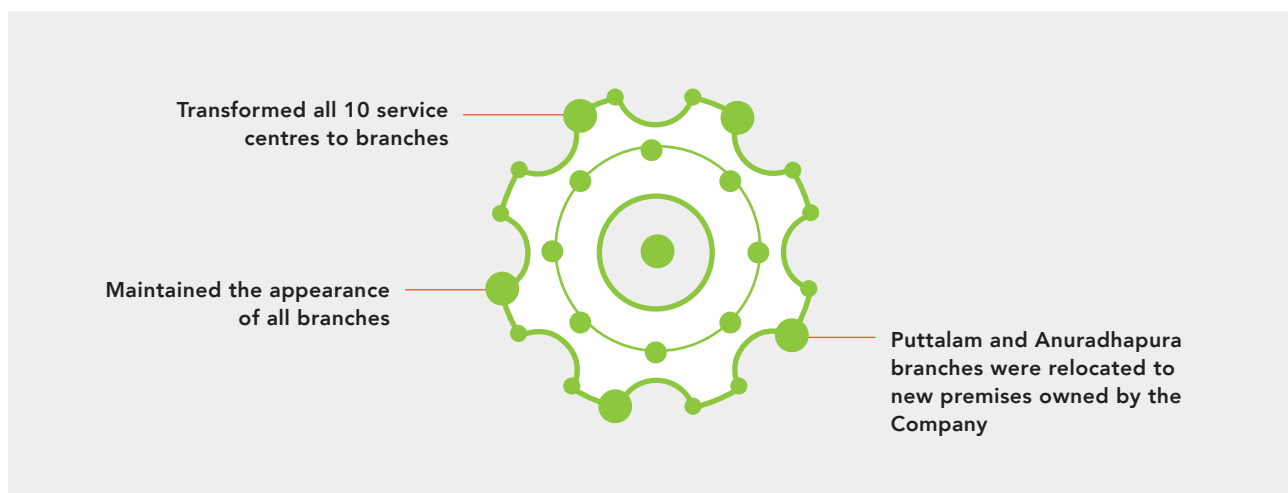
HNB Finance PLC
Annual Report 2021/22

Manufactured Capital refers to physical objects that are available to an organisation for use in the production of goods or the provision of services. At HNB Finance PLC, this includes: Branch buildings, equipment and infrastructure, omnichannel network, Call Centre, and ITC infrastructure.

HNBF's Manufactured Capital Base in a Nutshell

			
Cumulative investment in PPE (at carrying value) (LKR Mn)	Branch network (Nos.)	Gold Loan centres (Nos.)	CAPEX incurred during the year (LKR Mn)
3,282	70	50	475
2021/22	2021/22	2021/22	2021/22
2,687	60	48	147
2020/21	2020/21	2020/21	2020/21
Variance	Variance	Variance	Variance
595	10	02	328

Activities Undertaken to Create Manufactured Capital



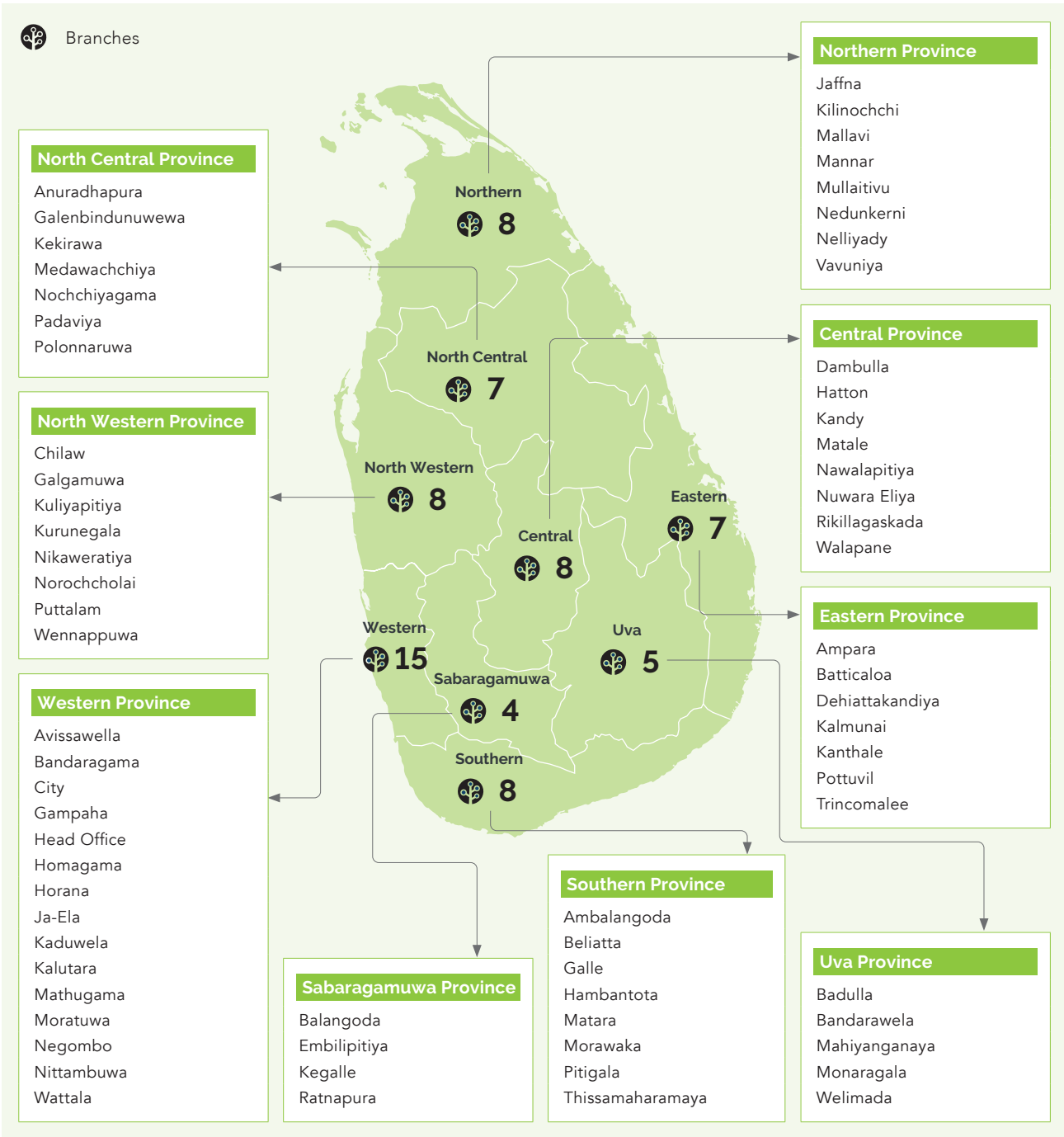
Branch Network

While the pandemic has accelerated digital adoption by customers, our branch network continues to play the role of a powerful channel for creating brand engagement, and building a larger customer base by offering key product and services differentiators. This is especially true in non-urban areas, dealing with SME customers

and offering high-value services such as fixed deposits and leasing, or even Gold Loans, which require the physical presence of staff and customers.

This has made us renew our focus on building a stronger and technologically advanced network, which currently consists of 70 branches in strategic locations across all provinces and

districts in Sri Lanka. Further, we have received approval from the Central Bank of Sri Lanka (CBSL) for opening another six branches in 2022/23. Once we include the 7 branches of Prime Finance PLC, our total branch network will reach 83 in number during the next financial year. Some of the branches in our network are likely to be relocated to reflect the changing business climate in the respective areas as well as taking customer convenience into account.



Oversight Across the Network

Branch Network Department coordinates these branches and ensures their smooth operation. The Department is also tasked with setting up new branches, assessing their potential, shifting locations of branches, assessing the gaps and weaknesses of product and service offerings, checking audit reports and rectifying shortcomings, monitoring recoveries and achievement of business targets, in addition to being responsible and accountable for the overall performance of the branch network.

This involves providing guidance on operational issues such as setting targets and how to achieve them; actions required to carry out lending and other products; day-to-day monitoring requirements; setting region-wise and branch-wise budgets, and carrying out actions required to generate profits, and improve overall efficiency.

Branch Network Department also provides guidance to the branches on how to carry out product promotions, making improvements to existing products with the collaboration of product heads, market segmentation, and go-to-market strategies for successfully launching products to clearly defined audiences in their respective regions or branches. The Department's role involves guiding and monitoring the targets in terms of operational and product-related functions of the branch network.

Covering the Regions

The branch network of HNB Finance PLC has clearly demarcated regions, which are headed by Regional Managers, while Deputy Regional Managers handle the recoveries functions of the respective regions. Branch Managers form the next level. Annual budgets are decided on the basis of products, and are arrived at in consultation with the branch network, which also takes responsibility for their execution and success. The branch network is responsible for profitability and performance, which is further subdivided into profitability

of branches and individual products, improving recoveries, maintaining the correct ratios, to name a few. Branches are currently expected to focus on recoveries from "0" days after instalments falling due. The Assistant Branch Managers have been tasked with handling recoveries, with the support of Recovery Officers attached to the respective branches.

During the year under review, we relocated a number of branches to capture new business opportunities, improve customer services, and introduce products such as Gold Loans, which were not available at some of the branches.

The pandemic had a devastating impact on our performance due to frequent lockdowns, which resulted in our commencing complete operations only towards October 2021. Though our performance in April 2021 was excellent, we had to curtail operations from May to October in the same year. During this period, we continued to maintain links with our branches through internet-based and mobile connectivity, remaining connected with the Branch Managers, Regional Managers and other Departments such as Finance, while monitoring operations and branch performance. Though there was a drastic drop in business during this period, we were able to achieve a quick turnaround once the branches opened for business.

Performance in the branch network is measured in terms of Key Performance Indicators (KPI) such as disbursement levels, targets for recoveries, profitability and liability sales, which have been assigned to different regions and branches. The regional heads will assign targets to the branches, which in turn will apportion goals to be achieved by its marketing executives and various divisions.

Future Plans

We are working towards increasing disbursement, improving our productivity, efficiency and recovery ratios, and preparing to adhere to the

CBSL proposal of gradually reducing the number of days past due for the classification of Non-Performing Loans (NPL) from 180 days to 90 days. The substantial increase in interest rates envisaged during the coming year, combined with the adverse financial situation in the country, will lead to greater challenges in achieving our targets.

The overarching change to be expected during the coming year would be the setting up of new branches and the amalgamation of the Prime Finance branches into our systems and culture, so that they can contribute towards enhancing value for our customers and other stakeholders.

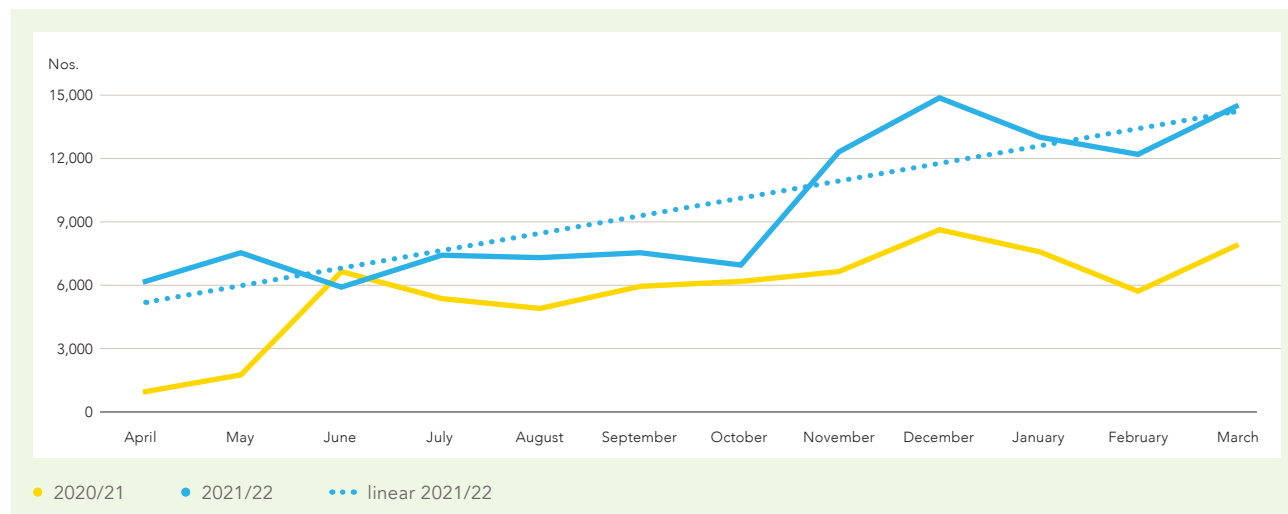
Call Centre

Our Call Centre plays an invaluable role in helping our customers to reach us, and carry out a variety of inquiries and transactions throughout the year, especially during non-banking hours. Having open lines of communication has proved to be especially valuable during the various lockdowns experienced across the year. It also assured our customers of being in control, in addition to financial security, which will further strengthen our customer care and help build brand loyalty. The Call Centre has also become an effective tool to reach out to potential customers, conduct surveys, review products, update information, and even launch direct marketing campaigns of our new products.

The Call Centre handles the inbound and outbound calls of HNB Finance PLC, operating from 7.00am to 8.30pm on week days, and 8.30am to 5.30pm on weekends. Outbound calls focus mainly on product promotions, including the following up on leads and customer requests or complaints derived from social media campaigns, and forwarding them to the relevant branches.

The Centre offers its services on a trilingual basis to reach out to the widest range of customers, and can be contacted by phone, postal service, email or, via social media.

Count of Customer Engagement 2020/21 Versus 2021/22



Feeling the Pulse

During the year under review, we commenced surveys to evaluate Net Promoter Score (NPS) and Customer Satisfaction (C-Sat) Score, concentrating on our leasing product customers at the initial stages. This will be extended to encompass all products during the course of next year. The table below indicates our scores on both metrics, which are above industry averages.

Evaluation type	Industry average (%)	HNB score 2021/22 (%)
C-Sat	78	90
NPS	35	71

Such surveys are usually conducted at the end of three months of a customer coming on board. Insights obtained from surveys are used to improve customer engagement, identify gaps in our product/service offerings and customers' needs, and fine-tune our offerings, in addition to adapting training programmes to meet evolving customer needs.

The recovery process carried out by our Call Centre is fully automated, providing a detailed profile of customers, with a streamlined process that transfers responsibility through different departments to ensure maximum results.

Future Plans

As part of the future plans for the Call Centre, we intend upgrading our CRM system. This will enhance our 360-degree view of customers, along with improved access to personal contact information, transaction and service history, which will help us interact with customers in a personalised manner, offering better and faster resolution of issues.

While improving overall efficiency and cost-effectiveness, the new CRM system will provide enhanced communication across departments, and help in implementing precisely targeted marketing campaigns, and cross-selling opportunities gained by our knowledge of customer interests and preferences.

This will help us in our follow-up processes in every stage of the customers' journey and relationship, utilising various media choices to reach individual customers. It will also enhance the quality of customer relationship, while reducing the existing time-frames needed to carry out a number of customer engagement related activities, especially those related to complaints.

The Call Centre was successful in handling around 120,000 calls during 2021/22.

ICT Infrastructure

The financial industry has been among the fastest growing worldwide, and in Sri Lanka, to embrace and benefit from significant developments in ICT. This has resulted in a profound impact on organisational structures, business strategies, customer services and numerous related tasks, including the automation of many core functions that has enhanced operational efficiency.

We at HNB Finance PLC have been at the forefront of embracing such changes in ICT. In the race to outpace the competition and capture high value customers through a vastly augmented value proposition, we have come to regard improvements to our ICT infrastructure as a strategic imperative. We have been making consistent improvements to our ICT infrastructure, in keeping with our strategic and market-related needs.

The Team

The ICT team is responsible for providing infrastructure support such as optimising systems, network, storage and security, in addition to the branch infrastructure, including their ICT systems, CCTV, power generation, security, and other related requirements. The Business Systems Development (BSD) team provides applications support, and also works

with vendors and handles deliverables, along with testing and deploying new developments, and carrying out allied functions.

The heads of the ICT and BSD teams at HNB Finance PLC report to the Chief Operating Officer and to the MD/CEO. Both departments are represented in the IT Steering Committee which functions at the Company level. There is also an IT Procurement Committee which is a Board level committee. ICT and BSD are also members of the Board Integrated Risk Management Committee (BIRMC), the Board Audit Committee and the Board Strategy Committee. We are guided by the Information Systems Security Policy (ISSP) and its 29 sub-policies, which complement the compliance and regulatory requirements of the Central Bank of Sri Lanka (CBSL). This also serves to ensure that our internal operations and all engagements are regulated and driven by established and accepted processes.

Disaster Readiness

Developing protocols and internal knowledge for responding to disasters is crucial for ensuring business continuity. During the lockdown periods, the ICT team was tasked with supporting work-from-home for our staff, as well as the remote operations of the Organisation, leading to significant improvements in remote work related security.

Marketing Executives are provided with Tabs which enable them to access systems from a remote location, and even geo-tag customers, locations using the Advanced Recoveries Application. The Tabs also help the Executives to carry out all processes required for the purpose of lending.

Future Plans

Plans envisaged for the future include improving the existing digital channels and carrying out a core system upgrade, in order to make them highly responsive to business requirements. Digital channels include customer onboarding, account opening and loan origination, with a view to taking such operations from the branch level, and service customers at the field level. This will help us reduce turnaround time (TAT), while competing more effectively in the market. There are multiple initiatives underway, with processes and application systems being discussed to reduce turnaround time, which offers a significant competitive advantage.

Improving our omnichannel capabilities, we intend converting our customer base to use digital platform for all our products, focusing mainly on repayment options such as eZCash, mCash, and Savings Accounts, in addition to introducing a mobile app during the coming year.

Human Capital



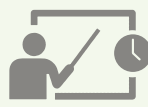
Human Capital encompasses people's competencies, capabilities and experience, and their motivations to innovate, including their alignment with and support for an organisation's governance framework, risk management approach, and ethical values.

Despite the travails of the pandemic and its economic fallout, the HNBF team continued its impressive performance through a combination of collective

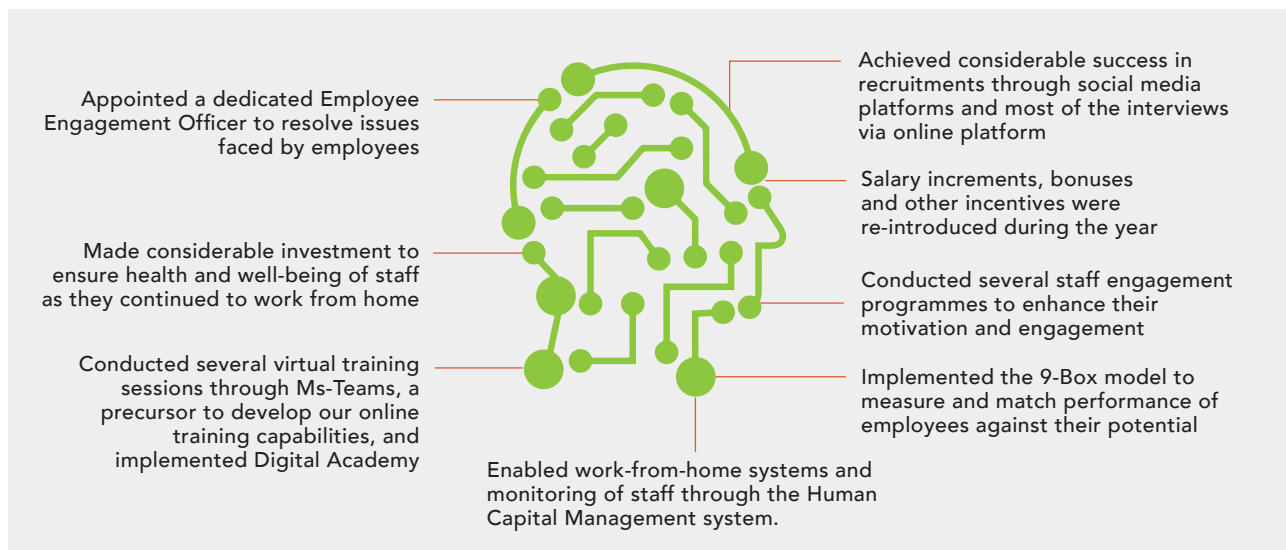
and individual skills, professionalism, adaptability and consideration for customers and the Company. This has amply demonstrated the performance of

the Company's human capital base as an indispensable component of its ability to create value for its stakeholders.

HNBF's Human Capital Base in a Nutshell

 Number of employees 1,878 2021/22 1,851 2020/21 Variance % 1.46	 Number of new recruits 540 2021/22 165 2020/21 Variance % 227.27	 Investment in T & D (LKR Mn) 5.9 2021/22 5.5 2020/21 Variance % 7.27	 Training hours per employee 2.02 2021/22 6.9 2020/21 Variance % -70.72
 Profit per employee (LKR) 222,468 2021/22 -66,782 2020/21 Variance % 433.13	 Employee diversity (Male:Female) 9:1 2021/22 11:1 2020/21 Variance % -18.15	 Average service period per employee 5.78 2021/22 6.0 2020/21 Variance % -3.67	 Accumulated service period of employees (Years) 12,022 2021/22 11,657 2020/21 Variance % 3.13

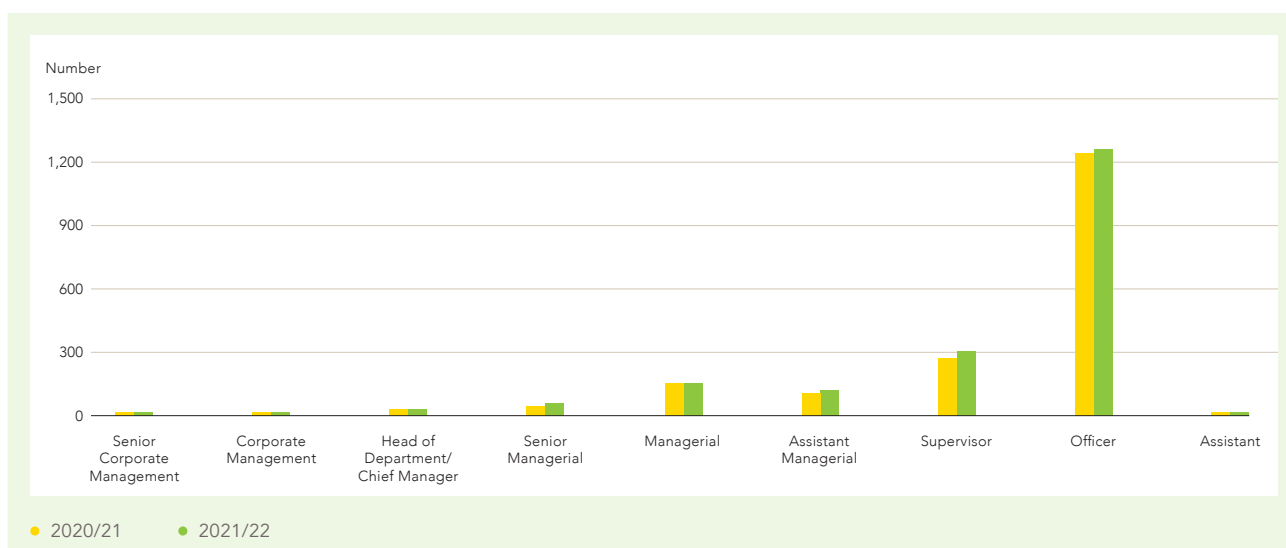
Activities Undertaken to Strengthen Human Capital



HNB Finance Employee Profile

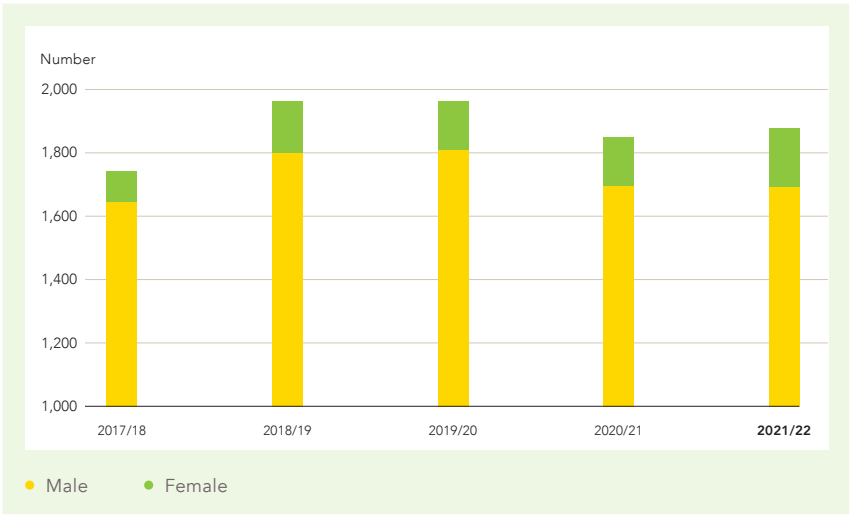
	2017/18	2018/19	2019/20	2020/21	2021/22
Senior Corporate Management	7	7	6	4	4
Corporate Management	7	7	7	7	5
Head of Department/Chief Manager	9	10	16	17	18
Senior Managerial	36	39	44	46	48
Managerial	134	140	145	148	142
Assistant Managerial	93	98	100	100	109
Supervisor	216	242	269	276	292
Officer	1,239	1,413	1,374	1,249	1,255
Assistant	5	5	4	4	5

Number of Employees

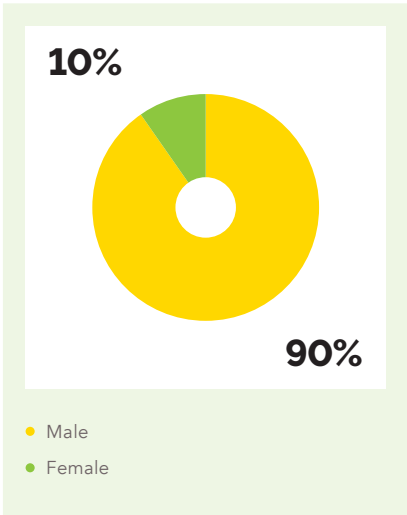


	2017/18	2018/19	2019/20	2020/21	2021/22
Male	1,650	1,798	1,813	1,700	1,696
Female	96	163	152	151	182
Total	1,746	1,961	1,965	1,851	1,878

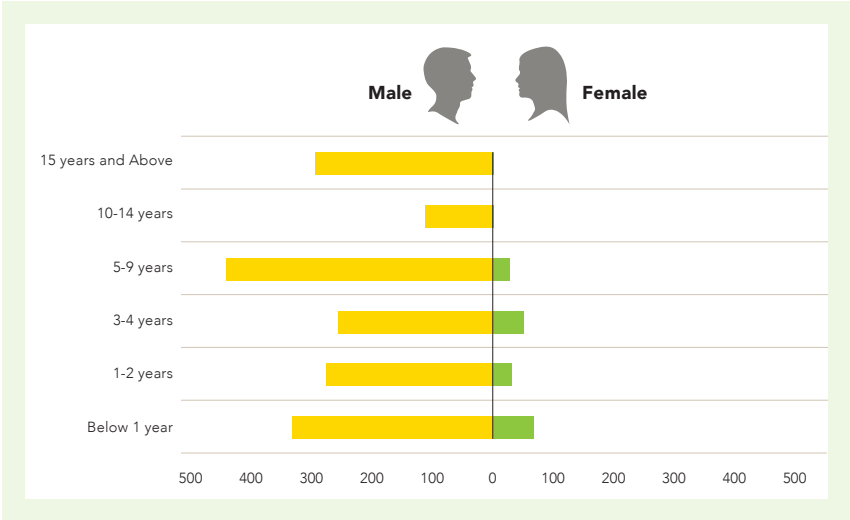
Gender Distribution



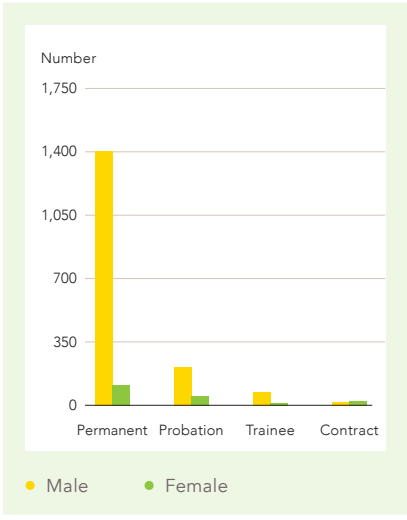
Workforce by Gender



Service Analysis of Employees



Workforce by Employment Type and Gender



Workforce by Employment Type and Provinces

Province	Permanent	Probation	Trainee	Contract	Total
Northern	135	21	6		162
North Western	161	28	12	1	202
Western	492	83	14	26	615
North Central	111	24	16	1	152
Central	146	29	6		181
Sabaragamuwa	98	17	2		117
Eastern	133	20	7		160
Uva	100	17	5	1	123
Southern	139	17	9	1	166
Total	1,515	256	77	30	1,878

The pandemic has proved to be a source of overwhelming challenges in enhancing the efficiency of human resources throughout the world, due to the threats to personal health, unprecedented shift to remote working, as well as the uncertain environment and attendant economic hardships faced by workers. This has been especially true of financial services, as the sector was severely impacted

by debt-restructuring, non-payment of loans, and the overall slow pace of economic development. Increasing automation and digitalisation of the industry also made many workers fear for their continued employment prospects. Having experienced the ease and convenience of remote-working, those in professional categories have been reluctant to return to office,

leading to a phenomenon known as the “Great attrition”.

The HR situation at HNB Finance PLC was exacerbated by the nationwide economic slump which had already impacted the bottom-line. Most HR initiatives had to be curtailed or scaled-down due to the realities of that period, while retaining and recruiting staff became extremely challenging.

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 while providing them with aids to battle for COVID-19 during the pandemic.



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 ecosystem 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-19 affected parts of the country, was important to motivate employees.



4. Efficiency improvement:

HNB's Unique Selling Proposition (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. New courses on English and Information Technology were uploaded to the Digital Academy to enhance employee knowledge and many more vital training programmes conducted via online skills platform to develop skills

Safety as a Priority

As an organisation, we prioritised the safety of our colleagues, which required a considerable investment in order to ensure their health and well-being as they worked from home, in addition to ensuring their continued training and guidance on safety protocols, as well as addressing their personal issues. This was further compounded by the fact that we had suffered immense financial setbacks, which had an adverse effect on funds required to address all concerns of the team.

Since the structure and composition of our teams differed considerably from those of banks, with a large number being in marketing and field work, any spread of infection would have required the deployment of supplementary staff to cover their responsibilities. In addition, we had staff such as Cashiers, who were involved in handling cash, which was a potential source of infection.

There was also pressure from family members of our colleagues who feared an outbreak of infection if we opened our branches. This placed a further strain on carrying out operations, especially since products such as Gold Loans, which were in great demand, required the physical presence of staff and customers.

The work-from-home policy was further strained, as certain branches operated only intermittently, while others had to be completely shut down for months on end. The reimagined style of work also required innovative solutions on our part to address the various issues that arose, such as split teams, allotting work for individuals across different departments, monitoring their functioning, as well as optimising their performance and productivity,

Training and Development

This function was particularly challenging, as we were compelled to meet our corporate training objectives, while adhering to a tightly scheduled training calendar amidst restricted mobility and social distancing. Such training programmes which covered aspects such as team building and bonding required the physical presence of staff members, which was not feasible under the conditions prevailing at that time. We were especially focused on high-flyers, as they formed the backbone of our strategic performance objectives, in addition to the succession planning process.

As a consequence, we were compelled to carry out online training programmes, which were further constrained by our resource limitations, as well as structure of the course content, which had a dampening effect on the overall impact of the programme. The financial setback suffered by the Organisation due to the ongoing pandemic had a limiting effect

on the budgetary allocation for training during the year. As a consequence, ensuring employee motivation and active engagement, proved to be difficult, due to the inherent challenges of carrying out online training.

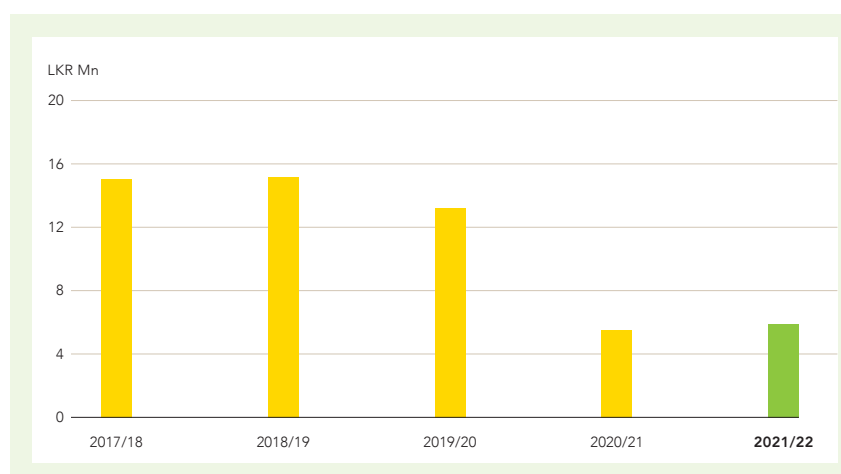
The success rate of online training programmes has been relatively low, as our research reveals. This was due to the limited access to the right tools to conduct such programmes in the appropriate manner. During training, it is important to judge the body language of participants, in order to assess their acceptance or understanding or the subject matter. In addition, we could not sufficiently show our appreciation to the participants nor provide gifts and prizes to improve staff engagement.

However, we did introduce several virtual training sessions through Microsoft Teams, which were well attended. This suggests a step in a positive direction to develop our online training capabilities.

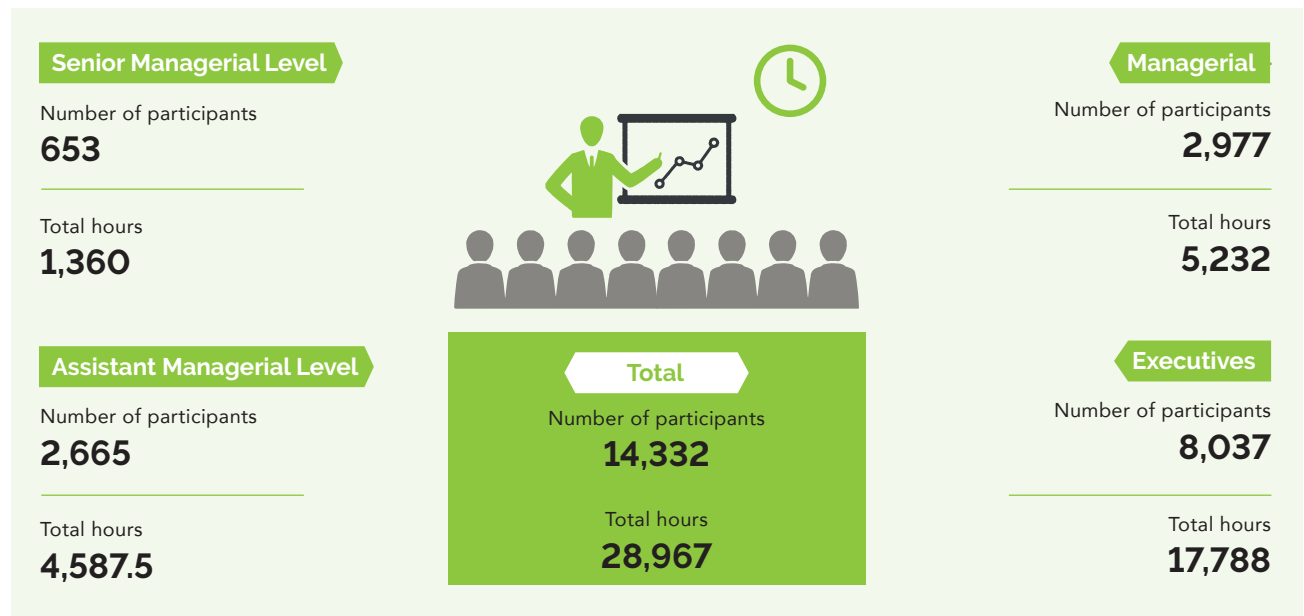
In-house/External Training

As at 31 March 2022	Number of training programmes	Duration (hours)	Total hours
In-house	7,479	412	15,642
External	6,853	118	13,325

Investment in Training



Employee Category-wise Training



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 participants	Total hours
Central Bank of Sri Lanka	6	19
Gold Loan Division	633	1,067
HNB Finance (Internal Resource Persons)	4,330	9,395.5
ICT Department/BSD Department	343	588
Outside Resource Person	6,400	12,137
Vision 8 Academy	345	690
Risk Division	140	280
YOU Lead	95	1,120
The Employers' Federation of Ceylon	1	2
The Finance Houses Association of Sri Lanka	14	37
Life Skill Academy	10	20
Credit Division	947	1,792
Compliance Division	356	432
Legal Division	90	354.5
Lanka Microfinance Association	95	199
Operation Department	372	679
HNB Bank	155	155

Training Hours by Employee by Gender

As at 31 March 2022

Gender	Number of participants	Total hours
Male	14,046	28,468
Female	286	499
Total	14,332	28,967

Special Training Programmes

As at 31 March 2022

	Number of participants	Total hours
Health and safety	334	441

Recruitment and Retention

During past years, the HR Department prepared an annual manpower and recruitment plan, based on the overall strategic needs as well as those of individual departments. However, due to the limited operations with COVID-19 that prevailed last year, this was effectively put on hold for a certain period, and recruitment limited to by aligning with the strategic plan which had to be filled. The implementation of a number of process improvements, including the automation of several functions, reduced the need for new recruitments by a considerable margin.

Arranging face-to-face interviews for prospective candidates was not possible due to travel restrictions, health guidelines and safety precautions. Though we conducted most of the interviews online, we were of the view that direct physical interviews would have created more effective conditions for studying the body language of candidates, to make a more informed decision on recruitment.

During this period, potential candidates were unwilling to take the risk and move to a new company due to the prevailing uncertain environment. This was especially true in the case of the leasing sector, as candidate had to source entirely new clients, if they had to switch to another company.

Recruitment has been especially challenging due to the current batch of recruits being Millennials and Gen-Z candidates who have different values and aspirations. We are currently using social network (Facebook and WhatsApp groups) to attract junior staff, and LinkedIn and Twitter for senior and professional staff, in addition to common platforms such as topjobs.lk and newspapers. By directing our social media and web-based advertisements to our corporate portal, we were able to achieve considerable success in recruitment, which helped in countering the effects of resignations.

Turnover Rate

Our employee turnover rate, which was historically in single digits, rose to about 20%, which was a three to four-fold increase over previous years. A majority of those who resigned had been in the Company for two to three years, and could not envisage any personal or career development, including improvements in their personal finances and benefits in their current positions. In addition, staff had to face personal and professional difficulties, a tough recoveries environment, as well the need to achieve revenue targets.

Employee Turnover (Region-wise)

Region	2017/18	2018/19	2019/20	2020/21	2021/22
Ampara Region	11	9	22	7	12
Anuradhapura Region	10	7	8	11	14
Badulla Region	3	9	11	8	22
Colombo Region	10	13	8	1	14
Dambulla Region	15	8	14	7	28
Galle Region	9	9	13	10	15
Gampaha Region	6	7	13	8	31
Hambantota Region	13	6	10	6	11
Jaffna Region	12	11	9	10	9
Kalutara Region	9	11	23	7	17
Kandy Region	6	9	10	11	21
Kurunegala Region	5	4	8	5	27
Puttalam Region	10	11	10	9	16
Ratnapura Region	10	8	5	1	18
Trincomalee Region	9	15	15	18	18
Vavuniya Region	0	0	10	12	16
Wattala Region	17	7	5	8	23
Head Office	4	18	17	17	55

Employee Turnover (Gender-wise)

	2017/18	2018/19	2019/20	2020/21	2021/22
Male	145	149	183	130	318
Female	5	13	28	26	49

Employee Turnover (Age group)

Year	2017/18	2018/19	2019/20	2020/21	2021/22
Below 30 years	139	138	167	114	238
30-50 years	20	24	44	42	128
Over 50 years	0	0	0	0	1

Return to Work and Retention Rates after Maternity Leave

	2020/21	2021/22
Total number of female employees	151	182
Total number of employees who took maternity leave	11	11
Number of employees who returned to work after maternity leave ended	10	10
Number of employees who returned to work after maternity leave ended and still employed 12 months after their return to work	–	9
Return to work rate	91%	91%
Retention rate	91%	91%

Staff Engagement and Motivation

Activities related to staff engagement and motivation were carried out using online platforms and hybrid model on the most part due to the pandemic-related constraints. The Company abides by an open-door policy, where Senior Management Personnel are accessible at all times, and staff members are kept abreast of the latest developments through email, circulars, SMS and the *Mehewara* corporate magazine. A dedicated Employee Engagement Officer has been appointed to resolve work-related issues faced by employees.

A number of events, engagement activities and initiatives planned to motivate colleagues had to be postponed or put on hold due to the pandemic. In addition, salary increments, bonuses and other incentives were re-introduced only during the latter part of the year.

We conducted a few engagement programmes such as the “Night of Stars”, onboarding programmes and other events to motivate employees, which we intend conducting on a regular basis in the coming year.

We have recently commenced an innovative programme named “Coffee Chats” involving staff members and their family members, as well as our Senior Management team. These have resulted in close bonds being established between the Company and its staff and family members.

Plans are underway to conduct debate contests across branches and regions, on topics relevant to our business. This is likely to commence during the course of next year.



Succession Planning

In addition to the annual performance evaluation, we have shifted to the 9-Box model, which measures and matches the performance of employees against their potential, in order to arrive at a more equitable means of planning their career progression.

The Company's preferred mode of filling senior positions is through internal promotions, rather than hiring, as this results in a better cultural fit, in addition to motivating our present staff members. Succession planning at the senior level is handled by the Managing Director, and there is a Board approved Succession Planning Proposal with inputs from the HRRC. This function is handled by the HR Department for junior and mid-management staff, with about 50 individuals already identified as having the required potential to move into higher positions. They are provided with additional mentoring and training to facilitate their upward mobility.

Technology that Enables and Empowers

We have in place a total systems capability and seamless processes to attract potential candidates through social network, direct them to the Company portal, carry out interviews and onboard the selected candidates. Exit interviews, which were conducted face-to-face, are currently being conducted through the system, which enables the easy collation and classification of data for management review and remedial action.

Mobile apps have been provided to all staff, especially those on the field, so that they can carry out their work, and even mark their attendance from remote locations. We have also formed WhatsApp groups within departments to facilitate easy communications, even with Senior Management.

We adopted new work-from-home systems and procedures with the help of Business Process Re-engineering and the ICT Department to adapt to the new normal. This includes working on shifts, if the need arises. Work-from-home systems and monitoring of staff have been enabled through the Human Capital Management (HCM) system.

Staff Welfare

We were able to provide extra benefits to families during the COVID-19 pandemic. We continued to maintain our staff welfare programmes, without reducing the current set of benefits. However, we were not in a position to provide any extra benefits. We were also able to provide salaries including all allowances on time, without any delay, as this would have caused a severe burden on our staff.

Equal Opportunity Employer

It has been the consistent policy followed by HNB Finance, right from the inception, of recruiting employees without discriminating on the basis of gender, age, race, religion, socio-economic status, physical disability or other factors of non-inclusion. Men and women are offered equal pay throughout their employment cycle, along with equal access to career progress. The Company has a grievance handling policy with appropriate remedial mechanisms to ensure that no discrimination, on any grounds, takes place. No such incidents were reported during the past year. While adhering to all applicable labour laws, HNB Finance also does not employ minors in any of its operations.

Performance Management

The performance of each employee is monitored and assessed annually, with those in field operations being subject to monthly evaluations. This serves a two-fold purpose of employees reaching their full potential, while also receiving opportunities to advance, based on their performance. Those who do not meet the required performance criteria are provided extra coaching, mentorship or job rotation to help them rise in their careers.

Remuneration and Benefits

All employee benefits were maintained during the year to support and motivate the HNB Finance team. The cost per employee was kept at previous levels due to delayed increments, and a new replacement strategy, instead of hiring new recruits. Our remuneration and benefits are comparable to industry standards, and comply with all applicable statutory labour laws. These include:

- Performance-based incentives and bonuses
- Reimbursement for travelling, fuel vehicle/motorbike, and rent expenses

- Medical insurance cover for employees and their immediate family members
- 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 advance and monthly bill reimbursement for data and voice connection
- Boarding/Transfer expenses reimbursement
- Risk allowances

Welfare Fund

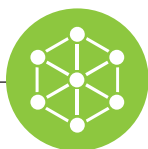
The Welfare Fund derives its funding through both Company contribution and voluntary contributions from employees. It is administered by an Advisory Committee comprising the MD/CEO/COO and CHRO, while the Executive Committee is appointed every two years, ensuring adherence to Company policies and ethical guidelines in its activities. The Fund is subject to an annual independent audit. Last year, a total of LKR 10,922,245.00 was disbursed to 662 donations.

- Death donation of employee(s)
- Death donation for close family members such as parents, spouse and children
- Death donation to mother-in-law and father-in-law
- Monetary gift for wedding
- Monetary gift for childbirth
- Major medical treatment for staff members and close family members
- Damage to house due to natural or other disasters
- Exceptional performance at Advanced Level, Ordinary Level and Grade 5 scholarship for children of staff members

Collective Bargaining Agreements

While there is no collective bargaining agreement in place, the Company continues to maintain excellent relationships with its employees, based on mutual trust and respect. A proactive policy toward identifying and rectifying employees' grievances, as well as their personal and professional aspirations, enables us to maintain a healthy and positive atmosphere, where conflicts are kept to the barest minimum, or addressed immediately before they escalate.





Social and Relationship Capital

HNB Finance PLC
Annual Report 2021/22

Social and Relationship Capital refers to the institution and its relationships with customers and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being. This includes key stakeholder relationships, and the trust and willingness to engage, that an organisation has developed and strives to build and protect with external stakeholders.

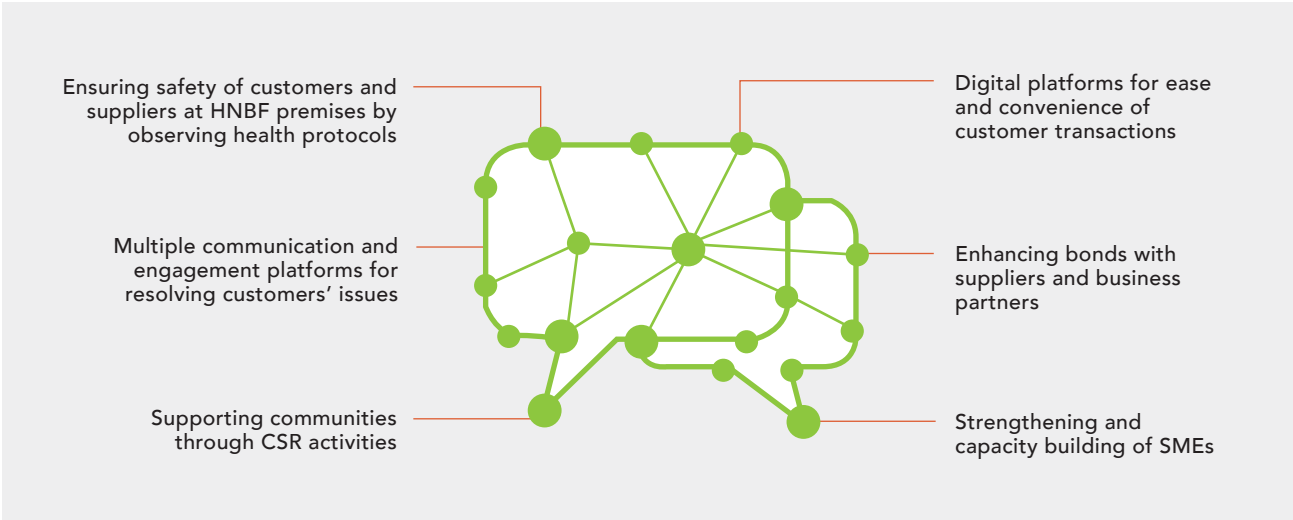
Over the years, we have built strong bonds and enduring relationships with customers, suppliers, and surrounding communities which stood us in good stead during the travails of the pandemic. The goodwill and trust

associated with the HNB Finance brand and HNB Finance personnel, have ensured that our base of customers and suppliers continues to grow, while diverse communities across the country have been fully supportive of HNB Finance personnel in discharging their duties.

HNB Finance's Social and Relationship Capital Base in a Nutshell

			
Number of customers	Cross-sell ratio	Number of customer complaints	Number of suppliers
323,678 2021/22	1.9 2021/22	448 2021/22	82 2021/22
316,768 2020/21	1.6 2020/21	372 2020/21	254 2020/21
Variance % 2.1	Variance % 18.7	Variance % 20.4	Variance % -67.7

Creating and Enhancing Social and Relationship Capital



Partnerships

Strengthening our Social and Relationship Capital, we have been focused on building a mutually beneficial ecosystem of customers, business partners, suppliers and the communities where we operate. We have gone beyond transactional dealings to foster strong and enduring relationships. The success of this approach was put to the ultimate test during the COVID-19 pandemic, when the loyalty and trust built over the years helped us retain our base of customers and partners, while continuing our operation with relative ease and success.

Having deeply entrenched roots in microfinance enabled us to feel the pulse of the socially and economically marginalised segments, thereby helping them to rise above the economic hardships experienced during the pandemic. We successfully reached out to them and helped them emerge financially stronger and more successful in their endeavours, while protecting their health and safety.

While continuing to deploy our full range of products and services – depending on the situation on the ground – we even offered customised solutions for our customers to tide over difficult times.

Over the years, we have built up and strengthened our relationships with suppliers focusing on local suppliers in order to build a base of products and services providers who could be relied upon to meet our needs within required quality and time frames. This is also intended to benefit and strengthen the local communities.

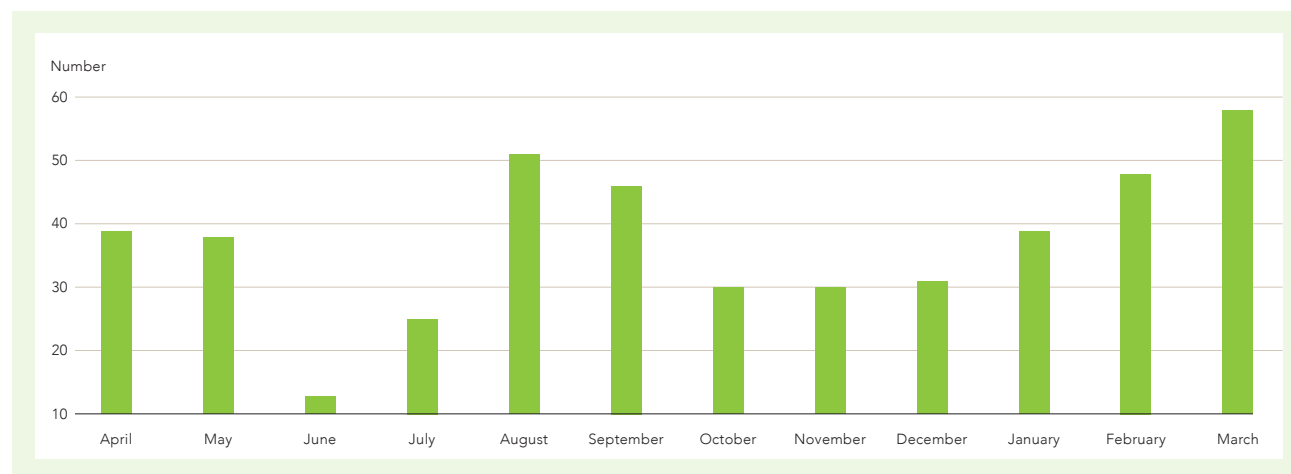
Strengthening
Customer Relations
Call Centre

Our Call Centre operations played an invaluable role in aiding us to reach out to customers in maintaining an interactive, effective and mutually beneficial dialogue. Handling both inbound and confirming to process outbound calls, the Call Centre operated seven days a week despite

travel restrictions. This provided an effective safety net for our staff as well as customers, with no need for physical contact. Services offered included: customer inquiries, complaints, advisory services on moratorium and its application, updating customers on their repayment status and contacting defaulting customers. The Call Centre served as an effective marketing and promotional channel to inform customers of products and services. Close to 99% of the customer complaints were resolved within 48 working hours.

Total number of complaints: 448

Complaints - 2021/22



Extending Moratoriums

We were able to extend the Government moratoriums to all customers who qualified for, and requested the facility. In addition, we offered a second and a third moratorium to customers, when the situation warranted by obtaining a customer request letter.

Restructuring/Rescheduling Loans

Our timely strategic initiatives, such as the provision of moratoriums, as well as the rescheduling and restructuring of loans, helped customers to be back on track in their respective enterprises, while meeting their repayment commitments. In fact, the number of loans under moratoriums has now declined to negligible levels.

We helped our customers to tide over the difficult period, by providing flexible repayment plans, accepting smaller amounts that were within their capabilities. This has strengthened our relationships with customers, while giving them the confidence that they will never be abandoned, even under the most trying circumstances.

Digital Payment Platforms

As part of our future plans, we intend converting our customer base to a digital platform for all our products, focusing mainly on repayment options such as eZCash, mCash and savings accounts, in addition to introducing a mobile app during the coming year. The number of customers migrating to digital modes of payment has been highly encouraging.

Product-wise Analysis of Customer Base

Product	2017/18	2018/19	2019/20	2020/21	2021/22
Micro loan	252,925	258,893	260,317	266,511	277,565
Business loan	11,054	14,774	15,296	12,854	8,913
Leasing	5,272	9,717	15,441	15,354	12,724
Gold loan	–	1,151	16,534	21,090	23,657
Others	1,274	1,346	1,267	959	819
Total	270,525	285,881	308,855	316,768	323,678

Number of Savings Deposits

	2017/18	2018/19	2019/20	2020/21	2021/22
Number of savings deposits	135,671	190,779	281,463	308,374	327,945

Digital Channels Uptake (customers who have migrated to digital channels) – 2021/22

Average number of customers using mobile payment methods for all four products during last year	Microfinance customers (average during last year)	Business loans customers (average during last year)	Leasing customers (average during last year)	Gold loans customers (average during last year)
11,587	10,340	1,091	118	38

Product Portfolio

Business Loans

Reaching out to a wide and varied client base, we disburse business loans to customers engaged in a wide range of businesses. In the case of land-related transactions, we have a buy-back option. During instances where a client does not wish to go ahead with a purchase, Prime Lands provides us full payment and takes possession of the land.

We are carrying out discussions on taking forward our partnership with the Prime team, and have designed a product named *Siri Nivahana*. A paper has already been submitted on this product to the Credit Committee. We have obtained their approval, and are ready to take it forward. This product is likely to have a great impact on our progress in the near future.

As part of our customer retention strategy, we have classified customers into distinctive segments on the basis of their performance, such as repayments history, CRIB status, turnover, assets and liabilities, duration of the relationship, and various other criteria. These factors are considered, in addition to credit scores, when it comes to granting loans. We have also identified certain high potential customers in areas where our branches are located. While the Western and the North Western provinces retain the highest growth prospects, we have turned our attention towards the North and the East, which are emerging as high growth areas. Our main focus is on current account holders of other banks, whom we have identified as potential customers.

Social media and digital channels have emerged as our foremost source of lead generation, with such leads being passed on to Marketing Executives who

work on converting them into actual customers. Social media marketing will remain among our topmost lead-generation tools in the years ahead. We are also enhancing our digital transformation to capture the synergies arising out of HNB's highly developed digital infrastructure and financial capabilities.

The recoveries function is handled by the Marketing Executives responsible for the loans themselves for a period of one year. Incentive schemes are in place to expedite the recoveries process. The initial contact with defaulting customers is carried out by the Call Centre. Our group of customers with zero-default in payments has risen from about 35% during the pandemic, to about 63% at present, which is commendable. To further improve our recoveries function, we have enabled customers to make payments through multiple channels such as standing orders, cheque payment, eZCash, mCash, or visiting the branch for cash payment.

Credit

Disbursal of credit at HNB Finance PLC is based on a centralised system, whereby 90% of loans are approved by the Credit Division, which is the approving authority based at the Head Office. The loans are disbursed by the Credit Administration unit which also follows a centralised process.

The Credit Department is tasked with building up portfolio growth and quality, while supporting the products as well as the branch network in this process. The Credit Department has been divided into three subdivisions, namely, business loans, microfinance and leasing. The Department carries out evaluation of credit, and updates the branches about shortcomings and rectifying such

deficiencies, in addition to preparing a quality credit file in this regard. The Department is also responsible for setting turnaround times (TAT) for a number of processes, and ensuring that they are met.

The Credit Department faced considerable challenges due to the pandemic. Previously, it was possible to arrive at a correct conclusion regarding a customer's creditworthiness by looking at the credit history. However, following pandemic and its resultant lockdowns, import restrictions and overall economic slump, the number of customers defaulting on loans has increased, including those who have received moratoriums on their loan repayments.

Making decisions on the basis of credit histories and credit reports has become difficult, even in the case of customers with large business turnovers, as they tend to have negative Credit Information Bureau (CRIB) reports and a history of cheque returns. This phenomenon has been visible across the entire financial industry during the past few years. As a consequence, we have shifted from our reliance on documents, to grounding our judgement on "Visit Reports". Accordingly, customers are directly observed and assessed when we visit the businesses, prior to making a decision on approving credit.

We have made a radical shift in our credit policy in order to accommodate customers whom we consider important and trustworthy, even if their credit reports are not up to the desired level. This facility was extended by considering their current financial situation, growth potential of their business, and repayment capacity. This has been mutually beneficial to us, as well as the customers, who were able to rebuild their businesses due to the support received.

Our centralised loan approval process, as well as the lockdowns during pandemic, proved to be a constraining factor in conducting site visits to assess the viability of businesses. We were able to overcome this by appointing Regional Business Heads, along with the Regional Managers and Branch Managers, who supported us by conducting the necessary visual appraisal for business loans and leasing, along with providing detailed Visit Reports. In fact, in the present context, we place more emphasis on Visit Reports, rather than supporting documents such as bank statements, CRIB reports and financial statements, as a more reliable means of evaluating customers' creditworthiness.

As a result of this new approach, we have been able to improve asset quality, while keeping NPLs at less than 1% for business loans and leasing, while it is less than 2% for microfinance, despite the economic hardships caused by the pandemic.

Outlook

Our future plans include the introduction of risk-rating at the branch level, which would enable our Marketing Executives to make quick decisions regarding the granting of loan facilities. Such decisions could be made and conveyed to the customer even before examining the relevant documents, which would help build customer confidence. This feature would be initially introduced for our leasing and micro-leasing products.

In order to minimise the time needed for granting credit, we intend upgrading the skills and knowledge of branch managers and credit officers in credit evaluation. This will pave the way to increase the loan amounts that the branches can provide customers, without spending more time for approval from the Head Office. Such expeditious disbursement of loans will help improve customer satisfaction and raise the overall performance and profile of our branches.

We have reduced issues that surfaced during loan review mechanism process by about 90%, and have provided the necessary instructions, solutions and mitigatory measures to the branch network to ensure that such issues are kept at the lowest possible level.

Microfinance

We have gone beyond the definition of microfinance this year. The traditional view of microfinance is about helping the poor with low financial literacy. It has also been aimed solely at women, who functioned as part of a group. We decided to go beyond this model, since it had many constraining factors, as well as socio-cultural considerations, and changes in the regulatory environment. The pressures of the pandemic also necessitated the shift to a new business model. We are focusing on the business needs of a wider group of people, including small businesses, males, individuals, etc., and have reformulated our processes accordingly.

We have retained the existing product portfolio:

- *Diriya* Loans for businesses. We are going beyond the LKR 300,000.00 limit of loans, depending on customers' needs
- *Sahana* Loans for customers who have urgent financial needs

We have changed our approach towards evaluating loan applications. Loans below LKR 250,000.00 are evaluated at the branch level, while those above this amount are evaluated centrally at the Head Office. Documents are gathered and transferred through the Document Management System (DMS). Since last year, about 85% of the loans have maintained a 0% default rate, without missing instalments even for a single day, despite the challenges of the times.

Time taken for approval and disbursement of loans has been reduced following the implementation of improved processes. In the case of customers whose loans are reaching full settlement, we make prior arrangements to carry out the necessary documentation and evaluations, so that they can qualify for their next loan without any delay. In the case of delays in receiving the CRIB report, we have made arrangements to disburse the loans even before the report is received.

In addition to moratoriums, we provided soft loans to about 94,000 customers, which amounted to LKR 3.3 Bn. About 94% of customers receiving these loans are in the zero bucket with no instalments past due even for a day.

About LKR 1 Bn has been settled up to now by these customers, which amounts to 34% of the total. Only about 2% of the loans have instalments more than 90 Days Past Due (DPD). Though repayments have been slow among a minority of customers, they continue to make payments according to their ability. Non-performing loans stand at 17.5% and 16.4% at present for loans with instalments in arrears for more than 90 days and for more than 180 days, respectively. For publication purposes, the Company uses more than 180 DPD as non-performing, as per the CBSL rules. The Central Bank of Sri Lanka (CBSL) has imposed a cap on the effective rate on microfinance loans.

Over the years, the CBSL has requested us to gradually reduce the microfinance component in our lending portfolio to the current level of 50% of the total. We were successful in reducing our reliance on microfinance by diversifying into leasing, business loans and Gold Loans.

Prior to the CBSL guidelines, we achieved a profit after tax of over LKR 1 Bn for three consecutive years, driven mainly by microfinance. Even with the lowering of interest rates, microfinance still offers an attractive effective interest rate compared to most of the other products. Even though we had curtailed our lending during the pandemic period, we were able to achieve considerable success. This is due to the inherent strengths of our microfinance model, which enables us to recoup our interest income within a short period of time from the date of granting a loan. CBSL has now instructed us to dilute our concentration on microfinance loans further within the next two years.

We continually support our customers, until they have improved their position in life, without abandoning them at any time. While adhering to the guidelines on interest rates issued by the CBSL, we offer flexible rates to our customers, based on individual needs, the loan amount, and various other considerations. We also allow customers to top-up their loans, and waive their future interest payment: totally, in certain instances. In the event of customers requiring urgent funds to meet their business or personal needs, assistance is provided through the *Sahana* loan scheme. In case funding is required

to meet an emergency, the required amount is usually provided within the day. Such facilities are extended on the basis of the strong relationships we maintain with our customers.

Microfinance customers who have achieved a certain level of success in their ventures can move into our next category, which is Small and Medium Enterprises (SME). There have been numerous instances of customers who have made the successful transition from the microfinance segment to becoming fully-fledged SME customers. It should be noted that our efficient service and strong relationship with customers have strengthened their resolve to remain with us, even though they had reached the next level of economic success and financial independence. By remaining within our fold, such customers have been able to reap the rewards of being SME customers, which include loans of a higher value.

Repayments can be made online or through eZCash, mCash, Savings Account, cheque payment or doorstep collection by our staff. In the case of groups, the payments can be collected by our Executives at locations such as a neighbourhood shop. Each Executive has as many as 350 customers, from whom he collects payments through various channels.

Outlook

Though microfinance is a time-consuming and costly product to implement, especially in terms of the high level of human capital involved, it is a highly profitable product which yields much higher yields compared to other lending products. While the microfinance component of the business has been diluted, there are possibilities of disbursing microfinance loans through other products which comprise our portfolio. This will be especially true once the merger with Prime Finance is complete, as it will add more lending products to the portfolio.

Fixed Deposits/Savings

During the year under review, we placed renewed emphasis on deposit mobilisation, especially savings,

as it is a low-cost source of funding. We allocated 60 Executives across our branch network to speed up the deposit mobilisation process. Though we were able to raise over LKR 350 Mn as a result of this initiative, the lingering effects of the pandemic proved to be a damper on our efforts. There has been a definite growth in new savings accounts, which includes accounts opened for the purpose of obtaining loans. Savings have shown a growth of LKR 236 Mn during the financial year. The total savings portfolio stands at about LKR 3 Bn as at 31 March 2022.

Fixed deposits have increased by 13% compared to the previous year, registering a total of LKR 28 Bn as at 31 March 2022. A substantial growth was experienced mainly during the final four months, coinciding with the increase in interest rates. During this period, the easing of COVID-19 restrictions enabled us to engage in more campaigns and promotions. We were also able to maintain the renewal rate of maturities at above 70% on average, which contributed towards the improved performance. The number of clients increased by 9.8%, with new growth in fixed deposits from the branches amounting to over LKR 500 Mn.

Based on the CBSL declaration, through ALCO, the Company decides the interest rates accordingly. It should be noted that currently we do not provide ceiling rates to customers.

The provision of fixed deposit certificates from the relevant branches themselves has been a welcome addition to serving customers. FD customers have also benefited from our new policy of amalgamating the application process with the Know Your Customer (KYC) requirements, as well as simplifying application form itself, which has been greatly appreciated by our customers.

Promotional campaigns for deposit mobilisation have been carried out from the Head Office on an island-wide basis, which has resulted in sizable growth in direct customers for the branch network. In addition to social media campaigns, extensive leaflet distributions were carried out by the branches to attract new customers. Along with town-storming campaigns,

we have offered daily collection facilities for businesses, whereby our executives carry out door-step collection from such outlets each day. This feature also enables the businessmen to make payments on their leasing or other facilities with ease. The transactions are updated online in real time by the executives.

During the early part of the year, we did not actively promote fixed deposits, in order to effectively utilise our excess funds, which could not be disbursed through lending due to the disruptions caused by the pandemic. However, our "*Swashakthi*" product provided customers with the facility to save a certain amount during a short period, and later obtain a much larger amount as a loan, which could be utilised to cover expenses related to special occasions as and when they occurred. The "*Swashakthi*" scheme was extended to savings customers and was based on trust, requiring no guarantors. To manage this product more efficiently and better address client needs, "*Swashakthi*" was brought under the Microfinance Department.

To encourage Minor Savings accounts, a gift scheme is in place, offering progressively higher value gifts as the deposit increases. In addition, we visit montessori locations to promote this product.

Outlook

Deposit mobilisation is likely to receive a further boost in the coming year, as we augment our offering with internet and mobile banking, in addition to the envisaged signing up with VISA and MasterCard. We are in the process of converting the current ATM card used by customers to a debit card, adding more value and convenience to the primary transaction accounts of our customers.

Our merger with Prime Finance will enable us to access their customer base with a portfolio of LKR 5.5 Bn, in addition to offering cross-selling opportunities to this segment. This will enable Prime Finance customers to access our vastly superior service offering such as ATMs, SMS alerts, set transfer facilities, and e-statements.

As the impact of the COVID-19 pandemic appears to be coming to an end, we look forward to a vastly improved performance in fixed deposits and savings mobilisation in the coming year.

Leasing

HNB Finance PLC has been engaged in the business of leasing since 2015, with a portfolio that currently stands at LKR 11.3 Bn. Over the past two years, the leasing sector has not performed up to the expected level due to a number of macroeconomic factors, especially restrictions on the import of vehicles, and the economic downturn. While we have performed well in terms of recoveries, our portfolio includes loans which are still under moratorium as well as rescheduled/restructured loans.

Moving forward, we have categorised our leasing business into Micro-Leasing for motorcycles and 3-wheelers, and Auto Leasing for 4-wheelers, which consists mainly of registered/unregistered cars, vans and SUVs. Following the restrictions on the import of vehicles, the leasing of new vehicles came to a standstill, which compelled us to switch to registered vehicles. This proved to be a challenging environment, as banks and other leasing companies too began to focus on this segment, with some offering 1-2% less than our interest rates. The pandemic situation, which entailed the provision of moratoriums and other concessions, compelled us to focus on private vehicles only without the tourism and transport segments.

In keeping with our new strategic shift, it has been decided to change the product mix of our leasing portfolio with a view to maximising performance. Moving from the 4-wheeler segment comprising about 55% our portfolio, it was decided to shift to Micro-Leasing, especially 3-wheelers, which was a more profitable segment. A new manager has been appointed to spearhead a balanced product mix comprising Macro and Micro-Leasing, and an advertising campaign was launched under the tagline, "*Vaasi Visthara*".

A further development has been our move, once again, into agri-based lending. We are concentrating on the North-East and other parts of the country where the sector is thriving, and there is considerable demand for leasing of tractors, harvesters and related machinery. This move has the potential for superior returns, due to the higher margins in agri-based lending. We have also entered into strategic tie-ups with importers of agricultural machinery for strengthening our position in this sector. However, due to import restrictions, there is a sizeable shortfall of supply in agriculture-related vehicles and machinery, in relation to the demand.

In terms of Auto Leasing for 4-wheelers, we have been offering competitive interest rates and tailor-made leasing packages to customers through our branch network, providing co-branded packages with vehicle dealers. In order to avoid risks associated with the drop in vehicle prices once imports are resumed, we have offered leasing packages based on the opinion of third-party valuers.

Though the pandemic had impacted our promotional activities such as leaflet distribution, we have moved into social media advertising, aimed at creating awareness of our various packages, including those for the motorcycles and 3-wheeler segments. This campaign has generated a large number of leads, which we are in the process of converting to sales. We intend continuing with our social media campaigns in future as well, due to their proven effectiveness in generating sales leads.

Despite import restrictions, the leasing of locally assembled, brand-new vehicles has opened up new opportunities. We are exploring this avenue by entering into tie-ups with Sri Lankan companies engaged in vehicle assembly. Though such vehicles have a long waiting list, we have made arrangements to offer our leasing packages in keeping with the available output of such companies. Locally assembled commercial transport vehicles offer another prospect, for which strategic tie-ups are being

actively explored. We are likely to commence leasing for commercial vehicles during the coming financial year, subject to availability of sufficient stocks of vehicles.

Focusing on our dealer network, we have been enrolling dealers and vehicle sellers from various regions, providing them with updates on our latest offers, as well as appreciation and entertainment, with a view to strengthening our ties with them. We are planning to have such dealer rewarding programmes during the coming years as well, since nearly 70% of our business comes from dealers.

We have implemented a series of initiatives within our Organisation, in order to improve overall efficiency and customer service standards. These include improvements in internal processes aimed at reducing the time needed for approval and disbursement of loans, and payments to suppliers. The introduction of the Document Management System (DMS) has replaced the manual processes formerly in place, vastly improving the tracking of documentation, and the decision-making process. Each department in the Organisation has been assigned relevant KPIs, which they are expected to achieve. Our processes are monitored by the Business Process Re-engineering (BPR) division, in order to make further improvements.

Encouraging customers to carry out refinancing with us is part of our customer retention strategy, which will help build business volumes, as well as long-term relations with customers.

Auto Loan product releases customers from the need to pay stamp duty, while also offering attractive rebates. Flexi Draft is similar to an overdraft facility that meets the short-term working capital needs of those engaged in the vehicle sales business.

Our 180 day NPLs have been brought down to 4.8%, and 90 day NPLs to 7.2%. These are much better than industry norms, as well as a significant improvement on the rates which prevailed during the pandemic.

Outlook

For the coming year, we have identified branches which are likely to have the highest performance, and have plans to increase their targets, as well as staffing requirements to meet the potential growth in such areas. With the merger, we believe that the strengths of our partner in micro-leasing, as well as our strengths in macro-leasing could result in a synergy, leading to considerable growth in our leasing portfolio. Both partners also have highly competent executives in each area of specialisation.

We have decided on attractive incentive packages for our staff, in order to motivate them to achieve the very ambitious target of LKR 13.5 Bn that has been set for the year ahead. The number of high-performing sales staff on our team has increased several fold, which is indicative of the performance we can expect in future. The current micro-leasing campaign will be further improved to achieve higher targets.

We intend renewing our focus on the tourism, travel and transport sector for the coming year, as it is likely to surge ahead, if the current improvements in tourism, as well as the pent-up demand within this sector, continues

to grow. Once the output of the locally assembled vehicles begins to improve, we have plans of targeting this sector, carrying our branding promotions with dealers throughout the country.

In terms of branding, we are concentrating on forging a stronger identity for HNB Finance leasing, in order to pursue an independent path which is less reliant on dealers. We have achieved considerable success in this venture by creating a sizable base of customers who visit our branches directly. This has been achieved through sales promotions, social media and mass media advertising, and door-to-door visits to improve lead generation. Leads obtained through social media are actively followed-up by the branches. Having such direct customers also helps us keep dealer-related costs under control.

Gold Loans

Gold Loans is differing from pawning in many respects. Pawning is covered under the Pawning Ordinance but Gold Loan is covered under the Mortgage Act No. 06 of 1949 (Sections 85 and 86). Also, in the case of a pawning, the lender must give the borrower a repayment period of

at least one year. But Gold Loans can be given even for a short period of time.

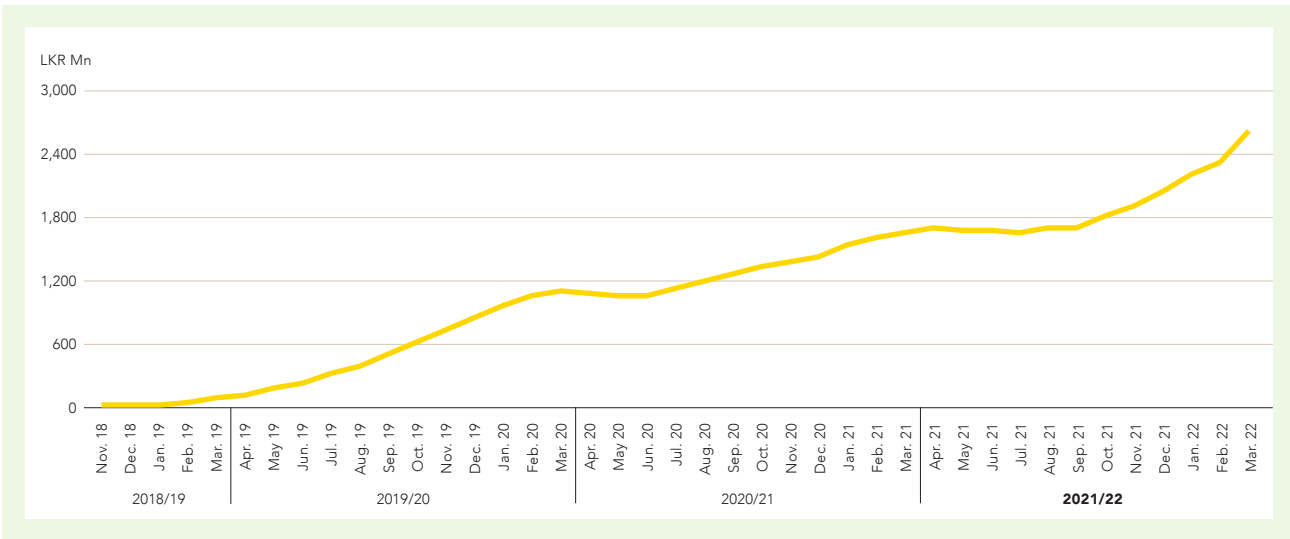
HNB Finance PLC offers Gold Loans under a number of schemes with new products introduced in the year 2021. We offer Gold Loans for one, three, six and twelve months.

During early 2022, we introduced a new Gold Loan product targeting high volume customers, including VIP customers. We have appointed dedicated executives, who provide a discreet service to VIP customers in a separate part of the office as part of the specialised service on offer.

Another product introduced during the year is called Gold plan, which enables customers to invest in gold at prevailing market rates, and make payments in convenient instalments, in anticipation of a future event such as a wedding, birthday, or even as an investment. The advantage to customers is that they need not pay more, even if the market price of gold increases.

Though the pandemic led to a drastic curtailment of our operations and performance, we managed to stay afloat through judicious measures such as facilitating repayment by digital channels, restructuring of repayment plans, and opening our branches whenever the situation allowed.

Monthly Gold Loan Portfolio Increase



Our targets for the year in terms of net stocks, disbursement, total income, and profitability were all achieved by over 100% during the year, showcasing our impressive performance, despite challenges of the period.

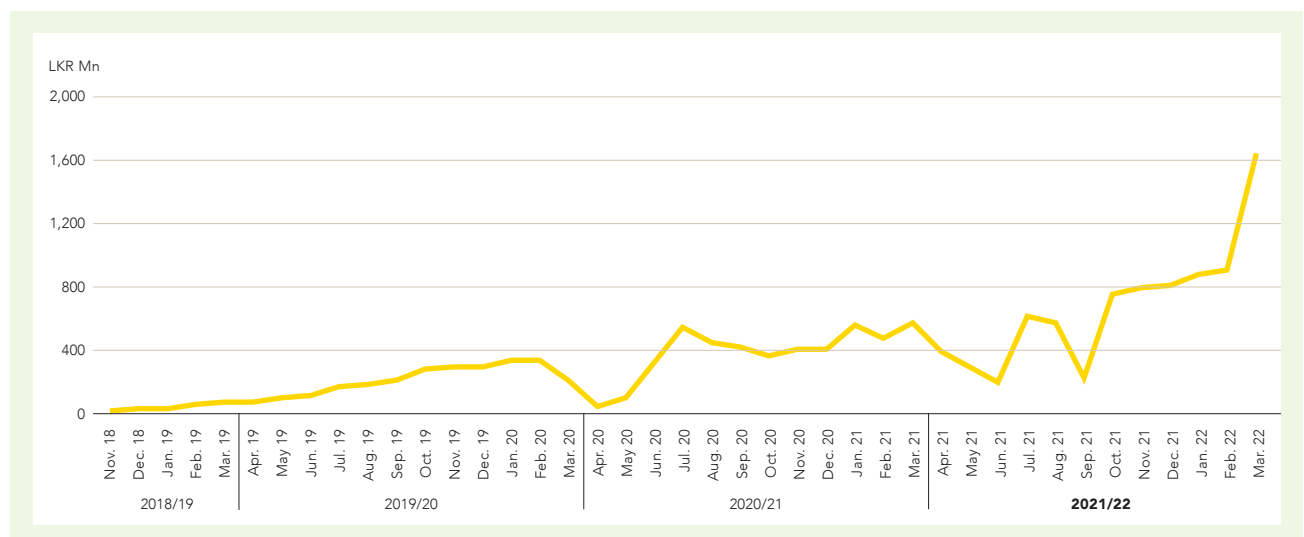
Performance on Gold Loans has registered a steady growth since its introduction in November 2018. This trend flattened during the lockdown periods, without any decline, and showed continuous growth thereafter.

Gold Loan Stock



Gold Loan stocks have also grown steadily over the years. Annual achievements were below average compared to the budget. After falling during the COVID-19 period, it has now achieved a growth of 108% compared to the budget size.

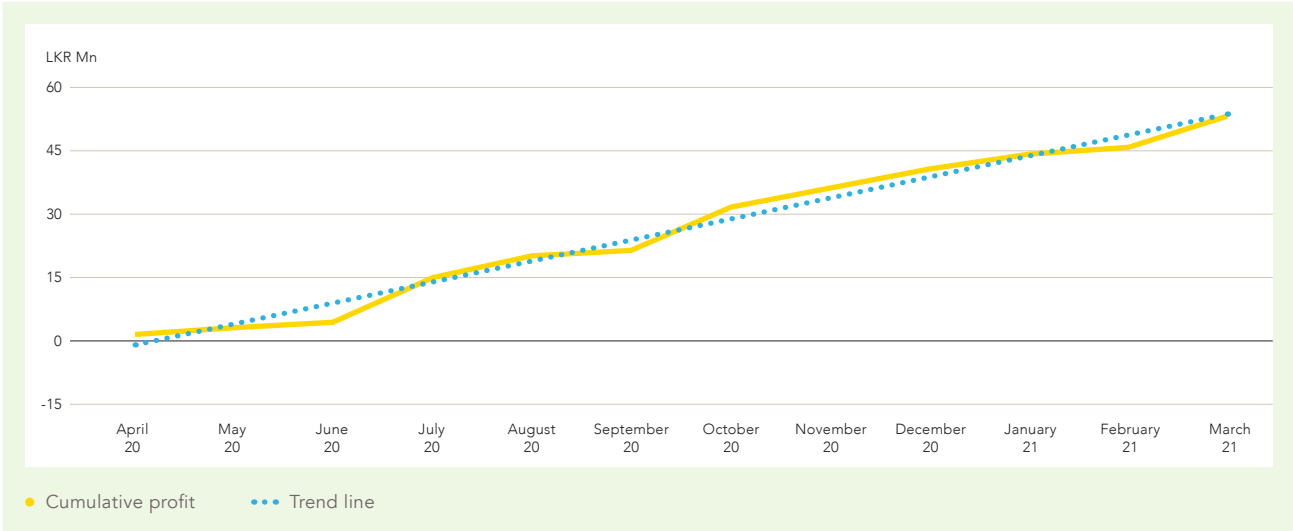
Monthly Gold Loan Disbursement



Disbursement of loans took a drastic hit during the pandemic, as most of our branches were closed for long periods. Deep declines were experienced during lockdown, with equally rapid rebounds, once branches opened.

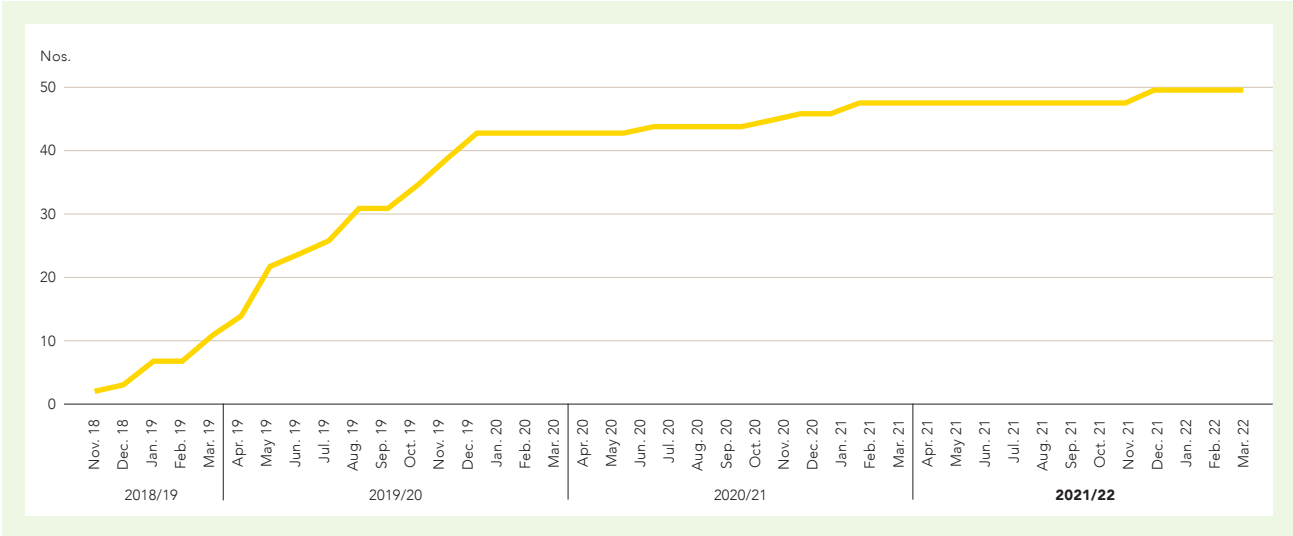
Interest income has exceeded the 100% target set for the year, against the backdrop of setbacks during the pandemic. Overall targets were achieved despite the granting of moratoriums and rescheduling of loans.

Cumulative Gold Loan Profitability



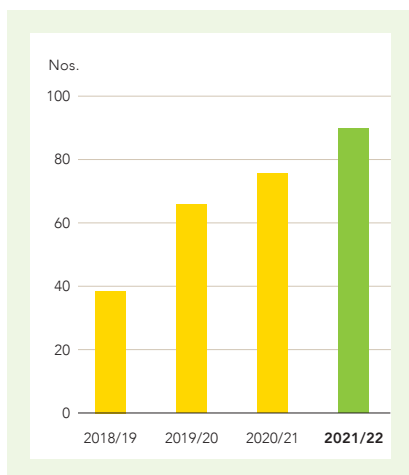
Profitability targets have been on course right throughout, and have exceeded 100% at present.

Gold Loan Launching Plan



Opening of new branches, where Gold Loans were offered, virtually ground to a halt with the onset of the pandemic. We are now opening new branches at several new locations, where the Gold Loans facility will be made available.

Number of Staff Cadre in Gold Loan Branches



Providing Gold Loans is fairly labour-intensive, due to the technicalities involved. While we have taken initiatives to keep the staff members and costs down, the numbers have shown a steady growth over the years.

We provide 70-80% of the asset value as the advance. While Gold Loans do not have the same regulatory restrictions on interest rates like pawning, we still maintain the same rates as the latter, in order to remain competitive. We do not add extra costs such as service charges and default charges, thereby inflating our returns; keeping the scope of our operations strictly within legally sanctioned norms.

By ensuring that the gold we accept as security is of the highest quality, we have never made any losses at auctions conducted for unredeemed gold. In fact, we have made substantial profits, and even made extra payments to the original owners of the gold. Such success is due to our emphasis on correctly assessing the value of the gold, using three techniques: densi-meter, touchstone and sensory evaluation.

Staff members are continuously updated on the technical aspects of assessing gold, as well as evaluating the creditworthiness and integrity of customers, which has resulted in highly successful and profitable operations. (With LKR 14.9 Bn in Gold Loans and grants, we have not suffered any losses, which is a significant achievement in such a high-risk operating environment).

As a practice, we strive to protect the interests of customers, providing them with easier means of settling their Gold Loans. As a result, we are able to maintain an intact relationship cycle with customers, while also keeping our stock of unredeemed gold at a low level. In fact, the rate of redemption of gold items by customers stands at 99.3%, which stands testimony to our focus on placing people above profitability. Auction of unredeemed gold articles is strictly the last resort, after all attempts at helping the customer have failed.

Outlook

Based on our revenue projections, the Gold Loan business is expected to double during the course of the next year, and keep growing at an exponential pace during the coming years. HNB Finance PLC has charted an aggressive course of growth for the years ahead, with the addition of new branches from Prime Finance, as well as the introduction of new products and technological improvements to aid its onward march.

We have received permission from the Central Bank of Sri Lanka (CBSL) for setting up another five branches. With the addition of the branches from Prime Finance, the total number of branches offering Gold Loans will increase to 71 in the coming year.

Finance and Treasury

The continuing effects of the COVID-19 pandemic, along with its attendant economic downturn, in addition to moratoriums granted as required by the Central Bank of Sri Lanka (CBSL), had a strong impact on our performance, especially in terms of impairment. We have been holding regular discussions with the recoveries team to find ways to overcome impairment issues, due to difficulty in carrying out recoveries.

We have been able to improve profitability considerably towards the latter part of the year under review. As detailed in Financial Capital, we were able report a profit after taxation of LKR 418 Mn for the year compared to the loss after tax of LKR (124) Mn for the previous year. With the finalisation of the merger with Prime Finance and

the resultant infusion of capital to our balance sheet, as well as the expected tax concessions, we envisage a further improvement in profitability in the ensuing financial year.

We have managed our liquidity position by aligning with the regulatory requirements of the Central Bank of Sri Lanka (CBSL). Managing our own cash requirements as well as lending requirements is important. For fixed deposit holders, we need to consider their requirements, especially pre-maturity withdrawal requirements need to be managed effectively. Managing liquidity under such circumstances has been a challenge for the Treasury Department, which functions under the oversight of the Finance Department.

Emergency requirements were managed by utilising existing credit lines, and effectively managing interest costs, which enabled us to achieve profitability. Our interest cost was substantially less than the amount budgeted for the year. Lower interest rate regime that prevailed too helped us in reducing interest cost. We managed to maintain liquidity with a buffer over CBSL's mandated liquidity requirements, which was helpful in managing our interest costs.

In terms of general or establishment costs, we have a Cost Control Committee, which meets on a monthly basis to discuss ways and means of controlling or optimising costs and minimising unnecessary expenses, as well as taking mitigatory measures. As a result, we were able to reduce costs by nearly LKR 200 Mn of the budgeted amount, which helped in improving our bottom line.

Due to the improving financial situation and the effective measures taken to manage the asset quality, we were able to end the year with an impairment provision of LKR 899 Mn, which is less than the LKR 1,086 Bn and LKR 1,045 Bn provided for 2019/20 and 2020/21 respectively. We have conveyed the necessary instructions and required actions to the recoveries team to contain impairments below the budgets and the two previous years. Data for impairment-related calculations is obtained through our core-banking system, using the latest software.

Discussions are underway to implement robotic automation processes for this purpose in the near future.

The Assets and Liabilities Committee (ALCO) meets on a monthly basis to discuss matters on the balance sheet and a number of important ratios such as Return on Assets (ROA) and Return on Equity (ROE), the measures needed to improve such ratios, and improving the efficiency of the assets, in addition to managing our assets and liabilities.

The responsibility for maintaining Capital Adequacy Ratios lies with the Finance Department, and is discussed at ALCO every month, especially in terms of projections for the next six months at any given point in time. Future scenarios are also deliberated with the Risk and Strategy Committees, with the necessary calculations, projects and measures to be taken in the future. It should be noted that our Capital Adequacy Ratios are above the required levels, as stipulated by the CBSL.

The decision taken to raise our Tier II capital through the issue of debentures has been put on hold, due to current market sentiment regarding interest rates fluctuation in a volatile environment. We have obtained the Subordinate Trust Certificate, and are awaiting CBSL approval. As the CBSL is likely to increase the ratio requirements for Tier I & Tier II capitals in the coming year, we have put forward our proposals to the ALCO, as well as Risk and Strategy Committees, regarding the way forward.

Any impact on our Tier I or Tier II capitals from the merger with Prime Finance PLC will not pose any serious concerns, as we already have an assurance to that effect from the CBSL, in addition to the possibility of tax benefits as a result of this amalgamation.

In addition, the envisaged digitisation process will lead to a considerable improvement in our work processes and overall efficiency of the Organisation.

Recoveries

Our main objective, during the year under review, was to reverse the Non-Performing Assets (NPA) in the 90 days and 180 days categories, in addition

to maintaining the correct ratios. When we commenced the year, the figures for 90 days NPAs was LKR 5.44 Bn, while the corresponding figure for 180 days was almost LKR 5.01 Bn. Despite the difficulties of the pandemic, we targetted reducing the figure for 90 days to LKR 4.8 Bn and the 180 day figure to LKR 4 Bn. We have already achieved our goals for the 90 days' loans, and are very close to achieving the figures for 180 day NPA.

NPA ratios are down from 16.57% to 13.07% for 90 days loans, while the corresponding figure for 180 days has been successfully reduced from 15.26% to 11.51%.

Our recoveries strategy was based on a five-pillar model involving Senior Management, branch management and heads of all product divisions and an independent credit unit engaging in follow-up activities, backed by the Legal Department. The recoveries process was monitored on a weekly basis. The number of personnel in the Call Centre handling recoveries was increased to speed up the process, while the exceptionally long-standing and difficult cases were handed over from Pre-legal Unit to the Legal Department for follow-up.

A number of recovery processes such as sending repayment request letters and repossession of vehicles were revived. This was followed up with visits to 23 branches which were experiencing difficulties with recoveries. We conducted "Recoveries Clinics", through which we recovered over LKR 20 Mn, on the spot. We have also set up a Pre-legal Unit, which helped us to recover another LKR 225 Mn.

Based on CBSL guidelines, we have placed greater emphasis on restructuring and rescheduling loans, which will enable customers to meet their loan obligations with relative ease. We have restructured or rescheduled loans worth nearly LKR 400 Mn for this year. Further, we have outsourced the recoveries function to external companies, mainly for microfinance and business loans, which has however met with only limited success up to now. Repossessed vehicles have been sold through tenders in furtherance of our recoveries objectives.

Branches have been assigned recoveries targets based on a number of criteria, which have been achieved over and above expectations. By rescheduling loans which were under moratorium, we were able to reduce the outstanding from LKR 11 Bn to less than LKR 4.8 Bn, with the possibility of reducing it further. We have also designed Management Information Systems (MIS) reports to facilitate the monitoring of the recoveries function, especially for loans granted during the pandemic period.

We have adopted a new approach towards recovering loans which had been written off, offering incentives to staff, resulting in the collection of LKR 22 Mn during this year. Our main focus is on loans which are more than 60 DPD, while those which are below 60 days past due are the responsibility of the Call Centre, business heads and management of the branch network. The Legal Department too lends its support in this regard.

The loan book currently stands at about LKR 2 Bn, while outstanding figures have been reduced considerably, which is a significant achievement of the recoveries function.

Outlook

There is a strong potential for improving the recoveries function, especially in leasing, and new officers have been appointed for this purpose. We have also appointed new recoveries officers for 12 regions, with a special focus on following the difficult cases in business loans. The recoveries function in micro-loans is also being strengthened, along with the pre-legal section. The Recoveries App facilitates the updating of information, as a follow up to the Call Centre activities in this regard. This information can be viewed by other recoveries staff on their Tabs or mobile phones, resulting in considerable improvement in the efficiency of the recoveries function.

Lending will be considerably enhanced during the coming year, with a resultant increase in the need for improved recoveries. We are ready to face the emerging scenario, and are in a position to bring down the NPA ratio to a single digit. The merger with Prime Finance will add another LKR 5 Bn to our existing



loan portfolio, with NPA standing at over LKR 1.5 Bn. However, since about 80% of their loans are asset backed, we are confident of reaching our goals within the first six months.

The recovery process carried out by our Call Centre is fully automated, providing a detailed profile of customers, with a streamlined process that transfers responsibility through different departments to ensure maximum results. Marketing Executives are provided with Tabs which enable them to log into the system from remote locations, and even geo-tag customers at different.

Corporate Social Responsibility (CSR) Commemorating International Women's Day with an Empowering Workshop

"Gender equality for a Sustainable Tomorrow" was the theme of this workshop sponsored by HNB Finance PLC to celebrate International Women's Day, at an event hosted by "*Mahajana Balaya Sanwidhanaya*" on 6 March 2022 in Baddegama, Hikkaduwa. It was attended by over 100 women from the surrounding areas of Baddegama.

Special awareness lectures on a number of themes were delivered, including "The History and Importance of Women's Day", by social Activist and Attorney-at-Law, Subashinie Tikiribandara who connected from Germany via Zoom. The keynote speech was by HNB Finance PLC Head of Training, Anura Udawatte, who outlined how family discipline and personal development can be enhanced through the maintenance of financial discipline.

The Company also presented prizes to participants, in addition to reaching an agreement on the contribution that can be made in empowering women, for a sustainable future.

HNB Finance PLC Managing Director and CEO, Chaminda Prabhat, acknowledged that it is our responsibility to create equal opportunities for both men and women in society. As the theme of this year's International Women's Day

is to provide equal opportunities for both men and women, HNB Finance PLC sees the need to empower women economically and increase their contribution to the Sri Lankan economy.



Head of Training Anura Udawatte delivering the keynote speech

Creating Awareness on Legal Protection and Social Security among Biyagama EPZ Female Workers

Women comprise the majority of workers in the Biyagama Export Processing Zone (EPZ), making an immense contribution towards Sri Lanka's export earnings.

HNB Finance PLC joined hands with the Community Police Division and the Biyagama Police Station to celebrate International Women's Day on March 8. The theme of the event was, "Legal Protection for the Social Security of Women", which was attended by over 350 employees from factories in the Biyagama EPZ.

Mahinda Dissanayake, DIG for Western Province (North), was the Chief Guest at the event, chaired by Inspector Manoj Samarasekara, OIC, Community Police Division. OICs from the Children's and Women's Units of Police Stations in the Peliyagoda Police Division and officers from the Head Office and Kaduwela Branch of HNB Finance PLC also participated.

Among the issues addressed were the legal avenues and provisions that women can, and should take, when coping with issues concerning harassment, and emphasised the importance of raising awareness on the subject. HNB Finance PLC is fully committed to support the financial as well as social empowerment of women, and works in every possible way to enhance the contribution of females to the economy.

HNB Finance PLC also hosted a raffle draw at the event, where lucky winners were given valuable prizes.



"Legal Protection for the Social Security of Women" event organised by HNB Finance, Community Police Division and the Biyagama Police Station to celebrate the International Women's Day.

Promoting Traffic Discipline and Road Safety

With an increasing number of traffic related deaths reported each year, improving the safety of drivers and pedestrians has become a pressing issue in Sri Lanka. Road discipline is extremely important in this regard for which the traffic police should be equipped with the essential accessories to assist drivers and pedestrians in navigating Sri Lanka's crowded roads with ease. Pursuing this objective, HNB Finance PLC donated road signboards to the Mirihana Police Station in October 2021 marking the second phase of this initiative under its Sustainability and CSR strategy. HNB Finance PLC believes that through this programme, the Company will be able to support the general public with awareness on road safety and discipline.



Managing Director/CEO, Chaminda Prabhat, Marketing Head, Udara Gunasinghe and Senior Manager Marketing Support Services, Thilina Dissanayake officially handing over the signboards to Mirihana Chief Inspector of Police, Indika Thushara, and Traffic OIC, Chaminda Gajanayake

Providing Dry Rations and Essential Items for 100 Visually Impaired Families through *Mehewara* Initiative

HNB Finance PLC has consistently engaged in promoting the well-being of those who have been adversely affected by physical handicaps. This year, the Company donated dry rations and essentials to 100 visually impaired families in Seeduwa, through its *Mehewara* initiative.

The *Mehewara* Fund is built through voluntary contributions by the Company's staff, as well as donations by the Company, in fostering socially responsible and charitable activities in assisting individuals who need a helping hand.



CHRO/HR and Administration DGM Ruwan Fernando, Training Head, Anura Udawatta, and Training Manager, Nuwan Kumara handing over dry rations to a recipient.

Mehewara Fund

Mehewara is a unique project from HNBF that derives its funding from the voluntary contributions of staff members, which is used to engage in socially responsible and charitable activities. This concept was developed by HNB Finance employees as a response to the needs of less fortunate groups and individuals during times of need. Through a range of successful projects, the *Mehewara* Fund helped hundreds of families to tide over difficult times. Given below are details of the funds disbursed through *Mehewara*.

Mehewara Fund details: 1 April 2021 to 31 March 2022

Purpose	Number of beneficiaries	Amount granted (LKR)
Donation providing a dry rations bag for blind persons (13 December 2021)	100	400,000
Donation of necessary equipment to Kantale Hospital (22 July 2021)		275,000
Total		675,000

Success Stories

"HNB Finance helped us weave a profitable handloom textile business, and help rural women"



Achini Liyanage
Sunimal's Handloom and Avora Hotel

In the words of Mrs Achini Liyanage: "My sister Ruvini and I have worked hard to develop this handloom textile business, which was founded by my grandfather. We buy the textiles from rural women, and give them the required finishing touches, so that they suit the current market trends. For this purpose, we have set up our own showrooms in Kandy, Kurunegala, Colombo, Pelawatta and Ella under the name Sunimal's Handloom. We also export our products, in addition to selling them in Sri Lanka.

It was while running our business successfully that we set out to build a new hotel named "Avora Hotel" on Rajapihilla Mawatha in Kandy. When we had completed the construction work of the hotel, we ran short of money to buy the furniture and other equipment. On the very first day we stepped into HNB Finance, we got the feeling of trust that we would be able to promptly get a loan that suited our requirements. We received the full amount that was requested, which helped us complete the remaining work of the hotel. Even now, we do not have to go to HNB Finance to pay the loan instalments. An officer comes to us and collects the amount on the due date.

For anybody who has plans of getting a business loan, I recommend going to HNB Finance without a second thought. I'm saying this with confidence through my experience that the officers of HNB Finance are always committed to fulfilling your loan requirement promptly, with trust".

"Tailor-made solutions to stitch together a successful business, with an HNB Finance microfinance loan"



Suranga Kasthuriarachchi
Richmo Tailors

Suranga Kasthuriarachchi first worked for a few years in a tailor shop when he had the urge to start his own business. Here's how he describes his journey.

"I rented a small place and started my own tailor shop. Within a short period of time, more and more people became regular customers, exceeding my expectations. To meet the demand, I needed to buy another machine, but there was no money as what I had in hand was reinvested in the business. I was faced with the problem of getting funds. We didn't even have enough assets to get a loan from a bank, and that is when HNB Finance came to our aid. My wife is Nilanthi Kalugamage. She joined HNB Finance's "Diriya" microfinance scheme. As a result, we were able to buy a sewing machine at that time".

In the words of Nilanthi Kalugamage: "I joined HNB Finance microfinance scheme, because I wanted to help my husband's business. The kind staff at HNB Finance made arrangements to give us the loan to continue the operation of this tailor shop. Having obtained the first loan of LKR 15,000.00 today we have taken out loans of up to LKR 500,000.00 from HNB Finance. We tailor all of our customers' clothing needs in this area, from school uniforms to wedding dresses. I am happy to say that

today we have been able to provide employment to six more people. It is with immense gratitude that I say how HNB Finance gave us the courage and the financial strength to successfully continue our business to this day".

"We are reaping the fruits of our labour with HNB Finance"



W M A Nishantha
S Nirosha Kumudini Rodrigo
Nirosha Fruit Suppliers
Madamulla, Minuwangoda

Based in Madamulla, Minuwangoda, W M A Nishantha is the proud owner of Nirosha Fruit Suppliers, who outlines the story of this success:

"My hometown is Minuwangoda, which is famous for mangoes. There are several small villages such as Kopiwatta, Boragodawatta and Madamulla, with lots of mango trees. I strapped a wooden box to my bicycle in 1988, and went to the aforementioned villages to buy mangoes for resale. Soon, I realised that it would be difficult to go on a bicycle and collect mangoes to expand the business, so I purchased an Isuzu ELF from a friend of mine."

Adding to Nishantha's story was his wife, Wanni Nirosha Kumudini, who provided more insights on the background and growth of the business.

"I learned that one of the problems that many business owners face is the need to wait for two or three months for cash to start coming in. We used the first loan from HNB Finance to purchase mangoes

during a financially strained period, and it was a great relief to have HNB Finance's agents come to us to collect the loan instalments, as well as look after the business and advise us on how to profitably navigate the business environment. Thereafter, all the financial needs for our business have been met, thanks to HNB Finance.

Now, our Company functions as a collection centre for mangoes brought in from various parts of the country. We also supply to the Peliyagoda Manning Market, Cargills Food City and CBL. Recently, a company that exports mangoes to the Middle Eastern market started purchasing mangoes from us.

Today, I have several employees to assist in the business, and also have three lorries for mango collections – one of which I got through HNB Finance's Leasing facility. I have been able to build homes, educate my children and bring the business to this level because HNB Finance has always been closely associated with me as my finance partner", says Nishantha.

"HNB Finance helped me mould my plastics business into what it is today"



Ranjith Amarutunga
KVR Plastic Industries
No. C-08, Industrial Estate, Ekala

The recycling industry is constantly growing, and plastic recycling is one of the leading businesses in the world today. These are the words of Mr Ranjith Amarutunga, proprietor of KVR Plastic Industries:

"In the year 2000, I joined a private company that recycled plastics, and was in the industry for about 20 years, during which time I learned a lot about every aspect of this industry. I started by own business with a capital of LKR 500,000.00 which I used to purchase a small plastic recycling machine. It was during this time that I came to know about HNB Finance. I needed a loan of LKR 3 Mn, and it did not take long for them to disburse my loan after submitting the relevant documents. I was impressed that I was able to get a loan that suits me without the hassle of any unnecessary paperwork. It was then that I decided to always go to HNB Finance for all of my financial requirements, With the relationship build up over the years, I went ahead to obtain a loan of LKR 10 Mn.

Today, I have about 35 employees and two more factories. I would like to take this opportunity to thank HNB Finance for all the support I have received, making a success of my business, especially the Ja-Ela Branch and its Manager".

"HNB Finance has made our traditional brassware business a shining example in the industry"



Kanthi Jayamangala
Traditional brassware manufacturer
Pilimathalawa, Kandy

The suburb of Pilimathalawa in Kandy has earned a reputation as an area that has continued to produce some of the best brassware in Sri Lanka. Kanthi Jayamangala the wife of a traditional brassware

maker in Pilimathalawa, recounts her challenging, yet rewarding journey as one of the area's leading brassware manufacturers.

"My husband comes from a family that has been involved in the traditional brassware manufacturing industry for generations. Ever since our marriage, I have made it a priority to support the success of his trade. Access to financial capital at the initial stages is absolutely crucial to those who are involved in this particular industry, particularly when it comes to production, due to the extremely high prices of the raw materials. There are numerous occasions when we struggled to buy raw material due to shortages of funds.

I approached the HNB Finance branch manager in Kandy, who immediately arranged for my initial loan of LKR 60,000.00 Thereafter, I have patronised HNB Finance, and they have never let me down during the many years of our partnership. Not only do they fulfil our financial needs, but gave us access to numerous resources to improve our operational knowledge and financial discipline through their training division. This lead to me to participate in their "Entrepreneurship Development Workshop" held in 2019 in Colombo, which aimed to empower and uplift leading medium-scale business women across the country.

Due to the stable support from HNB Finance, our business has been able to provide employment opportunities and a livelihood to many in our area. It has enabled us to expand the distribution network of our brass products to move beyond the limits of Kandy to surrounding cities, including Colombo. Therefore, I will continue to cherish all the good memories and invaluable assistance and strength that HNB Finance has given our family over the years."

"While the pandemic was raging, we needed a timely 'booster' in funding, which was provided by HNB Finance"



Shan Meemanage
Divron Bioventures Pvt Ltd

Shan Meemanage, a young entrepreneur, has been involved in multiple businesses across the country. This includes Divron Bioventures Pvt Ltd, which was started in 2015. Prior to that, he was engaged in breeding and exporting oysters from lagoons through his company, Tropical Shellfish, which was instrumental in bringing much-needed foreign exchange into the country. HNB Finance has been his financial partner over the years, offering a competent services and meeting his funding needs as and when they arose.

"During the pandemic, we had an urgent foreign order that came to us unexpectedly and HNB Finance offered us a swift loan of LKR 5 Mn. As entrepreneurs have very little time, we expect efficiency and smooth transactional processes from financial institutions. I can assure that HNB Finance is the best fit to meet all your financial needs as they have the ability to provide the service that is expected from them."

This funding was like a "booster" shot, which helped us meet our business obligation, while many other companies could not stay afloat due to the impact of the pandemic.



Natural Capital

HNB Finance PLC
Annual Report 2021/22

Natural Capital refers to all renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organisation. While operations at HNBF do not contribute towards any significant damage to the environment, we ensure that all our activities conform to accepted principles and best practices related to preserving our natural capital.

HNBF's Natural Capital Base in a Nutshell



Energy consumption
(kWh)

1,654,793

2021/22

1,693,110

2020/21

Variance %

-2.26



Water consumption
(m³)

16,735

2021/22

16,496

2020/21

Variance %

1.45



Paper consumption
(A4 bundles)

6,880

2021/22

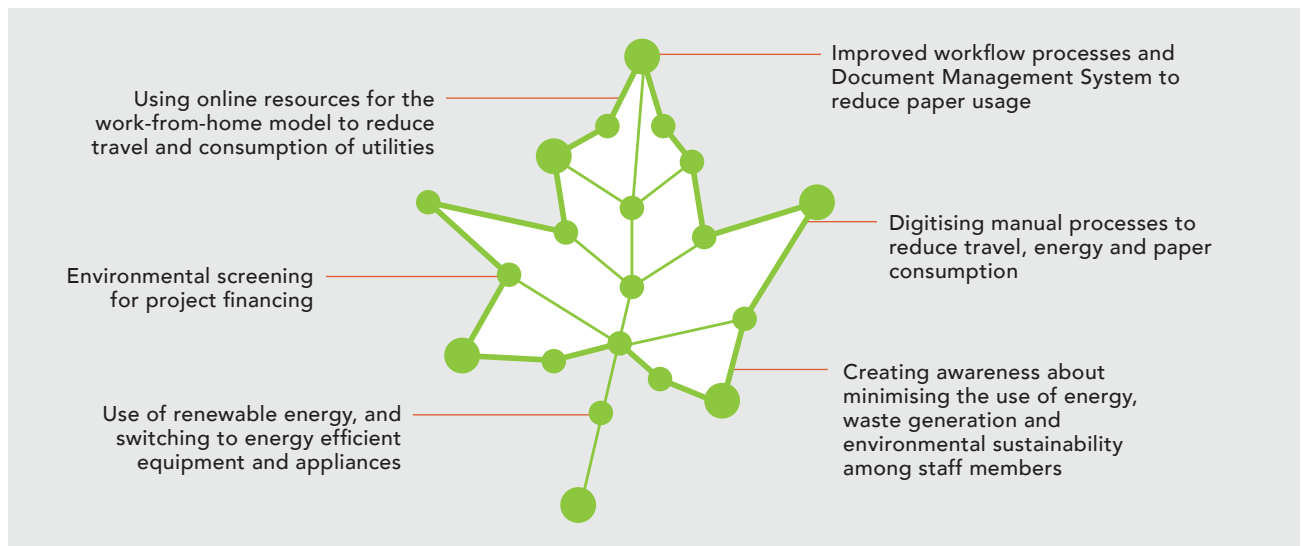
7,131

2020/21

Variance %

-3.52

Creating and Replenishing our Natural Capital



Taking a holistic view of safeguarding our natural capital, HNB Finance PLC has undertaken a number of initiatives aimed at becoming a truly “Green” organisation. These include:

- **Sustainable Operations –**
From recycling programmes to energy, water and paper consumption in all our offices to reduce our operational footprint on the environment
- **Business Process Re-engineering –**
To minimise duplication of processes and waste generation, and embedding a culture of environmental conservation
- **Sustainable Lending –** Incorporating environmental due diligence into our lending process, including site visits, assessment of clients’ environmental record or third party assessments prior to approval of loans
- **Green Products –** Developing new products and services that adhere to principles of environmental conservation such as paperless statement, use of apps and work processes which reduce the need for paper and printing
- **Raising Awareness –** Among employees, customers and other stakeholders on the need for protecting the natural environment
- **Community Engagement –**
Engaging in environment friendly projects within the community, as part of our CSR initiatives

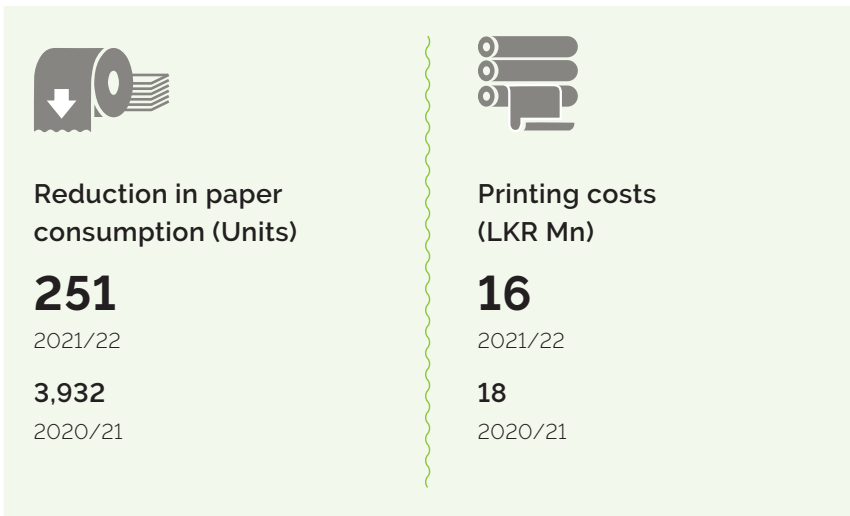
Work-from-Home Model

The pandemic has resulted in the unintended consequence of opening up a new, reimagined style of working, away from the standard office model. As the use of office spaces and utilities dropped to hitherto unheard of levels, the reduction in staff travel led to a significant decrease in fuel consumption and its attendant environmental pollution. Meetings held within office as well as those held outside, were shifted to the online mode, leading to considerable savings in time and resources. Adoption of digital platforms by customers resulted in further reductions in the use of paper and printed materials. This has also opened up opportunities for possible allotment of off-peak hours work, as well as remote-working personnel, according to operational demands.

Digitising Manual Processes

Several processes which were carried out through laborious, manual processes have been digitised. While limiting the number of staff required for these tasks, it has also reduced the need for paper and printed material, which were generated in large quantities during the manual operations. We have put in place a number of initiatives to facilitate the transition of a number of processes to the online mode, and create a paperless work environment in the near future. With the digitising of workflows and use of the Document Management System (DMS), the physical transfer of documents between Head Office and the branches for approval and signatures has been minimised, resulting in less fuel consumption, pollution and the waste of valuable staff time.

Following the integration of SLIPS and CEFTS, money transfers can be made directly to customers’ accounts without the need for printed cheques. Internal communications and related documentation have already moved online. The Document Management System (DMS) has virtually eliminated the need for photocopies and physical storage of documents.



Green Branch Programme

This is an initiative that encompasses the entire branch network, and is intended to make our branches more environment-friendly. The HNBF "Green Branch" programme was initiated to make our branches more environment friendly, with less consumption of energy, water and paper, in addition to having automated, digitised work processes. Adoption of sustainable construction practices is being followed whenever circumstances permit. Regular maintenance and repair of equipment is carried out to ensure optimal performance, and reduced energy wastage. New branches on Company owned premises are constructed according to globally accepted best practices for sustainable construction, promoting natural illumination and the reduced need for artificial lighting. We have also installed eco-friendly air conditioning systems in keeping with "Green building" requirements.

Expenditure on Electricity and Water

Due to a series of initiatives carried out during the year, consumption levels of electricity have shown a considerable decline.

Energy Conservation

We have adopted energy reduction targets across our entire branch network, which are met through initiatives such as LED lighting, thereby keeping consumption within acceptable levels. Employees are made aware of the need to conserve energy through campaigns that emphasise the need to use the staircase instead of elevators as much as possible.

Water Consumption

Since water consumption is limited to utility purposes of staff across the branch network, HNBF does not pollute natural water resources. The Company makes every effort to limit the wastage of water and promotes responsible consumption among staff members. Given below is the total water consumption by HNBF during the year under review.



Municipal water
supplies (m³)

332

2021/22

0

2020/21



Water Board (m³)

16,735

2021/22

16,479

2020/21



Other sources (m³)

0

2021/22

17

2020/21



Total water
consumption (m³)

17,067

2021/22

16,496

2020/21

Waste Management

The Company's branch network adheres to municipal rules on waste segregation. Such segregation ensures that the municipal authorities can carry out recycling of such material according to each category. We encourage employees to keep their food wastage to the minimum possible level. We have also banned the use of polythene, providing staff members with reusable lunch containers, thereby effectively enforcing the Company's commitment to reduce its use of non-recyclable materials.

Raising Employee Awareness

No policy on preserving the environment is feasible, unless if it is wholeheartedly and voluntarily embraced by the staff. We have created a shift in employees' behaviour by implementing our programmes on reducing energy, paper and other forms of waste generated by our offices. Employees make a conscious effort to minimise their wastage of natural resources and consumption of paper and printing. We also provide regular training to inculcate a conservation-oriented mind-set among staff members, and encourage them to submit ideas that can help us reduce our carbon footprint.

Responsible Lending

While our operations do not contribute in any way towards environmental pollution, we are acutely aware of how our project lending could do so. We have integrated environmental concerns into our lending operations through the adoption of the Triple Bottom Line (TBL) concept of providing equal importance to the People, Planet and Profit. Environmental screening is mandatory in our SME lending model. Customers are evaluated on the basis of their possession of valid permits, licenses, and approvals, thereby ensuring that they are able to carry out their operations in an environmentally responsible and ethical manner.

We are firm in our conviction that long-term, sustainable value creation is dependent on the proper conservation of natural resources and surrounding communities, and is in the best interests of our Company as well as all our stakeholders. This creed goes beyond mere words, as we make a conscious effort to minimise our carbon footprint and other forms of impact on the environment through dedicated and continuous practices designed to safeguard our natural capital.



Non-crumbling of
recrement (polythene)
(kg)

348

2021/22



Crumbling of recrement
(paper and cardboards)
(kg)

337

2021/22



Food of recrement
(kg)

2,709

2021/22



Enhancing Performance and Profitability through Business Process Re-engineering

Business Process Re-engineering (BPR) has gained worldwide acceptance, over the years, as an effective management strategy that focuses on the analysis and redesign of workflows and business processes, which help companies to radically restructure their organisations. BPR emphasises a holistic focus on business objectives and encourages full-scale recreation of processes rather than iterative optimisation of subprocesses.

The implementation of Business Process Re-engineering (BPR) has enabled HNB Finance to achieve far-reaching benefits across the entire Organisation. It has encouraged the Company to take a long-term strategic view of its operational processes by undertaking a thorough analysis, involving brain-storming sessions with all relevant staff, on its current situation and future prospects.

In response to accelerated developments in FinTech and related technologies, as well as the constantly changing business landscape and customer needs, we have been engaged in rethinking and radically redesigning our business processes, in order to achieve exponential improvements in cost optimisation, quality, efficiency, customer service, flexibility, and digital transformation of the overall business.

As we move forward in implementing our BPR strategies, we envisage a vastly improved customer experience, customer acquisition and retention; increased penetration into new customer segments, streamlined operations; radical shifts in organisational culture, improved brand reputation, as well as the digital transformation of the entire Organisation.



**BPR savings
(LKR Mn)**

70

2021/22

60

2020/21



**Cumulative BPR savings
(LKR Mn)**

170

2021/22

100

2020/21



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

274

2021/22

379

2020/21

Enhancing Performance and Profitability through Business Process Re-engineering

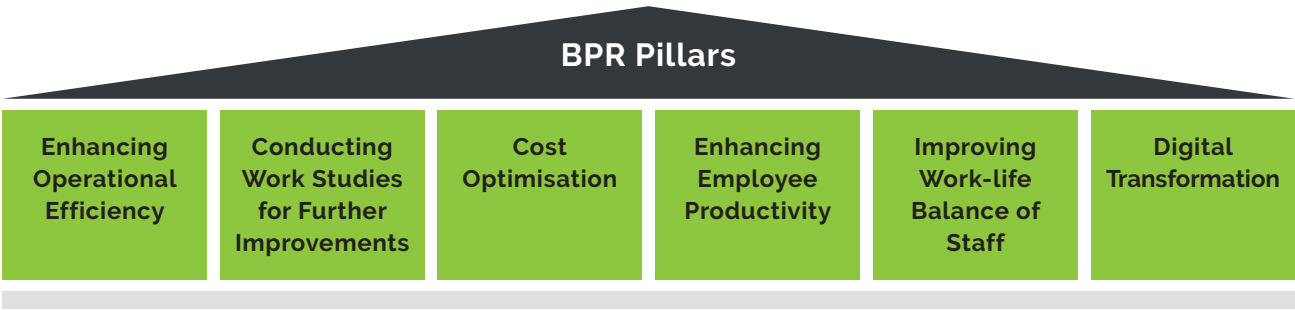
The BPR process, which was commenced at HNB Finance PLC in 2018, has been extended to encompass all operations, across our product lines and branch network. As a result, we have achieved exceptional operational efficiencies and cost savings, in addition to creating a cultural shift across the Organisation. These are intended to embed the behavioural changes needed towards sustaining this effort in the long term. The BPR team is fully engaged in digital transformation

across the entire Company, which will place us in a better position to reap the benefits of the latest technologies, while conferring a significant competitive advantage in the context of a rapidly evolving business landscape and customer expectations. It will also enable the Company to readily embrace the very latest in technology, in order to successfully overcome challenges of

the emerging business environment, and meet the needs of customers who belong to a wide range of socio-economic segments and varying levels of technical and financial literacy.

We have also been engaged in analysing our existing processes, establishing KPIs for measuring the outcomes, refining or even making a complete overhaul of processes when required, on a continuous basis.

The BPR initiatives followed at HNB Finance PLC is based on the following pillars:



1.

Enhancing operational efficiency

Continuously revise the process maps to align with the industry and customer expectations

Based on findings from the process maps, all necessary procedures were formulated and shared with the branches, which facilitated improved operations and overall efficiency. The initiatives carried out included identifying, refining and improving inefficient systems, needless complexity, error-prone processes and non-automated processes. We were also able to:

- Revisit the loan evaluation documents.
- Conduct competitor analysis and benchmark it with HNB Finance PLC processes.
- Conduct branch floor planning analysis to attain efficient branch layout in order to reduce unnecessary movement of people.

Improve Process Quality

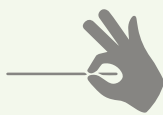
Monthly meetings are conducted to review the Service Level Agreements (SLA) where measures required to be taken to reduce Turnaround Time (TAT) and improve the quality of customer service, analyse delays and their possible causes, and ways to overcome such delays are deliberated.

Following the adoption of Six-Sigma methodology and concepts, HNB Finance PLC has achieved considerable

improvements in terms of more streamlined processes, reduction in process costs, cycle-time improvement, less waste of materials, improved insights into customer requirements, increased customer satisfaction and revenue, in addition to designing products and services which meet their needs more effectively.

Adapting to Pandemic Conditions

The functioning of the BPR team was put to the ultimate test during the COVID-19 pandemic, when we had to formulate and implement a comprehensive range of solutions for a majority of staff in the branches to work from home. This was carried out successfully, resulting in satisfactory performance across all sectors, given the overall conditions prevailing at that time.

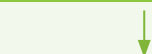


2.

Conducting work studies for further improvements (Referring to Lean Six Sigma Methodology)

As the very nature and structure of finance organisations consist of intricate processes and considerable cross-functional operations, we have used the Six-Sigma process to identify suitable strategies, which involves the use of proven tools to improve the capability of our business processes in order to improve performance and reduce the level of variations in our processes. This leads to reduction or removal of unproductive processes, and improvement in profits, employee morale, and quality of products or services.

Mapping the existing processes



Identifying and evaluating the gaps



Developing processes



Implementation



Continuous improvement



3.

Cost optimisation

At HNB Finance PLC, we have embraced Business Process Re-engineering (BPR) through a combination of strategic redesigning of processes, combined with cutting-edge technology deployed, to make significant improvements in cost optimisation.

Working closely with the Cost Optimisation Committee, the initial focus of the BPR efforts had the primary objective of optimising the overall cost structure in order to achieve Company objectives in this regard. This has resulted in the achievement of over LKR 274 Mn in savings for the year under review, which nearly equals the targeted profit for the year.

Implement Cost Control Strategies for the Entire Business

Our BPR initiatives are also intended to improve performance in leasing, business loans, microfinance and Gold Loans, as well as Non-Performing Loans (NPL), thereby enhancing profitability further as the year unfolds. The processes are constantly updated to ensure that objectives are met, and being rolled out across other functions.

Implement Cost Optimisation Strategies P&L Line Item Wise and Appoint Cost Owners

We have appointed cost owners for each P&L item to ensure that our cost optimisation objectives and profitability objectives are realised. We also continued to review their progress and cost savings with the budget. This has been followed up with drastic measures taken during instances where a cost item exceeded the budget.

Utilise Technology Initiatives for Cost Reduction and Monitoring

We have focused on redesigning core processes, using information technology to enable improvements, creating cross-functional teams, as well as improving business processes across the Organisation. This has resulted in vastly improved productivity, without increasing the number of staff. Current initiatives include Workflow Management Systems (WMS) and the Loan Origination System (LOS) in addition to using the Stationery Management System to reduce and control the unnecessary purchase and usage of stationery.

New Recruitment will be Rationalised Using Minimum Staff Plan

By streamlining our processes and using technology for minimising or eliminating unnecessary procedures, the functioning of staff was optimised, leading to overall improvements in productivity and profitability.

Enhancing Performance and Profitability through Business Process Re-engineering



4.

Enhancing employee productivity

Analyse the required job functions and redesign to match with current process

Focusing on improving employee productivity, we were able to work out collaborative processes involving the business and back office staff. This involved the analysis of our leading competitors, particularly with regard to where we stand compared to our competitors in terms of a number of criteria, and how we can improve our own performance, while improving employees' productivity.

Expand the Lean Six Sigma knowledge base and build a "Lean" culture

We have initiated training of our staff towards obtaining the Yellow Belt in Lean Six-Sigma, which helps towards embedding methods among our staff to reduce costs, increase revenue, streamline business processes, and improve employee buy-in, resulting in improved profitability.

Among the major benefits of Six-Sigma training is the creation of a "Lean" culture of minimising resources, time and effort; continuous improvement, and changing the way work gets done by changing processes. This envisaged cultural change will lead to a paradigm shift in organisational behaviour and a strengthened strategic focus towards sustainable value creation.

With the SLA, drive employees to work to stipulated times for increasing productivity

Specific instructions, time frames and workflow processes have been put in place to ensure that employees are able to perform allotted tasks within each department in alignment with SLA guidelines. We intend assigning SLA to several more processes as explained earlier, in the ensuing year.



5.

Improving work-life balance of staff

Maintaining a proper work-life balance is critical for employees to improve their well-being and productivity. We have undertaken a number of initiatives to ensure that our employees enjoy an optimal work-life balance, while improving their career progression. These include personal interventions, as well as technological improvements. Processes are reviewed continuously to check work duplication, overlapping work, and maintaining standardised working practices in the entire Organisation.

We also have implemented various processes and automation which minimise duplication of repetitive tasks.

Initiatives conducted to assure timely functioning of entire Organisation

Effective and timely functioning of HNB Finance is ensured through a multipronged strategy, which includes: the optimal use of our human resources focusing on training and development, for employees to conduct their work duties in a more efficient manner, concentrating on our customers and seeking their feedback to improve our offering, improving our products and services, and using the best possible technologies that meet our operational and customers' needs. We also engage in monthly monitoring of the timely functioning of the branches and address the issue points as and when they arise.

Develop efficient processes

The BPR team is constantly focused on evaluating processes and making the required changes, while introducing new initiatives, such as reducing the number of steps involved in each process, in addition to implementing technological solutions which can vastly improve performance.





6.

Digital transformation

An essential component of BPR is the improvement in the technological environment, especially digital transformation across the entire Organisation. Several technological initiatives have been introduced to increase business, and achieve process excellence.

Digital Initiatives carried out include:

- Convert other operational activities to digital platform (Ex: Recovery app, Asset Management solution).
- Stationery Management System – control stationery purchase acting as a centralised unit, helping to monitor cost more accurately and transparently
- DMS – Document Management System. This leads to reduce printing cost, courier cost and time, documents lodging cost, improvements in qualitative aspects of marketing executives' time

Maximum Utilisation of the Digital Platforms in all Processes

Taking this digital transformation initiative further, marketing executives in business loans, leasing and microfinance were provided with hand-held electronic devices with the aim of introducing lending platforms which could be handled entirely online in real time. This would involve scanning all required documents and uploading them into the systems, where they could be processed and approved. This will lead to immense savings in time and cost.

Looking Ahead

Most of our envisaged plans are based on the merger with Prime Finance PLC, with a number of initiatives to be implemented in order to maximise the synergies arising out of this union.

Focusing on the Merger

We anticipate a heavy workload in implementing BPR process improvements across the merged organisation. These include reducing overall costs, optimising costs across the combined branch network, changing floor plans to reduce unnecessary movement of personnel in the new branches and maintaining optimum levels of staffing. On the technical side, the structure of the existing network has been changed to reflect the merged operations.

This will involve aligning the processes currently followed in both organisations, identifying the gaps and rectifying them, formulating new processes, reviewing and implementing them, in addition to continuous monitoring. The envisaged implementation of new systems, as well as the potential improvement in efficiency and reduction in costs, will help us achieve our target. It will also help us conduct training programmes to bridge any knowledge gaps of Prime Finance staff, and assess the processes in order to provide the best possible fit in technological initiatives to make further improvements.

The merger with Prime Finance could further enhance the role of BPR, which would involve aligning and redesigning a common process in implementing products such as leasing, in which both organisations are engaged. The resultant synergy could lead to a leasing business which will be considerably larger.

Enhancing Performance and Profitability through Business Process Re-engineering

Envisioning the Future

▶ 1 Continuing the Digital Transformation Journey

This will be a continuous journey embracing new technologies and processes across the entire organisation. Areas for further technology development will also be identified in order to minimise wastage and increase efficiency.

Planned Digital Initiatives

- Workflow Management System
- Loan Origination System
- CRIB App

▶ 2 Continuous Efficiency Improvements

BPR unit will mainly focus on reducing the turnaround time (TAT) of lending products, to reach the targeted disbursements and improve customer satisfaction. This will also be extended to other business lines in future, with the implementation of Workflow Management System focused on monitoring the TAT of other business lines and operations to improve efficiency.

▶ 3 Continuous Cost Optimisation

The BPR team will continue to evaluate all strategies regarding cost initiatives and their success, while implementing new strategies for future cost optimisation goals.

▶ 4 Maximise Staff Productivity

The ratio of back office to front office staff will be further improved to ensure improved performance. Increased training and the optimal use of technology will be carried out to improve productivity further.

▶ 5 Managing Recruitment

Increased use of technology is expected to reduce a number of repetitive tasks, and automate many others, leading to a reduced need for new staff, and the rationalisation of recruitment.

▶ 6 Introducing Service Level Agreements (SLAs)

SLAs will be extended across all operations and product lines.

▶ 7 Build a Lean Culture

Six-Sigma yellow belt training will be extended across more departments and staff members for large cost saving projects. Projects will be evaluated on a competitive basis and winning teams will be rewarded.

▶ 8 Expand the Lean Six Sigma Knowledge Base

Learning of Lean Six Sigma methodology will be expanded further by conducting more programmes, and upgrading for higher belt levels will be pursued.

▶ 9 Continuous Revisions to Business Processes

As the business landscape continues to evolve, especially in terms of competitive action, developments in technology and customer preferences, BPR will continue to play a strategic role in meeting such challenges successfully.

▶ 10 Focus on Improving Quality

Our strategy for improving quality will include the deployment of cross-functional teams that work together to determine areas of improvement, optimise processes, eliminate unproductive processes, and improve our decision-making through the use of data and analytics. Changes in the external macroeconomic conditions will continue to be a key driver in determining our BPR strategies, as these could have an overarching impact on the bottom line, hence need to be addressed as and when such related issues arise.

In a rapidly changing macroeconomic scenario and evolving customer needs, BPR will help us achieve a range of benefits, which include:

- Clarity of Purpose – Having a solid grasp on the viability of current business processes and possible scenarios due to changes in the environment, which will enable us to adapt our processes accordingly.
- Simplified and Streamlined Operation – Removing superfluous processes and unnecessary steps in processes, which saves time and improves customer satisfaction.
- Increased Efficiency – Eliminating redundancy in operations and tweaking processes to improve overall efficiency.
- Better Results and Products – Building better relations with customers through streamlined, digitised processes and better lines of communicating between cross-functional teams to make our business more resilient to market changes.
- Maximise ROI – Ensuring that all these processes work together in ensuring overall improvements in efficiency and profitability, thereby maximising Return on Investment for the Organisation.

Board of Directors

HNB Finance PLC
Annual Report 2021/22

AN OVERVIEW OF
THE COMPANY

PERFORMANCE
REVIEW

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BUSINESS MODEL

MANAGEMENT DISCUSSION
AND ANALYSIS

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SUPPLEMENTARY
INFORMATION



Mr Dilshan Rodrigo
Chairman/Non-Independent
Non-Executive Director

Mr Rodrigo possesses over two decades in banking experience and is the Executive Director/Chief Operating Officer of Hatton National Bank PLC. He provides administrative leadership to Finance, Credit, Operations, Risk Management, Banking Services, Compliance and Internal Audit functions. He is overseeing the cross-functional teams involved in improving governance and compliance by serving in several Board and Management committees in the Bank. Mr Rodrigo holds an MBA from Cranfield University UK, FCMA UK and FCCA UK.

He has played a catalyst role in the Bank's transformation and cultural change by being the driving force towards centralisation, automation, outsourcing and process improvement initiatives and is recognised for driving a performance culture through training, talent acquisition and introducing several breakthrough cost optimisation initiatives.

Mr Rodrigo has held many senior positions in multiple industries ranging from banking, insurance, investment banking and apparel. He presently functions as the Chairman of HNB Finance PLC and holds Directorships in HNB Assurance PLC, Guardian Acuity Assets Management Limited, Lanka Financial Services Bureau and Credit Information Bureau. Mr Rodrigo serves on the councils of the Sri Lanka Institute of Directors (SLID) and was the Chairman Policy Advocacy Committee of Asian Bankers Association (Taiwan) during 2011/12 and 2019/20.

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



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. He is a Fellow Member of the Chartered Institute of Management Accountants [FCMA (UK)] and is a Certified Management Accountant of the Institute of Certified Management Accountants of Australia (CMA, AUS). He is also a Member of the Chartered Institute of Marketing (MCIM). He 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 he was awarded the Lean Six Sigma Black Belt (CLSSBB) from Dr Mikel J Harry Six Sigma Management Institute Asia. He is 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 on trade, investment, and innovation across South and South-East Asia. He is the Co-Founder/CEO of a new public policy think tank, Centre for a Smart Future, with advisors, researchers, and policy practitioners based globally.

In the private sector, he is a Director of the regenerative business catalyst Good Life X (GLX), and serves as Non-Executive Director of Seylan Bank PLC, Fairfirst Insurance Ltd, and HNB Finance PLC. He Chairs the Investment Committee of a high net-worth family office.

Anushka serves on the Board of the Sri Lankan Chapter of the Global Entrepreneurship Network and has previously been a member of the World Economic Forum's Global Future Council on Innovation Ecosystems, where he contributed to a toolkit to improve countries' emerging startup ecosystems.

He has experience in government and public policy formulation and implementation. He formerly held a senior government position as Advisor to the Minister of Development Strategies and International Trade, where he led national initiatives on export competitiveness, innovation, and trade adjustment. He has served on the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka and the National Enterprise Development Authority.

Anushka holds a Master in Economics from 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 was an Asia Foundation Development Fellow at the Korea Development Institute, Seoul. He is passionate about wildlife, travel, development oriented photography, and cycling.



Dr Udan Fernando
Independent
Non-Executive Director

Dr Udan Fernando is the Head of Colombo Charter of the Asian Civil Society Research Network, based in the Asia Centre, University of Melbourne. He is a Fellow of the Centre for Poverty Analysis (CEPA), a Colombo-based Think Tank of which he was the Executive Director until March 2020. 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 works as Team Lead – Trade and Investment attached to Deloitte Consulting Overseas Projects LLC within the USAID funded Partnership for Accelerating Results in Trade, National Expenditure and Revenue (PARTNER) Activity. He counts over a decade of experience in trade, trade facilitation, export promotion, private sector development, SME policy, 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 in Microfinance and SME finance, certified by reputed international bodies such as the Frankfurt School of Finance and Management, Germany, and CGAP.

Mr Wijesundara serves as a senior trainer under the YouLead programme and thus far trained over 450 senior-level bank officials and bank managers 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 he has hands-on international development 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 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, Lanka Venture PLC and Lanka Energy Fund PLC. He currently chairs the Board Strategy Committee while also being a member of Audit Committee and BIRMC of the Company. 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.



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 sectors. 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.



Mr Punsisi Lalith Patuwatha Withana
Independent
Non-Executive Director

Mr Lalith Withana has held management positions in the corporate sector for over 25 years, during which he had held Senior Management positions in Banking, Manufacturing and Trading for more than 25 years. He has worked with many organisations such as Brandix Group, Ernst & Young, Amsterdam Rotterdam (Amro) Bank, IBM World Trade, Corporation & Carson Cumberbatch, Ceylon Tea Services Limited and Yamaha Corporation in (USA). Mr Withana served as the Group Chief Finance and Administrative Officer for Sri Lankan Airline and later as the

Chief Executive Officer in its subsidiary SriLankan Catering till very recently.

He is currently serving as the founder and the Managing Director of Agility Consulting Services (Pvt) Ltd and as a Board Director of Softlogic Life Insurance PLC, Acuity Partners (Pvt) Ltd. and HNB Finance PLC.

He had previously served as an Independent Director on the Boards of Bank of Ceylon, Dankotuwa Porcelain PLC, Merchant Bank of Sri Lanka PLC, Ceylease Limited and Seylan Bank. Mr Withana had also been a Commissioner of the Telecommunication Regulatory Commission.

Mr Withana holds a Master of Business Administration (MBA) from the University of Sri Jayewardenepura, Colombo and a Bachelor of Arts (BA) Hons. degree from the University of Manchester Metropolitan, UK. He is a fellow member of the both Chartered Institute of Management Accountants (FCMA), UK, and The Institute of Chartered Accountants of Sri Lanka CA Sri Lanka. He is also a Project Management Professional of the Project Management Institute (PMI), USA.

He serves currently as a Vice president of the Project Management Institute local chapter and as a Co-Chairman of the Finance Committee of the National Olympics Committee of Sri Lanka.

Corporate Management



Mr B M D C Prabhath
Managing Director/CEO



Mr W S P Arangala
Chief Operating Officer



Mr Ruwan Fernando
DGM – HR and Administration/CHRO



Mr Bimal Seneviratne
DGM – Operations



Mr Mahinda Tissa
AGM – Microfinance



Mr Pathum Sampath Cooray
AGM – Branch Network



Mr Prabath Kathriarachchi
AGM – Branch Network



Mr Pradeepa Dias
AGM – ICT/CIO



Mr Thushara Wijewardena
AGM – Credit and Recoveries



Mr Luxman Eraj
Chief Manager/Head of Business Loan



Mr Manjula Kumara Munasingha
Head of Business Systems Development



Mr Sameera Chandranath Gunasekara
Chief Accountant/Head of Finance



Mr Harshana Prasad Kulathilaka
Chief Manager/
Head of Corporate Planning



Mr Rangana Shamil
Chief Manager/Head of Leasing



Mr Chamara Tharanga
Chief Manager/Head of Legal



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



Mr Udara Gunasinghe
Senior Manager/Head of Marketing



Mr Indrajith Rajakarunaratne
Senior Manager/
Head of Credit Administration



Mr Dishan Andrew
Chief Manager/Head of Fixed Deposits



Mr Sujith Kumara
Chief Manager/Head of Recoveries



Mr Anura Udawatta
Head of Training



Mr Lakshman Ranasinghe
Chief Manager/Head of Gold Loan



Mr Lalanga Senaweera
Head of Internal Audit



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



Mr Shamira Kothalawala
Senior Manager/Acting Head of Risk



Mr Amila Gunawardana
Chief Manager/Head of Compliance
Resigned w.e.f. 4 January 2022

Governance Report

HNB Finance PLC
Annual Report 2021/22

AN OVERVIEW OF
THE COMPANY

PERFORMANCE
REVIEW

OPERATING
ENVIRONMENT

BUSINESS MODEL

MANAGEMENT DISCUSSION
AND ANALYSIS

GOVERNANCE

FINANCIAL
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SUPPLEMENTARY
INFORMATION

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

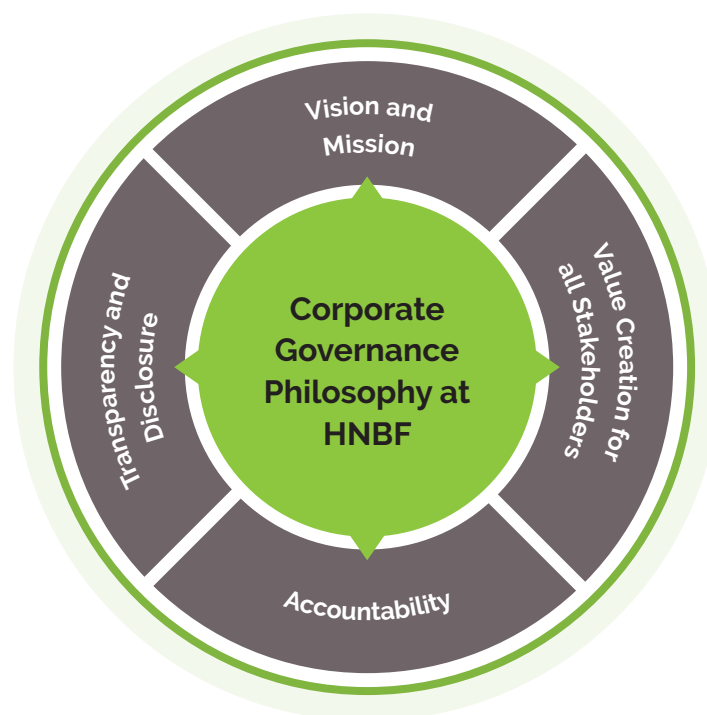
Good governance practices result from the dynamic culture and a positive mindset of the Organisation and thus, remain integral to the way HNB Finance PLC (HNBF) operates. This is well demonstrated in the good credit ratings, shareholder returns, governance processes and the entrepreneurial performance-focused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

The corporate culture is based on an organisational environment where sound governance practices have become a way of life in daily operations for each member of the Company. This encompasses four key practices embedded 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 establishing 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 comprises the units and components within the Company that ensures effective monitoring and execution of governance-related initiatives, systems, and processes. This helps to inculcate a culture of good governance and sustainability of the Company's business model.

B. External governance structure through which the Company ensures compliance to applicable laws, regulations, and best practices.

C. Assurance, which is the supervisory mechanism of the Company's governance framework that ensures the integrity of the operations.

A. Internal Governance Structure

The internal governance structure of HNBF, that 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, with the ultimate responsibility for governance. The 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 HNB Finance PLC, 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 the 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 the subcommittees as shown in the table below. These subcommittees are provided with sufficient resources enabling them to focus on their designated areas of responsibility and ensure independent oversight.

Composition of Board subcommittees as of 31 March 2022.

Name of the subcommittee	Role of the committee	Members
Audit Committee	Assist the Board of Directors in its oversight of financial reporting, internal controls, internal and external audits, and compliance with legal and regulatory requirements.	Mr P L P Withana - Chairman Mr A G R Dissanayake – Member Mr A S Wijesinha – Member Mr P A H D 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 R D Manatunga – Chairman Mr A G R Dissanayake – Member Mr P A H D Wijesundara – Member Mr M Perera – Member Mr B M D C Prabhath – Member
Strategic/Investment Committee	Assist the Board of Directors to provide oversight to the achievement of the Company's strategic objectives and overall strategy.	Mr A G R Dissanayake – Chairman Mr A S Wijesinha – Member Mr D P N Rodrigo – Member Mr P L P Withana – Member Mr D K G Perera – Member
Credit Committee	Assist the Board of Directors to provide oversight to the credit management function, strategies and objectives.	Mr P A H D Wijesundara – Chairman Mr A S Wijesinha – Member Mr P L P Withana – Member Mr B M D C Prabhath – Member Mr R D Manatunga – Member Mr D K G Perera – Member
Human Resources and/ Remuneration Committee	Assist the Board of Directors to evaluate, assess and recommend the Company's remuneration structure to be aligned with performance parameters.	Mr P A H D Wijesundara – Chairman Mr D P N Rodrigo – Member Mr S U H Fernando – Member
Nomination Committee	Assist the Board of Directors to review the composition of the Board to ensure the Board is properly constituted and balanced in terms of skills, experience and diversity.	Mr S U H Fernando – Chairman Mr D P N Rodrigo – Member Mr M Perera – Member
Related Party Transactions Review Committee	Assist the Board of Directors to ensure the Company takes the interest of shareholders as a whole into consideration to avert conflict of interest.	Mr A S Wijesinha – Chairman Mr S U H Fernando – Member Mr R D Manatunga – Member Mr B M D C Prabhath – Member
Procurement Committee	Assist the Board of Directors to evaluate, assess and recommend the Company's procurement activities.	Mr M Perera – Chairman Mr A G R Dissanayake – Member Mr D K G Perera – Member

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 affairs of HNBFI.

Internal Charters and Policies

The internal policies support 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, that is one of the three main components of the governance framework at HNBFI comprises the laws, regulations and best practices mentioned below that enable HNBFI to operate within a sound corporate governance framework. The internal governance structure at HNBFI is modelled to create the necessary checks and balances, and controls to ensure compliance 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 assurance forms the supervisory module of HNBFI's Corporate Governance Framework ensuring the integrity of its operations, a sound governance system and practices.

Compliance

Recognising the importance of strengthening governance with internal control, HNBFI has established a compliance function with the task of monitoring and assessing the Company's compliance with laws, regulations, regulatory guidelines and other approved policies.

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

Internal Audit

HNBFI's internal audit function which focuses on providing independent risk-based oversight to the Board Audit Committee on the processes and controls within the Company, and the 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 and objective assurance of the internal control mechanism, in order to systematically evaluate and propose improvements to enhance the effectiveness of the internal control processes and governance. Internal audit also carries out independent reviews of compliance, with risk policies and procedures to ensure the effectiveness of the risk management procedures at HNBFI. To maintain its independence, the internal audit function reports to the Board through the Board Audit Committee.

External Audit

An external audit report provides the Board with the 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, HNBFI 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 and Chartered Accountants are the External Auditors of HNBFI. 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 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. The 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.

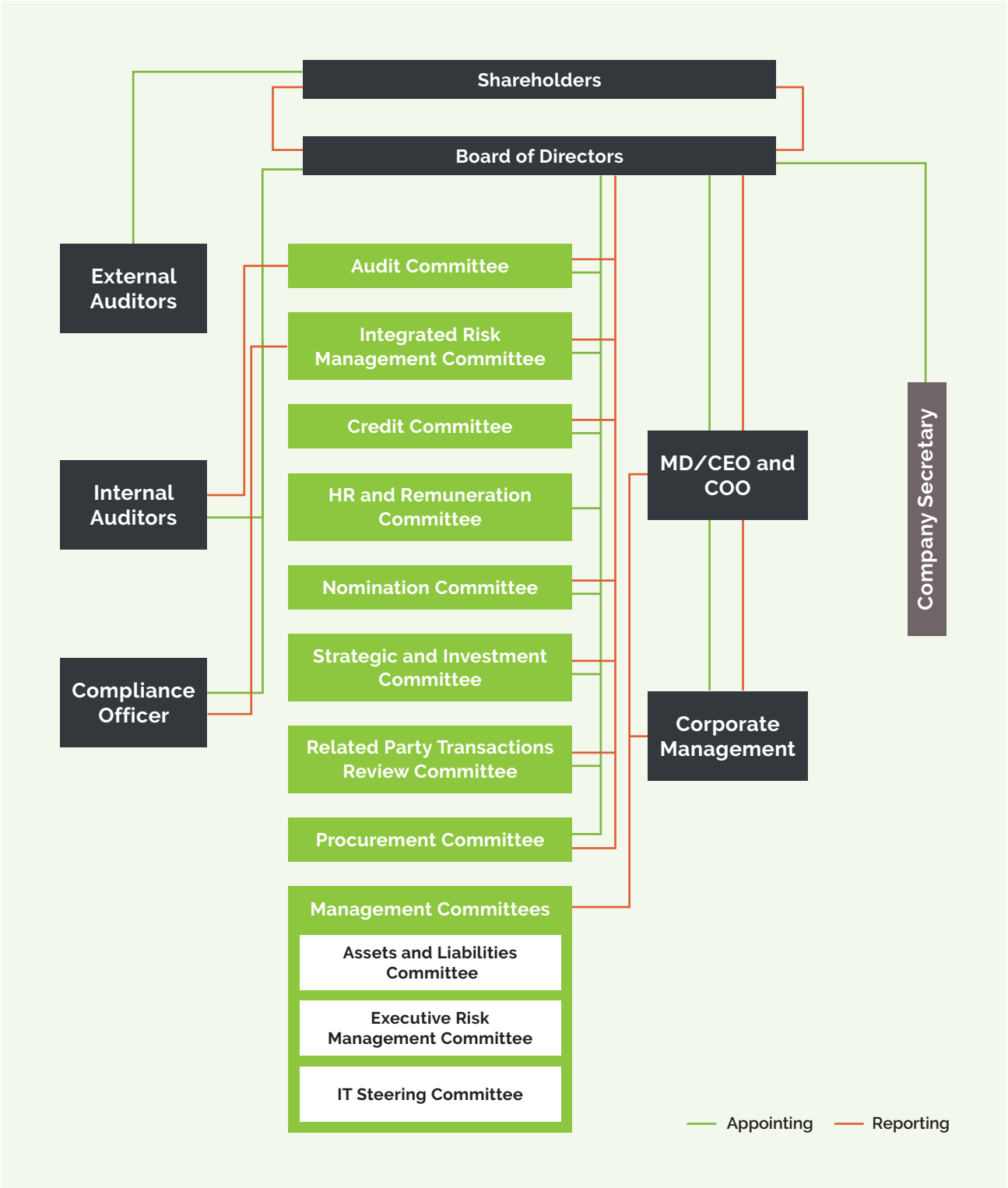
Board committees facilitate the discharge of Board responsibilities and provide in-depth focus on specific areas. Each committee has a mandate setting out its role, responsibilities, the scope of authority, composition, and procedures. The committees report to the Board through their respective Chairmen and, the 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 following 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, the 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 of Directors at monthly Board meetings. At these meetings, the Management is represented by the CEO who apprises the Board of the operations and performance of the Company against set targets.





The Board of Directors

The Board of Directors is responsible for the overall stewardship of HNBF. The Directors are elected by the shareholders to supervise the management of the business and affairs of the Organisation to enhance the 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. The Board members have a broad range of experience and deep industry expertise.

The Key Responsibilities of the Board of Directors

The Board of Directors is elected by the shareholders to supervise the management of the business and affairs of the Company. The prime stewardship responsibility of Board is to ensure the viability of 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 is summarised below:

- Reviewing and approving the overall business strategy, as well as the 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

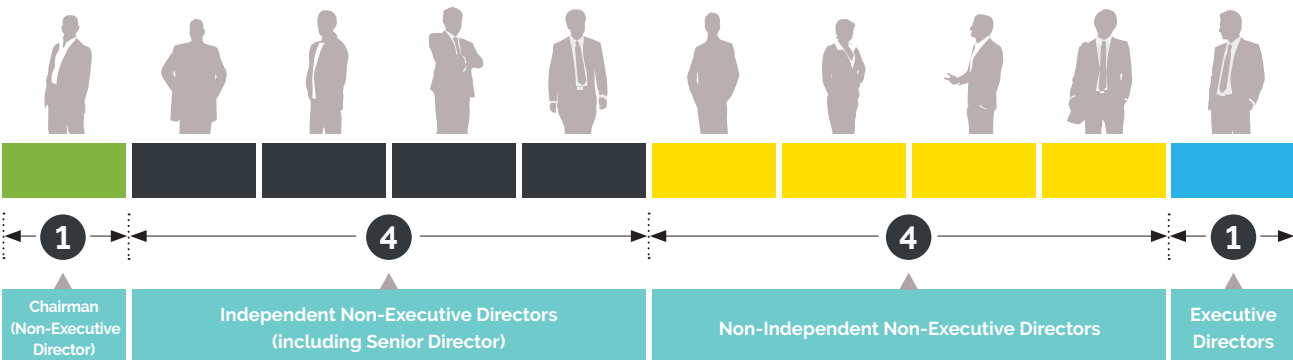
- Overseeing, through the Audit Committee, the quality and integrity of the accounting and financial reporting systems, disclosure controls and procedures and internal controls
- Overseeing, through the Risk Management Committee, the establishment and operation of a risk management system for managing 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 to ensure 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 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 the 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 and are in accordance 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 comprehensible assessment of the Company's performance, position and prospects, including interim and other price-sensitive public reports and reports to regulators
- Maintaining records of all meetings of the Board and Board committees, particularly, records of discussion on key deliberations and decisions taken
- Identifying the key stakeholder groups, recognising that perceptions affect the Company's reputation.

Board Composition

As of 31 March 2022, the Board of Directors comprised ten (10) Directors of whom one (1) was an Executive Director and Nine (9) were Non-Executive Directors. Out of the Non-Executive Directors, four (4) 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 84 to 86 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 the experience gained from leading large private and public enterprises coupled with their academic and professional backgrounds.

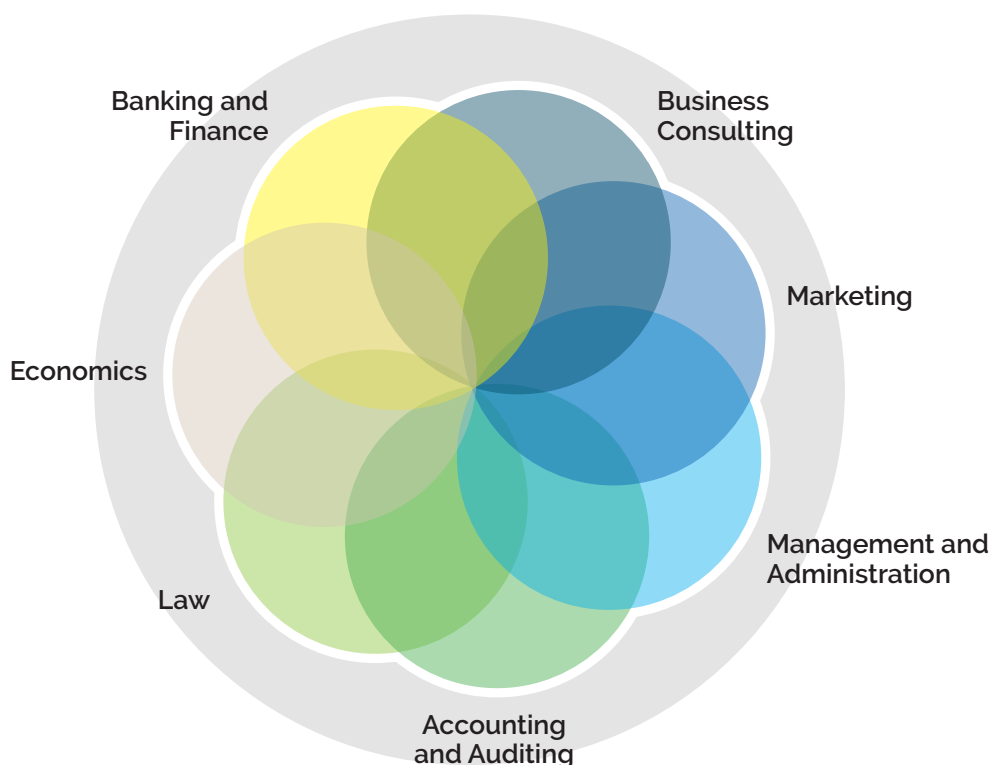
Board composition



No.	Name of the Director	Date of appointment	Board composition	Period of service up to 31 March 2022
1.	Mr D P N Rodrigo	10 September 2021	Chairman – Non-Independent Non-Executive Director	6 months
2.	Mr B M D C Prabhath	29 June 2011	Executive Director/Chief Executive Officer/ Managing Director	10 years and 9 months
3.	Mr A S Wijesinha	18 June 2015	Independent Non-Executive Director (Senior Director)	6 years and 9 months
4.	Dr S U H Fernando	25 June 2015	Independent Non-Executive Director	6 years and 9 months
5.	Mr P A H D Wijesundara	27 September 2016	Independent Non-Executive Director	5 years and 6 months
6.	Mr A G R Dissanayake	29 August 2017	Non-Independent Non-Executive Director	4 years and 7 months
7.	Mr M Perera	29 September 2017	Non-Independent Non-Executive Director	4 years and 6 months
8.	Mr D K G Perera	10 December 2020	Non-Independent Non-Executive Director	1 year and 3 months
9.	Mr R D Manatunga	15 February 2021	Non-Independent Non-Executive Director	1 year and 1 month
10.	Mr P L P Withana	10 September 2021	Independent Non-Executive Director	6 months

Skills, Expertise, and Experience

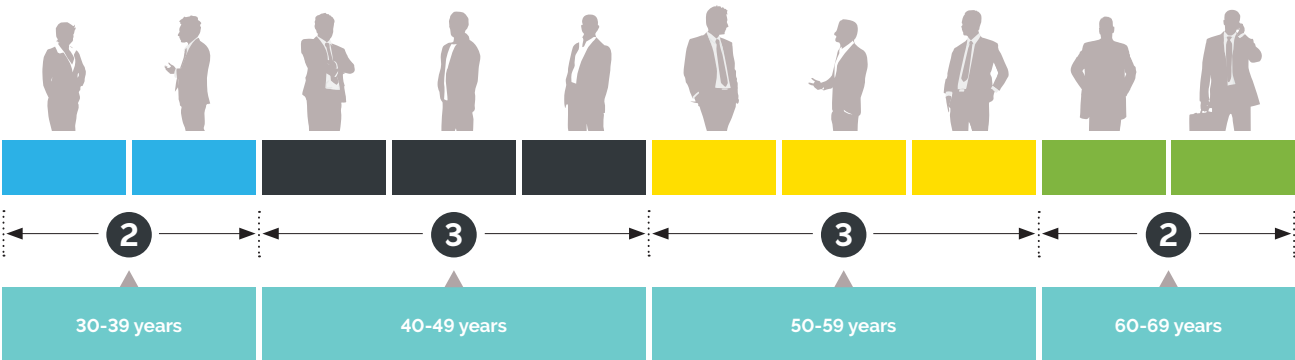
The Board of Directors having the optimal mix of skills, expertise and experience are of paramount importance to ensure the Board as a collective body is equipped to guide the business and strategy of the Company.



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



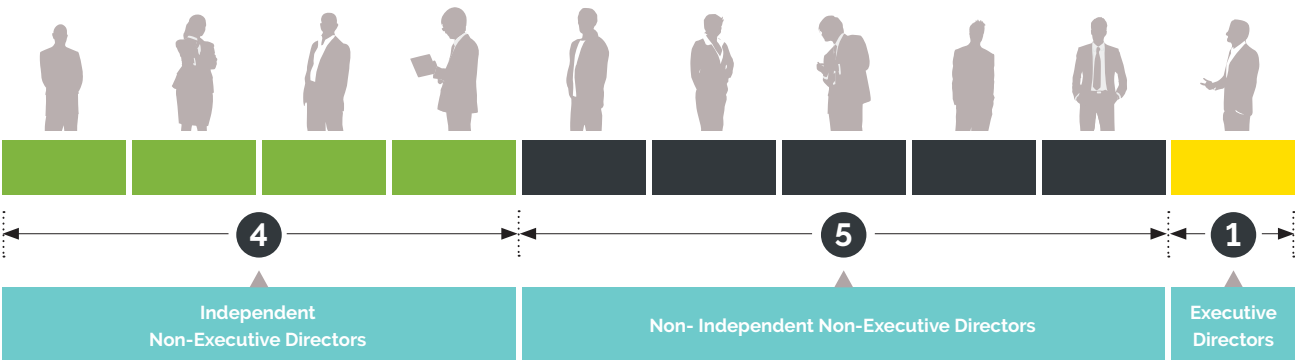
Independence

The Board conducts an annual evaluation to assess whether each of the Non-Executive Directors are independent. The Non-Executive Directors submit declarations of 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 the criteria

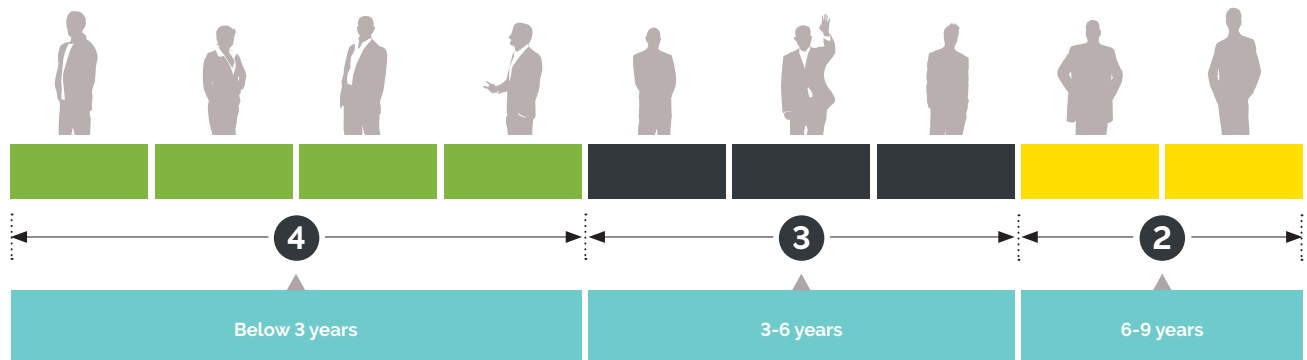
for independence set out in the Finance Companies (Corporate Governance) Direction No. 03 of 2008.

The Board is satisfied that each Non-Executive Director who served on the Board during the financial year of 2021/22 has retained independence of character and judgement and has not formed associations with the Management or others, that might compromise their ability to fulfil their role as an Independent Director.

Independence



Tenure of Non-Executive Directors



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 prior to 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 twelve (12) meetings.

Directors' attendance at Board and Board subcommittee meetings

Name of the Director	Board	Board Audit Committee	Board Integrated Risk Management Committee	Nomination Committee	Human Resource and Remuneration Committee	Board Credit Committee	Related Party Transactions Review Committee	Strategy and Investment Review Committee
Number of meetings held	12	6	8	4	3	6	4	4
Mr D P N Rodrigo ⁽¹⁾	7/7			2/2	2/2			4/4
Mr B M D C Prabhath	12/12	6/6	8/8	4/4		6/6	4/4	4/4
Mr A S Wijesinha	12/12	6/6	1/1			5/6	4/4	4/4
Dr S U H Fernando	12/12			4/4	3/3		4/4	
Mr P A H D Wijesundara	12/12	6/6	8/8		3/3	6/6		
Mr A G R Dissanayake	12/12	6/6	8/8					
Mr M Perera	12/12		8/8	4/4				
Mr D K G Perera	12/12					6/6		4/4
Mr R D Manatunga	11/12		8/8			6/6	4/4	4/4
Mr P L P Withana ⁽²⁾	7/7	3/3				4/4		4/4
Mr A J Alles ⁽³⁾	5/5			2/2				

Notes

- (1) Appointed as the Chairman to the Board w.e.f. 10 September 2021 and appointed as a member of Nomination Committee, Human Resource and Remuneration Committee and Strategy and Investment Review Committee w.e.f. 28 September 2021.
- (2) Appointed to the Board w.e.f. 10 September 2021 and appointed as the Chairman of Board Audit Committee, Board Credit Committee and Strategy and Investment Review Committee w.e.f. 28 September 2021.
- (3) Resigned from the Board w.e.f. 10 September 2021

Directors' Training and Development

The Nomination Committee oversees the training and development of the Directors, through an ongoing programme to assist in understanding their responsibilities, keeping knowledge current, and understanding the industry within which the Company operates. Directors identify their continuing education needs through the Annual Board and Board subcommittee performance assessments, and feedback is provided to the Board Chairperson and subcommittee Chairs on a regular basis. Members of the Board participated in seminars and conferences held throughout the financial year.

Supply of and Access to Information

The Board pack is generally circulated seven (7) days in advance and provides comprehensive qualitative and quantitative information on issues to be raised at the Board meeting. Furthermore, the Executive Management and external experts make regular presentations on the business environment and about the operations of the Company. Directors also have unrestricted access to the Bank Management, Organisational information, and resources to facilitate the 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 upon request.

Board Evaluation

The goals and targets of the Board of Directors have been set out and are evaluated at the end of the year by the members. Further, each Board Member carries out a self-assessment of his/her effectiveness as an individual as well as the effectiveness of the Board as a team. The outcome of the assessment carried out in 2021/22 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, are agreed upon 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 are documented before approval by the Board as a whole. The Human Resource and Remuneration Committee 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.

Whistle-blower Protection

The Company places great importance to fostering a culture that encourages its people to speak up about issues that cause a concern. The Whistle-blower Policy is designed to encourage and support individuals to report such matters, knowing that it is safe to do so. They are assured to support and 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 adopt, as suitable to the circumstances of HNB, 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.

Conduction 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, HNB'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. HNB encourages and values shareholder participation at its general meetings. In accordance with the recommendations contained in the code and the guidelines and 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

HNB Finance PLC
Annual Report 2021/22

AN OVERVIEW OF
THE COMPANY

PERFORMANCE
REVIEW

OPERATING
ENVIRONMENT

BUSINESS MODEL

MANAGEMENT DISCUSSION
AND ANALYSIS

GOVERNANCE

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INFORMATION

Company's compliance 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 1 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	Compliance status	HNB's level of compliance
2 Responsibilities of the Board of Directors			
2 (1)	Strengthening the safety and soundness of the Company		
(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. The 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 2022 to 2024. The 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 (IRMC) is tasked with defining the 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 in place 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 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 of its findings. A Board-approved Information System Security Policy is in place. Internal Auditors reviewed the integrity of the Management Information System and the Internal Control System. The observations were monitored by the Board. The confirmed that the Internal Control System and the Management Information System provide a reasonable assurance on financial reporting.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
	(f) Identifying and designating Key Management Personnel	Complied with	The Board of Directors including the Managing Director/CEO, Chief Operating Officer, DGM – HR and Administration, DGM – Operations, AGM – Microfinance, AGM – Branch Network, AGM – ICT, AGM – Credit, Head of Finance, Head of Compliance, Head of Business Systems Development, Head of Internal Audit and Head of Legal are designated as the Key Management Personnel of the Company.
	(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. The Board appraises its own performance by submission of performance evaluation forms that are duly filled by each Director. A summary of this has been submitted to the Board by the Company Secretaries.
	(j) Succession plan of Key Management Personnel	Complied with	The Company has a Board approved one-to-one succession plan in place for the Key Management Personnel.
	(k) Regular meeting with the Key Management Personnel	Complied with	The Key Management Personnel regularly make presentations and participate in discussions pertaining to 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 Key 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 providing oversight to the External Auditors. On the recommendation of the Board, the External Auditors are appointed by the shareholders of the Company, at the AGM. External Auditors submit a statement annually confirming their independence as required by the regulatory authorities in connection with external audit.



Rule reference	Corporate governance principle	Compliance status	HNB's level of compliance
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. The Chairman is a Non-Independent Non-Executive Director. The Chief Executive Officer is in charge of the overall management of the Company.
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 HNB and their other interests. The Board has taken steps to ensure that conflicts and potential conflicts of interest of Directors are disclosed to the Board. Any Director with a material personal interest in a matter being considered by the Board declares his/her interest, and unless the Board resolves otherwise, he/she does not participate in discussions or vote on that specific matter. Independent Directors do participate in such meetings. 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	Complied with	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			
3 (1)	Convening Board meetings at least twelve times a financial year at monthly intervals	Complied with	The Board met 12 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.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
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 2021 to 31 March 2022.
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 the 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 Chairman has delegated to the Company Secretary the function of preparing the agenda for Board meetings.
3 (7)	Directors access to advice and services of the Company Secretary	Complied with	All Directors have access to the Company Secretary and the records of Board meetings. The 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 minutes of the meetings, 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)	Minutes to have sufficient details and serve as a reference for regulators and supervisory authorities	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			
4 (1)	Number of Directors	Complied with	As at 31 March 2022, the Board comprised ten Directors with five being Non-Independent Non-Executive, four Independent Non-Executive Directors, and one Executive Director.
4 (2)	Subject to transitional provisions contained herein and subject to para 5. (1) of this Direction, the total period of service of a Director other than a Director who holds the position of CEO or Executive Director shall not exceed nine years	Complied with	The total period of service of any of the Non-Executive Directors does not exceed nine years.
4 (3)	Appointment, election or nomination of an employee as a Director of the Company. The number of Executive Directors shall not exceed one half of the number of Directors in the Board	Complied with	The Board consisted of one Executive Director and does not exceed one-half of the number of Directors of the Board.



Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
4 (4)	Subject to the transitional period the number of independent Non-Executive Directors of the Board shall be at least one-fourth of the total numbers of directors. A Non-Executive Director shall not be considered independent if such Director: (a) has shares exceeding 2% of the paid up capital of the finance company or 10% of the paid up capital of another finance company; (b) has or had during the period of two years immediately preceding his appointment as Director, any business transactions with the finance company as described in paragraph 9 hereof, aggregate value outstanding of which at any particular time exceeds 10% of the Capital funds of the finance company as shown in its last audited balance sheet; (c) has been employed by the finance company during the two year period immediately preceding the appointment as Director; (d) has a relative, who is a Director or Chief Executive Officer or a Key Management Personnel or holds shares exceeding 10% of the paid up Capital of the finance company or exceeding 12.5% of the paid up capital of another finance company. (e) represents a shareholder, debtor, or such other similar stakeholder of the finance company; (f) is an employee or a Director or has a shareholding of 10% or more of the paid up Capital in a company or business organisation: (i) which has a transaction with the finance company as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company; or (ii) in which any of the other Directors of the finance company is employed or is a Director or holds shares exceeding 10% of the Capital funds as shown in its last audited balance sheet of the finance company; or (iii) in which any of the other Directors of the finance company has a transaction as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the Capital funds, as shown in its last audited balance sheet of the Finance Company.	Complied with	As at 31 March 2022, four out of 10 Directors were Independent Non-Executive Directors. The Board annually evaluates independence of the Directors based on the Directors' self-declaration.
4 (5)	Appointment of alternative Directors	Complied with	No alternate Directors were appointed during the year.
4 (6)	Skills and experience of Non-Executive Directors	Complied with	The Company's 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)	Presence of Non-Executive Directors to satisfy the quorum for meetings of the Board	Complied with	One half of the quorum comprised Non-Executive Directors at all Board meetings held.

Rule reference	Corporate governance principle	Compliance status	HNB's level of compliance
4 (8)	Disclosure of Independent Non-Executive Directors, Board composition in corporate communications and in the annual corporate governance report	Complied with	Please refer the profiles of Board of Directors on pages 84 to 86 and Annual Report of the Board of Directors on pages 134 to 141.
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. During the financial year of 2021/22, the followings Directors were appointed to the Board: • Mr D P N Rodrigo – Non-Independent Non-Executive Director • Mr P L P Withana – Independent Non-Executive Director
4 (10)	Directors appointed to fill a casual vacancy to be re-elected at the first General Meeting after their appointment	Complied with	All Directors appointed to the Board are subject to re-election by the shareholders at the first Annual General Meeting. Accordingly, following Directors who were newly appointed during the financial year of 2021/22 will be re-elected at the next Annual General Meeting • Mr D P N Rodrigo – Non-Independent Non-Executive Director • Mr P L P Withana – Independent Non-Executive Director
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. During the year under review, Mr A J Alles resigned as a Non-Independent Non-Executive Director (Chairman of the Board) with effect from 10 September 2021.

5 Criteria to assess the fitness and propriety of Directors

5 (1)	The age of a Director shall not exceed 70 years	Complied with	All the Directors are below the age of 70 years during the year under review.
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 in 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	Complied with	Delegation arrangements are reviewed periodically to ensure that they remain relevant to the needs of the Company.



Rule reference	Corporate governance principle	Compliance status	HNB's level of compliance
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-Independent Non-Executive Director. Therefore, the Board designated Mr A S Wijesinha (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 D P N Rodrigo and the Managing Director/ Chief Executive Officer, Mr B M D C Prabath.
7 (4)	Chairman to; (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (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. 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 the submission of the 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)	Avoid 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 the 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/ Managing Director functions as the apex executive-in-charge of the day-to-day management of the Company's operations and business.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
8 Board appointed committees			
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: 1. Credit Committee 2. Integrated Risk Management Committee 3. Nomination Committee 4. Human Resource and Remuneration Committee. 5. Audit Committee 6. Related Party Transactions Review Committee 7. Strategic and Investment Committee. 8. Procurement Committee Recommendations of these committees are addressed directly to the Board and minutes of meetings are tabled and discussed at the main Board meetings. The Company has presented a report on the performance, duties and functions of each committee in the Annual Report.
8 (2)	Audit Committee (a) The Chairman to be a Non-Executive Director with relevant qualifications and experience	Complied with	The Chairman of the Audit Committee Mr P L P Withana is an Independent Non-Executive Director. Mr P L P Withana is a Fellow (FCA) of CA Sri Lanka, Fellow of the Chartered Institute of Management Accountants of UK, Advance Certificate Holder of the Chartered Institute of Marketing (UK). He holds a Bachelor of Arts (BA) Hons degree from University of Manchester Metropolitan (UK) and a Master of Business Administration (MBA) degree from the University of Sri Jayewardenepura. He also counts over 25 years' experience in the fields of Banking, Manufacturing and Trading. Qualifications and experience are disclosed on page 86 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 Auditor		recommended that Messrs KPMG, Chartered Accountants be reappointed as the External Auditors of the Company for the financial period from 1 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		The service period, audit fees, resignation or dismissal of an auditor and re-engaging the audit partner are in line with the regulatory requirements. No resignation or dismissal of the Auditor has taken place during the year under review.



Rule reference	Corporate governance principle	Compliance status	HNB's level of compliance
	(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.
	(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: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	Complied with	Quarterly, biannual Financial Statements as well as year-end Financial Statements are submitted to the Audit Committee. A detailed discussion focused on major judgemental areas, changes in accounting policies, significant audit adjustments and compliance with statutory requirements took place and the required clarifications were obtained in respect to all areas, before the Committee made 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 Persons	Complied with	The Committee met the External Auditors without the presence of the Executive Directors and the Corporate Management.
	(i) Reviewing of the External Auditors' Management Letter and the response thereto	Complied with	The Board Audit Committee has reviewed the Management Letter issued by the External Auditors with the responses of the Management.
	(j) Responsibility of the Board Audit Committee to take the following steps with regard to the internal audit function of the Company • Review the adequacy of the scope, functions and resources of the Internal Audit Department • Review the internal audit programme and results of the internal audit process • Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;	Complied with	The Board Audit Committee has reviewed the scope, functions and resources of the Internal Audit Department and the outsourced Internal Audit Services provider and confirm that the resources are sufficient to carry out its functions. The Committee has reviewed and approved the Internal Audit Plan for the financial period 1 April 2021 to 31 March 2022 presented by the Internal Auditors prepared on overall risk assessment and the significant observations made during the previous year. The Committee has reviewed appraisal and assessment of the performance of the head and senior staff members of the Internal Audit Department during the financial year 2021/22.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
	- Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; - 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, - ensure that the internal audit function is independent of the activities it audits		The Board Audit Committee has recommended the appointment of BDO Partners to carry out certain internal audit function of the Company. No such situation has arisen during the year under review. 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. The Board Audit Committee also ensured that the recommendations of such investigations are implemented.
	(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 Managing Director/CEO, Chief Operating Officer, 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. The Committee met two times with the External Auditors without the presence of Executive Directors.
	(m) Terms of reference of the Audit Committee will ensure that there is; (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and 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 six times during the financial year under review.
	(o) 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 115 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 Secretaries act as the Secretary to the Board Audit Committee and maintain the 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 controls or other matters	Complied with	The Company has a Board approved Whistle-blowing Policy whereby employees of the Company raise concerns in confidence about any malpractices of the Company.
8 (3)	Integrated Risk Management Committee		
	(a) The composition of Board Integrated Risk Management Committee	Complied with	The Integrated Risk Management Committee comprises of Four (4) Non-Executive Directors including the Chairperson to the Committee, Chief Executive Officer (MD/CEO), Chief Operating Officer (COO) and Senior Manager – Risk who supervises broad risk categories such as credit, market, liquidity, operational and strategic risk. Head of Compliance attends meetings by invitation.



Rule reference	Corporate governance principle	Compliance status	HNB's level of compliance
	(b) Periodical risk assessment	Complied with	The Integrated Risk Management Committee 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) Review the adequacy and effectiveness of Management level Committees to manage risk	Complied with	The Committee has reviewed the adequacy and effectiveness of the Asset and Liability Committee and Executive Risk Management Committee in addressing the specific risks and managing risks. Further, the BIRMC has reviewed specific quantitative and qualitative risk limits.
	(d) Corrective action to mitigate the risk	Complied with	The risk indicators introduced have been reviewed against the tolerance limits 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) Frequency of meetings	Complied with	The Integrated Risk Management Committee met Eight times during the year under review.
	(f) Actions against the officers responsible for failure to identify risks and take prompt corrective actions	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) Submission of 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.
	(h) Establishment of a compliance function	Complied with	A Compliance Officer (Head of Compliance) selected from Key Management Personnel has been appointed to carry out the Compliance function. Compliance Unit reviews the Company's compliance with laws, regulations, guidelines and rules on a regular basis and reports non-compliances, if any, to the Board.

9 Related party transactions

The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.

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. Transactions carried out with Related Parties in the normal course of business are disclosed in the Financial Statements under "Related Party Disclosures" under Note 45 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.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
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 1 April 2021 to 31 March 2022 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 the CBSL regulations.
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report:		
	(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	Complied with	Compliance with applicable accounting standards and regulatory requirements has been reported under the "Directors' Responsibility for Financial Reporting" on page 146.
	(b) A Report by the Board on the finance company's internal control mechanism	Complied with	Directors' Statement on Internal Control System Over Financial Reporting is given on page 144.
	(c) The External Auditor's Certification on the effectiveness of the internal control mechanism	Complied with	The Company has obtained an assurance report from the External Auditors on the effectiveness of the internal control mechanism.
	(d) Details of Directors including names, transactions with the Finance Company	Complied with	This is disclosed under Annual Report of the Board of Directors on page 134.
	(e) Fees/remuneration paid by the Finance Company to the Directors in aggregate	Complied with	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	Complied with	As at 31 March 2022, HNBF has not granted any accommodation to related parties.
	(g) The aggregate values of remuneration paid and the value of transactions with the Key Management Personnel	Complied with	Aggregate remuneration paid to the KMPs as defined in LKAS 24 - "Related Party Disclosures" for financial reporting purpose, is disclosed under Note. 45 to Financial Statements on page 216.
	(h) A report containing details of compliance with prudential requirements, regulations, laws and internal controls, and the measures taken to rectify any non-compliance	Complied with	There are no significant lapses which require to be disclosed to the public
	(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	Complied with	There were no supervisory concerns on lapses in the Company's risk management system or non-compliance with the Finance Business Act and rules and directions there under that have been required by the Monetary Board to be disclosed to the public.
	(j) The External Auditor's certification of the compliance with the Corporate Governance directions	Complied with	The Company has obtained an assurance report from External Auditors over the compliance of Corporate Governance directions.
11 Transitional provisions			
	Transitional and other general provisions	Complied with	The Company has complied with transitional provisions when applicable.



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)

The Colombo Stock Exchange (CSE) Listing Rules aim to boost the confidence of investors of the 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 HNB Finance with such rules is highlighted in the following table:

Rule number	Disclosure requirement	Section reference	Page reference
7.6 (i)	Name of persons who held the positions of Directors during the financial year	Annual report of the Board of Directors on the affairs of the Company	134-141
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 on the affairs of the Company	134-141
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	253-257
7.6 (iv)	The public holding percentage	Share information	253-257
7.6 (v)	A statement of each Director's and Chief Executive Officer's holding shares and the percentage of such shares held	Share information	253-257
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity	Risk management	123-132
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	158-246
7.6 (ix)	Number of shares representing the Entity's stated capital	Share information	253-257
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	253-257
7.6 (xi)	Ratios and market price information: • Equity • Debt • Any changes in credit rating	Share information	253-257
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	158-246
7.6 (xiii)	Details of funds raised through Public Issues, Rights and Private Placements during the year	Share information	253-257
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	113-114
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	121-122

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 compliance with the Corporate Governance rules as at the date of the Annual Report. The rule addresses the following areas;

Rule reference	Disclosure requirement	Compliance status	HNBF level of compliance
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, nine of the ten 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 of nine Directors as at the conclusion of the immediately preceding Annual General Meeting.
7.10.1 (c)	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change	Complied with	No such situation arose during the period.
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	Four out of nine Non-Executive Directors were Independent during the year under review.
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 the Names of Independent Directors should be disclosed in the Annual Report	Complied with	Please refer pages 84 to 86 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	Complied with	No such determination was required since all Independent Directors have qualified as independent, as per the said rules.
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 pages 84 to 86 for the profiles of the Board of Directors to the Annual Report.
7.10.3 (d)	A brief résumé of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public	Complied with	The résumé of two newly appointed Directors namely, • Mr D P N Rodrigo – Non-Independent Non-Executive Director • Mr P L P Withana – Independent Non-Executive Director 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 independence specified in this Rule.



Rule reference	Disclosure requirement	Compliance status	HNBF level of compliance
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 of Non-Executive Directors, a majority of whom shall be independent, whichever shall be higher.	Complied with	The Remuneration Committee comprised three Directors, of whom 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 117 to the Annual Report.
7.10.5 (c)	The Annual Report shall set out; (i) The names of the Directors that comprise the Remuneration Committee; (ii) A statement of remuneration policy; (iii) Aggregate remuneration paid to Executive and Non-Executive Directors	Complied with	Please refer the page 117 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 One Non-Executive Director shall be appointed as the Chairman of the Audit Committee by the Board The Chief Executive Officer and the Chief Financial Officer shall attend Audit Committee meetings The Chairman or one member of the Committee should be a member of a recognised professional accounting body	Complied with	The Audit Committee comprised four Directors, of whom three are Independent Non-Executive Directors. Mr P L P Withana (Independent Non-Executive Director) functions as the Chairman of the Board Audit Committee. Both the Managing Director/Chief Executive Officer and the Head of Finance attended the Audit Committee meetings by invitation. Mr P L P Withana is a Fellow (FCA) of CA Sri Lanka, Fellow of the Chartered Institute of Management Accountants of UK, and an Advance Certificate Holder of the Chartered Institute of Marketing (UK). He holds a Bachelor of Arts (BA) Hons degree from the University of Manchester Metropolitan (UK) and a Master of Business Administration (MBA) from the University of Sri Jayewardenepura. He counts over 25 years' experience in Banking, Manufacturing and Trading.
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 115 of the Annual Report.
7.10.6 (c)	Annual Report shall set out; (i) The names of the Directors who comprise the Audit Committee. (ii) The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination. (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 115 for the required disclosure.

Board Audit Committee Report

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

Composition of the Committee

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

Committee

Name of the member	Directorship status	Membership status
Mr Lalith Withana	Independent Non-Executive Director	Chairman
Mr A G R Dissanayake	Non-Independent Non-Executive Director	Member
Mr A S Wijesinha	Independent Non-Executive Director	Member
Mr P A H D Wijesundara	Independent Non-Executive Director	Member

Invitees

- Mr Chaminda Prabhath – MD/CEO
- Mr W S P Arangala – COO
- Internal/External Auditors
- Mr Amila Gunawardana – Chief Manager/Head of Compliance Resigned w.e.f. 4 January 2022
- Mr Shamira Kothalawala – Acting Head of Risk
- Mr L N Senaweera – Head of Internal Audit
- Mr S C Gunasekara – Chief Accountant

The Board Secretary functions as Secretary to the Audit Committee.

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.

Meetings

For the purpose of discharging its duties the Audit Committee met six times during the period. The attendance of the members at Audit Committee meetings was as follows:

Member	Number of meetings
Mr Lalith Withana	3/3
Mr A G R Dissanayake	6/6
Mr A S Wijesinha	6/6
Mr P A H D Wijesundara	6/6

Financial reporting

The Committee, as part of its responsibility, oversees the Company's financial reporting process on behalf of the Board of Directors. Accordingly, 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 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,

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.



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 the External Auditor, following a formal tender process at Group level and the Committee's recommendation to the Board, the shareholders appointed Messrs KPMG as the Company's External Auditor for the 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.

The Committee determined the independence of the External Auditors, M/s KPMG, as per the provisions of the Companies Act and the Code of Professional Conduct issued by the Institute of Chartered Accountants of Sri Lanka and recommended their reappointment as the Auditors of the Company for the financial year ending 31 March 2023 subject to the concurrence of its recommendation by the Board and approval of such appointment by the Shareholders at the forthcoming Annual General Meeting.

Internal Audit

The internal audit function is an independent and objective assurance function which supports the Company to improve 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 the 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 the 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 the 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.



Lalith Withana
Chairman
Audit Committee

29 June 2022

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 of 31 March 2022, 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 Dilshan Rodrigo	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 the 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 through various trainings and capacity building measures.

It also aims to remunerate all its employees fairly, in commensurate with achievements of the Key Performance Indicators (KPI). The Committee continuously assess the adequacy of the expertise available at the Senior Management level and ensures that an up to date succession plan is maintained for the Key Management Positions of the Company.

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, the Managing Director and Key Management Personnel (KMP) of the Company.
- Determine and recommend to the Board of Directors, the 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.
- Provide 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 fulfilment of all commitments arising from the employer-employee relationship.

- Recommend/decide/provide directions on disciplinary matters, concerning the Key Management Personnel which have caused a significant financial and integrity loss to the Company and otherwise.
- Succession planning of the Company, in consultation with the Managing Director/CEO.
- Ensure sustainable competency building of employees, particularly at management level.

Meetings of the Committee

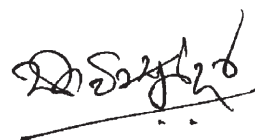
The Committee met three times during the year under review. The attendance of the members at these meetings are given in page 139.

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 participating 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 2022

Colombo,
Sri Lanka

Nomination Committee Report

HNB Finance PLC
Annual Report 2021/22

AN OVERVIEW OF
THE COMPANY

PERFORMANCE
REVIEW

OPERATING
ENVIRONMENT

BUSINESS MODEL

MANAGEMENT DISCUSSION
AND ANALYSIS

GOVERNANCE

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REPORTS

SUPPLEMENTARY
INFORMATION

Composition of the Committee

The Nomination Committee is appointed by the Board of Directors of the Company. As of 31 March 2022, 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 Dilshan Rodrigo	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 to the Board, 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.

It also aims to remunerate all its employees fairly, commensurate with the achievement of the 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 operates effectively, and if required, recommend the 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 by the Central Bank of Sri Lanka and the Colombo Stock Exchange amongst others.

Meetings of the Committee

The Committee met four times during the year under review. The attendance of the members at these meetings are given on page 139.

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 2022

Colombo,
Sri Lanka

Board Integrated Risk Management Committee Report

Composition

The 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 the Monetary Board of Sri Lanka.

The Committee comprised three Non-Executive Directors, the Chief Executive Officer, the Chief Operating Officer, and the Head of Risk. The Chief Operating Officer represents the relevant Key Management Personnel (KMPs) supervising broad risk categories such as credit, operational, market, financial, compliance, and Cyber/IT risks at the BIRMC meetings.

Members

Name of the member	Directorship status	Membership status
Mr Ruwan Manatunga	Non-Independent/Non-Executive Director	Chairman
Mr Rajive Dissanayake	Non-Independent Non-Executive Director	Member
Mr Mahinda Perera	Non-Independent/Non-Executive Director	Member
Mr Hasitha Wijesundara	Independent/Non-Executive Director	Member
Mr Chaminda Prabhath	Managing Director/CEO	Member

Regular Invitees

- Mr W S P Arangala
COO
- Mr Amila Gunawardana
Chief Manager/Head of Compliance
Resigned w.e.f. 4 January 2022
- Mr S N Kothalawala
Senior Manager/Acting Head of
Risk Secretary to the BIRMC

Terms of Reference

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

- The Committee shall ensure that the Risk Management Division assesses every month, all relevant risks such as credit, operational, liquidity, strategic, 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.

by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

- The Committee shall review the compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies in all areas of business operations. A dedicated Compliance Officer selected from the 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 approved minutes of the BIRMC shall be submitted to the BOD at the next immediate Board Meeting, held after the adoption of such minutes by the BIRMC.
- Ensure that the Head of Risk reports functionally to the Chairman of the BIRMC and administratively to the Managing Director/CEO.

Mandate and Authority

- The Committee is authorised to seek any information it requires from any employee of the Company 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 the sourcing of relevant information and also for the perusal of any document to identify, review, assess, 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 the business of the Company as stated below.

Credit Risk

- Ensure appropriate credit risk strategies are developed, implemented, and monitored.
- Ensure risk policies and frameworks are periodically reviewed and monitored.
- Ensure corrective action is taken to mitigate identified risks and avoid repetition.
- Ensure corrective measures are taken to reduce the NPL movement and periodical reports are submitted to the BIRMC with the appropriate action plan.
- Ensure appropriate actions are taken to monitor the and facilities under the moratorium and submit periodical reports to the BIRMC with the appropriate recovery plan.

Operational Risk

- Review the operational risks faced by the Company.
- Review operational losses and near misses incurred by the Company.
- Review adequacy of the Business Continuity Planning framework subject to ongoing reviews towards due implementation.
- Ensure corrective action is taken to mitigate such risks and avoid repetition.

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 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 periodic reports issued by the regulators and ensure corrective action is taken as appropriate, promptly.
- Review periodic progress updates on the CBSL supervisory concerns, ML points, and any other reports issued by the regulators towards appropriate corrective action.

Technology and Systems Risk

- Review and follow up on the ICT Infrastructure and work-from-home technology and systems solution implementation that are identified as critical to the company's business success to avoid/minimise instances of system/service interruptions.
- Review the Business Continuity Planning, and Disaster Recovery preparedness for compliance with regulations, to avoid/minimise instances of system/service interruptions
- Review the assessments on ICT Security Strategy and direct the management to address identified gaps to mitigate the risks involved in cybersecurity.
- Review the DLP mechanism that is in place to address the possible data leakages and direct the Management to implement the identified solutions to mitigate the risks involved.

Liquidity Risk

- Review the liquidity risk periodically to ascertain the ability of the Company to fund its operations uninterrupted, especially in times of market distress, and monitor the Company's contingency funding plan and strategy.

- Review and maintain the Liquid Assets Ratio within the statutory levels as prescribed by the CBSL.
- Review the Stress Testing on liquidity position periodically

Meetings

The BIRMC met eight times during the period under review, to discharge the duties assigned to the Committee. During the subject period, the BIRMC reviewed the Integrated Risk Management Policy, Operation Risk Policy, quarterly Risk Appetite Statement, Key Risk Indicators (KRIs), Loan Review Mechanism (LRM) Findings, DR Drill Reports, TORs of ERM 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 the Annual Report of the Board of Directors.

Board Reporting

At the Board meetings, the Chairman keeps the Directors apprised 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 BRMC. In addition, the minutes and the dashboard of the BIRMC meetings are regularly presented to the Board, for information and action as appropriate.



Ruwan Manatunga
Chairman – BIRMC

29 June 2022

Colombo,
Sri Lanka

Related Party Transactions Review Committee Report

The Related Party Transactions Review Committee was established by the HNB 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 of 31 March 2022 comprised the following members:

Committee

Name of the member	Directorship status	Membership status
Mr A S Wijesinha	Independent Non-Executive Director	Chairman
Mr Udan Fernando	Independent Non-Executive Director	Member
Mr Ruwan Manatunga	Non Independent Non Executive Director	Member
Mr B M D C Prabhath	Managing Director/CEO	Member

Invitees

- Mr Sameera Gunasekera – Chief Accountant/Head of Finance Secretary to the RPTR Committee
- Mr Amila Gunawardana – Chief Manager/Head of compliance Resigned w.e.f. 4 January 2022
- 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 proposed 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.

Meetings

The Committee had four meetings during the period under review.

Review of Transactions for the Financial Period ended 31 March 2022

During the twelve-month period ended 31 March 2022, 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 216 to 221 for RPTs published in the Note 45 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.

The Committee continued to guide the strengthening of internal processes tracking and reporting of related party transactions, and timely disclosure of Director's and KMPs interests.



Anushka Wijesinha
Chairman
Board Related Party Transactions
Review Committee

29 June 2022

Colombo,
Sri Lanka

Risk Management

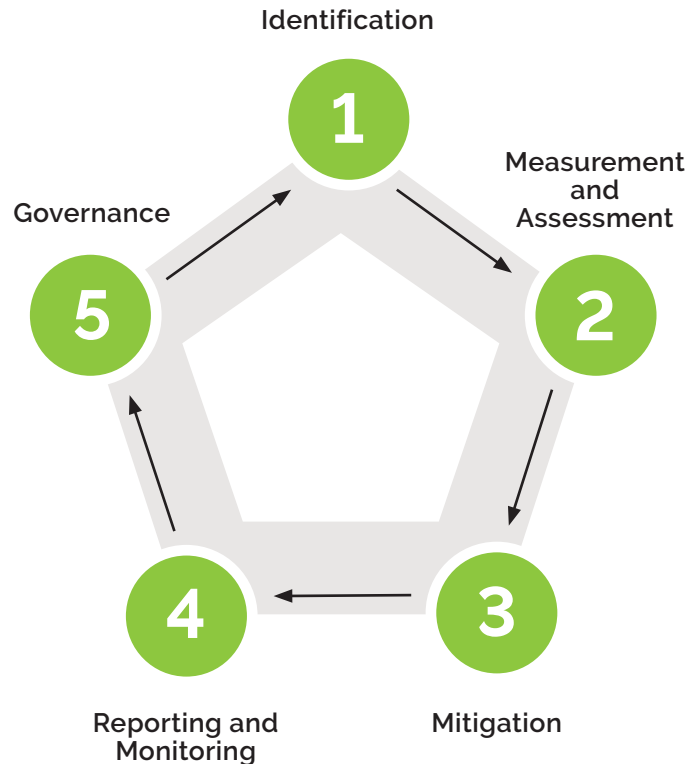
Risk Management Framework of HNB

HNB has put in place an effective Integrated Risk Management Framework covering identification, measurement and assessment, mitigation, reporting and monitoring, and governance of all forms of critical risks that could affect the Company, as depicted in the diagram below. During unprecedented times like the year under review, the need for a strong Risk Management Framework cannot be overstated. With the support of our parent company, we have been continuously improving the framework and will continue to do so in preparation for the times ahead, which are expected to be increasingly turbulent, uncertain, complex, and ambiguous.

The risk profile given above and the financial soundness indicators given on page 37 under financial capital bear testimony to the effectiveness of the Integrated Risk Management Framework implemented in the Company.

A solid risk governance structure – the organisational arrangement required to guarantee a high level of governance – underpins the Risk Management Framework. Risk management being a collective responsibility, the framework has clearly defined roles and responsibilities, designated activities, and assigned authority to the Board of Directors and every employee of the Company. The Board Integrated Risk Management Committee (BIRMC), the Executive Risk Management Committee (ERMC), and the Risk Management Department support the Board, the apex governance body responsible for setting the risk appetite of the Company based on a proper understanding of risk assumed and that they are appropriately managed. They work together to ensure that the Company's risk management framework is properly implemented, including broad risk categories such as credit risk, operational risk, liquidity risk, and financial risk, to avoid any surprises or shocks.

The Risk Management Department supports the ERMC, the Corporate Management, and the BIRMC in their risk management functions. It also monitors and assesses risk exposures and risk-related policies/procedures affecting credit, operation, market, financial, liquidity, and any other type of risk that may emerge when conducting the business operations of the Company, in accordance with the guidelines of the BIRMC and the directions of the regulator, as applicable. The Risk Management Department sends the risk assessments and analytics ERMC monthly and the BIRMC quarterly, for their review and decision-making. Corporate Management, under the direction of the ERMC, supports such activities by conducting the Company's business in accordance with the risk management policy approved by the Board.



Key initiatives taken during the year

1.

Actively involved in the reduction of NPAs by providing improved risk-related MIS and driving portfolio risk management techniques to improve asset quality.

2.

Reviewed and expedited the recovery processes in line with market conditions and provided guidance and leadership to the Recovery teams to achieve the NPL targets.

3.

Commenced the Risk Control Self-Assessment (RCSA) process, completed related certification, and identified all KRIs. An action tracker is being developed to monitor the process.

4.

Monitored operational losses and near-misses monthly and continued to build the operational loss database.

5.

Carried out stress testing on liquidity, NPLs, and impairment and scenario analysis for income and expenses.

6.

Carried out a risk assessment for IT network and infrastructure with the assistance of a third party and recommendations are being implemented.

7.

Carried out risk assessment for new products/modification of existing products.

8.

Revamped Business Continuity Management (BCM) and successfully implemented the same.

9.

Risk Management Department conducted training programmes to improve awareness, knowledge, skills, and expertise in credit and operational risk management techniques.

10.

Successfully conducted a full disaster recovery drill and tested the BCP coupled with the testing of the call tree.

11.

Quarterly review of the Risk Appetite Statement and recommending appropriate changes to mitigate sudden shocks.

12.

Reviewed the CBSL supervisory concerns, management letter points, and other reports issued by the regulators and Internal Auditors and ensured appropriate corrective action.

13.

Implemented Data Loss Prevention (DLP) and Virtual Desktop Infrastructure (VDI) tools to strengthen IT and cybersecurity relating to work-from-home environment.

14.

Expanded the depth of the loan review mechanism by increasing the size of the random sample, leading to vastly improved results.

15.

Maintained risk dashboards for ERM and BIRMC.

Priorities for the year 2022/23

The Company envisages several risk-related challenges during the year ahead. These will include risks in growing

the portfolio as well as maintaining its quality due to the not-so-conducive operating environment. The Company has developed new products such as supply chain financing, and some by-products which cater to the import

sector, but they could be impacted in terms of growth prospects and portfolio quality.

Given below are the key priorities for the ensuing year.

1.

Further strengthening IT risks and cybersecurity by implementing such tools as Virtual Desktop Infrastructure, Mobile Device Management, Security Operations Centre.

2.

Conducting an annual review of the Integrated Risk Management Framework.

3.

Implementing the action tracker to monitor the KRIs in the risk control self-assessment process.

4.

Conducting the Disaster Recovery Drill in terms of the Business Continuity Plan and ensuring that the BCM framework is effectively executed across the Company, in liaison with the IT Division.

5.

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 avoiding/minimising instances of system/service interruptions.

6.

Further strengthening work-from-home capabilities.

7.

Implementing a stress testing module to carry out the stress testing for capital adequacy.

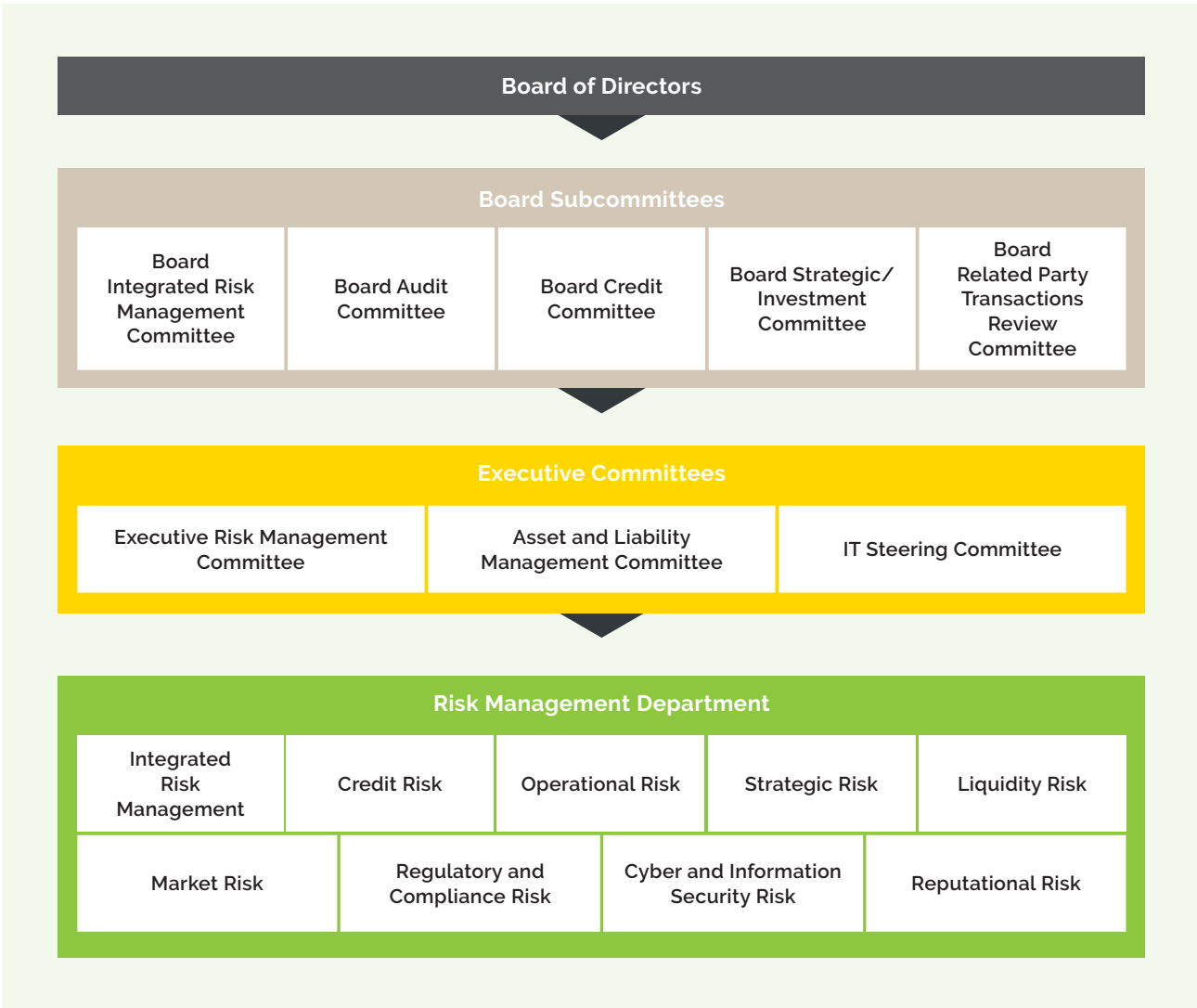
8.

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.

9.

Monitoring the Gold Loan portfolio weekly to ensure speedy response to minimise risk.

Risk governance framework



Board Integrated Risk Management Committee (BIRMC)

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

To achieve these objectives, the Committee closely worked with Key Management Personnel and made decisions on behalf of the Board of Directors (BOD), within the scope of the authority delegated and responsibility assigned to it by the BOD.

The Committee consists of three Non-Executive Directors and the Chief Executive Officer. The Chief Operating Officer, Head of Risk, AGM Credit, Head of Compliance, CIO, Head of Internal Audit, and Head of Recoveries attend

the meetings as regular invitees. The Chief Operating Officer represents the relevant Key Management Personnel (KMP) in charge of broad risk categories such as credit, operational, liquidity, and IT risks at the BIRMC meetings.

However, the Committee has the authority to summon any other officers of the Company as deemed necessary, if circumstances warrant it.

The Head of 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, based on the BOD-approved risk appetite statement, company policies, and regulatory and supervisory requirements, which need to be duly considered 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 in 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 the same is reviewed by the Chairman – of BIRMC.

Executive Risk Management Committee (ERMC)

The Executive Risk Management Committee (ERMC) is responsible for assessing the risks associated with the Company's business model and operations, as well as determining the Company's appropriate risk tolerance for such risks and implementing the necessary mitigation strategies and corrective action as needed. The ERMC would also ensure that such measures are properly integrated with existing initiatives aimed at achieving the Company's growth objectives and other activities in general. It collaborates closely with the Risk Management Department and handles all risk management communications with the BIRMC.

In the event that identified risks exceed the Committee's appropriate levels determined based on the Company's policies and regulatory and supervisory requirements, the Committee will take quick corrective action to limit their consequences.

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 the establishment of an effective compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies in 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 based on 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 for the 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 a special focus on AML/CFT regulatory requirements.

- ▶ **11** The Committee shall bring to the notice of the BIRMC for their attention and action as appropriate, any risk that could create an impact on the Group, Company, its business operations, and all stakeholders.

Risk Management Department (RMD)

Led by the Head of Risk, the RMD's major tasks include independently monitoring compliance of the first line of defense to the laid down policies, ensuring that the Company's governance, risk, compliance, and control frameworks are operating successfully within the stated risk levels.

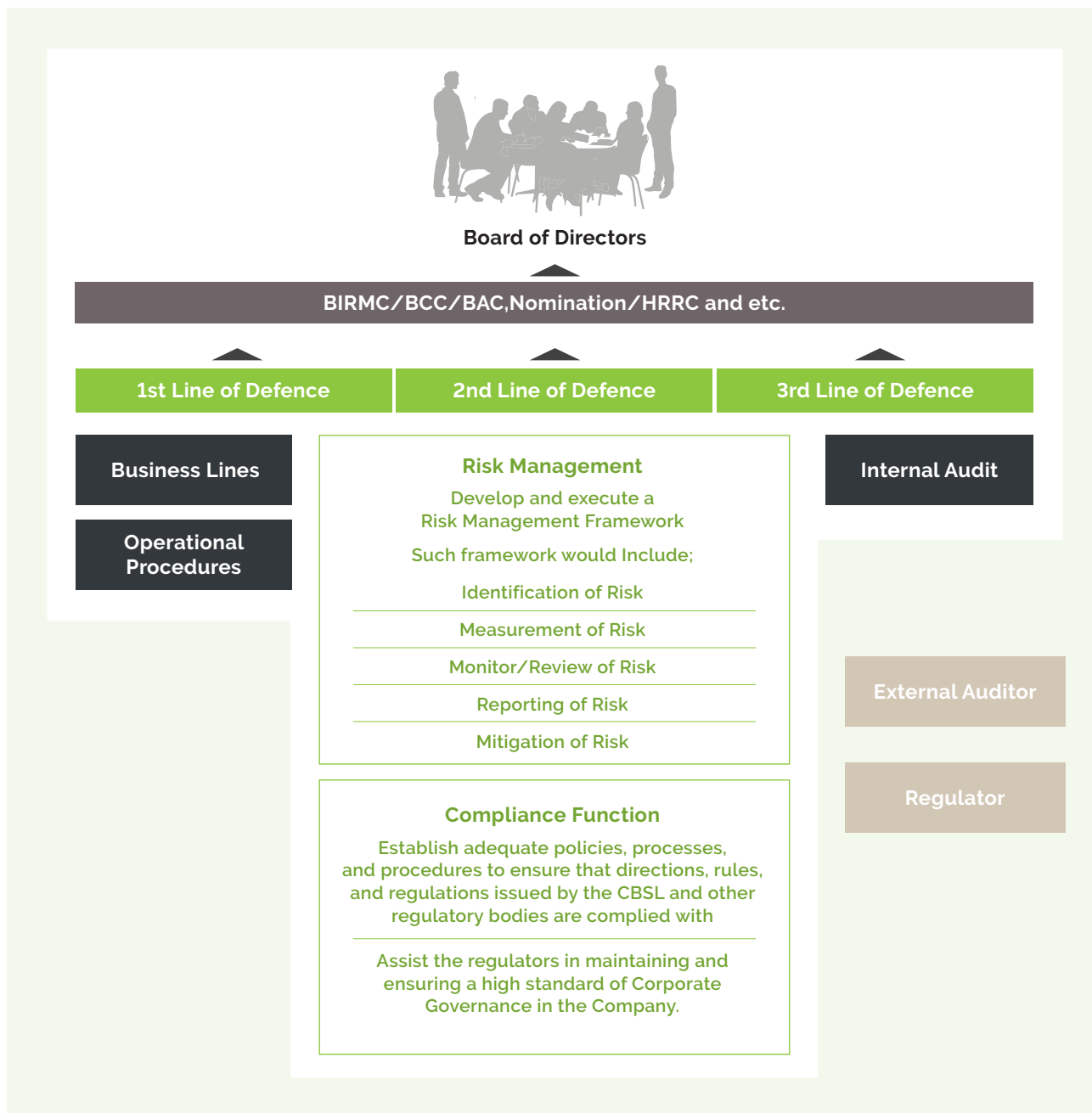
Duties and Responsibilities of the Risk Management Department

- ▶ **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 to develop an effective preventative risk management culture and ensure 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 include the 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 is the possibility of a loss to the Company if a borrower or counterparty is either unable or unwilling to meet its financial commitments to the Company on time. Granting loans

and advances as a financial intermediary is a core business of the Company and hence, credit risk is its most significant risk from a capital allocation perspective. Given the size and importance of the HNBF's loan portfolio, managing the credit quality is a key focus area

to minimise potential credit losses and keep credit risk exposure within acceptable limits. The Company's credit portfolio remains well-diversified in terms of customers, product types, business segments, geographical spread, sectors, etc.

The greatest challenge the Company faced during the pandemic was the credit risk, which was managed through strategies such as restructuring of facilities and moratoriums, as well as through call centre recoveries. The Management was fully involved in the recoveries function, in addition, to the support extended by the Risk Management Department, that conducted training programmes for branch staff on credit evaluation and improving portfolio quality, in addition to the LRM function. The outcome of these initiatives was a sizable reduction in NPLs, which has dropped in terms of absolute figures as well as ratios.

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 HNB Finance and implement same.

➤ **6** Timely preparation of Credit Risk Dashboard for ERM/ BIRMC.

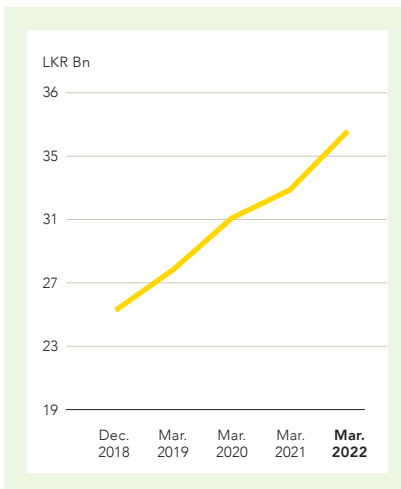
➤ **7** Carrying out independent credit reviews which include concentration risk on industry, products, geographies, and any other factor that could adversely affect the credit quality of the portfolio of the Company.

➤ **8** Drive portfolio risk management techniques to improve asset quality.

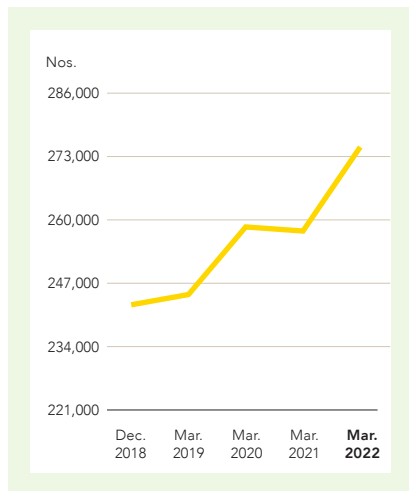
➤ **9** Carrying out stress testing and scenario analysis and periodic review of results of such actions at the ERM/ BIRMC meetings.

➤ **10** Continuous assessment of the NPL movement and submitting periodical reports to the BIRMC with appropriate action plans.

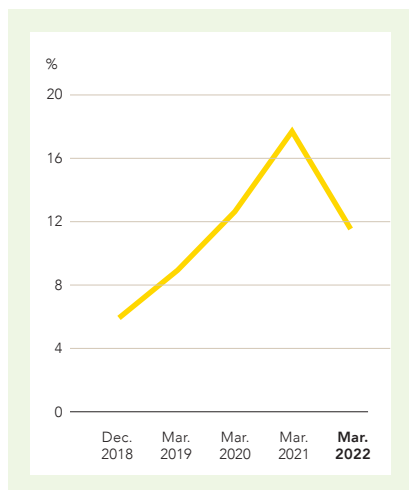
Gross loan portfolio growth



Total active clients



NPL



Loan Review Mechanism (LRM)

LRM is an effective tool for continuously evaluating the quality of the Loan Book and bringing about qualitative improvements in credit function in general.

LRM adopted by the Company has the following attributes:

- Loan reviews should concentrate on the approval process, accuracy and timeliness of credit ratings assigned by lending officers, adherence to internal policies and procedures, as well as applicable laws/regulations, compliance with loan covenants, post-sanction follow-up action, the sufficiency of documentation, portfolio quality, timeliness in delivery and maintenance of required standards, among other things, based on which recommendations are made for improving portfolio quality.
- When selecting a sample for LRM, consideration should be given to high-value facilities, covering all products (except micro products), facilities with potential for credit quality deterioration, and facilities that have already become NPL, etc.
- Overall, the LRM function should provide reasonable assurance that all major credit risks embedded in the balance sheet are tracked using a sample check method, as a post-mortem.
- LRM covers at least 30%-40% of the loan portfolio each year, to provide reasonable assurance that all significant credit risks are effectively monitored and current regulatory requirements are complied with.

Risk Clearance at the Approval Level

All facilities above LKR 5 Mn are subject to risk clearance before 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 must be submitted to the MD/CEO for approval, who must then critically evaluate the risks involved and the potential impacts of such risks to the Company, if such credit is granted.

Operational Risk

Operational risk, which includes legal risk, is defined as the risk of losses arising from insufficient or failed internal processes, people, systems, or external events. Strategic and reputation risks are not included in operational risk. Accordingly, operational risk at HNBFC comprises operations risk, legal risk, regulatory/compliance risk, financial crime risk, people risk, property risk, technology risk, vendor risk, financial risk, and environmental risk, in line with the industry best practices. While RMD is responsible for the overall operational risk management, several departments such as Legal, Compliance, and IT are responsible for managing the operational risks which come under the purview of their respective departments.

Operational risk exposure is managed through a comprehensive set of internal controls and management processes. These include risk assessment (identification, description, and quantification), risk evaluation, reporting, mitigation, residual risk reporting, and monitoring and control associated with the Company's business operations as an ongoing activity. Operational risk is recognised as a distinct risk category, that the Company attempts to keep under control through sound operational risk management practices. The Company's approach to operational risk management is to adopt practices that are appropriate for the Organisation's maturity and relevant operating environment.

Managing operational risk is apart of the day-to-day responsibilities of the Management at all levels. The goals of operational risk management are to improve the efficient and effective use of the Company's resources, reduce losses and maximise opportunities. The Company's framework which is supported by specific policies and procedures defines the minimal requirements for operational risk management.

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 Ensuring that the BCM Framework is effectively executed across the Company and execution of the full DR Drill of the Company in liaison with ICT.
- 4 Driving initiatives towards mitigating IT-related risks which included the establishment of the IT Steering Committee (ITSC), conducting a Network Security Vulnerability Assessment, and introducing of Change Management Procedure.
- 5 Intensified the Operational Risk Management function by capturing Operational Losses and near misses periodically.
- 6 Establishing the division-wise Risk Control Self-Assessment (RCSAs) and developing a robust KRI library to facilitate a helicopter view of risks associated with the Company's day-to-day operations.

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 a 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 were 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 environments that have 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, to minimise instances of system/service non-availability.

Key Initiatives taken to Mitigate 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 against the risk appetite limits and recommend appropriate changes to mitigate sudden shocks.

Liquidity Risk Management

Given its importance, particularly in times of distress, Company accords the highest priority to maintaining liquidity at comfortable levels at all times. Throughout the year, the Company maintained Liquid Assets Ratio comfortably above the minimum requirement as prescribed by the CBSL. The 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 the CBSL.

Stress testing was performed regularly to determine the Company's capacity to fund its operations without interruption, particularly during times of market distress, and to monitor the Company's contingency funding plan and strategy.

Capital Management

The Company's capital level is aligned to the Risk Appetite and risk profile. The Chief Operating Officer (COO) is responsible for managing the Company's capital at appropriate levels, taking into account key objectives of capital management such as ensuring the Company's ability to support its envisioned growth and compliance with the CBSL minimum capital adequacy ratios as outlined below.

Capital adequacy ratios were maintained above the minimum requirements prescribed by the CBSL

Capital requirement	Minimum requirement	Actual ratio as of 31 March 2021	Actual ratio as of 31 March 2022
	%	%	%
Tier 1 Capital	7.00	9.94	9.62
Total Capital	11.00	14.12	12.16



Stress Testing

The Company conducts stress tests to determine its resilience in the event of any unforeseen adverse developments. The stress tests are based on a variety of economic scenarios as well as specific portfolio movements that were devised and agreed upon with the ERM and the BIRM.

Although the CBSL has not issued any specific directions/guidelines/circulars in this regard, the Company proactively conducted stress testing monthly to identify and estimate the likely losses that the Company may suffer under exceptional, but plausible scenarios. Besides the impact on liquidity due to stresses on deposits and lending in as mentioned earlier, stress testing also included assessing the impact of a decrease in operating income, an increase in impairment charges, an increase in operating expenses, and resultant impact on profitability ratios such as ROA and ROE and operational efficiency measured in terms of Cost to Income ratio. As part of the details of those tests and analyses, the key assumptions, including the aggregation of the results are documented with any sensitivity testing and scenario analysis performed. The outcome of the stress testing carried out by the risk management department is discussed and reviewed monthly at the ERM and quarterly at the BIRM meetings, and action is taken as appropriate towards remedying concerns, if any.

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

The Board of Directors of HNB Finance PLC (HNBF) has pleasure in presenting this Report to the shareholders of HNB Finance PLC (HNBF) together with Audited Financial Statements of the Company for the period ended 31 March 2022 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 (as amended) and the Listing Rules of the Colombo

Stock Exchange. This Report was approved by the Board of Directors on 28 June 2022.

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 number 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.

The Company has been affirmed a national long-term rating at 'A'(Ika) (RWN) with a stable outlook by Fitch Ratings Lanka Limited.

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 263
Signed Group Financial Statements of the Company for the accounting period under review	Section 168 (1) (b)	Complied – page 153
Auditors' Report on Group Financial Statements of the Company	Section 168 (1) (c)	Complied – page 148
Changes in Accounting Policies during the accounting period	Section 168 (1) (d)	Complied – page 158
Particulars of entries in the Interests Register made during the accounting period	Section 168 (1) (e)	Complied – page 137
Remuneration and other benefits paid to the Directors during the accounting period	Section 168 (1) (f)	Complied – page 137
Total amount of donations made by the Company during the accounting period	Section 168 (1) (g)	Complied – page 140
Information on Directorate of the Company at the end of the accounting period	Section 168 (1) (h)	Complied – page 136
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 140
Auditors' relationship or any interest with the Company	Section 168 (1) (j)	Complied – page 148
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 141

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 the highest level of ethical standards and integrity as set out in the Code of Ethics.

Principal activities and nature of operations

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.

During the year under review, the Company acquired the majority shareholding of 97.15% in Prime Finance PLC a Licensed Finance Company, under the Master Plan for Consolidation of Non-Bank Financial Institutions (NBFIs) of the Central Bank of Sri Lanka.

There were no significant changes in the nature of the principal activities of the Company during the period under review, except the acquisition of Prime Finance PLC as aforesaid. It is further declared that the Company has not engaged any activity, which contravenes laws and regulations.

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 contained in the Chairman's Review on pages 10 to 12, the Managing Director's Review on pages 13 to 15 and the Management Discussion on pages 30 to 77 presents 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 pages 30 to 77.

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 31 May 2022.

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 151 to 246, 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 Directors are responsible for the preparation of the Financial Statements of the Company to reflect a true and fair view of its state of affairs. The Directors are of the view that these Financial Statements appearing on pages 151 to 246 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange. The Statement of Directors' Responsibility for Financial Reporting is given on page 146 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 pages 144 and 145 of the Annual Report. The Board has also obtained an assurance report from the External Auditors on Directors' Statement on Internal Control which is given on page 142 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, Messrs KPMG, Sri Lanka (Chartered Accountants) performed the audit on the Financial Statements for the period ended 31 March 2022 and the Auditor's Report issued thereon is given on page 148 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 2022 are prepared in accordance with the revised Sri Lanka Accounting Standards. The significant accounting policies adopted in the preparation of the Financial Statements of the Company are given on pages 158 to 172.

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

The income of the Company for the period from 1 April 2021 to 31 March 2022 was LKR 7,408,159,233/- (from 1 April 2020 to 31 March 2021 it was LKR 7,167,025,059/-). An analysis of the income is given in Note 4 to the Financial Statements.



Financial results and appropriations

The net profit of the Company from 1 April 2021 to 31 March 2022 was LKR 417.79 Mn (from 1 April 2020 to 31 March 2021 it was LKR (123.61) Mn) Details regarding the profit and appropriations of the Company are given below:

	Company	
	2021/22 LKR	2020/21 LKR
Profit before tax/(loss)	509,181,450	(196,307,312)
(Expense)/income tax reversal	(91,387,424)	72,694,187
Net Profit/(loss)	417,794,026	(123,613,125)
Retained earnings brought forward	2,896,625,533	3,010,466,073
Profit available for appropriation	3,314,419,559	2,886,852,948
Appropriation		
Statutory reserve fund	(83,558,805)	–
Remeasurement of define benefit liability, net of tax	8,127,182	19,547,058
Equity investments at FVOCI – net change in fair value	–	(9,774,473)
Balance carried forward	3,238,897,936	2,896,625,533

Reserves

The reserves of the Company with the movements during the period are given in Notes to the Financial Statements on page 154.

(24% in 2020/21). 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% from April to December and 18% from January to March (2020/21 – 15%). NBT application was abolished from 1 December 2020.

Taxation

The income tax rate applicable to the Company's operations at present is 24%

The Board of Directors

The Board of Directors of the Company as at 31 March 2022, comprised 10 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 84 to 86 of this Annual Report.

Names of the persons holding office as Directors of the Company as at 31 March 2022 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 D P N Rodrigo	10 September 2021	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
Mr P L P Withana	10 September 2021	Independent Non-Executive Director

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

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

- 1 Mr D P N Rodrigo – Chairman – Non-Independent Non-Executive Director (w.e.f. 10 September 2021)
- 2 Mr P L P Withana – Independent Non-Executive Director (w.e.f. 10 September 2021)

Resignation during the year

Mr A J Alles who served as a Non-Independent Non-Executive Director of the Company resigned from the Board with effect from 10 September 2021.

Cessations during the year

There were no cessations during the financial year.

Subsidiary Companies

The company acquired Prime Finance PLC during the financial year and owns 97.76% of the issued share capital of the company as at 31 March 2022. Prime Finance PLC is a Public Limited Liability Company incorporated in Sri Lanka on 10 September 2004 under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007 bearing Registration No. PB 351 PQ and a licensed Finance Company under the Finance Business Act No. 42 of 2011. The Ordinary Shares of the Company are listed on the *Diri Savi* Board of the Colombo Stock Exchange since 12 September 2012.

Board of Directors of Prime Finance PLC (Subsidiary Company)

Mr M D S M Goonatilleke
Mr B Premalal
Mr P A W Perera
Mr M Perera
Mr D Kalapuge
Mrs L L C C Thambiah
Mr B M D C Prabhath
Mr A G R Dissanayake

Retirement by rotation and re-election of Directors

In terms of Article 27 of the Articles of Association of the Company, Mr A S Wijesinha 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.

Mr D P N Rodrigo and Mr P L P Withana who were appointed to the Board with effect from 10 September 2021 offer themselves for re-election as Directors at the forthcoming Annual General Meeting of the Company.

The Nomination Committee and the Board have recommended the re-election/reappointment of the said Directors, subject to the relevant regulatory approval/s in terms of the applicable Directions issued under the Finance Business Act.

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

The Company maintains a 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 220 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 137.

The relevant interests of Directors in the shares of the Company as at 31 March 2022 as recorded in the Interests Register are given in this Report under Directors' shareholding.

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 45 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 in Note 12 to the Financial Statements on page 176.

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.



The Directors shareholding and the relevant interests of Directors in the shares of the Company as at 31 March 2022 and 31 March 2021 are as follows:

Name	As at 31 March 2022				As at 31 March 2021			
	Ordinary voting		Ordinary non-voting		Ordinary voting		Ordinary non-voting	
	Number of shares	Percentage %	Number of shares	Percentage %	Number of shares	Percentage %	Number of shares	Percentage %
Mr D P N Rodrigo	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-
Mr P L P Withana	-	-	-	-	-	-	-	-
Total	1,025,000	0.072	-	-	1,025,000	0.072	-	-

Directors' interest in debentures

There were no debentures registered in the name of any Director as at 31 March 2022.

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, in compliance with the Finance Companies (Corporate Governance) Direction No. 03 of 2008 (as amended) issued by Monetary Board of the Central Bank of Sri Lanka and Listing Rules of the Colombo Stock Exchange (CSE).

Committee	Members/Directors
Audit Committee	Mr P L P Withana – Independent Non-Executive Director (Chairman) Mr A G R Dissanayake – Non Independent Non-Executive Director Mr A S Wijesinha – Independent Non-Executive Director Mr P A H D Wijesundara – Independent Non-Executive Director
Integrated Risk Management Committee	Mr R D Manatunga – Non-Independent, Non-Executive Director (Chairman) Mr A G R Dissanayake – Non Independent Non-Executive Director Mr P A H D Wijesundara – Independent Non-Executive Director Mr B M D C Prabhath – Executive Director – Managing Director/CEO Mr M Perera – Non-Independent Non-Executive Director
Credit Committee	Mr P A H D Wijesundara – Independent Non-Executive Director (Chairman) Mr A S Wijesinha – Independent Non-Executive Director Mr B M D C Prabhath – Executive Director – Managing Director/CEO Mr R D Manatunga – Non-Independent, Non-Executive Director Mr D K G Perera – Non-Independent, Non-Executive Director Mr P L P Withana – Independent Non-Executive Director
Human Resources and Remuneration Committee	Mr P A H D Wijesundara – Independent Non-Executive Director (Chairman) Mr D P N Rodrigo – Non-Independent Non-Executive Director Dr S U H Fernando – Independent Non-Executive Director
Nomination Committee	Dr S U H Fernando – Independent Non-Executive Director (Chairman) Mr D P N Rodrigo – Non-Independent Non-Executive Director Mr M Perera – Non-Independent Non-Executive Director

Committee	Members/Directors
Related Party Transactions Review Committee	Mr A S Wijesinha – Independent Non-Executive Director (Chairman) Mr R D Manatunga – Non-Independent, Non-Executive Director Mr B M D C Prabath – Executive Director – Managing Director/CEO Dr S U H Fernando – Independent Non-Executive Director
Strategic/Investment Committee	Mr A G R Dissanayake – Non-Independent Non-Executive Director (Chairman) Mr A S Wijesinha – Independent Non-Executive Director Mr D P N Rodrigo – Non-Independent Non-Executive Director Mr D K G Perera – Non-Independent, Non-Executive Director Mr P L P Withana – Independent Non-Executive Director

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 Strategy/Investment Committee meeting together with the attendance of each Director at these meetings during the twelve-month period is tabulated below (1 April 2021/31 March 2022).

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	12	6	8	4	3	6	4	4
Mr D P N Rodrigo ⁽¹⁾	7/7			2/2	2/2			4/4
Mr B M D C Prabath	12/12	6/6	8/8	4/4		6/6	4/4	4/4
Mr A S Wijesinha	12/12	6/6	1/1			5/6	4/4	4/4
Dr S U H Fernando	12/12			4/4	3/3		4/4	
Mr P A H D Wijesundara	12/12	6/6	8/8		3/3	6/6		
Mr A G R Dissanayake	12/12	6/6	8/8					
Mr M Perera	12/12		8/8	4/4				
Mr D K G Perera	12/12					6/6		4/4
Mr R D Manatunga	11/12		8/8			6/6	4/4	4/4
Mr P L P Withana ⁽²⁾	7/7	3/3				4/4		4/4
Mr A J Alles ⁽³⁾	5/5			2/2				

Notes

- ⁽¹⁾ Appointed as the Chairman to the Board w.e.f. 10 September 2021 and appointed as a member of Nomination Committee, HR and Remuneration Committee and Strategy and Investment Review Committee w.e.f. 28 September 2021.
- ⁽²⁾ Appointed to the Board w.e.f. 10 September 2021 and appointed as the Chairman of Board Audit Committee, Board Credit Committee and Strategy and Investment Review Committee w.e.f. 28 September 2021.
- ⁽³⁾ Resigned from the Board w.e.f. 10 September 2021.

Stated capital and debentures

The stated capital of the Company as at 31 March 2022 was LKR 223,545,481/- consisting of ordinary voting shares of

1,421,380,624 and ordinary non-voting shares of 298,200,000 (2020/21 – 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 2022 was LKR 599 Mn (2020/21 – LKR 632 Mn) Subordinated, Listed, Rated, Unsecured, Redeemable Debenture of the Company as at 31 March 2022 was LKR 1,159 Mn consisting of 11,588,200 debentures at LKR 100/-.



Share information and substantial shareholdings

Share holding

The shareholding distribution is reflected on pages 253 and 257 as at 31 March 2022. 25 voting registered shareholders and 25 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, 25 largest shareholders, public holding and ratios and market price information are set out on pages 253 and 257 under share information.

Major shareholders

Page 253 indicates the shareholding analysis of the top 25 voting (volume wise) and non-voting (volume wise) shareholders of the Company, as at 31 March 2022.

Ratios and market prices of debentures

Debentures were not traded as at 31 March 2022.

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 2021 to 31 March 2022.

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 253 Mn (2020/21 Company: LKR 147 Mn). Details are given in Note 28 to the Financial Statements.

Market value of freehold property

All freehold lands of the Company were revalued by a professionally qualified Independent Valuer as at 31 March 2022 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 28 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 made donations to the value of LKR 104,500.

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 2022, have been audited by Messrs KPMG Sri Lanka (Chartered Accountants) as the Independent Auditors during the year under review and the Auditors' Report issued thereon is given on page 148 as required by Section 168 (1) (c) of the Companies Act No. 07 of 2007.

The Auditors have been paid a fee of LKR 4.25 Mn as audit fee for the period ended 31 March 2022, which has been approved by the Board.

The retiring Auditors, Messrs KPMG have expressed their willingness to continue in office and a resolution to re-appoint them as Auditors and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting. Based on an assessment carried out by the Board Audit Committee, the Board concluded that the External Auditors, Messrs KPMG can be deemed to be independent for all intents and purposes and the auditors do not have any relationship (other than that of an auditor) with the Company or with that of the subsidiary other than for the fees disclosed above and in Note 12 to the financial statements.

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 on Risk Management on pages 123 to 132 in the Directors' Statement on Internal Controls over Financial Reporting is on page 144.

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 pages 90 to 114 of this 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 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

Except as disclosed in Note 44 to the Financial Statements, there were no material contingent liabilities as at the reporting date.

Events occurring after the reporting date

Subsequently to the acquisition of Prime Finance PLC, the Board of Directors has resolved on 15 March 2022 that the Company do amalgamate with Prime Finance PLC in terms of Section 239 of the Companies Act with HNB Finance PLC remaining as the amalgamated entity, and also resolved that the effective date of the amalgamation shall be 12 May 2022.

Except for the matters disclosed above (in Notes 24 and 43 to the Financial Statements on pages 194 and 216), 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 12th 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 26 July 2022 at 10.00am. The notice of the 12th Annual General Meeting is given on page 264 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,



D P N Rodrigo
Chairman



B M D C Prabhath
Managing Director/
Chief Executive Officer



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

29 June 2022
Colombo



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

HNB Finance PLC
Annual Report 2021/22



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
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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 page 144 of the Annual Report for the year ended 31 March 2022.

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.

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.

KPMG, a Sri Lankan Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

P.Y.S. Perera FCA
W.J.C. Perera FCA
W.K.D.C. Abeyrathne FCA
R.M.D.B. Rajapakse FCA
M.N.M. Shameel FCA
Ms. P.M.K. Sumanasekara FCA

C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera ACA

T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara FCA
G.A.U. Karunaratne FCA
R.H. Rajan FCA
A.M.R.P. Alahakoon ACA

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, W.A.A. Weerasekara CFA, ACMA, MRICS

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.
- (d) 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 the 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 2022

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 by the Company, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key Internal Control Processes

The key processes 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.
- 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 on pages 115 to 116.
- 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.

- 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. The existing models were further refined this year to improve the appropriateness of the underlying assumptions to incorporate the potential implications of COVID-19 pandemic and macro-economic downturn, by identifying exposures related to risk elevated sectors. Further, adjustments were made to economic factors to capture the current scenario.
- Comments made by the External Auditors in connection with the internal control system during the financial year 2021/22 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. This confirmation excludes the subsidiary of the Company.

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 2022 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,



P L P Withana
Audit Committee
Chairman



B M D C Prabhath
Managing Director/CEO



W S P Arangala
Chief Operating Officer

29 June 2022

Colombo,
Sri Lanka



Directors' Responsibility for Financial Reporting

HNB Finance PLC
Annual Report 2021/22

AN OVERVIEW OF
THE COMPANY

PERFORMANCE
REVIEW

OPERATING
ENVIRONMENT

BUSINESS MODEL

MANAGEMENT DISCUSSION
AND ANALYSIS

GOVERNANCE

FINANCIAL
REPORTS

SUPPLEMENTARY
INFORMATION

The responsibility of the Directors in relation to the Financial Statements of the Company and its subsidiary prepared in accordance with the provisions of the Companies Act No. 07 of 2007 is set out in the following statement.

The responsibility of the External Auditor in relation to Financial Statements is set out in the Report of the Auditors given on page 148 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 and its subsidiary 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 at 31 March 2022, 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.

The Directors are also required to ensure that the Company and its subsidiary have 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 Group.

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 Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Directions issued under the Finance Business Act No. 42 of 2011, 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 entire 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 2022 are given on page 144 in the Annual Report, Directors' Statement on Internal Control Over Financial Reporting. External Auditors' Assurance Report on the Directors' Statement on Internal Control is given in Annual Report page 142.

The Directors have taken appropriate steps to ensure that the Company and Group maintain proper books of accounts and review the financial reporting system at their regular meetings and also through the Board Audit Committee. The report of the Board Audit Committee is given on page 115 in the 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 134 to 141 in Annual Report.

The Financial Statements of the Company & the Group 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) of the Companies Act and they have also been signed by two Directors and the Company Secretary on 28 June 2022 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 44 to the Financial Statements covering contingent liabilities.

The Directors are of the view that they have discharged their responsibilities as set out in this Statement.

By Order of the Board,



D P N Rodrigo
Chairman



B M D C Prabhath
Managing Director

29 June 2022
Colombo,
Sri Lanka



Independent Auditor's Report

HNB Finance PLC
Annual Report 2021/22



KPMG
(Chartered Accountants)
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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") and the Consolidated Financial Statements of the Company and its subsidiary ("the Group"), which comprise the Statement of Financial Position as at 31 March 2022, 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 151 to 246.

In our opinion, the accompanying Financial Statements of the Company and Group give a true and fair view of the financial position of the Company and Group as at 31 March 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics 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 – Amalgamation of Operations

We draw attention to the events after reporting date disclosure in Note 43 to the Financial Statements, which describes the amalgamation of operations of Prime Finance PLC in to HNB Finance PLC with effect from 12 May 2022. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Company Financial Statements and the Consolidated Financial Statements of the current period. These matters were addressed in the context of our audit of the Company Financial Statements and the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Allowance for impairment losses of Loans, Advances and Lease Rentals Receivables

(Refer to Note 3.3.7 of significant accounting policies and explanatory notes 18 and 19 to the Financial Statements).

Risk Description

As disclosed in Notes 18 and 19 to the Financial Statements, the Company and the Group have recorded an impairment loss of LKR 3,367 Mn and LKR 4,051 Mn respectively relating to loans and advances to customers as at 31 March 2022. Further,

impairment losses of LKR 482 Mn and LKR 674 Mn respectively relating to lease rentals receivables is recorded in the Company and Group Financial Statements as at 31 March 2022.

The determination of allowance of impairment losses using the expected credit loss model is subject to a number of key parameters, key assumptions and judgments, 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). Additionally, the assessment of individual impairment is carried out based on the set threshold considering the values of assets pledged as securities.

Management judgement is involved in the selection of those parameters and the application of assumptions. Additionally, the prevailing uncertain and volatile macro-economic environment due to implication of COVID-19 pandemic has led the Company and the Group 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 and the Group 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.

P.Y.S. Perera FCA
W.J.C. Perera FCA
W.K.D.C. Abeyrathne FCA
R.M.D.B. Rajapakse FCA
M.N.M. Shameel FCA
Ms. P.M.K. Sumanasekara FCA

C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera FCA

T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara FCA
G.A.U. Karunaratne FCA
R.H. Rajan FCA
A.M.R.P. Alahakoon ACA

KPMG, a Sri Lankan Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, W.A.A. Weerasekara CFA, ACMA, MRICS

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 related to ECL and underlying methodology applied based on the requirements of SLFRS 9 with the involvement of our internal specialists and with our business understanding.
- 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 and independently calculating the stages of loans based on the set criteria for the collectively assessed exposures.
- 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 and the prevailing uncertain and volatile macro-economic environment of the country.
- 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.
- Reviewing and evaluating the sufficiency of work performed by the auditors of the subsidiary company through review of work papers and continuous discussions.
- 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 Group's key financial accounting and reporting processes are highly dependent on the automated controls over the Group'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 Group'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 where applicable to perform audit procedures to assess IT systems and controls over financial reporting, which included.

- Obtaining an understanding of and assessing the design, implementation and operating effectiveness of the management of 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.
- Reviewing and evaluating the outcome of working papers performed by the auditors of the subsidiary company.

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 and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the Financial Statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our Auditor's Report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this Independent Auditor's Report is 3029.



Chartered Accountants
Colombo
Sri Lanka

29 June 2022

Income Statement

For the year ended 31 March	Note	Group	Company	
		2022 LKR	2022 LKR	2021 LKR
Gross income		7,789,286,879	7,408,159,233	7,167,025,059
Interest income	5	6,633,348,136	6,342,351,585	6,478,389,314
Interest expenses	6	(2,729,475,639)	(2,652,931,302)	(3,521,400,330)
Net interest income		3,903,872,497	3,689,420,283	2,956,988,984
Fee and commission income		565,175,215	557,552,916	503,020,936
Fee and commission expenses		(129,866,257)	(129,866,257)	(96,508,777)
Net fee and commission income	7	435,308,958	427,686,659	406,512,159
Net interest, fee and commission income		4,339,181,455	4,117,106,942	3,363,501,143
Other operating income	8	590,763,528	508,254,732	185,614,809
Net change in fair value of financial instruments at FVTPL		–	–	391,472
Total operating income		4,929,944,983	4,625,361,674	3,549,507,424
Impairment charges for loans, leases and other advances	9	(988,778,495)	(898,832,267)	(1,045,177,165)
Net operating income		3,941,166,488	3,726,529,407	2,504,330,259
Personnel expenses	10	(1,398,421,716)	(1,348,662,348)	(1,123,140,907)
Other expenses		(1,647,545,356)	(1,594,890,051)	(1,455,439,465)
Total operating expenses		(3,045,967,072)	(2,943,552,399)	(2,578,580,372)
Operating profit/(Loss) before taxes on financial services		895,199,416	782,977,008	(74,250,113)
Taxes on financial services	11	(279,285,833)	(273,795,558)	(122,057,199)
Profit/(Loss) before income tax expense	12	615,913,583	509,181,450	(196,307,312)
Income tax (expenses)/reversal	13	(100,296,152)	(91,387,424)	72,694,187
Profit/(Loss) for the year		515,617,431	417,794,026	(123,613,125)
Profit/(Loss) attributable to				
Equity holders of the Company		503,164,511	417,794,026	(123,613,125)
Non-controlling interest		12,452,920	–	–
Total		515,617,431	417,794,026	(123,613,125)

Figures in brackets indicate deductions.

The Notes on pages 158 through 246 form an integral part of these Financial Statements.



Statement of Profit or Loss and Other Comprehensive Income

HNB Finance PLC
Annual Report 2021/22

For the year ended 31 March	Note	Group	Company	
		2022 LKR	2022 LKR	2021 LKR
Profit/(Loss) for the year		515,617,431	417,794,026	(123,613,125)
Other comprehensive income, net of tax				
Items that will not be reclassified to profit or loss				
Actuarial gain on retirement benefit obligation	36.1	12,481,936	10,693,660	25,719,813
Deferred tax effect on remeasurement of retirement benefit obligation	30.2	(2,566,478)	(2,566,478)	(6,172,755)
Deferred tax effect on revaluation reserve due to change in tax rate		–	–	9,024,878
Items that are or may be reclassified subsequently to profit or loss				
Revaluation Reserve of free hold lands and buildings	28	200,070,557	200,070,557	–
Deferred tax effect on revaluation on lands and buildings	30.2	(48,016,934)	(48,016,934)	–
Equity Investments at FVOCI – net change in fair value	22.1	–	–	(9,774,473)
Other comprehensive income for the year, net of tax		161,969,081	160,180,805	18,797,463
Total comprehensive income/(expense) for the year		677,586,512	577,974,831	(104,815,662)
Total comprehensive income attributable to				
Equity holders of the Company		664,905,944	577,974,831	(104,815,662)
Non-controlling interest		12,680,568	–	–
Total		677,586,512	577,974,831	(104,815,662)
Basic earnings/(loss) per share	14	0.29	0.24	(0.07)

Figures in brackets indicate deductions.

The Notes on pages 158 through 246 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 March	Note	Group	Company	2021 LKR
		2022 LKR	2022 LKR	
Assets				
Cash and cash equivalents	16	1,282,750,567	802,799,680	645,635,660
Financial assets measured at FVTPL	17	–	–	16,704,000
Financial assets at amortised cost – Loans and advances to customers	18	23,728,547,027	20,314,640,309	18,075,473,229
Financial assets at amortised cost – Lease rental receivables	19	13,616,192,279	11,455,586,911	10,296,416,174
Financial assets at amortised cost – Loans and advances to others	21	295,201,210	295,201,210	405,765,402
Financial assets measured at FVOCI	22	2,712,110	2,655,810	2,655,810
Financial assets at amortised cost – Debt and other instruments	23	3,332,608,450	3,028,183,719	3,482,764,544
Investment in subsidiary	24	–	2,376,921,302	–
Other assets	25	482,978,047	304,614,886	460,828,759
Current tax assets	33	–	–	8,392,657
Investment properties	26	1,136,000,000	1,136,000,000	1,105,000,000
Intangible assets	27	291,674,447	229,399,955	254,263,673
Property, plant and equipment	28	1,929,115,714	1,913,913,679	1,590,028,807
Right-of-use assets	29	237,080,673	217,456,128	257,470,889
Deferred tax assets	30	222,142,957	169,231,151	153,987,656
Total assets		46,557,003,481	42,246,604,740	36,755,387,260
Liabilities and equity				
Liabilities				
Bank overdraft	16	1,011,726,138	648,139,767	–
Financial liabilities at amortised cost – Due to customers	31	34,703,070,381	31,593,426,528	28,046,962,308
Financial liabilities at amortised cost – Debt issued and other borrowed funds	32	3,255,330,464	2,905,685,927	2,636,572,519
Current tax liabilities	33	198,235,165	90,155,098	–
Value added tax payable	34	28,975,587	25,600,233	61,155,046
Other liabilities	35	1,441,552,220	1,221,198,300	834,933,191
Retirement benefit obligation	36	298,801,625	289,517,799	280,857,939
Total liabilities		40,937,691,580	36,773,723,652	31,860,481,003
Equity				
Stated capital	37	223,545,481	223,545,481	223,545,481
General reserve	38	82,897,989	82,897,989	82,897,989
Statutory reserve fund	39	1,184,616,843	1,174,657,185	1,091,098,380
Revaluation reserve	40	752,792,497	752,792,497	600,738,874
Retained earnings		3,320,131,820	3,238,987,936	2,896,625,533
Equity attributable to the equity holders of the parent		5,563,984,630	5,472,881,088	4,894,906,257
Non-controlling interest	41	55,327,271	–	–
Total equity		5,619,311,901	5,472,881,088	4,894,906,257
Total equity and liabilities		46,557,003,481	42,246,604,740	36,755,387,260

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,



Dilshan Rodrigo
Chairman
29 June 2022
Colombo



B M D C Prabhath
Managing Director/CEO

Statement of Changes in Equity

HNB Finance PLC
Annual Report 2021/22

For the year ended 31 March	Group							
	Attributable to equity holders of parent							Total
	Stated capital	General reserves	Statutory reserve	Revaluation reserve	Retained earnings	Attributable to equity holders of parent	Non-Controlling Interest	
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Balance as at 1 April 2021	223,545,481	82,897,989	1,091,098,380	600,738,874	2,896,625,533	4,894,906,257	–	4,894,906,257
Profit for the year	–	–	–	–	503,164,511	503,164,511	12,452,920	515,617,431
Total comprehensive income for the year								
Actuarial gain on defined benefit plans (Note 36.1)	–	–	–	–	12,254,288	12,254,288	227,648	12,481,936
Deferred tax effect on actuarial gain on defined benefit plans (Note 13)	–	–	–	–	(2,566,478)	(2,566,478)	–	(2,566,478)
Revaluation gain of free hold lands and buildings				200,070,557	–	200,070,557	–	200,070,557
Deferred tax effect on revaluation gain on lands and buildings				(48,016,934)	–	(48,016,934)	–	(48,016,934)
Total comprehensive income for the year	–	–	–	152,053,623	512,852,321	664,905,945	12,680,568	677,586,512
Transfer to statutory reserve	–	–	93,518,463	–	(93,518,463)	–	–	–
Change in ownership interest								
Acquisition of subsidiary with NCI	–	–	–	–	–	–	301,135,189	301,135,189
Acquisition of NCI without Change in control	–	–	–	–	4,172,429	4,172,429	(258,488,486)	(254,316,057)
Balance as at 31 March 2022	223,545,481	82,897,989	1,184,616,843	752,792,497	3,320,131,820	5,563,984,630	55,327,271	5,619,311,901

Figures in brackets indicate deductions.

The Notes on pages 158 through 246 form an integral part of these Financial Statements.

Statement of Changes in Equity

For the year ended 31 March	Company					Total LKR
	Stated capital LKR	General reserves LKR	Statutory reserve LKR	Revaluation reserve LKR	Retained earnings LKR	
Balance as at 1 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 36.1)	–	–	–	–	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
Balance as at 1 April 2021	223,545,481	82,897,989	1,091,098,380	600,738,874	2,896,625,533	4,894,906,257
Profit for the year	–	–	–	–	417,794,026	417,794,026
Total comprehensive income for the year						
Actuarial gain on defined benefit plans (Note 35.1)	–	–	–	–	10,693,660	10,693,660
Deferred tax effect on actuarial gain on defined benefit plans (Note 13)	–	–	–	–	(2,566,478)	(2,566,478)
Revaluation gain of free hold lands and buildings				200,070,557	–	200,070,557
Deferred tax effect on revaluation gain on lands and buildings				(48,016,934)	–	(48,016,934)
Total comprehensive income for the year	–	–	–	152,053,623	425,921,208	577,974,831
Transfer to statutory reserve			83,558,805		(83,558,805)	
Balance as at 31 March 2022	223,545,481	82,897,989	1,174,657,185	752,792,497	3,238,987,936	5,472,881,088

Figures in brackets indicate deductions.

The Notes on pages 158 through 246 form an integral part of these Financial Statements.



Statement of Cash Flows

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For the year ended 31 March	Note	Group	Company	2021 LKR
		2022 LKR	2022 LKR	
Cash flow from operating activities				
Profit/(loss) before tax		615,913,575	509,181,450	(196,307,312)
Adjustments for:				
Interest expenses on borrowings	6	32,085,957	32,085,957	114,984,475
Interest expenses on debentures	6	195,422,306	195,422,306	190,844,594
Interest income on financial assets at amortised cost – debt and other instruments	5	(172,389,393)	(172,389,393)	(309,943,358)
Interest income on financial assets measured at fair value through profit or loss	5	(16,000)	(16,000)	(1,440,000)
Dividend income	8	(240,000)	(240,000)	(320,000)
(Profit)/Loss on disposal of property, plant and equipment	8	(1,033,740)	(1,018,740)	(122,294)
Impairment charge for loans and other assets	9	988,778,496	898,832,267	1,045,177,165
Provision for value added tax on financial service	34	273,795,558	273,795,558	131,029,620
(Reversal)/provision for crop insurance levy	12	1,008,763	–	(1,145,747)
Provision for nation building tax	11	–	–	(8,972,421)
Amortisation on intangible assets	27	78,447,299	78,244,131	71,514,522
Amortisation of right of use assets	29	80,500,980	76,666,318	72,192,148
Interest expense from lease liability	35.1.1	30,914,982	30,091,838	31,882,993
Depreciations – on property, plant and equipment	28	135,449,136	133,338,846	142,261,636
Provision for retirement benefit obligation	10	48,477,493	48,061,520	56,149,981
Gain from revaluation of investment properties	8	(112,500,000)	(112,500,000)	(27,200,000)
Change in fair value of financial assets measured at FVTPL	17	–	–	(391,472)
Provision for amount payable under sip saviya scheme		1,100,000	1,100,000	1,100,000
Cash flows from operating activities before working capital changes		2,195,755,087	1,990,656,058	1,311,294,530
Changes in operating assets and operating liabilities				
Real state stock		811,813,564		
Financial assets at amortised cost – Loans and advances to customers		(4,083,026,059)	(3,722,973,620)	(972,853,730)
Financial assets at amortised cost – Lease rentals receivables		(1,216,925,423)	(567,949,437)	(740,031,655)
Financial assets at amortised cost – Loans and advances to others		110,564,192	110,564,192	178,357,614
Other assets		100,725,897	156,213,871	(39,731,939)
Financial liabilities at amortised cost – Due to customers		3,414,040,112	3,546,464,220	507,602,548
Other liabilities		260,447,999	409,955,199	(315,956,905)
Cash flows (used in)/generated from operations		1,593,395,369	1,922,930,483	(71,319,537)
Gratuity paid	36	(29,716,959)	(28,708,000)	(10,090,750)
Income tax paid	33	(63,895,714)	(58,666,576)	(53,197,448)
Other taxes paid		(309,350,371)	(309,350,371)	(129,736,752)
Crop insurance levy		(3,161,248)	(2,815,881)	–
Net cash flows (used in)/generated from operating activities		1,187,271,077	1,523,389,656	264,344,487

For the year ended 31 March	Note	Group	Company	2021 LKR
		2022 LKR	2022 LKR	
Cash flow from investing activities				
Purchase of property, plant and equipment	28	(176,977,702)	(176,257,115)	(53,986,835)
Purchase of intangible assets	27	(56,725,242)	(53,380,413)	(27,064,818)
Proceeds from sale of property, plant and equipment		1,033,703	1,018,703	221,531
Net of investment in financial assets at amortised cost – Government securities	23	(1,445,306,251)	(1,492,967,126)	608,771,551
Proceeds from debentures investments	23	–	–	150,000,000
Purchase of shares		(2,376,921,302)	(2,376,921,302)	–
Net investment in financial assets at amortised cost – Fixed deposits	23	1,925,000,000	1,925,000,000	(25,000,000)
Financial assets at amortised cost – Fixed deposit interest received	23	91,811,094	91,811,094	166,484,515
Financial assets at amortised cost – Treasury bill interest received	23	115,919,097	115,919,097	122,891,193
Financial assets measured at fair value thorough profit or loss interest received	17	–	–	1,440,000
Dividend income	8	240,000	240,000	320,000
Financial assets at amortised cost – debentures interest received			–	16,875,000
Net cash flow generated from/(Used in) investing activities		(1,921,926,604)	(1,965,537,062)	960,952,137
Cash flow from financing activities				
Interest payments on debentures	6	(195,772,761)	(195,772,761)	(192,250,762)
Interest payments on borrowings	6	(29,372,094)	(29,372,094)	(114,984,475)
Net proceeds from debentures issued	32.1	(33,250,000)	(33,250,000)	(33,250,000)
Proceeds from long-term interest bearing loans and borrowings	32.2	1,100,000,000	1,100,000,000	1,300,000,000
Loans repayments during the year	32.2	(941,177,246)	(800,000,000)	(2,450,814,366)
Lease rental payments	35.1.1	(95,249,873)	(90,433,486)	(62,445,446)
Net cash flow used in financing activities		(194,821,974)	(48,828,341)	(1,553,745,049)
Net increase/(decrease) in cash and cash equivalents		(929,477,500)	(490,975,747)	(857,137,399)
Cash and cash equivalents at the beginning of the year	16	645,635,660	645,635,660	1,502,773,059
Acquisition of subsidiary during the year		605,469,840	–	–
Cash and cash equivalents at the end of the year	16	321,628,000	154,659,913	645,635,660

Figures in brackets indicate deductions.

The Notes on pages 158 through 246 form an integral part of these Financial Statements.



Notes to the Financial Statements

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THE COMPANY

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1.

REPORTING ENTITY

1.1 Domicile and legal form

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.

The Consolidated Financial Statements of the Company for the year ended 31 March 2021 comprise of the Company and its subsidiary (together referred to as the "Group" and individually as "Group entities").

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 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, Micro finance, gold loans, property mortgaged loans and mobilisation 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.

The Company has acquired Prime Finance PLC on 23 December 2021 (the "Subsidiary"). The Subsidiary and the Company are operating in the same industry.

1.3 Parent company and ultimate parent company

The Company's ultimate parent entity is HNB Bank PLC which is incorporated in Sri Lanka.

2.

Basis of preparation

2.1 Statement of compliance

The Financial Statements of the Company and those consolidated with such, comprise of the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows, together with Accounting Policies and Notes to the Financial Statements. The Consolidated Financial Statements 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.7 of 2007.

The presentation of these Consolidated 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 Consolidated Financial Statements were authorised for issue by the Board of Directors on 29 June 2022.

2.3 Basis of measurement

The Consolidated 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 properties 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 Consolidated Financial Statements are presented in Sri Lankan Rupees (LKR), which is the Group's functional and presentation currency. Financial information presented in Sri Lankan Rupees has been rounded to the nearest rupee value unless indicated otherwise.

2.5 Materiality and aggregation

Each material class of similar item is presented separately in the Consolidated 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 Consolidated Financial Position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise 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 Group of similar transactions such as in the Group'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 Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these Consolidated 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 Consolidated 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 Consolidated Financial Statements include the following components:

- A Consolidated Statement of Financial Position providing the information on the financial position of the Group as at the year-end.
- A Consolidated Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Group for the period under review.
- A Consolidated Statement of Changes in Equity depicting all changes in shareholders' funds during the period under review of the Group.
- A Consolidated Statement of Cash Flows providing the information to the users, on the ability of the Group to generate cash and cash equivalents and the needs of entities to utilise those cash flows, and
- Notes to the Consolidated Financial Statements comprising Accounting Policies and other explanatory information.

2.9 Use of estimates and judgements

The preparation of Consolidated 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 Consolidated Financial Statements are described in the following Notes:

2.9.1 COVID-19 pandemic and negative macro-economic outlook

The COVID-19 pandemic and its effect on the global economy have impacted the customers, operations and Group performance. The outbreak necessitated the Government to respond at unprecedented levels to protect the health of the population, local economy and livelihoods. Additionally, the negative macro-economic outlook fueled by the pandemic as explained in Note 51 to these Financial Statements affected the business environment in which the Group operates. Thus, the pandemic situation has significantly increased the estimation uncertainty in the preparation of these Consolidated Financial Statements including, 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 and negative macro-economic outlook on this estimates is discussed further in Note 51 to these Consolidated 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 Group used judgements when assessing of the business model within which the assets are held and assessment whether the contractual terms of the financial assets are Solely Payments of Principal and Interest (SPPI) on the principal amount of the outstanding.

The Group 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 Group'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 Group's ability to continue as a going concern. Therefore, the Consolidated 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 Group 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.

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 Consolidated 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 Consolidated Financial Statements, unless otherwise indicated. The accounting policies have been consistently applied by Group entities. Certain comparative amounts in the Statement of Profit or Loss and

Other Comprehensive Income and Statement of Financial Position have been reclassified or rearranged, wherever necessary, to conform with the current year's presentation.

3.1 Basis of Consolidation

3.1.1 Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date - i.e. when the acquired set of activities and assets meet the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Any gain on bargain purchase is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships, such amounts are generally recognised in Profit or Loss. Any goodwill that arises is tested annually for impairment.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

3.1.2 Non-controlling interests

For each business combination, the Group elects to measure any non-controlling interests in the acquiree at their proportionate share of the acquiree's identifiable net assets.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill.

3.1.3 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group "controls" an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control.

The Financial Statements of subsidiary is included in the Consolidated Financial Statements from the date the control effectively commences until the date that control effectively ceases.

3.1.4 Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is

recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Subsequently it is accounted for as an equity-accounted investee or Financial Assets Fair Value Through Other Comprehensive Income (FVTOCI) depending on the level of influence retained.

3.1.5 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency transactions and balances

Transactions in foreign currencies are translated to the respective functional currency (Sri Lankan Rupees – LKR) 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 amortised 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 recognised in Consolidated Statement of Profit or Loss.

3.3 Financial assets and financial liabilities

3.3.1 Recognition and initial measurement

The Group 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 Group 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.

3.3.2 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 Group 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 Group 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 Group 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 Group'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 Group'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 Group 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 Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group'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).

3.3.3 Reclassifications

Financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

3.3.4 Derecognition

Financial assets

The Group derecognises 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 Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) 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 derecognition of such securities, as explained. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its Consolidated 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 derecognised. 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 Group retains all or substantially all of the risks and rewards of ownership of such assets. In transactions in which the Group 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 Group 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 Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

3.3.5 Modification of financial assets and liabilities

Financial assets

If the terms of a financial asset are modified, then the Group 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 derecognised 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
- other fees are included in profit or loss as part of the gain or loss on derecognition.

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 Group 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 derecognition 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 derecognition of the financial asset, then the Group 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 Group derecognises 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 derecognised 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 derecognition, 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 recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Equity investments at FVOCI	These are subsequently measured at fair value. Dividends are recognised 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 recognised in OCI and are never reclassified to profit or loss.

3.3.6 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 Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group 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 Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e., the fair value of the consideration given or received. If the Group determines that

the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the 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 Group 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 Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. 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 Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.3.7 Impairment

Recognition of ECL

The Group 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 Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the definition of “investment grade”. The Group 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 consolidated 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”.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as “Stage 3 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 Group 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 Group if the commitment is drawn down and the cash flows that the Group expects to receive.

When discounting future cashflows, the following discount rates are used;

- *financial assets other than purchased or originated credit impaired financial assets or lease receivables:* the original effective interest rate or an approximation thereof
- *purchased or originated credit impaired financial assets or lease receivables:* a credit-adjusted effective interest rate

- *lease receivables:* the discount rate used in measuring the lease receivable

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 derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition 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 derecognition 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 derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group 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 Group on terms that the Group 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 credit-impaired.

Purchased or originated credit impaired financial assets or lease receivables

These financial assets are assets that are credit-impaired on initial recognition. For these assets, lifetime ECL are incorporated into the calculation of the effective interest rate on the initial recognition. Consequently, these assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to the initial recognition is equal to the changes in lifetime ECL since initial recognition of assets.

Presentation of allowance for ECL in the Consolidated Statement of Financial Position

Loss allowances for ECL are presented in the Consolidated Statement of Financial Position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the Consolidated 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 Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in "impairment losses on financial instruments" in the Consolidated 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 Group's procedures for recovery of amounts due.

3.3.8 Designation at fair value through profit or loss

The Group does not have any financial liabilities designated as at FVTPL, but the Group has designated its investments in treasury bond issued by the Government of Sri Lanka as at FVTPL.

3.3.9 Cash and cash equivalents

"Cash and cash equivalents" include notes and coins on hand, unrestricted balances held with banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

3.4 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 Group 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.

3.5 Leases

At the inception of a contract, the Group 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.

3.5.1 Group acting as a lessee

At commencement or modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its stand-alone price. However, for lease of branches the Group has elected not to separate non-lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.



The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of 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 Group is reasonably certain to exercise

Lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable 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 Group presents the right-of-use asset as separate line item in the Consolidated Statement of Financial Position while the lease liability is presented under other liabilities.

Short-term leases and leases of low value assets

The Group elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on the straight-line basis.

3.5.2 The Group acting as a lessor

When the Group 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 Group 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 Group applies the derecognition and impairment requirements in SLFRS 9 to the lease rental receivables.

3.6 Property, plant and equipment

3.6.1 Basis of recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be reliably measured.

3.6.2 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 capitalised 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.

3.6.3 Cost model

The Group 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.

3.6.4 Revaluation model

The Group applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation of buildings and subsequent accumulated impairment losses.

Freehold land and buildings of the Group 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.

3.6.5 Subsequent cost

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

3.6.6 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 recognised in profit

or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised and presented in the revaluation reserve in equity. Any loss is recognised immediately in profit or loss.

3.6.7 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 life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised 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 Group 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 derecognised. 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	5 years
Furniture and fittings	5 years
Computer and accessories	5 years
Machinery and equipment	5 years
Fixtures and fittings	5 years

3.6.8 Derecognition

An item of property, plant and equipment is derecognised 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 recognised net within other income/other expenses in the Consolidated Statement of Profit & Loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

3.6.9 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.

3.7 Intangible assets

3.7.1 Goodwill

Goodwill that arises on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each Cash Generating Unit. (or Group of Cash Generating Unit) to which the goodwill relates. When the recoverable amount of the Cash Generating Unit less than its carrying value, an impairment loss is recognised. Impairment losses relating to goodwill cannot be revised in future periods.

3.7.2 Computer software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on a software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as it is incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for current and comparative periods is 5 years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.8 Impairment of non-financial assets

The carrying amounts of the Group'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 recognised if the carrying amount of an asset or its related Cash-Generating Unit (CGU) exceeds its estimated recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised 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 in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

An impairment loss recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has



been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.9 Investment properties

3.9.1 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, use in the production or supply of goods or services or for administrative purposes.

3.9.2 Basis of measurement

3.9.2.1 Fair value model

Investment properties are initially recognised 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 Consolidated Statement of Profit or Loss in the year in which they arise.

3.9.2.2 Derecognition

Investment properties are derecognised 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 recognised in the Consolidated Statement of Profit or Loss in the year of retirement or disposal.

When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

3.9.2.3 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 Group as an owner-occupied property becomes an investment property, the Group, 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 recognised in the Statement of Profit or Loss. When the Group 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 recognised in the Consolidated Statement of Profit or Loss.

3.9.2.4 Determining fair value

External and independent valuers, having appropriate recognised 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.

3.10 Other non-financial liabilities and provisions

Liabilities are recognised in the Consolidated 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.

3.11 Deposits due to customers

Deposits include term deposits and saving deposits. They are stated in the Consolidated Statement of Financial Position at amount payable. Interest paid/payable on these deposits based on effective interest rate is charged to the Consolidated Statement of Profit or Loss.

3.12 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. 03 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.

3.13 Debt securities issued

These represent the funds borrowed by the Group for long-term funding requirements. Subsequent to initial recognition debt securities issued are measured at their amortised cost using the effective interest method, except where the Group designates debt securities issued at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

3.14 Other liabilities

Other liabilities are recorded at amounts expected to be payable at the reporting date.

3.15 Employee benefits

3.15.1 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 recognised as an employee benefit expense in the Consolidated Statement of Comprehensive Income in the periods during which services are rendered by employees.

3.15.1.1 Employees' Provident Fund (EPF)

The Group and employees contribute 12% and 8% respectively on the salary of each employee to the above mentioned funds.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement or a defined benefit plan when the settlement occurs.

3.15.1.2 Employees' Trust Fund (ETF)

The Group contributes 3% of the salary of each employee to the Employees' Trust Fund.

3.15.2 Defined benefits plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group'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 unrecognised 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 recognised 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 recognised immediately in profit or loss.

The Group recognises 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 recognised as personnel expenses in Consolidated 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 5 years of continued service with the Company.

3.15.2.1 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 recognised for the amount expected to be paid under short-term cash bonus, if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3.16 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 recognised 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 Consolidated Financial Statements unless the outflow of resources is remote. Contingent assets are disclosed, where inflow of economic benefit is probable.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

3.17 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group, 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.

3.17.1 Interest income on leases, loans and advances

Interest income and expense are recognised 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 Group 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 Consolidated Statement of Profit or Loss includes,

- interest on financial assets and financial liabilities measured at amortised 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 Group'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 Consolidated 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 recognised 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.

3.17.2 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 recognised 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.

3.17.3 Other income

Rent income and non-operational interest income are accounted for on accrual basis. Dividend income is recognised 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 Group have been accounted for in the Consolidated Statement of Profit or Loss, after deducting from the net sales proceeds on disposal of the carrying amount of such assets.

3.18 Expenses recognition

Expenses are recognised in the Consolidated 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 & equipment in a state of efficiency has been charged to income in arriving at the profit for the year. For the presentation of the Consolidated Statement of Profit or Loss the Directors are of the opinion that the nature of the expenses method present fairly the element of the Group's performance, and hence such presentation method is adopted.

3.19 Tax expense

Tax expense comprises current, deferred tax and other statutory taxes. Income tax and deferred tax expense is recognised in Consolidated Statement of Profit or Loss except to the extent that it relates to items recognised in the Consolidated Statement of Other Comprehensive Income or Consolidated Statement of Changes in Equity.

The Group has determined that interest and penalties related to income taxes including uncertain tax treatments do not meet the definition of income taxes and therefore accounted for that under LKAS 37 "Provisions, contingent liabilities and contingent assets".

3.19.1 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. Current tax payable also includes any tax liability arising from the tax on dividend income.

The provision for income tax is based on the elements of income and expenditure as reported in the Consolidated Financial Statements and is measured using the tax rates enacted or substantively enacted as at the reporting date.

3.19.2 Deferred tax

Deferred tax is recognised 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 recognised 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;
- temporary differences arising on the initial recognition of goodwill.

Temporary differences in relation to a right-of-use-asset and lease liability for specific lease are regarded as a net package (net ROU asset) for the purpose of recognising deferred tax.

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 realised simultaneously.

A deferred tax asset is recognised 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 utilised. 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 realised.

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 recognised as deferred tax expense and conversely any net decrease is recognised as reversal to deferred tax expense, in the Consolidated Statement of Profit or Loss.

3.19.3 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 Group. Withholding tax that arises from the distribution of dividends by the Group is recognised at the same time as the liability to pay the related dividend is recognised.

3.19.4 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 recognised as expense in the period it becomes due.

3.19.5 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.

3.20 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 capitalised as part of the assets.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

3.21 Earnings per share

The Group presents basic and diluted 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 Group by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

3.22 Statement of Cash Flow

The Consolidated 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 of 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.

3.23 Movement of reserves

Movement of reserves is disclosed in the Consolidated Statement of Changes in Equity.



4.

New/Amendments to Accounting Standard 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 2022. Accordingly, the Group has not applied these amendments in preparing these Consolidated Financial Statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group'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 recognise 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.

Groups 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 requirement, 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, the Board 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 Deferred tax related to assets and liabilities arising from a single transaction (amendment to LKAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transaction that give rise to equal and offsetting temporary differences. For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other component of equity of that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

4.5 Reference to conceptual framework (Amendments to SLFRS 03)

4.6 Disclosure of Accounting policies (Amendments to SLFRS 01)

4.7 Definition of Accounting estimates (Amendments to SLFRS 08)

4.8 Annual improvements to SLFRS Standards 2018-2020

5.

Interest income

	Group	Company	
Year ended 31 March	2022 LKR	2022 LKR	2021 LKR
Interest calculated using effective interest method			
Loans and advances to customers	4,215,403,797	4,053,036,521	3,943,138,581
Lease rentals receivables	2,153,148,552	2,042,239,930	2,056,293,543
Loans and advances to others	44,371,122	44,371,122	69,269,161
	6,412,923,471	6,139,647,573	6,068,701,285
Other interest income			
Financial assets measured at amortised cost – Debt and other instruments	190,110,046	172,389,393	309,943,358
Financial assets measured at fair value through profit or loss	16,000	16,000	1,440,000
Savings deposits	30,298,619	30,298,619	98,304,671
	220,424,665	202,704,012	409,688,029
	6,633,348,136	6,342,351,585	6,478,389,314

6.

Interest expense

Year ended 31 March	Group	Company	2021 LKR
	2022 LKR	2022 LKR	
Deposits from customers	2,457,641,526	2,395,331,201	3,183,688,268
Debentures	195,422,306	195,422,306	190,844,594
Other borrowings	76,411,807	62,177,795	146,867,468
	2,729,475,639	2,652,931,302	3,521,400,330

7.

Net fee and commission income

Year ended 31 March	Group	Company	2021 LKR
	2022 LKR	2022 LKR	
Fee and commission income	565,175,215	557,552,916	503,020,936
Fee and commission expenses	(129,866,257)	(129,866,257)	(96,508,777)
	435,308,958	427,686,659	406,512,159



8.

Other operating income

Year ended 31 March	Note	Group	Company	2021 LKR
		2022 LKR	2022 LKR	
Rent income		70,420,406	70,420,406	63,511,220
Recovery of loan balance written-off		41,868,128	41,803,128	5,794,254
Default income		-	-	57,228,378
Profit from disposal of property, plant and equipment		1,033,740	1,018,740	122,294
Dividend income		240,000	240,000	320,000
Sundry income		290,617,270	282,272,458	31,438,663
Change in fair value of investment properties	26	112,500,000	112,500,000	27,200,000
Real estate income		74,083,984	-	-
		590,763,528	508,254,732	185,614,809

9.

Impairment charges for loans, leases and other advances

Year ended 31 March	Note	Group	Company	2021 LKR
		2022 LKR	2022 LKR	
Financial assets at amortised cost – Loans and advances to customers	9.1	1,069,201,457	1,041,770,150	672,946,086
Financial assets at amortised cost – Lease rentals receivables	9.1	(80,343,523)	(142,937,883)	386,497,283
Other Impairment (reversals) /charges	9.2	(79,439)	-	(14,266,204)
		988,778,495	898,832,267	1,045,177,165

9.1 Impairment charges – Loans and leases

Year ended 31 March		Group	Company	2021 LKR
		2022 LKR	2022 LKR	
Financial assets at amortised cost – Loans and advances to customers				
Stage 1		144,871,732	123,027,657	124,127,638
Stage 2		316,600,122	315,722,777	14,865,009
Stage 3		607,729,603	603,019,716	533,953,439
Total impairment charge for loans and advances		1,069,201,457	1,041,770,150	672,946,086
Financial assets at amortised cost – Lease rentals receivables				
Stage 1		53,360,522	16,203,129	39,038,969
Stage 2		(26,208,042)	(49,665,522)	85,368,261
Stage 3		(107,496,003)	(109,475,490)	262,090,053
Total impairment charge for lease rental receivables		(80,343,523)	(142,937,883)	386,497,283

9.2 Other Impairment

	Group	Company	
Year ended 31 March	2022 LKR	2022 LKR	2021 LKR
Impairment reversal for debt relief loan receivable	(79,439)	-	(14,239,235)
Impairment reversal on loans and advances to others	-	-	(26,969)
Total impairment reversal for the year	(79,439)	-	(14,266,204)

9.3 Comparison between provision for impairment as per SLFRS 9 and Central Bank (CBSL) requirements

	Group			
Year ended 31 March 2022	Impairment charge to profit or loss	Written off during the year	Charge to profit or loss net of write-offs	Provision for the year as per CBSL requirements (Unaudited)
	LKR	LKR	LKR	LKR
Loans and advances to customers	1,069,201,457	447,458,273	621,743,184	200,879,377
Lease rental receivables	(80,343,523)	224,141,708	(304,485,231)	385,623,953
	988,857,934	671,599,981	317,257,953	586,503,330

	Company			
Year ended 31 March 2022	Impairment charge/(reversal) to profit or loss	Written off during the year	Charge/(reversal) to profit or loss net of write-offs	Provision for the year as per CBSL requirements (Unaudited)
	LKR	LKR	LKR	LKR
Loans and advances to customers	1,041,770,150	442,036,395	599,733,755	200,879,377
Lease rental receivables	(142,939,883)	224,141,708	(367,079,591)	385,623,953
	898,832,267	666,178,103	232,654,164	586,503,330

10.

Personnel Expenses

	Group	Company	
Year ended 31 March	Note	2022 LKR	2021 LKR
Salaries and bonus		1,168,802,139	900,454,492
Other personnel expenses		36,835,786	23,309,181
Employer's contribution to Employees' Provident Fund		115,481,381	114,596,129
Employer's contribution to Employees' Trust Fund		28,824,917	28,631,124
Retirement benefit cost	36.1	48,477,493	56,149,981
		1,398,421,716	1,123,140,907



11.

Taxes on financial services

Year ended 31 March	Group	Company	
	2022 LKR	2022 LKR	2021 LKR
Value added tax on financial services	279,285,833	273,795,558	131,029,620
Nation building tax on financial services	-	-	(8,972,421)
	279,285,833	273,795,558	122,057,199

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 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 till 31 December 2021 is 15% and w.e.f. 1 January 2022 the rate was increased to 18%. (2020/21: 15%)

12.

Profit/(loss) before income tax

Year ended 31 March	Group	Company	
	2022 LKR	2022 LKR	2021 LKR
Profit/(loss) before tax has is stated after charging all expenses including the followings:			
Depreciation on property, plant and equipment	135,437,634	133,338,846	142,261,636
Advertising and publications	65,316,560	64,994,870	65,316,560
Repairs and maintenance	229,059,955	228,598,318	229,059,955
Crop insurance levy	5,710,832	4,724,009	5,710,832
Right of use amortisation	80,500,979	76,666,318	72,192,148
Amortisation of intangible assets	78,447,299	78,244,131	71,514,522
Directors remuneration	24,069,000	22,839,000	24,069,000
Auditors' remuneration – Audit fees	4,940,000	4,250,000	3,750,000
– Other services	1,978,493	872,500	875,000
Legal charges	10,304,670	9,410,852	10,304,670
Donation	104,500	104,500	-

13.

Income tax (reversal)/expense

		Group	Company	
Year ended 31 March		2022	2022	2021
	Note	LKR	LKR	LKR
Recognised in the profit or loss				
Income tax on profit for the year	13.1	209,857,041	148,767,449	536,102
Under/(over) provision for previous year		8,446,882	8,446,882	(89,215,854)
Deferred tax (reversal)/charge)	30.2	(118,007,771)	(65,826,907)	15,985,565
		100,296,152	91,387,424	(72,694,187)
Recognised in the Other Comprehensive Income				
Deferred tax charge/(reversal)	30.2	(2,566,478)	(2,566,478)	6,172,755
		(2,566,478)	(2,566,478)	6,172,755

13.1 Numerical reconciliation of accounting profit/(loss) to income tax expense

Year ended 31 March	Group	Company	2021 LKR
	2022 LKR	2022 LKR	
Accounting profit/(loss) before income tax expense	615,913,583	509,181,450	(196,307,312)
Add:			
Disallowable expenses	2,012,077,928	1,855,361,368	2,079,386,208
Allowable expenses	(1,753,587,173)	(1,744,678,447)	(1,870,284,671)
Tax exempt income	-	-	(10,560,462)
Taxable income	874,404,338	619,864,371	2,233,763
Income tax			
At 24%	209,857,041	148,767,449	536,102
Current income tax expense	209,857,041	148,767,449	536,102

The Group and the Company have calculated the provision for income tax at the rate of 24% on its profits for the year ended 31 March 2022 (2020/21: 24%).

Surcharge Tax Act

The Surcharge Tax Act was certified by the speaker of the parliament on 8 April 2022. This tax will be levied on any individual, partnership or company, whose taxable income calculated in accordance with the provisions of the Inland Revenue Act, No. 24 of 2017, exceeds LKR 2 Bn, for the year of assessment commenced on 1 April 2020.

This tax is payable at the rate of twenty five per centum (25%) on the taxable income of such individual, partnership or company, for such year of assessment. Since the Company is part of a Group which has a taxable income in excess of the value specified therein, the Company will be liable to pay the Surcharge Tax. Accordingly, the Company is liable to pay surcharge tax of LKR 9,390,608 on its profits for the year ended 31 March 2021. However, no provision is recognised in these financial statements since the tax regulations were not substantively enacted as at the reporting date.



14.

Earnings/(loss) per share

14.1 Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) 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;

	Group	Company	
Year ended 31 March	2022	2022	2021
Net profit/(loss) attributable to the ordinary shareholders of the parent for the year (LKR)	503,164,511	417,794,026	(123,613,125)
Weighted average number of ordinary shares outstanding during the year	1,719,580,624	1,719,580,624	1,719,580,624
Basic earnings/(loss) per share (LKR)	0.29	0.24	(0.07)

14.2 Diluted earnings/(loss) per share

There were no potential dilutive ordinary shares outstanding at any time during the year. Therefore, diluted earnings/(loss) 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”

	Group			
As at 31 March 2022	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	–	–	1,282,750,567	1,282,750,567
Financial assets at amortised cost – Loans and advances to customers	–	–	23,728,547,027	23,728,547,027
Financial assets at amortised cost – Lease rentals receivables	–	–	13,616,192,279	13,616,192,279
Financial assets at amortised cost – Loans and advances to others	–	–	295,201,210	295,201,210
Financial assets measured at FVOCI	–	2,712,110	–	2,712,110
Financial assets at amortised cost – Debt and other instruments	–	–	3,332,608,450	3,332,608,450
Other financial assets	–	–	71,864,928	71,864,928
Total financial assets	–	2,712,110	42,327,164,461	42,329,876,571

As at 31 March 2022	Financial liabilities measured at fair value through profit or loss (FVTPL) LKR	Financial liabilities measured at amortised cost LKR	Total LKR
Liabilities			
Bank overdraft	–	1,011,726,138	1,011,726,138
Financial liabilities at amortised cost – Due to customers	–	34,703,070,381	34,703,070,381
Financial liabilities at amortised cost – Debt issued and other borrowed funds	–	3,255,330,464	3,255,330,464
Other financial liabilities	–	1,251,667,473	1,251,667,473
Total financial liabilities	–	40,221,794,456	40,221,794,456

As at 31 March 2022	Company			Total LKR
	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	
Assets				
Cash and cash equivalents	–	–	802,799,680	802,799,680
Financial assets at amortised cost – Loans and advances to customers	–	–	20,314,640,309	20,314,640,309
Financial assets at amortised cost – Lease rentals receivables	–	–	11,455,586,911	11,455,586,911
Financial assets at amortised cost – Loans and advances to others	–	–	295,201,210	295,201,210
Financial assets measured at FVOCI	–	2,655,810	–	2,655,810
Financial assets at amortised cost – Debt and other instruments	–	–	3,028,183,719	3,028,183,719
Other financial assets	–	–	64,252,417	64,252,417
Total financial assets	–	2,655,810	35,960,664,246	35,963,320,056

As at 31 March 2022	Financial liabilities measured at fair value through profit or loss (FVTPL) LKR	Financial liabilities measured at amortised cost LKR	Total LKR
Liabilities			
Bank overdraft	–	648,139,767	648,139,767
Financial liabilities at amortised cost – Due to customers	–	31,593,426,528	31,593,426,528
Financial liabilities at amortised cost – Debt issued and other borrowed funds	–	2,905,685,927	2,905,685,927
Other financial liabilities	–	1,153,513,555	1,153,513,555
Total financial liabilities	–	36,300,765,777	36,300,765,777



As at 31 March 2021	Company			Total
	Financial assets measured at fair value through profit or loss (FVTPL)	Financial assets measured at fair value through other comprehensive income (FVOCI)	Financial assets measured at amortised cost	
	LKR	LKR	LKR	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)	Financial liabilities measured at amortised cost	Total
	LKR	LKR	
	LKR	LKR	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

16. Cash and cash equivalents

	Group	Company	
	2022 LKR	2022 LKR	2021 LKR
Favourable balances			
Cash in hand	239,570,241	227,509,030	155,997,670
Balances with banks	1,043,217,522	575,290,650	489,637,990
	1,282,787,763	802,799,680	645,635,660
Less: Allowance for impairment losses	(37,196)		
	1,282,750,567	802,799,680	645,635,660
Unfavourable balances			
Bank overdraft	(1,011,726,138)	(648,139,767)	–
Cash and cash equivalents for the cash flows purpose	271,024,429	154,659,913	645,635,660

16.1 Net cash and cash equivalents for the purpose of the cash flow statement

	Group	Company	
	2022 LKR	2022 LKR	2021 LKR
Favorable cash and cash equivalents	271,024,429	154,659,913	645,635,660
Deposits with less than three months maturity	50,603,570	-	-
Net cash and cash equivalents	321,628,000	154,659,913	645,635,660

17.

Financial assets – Fair value through profit or loss

	Group	Company	
	2022 LKR	2022 LKR	2021 LKR
As at 31 March			
Cost of treasury bond investments	-	-	16,250,272
Interest receivable	-	-	600,000
	-	-	16,850,272
Less: Change in fair value	-	-	(146,272)
	-	-	16,704,000

18.

Financial assets at amortised cost – Loans and advances to customers

	Group	Company	
	2022 LKR	2022 LKR	2021 LKR
As at 31 March			
Loans and advances to customers	27,779,569,498	23,682,019,510	20,843,118,674
Less: Allowance for impairment losses (Note 18.1)	(4,051,022,471)	(3,367,379,201)	(2,767,645,445)
	23,728,547,027	20,314,640,309	18,075,473,229

18.1 Financial assets at amortised cost – Loans and advances to customers product-wise

	Note	Group		Company	
		2022		2022	
		Amortised cost LKR	Impairment LKR	Amortised cost LKR	Impairment LKR
Loans and advances	18.2	24,678,690,119	4,024,656,426	20,651,942,306	3,341,013,156
Gold loans	18.3	2,636,604,562	26,366,045	2,636,604,562	26,366,045
Loans against fixed deposits	18.4	464,274,817	-	393,472,642	-
		27,779,569,498	4,051,022,471	23,682,019,510	3,367,379,201



As at 31 March	Note	Company	
		2021	
		Amortised cost LKR	Impairment LKR
Loans and advances	18.2	18,821,820,145	2,750,815,279
Gold loans	18.3	1,683,016,739	16,830,166
Loans against fixed deposits	18.4	338,281,790	–
		20,843,118,674	2,767,645,445

18.2 Loans and advances

18.2.1 Net loans and advances to customers

As at 31 March 2022	Group		
	Gross loans and advances to customers LKR	Allowance for impairment losses LKR	Net loans and advances to customers LKR
Stage 1	16,631,864,715	887,800,756	15,744,063,959
Stage 2	2,760,327,058	552,002,492	2,208,324,566
Stage 3	5,286,498,346	2,584,853,178	2,701,645,168
	24,678,690,119	4,024,656,426	20,654,033,693

As at 31 March 2022	Company		
	Gross loans and advances to customers LKR	Allowance for impairment losses LKR	Net loans and advances to customers LKR
Stage 1	14,311,003,899	839,747,444	13,471,256,455
Stage 2	2,481,717,980	535,247,384	1,946,470,596
Stage 3	3,859,220,427	1,966,018,328	1,893,202,099
	20,651,942,306	3,341,013,156	17,310,929,150

As at 31 March 2021	Company		
	Gross loans and advances to customers LKR	Allowance for impairment losses LKR	Net loans and advances to customers LKR
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	4,158,530,198	1,805,042,513	2,353,487,686
	18,821,820,145	2,750,815,279	16,071,004,867

18.2.2 Allowance for impairment losses

a) Movement in impairment allowance

As at 31 March	Group	Company	2021 LKR
	2022 LKR	2022 LKR	
Balance as at 1 April	2,750,815,279	2,750,815,279	2,650,498,124
Acquisition of subsidiary during the year	661,633,841	-	-
Charge for the year	1,059,665,582	1,032,234,272	667,340,408
Amount written off	(447,458,273)	(442,036,395)	(567,023,253)
Balance as at 31 March	4,024,656,426	3,341,013,156	2,750,815,279
Allowance for individually significant impairment	-	-	23,986,030
Allowance for individually non-significant Impairment	4,024,656,426	3,341,013,156	2,726,829,249
Total	4,024,656,426	3,341,013,156	2,750,815,279

(b) Allowance for collectively assessed portfolio

As at 31 March 2022	Group			
	Collective			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Balance as at 1 April 2021	726,850,270	218,922,496	1,781,056,483	2,726,829,249
Acquisition of subsidiary during the year	26,209,237	15,877,763	619,546,841	661,633,841
Charge for the year	134,741,249	317,202,233	631,708,127	1,083,651,609
Amount written off	-	-	(447,458,273)	(447,458,273)
Balance as at 31 March 2022	887,800,756	552,002,492	2,584,853,178	4,024,656,426

As at 31 March 2022	Company			
	Collective			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Balance as at 1 April 2021	726,850,270	218,922,496	1,781,056,483	2,726,829,249
Charge for the year	112,897,174	316,324,888	626,998,240	1,056,220,302
Amount written off	-	-	(442,036,395)	(442,036,395)
Balance as at 31 March 2022	839,747,444	535,247,384	1,966,018,328	3,341,013,156

As at 31 March 2021	Company			
	Collective			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
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



Allowance for individually significant impairment

As at 31 March 2022	Group/Company			
	Individual			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Balance as at 1 April 2021	–	–	23,986,030	23,986,030
Reversal for the year	–	–	(23,986,030)	(23,986,030)
Balance as at 31 March 2022	–	–	–	–

As at 31 March 2021	Group/Company			
	Individual			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Balance as at 1 April 2020	–	–	–	–
Change for the year	–	–	23,986,030	23,986,030
Balance as at 31 March 2021	–	–	23,986,030	23,986,030

18.2.3 Sensitivity analysis of accumulated impairment for loan rentals receivable as at 31 March 2022 – Collective assessment

Changed criteria	Group	
	Changed factor %	Impairment allowance increase LKR
Loss Given Default (LGD)	Increase 1	95,989,583
Probability of Default (PD)	Increase 1	65,415,836
Economic Factor Adjustment (EFA)	Increase 1	7,973,535

Changed criteria	Company	
	Changed factor %	Impairment Allowance increase LKR
Loss given Default (LGD)	Increase 1	93,778,729
Probability of Default (PD)	Increase 1	53,693,158
Economic factor Adjustment (EFA)	Increase 1	7,608,124

18.3 Gold Loans

18.3.1 Net receivables on Gold Loans

As at 31 March 2022	Group/Company		
	Gross loans receivable LKR	Allowance for impairment losses LKR	Total net loans receivables LKR
Stage 1	2,360,779,223	23,607,792	2,337,171,431
Stage 2	274,137,527	2,741,375	271,396,152
Stage 3	1,687,812	16,878	1,670,934
	2,636,604,562	26,366,045	2,610,238,517

As at 31 March 2021	Company		
	Gross loans receivable LKR	Allowance for impairment losses LKR	Total net loans receivables LKR
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

As at 31 March	Group/Company	Company
	2022 LKR	2021 LKR
Balance as at 1 April	16,830,167	11,224,490
Charges for the year	9,535,878	5,605,677
	26,366,045	16,830,167
Collective impairment	26,366,045	16,830,167
Total	26,366,045	16,830,167

(b) Movement in impairment allowance during the year

As at 31 March 2022	Group/Company			
	Collective			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Balance as at 1 April 2021	13,477,309	3,343,486	9,372	16,830,167
Charges/(Reversals) for the year	10,130,483	(602,111)	7,506	9,535,878
Balance as at 31 March 2022	23,607,792	2,741,375	16,878	26,366,045

As at 31 March 2021	Company			
	Collective			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
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

18.4 Loans against deposits

As at 31 March	Group	Company	
	2022 LKR	2022 LKR	2021 LKR
Loan against deposits	451,875,549	383,755,792	328,488,381
Interest receivable on loan against deposits	12,399,268	9,716,850	9,793,409
	464,274,817	393,472,642	338,281,790



18.5 Movement in allowance for expected credit losses

Financial assets at amortised cost – Loans and advances to customers

As at 31 March 2022	Group			Total LKR
	Stage 1 12-month ECL LKR	Stage 2 Lifetime ECL not credited impaired LKR	Stage 3 Lifetime ECL credited impaired LKR	
Balance as at 1 April	740,327,579	222,265,982	1,805,051,885	2,767,645,446
Changes due to loans and advances recognised in opening balance that have been;				
Acquisition of subsidiary during the year	26,209,237.0	15,877,763.0	619,546,841.0	661,633,841
– Transferred from 12 – month ECL	(538,069,761)	327,357,153	210,712,608	–
– Transferred from Lifetime ECL not credit impaired	(24,157,792)	(116,057,439)	140,215,231	–
– Transferred from lifetime ECL credit impaired	(1,710,785)	4,665,624	(2,954,839)	–
Measurement of loss allowances for others	708,810,070	100,634,784	(187,701,670)	621,743,184
Balance as at 31 March	911,408,548	554,743,867	2,584,870,056	4,051,022,471

As at 31 March 2022	Company			Total LKR
	Stage 1 12-month ECL LKR	Stage 2 Lifetime ECL not credited impaired LKR	Stage 3 Lifetime ECL credited impaired LKR	
Balance as at 1 April	740,327,579	222,265,982	1,805,051,885	2,767,645,446
Changes due to loans and advances recognised in opening balance that have been;				
– Transferred from 12 – month ECL	(542,080,018)	330,295,939	211,784,078	–
– Transferred from Lifetime ECL not credit impaired	(11,181,689)	(129,543,679)	140,725,368	–
– Transferred from lifetime ECL credit impaired	(1,710,785)	4,665,624	(2,954,839)	–
Measurement of loss allowances for others	678,000,149	110,304,893	(188,571,287)	599,733,755
Balance as at 31 March	863,355,236	537,988,759	1,966,035,205	3,367,379,201

As at 31 March 2021	Company			Total LKR
	Stage 1 12-month ECL LKR	Stage 2 Lifetime ECL not credited impaired LKR	Stage 3 Lifetime ECL credited impaired LKR	
Balance as at 1 April	616,199,943	207,400,973	1,838,121,698	2,661,722,614
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	413,263,561	125,666,528	(433,007,258)	105,922,831
Balance as at 31 March	740,327,578	222,265,982	1,805,051,885	2,767,645,445

19.

Lease rentals receivables

As at 31 March	Note	Group	Company	2021 LKR
		2022 LKR	2022 LKR	
Lease rental receivable		18,650,779,365	14,980,750,409	14,317,280,092
Less: Unearned interest income		(4,360,632,176)	(3,042,958,878)	(3,171,579,707)
Net receivable		14,290,147,189	11,937,791,531	11,145,700,385
Less: Rental received in advance		-	-	-
Net rentals receivables before charging allowance for impairment losses		14,290,147,189	11,937,791,531	11,145,700,385
Less: Allowance for impairment losses	19.2	(673,954,910)	(482,204,620)	(849,284,211)
Total net rentals receivable		13,616,192,279	11,455,586,911	10,296,416,174

19.1 Lease rentals receivable

As at 31 March 2022	Group		
	Gross rentals receivables LKR	Allowance for impairment losses LKR	Net rentals receivable LKR
Stage 1	12,190,814,131	244,980,100	11,945,834,031
Stage 2	1,215,482,842	149,992,078	1,065,490,764
Stage 3	883,850,216	278,982,732	604,867,484
	14,290,147,189	673,954,910	13,616,192,279

As at 31 March 2022	Company		
	Gross rentals receivables LKR	Allowance for impairment losses LKR	Net rentals receivable LKR
Stage 1	10,487,407,059	165,198,076	10,322,208,983
Stage 2	809,885,144	97,701,327	712,183,817
Stage 3	640,499,328	219,305,217	421,194,111
	11,937,791,531	482,204,620	11,455,586,911

As at 31 March 2021	Company		
	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

	Group		Company
	2022 LKR	2022 LKR	2021 LKR
As at 31 March			
Balance as at 1 April	849,284,211	849,284,211	462,786,928
Acquisition of subsidiary during the year	129,155,934	–	–
Charge/(reversal) for the year	(80,343,523)	(142,937,883)	386,497,283
Amount written off	(224,141,708)	(224,141,708)	–
Balance as at 31 March	673,954,910	482,204,620	849,284,211
Collective impairment	673,954,910	482,204,620	849,284,211
Total	673,954,910	482,204,620	849,284,211

(b) Movement in impairment allowance during the year

	Group			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
As at 31 March 2022				
Balance as at 1 April 2021	148,994,947	147,366,849	552,922,415	849,284,211
Acquisition of subsidiary during the year	42,624,631	28,833,271	57,698,028	129,155,930
Charge/(Reversal) for the year	53,360,522	(26,208,042)	(107,496,003)	(80,343,523)
Amount written off	–	–	(224,141,708)	(224,141,708)
Balance as at 31 March 2022	244,980,100	149,992,078	278,982,732	673,954,910

	Company			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
As at 31 March 2022				
Balance as at 1 April 2021	148,994,947	147,366,849	552,922,415	849,284,211
Charge/(Reversal) for the year	16,203,129	(49,665,522)	(109,475,490)	(142,937,883)
Amount written off	–	–	(224,141,708)	(224,141,708)
Balance as at 31 March 2022	165,198,076	97,701,327	219,305,217	482,204,620

	Company			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
As at 31 March 2021				
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

19.3 Sensitivity analysis of accumulated impairment for lease rentals receivables as at 31 March 2022

Changed criteria	Group	
	Changed factor	Sensitivity effect on impairment allowance increase
	%	LKR
Loss Given Default (LGD)	Increase 1	22,522,516
Probability of Default (PD)	Increase 1	48,766,230
Economic Factor Adjustment (EFA)	Increase 1	1,938,292

Changed criteria	Company	
	Changed factor	Sensitivity effect on impairment allowance increase
	%	LKR
Loss Given Default (LGD)	Increase 1	14,637,025
Probability of Default (PD)	Increase 1	45,803,495
Economic Factor Adjustment (EFA)	Increase 1	1,391,949

19.4 Contractual maturity analysis of lease rentals receivables

As at 31 March 2022	Group			
	Within one year LKR	1 to 5 years LKR	Over 5 years LKR	Total LKR
Gross rentals receivables	6,577,463,586	12,067,909,675	5,406,104	18,650,779,365
Less: Unearned income	(1,239,620,835)	(3,120,959,184)	(52,157)	(4,360,632,176)
Net rentals receivable before charging allowance for impairment losses	5,337,842,751	8,946,950,491	5,353,947	14,290,147,189
Less: Allowance for impairment losses				673,954,910
Total net rental receivable				13,616,192,279

As at 31 March 2022	Company			
	Within one year LKR	1 to 5 years LKR	Over 5 years LKR	Total LKR
Gross rentals receivables	6,514,904,858	8,460,439,449	5,406,104	14,980,750,411
Less: Unearned income	(1,235,474,279)	(1,807,432,444)	(52,157)	(3,042,958,880)
Net rentals receivable before charging allowance for impairment losses	5,279,430,579	6,653,007,005	5,353,947	11,937,791,531
Less: Allowance for impairment losses				(482,204,620)
Total net rental receivable				11,455,586,911



As at 31 March 2021	Company			
	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

19.5 Movement in allowance for expected credit losses

Financial assets at amortised cost – Lease rentals receivable

As at 31 March 2022	Group			Total LKR
	Stage 1 12-month ECL LKR	Stage 2 Lifetime ECL not credited impaired LKR	Stage 3 Lifetime ECL credited impaired LKR	
Balance as at 1 April	148,994,947	147,366,849	552,922,415	849,284,211
Changes due to lease rental receivables recognised in opening balance that have been;				
Acquisition of subsidiary during the year	42,624,631	28,833,271	57,698,028	129,155,930
– Transferred from 12-month ECL	(364,577,518)	302,128,172	62,449,346	–
– Transferred from Lifetime ECL not credit impaired	(111,671,372)	74,768,444	36,902,928	–
– Transferred from Lifetime ECL credit impaired				–
Measurement of loss allowance for others	529,609,412	(403,104,658)	(430,989,985)	(304,485,231)
Balance as at 31 March	244,980,100	149,992,078	278,982,732	673,954,910

As at 31 March 2022	Company			Total LKR
	Stage 1 12-month ECL LKR	Stage 2 Lifetime ECL not credited impaired LKR	Stage 3 Lifetime ECL credited impaired LKR	
Balance as at 1 April	148,994,947	147,366,850	552,922,414	849,284,211
Changes due to lease rental receivables recognised in opening balance that have;				
– Transferred from 12-month ECL	(366,304,031)	302,948,967	63,355,064	–
– Transferred from Lifetime ECL not credit impaired	(110,636,213)	73,391,718	37,244,495	–
Measurement of loss allowance for others	493,143,373	(426,006,208)	(434,216,756)	(367,079,591)
Balance as at 31 March	165,198,076	97,701,327	219,305,217	482,204,620

As at 31 March 2021	Company			Total LKR
	Stage 1 12-month ECL LKR	Stage 2 Lifetime ECL not credited impaired LKR	Stage 3 Lifetime ECL credited impaired 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	(144,240,751)	41,233,937	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	148,994,947	147,366,850	552,922,414	849,284,211

20.

Allowance for impairment losses – Loans and advances, lease rental receivables

As at 31 March	Group	Company	2021 LKR
	2022 LKR	2022 LKR	
Balance as at 1 April 2021	3,616,929,657	3,616,929,657	3,124,509,543
Acquisition of subsidiary during the year	790,789,771	–	
Charge for the year – Loans and advances to customers	1,069,201,457	1,041,770,150	672,946,084
Charge for the year – Lease rentals receivables	(80,343,523)	(142,937,883)	386,497,283
Written off during the year	(671,599,581)	(666,178,103)	(567,023,253)
Balance as at 31 March 2022	4,724,977,381	3,849,583,821	3,616,929,657

21.

Financial assets at amortised cost – Loans and advances to others

As at 31 March	Note	Group	Company	2021 LKR
		2022 LKR	2022 LKR	
Staff loans	21.1	72,104,296	70,972,432	144,206,602
Mortgage loans		224,228,778	224,228,778	261,558,800
		296,333,074	295,201,210	405,765,402
Less: Allowance for impairment losses	21.2	(1,131,864)	–	–
		295,201,210	295,201,210	405,765,402



21.1 Staff loans

	Group	Company	
	2022 LKR	2022 LKR	2021 LKR
As at 31 March			
Balance as at 1 April	144,206,602	144,206,602	269,933,350
Acquisition of subsidiary during the year	1,131,864	-	-
Loans granted during the year	15,193,000	15,193,000	8,995,000
Recovered during the year	(88,427,170)	(88,427,170)	(134,721,748)
Balance as at 31 March	72,104,296	70,972,432	144,206,602

21.2 Allowance for impairment losses

	Group	Company	
	2022 LKR	2022 LKR	2021 LKR
As at 31 March			
Balance as at 1st April	-	-	-
Impact due to acquisition of the subsidiary	1,131,864	-	-
Provision for the year	-	-	-
Balance as at 31 March	1,131,864	-	-

22.

Financial assets measured at fair value through other comprehensive income

	Note	Group	Company	
		2022 LKR	2022 LKR	2021 LKR
As at 31 March				
Unquoted equity securities	22.1	2,712,110	2,655,810	2,655,810
		2,712,110	2,655,810	2,655,810

22.1 Investments in un-quoted shares

	Group			Company		
	Number of shares	Cost LKR	Fair value LKR	Number of shares	Cost LKR	Fair value LKR
As at 31 March 2021 and 2022						
Credit Information Bureau of Sri Lanka	200	290,300	2,154,566	100	234,000	2,098,266
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	557,544
		50,945,057	2,712,110		50,888,757	2,655,810

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.

No strategic investments were disposed during 2021/22 and there were no transfer of any cumulative gain or loss within equity relating to these investments.

22.2 Significant unobservable inputs used in the valuation and their sensitivity – Investments at FVOCI

Input	Group		Company
	Change %	Fair value increase/ (decrease) by LKR	Fair value increase/ (decrease) by LKR
Net assets per share	+10%	265,581	265,581
(LKR 0.32 – LKR 20,983)	-10%	(265,581)	(265,581)

23.

Financial assets at amortised cost – Debt and other instruments

As at 31 March	Note	Group		Company
		2022 LKR	2022 LKR	2021 LKR
Fixed deposits		50,566,373	–	1,990,060,273
Sri Lanka Government Securities	23.1	3,282,042,077	3,028,183,719	1,492,704,271
Reverse repurchase agreements	23.2	–	–	–
		3,332,608,450	3,028,183,719	3,482,764,544

23.1 Sri Lanka Government Securities

As at 31 March	Group		Company
	2022 LKR	2022 LKR	2021 LKR
Treasury bills	3,243,479,581	2,989,621,223	1,476,701,198
Interest receivable	38,562,496	38,562,496	16,003,073
	3,282,042,077	3,028,183,719	1,492,704,271

23.2 Reverse repurchase agreements

As at 31 March	Group/Company	Company
	2022 LKR	2021 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.

Investment in subsidiaries

As at 31 March	Note	2022 LKR	2021 LKR
Quoted investments	24.1	2,376,921,302	–
		2,376,921,302	–

24.1 Quoted investments

As at 31 March	Number of shares	Effective holding %	Cost LKR
Prime Finance PLC	118,293,534	97.76	2,376,921,302

In line with the proposal of the Central Bank of Sri Lanka to “consolidate Non-Banking Financial Institutions”, the Company has acquired the control of Prime Finance PLC with the acquisition of 87.27% of equity on 23 December 2021. The above balance represents the total amount invested by the company up to the reporting date.

24.2 Acquisition of a subsidiary

The Group has considered the effective date of acquisition for the consolidation purpose as at 31 December 2021. Below table denotes the assets and liabilities acquired at the effective date of acquisition. The Group considers the transaction. During the period 23 December 2021 to 31 December 2021 immaterial to the Financial Statements.

	LKR
Cash and cash equivalents	823,353,083
Financial assets at amortised cost -Loans and advances to customers	3,081,422,192
Financial assets at amortised cost - Lease rentals receivables	1,574,223,746
Financial assets measured at fair value through other comprehensive income	56,300
Financial assets at amortised cost - Debt and other instruments	301,502,742
Other assets	122,914,851
Inventories	811,813,564
Intangible assets	947,694
Property, plant and equipment	16,591,736
Right-of-use assets	23,419,532
Deferred tax assets	730,942
Total assets acquired	6,756,976,382
Bank Overdraft	217,983,384
Financial Liabilities at amortised cost - Due to Customers	3,242,067,960
Financial Liabilities at amortised cost -Debt issued and other borrowed funds	490,821,783
Current tax liabilities	52,219,613
Value added tax payable	3,080,051
Other liabilities	373,583,206
Retirement benefit obligation	11,665,088
Total liabilities acquired	4,391,421,085
Total identifiable net assets acquired	2,365,555,297

24.3 Goodwill on acquisition

	LKR
Consideration transferred	2,122,605,245
NCl, based on their proportionate interest in the recognised amounts of the assets and liabilities	301,135,189
Fair value of identifiable net assets	2,365,555,297
Goodwill on acquisition	58,185,137

The Group has incurred LKR 13 Mn transaction cost related to the acquisition of Prime Finance PLC on 23 December 2021. This has been recognised in the income statement as an expense under other operating expenses.

25. Other assets

	Note	Group	Company	2021 LKR
		2022 LKR	2022 LKR	
As at 31 March				
Other financial assets		71,864,928	64,252,417	113,445,878
Other non-financial assets	25.1	411,113,119	240,362,469	347,382,881
		482,978,047	304,614,886	460,828,759

25.1 Other Non Financial Assets

	Note	Group	Company	2021 LKR
		2022 LKR	2022 LKR	
As at 31 March				
Insurance related receivables		169,907,455	162,294,956	152,192,629
Prepayments		58,565,385	55,506,882	40,853,838
Advances		17,779,349	6,635,840	133,713,279
Other receivables		164,860,930	15,924,791	20,623,135
		411,113,119	240,362,469	347,382,881

26. Investments properties

	Group/Company	Company
	2022 LKR	2021 LKR
As at 31 March		
Land		
Balance as at 1 April	476,192,098	448,992,098
Change in fair value for the year	112,802,752	27,200,000
Transferred to property, plant and equipment	(81,500,000)	–
Balance as at 31 March	507,494,850	476,192,098
Buildings		
Balance as at 1 April	628,807,902	628,807,902
Change in fair value for the year	(302,752)	–
Balance as at 31 March	628,505,150	628,807,902
Net book value	1,136,000,000	1,105,000,000



26.1 Valuation of investment properties

Group/Company

The Group/Company carries investment properties at fair value. valuations of below investment properties were carried out as at 31 March 2022 by Mr R S Wijesuriya, Professional independent valuer. The Group/Company earned LKR 70,990,854 /- as rental income for the year ended 31 March 2022 (2021: LKR 62,718,896/-).

Location	Significant unobservable input	Value range LKR ('000)	Market/ Income approach	Land extent	Number of buildings	Building extent (Sq. ft.)	Fair value	
							2022 LKR	2021 LKR
No. 37, Vihara Mw., Matale.	Price per perch for land	500 – 1,000	Market approach	0A–0R–15.00P	–	–	15,000,000	10,500,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee.	Price per perch for land	25 – 28	Market approach	04A–02R–4.0P	–	–	29,000,000	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	900,000,000	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	192,000,000	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 Group/Company has incurred LKR 696,579/- as insurance expenses on these properties during the year ended 31 March 2022. (2021: LKR 723,475/-)

26.2 Carrying amounts of revalued investment properties if they were carried at cost less depreciation would be as follows:

As at 31 March	Group/Company		Company	
	2022		2021	
	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

Income approach

In arriving at the fair values under income approach, the valuation specialist has considered the expected rental income to be generated out of a comparable property located in an area which is comparable with that of the property being valued.

Market approach

In arriving at the fair values under market approach, the valuation specialist has considered the selling price of a similar property within a reasonable period of time. This involves evaluation of recent active market prices of similar assets, making appropriate adjustment for differences in size, nature, location and condition of the specific property.

26.3 Sensitivity analysis

Group/Company

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 (000)	If input is decreased by 5% LKR (000)
Matale	Price per perch	Increase/(decrease)	50,000	(50,000)
Trincomalee	Price per perch	Increase/(decrease)	2,003	(2,003)
Nugegoda	Price per perch	Increase/(decrease)	445,455	(445,455)
	Price per sq. ft	Increase/(decrease)	1,097	(1,097)
Kahathuduwa	Price per perch	Increase/(decrease)	30,312	(30,312)
	Price per sq. ft	Increase/(decrease)	198	(198)

27. Intangible assets

As at 31 March	Note	Group	Company	2021 LKR
		2022 LKR	2022 LKR	
Goodwill	27.1	58,185,137	–	–
Other intangible assets	27.2	233,489,310	229,399,955	254,263,673
		291,674,447	229,399,955	254,263,673

27.1 Goodwill allocated to cash generating unit

As at 31 March	Group	Company	2021 LKR
	2022 LKR	2022 LKR	
Prime Finance PLC	58,185,137	–	–
	58,185,137	–	–



27.2 Other intangible assets

		Group	Company	
As at 31 March		2022	2022	2021
	Note	LKR	LKR	LKR
Cost				
Balance as at 1 April		494,183,182	494,183,182	400,651,221
Additions due to acquisition of subsidiary during the year		10,486,574	–	–
Additions during the year		71,036,623	67,691,794	93,531,961
Balance as at 31 March		575,706,379	561,874,976	494,183,182
Capital work in progress	27.3	20,221,229	20,221,229	34,532,610
		595,927,608	582,096,205	528,715,792
Amortisation				
Balance as at 1 April		274,452,119	274,452,119	202,937,597
Acquisition of subsidiary during the year		9,538,880	–	–
Charge for the year		78,447,299	78,244,131	71,514,522
Balance as at 31 March		362,438,298	352,696,250	274,452,119
Net book value		233,489,310	229,399,955	254,263,673

27.3 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.

27.4 Other intangible assets by class

	Group		
	Cost LKR	Accumulated amortisation LKR	Net book value LKR
As at 31 March 2022			
Software	419,764,891	242,468,149	177,296,742
License	155,941,488	119,970,149	35,971,339
Capital work in progress	20,221,229	–	20,221,229
	595,927,608	362,438,298	233,489,310

	Company		
	Cost	Accumulated Amortisation	Net book value
	LKR	LKR	LKR
As at 31 March 2022			
Software	405,933,488	232,726,101	173,207,387
License	155,941,488	119,970,149	35,971,339
Capital work in progress	20,221,229	–	20,221,229
	582,096,205	352,696,250	229,399,955
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

27.5 Impairment testing

For the purpose of impairment testing for goodwill on Consolidation in full has been assigned to Prime Finance PLC (Subsidiary). The subsidiary company has been considered as a separate Cash Generating Unit (CGU) for the purpose of testing impairment of goodwill on consolidation.

In assessing the impairment of goodwill, the recoverable value of the subsidiary has been determined with reference to its fair value less cost to sell.

Fair value less cost to sell is derived based on the quoted market value of the equity interest in the subsidiary adjusted for an appropriate control premium.

Following key assumptions were used in this determination.

1. Cost to sell is immaterial
2. Control premium within the range of 5%-20%.

The estimated recoverable value based on above methodology exceeds the carrying amount of the CGU including the goodwill. Therefore, no provision for impairment is recognised as at 31 March 2022.



28.

Property, plant and equipment

Group

	Land LKR	Building LKR	Furniture and fittings LKR	Office equipment LKR	Machinery LKR
Balance as at 31 April 2021	340,721,356	917,278,646	105,352,147	280,266,616	–
Acquisition of subsidiary during the year	–	–	29,459,315	59,465,546	1,047,018
Additions during the year	–	–	6,790,410	22,004,108	–
Disposals during the year	–	–	(2,472,175)	(7,965,108)	–
Depreciation adjustment on revaluation	–	(69,538,873)	–	–	–
Carrying amount prior to revaluation	340,721,356	847,739,773	139,129,697	353,771,162	1,047,018
Change in fair value for the year	103,367,497	96,703,060	–	–	–
Transfer from investment property	81,500,000	–	–	–	–
Transfers from CWIP	–	140,768,316	456,350	4,306,986	–
Balance as at 31 March 2022	525,588,853	1,085,211,149	139,586,047	358,078,148	1,047,018
Accumulated depreciation					
Balance as at 1 April 2021	–	45,433,838	74,969,513	220,120,869	–
Acquisition of subsidiary during the year	–	–	20,951,762	52,944,030	1,047,018
Charge for the year	–	24,105,035	12,932,519	29,361,832	–
Transfer to revaluation reserve	–	(69,538,873)	–	–	–
Disposals during the year	–	–	(2,435,606)	(7,935,221)	–
Balance as at 31 March 2022	–	–	106,418,188	294,491,510	1,047,018
Carrying amount					
As at 31 March 2022	525,588,853	1,085,211,149	33,167,859	63,586,638	–
As at 31 March 2021	340,721,356	871,844,808	30,382,634	60,145,747	–

Computer LKR	Motor vehicles LKR	Fixtures and fittings LKR	Network accessories LKR	Capital work-in progress LKR	Total LKR
229,972,174	19,300,000	163,796,343	136,784,372	149,910,356	2,343,382,010
–	11,940,035	–	–	–	101,911,914
98,311,715	–	13,909,400	33,084,824	2,865,746	176,966,203
(530,185)	–	(3,337,251)	(552,233)	(418,650)	(15,275,602)
–	–	–	–	–	(69,538,873)
327,753,704	31,240,035	174,368,492	169,316,963	152,357,452	2,537,445,652
–	–	–	–	–	200,070,557
–	–	–	–	–	81,500,000
–	–	6,825,800	–	(152,357,452)	–
327,753,704	31,240,035	181,194,292	169,316,963	–	2,819,016,209
180,332,715	19,300,000	94,816,355	118,379,913	–	753,353,203
–	10,377,368	–	–	–	85,320,178
32,453,105	325,480	24,110,550	12,149,113	–	135,437,634
–	–	–	–	–	(69,538,873)
(510,828)	–	(3,237,759)	(552,233)	–	(14,671,647)
212,274,992	30,002,848	115,689,146	129,976,793	–	889,900,495
115,478,712	1,237,187	65,505,146	39,340,170	–	1,929,115,714
49,639,459	–	68,979,988	18,404,459	149,910,356	1,590,028,807



Capital work in progress (CWIP)

Capital work in progress represents the costs incurred on buildings under construction.

Company

	Land LKR	Building LKR	Furniture and fittings LKR	Office equipment LKR	Computer LKR
Cost/Fair value					
Balance as at 1 April 2020	340,721,356	917,278,646	106,452,117	280,716,801	225,143,609
Additions during the year	–	–	875,733	–	5,072,015
Transferred to revaluation reserve	–	–	–	–	–
Disposals during the year	–	–	(1,975,703)	(450,185)	(243,450)
Balance as at 31 March 2021	340,721,356	917,278,646	105,352,147	280,266,616	229,972,174
Balance as at 1 April 2021	340,721,356	917,278,646	105,352,147	280,266,616	229,972,174
Additions during the year	–	–	6,103,322	21,982,108	98,311,715
Disposals during the year	–	–	(2,472,175)	(4,566,379)	(530,185)
Depreciation adjustment on revaluation		(69,538,873)			
Carrying amount prior to revaluation	340,721,356	847,739,773	108,983,294	297,682,345	327,753,704
Change in fair value for the year	103,367,497	96,703,060	–	–	–
Transfer from investment property	81,500,000	–	–	–	–
Transfers from CWIP	–	140,768,316	456,350	4,306,986	–
Balance as at 31st March 2022	525,588,853	1,085,211,149	109,439,644	301,989,331	327,753,704
Accumulated depreciation					
Balance as at 1 April 2020	–	22,358,332	62,867,255	179,555,547	149,286,177
Charge for the year	–	23,075,506	14,054,450	41,000,927	31,288,671
Disposals during the year	–	–	(1,952,192)	(435,605)	(242,133)
Balance as at 31 March 2021	–	45,433,838	74,969,513	220,120,869	180,332,715
Balance as at 1 April 2021	–	45,433,838	74,969,513	220,120,869	180,332,715
Charge for the year	–	24,105,035	12,388,204	28,132,839	32,453,105
Transferred to revaluation reserve	–	(69,538,873)	–	–	–
Disposals during the year	–	–	(2,435,606)	(4,536,492)	(510,828)
Balance as at 31 March 2022	–	–	84,922,111	243,717,216	212,274,992
Carrying amount					
As at 31 March 2022	525,588,853	1,085,211,149	24,517,533	58,272,115	115,478,712
As at 31 March 2021	340,721,356	871,844,808	30,382,634	60,145,747	49,639,459

Capital work in progress (CWIP)

Capital work in progress represents the costs incurred on buildings that are under construction.

	Motor vehicles LKR	Fixtures and fittings LKR	Network accessories LKR	Capital work in progress LKR	Total LKR
	19,300,000	123,769,955	131,540,284	97,076,691	2,241,999,459
	–	42,223,292	5,815,795	52,833,665	106,820,500
	–	–	–	–	–
	–	(2,196,904)	(571,707)	–	(5,437,949)
	19,300,000	163,796,343	136,784,372	149,910,356	2,343,382,010
	19,300,000	163,796,343	136,784,372	149,910,356	2,343,382,011
	–	13,909,400	33,084,824	2,865,746	176,257,115
	–	(3,337,250)	(552,233)	(418,650)	(11,876,873)
					(69,538,873)
	19,300,000	174,368,493	169,316,963	152,357,452	2,438,223,380
	–	–	–	–	200,070,557
	–	–	–	–	81,500,000
	–	6,825,800	–	(152,357,452)	–
	19,300,000	181,194,293	169,316,963	–	2,719,793,937
	19,300,000	74,096,239	108,966,729	–	616,430,279
	–	22,857,191	9,984,891	–	142,261,636
	–	(2,137,075)	(571,707)	–	(5,338,712)
	19,300,000	94,816,355	118,379,913	–	753,353,203
	19,300,000	94,816,355	118,379,913	–	753,353,203
	–	24,110,550	12,149,113	–	133,338,846
	–	–	–	–	(69,538,873)
	–	(3,237,759)	(552,233)	–	(11,272,918)
	19,300,000	115,689,146	129,976,793	–	805,880,258
	–	65,505,147	39,340,170	–	1,913,913,679
	–	68,979,988	18,404,459	149,910,356	1,590,028,807



28.1 Valuation of land and building

Group/Company

The Company carries its land and building at fair value. Valuations of land and building were carried out as at 31 March 2022 by Mr R S Wijesuriya, Professional independent valuer.

Location	Unobservable input	Value range LKR '000	Market/Income approach	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			36,503,790
	Price per sqft for building	10 – 12	Income approach		1	5,755	74,496,210
No. 46/A, Tangalle Rd., Hambanthota.	Price per perch for land	800 – 870	Income approach	14P			6,321,754
	Price per sqft for building	5 – 7	Income approach		1	2,113	15,678,246
No. 677, William Gopallawa Mw., Kandy.	Price per perch for land	2,300 – 2,800	Income approach	9P			32,100,880
	Price per sqft for building	9 – 12	Income approach		1	5,400	62,399,120
No.168, Nawala Rd., Nugegoda.	Price per perch for land	7,000 – 7,600	Income approach	25.9P			249,062,087
	Price per sqft for building	15 – 19	Income approach		1	39,887	684,937,913
No. 67/1, Mahinda Place, Kirulapone, Colombo 05.	Price per perch for land	4,800 – 5,300	Income approach	8P			45,695,286
	Price per sqft for building	16 – 20	Income approach		1	5,786	104,104,716
No. 9/10/11, Galle Rd., Katubedda, Moratuwa.	Price per perch for land	1,800 – 2,200	Market approach	23P	–	–	57,500,000
No.06, Abaya Place, 7th Lane, Anuradhapura.	Price per perch for land	4,000-5,000	Income approach	13.52P			53,713,397
	Price per sqft for building	7-8	Income approach		1	11,239	89,286,603
No.56, Puttalam Service Mw, Puttalam.	Price per perch for land	1,700-2,000	Income approach	25.6P			44,691,657
	Price per sqft for building	6-7	Income approach		1	7,888	54,308,343

Valuation of lands and buildings have been classified as a Level 3 valuation as per SLFRS 13 – “Fair Value Measurement”.

Income approach

In arriving at the fair values under income approach, the valuation specialist has considered the expected rental income to be generated out of a comparable property located in an area which is comparable with that of the property being valued.

Market approach

In arriving at the fair values under market approach, the valuation specialist has considered the selling price of a similar property within a reasonable period of time. This involves evaluation of recent active market prices of similar assets, making appropriate adjustment for differences in size, nature, location and condition of the specific property.

28.2 Sensitivity analysis

Group/Company

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)	258,892	(258,892)
	Price per sq. ft.	Increase/(decrease)	647	(647)
Hambanthota	Price per perch	Increase/(decrease)	22,260	(22,260)
	Price per sq. ft.	Increase/(decrease)	371	(371)
Kandy	Price per perch	Increase/(decrease)	173,331	(173,331)
	Price per sq. ft.	Increase/(decrease)	578	(578)
Nugegoda	Price per perch	Increase/(decrease)	480,815	480,815
	Price per sq. ft.	Increase/(decrease)	1109	(1,109)
Moratuwa	Price per perch	Increase/(decrease)	125,000	(125,000)
Colombo 05	Price per perch	Increase/(decrease)	285,596	(285,596)
	Price per sq. ft.	Increase/(decrease)	900	(900)
Anuradhapura	Price per perch	Increase/(decrease)	198,644	(198,644)
	Price per sq. ft.	Increase/(decrease)	397	(397)
Puttlama	Price per perch	Increase/(decrease)	87,288	(87,288)
	Price per sq. ft.	Increase/(decrease)	344	(344)

28.3 Carrying amounts of revalued land and buildings if they were carried at cost less depreciation would be as follows:

	Group/Company		Company	
	2022		2021	
	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

28.4 Cost of fully depreciated assets as at the reporting date

	Group	Company	
	2022 LKR	2022 LKR	2021 LKR
Computer	146,689,760	135,774,970	125,835,098
Fixtures and fitting	64,597,195	56,812,094	48,730,276
Furniture and fittings	57,671,075	50,181,373	39,804,183
Motor vehicles	25,100,000	19,300,000	19,300,000
Motor cycles	860,035	–	–
Network accessories	108,431,894	104,765,761	95,648,746
Office equipment	173,178,052	166,627,791	100,023,169
Machinery	1,047,018	–	–
	577,575,029	533,461,989	429,341,472



28.5 Details of assets pledged on securities are disclosed in Note 46 to the Financial Statements.

28.6 No borrowing costs were capitalised during the year (2021: Nil).

28.7 There were no idle property, plant and equipment as at 31 March 2021 (2021: Nil).

28.8 There are no restrictions that existed on the title of the property, plant and equipment of the Group and the Company as at the reporting date.

29.

Right of use assets

29.1 Movement of right-of-use of assets

	Group	Company	
	2022 LKR	2022 LKR	2021 LKR
Cost			
Balance as at 1 April	410,392,899	410,392,899	367,457,930
Acquisition of subsidiary during the year	64,238,966	-	-
Additions during the year	36,691,231	36,651,557	54,545,771
Terminations during the year	-	-	(11,610,802)
Cost as at 31 March	511,323,096	447,044,456	410,392,899
Accumulated amortisation			
Balance as at 1 April	152,922,010	152,922,010	80,729,862
Acquisition of subsidiary during the year	40,819,434	-	-
Charge for the year	80,500,979	76,666,318	72,192,148
Balance as at 31 March	274,242,423	229,588,328	152,922,010
Net book value as at 31 March	237,080,673	217,456,128	257,470,889

Branches of the Group are operated in leased locations. The above right-of-use asset represents the lease rights relating to lands and buildings available for the Group's use at these locations.

30.

Deferred tax asset

30.1 Summary of net deferred tax assets movement

	Group	Company	
	2022 LKR	2022 LKR	2021 LKR
As at 31 March			
Note			
Balance as at 1 April	153,987,656	153,987,656	167,121,098
Acquisition of subsidiary during the year	730,942	-	-
Additions/(reversal) during the year	30.2 67,424,359	15,243,495	(13,133,442)
Balance as at 31 March	222,142,957	169,231,151	153,987,656

30.2 Additions/(Reversals) during the year

As at 31 March	Note	Group	Company	2021 LKR
		2022 LKR	2022 LKR	
(Reversal)/charge recognised in profit or loss		(118,007,771)	(65,826,907)	15,985,565
Charge recognised in other comprehensive income	30.3	2,566,478	2,566,478	6,172,755
Recognised in revaluation reserve		48,016,934	48,016,934	(9,024,878)
		(67,424,359)	(15,243,495)	13,133,442

30.3 Tax effect from temporary differences

Deferred tax assets as at the period end is made up as follows:

As at 31 March	Group	
	2022	
	(Taxable)/ Deductible temporary difference LKR	Tax effect on temporary difference LKR
On property, plant and equipment	1,044,079,753	250,579,142
On lease receivables	(175,064,370)	(42,015,448)
On retirement benefit obligation	298,801,625	71,712,390
On impairment provision	2,666,156,456	639,877,549
On net ROU asset	15,971,144	3,833,075
On investment property	(507,200,000)	(121,728,000)
On revaluation reserve	(328,989,447)	(78,957,467)
	925,595,654	222,142,957

The Group has calculated the deferred tax asset at the rate of 24% on its temporary differences as at 31 March 2022. (2021: 24%).

Deferred tax assets as at the period end is made up as follows:

As at 31 March	Company			
	2022		2021	
	(Taxable)/ Deductible temporary difference LKR	Tax effect on temporary difference LKR	(Taxable)/ Deductible temporary difference LKR	Tax effect on temporary difference LKR
On property, plant and equipment	1,040,855,109	(249,805,226)	(703,111,493)	(168,746,759)
On lease receivables	(161,769,253)	(38,824,621)	(312,412,755)	(74,979,061)
On retirement benefit obligation	289,517,799	69,484,271	280,857,939	67,405,905
On impairment provision	2,441,598,464	585,983,632	2,000,100,824	480,024,198
On net ROU asset	12,827,341	3,078,562	(3,497,329)	(839,359)
On investment property	(507,200,000)	(121,728,000)	(394,700,001)	(94,728,000)
On revaluation reserve	328,989,447	(78,957,467)	(225,621,950)	(54,149,268)
	705,129,793	169,231,151	641,615,235	153,987,657

The Company has calculated the deferred tax asset at the rate of 24% on its temporary differences as at 31 March 2022. (2021: 24%).



31.

Financial liabilities at amortised cost – Due to customers

As at 31 March	Group	Company	
	2022 LKR	2022 LKR	2021 LKR
Fixed deposits	30,705,486,099	27,719,614,309	24,074,006,881
Deferred transaction cost	(2,146,320)	(2,146,320)	(10,842,438)
Interest payable on fixed deposits	577,944,451	518,055,824	861,791,032
	31,281,284,230	28,235,523,813	24,924,955,475
Savings deposits	3,421,786,151	3,357,902,715	3,122,006,833
	34,703,070,381	31,593,426,528	28,046,962,308

32.

Financial liabilities at amortised cost – Debt issued and other borrowed funds

As at 31 March	Note	Group	Company	
		2022 LKR	2022 LKR	2021 LKR
Redeemable debentures	32.1	1,802,972,064	1,802,972,064	1,836,572,519
Borrowings	32.2	1,452,358,400	1,102,713,863	800,000,000
		3,255,330,464	2,905,685,927	2,636,572,519

32.1 Redeemable debentures

As at 31 March	Group/Company	Company
	2022 LKR	2021 LKR
Secured redeemable		
Balance as at 1 April	631,750,000	665,000,000
Repayments during the year	(33,250,000)	(33,250,000)
Interest payable to debenture holders	4,396,925	5,178,965
Balance as at 31 March	602,896,925	636,928,965

Subordinated, listed, rated, unsecured, redeemable debentures

As at 31 March	Group/Company	Company
	2022 LKR	2021 LKR
Balance as at 1 April	1,158,820,000	1,158,820,000
Interest payable to debenture holders	41,255,139	40,823,554
	1,200,075,139	1,199,643,554
Total redeemable debentures	1,802,972,064	1,836,572,519

32.1.1 Redeemable debentures

Group/Company

Year of issue	Description	Certificate number	Type of debenture	Capital balance
				2022 LKR
2010	Seylan Bank PLC	001	Secured	112,500,000
2010	Seylan Bank PLC	002	Secured	180,000,000
2010	Seylan Bank PLC	003	Secured	180,000,000
2010	Seylan Bank PLC	004	Secured	126,000,000
2019	Subordinated listed, rated, redeemable	001	Unsecured	1,158,820,000
				1,757,320,000

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.

32.2 Borrowings

As at 31 March	Group	Company	2021 LKR
	2022 LKR	2022 LKR	
Balance as at 1 April	800,000,000	800,000,000	1,950,814,366
Acquisition of subsidiary during the year	490,821,783	–	–
Loans obtained	1,100,000,000	1,100,000,000	1,300,000,000
Interest recognised	37,332,965	23,961,771	107,234,758
Repayment: Capital	(925,838,829)	(800,000,000)	(2,450,814,366)
Interest	(49,957,519)	(21,247,908)	(107,234,758)
Balance as at 31 March	1,452,358,400	1,102,713,863	800,000,000

Details of the outstanding borrowings are as follows:

Lender	Interest rate	Repayment terms	Group	Company	2021 LKR
			Capital outstanding balance	Capital outstanding balance	
			2022 LKR	2022 LKR	
HNB Bank PLC	AWLPR+1.25	6 months	800,000,000	800,000,000	500,000,000
DFCC Bank PLC	AWLPR+1.25	6 months	100,000,000	100,000,000	300,000,000
HNB Bank PLC	13.00%	6 months	200,000,000	200,000,000	–
DFCC Bank PLC	AWPLR+3.75% (Revised Monthly)	Monthly	74,999,990	–	–
M Power Capital (Pvt) Ltd.	14.18%	Monthly	22,852,989	–	–
First Capital Ltd. II	14.42%	Monthly	71,274,457	–	–
Agora Securities Ltd.	14.25%	Monthly	72,241,840	–	–
NDB Investment Bank	AWPLR+2.95% (revised quarterly)	Monthly	108,275,260	–	–
			1,449,644,536	1,100,000,000	800,000,000

Details of the assets pledged against these borrowings are disclosed in Note 46 to these Financial Statements.



33.

Current tax (assets)/liabilities

As at 31 March	Group	Company	
	2022 LKR	2022 LKR	2021 LKR
Balance as at 1st April	(8,392,657)	(8,392,657)	133,467,472
Acquisition of subsidiary during the year	52,219,613	–	–
Provision for the year	209,857,041	148,767,449	536,102
Under/(over) provision during previous year	8,446,882	8,446,882	(89,215,854)
	262,130,879	148,821,674	44,787,720
Payment made during the year	(63,895,714)	(58,666,576)	(53,197,448)
WHT paid	–	–	17,071
Balance as at 31 March	198,235,165	90,155,098	(8,392,657)

34.

Value added tax payable

As at 31 March	Group	Company	
	2022 LKR	2022 LKR	2021 LKR
Balance as at 1 April	61,155,046	61,155,046	59,079,643
Acquisition of subsidiary during the year	3,080,051	–	–
Provision made during the year	279,285,833	273,795,558	131,029,620
Payment made during the year	(314,545,343)	(309,350,371)	(128,954,217)
Balance as at 31 March	28,975,587	25,600,233	61,155,046

35.

Other liabilities

As at 31 March	Note	Group	Company	
		2022 LKR	2022 LKR	2021 LKR
Other financial liabilities	35.1	1,251,667,473	1,153,513,555	784,449,488
Other non-financial liabilities	35.2	189,884,747	67,684,745	50,483,703
		1,441,552,220	1,221,198,300	834,933,191

35.1 Other financial liabilities

As at 31 March	Note	Group	Company	2021 LKR
		2022 LKR	2022 LKR	
Other payables		998,615,656	923,230,086	530,475,928
Lease liabilities	35.1.1	253,051,817	230,283,469	253,973,560
		1,251,667,473	1,153,513,555	784,449,488

35.1.1 Movement of lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the year.

As at 31 March	Group	Company	2021 LKR
	2022 LKR	2022 LKR	
Balance as at 1 April	253,973,560	253,973,560	241,601,044
Acquisition of subsidiary during the year	26,682,243	–	–
Additions during the year	36,691,231	36,651,557	54,545,771
Terminations during the year	–	–	(11,610,802)
Lease Interest for the year	30,954,656	30,091,838	31,882,993
Payments during the year	(95,249,873)	(90,433,486)	(62,445,446)
Balance as at 31 March	253,051,817	230,283,469	253,973,560

35.1.2 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 2022 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.

35.1.3 Maturity analysis – Contractual undiscounted cash flows

As at 31 March	Group	Company	2021 LKR
	2022 LKR	2022 LKR	
Less than one year	106,993,503	91,741,613	89,492,276
Between one and five years	229,223,729	221,707,272	234,069,132
More than five years	37,718,028	37,718,028	83,264,310
Total undiscounted lease liability as at 31 March	373,935,260	351,166,913	406,825,718

Lease interest expense mentioned Note 35.1.1 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. Lease amortisation charged to the profit/loss the year is LKR 76.7 Mn.



35.2 Other non-financial liabilities

	Group	Company	
As at 31 March	2022 LKR	2022 LKR	2021 LKR
WHT payable	1,117	–	–
Other payables	189,883,630	67,684,745	50,483,703
	189,884,747	67,684,745	50,483,703

36.

Retirement benefit obligation

		Group	Company	
As at 31 March	Note	2022 LKR	2022 LKR	2021 LKR
Balance as at 1 April		280,857,939	280,857,939	260,518,521
Acquisition of subsidiary during the year		11,665,088	–	–
Add: Expense for the year	36.1	35,995,557	37,367,860	30,430,168
		328,518,584	318,225,799	290,948,689
Less: Benefits paid during the year		(29,716,959)	(28,708,000)	(10,090,750)
Balance as at 31 March		298,801,625	289,517,799	280,857,939

36.1 Expense for the year

	Group	Company	
	2022 LKR	2022 LKR	2021 LKR
Amounts recognised in profit/loss for the year			
Current service cost	28,547,129	28,181,477	30,098,129
Past service cost	(2,701,672)	(2,588,592)	–
Interest cost	22,632,036	22,468,635	26,051,852
	48,477,493	48,061,520	56,149,981
Amounts recognised in other comprehensive income for the year			
Actuarial (gain)/loss	(12,481,936)	(10,693,660)	(25,719,813)
	35,995,557	37,367,860	30,430,168

Retirement benefit obligation is based on the actuarial valuation carried out by Smiles Global (Pvt) Limited, on 31 March 2022 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:

	Group	Company	
	2022	2022	2021
Long-term interest rate	14% – 15.50%	15.50%	10.00%
Retirement age	60 years	60 years	55 years
Future salary increase rate	10% – 13.00%	13.00%	8.00%
Staff turnover rate	24% – 13.00%	13.00%	11.00%

During 2021/22, the pension arrangements were adjusted to reflect new legal requirements as per minimum retirement age of workers Act No. 28 of 2021 regarding the retirement age. As a result of the plan amendment, the Group/Company defined benefit obligation decrease by LKR 2,701,762. A corresponding past service credit was recognised in profit or loss during 2021/22.

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.

In order to illustrate the significance of the salary escalation rate and discount rates assumed in this valuation, a sensitivity analysis has been carried out as follows:

Present value of defined benefit obligation

	Group		Company
	2022 LKR	2022 LKR	2021 LKR
As at 31 March			
Discount rate			
1% Less	306,190,422	305,880,683	299,478,078
1% More	(275,124,886)	(274,793,176)	(264,249,352)
Salary escalation rate			
1% Less	272,849,105	273,209,805	262,654,471
1% More	(307,722,365)	(307,380,600)	(300,958,963)

36.2 The expected benefit payout in the future years for retirement gratuity

	Group		Company
	2022	2022	2021
Future expected working life			
Within the next 12 months	5,868,192	4,411,449	7,146,375
Between 1-2 years	3,229,780	–	–
Between 2-5 years	6,691,768	3,985,113	14,641,707
Between 5-10 years	283,011,886	281,121,238	238,730,439
	298,801,626	289,517,800	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.

The expected future working life time of employees is 7.28 years.

37. Stated capital

	Issued and fully paid		Total
	Number of ordinary shares	Number of non-voting ordinary shares	Number of ordinary shares
Group/Company			
Balance on 1 April 2020	1,421,380,624	298,200,000	1,719,580,624
Share issued during the year	–	–	–
Balance on 31 March 2021	1,421,380,624	298,200,000	1,719,580,624
Share issued during the year	–	–	–
Balance on 31 March 2022	1,421,380,624	298,200,000	1,719,580,624



Group/Company	Issued and fully paid		Total ordinary shares LKR
	Ordinary shares LKR	Non-voting ordinary shares LKR	
Balance on 1 April 2020	184,779,481	38,766,000	223,545,481
Share issued during the year	–	–	–
Balance on 31 March 2021	184,779,481	38,766,000	223,545,481
Share issued during the year	–	–	–
Balance on 31 March 2022	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 *par passu* in respect of all rights with the ordinary shares of the Company except voting rights on resolutions passed at general meetings.

38. General reserve

	Group	Company	2021 LKR
	2022 LKR	2022 LKR	
Balance as at 1 April	82,897,989	82,897,989	82,897,989
Balance as at 31 March	82,897,989	82,897,989	82,897,989

This is a capital reserve created at the discretion of the Group. The Board of Directors of the Company has the authority to determine the utilisation of this reserve at their meetings.

39. Statutory reserve fund

	Group	Company	2021 LKR
	2022 LKR	2022 LKR	
Balance on 1 April	1,091,098,380	1,091,098,380	1,091,098,380
Transfers during the year	93,518,463	83,558,805	–
Balance on 31 March	1,184,616,843	1,174,657,185	1,091,098,380

39.1 Statutory reserve fund

20% 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.

40.

Revaluation reserve

	Group	Company	
	2022 LKR	2022 LKR	2021 LKR
Balance on 1 April	600,738,874	600,738,874	591,713,996
Revaluation during the year	200,070,557	200,070,557	–
Deferred tax impact on the revaluation gain	(48,016,934)	(48,016,934)	9,024,878
Balance on 31 March	752,792,497	752,792,497	600,738,874

Revaluation reserve represents fair value changes related to land and buildings carried at fair value.

41.

Non-controlling interest

The following table summarises the information relating to each of the Group's subsidiaries that has material NCI, before any intra-group eliminations.

	%
NCI Percentage	2.24
	Amount LKR
Non-current assets	4,932,065,896
Current assets	1,697,205,615
Non-current liabilities	(628,165,529)
Current liabilities	(3535,939,009)
Net assets	2,465,166,973
Net assets attributable to NCI	55,327,270
Revenue	1,014,880,553
Profit	199,193,162
OCI	1,788,276
Total comprehensive income	
Profit allocated to NCI	12,452,920
OCI allocated to NCI	227,648
Cash flows from operating activities	(450,101,560)
Cash flows from investment activities	(17,472,484)
Net increase (decrease) in cash and cash equivalents	(1,437,550,015)



41.1 Non-controlling interest

In March 2022, the Group acquired an additional 10.49% interest in Prime Finance PLC, increasing its ownership from 87.27 to 97.76%. The carrying amount of Prime Finance PLC net assets in the Group's consolidated Financial Statements on the date of the acquisition was LKR 2,465,166,972.

	Amount LKR
Carrying amount of NCI acquired (LKR 2,465,166,972 * 10.49%)	258,488,486
Consideration paid to NCI	254,316,057
A increase in equity attributable to owners of the Company	4,172,429

The increase in equity attributable to owners of the Company comprised of increase in retained earnings.

42.

Capital commitments

There were no capital commitments which have been approved or contracted for as at the reporting date.

43.

Events after the reporting date

43.1 Amalgamation of Business Operations

In line with the proposal of the Central Bank of Sri Lanka to "Consolidate Non-Bank Financial Institutions" and the shareholder resolution passed at the extra ordinary general meeting of HNB Finance PLC held on 27 April 2022, the parent company (HNB Finance PLC) has amalgamated its business operations with that of its subsidiary (Prime Finance PLC) with effect from 12 May 2022. With this amalgamation, HNB Finance PLC will continue as the amalgamated entity.

Consequent to this, all shareholders of Prime Finance PLC other than HNB Finance PLC who held shares of Prime Finance PLC as at the time of the amalgamation received a cash consideration amounting Sri Lankan Rupees Twenty Cents Ten (LKR 20.10) per each share held in Prime Finance PLC. The shares held by HNB Finance PLC in Prime Finance PLC were cancelled in the entirety without payment.

43.2 Implementation of Surcharge Tax

As disclosed in Note 13.1 to these Financial Statements the Company is liable to pay surcharge tax at the rate of 25% on the taxable income for the year ended 31 March 2021.

Subsequent to the reporting date, no circumstances have arisen which would require adjustments or disclosure in these financial statements other than the above.

44.

Contingent liabilities

There are no material contingent liabilities as at the reporting date that require disclosure in the Financial Statements.

45.

Related party transactions

The Group and 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 45.1 and 45.2 to these Financial Statements.

45.1 Transactions with parent company and related companies

During the year ended 31 March 2022 and March 2021, the Group and the Company has carried out transactions with its related companies, the details of which are given below. The pricing applicable to such transactions were based on the assessment of risk and pricing model of the Group or Company and was comparable with what was applied to transactions between the Company and its unrelated customers.

45.1.1 Transactions with the parent company

Hatton National Bank PLC is the parent and the ultimate controlling party of the Company.

	Group	Company	
As at 31 March	2022 LKR	2022 LKR	2021 LKR
Statement of Profit or Loss			
Interest income – Debentures	–	–	16,875,000
Interest income – Savings deposits	17,033,535	17,033,535	84,016,554
Interest income – Fixed deposits	–	–	12,602,740
Interest expense – Borrowings	16,412,849	16,412,849	54,335,824
Interest expense – Bank overdraft	8,124,186	8,124,186	7,749,717
Other expenses – Bank charges	571,625	571,625	377,494
Statement of Financial Position			
Cash and cash equivalents – Balances with banks	448,680,560	447,278,328	33,866,234
Bank Overdraft	648,120,217	648,120,217	–
Debt issued and other borrowed funds – Borrowings			
Balance as at 1 April	500,000,000	500,000,000	1,192,481,052
Loan obtained during the year	1,000,000,000	1,000,000,000	500,000,000
Loan repayments made during the year	(500,000,000)	(500,000,000)	(1,192,481,052)
Balance as at 31 March	1,000,000,000	1,000,000,000	500,000,000
Other liabilities	54,289,604	54,289,604	75,002,187

The Company has obtained short-term loans, term loans and overdraft facilities from the Bank. All the transactions with the Bank were on terms and conditions similar to facilities obtained through other banks.

45.1.2 Transactions with Prime Lands (Private) Limited

Relationship: Shareholder

	Group	Company	
As at 31 March	2022 LKR	2022 LKR	2021 LKR
Statement of Profit or Loss			
Other operating income – Rent income	630,000	630,000	630,000
Interest expenses – Fixed deposits	–	–	61,695
Rent Expenses	13,031,550	–	–
Statement of Financial Position			
Siri Niwahana Loan payable	169,330,079	169,330,079	52,890,000
Financial liabilities at amortised cost - Due to customers - Fixed deposits	33,423,835	–	–
Other transactions			
Consideration paid to acquire the controlling stake in Prime Finance PLC	–	2,122,605,245	–



45.1.3 Transactions with HNB Assurance PLC

Relationship: Common control

	Group	Company	
As at 31 March	2022 LKR	2022 LKR	2021 LKR
Statement of Profit or Loss			
Interest expense – Fixed deposits	17,350,000	17,350,000	7,500,000
General insurance expense	22,992,342	22,992,342	25,411,101
Statement of Financial Position			
<i>Financial liabilities at amortised cost – Due to customers</i>			
Balance as at 1 April	50,616,438	50,616,438	50,000,000
Deposits made during the year	125,000,000	125,000,000	–
Interest payable	–	–	616,438
Interest Paid	(616,438)	(616,438)	–
Balance as at 31 March	175,000,000	175,000,000	50,616,438
<i>Financial liabilities at amortised cost – Savings deposits</i>			
Balance as at 1 April	550,040	550,040	66,276
Deposits made during the year	1,180,193	1,180,193	1,458,412
Interest paid	14,134	14,134	15,452
Withdrawals of capital	(1,267,206)	(1,267,206)	(990,100)
Balance as at 31 March	477,161	477,161	550,040
Other payables – Insurance premium payable	11,361,737	11,361,737	8,978,214

45.1.4 Transactions with Seylan Bank PLC

Relationship: Common Director

As at 31 March	Group	Company	2021
	2022 LKR	2022 LKR	LKR
Statement of Profit or Loss			
Interest income – Fixed deposits	2,719,178	2,719,178	59,221,918
Interest income – Saving deposits	5,591,286	5,591,286	9,102,528
Interest expense – Debentures	42,413,941	42,413,941	36,793,175
Bank charges	169,725	169,725	334,272
Statement of Financial Position			
Cash and cash equivalents – Balances with banks	97,711,498	97,711,498	58,665,779
Investments in fixed deposits			
Balance as at 1 April	1,433,232,877	1,433,232,877	1,746,360,562
Invested during the year	–	–	2,600,000,000
Interest receivable	–	–	33,232,877
Interest received	(33,232,877)	(33,232,877)	(46,360,562)
Matured during the year	(1,400,000,000)	(1,400,000,000)	(2,900,000,000)
Balance as at 31 March	–	–	1,433,232,877
Financial liabilities at amortised cost – Debentures			
Balance as at 1 April	636,928,965	636,928,965	665,000,000
Interest payable	4,396,925	4,396,925	5,178,965
Interest paid during the year	(5,178,965)	(5,178,965)	–
Withdrawals during the year	(33,250,000)	(33,250,000)	(33,250,000)
Balance as at 31 March	602,896,925	602,896,925	636,928,965

The Company has obtained short-term loans, term loans and overdraft facilities from the Bank. All the transactions with the Bank were on terms and conditions similar to facilities obtained through other banks.

45.1.5 Transactions with Fairfirst Insurance

Relationship: Common Director

	Group	Company	
As at 31 March	2022 LKR	2022 LKR	2021 LKR
Statement of Financial Position			
Other payables – Insurance premium payable lease	9,387,007	9,387,007	7,530,734



45.1.6 Transactions with Government of Sri Lanka Relationship: Shareholder of the parent company

As at 31 March	Group	Company	
	2022 LKR	2022 LKR	2021 LKR
Statement of Profit or Loss			
Interest income – Debt and other instruments	160,544,973	160,544,973	110,166,323
Interest income – Financial assets measured at FVTPL	–	–	1,440,000
Tax expenses	–	–	121,521,097
Statement of Financial Position			
Financial assets at amortised cost – Debt and other instruments	3,282,042,077	3,028,183,719	1,492,704,271
Financial assets measured at FVTPL	–	–	16,704,000
Debt relief loan receivable – Other assets	–	–	51,272,613
Tax payable/(receivable)	227,210,753	115,755,331	52,762,389
Tax paid	366,213,796	355,789,686	182,151,665

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 2022 was LKR 146.6 Mn (2021 – LKR 160.76 Mn).

45.2 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.

45.2.1 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	Group	Company	2021 LKR
	2022 LKR	2022 LKR	
Short-term benefits	24,084,000	22,854,000	22,319,000
	24,084,000	22,854,000	22,319,000

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.

Year ended 31 March	Group	Company	2021 LKR
	2022 LKR	2022 LKR	
Statement of Profit or Loss			
Interest expense – Deposits from customers	730,079	98,205	23,040,328
Statement of Financial Position			
Due to customers – Savings and fixed deposits	7,697,714	2,080,370	153,866,646

46.

Assets pledged as securities against borrowings and debts

Nature of assets	Nature of liability	Group/Company	
		Carrying amount pledged	
		2022 LKR	2021 LKR
Freehold land and building	Redeemable debentures (Note 32.1)	1,610,800,000	1,235,641,671
Freehold land and building	Redeemable debentures (Note 32.1)	1,107,000,000	1,087,000,000



47.

Financial risk management

47.1 Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these Financial Statements.

47.2 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's and the Company's risk management framework. The Board has established the Integrated Risk Management Committee (IRMC), which is responsible for developing and monitoring the Group's and the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities. The Group's and the Company's risk management policies are established to identify and analyse 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 Committees of the Group and 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 Committees.

47.3 Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk is mainly arising from Group'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 Group establishes an allowance for impairment that represents its estimate of expected credit losses in respect of customer receivables. The Group 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.

b) Write-off policy

The Group and the Company write-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 Group. 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 2022 (2021: no collaterals held).

c) Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Group Internal Credit Committee. Internal Credit Committee, reporting to the Board Credit Committee, is responsible for management of the Group'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. Group'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 Group in the management of credit risk.

d. Credit quality by class of financial assets

As at 31 March 2022	Group			
	Current LKR	Overdue LKR	Impaired LKR	Total LKR
Cash and cash equivalents	1,282,750,567	–	–	1,282,750,567
Financial assets at amortised cost – Loans and advances to customers	14,653,846,021	13,125,723,477	(4,051,022,471)	23,728,547,027
Financial assets at amortised cost – Lease rentals receivables	6,611,911,429	7,678,235,760	(673,954,910)	13,616,192,279
Financial assets at amortised cost – Loans and advances to others	283,877,510	12,455,564	(1,131,864)	295,201,210
Financial assets measured at fair value through other comprehensive income	2,712,110	–	–	2,712,110
Financial assets at amortised cost – Debt and other instruments	4,105,700,133	–	(773,091,683)	3,332,608,450
Other financial assets	71,864,928	–	–	71,864,928
Total financial assets	27,012,662,698	20,816,414,801	(5,499,200,928)	42,329,876,571

As at 31 March 2022	Overdue				Total LKR
	Less than 30 days LKR	30 to 60 days LKR	60 to 90 days LKR	More than 90 days LKR	
Financial assets at amortised cost – Loans and advances to customers	3,559,650,116	1,919,978,876	2,121,613,069	5,524,481,416	13,125,723,477
Financial assets at amortised cost – Lease rentals receivables	2,564,666,193	2,114,293,233	1,871,099,500	1,128,176,834	7,678,235,760
Financial assets at amortised cost – Loans and advances to others	12,436,055	–	–	19,509	12,455,564
	6,136,752,364	4,034,272,109	3,992,712,569	6,652,677,759	20,816,414,801



As at 31 March 2022	Company			
	Current LKR	Overdue LKR	Impaired LKR	Total LKR
Cash and cash equivalents	802,799,680	–	–	802,799,680
Financial assets at amortised cost – Loans and advances to customers	11,949,232,248	11,732,787,262	(3,367,379,201)	20,314,640,309
Financial assets at amortised cost – Lease rentals receivables	5,484,785,504	6,453,006,027	(482,204,620)	11,455,586,911
Financial assets at amortised cost – Loans and advances to others	282,745,646	12,455,564	–	295,201,210
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	3,801,275,401	–	(773,091,682)	3,028,183,719
Other financial assets	64,252,417	–	–	64,252,417
Total financial assets	22,387,746,706	18,198,248,853	(4,622,675,503)	35,963,320,056

As at 31 March 2022	Overdue				Total LKR
	Less than 30 days LKR	30 to 60 days LKR	60 to 90 days LKR	More than 90 days LKR	
Financial assets at amortised cost – Loans and advances to customers	3,132,611,256	1,753,882,966	2,009,099,901	4,837,193,139	11,732,787,262
Financial assets at amortised cost – Lease rentals receivables	1,962,975,343	1,848,637,947	1,731,157,089	910,235,648	6,453,006,027
Financial assets at amortised cost – Loans and advances to others	12,436,055	–	–	19,509	12,455,564
	5,108,022,654	3,602,520,913	3,740,256,990	5,747,448,296	18,198,248,853

As at 31 March 2021	Company			
	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

As at 31 March 2021	Overdue				Total LKR
	Less than 30 days LKR	30 to 60 days LKR	60 to 90 days LKR	More than 90 days LKR	
Financial assets at amortised cost – Loans and advances to customers	1,912,980,278	896,963,980	555,429,508	5,077,168,190	8,442,541,956
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	1,481,075,421	6,533,569,112	14,286,435,158

The Groups' cash and cash equivalents are invested in banks/financial institutions where the credit ratings are "A" and above.



e. Maximum exposure disclosure of financial assets

As at 31 March 2022	Group	
	Gross carrying amount LKR	Net carrying value LKR
Cash and cash equivalents	1,282,750,567	1,282,750,567
Financial assets at amortised cost – Loans and advances to customers	27,779,569,498	23,728,547,027
Financial assets at amortised cost – Lease rentals receivables	14,290,147,189	13,616,192,279
Financial assets at amortised cost – Loans and advances to others	296,333,074	295,201,210
Financial assets measured at FVOCI	2,712,110	2,712,110
Financial assets at amortised cost – Debt and other instruments	4,105,700,132	3,332,608,450
Other financial assets	71,864,928	71,864,928
	47,829,077,498	42,329,876,571
As at 31 March 2022	Company	
	Gross carrying amount LKR	Net exposure LKR
Cash and cash equivalents	802,799,680	802,799,680
Financial assets at amortised cost – Loans and advances to customers	23,682,019,510	20,314,640,309
Financial assets at amortised cost – Lease rentals receivables	11,937,791,531	11,455,586,911
Financial assets at amortised cost – Loans and advances to others	295,201,210	293,201,210
Financial assets measured at FVOCI	2,655,810	2,655,810
Financial assets at amortised cost – Debt and other instruments	3,801,275,401	3,028,183,719
Other financial assets	64,252,417	64,252,417
	40,585,995,559	35,963,320,056
As at 31 March 2021	Company	
	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

f. Concentration of credit risk

The Group and Company monitors concentration of credit risk by sector and by geographic location.

Concentration by location

Concentration of loans and advances to customers, lease rental receivable and loan and advances to others by location is given below:

As at 31 March	Group			
	2022			
	LKR	%		
Province				
Western	15,661,546,819	37		
Southern	2,889,178,410	7		
Uva	2,203,216,580	5		
North Central	3,176,619,990	7		
North Western	6,139,668,145	14		
Eastern	3,018,306,473	7		
Northern	3,001,322,608	7		
Sabaragamuwa	2,438,543,295	6		
Central	3,837,647,441	9		
	42,366,049,761	100		

As at 31 March	Company			
	2022		2021	
	LKR	%	LKR	%
Province				
Western	10,968,008,258	31	10,030,478,032	31
Southern	2,889,178,410	8	2,514,899,984	8
Uva	2,203,216,580	6	1,965,819,218	6
North Central	3,176,619,990	9	2,831,655,018	9
North Western	4,923,350,149	14	4,852,058,261	15
Eastern	3,018,306,473	8	2,514,143,418	8
Northern	3,001,322,608	8	2,750,828,119	8
Sabaragamuwa	2,438,543,295	7	2,014,798,035	6
Central	3,296,466,488	9	2,919,904,375	9
	35,915,012,251	100	32,394,584,461	100



Concentration by sector Group

As at 31 March 2022	Agriculture	Commercial	Consumers
	LKR	LKR	LKR
Financial assets			
Cash and cash equivalents	-	-	-
Financial assets at amortised cost – Loans and advances to customers	6,226,375,918	11,064,746,203	230,619,957
Financial assets at amortised cost – Lease rentals receivables	1,014,917,720	5,882,655,592	49,930,897
Financial assets at amortised cost – Loans and advances to others	748,819	9,505,610	17,512,625
Financial assets measured at FVOCI	-	-	-
Financial assets at amortised cost	-	-	-
Other assets	-	-	-
	7,242,042,457	16,956,907,405	298,063,479

Company

As at 31 March 2022	Agriculture	Commercial	Consumers
	LKR	LKR	LKR
Financial assets			
Cash and cash equivalents	-	-	-
Financial assets measured at FVTPL	-	-	-
Financial assets at amortised cost – Loans and advances to customers	6,087,618,334	10,457,359,335	27,568,737
Financial assets at amortised cost – Lease rentals receivables	781,375,920	5,572,149,759	15,788,952
Financial assets at amortised cost – Loans and advances to others	748,819	9,505,610	17,512,625
Financial assets measured at FVOCI	-	-	-
Financial assets at amortised cost	-	-	-
Other assets	-	-	-
	6,869,743,073	16,039,014,704	60,870,314

As at 31 March 2021	Agriculture	Commercial	Consumers
	LKR	LKR	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

Financial LKR	Housing and property development LKR	Industrial LKR	Services LKR	Tourism LKR	Others LKR	Total LKR
1,282,750,567	-	-	-	-	-	1,282,750,567
181,858,532	599,534,765	3,121,011,555	3,008,539,022	58,976,946	3,287,906,600	27,779,569,498
278,083,082	411,612,351	1,931,600,304	4,045,204,599	295,041,013	381,101,631	14,290,147,189
56,413,243	191,882,128	13,431	14,523,432	-	4,601,922	295,201,210
2,712,110	-	-	-	-	-	2,712,110
4,105,700,132	-	-	-	-	-	4,105,700,132
71,864,928	-	-	-	-	-	71,864,928
5,979,382,594	1,203,029,244	5,052,625,291	7,068,267,054	354,017,959	3,673,610,154	47,827,945,634

Financial LKR	Housing and property development LKR	Industrial LKR	Services LKR	Tourism LKR	Others LKR	Total LKR
802,799,680	-	-	-	-	-	802,799,680
-	-	-	-	-	-	-
23,193,785	268,408,568	2,174,417,880	1,980,262,497	58,976,946	2,604,213,428	23,682,019,510
260,094,684	62,312,393	1,304,186,442	3,265,740,736	295,041,013	381,101,631	11,937,791,531
56,413,243	191,882,128	13,431	14,523,433	-	4,601,922	295,201,210
2,655,810	-	-	-	-	-	2,655,810
3,801,275,401	-	-	-	-	-	3,801,275,401
64,252,417	-	-	-	-	-	64,252,417
5,010,685,020	522,603,089	3,478,617,753	5,260,526,666	354,017,959	2,989,916,981	40,585,995,560

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



9. Modified financial assets

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan in accordance with the accounting policy set out in note 3.3.5 to these financial statements.

The Group renegotiate loans to customers in financial difficulties (referred to as "forbearance activities") to maximise collection opportunities and minimise risk of default. Under the Group's forbearance policy, loan forbearance is granted on selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending maturity, changing the timing of interest payments and amending the terms of loan covenants. Both "individual loans" and "corporate loans" are subject to the forbearance policy. The management regularly reviews reports on forbearance activities.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit impaired/in default or the PD is considered to have decreased such that it falls within the 12 months PD ranges for the asset to be considered for stage 1.

47.4 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group uses the maturity analysis of all the financial instruments to manage the liquidity risk.

The Group'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 Group 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 Group.

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.

Fixed deposits, savings and debt facility by banks were main primary sources of funding. The Group actively manages this risk through maintaining competitive pricing and constant adaptation.

Management of the Group was 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 Group's 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 Group'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 Prevailing uncertain macro-economic environment as a result of the COVID-19 outbreak to the Group's operations and forecasted cash flows in order to absorb sudden liquidity shocks 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.

47.4.1 The maturity analysis of financial assets and liabilities based on undiscounted gross inflow and outflow is reflected below:

As at 31 March 2022	Group				
	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	1,282,750,567	1,282,750,567	1,282,750,567	-	-
Financial assets measured at FVTPL	-	-	-	-	-
Financial assets at amortised cost – Loans and advances to customers	23,728,547,027	27,442,411,652	10,034,126,236	9,609,968,864	7,798,316,552
Financial Assets at amortised cost – Lease rentals receivables	13,616,192,279	19,558,784,962	2,032,171,048	6,162,499,223	11,364,114,691
Financial assets at amortised cost – Loans and advances to others	295,201,210	379,790,334	23,417,894	65,995,105	290,377,335
Financial assets measured at FVOCI	2,712,110	2,712,110	-	-	2,712,110
Financial assets at amortised cost – Debt and other instruments	3,332,608,450	3,402,520,541	3,056,720,547	345,799,994	-
Other financial assets	71,864,928	71,864,928	37,106,983	27,531,345	7,226,600
	42,329,876,571	52,140,835,094	16,466,293,275	16,211,794,530	19,462,747,288
Liabilities					
Bank overdraft	1,011,726,138	1,011,726,138	1,011,726,138	-	-
Financial liabilities at amortised cost – Due to customers	34,703,070,381	35,644,823,150	12,169,439,270	17,341,661,838	6,133,722,042
Financial liabilities at amortised cost – Debt issued and other borrowed funds	3,255,330,464	5,302,068,958	1,739,602,895	648,930,007	2,913,536,056
Other financial liabilities	1,251,667,473	1,251,667,473	740,147,938	305,668,972	205,850,563
	40,221,794,456	42,221,080,935	14,649,190,102	18,296,260,817	9,253,108,661
Liquidity gap related period	-	8,930,549,375	805,377,034	(2,084,466,286)	10,209,638,627
Liquidity gap cumulative	-	-	805,377,034	(1,279,089,252)	8,930,549,375



As at 31 March 2022	Company				
	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	802,799,680	802,799,680	802,799,680	–	–
Financial assets measured at FVTPL	–	–	–	–	–
Financial assets at amortised cost – Loans and advances to customers	20,314,640,309	23,963,948,885	9,708,801,614	8,898,320,446	5,356,826,825
Financial Assets at amortised cost – Lease rentals receivables	11,455,586,911	14,995,854,613	1,273,249,529	4,653,041,664	9,069,563,421
Financial assets at amortised cost – Loans and advances to others	295,201,210	379,790,334	23,417,894	65,995,105	290,377,335
Financial assets measured at FVOCI	2,655,810	2,655,810	–	–	2,655,810
Financial assets at amortised cost – Debt and other instruments	3,028,183,719	3,098,095,810	2,752,462,990	345,632,820	–
Other financial assets	64,252,417	64,252,417	37,106,983	19,918,834	7,226,600
	35,963,320,056	43,307,397,549	14,597,819,140	13,982,908,868	14,726,649,991
Liabilities					
Bank overdraft	648,139,767	648,139,767	648,139,767	–	–
Financial liabilities at amortised cost – Due to customers	31,593,426,528	33,616,283,072	12,065,869,783	16,409,196,415	5,141,216,875
Financial liabilities at amortised cost – Debt issued and other borrowed funds	2,905,685,927	4,211,204,068	648,905,179	648,762,833	2,913,536,056
Other financial liabilities	1,153,513,555	1,274,188,827	649,510,477	298,152,515	205,850,563
	36,300,765,777	39,629,140,462	14,012,425,206	17,356,111,763	8,260,603,494
Liquidity gap related period	–	3,678,257,087	585,413,484	(3,373,202,895)	6,466,046,497
Liquidity gap cumulative	–	–	585,413,484	(2,787,789,411)	3,678,257,086

47.4.2 Liquidity gap management

The Group has assessed the liquidity gap as at 31 March 2022 and the management is confident that the Group will manage the liquidity gap with the approved external unutilised financing arrangements amounting to approximately LKR 4 Bn.

As at 31 March 2021	Company				
	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	520,247,838	31,165,711	30,092,478	458,989,649
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	43,906,674,545	16,367,523,083	11,231,240,392	16,307,911,070
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	784,449,488	784,449,488	–	–
	31,467,984,315	32,652,248,579	11,741,055,263	11,310,872,263	9,600,321,053
Liquidity gap related period	–	11,254,425,966	4,626,467,820	(79,631,871)	6,707,590,017
Liquidity gap cumulative	–	–	4,626,467,820	4,546,835,949	11,254,425,966



47.5 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 is closely scrutinising the probable impact on net interest impact resulting from interest rate related relief measures announced by CBSL to the COVID-19 affected customers.

Subsequent to the reporting date, as disclosed in Note 51 to these Financial Statements, consequent to the significant changes in policy interest rates, the interest rate of the Group has increased significantly from 15.77% to 20.05%. The Group has disclosed the interest sensitivity analysis below enabling the users to understand the impact of the same to the profit or loss.

47.5.1 Sensitivity analysis

An analysis of the Group'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 2022	Group				
	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 2022 LKR
Interest-earning assets					
Cash and cash equivalents	1,282,750,567	–	–	–	1,282,750,567
Financial assets at amortised cost – Debt and other instruments	3,001,612,278	330,996,172	–	773,091,682	4,105,700,132
Financial assets at amortised cost – Loans and advances to customers	11,651,536,078	9,341,382,674	5,967,200,766	819,449,980	27,779,569,498
Financial assets at amortised cost – Lease rentals receivables	1,752,240,806	3,600,199,520	8,899,872,115	37,834,747	14,290,147,188
Financial assets at amortised cost – Loans and advances to others	17,909,716	48,469,571	155,515,486	74,438,301	296,333,074
Total interest-earning assets	17,706,049,445	13,321,047,937	15,022,588,367	1,704,814,710	47,754,500,459
Interest-bearing liabilities					
Financial liabilities at amortised cost – Due to customers	12,867,290,974	17,228,128,622	4,607,650,786	–	34,703,070,382
Financial liabilities at amortised cost – Debt issued and other borrowed funds	910,110,462	500,000,000	1,246,720,002	598,500,000	3,255,330,464
Total interest-bearing liabilities	13,777,401,436	17,728,128,622	5,854,370,788	598,500,000	37,958,400,846
Gap in interest-earning assets and interest-bearing liabilities – Net assets/(liabilities)	3,928,648,010	(4,407,080,685)	9,168,217,578	1,106,314,710	9,796,099,614
Effect on profitability by 1% increase in interest rates – increase/(decrease) in profits - annualised effect	39,286,480	(44,070,807)	91,682,176	11,063,147	–
Effect on profitability by 1% decrease in interest rates – increase/(decrease) in profits – annualised effect	(39,286,480)	44,070,807	(91,682,176)	(11,063,147)	–

As at 31 March 2022	Company				
	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 2022 LKR
Interest-earning assets					
Cash and cash equivalents	802,799,680	–	–	–	802,799,680
Financial assets at amortised cost – Debt and other instruments	2,697,187,544	330,996,172	–	773,091,682	3,801,275,398
Financial assets at amortised cost – Loans and advances to customers	9,666,965,082	8,744,397,133	5,019,802,473	250,854,822	23,682,019,510
Financial assets at amortised cost – Lease rentals receivables	1,711,812,943	3,600,199,520	6,624,261,248	1,517,819	11,937,791,530
Financial assets at amortised cost – Loans and advances to others	16,777,852	48,469,571	155,515,486	74,438,301	295,201,210
Total interest-earning assets	14,895,543,102	12,724,062,396	11,799,579,207	1,099,902,624	40,519,087,328
Interest-bearing liabilities					
Financial liabilities at amortised cost – Due to customers	11,967,983,827	15,476,730,992	4,148,711,709	–	31,593,426,528
Financial liabilities at amortised cost – Debt issued and other borrowed funds	648,365,927	500,000,000	1,158,820,000	598,500,000	2,905,685,927
Total interest-bearing liabilities	12,616,349,754	15,976,730,992	5,307,531,709	598,500,000	34,499,112,455
Gap in interest-earning assets and interest-bearing liabilities – Net assets/(liabilities)	2,279,193,347	(3,252,668,596)	6,492,047,498	501,402,624	6,019,974,874
Effect on profitability by 1% increase in interest rates – increase/(decrease) in profits - annualised effect	22,791,933	(32,526,686)	64,920,475	5,014,026	–
Effect on profitability by 1% decrease in interest rates – increase/(decrease) in profits - annualised effect	(22,791,933)	32,526,686	(64,920,475)	(5,014,026)	–



As at 31 March 2021	Company				
	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	589,281,116	–	–	3,482,764,541
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	11,310,637,263	10,153,726,168	143,060,915	36,539,688,662
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 assets/(liabilities)	4,004,630,313	485,453,684	1,854,758,922	(488,689,084)	5,856,153,835
Effect on profitability by 1% increase in interest rates – increase/(decrease) in profits – annualised effect	40,046,303	4,854,537	18,547,589	(4,886,891)	–
Effect on profitability by 1% decrease in interest rates – increase/(decrease) in profits – annualised effect	(40,046,303)	(4,854,537)	(18,547,589)	4,886,891	–

b. Currency risk

The Group does not engage in transactions denominated in foreign currencies. Therefore, exposure to currency risk is not significant.

47.6 Capital management

The Group's capital management is performed primarily considering regulatory capital.

The Group's lead regulator, the Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for the Company.

The Group 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 Group'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.

48.

Maturity analysis of assets and liabilities

As at 31 March 2022	Group		Total LKR
	Less than 1 year LKR	More than 1 year LKR	
Assets			
Cash and cash equivalents	1,282,750,567	–	1,282,750,567
Financial assets measured at FVTPL	–	–	–
Financial assets at amortised cost – Loans and advances to customers	15,733,297,653	7,995,249,374	23,728,547,027
Financial assets at amortised cost – Lease rentals receivables	4,870,235,707	8,745,956,572	13,616,192,279
Financial assets at amortised cost – Loans and advances to others	65,247,423	229,953,787	295,201,210
Financial assets measured at FVOCI	–	2,712,110	2,712,110
Financial assets at amortised cost – Debt and other instruments	3,332,608,450	–	3,332,608,450
Investment in subsidiaries	–	–	–
Other assets	280,156,838	202,821,208	482,978,047
Current tax asset	–	–	–
Investment properties	–	1,136,000,000	1,136,000,000
Intangible assets	–	291,674,447	291,674,447
Property, plant and equipment	–	1,929,115,714	1,929,115,714
Right of use the asset	74,023,815	163,056,858	237,080,673
Deferred tax assets	–	222,142,957	222,142,957
	25,638,320,453	20,918,683,027	46,557,003,481
Liabilities			
Bank overdraft	1,011,726,138	–	1,011,726,138
Financial liabilities at amortised cost – Due to customers	30,285,121,507	4,417,948,874	34,703,070,381
Financial liabilities at amortised cost – Debt issued and other borrowed funds	1,148,365,927	2,106,964,537	3,255,330,464
Income tax payable	198,235,165	–	198,235,165
Value added tax payable	28,975,587	–	28,975,587
Other liabilities	1,235,701,658	205,850,562	1,441,552,220
Retiring benefit obligation	–	298,801,625	298,801,625
Shareholder's fund	–	5,563,984,630	5,563,984,630
Non-Controlling interests	55,327,271	–	55,327,271
	33,963,453,253	12,593,550,228	46,557,003,481



As at 31 March 2022	Company		
	Less than 1 year LKR	More than 1 year LKR	Total LKR
Assets			
Cash and cash equivalents	802,799,680	–	802,799,680
Financial assets at amortised cost – Loans and advances to customers	15,043,983,014	5,270,657,295	20,314,640,309
Financial assets at amortised cost – Lease rentals receivables	4,829,807,844	6,625,779,067	11,455,586,911
Financial assets at amortised cost – Loans and advances to others	65,247,423	229,953,787	295,201,210
Financial assets measured at FVOCI	–	2,655,810	2,655,810
Financial assets at amortised cost – Debt and other instruments	3,028,183,719	–	3,028,183,719
Investment in Subsidiaries	2,376,921,302	–	2,376,921,302
Other assets	280,156,839	24,458,047	304,614,886
Investment properties	–	1,136,000,000	1,136,000,000
Intangible assets	–	229,399,955	229,399,955
Property, plant and equipment	–	1,913,913,679	1,913,913,679
Right of use the asset	66,353,936	151,102,192	217,456,128
Deferred tax assets	–	169,231,151	169,231,151
	26,493,453,757	15,753,150,983	42,246,604,740
Liabilities			
Bank overdraft	648,139,767	–	648,139,767
Financial liabilities at amortised cost – Due to customers	27,444,714,819	4,148,711,709	31,593,426,528
Financial liabilities at amortised cost – Debt issued and other borrowed funds	1,148,365,927	1,757,320,000	2,905,685,927
Income tax payable	90,155,098	–	90,155,098
Value added tax payable	25,600,233	–	25,600,233
Other liabilities	1,015,347,737	205,850,563	1,221,198,300
Retiring benefit obligation	–	289,517,799	289,517,799
Shareholder's fund	–	5,472,881,088	5,472,881,088
	30,372,323,581	11,874,281,159	42,246,604,740

As at 31 March 2021	Company		Total LKR
	Less than 1 year LKR	More than 1 year 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 (restated)	–	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



49.

Fair value measurement

49.1 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 Group's estimate of assumptions that a market participant would make when valuing the instruments.

49.1.1 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.

49.1.2 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.

49.1.3 Property, plant and equipment

The methods used to determine the fair value of freehold land and buildings are explained in Note 28.1 The independent valuers provide the fair value of the Group's freehold land and buildings at least once in every three years.

49.1.4 Investment properties

The independent valuers provide the fair value of the Group's investment properties annually as per Sri Lanka Accounting Standards (LKAS 40) - Investment Properties. Details of the valuations are disclosed in Note 26.1.

49.2 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.

49.2.1 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.

49.2.2 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.

49.2.3 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.

49.2.4 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.

49.3 Fair value of financial assets and liabilities

The following table summarises the carrying amounts and the Group'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.

As at 31 March 2022	Group		
	Carrying amounts LKR	Fair value LKR	Fair value hierarchy LKR
Financial assets			
Cash and cash equivalents	1,282,750,567	1,282,750,567	Level II
Financial assets at amortised cost – Debt and other instruments			
– Investments in fixed deposits	50,566,373	50,566,373	Level III
– Investments in treasury bills	3,282,042,077	3,342,248,895	Level II
Financial assets at amortised cost – Loans and advances to customers	23,728,547,027	28,698,614,168	Level III
Financial assets at amortised cost – Lease rentals receivables	13,616,192,279	16,550,755,084	Level III
Financial assets at amortised cost – Loans and advances to others	295,201,210	285,218,059	Level III
Other financial assets	71,864,928	71,864,928	Level III
	42,327,164,461	50,282,018,074	
Financial liabilities			
Bank overdraft	1,011,726,138	1,011,726,138	Level II
Financial liabilities at amortised cost – Due to customers	34,703,070,381	34,957,388,323	Level III
Financial liabilities at amortised cost – Debt issued and other borrowed funds	3,255,330,464	3,189,054,881	Level III
Other financial liabilities	1,251,667,473	1,251,667,473	Level III
	40,221,794,456	40,409,836,815	
As at 31 March 2022	Company		
	Carrying amounts LKR	Fair value LKR	Fair value hierarchy LKR
Financial assets			
Cash and cash equivalents	802,799,680	802,799,680	Level II
Financial assets at amortised cost – Debt and other instruments			
– Investments in treasury bills	3,028,183,719	3,028,183,719	Level II
Financial assets at amortised cost – Loans and advances to customers	20,314,640,309	25,471,508,167	Level III
Financial assets at amortised cost – Lease rentals receivables	11,455,586,911	12,329,837,853	Level III
Financial assets at amortised cost – Loans and advances to others	295,201,210	285,218,059	Level III
Other financial assets	64,252,417	64,252,417	Level III
	35,960,664,245	41,981,799,894	
Financial liabilities			
Bank overdraft	648,139,767	648,139,767	Level II
Financial liabilities at amortised cost – Due to customers	31,593,426,528	31,848,162,401	Level III
Financial liabilities at amortised cost – Debt issued and other borrowed funds	2,905,685,927	2,839,410,344	Level III
Other financial liabilities	1,153,513,555	1,153,513,555	Level III
	36,300,765,777	36,489,226,067	



As at 31 March 2021	Company		
	Carrying amounts 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 treasury bills	1,990,060,273	1,990,060,273	Level II
– Investments in fixed deposits	1,492,704,270	1,492,704,270	Level III
– Investments in debentures	–	–	Level III
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	113,445,878	Level III
	32,373,865,225	36,142,600,444	
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	

50. Segment reporting

An operating segment is a component of the Group 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 Groups 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 Group has three main segments, namely Finance, Leasing, Gold Loan and Others, based on the business activities that each unit is engaged in for purpose of reviewing the operating results of the Group as well as to make decisions about resource allocation.

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 were 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 Group's/ Company's total revenue in 2021/22 and 2020/21 financial years.

Group

	Finance	Leasing	Gold Loans	Others	Consolidated
	2022 LKR	2022 LKR	2022 LKR	2022 LKR	2022 LKR
Net interest income	2,202,217,233	1,671,288,367	213,260,825	(182,893,928)	3,903,872,497
Net fee and commission income	530,117,632	29,984,504	4,598,440	474,639	565,175,215
Net gain from trading	-	-	-	-	-
Net gain/(loss) from financial investments	-	-	-	-	-
Other operating income	290,078,903	120,594,468	97,581,361	82,508,796	590,763,528
Total operating income	3,022,413,768	1,821,867,339	315,440,626	(99,910,493)	5,059,811,240
Impairment charge/(Reversal) for loans, leases and others	(1,054,164,261)	80,343,525	(9,535,878)	(5,421,884)	(988,778,498)
Net operating income	1,968,249,507	1,902,210,864	305,904,748	(105,332,377)	4,071,032,742
Operating profit/(loss)	(235,228,840)	679,094,887	72,428,918	99,618,607	615,913,572
Income tax expenses	-	-	-	-	(100,296,152)
Profit/(loss) for the year	(235,228,840)	679,094,887	72,428,918	99,618,607	515,617,431
Total assets	24,026,180,525	14,078,305,407	2,637,372,810	5,815,144,740	46,557,003,431
Total liabilities	24,745,431,720	13,212,575,701	920,818,341	2,058,865,820	40,937,691,580



Company

	Finance		Leasing	
	2022 LKR	2021 LKR	2022 LKR	2021 LKR
Net interest income	2,082,997,096	1,466,900,849	1,589,271,657	1,342,200,590
Net fee and commission income	525,676,776	479,391,792	27,277,700	20,810,000
Net gain/(loss) from trading	-	-	-	-
Other operating income	290,078,903	72,988,866	120,594,468	45,298,021
Total operating income	2,898,752,775	2,019,281,507	1,737,143,824	1,408,308,611
Impairment charge/(Reversal) for loans, leases and others	(1,032,234,272)	(653,074,204)	142,937,883	(386,497,283)
Net operating income	1,866,518,503	1,366,207,303	1,880,081,707	1,021,811,328
Operating profit/(loss)	(283,381,590)	(667,442,744)	705,066,780	437,477,022
Income tax expenses	-	-	-	-
Profit/(loss) for the year	(283,381,590)	(667,442,744)	705,066,780	437,477,022
Total assets	22,534,625,950	20,643,286,732	11,666,845,149	10,425,281,448
Total liabilities	22,352,089,984	19,422,040,594	11,697,843,262	10,112,122,215

51. Negative Macro Economic Outlook

51.1 Background

Sri Lankan economy presented signs of recovery from the impact of COVID-19 pandemic during the year ended 31 March 2022. However, it continued to present a negatively impacted outlook from late March 2022 mainly due to insufficient foreign reserves/liquidity and the global price increases of fuel. These factors resulted in the country to impose certain strict restrictions on the imports to preserve foreign reserves to meet the essential import needs to the public. The situation got aggravated

when the credit rating of the country was downgraded to "Default Imminent (C)" with the announcement by the government of Sri Lanka on withholding repayments of foreign currency bonds and debts.

These conditions added up to a rapid increase in the inflation rates of the country. As a control measure, rigorous counter actions such as increase in policy interest rates and floating the Sri Lankan rupee were introduced by the government to temper the continuously growing inflationary pressure.

The impact of these and expected future fiscal and monetary policy measures required to bring the macro-economic stability are likely to impact the financial services industry in short term.

51.2 Impact to the industry

NBFI sector has shown a considerable growth during the post pandemic era. However, the expected level of high inflation in the country is expected to adversely affect the living conditions of the general public and will also in return adversely impact the ability to repay debts. This will ultimately result in an increasing in the credit risk of the industry.

51.3 Actions taken by the Group

Towards, mitigating this risk, the Group has taken steps to focus on short term mortgaged lending such as gold loans and applying strict credit guidelines and credit evaluations to minimise credit risk.

Gold Loan		Others		Consolidated	
2022 LKR	2021 LKR	2022 LKR	2021 LKR	2022 LKR	2021 LKR
213,260,825	140,085,939	(196,109,295)	7,801,606	3,689,420,283	2,956,988,984
4,598,440	2,819,143	–	–	557,552,916	503,020,935
–	–	–	391,472	–	391,472
97,581,361	40,127,920	–	–	508,254,732	158,414,807
315,440,626	183,033,003	(196,109,295)	8,193,078	4,755,227,931	3,618,816,199
(9,535,878)	(5,605,677)	–	–	(898,832,267)	(1,045,177,164)
305,904,748	177,427,325	(196,109,295)	8,193,078	3,856,395,664	2,573,639,035
72,428,918	25,465,335	15,067,342	8,193,074	509,181,450	(196,307,312)
–	–	–	–	(91,387,424)	72,694,187
72,428,918	25,465,335	15,067,342	8,193,074	417,794,026	(123,613,125)
2,637,372,810	1,683,537,231	5,407,760,831	4,003,281,849	42,246,604,740	36,755,387,260
920,818,341	489,745,675	1,802,972,064	1,836,572,519	36,773,723,651	31,860,481,003

Based on these proactive analyses, financial strength and the operating model of the Group backed by the financially strong parent, management is confident that the Group's operational continuity will be unaffected and expects to effectively manage the above risks.

Fixed deposits mobilisation, retention of existing deposits through renewals, maintaining a strict cash flow, retaining unutilised funding lines from banks and adopting strict cost optimisation methods are some of the indicators that the Group has a sufficient level of liquidity to continue its normal course of business without a severe interruption.

51.4 Use of estimation 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 – “Financial Instruments”, 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 past were no longer valid in the current year due to the impact of the macro-economic instability.

As such a considerable degree of judgement was involved in the estimation of ECL. These judgements included the impacts of actions of the government and other institutions and responses of businesses and consumers in different industries. Mostly these are out of the control of the Group. Hence, the actual economic conditions are likely to be different from the anticipated events. In consideration of this estimation uncertainty, the Group has carried out a sensitivity analysis on its expected credit loss assessment and the results are disclosed in notes 18 and 19 enabling the users to obtain a full overview of the potential impact to the expected credit loss calculation.



51.5 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 the financial statements for the year ended 31 March 2021.

The Group has made appropriate adjustments to the base case and worst-case scenarios used in the calculation of ECL to reflect the current economic downturn. As such, positive post pandemic economic recovery potential has not been considered in the assignment of weightages to worst case and base case scenarios as at 31 March 2022. In addition, despite the post COVID-19 economic recovery was evident, the Group continued to identify the customers that may pose a significant increase in credit risk based on potential "risk elevated industries" and adjustments were incorporated in to the ECL model by downgrading these exposures by one "Stage" in the estimation of probability of default (PD).

Further, a management overlay has been applied using a scenario-based assessments to assess the potential loss of the customers primarily due to the uncertainty associated with significant deterioration of macro-economic indicators and COVID-19 and continued to build in management overlay outside the expected credit loss model due to lack of historical data to address prevailing economic conditions

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Quarterly Financial Information

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Statement of Comprehensive Income

	1st Quarter ended June 30		2nd Quarter ended September 30	
	2021 LKR	2020 LKR	2021 LKR	2020 LKR
Net interest income	976,494,102	769,758,115	939,235,101	412,800,639
Net fee and commission income	53,034,575	(4,264,597)	67,631,298	117,030,119
Other operating income (net)	46,778,118	46,180,974	69,717,716	21,242,717
Less: Impairment charges other losses	205,316,412	135,530,968	177,434,995	166,142,472
Net operating income	870,990,383	676,143,525	899,149,120	384,931,004
Less: Expenses	763,496,167	664,105,079	763,106,858	695,817,465
Profit before income tax	107,494,216	12,038,446	136,042,261	(310,886,462)
Less: Income tax expense	30,678,260	17,767,521	45,261,787	11,523,884
Profit for the period	76,815,956	(5,729,076)	90,780,474	(322,410,346)
Quarterly profit as a percentage of the profit after tax	18.39%	4.63%	21.73%	261%
Cumulative quarterly profit as a percentage of the profit after tax	18.39%	4.63%	40.11%	265%

Statement of Financial Position

	1st Quarter ended June 30	
	2021 LKR	2020 LKR
Assets		
Cash and cash equivalents	340,009,982	3,770,966,449
Financial assets measured at fair value through profit or loss	–	15,832,528
Financial assets at amortised cost – Loans and receivables	18,016,414,884	16,612,858,302
Financial assets at amortised cost – Lease rentals receivable and stock out on hire	10,111,190,647	9,802,527,561
Financial assets at amortised cost – Loans and advances to others	383,754,555	552,295,571
Financial assets measured at fair value through other comprehensive income	2,655,810	12,430,283
Financial assets at amortised cost – Debt and other instruments	2,005,109,151	4,119,426,739
Investment in subsidiaries	–	–
Other financial assets	80,368,747	156,788,440
Other non-financial assets	240,862,833	510,044,499
Inventories – Real estate stock	–	–
Investment properties	1,105,000,000	1,105,000,000
Property, Plant and equipment	1,649,941,898	1,643,667,655
Intangible assets	235,128,046	281,080,724
Right-of-use assets	239,630,867	–
Deferred tax assets	153,987,656	184,776,230
Total assets	34,564,055,076	38,767,694,980

3rd Quarter ended December 31		4th Quarter ended March 31		Total	
2021 LKR	2020 LKR	2022 LKR	2021 LKR	2022 LKR	2021 LKR
883,584,493	776,424,576	890,106,588	998,005,654	3,689,420,284	2,956,988,984
176,704,425	123,206,328	130,316,361	170,540,308	427,686,659	406,512,159
93,728,191	42,710,830	298,030,707	75,871,760	508,254,732	186,006,281
123,959,568	495,870,163	392,121,292	247,633,563	898,832,267	1,045,177,165
1,030,057,540	446,471,571	926,332,365	996,784,159	3,726,529,409	2,504,330,259
836,709,249	622,582,140	854,035,684	718,132,887	3,217,347,957	2,700,637,571
193,348,291	(176,110,568)	72,296,681	278,651,272	509,181,450	(196,307,312)
79,356,793	(29,291,406)	(63,909,416)	(72,694,187)	91,387,424	(72,694,187)
113,991,498	(146,819,163)	136,206,097	351,345,459	417,794,026	(123,613,125)
27.28%	119%	32.60%	-284%	100%	100%
67.40%	384%	100.00%	100%		

2nd Quarter ended September 30		3rd Quarter ended December 31		4th Quarter ended March 31	
2021 LKR	2020 LKR	2021 LKR	2020 LKR	2022 LKR	2021 LKR
421,209,357	4,506,658,334	930,495,677	1,254,090,104	802,799,680	645,635,660
-	16,192,528	-	16,224,000	-	16,704,000
17,695,508,602	16,829,430,928	19,320,052,687	17,036,398,803	20,755,928,511	18,075,473,229
10,384,076,098	9,931,405,015	10,456,524,056	10,139,897,102	11,014,298,708	10,296,416,174
353,553,533	495,919,057	315,223,150	446,657,183	295,201,210	405,765,402
2,655,810	12,430,283	2,655,810	234,000	2,655,810	2,655,810
2,659,227,514	4,899,247,754	2,870,277,386	4,677,827,071	3,028,183,719	3,482,764,544
-	-	2,122,605,245	-	2,376,921,302	-
71,746,669	398,402,429	67,599,727	375,196,489	64,252,417	113,445,878
207,944,801	273,897,441	205,156,549	303,347,180	240,362,470	347,382,881
-	-	-	-	-	-
1,245,768,316	1,105,000,000	1,023,500,000	1,105,000,000	1,136,000,000	1,105,000,000
1,522,475,500	1,627,199,242	1,734,986,277	1,605,840,634	1,913,913,679	1,590,028,807
247,161,560	314,870,693	231,079,322	317,609,257	229,399,955	254,263,673
240,053,426	-	227,485,991	-	217,456,128	257,470,889
163,812,892	184,776,230	186,981,923	183,698,774	169,231,151	153,987,656
35,215,194,078	40,595,429,934	39,694,623,800	37,462,020,597	42,246,604,740	36,746,994,603

	1st Quarter ended June 30	
	2021 LKR	2020 LKR
Liabilities		
Bank overdraft	–	–
Financial liabilities at amortised cost – Due to depositors	26,616,343,978	29,141,025,916
Debt instruments issued and other borrowed funds	1,871,056,439	3,211,011,095
Other financial liabilities	660,790,140	893,488,272
Other non financial liabilities	47,872,453	47,411,195
Current tax liabilities	105,822,574	165,094,747
Post employment benefit liability	290,447,280	270,815,772
Total liabilities	29,592,332,864	33,728,846,997
Equity		
Stated capital	223,545,481	223,545,481
Reserves	1,774,735,243	1,765,710,366
Retained earnings	2,973,441,488	3,049,592,136
Total equity attributable to equity holders of the Company	4,971,722,212	5,038,847,983
Non controlling interest	–	–
Total equity	4,971,722,212	5,038,847,983
Total liabilities and equity	34,564,055,076	38,767,694,980
Net asset value per share (LKR)	2.89	2.93
Quarterly growth (%)		
Financial assets at amortised cost – Loans and receivables, lease rentals receivables and loans and advances to others	(0.93)	(4.72)
Financial liabilities at amortised cost – Due to depositors	(5.10)	5.86
Total assets	5.94	2.18

2nd Quarter ended September 30		3rd Quarter ended December 31		4th Quarter ended March 31	
2021 LKR	2020 LKR	2021 LKR	2020 LKR	2022 LKR	2021 LKR
335,113,634	–	–	–	648,139,767	–
26,291,310,669	31,214,820,505	30,556,973,629	29,678,018,536	31,593,426,528	28,046,962,308
1,910,068,290	3,118,052,603	2,161,850,443	1,794,667,070	2,905,685,927	2,636,572,519
1,128,368,784	947,225,925	1,251,810,499	991,726,209	1,153,513,556	784,449,489
46,584,689	162,249,647	58,751,123	53,340,100	67,684,744	50,483,702
143,465,552	158,849,094	188,815,122	101,743,496	115,755,331	52,762,389
297,779,772	277,794,522	299,928,797	288,016,897	289,517,799	280,857,939
30,152,691,390	35,878,992,297	34,518,129,613	32,907,512,308	36,773,723,652	31,852,088,346
223,545,481	223,545,481	223,545,481	223,545,481	223,545,481	223,545,481
1,774,735,243	1,765,710,366	1,774,735,244	1,765,710,366	1,926,788,866	1,774,735,243
3,064,221,964	2,727,181,790	3,178,213,462	2,565,252,442	3,322,546,741	2,896,625,533
5,062,502,688	4,716,437,637	5,176,494,187	4,554,508,289	5,472,881,088	4,894,906,257
–	–	–	–	–	–
5,062,502,688	4,716,437,637	5,176,494,187	4,554,508,289	5,472,881,088	4,894,906,257
35,215,194,078	40,595,429,934	39,694,623,800	37,462,020,597	42,246,604,740	36,746,994,603
2.94	2.74	3.01	2.65	3.18	2.85
(0.27)	1.07	5.83	1.34	6.56	4.18
(1.22)	7.12	16.22	(4.92)	3.39	(5.50)
1.88	4.71	12.72	(7.72)	6.43	(1.91)

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Year ended 31 March	2022	2021	2020	2019	2018	2017	2016	2015
Operating results								
Income	7,408,159,233	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
Interest income	6,342,351,585	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
Interest expense	2,652,931,302	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
Non interest income	1,065,807,648	689,027,217	1,064,703,650	1,062,494,921	945,987,922	907,097,366	552,297,228	379,415,418
Non interest expense	1,028,698,524	1,141,685,942	1,246,268,191	995,829,256	795,655,675	805,903,349	185,973,091	180,958,701
Operating expense (Incl VAT, NBT & DRL)	3,217,347,957	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
Profit/(Loss) before income tax	509,181,450	(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
Income tax on profit	91,387,424	(72,694,187)	264,403,871	431,335,672	570,884,458	567,546,689	434,748,933	122,793,299
Profit/(Loss) after taxation	417,794,026	(123,613,125)	395,243,440	830,595,822	1,011,783,321	1,058,834,186	1,110,093,205	534,546,372
Liabilities and shareholders' funds								
Customer deposits	31,593,426,528	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
Borrowings	3,553,825,694	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
Other liabilities	1,626,471,430	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
Deferred tax liabilities	-	-	-	-	-	16,115,738	49,026,181	-
Shareholders' funds	5,472,881,088	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
Total	42,246,604,740	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
Assets								
Loans and receivables to customers (Net)	32,065,428,429	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
Cash, short-term deposits and balances with Central Bank of Sri Lanka	3,830,983,399	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
Property, plant and equipment	1,913,913,679	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
Deferred tax assets	169,231,151	153,987,656	167,121,098	189,768,514	124,848,966	-	-	5,978,982
Other assets	4,267,048,081	2,088,611,788	2,096,768,549	1,973,766,852	1,873,830,717	1,706,832,783	1,181,403,979	1,053,383,200
Total	42,246,604,740	36,755,387,260	37,942,137,856	32,929,187,274	25,338,794,768	19,552,792,824	14,375,830,213	10,085,867,913
Ratios								
Return on average shareholder funds (%)	8.06	(2.50)	8.21	18.06	26.91	36.62	60.58	53.12
Income growth (%)	3.36	(21.84)	10.59	10.81	20.03	38.99	58.00	43.65
Return on average assets (%)	1.06	(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 (%)	34.97	32.48	32.51	30.68	28.06	33.02	39.73	69.19
Total assets to shareholders' funds (Times)	7.72	7.51	7.59	7.11	6.13	5.77	6.01	7.93
Liquid assets to liabilities (%)	10.42	12.96	17.41	39.67	23.60	34.23	41.81	43.88
Share information								
Earnings per share (LKR)	0.24	(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	1,878	1,851	1,964	1,961	1,746	1,594	1,362	1,126
Number of branches	70	60	48	48	48	48	48	48
Number of service centres	0	10	21	21	21	21	21	21

Share Information

List of 20 Major Shareholders – Voting as at 31 March 2022

	As at 31 March 2022	
	Number of shares	Percentage
Hatton National Bank PLC A/C No. 1	724,904,118	51.00
Seylan Bank PLC/Prime Lands (Pvt) Ltd-(Collateral)	400,000,000	28.14
Prime Lands (Pvt) Ltd.	150,304,554	10.57
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
People's Leasing & Finance PLC/Mr S Gobinath	380,000	0.03
Mr P C P Samarasinghe	267,609	0.02
Mr G D J Prasantha	240,803	0.02
Mr R L Maheswaran	218,509	0.02
DFCC Bank PLC/G I Vasunthara	200,000	0.01
Mr S Sivadharshan	197,775	0.01
Mr P K C P Samarasinghe	192,706	0.01
Dialog Finance PLC/J A G Buddhika	170,000	0.01
Dr C Alwisheewa	165,000	0.01
Sezeka Limited	157,182	0.01
H M U Senevirathna	150,000	0.01
Merchant Bank of Sri Lanka & Finance PLC/F H T C Silva	133,448	0.01
Dr H S D Soysa	131,700	0.01
Mr W A S P De Saram	117,452	0.01
	1,392,630,856	97.98
Others	28,749,768	2.02
Total	1,421,380,624	100

Analysis of Shareholders According to the Number of Shares – Voting

As at 31 March 2022

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	100,366	17,472,338	1.23	1	1,000	0	100,367	17,473,338	1.23
1001 to 10,000	1,733	4,796,956	0.34	1	3,000	0	1,734	4,799,956	0.34
10,001 to 100,000	194	5,428,086	0.38	1	15,000	0	195	5,443,086	0.38
100,001 to 1000,000	25	5,598,390	0.39	1	157,182	0.01	26	5,755,572	0.4
Over 1,000,000 Shares	3	1,275,208,672	89.72	1	112,700,000	7.93	4	1,387,908,672	97.65
	102,321	1,308,504,442	92.06	5	112,876,182	7.94	102,326	1,421,380,624	100



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	100,221	17,455,328	1.23	1	1,000	0	100,222	17,456,328	1.23
1001 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

Categories of Shareholders – Non-voting

Categories of shareholders	As at 31 March 2022		As at 31 March 2021	
	Number of shareholders	Number of shares	Number of shareholders	Number of shares
Individual	102,265	31,249,293	102,124	31,170,163
Institutional	61	1,390,131,331	35	1,390,210,461
	102,326	1,421,380,624	102,159	1,421,380,624

List of 20 Major Shareholders – Non-voting as at 31 March 2022

	As at 31 March 2022	
	Number of shareholders	Number of shares
Seylan Bank PLC – A/C No. 3	233,200,000	78.2
Prime Lands (Pvt) Ltd.	35,972,653	12.06
Wealth Guard (Pvt) Ltd.	27,227,852	9.13
DFCC Bank PLC/P S R Casie Chitty	296,567	0.1
People's Leasing & Finance PLC/Mr S Gobinath	190,000	0.06
Mr W A R Gunawardhana	99,092	0.03
Mr P K Waligopolage	87,888	0.03
Mr M D S Goonatilleke	81,595	0.03
Mr S Ramanathan	41,895	0.01
Citizens Development Business Finance PLC/A M A P K Dissanayake	39,000	0.01
Mr W D S Thamel	38,983	0.01
Mr M F Cader	38,000	0.01
Seylan Bank PLC/Goluhewage Bindu Rasitha Poojitha Gunawardana	36,736	0.01
Mr I U M Wijerathne	34,700	0.01
Citizens Development Business Finance PLC/W G J Banda	26,900	0.01
Mr L U M De Silva	25,000	0.01
Merchant Bank of Sri Lanka & Finance PLC 01	25,000	0.01
Mr N P Kodikara	21,030	0.01
LOLC Finance PLC/A M Bandara & N K Bandara	20,371	0.01
Mr G P P Abeywickrama	20,000	0.01
	297,523,262	99.77
Others	676,738	0.23
Total	298,200,000	100

Analysis of Shareholders According to the Number of Shares – Non-voting

As at 31 March 2022

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	196	53,451	0.02	1	500	0	197	53,951	0.02
1001 to 10,000	88	383,591	0.13	0	0	0	88	383,591	0.13
10,001 to 100,000	32	875,386	0.29	0	0	0	32	875,386	0.29
100,001 to 1000,000	2	486,567	0.16	0	0	0	2	486,567	0.16
Over 1,000,000 Shares	3	296,400,505	99.4	0	0	0	3	296,400,505	99.4
	321	298,199,500	100	1	500	0	322	298,200,000	100

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
1001 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 1000,000	3	498,435	0.17	0	0	0	3	498,435	0.17
Over 1,000,000 Shares	3	296,400,505	99.4	0	0	0	3	296,400,505	99.4
	220	298,200,000	100	0	0	0	220	298,200,000	100

Categories of Shareholders – Non-voting

Categories of shareholders	As at 31 March 2022		As at 31 March 2021	
	Number of shareholders	Number of shares	Number of shareholders	Number of shares
Individual	303	1,065,983	208	1,533,209
Institutional	19	297,134,017	12	296,666,791
	322	298,200,000	220	298,200,000

Public Holding

Public holding percentage as at 31 March 2022 being 10.18% comprising 102,331 shareholders.

The float adjusted market capitalisation as at 31 March 2022 – LKR 1,041,815,142

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.



Directors and Chief Executive Officer's Shareholding

Ordinary voting shares	As at 31 March 2022		As at 31 March 2021	
	Number of shares	%	Number of shares	%
Mr D P N Rodrigo	0	0	0	0
Mr D K G Perera	0	0	0	0
Mr B M D C Prabhath	1,000,000	0.070	1,000,000	0.070
A S Wijesinha	0	0	0	0
S U H Fernando	0	0	0	0
P A H D Wijesundara	0	0	0	0
A G R Dissanayake	0	0	0	0
Mr M Perera	25,000	0.002	25,000	0.002
Mr R D Manatunga	0	0	0	0
Mr P L P Withana	0	0	0	0
Total	1,025,000	0.072	1,025,000	0.072

The Directors of the Company do not hold non-voting shares as at 31 March 2022 and 31 March 2021.

Information on Shares

Market Prices for Period Ended 31 March 2022

As at 31 March	Ordinary voting shares		Ordinary non-voting shares	
	2022	2021	2022	2021
Highest price	13.50	11.50	10.70	10.00
Lowest price	6.00	7.80	5.50	6.00
Last traded	7.20	8.90	6.40	6.80

Market Capitalisation as at 31 March 2022

As at 31 March	2022	2021
Ordinary voting shares	10,233,940,492.80	12,650,287,553.60
Ordinary non-voting shares	1,908,480,000.00	2,027,760,000.00

Information on Listed Debentures

Market Price for the Quarter ended 31 March 2022

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 frequency	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	11.92%
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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 Information

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Province	Name	Address	Telephone
Central Province	Dambulla	No. 818, Dambulugama Junction, Dambulla	+94 66 211 7760
	Hatton	No. 167, MR Town, Dickoya Road, Hatton	+94 51 211 7750
	Kandy	No. 677, Viliyam Gopallawa Mawatha, Kandy	+94 81 211 7750
	Mathale	No. 19, Kandy Road, Mathale	+94 66 211 7750
	Nawalapitiya	No. 30/2, Ambagamuwa Road, Nawalapitiya	+94 54 211 7750
	Nuwara Eliya	No. 5, Srimath Jayathilaka Mawatha, Nuwara Eliya	+94 52 211 7750
	Rikillagaskada	No. 06, Athula Agro Service, Dibulkumbura Road, Rikillagaskada	+94 81 211 7760
	Walapone	98 (98/01), Gammanpila Niwasa, Kandy Road, Walapone	+94 52 211 7760
Eastern Province	Ampara	No. 27, Nidahas Mawatha, Ampara & No. 28, Nidahas Mawatha, Ampara	+94 63 211 7750
	Batticaloa	39/2, Central Road, Batticaloa	+94 65 211 7750
	Dehiattakandiya	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	No. 58/G, Agrabhodhi Mawatha, Kanthale	+94 26 211 7760
	Pottuvil	Bus Stand, Main Street, Pottuvil	+94 63 211 7760
	Trincomalee	No. 124/02, Main street, Trincomalee	+94 26 211 7750
North Central Province	Anuradhapura	No. 64, Abhaya Place, New Town, Anuradhapura	+94 25 211 7750
	Galenbindunuwewa	No. 87/62, Opposite People's Bank, Galenbindunuwewa	+94 25 211 7780
	Kekirawa	No. 36 A, Yakalla Road, Kekirawa	+94 25 211 7740
	Medawachchiya	No. 36, Kandy Road, Medawachchiya	+94 25 211 7760
	Nochchiyagama	No. 58, Puttalam Road, Nochchiyagama	+94 25 211 7770
	Padaviya	Bandaranayake Mawata, Parakramapura, Padaviya	+94 25 211 7790
	Polonnaruwa	No. 57/4, Batticola Road, Polonnaruwa	+94 27 211 7750
North Western Province	Chilaw	G1/F1, New Shopping Complex, Court Road, Chilaw	+94 32 211 7750
	Galgamuwa	No. 349, 349A, Anuradhapura Road, Galgamuwa	+94 37 211 7760
	Kuliyapitiya	No. 355Madampe Road, Kuliyapitiya	+94 37 211 7780
	Kurunegala	No. 94, Kandy Road, Kurunegala	+94 37 211 7750
	Nikaweratiya	No. 189, Puttalam Road, Nikaweratiya	+94 37 21 17770
	Norochcholai	Kalpitiya Road, Norochcholai	+94 32 21 17760
	Puttalam	No. 44/A, Service Road, Puttalam	+94 32 21 17780
	Wennappuwa	No. 153/C, Chilaw Road, Dummaladaniya Mada, Wennappuwa	+94 31 21 27470



Province	Name	Address	Telephone
Northern Province	Jaffna	No. 149/A, K.K.S. Road, Jaffna	+94 212117750
	Kilinochchiya	No. 08, Kanakapuram Road, Uthayanager-North, Kilinochchi	+94 212117780
	Mallavi	Thunukkai Road, Mallavi	+94 212117760
	Mannar	No. TV-5/1, Ward No.04, Aalamara Veethy, Mannar	+94 232117750
	Mullaitivu	No. 94, PWD Road, Mullaitivu	+94 212117790
	Nedunkerni	Oddusudan Junction, Mullaitivu Road, Nedunkerni	+94 242117750
	Nelliyady	Jaffna-Point Pedro Road, Nelliyady, Karaveddy	+94 212117770
	Vavuniya	65A/1, 1st Cross Street, Vavuniya.	+94 242117760
Sabaragamuwa Province	Balangoda	No. 71/C, Old Road, Balangoda	+94 452117760
	Embilipitiya	No. 59, Rathnaweera Building, Pallegama, Embilipitiya	+94 472117780
	Kegalle	No. 290/28, Main street , Kegalle	+94 352117750
	Rathnapura	No. 298, Kudugalwatta, Main Street, Rathnapura	+94 452117750
Southern Province	Ambalangoda	No. 273, Main Street, Ambalangoda	+94 912117760
	Beliatta	No. 51/1, Matara Road, Beliatta	+94 472117770
	Galle	No. 48, Olcott Mawatha, Galle	+94 912117750
	Hambantota	Assessment No.21A, Jail Street, Hambantota	+94 472117750
	Mathara	No. 386/1/1, Anagarika Darmapala Mawatha, Matara	+94 412117750
	Morawaka	No. 07, Nilwala Building, Morawaka	+94 412117760
	Pitigala	No. 290/1A, Elpitiya Road, Pitigala	+94 912117770
	Thissamaharamaya	No. 29, Palliyawatta Road, Thissamaharama	+94 472117760
Uva Province	Badulla	No. 24/1/1, Anagarika Dharmapala Mawatha, Badulla	+94 552117750
	Bandarawela	No. 496, Badulla Road, Bandarawela	+94 572117750
	Mahiyanganaya	No. 207, Padiyathala Road, Mahiyanganaya	+94 552117760
	Monaragala	No. 306, Wallawaya Road, Monaragala	+94 552117770
	Welimada	No. 44, NuwaraEliya Road, Welimada	+94 572117760
Western Province	Avissawella	No. 117, Rathnapura Road, Avissawella.	+94 362117750
	Bandaragama	No. 12, Panadura Road, Bandaragama	+94 382117750
	City	No. 67/1, Mahinda Place, High-level Road, Kirulapone, Colombo-05	+94 112127600
	Gampaha	No. 103, Baudhaloka Mawatha, Gampaha	+94 332117750
	Head office	No. 168, Nawala Road, Nugegoda	+94 112176262
	Homagama	No. 62/A, High Level Road, Homagama	+94 112127650
	Horana	No. 161, Rathnapura Road, Horana	+94 342117770
	Ja-Ela	No. 59/A, Negombo Road, Ja Ela	+94 112127680
	Kaduwela	No. 155/2A, Avissawella Road, Hewagama, Kaduwela	+94 112127670
	Kaluthara	No. 427, Galle Road, Kaluthara	+94 342117750
	Mathugama	No. 141/2, Agalawatta Road, Mathugama/No.143/2, Agalawatta Road, Mathugama, 143, Agalawatta Road, Mathugama	+94 342117760
	Moratuwa	No. 597, Galle Road, Rawathawatta, Moratuwa	+94 112127630
	Negombo	No. 58, St.Joseph Street, Negombo	+94 312117750
	Nittambuwa	No. 9, Colombo Kandy road, Nittambuwa	+94 332117760
	Wattala	No. 34/1/1, Negombo Road, Wattala	+94 112127660



GRI Content Index

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AN OVERVIEW OF
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	102-3 Location of headquarters	134 and 263	
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	102-11 Precautionary principle or approach	4 and 5	
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	102-46 Defining report content and topic boundaries	4, 5, 19 and 20	
	102-47 List of material topics	19 and 20	
	102-48 Restatements of information	4 and 148	
	102-49 Changes in reporting	–	None
	102-50 Reporting period	4	
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	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	260 to 262	
	102-56 External assurance	–	Voluntary reporting under GRI sustainability reporting guidelines

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	103-2 The management approach and its components	19 to 20, 21 to 24, 38, 44, 49, 50, 58, 59 and 74	
	103-3 Evaluation of the management approach	21 to 24	
GRI 201: Economic Performance	201-1 Direct economic value generated and distributed	35	
	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	56 to 57, 140 and 169	
GRI 202: Market Presence	202-1 Ratios of standard entry level wage by gender compared to local	55 to 57	
	202-2 Proportion of senior management hired from the local community	51, 55 and 56	
GRI 203: Indirect Economic Impacts	203-1 Infrastructure investments and services supported	59 to 61 and 70 to 73	
	203-2 Significant indirect economic impacts	35, 59 to 61 and 70 to 73	
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	59	
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	74 to 77	
	302-4 Reduction of energy consumption	74 to 77	
GRI 303: Water and Effluents	303-1 Water withdrawal by source	74 to 77	
	303-2 Water sources significantly affected by withdrawal of water	74 to 77	
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, 55 and 56	
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	56 and 57	
	401-3 Parental leave	56	
GRI 402: Labor/Management Relations	402-1 Minimum notice periods regarding operational changes	–	Adequate notice is given as the situation requires



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 to 55	
	404-2 Programmes for upgrading employee skills and transition assistance programmes	53 to 55	
	404-3 Percentage of employees receiving regular performance and career development reviews	57	
GRI 405: Diversity and Inclusion	405-1 Diversity of governance bodies and employees	49 to 52 and 90 to 99	
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	–	None
GRI 409: Forced or Compulsory Labour	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour	–	None
GRI 413: Local Communities	413-1 Operations with local community engagement, impact assessments, and development programmes	59, 70 to 73	
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

Memberships

- Lanka Microfinance Practitioners' Association.
- The Finance Houses 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 – 70

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 and Rating Agency

'A'(Ika) (RWN) 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 Bank PLC
- Bank of Ceylon
- Sampath Bank PLC
- People's Bank
- Nations Trust Bank PLC
- National Development Bank PLC
- Cargills Bank Limited



Notice of Meeting

HNB Finance PLC
Annual Report 2021/22

Notice is hereby given that the 12th 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 the 26 day of July 2022 at 10.00am 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 2022 together with the Report of the Auditors thereon.
3. To re-elect as a Director, Mr Anushka Sheran Wijesinha, 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 re-elect as a Director, Mr Dilshan Peter Nirosh Rodrigo who was appointed to the Board with effect from 10 September 2021.
6. To re-elect as a Director, Mr Punsisi Lalith Patuwatha Withana who was appointed to the Board with effect from 10 September 2021.
7. To reappoint 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 2022/23.

By Order of the Board of Directors of

HNB Finance PLC



S S P Corporate Services (Private) Limited
Secretaries

Colombo, Sri Lanka.
29 June 2022

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 D P N Rodrigo	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 or failing him
Mr P L P Withana	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 26 July 2022 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 2022 together with the Report of the Auditors thereon.	☐	☐
(2) To re-elect as a Director, Mr Anushka Sheran Wijesinha, 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 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 Dilshan Peter Nirosh Rodrigo, who was appointed to the Board with effect from 10 September 2021.	☐	☐
(5) To re-elect as a Director, Mr Punsisi Lalith Patuwatha Withana, who was appointed to the Board with effect from 10 September 2021.	☐	☐
(6) To re-appoint Messrs KPMG, Sri Lanka, Chartered Accountants, as the Auditors of the Company for the financial year 2022/23 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 financial year 2022/23.	☐	☐

As witness my/our hand set hereto this day of Two Thousand and Twenty-two.

.....
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 Power of Attorney (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 or emailed to arangala@hnbfinance.lk.
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.

Notes

Notes



**This Integrated Annual Report is
GHG-neutral**

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Net-zero GHG since 2011





HNB Finance PLC

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