HNB FINANCE

Transforming purposefully...
Evolving responsibly...



ANNUAL REPORT

2024/25

Transforming purposefully...
Evolving responsibly...

We have embarked on a strategic transformation towards diversified financial services. With clarity and conviction, we are reimagining our future to better serve a broader spectrum of customer needs while advancing our operational resilience and stability.

Our journey has been defined by a deliberate realignment of our financial solutions offerings evolving into a balanced and secure, asset configuration. This strategic shift reflects our commitment to prudent financial management, long-term resilience, and the creation of sustainable value for all stakeholders.

Guided by a clear strategic vision, we are expanding our capabilities, diversifying our service offerings, and investing in robust systems and governance frameworks. This evolution enables us to unlock new opportunities, deliver consistent value to stakeholders, and fortify our position as a trusted, future-ready financial partner.

Contents

3 About this Report
5 About HNBF
6 Milestones

AN OVERIEW OF THE COMPANY

9 Performance Highlights
12 Upholding Integrity through Transparency, Accountability, Governance and Sustainability
14 Awards and Accolades
16 Chairman's Review
20 Managing Director/ Chief Executive Officer's Review

OPERATING ENVIRONMENT

25 Stakeholder Engagement
32 Materiality
36 Strategy
42 Operating Environment
48 Business Model
50 Our Approach to Sustainability

MANAGEMENT DISCUSSION AND ANALYSIS

64 Business Review
72 Financial Capital
80 Intellectual Capital
90 Manufactured Capital
96 Human Capital
108 Social and Relationship Capital
122 Natural Capital
130 Business Transformation

GOVERNANCE

138 Board of Directors
143 Corporate Management
146 Governance Report
157 Statement of Compliance
196 Board Audit Committee Report
199 Board Human Resources and Remuneration Committee Report
201 Board Nominations and Governance Committee Report
204 Board Integrated Risk Management Committee Report
208 Board Related Party Transactions Review Committee Report
210 Statement by the Senior Independent Director

RISK MANAGEMENT

212 Risk Management Review

FINANCIAL REPORTS

238 Chief Executive Officer's and Chief Financial Officer's Responsibility Statement
239 Annual Report of the Board of Directors on the Affairs of the Company
249 Auditors' Assurance Report on the Directors' Statement on Internal Control
251 Directors' Responsibility Statement on Internal Control over Financial Reporting
253 Directors' Responsibility for Financial Reporting
255 Independent Auditors' Report
259 Income Statement
260 Statement of Profit or Loss and Other Comprehensive Income
261 Statement of Financial Position
262 Statement of Changes in Equity
264 Statement of Cash Flows
266 Notes to the Financial Statements

SUPPLEMENTARY INFORMATION

358 Horizontal Analysis
360 Vertical Analysis
362 Quarterly Analysis
368 Ten Year Statistical Summary
370 Share Information
374 Branch Information
377 GRI Content Index
379 Corporate Information
380 Notice of Meeting

Form of Proxy
(Voting Shareholders) – Enclosed

Form of Proxy
(Non–Voting Shareholders) – Enclosed

About this Report

PRESENTING OUR 9TH INTEGRATED ANNUAL REPORT

This is the ninth Integrated Annual Report of HNB Finance PLC (hereafter "HNBF" or the "Company") and has been carefully compiled to communicate the Company's strategic direction, governance, performance, and forward-looking outlook for the financial year 2024/25. It reflects our plans and actions to create sustainable value over the short, medium, and long term for a diverse set of stakeholders.

The report is presented in the context of a year defined by digital acceleration, operational strengthening, and the pursuit of sustainability. It captures how HNBF navigated market complexities while aligning with its core values of governance, accountability, and stakeholder transparency. This report aims to inform all stakeholders including investors, employees, customers, regulators, and the wider public about our capital utilisation, cultural ethos, and value creation during a period of digital transformation and strategic realignment.

ASSURANCE ON THE INTEGRITY OF THE REPORT

The Board of Directors of HNBF affirms the accuracy, material relevance, and completeness of this report. Internal assurance has been provided by the Board Audit Committee, while Messrs KPMG, Chartered Accountants, have independently audited the financial statements for the year ended 31 March 2025, which are included as part of this report.

These combined efforts ensure that the report presents a fair and balanced account of HNBF's activities and performance for 2024/25, demonstrating our unwavering commitment to transparency, ethical governance, and timely disclosure.

FORWARD-LOOKING STATEMENTS

This report articulates HNBF's future-facing strategies as we transition from a year of operational revitalisation into one of digitally-driven expansion. While the strategic statements reflect the Company's current assumptions and expectations, actual outcomes may diverge due to economic volatility, regulatory changes and technological disruptions.

We remain committed to adapting our models in response to market dynamics, leveraging innovation, and embracing sustainable practices in order to ensure long-term value creation and resilience.

REPORTING BOUNDARY

This Integrated Annual Report provides a holistic view of HNB Finance PLC's strategy, governance, risks, performance, and value creation processes. It combines financial and non-financial disclosures that cover the full breadth of the Company's operations, unless otherwise specified. The report highlights HNBF's impact on stakeholders, capturing key milestones and activities undertaken throughout 2024/25 to align business growth with stakeholder needs and national development goals.

REPORTING PERIOD

This Annual Report covers the period from 1 April 2024 to 31 March 2025, in alignment with HNBF's financial and sustainability reporting cycle. It builds upon disclosures from prior years, maintaining consistency in the scope and methodology of reporting.

There have been no major changes in reporting boundaries compared to previous years.

MATERIALITY

The materiality determination process has been conducted to identify issues with the highest relevance to HNBF and its stakeholders during 2024/25. A Materiality Matrix included in this report visualises how these issues influenced strategic decisions, operational responses, and stakeholder engagement.

This rigorous process ensures clarity, prioritisation, and transparency in how HNBF manages and responds to material risks and opportunities.

KEY FRAMEWORKS, GUIDELINES, AND COMPLIANCE

To ensure a balanced, transparent, and comprehensive report for the financial year 2024/25, this Integrated Annual Report has been prepared in adherence to a range of internationally and locally recognised standards and frameworks.

AN OVERVIEW OF THE COMPANY
LEADERSHIP
OPERATING ENVIRONMENT
CAPITAL REPORTS
GOVERNANCE
RISK MANAGEMENT
FINANCIAL REPORTS
SUPPLEMENTARY INFORMATION

Financial Reporting

- Sri Lanka Accounting Standards (SLFRSs and LKASs)
- Inland Revenue Act No. 45 of 2022 (as amended)
- Companies Act No. 07 of 2007
- Finance Business Act No. 42 of 2011
- Finance Leasing Act No. 56 of 2000
- Directions and guidelines issued by the Central Bank of Sri Lanka
- CSE Listing Rules and SEC directions

Sustainability Reporting

- Global Reporting Initiative (GRI) Sustainability Reporting Standards
- United Nations Global Compact (UNGC) Principles
- United Nations Sustainable Development Goals (SDGs)
- Integrated Reporting <IR> Framework, IFRS Foundation
- Corporate Governance and Risk Management
- Corporate Governance Direction No. 05 of 2021, issued by the Central Bank of Sri Lanka
- "A Preparer's Guide to Integrated Corporate Reporting" and the "Handbook on Integrated Corporate Reporting", both published by CA Sri Lanka
- Directions and guidelines issued by the Central Bank of Sri Lanka (applicable to Licensed Finance Companies)
- These frameworks ensure that our reporting remains robust, compliant, and aligned with international best practices

Financial Statements

- Sri Lanka Auditing Standards (SLAuSs)
- Sri Lanka Standard on Assurance Engagements (SLSAE) 3000 – Assurance engagements other than audits or reviews of historical financial information, issued by CA Sri Lanka
- These frameworks ensure that our reporting remains robust, compliant, and aligned with international best practices.



About HNBF

Since its establishment in 1999 as a pioneer in commercial microfinance in Sri Lanka, HNB Finance PLC (the Company) has undergone a dynamic transformation into a fully diversified financial services provider. This evolution reflects our unwavering commitment to innovation, resilience, and sustainable growth. With a sharpened focus on secured lending solutions, we continue to lead the market through strategically crafted offerings supporting our diversification strategy and long-term growth ambitions. Looking ahead, our dedication to building a future-ready, responsible organisation remains resolute.

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

Supported by Hatton National Bank PLC (HNB), one of Sri Lanka's systemically important banks, HNB Finance PLC (HNBF) has established itself as a leading Non-Bank Financial Institution (NBFI), renowned for its innovative product portfolio and unwavering customer-centric approach. HNBF operates a strategically dispersed network of 79 branches and provides customers with access to over 800 ATMs island-wide through HNB. This synergy enhances brand trust, operational capability, and financial accessibility across rural and urban markets.

A major milestone in HNBF's transformation was its amalgamation with Prime Finance PLC in May 2022, which brought synergies in property-based lending and broadened its product and customer base. This merger positioned HNBF as a top-tier player in the NBFI landscape and accelerated the Company's expansion into leasing and housing loans, while enriching its team with diversified expertise.

The financial year 2024/25 marked a pivotal phase in HNB Finance PLC's ongoing transformation journey. The Company continued to strengthen its strategic focus on asset-backed lending and portfolio diversification, aiming to build a more resilient and sustainable business model. Product mix refining and increased emphasis on secured lending channels are key drivers of the HNBF growth strategy which seek to establish long-term stability and responsible credit management.

HNBF has progressed significantly in its digital transformation agenda, embedding technology as a core enabler of operational excellence and customer experience. Strategic investments have been directed toward front-line automation, and the development of a digital loan origination system to streamline decision-making and enhance service delivery. Preparatory work is also underway for the implementation of a next-generation core banking platform, designed to unify and modernise internal systems and customer touchpoints. These forward-looking initiatives are integral to HNBF's vision of delivering scalable, secure, and digitally empowered financial solutions.

Social responsibility remains at the heart of HNBF's purpose, shaping both its business philosophy and community engagement efforts. The Company actively champions the economic empowerment of grassroots communities, particularly women, through its dedicated microfinance outreach and financial literacy programmes initiatives that are tailored to address local challenges and promote long-term financial independence. In the year 2024/25, HNBF further deepened its sustainability focus by expanding its green finance agenda and strengthening its partnerships in e-waste and paper recycling. These efforts underscore the organisation's unwavering commitment to fostering a responsible and inclusive financial ecosystem, while also contributing meaningfully to environmental stewardship and sustainable development.



Milestones



1999

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

2000

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

2008

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

2009

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

2010

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

2011

- Prime Lands Group 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

2012

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

2014

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

2015

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

2016

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

Milestones

2017

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

2018

- Reached an asset base of LKR 25 Bn. as at 31 March 2018
- Re-branded from HNB Grameen Finance to HNB Finance Ltd.
- Introduced two new products to the market – Gold Loans and "Divi Saru"
- Runner-up at the National Business Excellence Award 2018 under Non-Banking and Financial Services sector
- HNBF was amongst the "25 Great Places to Work in Sri Lanka" for the second consecutive year and was also awarded Silver under the Extra Large category

2019

- Savings Deposits reached LKR 3 Bn. HNB Finance partners with mCash to offer Leasing and Loan Repayment via mCash

2020

- Oversubscription of Initial Public Offering (IPO) on the Colombo Stock Exchange
- Re-branded as HNB Finance PLC

2021

- HNB Finance PLC acquired Prime Finance PLC on 21 December 2021
- 10 service centres were converted to branches (altogether 70 branches)
- Turnaround of a loss into a profit
- Operations expanded to 60 branches and 10 service centres
- HNBF was amongst the "25 Great Places to Work in Sri Lanka" for the fifth consecutive year

2022

- The Company became a profitable entity through its operational turnaround
- Achieved Bronze Award at the TAGS Awards 2023 organized by CA Sri Lanka
- Expansion of branch network to 79 branches
- Strengthening the sustainability journey by partnership with a premier E-waste Management organisation

2023

- Expansion of branch network to 77 branches
- Achieved Silver award (Total Group Assets Above LKR 20 Bn. category), at the TAGS Awards 2022 organised by CA Sri Lanka
- Operations expanded in to Micro Leasing and Property loans Amalgamated with Prime Finance PLC during May 2022

2024

- **Transformation of the organisation to a well-diversified financial solution provider**
- **Fitch rating improved to "A (lka) Stable Outlook"**
- **Oversubscription of the Rights Issue, raising LKR 1.2 Bn.**
- **Launched a customer loyalty card in collaboration with CH17**
- **Recognized with a bronze award at the TAGS Award 2024 organised by CA Sri Lanka**
- **Further strengthening the sustainability journey by partnering with local and government organisations**
- **Received the Great Place to Work Certification**

2025

An Overview of the Company

9 / Performance Highlights
12 / Upholding Integrity through Transparency, Accountability, Governance and Sustainability
14 / Awards and Accolades
16 / Chairman's Review
20 / Managing Director/Chief Executive Officer's Review

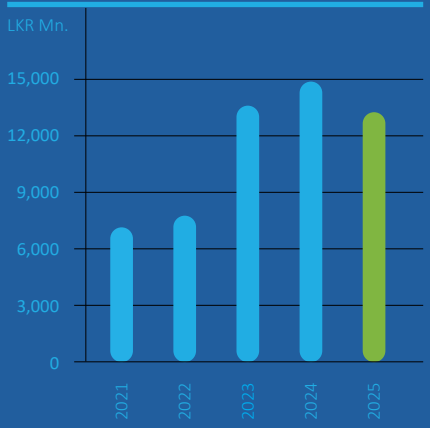


Performance Highlights

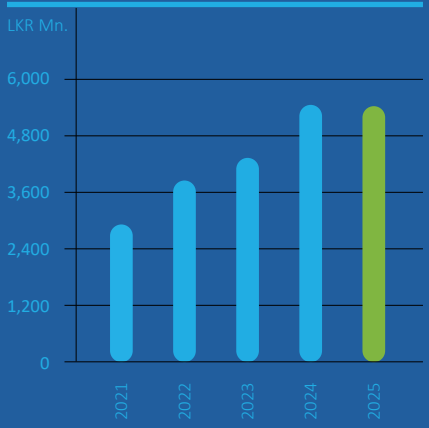
		Company	
Financial performance		2024/25	2023/24
Gross Income	LKR Mn.	13,278	14,909
Net Interest Income	LKR Mn.	5,505	5,526
Total Operating Income	LKR Mn.	7,950	7,134
Income Taxation	LKR Mn.	(656)	54
Profit after Taxation	LKR Mn.	765	621
Financial Position			
Total Assets	LKR Mn.	58,503	53,458
Lending Portfolio	LKR Mn.	44,839	33,636
Total Deposit Base	LKR Mn.	42,218	41,261
Borrowings	LKR Mn.	4,768	4,157
Shareholder's Funds	LKR Mn.	7,587	5,652
Investor Information			
Earnings Per Share (EPS)	LKR per share	0.43	0.36
Net Assets Per Share	LKR per share	4.27	3.29
Key Ratios			
Return on Average Equity	%	11.54	11.60
Return on Average Assets	%	1.37	1.15
Interest Cover	Times	1.43	1.08
Debt-to-Equity Ratio	Times	6.19	8.04
Quick Asset Ratio	Times	0.34	0.65
Statutory Ratios			
Core capital to risk-weighted assets ratio (Tier I)	%	11.38	8.81
Total risk-weighted capital ratio (Tier I and II)	%	14.44	14.10

Performance Highlights

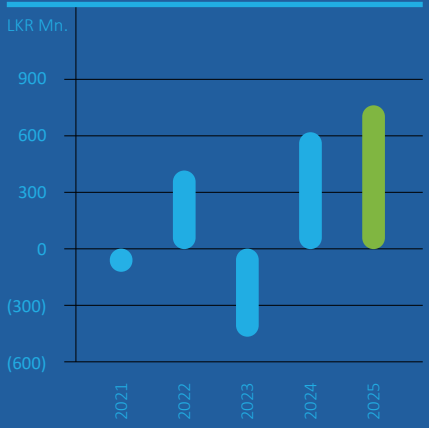
Gross Income -10.94%



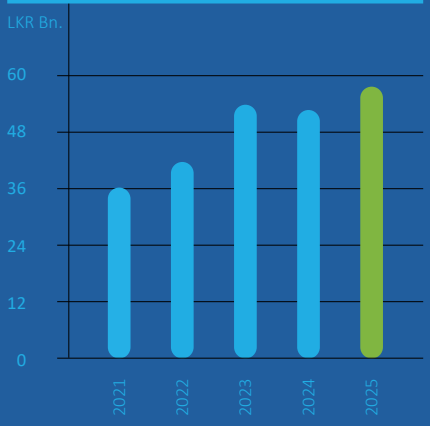
Net Interest Income -0.37%



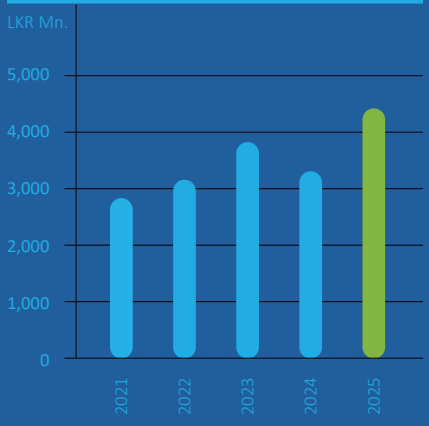
Profit After Taxation 23.11%



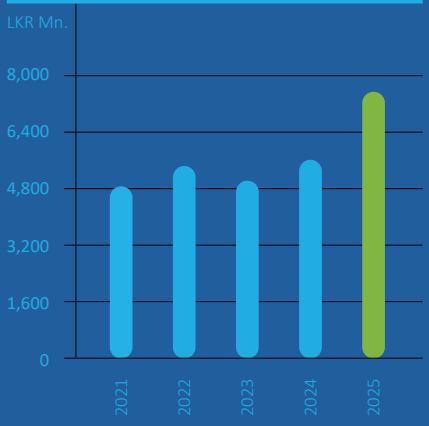
Total Assets 9.44%



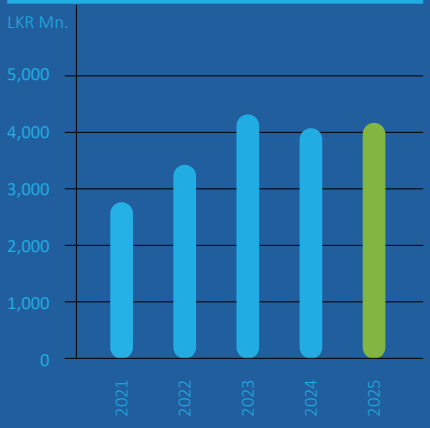
Lending Portfolio 33.31%



Shareholder's Funds 34.24%



Total Deposit Base 2.32%



Human Capital

Total Workforce
1,931
2023/24 : **2,004**

Male Representation
82%
1,580
2023/24 : **1,674**

Female Representation
18%
351
2023/24 : **330**

New Recruits **661**
2023/24: **963**

Employees Completed 10 Years of Service **318**
2023/24: **402**

Investment in Training and Development LKR Mn. **39.74**
2023/24: **6.3**

Manufactured Capital

Branches	Gold loan centres	Branches outside western province	Investment in Property Plant and Equipment (LKR Mn.)	Investment in IT Development (LKR Mn.)
79	**74**	**58**	**133**	**4**
2023/24: **79**	2023/24: **67**	2023/24: **58**	2023/24: **164**	2023/24: **25**

Social and Relationship Capital

Number of customers	Number of CSR Activities	Economic Value Added (LKR Mn.)
264,156	**22**	**12,929**
2023/24 :**264,093**	2023/24: **11**	2023/24 : **14,699**

Intellectual Capital

Fitch Rating

"A(lka)" Stable Outlook

2023/24: **"BBB+(lka)" Stable Outlook**

Natural Capital

Electricity Consumption (Units)	Water Comsumption (Units)	A4 Paper Usage (Sheets)
2,475,969	**21,075**	**4,866,500**
2023/24: **2,325,533**	2023/24: **22,088**	2023/24: **4,578,500**

Upholding Integrity through Transparency, Accountability, Governance and Sustainability



HNB Finance remains steadfast in its commitment to open communication and credible disclosure. We ensure all stakeholders receive timely, accessible, and comprehensive insights into our operations and performance.

Integrated Thinking and Reporting

We adopt the International <IR> Framework to holistically present our financial and non-financial performance, showcasing how value is created, preserved, or eroded across the six capitals.

Financial Clarity and Compliance

Adherence to Sri Lanka Accounting Standards (SLFRSs and LKASs), the Inland Revenue Act, and other statutory requirements ensures our financial disclosures remain clear, consistent, and auditable.

Stakeholder Dialogue and Disclosure

Through quarterly updates, investor briefings, digital reports, and proactive media engagement, we maintain transparent and timely communication with stakeholders.

Assured Financial Integrity

The Board Audit Committee provides internal assurance on the accuracy and completeness of disclosures. Additionally, Messrs KPMG, Chartered Accountants, conducted an independent audit of our financial statements for the year ended 31 March 2025.

Transparent ESG Communication

Voluntary ESG disclosures are aligned to GRI Standards, UN Global Compact Principles, and UN Sustainable Development Goals, offering a clear picture of our sustainability progress.

Interactive Digital Access

Through a dedicated digital platform, our website offers stakeholders an intuitive, interactive experience to explore data and insights efficiently.



Our governance culture anchors every level of the organisation—from the Board to front-line teams—in accountability and ethical performance.

Board Accountability and Strategic Oversight

The Board governs corporate strategy, enterprise risk, and regulatory compliance, with KPIs focused on long-term stakeholder value.

Independent Oversight Structures

The Board Audit committee and the Board Integrated Risk Management Committee provide critical checks and independent balances on strategic financial performance, risk management and internal controls.

Transparent Remuneration Governance

To foster accountability at all levels, our Board Human Resource and Remuneration Committee ensures executive pay is tied to performance outcomes and market competitiveness.

Ethical Supply Chain Governance

Procurement processes promote fairness and accountability throughout the supply chain, with ESG evaluations playing a crucial role in ensuring supplier integrity and long-term resilience.

Regulatory Compliance and Assurance

We follow all the applicable directives from the Central Bank of Sri Lanka (CBSL), CSE, SEC, and other regulatory agencies to ensure all financial and operational processes meet legal and accountability standards.

Upholding Integrity through Transparency, Accountability, Governance and Sustainability



Our governance framework supports ethical leadership, organisational resilience, and stakeholder trust in a dynamic environment.

Corporate Governance Framework

Our corporate governance framework aligns with CBSL and CSE best practices, supporting ethical leadership, regulatory compliance, and long-term value creation.

Board and Board Sub-Committee Meetings

The Board and its sub-committees meet regularly to provide strategic oversight, monitor performance, and ensure transparent, accountable governance.

Independent Governance Functions

Risk management, compliance, and internal audit operate independently to provide objective oversight and strengthen governance assurance.

External Audit and Third-Party Governance assurance

An independent audit by Messrs KPMG affirms the integrity of our financial disclosures and compliance with SLFRSs and statutory requirements, supporting our alignment with both local and global governance benchmarks.

Related Party Transactions

All related party transactions are reviewed and disclosed in line with regulatory requirements to ensure fairness and transparency.

Delegation of Authority

A structured Delegation of Authority framework ensures clear decision-making accountability across all management levels.

Internal Controls

Robust internal controls safeguard assets, ensure reporting accuracy, and support risk mitigation and operational efficiency.

Code of Conduct and Ethics

Our Code of Conduct promotes integrity, fairness, and professionalism across all levels, reinforced through regular training and declarations.

Senior Management

A seasoned senior management team drives strategic execution while upholding governance, compliance, and ethical performance standards.



Sustainability is embedded at the heart of our business model, going beyond mere compliance to reflect a proactive commitment to environmental and social responsibility.

Sustainability at the Core

ESG principles are embedded across lending, investments, and operational decisions to promote inclusive and ethical finance.

Green Finance and Responsible Lending

Our portfolio includes microfinance solutions that support women's empowerment and agriculture, alongside digital financial products aimed at advancing sustainability and promoting financial inclusion.

Environmental Accountability

Initiatives aligned with SLFRS S1 and S2 frameworks support our efforts in emissions monitoring, waste reduction, recycling, reforestation, and achieving energy efficiency goals.

Digital Transformation for a Greener Future

Through mobile applications, e-statements, paperless onboarding, and automated workflows, we minimize resource use and reduce our environmental footprint.

Community Impact through Financial Literacy

CSR projects prioritise financial literacy, education, disaster resilience, and healthcare, in line with our commitment to national development and social equity.

Financial Inclusion

We promote inclusive finance through accessible products, proactive financial literacy programmes targeted at communities including women, and digital platforms that empower underserved communities and foster equitable economic participation.

Sustainable Procurement and Partner Engagement

We work with suppliers who reflect our ESG values, helping embed sustainability throughout our value chain.

Awards and Accolades





2022/23

- CA TAGS Awards 2022 - Silver award in Total Group Assets Above LKR 20 Bn. Category in the NBFI sector by the Institute of Chartered Accountants of Sri Lanka
- The Great Place to Work Certificati on in 2022/23

2024/25

- **CA TAGS Awards 2024 - Bronze award in Total Group Assets Between LKR 25 – 75 Bn. Category in the Finance Companies, Leasing Companies & Other Financial Institutions sector by the Institute of Chartered Accountants of Sri Lanka**
- **BestWeb.lk 2024 – Silver Award for the Best Finance and Insurance Website**
- **The Great Place to Work Certification in 2024/25**

Awards and Accolades

HNB Finance PLC has proudly won the TAGS Awards for three consecutive years in the Finance Companies, Leasing Companies & Other Financial Institutions sector.



2023/24

- CA TAGS Awards 2023- Bronze award in Total Group Assets Above LKR 20 Bn. Category in the NBFI sector by the Institute of Chartered Accountants of Sri Lanka
- CMA Excellence in Integrated Reporting Awards 2023 – Merit Award by Institute of Certified Management Accountants of Sri Lanka
- ACEF Global Customer Engagement Awards 2024- Silver Award for the Digital Marketing Effectiveness

Chairman's Review

> We commenced the rollout of a new core banking system during the year a foundational initiative that reflects our long-term commitment to becoming a digitally agile and customer-centric financial institution.



The financial year 2024/25 marked a pivotal chapter in HNB Finance's journey, as the company deliberately and strategically recalibrated its operations in response to preceding economic and operational challenges. We anchored this recalibration with a clear focus on achieving prudent growth balancing ambition with caution and conducted all expansion efforts within a robust risk management framework. We placed digital enablement at the core of this phase, recognising the imperative to modernise and align with emerging financial services trends. We centered this transformation on a firm commitment to sound governance practices and a steadfast pursuit of financial inclusion. These efforts served not as mere adjuncts but as fundamental pillars supporting the company's strategic redirection. We calibrated our efforts against the backdrop of an economy that had previously strained but had begun to exhibit signs of stabilisation, thereby offering a more favorable environment for thoughtful and sustainable growth.

COMPANY PERFORMANCE

The financial outcomes of the year under review reflect the positive momentum generated by our strategic realignment. We recorded a Profit After Tax (PAT) of LKR 765 Mn., signifying a year-on-year growth of 23%. Our Net Interest Margin (NIM) held firm

at 11%, sustained by disciplined fund allocation and meticulous asset-liability management. Furthermore, our leasing and gold loan portfolios demonstrated commendable expansion, validating the success of our recalibrated product mix. Our strengthened underwriting practices that boosted quality in portfolio expansion parallel to volume expansion, steered this notable growth.

During the year, Fitch Ratings upgraded HNB Finance's National Long-Term Rating to "A(lka)" with a Stable Outlook, up from "BBB+(lka)", in line with the rating calibration following the sovereign upgrade. This upgrade will boost stakeholder confidence and provides us with greater flexibility in accessing funding and pursuing growth opportunities under more favorable terms.

Meanwhile, our 2023/24 Annual Report received the Bronze Award at the CA Sri Lanka's TAGS Awards 2024, highlighting our commitment and execution of excellence in corporate disclosure and stakeholder communication.

STRATEGIC SHIFT

The year was notable for a structural pivot in our lending strategy, aligned with our overarching goal of long-term risk mitigation. HNB Finance deliberately progressed its shift from unsecured to secured lending portfolios, a move designed to enhance the stability and resilience of our balance sheet. This strategic rebalancing bore tangible results, most notably in the form of improved asset quality, as evidenced by the reduction of the stage III ratio. This marked improvement is a testament to the efficacy of our credit evaluation protocols and recovery frameworks. A noteworthy enabler of these results has been the operational synergies now emerging from our 2022 merger with Prime Finance. The maturity of our unified platform is beginning to translate into real efficiencies, operational coherence, and strategic agility.

THE HNB ALLIANCE

As we seek progress in line with the new strategic direction, our strategic partnership with the parent company, Hatton National Bank PLC (HNB), continues to serve as a cornerstone of operational strength and customer-centric growth. This alliance has provided HNB Finance with access to an expansive banking ecosystem leveraging HNB's strong brand equity, widespread ATM footprint, and trusted reputation across Sri Lanka's financial landscape. In 2024/25, this synergy contributed to drive deposit mobilisation as well as the seamless integration with HNB's ATM infrastructure, which directly improved customer accessibility and convenience.

Beyond the operational benefits, the alliance has further reinforced our institutional commitment to governance excellence. HNB's well-established governance frameworks and compliance protocols have been instrumental in shaping our own internal controls and regulatory discipline. By aligning with HNB's standards, we have strengthened our governance risk oversight, and ethical conduct particularly in an environment where trust and transparency are vital to sustainable financial services delivery. Additionally, there were no reported violations of the Company's established Code of Conduct and Ethics during the financial year under review.

Our strategic alignment with HNB also extends into the digital frontier. Shared investments and innovation priorities have enabled us to benefit from the bank's advancements in digital technologies. Notably, the rise of digital wallets and electronic payment platforms reflect a mutual commitment to modernizing customer experiences and serving the evolving needs of a digitally savvy population.

DIGITALISATION FOR VALUE CREATION

Meanwhile, we significantly accelerated our digitalisation journey during the year at the organisational level, in line with our transformation agenda.

We commenced the rollout of a new core banking system during the year, a foundational initiative that reflects our long-term commitment to becoming a digitally agile and customer-centric financial institution. Although still in the implementation phase, this next-generation platform is expected to significantly enhance our operational capabilities by introducing greater scalability, process automation, and integration potential across the organisation. The system lays the groundwork for future innovations and positions us to respond more effectively to evolving market needs.

Concurrently, we accelerated the enhancement of our digital touchpoints to deliver a more seamless and enriched customer experience. Once launched, internet and mobile banking platforms will offer improved functionality, security, and user engagement. Additionally, we plan on expanding our Visa Debit Card services, providing customers with greater access to secure, real-time payment capabilities. These improvements are not only aimed at elevating service delivery but also at supporting our broader goals of financial inclusion and operational efficiency.

In our ongoing efforts to enrich the customer experience, we partnered with a digital solutions management company to launch a new loyalty card initiative. This card provides customers with a host of benefits and exclusive offers from a wide network of retail partners. More than just a transactional tool, the loyalty card is designed to deepen customer engagement and reward long-term relationships, aligning closely with our strategy to enhance value-added services and foster lasting brand

affinity through personalised experiences and sustained customer satisfaction. Concurrently, the implementation of a digitally enabled mobile loan origination system has significantly enhanced the customer journey by facilitating faster and more efficient processing, reducing reliance on physical documentation, and enabling customers to initiate and track loan applications through intuitive mobile platforms. This advancement reflects our commitment to operational excellence and the delivery of seamless, technology-driven financial solutions.

STRATEGIC CAPITAL INFUSION

On the capital front, we successfully executed a rights issue that mobilised over LKR 1 Bn. in fresh equity capital, a milestone event that significantly bolstered our financial foundation. The offer was oversubscribed by an impressive 110%, a clear and resounding endorsement of shareholder confidence in HNB Finance's long-term vision, strategic direction, and governance. This response from our investor base affirms the credibility of our transformation agenda and validates the trust placed in our leadership and institutional stability.

This substantial capital infusion fortifies our capital adequacy ratios and enhances our financial resilience at a time when agility and preparedness are paramount. With a strengthened balance sheet, we are now better equipped to pursue well-calibrated growth opportunities, invest in digital innovation, and expand our reach in underserved market segments. Moreover, the improved buffer positions us to navigate macroeconomic shifts with greater confidence while maintaining the flexibility to support credit expansion, operational upgrades, and regulatory compliance.

HUMAN CAPITAL OUTLOOK

During the recent past Sri Lanka has witnessed a migration of skilled professionals, which presents a growing challenge for the financial services sector, particularly in retaining professionals critical to sustaining institutional knowledge and innovation. At HNB Finance, we are acutely aware of this trend and have taken proactive steps to nurture and retain our talent pool. By investing in structured training, career development pathways, and employee engagement programs, we aim to create an environment where our people feel valued, supported, and motivated to grow with the organisation. Our recent certification as a "Great Place to Work" stands as testament to these efforts and reinforces our commitment to being an employer of choice.

ESG PRIORITIES

Our transformation journey also demonstrated a deepening commitment to Environmental, Social, and Governance (ESG) principles, as we responded to both regulatory expectations and evolving stakeholder values. On the governance front, we continued strengthening our internal structures through robust board composition, dedicated strategic oversight committees, and comprehensive governance policies including anti-corruption, whistleblower, and fraud prevention mechanisms. ESG criteria has also incorporated in our Integrated Risk Management (IRM) framework policy, aligning governance with risk and sustainability.

Environmentally, we initiated the formal measurement of our Carbon Footprint (CF) marking a critical step toward setting reduction targets. Meanwhile, in line with our long-term commitment to sustainability and responsible finance, we are in the process of developing Green Lending and Green Savings products innovative financial solutions designed to incentivize environmentally conscious choices among our customers and strengthen our alignment with ESG principles, particularly in advancing environmental stewardship and sustainable lending practices. A strategic partnership to initiate the conversion of three-wheeled vehicles to electric alternatives to support decarbonisation of the transport sector is in progress. Additionally, we are in the midst of launching a "25 Acres" reforestation initiative in partnership with the Department of Forest Conservation, further contributing to climate resilience and biodiversity enhancement. These efforts signify our proactive stance in environmental stewardship and align with our goal of becoming a carbon-neutral organisation.

On the social front, our inclusive financial model continues to serve as a catalyst for equitable development by reaching underserved communities across Sri Lanka. Through our strategically located branch network particularly in rural and semi-urban areas we ensure that financial services are accessible to populations that have traditionally remained outside the formal banking ecosystem. These branches not only facilitate convenient access to microfinance and savings products but also act as community touchpoints that foster trust and engagement.

Complementing our outreach is a robust framework of financial literacy programs tailored to elevate financial awareness and capability among diverse segments of society. These programs are designed to demystify banking concepts, promote responsible borrowing and saving habits, and guide individuals in making informed financial decisions that support their long-term well-being. Special emphasis is placed on first-time borrowers and low-income households, ensuring that our services do more than deliver credit.

AN OVERVIEW OF THE COMPANY
LEADERSHIP
OPERATING ENVIRONMENT
CAPITAL REPORTS
GOVERNANCE
RISK MANAGEMENT
FINANCIAL REPORTS
SUPPLEMENTARY INFORMATION

A key pillar of our social strategy is gender inclusivity, with a focused commitment to empowering women-led enterprises, especially in micro and small-scale sectors. Through targeted microfinance schemes, mentorship support, and community-level engagement, we have enabled numerous women entrepreneurs to formalise and expand their economic activities. This not only contributes to household income stability but also fosters broader social empowerment and intergenerational impact. By equipping women with the tools, knowledge, and confidence to lead their own ventures, we are actively contributing to more inclusive and resilient local economies.

To reinforce transparency, we adhere to GRI standards and are working with expert partners to verify environmental metrics. These disclosures ensure that our stakeholders are consistently informed and engaged. Our ESG strategy will consolidate these initiatives into a cohesive roadmap, positioning HNB Finance for responsible growth and long-term impact.

APPRECIATION

I take this opportunity to express heartfelt appreciation to all those whose efforts and support have driven our success during this year of transformation.
I extend sincere thanks to our esteemed Board of Directors, CEO, and Senior Management team for their visionary guidance and strategic leadership, which enabled the company to navigate complex challenges with foresight and discipline. Our employees remain our greatest strength; their unwavering commitment and collective resilience continue to fuel our progress and define our organisational culture. I also gratefully acknowledge the invaluable guidance of the Central Bank of Sri Lanka, whose oversight and regulatory stewardship gave us clarity and support. Our shareholders and investors consistently supported us with confidence, as demonstrated by their enthusiastic response to our rights issue this year. Finally, I offer deep gratitude to our customers and business partners —your loyalty and partnership form the foundation on which we continue building enduring value.

FUTURE OUTLOOK

Looking ahead, we remain cautiously optimistic as Sri Lanka's macroeconomic fundamentals begin to improve. We see signs of recovery becoming evident, with easing inflation, declining interest rates, and emerging growth opportunities. Against this backdrop, HNB Finance stands strategically poised to capitalize on the upturn. With a fortified capital base, a rebalanced and secure lending portfolio, and an ongoing focus on strong governance and inclusive growth, we find ourselves well-positioned to act as both a catalyst and a beneficiary of the country's next phase of economic revival. We maintain an unwavering commitment to responsible innovation, stakeholder value, and national development as we confidently chart the future.



Rajive Dissanayake
Chairman

6 June 2025

Managing Director/ Chief Executive Officer's Review



> "Our operational strategy during the year under review centered on three interlinked focus areas: improving asset quality, reshaping our product mix, and enhancing profitability."

The resilience we cultivated and the consistency demonstrated over the past few challenging years laid a solid and dependable foundation for HNB Finance to strategically refocus on the pursuit of sustainable growth throughout 2024/25. Emerging from the socio-economic adversities that defined prior years, we transformed our strategic priorities toward securing long-term stability. This transformation specifically targeted the restoration of margins, the stabilisation of our operational base, and the careful construction of a platform to support future growth. Despite numerous external constraints that continued to exert pressure on the operating environment, we achieved notable progress across several core dimensions. Our performance in 2024/25 reflected measurable growth in profitability, marked improvements in operational resilience, and significant strides in digital advancement each of which served to validate our strategic direction and execution.

STRATEGIC SHIFT AND OPERATIONAL EFFICIENCIES

Our operational strategy during the year under review centered on three interlinked focus areas: improving asset quality, reshaping our product mix, and enhancing profitability. Each area contributed meaningfully to our overall trajectory of growth

and operational strengthening. Building on the strategic groundwork laid in the previous year, we advanced the shift away from a microfinance-heavy portfolio to one underpinned by the more stable and predictable cash flows of leasing and gold loans. This evolution required comprehensive internal adjustments. We retrained and reoriented our teams to adopt new priorities, overhauled our credit policies to align with risk-sensitive lending, and restructured our microfinance model to emphasize secured group lending practices—with a particular emphasis on financing secured micro, a category that aligns well with our risk appetite and customer needs.

While we consciously moderated the volume growth of our microfinance portfolio, we placed emphasis on improving the quality and sustainability of these assets. The outcome of this recalibration confirms that our new direction is both pragmatic and beneficial in the medium to long term. Simultaneously, we launched a concerted effort to revitalise our recovery operations. This began with appointing experienced leadership who brought fresh perspectives and discipline to the function. We also recalibrated recovery targets and processes to drive improved outcomes. These enhancements delivered tangible outcomes, evidenced by a notable reduction in our gross Non-Performing Assets (NPA) stock and decline in the Non-Performing Loan (NPL) ratio.

PORTFOLIO AND ASSET GROWTH

Our strategic repositioning yielded substantial portfolio growth. Total assets expanded by LKR 5 Bn., while our lending portfolio recorded a robust LKR 10.6 Bn. increase during the year. The leasing segment alone contributed LKR 10.3 Bn. to this growth, a testament to our targeted portfolio restructuring. In parallel, the gold loan portfolio saw a commendable LKR 3.5 Bn. rise. Overall profitability also strengthened, with profit for the year at LKR 765 Mn. illustrating a growth of 23% year-on-year. Furthermore, our concerted focus on risk-aligned lending improved the secured base of our portfolio to 80%, significantly enhancing credit quality and long-term stability.

FINANCIAL MILESTONE

In a year marked by transformation and resilience, we also recorded several key financial and reputational achievements. Our successful Rights Issue was oversubscribed by 110%, allowing us to meet the Capital Adequacy Ratio (CAR) requirements stipulated by the Central Bank of Sri Lanka. This accomplishment underscores market confidence in our long-term strategy and financial strength. Further underscoring our progress, Fitch Ratings upgraded our National Long-Term Rating to A(lka) with a Stable Outlook, up from BBB+(lka)—a development that meaningfully enhances stakeholder confidence.

DIGITALISATION

Our digitalisation agenda gained significant momentum in 2024/25 as we entered a crucial implementation phase of our transformation journey. We initiated the rollout of an AI-driven core banking system upgrade designed to harmonize and unify operations across all business verticals. This transition will mark a departure from our previous conventional, fragmented systems to a more streamlined and integrated digital architecture. The implementation of this platform is a cornerstone of our broader strategic shift toward digital agility, and it is expected to foster greater operational coherence and efficiency.

Complementing the core banking transformation was the digitisation of our loan origination system, a move that enhances both internal processing timelines and customer-facing turnaround times. These digital interventions collectively position us to respond more rapidly to market needs and customer expectations. Additionally, we are preparing to launch our own Visa debit card alongside a fully integrated mobile and internet banking suite. These enhancements, once introduced, will redefine our customer engagement model by elevating the standard of convenience, speed, and personalisation in our service delivery. Internally, these technologies are expected to yield productivity benefits and unlock operational synergies across the organisation.

RISK MANAGEMENT

Our approach to risk management in 2024/25 reflected a heightened focus on resilience, adaptability, and forward-looking discipline. As we transitioned from a microfinance-centric portfolio to one anchored in stable, secured lending, we proactively recalibrated our risk framework to ensure alignment with our strategic shift.

A key focus was the containment of credit risk, particularly within the microfinance portfolio. As such, in addition to prioritising group lending, we enhanced credit scoring models and reinforced borrower assessment criteria. These efforts, alongside the revitalisation of our recovery function, contributed to a material reduction in non-performing loans and improved overall asset quality.

Operational risk management has taken on heightened importance as we advance our digital transformation agenda. With the implementation of our AI-driven core banking system currently underway, we have proactively addressed emerging risks through comprehensive cybersecurity strategies, the establishment of system redundancy protocols, and targeted staff upskilling initiatives. These measures are designed to ensure that, as we expand our digital capabilities, we uphold the highest standards of operational integrity, security, and continuity.

Governance remained a cornerstone of our risk framework. The Executive Risk Management Committee continued to meet monthly under the guidance of the Board Integrated Risk Management Committee. Together, these bodies oversaw the development of strategic risk responses, reviewed emerging threats, and reinforced a culture of risk ownership across the organisation.

MANAGING OUR IMPACT

Our sustainability journey has gained momentum across all three ESG pillars Environment, Social, and Governance anchored in a strategic roadmap that reflects our commitment to sustainable value creation for all stakeholders. Our efforts to closely align with the Central Bank of Sri Lanka's Roadmap for Sustainable Finance, is set to facilitate the transition toward a future-ready, responsible, and resilient organisation.

Notable environmental initiatives include our afforestation project, conducted in partnership with the Forest Department, to reforest 25 acres over five years. Concurrently, we have initiated plans to commence carbon footprint assessments and are working towards calculating our emissions.

To reduce our environmental footprint and empower customers, HNBF is piloting green leasing and savings products, while also supporting the conversion of three-wheeled vehicles to electric alternatives through strategic partnerships. We have initiated a waste management drive that has led to the responsible disposal of e-waste, while also carrying out a paper recycling programme. Together, these initiatives are shaping a greener tomorrow.

Our commitment to social responsibility is deeply rooted in enhancing financial inclusion, supporting underserved communities with the 79-branch network—predominantly outside the Western Province—ensuring broad access to financial services. Additionally, in 2024/25, we delivered 11 financial literacy programmes tailored for less-literate and rural customer segments, equipping over 1200 participants with practical tools to manage savings and credit. Our microfinance offerings continue to empower women entrepreneurs, contributing to rising female participation in our customer base and strengthening rural economies.

Internally, HNBF promotes workforce diversity, employee well-being, and skills development. Engagement initiatives, health and safety protocols, and dedicated training programs are fostering a motivated and resilient team.

Meanwhile, Good governance is the bedrock of our ESG philosophy. Our Board of Directors represents a blend of diverse skills and perspectives, ensuring oversight, transparency, and strategic alignment with our sustainability objectives. Governance responsibilities are championed and implemented across functions through a multidisciplinary senior management team. Moreover, we adhere to all relevant policy requirements laid out by the Regulatory bodies.

CUSTOMER ENGAGEMENT

As part of our strategy to deepen customer engagement and drive long-term retention, we introduced a dedicated loyalty card which enabled us to build and reward a loyal customer base. Through this innovative loyalty program, we not only enhanced customer satisfaction and retention but also reinforced our value proposition by delivering tangible benefits to everyday financial interactions.

NOTABLE RECOGNITIONS

Our achievements during 2024 were also recognised on prestigious national platforms. HNB Finance received a Bronze Award at the TAGS Awards 2024, organised by the Institute of Chartered Accountants of Sri Lanka- an acknowledgment of our financial excellence, transparency, and governance standards. Additionally, we were listed among the LMD Top 100 Listed Companies in Sri Lanka. Further affirming our standing, we were certified as a Great Place to Work, reflecting our strong organisational culture and employee-centric practices, and also received the Silver Award for the Best Finance and Insurance Website at BestWeb.lk 2024, recognising our digital excellence and customer-centric online presence.

APPRECIATION

As we bring another transformative year to a close in HNB Finance's journey, I take this opportunity to express deep and sincere appreciation to those whose contributions have been instrumental to our progress. I extend my gratitude to our Chairman and the distinguished members of the Board of Directors. Their prudent oversight, strategic guidance, and unwavering support have enabled us to navigate an evolving and often unpredictable economic environment while laying a firm foundation for future resurgence.

To all my colleagues within the HNB Finance family, I offer my heartfelt thanks. Your relentless dedication, adaptability, and focus have been the engine behind our success—from strengthening asset quality and leading our digital transformation efforts, to deepening our engagement with the communities we serve. Every milestone we achieved this year stands as a testament to your enduring belief in our shared mission and values.

I am equally thankful to our investors, officials at the Central Bank of Sri Lanka, and other regulatory authorities. Your continued trust, constructive collaboration, and engagement have been invaluable in helping us adapt to shifting regulatory frameworks and navigate macroeconomic challenges with stability and strength.

Our business partners have stood by us, even during challenging periods, a fact that makes them integral stakeholders in our pursuit of growth. I am grateful for their steadfast support and trust in our capacity to create sustainable value.

Lastly, I express my deepest appreciation to our customers, who have placed their trust and loyalty in HNB Finance. Your confidence fuels our ambition and inspires us to innovate and improve continuously. We remain honored to serve as partners in your aspirations and are committed to delivering financial solutions that are accessible, secure, and truly meaningful to your personal and professional goals.

FUTURE OUTLOOK

While we maintain an optimistic outlook regarding Sri Lanka's ongoing macroeconomic recovery, we remain prudent and prepared for any uncertainties or regulatory shifts that may arise. Our ability to remain resilient in the face of change is anchored not only in the strength of our operations but also in the agility of our strategic thinking, the rigor of our governance framework, and the depth of our community engagement.

Looking ahead, we will continue to fortify our lending portfolio, advancing our growth strategy through insight-driven planning and execution. In the near future, we will open two new branches to increase accessibility for our customers, and expand our reach in steering inclusive economic growth. We will remain focused on managing risk proactively and deepening our commitments to governance and digital innovation. Through these efforts, we aim to create meaningful and sustainable value for all our stakeholders while positioning ourselves as a catalyst for inclusive economic growth.



B M D Chaminda Prabhath
Managing Director/Chief Executive Officer
6 June 2025

Operating Environment

25 / Stakeholder Engagement
32 / Materiality
36 / Strategy
42 / Operating Environment
48 / Business Model
50 / Our Approach to Sustainability



Stakeholder Engagement

Stakeholder engagement is a pivotal aspect of our operations – steering our insights into the business landscape and building mutually beneficial and lasting relationships. To this end, we consistently nurture transparent communication, and purposeful dialogue. This well-defined and comprehensive approach allows us to maintain robust relationships with stakeholders and implement information-driven business growth strategies calculated to create value for all entities involved in a sustainable manner.

STAKEHOLDER ENGAGEMENT PRINCIPLES

We integrate a set of core principles to stakeholder engagement process to ensure that interactions are meaningful, inclusive, and aligned with the Company's values and purpose. These principles guide how we communicate, collaborate, and respond to the expectations of our diverse stakeholder base.

Accessibility

We strive to ensure that all stakeholders—regardless of their location, background, or means—have equitable access to engagement channels and opportunities to voice their concerns, needs, and ideas.

Transparency

Engagement is built on trust. We are committed to open, honest, and timely disclosure of relevant information, including financial, operational, and sustainability-related matters, thereby fostering confidence and accountability.

Responsiveness

We actively listen to stakeholder concerns and feedback, and ensure that responses are timely, meaningful, and reflected in our strategic and operational decisions.

Constructive Engagement

We encourage open dialogue and collaborative problem-solving to build mutually beneficial relationships. Engagements are approached with a solution-oriented mindset to co-create long-term value.

Ethical Governance

All engagement activities are conducted in alignment with the highest standards of integrity, fairness, and ethical conduct, in accordance with corporate governance best practices and regulatory requirements.

VALUE CREATION THROUGH ENGAGEMENT

Our proactive engagement approach enables impactful value creation as presented below:

Strategy formulation

Stakeholder insights contribute to the formulation and refinement of our strategic direction, ensuring alignment with societal expectations, market trends, and regulatory imperatives.

Identifying Material Matters

Engagement helps uncover and prioritise issues that are most significant to both stakeholders and the Company, allowing us to focus resources and reporting on what truly matters.

Risk Mitigation

Understanding stakeholder perspectives enables early identification of reputational, regulatory, operational, and social risks, enhancing our ability to proactively manage and mitigate them.

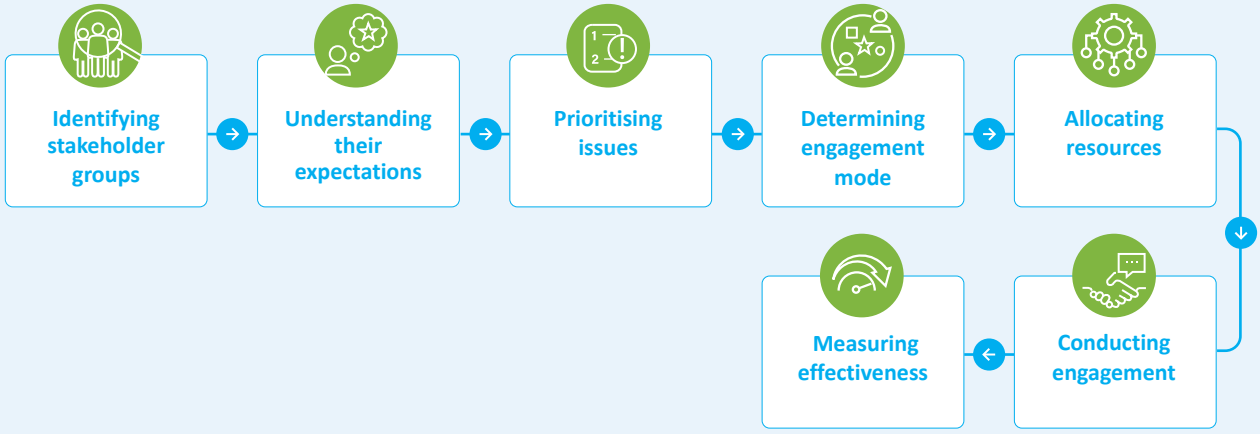
Navigating the operational context

In a landscape defined by constant change, stakeholder feedback provides critical intelligence that helps the Company remain agile, innovative, and resilient.

Sustainable value creation

Engagement reinforces our commitment to creating long-term, inclusive value while addressing stakeholder expectations with empathy, responsibility, and a deep sense of corporate citizenship.

Stakeholder Engagement Process

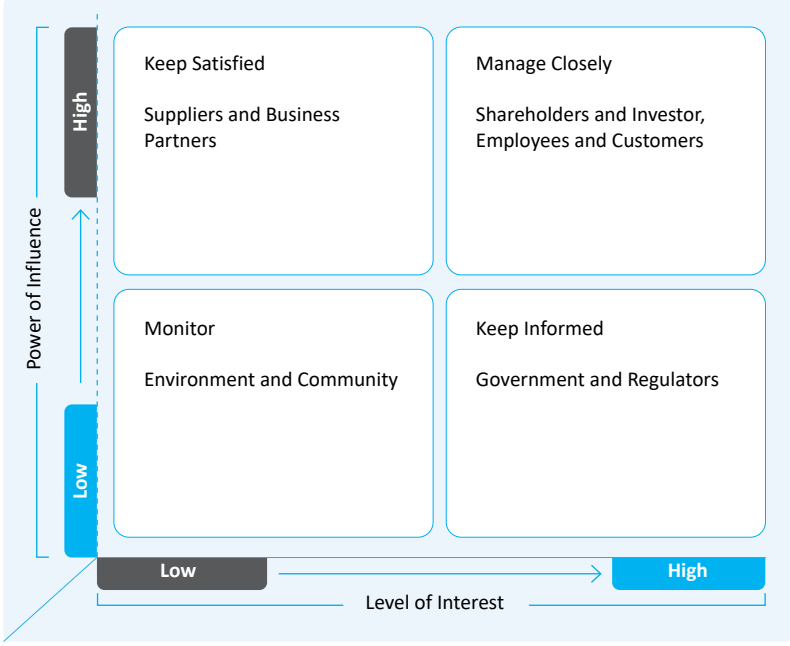


STAKEHOLDER IDENTIFICATION PROCESS

Our stakeholder identification process forms the foundation of our broader engagement strategy. We employ a process of systematic review, analysis and prioritisation of stakeholders, which allow us to focus our communication efforts, and decision making on where it matters the most. This approach not only supports informed business practices but also strengthens our ability to build long-term, value-driven relationships.

Step	Description
Review the Stakeholders	Identify all individuals or groups with a stake in our operations. This includes both internal (employees, management) and external (customers, regulators, investors, suppliers, communities) stakeholders.
Understand the Objectives	Clarify the purpose of stakeholder identification—to support operations by recognising those who can significantly impact the Company.
Assess Stakeholder Influence	Evaluate the level of influence each stakeholder group holds over our operations, decisions, or reputation.
Understand their Interest	Examine each stakeholder's interest in the business, including expectations, concerns, and the areas where they seek engagement.
Prioritise the List	Prioritise stakeholders by balancing influence and interest, ensuring our efforts are directed towards those with the greatest relevance to strategic outcomes.

Power/Interest matrix



STAKEHOLDER LANDSCAPE

Shareholders and Investors



Fostering transparent communication and consistently delivering stakeholder value.

Customers



Delivering innovative financial solutions paired with exceptional customer service.

Community and Environment



Demonstrating a strong commitment to social responsibility and environmental sustainability.

Government Bodies



Engaging in collaborative efforts to ensure regulatory compliance and support policy development.

Central Bank of Sri Lanka (CBSL)



Adhering to monetary policies and aligning with national financial guidelines.

Colombo Stock Exchange (CSE)



Upholding the highest standards of corporate governance, transparency, and disclosure.

Business Partners



Cultivating sustainable partnerships that drive mutual growth and long-term impact.



Board of Directors

Provide strategic leadership and governance oversight



Corporate Management

Drive operational excellence and execute strategic priorities



Employees

Drive the value creation process across the organisation.

Internal stakeholders

Stakeholder Engagement

Stakeholder	Engagement channel	Frequency of engagement	Relevant SDGs	Risks	Key concerns raised	Our response	Future focus
Shareholders and Investors	Digital Platforms Annual Reports Annual General Meetings Interim Financial Statements Company website Press and Media releases Audited accounts Announcement to CSE Feedback & Surveys Social Media reach	Continuous Annual Annual Quarterly Continuous As and when necessary Annual As required As required Continuous		• Equity risk	• Sustainability of business operations • Sound risk management methodologies • Ensuring that proper governance mechanisms are upheld • Stable financial performance • Timely communication of price sensitive information • Upholding principles of democracy at AGM & shareholder rights • Providing true and fair information in a transparent manner • Improved market presence • Investor confidence • Sustainability and climate related developments • Digital Road Map of the Company • Business expansion plan and key strategies • Non-performing credit facilities and impairment changes	• HNBF complies with all regulatory requirements and ensures the highest possible ROI for investors • HNBF undertakes continuous risk assessment exercises to identify risks faced by the Company, and takes the necessary actions to address them • HNBF ensures that all corporate governance requirements are adhered to • Continuous monitoring of capital and liquidity requirements to ensure viability and sustainability of the operations • Timely reporting of performance & price sensitive information • Aligning strategy to market conditions • Accelerating market development activities • Offering incremental growth in shareholder returns • Digitalisation of customer journey • Financial planning based on expert advice • Board approved dividend policy	• Enhancing shareholder value through sustainable growth • Strengthening digital investor communication • Improving market presence through strategic expansion • Deepening ESG-related disclosures
Business partners	Digital platforms Regular meetings Telephone calls, letters, emails Onsite visits Dedicated Relationship Managers	Continuous Ad hoc Continuous As required As required		• Operational risk	• Support for local, small time suppliers • Payments made on time • Opportunity to grow fair terms of trade • Constructive feedback to improve • Transparency maintaining healthy relationships • Fostering strategic collaborations to introduce and integrate innovative technologies within the financial services sector.	• HNBF primarily engages with local business partners to support local entrepreneurs and industries • HNBF ensures that ethical procurement practices are followed within the Company • Communicating the Company's policies and procedures • Continuous engagement • Ensuring timely and accurate disbursement of payments upon successful delivery of goods or services	• Building long-term ethical supplier relationships • Expanding collaborations in fintech and sustainability • Supporting local SMEs and micro-entrepreneurs

Stakeholder Engagement

Stakeholder	Engagement channel	Frequency of engagement	Relevant SDGs	Risks	Key concerns raised	Our response	Future focus
Customers	Call centre, customer visits	Continuous		• Reputation Risk	• Details on loans, • payments, interest rates, new products • Access to Company information • Fair and equitable treatment for all customers • Products that meet current and latest needs • No discrimination on any grounds • Assuring satisfaction with quality of products and services • Improving financial literacy • Flexibility in repayment of loans due to economic stress • Sound financial advice • Customer protection • Data privacy • Grievances handling • Swift service • Operationalising of CBSL directives • Financial support directed towards women	• Customer-centric and well developed products and services • Maintain continuous service to improve customer relationships • Conduct surveys to obtain customer feedback to improve Company's strategy to improve its products and services • Respect customers, show compassion, while being professional • Financial inclusion of all, especially those who are marginalised providing financial literacy and required financial advice as needed • Process automation and digitalisation • Adhering to rules and regulations • Investing in information security • Improvements to service delivery channels • Providing financial relief to individuals and businesses through the restructuring and rescheduling of facilities to support them during periods of economic hardship	• Enhancing financial inclusion and literacy • Digital transformation of customer experience • Offering tailored, flexible financial solutions • Supporting vulnerable segments during economic stress
	Company website, social media	Continuous					
	Press, Radio, TV, Public Relations articles	Continuous					
	Product development	Continuous					
	Anti-discrimination policy for all	Continuous					
	A transparent channel to receive complaints	As Required					
	Customer workshops	Continuous					
	Branch network	Continuous					
	Mobile App	Continuous					
	Emails	Continuous					

Stakeholder Engagement

Stakeholder	Engagement channel	Frequency of engagement	Relevant SDGs	Risks	Key concerns raised	Our response	Future focus
Regulators	Audits and other reviews by CBSL and other regulatory bodies	Annual		• Regulatory risk	• Compliance with regulatory requirements • Responsible and sustainable business practices • Timely statutory reporting and responding • Stability of the financial sector • Business transparency • Ethical business operations • Migration to cashless payment platforms • Supporting economic recovery and growth • Partnership with sustainable initiatives of government	• HNBF ensures that internal controls are in place, and undertakes regular reviews to ensure compliance at all levels of the Organisation • Immediate responses to queries raised by regulators • Effective implementation of directions Issued • Aligning strategy to the sustainable Development • Ensuring timely tax payments • Ensuring appropriate due diligence to maintain 100% compliance • Aligning internal strategies to support growth and economic revival • Establishing and maintaining a robust process for the accurate collection and timely remittance of taxes on behalf of the government • Compliance with the provision under section 9 of CSE listing riles on corporate governance issued in 2024 • Compliance with the Banking Act • Compliance with the CA Sri Lanka guidelines • Compliance with the Personal data protection Act	• Proactively aligning with emerging regulations • Deepening partnerships with regulators for sector stability • Supporting national economic recovery and resilience
	Report submissions	As and when necessary					
	Discussions and meetings by Senior Management	As and when necessary					
	Directives and circulars	Continuous					
	Press and media releases	As and when necessary					
	Participation in training programmes	As required					
	Onsite and Offsite examinations	As required					
	Meetings and consultations	As required					
	Correspondence and Inquiry Responses	As and when necessary					
	Public Disclosures	As and when necessary					
	Regulatory Portals and Reporting Platforms	As and when necessary					

Stakeholder Engagement

Stakeholder	Engagement channel	Frequency of engagement	Relevant SDGs	Risks	Key concerns raised	Our response	Future focus
Societies/ Memberships	Social media	Continuous		• Reputation risk	• Obtaining loans to develop their businesses • Support in carrying out day-to-day activities • Proactively ensuring that the Company does not cause any harm to the environment • Responsible financing • Employment opportunities • Ethics and Business Conduct • Financial inclusion • Community engagement • Micro finance and SME	• Empowering women and improving their livelihoods through microfinance • Working in the best interests of the society. • Improving the well-being of community members, who are also customers, through *Mehewara* Fund • Not providing loans for projects which harm the environment • Implementing initiatives to reduce energy, water and paper consumption • Continuous engagement for closer relationships with stakeholders • Employment generation activities • Making the societies part of the supply chain whenever possible • Financial literacy programmes for prospective micro customers • Continuing tree planting projects • Access through all branches • Value-add services for members	• Scaling microfinance and SME initiatives • Environmental stewardship through conservation and resource management • Inclusive community development • Promoting employment generation and financial empowerment
	Micro finance for female customers	Continuous					
	Community projects	Continuous					
	Focused discussion on the environment	Continuous					
	Information published on Company website	Continuous					
	Press releases, Conferences, media briefing	Continuous					
	Public events	Continuous					
	Information briefing and communication	As required					
	Grievance hotline/email	Continuous					
	In-person or hybrid engagement	As and when necessary					
		As and when necessary					
Employees	Emails	Continuous		• Human resource risk	• Career progression • Work life balance • Fair remuneration • Health and safety • Upskilling • Inclusivity and wellbeing	• Upskilling programmes • Fair remuneration and performance based rewards • Health and safety assurance and mitigation methods • Wellness initiatives • Appraisals and recognition	• Workforce digital upskilling and reskilling • Strengthening employee well-being and hybrid work policies • Enhancing leadership development and performance culture
	Internal communication	Continuous					
	Training sessions	Continuous					
	Open door policy	Continuous					
	Surveys	As and when necessary					

Materiality

In the backdrop of a stabilising macroeconomic environment in 2024/25, HNB Finance PLC (HNBF) has strategically recalibrated our priorities to capture growth opportunities and mitigate persistent challenges. Our materiality process—anchored in the PESTEL framework—remains central to aligning business objectives with stakeholder expectations and the evolving external landscape. This approach allows us to proactively identify, assess, and respond to material issues that influence sustainable value creation.

GUIDING FRAMEWORK

We begin our materiality determining process by assessing macro-environmental forces—Political, Economical, Social, Technological, Environmental, and Legal (PESTEL)—that shape the financial services landscape. This provides a comprehensive lens to identify risks and opportunities emerging from our external context.

MATERIALITY DETERMINATION PROCESS

HNBF's materiality determination process integrates internal assessments with stakeholder dialogue. Issues are evaluated based on their likelihood of occurrence, potential impact, and stakeholder concern. We apply a dual-lens approach—considering both the importance to HNBF and importance to stakeholders—which informs the materiality matrix and guides our strategic response.

Each material topic is categorised by its impact level—high, moderate, or low—and whether it presents a risk, an opportunity, or both.

Process Step	Details	Information Sources	Application	Classification	Application of insights
Identification of Topic	Internal documents (strategic plans, risk registers, performance reports) External developments (regulatory changes, global ESG trends, PESTEL analysis)	Risk registers, compliance logs, Central Bank directives, GRI (Global Reporting Initiative) and SASB (Sustainability Accounting Standards Board) frameworks	Consolidated list of potential material topics, ESG risk watchlist	Emerging Topic/ Material Topic	Informs Strategic Planning Shapes our ESG and sustainability disclosures Guides stakeholder communication Supports risk management and governance processes
Stakeholder Engagement	Direct stakeholder inputs: – Employees: Internal surveys, performance reviews, training feedback – Customers: Surveys, platform analytics, feedback – Community: Forums, CSR impact assessments – Investors: Meetings, ESG ratings – Regulators: Dialogue, reviews – Suppliers: Procurement evaluations	Survey results, stakeholder meeting minutes, CRM data, social media sentiment analysis	Enhanced communication, action plans for high-interest topics, issue escalation process	Stakeholder Interest	

Process Step	Details	Information Sources	Application	Classification	Application of insights
Risk and Opportunity Classification	Opportunities to be seized (e.g. digitalisation, green financing, customer engagement) Risks to be mitigated (e.g. data privacy, climate change, geopolitical instability) Dual nature issues (e.g. social media, regulatory changes)	Internal audit reports, strategic project memos, industry benchmarking studies	Refined sustainability roadmap, Annual Report disclosures, KPIs aligned to opportunity areas	Risk and Opportunity	
Significance Assessment	Relevance and significance to stakeholders, Impact on HNBF's strategic and operational performance, Likelihood of occurrence and potential consequences	Impact assessment templates, SWOT analysis, stakeholder salience mapping, scoring matrix	Refined sustainability roadmap, Annual Report disclosures, KPIs aligned to opportunity areas	Strategic Priority/ Operational Risk	

MATERIAL MATTERS

Our commitment to sustainable value creation is grounded in a deep understanding of the economic, environmental, social, and governance issues that shape our operating landscape. Through the above materiality assessment process, we identify and prioritise topics that are most relevant to our stakeholders and impactful to our business model.

Economic



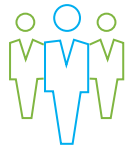
Evolving economic conditions that impact our business procsses and growth aspirations

Environmental



Our innate responsibility towards the environemnt as well as the integration of environmental stewardship across our business approach

Social



Our impact on the wealth creation, growth and financial stability of the community in which we operate, and our contribution towards economic and social progress

Governance



Good governance and risk mitigation to ensure stability and progressive outcomes.

As such, we look into the risks to be managed, opportunities to be leveraged, and the strategic imperatives that guide our responses. This integrated approach allows us to balance financial performance with long-term resilience, ethical governance, social contribution, and environmental stewardship.

We revisit our materiality analysis annually, ensuring that it remains current and reflective of both our evolving internal strategy and the dynamic expectations of our stakeholders.

MATERIALITY MATRIX

This section provides a comprehensive view of all material topics relevant to HNB Finance PLC, categorised by their thematic relevance (Political, Economical, Social, Technological, Environmental, Legal/ Regulatory), stakeholder group, and their classification as Risks and Opportunities. The accompanying matrix maps each topic based on its relative importance to stakeholders and to the organisation.

MATERIAL TOPICS OVERVIEW

Material Topic	Stakeholder Group	Thematic Category	Classification (Risk/Opportunity)	Importance (High/Moderate/Low)
Employee productivity		Economic	Risk	High
Staff recruitment and retention		Social	Risk	Moderate
Technology driving change in job skills		Technological	Risk	Moderate
Human and labour rights		Legal/Regulatory	Risk	High
Succession planning		Economical	Opportunity	Moderate
Employee satisfaction and engagement	Employees	Social	Opportunity	High
Operational efficiency		Technological	Risk	High
Training and development		Social	Opportunity	High
New working culture		Technological	Risk	Moderate
Equal opportunity and anti-discrimination		Social	Opportunity	High
Employee health and safety		Social	Risk	Moderate
Government policy changes on financial products		Political	Risk	High
Brand reputation		Economical	Opportunity	High
Changing customer expectations		Social	Opportunity	High
Technological developments incl. digitalisation and automation	Customers	Technological	Opportunity	High
High taxes on vehicle imports		Economical	Risk	Moderate
Customer satisfaction		Social	Opportunity	High
Data security and privacy		Technological	Risk	High
Asset growth and asset quality	Investors	Economical	Opportunity	Moderate
Customer engagement		Social	Opportunity	High
Growing influence in Social media		Technological	Opportunity	Moderate
Product diversification		Economical	Opportunity	High

Materiality

Material Topic	Stakeholder Group	Thematic Category	Classification (Risk/Opportunity)	Importance (High/Moderate/Low)
Geopolitical environment	Community	Political	Risk	High
Declining worker remittances		Economical	Risk	Moderate
Community investment and engagement		Social	Opportunity	Moderate
Reduction of environmental impact		Environmental	Opportunity	High
Compliance with regulations		Legal/Regulatory	Risk	Moderate
Declining global competitiveness of Sri Lanka		Economical	Risk	Moderate
Need to commit to UN SDGs		Social	Risk	Moderate
Climate change		Environmental	Risk	Moderate
Ongoing wars in Europe and Middle East		Political	Risk	Moderate
Supply chain sustainability		Social	Opportunity	High
Green financing		Environmental	Opportunity	High
Financial inclusion		Economical	Opportunity	High
Being socially responsible		Social	Opportunity	High
Political instability	Investors	Political	Risk	Moderate
Economic slowdown		Economical	Risk	High
Demand for increased transparency		Social	Opportunity	Moderate
Demand for non-financial information		Social	Risk	Moderate
Policy inconsistency		Political	Risk	High
Unorthodox competition and financial disintermediation		Economical	Opportunity	Moderate
New regulations and directives		Legal/Regulatory	Risk	High
LKR depreciation		Economical	Opportunity	Moderate
BASEL compliance		Legal/Regulatory	Risk	Moderate
High CAPEX requirements		Economical	Opportunity	Moderate
Sustainable procurement	Suppliers	Social	Opportunity	Moderate
Supplier relationship management		Social	Opportunity	Moderate
Interest rate changes	Regulators	Economical	Risk	High
Financial crime prevention		Legal/Regulatory	Risk	High
Compliance guidelines		Legal/Regulatory	Risk	Moderate
Global best practices		Social	Opportunity	Moderate

As part of our annual review cycle, HNBF remains committed to enhancing our stakeholder engagement and environmental scanning mechanisms. In a world marked by volatility and transformation, our structured and adaptive materiality process serves as a cornerstone in securing long-term resilience and stakeholder trust.

Strategy

Our insights into the macroeconomic environment as well as the future market dynamics steered the strategy for 2024/25 and beyond. As such, HNBF acted with resilience, agility and vision to respond to macroeconomic and operational context, develop strategies for a sustainable growth within the regulatory environment. The below illustration depicts how we responded both to challenges and opportunities through our strategic impetus.

Challenges	Our response
Meeting the minimum Capital Adequacy Ratio mandated by the Central Bank of Sri Lanka (CBSL).	Timely rights issue to meet CBSL's capital adequacy requirements to raise capital from shareholders. HNBF fulfilled the CAR requirement within the financial year 2024/25.
Economic Volatility	Strengthened risk assessment, cost efficiencies, stakeholder communication, and liquidity safeguards.
Recovery Pressure	Restructured recovery operations under new leadership, launched innovative customer-focused campaigns, and intensified portfolio monitoring to improve collections and support repayment discipline.
Brain Drain	Enhanced work culture, upskilling programmes, and competitive compensation for talent retention.
Opportunities	**Our response**
Easing of Vehicle Import Restrictions	Prompt enhancement of vehicle financing with competitive loan packages and strengthened dealer partnerships creates capacity building for growth.
GDP Growth	Tailored financial products and strengthened risk assessments to meet increased business lending demand and enhance customer experience through staff training

STRENGTHS

- Being a subsidiary of HNB – one of the largest, systemically important private sector banks in Sri Lanka
- Steady and positive cash flow, and robust asset base
- Being listed on the Colombo Stock Exchange (CSE)
- High level of brand recognition and strong customer loyalty within the community
- Diversified and expanding product portfolio, including leasing, gold loans, and innovative financial products
- Strong corporate governance practices and commitment to regulatory compliance
- Active adoption and integration of digital tools and technology to enhance customer experience and operational efficiency
- Focus on sustainability and green initiatives Upgrading of Fitch Rating to A(lka) Outlook Stable Increased secured portfolio

WEAKNESSES

- Relatively fewer branches in the Colombo District and the Western Province
- Staff turnover and challenges in retaining talented, experienced employees
- Limited penetration among younger audiences such as Gen X and Millennials
- Relatively low IT literacy and smartphone usage among certain customer segments
- Dependence on external service providers and vendors for critical operations
- Challenges in swiftly adapting to rapid technological changes

OPPORTUNITIES

- Expansion through cross-selling with existing customers
- Broadening outreach through new technology solutions and business/product diversification
- Enhancing customer engagement and retention through improved digital tools and customer service
- Increasing leasing and Gold Loan portfolios to meet growing market demand
- Government support for SME/SSE/agricultural segments, providing growth opportunities
- Introducing new and innovative products to capture untapped markets
- Investment in renewable energy and green technologies as part of sustainability efforts
- Varied range of Sustainable practices and products create new avenues

THREATS

- Economic, political, and social instability affecting overall business operations
- Lack of policy consistency at the macro level, leading to unpredictable business environment
- Ongoing macro-economic challenges
- Unpredictable regulatory environment creating compliance challenges
- Unethical practices by certain industry players causing reputational risks for the sector
- Adverse weather conditions and natural disasters impacting the economic climate and agri-lending sector
- Rapid technological advancements potentially outpacing the Company's swift adaptation capabilities

STRATEGIC APPROACH

In 2024/25 our strategic approach responded to the evolving macroeconomic and regulatory landscape with a fundamental transformation of our business model that prioritised diversification and financial resilience. The transition from a predominantly microfinance-centric portfolio to a well diversified portfolio, marked a pivotal shift in strategic direction. This deliberate rebalancing allowed the company to reduce exposure to high-risk segments and align more closely with emerging customer needs and market opportunities.

The decision to transform the portfolio has significantly enhanced the quality of the company's assets, particularly by emphasising asset-backed lending. This strategic focus allows the organisation to prioritise secured assets, thereby reducing risk and improving the overall financial stability of the portfolio. Our decision to redirect resources towards more reliable assets, and improve due diligence in lending practices allow HNBF to safeguard our capital and enhance asset performance.

Additionally, we prioritised the recovery function through a comprehensive restructuring under new leadership, bringing fresh perspective and strategic discipline to our recovery operations. Our renewed direction enabled the launch of forward-thinking recovery campaigns, tailored to enhance engagement and repayment across diverse customer segments. These efforts were further supported by an intensified focus on strengthening recovery processes, including more targeted follow-ups and refined portfolio monitoring. Together, these initiatives contributed significantly to the improvement of asset quality, optimised financial outcomes, and reinforced the stability and resilience of our overall portfolio.

Introducing additional value-added services through our existing product offerings has allowed the Company to enhance customer satisfaction significantly while also attracting new clientele to ultimately expand our market reach.

Meanwhile, our strong liquidity position has empowered the Company to lower our funding costs. Effective management of our liquidity create opportunities to access funding more efficiently and negotiate better terms, allowing us to secure funding at lower rates. As such, we have been able to optimise our cost structure and allocate resources more strategically, which ultimately benefits our bottom line and strengthen our competitive edge in the market.

The below illustration presents the key strategic goals that align with the transformation strategy:

Diversified portfolio through leasing and gold loans.

Alignment of lending and funding strategies emphasising longer tenor and retail FDs.

Value creation through service diversification

Enhanced recovery strategy to optimise profitability and capital efficiency

TECHNOLOGY AS AN ENABLER

In 2024/25, we continued our digital transformation journey with targeted investments in technology to drive operational efficiency, elevate customer experience, and strengthen competitive advantage.

A key milestone in this journey is the implementation of a new Core Banking Solution, scheduled for rollout in the upcoming financial year. This initiative is designed to streamline internal processes, enhance data integrity, and improve service delivery across all customer touchpoints. The replacement of the legacy system with a modern, integrated digital platform, we aim to create a seamless and efficient banking experience that aligns with evolving customer expectations. The core solution is not only expected to boost operational agility but also mitigate operational risks through automation, real-time reporting, and improved compliance capabilities.

The implementation of a digitally enabled mobile loan origination system marked a significant advancement in customer service delivery. This innovation has streamlined the onboarding process, enabling faster, more efficient loan approvals and disbursements while enhancing convenience and transparency for customers. Collectively, these initiatives reflect HNB Finance PLC's commitment to operational excellence, digital transformation, and sustainable portfolio growth.

Meanwhile, we have completed the preparatory work for the launch of HNBF internet and mobile banking, a pivotal component of our digital strategy. This service is tailored to meet the growing demand for secure, convenient, and accessible financial services. With features designed to offer a user-friendly interface and advanced functionality, the internet and mobile banking platform will enable customers to conduct transactions, monitor accounts, and access services anytime, anywhere. This initiative reflects our dedication to enhancing digital engagement and fostering deeper relationships with our customers.

To further support financial inclusion and customer empowerment, HNB Finance will be introducing the Visa Debit Card in collaboration with HNB PLC offering customers secure, real-time access to their funds and the ability to perform cashless transactions with ease. This development reinforces our drive to enhance accessibility and align with the evolving digital lifestyles of our customer base.

VISION AND MISSION ALIGNMENT

The transformation aligns seamlessly with HNBF's mission to responsibly serve communities through financial inclusion, innovation, and ethical governance. Our strategic journey is deeply rooted in delivering inclusive, sustainable value to all stakeholders by prioritising customer-centricity, operational resilience, and digital empowerment.

Investments in advanced digital platforms and a modern core banking system are reshaping service delivery to be more agile, secure, and accessible. Simultaneously, our focus on human capital development, environmental stewardship, and transparent governance reflects a holistic commitment to responsible growth.

Meanwhile, we strive to integrate Environmental, Social, and Governance (ESG) principles and strengthen internal capabilities to remain resilient in pursuing long-term value creation.

RISK MANAGEMENT

Parallel to the transformation strategy, we maintained effective risk identification and mitigation strategies to ensure stability and sustained growth.

The Risk Management Chapter of this annual report provides a detailed analysis of the risk landscape and HNBF responses.

Innovating to strategize

In 2024/25, we launched several forward-thinking initiatives that not only addressed existing market needs but also anticipated emerging trends—affirming our commitment to delivering impactful, customer-centric solutions. The below presents a brief overview of the innovations introduced in 2024/25. A more detailed version is presented in the Social and Relationship capital chapter of this annual report.

- The customer loyalty card programme introduced in partnership with Premier digital loyalty platform, rewards and retains customers through offering exclusive financial benefits that recognise customer loyalty and deepen engagement.
- We expanded our gold loan portfolio by introducing a range of customer-centric products designed to offer flexible and accessible financial solutions to a wider demographic. In support of this strategic initiative, eight new gold loan centres were established during the financial year, reflecting a deliberate management decision to enhance market reach and better serve the evolving needs of our customer base.
- We strengthened our responsible lending practices while simultaneously supporting financial inclusion in underserved segments through the introduction of the Micro Secured Product.
- In alignment with the growing emphasis on sustainability, we are currently in the process of introducing a suite of green lending products, with a particular focus on supporting sustainable mobility through financing solutions for electric vehicles (EVs).

HUMAN RESOURCES

Human Capital remains a strategic pillar in our journey of transformation, resilience, and sustainable growth. In response to the talent migration challenge that emerged during the year—including the intensifying brain drain—HNBF adopted a holistic and forward-looking approach to attract, develop, and retain high-quality talent.

Recognising that a skilled and motivated workforce is fundamental to operational efficiency, the Company invested significantly in upskilling initiatives, employee engagement programmes, and leadership development. Notable among these efforts was the rollout of targeted training interventions aligned with business needs, including technical certifications, leadership grooming, and the high-potential "High Flyers" programme. These initiatives not only elevated individual capabilities but also enhanced team performance and cross-functional synergy.

Moreover, we focused our efforts on reinforcing cultural cohesion, improving employer branding, and offering competitive compensation packages. Internal mobility, performance-linked rewards, and structured succession planning were strategically deployed to nurture loyalty and institutional knowledge retention.

Meanwhile, we reinforced our commitment to inclusivity, well-being, and ethical governance. Proactive employee wellness programmes, transparent performance management systems, and grievance redressal mechanisms created a supportive work environment where employees feel valued and empowered.

HNBF's people strategy is anchored in building a future-ready, agile, and engaged workforce that supports the Company's evolving business model. As HNBF continues to digitalise operations and expand our footprint, the role of Human Capital will remain integral to executing strategy, driving innovation, and sustaining long-term stakeholder value.

SUSTAINABILITY

Our strategic focus on sustainability pivoted on the integration of embedding Environmental, Social, and Governance (ESG) principles across the operations. We have laid the groundwork to a structured sustainability roadmap and robust governance oversight to guide our sustainability strategy.

At the heart of this strategy is an integrated ESG model that ensures alignment between ethical governance, environmental stewardship, and social responsibility. The Board Strategic and Investment Review Committee, supported by a cross-functional Senior Management team, provided strong leadership and accountability in driving sustainability performance and aligning it with corporate objectives.

To address climate-related risks, HNBF initiated a climate risk assessment framework and began laying the foundation for compliance with SLFRS S1 and S2. Strategic partnerships were forged to calculate Scope 1 emissions and prepare for Scope 2 and 3 disclosures. Complementing these efforts, we initiated an afforestation project, solar energy financing programmes, and electronic and paper waste management projects, all of which demonstrate a growing commitment to reducing our environmental footprint.

In the social sphere, we strengthened our focus on inclusive finance, community development, and gender equity. HNBF consists a branch network of 79 branches with the majority located out of Western Province. The Company plays a pivotal role in promoting financial inclusion across underserved regions. Through a strategically implemented service centre model anchored around selected branches, we extend convenient and accessible financial services to broader communities, reinforcing our commitment to inclusive and equitable financial empowerment. Additionally, our financial literacy programmes, women's entrepreneurship support and agricultural lending, formed a comprehensive response to the evolving needs of diverse communities. These initiatives will be enhanced by the digital transformation agenda, with the rollout of the new core banking system designed to improve service accessibility and data protection.

Governance remained a cornerstone of the sustainability agenda, with strict compliance protocols, anti-fraud mechanisms, and the integration of ESG criteria into the Integrated Risk Management Framework Policy. Transparent stakeholder communication and adherence to GRI reporting standards further reinforced HNBF's accountability and regulatory alignment.

Looking ahead, HNBF's sustainability focus will evolve through a formal ESG strategy. Key priorities include deeper ESG integration across business units, targeted carbon reduction initiatives, green product innovation, and continuous stakeholder engagement. This future-focused approach positions HNBF as a purpose-driven financial institution—committed to delivering inclusive, ethical, and environmentally responsible growth.

Key Outcomes

During the year under review, we succeeded in achieving multiple positive outcomes as a result of our strategic implementations as detailed below:

- **Growth in Secured Portfolio:** Expansion of the secured lending portfolio contributed to a stronger asset base and enhanced overall capital efficiency.
- **Reduced Funding Costs:** Strategic utilisation of available liquidity enabled optimisation of the cost of funds, resulting in lower overall funding expenses.
- **Asset Quality Management:** Focused recovery efforts led to improved collections, which in turn contributed to a reduction in non-performing loans (NPLs).
- **Improved CAR:** The Capital Adequacy Ratio (CAR) was strengthened through the successful execution of a rights issue and the issuance of subordinated trust certificates.
- **Value Addition to Customers:** Strategic enhancements to our service offerings not only diversified revenue streams but also enriched the customer experience.
- **Fitch Rating Upgrade:** Achieved an improvement in credit rating to A (lka) with a Stable Outlook, reflecting enhanced financial stability, prudent risk management, and strengthened capital position.
- **Performance recognition:** Bronze Award at CA Sri Lanka's TAGS Awards 2024, recognising excellence in financial reporting and corporate transparency within the Non-Bank Financial Institutions category. Listed in LMD's Top 100 Rankings, acknowledging HNBF among Sri Lanka's top corporate performers.

FUTURE OUTLOOK

As we step into the next phase of our journey, the strategic focus remains firmly on building a resilient, sustainable, and digitally empowered organisation.

During the year under review, we laid the groundwork for embedding sustainability as a core pillar of our operations. This initiative marks the beginning of a long-term commitment to responsible business practices, with plans to introduce a range of sustainable financial products that support environmental stewardship and align with evolving customer expectations.

Looking ahead, channel expansion and optimisation will be central to our efforts to improve accessibility and deepen market penetration. We aim to strengthen our distribution network and forge innovative partnerships to better serve existing customers while reaching untapped segments.

To enhance our financial resilience, we will diversify funding sources, reducing dependency on traditional streams and creating new opportunities for growth. This will not only stabilise funding availability but also support our strategic initiatives with greater agility.

Our technology roadmap is anchored by the implementation of a new core banking system—set to streamline operations, enhance data capabilities, and elevate service standards. This will be complemented by our broader digitalisation strategy, aimed at delivering seamless, personalised, and efficient customer experiences across all platforms.

We also recognise the importance of talent development and succession planning as we strengthen our internal capabilities. A structured approach to developing leadership pipelines will ensure continuity and institutional knowledge retention.

Operational excellence remains a top priority. As such, we will reinforce our risk and compliance frameworks to proactively address regulatory challenges and uphold governance standards.

In embracing sustainability, expanding digital capacity, and fostering organisational resilience, HNBF is well-positioned to capture emerging opportunities and deliver value to all stakeholders in the years ahead.

Operating Environment

In the year under review, Sri Lanka's economy rebounded strongly with a real GDP growth of 5%, marking its first full year of recovery since the country faced its worst economic crisis post-independence. This growth created a more stable operating environment for the non-bank financial sector, supported by regulatory reforms, improved investor confidence, and rising demand for financial services.

GLOBAL ECONOMY

The January 2025, World Economic Outlook Update released by the International Monetary Fund (IMF) reveals that the global economy remained resilient but uneven in 2024, with growth stabilising at 3.2%, slightly below the pre-pandemic trend. The IMF projects global output to expand by 3.3% in 2025, with strong performance in the United States (2.7%) offset by subdued growth in Europe and China. Recovery in emerging and developing economies is expected to continue at a moderate pace, led by India and the ASEAN region.

Inflation trended downward across most economies, prompting varied monetary policy responses. While some central banks initiated easing cycles, others remained cautious due to persistent services inflation. The IMF revealed that the global median core inflation hovered just above 2%, with inflation risks more pronounced in selected emerging markets.

Financial conditions remained broadly accommodative, though tightened slightly in emerging markets due to a stronger US dollar and capital outflows. Geopolitical tensions and trade policy uncertainty—particularly in Europe, the Middle East, and Asia—continued to weigh on investor sentiment.

Recent US policy developments have further influenced global economic conditions. Expectations of fiscal expansion, deregulation, and sustained high interest rates have strengthened the US dollar and widened yield differentials, exerting pressure on capital flows in emerging markets. These developments have tightened financial conditions globally and increased the cost of external financing. Additionally, uncertainty surrounding US trade policy has slowed global investment and trade momentum, especially in export-driven economies. For Sri Lanka, these dynamics underscore the need for resilient domestic policy frameworks and robust external buffers to mitigate spillover risks.

Against this backdrop, global commodity prices showed mixed trends, with oil prices softening due to increased supply and weaker Chinese demand, while food prices rose owing to adverse weather conditions. Global trade growth remained tepid, dampened by protectionist policies and supply chain realignments.

Looking ahead, downside risks to global growth remain elevated, including geopolitical shocks, financial market volatility, and a potential reacceleration in inflation. However, structural reforms and fiscal consolidation efforts across several economies may support medium-term stability and investor confidence.

SRI LANKA'S ECONOMY

Sri Lanka's economy continued its recovery in 2024, posting stronger-than-expected growth as the country emerged and the successful frontloading of reforms, near-completion of external debt restructuring, and the exit from restricted default status significantly boosted investor confidence.

Growth was supported by easing inflation—which entered negative territory by September—low interest rates, and a rebound in credit to households and businesses. The Central Bank of Sri Lanka maintained an accommodative policy stance amid a stable price environment, fostering domestic economic activity.

The external sector resilience was evident, with a current account surplus, rising foreign inflows, and a notable appreciation of the Sri Lankan rupee. These gains enabled the gradual removal of import and capital flow restrictions. Fiscal performance also improved, with the primary balance in surplus for the second year and tax revenues increasing sharply.

Reforms in the financial sector—including the Banking (Amendment) Act and the establishment of MSME (Micro, Small and Medium Enterprises)-focused revival units—further supported macro-financial stability. Efforts to improve financial inclusion, literacy, and digital transformation progressed in alignment with long-term development goals.

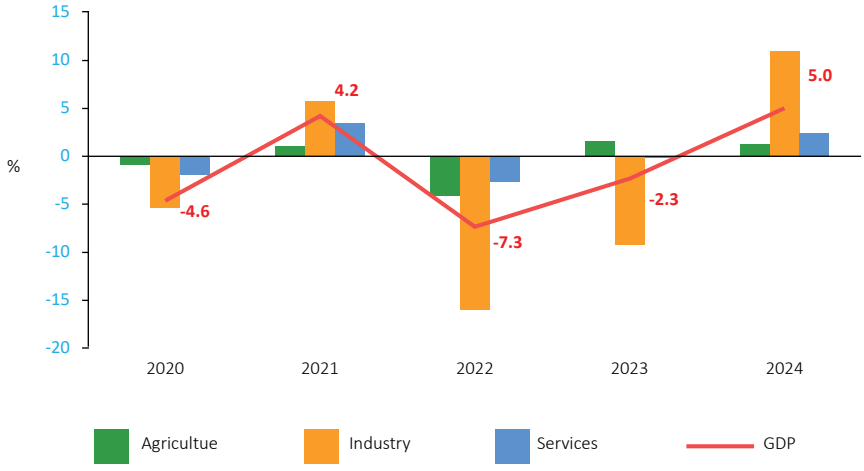
Despite marked progress, global risks—particularly escalating geopolitical tensions and potential trade disruptions—pose challenges to the outlook. Sustained policy discipline and ongoing structural reforms will be essential to securing long-term stability and inclusive growth.

GDP performance analysis

Sri Lanka's economy rebounded in 2024, recording real GDP growth of 5.0%—the highest since 2017— following two consecutive years of contraction. Growth was broad-based, with all four quarters posting positive performance for the first time in seven years.

The recovery was led by the industrial sector, particularly a revival in manufacturing and construction, while services—notably accommodation and transport—also contributed significantly. Agriculture returned to growth territory, further supporting overall momentum.

ANNUAL REAL GDP GROWTH RATES (A)



(a) Based on the GDP estimates (base year 2015)

Source: Department of Census and Statistics

Nominal GDP (at current market prices) reached Rs. 29.9 trillion, with a GDP deflator of 3.8%, while GDP in USD terms rose to USD 99.0 Bn., up from USD 83.8 Bn. in 2023—boosted by both economic expansion and currency appreciation.

Per capita GDP increased to USD 4,516 in 2024 (from USD 3,801 in 2023), reflecting higher output and a smaller population base. Similarly, Gross National Income (GNI) and per capita GNI improved, underscoring a broader enhancement in national income and living standards.

International Monetary Fund (IMF) Review

The IMF reached staff-level agreement on the fourth review under the extended fund facility for Sri Lanka. On approval by the IMFs Executive Board, Sri Lanka will have access to USD 344 Mn. in funding. It was noted that the economy is rebounding while program performance remains strong. Revenue mobilisation, reserve accumulation, and structural reforms are proceeding satisfactorily. However, there are significant downside risks caused by the current uncertainty in global trade.

Economic performance, debt restructuring and structural reforms remain the key aspects of the IMF's latest stance and they acknowledges the commendable progress but underscores the need for continued reforms for long term stability and growth.

External Debt Restructuring Process

According to the Annual Economic Review 2024 released by the Central Bank of Sri Lanka, the country's external debt reduced in 2024, in terms of face value, following the external debt restructuring process. The difference between market value and face value of external debt, which stood at USD 5,374 Mn. in 2023, reduced significantly to USD 62 Mn. in 2024. As a result, total external debt by face value decreased from USD 59.6 Bn. at end 2023 to USD 57.2 Bn. by end 2024. This decline was driven by the restructuring of outstanding International Sovereign Bonds (ISBs) and major bilateral debt held by the Government. The face value of Sri Lanka's ISBs held by non-residents dropped from USD 10.8 Bn. at end 2023 to USD 9.3 Bn. by end 2024.

Government external debt in face value terms also declined from USD 38.4 Bn. in 2023 to approximately USD 37.6 Bn. in 2024. This was due to a reduction in the face value of new ISBs issued and increased outstanding credit with the IMF and other multilateral lenders. Consequently, the external debt-to-GDP ratio (face value) declined from 71.2% in 2023 to 57.8% in 2024. However, the market value of Government external debt rose to USD 37.6 Bn. in 2024 from USD 33.1 Bn. in 2023, mainly due to an increase in market prices of ISBs. Meanwhile, the Central Bank's external debt declined due to repayments related to the special swap arrangement with the RBI and the 2016 IMF-EFF programme, while the banking sector's external debt increased slightly due to more short-term loans. External debt service payments also rose in 2024, reaching USD 4.2 Bn. compared to USD 2.8 Bn. in 2023, as most Government debt previously under standstill resumed repayment. This increase was largely due to higher payments by the Central Bank and private sector corporations. The Government's external debt service payments remained similar to 2023 levels but saw a shift with increased interest payments and lower capital repayments, including the first capital repayment of the PDI bond and ISB interest payments

Inflation

Sri Lanka experienced a significant shift in inflation dynamics in the year under review. The year began with inflation rates declining sharply and towards the end of 2024, the Colombo Consumer Price Index (CCPI) recorded the lowest inflation rate in nine years which was mainly driven by the reduction of electricity and fuel prices as well as a strengthened Sri Lankan rupee. As at the year-end, headline inflation as measured by the CCPI stood at-1.7%, down from 4.0% in 2023, while annual average inflation declined to 1.2% from 17.4% the previous year. The NCPI mirrored this trend, with year-end inflation at-2.0% and an annual average of 1.6%. Core inflation remained modest throughout the year,

ending at 2.7% (CCPI-based), reflecting limited non-food price pressures despite tax adjustments. Energy-driven deflation had a limited impact on core metrics, which exclude volatile items. Overall, cost of living pressures eased notably, with household consumption expenditure increasing only marginally—by 1.2% (CCPI-based) and 1.6% (NCPI-based)—marking a sharp contrast to the surges seen in 2022–2023. This low inflation and low interest rate environment created a supportive backdrop for credit expansion and supported household purchasing power recovery, reinforcing macroeconomic stability. Since the inflation target of 5% was not achieved, the Central Bank of Sri Lanka (CBSL) decided on several policy rate cuts to stimulate economic activity and align inflation expectations with its medium-term targets.

Labour Market Dynamics

According to the Sri Lanka Labour Force Survey Quarterly Report 1st Quarter – 2024 published by the Department of Census and Statistics, the labour market showed signs of recovery during the year, with the total employed population recorded at approximately 7.9 Mn. With most of this working in services, followed by agriculture and industry, it is clear that Sri Lanka's labour market reflects a service driven economy, with agriculture still employing a significant share, largely in informal roles.

Emigration trend continued to impact the labour force. According to the Sri Lanka Bureau of Foreign Employment, departures for foreign employment recorded an increase of 5.8% witch amounts to 314,828 in 2024 compared to 297,656 in 2023. This trend is expected to continue, highlighting the need for immediate policy changes that enhance local employment opportunities. While gender disparities and youth unemployment remained critical issues to address, it is important that Government move for strategic investments in emerging sectors and digital infrastructure could pave the way for more resilient and inclusive labour market in the future.

Interest Rates

Market interest rates in Sri Lanka continued their downward trend throughout the year, reflecting the effects of sustained monetary policy easing, moderating inflation, and improved investor sentiment following progress in debt restructuring. The Central Bank reduced policy rates several times during the year and transitioned to a single policy rate mechanism, setting the Overnight Policy Rate (OPR) at 8.00% in November 2024, streamlining the policy framework. The Central Bank of Sri Lanka revealed that the Short-term money market rates responded promptly, with the Average Weighted Call Money Rate (AWCMR) stabilising around 8.00% by the financial year-end. Lending and deposit rates across the financial sector fell substantially.

The Average Weighted Prime Lending Rate (AWPLR) declined by 3.2 percentage points, while the AWDR and the AWFDR dropped by 4.1 and 5.6 percentage points, respectively.

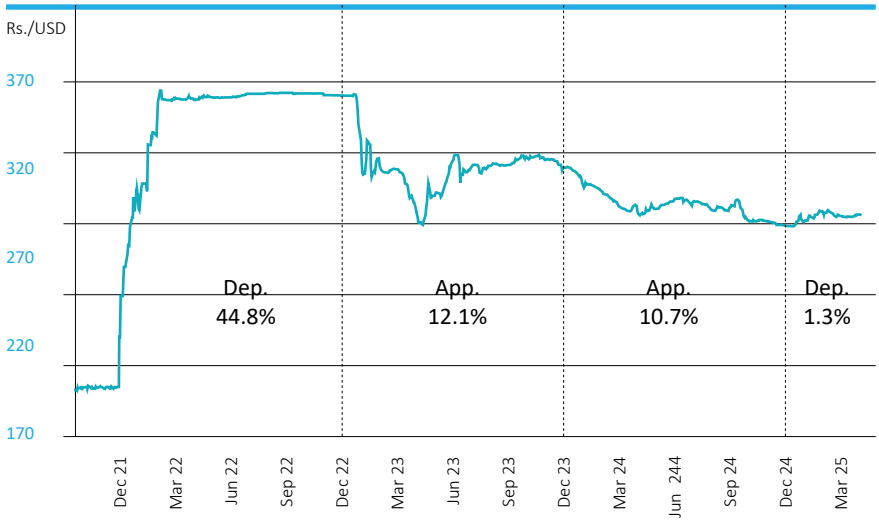
Meanwhile new deposit and lending rates also declined, though more moderately in the latter half of the year. Interest rates on SME loans eased, with AWSR and AWNSR falling by 2.9 and 3.4 percentage points, respectively. However, rates on micro and small-scale loan rates remained relatively sticky due to higher risk premiums.

These rate cuts were part of broader efforts to stabilise the economy, which had contracted in 2022 and 2023. The CBSL's monetary policy decisions during this period were aimed at fostering economic growth, maintaining price stability and supporting the recovery process.

EXCHANGE RATES

The Central Bank of Sri Lanka revealed that Sri Lankan rupee appreciated by 10.7% against the US dollar in the year under review, marking the second consecutive year of strengthening. This was underpinned by a small current account surplus, robust inflows from remittances, tourism, and services exports, alongside moderate import demand, all of which improved foreign exchange liquidity.

DAILY EXCHANGE RATE MOVEMENTS



Source: Central Bank of Sri Lanka

The Central Bank purchased a record USD 2.85 Bn. from the domestic forex market to bolster reserves—its highest annual net purchase—helping to moderate further appreciation. As at the year-end, the rupee closed at LKR 292.58 per USD.

Despite intermittent volatility, the rupee appreciated against most major currencies in 2024/25, including the euro (17.8%), Japanese yen (22.5%), and Indian rupee (13.9%). The Central Bank maintained a market-based exchange rate regime, intervening mainly to purchase foreign currency and to smooth excessive intraday volatility on the sell side while continuing to accumulate reserves.

This appreciation contributed to reduced import costs, improved consumer prices, and enhanced macroeconomic stability, benefiting households and supporting lower inflation throughout the year.

Market Liquidity and Access to Funds

Sri Lanka's financial system experienced notable developments in market liquidity and access to funds substantially in the year under review, driven by the Central Bank's net foreign exchange purchases, inflows from foreign loan disbursements, and reduced reliance for Central Bank credit. System liquidity moved from a deficit of LKR 70 Bn. in 2023 to a surplus of LKR 168 Bn. by end-2024, enhancing system-wide funding conditions.

Despite this overall surplus, liquidity distribution remained uneven among market participants, especially during the first half of the year. The Central Bank responded through Open Market Operations (OMOs), which were gradually scaled down as market conditions improved.

The liquidity boost supported a notable expansion in credit to the private sector. Finance companies recorded 21.0% year-on-year credit growth, outpacing the banking sector, fueled by demand for personal loans, leasing, and pawning, underpinned by improved liquidity and falling interest rates.

On the monetary side, reserve money grew by 15.8% in 2024, mainly due to increased currency in circulation and the growth in net foreign assets (NFA). The Central Bank's NFA turned positive for the first time since 2021, aided by reserve accumulation and debt repayments.

Broad money supply (M2b) growth accelerated to 8.6%, reflecting improved credit and reserve conditions.

Overall Financial and Fiscal Performance

The improved financial position and reputation of Sri Lanka was reflected in the upgrades of its credit ratings. Fitch Ratings upgraded Sri Lanka's long-term Foreign Currency Issuer Default Rating (IDR) to CCC+ from RD in December 2024. Moody's Ratings upgraded Sri Lanka's long-term Foreign Currency Issuer Rating from Ca to Caa1 also in December 2024.

SLFRS S1 and S2

With the growing importance of sustainability standards being recognised globally, the Institute of Charted Accountants of Sri Lanka introduced a phased roadmap for implementing SLFRS S1 and SLFRS S2 (based on IFRS S1 and IFRS S2). SLFRS S1 deals with general sustainability related financial information, while SLFRS S2 deals with climate related risks and opportunities and their financial impact. The mandatory compliance with the standards will commence with accounting periods starting on or after 1 January 2025. The phased adoption will be tailored according to the size of companies. In the first year of reporting, an entity is permitted to report only on climate related matters, and report on S1 only insofar as it pertains to climate related matters. Both standards have a common structure of Governance, Strategy, Risk Management, and Metrics and Targets. Meanwhile, the Central Bank of Sri Lanka has launched "The Sustainable Finance Road Map for Sri Lanka – Version 2.0," in line with their policy agenda. The Road Map promotes green finance and renewable energy investments through the adoption of responsible lending frameworks. This initiative aims to align financial sector activities with national sustainability goals and reinforce climate resilience within the economy.

FINANCIAL SECTOR

The financial sector demonstrated continued resilience in 2024, supported by sound capital and liquidity buffers across key institutions. The Banking sector remained stable, with total assets growth expanding due to increased lending and investment activity. Deposit growth remained robust, while improvements in credit quality were reflected in a reduced, albeit still elevated, Non-Performing Loans (NPL) ratio. Profitability in the sector strengthened notably due to higher net interest income and the reversal of impairment charges following the restructuring of International Sovereign Bonds (ISBs).

Licensed Finance Companies (LFCs) also sustained resilience, with asset growth driven by a marked increase in lending. Although investments in government securities declined, the sector's asset quality and profitability improved.

The insurance industry reported growth in Gross Written Premiums across both long-term and general segments. Meanwhile, the equity market experienced an upswing in indices and turnover, despite continued net foreign outflows. Liquidity conditions in the domestic money market improved, although imbalances persisted across the banking system. Yields in the government securities market declined across both primary and secondary markets, reflecting improved investor sentiment.

Sri Lanka's financial infrastructure continued to function effectively. Digital payment adoption increased steadily, and integration with global payment systems progressed. The Central Bank of Sri Lanka advanced several key initiatives related to regulatory reform, financial inclusion, consumer protection, anti-money laundering, and overall financial system stability.

LICENSED FINANCE COMPANIES SECTOR OVERVIEW

The Licensed Finance Companies (LFCs) sector demonstrated a significant recovery in the financial year 2024/25, supported by capital and liquidity levels well above regulatory requirements. The sector, comprising 32 institutions and accounting for 5.4% of total financial system assets, saw robust growth in loans, deposits, and borrowings. A notable improvement in asset quality was reflected in the reduction of non-performing loans (NPLs).

Total sector assets rose by 13.9% to LKR 1,930.7 Bn., largely driven by a 22.8% increase in loans and advances. The loan portfolio was dominated by finance leases and vehicle loans (64.0%) and gold-backed lending (19.8%), both recording strong growth of 18.7% and 30.4%, respectively.

The sector's gross NPL ratio declined significantly to 11.3% from 18.0% in 2023, while the impairment coverage ratio improved to 41.9%. Net NPL ratio fell to 6.6%, highlighting better credit risk management.

Customer deposits remained the primary funding source for the sector, growing by 13.0% to LKR 1,056.4 Bn. and accounting for 54.7% of liabilities. Borrowings also increased by 15.3% during the year. The sector maintained a comfortable liquidity buffer, with liquid assets exceeding the regulatory requirement by LKR 105.1 Bn.

Profitability improved with a 20.9% increase in profit after tax, supported by a 24.3% rise in net interest income. Return on Assets and Return on Equity increased to 6.1% and 13.5%, respectively, while operational efficiency improved with a decline in the cost-to-income ratio to 50.8%.

Despite the positives, the sector continued to face many challenges. Despite the general economic recovery, lower levels of real income and tax adjustments would have dampened the growth momentum. Moreover, the credit quality of the institutional sector continues to be unsatisfactory, reflecting continuing challenges in maintaining credit quality of the LFC sector. Going forward, maintaining the momentum of improvement is vital.

In addition, the Central Bank of Sri Lanka has continued to emphasise the importance of capital adequacy within the LFC sector. The regulatory minimum Tier I Capital Ratio is 8.5%, while the required Total Capital Ratio stands at 12.5% of risk-weighted assets. Strengthening capital buffers remains critical to ensure resilience in the face of economic volatility and credit risk.

TRENDS IN MICROFINANCE AND LEASING

In 2024, both the microfinance and leasing segments in Sri Lanka demonstrated notable growth, supported by improved macroeconomic conditions and increased demand for consumer credit. Micro loans, rose sharply by 49.9% to Rs. 11.4 Bn. Deposit mobilisation also strengthened, with the deposit base increasing by 35.7% to Rs. 1.1 Bn. All LMFCs remained compliant with prudential capital requirements, reflecting sound sectoral resilience.

Finance leases and vehicle loans accounted for 64% of total loans and advances by end-2024 and grew by 18.7% during the year. This expansion contributed significantly to the overall 21% year-on-year increase in private sector credit extended by LFCs. The surge in leasing demand was driven by improved liquidity in the sector and a rebound in consumer and business confidence.

GOLD MARKET PERFORMANCE

Sri Lanka's gold market experienced significant volatility, influenced by global economic factors and domestic conditions. During this period, NBFI sector played a crucial role in the gold market, particularly in facilitating gold backed financing.

Global gold market saw unprecedented highs due to escalating geopolitical tensions and increased demand for safe haven assets and this sharp rise in Gold prices led to a slowdown in consumer purchases, as many opted to hold off on buying amid affordability concerns.

In Sri Lanka, the strong performance of the gold market significantly influenced the finance sector, particularly in pawning. Rising gold prices supported increased lending activity, with Licensed Finance Companies (LFCs) reporting a notable uptick in credit demand for gold-backed loans. Favourable gold prices, coupled with improved sector liquidity, played a pivotal role in enhancing the attractiveness and growth of pawning services during the year.

REGULATORY ENVIRONMENT AND POLICY RESPONSES

In 2024, the Central Bank of Sri Lanka (CBSL) remained focused on sustaining macroeconomic stability while advancing legal, regulatory, and institutional reforms to strengthen the financial sector. Monetary policy was eased through three policy rate reductions during the year, supported by subdued inflation and an improved external sector performance. The Central Bank of Sri Lanka transitioned to a single policy rate mechanism in November 2024, marking a milestone in enhancing policy transmission and signaling.

The CBSL continued with a flexible exchange rate regime and gradually phased out crisis-era external sector controls. Limited interventions were used to mitigate volatility and build reserves. In support of economic recovery, financial institutions benefited from lower market interest rates and enhanced liquidity, enabling increased credit availability.

Several key legislative reforms were enacted or advanced during the year, including:

- Banking (Amendment) Act, No. 24 of 2024, enhancing governance and regulatory oversight of licensed banks.
- Public Debt Management Act, No. 33 of 2024, transferring public debt management responsibilities to the newly established Public Debt Management Office.
- Drafting assistance for the Public Financial Management Act, Microfinance and Credit Regulatory Authority Act, and the Financial Assets Management Companies Act.
- Initiation of amendments to the Finance Business Act, Finance Leasing Act, and Payment and Settlement Systems Act.

The CBSL introduced a revised consolidation framework in December 2024 as part of Phase II of its masterplan for the consolidation of the Finance Companies (FCs) sector. This framework includes a three-year execution plan commencing 31 March 2025, aimed at strengthening and stabilising the sector over the medium to long term.

Meanwhile, the Financial Consumer Protection Regulations No. 01 of 2023 effective from August 2024 strengthened consumer protection.

The regulation includes a range of requirements and good practices to ensure that parties dealing with financial institutions are given fair and transparent treatment, enabling them to make prudent decisions on financial matters. The CBSL introduced Market Conduct Supervision (MCS) and carried out targeted inspections to address high lending rates, excessive fees, and unfair practices. Public awareness campaigns further supported consumer rights and transparency in financial services.

Together, these regulatory and policy measures reinforced financial system stability, supported credit expansion, and created a more transparent, inclusive, and accountable financial sector.

FUTURE OUTLOOK

Looking ahead, Sri Lanka's economic outlook remains cautiously optimistic. Continued monetary easing, stable inflation, and stronger external buffers are expected to support domestic demand and credit growth. Ongoing financial sector reforms, improved consumer confidence, and accelerated digital transformation are likely to foster a more inclusive and resilient financial landscape. However, global uncertainties, including geopolitical tensions and trade disruptions, may pose headwinds. Therefore, sustained policy discipline and reform momentum will be vital to safeguarding stability and unlocking long-term growth opportunities for the financial sector.

A key external risk to this trajectory stems from the recent announcement of U.S. tariffs on Sri Lankan exports. On 2nd April 2025, the United States introduced a 44% tariff on imports from Sri Lanka, severely impacting the apparel industry—which accounts for 64% of the country's exports to the U.S. (valued at USD 1.8 Bn. in 2023)—along with a broader range of goods comprising 86% of total exports. This development could lead to reduced foreign exchange inflows, job losses in export-linked sectors, and dampened consumer spending and credit demand.

As a result, the export slowdown may indirectly affect the outlook for HNB Finance PLC, particularly in terms of loan growth, repayment capacity, and asset quality within export-dependent regions and borrower segments. The company will need to monitor these macroeconomic shifts closely and adapt its lending strategies accordingly.

Business Model

INPUTS
What Helps us to Create Values

Financial Capital
- Equity LKR 7,587 Mn.
- Debt LKR 4,768 Mn.
- Deposits LKR 42,218 Mn.
- Assets LKR 58,503 Mn.
- Liabilities LKR 50,916 Mn.

Intellectual Capital
- Brand Strength through core values and adherence to business practices
- Business Transformation

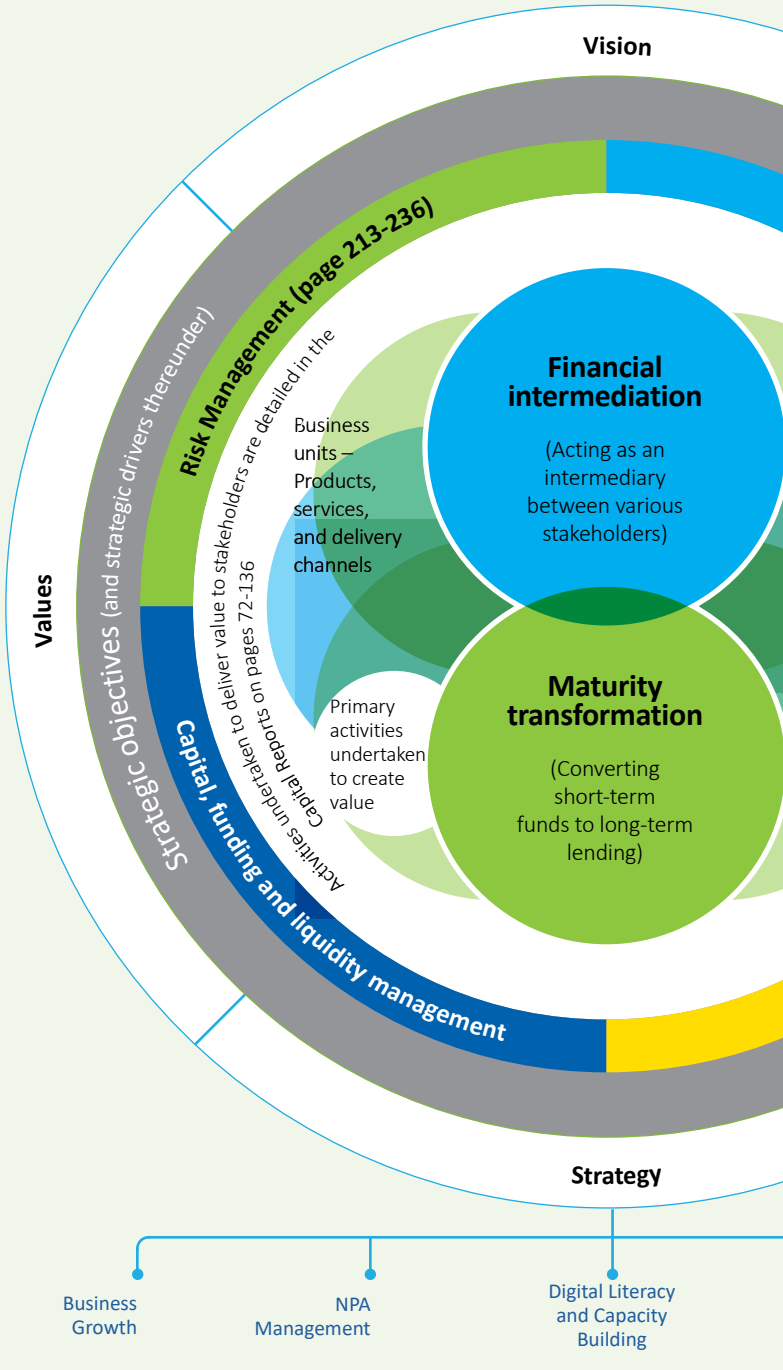
Manufactured Capital
- Number of Branches 79
- PPE amount LKR 1,941 Mn.

Human Capital
- Skilled, well trained, experienced and diverse workforce of 1,931 employees

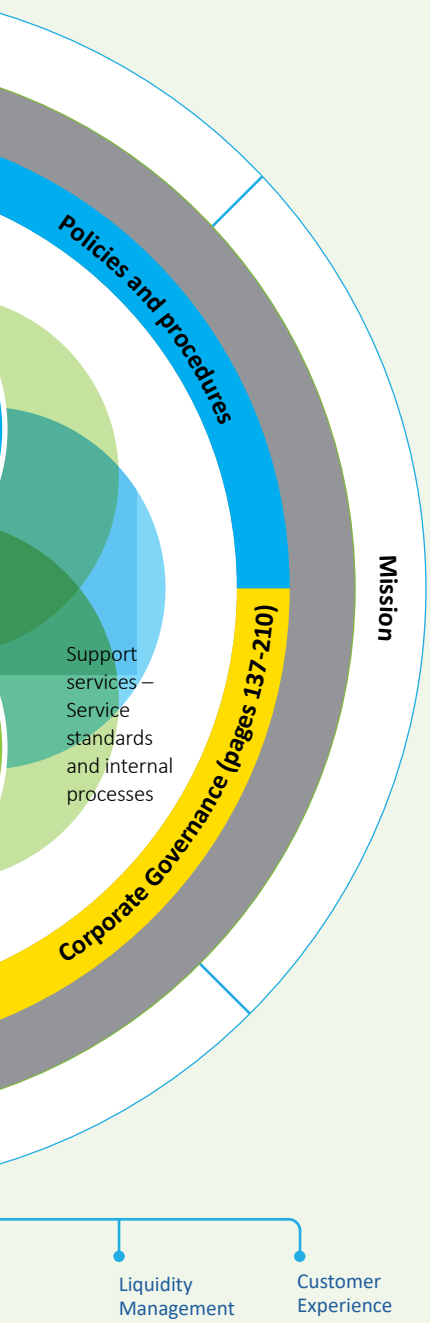
Social and Relationship Capital
- Long-standing relationships built and strengthened over the years with customers, business partners, and key stakeholders.

Natural Capital
- Eco-conscious business practices aimed at lessening our impact on the environment.

ACTIVITIES
What We do to Create Value



Business Model



OUTCOMES
Results of our outputs

Financial Capital
- Profit LKR 765 Mn.
- Profit Growth 23%
- ROE 11.54%
- Portfolio Growth 27%
- Leasing Portfolio Growth 64%
- Gold Loan Portfolio Growth 65%

Intellectual Capital
- Brand Rating with in top 100
- Credit Rating A+(lka) outlook stable
- Robust systems & processes

Manufactured Capital
- 8 New gold loan openings and 4 branch relocations

Human Capital
- Great Place To Work (GPTW) Certificate
- Job security and safe working environment
- Employee training, professional development and opportunity for carrier advancements

Social and Relationship Capital
- Social Sustainability Initiatives 22
- Investment in CSR LKR 4.15 Mn.
- Customer base of over 264,000

Natural Capital
- Eco-conscious business practices aimed at lessening our impact on the environment.

Output/Impacts

Shareholders
The company delivers sustained profit growth and enhanced Return on Equity (ROE), reinforcing shareholder value through a steadily expanding portfolio.

Customers
Customers benefit from strengthened relationships, expanded access through new gold loan centres and branches, and an ongoing commitment to trust and service excellence.

Employees
The company fosters an inclusive and supportive work environment that prioritizes employee well-being, professional growth, and long-term career development.

Business Partners
Strengthened partnerships through long-standing relationships and reliable business practices, contributing to mutual growth and shared success.

Government
Through responsible financial operations, tax contributions, and regulatory compliance, the company plays a vital role in supporting national economic stability and development.

Local Communities
The company empowers communities with targeted social sustainability initiatives and CSR investments, enriching lives beyond financial services.

Environment
The company integrates environmentally responsible practices into its operations, promoting ecological awareness and long-term resource stewardship.

Our Approach to Sustainability

HNBF's sustainability roadmap is meticulously crafted based on a comprehensive analysis of Environmental, Social, and Governance (ESG) factors. This strategic framework is designed to align the company's operations with the expectations and needs of critical stakeholders, including the environment, society, and risk management.

We methodically evaluate these ESG elements to understand the pressing demands and challenges faced by communities and ecosystems. The roadmap incorporates insights into environmental protection, social responsibility, and effective governance, ensuring that the company addresses its impacts on natural and social systems.

This proactive approach enables HNBF to identify opportunities for enhancing sustainable practices, manage risks effectively, and fulfill its corporate responsibilities. By aligning its strategies with these key ESG factors, HNBF is committed to fostering positive change and contributing meaningfully to a more sustainable future.

Impact of sustainability on capitals

Financial Capital

Our sustainability enhances financial capital by fostering resilience, ensuring long-term profitability, and supporting access to responsible investment. By aligning business strategy with environmental, social, and governance (ESG) principles, the company strengthens its financial performance and improves its ability to attract and retain capital.

Intellectual Capital

Our sustainability enhances financial capital by fostering resilience, ensuring long-term profitability, and supporting access to responsible investment. By aligning business strategy with environmental, social, and governance (ESG) principles, the company strengthens its financial performance and improves its ability to attract and retain capital.



Human Capital

The Company's sustainability approach reinforces human capital by cultivating an inclusive, safe, and empowering work environment. Through strategic emphasis on employee wellbeing, capacity building, and equitable labour practices, the organisation supports the growth and retention of a skilled and engaged workforce aligned with its values.

Social Capital

We strengthen social and relationship capital by deepening stakeholder trust and reinforcing community partnerships. Through ethical governance, inclusive service delivery, and transparent communication, the organisation builds enduring relationships with customers, communities, regulators, and other key stakeholders.

Manufactured Capital

We effectively manage manufactured capital by promoting the efficient use and responsible development of physical and digital footprint and infrastructure, including our buildings, equipment, networks, data centers, and other tangible and intangible assets essential to our operations. The integration of sustainability considerations into operations and procurement practices ensures that the Company's built environment supports long-term functionality, environmental performance, and stakeholder value.

Natural Capital

Our efforts safeguard natural capital by guiding responsible environmental management and minimising ecological impact. Strategic focus on resource efficiency, climate risk integration, and environmental accountability ensures that the organisation preserves and enhances the ecosystems it depends on for long-term operational viability.

GOVERNANCE

At HNB Finance PLC (HNBF), robust governance underpins the effective management of sustainability-related risks and opportunities. The Company's sustainability oversight structure is designed to ensure that environmental, social, and governance (ESG) considerations are systematically integrated into strategic decision-making, risk management, and operational planning.

Role of the Management

HNB Finance PLC adopts a structured and policy-driven approach to sustainability, embedding Environmental, Social, and Governance (ESG) considerations into our core business strategy and operations.

Our sustainability governance framework is anchored by the Central Bank of Sri Lanka's (CBSL) Sustainable Finance Guideline and the CBSL Roadmap for Sustainable Finance, which set the foundation for responsible practices in alignment with national development priorities. Guided by these directives, we have established a Board-approved ESG Policy that outlines our strategic direction and accountability measures concerning ESG issues. The ESG Policy is reviewed and updated at the board level, ensuring continuous alignment with evolving regulatory and stakeholder expectations.

The reviewing process is handled by the below entities as presented to ensure purposeful alignment with our policy driven approach:



Recognising sustainability as integral to our long-term value creation, we have formally incorporated ESG risk considerations within our Integrated Risk Management Framework policy, which is overseen by the Board Integrated Risk Management Committee. This enables the company to identify, assess, and manage ESG-related risks in a structured and proactive manner (further details are provided under the Risk Management section of this report).

At an operational level, HNBF has instituted a dedicated Sustainability Management Committee, composed of a multidisciplinary team of senior executives including the MD/CEO, DCEO, CFO, CRO, CHRO, CIO, and heads of key divisions such as Facility Management, Corporate Planning, Compliance, and Marcom. This committee is responsible for identifying and analysing sustainability-related risks and opportunities across our operations. It reports on a quarterly basis to the Board Strategic and Investment Review Committee, which serves as the apex oversight body for sustainability. Strategic decisions and key directions on ESG matters are deliberated and endorsed at this committee, reinforcing board-level ownership of sustainability initiatives.

STRATEGY

HNBF's sustainability strategy aligns with globally recognised frameworks such as the Global Reporting Initiative (GRI) and the United Nations Sustainable Development Goals (SDGs). The Company's ESG performance is monitored monthly by the Sustainability Management Committee, ensuring consistent alignment between operations and sustainability objectives.

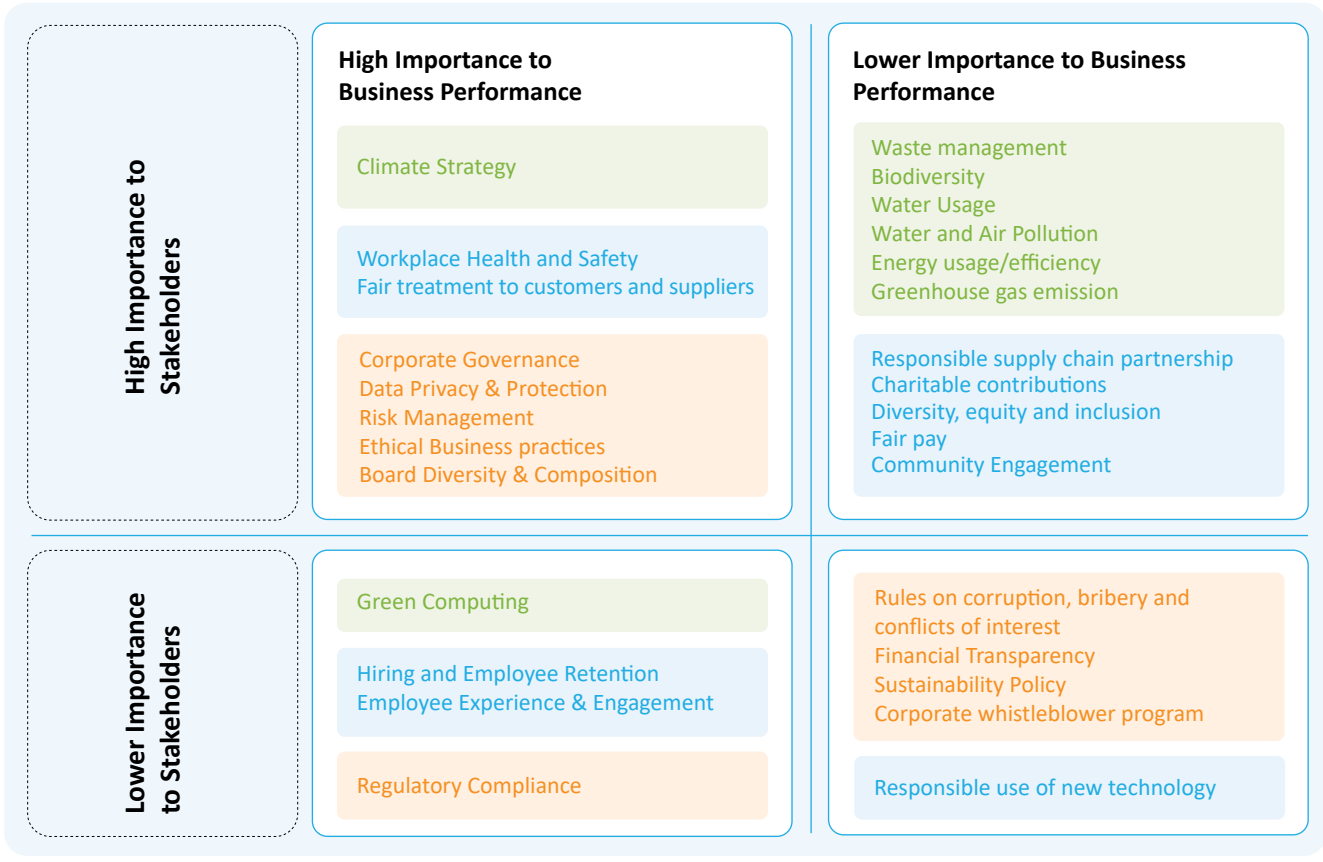
To assess continuous improvement, HNBF conducts materiality assessments, stakeholder engagement activities, and third-party collaborations to evaluate environmental and social impacts. This dynamic feedback loop ensures that the Company's sustainability roadmap remains responsive to emerging challenges and opportunities.

ESG MATERIALITY MATRIX

We utilise a comprehensive ESG Materiality Matrix as a strategic tool for identifying, assessing, and prioritising Environmental, Social, and Governance (ESG) issues that are most significant to our stakeholders and impactful to our long-term business performance. The ESG materiality matrix facilitate mapping ESG topics across two key dimensions—importance to stakeholders and impact on business performance. This approach enables us to focus our resources on areas that drive sustainable value creation, mitigate ESG-related risks, and strengthen stakeholder trust.

The adoption of the ESG materiality matrix reflects our commitment to embedding sustainability into our core business strategy. It provides a structured approach to evaluate a broad range of ESG topics, including climate strategy, data privacy, employee wellbeing, ethical governance, and environmental responsibility. These topics are then prioritised based on stakeholder expectations, regulatory requirements, and potential to influence business outcomes.

The matrix not only informs the development of our sustainability strategy but also shapes the integration of ESG considerations into our governance structure, risk management framework, and operational planning. For instance, areas identified as high priority in the matrix receive focused attention in Board-level discussions and policy development. ESG risks and opportunities are evaluated regularly by our Sustainability Management Committee and are reported to the Board Strategic and Investment Review Committee on a quarterly basis to ensure alignment with our long-term sustainability goals.



SUSTAINABILITY MODEL

Our sustainability model encapsulates the integration of Environmental, Social, and Governance (ESG) principles into every layer of the organisation. It reflects a structured, forward-looking framework designed to embed responsible practices into our core business processes while proactively responding to emerging risks and opportunities.

The accompanying model illustrates how governance oversight, environmental stewardship, and social responsibility are interconnected within our sustainability roadmap. It emphasises our commitment to ethical leadership, climate resilience, stakeholder empowerment, and regulatory alignment. This visual representation serves as a blueprint that guides our journey toward long-term value creation for our stakeholders and the broader community.





Recognising the increasing relevance of sustainability-related risks to the financial sector, HNB Finance has initiated a comprehensive gap analysis to identify areas requiring enhancement in our climate and sustainability risk management approach. This evaluation forms the foundation for building a structured Climate & Sustainability risk framework aligned with regulatory expectations and international standards. These initiatives are part of the Company's broader Sustainability Roadmap and will directly support compliance with the Sri Lanka Financial Reporting Standards (SLFRS) S1 and S2, due to take effect in the next reporting cycle.

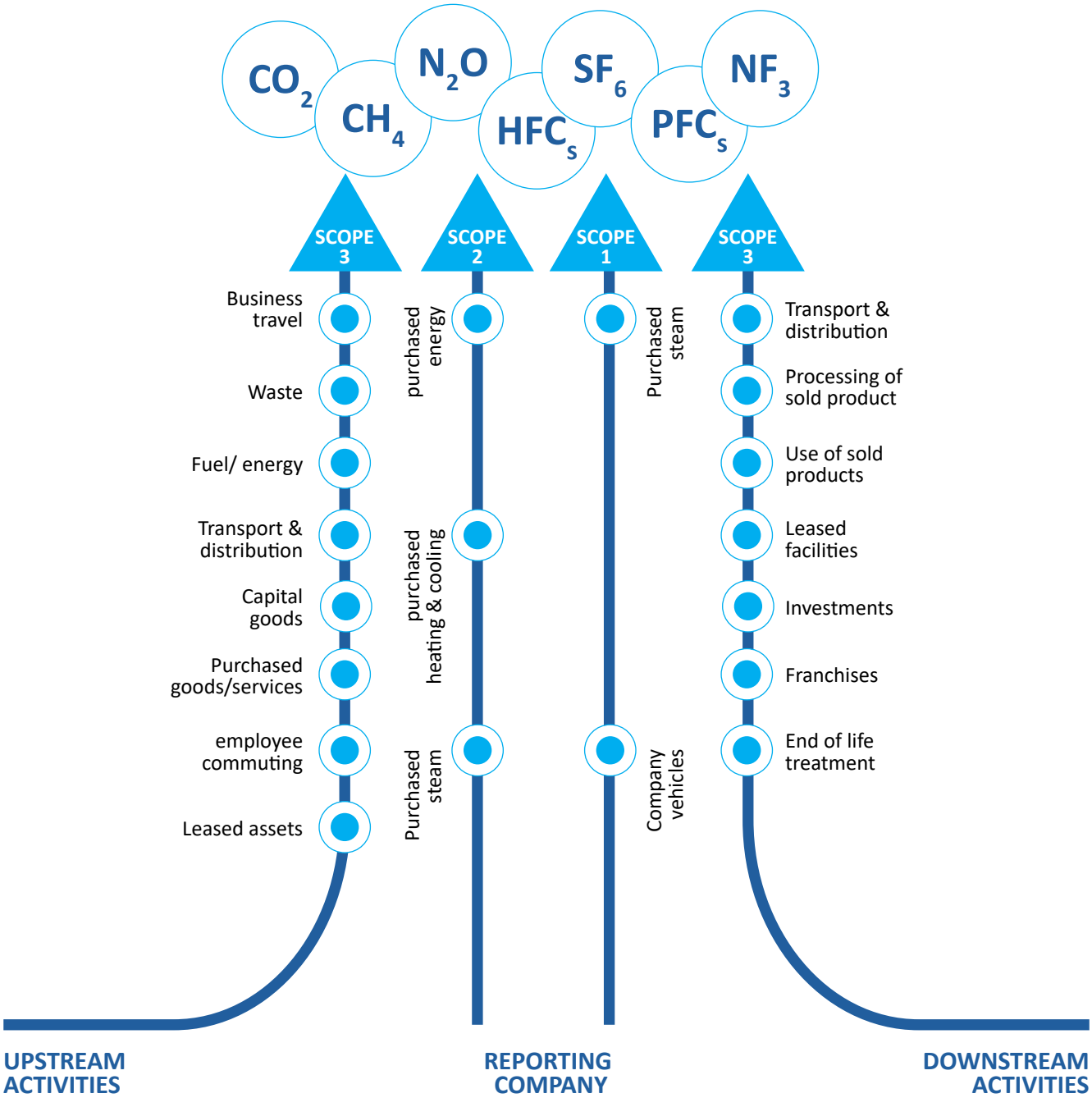
NEUTRALISING CARBON EMISSION

In support of long-term carbon reduction goals, HNB Finance has commenced formal discussions with the Forest Department to implement a 25-acre afforestation initiative, scheduled to begin in the upcoming financial year. This five-year project reflects the Company's commitment to enhancing natural carbon sinks while fostering ecological resilience. The initiative will be located in Embilipitiya, within the Sankapala area, a region known for its rich biodiversity and environmental significance. Notably, this project is expected to generate a positive ecological ripple effect on the adjacent Panahaduwa village, local communities depend on the water stored and protected by the Sankapala forest.

HNB Finance aims not only to mitigate climate impacts but also to sustain the natural resources essential for the wellbeing of rural communities, through facilitating the protection and revitalisation of these critical forest ecosystems.

Additionally, we are collaborating with a leading external sustainability firm in the industry to initiate a systematic calculation of our carbon footprint. This marks a critical step in quantifying Scope 1 emissions and laying the groundwork for future measurement of Scope 2 and Scope 3 categories. These combined efforts signal HNBF's evolving commitment to environmental stewardship and demonstrate its readiness to contribute meaningfully to the national climate agenda.

Our Approach to Sustainability



HNBF's initial step in its sustainability journey is to calculate carbon emissions under Scope 1. Following this foundational assessment, the Company will take prompt measures to progress towards calculating Scope 2 and Scope 3 emissions, in alignment with HNBF's Sustainability Roadmap.

This systematic approach not only underscores HNBF's commitment to sustainability but also facilitates informed decision-making as the Company strives to reduce its overall carbon footprint and contribute to broader climate goals.

GREEN PRODUCTS

In our ongoing commitment to sustainability, HNB Finance is developing a suite of innovative green products aimed at reducing environmental impact while catering to the evolving needs of our customers. These initiatives reflect our strategic intent to embed sustainability into our product offerings and empower our customers to participate in environmentally responsible practices.

Under our Leasing segment, we are in the process of introducing a dedicated Electric Vehicle (EV) financing product to promote cleaner mobility solutions. This product is designed to make electric vehicles more accessible to individual and small business customers by offering flexible financing options that lower the entry barriers to adopting low-emission transportation. By encouraging the shift from fossil fuel-powered vehicles to electric alternatives, this initiative directly contributes to carbon emission reduction and supports national and global climate objectives.

Simultaneously, within the Micro Finance segment,—such as organic farming, eco-friendly retail, or community-based recycling. Through this offering, we aim to advance both gender equity and green economic development, fostering inclusive growth across rural and underserved communities.

These green products form an integral part of HNBF's broader sustainability roadmap. They reinforce our commitment to responsible innovation by aligning business growth with environmental and social progress, thereby supporting long-term stakeholder value and national sustainable development goals.

Product Design and Innovation

In line with our commitment to sustainable mobility solutions, HNBF has initiated a groundbreaking project in collaboration with a development partner to convert three-wheelers (3Ws) to electric models in 2025. This innovative initiative exemplifies our focus on integrating environmentally friendly practices into our business model by promoting cleaner transportation options and reducing carbon emissions. Through strategic collaborations and forward-thinking investments, we are actively contributing to the transition toward sustainable urban mobility, demonstrating our dedication to innovation and responsible business practices that support a greener future.

SUPPLY CHAIN MANAGEMENT

HNBF will undertake a comprehensive review of its supply chain to identify suppliers whose operations may negatively impact the natural environment. This process will conduct after an analysis of our current procurement and supply chain management practices, allowing us to pinpoint areas where environmental risks may be present. By gaining a clearer understanding of our supplier base, we aim to implement targeted measures to mitigate potential environmental impacts, promote responsible sourcing, and foster sustainable practices throughout our supply chain. This proactive approach underscores our commitment to reducing our ecological footprint and ensuring that our entire value chain aligns with our sustainability goals.

WASTE MANAGEMENT

Electronic waste management

We successfully continued our e-waste management project in collaboration with N.S Green Links Lanka (Pvt) Ltd, a leading environmental solutions provider, during the year. Through this partnership, we responsibly disposed of 800 kilograms of electronic waste in an environmentally friendly manner, adhering to best practices for recycling and material recovery. This initiative has significantly contributed to reducing our carbon footprint, conserving natural resources, and minimising environmental pollution. By properly managing electronic waste, we have also helped prevent the unnecessary production of plastics and preserved valuable ecosystems, reinforcing our commitment to sustainable practices and environmental stewardship. This project reflects our ongoing dedication to integrating sustainability into our operations and making a positive impact on the communities we serve.

Paper Recycling Project

During the financial year, HNBF entered into a Memorandum of Understanding (MOU) with Sewn Exporters (Pvt) Ltd to establish a dedicated paper recycling programme. This partnership has been actively sustained within our organisation throughout the year, fostering a culture of environmental responsibility among our staff members. By recycling used paper, we have made significant strides in conserving natural resources, notably by saving countless trees that would otherwise be cut for paper production. Additionally, this initiative has raised awareness among employees about the importance of adopting eco-friendly practices in their daily activities, reinforcing our commitment to sustainability and responsible consumption. Through these efforts, HNBF continues to demonstrate its dedication to reducing environmental impact and promoting a greener, more sustainable future.

Solar Power

HNBF has proactively installed several solar power systems across its branch network to generate renewable electricity, demonstrating our commitment to sustainable energy practices. Building on this initiative, we plan to expand our investments in solar and other renewable energy sources in the coming years, with the goal of significantly reducing our carbon emissions. As a responsible corporate entity, we recognise the importance of transitioning to cleaner energy solutions to minimise our environmental impact, support the

global fight against climate change, and promote long-term sustainability. These efforts reflect our dedication to integrating environmentally conscious practices into our operations and fostering a greener, more sustainable future.

Meanwhile, HNB Finance collaborated with the Athurugiriya Sanasa Loan Society to finance the installation of rooftop solar energy systems. This initiative reflects our strategic intent to mobilize financial solutions that deliver tangible environmental impact while empowering local communities to transition toward cleaner energy sources.

The project not only contributes to the national agenda on renewable energy but also supports the reduction of greenhouse gas emissions at the grassroots level. Households and small enterprises that have benefited from these installations now have access to a reliable, sustainable energy source significantly reducing their dependence on fossil fuels and improving long-term energy security. In turn, this reduces their exposure to energy price volatility and contributes to more predictable operational costs, especially for rural micro-entrepreneurs.

Moreover, the initiative serves as a compelling demonstration of how inclusive finance can be harnessed to deliver environmental outcomes. Through flexible and affordable financing structures, HNBF has enabled communities that may otherwise lack access to capital to invest in clean energy infrastructure. This model showcases the intersection of financial inclusion and environmental responsibility, reaffirming our commitment to sustainable product innovation.



Community Factors

We view community engagement not as a standalone initiative but as a strategic imperative woven into the fabric of our operations. Our deep roots within diverse communities across Sri Lanka inform a responsive approach that balances accessibility, empowerment, and protection. Through initiatives focused on financial inclusion, education, gender equity, agriculture, and data protection, we strive to foster inclusive development while upholding the highest standards of ethical and responsible conduct.

The following areas reflect the breadth of our community engagement efforts during the reporting period:

Human rights and compliance

Upholding human rights is foundational to our role as a responsible financial institution. HNB Finance adheres to national and international human rights standards and actively integrates these principles into its operations, policies, and partnerships. Our Code of Conduct and Ethics reinforces this commitment, ensuring fair treatment, non-discrimination, and respect for the dignity of all stakeholders—including customers, employees, and communities.

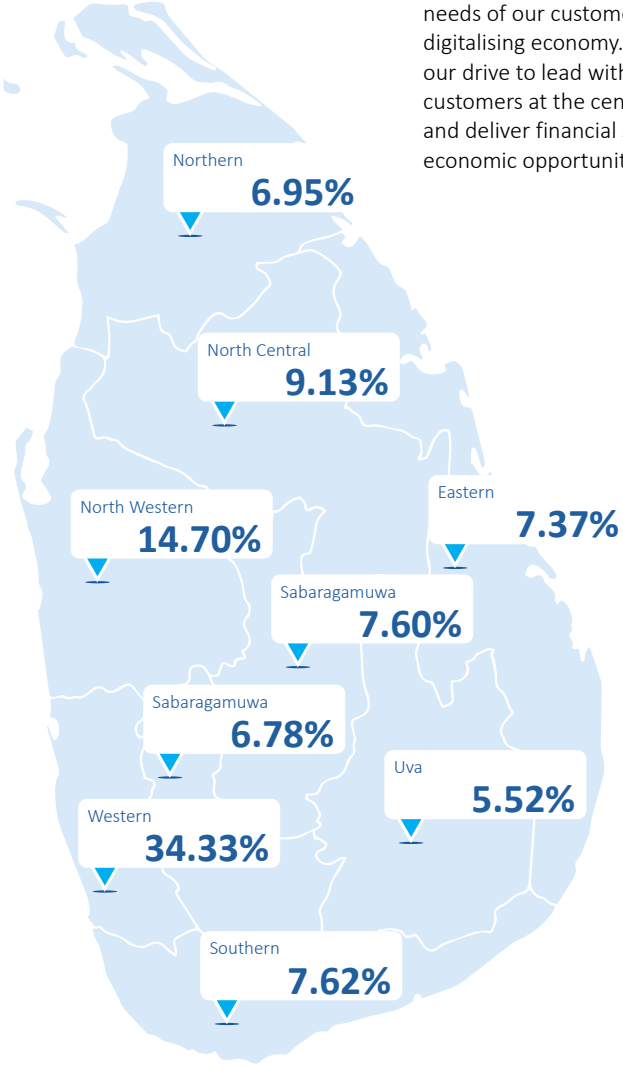
In line with this approach, all business practices are subject to internal oversight to prevent any form of human rights infringement, including child labor, forced labor, or discriminatory practices. Training programs and awareness initiatives reinforce these standards within our workforce, while our grievance mechanisms provide safe channels for stakeholders to report potential violations without fear of retaliation. In addition, HNBF ensures that its treatment of customers is firmly aligned with a structured customer protection framework, which governs fair, transparent, and ethical engagement across all service points. This focus supports our broader ESG objectives and reflects our belief in inclusive and ethical development.

Access and affordability – Financial Inclusion

Currently, HNBF operates an extensive network of 79 branches, with the majority strategically located outside the Western Province to ensure broader accessibility and coverage across diverse regions. Additionally, leveraging our synergy with the parent company, HNB Bank, we benefit from a wider platform of over 820 ATMs dispersed throughout the country, enhancing convenience for our customers and strengthening our reach within the banking and financial services sector. This expansive network underscores our commitment to providing accessible, reliable financial services to a diverse customer base nationwide, supporting our growth objectives and reinforcing our role as a key player in the industry.

Environmental Projects Initiated: 5	Number of Trees Saved: 89	Solar Power Units Financed or Installed: 2	Sustainability Partnerships
Reflects our proactive efforts to reduce ecological impact across multiple dimensions.	Achieved through the afforestation planning	Supporting clean energy adoption at the institutional and community level.	Collaborative initiatives with governmental bodies and private entities to advance environmental goals.

The portfolio distribution of HNBF reflects our strategic approach to nationwide financial inclusion, demonstrating how our funding is dispersed across various regions without concentrating exclusively on any specific area. This balanced allocation ensures that customers throughout the country, regardless of their location, have equitable access to our financial services and products. We maintain a diversified geographic presence to promote broader financial inclusion, support regional development, and meet the diverse needs of our customers across the entire country. This approach underscores our commitment to equitable service delivery and our vision of fostering a more inclusive and accessible environment nationwide.



The soon-to-be-launched internet and mobile banking platforms, powered by our new core banking system, mark a pivotal milestone in expanding HNBF's digital financial services. These platforms are designed to provide customers with secure, convenient, and round-the-clock access to their accounts, reinforcing our commitment to digital inclusion, service efficiency, and enhanced customer experience. This advanced platform will enable customers nationwide to access their accounts and perform banking transactions securely and conveniently anytime and anywhere, thereby enhancing their banking experience. By leveraging cutting-edge technology, HNBF aims to increase financial inclusion, improve service efficiency, and meet the evolving needs of our customers in a rapidly digitalising economy. This initiative reflects our drive to lead with innovation, put customers at the center of what we do, and deliver financial solutions that fuel economic opportunity.

Financial Literacy

To foster financial literacy and encourage savings among underserved and less-literate customer segments, we implemented several financial literacy programs nationwide. This is a unique initiative spearheaded exclusively by HNB Finance, reflecting our proactive approach to bridging the knowledge gap in financial management. These programmes provided practical knowledge and skills in areas such as budgeting, saving, and managing debt. As such, we aim to empower these customers to make informed decisions, improve their financial well-being, and ultimately contribute to a more financially secure future by equipping them with essential financial insights. The programmes were designed to be accessible and tailored to the specific needs of these communities, addressing their unique challenges and fostering a culture of responsible financial management. Notably, HNB Finance's financial literacy programme stands out as a unique initiative within the sector—specially curated and executed by the organisation to bridge financial knowledge gaps at grassroots level, particularly among underserved and rural populations. This reflects our broader commitment to inclusive growth and capacity-building across the communities we serve.

Women's Empowerment

HNBF's portfolio has demonstrated a consistent and significant increase in female participation over the years, reflecting our commitment to promoting gender equality and empowering women through financial services. A significant portion of microfinance loans have been granted to women, enabling them to develop and expand their businesses, thereby contributing meaningfully to local economic growth and community development. These social contributions underscore HNBF's dedication to fostering inclusive economic opportunities and highlight our role in advancing the social dimension of ESG (Environmental, Social, and Governance) principles within the industry. By prioritising equitable access to financial resources

for women, HNBF continues to drive positive social change and demonstrate responsible corporate citizenship.

Contribution to Agriculture

HNBF plays a vital role in supporting the agriculture sector, as reflected in its sector-wise portfolio composition. The organisation actively allocates a significant portion of its financial resources towards microfinance products tailored to meet the needs of farmers and agricultural communities. By providing targeted funding and financial services, HNBF aims to foster sustainable agricultural development, enhance productivity, and improve the livelihoods of farming communities. This strategic focus not only contributes to economic growth within rural areas but also underscores HNBF's commitment to promoting inclusive and responsible development that benefits both the environment and the community at large.

Support for Workforce Development

As part of our commitment to community empowerment and inclusive growth, HNB Finance supports workforce development by offering structured internship programmes to both school leavers and university students. These programmes are designed to provide participants with exposure to a professional office environment, equipping them with practical skills and workplace experience that enhance their employability.

For school leavers, the initiative serves as an introduction to corporate operations, helping them build foundational competencies and workplace readiness. For university students, the internships are tailored to support career development by offering hands-on training aligned with their academic backgrounds and professional aspirations.

Through these opportunities, HNB Finance fosters on-the-job learning while nurturing a pipeline of future talent, contributing meaningfully to the development of a skilled and future-ready workforce.

Customer Protection

Customer well-being remains a top priority at HNBF, guiding our approach to offering a responsible product, transparent communication, and ethical service delivery. Our commitment to customer protection is embedded in policies that ensure clarity in product terms, fairness in lending, and accountability in complaint resolution. All marketing materials and financial advice are carefully vetted to prevent misinformation or coercion, particularly when serving financially inexperienced customer segments.

We also maintain multiple channels for customers to express concerns, provide feedback, or seek resolution. These include branch-level support, call center assistance, and structured escalation paths. Our customer care teams are regularly trained in regulatory standards, customer rights, and ethical engagement. This customer-first mindset strengthens trust and contributes to long-term financial inclusion and resilience.

Financial Literacy Programmes Conducted: 11	Branches Located Outside the Western Province: 15	Agricultural Sector Contribution: 28%	Human Rights or Customer Privacy Compliants
Empowering underserved communities with essential knowledge in budgeting, saving, and debt management.	Supporting financial inclusion through an extensive branch network that ensures regional accessibility.	Strategic financial support extended to farming communities to enhance rural development.	HNB Finance ensures accessible channels for reporting human rights or customer privacy concerns, with all complaints handled confidentially and in line with regulatory and ethical standards.

Employee Factors

At HNB Finance, we recognise that our people are central to delivering sustainable value across all areas of the business. Our approach to human capital management is rooted in the principles of fairness, inclusivity, and continuous growth. By cultivating a safe, diverse, and engaging work environment, we empower our employees to thrive both professionally and personally.

From ethical labour practices and workforce diversity to capacity-building and employee wellbeing, we ensure that our internal sustainability agenda reflects the same values we extend to our communities. These initiatives support not only operational excellence but also our long-term ESG commitments—ensuring that HNBF remains an employer of choice and a catalyst for inclusive, responsible growth.

Workforce Diversity

At HNBF, diversity is not only a reflection of our inclusive culture but a core driver of innovation and resilience. Our recruitment and workforce development strategies uphold meritocracy while embracing gender parity, regional balance, and linguistic inclusivity. We have observed a steady improvement in the gender ratio, including a notable increase in female representation at the managerial level—demonstrating our commitment to gender equity in leadership. As of the reporting period, our workforce reflects a 20:80 female-to-male ratio, underscoring both the progress made and the opportunities that remain in building a more gender-balanced organisation.

Multilingual communication practices are embedded across internal and external channels to reflect the linguistic diversity of our workforce and customer base. In addition, the organisation actively promotes cultural harmony through workplace celebrations such as Sinhala and Tamil New Year, and Christmas, fostering mutual respect and employee engagement. These efforts, alongside inclusive hiring practices and awareness campaigns, reinforce our commitment to Diversity, Equity, and Inclusion (DEI) across the organsation.

Employee Engagement Activities

HNBF's employee engagement framework is purpose-built to cultivate a dynamic, inclusive, and people-first workplace culture. During the reporting year, we implemented a robust set of initiatives spanning wellness, communication, recognition, and work-life integration. Highlights included team building programs, outbound training, the Talent Club, and recognition platforms such as the "Employee of the Month" and "CEO Club" awards.

Additionally, culturally and personally enriching activities such as the Women's Day program, *Poson Bakthi Gee* performances, and personal grooming and wellness sessions conducted in collaboration with external parties contributed to holistic employee engagement. Wellness campaigns and recreational activities further ensured that employees remained connected, valued, and aligned with the Company's broader purpose.

Labour Practices

We uphold fair labour practices guided by regulatory compliance, ethical responsibility, and employee wellbeing. HNBF maintains a strong policy environment—including a comprehensive HR Manual, updated Remuneration policy, and an Employee Handbook—that supports transparent recruitment, performance-based progression, and grievance redress.

A structured grievance handling process is conducted within the organisation to ensure that employee concerns are addressed fairly and promptly. To further support conflict resolution, mediation officers have been appointed to facilitate dialogue and help find amicable solutions to workplace issues. Our commitment to a respectful workplace is also reinforced through strict anti-discrimination protocols. These practices ensure our human capital remains protected, supported, and empowered to contribute meaningfully across the employee lifecycle

Employee Health and Safety

The safety and wellbeing of our employees remain central to our sustainability vision. We have trained our staff on health, safety and fire responses through selecting a cross-departmental representation to lead our proactive approach to workplace safety. Regular assessments, awareness initiatives, and response protocols are designed to create a secure and supportive working environment. Beyond physical safety, we extend our efforts to mental health, offering wellness workshops, gym access, and campaigns to promote healthy lifestyle choices. These interventions foster a culture where wellbeing underpins performance and employee satisfaction.

Training and Development

HNBF is committed to building a future-ready workforce through continuous learning and professional development. Our training programmes are informed by a rigorous Training Needs Analysis (TNA) and cover technical, leadership, and behavioral competencies. In 2024/25, we delivered a wide range of internal and external learning interventions including sales certification programmes, leadership development, credit evaluation training, and digital literacy initiatives. High-potential employees were selected for the "High Flyers" talent acceleration programme, reflecting our investment in long-term career growth. These learning opportunities reinforce our performance-driven culture and support the broader sustainability goals of the organisation.

The following metrics reflect our commitment to gender equity, employee wellbeing, and an engaged, empowered workforce:

Female Workforce Contribution: 19	Employee Engagement Activities Conducted: 14	Total Training Hours: 88,000+	Health and Safety Incidents Identified: 0
A reflection of our ongoing efforts to promote gender balance across all staff categories.	Initiatives designed to foster connection, motivation, and a people-centric workplace culture.	Demonstrating our dedication to inclusive learning and professional development.	Indicator of the effectiveness of our proactive safety management and wellness monitoring systems.



We view governance not merely as a compliance function but as a strategic pillar that underpins the integrity, resilience, and sustainability of our business. At HNB Finance, governance is deeply embedded in our organisational ethos, guiding decision-making, risk management, and accountability at every level. Our commitment to ethical conduct, regulatory adherence, and transparent reporting ensures that we maintain stakeholder trust while driving long-term value creation. Through board oversight, robust policies, and integrated ESG governance frameworks, we foster a culture of responsibility that aligns business growth with the principles of good corporate citizenship.

ESG Policy

HNB Finance has formalised our commitment to sustainable and responsible business practices through the adoption of a Board-approved ESG Policy. This policy serves as the foundational framework for integrating environmental, social, and governance considerations into the Company's strategic planning, operational execution, and risk management processes. It outlines clear principles and accountability mechanisms to guide ethical conduct, stakeholder engagement, and sustainable value creation across the organisation. The ESG Policy is reviewed periodically to ensure alignment with evolving regulatory requirements, international best practices, and stakeholder expectations.

Board of Directors

HNBF currently boasts a diverse Board of Directors comprising individuals with a wide range of expertise, backgrounds, and experiences, which strengthens our governance and strategic decision-making capabilities. Recognising the importance of continuous improvement in board diversity, the company is actively seeking to incorporate additional members who can bring fresh perspectives and specialised knowledge. This ongoing effort aims to enhance Board effectiveness, promote inclusive leadership, and ensure that our governance practices align with evolving industry standards and stakeholder expectations. By fostering a more diverse and dynamic Board, HNBF reaffirms its commitment to responsible leadership and sustainable growth.

Business Ethics

A comprehensive suite of governance policies underpins our commitment to ethical conduct. This includes our Code of Conduct and Ethics, Anti-bribery and Corruption Policy, and Anti-fraud Policy, all of which are actively implemented across the organisation. In addition, our Whistleblower Policy ensures that employees and stakeholders can report grievances or ethical concerns in a protected and transparent manner.

Management of legal and regulatory environment

Our compliance with Anti-Money Laundering (AML) and Know Your Customer (KYC) regulations is rigorous, and we are currently enhancing these capabilities further through the core banking system integration scheduled for 2025. Governance at HNB Finance is not static but continuously strengthened, with ESG integration into our Board approved Integrated Risk Management Framework.

Business Continuity Plan

HNB Finance PLC recognises that business resilience is essential to maintaining stakeholder trust and operational integrity in the face of unforeseen disruptions. Our Business Continuity Plan (BCP) is a structured framework designed to ensure the continuity of critical business functions during emergencies such as natural disasters, cyber threats, or operational breakdowns. The BCP outlines response protocols, recovery timelines, communication channels, and responsibility matrices to minimise disruption and restore normalcy efficiently. As part of our proactive risk management culture, we conduct annual BCP drills to test the effectiveness of these plans across departments and operational sites. These simulations enable us to identify gaps, refine processes, and strengthen our preparedness to respond swiftly and effectively under real crisis conditions. Through regular updates and scenario-based testing, our BCP remains robust and aligned with both regulatory expectations and international best practices for business continuity.

Customer privacy and Data Security

HNB Finance recognises the critical importance of safeguarding customer information in a digital-first era. In compliance with the Personal Data Protection Act, No. 9 of 2022, we have strengthened our internal controls to ensure responsible data governance across all digital and physical platforms. This includes rigorous data handling protocols, access restrictions, and encryption standards.

Our investment in secure IT infrastructure extends beyond technology, encompassing comprehensive measures to protect sensitive data and ensure customer trust. We have aligned our Information Security Policies Manual (ISPM) with ISO/IEC 27001 standards, revised our Information Security Management System (ISMS) accordingly, and established a dedicated Information Security Committee with Board-approved oversight. Key initiatives include the deployment of Multi-Factor Authentication (MFA), advanced encryption, staff cybersecurity training, and near complete Data Loss Prevention (DLP) implementation.

Additionally, our firewall infrastructure was upgraded to enhance perimeter defenses and bolster resilience against sophisticated cyber threats. Together, these measures ensure that our core banking system and every customer touchpoint benefit from enhanced security, protecting the confidentiality and integrity of information while upholding transparent communication with customers about their data rights. These measures are part of a broader commitment to maintaining customer trust and ensuring compliance with evolving regulatory expectations in the digital financial landscape.

Transparency and Reporting

We hold ourselves to high standards of disclosure and accountability. We rely on numerous internal and external channels to ensure that stakeholders receive comprehensive updates on our ESG journey. At the internal level, the Board Strategic and Investment Review Committee analyse quarterly updates.

We also adhere to Global Reporting Initiative (GRI) standards for our annual sustainability reports, which detail key performance metrics, initiatives, and future plans. We have partnered with third-party experts to obtain support in the verification and calculation of our carbon footprint and related environmental indicators.

Furthermore, we engage communities and other stakeholders through website updates, social media, traditional media as well as investor briefings, to make our sustainability efforts visible. Educational campaigns and community events further enhance our communication efforts, reinforcing our commitment to open dialogue and stakeholder trust.

Regulatory Stipulations Governing the Sustainability Landscape

HNB Finance PLC's sustainability strategy is firmly grounded in a strong compliance culture, closely aligned with the evolving regulatory landscape governing sustainable finance in Sri Lanka.

Central Bank of Sri Lanka Roadmap for Sustainable Finance	Guided our integration of sustainability into financial decision-making and risk management
Sri Lanka Green Finance Taxonomy Guidelines	Provided a framework to classify and support environmentally sustainable financial activities.
Technology Risk Management and Resilience Guidelines (CBSL)	Strengthened our capacity to manage cyber and operational risks across digital platforms.
Personal Data Protection Act, No. 9 of 2022	Ensured responsible data governance and protection of stakeholder privacy.
Anti-Money Laundering (AML) Laws and Financial Transaction Reporting Act No. 6 of 2006	Maintained robust safeguards to detect and prevent illicit financial activity.
Colombo Stock Exchange (CSE) Regulation on Sustainability Policy	Reinforced transparency and accountability in our public sustainability disclosures.
SLFRS S1 and S2 Requirements	Initiated alignment with new Sri Lanka Financial Reporting Standards for sustainability-related disclosures.

Our compliance with these frameworks not only reinforces our commitment to national sustainability goals but also ensures we operate within a robust governance framework that prioritises long-term environmental and social value. HNB Finance remains vigilant in keeping pace with regulatory developments and proactively updates internal policies and practices to meet and exceed these standards, thereby fostering trust among stakeholders and contributing to the resilience and sustainability of the financial sector.

AN OVERVIEW OF THE COMPANY
LEADERSHIP
OPERATING ENVIRONMENT
CAPITAL REPORTS
GOVERNANCE
RISK MANAGEMENT
FINANCIAL REPORTS
SUPPLEMENTARY INFORMATION

RISK MANAGEMENT

Risk management has always been an integral facet of our operations. This year, we continued to reinforce Integrated Risk Management Framework policy to ensure that ESG risks are systematically identified, assessed, and mitigated. As such, we were able to make tangible progress in incorporating environmental and social risk indicators into our credit evaluation and investment frameworks.

As part of our broader commitment to responsible finance, HNB Finance undertook a comprehensive revision of our Integrated Risk Management Framework policy during the 2025 review cycle, with a key focus on the formal integration of ESG criteria. This pivotal update reflects our intent to systematically embed environmental, social, and governance considerations into all aspects of risk assessment and decision-making. This allowed us to reinforce our strategic approach to sustainability-driven risk governance—ensuring greater consistency in evaluating credit risk, operational resilience, and long-term viability. Our alignment with regulatory directives issued by the Central Bank of Sri Lanka further ensures that this integration supports national financial governance frameworks and advances sustainable finance practices across the industry.

Strengthening risk governance will enable HNBF to secure operational stability, whilst boosting stakeholder confidence and market credibility in an increasingly ESG-conscious business landscape.

FUTURE OUTLOOK

Looking ahead, HNB Finance remains committed to advancing our ESG agenda with clarity, purpose, and measurable results. In the near term, we will complete the carbon footprint analysis, providing a benchmark for future emission reduction targets.

Strategically, we aim to deepen the integration of ESG into our risk management, product innovation, and stakeholder engagement processes. As part of this progression, we will also initiate structured assessments to identify and measure sustainability-related risks and opportunities, ensuring these insights are embedded into forward-looking planning and business resilience strategies. A structured dialogue with key stakeholder groups—including customers, employees, regulators, NGOs, and partners—will continue to inform our sustainability priorities through surveys, community outreach, and feedback mechanisms.

Through continuous materiality assessments, we will refine our focus on areas such as financial inclusion, responsible lending, and data protection. Our ESG strategy will unify these efforts under a cohesive and actionable roadmap, ensuring that HNB Finance remains a catalyst for inclusive, ethical, and environmentally sound growth in the years ahead.

Capital Reports

64 / Business Review
72 / Financial Capital
80 / Intellectual Capital
90 / Manufactured Capital
96 / Human Capital
108 / Social and Relationship Capital
122 / Natural Capital
130 / Business Transformation

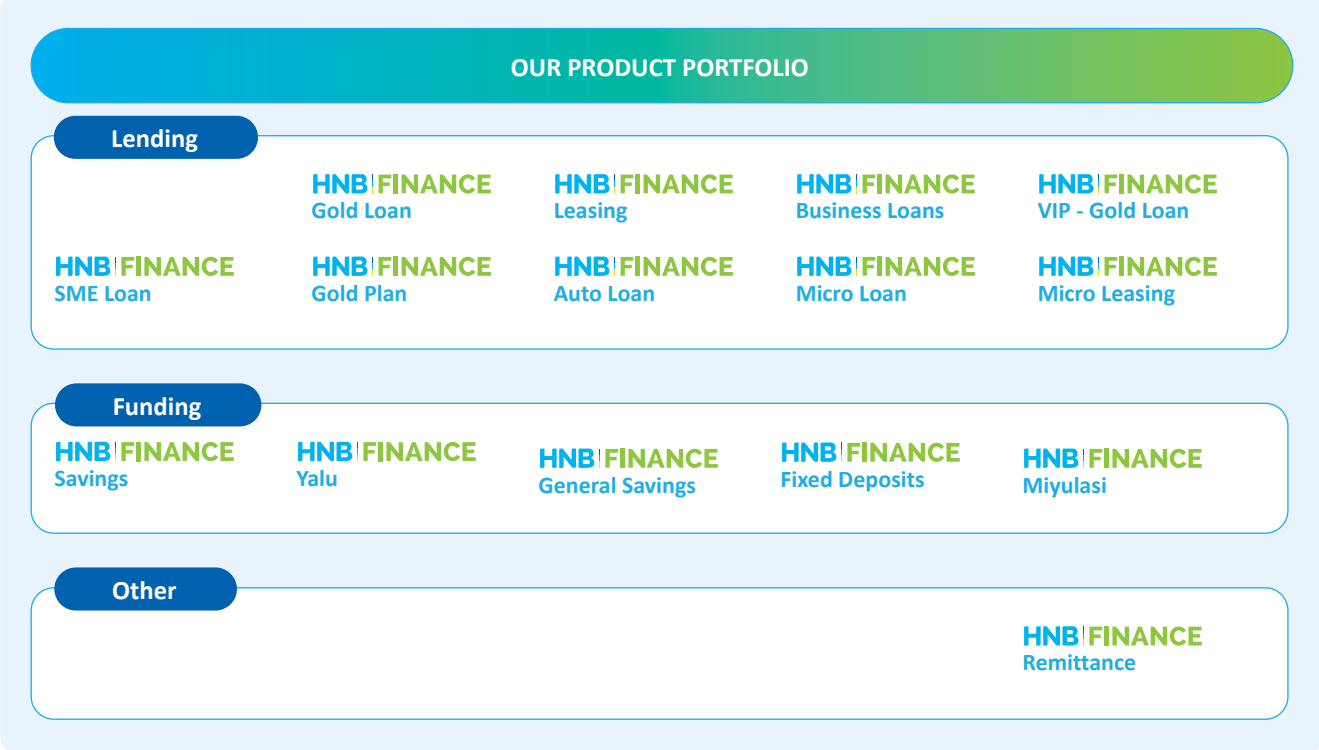


Business Review

The financial year 2024/25 was one of strategic repositioning and resilient performance for the Company. Despite macroeconomic headwinds, policy shifts, and competitive pressures, we recorded significant improvements across our core business segments. Our continued investments in digital transformation, customer-centric strategies, and process enhancements allowed us to expand market share, diversify our portfolio, and strengthen our risk management frameworks. The following review outlines the performance, strategic focus, challenges, and outlook of each of our key business lines.

STRATEGISING FOR TRANSFORMATION

Our transformation journey is actively reshaping our business portfolios, as we transition from a traditional finance company into a diversified financial services provider. This ongoing strategic shift is more than a change in direction it is a fundamental reconfiguration of how we deliver value. Each business line is evolving in response to our broader transformation vision, with product strategies being realigned, portfolio compositions being recalibrated, and operations being strengthened to drive resilience, agility, and stakeholder value. Our focus is on expanding the depth and breadth of our offerings, fortifying governance structures, and building a more inclusive and future-ready organisation capable of meeting dynamic customer needs and market realities.



LEASING

The leasing portfolio saw strong performance improvements over the year, growing by 64% in comparison to the previous financial year. This improvement was driven by streamlined application processes, a more responsive approval framework, and comprehensive dealer and digital promotional campaigns. Notably, a unique partnership with a premier service provider to offer complimentary vehicle servicing and the loyalty programme contributed to enhanced customer retention and satisfaction. These efforts, alongside a faster execution process, the launch of value-added services, and a strong emphasis on customer segmentation and area-specific targeting, translated into meaningful growth in both disbursement volumes and portfolio quality. Meanwhile, we strengthened team engagement and performance through concentrating on human capital development to improve agility and service excellence. These changes resulted in improved customer conversion and enhanced leasing revenue.

Market Challenges

Despite positive performance, the business faced headwinds. Vehicle price volatility driven by global and local supply chain disruptions created pricing instability, making lease structuring more complex. Competition intensified, with market players offering aggressive rates to capture share, putting pressure on margins. Additionally, government fiscal policies, including unfavorable tax and regulatory frameworks for vehicle imports and financing, dampened broader market sentiment, particularly within the new vehicle segment.

Strategic response

We continued to expand our leasing portfolio in 2024/25, reinforcing its position as a core growth driver within the Company's lending strategy. Key product categories such as Auto Leases and Micro Leases were advanced through a series of initiatives aimed at improving accessibility, personalisation, and market reach. These included the rollout of Flexi Leasing options and the Loyalty Card Programme, along with collaborations not only with premier automotive service providers but also with strategic vehicle dealerships to streamline customer access to leasing solutions. To further boost visibility and attract a broader customer base, we launched targeted promotional campaigns and strengthened our online presence, enhancing digital engagement and making our offerings more accessible to a tech-savvy clientele. These combined efforts were instrumental in elevating customer experience and market competitiveness.

To complement these innovations, HNBF also executed branch relocations to improve accessibility in high-demand areas and deployed focused sales strategies at selected branches. Cross-selling was aggressively pursued, leveraging the strength of the broader lending portfolio to create synergies and deepen customer relationships.

Opportunities for growth

Amidst these challenges, several promising opportunities emerged. A notable recovery in market conditions, improved economic confidence, and increased demand for micro and urban vehicles presented fertile ground for portfolio expansion. The growing interest in electric and hybrid vehicles also opened pathways to introduce sustainable financing solutions. HNBF is well-positioned to tap into this segment, aligning product development with national and global green mobility trends.

Future outlook

Looking forward, HNBF will continue our leasing-led portfolio transition with the objective of increasing the contribution from leasing activities. The Company plans to introduce new leasing products for brand-new vehicles, including green leasing options that promote environmentally responsible transportation choices. To maintain a competitive edge, rapid approval processes will be implemented, supported by the rollout of a new core solution. This core platform will significantly enhance operational efficiency and enable faster turnaround times, thereby improving the overall customer experience. Additionally, HNBF aims to enhance its risk management posture through continued portfolio optimisation. Growth will be guided by a segmented approach offering tailored microfinance solutions for specific customer groups, innovative products to facilitate business expansion, and sustainable vehicle financing designed for the urban middle class.

GOLD LOAN

The gold loan portfolio recorded steady growth in 2024/25, with gold stock increasing by 65% year-on-year to reach LKR 8.9 Bn. Lending disbursements also rose significantly, surpassing the annual target by 113%. This strong performance was driven by aggressive branch-level expansion and the introduction of new, customer-centric gold loan offerings.

The Company inaugurated gold loan operations at eight new locations, including Panadura, Mahiyanganaya, Galgamuwa, Kakirawa, Kuliyapitiya, Kurunegala Metro, Beliatta, Embilipitiya, and Wattala, further strengthening our national footprint.

Market Challenges

The gold loan market remained highly competitive during the year, with almost all banks and non-bank financial institutions aggressively expanding their presence in this space. This surge in market entrants intensified the battle for customer acquisition and placed downward pressure on margins. At the same time, the surge in global gold prices introduced new operational risks. The proliferation of counterfeit gold emerged as a serious concern, complicating asset verification processes and increasing the risk of portfolio contamination. Navigating these dynamics required HNBF to adopt stringent quality assurance protocols while also ensuring speed and customer convenience two key drivers of success in the gold lending sector.

Strategic response

HNBF executed a multi-pronged strategy to capture market share and meet the evolving credit needs of customers. The introduction of three new products Cash in Flash, Super Max, and Ransahana enabled the Company to cater to diverse borrower profiles, from emergency cash seekers to high-value clients and installment-based gold loan users. We appointed eight regional supervisors to enhance operational efficiency and oversight across gold loan branches. Strategic partnerships with local jewelers supported innovative lending models, allowing customers to purchase gold items through installment financing. Marketing collaborations with Neth FM amplified product visibility and supported regional outreach efforts.

With counterfeit gold risks on the rise due to escalating prices, our robust quality control protocols and staff training have created a competitive edge in ensuring loan security and customer confidence.

Opportunities for growth

Economic constraints drove higher demand for accessible credit, positioning gold loans as a critical lifeline for many households and small businesses. The rising interest in jewelry fueled by gradual economic recovery further expanded the addressable market. HNBF leveraged these trends to extend credit access, especially in underserved regions through new branch rollouts.

Future outlook

HNBF will continue to scale our gold loan portfolio through digital transformation and targeted expansion. We have laid out plans to launch three new Gold Loan branches, while our digitalisation efforts aim to streamline operations and enhance customer experience. Additionally, we expect to drive future growth through the introduction of innovative gold loan products specifically designed to meet the diverse needs of targeted customer segments. These offerings are expected to serve as key enablers in running the gold loan business more competitively and efficiently in the upcoming financial year, enhancing both reach and responsiveness.

As competition intensifies, our focus on speed, flexibility, and trust will differentiate HNBF in Sri Lanka's fast-evolving gold loan landscape.

MICRO FINANCE

Compared to the previous year, the Micro Finance segment saw a strategic contraction of unsecured exposures, as illustrated by the 25% reduction in the portfolio.

The cautious lending approach adopted during the year significantly enhanced the quality of new disbursements, as evidenced by a notably lower NPL ratio in the newly granted portfolio. These positive outcomes underscore the long-term advantages of transitioning toward secured lending and asset-backed risk frameworks, reinforcing the effectiveness of our risk-conscious credit strategy.

Market Challenges

The recovery of the Microfinance loans proved challenging during the year, as deteriorated market conditions significantly affected our micro customer segment. Many of these customers, already vulnerable, faced increased financial pressure, hindering their repayment capacity. These conditions demanded heightened engagement and customized recovery strategies to maintain portfolio quality. Elevated NPA levels across certain segments posed hurdles, but were mitigated through enhanced evaluation, monitoring, and recovery processes, backed by stricter credit controls.

Strategic response

In line with our overall transformative approach, we placed strategic emphasis on asset quality and portfolio stability to strengthen the microfinance portfolio. This shift included the introduction of secured microfinance product, designed to diversify risk and support sustainable lending practices. Lending decisions were closely aligned with branch-specific non-performing loan (NPL) trends, enabling targeted action to mitigate risk and strengthen credit discipline across the portfolio.

The transition marked a deliberate move away from traditional unsecured lending models to a collateral-backed structure, enabling the company to support a broader segment of small-scale entrepreneurs while safeguarding portfolio health.

Opportunities for growth

The introduction of secured microfinance unlocks opportunities to tap into underserved market segments, particularly among micro-entrepreneurs with collateral capacity who were previously beyond the reach of traditional group lending. This positions HNBF to expand its footprint in the broader Micro Finance landscape, offering solutions tailored to the evolving needs of informal sector participants seeking formal credit.

Future outlook

Looking ahead, the focus will remain on scaling the secured microfinance product, while maintaining rigorous credit assessment and enhancing staff capabilities through continuous training. The ultimate goal is to increase lending volumes without compromising asset quality, ensuring that the Micro Finance sector remains a reliable contributor to portfolio performance and broader financial inclusion objectives.

HOUSING FINANCIAL SOLUTIONS (HFS)

The HFS Department achieved a remarkable portfolio growth by 153% in the financial year 2024/25. This significant increase was fueled by the introduction of innovative new products, market-sensitive payment plans, and a customer-centric approach to service delivery. Additionally, internal infrastructure enhancements including streamlined business processes and improved service delivery channels contributed to higher efficiency and a more seamless customer experience.

Market Challenges

The HFS business operated in a challenging environment marked by fluctuating returns on alternative investment instruments such as Fixed Deposits (FDs), Treasury Bills, and Government Bonds. These shifts influenced investor behavior and demand dynamics. These factors impacted market sentiment and the pace of real estate transactions, creating a more complex landscape for HFS product deployment.

Strategic response

In response to evolving market conditions and customer expectations, HNB Finance introduced innovative financial solutions and flexible payment plan specifically for the housing component of the HFS loan portfolio. Additionally, payment structures for land-based projects were recalibrated to better reflect prevailing market trends and competitive forces within the real estate sector. These refinements aim to enhance affordability and drive customer acquisition while supporting HNBF's broader strategic objectives.

Meanwhile, our alliance with Prime Group – a leading entity in the real estate sector provides a strong competitive advantage, with all HFS loans fully secured by a payback guarantee from Prime Group. This guarantee framework enhances credit quality, reinforces customer confidence, and aligns with HNBF's commitment to responsible lending.

Future outlook

Looking ahead, the HFS Department is targeting an ambitious disbursement goal for the financial year 2025/26. We will rely on continued innovation in product structuring, expanded customer outreach, and deeper integration with strategic real estate partners to fuel this growth trajectory. With a clear focus on agility, risk management, and market relevance, the HFS product is poised to play a pivotal role in HNBF's growth agenda.

MICRO FINANCE

In 2024/25, FD portfolio grew by 2% year-on-year, supported by strong customer retention and minimal premature withdrawals, in spite of heightened competition. Additionally, the Company maintained an average renewal ratio above 70% throughout the financial year, reflecting deep depositor confidence and long-term relationship strength. This performance illustrates the positive impact of our service-driven approach and the overall quality of customer experience.

Market Challenges

The FD business navigated a number of structural challenges, including intense rate-based competition from peer institutions. In addition, investor sentiment was influenced by the appeal of money market accounts, which allowed depositors to avoid withholding tax (WHT) deductions. These trends required active liquidity management, particularly in light of the increase in longer-term deposits.

Strategic response

HNB Finance pursued a prudent and stability-oriented strategy for our Fixed Deposit (FD) portfolio. Our primary focus remained on securing low-cost, long-term funds to support financial sustainability while maintaining a conservative weighted average interest rate. We consciously refrained from aggressive or hard-sell tactics, instead emphasising long-term relationship-building and trust-based customer engagement. A key element of this approach was the introduction of our loyalty card programme, designed to deepen customer relationships and reward continued patronage. Complementing this was a strategic emphasis on branch-level deposit mobilisation, empowering branches to cultivate community engagement and foster strong depositor relationships. Additionally, we increased our focus on retail deposits, recognising their role in ensuring stability, enhancing liquidity, and aligning with our vision for sustainable growth and responsible financial stewardship.

Opportunities for growth

Despite market pressures, significant opportunities remain. Geographic expansion into underserved regions presents a compelling path to attract new depositors and grow our customer base. At the same time, the FD portfolio holds strong potential for cross-selling other savings and investment products, enabling greater customer engagement and holistic financial solutions.

Future outlook

Looking ahead, we are poised to strengthen our digital onboarding capabilities and expand both internet and mobile banking infrastructure. These enhancements will be further supported by the implementation of a new core solution, aimed at significantly improving service delivery, operational agility, and customer satisfaction. This core system will ensure a seamless, accessible, and modern banking experience through streamlining internal processes and enabling more responsive, personalised service ultimately fostering stronger customer loyalty and long-term retention.

SAVINGS

The savings portfolio delivered steady growth in 2024/25, underpinned by a trust-based engagement model and the introduction of innovative, customer-centric products. The launch of Power Saver and Wasi Seettuwa products significantly enhanced our value proposition. Strategic enhancements such as the loyalty card programme have further improved accessibility and customer stickiness. Promotional campaigns aimed at minor savings and efforts to expand into underserved regions supported broader financial inclusion goals. These initiatives, combined with a deliberate focus on maintaining stable interest margins, enabled portfolio expansion while reinforcing long-term depositor confidence and financial sustainability.

Market Challenges

During the year, the savings business navigated a competitive financial landscape characterised by rising depositor expectations and aggressive rate offerings from peer institutions. These market conditions created pressure to retain and attract saving deposits. In addition, customer hesitancy and the rising demand for digital convenience underscored the need for renewed engagement and adaptive service models.

Strategic response

In response, HNB Finance pursued a stability-oriented and customer-aligned strategy, emphasising long-term relationships over short-term acquisition. We prioritised the revitalisation of inactive and zero-balance accounts through structured outreach and personalised engagement. The launch of the Power Saver and Wasi Seettuwa products diversified our portfolio, offering tailored benefits for varying customer needs, including enhanced yield options. Meanwhile, our loyalty card programme, improves convenience, hence reinforcing customer retention.

Opportunities for growth

We achieved notable progress in expanding our savings base, as evidenced by a substantial number of new account openings underscoring the increasing appeal and relevance of our product offerings. Among these, the Power Saver initiative stood out as a key success, effectively attracting a new segment of savers and reinforcing our position as a trusted partner in personal financial growth. Additionally, we witnessed continued traction in minor savings, supported by well-executed promotional efforts. In this backdrop, untapped markets and regions remain opportune grounds for expansion, while synergistic cross-selling with other products, including fixed deposits and loyalty services, offering a path to deepen customer value and drive portfolio growth.

Future outlook

Our vision for the savings portfolio is anchored in inclusive, innovation-led growth, supported by a strong digitalisation drive. In line with this, we plan to introduce the Visa debit card to enhance customer convenience, expand access to transactional banking, and strengthen our value proposition. Complementing this, soon to be launched internet and online banking platforms, will enable customers to manage their savings anytime, anywhere. These digital enhancements are designed to improve customer experience, encourage savings behavior, and attract a wider demographic of digitally savvy clients. Alongside offering competitive, market-aligned returns, these initiatives collectively position HNB Finance as a forward-thinking and preferred savings partner in Sri Lanka's rapidly evolving financial services landscape.

RECOVERY

The recovery team delivered strong performance outcomes during the year, driven by a heightened focus on recovery strategies and execution. This intensified effort led to a significant reduction in the Non-Performing Loan (NPL) ratio, alongside a notable increase in the Stage 1 performing loan ratio. These results underscore the effectiveness of our proactive credit management and reinforced commitment to portfolio quality.

Key recovery campaigns such as "Mission of Survival," "Rise of Phoenix," and "Mission 180" targeted high-risk segments driving impactful recoveries. As part of a broader strategic initiative, the department also implemented microfinance recovery plans across selected branches, enhancing their contribution to profitability through restructuring, and settlement pathways.

Market Challenges

In 2024/25, the Recovery Department operated in a climate of heightened complexity and evolving borrower behavior. The lingering impact of previous economic shocks continued to weigh on customer repayment capacity, particularly within the microfinance segment. Several branches carried legacy portfolios with elevated Stage 3 exposures, necessitating intensified and targeted recovery action. Recovery teams also contended with customer disengagement and litigation delays, which slowed down settlement processes. While stricter credit controls and enhanced monitoring helped mitigate risk, the growing need for personalised recovery solutions required deeper field-level interventions and flexible strategies. These challenges demanded not only persistence and resilience, but also a shift toward a more empathetic, data-driven, and performance-aligned recovery framework.

Strategic response

The Recovery Department at HNB Finance operated under a performance-driven, KPI-led framework in 2024/25, following a strategic restructuring under experienced new leadership. This leadership transition brought renewed focus and discipline to recovery operations. Each recovery officer worked toward clearly defined targets, enabling structured progress monitoring and timely course corrections. Regular performance reviews were conducted by management to ensure alignment with corporate recovery objectives, while detailed progress reports were submitted to senior leadership to enhance accountability and support informed decision-making.

Recognising the growing importance of technology-enabled communication in recovery operations, we significantly enhanced our Call Center function during the year. This included advanced training for call center officers and system upgrades that improved both the quality and efficiency of customer interactions. These enhancements enabled more effective follow-ups, increased early-stage collection rates, and strengthened engagement across various delinquency buckets. Additionally, we introduced a zonal structure to the leasing portfolio, dividing operations into four major zones, each led by a dedicated Zonal Head. This restructuring has improved regional accountability and enabled more precise monitoring of recovery performance at the branch level. To complement these initiatives and foster a customer-centric recovery approach, we also reinforced back-office operations by providing staff with enhanced tools, training, and customer-handling protocols. These efforts have collectively contributed to stronger customer relationships, better communication, improved repayment behaviour, and long-term portfolio sustainability.

Oversight by the Board Recovery Committee proved instrumental in shaping the department's approach. Their intensive supervision, strategic direction, and consistent follow-ups ensured alignment with broader organisational goals. Drawing on their industry expertise, the Committee offered critical insights that enhanced recovery efforts and bolstered operational discipline across the function.

Customer-Centric Recovery

In line with our commitment to responsible and relationship-driven financial practices, recovery officers adopted a flexible and empathetic approach to customer engagement. Clients experiencing financial distress were supported through a range of tailored solutions, including concessions, rescheduling of payments, special rebates, and structured settlement options. For high-value or distressed accounts, personalised visits and one-on-one negotiations were prioritised to build trust and arrive at mutually beneficial resolutions.

This customer-first strategy not only enhanced repayment responsiveness and increased the rate of account settlements but also helped restore loyalty among previously inactive clients. Many of these positive recovery experiences led to customer referrals and new business opportunities, clearly demonstrating that ethical and compassionate recovery efforts can serve as a catalyst for broader customer relationship growth and long-term value creation.

Technology and Communication

Technology played a pivotal role in enhancing recovery efficiency. The department leveraged interactive dashboards and data analytics tools developed in collaboration with the Recovery MIS Team for better insight generation and decision-making. Virtual coordination through Microsoft Teams ensured seamless collaboration, while automated systems streamlined back-office processes. Looking ahead, the integration of the core banking system is expected to further digitise and optimise recovery workflows.

HNBF also deployed a multi-tiered communication strategy. Early-stage calls from the call center-initiated recovery dialogues, followed by formal written reminders when required. Recovery officers and Senior Managers including Regional Managers and Zonal Heads were mobilised for physical visits in critical or sensitive cases, ensuring a continuous and escalating engagement model that helped secure resolutions at every stage.

Future outlook

The department will continue to focus on sustaining lower NPL ratios while increasing recovery efficiency through a blend of technology, personalised engagement, and structured oversight. With strategic input from the Board Recovery Committee and an expanding digital toolkit, HNBF's recovery operations are poised to play a key role in enhancing portfolio quality and supporting the company's long-term financial resilience.

Financial Capital

The 2024/25 financial year marks a period of sustained recovery and transformation for HNB Finance PLC (HNBF), building on the momentum established during the turnaround in 2023/24. The Company's renewed focus on profitability, asset quality, and liquidity has yielded resilient performance amidst a still-evolving macroeconomic landscape. With a strategic shift towards secured lending and strengthened deposit mobilisation, the Company's financial capital continues to serve as the bedrock for sustainable value creation across all capitals.

HIGHLIGHTS OF THE YEAR

- Profit After Tax (PAT) increased by 23% to LKR 765 Mn., reflecting the Company's strong operational performance.
- Successfully completed a Rights Issue of LKR 1.2 Bn. during the financial year, further strengthening the Company's equity base.
- The lending portfolio expanded by 33%, reaching LKR 44 Bn., driven by focused portfolio diversification and enhanced credit delivery channels.



MANAGEMENT APPROACH

Our management approach to financial capital pivots on balance sheet discipline, cost efficiency, and value-focused lending. Strategic financial stewardship is demonstrated through the diversification of its lending portfolio, with a preference for secured products such as gold-backed loans and leasing facilities. The Company actively manages liquidity and interest rate risk to mitigate macroeconomic uncertainties and ensure funding adequacy. Capital adequacy is closely monitored in line with guidelines issued by the Central Bank of Sri Lanka, supported by contingency planning to maintain regulatory compliance. Cost optimisation remained a key priority, with initiatives focused on streamlining operations and increasing automation to enhance margins. Over the year, the Company recalibrated our funding mix and repriced liabilities to take advantage of softening interest rates. Concurrently, investments were directed toward strengthening recovery mechanisms and enhancing digital infrastructure, laying the foundation for sustainable returns within a more agile and resilient operational model.

ANALYSIS OF THE FINANCIAL CAPITAL INFLUENCE ON OTHER CAPITALS

HUMAN CAPITAL

Funding for employee engagement, reskilling initiatives, performance rewards, and wellbeing programmes.

INTELLECTUAL CAPITAL

Investments in IT infrastructure and digital transformation to enhance operational agility and customer-centric innovation.

MANUFACTURED CAPITAL

Capital allocation for expanding and modernising physical infrastructure, including branch upgrades and system improvements.

SOCIAL AND RELATIONSHIP CAPITAL

Investment in community programs (e.g., Mehewara Fund), stakeholder communication, and digital platforms for improved customer experience.

NATURAL CAPITAL

Financial support for green financing initiatives, energy efficiency, and e-waste management partnerships.

EXTERNAL IMPACT

Employees | Business Partners | Shareholders | Customers | Regulators | Community and Environment



OVERVIEW

HNB Finance PLC maintained the continued trajectory of financial excellence for the financial year 2024/25, built upon the solid foundations laid through transformative strategies initiated in the previous year. Following a remarkable turnaround amidst challenging macroeconomic conditions in 2024/25, the Company has recorded a commendable profit of LKR 765 Mn., reflecting the success of its prudent financial management and strategic repositioning.

The broader economic environment witnessed a positive shift, underpinned by structural reforms and stability measures introduced by the Central Bank of Sri Lanka (CBSL). These reforms enabled a recovery in domestic demand and restored confidence within financial markets. The maintenance of a low-interest rate regime supported the revival of consumer spending and business activity, creating an enabling landscape for the Company to expand its lending operations and meet targeted revenue outcomes.

Key to this financial performance was the effective execution of a portfolio transformation strategy, which included transitioning away from unsecured lending exposure and prioritising asset-backed financing. This repositioning yielded positive outcomes, including a notable reduction in impairment provisions compared to the previous financial year, driven by portfolio quality improvements.

In line with regulatory expectations and to ensure long-term capital adequacy, the Company took proactive measures to reinforce its capital structure. The Company successfully raised capital through a Rights Issue amounting to LKR 1.2 Bn. aligning with CBSL's capital adequacy requirements and LKR 2 Bn. Subordinated Trust Certificate issuance strengthening company's funding lines.

Looking ahead, the Company remains steadfast in its commitment to enhancing asset quality through sound credit risk management, optimising the funding mix to support sustainable growth, and expanding its service portfolio to deliver superior value to all stakeholders.

SUMMARY OF KPIS

Indicator	FY 2024/25	FY 2023/24
Shareholders' funds (LKR Mn)	**7,587**	5,652
Customer Deposits	**42,218**	41,261
Risk Weighted Capital Ratios (%)		
– Tier I	**11.38**	8.81
– Total Capital	**14.44**	14.10
Earnings per share (LKR)	**0.43**	0.35
Return on Assets (%)	**1.37**	1.15
Return on Equity (%)	**11.54**	11.60



NET INTEREST INCOME

During the financial year 2024/25, HNB Finance PLC's financial performance was shaped by the prevailing low-interest rate environment, which exerted a dual influence on the Company's interest income and interest expenses. The Company recorded a total gross income of Rs. 13.3Bn, reflecting a year-on-year contraction of 11% compared to the previous financial year. This decline in income was predominantly driven by two interconnected dynamics: the sharp reduction in market interest rates, and the strategic realignment of the Company's lending portfolio aimed at long-term stability and diversification. The Average Weighted Prime Lending Rate (AWPR) witnessed a substantial decline in during the year, reaching single-digit territory by the close of the financial year. While this trend benefited borrowers and contributed to improved credit uptake, it concurrently compressed the interest yield on assets, thereby impacting overall interest income.

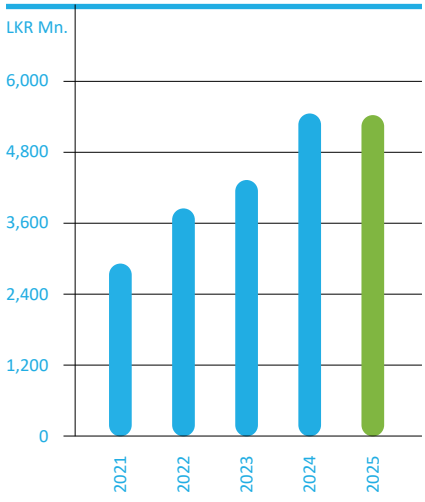
As part of our ongoing portfolio transformation efforts, we have actively transitioned away from high-yielding unsecured products towards more stable, asset-backed lending. While this transition enhances credit quality and risk mitigation, it has inevitably led to a reduction in interest income, further compounded by the macroeconomic environment.

On the other hand, the Company's interest expense declined significantly by 34% to LKR 4.9 Bn., supported by the broad-based decline in interest rates across the financial sector. This outcome was underpinned by the recalibration of our funding strategy, which centered on prudent liability management and the strategic repricing of the deposit base, particularly through the timely renewal of maturing deposits at more favorable rates. This proactive approach enabled the Company to effectively reduce the overall cost of funds, thereby contributing positively to the expansion of net interest margins and the enhancement of overall profitability.

Despite the overall decrease in both income and expenses, Net Interest Income (NII) stood at LKR 5.5 Bn., posting a marginal decline of 0.4%. This modest decline demonstrates the Company's resilience and effectiveness in navigating a challenging interest rate environment, while concurrently implementing structural changes to its asset portfolio.

The outcome reflects a prudent balance between yield management and strategic repositioning, ensuring a steady stream of interest income to support long-term financial stability and sustainable growth.

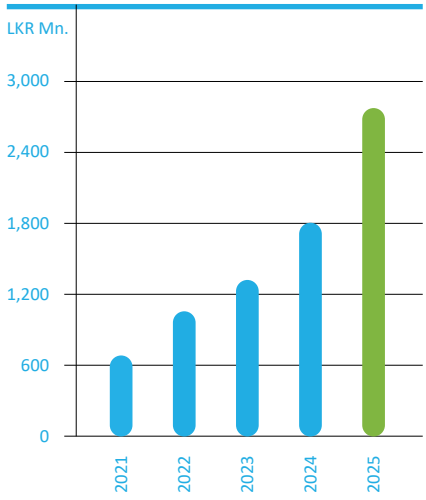
Net Interest Income -0.37%



NON-INTEREST INCOME

In line with its strategic intent to diversify revenue streams, the Company experienced an improvement in non-interest income during the financial year 2024/25, with non-interest income representing 21% of the total gross income. The Company generated LKR 2.8 Bn. in non-interest income, which includes gross fee and commission income of LKR 1.2 Bn. and Other operating income of LKR 1.6 Bn. Proper recovery initiatives enhancing the default interest income and fees on value added services paved the way to the increase of the non-interest income.

Non Interest Income

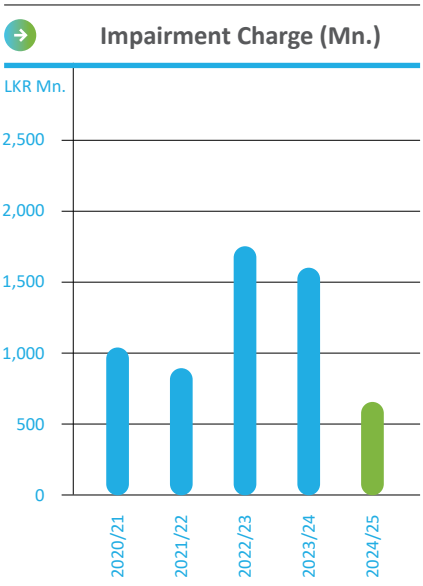


IMPAIRMENT CHARGE

During the year under review, the Company made a concerted effort to strengthen asset quality through proactive credit risk management and portfolio rationalisation. As a result, the total impairment charge reduced to LKR 660 Mn. The favorable macroeconomic environment supported a positive adjustment in the Economic Factor Adjustment (EFA) within the impairment model. Key macroeconomic indicators, including GDP growth, inflation, interest rates, and exchange rate movements, showed marked improvement during the financial year. These positive

developments allowed for a reversal in the EFA, thereby reducing the overall impairment requirement. Additionally, the tourism sector, previously classified as a risk-elevated industry due to adverse economic conditions, was re-evaluated and removed from this classification. The sector's recovery and improved outlook supported this reclassification, further contributing to the favorable movement in impairment provisions.

The Company continues to maintain adequate impairment provisions across its exposure profile, ensuring alignment with prevailing and anticipated credit risks. Looking ahead, further actions will be taken to strengthen recovery avenues, with a focus on reinforcing collection mechanisms and optimising recoveries. These initiatives will be integral to sustaining asset quality and supporting long-term financial stability.



OPERATING EXPENSES

The Company continued to maintain its commitment to prudent cost management while strategically investing in areas that support long-term growth. For the current financial year, the Company recorded total operating expenses of LKR 5.1 Bn., reflecting a 14% increase from LKR 4.5 Bn. in the previous financial year.

In line with the Company's strategic focus on digital transformation, investments were channeled into strengthening technology infrastructure, with the objective of delivering enhanced service efficiency, operational productivity, and improved customer experience. While these investments are pivotal for enabling long-term strategic objectives, the Company remains deeply committed to disciplined cost control. The Company will continue to closely monitor expense drivers, optimise resource utilisation, and implement cost rationalisation measures where appropriate. This balanced approach ensures that operational expenditure supports sustainable value creation without compromising financial prudence.

PROFITABILITY

Following a significant turnaround in the financial year 2024/25, the Company reported a Profit After Tax of LKR 765 Mn. for the current financial year, reflecting a growth of 23% compared to LKR 621 Mn. recorded in the previous year. This performance stands as a testament to the Company's resilience, prudent strategy execution, and commitment to sustainable value creation.

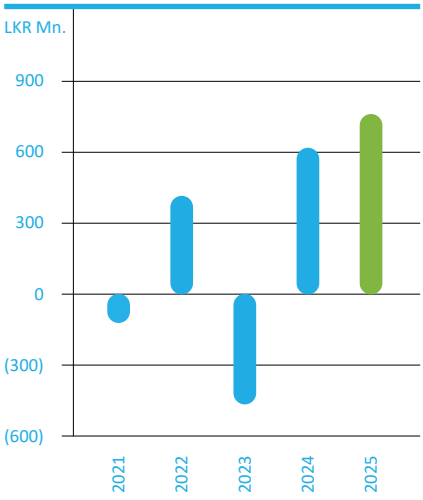
During the year, the Company strategically transitioned its portfolio composition, aligning with its goal of building a fully-fledged, well-diversified lending portfolio. This rebalancing initiative, coupled with a strengthened risk management framework, enabled the Company to achieve a more stable and robust earnings profile.

The Company continued to manage its tax positions prudently, in accordance with applicable regulations and accounting standards. A deferred tax asset, which mainly derived from qualifying payment on purchase consideration of acquisition of Prime Finance PLC in line with the consolidation program of Central Bank of Sri Lanka in the financial year 2021/22, had contributed positively in the financial year of 2023/24.

The growth in profitability was primarily driven by reflecting improved yields on interest-earning assets and effective funding cost management. Enhanced fee and other operating income along with improved recoveries which enabled reduction in the impairment provisions also contributed positively to the bottom line. Furthermore, cost rationalisation initiatives led to improved operating efficiencies.

This growth trajectory reaffirms the Company's position as a leading player in the sector, well-poised to capture emerging opportunities in a recovering economic environment.

Profit After Taxation 23.11%



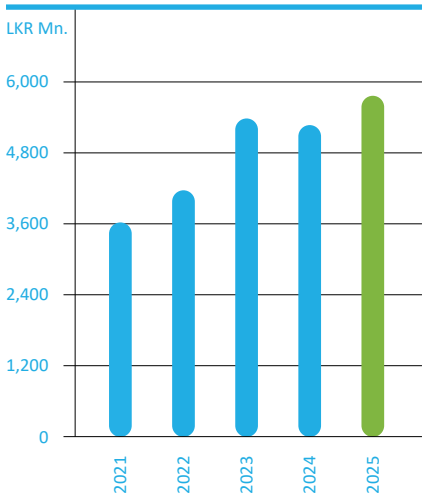
TOTAL ASSETS

As of 31 March 2025, HNB Finance PLC's total asset base stood at LKR 58.5 Bn., reflecting a 9% year-on-year growth compared to the previous financial year. This expansion underscores the Company's continued strategic focus on strengthening its balance sheet and building long-term resilience amidst a gradually stabilising economic environment.

The overall asset growth was primarily driven by a substantial increase in the net lease portfolio, which rose by LKR 10.8 Bn., reaching LKR 25.7 Bn. This growth is a direct outcome of the ongoing portfolio transformation strategy, which prioritises asset-backed lending to enhance credit quality and reduce concentration risk. Concurrently, net loans and advances to customers recorded a modest 2% increase, reaching LKR 19 Bn., bolstered by higher demand in pawning and asset pledged loan products. In contrast, investments in debt and other financial instruments contracted to LKR 6.9 Bn., enabling the Company to utilise excess liquidity to strengthen the lending portfolio, while maintaining due consideration to liquidity requirements.

Aligned with the Company's strategic objective of transitioning towards a more secured and diversified lending model, the Company has taken measured steps to reinforce its asset-backed lending focus. This move not only enhances portfolio stability but also positions the Company to manage risk more effectively in an uncertain interest rate environment, while unlocking sustainable growth potential in high-quality asset classes. The result is a stronger, more resilient asset base that supports long-term stakeholder value creation.

Total Assets -9.44%

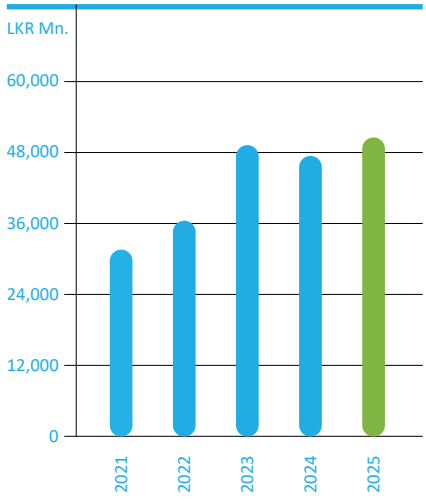


TOTAL LIABILITIES

At the end of the financial year, the total liabilities of HNB Finance PLC stood at LKR 50.9 Bn., reflecting a 7% increase compared to LKR 47.8 Bn. recorded in the previous financial year. The Company's customer deposit base, which constitutes the largest component of liabilities, recorded an increase of LKR 957 Mn. This growth was achieved through the repricing of deposits in line with prevailing market conditions, ensuring competitiveness while managing interest cost pressures. Also, the Company's debt issued, and other borrowed funds grew up to LKR 4.8 Bn. This includes the successful issuance of a LKR 2 Bn. Subordinated Trust Certificate in alignment with its overall funding and capital management strategy. In parallel, the Company also settled LKR 1.1 Bn. worth of redeemable debentures during the financial year.

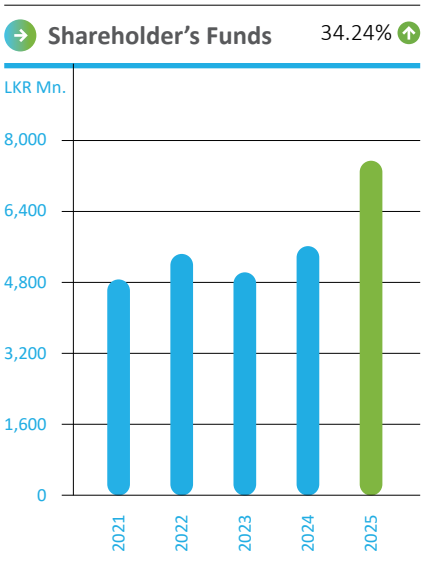
the Company continues to adopt a disciplined approach to liquidity and funding cost management, leveraging available liquidity lines and maintaining a prudent funding mix. These measures are designed to ensure financial stability, support future lending capacity, and uphold investor and depositor confidence amidst evolving market dynamics.

Total Liabilities



EQUITY

As of 31 March 2025, the Company reported total shareholders' funds of LKR 7.6 Bn., marking a significant increase from LKR 5.7 Bn. recorded at the end of the previous financial year. This substantial growth of 34% in equity attributes to the rights issue of LKR 1.2 Bn., successfully concluded during the year, which enhanced the capital base and supported the Company's growth initiatives. In addition, the operating profit generated during the financial year 2024/25 further contributed to the expansion of equity. Correspondingly, the Net Asset Value (NAV) per share improved from LKR 3.29 in the previous year to LKR 4.27 as of 31 March 2025, underscoring the Company's enhanced intrinsic value and long-term shareholder returns.



CAPITAL ADEQUACY

In alignment with the CBSL regulatory directives, the Company has proactively strengthened its Tier I capital base to meet the minimum capital thresholds for the company. To support the Total Capital Ratio, the Company successfully executed a Rights Issue amounting to LKR 1.2 Bn., which was fully subscribed and completed by the end of March 2025. This capital infusion has further solidified the Company's equity position, enabling sustainable growth while enhancing its capacity to withstand potential volatilities.

With these capital augmentation measures, the Company continues to maintain capital ratios well above the regulatory minimums, ensuring a sound capital structure that supports its strategic ambitions and protects stakeholder interests.

In line with the requirements set out in Finance Business Act Direction No. 1 of 2020 issued by the Central Bank of Sri Lanka, it is required to maintain a Regulatory Loss Allowance Reserve when the loss allowance computed under the regulatory provisioning framework higher than the impairment allowance determined in accordance with Sri Lanka Accounting Standards. For the year ended 31 March 2025, the Company recognised an allocation of LKR 176 Mn. under this reserve. This reserve, which is non-distributable in nature, is intended to strengthen the Company's financial resilience and ensure prudential compliance with capital adequacy requirements.

	As at 31 March 2025	As at 31 March 2024
Risk weighted assets (LKR Mn.)	50,946	41,021
Core Capital (LKR Mn.)	5,798	3,614
Core Capital Adequacy Ratio (%) (minimum requirement 8.5%)	11.38	8.81
Total Capital (LKR Mn.)	7,359	5,784
Total Capital Adequacy Ratio (%) (minimum requirement 12.5%)	14.44	14.10

STATEMENT OF VALUE ADDED

	2025 LKR Mn.	2024 LKR Mn.
Direct economic value generated		
Interest income	10,484	13,091
Fee and commission income	894	547
Other operating income	1,551	1,061
Value generated	**12,929**	**14,699**
Value distributed	**10,852**	**14,078**
Employee wages and benefits		
Salaries and other benefits	2,071	1,598
Payments to providers of capital		
Interest to deposit holders	4,404	6,782
Interest on borrowings	574	783
Payments to Government		
Income tax expense/(reversal)	656	54
VAT and NBT expense	646	398
Other taxes and levies expense	88	52
Operating costs		
Depreciation and amortisation	355	209
Impairment for loans and other losses	660	1,608
Other operating costs	2,710	2,702
Economic value retained	765	621

Intellectual Capital

At HNB Finance, intellectual capital is the bedrock of innovation, resilience, and sustainable growth. It encompasses our collective knowledge, proprietary systems, brand value, digital infrastructure, and organisational culture. Intellectual capital underpins how we deliver financial services, enhance stakeholder trust, and create long-term value.

HIGHLIGHTS OF THE YEAR

- Our financial resilience was validated through an upgrade in our credit rating from BBB+(lka) to A(lka) by Fitch Ratings, reflecting improved financial fundamentals and governance strength.
- Honoured with the Bronze Award for the Annual Report 2023/24, at the TAGS Awards 2024 by CA Sri Lanka, in the Non-Bank Financial Institutions category, recognising transparency and excellence in corporate reporting.
- Brand Finance recognised HNBF among the top 100 most valuable consumer brands in Sri Lanka.
- Achieved Great Place to Work certification, reinforcing our commitment to nurturing a positive, inclusive, and empowering workplace culture.
- Successfully completed the migration to a cloud powered productivity platform and other Software as a Service (SaaS) based solutions, enhancing collaboration, data security, and operational agility across the Organisation.



MANAGEMENT APPROACH

In a rapidly evolving business environment, HNBF's intellectual capital strategy focuses on enhancing technology adoption, embedding a knowledge-driven culture, and aligning digital innovation with customer needs. Through a clearly articulated IT Roadmap and an enterprise-wide shift towards a cloud powered productivity platform and cloud-first solutions, we aim to transform internal efficiencies and customer interactions. We reinforce this with strong cybersecurity protocols, data governance frameworks, and continuous employee upskilling.

Our management approach is designed to optimise value creation by leveraging the intangible yet critical assets that fuel long-term sustainability and innovation. These include our organisational knowledge, systems, proprietary technology, brand identity, and institutional memory. Through structured initiatives and forward-thinking leadership, we integrate these assets into our business model to improve performance and build stakeholder trust.

ANALYSIS OF THE INTELLECTUAL CAPITAL INFLUENCE ON OTHER CAPITALS

FINANCIAL CAPITAL

Enhances revenue generation and operational efficiency through innovation and automation.

HUMAN CAPITAL

Strengthens employee skills, engagement, and institutional knowledge through structured learning, whilst purposeful investment in intellectual capital attracts and retains skilled employees.

MANUFACTURED CAPITAL

Optimises infrastructure utility and digital access points via process digitisation and integration.

SOCIAL AND RELATIONSHIP CAPITAL

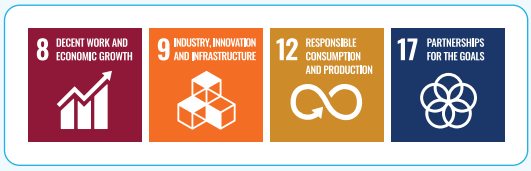
Builds trust, loyalty, and stakeholder engagement through branding, ethics, and service excellence.

NATURAL CAPITAL

Encourages sustainability through ESG-aligned digital practices and eco-conscious awareness.

EXTERNAL IMPACT

Employees | Shareholders | Business Partners | Customers | Regulators | Community and Environment



BRAND EQUITY AND MARKET PRESENCE

HNB Finance continued to fortify its position as one of Sri Lanka's most trusted and accessible financial institutions by adopting a multi-dimensional strategy rooted in our intellectual capital. Brand equity is not merely viewed as a function of marketing, but as a dynamic expression of customer experience, ethical governance, digital innovation, and social relevance. This holistic approach has enabled the company to achieve widespread recognition, strengthen stakeholder relationships, and expand its footprint in both urban and rural communities.

Our efforts were strategically anchored around key focus areas such as digital marketing and Below The Line (BTL) marketing and branch strength enhancement to increase visibility, build trust, and foster loyalty. At the branch level, significant upgrades in layout, accessibility, and staff training ensured an improved customer journey, particularly in high-traffic and semi-urban areas. The deployment of digital kiosks and customer education touchpoints within branches promoted convenience, digital literacy, and engagement.

Additionally, our visibility was amplified through a hyper-localised marketing strategy that included community sponsorships, financial literacy initiatives, outdoor promotions and localised media campaigns. These initiatives allowed the brand to remain top-of-mind while reinforcing our commitment to inclusive development.

Moreover, we earned numerous accolades during the year in recognition of our brand building digital outreach efforts.

TAGS Award

At the TAGS Awards 2024, organised by CA Sri Lanka, HNB Finance was honoured with the Bronze Award for our Annual Report 2023/24, titled "Simplify, Strengthen, Sustain" in the Non-Bank Financial Institutions category. This award reflects our commitment to transparency, accountability, governance, and sustainability in corporate reporting, showcasing the strength and clarity of our disclosures and reporting frameworks



Best Finance and Insurance Website 2024

Demonstrating our digital excellence, HNB Finance was presented with the Silver Award for the Best Finance and Insurance Website by BestWeb.lk in 2024. This recognition highlights our achievements in delivering superior user experience, high functionality, and enhanced accessibility for customers engaging with our digital platforms.



Among the top 5 Most loved finance and leasing brands

Our strong emotional connection with stakeholders was validated by our inclusion among the Top 5 most loved finance and leasing brands in Sri Lanka awarded by LMD. This distinction speaks to the trust, loyalty, and brand affinity we continue to cultivate across customer segments.

Recognised for Service Excellence by LMD

HNB Finance was also recognised by LMD for excellence in customer service, securing a place among the top 5 performers in the finance and leasing industry. This accolade reflects our ongoing dedication to elevating customer experiences through responsive service, innovation, and value creation.

Among the Top 100 Most Valuable Consumer Brands

Reinforcing our brand strength and market presence, HNB Finance earned a spot among the Top 100 Most Valuable Consumer Brands in Sri Lanka. This recognition from Brand Finance underscores our sustained brand equity and impactful engagement across the financial services landscape.

Great Place to Work

HNB Finance's workplace culture received national acclaim through its certification as a Great Place to Work.



This endorsement validates our people-centric values and highlights the inclusive, empowering, and engaging environment we foster for our employees.

Fitch Ratings Upgrade

Our standing in the financial services sector was significantly strengthened by a credit rating upgrade from BBB+(lka) to A(lka) by Fitch Ratings. This uplift serves as a compelling endorsement of HNB Finance's sound financial stewardship, underpinned by robust risk management practices, a strong and stable capital position, and a track record of consistent operational performance. The upgraded rating not only enhances our market credibility but also acts as a catalyst for future growth, opening up broader opportunities for business expansion, investor engagement, and strategic partnerships. More importantly, it reinforces stakeholder confidence in the resilience and integrity of our governance structures and operational capabilities which are key components of our intellectual capital foundation.

Through these integrated efforts, HNB Finance sustained a cohesive and compelling brand presence one that not only reflects financial credibility but also speaks to the organisation's purpose-driven ethos and unwavering commitment to the communities we serve.

Physical Branch Network

Our physical branch network remains a vital touchpoint for many of our customers, particularly in rural and semi-urban communities. To ensure relevance and efficiency, we introduced several enhancements:

- **Staff Training and Upskilling:** Branch staff received regular training in customer service, financial literacy, and digital tool usage to elevate service quality and reinforce brand values at every interaction.
- **Digital Integration at Branches:** Digital kiosks were deployed in selected branches, streamlining service delivery and promoting self-service.
- **Branch Design Refresh:** Branch layouts were modernised to improve customer flow, comfort, and brand consistency, supporting a more welcoming and efficient customer experience.

Community Driven Marketing Approach

HNBF adopted a hyper-localised and community-driven approach to marketing, ensuring that the brand remained relevant and top-of-mind across diverse demographic segments.

- **Community Sponsorships:** We actively sponsored events such as workshops and exhibitions at schools, religious events namely Poson dansala and other community gatherings, reinforcing our commitment to local development.
- **Localised Advertising:** Outreach tools such as grassroot level branding and dealer branding as well as outdoor promotions enabled strong brand penetration in regional markets.
- **Financial Literacy Workshops:** Free educational programmes on saving, investing, and Small and Medium Enterprise (SME)finance were conducted in rural areas to build both awareness and trust.
- **Partnerships with Local Businesses:** The 'Privilege Loyalty Program' helped amplify brand presence by promoting HNBF through affiliated merchants.
- **CSR Projects:** Blood donation campaigns, cultural celebrations as Poson dansal programme, and other community initiatives were integrated into our branding efforts to reflect our values and social responsibility.

NEW PRODUCT OFFERINGS AND VALUE ADDITIONS

Product innovation remains a key expression of our intellectual capital, reflecting our ability to translate market insight, customer feedback, and internal expertise into high-impact financial solutions. This year, HNB Finance introduced a suite of new and refined products to meet the evolving needs of diverse customer segments, especially those in underserved and rural markets while enhancing financial inclusion and resilience. Our product development efforts are guided by a philosophy of empowerment, flexibility, and digital enablement. We have continued to build upon internal knowledge systems, cross-functional collaboration, and external partnerships to create offerings that are not only responsive to customer needs but also aligned with broader socio-economic objectives.

Key product innovations

Loyalty Program Integration



We launched a Loyalty Card Program in collaboration with a leading customer loyalty solutions provider. This initiative is designed to reward customer tenure and engagement, offering tangible benefits for continued patronage. It also marks the beginning of a more data-driven and personalised customer journey, aligning customer incentives with deeper relationship-building. The rewards provided by the loyalty card are as follows;

Exclusive Merchant Discounts: Year-round savings provided at over 100 partner merchants across Sri Lanka.

Flash Sales: Access to limited-time promotional deals, offering significant discounts for brief windows sometimes just hours or a single day.

Cashback Rewards: Customers enjoy surprise cashback offers on eligible transactions, creating moments of delight.

Reward Points Accumulation: Points earned on every payment can be redeemed for a range of attractive rewards, further enriching the customer experience.

Preferential Financial Rates: Loyalty members benefit from special rates on fixed deposits, loans, and leasing products.

Microfinance Product Expansion

Our microfinance portfolio was strengthened with the introduction of secured micro product and cooperative lending schemes. These are tailored to uplift micro-entrepreneurs and promote community-level economic development, while also reducing borrower risk and enabling sustainable income generation.

Gold Loan Suite Enhancement

We expanded our gold-backed lending options with customer-centric solutions:

Gold Plan and Super Max: Provide flexible repayment structures, making them ideal for customers pledging gold jewelry.

Cash in Flash: A fast-disbursal loan facility designed to meet urgent liquidity needs with minimal processing time.

Innovative Savings Products

We introduced new savings options aimed at enhancing value and inclusivity:

Power Saver: A high-yield, daily interest-calculated savings product that combines liquidity with benefits such as ATM access and the HNBF loyalty Card.

Wasi Seettuwa: A women-focused savings account promoting financial discipline and long-term empowerment through structured, goal-oriented saving.

These offerings not only broaden our product suite but also contribute to social development by enabling financial independence, security, and convenience across demographic groups.

GROUP SYNERGIES

As a subsidiary of the Hatton National Bank Group, HNB Finance PLC benefits from strategic group synergies that enhance its operational resilience, technological agility, and market competitiveness. These synergies allow HNBF to access shared infrastructure, centralised risk and compliance frameworks, advanced IT security systems, and cross-entity knowledge sharing. The affiliation with the Group also enables collaboration on product development, data analytics, and customer service innovations, creating value that extends across both internal and external stakeholders. This integration fosters efficiency, accelerates digital transformation initiatives, and strengthens the collective intellectual capital of the wider HNB ecosystem.

DIGITAL TRANSFORMATION AND TECHNOLOGY INTEGRATION

During 2024/25, our digital and technology strategy was centered on leveraging emerging technologies to drive sustainable growth, enhance operational efficiency, and deliver superior customer experiences. Key initiatives included modernising IT infrastructure through cloud adoption and automation, utilising advanced analytics and AI for data-driven decision-making, and enabling seamless, personalised digital interactions across all customer touch points. We placed strong emphasis on cybersecurity and regulatory compliance, while promoting a culture of agility and continuous innovation through modern development practices and ongoing digital upskilling of our workforce.

Technology has been instrumental in advancing our organisational goals by improving efficiency, enhancing customer experience, and enabling scalability. The implementation of Cloud Powered Productivity Platform strengthened internal collaboration and cybersecurity, while the ongoing transition to a cloud-native, AI-powered core banking system is expected to significantly enhance operational agility. The adoption of workflow automation has streamlined internal workflows, and digital innovations such as the mobile Loan Origination System and the Digital Vehicle Valuation platform platform have further elevated customer engagement and service delivery.

Digital Infrastructure

Cloud-Based Platforms: We successfully completed our enterprise-wide migration to a Cloud Powered Productivity Platform, which unlocked robust cloud-based collaboration, productivity, and communication capabilities. This move fostered a more agile, mobile, and connected workforce, with seamless access to shared resources across teams.

Core Banking System: Implementation underway in the new core banking infrastructure to support real-time processing, product innovation, and improved customer responsiveness. Integration with external digital channels were also prioritised to offer an omnichannel experience

Digitalised Workflows: Internal workflows were digitised using advanced Customer Relationship Management (CRM) intelligent automation tools and Workflow Management System. These initiatives eliminated manual inefficiencies, improved turnaround times, and established a more transparent and accountable operating model.

Internet and Mobile Platforms: Customer-facing platforms including internet and mobile apps will be launched for better user experience, security, and functionality. This includes streamlined interfaces, integrated service features, and personalisation capabilities that deepened customer engagement.

Data Privacy

Cybersecurity will remain a top priority as we evolve our defense landscape. The deployment of Extended Detection and Response (XDR) solutions mark the beginning of an expanded security roadmap that includes ongoing enhancements

to our threat detection and mitigation frameworks. Additionally, our Information Security Management System (ISMS) will be continuously updated to address emerging threats and maintain alignment with industry standards and regulatory requirements.

Training on IT and Data Security

A structured training programme on cybersecurity, data privacy, and responsible technology use was rolled out across the organisation. These sessions were designed to increase awareness, promote secure digital practices, and strengthen our first line of defense against security breaches.

Name of the training	Training hours for IT and Data Security (man hours)
Training on IT and Data Security	12,646

Sustainability Initiatives

The organisation continues to drive sustainability through the strategic use of technology. Cloud platforms such as Microsoft support energy-efficient operations contribute to reducing our carbon footprint. We have advanced paperless operations by digitalising workflows through Workflow Management System and implementing electronic documentation. Additionally, practices such as device lifecycle management and responsible e-waste disposal help minimise environmental impact. The use of energy-efficient hardware and remote collaboration tools further reduces travel and resource consumption. These initiatives are aligned with our broader commitment to environmental sustainability and responsible innovation.

DEVELOPMENTS IN PROCESS

Process improvements during the year were significantly shaped by digital transformation, resulting in leaner, faster, and more efficient operations. Key developments included workflow redesigns, automated approval chains, and integrated reporting systems, each contributing to improved service quality, cost efficiencies, and more informed decision-making.

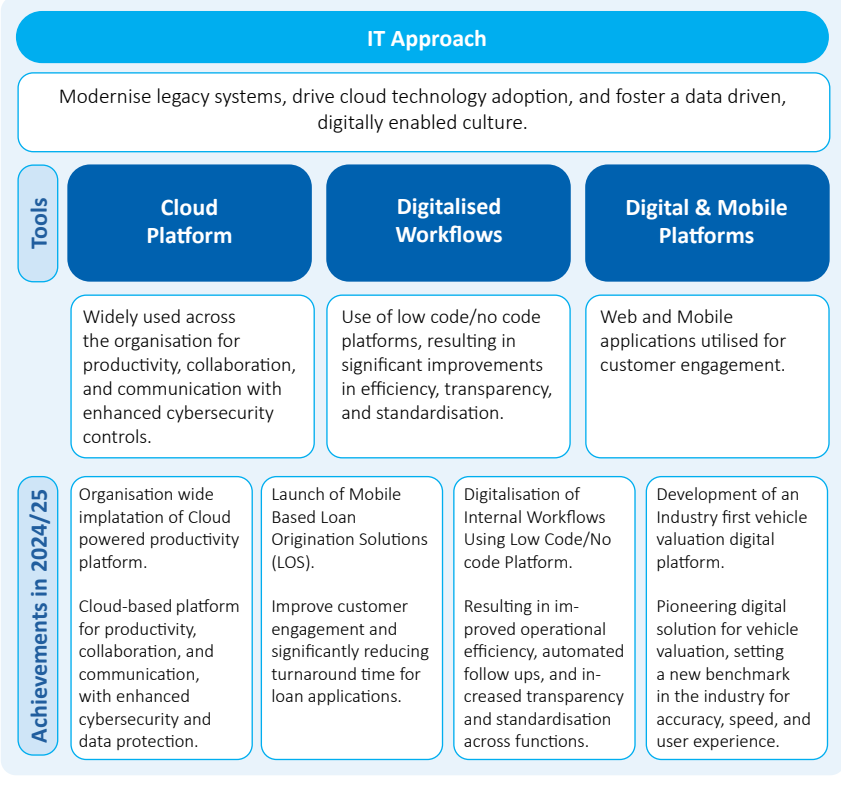
A major milestone was the initiation of the NextGen Core Banking System a scalable, modular platform designed to meet the evolving demands of the financial services landscape. This new system supports seamless integration with emerging technologies and enables the flexible rollout of products and services. It will replace legacy infrastructure, enhance automation, accelerate transaction processing, ensure regulatory compliance, and enable a more personalised customer experience.

Simultaneously, implementation of internet and mobile banking are underway, introducing intuitive, user-friendly access to a wide range of services. These enhancements will empower customers with greater self-service capabilities and real-time connectivity for timely, convenient transactions.

Additionally, the integration of real-time analytics and dashboards into core operations has empowered teams with actionable insights on performance indicators, customer behavior, risk metrics, and operational bottlenecks. These tools support faster, data-informed decisions and improved resource allocation.

Strengthening the Information Security Management System (ISMS) is also a key priority, with initiatives such as advanced threat detection, frequent audits, and employee training aimed at fortifying digital security and ensuring compliance with evolving regulations

The below illustration presents a succinct view of our IT approach:



IT Approach
HNB Finance adopts a strategic, technology-driven approach to enhance operational efficiency and business growth. We leveraged cloud-based solutions, including cloud powered productivity platform and NextGen Core Systems, to streamline workflows and enabled real-time analytics for better decision-making. A strong focus on cybersecurity, through advanced protection systems and an Information Security Management System, ensures data integrity. Enhanced digital platforms, CRM systems, and mobile applications further support an improved customer experience.

Cloud platforms
Core Banking Solution Implementation Strategic investments were made to implement a modern core banking solution, providing a scalable and secure cloud-based foundation to support digital transformation across operations.

Digitalized workflows

Microfinance Solutions
Introduced a secured micro-lending product and cooperative lending mechanisms to streamline credit access and processing for underserved segments.

Gold Loan Offerings
A suite of gold-backed products, including Super Max, Cash in Flash, and Ran Sahana, was introduced to digitize and simplify loan disbursement processes and address urgent customer liquidity needs efficiently.

Digital and Mobile platforms

Loyalty Card Programme
Partnered with a leading technology partner to launch a loyalty card program for savings, leasing, and FD customers, enhancing customer engagement through digitally enabled rewards.

Power Saver
A flexible, interest-earning savings account offering real-time access to funds along with digital benefits such as an HNB Privilege Card and ATM access.

Wasi Seettuwa
A digitally accessible savings scheme designed to empower women through structured saving plans.

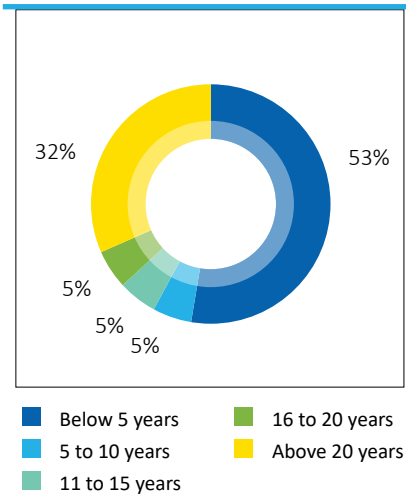
KNOWLEDGE-BASED ASSET DEVELOPMENT

Knowledge is a cornerstone of our intellectual capital. This year, we prioritised the development of knowledge-based assets to ensure long-term organisational resilience, operational continuity, and strategic adaptability. Institutionalising knowledge and equipping employees with the skills and insights required for a dynamic financial services landscape, we have laid the foundation for a more agile and learning-oriented organisation.

The implicit knowledge held by HNB Finance's Corporate Management team continues to be a vital pillar of our business model. This team is composed of experienced professionals from a variety of disciplines, many of whom have been with the Company for over 15 years. Their extensive institutional knowledge and specialised skills support sound, strategically aligned decision-making. This strength is further reinforced by the operational expertise of our long-serving employees, who contribute significantly to maintaining our competitive advantage and achieving corporate objectives. To enhance leadership capabilities, we have also welcomed new members to the Corporate Management team, bringing in fresh industry experience and market insight.

We are committed to retaining senior talent by fostering professional growth and offering structured career development pathways. At the same time, we continue to attract new talent to bolster our strengths in key strategic areas.

Senior Management Proficiency



Our emphasis on upskilling and continuous learning was further demonstrated through department-wise training initiatives, with training hours systematically allocated to ensure both technical and behavioral competencies were strengthened across the board.

We delivered a wide range of targeted training programs, including but not limited to:

- Building Innovative And Passionate Teams
- Change Management For Transformation

- Time Management Secrets
- Champion Sales Leadership
- Communicative Competency
- Credit Quality And Growth
- Credit Risk Assessment Training
- Employee Engagement And Retention Strategies
- Knowledge To Intranet, E-mail Etiquette
- Professional Customer Care

These efforts reinforce our commitment to building a knowledge-driven organisation, equipped with the tools and mindset required to thrive in an increasingly complex and competitive environment.

PRESERVING INTELLECTUAL CAPITAL

The migration of skilled professionals posed a challenge to the retention of institutional knowledge during the year. In response, HNB Finance implemented several strategic interventions to mitigate this risk and ensure operational continuity. Formal knowledge transfer processes were conducted prior to employee exits to capture critical insights and procedural know-how. Simultaneously, internal talent was promoted through structured exposure and development opportunities, allowing for the organic growth of expertise within the organisation. Succession planning and cross-training initiatives were also strengthened to build role redundancy and institutional resilience.

The below illustration present HNBF's comprehensive and varied approach to knowledge and capacity enhancement:



With University Partnerships, skilled undergraduates were attracted and recruited. Further Internships for unskilled freshers were provided to groom and retain the performers among them.

To further enhance employee retention, the organisation emphasised recognition and engaged in meaningful career conversations. As part of these efforts, the Employee of the Month program was continued, covering both Head Office and branch staff, with nominations and evaluations incorporating inputs from both peers and supervisors. Additionally, the ongoing 'CEO Club' initiative continued to spotlight and reward outstanding performance within business departments, reinforcing a culture of meritocracy and motivation. Collectively, these measures helped stabilise operations and preserve core competencies across the business.

ETHICS, COMPLIANCE, AND RISK MANAGEMENT

At HNB Finance PLC, ethical conduct forms the backbone of our corporate culture and is deeply embedded in how we operate and engage with our stakeholders. All employees are expected to uphold the highest standards of integrity and ethical behavior, guided by our Board-approved Code of Conduct and Ethics Policy. This is not just a formal policy but a lived value, reinforced through our Disciplinary Committee operating under the Disciplinary Management Policy. Employees are encouraged to practice accountability, respect, and transparency, with clear protocols for whistleblowing and structured escalation channels.

Risk Management Oversight

Risk is proactively managed through a dedicated Risk Management Department that operates independently and reports directly to the Board Integrated Risk Management Committee (BIRMC). Additionally, a comprehensive risk overview is presented to the Board Integrated Risk Management Committee (BIRMC) every two months, ensuring

At HNB Finance PLC, ethical conduct forms the backbone of our corporate culture and is deeply embedded in how we operate and engage with our stakeholders.

ongoing oversight at the highest levels. This risk governance structure enables early identification and mitigation of threats to the business while supporting strategic decision-making.

Our risk management framework is further supported by a robust Business Continuity Plan (BCP) and layered Disaster Recovery (DR) mechanisms. The BCP identifies critical business functions and assigns key response roles, while regular drills are conducted to validate preparedness. The DR setup includes realtime data replication/mirror replication, a seperate disaster recovery site to maintain service resilience and safeguard stakeholder trust during operational disruptions.

Compliance Function

The Compliance Department plays a pivotal role in ensuring HNB Finance's alignment with regulatory standards and best practices. This includes compliance with directives from the Central Bank of Sri Lanka, regulations of the Colombo Stock Exchange (CSE) and Securities and Exchange Commission (SEC) of Sri Lanka, Sri Lanka Accounting Standards, and global governance frameworks as GRI and Integrated Reporting guidelines. The Compliance function also ensures continuous internal awareness of evolving regulatory requirements and mitigates non-compliance risks through regular internal audits and advisory interventions.

Internal Audit and IS Audits

The Internal Audit Division provides an independent assurance mechanism by conducting systematic audits of the overall operations of the company including and branch operations. It focuses on operational risk, compliance, financial risk exposure. The audit findings are submitted to the Board Audit Committee (BAC), enabling corrective and preventive action across the organisation.

Moreover, IS (Information Systems) Audits are conducted to assess the robustness of HNB Finance's digital infrastructure and cybersecurity posture. These audits review the adequacy of controls related to data protection, system access, and disaster recovery, ensuring alignment with international information security standards.

Employee Training and Development

Training and capacity-building are central to reinforcing HNB Finance's ethical, compliance, and risk cultures. During the year under review, every employee underwent tailored training modules across these thematic areas. On average, each staff member received approximately 4 hours of training. These sessions covered topics such as ethical decision-making, regulatory compliance, anti-money laundering (AML) practices, customer rights, cybersecurity awareness, and crisis response protocols, equipping staff to perform their duties responsibly and confidently.

Business Continuity Plan (BCP)

To complement our ethical and compliance commitments, HNB Finance places strong emphasis on risk mitigation through robust business continuity planning and disaster recovery frameworks. A comprehensive Business Continuity Plan (BCP) is maintained to ensure uninterrupted operations in the event of operational or environmental disruptions. The plan outlines clear crisis response protocols, designated recovery teams, and backups for critical functions. Regular BCP drills are conducted across departments to assess real-world readiness, validate the effectiveness of the plan, and instill a proactive culture of preparedness throughout the organisation.

Memberships and affiliations

HNB Finance maintains active memberships and affiliations with a range of national and international institutions that contribute to regulatory alignment, professional development, advocacy, and industry best practices.

Memberships and Affiliations	Strategic value contribution
Lanka Microfinance Practitioners' Association (LMFPA)	Promotes industry collaboration, knowledge sharing, and advocacy in the microfinance sector, enabling HNBF to align with inclusive financial practices and sector-wide innovations.
The Finance House Association of Sri Lanka (FHASL)	Facilitates policy dialogue, regulatory updates, and best practices among finance companies, helping HNBF remain compliant, competitive, and informed.
Credit Information Bureau of Sri Lanka (CRIB)	Provides access to accurate credit histories, enhancing HNBF's credit risk assessment capabilities and supporting responsible lending.
Financial Sector Computer Security Incident Response Team (FINCSIRT)	Supports cybersecurity readiness and incident management through sector-specific threat intelligence, strengthening HNBF's ISMS and cyber resilience.
International Chamber of Commerce (ICC)	Offers global business perspectives and standards on trade, governance, and ethical conduct, helping HNBF align with international frameworks.
The Employers' Federation of Ceylon (EFC)	Advises on labor relations, HR compliance, and inclusive employment practices, supporting HNBF's people management strategies and ethical workplace culture.
Financial Ombudsman Sri Lanka	Provides a formal mechanism for dispute resolution, enhancing customer trust and reinforcing transparent, fair dealing in financial services.
The Sri Lanka Institute of Directors (SLID)	Delivers leadership training and governance insights, strengthening HNBF's corporate stewardship and board-level competence.

Future outlook

Looking ahead, HNB Finance will continue to evolve our digital and knowledge ecosystems to meet the demands of a rapidly transforming financial landscape. A key priority is the strengthening of digital customer engagement through enhanced mobile and internet platforms, offering intuitive interfaces, personalised services, and real-time access to financial products. These upgrades will further, financial inclusion while strengthening customer trust and convenience.

To support this evolution, HNBF will expand our scalable cloud infrastructure, reinforcing internal agility, data security, and operational resilience. This infrastructure will enable seamless collaboration, flexible scalability, and faster deployment of future-ready solutions. Simultaneously, HNB Finance will leverage real-time analytics and AI-powered dashboards to inform strategic decisions. These tools will allow for smarter credit risk assessments, personalised offerings, and early detection of operational or market anomalies.

A core component of the future roadmap is the continued investment in cybersecurity and employee digital awareness, ensuring that innovation is matched by a secure and vigilant operational environment. This includes ongoing enhancements to the Information Security Management System (ISMS), proactive threat detection capabilities, and company-wide training initiatives.

We will also explore ESG-aligned technologies including energy-efficient digital infrastructure, responsible procurement systems, and platforms that track sustainability performance to embed environmental and social governance into day-to-day operations. These efforts will enhance transparency, regulatory compliance, and alignment with global sustainability frameworks.

Additionally, HNB Finance will pursue strategic partnerships with fintech to foster product innovation and co-create digital solutions, while also evaluating the potential of open banking frameworks. These initiatives aim to position the company at the forefront of customer-centric financial innovation.

Manufactured Capital

Manufactured Capital refers to the physical assets such as property, equipment, and infrastructure that enable the Company's operations and service delivery. Beyond functionality, it also includes ergonomics that enhance productivity, safety, and customer experience. It supports future readiness and disaster resilience, making it critical to business continuity.

HIGHLIGHTS OF THE YEAR

- Successfully implemented a digitally enabled mobile loan origination system, streamlining the application process and enhancing customer experience through faster, and paperless loan processing.
- Initiated the modernisation of the core banking platform in partnership with a one of the most innovative digital solutions providers, aimed at improving backend efficiency, enhancing asset utilisation, and reducing operational friction.
- Embedded eco-conscious practices across infrastructure and facilities including solar installations, energy-efficient lighting, sustainable procurement, and waste management to support national sustainability goals and global climate commitments.
- Introduced gold loan services at eight additional branches, strengthening HNBF's outreach and diversifying service offerings.
- Relocated four branches to more accessible, high-traffic areas, enhancing customer convenience and increasing brand visibility.



MANAGEMENT APPROACH

In an increasingly digital financial landscape, HNB Finance (HNBF) continues to recognise the vital role of physical infrastructure in delivering value, ensuring operational efficiency, enhancing customer access, and reinforcing brand visibility. In the year under review, HNBF's Management Approach to Manufactured Capital integrated infrastructure expansion with digital enablement, embedding sustainability and resilience throughout its asset base. The physical branch network remains central to customer engagement, especially for complex transactions that benefit from face-to-face interaction. By strategically relocating branches based on demographic, commercial, and market feasibility, HNBF has enhanced customer experience and brand perception, fostering long-term loyalty and trust. Simultaneously, strategic investments in technology have propelled the digital transformation of manufactured capital streamlining traditional workflows, improving operational efficiency, and reducing errors. This dual focus on physical presence and technological innovation strengthens HNBF's service delivery and competitive edge in a rapidly evolving financial ecosystem.

ANALYSIS OF THE INTELLECTUAL CAPITAL INFLUENCE ON OTHER CAPITALS

FINANCIAL CAPITAL

Enhances operational efficiency, reduces maintenance and energy costs, and increases the lifespan of physical assets, supporting profitability, strengthening revenue generation and long-term financial stability.

HUMAN CAPITAL

Provides a safer, more ergonomic, and technologically advanced work environment, boosting employee well-being, productivity, and job satisfaction.

INTELLECTUAL CAPITAL

Encourages investment in digital systems and automated processes that enhances operational intelligence, data analytics, and innovative service delivery, which in turn has a positive impact on the brand image.

SOCIAL AND RELATIONSHIP CAPITAL

Enhances customer satisfaction through improved service delivery and extends financial accessibility to a broader segment of the community.

NATURAL CAPITAL

Minimises environmental degradation through sustainable sourcing, efficient resources usage and waste reduction technologies embedded in infrastructure.

EXTERNAL IMPACT

Business Partners

Customers

Regulators

Community and Environment



FACILITY MANAGEMENT GOVERNANCE

The Facilities Management division is responsible for four functions, namely, branch operations, procurement, insurance services and office infrastructure, transport and security.

The Facility Management Division plays a pivotal role in overseeing the strategic direction and operational oversight of HNB Finance's branch network. This includes the annual planning and execution of branch relocations and the establishment of new branches, aligned with the Company's long-term expansion strategy and market demand assessments.

Beyond network management, the division is also entrusted with all procurement activities across the organisation. These activities are conducted in strict accordance with the Board-approved Procurement Policy.

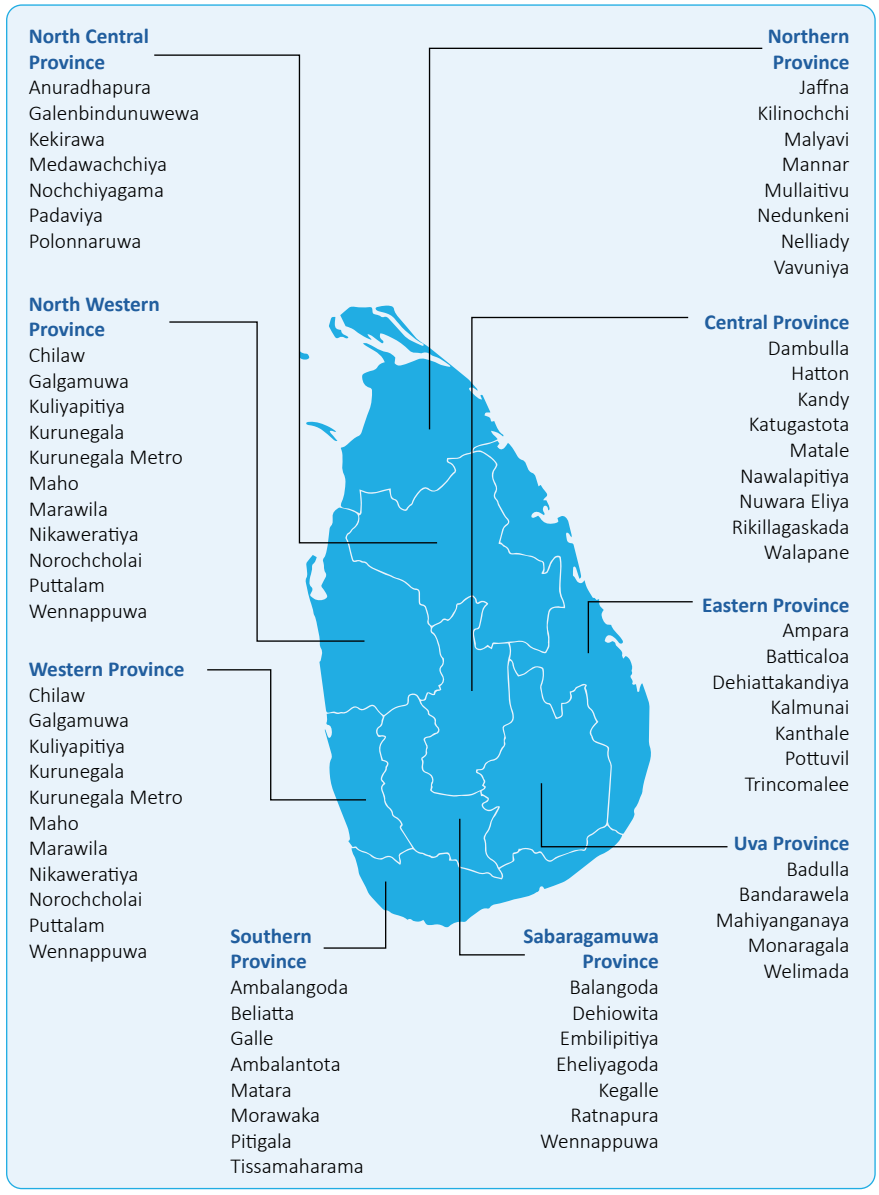
BRANCH NETWORK AND LOCATION STRATEGY

HNB Finance PLC (HNBF) operates a robust island-wide network of 79 strategically positioned branches, reflecting our commitment to deepening financial inclusion across Sri Lanka. With 58 of these branches situated outside the Western Province, our reach is firmly anchored in semi-urban and rural areas enabling us to serve customers beyond the traditional urban centres and support balanced regional economic development.

In addition to the extensive physical branch presence, HNBF has introduced a distinctive outreach initiative known as the Centre Model. This model enables us to bring essential financial services directly to customers in remote rural communities who may have limited access to brick-and-mortar branches. Through this proactive, on-the-ground engagement strategy, we continue to dismantle geographic barriers to financial access and cultivate lasting relationships with underserved customer segments.

As of the reporting period, HNBF serves over 300,000 customers across the country, offering convenient access to our financial products. Our customer-centric approach ensures that regardless of location, all clients benefit from consistent service delivery and access to trusted financial solutions.

To further enhance accessibility and operational efficiency, four branches Embilipitiya, Kekirawa, Mullaitivu, and Kaluthara 2 were strategically relocated to areas with higher foot traffic and better accessibility, improving visibility and customer reach. Additionally, HNBF expanded its gold loan service footprint by establishing gold loan operations at eight new branches: Kuliyapitiya, Kekirawa, Kurunegala-Metro, Galgamuwa, Beliatta, Mahiyanganaya, Pitigala, and Embilipitiya. These developments align with our ongoing efforts to optimise branch performance, expand service offerings, and strengthen our physical and relational presence across diverse communities.









Branch Operations

The division is responsible for the day-to-day oversight and optimisation of branch operations, including performance management, process enhancement, team development, and resource allocation. It ensures full compliance with the regulatory requirements of the Central Bank of Sri Lanka (CBSL) and the Securities and Exchange Commission (SEC). The team also leads all initiatives related to new branch openings and the relocation of existing facilities, ensuring seamless execution and alignment with strategic goals.

Procurement

During the year, all goods and services were procured with a focus on value for money, ensuring both quality and timely delivery. Procurement processes were guided by the principles of fairness, transparency, and compliance with the Board-approved Procurement Policy. Notably, no suppliers were blacklisted during the period under review, underscoring the Company's commitment to ethical sourcing and responsible supplier relationships.

Insurance Services

The division administers comprehensive insurance coverage for both customers and company-owned assets, reinforcing HNB Finance's commitment to institutional resilience and customer protection. A key value-added service is the provision of insurance for leased vehicles, which fulfills the mandatory coverage requirements set by leasing companies. This protects their financial interests while ensuring that customers are not burdened with significant out-of-pocket expenses in the event of accidents or total loss. Furthermore, this service supports compliance with evolving regulatory standards, offering customers peace of mind and enhanced financial security.

On the corporate side, the Company maintains robust insurance coverage for its physical and operational assets, safeguarding against potential risks and disruptions. This dual-layered approach not only protects stakeholder interests but also contributes to the long-term financial stability and operational continuity of the organisation.

Office infrastructure, Transport and Security

HNB Finance's office infrastructure approach encompasses the comprehensive management of interior design, construction, renovation, and maintenance activities across its branch network and operational assets. This includes company-owned buildings, rented properties, and undeveloped land. During the 2024/25 financial year, key infrastructure enhancement initiatives were completed at several branch locations, including Ambilipitiya, Panadura, Kekirawa, Mullaitivu, Badulla, and Kurunegala Metro, reflecting our commitment to delivering an improved and consistent customer experience while ensuring a safe and efficient work environment for employees.

The Company's transport function is supported by a fleet of six company-owned vehicles, which play a critical role in enabling essential business operations. These vehicles are primarily deployed for promotional activities, credit recovery functions, and internal audit engagements contributing to operational agility and responsiveness across regions.

Security remains a top priority in safeguarding our people, premises, and assets. HNB Finance maintains a comprehensive security framework that covers all 79 branches and associated facilities. Each location is equipped with closed-circuit television (CCTV) systems, with footage securely archived for a 90-day retention period to ensure adequate oversight and incident traceability. Importantly, no security-related incidents were reported during the year under review underscoring the effectiveness of our proactive risk mitigation and surveillance measures.

Technology and Asset Management

Technology continues to serve as a strategic enabler of asset productivity and service transformation at HNB Finance. Our ongoing collaboration with a one of the most innovative digital solutions providers to upgrade the core banking system is aimed at enhancing asset utilisation and back end operations efficiency, strengthening data integrity, and streamlining operational workflows.

Meanwhile, front-end innovations continue to redefine customer engagement. The Company has successfully implemented a digitally enabled mobile loan origination system, significantly improving the loan application journey. This platform facilitates faster and more efficient processing, minimises reliance on physical documentation, and allows customers to not only initiate and track their loan applications through an intuitive mobile

interface, but also upload required documentation and monitor approval status in real time. This advancement exemplifies our commitment to operational excellence and delivering seamless, technology-driven financial solutions.

To manage expenditures and promote sustainability, Facilities Management implemented a Stationery Management System to track the acquisition and use of consumables. This system enhances traceability, reduces waste, and supports the Company's broader green supply chain initiatives.

These technological investments reinforce our long-term strategy of digital transformation, enabling us to serve our evolving customer base more efficiently.

Disaster Preparedness

Operational resilience is a cornerstone of protecting the Company's Manufactured Capital, particularly in the face of escalating internal and external disruptions.
The Company has established robust contingency frameworks that ensure continuity of operations and safeguard critical infrastructure across its physical network.

Business Continuity Plan and Disaster Recovery Drill

As part of its preparedness initiatives, HNBF has conducted a comprehensive BCP and Disaster Recovery Drill. The drill provided valuable insights into technical and operational response functions, revealed potential gaps, and informed the development of refined risk mitigation strategies. Lessons learnt during this process have been documented to improve future responses.
The Company's Business Continuity Plan (BCP) enables structured and proactive response planning by clearly identifying critical business divisions, support units, and corresponding responsibilities. This ensures that essential functions can resume promptly in the event of a disruption.

Business Impact Analysis

A detailed Business Impact Analysis (BIA) has also been conducted, mapping out mission-critical units, core operational systems, processes, and required resources. This exercise has established clear Recovery Time Objectives (RTOs), Recovery Point Objectives (RPOs) identified as critically important to business continuity and appropriate recovery strategies, which are regularly reviewed to ensure relevance and effectiveness.

Fire Safety Training Sessions

Meanwhile, we enhanced employee readiness through targeted emergency response training. Fire safety training sessions were held with the participation of approximately 70 employees, counting two representatives from each branch including change to each Head Office floor. Selected Back Office staff were designated as fire wardens, trained not only in fire prevention and response but also to cascade this knowledge across teams. A fire drill was conducted as part of a hands-on practical session to reinforce the training.

First Aid Training

First aid training was conducted in partnership with Sri Lanka Red Cross, involving 25 Head Office employees. This session also included practical demonstrations to ensure employees are equipped to respond effectively during medical emergencies.

Training	Training hours (Man hours)
Fire safety training	600
First aid training	240

Climate Disaster Readiness

HNBF also recognises the growing threat of climate volatility. As part of its commitment to climate disaster readiness, the Company has upgraded its facility infrastructure with measures such as disaster-prepared floor plans and structurally reinforced buildings, ensuring that physical assets are equipped to withstand extreme weather events and climate shocks.

Enhancement of Digital Security

To enhance digital security and operational readiness, backup sites, secure data storage, and private network infrastructures have been implemented across critical systems. Furthermore, strategic synergies between HNB and HNBF continue to elevate the overall security posture of the organisation.

Data Backups, Communication Systems and Power Supply Arrangements

HNBF's disaster preparedness protocols encompass secure data backups, emergency communication systems, alternate power supply arrangements, and regular staff training programmes. These measures have proven effective, with system downtime consistently maintained within industry benchmark levels.

Software Defined Wide Area Networks (SD-WANs)

From a technological standpoint, the Company has successfully transformed its high-speed connectivity framework into Software-Defined Wide Area Networks (SD-WANs), enhancing system robustness and responsiveness. These efforts have contributed to outstanding performance in IT operations, including achieving 100% system uptime during the reporting period.

Together, these multi-layered initiatives reflect HNBF's strategic commitment to resilience, continuity, and the sustainable protection of its manufactured capital base.

Sustainability integration

In 2024/25, Manufactured Capital played a pivotal role in advancing HNBF's sustainability agenda by actively minimising the environmental footprint of our physical infrastructure. The Company undertook several key initiatives aimed at

embedding eco-conscious practices across its operations and facilities, supporting both national sustainability objectives and global climate goals.

Rooftop Solar Installations:
Solar power systems were installed at selected branches to reduce dependency on grid electricity and lower greenhouse gas emissions. These installations contribute to long-term energy cost savings while directly supporting the transition to clean energy, in line with Sustainable Development Goal 7 (Affordable and Clean Energy).

Energy-Efficient Lighting and Equipment:
Branches were upgraded with energy-saving LED lighting and high-efficiency equipment to reduce electricity consumption. This shift not only enhances energy performance but also supports operational cost-efficiency and climate action.

Sustainable Procurement Practices:
Procurement policies were refined to prioritise durable, eco-friendly materials with lower environmental impact across the asset lifecycle. By focusing on products that require fewer replacements and generate less waste, the Company strengthens its commitment to responsible consumption and production.

Waste Management and Recycling:
Comprehensive waste management systems have been implemented, including structured and responsible disposal of e-waste and recycling of paper and other office waste. These efforts ensure compliance with environmental regulations and promote a culture of recycling and resource conservation.

Lean Management Culture
HNB Finance continues to foster a lean management culture across the organisation, encouraging employees at all levels to adopt efficiency-driven practices. This cultural transformation has resulted in tangible reductions in paper usage and energy consumption, contributing to a more sustainable and resource-conscious workplace. By embedding lean principles into daily operations, HNBF not only enhances the performance and efficiency of its physical capital but also strengthens long-term organisational resilience and builds stakeholder trust through demonstrable commitment to sustainability.

Enhance Asset Durability
Maximising the useful life of physical assets is a strategic priority for HNB Finance, driven by both cost-efficiency and sustainability considerations. To achieve this, the Company has adopted a multifaceted approach that enhances asset durability while reducing operational strain. The integration of energy-efficient systems across branches help to minimise wear and tear on equipment, lowering maintenance needs and extending asset life. Complementing this, proactive maintenance schedules are systematically implemented to detect and address potential issues early, thereby preventing costly breakdowns and ensuring consistent performance.

Future outlook

As HNB Finance looks ahead to the coming financial year, the Company remains focused on strengthening our Manufactured Capital through a blend of digital innovation, sustainability-driven infrastructure, and strategic network expansion.

As such, HNBF is set to expand its internet and mobile banking capabilities, introducing a suite of enhanced features designed to meet evolving customer expectations. Central to this evolution is the integration of Artificial Intelligence (AI) and automation technologies into financial operations—tools that are increasingly common in other industries but still emerging within the financial sector. These technologies will be strategically applied to appropriate products following the implementation of the core banking system. This approach will position HNBF at the forefront of digitally enabled, customer-centric financial services.

On the sustainability front, HNBF is actively advancing its green energy agenda by scaling up solar energy usage across its branch network. Solar panel systems are currently operational at selected branches, with confirmed installation plans for the Kandy and Head Office locations. Additionally, solar installations are scheduled for Kahathuduwa yard and the rented property at Stanley Thilakaratne Mawatha. Simultaneously, the Company aims to increase power generation capacity in branches where solar infrastructure is already in place, thereby reducing reliance on grid electricity and further aligning with national climate goals.

Additionally, we plan on expanding our physical presence through the opening of new branches and the strategic relocation of selected existing branches. These initiatives are aimed at enhancing accessibility, optimising operational performance, and deepening market reach.

Through this integrated approach—combining smart infrastructure, digital leadership, and environmental stewardship—HNB Finance is well-positioned to deliver sustainable value and remain resilient in a rapidly evolving financial landscape.

Human Capital

Our Human Capital acts as a key strategic enabler of business resilience and sustainable value creation. The HNBF Human Capital approach on attracting, retaining, and developing a future-ready workforce is aligned with our organisational goals and ethical values. We consistently nurture the inherent capabilities of our employees, in line with organisational targets, whilst respecting their individual needs, goals and emotional wellbeing. We recognise that our employees as catalysts of transformation and actively foster a performance-driven, inclusive, and engaged culture.

HIGHLIGHTS OF THE YEAR

- Our dedication to creating a positive work environment has been acknowledged through our Great Place to Work certification.
- Developed high-potential employees into future leaders through impactful leadership training programs, strengthening the organisation's leadership pipeline.
- Mental and physical health were prioritised in engagement activities that supported employee well-being.
- Improved female representation during this financial year through initiatives focused on female empowerment and gender equality.
- Pioneered the implementation of Performance Improvement Plans (PIPs) in Sri Lanka's finance industry to identify performance gaps and provide structured support for employee development.



MANAGEMENT APPROACH

Our Human Capital Management strategy is deeply embedded in our overarching mission to cultivate a future-ready, inclusive, and resilient workforce. We recognise that our people are our most valuable asset, and therefore, we are committed to fostering a workplace environment where every individual can thrive and contribute meaningfully. This commitment is reflected in our strategic alignment of human capital initiatives with long-term organisational goals, ensuring we are not only responsive to present needs but also proactively preparing for emerging challenges and opportunities.

Our management approach is underpinned by robust governance frameworks that ensure accountability, transparency, and alignment with ethical and regulatory standards. We place strong emphasis on performance-linked development, offering employees clear pathways for growth through continuous learning, feedback-driven performance evaluations, and targeted leadership programmes.

ANALYSIS OF THE INTELLECTUAL CAPITAL INFLUENCE ON OTHER CAPITALS

FINANCIAL CAPITAL

High-performing employees drive business growth, cost efficiencies, and innovation, all of which enhance profitability.

INTELLECTUAL CAPITAL

Skills development, internal knowledge transfer, and continuous learning feed innovation, systems thinking, and process excellence.

MANUFACTURED CAPITAL

Human capital ensures the effective use and optimisation of physical and digital infrastructure.

SOCIAL AND RELATIONSHIP CAPITAL

Engaged employees positively impact customer service, stakeholder trust, and community involvement.

NATURAL CAPITAL

Employees drive the adoption of eco-friendly practices and sustainability behaviours within operations.

EXTERNAL IMPACT

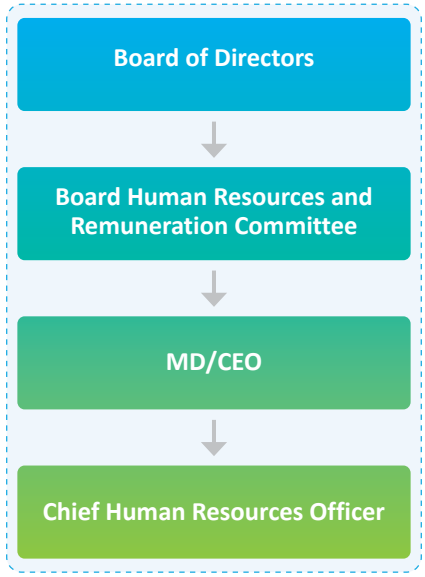
Employees | Shareholders | Customers | Regulators | Community and Environment | Suppliers



HUMAN CAPITAL GOVERNANCE

Human resources at HNBF are governed with strong oversight by the Board of Directors through the Boards Human Resources and Remuneration Committee (BHRRC). The Board Human Resources Remuneration Committee (BHRRC) is a strategic oversight body that ensures all people related decisions are aligned with the organisation's values, business priorities, and governance standards. It plays a critical role in upholding fairness, consistency, and transparency in HR practices, while also serving as a safeguard against reputational, legal, and operational risks. Through its work, the HRRC reinforces leadership accountability, strengthens workforce trust, and supports the long-term sustainability of the organisation.

HR Governance Structure



We maintain a robust policy environment supported by resources such as the Employee Handbook, HR Manual, and Remuneration Policy. The Remuneration Policy and HR Manual were updated during the year to comply with the Central Bank of Sri Lanka's directives and internal governance standards, placing increased emphasis on performance-based rewards and risk-aligned metrics.

BEST PRACTICES

Our Human Capital practices are built on a foundation of integrity, fairness, and respect for universal human rights. We adhere to globally recognised labour principles and proactively foster a culture that values inclusivity, ethical conduct, and gender equity. These best practices not only support internal harmony but also ensure alignment with national and international governance standards.

Diversity and Inclusion
Encouraging representation from all backgrounds and communities.

Equal Opportunities
Ensuring merit-based progression and fair access to opportunities.

Non-discrimination
Zero tolerance for bias based on gender, race, disability, or other status.

No Child Labour
Strict compliance with child protection and employment laws.

No Forced/ Compulsory
Safeguarding employee freedom and consent in all working relationships.

Improve Performance through PIPs
Supporting under performing employees with structured plans to meet expectations and succeed.

Female Empowerment
Advancing gender equality and leadership opportunities for women.

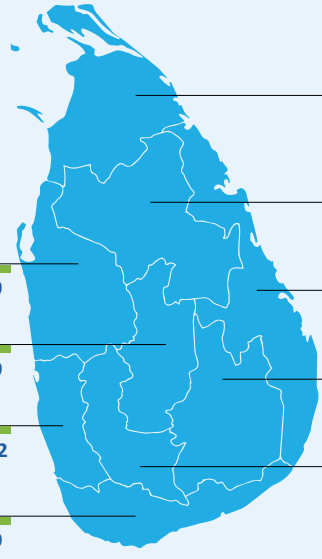
Compliance

We remain committed to upholding the highest standards of legal and ethical conduct in all aspects of our operations. Our Human Capital practices are meticulously aligned with national labour and taxation laws, ensuring the protection of employee rights, the provision of statutory benefits, and the maintenance of transparent employer responsibilities. Moreover, we steadfastly ensure compliance with guidelines issued by the Central Bank of Sri Lanka. This adherence not only fosters a compliant and ethical workplace but also reinforces our dedication to sustainable and responsible business practices.

Legislation	Purpose
Shop and Office Employees (Regulation of Employment and Remuneration) Act No. 19 of 1954	Regulates employment terms, working hours, leave entitlements, and remuneration for employees in shops and offices.
Employees' Provident Fund Act. No. 24 of 1971	Establishes a mandatory retirement savings scheme, requiring employer and employee contributions to ensure financial security upon retirement.
Payment of Gratuity Act. No. 12 of 1983	Mandates the payment of gratuity to employees who have completed a specified period of continuous service, recognizing their long-term commitment.
Inland Revenue Act. No. 24 of 2017	Governs the imposition and collection of income tax, ensuring compliance with national tax obligations.
National Minimum Wage of Workers Act. No. 3 of 2016	Ensures a statutory minimum monthly wage for all workers, safeguarding fair compensation and preventing exploitative pay practices.
Employees' Trust Fund Act. No. 46 of 1980	Provides for the establishment of a trust fund to offer additional financial benefits to employees, supplementing the Provident Fund.
Maternity Benefits Ordinance Act. No 32 of 1939	Provides paid maternity leave and job protection for female employees before and after childbirth, promoting maternal health and workplace equality.

WORK FORCE BY REGION

Our workforce spans across the country, and we maintain a non-discriminatory, and merit-based stance on workforce recruitment and development.



	Full Time		Contract		TOTAL	
North Western	108	17	10	2	118	19
Central	108	17	10	2	118	19
Western	582	194	26	18	608	212
Southern	165	24	17	5	182	29

	TOTAL		Full Time		Contract	
Northern	132	14	121	11	11	3
North Central	145	30	138	25	7	5
Eastern	123	15	110	14	13	1
Uva	96	10	93	10	3	–
Sabaragamuwa	40	3	36	3	4	–

AGE ANALYSIS BY STAFF

	Under 30		30-50		Over 50		Total	
	Female	Male	Female	Male	Female	Male	Female	Male
Leadership	–	–	–	1		1	0	2
Deputy General Manager	–	–	–	4	–	4	0	8
Assistant General Manager	–	–	2	7	–		2	7
Chief Manager	–	–	2	18	–	5	2	23
Senior Manager	1	–	3	38	–	7	4	45
Manager	2	3	14	161	1	9	17	173
Assistant Manager	18	69	28	285	1	5	47	359
Executive	67	189	34	255	1	4	102	448
Officer	132	321	17	85		1	149	407
Assistant	26	90	1	9	1	9	28	108
	246	672	101	863	4	45	351	1580

	2024/25	2023/24
Number of employees	1,931	2,004
Number of new recruits	661	963
Employee diversity (Male: Female)	4:01	5:01
Average service period per employee	5.12	4.82
Accumulated service period of employees (Years)	9,889	10,641

Meanwhile, HNBF champions diversity through inclusive hiring, targeted outreach and cultural awareness initiatives. This aligns with our broader DEI (Diversity, Equity and Inclusion) agenda. As a result of these efforts, currently, we have witnessed a gradual improvement across several staff categories in female representation.

Gender parity indicators	2023/24 %	2024/25 %
Female representation at Assistant General Manager	29	22
Female representation at Chief Manager	9	8
Female representation at Senior Manager	5	8
Female representation at Manager	9	9
Female representation at Assistant Manager	11	12
Female representation at Executive	16	19
Female representation at Officer	24	27
Female representation at Assistant	15	21

Seeking to promote a safe work space, we enforce strict anti-discrimination policies and have experienced no reported incidents of discrimination during the year under review. In addition, we celebrated diverse cultural events and festivals to promote inclusivity and celebrate the diverse cultural backgrounds within the workforce.

TALENT ACQUISITION AND RETENTION

At HNBF, talent acquisition is a forward-looking, strategic process grounded in our commitment to inclusivity, cultural alignment, and long-term organizational growth. We view not merely as a function to fill vacancies, but as a means to build a future-ready workforce capable of driving sustained performance.

Our acquisition strategy is underpinned by proactive workforce planning that anticipates talent needs in alignment with our business trajectory. We prioritise employer branding to strengthen our market presence and attract high-potential candidates. Sourcing channels are diversified and include online platforms, University partnerships, employee referrals, career entry experience and targeted headhunting for niche roles.

Candidate assessments follow a structured, competency-based framework that ensures fairness, objectivity, and meritocracy. Seamless onboarding processes then ensure smooth integration into our organisational culture.

To retain talent, we focus on enabling career mobility, offering performance-linked growth opportunities, and delivering personalised development pathways. Internal movement is encouraged, while succession planning and high-potential programmes such as the “High Flyer” initiative nurture future leaders. Through these integrated efforts, we create a talent ecosystem that is adaptive, inclusive, and closely aligned with the evolving demands of the business landscape.

The below illustration depicts the key elements of our recruitment strategy:



Recruitments in 2024/25 by province

Province	Male	Female	Total	Male %	Female %
Western	201	77	278	72	28
Southern	54	14	68	79	21
Central	65	11	76	86	14
North Western	53	3	56	95	5
Uva	21	3	24	88	13
Northern	36	6	42	86	14
Sabaragamuwa	9	1	10	90	10
Eastern	49	5	54	91	9
North Central	45	8	53	85	15
Total	533	128	661	81	19

Employee Engagement

During the year under review, we launched a diverse array of feedback-driven employee engagement initiatives to cultivate a dynamic, motivated, and inclusive workplace. These initiatives spanned across wellness, recognition, internal communication, diversity, and work-life balance reflecting our commitment to nurturing a people-first culture.

Engagement Activities:
Team building exercises and outbound training programs were conducted to strengthen collaboration and camaraderie. Annual events celebrated special occasions such as New Year Celebrations conducted at the Head Office premises celebrated cultural diversity and unity. The freshly initiated Talent Club served as a platform to empower employees and foster continuous development. Notable highlights included the Vesak Lantern Competition, which encouraged cultural expression and team spirit, and immersive outbound training sessions designed to build resilience, leadership, and trust among team members.



Recognition Preferences:
Transparent recognition mechanisms were implemented through the Employee of the Month Programme covering Head Office and Back Office staff with inputs from both peers and supervisors. The ongoing “CEO Club” initiative continued to recognise outstanding performance within business departments.



Communication:
Open and transparent communication was bolstered through Townhall meetings and enhanced intranet updates, ensuring that employees remained informed, heard, and aligned with corporate objectives.

Wellness Initiatives:
Employee well-being was actively supported through mental health workshops, gym memberships, fitness programmes, and wellness campaigns such as the “Biggest Loser” challenge. Awareness drives promoted everyday activity, like stair usage over elevators. These were further complemented by personalised counselling programmes to support emotional and psychological health, and a body composition analysis to encourage proactive health monitoring and lifestyle improvements.

Employee Feedback:
Channels for employee feedback were strengthened via branch visits and the Reach HR feature, which enabled staff to confidentially voice concerns, share ideas, and connect directly with mediation officers and senior leadership. Moreover, we conduted regular Employee Feedback Surveys and engages in structured Performance Conversations to gain valuable insights into employee experiences, enabling continuous improvement in management practices and workplace culture. These initiatives were further strengthened by the Open Door Policy, which encouraged open, transparent communication and empowered employees to voice their concerns and suggestions.

Employee Wellbeing:
Trainings were scheduled within working hours to preserve personal time. Recreational opportunities, and participation in Mercantile and Regional Cricket tournaments, were promoted. The Welfare Fund continued to offer targeted financial and personal support. Additionally, we organized a Cricket Tournament, engaging all branch and Head office employees.



Family Focused Employees Initiatives:
Rewards were presented to children of employees who excelled in the G.C.E. Advanced Level, Ordinary Level, and Scholarship examinations, reinforcing the organisation's commitment to employee family well-being and celebrating academic excellence within the HNBF community. Additionally, we organized Children's Day activities to celebrate children of employees.

Volunteer and Community Engagement:
Our employees took part in meaningful volunteerism through book donation drives, Poson Bathi Gee and Dansela programmes, hospital renovation initiatives, and disaster relief efforts under the "*Mehewara*" initiative—demonstrating a strong alignment with our corporate citizenship values. In addition, we extended our commitment to social impact through educational and celebratory initiatives, including a Scholarship Programme to support underprivileged students.

Together, these multifaceted efforts created a thriving work environment where employees feel empowered, supported, and aligned with the organisation's broader purpose.









TRAINING AND DEVELOPMENT

HNBF places a strong emphasis on cultivating a high-performing, future-ready workforce through strategic training, development, and career progression initiatives. Our learning and development framework is meticulously aligned with organisational objectives and tailored to bridge identified competency gaps through a comprehensive Training Needs Analysis (TNA).

We deliver impactful learning experiences via instructor-led sessions, internal and external workshops, e-learning modules, Out Bound Trainings, and leadership development programmes. These interventions are crafted to address current and emerging business needs.

Career growth is guided by a transparent, performance-based progression framework supported by structured performance evaluations. We are equally committed to succession planning and talent acceleration, which are vital to ensuring a resilient and sustainable leadership pipeline.

We provide our employees with the right tools, knowledge, and growth opportunities, to foster a culture of continuous learning and personal excellence that contributes meaningfully to long-term organisational success.

Key highlights of training and development in 2024/25

- Nominated employees for industry-specific training, workshops, and seminars facilitated by internal trainers, professional bodies, and regulatory organisations.
- Implemented the “License to Sell” Programme for Business Development Officers in collaboration with SLIM.
- Six Sigma Certification Programme for identified personnel across departments.
- Credit Administration and Evaluation Training Programmes for nominated employees utilising internal expertise.
- Facilitated various outbound training initiatives to enhance professional competencies and support career advancement.
- Credit Management Diploma Programme for Branch Managers in partnership with SLICM.
- Facilitated a Diploma in Audit Programme for selected Operations Division employees through IBSL.
- Conducted Interview Panelist Empowerment Workshops to enhance recruitment and selection processes.
- Delivered specialised training on the Qualifications, Duties, and Responsibilities of a Company Secretary.
- Introduced Performance Improvement Plans (PIP) for employees to address performance gaps and support their development
- Financial sponsorships to cover the cost of professional membership fees to support employees’ continuous learning and development, empowering them to stay ahead in their fields.
- Implemented the High Flyers programme through selecting 50 outstanding employees to plan their growth and providing tailored development programmes to fast-track their career progression.

Training programmes conducted in 2024/25

Program Type	Number of Training Sessions	Number of Employees	Number of Training Hours
Knowledge Based Trainings	96	4,391	31,368
Employee Orientation	11	371	2,938
CBSL Trainings	6	110	920
Product Based Trainings	35	2,682	20,472
Soft Skills Development Programs	43	3,099	21,217
Technical Skills Development Programs	27	1,740	9,962
Trainings on E-Learning Platform	20	697	1,791

EMPLOYEE HEALTH AND SAFETY

We recognise the importance on ensuring a safe and supportive work environment that promotes the physical and mental wellbeing of all employees. In line with this commitment, we have established a dedicated Health, Safety and Fire team from the Head Office to proactively oversee workplace safety and wellness practices. This cross-functional team plays a critical role in identifying and addressing potential hazards, implementing safety protocols, and fostering a culture of vigilance and care. We extend this deep focus on employee health and wellbeing towards our customers and visitors to our premises. In FY2024/25, we did not experience any work related injuries. Our focus on health and safety not only ensures regulatory compliance but also cultivates an organisational culture where employee wellbeing is recognised as a foundation for productivity, engagement, and long-term success.

DIVERSITY AND INCLUSION

HNBF Company exemplifies a strong commitment to workforce diversity and inclusion by fostering an environment that values and respects individual differences across ethnicity, gender, age, and cultural backgrounds. The company actively promotes inclusive policies and practices that ensure equal opportunities for all employees, encouraging diverse perspectives to drive innovation and growth. HNBF's initiatives focus on creating a workplace where every team member feels valued, supported, and empowered to contribute their unique talents, ultimately enhancing organizational performance and cultivating a culture of belonging. As part of its diversity efforts, HNBF has organized a Women's Day program to celebrate and promote gender inclusion within the workforce. Through ongoing training, awareness programs, and equitable recruitment processes, HNBF strives to maintain a dynamic, inclusive workforce that reflects the diverse communities it serves.

PERFORMANCE MANAGEMENT AND COMPENSATION

We rely on a comprehensive and well-documented Performance Management process to review employee performance and obtain purposeful feedback. A key highlight of this framework is the integration of Performance Improvement Plans (PIPs)—a pioneering initiative in Sri Lanka's finance industry. HNBF is proud to be the first financial institution in the country to introduce structured and formalised PIPs as an integral part of its human capital strategy.

These plans are designed to offer focused support and development opportunities for employees whose performance does not meet expectations. Each PIP outlines specific objectives, time-bound milestones, and regular progress evaluations, reinforcing a culture of continuous improvement. The initiative underscores our unwavering commitment to fairness, transparency, and accountability, while fostering employee growth within a performance-driven environment.

In tandem with these enhancements, our compensation policies were also revised during the year to ensure stronger alignment with strategic KPIs and evolving regulatory requirements further strengthening our focus on value-driven performance and organisational excellence.

SUCCESSION PLANNING

In line with our strategic commitment to fostering leadership continuity and organisational resilience, we continued to use the structured succession planning framework established in 2023.

Our succession planning initiative is designed to identify and develop internal talent for critical roles, ensuring long-term leadership continuity across business functions. The framework includes:

- Critical Role Identification: Systematic mapping of roles essential to business continuity and future growth.
- Talent Fitment and Gap Analysis: Aligning internal talent with potential future leadership roles while identifying areas requiring capability development.
- Development Roadmaps: Implementation of targeted development programmes, including leadership training, mentorship, and career progression planning.

Moreover, succession planning at HNBF is not just a contingency measure but a proactive strategy integrated into our broader performance management



system. It aligns closely with our emphasis on performance accountability, where structured PIPs are leveraged to support employees with developmental needs, thereby reinforcing a culture of growth, responsibility, and long-term engagement.

These efforts are further enhanced through digitalisation of HR processes and the integration of analytics to inform talent decisions. As we continue our transformation journey, succession planning remains a cornerstone of our human capital development agenda, ensuring the sustainability and agility of our leadership pipeline.

	FY 2024/25	FY 2023/24	FY 2022/23
Total number of employees that were entitled to parental leave, by gender.	351	330	265
Total number of employees that took parental leave, by gender.	9	10	7
Total number of employees that returned to work in the reporting period after parental leave ended, by gender.	7	8	6
Total number of employees that returned to work after parental leave ended that were still employed 12 months after their return to work, by gender.	7	6	6
Return to work and retention rates of employees that took parental leave, by gender. (%)	77.78	80.00	85.72

HUMAN RIGHTS AND GRIEVANCE MECHANISMS

HNBF is committed to upholding human rights and providing a safe, respectful, and supportive work environment where every employee feels heard and valued. We have instituted a comprehensive and accessible grievance handling mechanism that empowers employees to raise concerns confidentially and without fear of retaliation.

Our multi-channel grievance system includes:

- Direct access to managersor senior team members, enabling immediate resolution through leadership intervention.
- Reach HR Platform, a secure digital platform for submitting structured and trackable grievances.
- HR Branch Coordinators, who serve as key contact points within branches to address employee concerns.
- One-on-one discussions during branch visits, which provide a personal, face-to-face opportunity to raise issues in a confidential setting.
- Non-HR Mediation Officers, offering a neutral and confidential alternative for those who prefer not to go through HR channels.
- Anonymous employee surveys, allowing team members to express concerns and feedback candidly.

These mechanisms are designed to uphold fairness, accountability, and transparency, reinforcing our values and commitment to ethical governance. All reported concerns are reviewed and addressed promptly, ensuring employees feel protected and respected throughout the process.

RETIREMENT OR TERMINATION PROCESS

HNBF is committed to ensuring a respectful and well-supported transition for employees exiting the organisation due to retirement or termination. Adequate notice periods and personalised guidance are provided to help employees prepare for the next phase of their journey. All final settlements, including gratuity and statutory dues, are processed promptly to ensure a smooth and dignified experience.

RECOGNITION

This year, we received the Great Place to Work certificate- a globally recognised endorsement that reaffirms our commitment to fostering a workplace culture rooted in trust, respect, and collaboration. This achievement holds significant value for the organisation, as it plays a vital role in attracting and retaining top talent, enhancing our employer brand, and validating the positive employee experience we strive to create. It also contributes meaningfully to improving employee engagement by encouraging open feedback and strengthening the bond between the organisation and its people. Above all, the certification serves as a powerful testament to the inclusive, empowering, and people-centric culture we have built one where our employees feel proud, valued, and inspired to grow.

Future outlook

Looking ahead, HNB Finance PLC's Human Resources function will continue to play a pivotal role in shaping a resilient, inclusive, and performance-driven organisation. Our people strategy is evolving in step with both dynamic market conditions and the aspirations of a modern workforce anchored in fairness, accountability, and long-term value creation.

We will deepen our focus on building future-ready capabilities through targeted, business-aligned training interventions, expansion of digital learning platforms, and structured leadership development. Succession planning will remain a strategic priority, ensuring continuity in critical roles through proactive talent identification and nurturing of high-potential employees. Additionally, our pioneering use of structured Performance Improvement Plans (PIPs) a first in Sri Lanka's finance industry will continue to reinforce our performance culture with fairness and transparency at its core.

Additionally, we will enhance employee engagement through expanded recognition programmes, data-driven feedback mechanisms, and inclusive communication channels. Our recent achievement of the Great Place to Work® Certification will be leveraged to strengthen our employer brand, elevate employee trust, and attract top-tier talent reinforcing our commitment to cultivating a workplace culture that inspires pride and belonging.

To further strengthen our talent pipeline and leadership bench, we will initiate structured Management and Undergraduate Trainee Programmes, incorporating both government and private participants. These initiatives are designed to cultivate future-ready professionals equipped with the skills and mindset required to thrive in a dynamic financial services environment. Additionally, we will embed a culture of continuous improvement by institutionalising 360-degree feedback and other structured performance review mechanisms, enabling employees to grow through holistic insights and fostering a high-performance, feedback-driven workplace.

As we progress on this transformative journey, HNBF's Human Capital strategy will continue to align with the organisation's broader vision empowering our people to be catalysts of sustainable growth, stakeholder value, and national development.

As we plan for the future, we are committed to recruiting more women into Business Operations roles.

Social and Relationship Capital

Our Social and Relationship Capital reflects the strength of our relationships with customers, communities, regulators, business partners, and suppliers, all of whom play a vital role in ensuring our long-term success. We believe that trust, transparency, and shared value creation are the cornerstones of these relationships. In 2024/25, we advanced our commitment to inclusive finance, systemic community development, ethical marketing, and responsible supply chain practices. Our initiatives also support multiple Sustainable Development Goals (SDGs), reflecting our belief in business as a force for societal good.



HIGHLIGHTS OF THE YEAR

- Organised 22 CSR projects, with half of them dedicated to promoting financial literacy and empowering local communities
- As a corporate entity, invested LKR 4.15 Mn. in CSR initiatives aimed at community development and social responsibility
- Employees contributed over 1,600 volunteer hours towards CSR initiatives, demonstrating strong commitment to social responsibility and community support
- Customer base exceeds 264,000 across a diverse range of products
- Taxes paid to the government is LKR 721 Mn, to fund community services, infrastructure, and public programs that benefit society as a whole

MANAGEMENT APPROACH

We have evolved our Corporate Social Responsibility (CSR) strategy from conventional philanthropy to a purpose-driven approach that creates lasting, systemic change. By leveraging our expertise in financial services, our geographic footprint, and our digital innovation capabilities, we actively invest in communities, promote inclusive growth, and cultivate lasting stakeholder trust. This shift supports our vision to generate sustainable impact while reinforcing our brand as a responsible financial institution. In trying to understand the requirements of our stakeholders to purposefully change our social and relationship impact, we rely on our robust stakeholder engagement process, presented in this annual report on page 25.

ANALYSIS OF THE INTELLECTUAL CAPITAL INFLUENCE ON OTHER CAPITALS

FINANCIAL CAPITAL

Fosters trust-based relationships with customers, business partners, and the community to build customer loyalty, enhance brand equity, access new markets, and ensure steady business growth that strengthens Financial Capital.

HUMAN CAPITAL

Cultivates a sense of belonging and purpose among employees while creating opportunities for Human Capital development, leading to greater engagement, retention, and collaboration.

INTELLECTUAL CAPITAL

Strengthens Intellectual Capital by fostering shared learning, co-innovation, and open exchange of ideas through networks and strategic partnerships, while building brand image through engagement with customers, suppliers, and the community to enhance brand value.

MANUFACTURED CAPITAL

Enhances Manufactured Capital by strengthening public value and acceptance of physical and digital assets through community engagement, incorporating feedback and suggestions to drive continuous improvement.

NATURAL CAPITAL

Strengthens Natural Capital by mobilising support for sustainability through advocacy, partnerships, and stakeholder-driven environmental initiatives, complemented by strategic investments in CSR projects.

EXTERNAL IMPACT

Shareholders

Customers

Regulators

Community and Environment

Suppliers



CUSTOMER ENGAGEMENT

Customer management approach

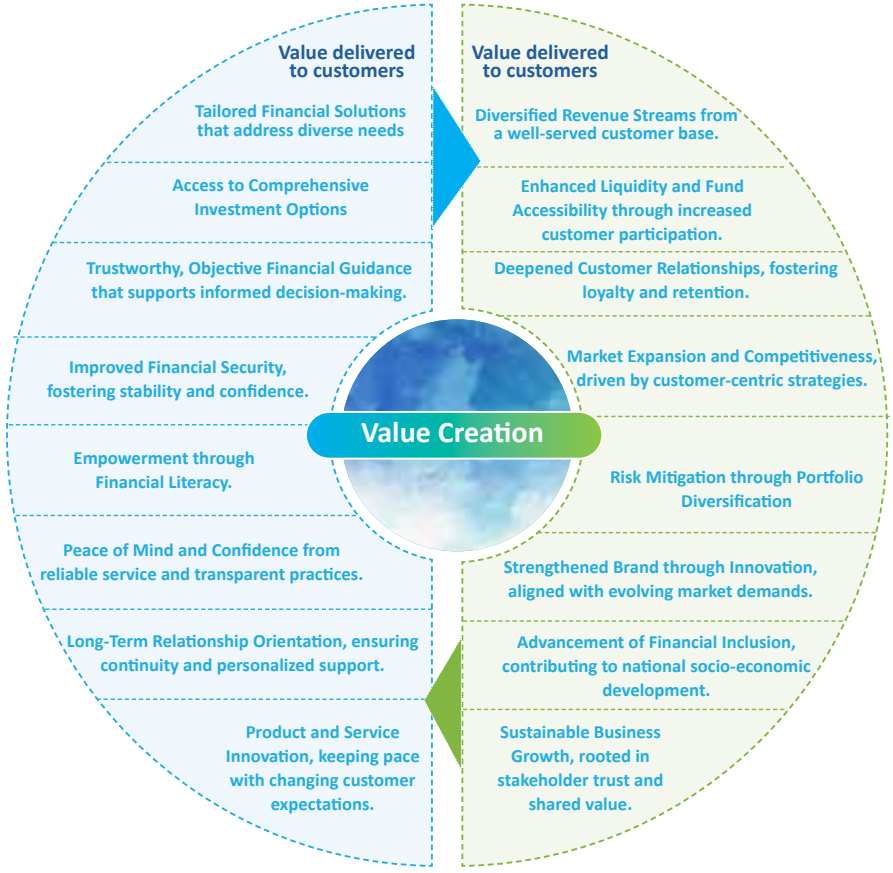
Our customers are at the heart of our value creation strategy. We are committed to delivering inclusive, accessible, and responsive financial services that address the diverse needs of individuals and communities across Sri Lanka. Our approach goes beyond transactions it is built on cultivating long-term, trust-based relationships that foster financial empowerment and social mobility.

We offer a broad suite of solutions tailored to varied customer segments, including women entrepreneurs, microfinance clients, and underserved rural populations. By leveraging both digital innovation and personal engagement, we aim to enhance convenience, transparency, and the overall customer experience.

Through continuous feedback, personalised service delivery, and a strong presence across digital and physical channels, we strive to understand our customers' evolving needs and provide them with the tools and support necessary for their financial well-being and growth.

Customer centricity remains a strategic priority at the corporate management level, serving as a foundational pillar of our Social and Relationship Capital strategy. As such, we are committed to cultivating enduring relationships that transcend transactional interactions, driving trust, loyalty, and long-term stakeholder value. This commitment is embedded into our enterprise-wide decision-making and is reflected in our integrated customer engagement approach, which combines digital innovation, personalised service delivery, and ethical governance. We integrate customer-centric thinking into our corporate ethos to ensure that all touchpoints across business units and leadership tiers are aligned to deliver meaningful, consistent, and responsible customer experiences.

As such, the relationship between HNBF and customers is built on a dynamic value exchange, where each party contributes to and benefits from the other. This reciprocal process drives sustainable growth, financial empowerment, and long-term resilience.



Engagement channels

Customer engagement is a strategic enabler of long-term relational capital and stakeholder trust at HNBF. Our engagement model is designed to create an inclusive, seamless, and responsive experience for all customers irrespective of geography, income level, or digital familiarity. To ensure accessibility and relevance, we deploy a dual-channel approach, combining the reach of our physical infrastructure with the efficiency of digital innovation.

Physical Channels

Our physical network comprising 79 strategically located branches is predominantly situated outside the Western Province. This extensive branch footprint has enabled us to serve underbanked and rural communities with consistent, in-person financial services. The branch-based presence not only facilitates access to essential financial products but also nurtures trust and personal connection, particularly among customer segments that rely on direct interaction and guidance. Through this approach, we reinforce financial inclusion, build regional equity, and deepen our role in community-level economic upliftment.

Digital Channels

In tandem with our physical branch network, HNB Finance PLC continues to advance its digital engagement capabilities to better serve an increasingly tech-savvy and geographically dispersed customer base. Our strategic emphasis on digital customer acquisition is set to enable us to reach a broader and more diverse population, ensuring that innovative financial solutions consistently become accessible to individuals and communities across the country.

We rely on user-friendly platforms and targeted online campaigns to promote convenience, efficiency, and inclusion.

These efforts not only simplify access to services but also reflect our deeper commitment to financial inclusion a core tenet of our social responsibility agenda.

At the centre of our digital transformation are the Internet and Mobile Banking platforms, which will be a substantial investment to enhance functionality, user experience, and security. These tools empower customers to manage their finances independently, with 24/7 access that supports seamless, on-the-go transactions. The platforms are particularly impactful for younger, digitally native segments who demand real-time, mobile-first financial services.

Further complementing these tools is the revamped corporate website, which now serves as a dynamic and responsive information portal. Designed with intuitive navigation and real-time content updates, the website ensures transparent and timely access to corporate information for all stakeholders, including customers, partners, and regulators.

Importantly, the website is now available in all three national languages Sinhala, Tamil, and English enhancing accessibility and inclusivity for Sri Lanka's diverse population.

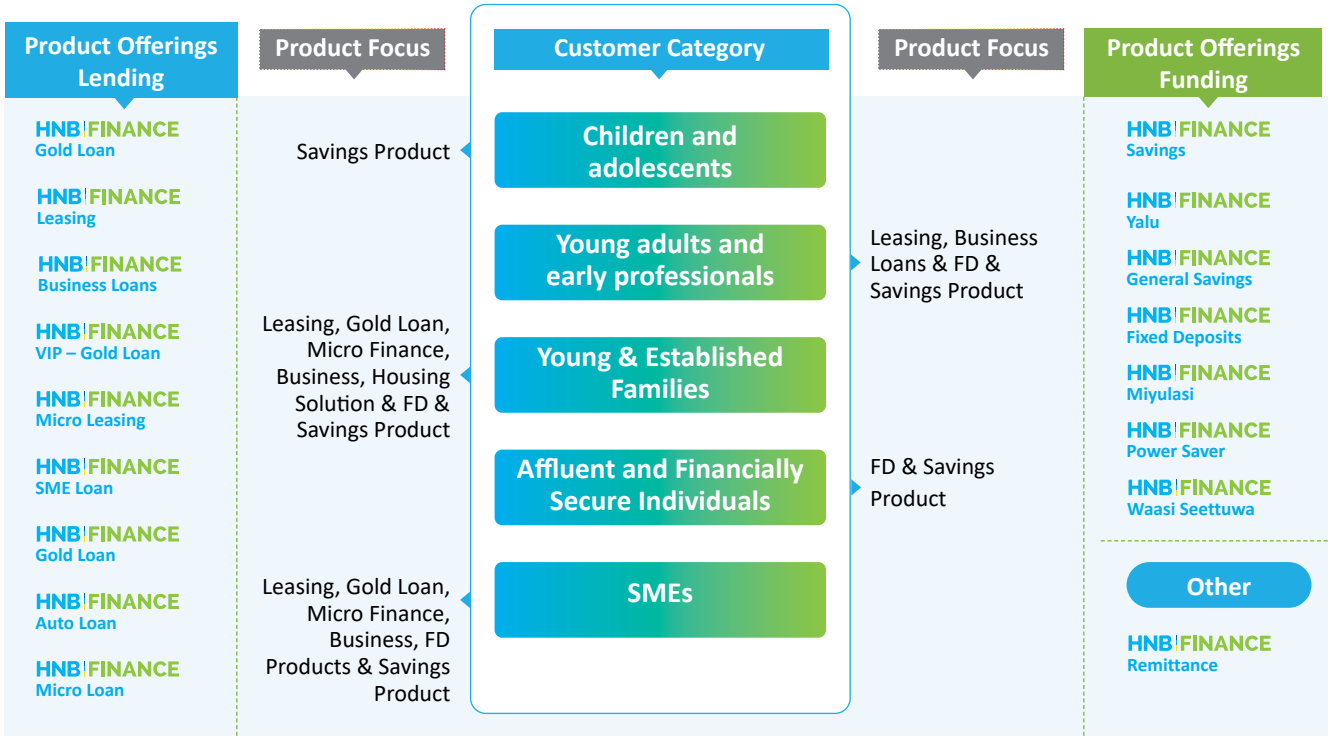
Through this integrated digital engagement strategy, HNBF continues to strengthen its relationship capital, broaden its reach, and align its operations with evolving customer expectations and national digitalisation goals.

Product Portfolio

Our product portfolio is central to enabling inclusive and resilient financial participation across the country. Anchored in accessibility, adaptability, and long-term value creation, our offerings have evolved in step with our transformation into a diversified financial services provider. Microfinance and secured micro solutions remain vital conduits for empowering underserved micro-entrepreneurs, now enhanced through a transition toward collateral-backed models that strengthen credit quality and promote responsible lending. Our gold loan portfolio—expanded through new products like Cash in Flash and Super Max continues to meet urgent liquidity needs, supported by robust risk controls and outreach in underserved locations.

Leasing solutions have been refined with innovative options and loyalty programs, enabling customers to acquire essential assets with ease, while forging deeper relationships through bundled services and strategic dealer partnerships. Our micro finance loans support scalable growth for emerging enterprises, while housing financial solutions, introduced through a restructured product framework and backed by partnerships with Prime Lands address long-term financing needs with enhanced security.

Meanwhile, our savings and fixed deposit products have seen renewed growth, with customer loyalty programs, innovative offerings like Power Saver, and strong branch-level engagement reinforcing depositor confidence. These services are delivered through our island-wide branch network, ensuring that every Sri Lankan has access to tailored, future-ready financial solutions that promote economic inclusion and uplift communities across the country.



Call Centre

The Call Centre at HNB Finance PLC continues to be a vital hub for customer engagement, acting as the primary point of contact for both service delivery and issue resolution. Central to our customer service model, the call centre plays a strategic role in ensuring customer satisfaction, business continuity, and operational efficiency. The unit supports overall company productivity by allowing frontline teams to focus on their core functions through managing all incoming and outgoing customer communications ranging from inquiries and product promotions to complaint handling and feedback collection.
Staffed by a well-experienced team, the call centre is equipped with trilingual capabilities and operates through an integrated CRM and Call Centre Platform that enables streamlined customer interaction management. All customer complaints, whether received through written submissions, digital platforms, or direct calls, are routed through the call centre. These are promptly assessed and directed to the relevant business units for expert input, while the call centre team takes ownership of ensuring timely and effective resolutions. A culture of empathy, active listening, and accountability underpins this process, fostering trust and customer confidence.

During the year, all call centre personnel underwent both internal and external training, including structured sessions on the Customer Complaint Handling, aimed at enhancing their capacity to manage complex concerns with professionalism and regulatory compliance. Looking ahead, HNBF envisions transforming the call centre into a more customer- and business-focused service unit, aligned with emerging digital service demands.

In line with the ongoing rollout of Visa Debit Cards and enhanced internet banking capabilities, the call centre is preparing to operate 24/7, ensuring round-the-clock support for our expanding customer base. To support this transition, ongoing training programs will continue to focus on strengthening complaint-handling skills, deepening compliance-related service delivery, and expanding Customer Relationship Management (CRM) proficiency. These measures will be instrumental in upholding our service promise, protecting customer interests, and reinforcing long-term relationships through every customer interaction.

Customer loyalty

We view customer loyalty not only as a reflection of past satisfaction but also as a foundation for long-term relationship building. To deepen engagement and reward continued patronage, we have launched a dedicated Customer Loyalty Card, offering a range of value-added benefits tailored to all the different customer profiles. These benefits are designed to recognise and offer value addition to loyal behavior, reinforcing trust and enhancing the overall customer experience.

Our ability to maintain a high renewal ratio despite prevailing low market interest rates is a strong indicator of the deep-seated confidence our customers place in our service model and brand. This sustained loyalty is attributable to our unwavering commitment to service excellence, responsive customer care, and the reputation of our parent entity, which enhances trust and reinforces our market positioning.

Customer Satisfaction

We actively gather customer feedback via structured surveys and real-time interactions to continuously refine our offerings. These insights inform both service improvements and the design of financial offering content that empowers customers to make informed decisions. This approach allows us to maintain customer satisfaction as both a strategic priority and a continuous journey of enhancement. We recognise that long-term value creation is intrinsically linked to how well we understand, serve, and evolve with our customers. As such, we have implemented a comprehensive, multi-dimensional approach to ensure that every customer interaction reinforces trust, reliability, and care.

Our commitment to satisfaction is reflected in the consistent delivery of high-quality products and services, bolstered by the introduction of customer-centric policies that prioritise transparency, fairness, and inclusivity. We have strengthened customer support by enhancing response time without compromising on the quality, investing in employee training and development, and equipping our service teams with tools and skills that allow for personalised customer experiences.

As we proceed with the plan to implement digital platforms, we will be able to expand access and convenience, enabling customers to engage with us anytime, anywhere. We also place strong emphasis on transparent communication, ensuring customers are well-informed about our products, processes, and changes that affect them.

To monitor our performance, we use customer satisfaction metrics and ratings that help us benchmark and elevate our service standards year after year. Through these ongoing efforts, HNBF continues to cultivate a customer experience that is reliable and responsive.

To measure the effectiveness of our customer engagement and service quality efforts, HNB Finance PLC continuously tracks customer satisfaction levels across key touchpoints. The following results reflect the outcomes of our structured surveys conducted during the financial year, offering insight into how our customers perceive their overall experience with us.

Month	NPS %	CSAT %
April	96	97
May	94	96
June	95	97
July	94	96
August	93	94
September	91	95
October	95	97
November	96	96
December	96	97
January	94	97
February	95	96
March	95	96

Customer privacy and Data Security

Safeguarding customer information is fundamental to our operations and central to maintaining stakeholder trust. We are fully compliant with all applicable data protection regulations and have implemented comprehensive safeguards to secure the personal data we collect during the delivery of financial products and services. These robust controls are designed to prevent loss, misuse, alteration, theft, or unauthorised access. We are proud to report that during the financial year, no incidents of data breaches or violations of customer privacy were recorded, and we maintained full compliance with all relevant legal and regulatory requirements in both the social and economic domains. This record reinforces our standing as a secure and trustworthy financial partner.

To ensure these standards are consistently upheld, we provide continuous training for all employees on data protection policies and ethical conduct. This training equips staff with the knowledge and tools needed to handle sensitive customer information responsibly and securely, while also embedding a culture of privacy and accountability across the organisation. Through these proactive measures, HNBF demonstrates our enduring commitment to data integrity and the responsible use of customer information.

BUSINESS PARTNER ENGAGEMENT

Management approach

We recognise that our business partners are vital stakeholders who contribute meaningfully to our ability to deliver financial services responsibly and efficiently. Our approach to supplier engagement is rooted in transparency, fairness, and a shared commitment to sustainability and ethical conduct. Through proactive management and collaboration, we strive to foster resilient supplier relationships that support not only our strategic goals but also broader social and environmental priorities.

Procurement practices

We operate a centralised supply chain management system led by our Procurement Department, ensuring that all procurement activities align closely with our organisational needs and ethical standards. This system is governed by a formal Procurement Policy, which guarantees the fair treatment of all suppliers and promotes strong, mutually beneficial partnerships.

Our supplier onboarding process is comprehensive and rigorous. It evaluates suppliers based on multiple criteria, including reputation, geographical presence, delivery and return policies, operational capacity, historical performance, and sustainability practices. We embed these standards into our procurement process to ensure operational efficiency and support our commitment to responsible business conduct.

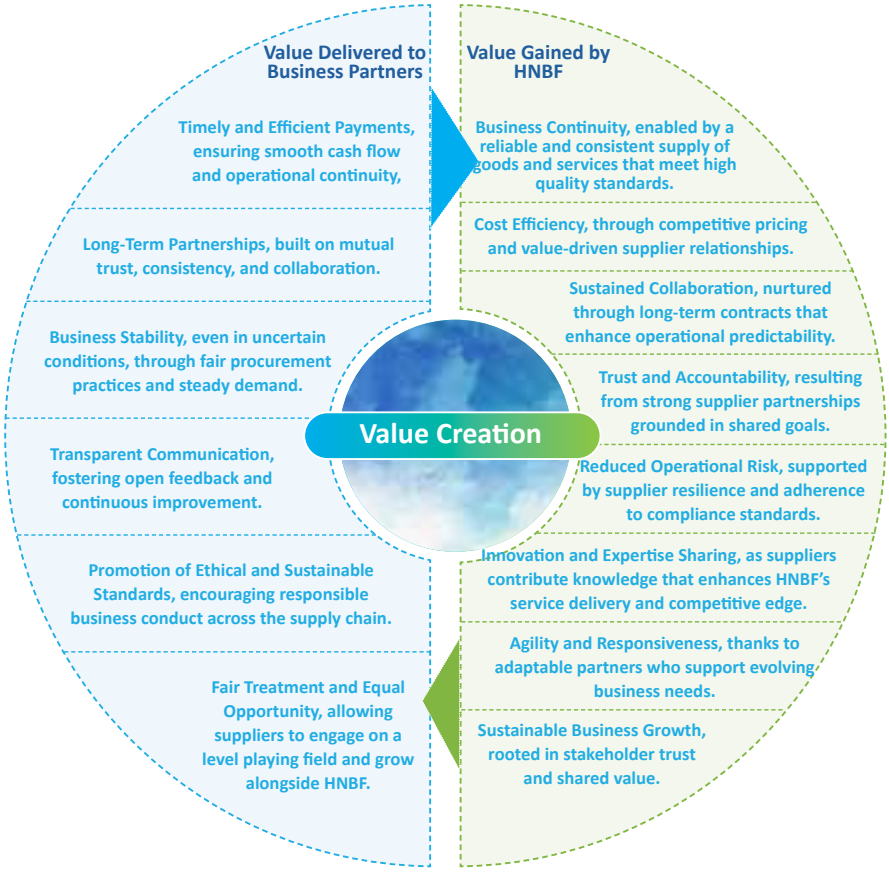
Our Network of Business Relationships



Supporting local economic activity

In line with our social impact objectives and the UN Sustainable Development Goals (SDGs), particularly SDG 8 (Decent Work and Economic Growth) and SDG 10 (Reduced Inequalities), we place a strong emphasis on sourcing from local business partners. This not only enhances our logistical responsiveness but also contributes to local economic development and community empowerment.

The relationship between HNB Finance PLC and its business partners is built on the foundation of mutual value creation, where both parties contribute to and benefit from a shared commitment to reliability, ethical conduct, and sustainable growth.



Human Rights and Ethical standards

Respect for human rights is fundamental to our business partner engagement strategy. As part of our commitment, we actively assess potential risks related to labour rights during the business partner screening and evaluation process. In the 2024/25 financial year, no risks were identified concerning freedom of association and collective bargaining. Similarly, we conducted explicit checks for child labour across our supplier base, and we are pleased to report that no incidents of child labour were found.

We screen all new suppliers against a comprehensive set of social criteria to ensure alignment with our values and standards. This assessment covers key areas including labour practices, health and safety standards, employee rights, community engagement, environmental and social responsibility, ethical business practices, and compliance with relevant certifications and standards.

COMMUNITY ENGAGEMENT

Management approach

Our Corporate Social Responsibility (CSR) strategy has progressed beyond conventional charitable giving to become a mission-driven, impact-oriented approach designed to drive meaningful and enduring change. Rather than treating CSR as a separate effort, we integrate it into the heart of our business framework, ensuring it reflects our core values, supports our strategic objectives, and responds to the priorities of our stakeholders.

Our efforts are designed to deliver sustainable, long-term outcomes that empower communities, reduce inequalities, and foster inclusive development across Sri Lanka. Leveraging our extensive expertise in financial services, our expansive branch network particularly in underserved regions and the dedication of our skilled employees, we are well-positioned to identify community needs and respond with tailored, high-impact initiatives.

Empowering Communities

We adopt a multi-dimensional and participatory approach to community engagement, ensuring that our initiatives are both responsive to local needs and aligned with long-term development goals. We foster meaningful connections with the communities we serve by implementing employee volunteer programmes that mobilise staff participation in grassroots service activities, reinforcing a culture of social responsibility within the organisation.

Our engagement also extends to educational empowerment, through scholarships, mentorship opportunities, and school-based initiatives that support students' academic and personal growth. We further strengthen community ties by hosting public forums, outreach events, and workshops, which serve as platforms for inclusive dialogue, enabling us to better understand and respond to the evolving priorities of the communities around us.

Complementing these social efforts, HNBF maintains a strong commitment to environmental sustainability, actively supporting initiatives that promote ecological awareness, resource conservation, and community-driven environmental stewardship. Through this integrated engagement model, we position ourselves not only as a financial service provider, but as a committed partner in community upliftment and sustainable progress.

Our engagement with communities is built on a shared value model where each investment, initiative, or partnership delivers reciprocal benefits to both the community and the organisation. This dynamic reinforces sustainable development while supporting business growth and resilience.

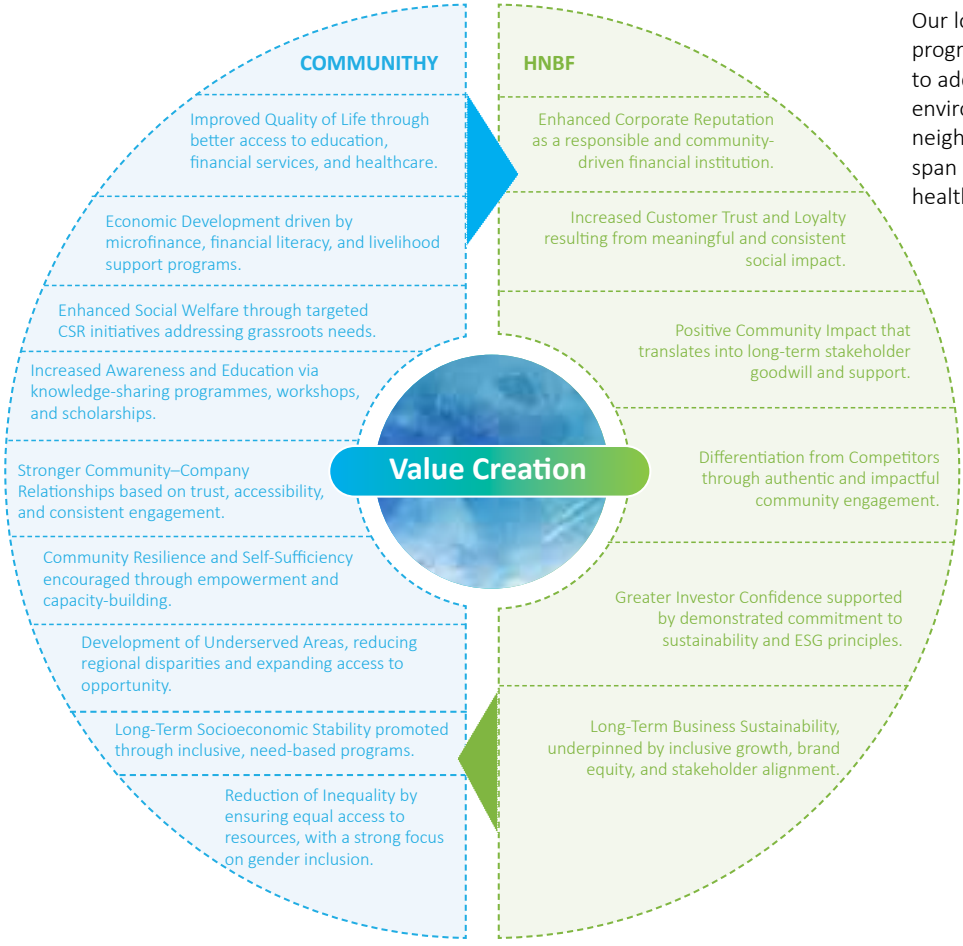
Social Impact Assessment

Social impact assessment forms an integral part of our strategic approach to corporate citizenship and stakeholder engagement. We recognise that delivering value to communities goes beyond implementing isolated CSR initiatives it requires a structured, data-informed process to evaluate how our programmes affect the social fabric of the communities we serve.

Our social impact assessments are designed to measure the effectiveness, inclusivity, and long-term value of our community interventions. This process begins at the planning stage, where we engage directly with local stakeholders to understand their specific needs, challenges, and aspirations. We use these insights to co-develop initiatives that are not only relevant and impactful but also aligned with national development priorities and the United Nations Sustainable Development Goals (SDGs).

A key focus area within our assessment framework is gender impact. All community development programmes are intentionally structured to promote gender equity, ensuring both women and men have equal access to opportunities, resources, and benefits. From educational scholarships and skills training to entrepreneurial support, our interventions are evaluated through a gender lens to eliminate bias, bridge opportunity gaps, and empower underrepresented groups particularly women in rural and underserved communities.

Our local community development programmes are further tailored to address the socio-economic and environmental well-being of specific neighbourhoods. These initiatives span areas such as education, healthcare, livelihood development, and



environmental sustainability, and are implemented through a participatory model that includes consultation with community leaders, feedback from beneficiaries, and involvement of local institutions. This ensures our projects are grounded in local context, culturally sensitive, and owned by the communities themselves.

To maintain accountability and adaptability, we continuously monitor and evaluate the outcomes of our initiatives using qualitative and quantitative indicators. Feedback loops are built into our execution model, enabling us to assess the real-world impact of our interventions, make necessary course corrections, and document best practices for future scalability.

Through this comprehensive approach to social impact assessment, HNB Finance reinforces its role as a responsible financial institution committed to inclusive, equitable, and sustainable development.

Informed by our social impact assessment, we support the long-term well-being of the communities in which we operate by delivering inclusive, need-based programs that foster resilience, empowerment, and sustainable development. During the year under review, HNBF implemented a total of 22 community-based projects, with an investment of approximately LKR 4.15 Mn. These initiatives were designed to address a diverse range of social needs, with strategic focus areas as presented below:

Community Development programmes

Our CSR sponsorships span across multiple sectors as explained above. In implementing the initiatives, we engage the community members in both the planning and execution stages, ensuring that each intervention reflects the lived experiences and evolving priorities of local stakeholders.

CSR focus areas

39% Access to education	**16%** Knowledge sharing
22% Community wellbeing	**23%** Financial Literacy Programs

% of total CSR investment for FY 2024/25

Notable Initiatives

Segment	Initiatives
Education	Scholarships and academic recognition provision for high performing students following their G C E Advanced Level and Ordinary Level achievements.
	Over 350 books donated to Nikaweratiya Public Library
Community wellbeing	Blood donation drives
	'Dansal' in celebration of poson Festival
Knowledge sharing	Art workshops and exhibitions in schools

Access to education

HNB Finance PLC views education as a powerful enabler of individual potential and community advancement. Our initiatives under this pillar focus on improving access to learning resources, supporting academic achievement, and recognising excellence among students from diverse backgrounds. By investing in educational infrastructure, scholarships, and school-based programmes, we aim to remove barriers to learning and foster a more inclusive and equitable knowledge ecosystem that empowers future generations.





Project	Description	Employee volunteerism (Hours)
Book Donation	As part of our commitment to enhancing access to education, HNB Finance PLC donated over 350 books valued at Rs. 250,000 to the main library of the Nikaweratiya Pradeshiya Sabha. This initiative was aimed at enriching the educational resources available to students and the broader community, fostering a culture of reading, lifelong learning, and intellectual growth in the region.	15
Scholarship and Academic Recognition Programme	To support academic excellence and encourage higher education aspirations, HNBF presented appreciation gifts to 26 high-performing students who excelled at Scholarship, GCE Ordinary Level, and Advanced Level examinations. This initiative not only celebrated student achievement but also served to motivate continued academic effort and provide tangible support for their future studies.	15
Women's Day Awareness Programme	HNBF marked International Women's Day with a comprehensive educational event designed to promote women's health, safety, and rights. The programme included a health awareness session conducted by a qualified medical doctor, along with a keynote address on women's rights delivered by a distinguished Lady Deputy Inspector General of Police (DIG). This initiative created a valuable platform for knowledge sharing, empowerment, and advocacy reinforcing our dedication to gender equity and community wellbeing.	100

Knowledge sharing

As part of our broader social responsibility agenda, HNB Finance PLC actively promotes knowledge sharing to empower individuals and foster intellectual growth. Through targeted educational programmes, interactive workshops, and creative platforms, we aim to cultivate curiosity, build confidence, and support holistic development particularly among youth. These initiatives reflect our belief that learning is a cornerstone of sustainable community progress and are designed to create lasting value through inspiration, engagement, and skill-building.

Project	Description	Employee volunteerism (Hours)
Children's Day Art Initiative and Workshop	**Head Office** In celebration of Children's Day, HNB Finance PLC launched a combined initiative to foster creativity among young learners. The programme included an art exhibition at HNB Finance's main hall, showcasing 91 paintings submitted by the children of corporate staff, with winners recognised across three age categories.	585
	Homagama HNBF also conducted an art workshop at President College – Homagama, engaging approximately 140 Grade 4 students. This holistic initiative reinforced the company's commitment to nurturing creativity and education support.	60
	Kiriwatthuduwa HNBF extended our outreach to Wijayawardhana College, Kiriwatthuduwa, by organising an interactive art workshop for 110 Grade 3 students. The initiative offered children an engaging platform to explore their creative potential.	45





Community Wellbeing

Our community well-being programmes are designed to foster inclusivity, compassion, and civic engagement while addressing local needs meaningfully. The following highlights key activities undertaken during the financial year, demonstrating our ongoing dedication to creating shared value and enriching lives across Sri Lanka.

Project	Description	Employee volunteerism (Hours)
Blood Donation	On 8 October 2024, HNB Finance PLC organised a blood donation drive at its head office, welcoming the participation of both staff and customers. The initiative saw approximately 175 donors contribute to a life-saving cause, reinforcing HNBF's commitment to community health and social responsibility through collective action and civic engagement.	100
Poson Dansal programme	In celebration of Poson Poya Day, HNB Finance PLC organized Poson Dansala events across several key locations, reaffirming our commitment to cultural heritage and community outreach. The events served a large number of individuals with traditional Sri Lankan refreshments and reflected the organization's dedication to social and religious observances. • Nawala Head Office served seeni sambol buns to 7000 people • Borella Head Office served fish buns to 1000 people • Dambulla Branch served seeni sambol buns to 1000 people • Homagama Branch served cassava to over 2700 people These collective efforts strengthened community ties and emphasized the Company's ongoing engagement with the people and communities we serve	750

Financial Literacy Programs

We have positioned HNBF as a pioneer in advancing financial literacy among underserved communities, with a unique commitment that sets us apart in Sri Lanka's financial services sector. As one of the only institutions to consistently and significantly invest in structured financial education, HNBF has made it a strategic priority to empower microfinance clients with the knowledge and tools needed to manage their finances responsibly and sustainably.

In the financial year under review, we conducted 11 dedicated financial literacy workshops across various regional branches, including Tissamaharama, Ambalantota, Matara, Beliatta, Nittambuwa, Nuwara Eliya, Kaduwela, Welimada, Embilipitiya, Badulla, and Bandarawela. These programmes collectively reached over 1,200 microfinance clients, providing them with practical knowledge on budgeting, saving, credit management, and responsible borrowing.

These workshops aimed to elevate financial awareness among economically active low-income individuals, helping them make informed financial decisions and reduce dependency on informal lending channels. Beyond basic training, the programmes also aim to instils confidence and self-sufficiency among participants particularly women who form a significant portion of the microfinance base.

This initiative also underscores HNBF's broader vision of financial inclusion, not merely as access to financial services, but as a process of meaningful empowerment. Through significant investments in human resources, volunteer hours, and training infrastructure, these workshops reinforce the Company's role as a socially responsible financial partner committed to long-term economic upliftment.

CSR focus areas

No. of programs	11
No. clients served	1,200+
No. of volunteer hours	- 294





Future outlook

As HNB Finance PLC advances our commitment to sustainable growth and stakeholder engagement, we recognise the importance of creating value in a targeted and strategic manner. Moving forward, our efforts will be distinctly focused on three key stakeholder groups customers, business partners and communities with tailored initiatives designed to deepen relationships, enhance mutual value, and contribute meaningfully to social and economic development. We plan on aligning our future approach with stakeholder expectations and national priorities to reinforce our role as a trusted financial partner and a responsible corporate citizen.

Customers

HNB Finance PLC will continue to strengthen customer engagement by advancing our technology-driven, omnichannel approach that integrates digital innovation with personalized service across mobile banking, branches, and call centers. We remain committed to enhancing accessibility, convenience, and real-time support to ensure our services are inclusive and future-ready. Our future product development will be shaped by evolving customer insights and market dynamics, with a continued focus on delivering affordable, inclusive, and value-driven financial solutions. We will maintain our unwavering dedication to regulatory compliance, data privacy, and alignment with ESG principles, ensuring responsible financial stewardship remains at the heart of the customer experience. Furthermore, we will keep investing in the development of a skilled, empathetic workforce through structured training programs aimed at enhancing service quality, complaint resolution, and customer relationship management ensuring consistent excellence in every customer interaction.

Business partners

We will continue to enhance the quality, reliability, and resilience of our supply chain by diversifying the supplier base to reduce concentration risks and ensure uninterrupted operations. Additionally, we will strengthen our supplier screening processes by embedding robust sustainability and ethical criteria, aligning with evolving governance standards and ESG principles. Our commitment also extends to empowering local and SME suppliers through capacity-building initiatives, knowledge sharing, and collaborative platforms, fostering inclusive growth and contributing to broader economic development. These forward-looking efforts aim to build a more agile, transparent, and responsible value chain that supports long-term mutual success.

Community

HNB Finance will continue to deepen its engagement with communities by expanding targeted investments in areas identified through impact assessments and stakeholder dialogue, ensuring CSR initiatives remain relevant, scalable, and impactful. The company will enhance transparency and participation by leveraging social media as a dynamic platform for two-way communication, fostering stronger stakeholder collaboration. In alignment with global environmental priorities, future outreach efforts will increasingly support climate resilience and ecological sustainability within local communities. Through this integrated approach, HNB Finance aims to create lasting value for society while contributing to a greener, more sustainable future.



"HNB FINANCE is a pillar of support in facilitating our business with high quality products"

Amala Nayagi
Gunanananda Mawatha,
Colombo – 14

Artificial denture manufacturing is a niche yet vital segment within the broader healthcare industry and one that Mr. V. Nesuraja has mastered over nearly four decades. A seasoned expert in producing removable artificial dentures, he shared the story behind his long-standing enterprise.

"I launched this business in 1987 under the name 'S.S. Dental Lab,' starting with very limited resources," he recalls. "Over time, I realized the need to grow and evolve, which eventually led to a partnership with HNB Finance. My wife, Amala Nayagi, is also a partner in the venture and has played a key role in our progress."

In 2018, they secured their first loan of Rs. 50,000 from HNB Finance, followed by additional funding, including a Rs. 100,000 loan to support expansion.

"What sets us apart in the dental industry is the trust we've built with dental professionals," says Mr. Nesuraja. "They rely on us for the consistent quality of our products."

Maintaining that quality, he explains, requires sourcing only the highest-grade raw materials, an investment that comes at a cost. "Thanks to the financial backing from HNB Finance, we've never had to compromise. Their support has allowed us to uphold our standards and continue delivering superior products."

With a reputation for excellence and a foundation of trust, S.S. Dental Lab remains a leader in the field supported every step of the way by HNB Finance.



"Now I'm the owner of my own retail business"

Rositha Gracelin
Thalangama South,
Akuregoda,
Battaramulla

A short distance ahead on Akuregoda Robert Gunawardena Mawatha stands a modest yet thriving retail shop with a nameboard that reads "Rositha Stores." It was around five years ago, in 2020, that Rositha first dreamed of carving out a financial future for herself as a businesswoman. Today, that dream is a living reality. Here is her story, in her own words:

"Back then, the road was being carpeted. I was already preparing and selling lunch packets in small quantities to nearby houses. The road workers got to know about my food through the local residents and soon began buying from me directly.

That gave my small business a boost. As orders started to increase, I began to think about starting a small retail shop. I started off with vegetables and spices, and over time, I've been able to grow it into a fully stocked retail store.

When I was just starting out, I needed help securing some initial capital. That's when I turned to HNB FINANCE. I began with a loan of Rs. 25,000, and over time, I've received additional loans of Rs. 50,000 and Rs. 100,000 to help grow my business.

My next goal is to expand the original shop space, which is still a small room at the front of my house. I'm confident that HNB FINANCE will continue to support me on this journey, just as they have from the very beginning."



"The partnership built over more than two decades with HNB Finance is the secret behind our success"

Shyamali Dias
Anjali Garage,
Modara Road,
Colombo 15

Mrs. Shanmugam Vinodani began her professional career as an assistant accountant at a private firm shortly after completing her Advanced Level studies. After ten years of dedicated service, she made the decision to leave her job to focus on her son's education. However, with her husband earning a modest income as a three-wheeler driver, she soon realized the need to find an additional source of income to support the growing financial demands of the household.

"As our expenses continued to rise, I knew I had to find a solution," Mrs. Shanmugam recalls. "At the time, my husband's sister was running a small business, making and selling food items like idiyappam and thosai to nearby shops. She was buying the flour from stores, and I suggested that I could make it myself instead."

With her sister-in-law's encouragement, she began producing the flour at home. "I started small—buying rice and urad dal from the market and grinding them with a small blender," she explains. She went on to officially register her business under the name "SAJ Darshan," named in honor of her son, and began supplying flour not only to her sister-in-law but also to local retail shops, with plans to expand further.

Understanding that scaling up would require more capital, she turned to HNB Finance for support. "A friend in our housing complex told me about the HNB Finance 'Diriya Loan' scheme," she says. "I met with their team, explained my business needs, and secured a loan of Rs. 250,000. With that, I was able to buy a grinder and begin distributing thosai and idiyappam flour to shops across Colombo. My husband helps with delivery using his three-wheeler."

Today, the business produces 20 to 30 one-kilogram packets of thosai flour daily. Recently, they have also expanded into making and packaging sambol for sale. Mrs. Shanmugam continues to receive regular guidance and follow-up support from HNB Finance as she works toward growing her enterprise even further.



"The small business I started has grown to this level owing to the support from HNB Finance"

Pushpa Kumuduni Perera
Pannipitiya

Mrs. Meemanage Pushpa Kumuduni Perera began her entrepreneurial journey 19 years ago with a simple dream and a single sewing machine. With a Rs. 5,000 loan from Ceylinco Grameen, she launched a tailoring business specializing in ready-made ladies' garments marking the start of her path as a self-made businesswoman.

"I started out by selling the clothes I stitched to well-known tailoring shops," she recalls. "As demand slowly grew, I began thinking about expanding and running the business from my own premises."

With that vision in mind, she took a Rs. 1.5 million loan from Ceylinco Grameen and built a two-story building on her property under their Shop House concept living on the upper floor and operating her business from the lower floor.

Eventually, Pushpa transitioned from tailoring to the food industry, setting up a small food stall on the same premises. Most recently, she obtained a loan of Rs. 100,000 to expand the shop, allowing her to introduce kottu and various types of roti to her offerings.

"From the very beginning, it was HNB FINANCE that gave me the strength, courage, and financial support I needed to grow," she says. "For that, I will always be deeply grateful."



"It was HNB Finance that extended a helping hand for my business"

Shanmugam Vinodani
Colombo – 13

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"From the very beginning, it was HNB FINANCE that gave me the strength, courage, and financial support I needed to grow," she says. "For that, I will always be deeply grateful."

Natural Capital

Natural Capital refers to the renewable and non-renewable environmental resources such as air, water, land, minerals, and biodiversity that underpin our operations and influence our value creation over time. As a responsible financial institution, we recognise our direct and indirect dependencies on these resources and the resulting environmental impacts.



HIGHLIGHTS OF THE YEAR

- Environmental efforts in forestation, GHG reduction, and green innovation promoted sustainability.
- Handled the disposal of 800 kg of electronic waste using environmentally sustainable and eco-friendly methods.
- The effective waste management process saved 89 mature trees from being cut down
- Several Solar Power Hybrid Branches represent an investment in natural capital, promoting sustainable energy and environmental conservation.

MANAGEMENT APPROACH

We adopt a proactive and structured approach to managing natural capital, integrating environmental considerations into strategic, operational, and financial decision-making. Our management approach is grounded in our Environmental, Social, and Governance (ESG) framework, which guides the identification, monitoring, and mitigation of environmental risks and opportunities across our operations.

Our approach emphasises resource efficiency, climate responsibility, stakeholder engagement, and regulatory alignment. It encompasses initiatives such as carbon footprint measurement, renewable energy adoption, waste minimisation, ESG-based credit evaluation, and investment in environmental regeneration. These are complemented by employee engagement programmes, awareness campaigns, and green product innovation that embed sustainability into our organisational culture.

ANALYSIS OF THE INTELLECTUAL CAPITAL INFLUENCE ON OTHER CAPITALS

FINANCIAL CAPITAL

Supports cost savings and long-term value creation by reducing resource usage, mitigating environmental risks, and enabling access to green financing opportunities.

HUMAN CAPITAL

Enhances employee health, morale, and productivity through improved environmental conditions and a culture that values ecological responsibility and stewardship.

INTELLECTUAL CAPITAL

Fosters innovation in sustainable product development, process optimization, and environmental risk management through knowledge sharing and environmental R&D, which in turn influence HNBF's position as a sustainable entity.

MANUFACTURED CAPITAL

Drives the adoption of eco-efficient infrastructure, energy-efficient technologies, and sustainable building practices, resulting in reduced operational impacts.

SOCIAL AND RELATIONSHIP CAPITAL

Strengthens stakeholder trust and brand equity by demonstrating corporate responsibility, community engagement, and transparent environmental governance.

EXTERNAL IMPACT

Business Partners | Customers | Regulators | Community and Environment | Shareholders | Employees



Natural Capital Governance

The Company's approach to natural capital is firmly embedded within our Environmental, Social, and Governance (ESG) framework, which reflects the institution's commitment to sustainable and responsible value creation. This capital is governed through robust oversight by the Board Strategic and Investment Review Committee, ensuring that environmental considerations are incorporated into high-level strategic and investment decisions.

A cornerstone of this governance structure is the board-approved Sustainability, Environment and Governance (SEG) Policy, which serves as a comprehensive guide for integrating environmental stewardship into the organisation's long-term vision. This policy not only aligns with global best practices but also mandates proactive measures to enhance biodiversity, improve resource efficiency, and safeguard ecosystem resilience.

Through this dual governance mechanism—comprising a strategic oversight committee and a guiding policy—the Company ensures that natural capital is managed in a way that supports the organisation's sustainability ambitions while creating long-term stakeholder value.

Environmental Concern Credit Evaluation

As part of our broader sustainability framework, we place emphasis on integrating Environmental criteria into our credit evaluation process. This approach ensures that financial support is directed toward businesses and projects that align with our commitment to environmental stewardship.

Our credit evaluation process, formally embedded within our Credit Policy, includes a screening mechanism that assesses clients' environmental practices and overall sustainability profiles. The Company maintains a firm stance against engaging with or supporting activities that pose significant environmental or social harm. This includes avoiding support for activities that could cause ecological degradation or harm to sensitive ecosystems. The evaluation process discourages operations that conflict with sustainability principles, especially those that might compromise the balance and health of aquatic environments.

The organisation also avoids sourcing wood or forest products from illegal or non-compliant forestry operations. Furthermore, the Company does not engage with industries associated with narcotics, firearms, or other activities that are detrimental to societal well-being.

Additionally, our due diligence process ensures that human rights considerations are upheld, particularly in avoiding associations with child labor, forced labor, or operations that threaten biodiversity and wildlife conservation. These assessments are grounded in both Sri Lankan legislation and international environmental protocols, reinforcing our role as a responsible lender.

Through this disciplined approach, the Company not only mitigates environmental risks but also supports the national transition toward a low-carbon, circular economy. The integration of ESG filters ensures that our portfolio aligns with long-term sustainability goals, reinforcing our role as a catalyst for responsible development in Sri Lanka.

Resource Efficiency and consumption performance

Meanwhile, our operational strategy integrates energy and water conservation, waste minimisation, and digital transformation to reduce our ecological footprint. The Company's primary environmental inputs are electricity, water, and A4 paper used for physical documentation. Our operations are increasingly digital, but we remain dependent on these resources to maintain business continuity. Additionally, the physical footprint of our branch network has implications for land use and local ecosystems. This section highlights our performance across key resource categories in 2024/25, showcasing tangible progress and continued areas of focus.

Energy

Energy consumption is one of the most material aspects of our environmental footprint, directly influencing our operational sustainability and carbon emissions. As a financial institution with a nationwide branch network, our primary energy input is grid electricity. Recognising the importance of responsible energy management, we have adopted a strategic approach focused on efficiency, conservation, and the transition to renewable sources. Our ongoing efforts aim to reduce reliance on fossil fuels, minimise operational costs, and contribute meaningfully to national climate goals. The following outlines our electricity usage and key initiatives undertaken during the reporting period.

Electricity Consumption

	2024/25 Units	2023/24 Units
CEB	2,475,969	2,325,533

While electricity consumption increased by 6% during the period under review compared to the previous year, this rise must be viewed in the context of the Company's transformative growth strategy. Notably, the Company achieved a remarkable 130% increase in sales during the same period, underscoring the significant expansion of business activity. Despite this substantial growth in sales, the relatively modest increase in electricity usage highlights the effectiveness of our operational efficiency initiatives—such as the deployment of energy-saving infrastructure and the implementation of branch-level consumption targets. This reflects our success in decoupling energy use from business growth, reaffirming our commitment to embedding sustainability within our operational model.

At present, we have implemented several energy efficiency initiatives to reduce our reliance on fossil fuels and curb emissions, including:

- **Solar Energy Integration:** We installed several solar panels at three branches, significantly reducing dependence on grid electricity and contributing to clean energy generation.
- **Energy-Efficient Infrastructure:** Transition to LED lighting, optimised use of natural lighting, and regular maintenance of HVAC systems have improved energy efficiency.
- **Health-Oriented Alternatives:** Awareness signage promoting the use of stairs over elevators has been introduced to reduce electricity use while also encouraging employee health and wellness.
- **Branch-Level Energy Targets:** A structured energy reduction programme has been rolled out, assigning each branch specific consumption reduction goals to foster accountability and measurable improvements.
- **Awareness Campaigns:** Organisation-wide educational initiatives have been conducted to raise awareness of energy conservation, promote behavioural change, and instill a culture of environmental responsibility among staff.

Water

Water is one of the most precious natural resources on the planet—vital for sustaining life, health, food security, and economic development. Yet, despite its critical role, access to clean and safe water remains a pressing global challenge. With only a small fraction of the Earth's water available as fresh and usable, growing populations and climate change continue to strain supply. Conserving water is no longer optional—it is an imperative for protecting ecosystems, supporting communities, and ensuring that future generations have access to this essential resource.

Mindful of this the Company regards efficient water management as a key component of the Company's commitment to environmental sustainability. As a resource essential to both our operations and the communities we serve, we continuously strive to minimise consumption and improve water stewardship across all facilities. In 2024/25, we recorded a slight reduction in water usage compared to the previous year, reflecting the success of our targeted conservation initiatives. Through proactive infrastructure upgrades, behavioural awareness campaigns, and rainwater harvesting, we are fostering a culture of responsible water use while supporting long-term environmental resilience

Water Consumption

	2024/25 Units	2023/24 Units
Water Board	21,075	22,088

Despite an increase in operational activities during the year, the Company successfully reduced our overall water consumption compared to the previous financial year. This achievement is attributed to strengthened conservation efforts, rigorous monitoring practices, and the cultivation of a "Save Water" culture among employees. These proactive measures reflect the organisation's commitment to environmental responsibility and mark a positive step toward sustainable resource management.

Conservation efforts included:

- Individual branches were assigned specific water reduction goals to foster accountability and ensure the implementation of conservation measures.
- Leak detection by dedicated maintenance staff to promptly identify and repair water losses.
- Installation of high-efficiency fixtures and utilisation of rainwater harvesting systems for plant irrigation, reducing dependence on municipal water.
- Deployment of high-pressure pumps to efficiently manage water use in vehicle washing operations.
- Water usage tracking to monitor consumption patterns and inform conservation strategies.
- Awareness campaigns and educational programs to encourage behavioral change around water use.
- Promotion of eco-friendly habits, such as turning off taps while washing hands and promptly reporting leaks, embedded into daily operational culture.

4R Concept

The 4R concept—Refuse, Reuse, Reduce, and Recycle—remains a foundational pillar of the Company's sustainability strategy, shaping our efforts to minimise waste and reduce environmental impact across all operations. This holistic framework begins with Refuse, where we proactively avoid unnecessary and single-use materials. Through Reuse, we extend the lifecycle of resources, reducing the demand for new inputs. The principle of Reduce guides us toward mindful consumption and operational efficiency, while Recycle ensures that materials which cannot be reused are responsibly processed and diverted from landfills. By embedding these principles into our organisational culture and daily practices, we continue to build a more sustainable future.

	2024/25	2023/24
A4 Sheets	4,866,500	4,578,500

Although A4 paper usage recorded a modest increase of approximately 6% in 2024/25 compared to the previous year, this is notably modest when viewed against the backdrop of a more than 130% increase in sales. This underscores the success of the Company's operational

efficiency measures and sustainability-focused digital transformation. The expansion in business activity was effectively balanced by the development of a centralised web portal and the adoption of workflow automation, which collectively supported a transition toward a paperless work environment. Additionally, the implementation of an inventory management system that integrates real-time insights into stock levels and usage patterns, facilitate more effective tracking and optimisation of resource use. These measures reflect our continued drive toward sustainability, even as operational demands evolve.

Waste

Effective waste management is a vital component of the Company's environmental stewardship strategy. As part of our broader commitment to resource efficiency and pollution reduction, we continue to adopt measures that minimise the environmental impact of our operations. Waste reduction remains a priority, with a particular focus on paper waste, electronic waste (e-waste), and food waste, which represent the most material waste streams generated by our business activities. Our approach emphasises responsible disposal, recycling partnerships, and behavioral change initiatives aimed at embedding a sustainability mindset across the organisation. By integrating structured waste management practices into our daily operations, we are not only reducing our ecological footprint but also supporting broader national and global sustainability goals.



The below illustration provides a clear outline of our waste management efforts:

Use of Paper:

Excessive printing of documents such as reports, agreements generates significant paper waste. Impacts: Deforestation, increased carbon footprint from production and transportation, and landfill contributions.

Impacts: Deforestation, increased carbon footprint from production and transportation, and landfill contributions.

Partnered with Sewn Exporter (Pvt) ltd to reuce paper related environmental impact

Outdated Technology:

Disposed electronic devices like computers, monitors, printers, and servers that are no longer in use or have become obsolete. Impacts: Toxic materials may leach into the environment if disposed of improperly, and valuable resources may be wasted rather than recycled.

Impacts: Toxic materials may leach into the environment if disposed of improperly, and valuable resources may be wasted rather than recycled.

Ongoing collaboration with Green Links for responsible electronic waste disposal:

Cafeteria or Snack Areas

If applicable, any leftover food, snacks, or beverages from internal meetings or employee facilities can contribute to waste. Impacts: Food waste contributes to greenhouse gas emissions in landfills.

Impacts: Food waste contributes to greenhouse gas emissions in landfills.

Redirecting food waste to local business and farmers to prevent landfill decomposition

Paper waste

As part of our commitment to sustainable resource management, we continue to implement practical solutions to minimise paper usage and responsibly manage post-consumer waste.

In the 2024/25 financial year, we observed a modest increase in A4 sheet consumption due to the expansion of business activity. However, this growth was mitigated through the implementation of digital workflows, centralised document management systems, and the promotion of paperless practices across the organisation. Despite these gains in operational efficiency, we recognise the importance of taking further action to address residual paper waste.

To this end, the Company has entered into a formal partnership with Sewn Exports (Pvt) Ltd, a specialised recycling solutions provider, to manage our used paper responsibly. Under this agreement, Sewn Lanka collects, transports, and processes our paper waste, ensuring it is recycled in compliance with environmental standards. This initiative is a critical step in promoting a circular economy, where waste is reintroduced into the value chain rather than ending up in landfills.

By diverting paper waste from traditional disposal methods, this project reduces environmental impact, supports sustainable material recovery, and aligns with our broader waste management strategy. Moreover, it complements our internal "Print Only When Necessary" policy and digital transformation efforts aimed at reducing paper dependency at its source.

This collaboration not only underscores our commitment to minimising our ecological footprint but also demonstrates how strategic partnerships can be leveraged to create scalable, responsible solutions for

corporate waste management. Through such initiatives, the Company continues to advance its environmental goals while fostering a culture of accountability and sustainability across all levels of the organisation.

E-waste

E-waste contains hazardous substances that, if not properly handled, can pose serious risks to human health and ecosystems. To address this, the Company launched its formal e-waste management initiative in 2024 and the program has since evolved into a successful, ongoing sustainability effort.

In partnership with Green Links, a licensed e-waste recycling provider, the Company continues to ensure the environmentally sound disposal of obsolete electronic equipment, including outdated computers, printers, communication devices, and related components. This fiscal year, we successfully disposed of 800 kilograms of e-waste through this collaboration, reinforcing our commitment to reducing harmful landfill contributions and promoting a circular economy.

The disposal process complies with all relevant environmental regulations and is accompanied by proper certification, verifying that materials are dismantled, sorted, and recycled in a manner that mitigates environmental harm. According to the e-waste certificate issued by Green Links, our efforts have resulted in notable environmental savings, including the preservation of trees, reduction of energy consumption, and minimisation of toxic emissions that would otherwise arise from improper disposal methods.

Beyond waste reduction, the initiative has helped raise awareness among staff about the environmental impacts of electronic waste, reinforcing a culture of environmental accountability across our operations. All employees are encouraged to take part in safe e-waste disposal practices, and outdated equipment is systematically inventoried and routed for recycling rather than storage or landfill disposal.

By continuing this important initiative, the Company is not only protecting the environment and public health but also setting a precedent for responsible corporate e-waste management in the financial services sector. This program underscores our long-term commitment to sustainability, resource conservation, and the adoption of circular practices that align with both national policy and global best practices.

Food Waste

While food waste is not a core byproduct of our financial operations, it can arise from staff facilities and corporate events, making it an area of concern for responsible waste management.

2024/25 (Kg)	2023/24 (kg)
3360	4080

To mitigate our impact, the Company implemented a sustainable food waste disposal program, designed to redirect organic waste away from landfills and toward productive use. Under this initiative, food waste generated during the financial year is shared with local business owners and farmers, who repurpose it as animal feed. This solution not only prevents the emission of methane gas—a potent greenhouse gas commonly associated with decomposing food in landfills—but also supports local agricultural practices, contributing to community-based circular economy models.

This effort reflects the Company's commitment to resource efficiency, waste reduction, and environmental stewardship, while simultaneously building stronger ties with local communities. By turning waste into a valuable resource, we are helping to reduce the ecological footprint of our operations and promote more sustainable food systems.

Moreover, the programme exemplifies our principle of integrating sustainability into everyday business practices, extending beyond compliance to generate real-world environmental and social value. As part of our Natural Capital strategy, we will continue to seek innovative, community-driven solutions to minimise waste and foster a culture of sustainability throughout our organisation.

Carbon Footprint management

Mindful of the growing urgency of climate change, we are committed to actively managing and reducing its carbon footprint as an integral part of our environmental stewardship efforts. This commitment is reflected in our strategic initiatives, operational choices, and ongoing partnerships aimed at measuring and mitigating greenhouse gas (GHG) emissions.

Establishing a Baseline for Emissions

In 2024/25, we initiated discussions to form a collaboration with a premier service provider in the industry to quantify our direct (Scope 1) GHG emissions—a foundational step in developing a robust emissions reduction strategy. This includes emissions arising from company-owned or controlled sources, such as facilities and transport. We plan on equipping ourselves with the data necessary to set meaningful targets and track our progress over time through identifying emission hotspots and calculating a comprehensive baseline.

Carbon Neutralizing efforts

Reforestation

As part of our long-term commitment to environmental regeneration and climate action, the Company initiated discussions with the Forest Department and the Ministry of Environment to support the reforestation of 25 acres of land in the Sankapala area of Embilipitiya. This initiative is a cornerstone of our natural capital stewardship agenda, aiming to enhance carbon sequestration and restore biodiversity. The reforestation effort extends its positive impact beyond

ecological restoration it also contributes to the well-being of surrounding communities. Notably, it will benefit the nearby village of Panahaduwa, where residents depend on the water reserves safeguarded by the Sankapala forest. This strategic initiative is a vital component of our natural capital stewardship efforts, addressing both carbon sequestration and biodiversity restoration.

Reforestation plays a critical role in mitigating climate change by absorbing atmospheric carbon dioxide through the natural process of photosynthesis. By restoring native forest cover, this initiative acts as a natural carbon sink, helping to offset a portion of our operational greenhouse gas emissions and reinforcing our broader decarbonisation goals. Moreover, the newly planted trees will enhance soil stability, improve groundwater retention, and contribute to the long-term resilience of local ecosystems.

Beyond carbon benefits, reforestation also strengthens biodiversity, offering renewed habitat for native flora and fauna that may be under threat from deforestation and land degradation. It supports ecological balance and enhances ecosystem services such as air purification, climate regulation, and pollination.

Green products in Leasing and Micro Finance

As part of our strategic focus on sustainable finance and environmental stewardship, the Company is actively developing innovative green products that align with both customer needs and ecological priorities. These products are designed to reduce carbon emissions, promote sustainable consumption patterns, and enable clients to participate in environmentally responsible practices. In line with this vision, we are in the process of introducing solutions such as electric vehicle financing, solar power-related products, and microfinance offerings tailored to the agricultural sector initiatives that further support low-carbon, resource-efficient development. This incorporation of sustainability into our product offerings enables the Company not only to minimise our own environmental footprint but also empower our customers to make informed, climate-conscious financial decisions. This initiative reflects our broader commitment to responsible innovation and our ambition to integrate sustainability into the everyday lives of our stakeholders.

Supporting Sustainable Mobility through Electric Conversion

Demonstrating our commitment to sustainable mobility and low-carbon transformation, we are in the process of launching a pioneering project in collaboration with a premier stakeholder to convert internal combustion three-wheeled vehicles (3Ws) to electric-powered models in 2025. This initiative serves as a practical step toward reducing transportation-related emissions and supporting Sri Lanka's green transition. As part of this effort, selected customers will benefit from the conversion of their 3Ws to fully electric models—completely free of charge—providing inclusive access to cleaner transport alternatives. This project not only addresses urban air pollution but also showcases the potential of innovation-driven partnerships through facilitating energy-efficient mobility solutions. It exemplifies how we are aligning product design with environmental outcomes to support a resilient, low-emission economy underscoring the Company's role as a catalyst for sustainable development

Clean Energy

In our continued journey toward environmental sustainability and energy independence, the Company has prioritised the integration of solar power solutions across our operations. This initiative is a cornerstone of our commitment to reducing our carbon footprint and embracing renewable energy as a long-term strategy for responsible resource use.

As part of our operational strategy, we have proactively installed two in-house solar power systems across our branch network to generate clean electricity. These systems represent a decisive step toward reducing our reliance on fossil fuels, minimising our carbon emissions, and integrating environmentally responsible practices into our daily operations. Building on this momentum, another four solar power systems are planned for installation in the next financial year at key locations including our Kandy branch, Head Office, and the Company-owned rented buildings in Kahathuduwa and Stanley Thilakaratne Mawatha. This planned expansion further reinforces our long-term commitment to sustainable energy transformation within our operational footprint

In addition to our internal solar infrastructure, the Company has extended its sustainability efforts through a collaborative initiative with the Athurugiriya Sanasa Loan Society. Under this program, we financed the installation of rooftop solar energy systems, enabling households and small enterprises to access reliable, sustainable energy. This initiative not only contributes to the national renewable energy agenda but also delivers tangible environmental and social benefits at the grassroots level.

The project has empowered rural communities and micro-entrepreneurs by reducing their dependence on fossil fuels, enhancing energy security, and shielding them from energy price volatility. The initiative also exemplifies how inclusive financial products can be designed to generate measurable environmental outcomes, proving that sustainability and financial inclusion can go hand in hand.

Through these combined efforts both within our own operations and via our financing ecosystem the Company continues to champion renewable energy as a catalyst for environmental regeneration and economic empowerment, setting the foundation for a greener and more equitable future.

Natural Capital Reporting

We are committed to maintaining transparency and accountability in the way we manage and report on our environmental performance. Our current sustainability reporting practices are aligned with the Global Reporting Initiative (GRI) standards, which serve as the foundation for disclosing our Environmental, Social, and Governance (ESG) impacts. This alignment ensures that our stakeholders receive a consistent, comprehensive, and globally comparable view of how we manage natural capital and related sustainability issues. These disclosures are also reflected in our Sustainability chapter, reinforcing our dedication to integrated, organisation-wide sustainability communication.

Looking ahead, the Company plans to enhance our reporting framework by adopting globally recognised standards, including the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD) guidelines. Furthermore, we intend to incorporate the SLFRS S1 and S2 sustainability disclosure frameworks, which emphasise the need for clear reporting on material sustainability and climate-related risks. By integrating these frameworks, the Company will strengthen our position as a sustainability-focused financial institution, enabling more informed decision-making, improved investor confidence, and enhanced long-term value creation. This comprehensive reporting approach will support a more holistic understanding of our environmental performance and help align our strategy with emerging global standards in sustainable finance and resilience.

- A detailed description of alliances, alignment with regulatory guidelines and emission management is presented in the Sustainability chapter of this report-

Future outlook

We envision a future where sustainable growth is deeply interwoven with environmental stewardship. As we advance our natural capital strategy, our focus is shifting from foundational sustainability practices toward broader, integrated climate action and ecosystem resilience. We are committed to ensuring that our operations, investments, and partnerships support a low-carbon, resource-efficient economy.

In 2025, we will focus on calculating our Scope 1 greenhouse gas (GHG) emissions, marking a foundational step in our emissions accounting journey. Building on this groundwork, we aim to expand our emissions inventory to include Scope 2 (indirect energy emissions) and Scope 3 (value chain emissions) in the medium to long term. These efforts will support the development of science-based targets and provide a comprehensive understanding of our climate impact. Additionally, we plan to initiate carbon emissions calculations for specific green products, integrating climate-related metrics into our innovation and performance frameworks.

To ensure transparency and build stakeholder confidence, the Company will continue enhance our reporting framework, through our ongoing efforts to align with the proposed SLFRS S1 and S2 frameworks, which emphasise the disclosure of material sustainability and climate-related risks. This approach will enable robust ESG disclosures while embedding climate risk into strategic planning and corporate governance.

Operationally, we are continuing our digital transformation journey to establish paperless workflows, through the ongoing implementation of the new core banking solution. These initiatives will enhance efficiency while reducing material use, particularly paper. Looking ahead, we will pursue aggressive resource efficiency targets, aiming to further reduce energy and water consumption in the next fiscal year. These goals reflect our ambition to optimise resource use while driving cost-effective sustainability outcomes.

Beyond internal operations, our investment strategy remains firmly rooted in environmental responsibility. We will maintain our ongoing focus on investing in natural environment initiatives, including afforestation, community-based conservation, and sustainable infrastructure. Notably, our 25-acre afforestation project in collaboration with the Forest Department a testament to our commitment to environmental regeneration, carbon sequestration, and biodiversity enhancement.

As part of our forward-looking strategy, we are also preparing to introduce green products, including electric vehicle financing solutions, that align with the growing shift toward sustainable mobility. These offerings are intended to empower our customers to make climate-conscious choices while reinforcing our environmental objectives. In parallel, we are evaluating opportunities to scale up our investment in solar energy, both within our operations and through support for renewable energy infrastructure, further strengthening our commitment to clean energy and long-term sustainability.

Importantly, our sustainability agenda is employee-driven as well, supported by awareness campaigns, training programs, and green team initiatives. These empower our workforce to take ownership of sustainability goals, foster a culture of environmental responsibility, and drive behavioral change across the organisation.

Together, these forward-looking actions underscore the Company's unwavering belief that financial performance and ecological health are inextricably linked. As custodians of both capital and community, we remain steadfast in our mission to create long-term stakeholder value while protecting the planet for future generations.

Business Transformation

At HNB Finance (HNBF), Business Transformation (BT) is not merely a project with a fixed timeline; it is essentially a mind-set, a structural shift, and in many ways a cultural imperative. Commenced in 2018, this journey continued through the financial year 2024/25 with renewed purpose and vigour, looking to boost operational efficiency, accelerate digital adoption, and build a more agile, collaborative, and future-ready organisation.

The process of BT was formulated under a structured BT Road Map, designed to guide the Company through a phased journey of strategic realignment. This framework evolved over the past several years, from self-contained improvements in products and branches to a fully integrated model spanning people, processes, and technology.

THE EVOLUTION CONTINUES

During the year under review, HNBF advanced our BT agenda with strategic focus, operational discipline, and a commitment to long-term value creation. The leadership translated its vision into measurable goals across digital innovation, process redesign, and cultural renewal aligned with the Company's broader strategic roadmap.

To foster innovation, management empowered teams to test new technologies and challenge traditional practices within a safe, risk-tolerant environment. We cultivated adaptability as a key skill through targeted training to help employees embrace change and build resilience.

Additionally, we tracked progress through regular reviews, using data and feedback for timely adjustments. These actions ensured the transformation created tangible value for customers, employees, and the business.

What began as a series of focused initiatives evolved into a cohesive, enterprise-wide transformation. This well-structured, principle-led approach enabled HNBF to break down legacy silos, embed agility, and redefine how the organisation operates laying a strong foundation for sustained, organisation-wide transformation.

INTERNAL IMPACT

We consider BT as a strategic foundation that redefines how value is created, preserved, and shared. Rooted in a holistic approach, our transformation efforts are deliberately aligned with the six capitals defined in the Integrated Reporting Framework. Each capital Financial, Manufactured, Human, Intellectual, Social and Relationship, and Natural is influenced by the transformation journey, enabling us to build a resilient, future-ready organisation.

Capital	Internal impact
Financial Capital	Influenced through disciplined cost optimisation, efficiency-led growth, and improved resource utilisation, contributing to long-term financial sustainability.
Manufactured Capital	Enhanced by refining operational structures and workflows, ensuring that our physical and technological infrastructure supports agility, scalability, and service excellence.
Human Capital	Empowered by fostering a performance-driven culture, investing in capability building, and enabling employees to thrive in a dynamic work environment
Intellectual Capital	Strengthened through the systematic redesign of processes, the application of data-driven insights, and the institutionalisation of continuous improvement and innovation.
Social and Relationship Capital	Benefits from increased transparency, collaborative engagement, and a responsive service ethos that nurtures stakeholder trust and loyalty.
Natural Capital	Supported through operational efficiencies that promote environmental responsibility, aligning our transformation efforts with the principles of sustainability and responsible growth.

The key pillars that drive this framework are as follows:

1 Technology

Technology serves as the enabler of transformation, allowing the organisation to modernise operations, enhance customer experiences, and scale innovations efficiently. By leveraging digital platforms, automation, data analytics, and cloud infrastructure, the business becomes more responsive, integrated, and resilient to change.

2 People

People are at the heart of transformation. Their skills, mindsets, and engagement directly influence the success of strategic change. Investing in capacity building, leadership development, and a learning-oriented culture empowers employees to embrace innovation, navigate complexity, and drive long-term organisational growth.

3 Process

Processes form the operational backbone of the organisation. Transformation focuses on streamlining workflows, eliminating inefficiencies, and redesigning systems to deliver faster, smarter, and more consistent outcomes. Data-driven methodologies such as Lean Six Sigma help ensure quality, accountability, and continuous improvement.

4 Culture

Culture reflects the values, behaviours, and shared norms that shape how people work together. A transformation-ready culture promotes innovation, collaboration, accountability, and openness to change. Embedding these values fosters organisational alignment and sustains the momentum of transformation over the long term.

5 Leadership

Leadership provides vision, direction, and the strategic intent behind transformation. Effective leaders inspire change, set measurable goals, and align people and resources with purpose. Through active sponsorship and visible commitment, leadership ensures transformation is prioritised, resourced, and embedded across all levels.

6 Communication

Communication acts as the connective tissue of transformation. Transparent, timely, and two-way communication builds trust, reinforces strategic clarity, and ensures alignment. It enables feedback loops, encourages stakeholder engagement, and translates strategy into shared understanding and action.

7 Agility

Agility is both a capability and an outcome of effective transformation. It reflects the organisation's ability to adapt quickly, make decisions with speed and confidence, and respond effectively to evolving market conditions. Agility enables resilience, innovation, and sustained competitive advantage.

AREAS OF TRANSFORMATION

HNBF's transformation journey is built around three interconnected pillars digitalisation, process improvement, and cultural evolution each aligned to strategic goals and driven by a commitment to innovation. Through the adoption of cutting-edge technologies, lean process optimisation, and a shift in organisational mindset, the Company is evolving into a more agile, customer-centric, and future-ready enterprise. These transformation efforts are integrated and collaborative, laying the groundwork for sustained progress and measurable impact across all facets of the business.

Digital transformation

Digitalisation is at the forefront of the financial industry and is naturally a key thrust of our transformation. It enables seamless integration of business functions and delivers enhanced value to customers. Significant digital initiatives in 2024/25 included:

- Loan Origination System app was launched to simplify leasing and loan processes, reduce documentation, and integrate backend operations
- Initiation of the VISA debit card integration enables seamless merchant payments in collaboration with HNB, replacing the existing ATM cards
- SOLO App was introduced for our commercial customers in collaboration with HNB. This app enables merchants to process transactions with enhanced speed and convenience.
- Initiation of the core banking system upgrade signals a transition to a cloud-based platform integrating AI, ML, and bots to personalise service delivery
- Handheld devices for field staff digitised the lending platform in real time, reducing reliance on manual inputs

These initiatives reduced transaction time, improved customer access, and enabled a scalable, digitally resilient service architecture.

Process transformation

Process transformation at HNBF is about reshaping internal operations to be leaner, faster, and more responsive. By critically analysing existing workflows, identifying bottlenecks, and applying targeted solutions, we eliminate inefficiencies that slow us down or add cost. The goal isn't just to optimise; it's to re-engineer how we work in ways that enhance service delivery, reduce waste, and support a more agile operating model. This is driven by a Lean Six Sigma approach, which uses data and disciplined methodology to improve quality, eliminate variation, and ensure measurable outcomes. In 2024/25, through Lean Six Sigma, we:

- Introduced a workflow management system and reviewed SLAs
- Standardised workflows and reduced paperwork
- Removed delays and inefficiencies
- Minimised errors, reducing rework and complaints
- Benchmarked against industry leaders to set higher performance standards

Internal and external work studies – including competitor analysis has enabled targeted refinements to support business model shifts, such as diversification from microfinance toward leasing and gold loans.

Cultural transformation

Culture transformation at HNBF is centred on reshaping mindsets and behaviours to foster an organisation that is not only receptive to change but actively propelled by it. This evolution forms the foundation for aligning day-to-day operations with long-term strategic ambitions, cultivating a workplace where collaboration, accountability, and an unwavering focus on the customer are deeply embedded. Ultimately, it is this cultural transformation that underpins continuous improvement and ensures the sustainability of change.

In 2024/25, HNBF strengthened our performance-driven, people-first culture by embedding principles of Lean Six Sigma to support a culture of operational excellence. This included:

- Fostering cross-functional collaboration through structured process improvement initiatives and shared resource planning;
- Building leadership capacity via targeted development programmes, including Six Sigma training to deepen management expertise and readiness;
- Prioritising employee wellbeing through wellness initiatives that support productivity and reduce workplace inefficiencies; and
- Enhancing employee engagement through feedback loops and idea-generation platforms that feed into continuous improvement cycles.

Through the promotion of a Lean Six Sigma culture within the Company, we were able to enhance employee efficiency by eliminating idle time and introducing new, more effective methods of working. These initiatives significantly improved morale, strengthened team cohesion, boosted productivity, and enhanced our responsiveness to customers.

SYNERGY AND INTEGRATION: ALIGNING FOR SUSTAINABLE IMPACT

BT Department plays a pivotal role in uniting process excellence, digital innovation, and cultural change to drive long-term, customer-focused growth. In 2024/25, its integrated approach aligned technological upgrades with redesigned workflows and a culture of responsiveness and collaboration.

Lean Six Sigma is embedded as a core operating philosophy, shaping how the organisation improves efficiency and delivers value. Through structured work studies, targeted process redesign, and continuous training, BT enhanced turnaround times, documentation standards, and resource use. Certified staff led data-driven improvements using Six Sigma tools such as DMAIC and root cause analysis, embedding a culture of continuous improvement across functions.

This unified model has strengthened HNBF's ability to scale innovations, reduce duplication, and respond quickly to market needs marking a shift from fragmented initiatives to an agile, enterprise-wide transformation.

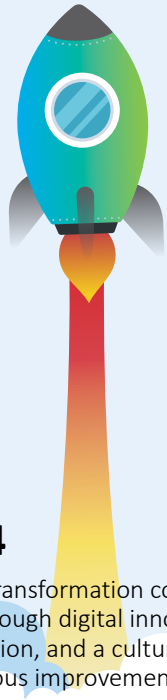
BT JOURNEY

2021
Further innovative strategies and cost saving initiatives

2020
New strategies to face pandemic situation.

2019
Redesigned and streamlined all processes, implementing them company-wide across all branches.

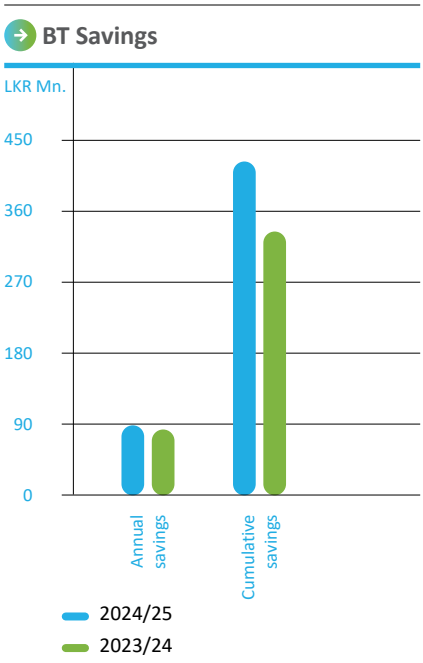
2018
Establishment of the BPR Department



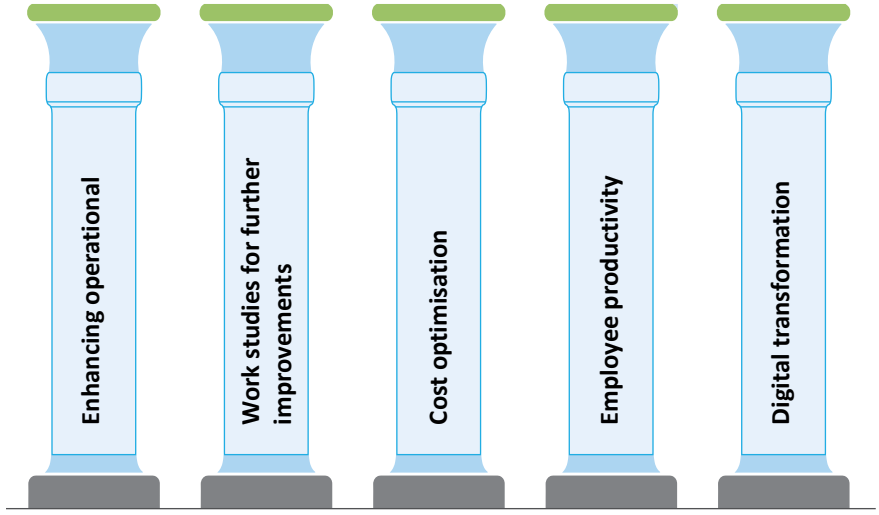
2024
Scaled transformation company-wide through digital innovation, automation, and a culture of continuous improvement.

2022
After the amalgamation, renamed as BT Department and redesigned all the processes of the merged Company.

2023
Achieved a performance turnaround by leveraging synergies from the amalgamation.



PILLARS OF BT AT HNBF



1. Enhancing operational efficiency

Operational efficiency remained a core focus of BT in 2024/25. The year saw continued efforts to streamline workflows, standardise processes, reduce waste, and lower costs, all aimed at sharpening our product delivery and enhancing customer satisfaction.

A major milestone was the rollout of the Loan origination system app – initially pilot-tested in 2023/24. This platform now simplifies leasing and loan documentation, accelerates approval workflows, and integrates seamlessly with back-end systems. As a result, transaction turnaround times for leasing and loan products have been significantly reduced, driving a measurable uptick in monthly business volumes.

Building on this progress, we introduced a new process for the micro leasing product to be facilitated by the Loan Origination System (LOS) app. This enhancement enables end-to-end processing of leasing facilities within just two hours upon submission of the required documents. As a result, back-office workloads have been reduced, and both customer and employee satisfaction levels have notably increased, reflecting the efficiency and user-friendliness of the digitised workflow.

A new workflow management system was implemented to improve task coordination across departments, while Service Level Agreements (SLAs) were reviewed and refined to ensure faster, more accountable service delivery.

Together, these initiatives reflect a deliberate move toward a more responsive, efficient, and performance-driven operating model.

2. Work studies for further improvements

As HNBF strategically pivots from traditional microfinance to higher-value segments such as leasing and gold loans, a structured programme of internal and external work studies has been pivotal in steering this transformation. Ongoing market research is identifying niche opportunities that complement our evolving leasing portfolio, reinforcing both product-market alignment and strategic direction.

Internally, workflow studies supported by detailed process mapping are being used to uncover inefficiencies and pinpoint areas for optimisation. Externally, competitor analysis and industry benchmarking are providing actionable insights into customer behaviours, market trends, and operational best practices. Together, these initiatives are not only affirming the validity of our transformation strategy but also shaping its execution—driving smarter decision-making, more effective resource deployment, and a leaner, more agile operating model.

3. Cost optimisation

Cost optimisation remains a central pillar of HNBF's transformation strategy, aimed at enhancing value and maximising returns. To ensure expenditures are strategically aligned with value creation, the BT Department actively monitors six key cost clusters:

1. Personal
2. Maintenance
3. Administration
4. Documentation
5. Fee and Commission
6. Marketing and Promotional

Through the continuous analysis and management of these clusters, HNBF maintains disciplined cost control while supporting sustainable business growth.

Meanwhile, a key initiative has been the shift toward a paperless office, supported by workflow automation. This will reduce consumable costs and reinforced our sustainability agenda.

To further strengthen cost discipline and operational efficiency, we implemented several targeted initiatives in 2024/25:

- Regular cost review meetings were institutionalised to identify inefficiencies and monitor expenditure trends.
- The number of documents required in facility files was reduced, streamlining administrative processes and lowering printing and storage costs.
- Efforts were made to optimise staffing levels, ensuring roles were aligned with business needs while avoiding unnecessary personnel costs.
- Electricity consumption controls were introduced, focusing on energy-efficient practices and technologies to reduce utility expenses.
- Where possible, internal resources were leveraged for promotional and marketing activities, minimising reliance on external vendors and associated costs.

These actions, along with the ongoing shift toward a paperless office and enhanced digitalisation reflect a comprehensive approach to embedding cost discipline across the organisation supporting sustainable, efficient growth

Overall, cost discipline is now embedded into operations, enabling smarter, leaner growth.

4. Employee productivity

HNBF places strong emphasis on optimising human potential. Employees are positioned where they can contribute most effectively and are provided with training tailored to their individual development needs. Lean Six Sigma principles are embedded into staff training to align team efforts with broader goals of process efficiency and cost optimisation, creating a culture of continuous improvement.

In line with this commitment, we conducted a Lean Six Sigma Yellow Belt programme during the year, with 40 employees successfully completing the certification. This initiative has strengthened our internal capabilities in process analysis and problem-solving, equipping team members to drive improvement projects across departments.

Meanwhile, we deploy technical solutions to enhance accuracy and productivity, while digitalisation helps free staff from routine tasks, allowing them to focus on higher-value work. Beyond internal upskilling, we also sponsor professional qualifications, supporting long-term capability building and a learning-oriented workplace culture.

5. Digital transformation

Digitalisation continues to reshape how we deliver financial services, simplifying workflows, reducing response times, and enhancing customer experience. A standout example in 2024/25 was the deployment of handheld electronic devices for field staff, enabling real-time, fully digital lending with greater speed and accuracy.

Several key digital initiatives further expanded our capabilities during the reporting period, as discussed earlier in this chapter. Together, these initiatives reflect our commitment to building a digital-first organisation that balances innovation with reliability, and customer convenience with operational precision.

Strategic outlook for 2025/26

Strategising for sustained growth – outlook for the next three years

As HNBF advances into the next phase of our transformation journey, the focus will be on digital enablement, seamless operational integration, and ongoing cultural evolution. BT is no longer a one-time initiative it has become central to our identity and a key driver of sustainable growth.

Looking ahead, HNBF aims to:

- Expand the Loan Origination System (LOS) app across all leasing and loan products, ensuring standardised, seamless digital processing and faster turnaround times.
- Implementation of the new core solution to anchor a new digital-first culture, enhancing productivity, reducing manual interventions, and enabling intelligent automation across operations.

- Transition to a single integrated system for all operational needs, replacing multiple legacy systems to streamline workflows and eliminate duplication.
- Adopt an optimum staffing model that aligns with a digitised operating environment, supporting leaner teams and smarter resource deployment.
- Develop dedicated business dashboards, enabling staff to track real-time performance metrics, monitor targets, and access actionable insights on demand.
- Minimise manual workloads, allowing employees to easily generate reports and focus on higher-value tasks.

These initiatives will deepen our digital maturity, elevate customer and employee experiences, and position the Company for scalable, innovation-driven growth. In doing so, we reaffirm our commitment to agility, efficiency, and stakeholder trust as the foundation for long-term success.

Governance

138 / Board of Directors
143 / Corporate Management
146 / Governance Report
157 / Statement of Compliance
196 / Board Audit Committee Report
199 / Board Human Resources and Remuneration Committee Report
201 / Board Nominations and Governance Committee Report
204 / Board Integrated Risk Management Committee Report
208 / Report of the Related Party Transactions Review Committee
210 / Statement by the Senior Independent Director
212 / Risk Management Review



Board of Directors



MR RAJIVE DISSANAYAKE

Chairman/Non-Independent Non-Executive Director

CFA, FCMA, CGMA, BBA

Appointed: August 2017

Mr Rajive Dissanayake, who boasts over two decades of experience in banking and capital markets, currently holds the position of Executive Vice President SME & Micro Finance at Hatton National Bank PLC. He has previously functioned in the capacities of Chief Financial Officer and Chief Strategy Officer at Hatton National Bank PLC, being an integral part of the Corporate Management Team for almost a decade.

He was appointed to the Board of HNB Finance PLC on 29 August 2017, as a Nominee Director of Hatton National Bank PLC and subsequently appointed as the Chairman in January 2024. In addition to being on the Board of HNB Finance PLC, Mr Dissanayake is also a Director of HNB Investment Bank (Pvt) Ltd, Lanka Venture PLC, Lanka Energy Fund PLC and National Credit Guarantees Institute.

Mr Dissanayake is a CFA Charterholder, Fellow Member of the Chartered Institute of Management Accountants and a Chartered Global Management Accountant. He also holds a Bachelor of Business Administration from the University of Colombo.

In addition to chairing the main Board of HNB Finance PLC, Mr Dissanayake chairs the Board Strategic and Investments Review Committee. He is also a member of the Board Human Resources and Remuneration Committee, Board Nominations and Governance Committee and Board Procurement Committee of the Company.



MR CHAMINDA PRABHATH

Managing Director/CEO

MBA (USQ), FCMA (UK), FICM (SL), CGMA, MCIM (UK), CMA (AUS), CLSSBB (Asia)

Appointed: June 2011

Mr Chaminda Prabhath is a highly accomplished professional with a diverse background in finance and marketing, boasting over 15 years of experience in the financial sector.

Mr Prabhath embarked on his professional career at KPMG Sri Lanka, where he acquired experience in the auditing field before moving on to a finance role at Growth Lanka and gained exposure to the manufacturing industry. His financial acumen further expanded during his tenure at 3DL Lanka (Pvt) Ltd., and North Manufacturing (Pvt) Ltd., subsidiaries of North Sales Group USA, providing him with valuable exposure to the U.S. market. As the Assistant General Manager at Prime Lands Group, Mr Prabhath led the Strategic Business Unit & Investments. Moreover, his impactful contributions were acknowledged through his appointment as a Non-Executive, Non-Independent Director representing Prime Lands, into the Board of Directors of Ceylease Financial Services, a subsidiary of Bank of Ceylon. During this period, he also served as the Chairman of the Audit Committee of Ceylease Financial Services.

Reaching an important milestone in his career, Mr Prabhath assumed the pivotal role of Director Finance at HNB Finance PLC in June 2011, eventually ascending to the position of Chief Executive Officer in 2012. Tasked with revitalising the institution, he orchestrated a remarkable turnaround, transforming the Company into a profitable and innovative financial Company, achieving accolades as the "Game Changer of the Year 2014" from the World Consulting & Research Corporation (WCRC), India in acknowledgement for his outstanding contribution to the industry.

Under his exceptional leadership as the MD/CEO, HNB Finance acquired a well-diversified product portfolio which includes microfinance, auto, micro-leasing, gold loans, property, and business loans. This strategic move led to the Company's successful transition to a Public Listed Company in the Colombo Stock Exchange. He was instrumental in the successful completion of the acquisition and subsequent of Prime Finance PLC, harnessing valuable synergies, bolstering the Company's asset base and solidifying the Company's position as a leading finance company. Under his guidance HNB Finance won the Great Place to Work certification for five consecutive years from 2017 to 2021, was honoured as one of Asia's Best Workplaces in 2019 and received the prestigious Great Place to Work Legends award in 2021.

Mr Prabhath holds a Master's Degree in Business Administration with a specialisation in Finance from the University of Southern Queensland, Australia. Mr Prabhath is a Fellow Member of the Chartered Institute of Management Accountants U.K., a Fellow Member of the Sri Lanka Institute of Credit Management, and a Chartered Global Management Accountant. Further,

he is qualified as a Certified Management Accountant of the Institute of Certified Management Accountants of Australia. He is also a Member of the Chartered Institute of Marketing U.K.

Furthermore, Mr Prabhath is recognised as an internationally certified Microfinance expert from the Frankfurt School of Finance & Management, Germany and has been honoured with the Lean Six Sigma Black Belt (CLSSBB) from Dr Mikel J Harry Six Sigma Management Institute Asia.

Mr. Prabhath also serves in key leadership roles within the industry, including being a Council Member of The Finance Houses Association of Sri Lanka, a Council Member of Sri Lanka Institute of Credit Management, and a Board Director of Leasing Association of Sri Lanka.



MR HASITHA WIJESUNDARA

Senior Director/Independent Non-Executive Director

MA (Economics), LLB, B.Sc, FCIM, Dip in IR, Attorney-at-Law

Appointed: September 2016

Mr Hasitha Wijesundara is an International Consultant and Development Professional in SME Development International and Trade and Access to Finance. He has over two decades of experience in SME sector development, policy, trade facilitation, export promotion, regulatory issues, micro finance, social performance management and green finance.

Mr Wijesundara also has hands-on international development experience regionally. He was a Team Member of appraisal missions for the Sustainable Regional Economic Growth and Investment Program (SREGIP) in Indonesia and the Promotion of Green Economic Development (ProGED) Program in the Philippines, where he contributed to project design and shaping. He is well-versed in the financial systems and SME development issues in India, Bangladesh, Myanmar, Cambodia, Malaysia, and Pakistan, and is involved in numerous consultancy assignments overseas.

In recent assignments, Mr Wijesundara works as Team Lead – Trade and Investment, attached to Deloitte Consulting Overseas Projects LLC, USA, within the USAID-funded Partnership for Accelerating Results in Trade National Expenditure and Revenue (PARTNER) Activity. Prior to that he was a Deputy Team Lead in GIZ funded SME Sector Development Programme implemented with the Ministry of Finance, Sri Lanka.

In addition to the above professional assignments, he serves as a senior visiting lecturer at several universities and higher educational institutions in Sri Lanka, including the University of Colombo and the Institute of Bankers of Sri Lanka. Under the USAID Funded YouLead Activity, Mr Wijesundara has served as a senior trainer and trained over 450 senior-level bank officials and bank managers in the topics of SME Finance.

Mr Wijesundara holds a MA in Economics from the University of Colombo, LLB from the Open University of Sri Lanka and a BSc in Industrial Management from the University of Kelaniya. He also has Fellowships with several local and international professional bodies including the Chartered Management Institute, UK. He is an Attorney-at-Law and was called to the bar in 2009. Mr Wijesundara is an accredited trainer in micro finance and SME finance, certified by reputed international bodies such as the Frankfurt School of Finance and Management, Germany, and CGAP, USA.

He currently chairs the Board Human Resources and Remuneration Committee, Board Nominations and Governance Committee and Board Credit Committee, while also serving as a member of the Board Related Party Transactions Review Committee and Board Audit Committee.



MR RUWAN MANATUNGA

Non-Independent Non-Executive Director

FCMA (UK), CGMA, FCA (Sri Lanka)

Appointed: February 2021

Mr Ruwan Manatunga has a wealth of experience spanning over two decades in the banking and finance sectors and currently holds the position of Executive Vice President – Chief Risk Officer of Hatton National Bank PLC. He has previously functioned in the capacities of Chief Strategy Officer and DGM – Corporate Banking at Hatton National Bank PLC. Further he has held several positions in E & Y and HSBC.

Mr Manatunga is a Chartered Global Management Accountant and a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants of the United Kingdom.

He currently chairs the Board Recovery Committee while also being a member of the Board Credit Committee and Board Integrated Risk Management Committee of the Company.



MR LALITH WITHANA

Independent Non-Executive Director

FCMA (UK), FCA (Sri Lanka), MBA (Sri Jayawardenepura), BA Hons (UK)

Appointed: September 2021

Mr Lalith Withana has proficiency in the corporate sector for over 30 years where he has held senior management positions in Banking, Manufacturing & Trading for more than 26 years.

Mr Withana 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 (USA). He also served as the Group Chief Finance and Administrative Officer for Sri Lankan Airlines and later as the Chief Executive Officer in its subsidiary, Sri Lankan Catering.

In addition to being on the Board of HNB Finance PLC, Mr Withana is currently serving as the founder and the Managing Director of Agility Consulting Services (Pvt) Ltd. and as a member of the Board of Softlogic Life Insurance PLC, Serendipity Leisure (Pvt) Ltd., Citrus Leisure PLC, Waskaduwa Beach Resort PLC, Hikkaduwa Beach Resort PLC and Commercial Development Company 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 PLC. Mr Withana had also been a Commissioner of the Telecommunication Regulatory Commission.

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

He currently chairs the Board Audit Committee while also being a member of the Board Related Party Transactions Review Committee, Board Human Recourse and Remunerations Committee and Board Nominations and Governance Committee of the Company.



MR MURALI POLAMARASETTY

Independent Non-Executive Director

MA (Political Science), BSc (Physics)

Appointed: September 2022

Mr Murali Srinivas Polamarasetty is an accomplished social business entrepreneur with more than two decades of expertise in the social impact enterprise field. He has held numerous leadership positions, including both operational and advisory roles, across industries like microfinance, drinking water, and pensions, all with a focus on sustainability.

Currently residing in the United Kingdom, Mr Polamarasetty actively participates as an investor and representative for several organisations. He is an investor in Arriba Inclusive Finance Private Limited, an Indian non-banking financial company (NBFC), and Findr Global, a UK-based platform facilitating business partnerships.

Additionally, he has invested in Acer Engineers Pvt. Ltd. (AEPL), an Indian firm specialising in water treatment technologies and the production and distribution of packaged drinking water under the brand “Bibo Water”, which ranks among India’s top 20 water brands.

Furthermore, Mr Polamarasetty serves on the Investment Committee of the Yunus Social Business Fund Bangalore, an entity under the Yunus Social Business Global Initiatives co-founded by Nobel laureate Dr Muhammed Yunus. This fund supports scalable social businesses with patient finance and advisory services. He is also a Board Member of Protimos, a UK-based non- profit focusing on legal rights advocacy in Southern Africa, and Needy Illiterate Children Education, which operates two fully free orphanage schools in Southern India.

Previously, he was associated and also served as the Managing Director and CEO of SMILE Microfinance Limited, a NBFC (non-banking finance company) in India from 2013 to 2023. He had also invested and exited two NBFC’s named Arriba Inclusive Finance Private Limited and Mimo Microfinancce Private Limited in the past, both from India.

More recently, he started mentoring as a Board Member and invested in the senior care services company named AgeWell 24x7 Services Pvt. Ltd., based in Kolkata, India.

Mr Polamarasetty holds a Postgraduate Degree in Political Science and a Bachelor of Science in Physics. In HNB Finance, he currently chairs the Board Integrated Risk Management Committee and the Board Related Party Transactions Review Committee. He is also a member of the Board Nominations & Governance Committee and the Board Recovery Committee of the Company.



MR BRAHMANAGE PREMALAL

Non-Independent
Non-Executive Director

FCMA (UK), FSLIM (Sri Lanka), CABA (Canada), MBA (Malaysia)

Appointed: November 2022

Mr Brahmanage Premalal has served Sri Lanka's real estate sector for three decades and is a prominent figure in the Sri Lankan business landscape. He is the Founder and Group Chairman of Prime Lands (Private) Limited, the parent company of Prime Lands Residencies PLC which is the leader in the real estate industry in Sri Lanka.

He was conferred with the prestigious UCD Entrepreneur of the Year Award in 2011, considering his vast experience in the real estate industry and exposure to many other industries as an entrepreneur.

Mr Premalal was honored as one of the A-List "Sri Lankan Business People" by *LMD* in 2018 among the Top 50 Businessmen in Sri Lanka who have driven the nation's engine of growth and are the country's true assets. Given his experience and leadership in various industries and his contribution towards the advancement of entrepreneurship in Sri Lanka, he was awarded the "Most Outstanding Entrepreneur in Sri Lanka" for the year 2018 by the International Association of Lions Clubs. He was also recognised as one of Asia's Greatest Brand Leaders in 2017. Under his leadership Prime Lands Residencies PLC was awarded the title of "Most Valuable Real Estate Brand" by Brand Finance and *LMD's Brands Annual* in April 2022.

Mr Premalal is the Co-Founder & Co-Chairman of Prime Lands (Private) Limited and the Executive Director of Bhoomi Realty Holdings (Private) Limited, Regent Caterers (Private) Limited, Regent Country Club (Private) Limited, Prime Realty Holdings (Private) Limited, Prime Dubai and Prime Lands Australia Pty. Ltd. He serves as a Non-Executive Director of Ceylinco General Insurance Limited. He is also a Former President of The Condominium Developers Association of Sri Lanka (CDASL).

Mr Premalal is a Fellow Member of the Chartered Institute of Management Accountants (United Kingdom), the Sri Lanka Institute of Marketing and a Chartered Business Administrator (Canada) and holds a Master of Business Administration from the Open University of Malaysia and a Postgraduate Diploma in Marketing from the University of Sri Jayewardenepura.

He is a member of the Board Nominations & Governance Committee and the Board Strategic and Investment Review Committee of the Company.



MR ANURA PERERA

Non-Independent
Non-Executive Director

FCIT (Sri Lanka), CTA (Sri Lanka), MBA (UK), BSc (Sri Lanka)

Appointed: January 2024

Mr Anura Perera boasts over 22 years of experience in the private sector, including over 19 years in senior management positions both in Sri Lanka and overseas. His diverse professional journey also includes attaining significant experience by working in the apparel and insurance sectors in Sri Lanka.

He has previously held a senior position at Baker Tilly Sri Lanka- Chartered Accountants, where he provided management consultancy and tax advisory services. As a Director of Corporate Secretaries Practice (Pvt) Ltd., in the secretarial unit of the accountancy firm, he played a crucial role in the management and advisory aspects of the organisation. Further, he has gained extensive international exposure while serving as the Chief Accountant of Cyprea Group of Companies in the Maldives, where he contributed to areas such as international trade, airline operations, and the hospitality and tourism industry.

In addition to serving on the Board of HNB Finance PLC, he holds positions as Executive Director/Director of Finance at Prime Lands Residencies PLC and Prime Lands (Pvt) Ltd.

Mr Perera holds distinguished professional memberships, whereas he is a Chartered Tax Advisor of the Chartered Accountants of Sri Lanka, a Fellow Member of the Chartered Institute of Taxation of Sri Lanka, and a Member of the Association of Accounting Technicians Sri Lanka as well as a Member of the Sri Lanka Institute of Directors (SLID). His educational background is marked by a BSc Management (Special) Degree with Second Class honours from the University of Sri Jayewardenepura, and MBA from Buckinghamshire New University, UK.

He serves as a member of the Board Audit Committee, Board Credit Committee, Board Recovery Committee and Board Procurement Committee of the Company.



DR PRASAD SAMARASINGHE

Non-Independent Non-Executive Director

PhD (Australia), MEng (Sri Lanka), BSc. (Eng.) Hons (Sri Lanka)

Appointed: February 2024

Dr Prasad Samarasinghe, an IT Engineering Professional possess more than two decades of experience in the industry. He holds a Doctorate in Telecommunications bestowed upon by Australian National University of Canberra. He achieved Master of Engineering and Bachelor of Science in Electronics and Telecommunications with a First Class from University of Moratuwa.

Dr Samarasinghe is a highly esteemed professional with an extensive background in leadership roles across various sectors. Since October 2022, Dr Samarasinghe has been serving as a member of the Board of Directors of Hatton National Bank PLC, he is also a Director of Hayleys Fiber PLC, serving on its Board from September 2017. Further, he is the Managing Director/ Director of Lanka Bell (Pvt) Ltd. since July 2005. Moreover, Dr Prasad Samarasinghe is the Managing Director of Bell Active (Pvt) Ltd, Bell Solutions (Pvt) Ltd and Bellvantage (Pvt) Ltd. Further, he serves as a Non-Executive Director of Chemanex PLC since September 2024.

Dr Samarasinghe was a former Chairman and Director General of Sri Lanka Rupavahini Corporation and a former Commission Member of the Insurance Regulatory Commission of Sri Lanka.

Dr Samarasinghe is a Licentiate of Part I and Part II of Institute of Chartered Accountants of Sri Lanka and the recipient of best achiever status from the Institute in Financial Accounting, Business Mathematics and Statistics and Data Processing in the year 1991.

He currently chairs the Board Procurement Committee while also being a member of the Board Integrated Risk Management Committee and Board Strategic and Investments Review Committee of the Company.



MS MANJULA WEERASURIYA

AGM/Company Secretary

BSc (Hon) (Colombo), MHRM (Colombo)

Attorney-at-Law
Notary Public, Registered Company Secretary, Chartered Corporate Secretary

Appointed: August 2023

Ms Manjula Weerasuriya is a legal professional with academic background and diverse professional experience in law, corporate governance, and human resource management. She is an Attorney at-Law, Registered Company Secretary, Notary Public and Commissioner for Oaths. Additionally, she is an Associate Member of the Chartered Corporate Secretaries Institute of Sri Lanka. She has pursued further studies and holds a BSc in Bio Science and Master of Human Resources Management both from University of Colombo.

Ms Weerasuriya has navigated through various legal and secretarial roles and responsibilities in esteemed organisations including, Asset Radio Broadcasting Company (Pvt) Ltd, Asian Alliance Insurance PLC, Mackwoods (Private) Limited and IWS Holdings Group of Companies showcasing her adaptability and proficiency in legal and regulatory matters. She then progressed to the role of Assistant Company Secretary at SDB Bank in 2016, where she broadened her experience in secretarial and regulatory functions. In August 2023, she has been appointed as the Company Secretary of HNB Finance PLC.

Corporate Management



MR CHAMINDA PRABHATH
Managing Director/CEO

MBA (USQ), FCMA (UK),
CGMA, FICM (SL), MCIM (UK)
CMA(AUS), CLSSBB (Asia)



MR MADURANGA HEENKENDA
Deputy CEO

MCIM (UK), MSLIM, MBA(Wales), ACSI (UK), Executive Development Program-Harvard Business School (USA)



MR RUWAN FERNANDO
DGM – Human Resources/
Chief Human Resources Officer

BSc. Business Administration
(Special) Sri J.



MR BIMAL SENEVIRATNE
DGM Operations

ACIM (UK)
PGDipPM (CIM UK)
Dip in Credit Management



MR PALITHA ABEYSEKERA
DGM/Chief Financial Officer

ACA(Sri Lanka), ACMA(Sri Lanka),
BSc. Accountancy and Financial
Management (Sri J.)



MR MAHADEVAN SUTHAKAR
DGM/Chief Risk Officer

MSc in Financial Mathematics
(Colombo), MBA Finance (Sri J.), BBA
(Hons.), FIB (Sri Lanka), ACSI (UK)



MR KAMAL ROSHAN
DGM/Head of Internal Audit

B.Com (Special) Sri J., FCA



MR KANCHANA JAYASEKARA
DGM/Chief Information Officer

MBA (UK), BCS, IADCS-NCC UK,
Certified Trainer and Assessor in TAFE
(Western Australia)



MR INDUNIL JAYAWARDENA
DGM/Head of Credit

MBA (Sp. In Finance)(India)



MR SHEHAN COORAY
DGM/Chief Recovery Officer

MBA – University of Suffolk (UK)



MR PATHUM SAMPATH COORAY
AGM/Head of Channel Management

Dip. in Microfinance (IBSL/FS) Higher Diploma in credit Management



MR PRABATH KATHRIARACHCHI
AGM/Head of Branch Operations

PDMS/APDICM/DICM/DMF (IBSL/FS)



MR KANAGARATHNAM ERAJ
AGM/Head of Product Business Management

MBA at Gloucestershire (UK), Dip. in Micro Finance (IBSL), Advance Diploma in Credit Management (SLICM)



MR SAMEERA CHANDRANATH GUNASEKARA
AGM Finance

NCE, EDBA (CA Sri Lanka),
PDBF (CA Sri Lanka),
MBA (University of Malaysia)



MR LAKSHMAN RANASINGHE
AGM/Head of Gold Loans

NCECP (SL)



MS RADEEKA TISSERA
AGM/Head of Legal

LL.B (Colombo), Attorney-at-Law/ Notary Public, Commissioner for Oaths



MS MANJULA WEERASURIYA
AGM/Company Secretary

BSc (Hon) Colombo, MHRM (Colombo)

Attorney-at-Law

Notary Public, Registered Company Secretary, Chartered Corporate Secretary



MR USHAN HAPUARACHCHI
AGM/Head of Business Transformation and Digital Implementation

MBA (UK), MCICM (UK), CLSSBB (Asia), AMSLICM, MCPM, Certified Lean Six Sigma Trainer



MR MANJULA KUMARA MUNASINGHA

Chief Manager/Head of Tech System and Service

Dip. in IT (SITC)



MR ANURA UDAWATTA

Chief Manager/Head of Competency Development

MBA (UK), HNDTD, Dip. in Microfinance, Dip. In Management, Dip in Psychology Counselling



MS THAMALI FONSEKA

Chief Manager/Head of Compliance

MBA in Finance (Colombo), BBA in Business Economics (Colombo), AIB (Sri Lanka)



MR UDARA GUNASINGHE

Chief Manager/Head of Corporate Marcom

Chartered Marketer(CIM), MBA(UK), MCIM, CPM(Asia), AMSLIM(SL)



MR SUJITH KUMARA

Chief Manager/Head of Micro Finance Recoveries

MBA (UK), PGD (UK) Diploma in Micro Finance (IBSL), ADMS, DMS



MR SURANGA ABEYWICKRAMA

Chief Manager/Head of Fixed Deposits and Savings – Branches

Dip. Mass media, Dip. in (BCS) Management Development, Dip. in Credit Management



MS RASANGIKA WITHANA

Chief Manager/Head of Direct Portfolio Management

BSc Special (Hons) in Information Technology (SLIIT), MBA (UK)



MR BANDARA PUWAKGOLLA

Chief Manager/Head of Credit Administration

B.Com (Colombo), PGDBM (Colombo), MBA (AUS)



MR THUSHARA JAYASEKARA

Senior Manager/Head of Corporate Planning and Analytics

ACMA (UK), CGMA, DTRM (IBSL)

Governance Report

STATEMENT OF COMPLIANCE

At HNB Finance PLC (HNBF), 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 the Finance Business Act (Corporate Governance) Direction No. 05 of 2021 and Listing Rules of the Colombo Stock Exchange, to the extent hereinafter disclosed in this report.

GOVERNANCE PHILOSOPHY

The foundation of HNBF's corporate governance concept is our conviction that strong company governance is essential to boosting investor trust, efficiency, and growth. The success of HNBF has always been based on strong corporate governance. The corporate governance structure of HNBF acts as the cornerstone for managing the Company's operations in a way that satisfies its stakeholders. The HNBF Board guides the organisation in achieving its strategic goals and providing beneficial results to stakeholders.

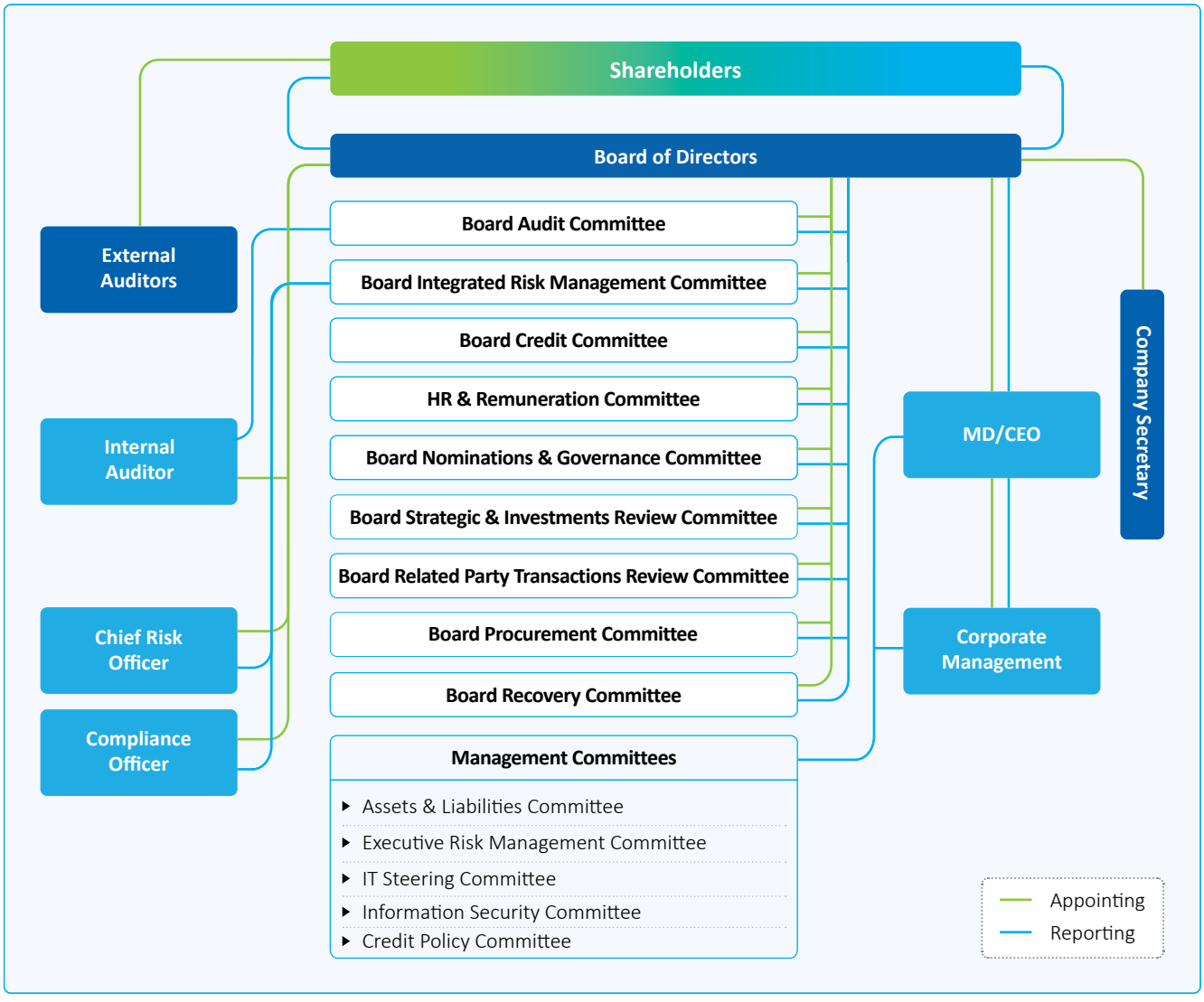
HNBF's approach to governance is founded on the idea that the Board and its committees need a structure for control to carry out its fiduciary duties to all stakeholders. This framework must ensure that decisions are made in a transparent, accountable, fair, and independent manner. At the same time, corporate governance goes beyond just establishing checks and balances. It also involves fostering organisational excellence that will increase employee and customer happiness as well as shareholder profit without jeopardising our morals and values.

HNBF is committed to long-term corporate growth, guided by sound corporate governance practices. This commitment is reflected in a stable financial system, a strong market reputation, and operational efficiency—all fostered by ethical leadership and cascaded throughout the organization to benefit all stakeholders. We believe in going beyond regulatory regime compliance. Our organisational structure, procedures, and transparency processes all adhere to our corporate governance standards.

Our efforts must involve transparency, responsibility, accountability, fairness, and focused engagement with stakeholders. We support performance-driven and system-driven excellence. We emphasise these processes and defend the interests of all shareholders. We attempted to merge growth, efficiency, governance, and ethics. Under the guidance of our mission statement, our Board of Directors develops strategies and policies aimed at maximising value for a wide range of stakeholders, including customers, shareholders, and society at large.

The Board provides strategic oversight to ensure the achievement of the Company's long-term goals and the creation of sustainable value for stakeholders. This is carried out with integrity and competence, upholding the principles of responsibility, accountability, fairness, and transparency.

GOVERNANCE STRUCTURE



The Board of Directors is ultimately responsible for ensuring that HNBF functions within a rigorous and effective governance structure. As a result, the Board offers entrepreneurial leadership within a framework of sensible and effective controls that enable risks to be assessed and managed, while also establishing the Company's values and standards to satisfy its duties towards shareholders and other stakeholders.

The Company has a well-defined governance system. The Board's responsibility of providing risk supervision and strategic guidance while assuring adherence to regulatory standards and risk tolerance is balanced by this structure. The governance structure allows for the distribution of responsibility while retaining effective control by the Board. While maintaining accountability, the Board delegated responsibility to relevant Board Subcommittees and Management with clearly defined missions and authorities.

Board Subcommittees help the Board perform its obligations by providing in-depth attention to key topics. Each committee has a mandate that defines its mission, responsibilities, authority, composition, and processes. The Chairmen of the Subcommittees report to the Board, and minutes of all meetings of the Subcommittees are forwarded to the Board.

The Board of Directors establishes the Company's strategic objectives, operational regulations and performance requirements, and delegates responsibility to the MD/CEO. In turn, the MD/CEO is responsible for the comprehensive planning and implementation of those objectives and policies within proper risk constraints. The obligations delegated to the MD/ CEO by the Board of Directors cascade down to Senior Management, then to the leaders of the separate business divisions, and finally to individual employees with well-defined job descriptions, authority levels, and responsibilities. The Company operating Management Committees, comprised of the leaders of all operational divisions, and the Management Committees help the MD/CEO in the day-to-day administration of activities, subject to legislative limitations and matters reserved for the Board.

The Board of Directors regularly monitors the fulfillment of the goals outlined in the business plan and yearly budget, which are centered on the fundamental value trinity of economic viability, environmental stewardship, and social accountability. The Board of Directors meets regularly to assess and debate Company affairs. The MD/CEO, who represents the Management at these meetings, informs the Board, of the Company's operations and performance according to predetermined goals.

INTERNAL GOVERNANCE STRUCTURE

HNBF's governance structure facilitates effective and accountable decision-making across the organisation. At its core, good governance involves acting in the best interest of stakeholders, guided by integrity, transparency, and responsibility. This is supported by well-established checks and balances that ensure consistent compliance with ethical standards and regulatory expectations. It includes internal control, ethics, various risk functions, policies and procedures, internal audit, external audit, and formal committees which foster a high level of openness while promoting efficient and effective management in advancing the best interests of stakeholders including shareholders.

EXTERNAL GOVERNANCE STRUCTURE

The rules, regulations, and best practices listed in this report are included in the external governance structure, one of the three major parts of the governance framework of HNBF. These elements allow HNBF to function within a reliable corporate governance framework. The HNBF internal governance framework is designed to establish the appropriate checks, balances, and controls to make sure it complies with and conforms to the external governance structure.

THE BOARD OF DIRECTORS

Based on fundamental principles that serve as the foundation for how business is done, the Board is in charge of the stewardship of the Company, and the Directors guarantee good governance at the Board level and below.

The Management is entrusted with the comprehensive planning and implementation of these goals and policies in line with the necessary risk factors. The Board of Directors establishes the strategic objectives of HNBF and decides its operational procedures and performance standards. By holding the Management responsible for its actions through regular communication, the Board also keeps an eye on policy compliance and actual accomplishments in comparison to predetermined objectives.

BOARD COMPOSITION

The Board of Directors recognises the importance of independence and objectivity in the decision-making process. Hence, the composition of the Board consists of the balance of skills and experience as deemed appropriate and desirable for the requirements of the size, complexity, and risk profile of the Company.

As of 31 March 2025, the Board of Directors comprised nine (09) Directors of whom one (01) was an Executive Director and eight (08) were Non-Executive Directors. Out of the Non-Executive Directors, three (03) were independent. Directors' profiles are given on pages 138 to 142 in this Annual Report.

Chairman (Non-Executive Director)	01
Independent Non-Executive Directors (including the Senior Director)	03
Non-Independent Non-Executive Directors (excluding the Chairman)	04
Executive Director (Managing Director)	01

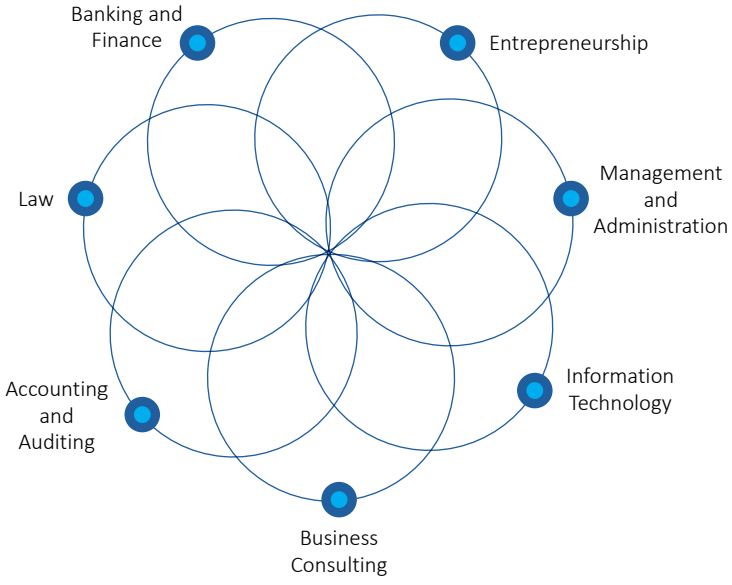
No.	Name of the Director	Date of Appointment	Status of the Directorship	Period of service up to 31 March 2025
1.	Mr Rajive Dissanayake	29 August 2017	Chairman – Non-Independent/ Non-Executive Director	7 years, 7 months
2.	Mr Hasitha Wijesundara	27 September 2016	Independent/Non-Executive Director (Senior Director)	8 years, 6 months
3.	Mr Chaminda Prabhath	29 June 2011	Executive Director (Managing Director/CEO)	13 years, 9 months
4.	Mr Ruwan Manatunga	15 February 2021	Non-Independent/Non-Executive Director	4 years, 1 month
5.	Mr Lalith Withana	10 September 2021	Independent/Non-Executive Director	3 years, 6 months
6.	Mr Murali Polamarasetty	15 September 2022	Independent/Non-Executive Director	2 years, 6 months
7.	Mr Brahmanage Premalal	29 November 2022	Non-Independent/Non-Executive Director	2 years, 4 months
8.	Mr Anura Perera	29 January 2024	Non-Independent/Non-Executive Director	1 year, 2 months
9.	Dr Prasad Samarasinghe	20 February 2024	Non-Independent/Non-Executive Director	1 year, 1 month

Notes:
(1) Mr Saliya Jayaweera, Independent/Non-Executive Director resigned from the Board of Directors on 05 September 2024.
(2) Mr Ravindra Tissera, Independent/Non-Executive Director, appointed on 04 April 2024, resigned from the Board of Directors on 21 February 2025.

SKILLS, EXPERTISE, AND EXPERIENCE

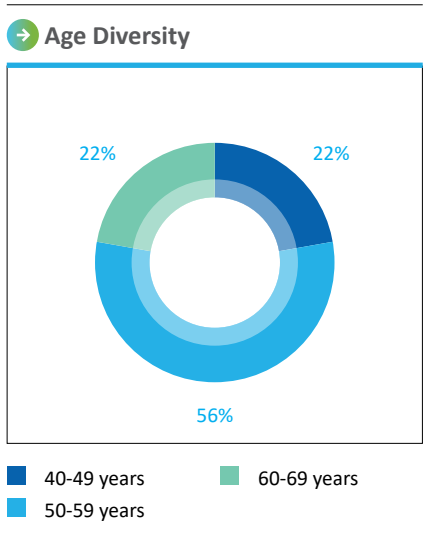
Members of the Board who have distinguished themselves in a variety of industries and professions make up the membership and successfully contribute to the Board decisions that direct HNBF towards accomplishing its goals.

To ensure that the Board as a whole is prepared to direct the business and strategy of the Company, the Board of Directors must have the ideal balance of skills, knowledge, and experience.



AGE DIVERSITY

Age diversity has advantages, which the HNBF Board and shareholders have acknowledged. The HNBF Boardroom frequently overlooks the importance of age diversity.



SEGREGATION OF ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

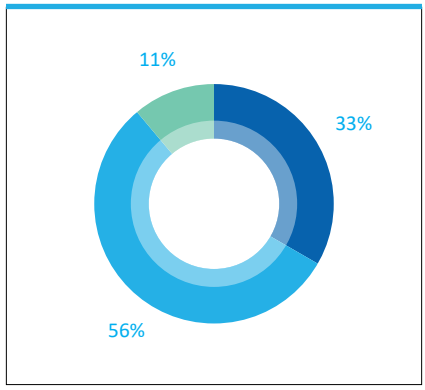
The Chairman and CEO roles are distinct, with clearly defined and documented areas of accountability and responsibility. The Chairman is responsible to shareholders for ensuring the effectiveness of the Board, fostering sustainable business growth, and considering the interests of broader stakeholders. Leading the Board and presiding over its meetings, the Chairman ensures a balanced agenda covering aspects such as business performance, strategy, risk, compliance, and personnel. Additionally, the Chairman ensures that Directors have access to accurate, timely, and pertinent information to facilitate informed decision-making.

On the other hand, the CEO serves as the top executive overseeing the day- to-day management of the Company's operations and business. Accountable to the Board, the CEO develops business strategies for Board approval and ensures their timely and effective implementation while managing associated risks. Furthermore, the CEO provides leadership within the Company to execute the Board's policies and achieve the Company's objectives.

BOARD INDEPENDENCE

Each year, the Board evaluates the independence of every Non-Executive Director. To aid in this assessment, Non-Executive Directors submit declarations of their independence in accordance with rule 9.8.5 of the Listing Rules of the Colombo Stock Exchange and the provisions outlined in the Finance Business Act (Corporate Governance) Direction No. 05 of 2021.

Board Independence



- Independent Non-Executive Directors (including the Senior Director)
- Non-Independent Non-Executive Directors
- Executive Director (Managing Director)

Service to the Board	No. of Directors
Below 3 years	4
3-6 years	2
6-9 years	2
More than 9 years	1
Total	9

BOARD MEETINGS

The Board held twelve (12) meetings for the financial year under review at approximately monthly intervals. Obtaining the Board's consent through the circulation of papers are avoided as far as possible. The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for scheduled Board Meetings. Notice of at least three days shall be given for a scheduled Board meeting to provide all Directors with an opportunity to attend.

At the beginning of each financial year, the Board of Directors approves an annual calendar of Board meetings. To ensure effective deliberation, the agenda, minutes, and Board papers are circulated to all Directors at least three days prior to the meeting. The Chairman, with the assistance of the Company Secretary, sets and prioritises the agenda to allocate sufficient time for meaningful discussion on each item.

DIRECTORS' ATTENDANCE AT BOARD AND BOARD SUBCOMMITTEE MEETINGS

Name of the Director	Board	Board Audit Committee	Board Integrated Risk Management Committee	Board Nominations and Governance Committee	Board Human Resources and Remuneration Committee	Board Credit Committee	Board Related Party Transactions Review Committee	Board Strategic and Investments Review Committee	Board Recovery Committee	Board Procurement Committee
Number of Meetings held	12	7	6	4	5	4	4	5	7	3
Mr Rajive Dissanayake	12/12			4/4	5/5			5/5		3/3
Mr Chaminda Prabath	12/12									
Mr Hasitha Wijesundara (1)	12/12	3/3		4/4	5/5	4/4	4/4			
Mr Ruwan Manathunga	11/12		6/6			3/4			7/7	
Mr Lalith Withana (2)	10/12	7/7	4/5 (Invitee)	1/1	0/1		4/4		0/1	
Mr Murali Polamarasetty (3)	11/12	3/4	6/6	4/4			4/4		7/7	
Mr Brahmanage Premalal	10/12			3/4				3/5		
Mr Anura Perera (4)	11/12	3/3				4/4			6/6	2/3
Dr Prasad Samarasinghe	12/12		6/6					5/5		3/3
Mr Ravindra Tissera (5)	10/10			2/3	4/4	3/3		3/3		
Mr Saliya Jayaweera (6)	5/5	4/4	1/1 (Invitee)							

Notes

(1) Director, Mr Hasitha Wijesundara was appointed to the Board Audit Committee w.e.f. 20 September 2024.

(2) Director, Mr Lalith Withana was appointed to the Board Nominations & Governance Committee and Board Human Resources & Remuneration Committee w.e.f. 13 March 2025 and ceased to be a member of the Board Recovery Committee w.e.f. 27 May 2024.

(3) Director, Mr Murali Polamarasetty ceased to be a member of the Board Audit Committee w.e.f. 20 September 2024.

(4) Director, Mr Anura Pathirage was appointed to the Board Audit Committee and Board Recovery Committee w.e.f. 20 September 2024 and 27 May 2024 respectively.

(5) Director, Mr Ravindra Tissera, appointed to the Board on 4 April 2024, resigned on 21 February 2025.

(6) Director, Mr Saliya Jayaweera resigned from the Board of Directors w.e.f. 5 September 2024.

DIRECTORS' TRAINING AND DEVELOPMENT

The Board Nominations and Governance Committee is responsible for overseeing Director training, offering Directors a continuous programme to help them understand their duties and stay up to date with their expertise and understanding of the sector in which the Company works.

In terms of Section 1.5 (b) and (c) of the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons – KRPs) Directions No. 06 of 2021, all members of the Board possess the necessary qualifications, adequate skills, knowledge, and experience. Accordingly, the Board members were assigned to periodical training and development programmes. The scope of such training and development programs covers the following.

- The roles played by and the division of responsibilities among the Shareholders, Board of Directors, Senior Management, other Managerial Staff, Executive Managers, and other stakeholders within the corporate governance system
- The Board's role in determining a Company's corporate governance framework
- The programme explores one of the most important roles: the role of the Board in the formulation and implementation of strategy and managing enterprise risk
- The financial stewardship obligations of the Board to the shareowners

SUPPLY OF AND ACCESS TO INFORMATION

To ensure that the Board can fulfil its responsibilities, Directors have unrestricted access to information. The Directors also have independent access to the Company Secretary, who assist them in the discharge of their duties. The Company Secretary's responsibilities include advising the Board on Corporate Governance and ensuring that Board procedures and applicable regulations are complied with.

All Directors receive a set of Board papers at least three (3) days before the Board meeting to give sufficient time for Directors to obtain further explanations where necessary. The Board papers include, among others, the following documents, and details.

- Agenda for the Board meeting
- Background or explanation on matters brought before the Board for decision or information
- Minutes of the preceding Board meeting; and
- Approved minutes of the Board Subcommittee meeting held since the previous meeting of the Board.

APPOINTMENTS AND RESIGNATIONS OF DIRECTORS

The Board Nominations and Governance Committee is responsible for identifying candidates and reviewing and recommending nominations of Directors to the Board. Proposals for the appointment of new Directors shall be reviewed by the Board considering the competencies and skills required of the Board based on the outcome of the annual evaluation of the effectiveness of the Board. Candidates are assessed on their suitability taking into consideration, amongst others, their professional qualifications, integrity, financial and commercial business expertise, the field of expertise relevant to the Company, potential to contribute to the effectiveness of the Board and to complement the skills, knowledge, and expertise of the Board.

Further, the Board shall determine the proposed candidate's independence under Corporate Governance regulations and ensure that the proposed appointment would not result in non-compliance with any of the composition requirements for the Board and the Board Subcommittees. The Board of Directors shall evaluate the fit and proper requirements in terms of CSE Listing Rules and Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction No. 06 of 2021 and obtain prior approval of the Central Bank of Sri Lanka in terms of the same direction. As required by the Listing Rules, appointments of new Directors to the Board are promptly communicated to the CSE through announcements, subsequent to obtaining approval from the CBSL for their fitness and propriety. The announcements typically include a brief resumé of new Directors, relevant expertise, key appointments, shareholdings, the names of companies in which the new Director holds directorships or memberships in Board Committees and status of independence.

During the year under review, there was one new appointment to the Board of Directors and two resignations from the Board, the details of which are given in the Table under Directors' Attendance at Board and Board Subcommittee Meetings.

APPRAISAL OF BOARD PERFORMANCE

In compliance with Section 1.5 (d) of the Finance Business Act Directions (Corporate Governance) No. 05 of 2021, the Company conducts an annual self-assessment scheme involving each Director. This self-assessment is carried out through a questionnaire and aims to evaluate their performance.

Furthermore, the Board ensures the satisfactory discharge of duties and responsibilities as mandated by the Companies Act No. 07 of 2007, Finance Business Act Direction (Corporate Governance) No. 05 of 2021, Listing Rules of the Colombo Stock Exchange, and Best Practices on Corporate Governance. To accomplish this, the Board conducts an annual self-evaluation of its own performance and that of its Subcommittees.

Board and Subcommittee evaluations for the current year are discussed at the Board meeting level. These evaluations, along with their outcomes, are diligently maintained as part of the Company's records. The purpose of these evaluations is to assess the effectiveness of the Board and its Subcommittees in fulfilling their obligations and responsibilities.

By conducting regular self-assessments and evaluations, the Company demonstrates its commitment to regulatory compliance, corporate governance best practices, and continuous improvement in performance and accountability.

THE ROLE OF THE COMPANY SECRETARY

The Company Secretary holds a crucial role in promoting effective Corporate Governance. Responsibilities of the Company Secretary span various activities related to Board and general meetings, Articles of Association, reports, accounts, and compliance with Corporate Governance and Stock Exchange regulations. Key duties include:

- Assisting the Chairman in conducting Board Meetings, AGMs, and EGMs in line with the Articles of Association, Board Charter, and relevant laws.
- Maintaining accurate minutes of meetings and statutory registers, and ensuring timely filing of statutory returns.
- Overseeing the proper constitution and Terms of Reference of all Board Committees.
- Promoting Corporate Governance best practices by supporting Directors in their duties and responsibilities.
- Facilitating access to legal and professional advice, in consultation with the Board as needed.
- Ensuring the Company complies with its Articles of Association, incorporating necessary amendments through proper procedures.
- Coordinating the publication and distribution of Annual Reports, Accounts, and interim financial statements, as well as preparing the Directors' Report.
- Monitoring compliance with Listing Rules, including disclosure requirements on related parties and transactions, and maintaining positive relationships with the Stock Exchange, shareholders, and debenture holders.

BOARD SUBCOMMITTEES

To meet legal obligations and improve the control of its operations, HNBF has nine Board Subcommittees in place. These Subcommittees meet regularly to discuss issues falling under the purview of their charters and terms of reference, and their recommendations are appropriately sent to the main Board. The Subcommittees' areas of responsibility, however, nonetheless fall within the purview of the Board as a whole.

According to the schedule below, the Board has given the Subcommittees control over certain tasks. The resources available to these Subcommittees allow them to concentrate on their assigned responsibilities and guarantee impartial supervision. The composition of the Board Subcommittees as of 31 March 2025 is as follows.

COMPOSITION OF BOARD SUBCOMMITTEES

Name of the Subcommittee	Role of the Committee	Members
Board Audit Committee	Assist the Board of Directors of the Company in fulfilling its oversight responsibilities for the financial reporting, the system of internal controls, the audit process, and the monitoring process for compliance with laws, regulations, and directions.	Mr Lalith Withana (Committee Chairman) Mr Hasitha Wijesundara Mr Anura Pathirage
Board Integrated Risk Management Committee	Assist the Board of Directors in fulfilling its oversight responsibilities for all aspects of Risk Management by reviewing risks such as credit, market, liquidity, operational, strategic, compliance and technology risks through appropriate risk indicators and management information	Mr Murali Polamarasetty (Committee Chairman) Mr Ruwan Manatunga Dr Prasad Samarasinghe Mr Lalith Withana – Permanent Invitee
HR/Remuneration Committee	Assist the Board of Directors in evaluating, assessing and recommending the Company's remuneration structure aligned with performance parameters.	Hasitha Wijesundara (Committee Chairman) Mr Rajive Dissanayake Mr Lalith Withana
Board Nominations and Governance Committee	Assist the Board of Directors in fulfilling its oversight responsibility to develop and maintain a formal, rigorous and transparent procedure for making recommendations on appointments of Board of Directors and Key Responsible Persons (KRPs), re-appointments of Board of Directors and reviewing the succession plans for the Directors and Key Responsible Persons (KRPs).	Hasitha Wijesundara (Committee Chairman) Mr Rajive Dissanayake Mr B. Premalal Mr Murali Polamarasetty Mr Lalith Withana
Board Related Party Transactions Review Committee	Assist the Board of Directors in ensuring that the Company takes the interest of shareholders as a whole into consideration in a manner of avoiding conflicts of interest.	Mr Murali Polamarasetty (Committee Chairman) Mr Hasitha Wijesundara Mr Lalith Withana
Board Procurement Committee	Provide oversight of the procurement process and approve/ recommend expenditure on activities relating to procurement in accordance with the Procurement Policy and the Financial Authority Manual of HNBF.	Dr Prasad Samarasinghe (Committee Chairman) Mr Rajive Dissanayake Mr Anura Pathirage
Board Strategic and Investments Review Committee	Evaluate proposals of the management on the Company's strategic plan, all strategic investments, and divestments and monitor the performance of same. Further, evaluate and review the progress of business transformation projects of the Company. Overlook all current and future strategic investments, divestments, and disposals of the Company.	Mr Rajive Dissanayake (Committee Chairman) Mr B. Premalal Dr Prasad Samarasinghe
Board Credit Committee	Assist the Board of Directors in overseeing the credit management function, strategies, and objectives and ensure credit risks are reviewed and managed properly.	Mr. Hasitha Wijesundara (Committee Chairman) Mr. Ruwan Manatunga Mr. Anura Pathirage
Board Recovery Committee	Develop Recovery Policy and Plans, provide strategic oversight of short-term and long-term recovery plan implementation and oversee the delivery of the recovery strategies of the Company.	Mr Ruwan Manatunga (Committee Chairman) Mr Murali Polamarasetty Mr Anura Pathirage

MANAGEMENT COMMITTEES

The following Management Committees oversee the day-to-day operations and affairs of HNBF while implementing the strategies and objectives decided upon by the Board of Directors and its Subcommittees.

- Executive Risk Management Committee (ERMC)
- Assets & Liabilities Committee (ALCO)
- IT Steering Committee (ITSC)
- Information Security Committee (ISC)
- Credit Policy Committee (CPC)

INTERNAL CHARTERS AND POLICIES

Internal charters, policies and procedures encourage better governance, risk management, controls, and compliance throughout the Organisation in addition to increased development. These provide the framework on which the Board and the Management may create and maintain an open and efficient internal control system.

COMPLIANCE

The Compliance Officer independently assesses compliance with all relevant statutes, rules, and regulations and communicates findings to the Board, Board Audit Committee and Board Integrated Risk Management Committee. To guarantee that the Company complies with all applicable regulatory obligations, the Compliance Officer also evaluates changes in the regulatory environment and takes the required action. To create a corporate governance system and culture that is entirely compliant with all reporting obligations, HNBF has implemented an advanced monitoring mechanism.
To reinforce governance with internal control, HNBF has created a compliance unit whose job is to monitor and evaluate the Company's adherence to applicable laws, rules, regulatory guidelines, and other authorised policies.

INTERNAL AUDIT

The internal audit function of HNBF is a critical component of the organisation's governance structure because it focuses on providing the Board Audit Committee with independent risk-based oversight of internal policies and controls as well as the level of legal and regulatory compliance. The Internal audit independently and impartially monitors the internal control mechanisms to systematically review and suggest improvements for more effective internal control processes and governance. Internal audit also performs impartial evaluations of adherence to risk policies and procedures to ensure the effectiveness of risk management strategies used at HNBF. The internal audit division reports to the Board via the Board Audit Committee to maintain its independence.

KEY REGULATORY REQUIREMENTS AND ELEMENTS OF CORPORATE GOVERNANCE FRAMEWORK

External

- Finance Business Act No. 42 of 2011
- Companies Act No. 07 of 2007
- Finance Leasing Act No. 56 of 2000
- The Finance Companies Directions, rules, determinations, notices, and guidelines applicable to Licensed Finance Companies issued by the Central Bank of Sri Lanka in terms of the Finance Business Act No. 42 of 2011
- Finance Business Act Directions No. 05 of 2021 on Corporate Governance and as amended
- Financial Transactions Reporting Act No. 06 of 2006
- Listing Rules of the Colombo Stock Exchange
- Directions and Circulars issued by the Securities and Exchange Commission (SEC) of Sri Lanka
- The Inland Revenue Act No. 24 of 2017 and its amendments
- The Shop and Office Employees Act No. 19 of 1954 and its amendments
- The Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- Extraordinary Gazette No 2344/7 issued on Financial Consumer Protection Regulations.
- All other applicable legislative requirements

Internal

- Vision, Mission and Corporate Values
- Articles of Association
- Corporate Governance Framework
- Terms of Reference of the Board, Board Subcommittees and Management Committees
- Integrated Risk Management Framework
- The Board approved policies on all major operational aspects
- Related party transactions Policy
- Code of Conduct and Ethics
- Corporate Communications Policy
- Whistleblowing Policy

EXTERNAL AUDIT

The Board can review the appropriateness, adequacy, and effectiveness of the organisation's internal controls using the information in an external audit report, which is a critical part of a sound corporate governance system.

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

The HNBF's External Auditors are Messrs KPMG. The External Auditors offer the organisation other non-audit services in addition to the typical audit services. All these services have been offered with the Board Audit Committee's agreement and in a way that ensures neither the independence of their audit work nor the perception of such independence would be compromised. An annual certificate of independence is also given by the External Auditors.

EXTERNAL AUDITOR'S CERTIFICATION ON COMPLIANCE

In accordance with the demands of the Finance Business Act (Corporate Governance) Directions No. 05 of 2021, the External Auditors carry out procedures in accordance with the Sri Lanka Standard on Related Services (SLSRS) published by the Institute of Chartered Accountants of Sri Lanka, to evaluate the Company's level of compliance with the demands of the above direction and provide a certification thereon to the Board. The Board discussed the conclusions presented by the External Auditors for the previous year, and their suggestions for additional improvements were put into practice throughout the financial year.

RELATED PARTY TRANSACTIONS

The Company has implemented related party transaction policies and processes. These cover relatedness criteria, restrictions imposed, transaction conditions, and the authorities and guidelines for authorising and overseeing the transactions. The Related Party Transactions Review Committee examines non-recurring related party transactions as well as those involving interested parties, and it informs the Board of any such transactions that may occur. There are precautions made to ensure that related-party loan terms and conditions are not more favourable than those given to non-related obligors in comparable situations.

WHISTLE-BLOWER POLICY

Employees and other stakeholders can anonymously report potential financial irregularities, asset abuse, inaccurate financial reporting, and other problems that may call for internal inquiry under the terms of the whistle-blowing policy. The Board Audit Committee examines each whistleblower complaint. The Committee will continue two-way communication throughout the inquiry process to make sure the whistleblower is updated on the probe's status. The Whistle-blower policy's reach was further broadened to cover the current financial year.

CONFLICTS OF INTEREST

A conflict of interest arises when a Board member has a personal interest that conflicts with the interests of the Company. The Board has approved the Corporate Governance Framework, which incorporates the Company's policy on managing conflicts of Interest. This policy outlines the processes and procedures to be followed in managing conflicts, with the ultimate objective of protecting the public interest. Accordingly, any Director who has a conflict of interest on a matter will not participate in the deliberations except to disclose material facts and to respond to questions and abstain from voting thereon.

COMMUNICATION WITH SHAREHOLDERS

The Board values shareholder engagement and encourages shareholders to share their opinions. To facilitate constructive dialogue, the Board has established practices tailored to the Company's investor community. These include channels for shareholders to voice their concerns and receive timely responses. Additionally, the Board actively explores new methods of engaging with shareholders that are suitable for HNBF's circumstances. Procedures are in position to ensure timely provision of information to current and potential investors. The Board thoroughly reviews and approves key disclosure documents, such as the Management's Discussion and Analysis in the Annual Report.

ANNUAL GENERAL MEETING

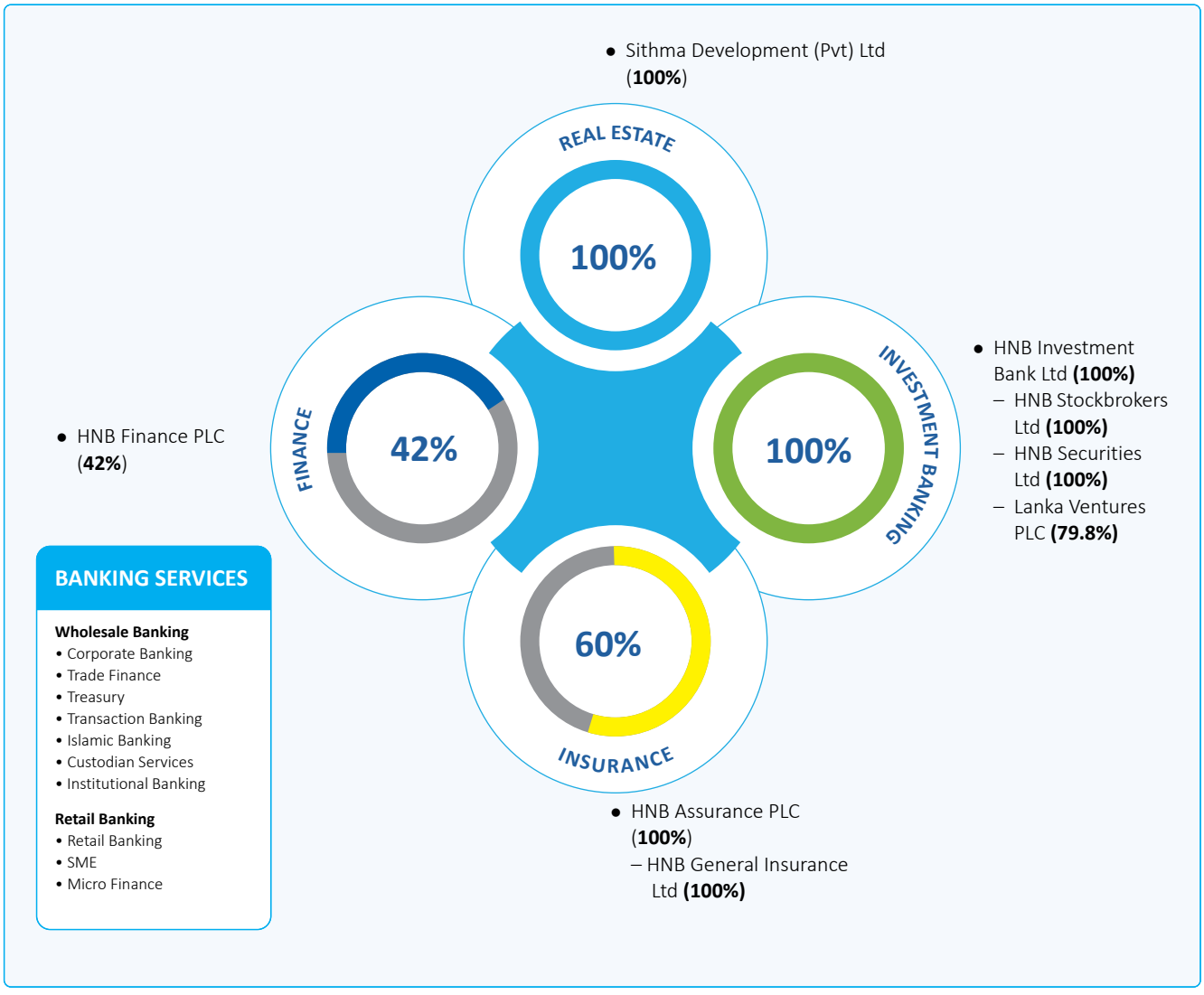
The Annual General Meeting (AGM) serves as an opportunity for shareholders to express their opinions and interact with the Board, including the Chairpersons of the Board Committees and Key Responsible Persons. Our External Auditor is present to address any queries from shareholders.

During the AGM, HNBF presents its financial performance for the previous year to shareholders. The Chairman plays a crucial role in facilitating constructive dialogue among shareholders, Board members, and Management during these meetings. HNBF highly values and encourages shareholder participation at its general meetings.

Following the recommendations outlined in the Code and Guidelines, resolutions requiring shareholder approval are presented separately for consideration at the Company's general meetings, unless they are closely related and better suited for joint presentation.

GROUP GOVERNANCE STRUCTURE

HNB Finance PLC is a subsidiary of HNB Group and the governance structure of the HNB Group is depicted below.



STATEMENT OF COMPLIANCE

The level of compliance with the regulations on Corporate Governance is outlined below. These disclosures have been made in accordance with the relevant corporate governance regulations, including:

1. Finance Business Act (Corporate Governance) Direction No. 05 of 2021.
2. Section 09 of the Listing Rules of the Colombo Stock Exchange on Corporate Governance, as detailed in this report.

Statement of Compliance

COMPLIANCE WITH THE FINANCE BUSINESS ACT DIRECTIONS NO.05 OF 2021 ON CORPORATE GOVERNANCE ISSUED BY THE CENTRAL BANK OF SRI LANKA FOR LICENSED FINANCE COMPANIES AS OF 31.03.2025

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
1	**Board's overall responsibilities**		
1.1	The Board shall have overall responsibility and accountability for the Finance Company (FC), including approving and overseeing Management's implementation of the FCs corporate strategy, setting up the governance framework, establishing corporate culture, and ensuring compliance with regulatory requirements.	Complied with	The Board has approved a Strategic Business Plan covering the period from 2025/26 to 2027/28 and a board-approved governance framework is in place which establishes a sound corporate culture across the Company while ensuring regulatory compliance.
1.2	**Business Strategy and Governance Framework**		
1.2 (a)	Approving and overseeing the implementation of strategic objectives, including, the overall business strategy, with measurable goals for at least the next three years and update annually in light of the current developments.	Complied with	The Board approved the Company's three-year strategic plan covering the period from 2025/26 to 2027/28.
1.2 (b)	Approving and implementing FCs governance framework in light of the FCs size, complexity, business strategy, and regulatory requirements.	Complied with	A Board-approved governance framework is in place.
1.2 (c)	Assessing the effectiveness of its governance framework periodically	Complied with	The effectiveness of the Board-approved governance framework is periodically assessed by the Board of Directors.
1.2 (d)	Appoint the Chairman and the Chief Executive Officer and define the roles and responsibilities.	Complied with	The Board has appointed the Chairman and the Chief Executive Officer (CEO) and there is a clear division and definition of the functions and responsibilities of the Chairman and CEO. Mr Rajive Dissanayake, Non-Independent Non-Executive Director was appointed as the Chairman on 08 January 2024. Mr Chaminda Prabhath is the Chief Executive Officer who is in charge of the overall management of the Company.
1.3	**Corporate Culture and Values**		
1.3.a	Ensuring that there is a sound corporate culture within the Company, which reinforces ethical, prudent, and professional behavior.	Complied with	The HNB Finance PLC shares a strong and well-established corporate culture that drives the Company towards integrity, competence, diligence, and respect while strengthening ethical, prudent, and professional behavior across the Company.
1.3. b	Playing a lead role in establishing the Company's corporate culture and values, including developing a code of conduct and managing conflicts of interest.	Complied with	The Board-approved Code of Conduct and Ethics is in place and applicable to all the employees of the Company. Such Code emphasises on fair dealing, protection, and proper use of the Company's assets, record-keeping and reporting, accounting and financial reporting concerns, reporting illegal or unethical behavior, discrimination, and harassment, health, and safety, discipline, etc.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
1.3.c	Promoting sustainable finance through appropriate environmental, social, and governance considerations in the FC's business strategies.	Complied with	Through the business model, the Company is supporting the economy by way of sustainable financing. This has been extensively discussed elsewhere in this Annual Report.
1.3. d	Approving the policy of communication with all stakeholders, including depositors, shareholders, borrowers, and other creditors, in the view of projecting a balanced view of the Company's performance, position, and prospects with the public and regulators.	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.
1.4	**Risk Appetite, Risk Management, and Internal Controls**		
1.4. a	Establishing and reviewing the Risk Appetite Statement (RAS) in line with Company's business strategy and governance framework.	Complied with	The Board-approved Risk Appetite Framework (RAF), including the Risk Appetite Statement (RAS), is in place and aligned with the Company's business strategy and overall governance framework.
1.4. b	Ensuring the implementation of appropriate systems and controls to identify, mitigate and manage risks prudently.	Complied with	Identification, mitigation and management of risk indicators such as credit risk, market risk, operational risk and other types of risks are discussed and corrective actions are recommended by the Board Integrated Risk Management Committee.
1.4.c	Adopting and reviewing the adequacy and effectiveness of the Company's internal control systems and management information systems periodically.	Complied with	On a periodic basis, adopting and reviewing the adequacy and effectiveness of the Company's internal control systems and management information systems have been done during the financial year.
1.4. d	Approving and overseeing Business Continuity and Disaster Recovery Plan for the Company to ensure stability, financial strength, and preserve critical operations and services under unforeseen circumstances.	Complied with	A Board-approved business continuity and disaster recovery plan is in place.
1.5	**Board Commitment and Competency**		
1.5. a	All members of the Board shall devote sufficient time to dealing with the matters relating to the affairs of the Company.	Complied with	The Company's Board of Directors pays sufficient time and effort to address the concerns involved with the affairs of the Company.
1.5. b	All members of the Board shall possess the necessary qualifications, adequate skills, knowledge, and experience.	Complied with	The Company's Board of Directors comprised eminent personnel with the required knowledge, expertise and experience to deal with the matters and their profiles are given on pages 138 to 142.
1.5.c	The Board shall regularly review and agree on the training and development needs of all the members.	Complied with	The Board has reviewed the training and development requirements of all the members. The Board of Directors has been enrolled in the Board Leadership Director Certification Programme conducted by the Sri Lanka Institute of Directors (SLID).
1.5. d	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually on individual performance, of its Boards as a whole and that of its committees and maintain records of such assessments.	Complied with	A rigorous self-assessment mechanism is in place to assess the performance of individual Directors, the Board as a whole, and its Subcommittees. The records of such assessments are maintained by the Company Secretary. The summary of the self-assessment is submitted to the Board, enabling Directors to discuss relevant matters, if any.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
1.5. e	The Board shall resolve to obtain external, independent, professional advice to the Board to discharge duties to the FC.	Complied with	The Board is able to obtain independent professional advice as and when necessary, at the expense of the Company and a Board approved procedure is in place.
1.6	**Oversight of Senior Management**		
1.6. a	Identifying and designating Senior Management, who are in a position to significantly influence policy, direct activities, and exercise control over business operations and risk management.	Complied with	The Board of Directors identified and designated the Key Responsible Personnel as members of the Senior Management including, Managing Director/CEO Deputy Chief Executive Officer DGM – Finance/Chief Financial Officer DGM – Risk Management/Chief Risk Officer DGM – HR/ Chief Human Resources Officer DGM – Operations DGM – Technology/Chief Information Officer DGM – Recoveries/Chief Recovery Officer DGM – Head of Internal Audit DGM – Head of Credit AGM – Channel Management AGM – Branch Operations AGM – Legal AGM – Finance AGM – Gold Loans AGM – Product Business Management AGM – Company Secretary AGM – Business Transformation Head of Compliance
1.6. b	Defining the areas of authority and key responsibilities for the Senior Management.	Complied with	The Board of Directors of the Company has defined the duties and responsibilities of the Key Responsible Persons and the Board of Directors has approved delegated authority limits applicable to Senior Management.
1.6.c	Ensuring the Senior Management possesses the necessary qualifications, skills, experience, and knowledge to achieve the FC's strategic objectives.	Complied with	The Company's Key Responsible Persons possess the required qualifications, skills, knowledge, competencies, and experience.
1.6. d	Ensuring there is appropriate oversight of the affairs of the Company by Senior Management.	Complied with	Oversight of the affairs of the Company by Senior Management takes place at the Board meetings and Board Subcommittee meetings. Senior Management engages in regular presentations to the Board/Board Subcommittees on matters under their purview.
1.6. e	Ensuring the FC has an appropriate succession plan for Senior Management.	Complied with	The Company has a Board approved one to one succession plan in place for the Senior Management.
1.6. f	Meeting regularly with the Senior Management to review policies, establish lines of communication and monitor progress towards strategic objectives.	Complied with	The Managing Director/CEO is called to regular Board meetings to review policies and monitor the progress towards the corporate objectives. The other KRPs attend Board meetings by invitation and make presentations, elaborating on matters relating to their areas of responsibility.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
1.7	**Adherence to the Existing Legal Framework**		
1.7. a	Ensuring that the FC does not act in a manner that is detrimental or prejudicial to the interests of, and obligations to, depositors, shareholders and other stakeholders.	Complied with	As established by the Company's Corporate Governance Framework, the Company does not act in a manner that is detrimental or prejudicial to the interests of and obligations to, depositors, shareholders, and other stakeholders.
1.7. b	Adherence to the regulatory environment and ensuring compliance with relevant laws, regulations, directions and ethical standards.	Complied with	The Company adheres to the existing regulatory framework which comprises relevant laws, regulatory stipulations, directions and ethical standards. Internal control measures, policies, and procedures including a Board approved Code of Conduct and Ethics are in place ensuring compliance with the same.
1.7.c	Acting with due care and prudence, and with integrity and be aware of potential civil and criminal liabilities that may arise from their failure to discharge the duties diligently.	Complied with	The Board approved Corporate Governance Framework establishes the requirement of acting with due care, prudence and integrity. A Board-approved Code of Conduct and Ethics requires such behaviour which avoids potential civil and criminal liabilities that may result from failure for due diligence.
2	**Governance Framework**		
2.1	The Board shall develop and implement a governance framework in line with the Finance Business Act Directions No. 05 of 2021.	Complied with	A Board-approved Corporate Governance Framework is in place.
3	**Composition of the Board**		
3.1	The Board's composition shall ensure a balance of skills and experience as may be deemed appropriate and desirable for the requirements of the size, complexity and risk profile of the Company.	Complied with	The extent of compliance with this requirement is disclosed on pages 148 to 149 under "Board Composition" and page 149 under "Skills, Expertise and Experience"
3.2	The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied with	The extent of compliance with this requirement is disclosed on the pages 148 to 149 under "Board Composition"
3.3	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer/Executive Director shall not exceed nine years, subject to Direction 3.4.	Complied with	Mr Brahmanage Premalal, initially appointed as the Deputy Chairman and Non Independent/Non-Executive Director on 29 June 2011, retired from the Board of Directors on 29 June 2020 in accordance with Section 4 (2) of the Finance Companies (Corporate Governance) Direction No. 3 of 2018, after completing nine years of service. Subsequently re-appointed as a Non-Independent/Non-Executive Director in compliance with Section 3 (4) of the Finance Business Act (Corporate Governance) Direction No. 05 of 2021, effective from 29 November 2022.
3.4	Non-Executive Directors, who directly or indirectly hold more than 10% of the voting rights or who are appointed to represent a shareholder who directly or indirectly holds more than 10% of the voting rights by producing sufficient evidence are eligible to hold office exceeding nine years of service with prior approval of Director, Department of Supervision of Non-Bank Financial Institutions subject to provisions contained in Direction 4.2 and 4.3. Provided, however, the number of Non-Executive Directors eligible to exceed nine years is limited to one-fourth (¼) of the total number of Directors on the Board.	Complied with	

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
3.5	**Executive Directors**		
3.5. a	Only an employee of a company shall be nominated, elected, and appointed, as an Executive Director of the Company, provided that the number of Executive Directors shall not exceed one-third (1/3) of the total number of Directors of the Board.	Complied with	The Board consists of one Executive Director and does not exceed one-third of the number of Directors on the Board.
3.5. b	A shareholder, who directly or indirectly holds more than 10% of the voting rights of the FC, shall not be appointed as an Executive Director or as Senior Management. Provided however, existing Executive Directors with a contract of employment and functional reporting line and existing Senior Management are allowed to continue as an Executive Director/Senior Management until the retirement age of the FC and may be reappointed as a Non-Executive Director subject to provisions contained in Directions 4.2 and 4.3. Existing Executive Directors without a contract of employment and functional reporting line need to step down from the position of Executive Director from the effective date of this direction and may be reappointed as Non-Executive Directors subject to provisions contained in Directions 4.2 and 4.3.	Complied with	Mr Chaminda Prabhath functions as the Executive Director (MD/CEO) of the Company with a contract of employment and functional reporting line which is directed to the Board of Directors has been established.
3.5.c	In the event of the presence of the Executive Directors, CEO shall be one of the Executive Directors and may be designated as the Managing Director of the Company.	Complied with	Mr Chaminda Prabhath is the only Executive Director of the Company who functions as the Managing Director/CEO.
3.5. d	All Executive Directors shall have a functional reporting line in the organisation structure of the Company.		
3.5. e	The Executive Directors are required to report to the Board through the CEO.		
3.5. f	Executive Directors shall refrain from holding Executive Directorships or Senior Management positions in any other entity.	Complied with	Mr Chaminda Prabhath does not hold any Executive Directorships or Senior Management positions in any other entity.
3.6	**Non-Executive Directors**		
3.6. a	Non-Executive Directors (NED) shall possess credible track records and have the necessary skills, competency, and experience to bring independent judgement on the issues of strategy, performance, resources, and standards of business conduct.		Appointments to the Board are made with the recommendation of the Board Nominations and Governance Committee. The Directors are eminent personnel with the required knowledge, expertise and experience to bring an independent judgement on the issues of strategy, performance, resources, and standards of business conduct. Profiles of the Directors are given on pages 138 to 142.
3.6. b	A Non-Executive Director cannot be appointed or function as the CEO/Executive Director of the Company.	Complied with	Circumstances to this effect have not arisen during the year under review.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
3.7	**Independent Directors**		
3.7. a	The number of Independent Directors of the Board shall be at least three or one-third of the total number of Directors, whichever is higher.	Complied with	The Board comprised three Independent Directors during the year under review. The extent of compliance with this requirement is disclosed on pages 148 to 149 under "Board composition".
3.7. b	Independent Directors appointed shall be of the highest calibre, with professional qualifications, proven track records, and sufficient experience.	Complied with	The extent of compliance with this requirement is disclosed on pages 138 to 142 under "Profiles of Directors".
3.7.c	**A Non-Executive Director shall not be considered independent if such:**		
3.7.c. i	Director has a Direct or indirect shareholding exceeding 5% of the voting rights of the Company or exceeding 10% of the voting rights of any other Company.	Complied with	No such circumstance took place during the year under review.
3.7.c. ii	Director or a relative has or had during the period of one year immediately preceding the appointment as Director, material business transaction with the FC, as described in direction 12.1 (c) hereof, aggregate value outstanding of which at any particular time exceeds 10% of the stated capital of the FC as shown in its last audited statement of financial position.	Complied with	No such circumstance took place during the year under review.
3.7.c.iii	Director has been employed by the Company or its affiliates or is or has been a Director of any of its affiliates during the one year, immediately preceding the appointment as Director.	Complied with	No such circumstance took place during the year under review.
3.7.c. iv	Director has been an advisor or consultant or principal consultant/advisor in the case of a firm providing consultancy to the Company or its affiliates during the one year preceding the appointment as Director.	Complied with	No such circumstance took place during the year under review.
3.7. c.v.	Director has a relative, who is a Director or Senior Management of the Company or has been a Director or Senior Management of the Company during the one year, immediately preceding the appointment as Director or holds shares exceeding 10% of the voting rights of the Company or exceeding 20% of the voting rights of another Company.	Complied with	No such circumstance took place during the year under review.
3.7.c.vi	Director represents a shareholder, debtor, or such other similar stakeholder of the FC;	Complied with	No such circumstance took place during the year under review.
3.7.c.vii	Director is an employee or a Director or has a direct or indirect shareholding of 10% or more of the stated capital in a Company or business organisation, in which any of the other Directors of the FC is employed or a Director;	Complied with	The extent of compliance with this requirement is disclosed on page 150 under "Board Independence".

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
3.7.c. viii	Director is an employee or a Director or has a direct or indirect shareholding of 10% or more of the voting rights in a Company, which has a transaction with the Company as defined in Direction 12.1 (c), or in which any of the other Directors of the Company has a transaction as defined in Direction 12.1 (c), aggregate value outstanding of which at any particular time exceeds 10% of the stated capital as shown in its last audited statement of financial position of the FC.	Complied with	No such circumstance took place during the year under review.
3.7. d	The Nominations and Governance Committee and Board should determine whether there is any circumstance or relationship, which is not listed in Direction 3.7, which might impact a Director's independence or the perception of the independence.	Complied with	No such circumstance took place during the year under review.
3.7. e	An Independent Director shall immediately disclose to the Board any change in circumstances that may affect the status as an Independent Director. In such a case, the Board shall review such Director's designation as an Independent Director and notify the Director/ DSNBFI in writing of its decision to affirm or change the designation.	Complied with	The extent of compliance with this requirement is disclosed on page 150 under "Board Independence".
3.8	**Alternate Directors**		
3.8. a	Representation through an alternate Director is allowed only if, i. With prior approval of the Director under the Finance Business Act (fitness and propriety of KRPs) Directions No. 06 of 2021 ii. If the current Director is unable to perform his duties as a Director due to prolonged illness or unable to attend more than three consecutive meetings due to being abroad.	Not applicable	No alternate Directors were appointed during the year under review.
3.8. b	The existing Directors of the FC cannot be appointed as an alternate Director to another existing Director of the FC.	Not applicable	No alternate Directors were appointed during the year under review.
3.8.c	A person appointed as an alternate Director to one of the Directors cannot extend the role as an alternate Director to another Director in the same Board.		
3.8. d	An alternate Director cannot be appointed to represent an Executive Director.		
3.8. e	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to an Independent Director.		

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
3.9	**Cooling off Periods**		
3.9. a	There shall be a cooling-off period of six months prior to an appointment of any person as a Director, CEO of the FC, who was previously employed as a CEO or Director, of another FC. Any variations thereto in exceptional circumstances where expertise of such persons requires to reconstitute a Board of an FC which needs restructuring, shall be made with prior approval of the Monetary Board.	Not applicable	Circumstances to this effect have not arisen during the year under review.
3.9.b	A Director, who fulfils the criteria to become an Independent Director, shall only be considered for such appointment after a cooling-off period of one year if such Director has been previously considered as non-independent under the provision of this direction.	Complied with	Mr Lalith Withana who initially appointed as an Independent Non-Executive Director, re-designated as a Non-Independent Non-Executive Director w.e.f. 10 August 2023 and upon the completion of the cooling-off period of one year in compliance with section 3 (9) (b) of the Finance Business Act (Corporate Governance) Direction No. 05 of 2021 re-designated as an Independent Non-Executive Director, effective from 05 September 2024.
3.10	**Common Directorships**		
3.10	Director or Senior Management of a company shall not be nominated, elected, or appointed as a Director of another company except where such company is a parent company, subsidiary company, or an associate company or has a joint arrangement with the first mentioned FC subject to conditions stipulated in Direction 3.5 (f).	Complied with	None of the Directors or Senior Management is nominated, elected and/or appointed as a Director of another Company except where such company is a parent company, subsidiary company, or an associate company or has a joint arrangement with the Company.
3.11	The Board shall determine the appropriate limits for directorships that can be held by Directors. However, a Director of a Finance Company shall not hold office as a Director or any other equivalent position (shall include alternate Directors) in more than 20 companies/ societies/bodies, including subsidiaries and associates of the FC.	Complied with	There were no Directors who hold directorates in more than twenty (20) companies/entities/institutions.
4	**Assessment of Fit and Proper Criteria**		
4.1	No person shall be nominated, elected, or appointed as a Director of the Company or continue as a Director of such company unless that person is a fit and proper person to hold office as a Director of such company in accordance with the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction or as amended.	Complied with	Nomination, election and appointment of Directors take place in terms of the Board approved Corporate Governance Framework which is articulated in terms of the Finance Business Act No. 06 of 2021 on Assessment of Fitness and Propriety of Key Responsible Persons.
4.2	A person over the age of 70 years shall not serve as a Director of an FC.	Complied with	None of the members of the Board of Directors of the Company exceeds the age of 70 years.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
4.3	Notwithstanding provisions contained in 4.2 above, a Director who is already holding office at the effective date of this direction and who attains the age of 70 years on or before 31 March 2025, is permitted to continue in office as a Director, exceeding 70 years of age up to a maximum of 75 years of age subject to the following;	Complied with	Circumstances to this effect have not arisen during the year under review.
4.3.a	Assessment by the Director/Department of Supervision of Non-Bank Financial Institutions on the fitness and propriety based on the criteria specified in the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.		
4.3.b	Prior approval of the Monetary Board based on the assessment of the Director/Department of Supervision of Non-Bank Financial Institutions in 4.3(a).		
4.3.c	The maximum number of Directors exceeding 70 years of age is limited to one-fifth (1⁄5) of the total number of Directors.		
4.3.d	The Director concerned shall have completed a minimum period of three continuous years in office, as at the date of the first approval.		
5	**Appointment and Resignation of Directors and Senior Management**		
5.1	The appointments, resignations, or removals shall be made in accordance with the provisions of the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.	Complied with	All the appointments, resignations or removals pertaining to the Board of Directors and Senior Management are effected in conformity with the Finance Business Act Direction No. 06 of 2021 on the Assessment of Fitness and Propriety of Key Responsible Persons.
6	**The Chair and the Chief Executive Officer**		
6.1	There shall be a clear division of responsibilities between the Chairperson and CEO and the responsibilities of each person shall be set out in writing.	Complied with	The roles of Chairman and Chief Executive Officer are held by two (2) individuals separately.
6.2	The Chairperson shall be an Independent Director, subject to 6.3 below.	Complied with	Mr Rajive Dissanayake, the Chairman of the Company is a Non-Independent Non-Executive Director. Since the Chairman is not an Independent Non-Executive Director, the Board has designated Mr Hasitha Wijesundara (Independent Non-Executive Director) as the Senior Director and the terms of reference have been documented.
6.3	In the case where the Chairperson is not independent, the Board shall appoint one of the Independent Directors as a Senior Director, with suitably documented Terms of Reference to ensure a greater independent element. The Senior Director will serve as the intermediary for other Directors and shareholders. Non-Executive Directors including Senior Directors shall assess the Chairperson's performance at least annually.	Complied with	The Chairperson's performance applicable for the year under review has been assessed by all the Non-Executive Directors including the Senior Director.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
6.4	**Responsibilities of the Chairperson**		
6.4. a	Provide leadership to the Board;	Complied with	The functions and responsibilities of the Chairman have been defined in the Board approved Corporate Governance Framework including the stipulated requirements. The annual self-assessment of the Board includes a criterion that evaluates the effectiveness of the Chairman in facilitating the Board's discharge of its responsibilities. The Chairman has delegated the function of preparing the agenda of Board meetings to the Company Secretary. The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings by submission of the agenda and Board papers with sufficient time prior to the meetings. The Chairman ensures that the relationship among the Directors provides an opportunity for all Directors to actively participate in the Board's affairs. This process is further strengthened through the annual self- evaluation of the Board and Board Subcommittees where the views of all Directors are canvassed in respect of the performance of the Board and Subcommittees as a whole. The Chairman is not directly involved in the supervision of Senior Management or any other executive duties. The AGM of the Company is the main forum where the Board maintains effective communication with shareholders. Further, the Board-approved communication policy evidence the Company's process in this regard. The Chairman has assessed the performance and contribution of the Board of Directors including the MD/CEO during the year under review.
6.4. b	Maintain and ensure a balance of power between the Executive and Non-Executive Directors;		
6.4.c	Secure effective participation of both Executive and Non-Executive Directors.		
6.4. d	Ensure the Board works effectively and discharges its responsibilities.		
6.4. e	Ensure all key issues are discussed by the Board in a timely manner.		
6.4. f	Implement decisions/directions of the regulator.		
6.4. g	Prepare the agenda for each Board meeting and may delegate the function of preparing the agenda and to maintaining minutes in an orderly manner to the Company Secretary.		
6.4.h	Not engage in activities involving direct supervision of Senior Management or any other day-to-day operational activities.		
6.4. i	Ensure appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.		
6.4. j	Annual assessment of the performance and contribution during the past 12 months of the Board and the CEO.		
6.5	**Responsibilities of the CEO**		
	The CEO shall function as the apex executive in charge of the day-to-day management of the FC's operations and business. The responsibilities of the CEO shall include	Complied with	In terms of duties and responsibilities of the MD/CEO, he is the apex executive of the Company who is responsible for the day-to-day operations of the Company with the assistance of Senior Management. The MD/CEO is accountable to the Board of Directors to recommend the Company's strategy implementation and ensure appropriate internal controls are in place to assess, control, and mitigate risks.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
6.5. a	Implementing business and risk strategies in order to achieve the FCs strategic objectives;	Complied with	The MD/CEO ensures the implementation of Board recommended business strategic plans, appropriate risk measures and internal controls.
6.5. b	Establishing a management structure that promotes accountability, and transparency throughout the FC's operations, and preserves the effectiveness and independence of control functions;	Complied with	The MD/CEO has implemented a managerial framework that encourages responsibility and openness across all aspects of the Company's operations while ensuring efficiency and autonomy.
6.5.c	Promoting, together with the Board, a sound corporate culture within the FC which reinforces ethical, prudent, and professional behavior.	Complied with	The MD/CEO, in collaboration with the Board, fosters a healthy corporate culture within the Company that strengthens ethical, cautious, and professional conduct.
6.5. d	Ensuring the implementation of a proper compliance culture and being accountable for accurate submission of information to the regulator.	Complied with	The MD/CEO guarantees the establishment of an appropriate culture of compliance and takes responsibility for the accurate submission of information to the regulator.
6.5. e	Strengthening the regulatory and supervisory compliance framework.	Complied with	The MD/CEO enhances the framework for regulatory and supervisory compliance.
6.5. f	Addressing the supervisory concerns and non-compliance with regulatory requirements or internal policies in a timely and appropriate manner.	Complied with	The MD/CEO promptly and appropriately deals with supervisory concerns and instances of non-compliance with regulatory requirements or internal policies.
6.5. g	CEO must devote the whole of the professional time to the service of the FC and shall not carry on any other business, except as a non-Executive Director of another company, subject to Direction 3.10.	Complied with	The MD/CEO dedicates their entire professional time to serving the Company and does not engage in any other business activities.
7	**Meetings of the Board**		
7.1	The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of papers to be avoided as much as possible.	Complied with	The Board conducted 12 meetings during the 12-month period, held approximately at monthly intervals. The consent of the Board is usually obtained at meetings with due notice given with Board papers. Consent obtained by circulation has been kept at a minimum.
7.2	The Board shall ensure that arrangements are in place to enable matters and proposals by all Directors of the Board to be represented in the agenda for scheduled Board meetings.	Complied with	A formal procedure has been implemented to enable all Directors to include matters and proposals in the agenda for regular Board meetings.
7.3	A notice of at least three days shall be given for a scheduled Board meeting. For all other Board meetings, reasonable notice shall be given.	Complied with	An annual calendar of Board meetings has been issued at the beginning of the year. It was ensured that prior notice of at least three days was given to Board members. There were no special meetings held during the period.
7.4	A Director shall devote sufficient time to prepare and attend Board meetings and actively contribute by providing views and suggestions.	Complied with	The Board of Directors allocates adequate time to prepare for and participate in Board meetings, active contribution in sharing views and recommendations can be seen.
7.5	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present unless at least one-fourth of the number of Directors that constitute the quorum at such meeting are Independent Directors.	Complied with	Circumstances to this effect have not arisen during the year under review.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
7.6	The Chairperson shall hold meetings with the Non-Executive Directors only, without the Executive Directors being present, as necessary, and at least twice a year.	Complied with	The Chairman held two meetings with the Non-Executive Directors only, without the Executive Directors being present.
7.7	A Director shall abstain from voting on any Board resolution in relation to a matter in which he/she or any of his relatives or a concern, in which he has a substantial interest, is interested, and he/she shall not be counted in the quorum for the relevant agenda item in the Board meeting.	Complied with	Circumstances to this effect have not arisen during the year under review.
7.8	A Director, who has not attended at least two-thirds of the meetings in the period of 12 months, immediately preceding or has not attended three consecutive meetings held, shall cease to be a Director. Provided that participation at the Directors' meetings through an alternate Director shall be acceptable as attendance.	Complied with	Circumstances to this effect have not arisen during the year under review.
7.9	**Scheduled Board Meetings and Ad Hoc Board Meetings**		
	For the scheduled meetings, participation in person is encouraged and for ad hoc meetings where the Director cannot attend on short notice, participation through electronic means is acceptable.	Complied with	The extent of compliance with this requirement is disclosed on page 151 under Director's Attendance at Board and Board Subcommittee meetings.
8	**Company Secretary**		
8.1. a	The Board shall appoint a Company Secretary considered to be Senior Management whose primary responsibilities shall be to handle the secretarial services to the Board and of shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied with	The Company Secretary advises the Board and ensures that matters concerning the Companies Act No. 07 of 2007, Board procedures and other applicable rules and regulations are followed.
8.1. b	The Board shall appoint its Company Secretary, subject to the transitional provision stated in 19.2 below, a person who possesses such qualifications as may be prescribed for a secretary of a company under Section 222 of the Companies Act No. 07 of 2007, on being appointed the Company Secretary, such person shall become an employee of the Company and shall not become an employee of any other institution.	Complied with	The Board of Directors appointed Ms Manjula Weerasuriya as the Company Secretary w.e.f. 03 August 2023.
8.2	All Directors shall have access to the advice and services of the Company Secretary with a view to ensuring the Board procedures, laws, directions, rules, and regulations are followed.	Complied with	A formal procedure has been implemented and all Directors have access to the Company Secretary for advice and services where necessary.
8.3	The Company Secretary shall be responsible for preparing the agenda in the event the Chairperson has delegated carrying out such function.	Complied with	The Chairman has delegated to the Company Secretary the function of preparing the agenda for Board meetings and for circulation to the Board.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
8.4	The Company Secretary shall maintain minutes of the Board meetings with all submissions to the Board and/ or voice recordings/video recordings for a minimum period of 6 years.	Complied with	The Company Secretary maintains the minutes of the Board meetings in an orderly manner with all submissions to the Board members including voice/video recordings for a minimum period of six years.
8.5	The Company Secretary is responsible for maintaining minutes in an orderly manner and shall follow the proper procedure laid down in the Articles of Association of the FC.	Complied with	
8.6	Minutes of the Board meetings shall be recorded in sufficient detail so that it is possible to ascertain whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly include the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) fact-finding discussions and the issues of contention or dissent including the contribution of each individual Director. (d) the explanations and confirmations of relevant parties which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; directions. (e) the Board's knowledge and understanding of the risks to which the Company is exposed and an overview of the risk management measures adopted; (f) the decisions and Board resolutions.	Complied with	The Company Secretary records the contributions made by each member and the decisions/resolutions made in sufficient detail to satisfy the requirements of the direction.
8.7	The minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied with	The Company Secretary maintains and circulates the minutes to Board members and provides certified copies of the Minutes at any time at the request of any Director of the Company. A formal procedure is in place to enable Directors to inspect the minutes.
9	**Delegation of functions by the Board**		
9.1	The Board shall approve a DA and give clear directions to the Senior Management, as to the matters that shall be approved by the Board before decisions are made by Senior Management, on behalf of the FC.	Complied with	A Board-approved delegated authority is in place which segregated the duties and authorities while enabling the Board to retain effective control.
9.2	In the absence of any of the Subcommittees mentioned in Direction 10 below, the Board shall ensure the functions stipulated under such Committees shall be carried out by the Board itself.	Complied with	All the Board Subcommittees mentioned in Direction 10 are established and carried out in the Company.
9.3	The Board may establish appropriate Senior Management level Subcommittees with appropriate DA to assist in Board decisions.	Complied with	The Board has delegated its authority to the Board Subcommittees and Management Committees with clearly defined mandates, directives and authorities while ensuring such delegations would not hinder or reduce the ability of the Board to discharge its duties.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
9.4	The Board shall not delegate any matters to a Board Subcommittee, Executive Directors, or Senior Management, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied with	The established delegation of authorities has not hindered or reduced the ability of the Board as a whole to discharge its functions.
9.5	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Company.	Complied with	The Board of Directors of the Company makes necessary reviews on delegated authority limits in order to ensure that the set limits remain relevant to the needs of the Company.
10	**Board Subcommittees**		
10.1. a	FCs with asset base of more than LKR 20 Bn., shall establish a Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Nominations and Governance Committee, Human Resource and Remuneration Committee and Related party transactions Review Committee. Meetings – Meetings shall be held at least once in two months for BAC and BIRMC. Other committees shall meet at least annually.	Complied with	The following Board Subcommittees have been appointed by the Board and each Committee is required to report to the Board, (i) Board Audit Committee (ii) Board Integrated Risk Management Committee (iii) Board Human Resources and Remuneration Committee (iv) Board Nominations and Governance Committee (v) Board Related Party Transactions Review Committee In addition to the above, Board Subcommittees such as the Board Credit Committee, Board Strategy and Investments Review Committee, Board Recovery Committee and Board Procurement Committee are also formed. Meetings of the Board Audit Committee and Board Integrated Risk Management Committee were held once in two months during the year under review. Attendance at Board Subcommittees is disclosed on page 151 under Director's Attendance at Board and Board Subcommittee meetings.
10.1. b	Each Board Subcommittee shall have a written Term of Reference specifying clearly its authority and duties.	Complied with	The Board approved Corporate Governance Framework includes the terms and references of each Subcommittee.
10.1.c	The Board shall present a report on the performance of duties and functions of each Board Subcommittee, at the Annual General Meeting of the Company.	Complied with	The scope, performance, duties, and functions of all Subcommittees are disclosed on pages 196 to 209 of the Annual Report.
10.1. d	Each Subcommittee shall appoint a Secretary to arrange its meetings, maintain minutes, voice or video recordings, maintenance of records, and carry out such other such secretarial functions under the supervision of the Chairperson of the committee.	Complied with	The Company Secretary is the Secretary to the Board Nominations and Governance Committee, Human Resources and Remuneration Committee and Board Related Party Transactions Review Committee. Further, Chief Risk Officer and Head of Internal Audit function as the secretaries to the Board Integrated Risk Management Committee, and Board Audit Committee, respectively.
10.1. e	Each Board Subcommittee shall consist of at least three Board members and shall only consist of members of the Board, who have the skills, knowledge, and experience relevant to the responsibilities of the committees.	Complied with	Refer to the Subcommittee reports disclosed on pages 196 to 209 of Annual Report. Profiles of the Directors are given on pages 138 to 142.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
10.1. f	The Board may consider the occasional rotation of members and of the Chairperson of Board Subcommittees to avoid undue concentration of power and promote new perspectives.	Complied with	The composition of Board Subcommittees has been reconstituted during the year under review.
10.2	**Board Audit Committee (BAC)**		
10.2. a	The Chairperson of the Committee shall be an Independent Director who possesses qualifications and experience in accountancy and/or audit.		The Chairman of the Audit Committee, Mr Lalith is an Independent Non-Executive Director. Mr Lalith Withana is a Fellow member of CA Sri Lanka (FCA), a Fellow Member of the Chartered Institute of Management Accountants of UK (FCMA), Advance Certificate Holder of the Chartered Institute of Marketing (UK), holds a Bachelor of Arts (BA) Hons degree from University of Manchester Metropolitan (UK) and Master of Business Administration (MBA) degree from University of Sri Jayewardenepura. Please refer to page 140 for the complete profile of Mr Lalith Withana.
10.2. b	The Board members appointed to the BAC shall be Non-Executive Directors and the majority shall be Independent Directors with the necessary qualifications and experience relevant to the scope of the BAC.	Complied with	The majority of the members of the Committee consists of Independent Non-Executive Directors.
10.2.c	The secretary to the Board Audit Committee shall preferably be the Head of Internal Audit	Complied with	The Head of Internal Audit is the secretary to the Board Audit Committee.
10.2. d	**External Audit Function**		
	i. The BAC shall make recommendations on matters in connection with the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes, the service period, the audit fee, and any resignation or dismissal of the Auditor.	Complied with	The Board Audit Committee has recommended, the re appointment of Messrs KPMG, Chartered Accountants as External Auditors for Audit Services. The service period, audit fees, resignation, or dismissal of an auditor, and re-engaging the audit partner were also recommended by the Board Audit Committee in line with the regulatory requirements. No resignation or dismissal of the Auditor has taken place during the year under review.
	ii. Engagement of an audit partner shall not exceed five years, and the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. Further, FC shall not use the service of the same external audit firm for not more than ten years consecutively.	Complied with	Engagement of the audit partner of external audit service has not exceeded five years and has not re- engaged with the Company's audit before. The Company has not used the service of the Messrs KPMG for more than ten years consecutively.
	iii. The audit partner of an FC shall not be a substantial shareholder, Director, Senior Management or employee of any FC.	Complied with	The Audit Partner is not a substantial shareholder, Director, Senior Management or employee of the Company.
	iv. The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied with	The Board Audit Committee monitors and reviews the External Auditor's independence, objectivity and effectiveness of the audit process, taking into account the applicable standards and best practices.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
	v. Audit partner shall not be assigned to any non-audit services with the FC during the same financial year in which the audit is being carried out. The BAC shall develop and implement a policy with the approval of the Board on the engagement of an external audit firm to provide non-audit services that are permitted under the relevant regulatory framework. In doing so, the BAC shall ensure that the provision of service by an external audit firm of non-audit services does not impair the External Auditor's independence or objectivity.	Complied with	A Board approved policy on "engagement of External Auditor to provide non-audit services" is in place to ensure the best practices and to avoid actual or perceived conflict of interests. The policy has precisely identified the permitted services and prohibited services, approval process and reporting requirements including non-audit fees to audit fees ratio in order to ensure the External Auditors' independence and objectivity.
	vi. The BAC shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including (i) an assessment of the Company's compliance with Directions issued under the Act and the Management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the coordination between Auditors where more than one auditor is involved.	Complied with	The Audit Committee met with External Auditors, Messrs KPMG and discussed the Audit Plan, nature and scope before the commencement of the audit.
	vii. The BAC shall review the financial information of the Company's, in order to monitor the integrity of the Financial Statements of the Company in its Annual Report, Accounts and Periodical Reports prepared for disclosure, and the significant financial reporting judgements contained therein. In reviewing the Company's Annual Report and Accounts and Periodical Reports before submission to the Board, the committee shall focus particularly on: (i) major judgmental 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	The Board Audit Committee periodically reviews the financial information in order to monitor major judgmental areas, changes in accounting policies, significant audit judgements in the financial statements, going concern assumptions and compliance with accounting standards and other legal requirements. The Board Audit Committee reviews and recommends the Interim Financial Statements and Audited Financial Statements before submission thereof to the Board.
	viii. The BAC shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Senior Management, if necessary.	Complied with	The Board Audit Committee has met the External Auditors twice, without the Senior Management during the year under review.
	ix. The BAC shall review the External Auditor's Management Letter and the Management's response thereto within three months of submission of such, and report to the Board.	Complied with	The Board Audit Committee has reviewed the Management Letter issued by the External Auditors with the responses of the Management.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
10.2.e	The BAC shall at least annually conduct a review of the effectiveness of the system of internal controls.	Complied with	The Board Audit Committee has reviewed the effectiveness of the prevailing internal control system.
10.2.f	The BAC shall ensure that the Senior Management is taking necessary corrective actions in a timely manner to address internal control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by Auditors and supervisory bodies with respect to the internal audit function of the Company.	Complied with	The Board Audit Committee, with the assistance of the Internal and External Auditors, reviews the effectiveness of the internal control procedures and takes corrective action where necessary.
10.2. g	**Internal Audit function**		
	i. The Committee shall establish an independent internal audit function, either in-house or outsourced as stipulated in the Finance Business Act (Outsourcing of Business Operations) Direction or as amended that provides an objective assurance to the committee on the quality and effectiveness of the Company's internal control, risk management, governance systems and processes.	Complied with	An in-house independent internal audit function has been established in the Company. Additionally, a part of the branch audits has been outsourced to BDO Partners and Deloitte Sri Lanka during the year under review.
	ii. The internal audit function shall have a clear mandate, be accountable to the BAC, and be independent of the audited activities. It shall have sufficient expertise and authority within the Company to carry out their assignments effectively and objectively.	Complied with	A Board-approved internal audit charter and risk-based internal audit plan are in place. The internal audit department possesses adequate expertise on its scope and function and is vested with sufficient authority to carry out its activities.
	iii. The BAC shall take the following steps with regard to the internal audit function of the Company: (i) Review the adequacy of the scope, functions and skills and resources of the Internal Audit Department, and satisfy itself that the Department has the necessary authority to carry out its work;	Complied with	The Board Audit Committee has reviewed the information provided in the internal audit plan and concluded that the scope, functions and resources of the Internal Audit Department are sufficient to carry out its functions.
	(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit;	Complied with	The Board Audit Committee has reviewed and approved the internal audit plan.
	(iii) Assess the performance of the head and senior staff members of the Internal Audit Department;	Complied with	The Board Audit Committee evaluated the performance of the Head of Internal Audit during the year under review.
	(iv) Ensure that the internal audit function is independent and activities are performed with impartiality, proficiency, and due professional care;	Complied with	The Board Audit Committee ensured the independence of the internal audit function.
	(v) Ensure the internal audit function carries out a periodic review of the compliance function and regulatory reporting to regulatory bodies.	Complied with	The Board Audit Committee has ensured the periodic reviews of the compliance function conducted by the internal audit.
	(vi) Examine the major findings of internal investigations and Management's responses thereto;	Complied with	The Board Audit Committee regularly examines the major findings of internal investigations and Management responses.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
10.2.h	The Committee shall review the statutory examination reports of the Central Bank of Sri Lanka (CBSL) and ensure necessary corrective actions are taken in a timely manner and monitor the progress of implementing the time-bound action plan quarterly.	Complied with	The Board Audit Committee periodically reviews the statutory examination reports of CBSL and monitors the progress of the implementation of recommendations pertaining to the concerns of such statutory examination reports.
10.2. i	**Meetings of the Meeting**		
	i. The Committee shall meet as specified in Direction 10.1 above, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied with	The Board Audit Committee met Seven times during the financial year under review. Please refer for details of the Directors' Attendance at Board and Board Subcommittee meetings.
	ii. Other Board members, Senior Management, or any other employee may attend meetings upon the invitation of the Committee when discussing matters under their purview.	Complied with	The MD/CEO, Deputy CEO, CFO, AGM Finance, Head of Internal Audit and other members of the Key Responsible Personnel (as deemed necessary) also attend meetings by invitation.
	iii. BAC shall meet at least twice a year with the External Auditors without any other Directors/ Senior Management/employees being present.	Complied with	The Board Audit Committee met twice with the External Auditors without the presence of the Executive Directors and Senior Management.
10.3	**Board Integrated Risk Management Committee**		
10.3. a	The Committee shall be chaired by an Independent Director. The Board members appointed to BIRMC shall be Non-Executive Directors with knowledge and experience in banking, finance, risk management issues and practices. The CEO and Chief Risk Officer (CRO) may attend the meetings upon invitation. The BIRMC shall work with Senior Management closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied with	Currently, the BIRMC is chaired by Mr. Murali Polamarasetty (Independent Non-Executive Director) and the other members of the Committee are Non-Executive Directors with experience in banking, finance, risk management and compliance. Further, the Managing Director/CEO, Deputy CEO, CRO, CFO and Head of Compliance attend meetings as regular invitees.
10.3. b	The secretary to the committee may preferably be the CRO.	Complied with	The CRO functions as the Secretary to the Committee.
10.3.c	The Committee shall assess the impact of risks, including credit, market, liquidity, operational and strategic, compliance and technology to the Company at least once on two monthly basis through appropriate risk indicators and management information and make recommendations on the risk strategies and the risk appetite of the Board.	Complied with	The Integrated Risk Management Committee evaluates the impact of risks such as credit, market, liquidity, operational, strategic, compliance and technology at regular meetings through risk dashboards. Further, the Committee meets once in two months and recommendations, and suggestions on the risk strategies are forwarded to the Board on a regular basis.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
10.3.d	Developing the Company's risk appetite through a Risk Appetite Statement (RAS), which articulates the individual and aggregate level and types of risks that an FC will accept, or avoid, in order to achieve its strategic business objectives. The RAS should include quantitative measures expressed relative to earnings, capital, liquidity, etc., and qualitative measures to address reputation and compliance risks as well as money laundering and unethical practices. The RAS should also define the boundaries and business considerations in accordance with which the FC is expected to operate when pursuing business strategy and communicate the risk appetite linking it to daily operational decision-making and establishing the means to raise risk issues and strategic concerns throughout the FC.;	Complied with	A Board-approved Rik Appetite Framework (RAF) which includes the Risk Appetite Statement (RAS) is in place. It sets the Company's risk profile and forms part of the process of development and implementation of the strategy and determination of the risks undertaken in relation to the Company's risk capacity. The RAS sets clear boundaries and expectations by establishing quantitative limits and qualitative statements. Accordingly, it addresses the Company's material risks such as credit, credit concentration, capital, liquidity, strategy, market, operational, HR, reputational, business continuity, IT, cyber, money laundering and terrorist financing and compliance risks. RAS is complemented by a number of specific risk metrics and it defines the trigger, appetite, tolerance and capacity to assist the Management in assessing whether outcomes are consistent with the Company's risk appetite.
10.3. e	The BIRMC shall review the Company's risk policies including RAS, at least annually.	Complied with	The BIRMC reviewed all the risk management policies including RAF and RAS during the financial year under review.
10.3. f	The BIRMC shall review the adequacy and effectiveness of Senior Management level committees (such as credit, market, liquidity investment, technology, and operational) to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied with	The BIRMC evaluated the adequacy and effectiveness of the Executive Risk Management Committee and Asset and Liability Management Committee during the financial year under review.
10.3.g	The Committee shall assess all aspects of risk management including updated business continuity and disaster recovery plans.	Complied with	The Committee evaluates the risk management measures including BCP and DRP at its regular meetings.
10.3.h	BIRMC shall annually assess the performance of the compliance officer and the CRO.	Complied with	The BIRMC assessed the performance of the Compliance Officer and CRO during the financial year under review.
10.3.i	**Compliance Function**		
10.3.i.i	BIRMC shall establish an independent compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines and approved policies on the business' operations.	Complied with	A Compliance Officer (Head of Compliance) selected from Senior Management has been appointed to carry out the compliance function. Compliance Department reviews the Company's compliance with laws, regulations guidelines and rules on a regular basis and reports non-compliances, if any, to the BIRMC and Board.
10.3.i.ii	For a company with an asset base of more than LKR 20 Bn., a dedicated Compliance Officer considered to be Senior Management with sufficient seniority, who is independent from day-to-day management shall carry out the compliance function and report to the BIRMC directly. The Compliance Officer shall not have management or financial responsibility related to any operational business lines or income-generating functions, and there shall not be "dual hatting", i.e. the Chief Operating Officer, Chief Financial Officer, Chief Internal Auditor, Chief Risk Officer or any other Senior Management shall not serve as the Compliance Officer.		

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
10.3.i.iii	For FCs with an asset base of less than LKR 20 Bn., an officer with adequate seniority considered to be Senior Management shall be appointed as Compliance Officer avoiding any conflict of interest.	Not applicable	
10.3.i.iv	The responsibilities of a Compliance Officer would broadly encompass the following:		
	(i) Develop and implement policies and procedures designed to eliminate or minimise the risk of breach of regulatory requirements;	Complied with	Policies and procedures are implemented to eliminate/ minimize the breach of regulatory requirements.
	(ii) Ensure compliance policies and procedures are clearly communicated to all levels of the FC to enhance the compliance culture;	Complied with	Policies and procedures are implemented to eliminate/ minimise the breach of regulatory requirements.
	(iii) Ensures that reviews are undertaken at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards;	Complied with	The Compliance Department conducts regular compliance reviews to ensure the level of compliance with regulatory requirements as well as internal policies and procedures and standards.
	(iv) Understand and apply all new legal and regulatory developments relevant to the business of FC;	Complied with	Implements all new legal and regulatory developments that are applicable to its business.
	(v) Secure early involvement in the design and structuring of new products and systems, to ensure that they conform to regulatory requirements, internal compliance, and ethical standards	Complied with	The Compliance Officer involves in the development of new products, processes and systems and ensure compliance with relevant regulatory and internal requirements.
	(vi) Highlight serious or persistent compliance problems and where appropriate, work with the Management to ensure that they are rectified within an acceptable time frame, and	Complied with	The compliance officer highlights serious compliance issues on regular basis and collaborates with the management to rectify if deviations are observed.
	(vii) Maintain regular contact and a good working relationship with regulators based upon clear and timely communication and a mutual understanding of the regulators' objectives with the highest integrity	Complied with	The Compliance Officer maintains a healthy relationship with regulators and ensures clear and timely reporting at all times.
10.3.j	**Risk Management Function**		
10.3.j.i	BIRMC shall establish an independent risk management function responsible for managing risk-taking activities across the FC.	Complied with	The Company has established an independent risk management function.
10.3.j.ii	For FCs with an asset base of more than LKR 20 Bn., it is expected to have a separate Risk Management Department and a dedicated CRO, considered to be Senior Management, shall carry out the risk management function and report to the BIRMC periodically.	Complied with	A separate, independent Risk Management Department has been established in the Company which is headed by CRO who is selected from Senior Management. The CRO reports to the BIRMC.
10.3.j.iii	The CRO has the primary responsibility for implementing the Board approved risk management policies and processes including RAS in order to ensure the FC's risk management function is robust and effective to support its strategic objectives and to fulfil broader responsibilities to various stakeholders.	Complied with	Risk Management policies such as Integrated Risk Management Framework Policy, Risk Appetite Framework, Internal Capital Adequacy Assessment Process (ICAAP), Integrated Stress Testing Policy, Credit Risk Management Policy, Operational Risk Management Policy, Business Continuity Planning Policy, Anti-Fraud Policy, and Guideline on Credit Scoring Models have been implemented by the CRO to facilitate the strategic objective of the Company and stakeholders.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
10.3.j.iv	The BIRMC shall ensure that the CRO is responsible for developing and implementing a Board approved integrated risk management framework that covers: (a) various potential risks and frauds (b) possible sources of such risks and frauds; (c) mechanism of identifying, assessing, monitoring and reporting of such risks and frauds; includes quantitative and qualitative analysis covering stress testing. (d) effective measures to control and mitigate risks at prudent levels; and relevant officers and committees responsible for such control and mitigation. The framework shall be reviewed and updated at least annually.	Complied with	A Board-approved Integrated Risk Management Framework Policy is in place which satisfies the requirements.
10.3.j.v	The Chief Risk Officer shall also participate in key decision-making processes such as capital and liquidity planning, new product or service development, etc, and make recommendations on risk management.	Complied with	The CRO is a member of all Management-level Committees and participates in key decision-making processes including capital planning, liquidity planning, and new product/ process developments.
10.3.j.vi	The CRO shall maintain an updated risk register, which shall be submitted to the BIRMC on a quarterly basis.	Complied with	The Company conducts a comprehensive Risk and Control Self-assessment (RCSA) which addresses this requirement and the outcome of the same is reported to BIRMC meetings on a quarterly basis.
10.3.j.vii	The BIRMC shall submit a risk assessment report for the upcoming Board meeting seeking the Board's views, concurrence and/or specific directions.	Complied with	On the instructions of BIRMC, the CRO submits risk assessment reports for the upcoming Board meeting.
10.4	**Nominations and Governance Committee**		
10.4.a	The Committee shall be constituted of Non-Executive Directors and preferably the majority may be Independent Directors. An Independent Director shall chair the Committee. The CEO may be present at meetings by invitation of the Committee.		The Committee has been chaired by an Independent Non-Executive Director throughout the year.
10.4.b	Secretary to the Nominations and Governance Committee may preferably be the Company Secretary.	Complied with	The Company Secretary functions as the secretary of the Board Nominations and Governance Committee.
10.4.c	The Committee shall implement a formal and transparent procedure to select/appoint new Directors and Senior Management. Senior Management is to be appointed with the recommendation of CEO, excluding CIA, CRO and Compliance Officer.	Complied with	The Board approved Governance Framework includes a formal and transparent procedure to select/appoint new Directors and Senior Management.
10.4.d	The Committee shall ensure that Directors and Senior Management are fit and proper persons to perform their functions as per the FBA (Assessment of Fitness and Propriety of Key Responsible Persons).	Complied with	The evaluation of the fitness and propriety of the Board of Directors is performed on an annual basis. The fitness and propriety of the Senior Management is also evaluated at the point of appointment, promotion, renewal of contracts or on lateral moves. The process of reviewing the fit and propriety of all Key Responsible Persons comes under the purview of the Committee.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
10.4.e	The selection process shall include reviewing whether the proposed Directors (i) possess the knowledge, skills, experience, independence and objectivity to fulfill their responsibilities on the Board; (ii) have a record of integrity and good repute; and (iii) have sufficient time to fully carry out their responsibilities.	Complied with	Selection and recommendation of Directors take place in accordance with the set-out criteria stipulated by the Finance Business Act Directions No.06 of 2021 on Assessment of Fitness and Propriety of Key Responsible Persons.
10.4.f	The Committee shall strive to ensure that the Board composition is not dominated by any individual or a small group of individuals in a manner that is detrimental to the interests of the stakeholders and the FC as a whole.	Complied with	The Committee ensures that the composition of the Board is not dominated by any individual or a small group of individuals in a manner that is detrimental to the interest of the stakeholders of the Company.
10.4.g	The Committee shall set the criteria, such as qualifications, experience, and key attributes required for eligibility, to be considered for the appointment to the posts of CEO and Senior Management.	Complied with	The Board Nominations and Governance Committee ensures the qualifications, experience, and key attributes required for eligibility for the posts of CEO and Senior Management.
10.4.h	Upon the appointment of a new Director to the Board, the Committee shall assign the responsibility to the Company Secretary to disclose to shareholders: (i) a brief résumé of the Director; (ii) the nature of the expertise in relevant functional areas; (iii) the names of companies in which the Director holds directorships or memberships in Board Committees; and (iv) whether such Director can be considered as independent.	Complied with	Details of new Directors are disclosed to shareholders when appointed, with immediate notification to the Colombo Stock Exchange along with a brief resume of such Director. Further, prior approvals for such appointments are obtained from the Central Bank of Sri Lanka in terms of regulations applicable to Licensed Finance Companies.
10.4.i	The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the combined knowledge, performance towards strategic demands faced by the FC and contribution made by the Director concerned towards the discharge of the Board's overall responsibilities.	Complied with	The Committee recommends the re-election of current Directors based on the combined knowledge, Directors' performance towards the Company's strategic demands and contribution made by the Directors in discharging the overall responsibility of the Board.
10.4.j	The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Senior Management.	Complied with	The Committee ensures that a Board-approved succession plan for Directors including MD/CEO and Senior Management is in place.
10.4.k	A member of the Nominations and Governance Committee shall not participate in decision-making relating to their own appointment/re-appointment and the Chairperson of the Board should not chair the Committee when it is dealing with the appointment of the successor.	Complied with	The members of the Board Nominations and Governance Committee do not participate in the decision-making process regarding their own appointment or reappointment. Additionally, the Board Chairperson refrains from attending meetings when discussions are held concerning the appointment of his successor. These measures ensure transparency and avoid any potential conflicts of interest in the appointment and succession planning processes.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
10.5	**Human Resources and Remuneration Committee**		
10.5.a	The Committee shall be chaired by a Non-Executive Director and the majority of the members shall consist of Non-Executive Directors.	Complied with	The Committee is chaired by Mr Hasitha Wijesunadara, Independent Non-Executive Director and the majority of the Committee is comprised of Independent Non-Executive Directors.
10.5.b	The Secretary to Human Resources and Remuneration Committee may preferably be the Company Secretary.	Complied with	The Company Secretary functions as the Secretary to the Committee.
10.5.c	The Committee shall determine the remuneration policy (salaries, allowances, and other financial payments) relating to Executive Directors and Senior Management of the FC and fees and allowances structure for Non-Executive Directors.	Complied with	A Board-approved remuneration policy is in place that determines the salaries, allowances, and other financial payments relating to the Managing Director/CEO and Senior Management of the Company. The fees and allowances structure for Non-Executive Directors is decided by the Board of Directors as a whole.
10.5.d	There shall be a formal and transparent procedure in developing the remuneration policy.	Complied with	A Board-approved remuneration policy is in place which ensures achieving fair and equitable benefits in a transparent manner.
10.5.e	The Committee shall recommend the remuneration policy for approval of the Board on paying salaries, allowances, and other financial incentives for all employees of the FC. The policy shall be subject to periodic review by the Board, including when material changes are made.	Complied with	The Committee periodically reviews and recommends the Remuneration Policy for the approval of the Board on paying salaries, allowances and other financial incentives for employees of the Company.
10.5.f	The remuneration structure shall be in line with the business strategy, objectives, values, long-term interests, and cost structure of the FC. It shall also incorporate measures to prevent conflicts of interest. In particular, incentives embedded within remuneration structures shall not incentivise employees to take an excessive risk or to act in self-interest.	Complied with	The remuneration structure is in line with the business strategy of the Company's objectives, values, and long-term interests while ensuring measures to prevent conflicts of interest.
10.5.g	The Committee shall review the performance of the Senior Management (excluding Head of Internal Audit, Compliance Officer, Chief Risk Officer) against the set targets and goals, which have been approved by the Board at least annually, and determine the basis for revising remuneration, benefits, and other payments of performance-based incentives.	Complied with	The Committee annually reviews the performance of the senior management (except for Head of Internal Audit, Compliance Officer and Chief Risk Officer) against the set key performance indicators which have been approved by the Board. Based on such evaluation outcomes, the Committee determines the basis for revising remuneration, benefits, and other payments of performance-based incentives.
10.5.h	The Committee shall ensure that the Senior Management shall abstain from attending Committee meetings when matters relating to them are being discussed.	Complied with	The Senior Management abstains from attending the Committee meetings when matters are being discussed relating to such personnel.
11	**Internal Controls**		
11.1	FCs shall adopt well-established internal control systems, which include the organisational structure, segregation of duties, clear management reporting lines, and adequate operating procedures in order to mitigate operational risks.	Complied with	An effective internal control system has been implemented, encompassing a Board-approved organisational structure, segregation of duties, transparent reporting lines for management, and operational procedures and policies in all necessary areas of the Company. This comprehensive system is designed to minimise operational risks.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
11.2	A proper internal control system shall: promote effective and efficient operations; (a) promote effective and efficient operations; (b) provide reliable financial information; (c) safeguard assets; (d) minimise the operating risk of losses from irregularities, fraud, and errors; (e) ensure effective risk management systems; and (f) ensure compliance with relevant laws, regulations, directions, and internal policies.	Complied with	The Board has implemented a comprehensive internal control system that aims to facilitate effective and efficient operations, ensure the reliability of financial information, protect the Company's assets, minimise operational risks, establish an effective risk management system, and ensure compliance with laws, regulations, directives, and internal policies and procedures. The board has taken measures to ensure the effectiveness and adherence to the internal control mechanism through various processes, as mentioned in the Director's Statement on Internal Control on pages 249 to 250 of the Annual Report. Additionally, the External Auditor has provided an independent assurance of the Directors' Statement on Internal Control over Financial Reporting on pages 251 to 252 in the Annual Report.
11.3	All employees shall be given the responsibility for internal controls as part of their accountability for achieving objectives.	Complied with	The Company has implemented policies and procedures that make all employees accountable and responsible for internal controls as part of their regular duties. The Board oversees adherence to the internal controls established by the Board through the Internal Audit Department ensuring continuous monitoring of compliance.
12	**Related Party Transactions**		
12.1	The Board shall establish a policy and procedures for related party transactions, which covers the following.	Complied with	The Related Party Transactions Policy is in place to ensure the monitoring and reviewing of related party transactions.
12.1.a	All FCs shall establish a Related party transactions Review Committee (RPTRC) and the Chairperson shall be an Independent Director and the members shall consist of Non-Executive Directors.	Complied with	The Committee is comprised of Non-Executive Directors and the chairperson is an independent Non-Executive Director.
12.1.b	All related party transactions shall be prior reviewed and recommended by the RPTRC.	Complied with	All related party transactions are reviewed and recommended by the Committee.
12.1.c	The business transactions with a related party that is covered in this Direction shall be the following: i. Granting accommodation; ii. Creating liabilities to the FC in the form of deposits, borrowings and any other payable; iii. Providing financial or non-financial services to the FC or obtaining those services from the FC. iv. Creating or maintaining reporting lines and information flows between the FC and any related party which may lead to sharing proprietary, confidential information not available in the public domain or otherwise sensitive information that may give benefits to such related party.	Complied with	A Board-approved Related Party Transactions Policy is in place which covers these types of transactions that would be carried out by the Company.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
12.2	The Committee shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the FC with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction. In this regard, there shall be a named list of natural persons/institutions identified as related parties, which is subject to periodic review as and when the need arises. (a) Directors and Senior Management. (b) Shareholders who directly or indirectly holds more than 10% of the voting rights of the FC. (c) Subsidiaries, associates, affiliates, holding company, ultimate parent company and any party (including their subsidiaries, associates and affiliates) that the FC exert control over or vice versa (d) Directors and Senior Management of legal persons in paragraph (b) or (c). (e) Relatives of a natural person described in paragraph (a), (b) or (d). (f) Any concern in which any of the FC's Directors, Senior Management or a relative of any of the FC's Director or Senior Management or any of its shareholders who has a shareholding directly or indirectly more than 10% of the voting rights has a substantial interest.	Complied with	The Related Party Transactions Policy and the Board Related Party Transactions Review Committee's (BRPTRC) Terms of Reference are in place to identify the various types of related parties and ensure taking the required steps to avoid any conflicts of interest that may arise from any transaction of the Company with its related parties. A list of natural persons and institutions/legal persons who are being identified as related parties, is reviewed by the RPTRC on a quarterly basis. Transactions carried out with Related Parties in the ordinary course of business are disclosed in the Financial Statements on "Related Party Transactions' under Note 44 on pages 327 to 333 of the annual Report.
12.3	The Committee shall ensure that the FC does not engage in business transactions with a related party in a manner that would grant such party "more favorable treatment" than that is accorded to other similar constituents of the FC. For the purpose of this paragraph, "more favorable treatment" shall mean: (a) Granting of "total accommodation" to a related party, exceeding a prudent percentage of the FC's regulatory capital, as determined by the Committee. (b) Charging of a lower rate of interest or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty; (c) Providing preferential treatment, such as favourable terms, that extends beyond the terms granted in the normal course of business with unrelated parties; (d) Providing or obtaining services to or from a related party without a proper evaluation procedure; (e) Maintaining reporting lines and information flows between the FCs and any related party which may lead to sharing proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.	Complied with	The Board approved Related Party Transaction Policy outlines the procedure to prevent the Company from engaging in transactions with related parties in a manner that would provide them with "more favorable treatment," as defined in the direction. The policy also ensures that transactions with related parties are conducted in a fair and transparent manner, without granting any undue advantages or preferential treatment.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
13	**Group Governance**		
13.1	Responsibilities of the FC as a holding company.		Not Applicable.
13.2	If the FC is a subsidiary of another financial institution subject to prudential regulation, FC shall discharge its own legal and governance responsibilities.	Complied with	HNB Finance PLC is a subsidiary of Hatton National Bank PLC. Hatton National Bank PLC owns 42.16% of the stake of the Company (Owns 51% of the voting shares of the Company).
14	**Corporate Culture**		
14.1	A FC shall adopt a Code of Conduct which includes the guidelines on appropriate conduct and addresses issues of confidentiality, conflicts of interest, the integrity of reporting, protection and proper use of Company assets and fair treatment of customers.	Complied with	A Board approved Code of Conduct and Ethics is in place applicable to all the employees of the Company covering the aspects of conflict of interest, Bribery and corruption, accurate accounting and record keeping, confidentiality, fair dealing, protecting and proper use of the Company's assets, compliance with laws and regulations and encouraging the reporting of any illegal or unethical behaviors etc.
14.2	The FC shall maintain records of breaches of the Code of Conduct and address such breaches in a manner that upholds high standards of integrity.	Complied with	The Company maintains records of breaches of the Company's Code of Conduct and Ethics and addresses such breaches in a manner that upholds high standards of integrity.
14.3	A FC shall establish a Whistle-blowing Policy that sets out avenues for legitimate concerns to be objectively investigated and addressed. Employees shall be able to raise concerns about illegal, unethical or questionable practices in a confident manner and without the risk of reprisal. The BAC shall review the policy periodically.	Complied with	A Board-approved Whistle Blowing Policy is in place which encourages all stakeholders, specially the employees of the Company, to raise genuine concerns about possible improprieties, financial malpractices and frauds in the conduct of our business at the earliest opportunity.
15	**Conflict of Interest**		
15.1.a	Relationships between the Directors shall not exercise undue influence or coercion. A Director shall abstain from voting on any Board resolution in relation to a matter in which such Director or any of the relatives or a concern in which such Director has a substantial interest, is interested, and such Director shall not be counted in the quorum for the relevant agenda item in the Board meeting.	Complied with	The Directors make declarations of their interests at the point of appointment and quarterly to the Related party transactions Committee. The Directors refrain from voting on any resolution in which they have related party interests. Moreover, they are not considered as part of the quorum for the specific agenda item at the Board meeting, ensuring impartiality and preventing any potential bias or conflict of interest in the decision-making process.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
15.1.b	The Board shall have a formal written policy and an objective compliance process for implementing the policy to address potential conflicts of interest with related parties. The policy for managing conflicts of interest shall; i. Identify circumstances that constitute or may give rise to conflicts of interests. ii. Express the responsibility of Directors and Senior Management to avoid, to the extent possible, activities that could create conflicts of interest iii. Define the process for Directors and Senior Management to keep the Board informed on any change in circumstances that may give rise to a conflict of interest. iv. Implement a rigorous review and approval process for Directors and Senior Management to follow before they engage in certain activities that could create conflicts of interest. v. Identify those responsible for maintaining updated records on conflicts of interest with related parties, and vi. Articulate how any non-compliance with the policy is to be addressed	Complied with	The Board approved Governance Framework includes the Conflict of Interest Policy which covers the stipulated requirements of this directions and best practices.
16	**Disclosures**		
16.1	The Board shall ensure that: (a) annual audited Financial Statements and periodical Financial Statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in Sinhala, Tamil, and English. The Board shall ensure that at least the following disclosures are made in the Annual Report of the FC.	Complied with	The audited Financial Statements and periodical Financial Statements were prepared in accordance with the formats prescribed by regulatory and supervisory authorities and applicable accounting standards and have been published in an abridged form in Sinhala, Tamil and English newspapers.
	i. Financial Statements – In addition to the set of Financial Statements as per LKAS 1 or applicable standard annual report shall include, • 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. • A statement of the responsibility of the Board in preparation and presentation of Financial Statements.	Complied with	Compliance with applicable accounting standards and regulatory requirements has been reported under the Annual Report of the Board of Directors on the Affairs of the Company on pages 239 to 248 and Statement of Directors' Responsibility for Financial Reporting on pages 253 to 254.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
	ii. Chairperson, CEO and Board-Related Disclosures ● Name, qualification, and a brief profile. ● Whether Executive, Non-Executive, and/or Independent Director. ● Details of the Director who is serving as the Senior Director, if any. ● The nature of expertise in relevant functional areas. ● Relatives and/or any business transaction relationships with other Directors of the Company. ● Names of other companies in which the Director/ CEO concerned serves as a Director and whether in an Executive or Non-Executive capacity. ● Number/percentage of Board meetings of the FC attended during the year; and ● Names of Board committees in which the Director serves as the Chairperson or a member.	Complied with	Profiles of the Board of Directors' are given on pages 138 to 142. Attendance of Board Meetings and Subcommittee meetings are disclosed on page 151.
	iii. Appraisal of Board Performance ● An overview of how the performance evaluations of the Board and its committees have been conducted	Complied with	The Company has adopted a self-assessment scheme, wherein each Director is required to conduct an annual self-assessment evaluating the effectiveness of each Director individually as well as the collective performance of the Board as a whole and Board Subcommittees.
	iv. Remuneration ● A statement on the remuneration policy, which includes Board fee structure and breakdown of remuneration of Senior Management level and mix of remuneration (financial and non-financial, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation) ● The aggregate values of remuneration paid by the FC to its Directors and Senior Management.	Complied with	A statement on remuneration policy is disclosed in the CG Report pertaining to 2024/25 FY. The aggregate value of remuneration paid to the Board of Directors during the year under review is LKR 38,663,146/-. The aggregate value of remuneration paid to the Senior Management during the year under review is LKR 127,764,500.00
	v. Related party transactions ● The nature of any relationship [including financial, business, family or other material/ relevant relationship(s)], if any, between the Chairperson and the CEO and the relationships among members of the Board. ● Total net accommodation granted in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as percentage of the FC's core capital. ● The aggregate values of the transactions of the FC with its Senior Management during the financial year, set out by broad categories such as accommodation granted, and deposits or investments made in the FC.	Complied with	Refer to the Annual Report of the Board of Directors on the Affairs of the Company on pages 239 to 248.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance

Total net accommodation granted to Related Parties for 2024/25

	Net Accommodation granted LKR '000	Net accommodation outstanding as of 31 March 2025 LKR '000	Percentage of the core capital
01. Directors and Senior Management	7,500	4,131	0.13
02. Shareholders who directly or indirectly hold more than 10% of the voting rights of the Company	–	–	–
03. Subsidiaries, Associates, Affiliates, Holding Company, Ultimate parent Company and any other party that Company exerts control over or vice versa	6,000	1,611	0.10
04. Directors and Senior Management of legal persons above 2 and 3	–	–	–
05. Relatives of a natural person described in 1, 2 and 4	–	–	–
06. Any concern in which any of the Director, Senior Management or a relative of any of the Company's Director or Senior Management or any of its shareholders who has a shareholding directly or indirectly more than 10% of the voting rights has a substantial interest	–	–	–

The aggregate value of transactions with Senior Management

For the Year Ended	2024/25 LKR '000
Accommodations granted	7,500
Deposits/Investments made	6,050

vi. Board Appointed Committees • The details of the chairperson and members of the Board Committees and attendance at such meetings.	Complied with	Refer to the Board subcommittee Reports on pages 196 to 209 of the Annual Report.
vii. Group Structure • The group structure of the FC within which it operates. • The group governance framework	Complied with	The Group Structure of the Company is included in the Corporate Governance Report of the Annual Report on pages 146 to 195.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
	viii. Directors' Report- A report, which shall contain the following declarations by the Board • The FC has not engaged in any activity, which contravenes laws and regulations. • The Directors have declared all related party transactions with the FC and abstained from voting on matters in which they were materially interested. • The FC has made all endeavours to ensure the fair treatment for all stakeholders, in particular, the depositors. • The business is a going concern with supporting assumptions; and • The Board has conducted a review of internal controls covering material risks to the FC and have obtained reasonable assurance of their effectiveness.	Complied with	Refer to the Annual Report of the Board of Directors on the Affairs of the Company on pages 239 to 248.
	ix. Statement of Internal Control • A report by the Board on the FC's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with	Refer to the Director's Statement on Internal Control over Financial Reporting on pages 251 to 252
	• The External Auditor's assurance statement on the effectiveness of the internal control mechanism referred above, in respect of any statement prepared or published.		Refer to the Auditors' Assurance Report on the Directors' Statement on Internal Control on pages 249 to 250. Refer to the Directors' Statement on Internal Control over Financial Reporting on pages 251 to 252
	• A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances.		Refer to the Directors' Statement on Internal Control over Financial Reporting on pages 251 to 252
	• A statement of the regulatory and supervisory concerns on lapses in the FC's risk management, or non-compliance with the Act, and rules and directions. Given on page 199 of the Annual Report.		
	x. Corporate Governance Report • Shall disclose the manner and extent to which the Company has complied with the Corporate Governance Direction and the External Auditor's assurance statement of the compliance with the Corporate Governance Direction.	Complied with	Refer to the Corporate Governance Report from pages 146 to 195 which satisfies this requirement.

Rule reference	Corporate governance principle	Compliance status	HNBF's level of compliance
	xi. Code of Conduct ● FC's Code of Business Conduct and Ethics for Directors, Senior Management and employees. ● The Chairperson shall certify that the Company has no violations of any of the provisions of this Code.	Complied with	A Board approved Code of Conduct and Ethics for Directors and for all employees are in place. Refer "Chairman's Message" on pages 16 to 19 that the company has no violations of any of the provisions of this code.
	xii. Management Report ● Industry structure and developments ● Opportunities and threats ● Risks and concerns ● Sustainable finance activities carried out by the Company ● Prospects for the future	Complied with	Refer to "Capital Reports" on pages 64 to 136 of this Annual Report.
	xiii. Communication with shareholders ● The policy and methodology for communication with shareholders. ● The contact person for such communication.	Complied with	A Board approved Communication Policy is in place which covers all stakeholders including Depositors, Creditors, Shareholders, and Borrowers. The Company Secretary communicates with the shareholders through the Annual report, Quarterly Reports, and by notices issued to the shareholders.

In terms of Corporate Governance Direction No.05 of 2021 issued for Finance Companies issued under the Section 12 of Finance Business Act, No. 42 of 2011 issued by the Central Bank of Sri Lanka, on behalf of the Board of Directors, the Company confirm that the findings of the "Factual Findings Report" dated 6 June 2025 issued by the Auditors, Messrs. KPMG, Chartered Accountants to the Board of Directors pursuant to the agreed-upon procedure carried out by them in accordance with "Sri Lanka Standard on Related Services (SLSRS) 4400 (Revised)" are consistent with the matters disclosed in the above Annual Corporate Governance Report.

COMPLIANCE WITH COLOMBO STOCK EXCHANGE (CSE) LISTING RULES – SECTION 09 ON CORPORATE GOVERNANCE AS OF 28.02.2025

Code of reference	Requirements	Extent of compliance
9.1	**Corporate Governance Rule**	
9.1.1 9.1.2 9.1.3	Extent of adherence to corporate governance rules	The extent of compliance with Corporate Governance Section 9 of the CSE's Listing Rules is tabulated below.
9.2	**Policies**	
9.2.1	Availability of Policies (a) Policy on the matters relating to the Board of Directors (b) Policy on Board Committees (c) Policy on Corporate Governance, Nominations and Re-election (d) Policy on Remuneration (e) Policy on Internal Code of Business conduct and Ethics for all Directors and employees, including policies on trading in the Entity's listed securities (f) Policy on Risk management and Internal controls (g) Policy on Relations with Shareholders and Investors (h) Policy on Environmental, Social and Governance Sustainability (i) Policy on Control and Management of Company Assets and Shareholder Investments (j) Policy on Corporate Disclosures (k) Policy on Whistleblowing (l) Policy on Anti-Bribery and Corruption	Complied with The required list of policies is in place and such list is updated on the Company's Corporate Website.
9.2.2	Waivers and exemptions	At present, there are no waivers and exemptions applicable to the Company.
9.2.3	Disclosures in the Annual Report	Please refer to section 9.2.1.
9.2.4	Requesting of policies by shareholders	Complied with The Policy on Relations with Shareholders and Investors includes the same.
9.3	**Board Committees**	
9.3.1	Establishment of Board Committees	The Board Nominations and Governance Committee, Human Resources and Remuneration Committee, Board Audit Committee and Board Related Party Transactions Review Committee are in place.

Code of reference	Requirements	Extent of compliance
9.3.2	Board composition, responsibilities and disclosures	The composition of all Committees is in line with the revised CSE Listing Rules. Each Subcommittee follows its own Terms of Reference, with a secretary responsible for arranging meetings and maintaining records under the supervision of the Chairperson. The Chairperson of each Subcommittee ensures its effective functioning and periodically reports to the Board on its activities, highlighting relevant matters. The Committee Terms of Reference/Charters undergo regular review.
9.3.3	Chairperson of Board committee	The Chairperson of the Board of Directors did not serve as the Chairperson of the Nominations and Governance Committee, Remuneration Committee, Audit Committee, or the Related Party Transactions Review Committee during the year under review.
9.4	**Adherence to principles of democracy in the adoption of meeting procedures and the conduct of all General Meetings with shareholders**	
9.4.1	Record maintenance	The Company Secretary is responsible for maintaining records of all resolutions and information pertaining to General Meetings, including the appointment of proxies, the number of votes cast in favor and against, and the number of shares for which votes were abstained.
9.4.2	Communication and relations with shareholders and investors	Complied with An established Board approved policy on Relations with Shareholders and Investors communication is in place.
9.5	**Policy on matters relating to the Board of Directors**	
9.5.1	Availability of policy on governing matters relating to Board of Directors	The requirements are currently captured in the Board-Approved corporate governance framework and the Articles of Association.
9.5.2	Disclosures in the Annual Report	Disclosures requirements are covered in the Annual Report of the Board of Directors on the Affairs of the Company on pages 239 to 248.
9.6	**Chairperson and CEO**	
9.6.1	Chairperson and CEO	The Chairperson, a Non-Executive Director, does not concurrently hold the position of CEO, maintaining a clear separation between the two roles within the Company's governance structure.
9.6.2	Disclosure of non-compliance	Not applicable.

Code of reference	Requirements	Extent of compliance
9.6.3	Appointment of Senior Independent Director	Since the Chairman is not an Independent Non-Executive Director, the Board has designated Mr Hasitha Wijesundara (Independent Non-Executive Director) as the Senior Director in terms of the Finance Business Act Directions No. 05 of 2021 on Corporate Governance issued by the Central Bank of Sri Lanka and the Terms of Reference have been documented. However, since the Chairperson and CEO are not the same person or the Chairperson and CEO are not Close Family Members nor related parties, the designation of a Senior Independent Director does not arise under the revised CSE Listing Rules.
9.6.4	Disclosure of non-compliances in the Annual Report	Not applicable.
9.7	**Fitness of Directors and CEO**	
9.7.1 9.7.2	Appointment of fit and proper persons	The Board follows a formal and transparent succession and appointment process overseen by the Nominations and Governance Committee. Candidate short-listing, based on predefined attributes and experience, is recommended to the Board for approval, ensuring alignment with strategic plans and addressing any knowledge gaps. Additionally, the candidate's directorships and commitments are evaluated to ensure adequate time for effective participation. Approval from the Director of the Non-Bank Supervision Department of the Central Bank of Sri Lanka for "fit and propriety" is obtained before appointments, duly notified to the CSE. All Directors are subject to re-election by shareholders at the first Annual General Meeting following their appointment, with future appointments also considering criteria outlined in the revised CSE Listing Rules.
9.7.3	Fit and Proper Assessment Criteria (a) Honesty, integrity, and reputation (b) Competence and capability (c) Financial soundness	The assessment criteria outlined in the revised CSE Listing Rules have been integrated into the annual declaration of Board of Directors and the MD/CEO.
9.7.4	Annual declarations from Directors and CEO	Annual declarations confirming continuous compliance with the fit and proper assessment criteria stipulated in the revised CSE listing rules are obtained from Directors as of 31 March 2025.
9.7.5	Disclosures in the Annual Report	Disclosures requirements are covered in the Annual Report of the Board of Directors on the Affairs of the Company on pages 239 to 248.

Code of reference	Requirements	Extent of compliance
9.8	**Board Composition**	
9.8.1	Board at minimum to consist of five (5) Directors	The Company has complied with the requirement. The Board of Directors of the Company consisted of nine (09) Directors as of 31 March 2025.
9.8.2	Minimum number of Independent Directors (Minimum 2 or 1/3 of the total number, whichever is higher)	The Company has complied with the requirements. The Board of Directors of the Company consisted of three (3) Independent Directors as of 31 March 2025.
9.8.3 9.8.4	Criteria for determining Independence.	The Company has complied with the criteria for determining the independence of a Director. The criteria for the determination of independence of Directors is set in terms of the revised CSE Listing Rules and Finance Business Act Direction No. 05 of 2021 on corporate governance issued by the Central Bank of Sri Lanka.
9.8.5	Declarations	The annual declaration has been obtained from the Board of Directors as of 31 March 2025.
9.9	**Alternate Directors**	
9.9.1	Appointment of Alternate Directors	No Alternate Directors were appointed to represent Non-Executive Directors.
9.10	**Disclosures relating to Directors**	
9.10.1	Policy on the maximum number of Directorships	The Board-approved Corporate Governance Framework includes a policy that sets out the maximum number of directorships a Director may hold.
9.10.2	Appointment of new Director	Nominations and Governance Committee reviews all new appointments. Market announcements upon the appointment of new Directors have been made complying with the requirements.
9.10.3	Changes to the composition	An immediate market announcement regarding any changes to the Board Subcommittees will be made in an effective manner.
9.10.4	Disclosures in the Annual Report	Refer to pages 138 to 142 for profiles of Directors. Refer to page 210 for the Terms of Reference of the Senior Independent Director. Refer to the Annual Report of the Board of Directors on the Affairs of the Company on pages 239 to 248.
9.11	**Nominations and Governance Committee**	
9.11.1	Availability of Nominations and Governance Committee	Complied with.
9.11.2	Appointment and re-election of Director	The Committee follows a formal procedure for the appointment and re-election of Directors.

Code of reference	Requirements	Extent of compliance
9.11.3	Terms of Reference	The Committee's Term of Reference is in compliance with the revised CSE listing rules.
9.11.4. a	Composition- Minimum of three (3) Directors, out of which a minimum of two (2) members shall be Independent Directors	Complied with.
9.11.4. b	Composition- Independent Director shall be appointed as the Chairperson of the Committee	Complied with
9.11.4. c	Composition – The Chairperson and the members of the Committee shall be identified in the Annual Report	Refer to the Board Nominations and Governance Committee Report on pages 201 to 203.
9.11.5	Functions	The Functions and the scope have been duly documented in the Committee's TOR. Refer to the Board Nominations and Governance Committee Report on pages 201 to 203.
9.11.6	Disclosures in the Annual Report	Refer to the Board Nominations and Governance Committee Report on pages 201 to 203.
9.12	**Remuneration Committee**	
9.12.1	Definition of remuneration	A formal remuneration policy that defines the remuneration terms of cash and non-cash benefits is in place.
9.12.2	Remuneration Committee	A Human Resources and Remuneration Committee is in place.
9.12.3 9.12.4	Remuneration Policy – Executive Directors/ Non-Executive Directors	The existing Board approved Remuneration Policy applicable for all the employees including Executive Directors and Remuneration Policy for Non-Executive Directors have been reviewed and such reviewed policies have been approved by the Board of Directors.
9.12.5	Terms of Reference	The Committee has adopted a Terms of Reference which defines the scope, authority, and duties in compliance with the revised CSE Listing Rules.
9.12.6.1 9.12.6.2	Composition – Minimum of three (3) Directors, out of which a minimum of two (2) members shall be Independent Directors	Complied with. Refer to the Human Resources and Remunerations Committee Report on pages 199 to 200.
9.12.6.3	Composition – Independent Director shall be appointed as the Chairperson of the Committee	An Independent Director functioned as the Chairman of the Committee throughout the year.
9.12.7	Functions	The functions and the scope have been duly documented in the Committee's TOR. Refer to the Human Resources and Remunerations Report on pages 199 to 200.
9.12.8	Disclosures in the Annual Report	Disclosure requirements are covered in the Human Resources and Remuneration Committee Report given on pages 199 to 200.

Code of reference	Requirements	Extent of compliance
9.13	**Audit Committee**	
9.13.1	Audit and Risk Committees	The Company has established distinct committees dedicated to overseeing Audit and the Board Integrated Risk Management Committee oversees the risk function extensively.
9.13.2	Terms of Reference	The Committee has adopted Terms of Reference which defines the scope, authority, and duties in compliance with the revised CSE Listing Rules
9.13.3.1 and 9.13.3.4	Composition – A Minimum of three (3) Directors, out of which a minimum of two (2) or a majority of the members, whichever higher, shall be Independent Directors	Complied with. Refer to the Board Audit Committee Report on pages 196 to 198.
9.13.3.2	Composition – The quorum for a meeting of the Audit Committee shall require that the majority of those in attendance be Independent Directors	The quorum stated in the already established Audit Committee TOR is in line with the requirement stipulated.
9.13.3.3	Composition – The Audit Committee may meet as often as required provided that the Audit Committee compulsorily meets quarterly prior to recommending the financials to be released to the market	Complied with. The Committee reviewed the quarterly and annual Financial Statements, recommending them to the Board of Directors before publication.
9.13.3.5	Composition – An Independent Director shall be appointed as the Chairperson of the Committee.	Complied with. Refer to the Board Audit Committee Report on pages 196 to 198.
9.13.3.6	Composition – The CEO and the CFO shall attend the Audit Committee Meetings by invitation.	Complied with. Refer to the Board Audit Committee Report on pages 196 to 198.
	CEO shall attend the Risk Committee Meetings by invitation.	Complied with. Refer to the Board Integrated Risk Management Committee Report on pages 204 to 207.
9.13.3.7	Composition – The Chairperson of the Audit Committee shall be a member of a recognised professional accounting body	The Chairman of the Board audit Committee is Mr Lalith Withana. Please refer to the Director's profile on page 140.
9.13.4	Functions	The Company has established formal Terms of Reference for the Board Audit Committee, defining its functions. The functions listed under 9.13.4.1 (vii), (viii) and (ix) are covered within the scope of the Board Integrated Risk Management Committee. Refer to the Board Intergrated Risk Management Committee Report on pages 204 to 207
9.13.5	Disclosures in the Annual Report	Disclosure requirements are covered in the Board Audit Committee Report given on pages 196 to 198.

Code of reference	Requirements	Extent of compliance
9.14	**Related Party Transactions Review Committee**	
9.14.1	Availability of Related party transactions Review Committee	A Related Party Transactions Review Committee is in place
9.14.2	Composition – A minimum of three (3) Directors, out of which two (2) members shall be Independent Directors. Committee may also include Executive Directors. An Independent Director shall be appointed as the Chairperson of the Committee	Complied with. Refer to the Related Party Transactions Review Committee Report on pages 208 to 209.
9.14.3	Functions	The Related Party Transactions Review Committee is tasked with reviewing all related party transactions to safeguard the interests of shareholders collectively. The Committee has developed and upheld a comprehensive policy, procedure, and process for identifying, clarifying, and reporting such transactions throughout the Company's operations. Refer to the Related Party Transactions Review Committee Report on pages 208 to 209.
9.14.4.1	General requirements – The Committee shall meet at least once a calendar quarter	Complied with. The Committee met four (4) times during the year under review. All meeting minutes are meticulously documented and presented at subsequent Board meetings for ratification.
9.14.4.2	General requirements – The Committee should ensure that they have, or have access to, enough knowledge or expertise to assess all aspects of proposed related party transactions	The Committee has adequate knowledge and expertise to assess all aspects of related party transactions.
9.14.4.3	General requirements – Approval by Board of Directors	When deemed necessary, the Committee will seek approval from the Board of Directors for related party transactions that have undergone Committee review as set out in the Board approved RPT Policy and RPTRC TOR.
9.14.4.4	General requirements – Conflict of Interest	The Related Party Transactions Review Committee supervises the related transactions process. The Board has implemented measures to mitigate conflicts of interest that may arise in dealings with related parties. Directors submit declarations to the Board regarding their material interests in business transactions upon appointment and quarterly thereafter. Directors abstain from participating in Board discussions involving related entity transactions where a conflict of interest may arise.
9.14.5	Review of related party transactions by the related party transactions Review Committee	The Committee takes into account the provision of the said listing rules when reviewing related party transactions.

Code of reference	Requirements	Extent of compliance
9.14.6	Shareholder approval	No situation necessitating shareholder approval as per the revised CSE listing rules has arisen during the year.
9.14.7	Immediate disclosures	No situation requiring immediate disclosure as per the revised CSE listing rules has arisen.
9.14.8	Disclosures in the Annual Report	Disclosure requirements are covered in the Related Party Transactions Review Committee Report given on pages 208 to 209.
9.14.9	Acquisition and disposal of assets from/to related parties	The Company has not acquired or disposed of substantial assets from or to related parties.
9.14.10	Exempted related party transactions	The Committee considers the provisions of the relevant sections when evaluating related party transactions.
9.16	**Additional Disclosures**	
9.16	(i) Declaration of all material interest (ii) Review of internal controls and compliance controls	Disclosures requirements are covered in the Annual Report of the Board of Directors on the Affairs of the Company on pages 239 to 248.
	(iii) Compliance with laws, rules, and regulations (iv) Material non-compliance	There have been no instances of material non-compliance with any laws or regulations during the year under review.

Board Audit Committee Report



MR LALITH WITHANA
Chairman – Board Audit Committee

The Board Audit Committee ("BAC" or "the 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 the performance, independence, and effectiveness of External Auditors.

COMPOSITION OF THE COMMITTEE

The Board Audit Committee is comprised of three (03) Non-Executive Directors, appointed by the Board of Directors. As of 31 March 2025, the following Directors served on the Committee.

- Mr Lalith Withana – Chairman/ Independent Non-Executive Director appointed w.e.f. 31 January 2023.
- Mr Hasitha Wijesundara – Senior Director/Independent Non-Executive Director appointed as a member of the Committee w.e.f. 13 September 2024.
- Mr Anura Pathirage-Non-Independent Non-Executive Director appointed as a member of the Committee w.e.f. 13 September 2024.

Mr Saliya Jayaweera- Independent Non-Executive Director was appointed as a member of the committee w.e.f. 27 November 2023 and he served as the Chairman of the Committee since 28 June 2024 until his resignation from the Board of Directors w.e.f. 5 September 2024.

Mr Murali Polamarasetty – Independent Non-Executive Director- served as the member of the Committee since 31 July 2023 and he ceased to be a member of the Committee w.e.f. 13 September 2024. We take this opportunity to place on record the Committee's appreciation for the valuable services rendered by Mr Murali Polamarasetty and Mr Saliya Jayaweera as members of the Committee.

A brief summary of the Directors is given on pages 138 to 142 in this report.

REGULAR ATTENDEES BY INVITATION

The Managing Director/Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer, Head of Internal Audit, Chief Risk Officer and AGM – Finance are regular invitees to the Committee as at the reporting date. The Engagement Partner of Messrs KPMG (External Auditor) and the Chairman of the BIRMC also attends meetings by invitation.

MEETINGS

The Committee met seven times during the year under review to discharge the duties assigned. The attendance of the members at the Committee meetings was as follows:

Member	Number of meetings
Mr Lalith Withana	7/7
Mr Hasitha Wijesundara	3/3
Mr Anura Pathirage	3/3
Mr Saliya Jayaweera	4/4
Mr Murali Polamarasetty	3/4

TERMS OF REFERENCE

The Committee assists the Board in fulfilling its duties by overseeing the Company's financial reporting, internal audit, internal controls, and external audit processes. The Board approved Terms of Reference (TOR) of the Board Audit Committee and it had clearly defined the scope and responsibility of the Committee including purpose, composition, duties, and investigative powers. The Board periodically reviews the TOR of the Committee.

AUTHORITY

The Committee is empowered to;

- Investigate 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 counsels as necessary.
- Obtain external professional advice and invite outsiders with relevant experience to attend, if necessary.

Activities of the Board Audit Committee during the 2024/25 are summarised as follows.

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, the Securities & Exchange Commission of Sri Lanka Act No. 19 of 2021 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 are appropriate and fair.

The Committee obtained and reviewed assurance received from the Managing Director/Chief Executive Officer and Chief Financial Officer that the financial records have been properly maintained, and the financial statements give a true and fair view of the Company's operations and finances. The Managing Director/Chief Executive Officer's and Chief Financial Officer's responsibility statement, detailed in page 238 of this annual report, confirms adherence to applicable laws, regulations, and prudential requirements.

RISK AND INTERNAL CONTROL

The Company has an internal control environment designed to protect the business from the material risks that have been identified. Management is responsible for establishing and maintaining adequate internal controls, and the Committee has responsibility for ensuring the effectiveness of these controls. The Committee assessed the effectiveness of the Company's internal controls in order to meet the requirements of the Sri Lanka Auditing Standards.

The Committee discussed Internal and External Auditors' review of risk management and internal control systems and made appropriate recommendations. The External Auditors have issued an Assurance Report on Directors' Statement on Internal Controls. The Committee has reviewed the processes for identification, recording, evaluation and management of all significant risks throughout the Company. The Committee has reviewed the progress of the ratification of supervisory concerns, stemming from the CBSL statutory examination on a regular basis.

EXTERNAL AUDIT

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 also reviewed the Management Letter issued by the External Auditor with the Management responses.

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 2026 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 Committee continuously reviewed and satisfied itself with the independence, objectivity, and effectiveness of the internal audit function as the third line of defence, and the adequacy of the scope, functions and skills, and resources of the internal audit department, and ensured the internal audit department has the necessary authority to carry out its work.

Further the Committee reviewed the internal audit programme and results of the internal audit process and, where necessary, ensured the appropriate actions are taken on the recommendations of the internal audit and ensured the internal audit function is independent, and activities are performed with impartiality, proficiency and due professional care, the internal audit function carries out periodic reviews of the compliance function and regulatory reporting to regulatory bodies.

The Committee examined major findings of internal investigations, recommendations, and management's responses thereto.

WHISTLEBLOWING

The Company's whistleblowing policy serves as a mechanism to manage risks pertaining to frauds. This policy reflects its commitment to the philosophy of Good Governance, upholding the highest professional standards, business ethics and integrity in carrying out its business. It encourages all stakeholders, especially the staff of the Company, to raise genuine concerns about possible improprieties in the conduct of our business at the earliest opportunity and in an appropriate manner. If an employee wishes to raise or discuss any issue, the employee should contact verbally, by email or by letter any of the eligible recipients.

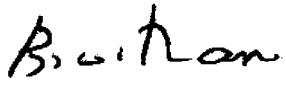
All information reported and disclosed during the course of an investigation will remain confidential and made available only on a need-to-know basis, except as necessary to conduct the investigation and to take any remedial action subject to any applicable law. The Company will not tolerate any form of detrimental conduct by any person against the Whistleblower or any officers who are involved in an investigation of a whistleblower report. The whistleblowing policy has been reviewed by the Committee and approved by the Board.

EVALUATION OF THE COMMITTEE

The annual self-evaluation of the effectiveness of the Committee was carried out by the members of the Committee and concluded that the Committee had carried out its responsibility in an effective and satisfactory manner. During the year, the Committee evaluated the performance of the Head of Internal Audit and Senior Manager Internal Audit. Further, the Board undertakes an annual performance evaluation of the Committee as required by the Finance Business Act Direction 05 of 2021.

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 – Board Audit Committee

6 June 2025
Colombo, Sri Lanka

Board Human Resources and Remuneration Committee Report



MR HASITHA WIJESUNDARA
Chairman – Board Human Resources and Remuneration Committee

COMPOSITION OF THE COMMITTEE

The Board Human Resources and Remuneration Committee ("BHRRC" or "the Committee") comprises of three (3) Non-Executive Directors appointed by the Board of Directors, of which majority and the Committee Chairman are independent.

As of 31 March 2025, the following Directors served on the Committee.

- Mr Hasitha Wijesundara – Senior Director/Independent, Non-Executive Director appointed as a Member of the Committee w.e.f. 6 October 2023 and as Chairman of the Committee w.e.f. 4 April 2024
- Mr Rajive Dissanayake – Non-Independent, Non-Executive Director appointed w.e.f. 8 January 2024
- Mr Lalith Withana –Independent, Non-Executive Director appointed w.e.f. 13 March 2025

Mr Saliya Jayaweera Independent, Non-Executive Director served as the Chairman of the Committee until he ceased to be a Member of the Committee w.e.f. 4 April 2024. Mr Ravindra Tissera Independent, Non-Executive Director served as a member of the Committee until his resignation from the Board w.e.f. 21 February 2025. We take this opportunity to place on record the Committee's appreciation for the valuable services rendered by Mr Saliya Jayaweera and Mr Ravindra Tissera as members of the Committee.

Brief Profiles of the Directors are given on pages 138 to 142 in this report.

INVITEES

The Managing Director/CEO, Deputy Chief Executive Officer and the Chief Human Resources Officer may participate at the meetings on invitation.

SECRETARY

The Company Secretary functions as the Secretary to the Committee.

SUMMARY OF THE "TERMS OF REFERENCE" (TOR) OF THE BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE

The Committee shall meet at least twice a year and at such other times as requested by the members. The outcomes of these meetings are consistently reported to the Board, with Minutes distributed to all Directors.

The BHRRC operates under a clearly defined ToR approved by the Board of Directors which outlines its scope, authority, responsibilities, and quorum requirements. The ToR has been reviewed and updated to ensure alignment with Section 9 of the Listing Rules on Corporate Governance issued by the Colombo Stock Exchange, as well as Directions No. 05 of 2021 on Corporate Governance for Licensed Finance Companies, issued by the Central Bank of Sri Lanka.

COMMITTEE RESPONSIBILITIES

BHRRC is responsible for evaluating, assessing, and recommending to the Board, matters relating to the Company's Human Resources Management, including but not limited to developing a Remuneration Policy to attract, inspire and retain skilled Board Members and other Key Responsible Persons ("KRPs"), as well as developing the existing talent and competencies of employees at all levels through various trainings and capacity building measures.

The main duties entrusted to the Committee include:

(i) Recommend to the Board on the remuneration of the Non-Executive Directors, Executive Directors and Senior Management of the Company;

(ii) Determine the remuneration structure in line with the business strategy, objectives, values, long-term interests and cost structure of the Company.

(iii) Review the performance of the Senior Management (excluding Head of Internal Audit, Cheif Risk Officer and Head of Compliance) against the set targets and goals, which have been approved by the Board at least annually.

(iv) Evaluate the strategic human resources policies.

Activities in FY 2024/25

The Committee during the year,

- The Terms of Reference (ToR) of the Committee were reviewed and recommended for revision to ensure compliance with the recent amendments to the Listing Rules of the Colombo Stock Exchange and Directions No. 05 of 2021 issued under the Finance Business Act.
- Reviewed and recommneded policies relating to the remuneration of both Non-Executive Directors and the staff in line with the requirements prescribed in the 'Guidelines on Remuneration Policies and Disclosure Requirements with reference to the Finance Business Act (Corporate Governance) Directions No. 05 of 2021' issued by the Central Bank of Sri Lanka.

The availability of those policies was disclosed on the Company's Official Website, ensuring alignment with the Corporate Governance Rules of the Colombo Stock Exchange.

- Reviewed and recommended to the Board, amendments to the Company's Disciplinary Management Policy and Company's Corporate Code of Conduct and Ethics.
- Reviewed the Company's human resource policies, salary structures, and incentive schemes applicable to Senior Management, drawing on relevant information and recommendations provided by the MD/CEO and the Chief Human Resource Officer (CHRO). The Committee also evaluates the performance of the MD/CEO, Corporate Management, and Senior Management Staff, and submits its recommendations to the Board of Directors regarding their remuneration packages, annual increments, and performance-based bonuses.
- Reviewed and approved the Annual Training Calendar for FY 2024/25 and the profiles of external trainers with greater focus on leadership development and regional training programs and to ensure alignment with strategic pillars of the Company.
- Recommended to the Board the Revised Organizational Structure of the Company in line with the Strategic Direction of the Company.

TRAINING

The Committee ensured that the Company conducts induction programs to acquaint newly appointed staff members with the vision, mission, strategic objectives, legal and compliance framework, and corporate culture of the Company.

Moreover, existing employees are directed towards a diverse array of training programs designed to enhance their skills, knowledge, and ability to maintain a healthy work-life balance, which are conducted by reputable institutions such as the Central Bank of Sri Lanka, Institute of Chartered Accountants of Sri Lanka, and The Directors' Institute of Sri Lanka.

AGGREGATE REMUNERATIONS PAID TO DIRECTORS AND SENIOR MANAGEMENT

The aggregate remuneration paid to the executive and non-executive Directors are given on the page 184 in this report.

MEETINGS OF THE COMMITTEE

The attendance of the Directors for the Committee Meetings are given on page 151 of this Annual Report.

Professional Advice

The Committee is authorised to seek external professional advice on matters within its purview.

Employment report

To fulfill its strategic objectives, the Company recognizes the imperative of cultivating a workforce that is not only highly skilled but also reflective of the diverse stakeholder base it serves. A skilled, agile, and representative employee base is essential to delivering value to the diverse stakeholders the Company serves. This is particularly critical in an evolving landscape where agility, inclusivity, and workforce mobility are increasingly paramount.

In response to these dynamics, the Company remains steadfast in its commitment to Human Capital Development. It actively invests in initiatives designed to enhance existing competencies while fostering the acquisition of new knowledge essential for driving Company's performance.
A detailed breakdown of the Company's workforce composition – grade wise, as at 31 March 2025, is presented in the Human Capital Report on page 96 of this Annual Report.

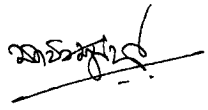
Committee Evaluation

To ensure that the Committee's performance is optimal, a self- evaluation of the Committee members was also carried out and circulated amongst the members of the Committee for necessary action. A summary of the results was submitted to the Board.

Conclusion

In FY 2024/25, the Company remains steadfast in its commitment to the ongoing improvement and strengthening HR policies, practices, and systems, particularly in the realms of performance management, employee recognition, capability development, employee engagement, and succession management. These strategic initiatives are anticipated to not only expand the Company's employment value proposition but also to catalyse a notable enhancement in the Company's overall productivity.

For Board Human Resources and Remuneration Committee



Hasitha Wijesunadara
Chairman – Board Human Resources and Remuneration Committee

6 June 2025
Colombo, Sri Lanka

Board Nominations and Governance Committee Report



MR HASITHA WIJESUNDARA
Chairman – Board Nominations and Governance Committee

COMPOSITION OF THE COMMITTEE

The Board Nominations and Governance Committee ("BN & GC" or "Committee") comprises of five (05) Non-Executive Directors appointed by the Board of Directors, of whom majority and the Committee Chairman are independent.

As of 31 March 2025, the following Directors served on the Committee.

- Mr Hasitha Wijesundara – Senior Director/Chairman – BN & GC/ Independent, Non-Executive Director appointed w.e.f. 27 November 2023
- Mr Rajive Dissanayake – Non-Independent, Non-Executive Director appointed w.e.f. 8 January 2024
- Mr B Premalal – Non-Independent, Non-Executive Director appointed w.e.f. 31 January 2023
- Mr Murali Polamarasetty – Independent, Non-Executive Director appointed w.e.f. 4 April 2024
- Mr Lalith Withana- Independent, Non-Executive Director appointed w.e.f. 13 March 2025

Mr Ravindra Tissera Independent, Non-Executive Director served as a Member of the Committee until his resignation from the Board w.e.f. 21 February 2025.

We take this opportunity to place on record the Committee's appreciation for the valuable services rendered by Mr Ravindra Tissera as a member of the Committee.

Brief Profiles of the Directors of the Committee are given on pages 138 to 142 in this report.

INVITEES

Managing Director/CEO and the Deputy Chief Executive Officer participate at the meetings by invitation.

SECRETARY

The Company Secretary functions as the Secretary to the Committee.

SUMMARY OF THE "TERMS OF REFERENCE" (TOR) OF THE BOARD NOMINATIONS AND GOVERNANCE COMMITTEE

The Committee shall meet at least twice a year and at such other times as requested by the members. The outcomes of these meetings are consistently reported to the Board, with Minutes distributed to all Directors.

The BN&GC operates under a clearly defined ToR approved by the Board of Directors which outlines its scope, authority, responsibilities, and quorum requirements. The TOR has been reviewed and updated to ensure alignment with Section 9 of the Listing Rules on Corporate Governance issued by the Colombo Stock Exchange, as well as Directions No. 05 of 2021 on Corporate Governance for Licensed Finance Companies, issued by the Central Bank of Sri Lanka.

COMMITTEE RESPONSIBILITIES

The Committee collaborates closely with the Board of Directors to evaluate the structure and competencies needed to create a dynamic and stable organisation. Furthermore, the Committee evaluates its own performance, and Terms of Reference, on an annual basis to ensure that it is operating successfully and recommends improvements to the Board as appropriate.

The main duties entrusted to the Committee include:

- Implementing a systematic and transparent procedure to select and recommend the appointment of new Directors, the Managing Director/CEO and other Key Responsible Persons.
- Consider and recommend the re-election of the current Directors, taking into account their caliber and capabilities for the Company to reach greater heights and the contribution made towards the overall discharge of the Board's responsibilities, ensuring that only the directors who added value to the effectiveness of the Board are nominated for re-election.
- Consider and recommend the need of additional/new expertise and succession arrangements for retiring Directors and Key Responsible Persons ensuring continuity and serve the future leadership needs.
- Ensure that Directors and Senior Management are fit and proper persons to hold office in compliance with the criteria specified in the Finance Business Act Directions No. 06 of 2021 on Assessment of Fitness and Propriety of Key Responsible Persons, and other regulatory requirements, maintaining the integrity of Company's leadership.
- Review and make recommendations with regard to the structure, size, composition, and competencies of the Board and Board Subcommittees regularly.
- Establish criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of Chief Executive Officer and other Key Management Positions.
- Periodically review the Corporate Governance Framework of the Entity and related Policies in line with the changes in the statutory and regulatory environment.

- Ensure Company's compliance with the statutory and regulatory guidelines through the reports from the Management on Corporate Governance.

Activities in FY 2024/25

The Committee during the year,

- Assessed the contribution made by the Directors who were retiring by rotation and recommended to the Board that those Directors be submitted for re-election, by the Shareholders at the AGM (criteria for re-election is given in the Annual Report of the Board of Directors on the Affairs of the Company). The Directors so recommended has no any relationship including close family relationships with the Board, the Company or any shareholders holding more than 10% of shares of the Company. The first date of appointment and the last date of re-appointment are given in the Annual Report of the Board of Directors on the Affairs of the Company. Moreover, the memberships/ chairmanship held by those directors in Board Sub-Committees together with the chairmanships, directorships and other principal commitments held by them in listed entities, both present and those held over the preceeding three years are included in the Profiles of the Board of Directors on pages 138 to 142 in this report.
- Reviewed the structure, skills and the composition of the Board and its Subcommittees on an ongoing basis, identified the required skill gaps at Board level and recommended the appointment of one new Directress with expertise in the fields of Human Resources and Corporate Banking.
- The fitness and propriety of the Board of Directors, including the MD/CEO, were assessed in accordance with the criteria stipulated in the Finance Business Act Directions No. 05 of 2021 and Rule 9.7.3 of the Listing Rules of Colombo Stock Exchange, based on the documents submitted by them. Upon review, no instances of non-compliance were observed. Having being satisfied with the outcomes of the evaluation, the Committee recommended to the Board that the Board of Directors of the Company are fit an proper persons to continue in the office of Board of Directors in terms of Finance Business Act Directions No. 06 of 2021 on Assessment of Fitness and Propriety of Key Responsible Persons (KRPs) and Rule 9.7.3 of the Listing Rules of Colombo Stock Exchange, and to submit their Affidavits for the fit and propriety approval of the CBSL, to continue in the office of Board of Directors of the Company for the FY 2025/26.
- Reviewed the structure, skills and the composition of the Board Subcommittees and made appropriate recommendations to the Board.
- Continuously reviewed the required skills and experience at the Corporate Management level and made recommendations to the Board with regard to the appointment of Key Responsible Persons to ensure that each leadership tier has the necessary skills to implement the Corporate Plan of the Company. i.e.- promotion of Head of Leasing and Head of Business Transformation & Digital Implementation.
- Along with the Chief Executive Officer, the Committee reviewed and analysed the expertise required and available at Corporate and Senior Management level and specially discussed the succession plan for Key Responsible Persons with a view to identify and develop potential candidates.
- The Terms of Reference of the Committee adopted by the Bord was periodically reviewed by the Committee to ensure continuing appropriateness to statutory and regulatory requirements and industry best practices.
- Reviewed and recommended the Corporate Governance Framework of the Company
- Reviewed the Reports submitted by the management with regard to the Company's compliance with the persisting rules and regulations on Corporate Governance. Based on this review, no instances of non-compliance were identified, and the Committee was satisfied with the level of compliance demonstrated by the Company.

TRAINING

The Committee ensured that the Company carried out an induction program for newly appointed Director during the FY 2024/25 with session briefing the overview of the Company and covering Board Engagement, Corporate Governance, Listing Rules of the Colombo Stock Exchange etc.

Directors further participated in training and awareness sessions conducted by the Central Bank of Sri Lanka, Colombo Stock Exchange and Securities and Exchange Commission of Sri Lanka.

BOARD DIVERSITY

The Company's Board remained a diverse and inclusive Board during FY 2024/25. By embracing a variety of academic and professional qualifications, experience, ages, and skills, the Board was better positioned to perform effectively.

The Committee recommended the appointment of a female director to the Board of Directors of the Company during the FY 2024/25, ensuring gender diversity in the Board.

STATEMENT OF INDEPENDANCE

All the Directors have declared their Independence and Non-Independence by making statements in terms of Section 9.8.5 of the Listing Rules of the Colombo Stock Exchange and Section 3 (7) (c) of the Business Finance Act Directions No. 05 0f 2021.

Upon the completion of the cooling-off period, Mr. Lalith Withana, whose independance was impaired, was declared as an independent director w.e.f. 5th September 2024 subsequent to the approval of the Director of Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

MEETINGS OF THE COMMITTEE

The attendance of the Directors for the Committee Meetings are given on page 151 in this Annual Report.

The Senior Director convened a Meeting solely with the Independent Directors to discuss matters relating to the entity and it was found that there are no major issues concerning the entity.

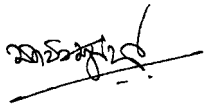
PROFESSIONAL ADVICE

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

EVALUATION OF THE COMMITTEE

The Committee carried out a self- evaluation of its performance during the year under review and was satisfied that the Committee had carried out its responsibilities in a satisfactory manner. A summary of the results was submitted to the Board.

For and on behalf of the Board Nominations and Governance Committee,



Mr Hasitha Wijesundara
Chairman – Board Nominations and Governance Committee/Senior Director

6 June 2025
Colombo, Sri Lanka

Board Integrated Risk Management Committee Report



MR MURALI POLAMARASETTY
Chairman – Board Integrated Risk Management Committee

COMPOSITION OF THE COMMITTEE

The Board Integrated Risk Management Committee ("the Committee" or "BIRMC") of HNB Finance PLC ("HNBF") is a Board Subcommittee formed in terms of Section 10.3 of the Finance Business Act Directions No. 05 of 2021 on Corporate Governance issued by the Central Bank Sri Lanka. The Committee comprises three (03) Non-Executive Directors, appointed by the Board of Directors.

The Committee currently comprises three members and one invitee: the Chairman of the Board Audit Committee ("BAC"). The Committee members are listed below, and their profiles are provided on pages 138 to 142.

Members

- Mr Murali Srinivas Polamarasetty – Chairman of the Committee, Independent Non-Executive Director
- Mr Ruwan Manatunga – Non-Independent Non-Executive Director
- Dr Prasad Samarasinghe – Non-Independent Non-Executive Director

Invitees of the Board

- Mr Lalith Withana – Chairman BAC, Independent Non-Executive Director (With effect from 25 March 2024 to 27 June 2024 and from 20 September 2024 to-date)
- Mr Saliya Jayaweera – Chairman BAC, Independent Non-Executive Director (With effect from 28 June 2024 to 05 September 2024)
- Mr Chaminda Prabhath – Managing Director/Chief Executive Officer

The Chief Risk Officer functions as the Secretary to the Board Integrated Risk Management Committee during the year under review.

Management Participants

- Chief Risk Officer
- Head of Compliance

Regular Attendees by Invitation

- Deputy Chief Executive Officer
- Chief Financial Officer
- Chief Information Officer
- Head of Internal Audit

MEETINGS

The Committee met six times during the year under review to discharge the duties assigned. The attendance of the Committee members at each of these meetings is given in the table on page 151 of the Annual Report. The Committee assessed, reviewed, and monitored the risks faced by the Company, using risk assessment reports and dashboards presented by the Risk Management Department.

TERMS OF REFERENCE

The Terms of Reference of the BIRMC established a Risk Management Framework that supports the assessment, evaluation, monitoring and management of risk, whilst creating a risk culture and supporting the Company's strategic objectives. The primary responsibilities of the BIRMC as defined by the terms of reference set out by the Board of Directors, are:

- Assess the impact of risks including credit, market, liquidity, operational, strategic, compliance, and information technology/cyber risks on the Company at least once every two months, using appropriate risk indicators and management information, and make recommendations to the Board regarding risk strategies and the Company's risk appetite.
- Develop the Company's risk appetite through a Risk Appetite Framework (RAF), including a Risk Appetite Statement that outlines quantitative measures expressed relative to earnings, capital, liquidity, etc. and qualitative measures to address reputational and compliance risks. The framework should articulate the individual and aggregate levels and types of risk the Company is willing to accept or avoid in pursuit of its strategic business objectives.
- Recommend and review prompt corrective actions to mitigate the effects of specific risks when such risks exceed the prudent levels determined by the BIRMC, in accordance with the Company's policies and applicable regulatory and supervisory requirements. These actions should be promptly implemented by the management.
- Review the Company's risk policies, including the Risk Appetite Framework and the Integrated Risk Management Framework, at least annually.
- Review the adequacy and effectiveness of senior management-level committees in addressing specific risks and managing those risks within the quantitative and qualitative risk limits specified by the Committee.
- Assess all aspects of risk management, including the updated Business Continuity and Disaster Recovery plans.

- Overseeing the ICAAP process, which includes comprehensive capital planning for a three-year horizon, conducting rigorous stress testing, and performing detailed evaluations of both Pillar 1 and Pillar 2 risks to ensure the Company's capital adequacy and risk resilience.
- Establish an independent Compliance Function to assess the Company's level of compliance with laws, regulations, directions, rules, regulatory guidelines, and approved policies governing business operations.
- Establish an independent Risk Management Function responsible for overseeing risk-taking activities across the Company.
- Ensure that the CRO and the Head of Compliance/Compliance Officer report functionally to the BIRMC and administratively to the Managing Director/CEO.
- Assess the performance of the Head of Compliance/Compliance Officer and the Chief Risk Officer annually.
- Review and recommend policies and procedures related to Risk Management and the Management Committee's Terms of Reference.
- Consider the adequacy and effectiveness of the technology infrastructure supporting the Risk Management Framework.
- Update the Board of Directors on matters that merit its attention for review, concurrence, and/or other specific directives.

MAJOR INITIATIVES IMPLEMENTED IN 2024/25

In fulfilling its mandated duties and responsibilities, the Committee reviewed key risk categories during the year, including Credit, Operational, Market, Liquidity, Information Technology and Cyber, Strategic, and Compliance risks. The major activities undertaken by the Committee are outlined below:

Credit Risk

- Reviewed and recommended the Credit Risk Management (CRM) Policy, formulated in conformity with Section 4.2(a) of the Finance Business Act Direction No. 02 of 2024 on Credit Risk Management.
- Reviewed and recommended the Policy on Rescheduling and Restructuring, aligned with the Finance Business Act Direction No. 01 of 2020 on the classification and measurement of credit facilities.
- Evaluated the Company's business strategy in light of prevailing economic challenges and ensured the development, implementation, and monitoring of appropriate credit risk management strategies.
- Reviewed and approved the list of risk-elevated industries based on the current economic environment, ensuring that prudent risk mitigation measures were in place.
- Reviewed the periodic Credit Risk Dashboard submitted by the Risk Management Department and provided guidance to Management on necessary actions to enhance credit quality.
- Oversaw the conduct of training and familiarization sessions for business units and credit approvers on the Credit Risk Management Policy and the Credit Scoring Models implemented by the Risk Management Department.
- Reviewed the findings of the Loan Review Mechanism (LRM) and monitored the implementation of corrective actions to mitigate identified risks and prevent recurrence.

Operational Risk

- Reviewed the periodic Operational Risk Dashboard submitted by the Risk Management Department and provided recommendations to Management on measures to reduce exposure to operational risk incidents.
- Reviewed and further strengthened the Business Continuity Plan (BCP) Policy, including enhancements to the Recovery Time Objectives (RTOs) and Recovery Point Objectives (RPOs) for critical applications and systems.
- Oversaw the execution of BCP testing across all departments and Disaster Recovery (DR) drills for IT systems to evaluate the Company's operational resilience during potential disruptions. These exercises included testing of all Critical, Less Critical, and Non-Critical systems to ensure compliance with defined RTOs and RPOs during both failover and failback scenarios.
- In alignment with Section 4.4(a) of the Finance Business Act Direction No. 04 of 2024 on Operational Risk Management, the Operational Risk Policy was reviewed and enhanced, covering key areas such as the Operational Risk Management Framework, Risk and Control Self-Assessment (RCSA), RCSA execution processes, Root Cause Analysis (RCA), Scenario Analysis, Risk Appetite/ Tolerance and Capital Allocation, as well as the Risk Matrix and Heat Map methodology.
- Streamlined the Operational Loss Incident Reporting process to strengthen the identification and analysis of root causes and enhance incident mitigation efforts.
- Reviewed the RCSA outcomes for all departments, products, and outsourced service units to evaluate inherent risks and implement targeted preventive measures to minimise residual risk and potential loss.
- Facilitated training sessions for business and operational teams to improve capabilities in identifying, reporting, and mitigating operational risks.
- Conducted scenario analysis on selected low-frequency, high-impact events to assess preparedness and potential impact on the Company's operations.

Market, Liquidity and Capital Planning

- The Committee oversaw the development of a comprehensive, forward-looking Internal Capital Adequacy Assessment Process (ICAAP) framework, incorporating capital planning over a three-year horizon, enhanced stress testing methodologies, and detailed assessments of material risks. The ICAAP was integrated into the Company's strategic planning and governance structures and was approved by the Board following internal validation and review by the Committee.
- In support of this, a robust Integrated Stress Testing Policy was developed to comprehensively address credit, liquidity, commodity price, and operational risks. The policy incorporates structured scenario analyses within the ICAAP framework, thereby strengthening forward-looking capital planning and enabling strategic, risk-informed decision-making.
- The Committee reviewed and strengthened the sensitivity analysis process to assess the repricing impact on deposit costs, with specific attention to the deposit maturity profile and rate reset timelines.
- Oversight of treasury-related risks was further enhanced through improvements to the Treasury Middle Office function, which now provides independent monitoring and control in alignment with the Company's risk appetite and regulatory expectations.

Information Technology and Cyber Risk

- Reviewed and recommended the Information Security Policies Manual (ISPM), ensuring alignment with the ISO/IEC 27001: Information Security, Cybersecurity and Privacy Protection — Information Security Management Systems — Requirements standard.
- Reviewed and approved the Information Security Management System (ISMS) Procedures to ensure consistency with the Company's ISPM and international best practices in information security governance.
- Reviewed and recommended the Terms of Reference for the Information Security Committee for the approval by the Board of Directors to enhance oversight of information and cybersecurity matters.
- Monitored the implementation progress of the Board-approved Information Security Strategy, ensuring its alignment with the ISPM, ISMS, and ISO/IEC 27001 standards.
- Closely followed up on the implementation of the Data Loss Prevention (DLP) Program, which is in its final stage, to strengthen the protection of sensitive information and reduce the risk of data leakage.
- Oversaw and guided the implementation of key cybersecurity measures including Multi-Factor Authentication (MFA), advanced encryption protocols, staff cybersecurity awareness training, and incident response simulations to enhance access controls and organisational preparedness.
- Supervised the upgrade of the Company's firewall infrastructure to the latest stable environments, significantly enhancing perimeter defenses against evolving cyber threats.

Compliance Risk

- Oversaw the compliance review process to ensure the accuracy and timeliness of statutory return submissions to the Central Bank of Sri Lanka.
- Monitored the assessment of the continuity and effectiveness of existing outsourcing arrangements, ensuring alignment with the Finance Business Act Directions No. 07 of 2018 on Outsourcing of Business Operations.
- Reviewed and recommended the Related Party Transactions Policy to strengthen transparency and regulatory compliance.
- Reviewed and recommended the Anti-Bribery and Anti-Corruption Policy to reinforce the Company's ethical standards and commitment to integrity.
- Reviewed and recommended the Outsourcing Policy Framework to ensure effective risk management and compliance with regulatory expectations.
- Reviewed and recommended the Accessibility Policy to promote inclusivity and equal access in service delivery.
- Reviewed and recommended the Compliance Policy, outlining the Company's approach to meeting regulatory obligations and fostering a culture of compliance.
- Reviewed and approved the Annual Compliance Plan and regularly monitored its implementation to ensure timely completion of compliance initiatives.
- Reviewed and recommended the Complaint Handling and Redress Policy to enhance customer protection and grievance resolution mechanisms.
- Oversaw the conduct of branch-level compliance audits to evaluate adherence to internal policies and regulatory requirements.
- Supervised the delivery of targeted training programs on Anti-Money Laundering (AML), Countering the Financing of Terrorism (CFT), and Financial Consumer Protection regulations to build staff awareness and regulatory readiness.

Risk Governance

- The Risk Appetite Framework was reviewed and updated to ensure alignment with the Company's strategic objectives, capital planning, and the evolving risk environment.
- The Committee reviewed and enhanced the Integrated Risk Management Framework to reinforce oversight of material risks and strengthen governance practices.
- Reviewed the adequacy and effectiveness of the Asset and Liability Committee and Executive Risk Management Committee.
- Reviewed the performance of Chief Risk Officer and Head of Compliance, in terms of Section 10 (3) (h) of the Finance Business Act Direction No. 05 of 2021 on Corporate Governance

BOARD REPORTING

The minutes of the Committee meetings were tabled at Board meetings to provide the Board of Directors with visibility into the Committee's deliberations. In addition, the Minutes, Risk Dashboards, Risk Appetite Statement, and Stress Testing outcomes were regularly presented to the Board for its information and necessary action.

EVALUATION OF THE COMMITTEE

The Committee discharged its responsibilities in accordance with its Terms of Reference. As part of its governance practices, the Committee conducted a self-assessment of its effectiveness and concluded that it had operated efficiently and fulfilled its responsibilities during the year under review.



M S Polamarasetty
Chairman – BIRMC

6 June 2025

Board Related Party Transactions Review Committee Report



MR MURALI POLAMARASETTY
Chairman – Board Related Party Transactions Review Committee

The HNBF Board established the Board Related Party Transactions Review Committee ("BRPTRC" or "the Committee") on 18 November 2016, to assist the Board in ensuring that the interests of all shareholders are considered when entering into transactions with related parties, as well as improving Company's internal control mechanisms and Corporate Governance.

COMPOSITION OF THE COMMITTEE

The Board Related Party Transactions Review Committee is comprised of three (03) Independent, Non-Executive Directors appointed by the Board of Directors.

As of 31 March 2025, the following Directors served on the Committee.

- Mr Murali Polamarasetty – Chairman – BRPTRC/Independent, Non-Executive Director appointed w.e.f. 27 November 2023
- Mr Hasitha Wijesundara – Senior Director/Independent, Non-Executive Director appointed w.e.f. 25 March 2024
- Mr Lalith Withana – Non-Independent, Non-Executive Director appointed w.e.f. 25 March 2024

Brief Profiles of the Directors are given on pages 138 to 142 in this report.

INVITEES

Managing Director/CEO, Deputy Chief Executive Officer, Chief Financial Officer, Head of Compliance, Head of Legal, and Head of Finance may participate at the meetings by invitation.

SECRETARY

The Company Secretary functions as the Secretary to the Committee.

SUMMARY OF THE "TERMS OF REFERENCE" (TOR) OF THE BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The ToR spells out the constitution, composition and frequency of Committee Meetings whereas the Chairman and majority of the Committee members should be Non-Executive, Independent Directors, and the Committee should meet at least once in every quarter. It also sets out the guidelines on related party transactions and its reporting requirements. As per the ToR, when necessary, the Committee has the right to obtain appropriate opinions from external specialists.

The ToR is subject to periodic review based on regulatory as well as operational requirements. During the FY 2024/25, the ToR was revised subsequent to the amendments to the Listing Rules of the Colombo Stock Exchange.

SCOPE OF OPERATIONS

The ToR are intended to serve as a guide for the BRPTRC, with the understanding that the BRPTRC may carry out additional functions and adopt such other policies and procedures as may be appropriate considering changing regulatory requirements. The BRPTRC will also carry out any other responsibilities and duties delegated to it by the Board of Directors from time to time.

Main responsibilities of the Committee include;

(a) Identify and define the Related Parties by considering the requirements of Listing Rules of the Colombo Stock Exchange, Sri Lanka Financial Reporting Standards and the Directions issued by the Central Bank of Sri Lanka.

(b) Review the Related Party Transactions ensuring that the interests of shareholders are considered as a whole and recommend such transactions.

(c) Determine whether Board approval is required for a particular Related Party Transaction .

(d) Ensure that the Company does not engage in business transactions with a related party in a manner that would grant such party "more favorable treatment" than that is accorded to other similar constituents of the Company.

In discharging the above responsibilities, the Committee maintains a comprehensive list of Related Parties in compliance with the Listing Rules of the Colombo Stock Exchange and Finance Business Act Directions, and relies on the integrity of periodic Related Party Transactions Data sourced via the following:

- Quarterly Related Party Declarations signed and submitted by the Board of Directors and other Key Responsible Persons ("KRPs").
- Declarations made by Directors and KRPs at the time of their appointment.
- Related Party Transactions confirmed by the Business Heads to the Committee.

As stated previously, the Committee is empowered to obtain independent legal, financial and technical advice from specialists in such fields, to review and determine transactions. Apart from obtaining independent specialists' advice wherever necessary, the Committee has access to data and information pertaining to related parties as well as the ability to call for clarifications from the Management and Auditors (External and Internal) on any allied matter.

The Board of Directors, in the Annual Report of the Board of Directors on the Affairs of the Company have affirmed that the Board of Directors have complied with the Listing Rules of the Colombo Stock Exchange pertaining to the Related Party Transactions.

ACTIVITIES IN FY 2024/25

The Committee during the year,

- Reviewed the ToR of the Committee and revised the same in line with the changes in the statutory and redulatory environment.
- Reviewed the Related Party Transactions Policy in compliance with the statutory and regulatory guidelines and recommended for the approval of the Board of Directors.
- Reviewed the Interest disclosures and related party transactions.
- Reviewed the Related Party Transactions reported by the Business Heads and comments and observations made during such review, if any, have been communicated to the Board of Directors.
- The Directors who have material interests in specific Related Party Transactions refrained from participating in discussions and voting on such transactions during Board Meetings, as applicable.

MEETINGS OF THE COMMITTEE

The attendance of the Directors for the Committee Meetings is given on page 151 in this Annual Report.

SELF-APPRAISAL OF COMMITTEE FUNCTIONS

An annual self-evaluation of the effectiveness of the Committee was conducted by the Chairman of the Committee with contributions by way of individual assessments by the members of the Committee and the review for FY 2024/25 concluded that the Committee continues to operate effectively and competently.

Note 44 to the financial statements on pages 327 to 333 set out the information required on Related Party Transactions. The Committee has reviewed the Related Party Transactions of the Company during the period from 01 April 2024 to 31 March 2025 and in the opinion of the Committee, there were no transactions with related parties which were favourable nor preferential during the period under review and has thus complied with the rules pertaining to Related Party Transactions as set out in the Listing Rules of the Colombo Stock Exchange and the Finance Business Act Directions.

Moreover, the Committee noted that the Company has not entered into any transactions as contemplated in Rule 9.14.8.1 and Rule 9.14.8.2 of the Listing Rules of the Colombo Stock Exchange and accordingly there are no disclosures to be made in this regard in terms of Rule 9.14.8.1 and Rule 9.14.8.2 of the Listing Rules of the Colombo Stock Exchange.

For and on behalf of the Board Related Party Transactions Review Committee



Murali Polamarasetty
Chairman – Board Related Party Transactions Review Committee

6 June 2025

Statement by the Senior Independent Director



MR HASITHA WIJESUNDARA
Senior Director

Dear Shareholders,

I was designated by the Board of Directors of the Company as the Senior Independent Director (SID) of the Company in terms of Section 6(3) of the Finance Business Act Directions No. 05 of 2021 on Corporate Governance for Licensed Finance Companies issued by the Central Bank of Sri Lanka, whereas the Chairman of a Licensed Finance Company to be a Non-Executive Director and preferably an Independent Director and in the event the Chairman is not an Independent Director, an Independent Director to be designated by the Board as the Senior Director with suitably documented Terms of Reference to ensure greater independence.

Further, this Statement is presented in compliance with the requirements set out in Section 9.6.3(e) of the revised Listing Rules on Corporate Governance of the Colombo Stock Exchange ("CSE") as a practice of good governance. A brief profile of the Senior Director Mr Hasitha Wijesundara is given on page 139 of this Annual Report.

ROLE AND RESPONSIBILITIES OF SENIOR INDEPENDENT DIRECTOR

The purpose of appointing a SID is to provide a sounding board for the Chairperson and to act as an intermediary with independent views for other Directors as needed. In terms of the established Terms of Reference the Senior Director will be responsible for other Directors, Shareholders, the Chairperson and the Board.

The role of a Senior Director is defined by a formal, Board approved Terms of Reference (ToR). In terms of the ToR, Senior Director's role shall involve:

- Serve as the intermediary for other Directors and Shareholders.
- Act as the Chairman of the Board of Directors when matters concerning the Chairman are considered.
- Act as a conduit to the Board for the communication of shareholder concerns when other channels of communication are inappropriate.
- Ensure that the views of other Non-Executive Directors are given due consideration.
- Make himself available for confidential discussions with other Non-Executive Directors who may have concerns that they believe have not been properly considered by the Board as a whole.
- Chair a Meeting of the Non-Executive Directors without the Chairperson present, at least annually, to appraise the Chairperson's performance and on such other occasions as are deemed appropriate.
- Chair the meetings of the Independent Directors, without the presence of other Directors to discuss matters and concerns relating to the Entity and the operation of the Board. The Senior Director shall provide feedback and recommendations from such Meetings to the Chairperson and the other Board members.
- Make himself available to attend meetings with major Shareholders, as and when required, to listen to their views to help develop a balanced understanding of the issues and concerns of major shareholders.
- When Directors have concerns about the matters of the Company which cannot be unanimously resolved, the Senior Director should ensure their concerns are recorded in the Board Minutes.

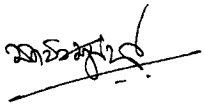
With respect to the above, I engaged in several confidential discussions with the Directors for FY 2024/25, whereas a Meeting of the Non-Executive Directors without the presence of the Chairman and a Meetings of the Independent Directors, without the presence of other Directors were held to discuss matters and concerns relating to the Entity and the operation of the Board, and the outcome of those discussions and the concerns have been duly communicated to the Chairman and the Board of Directors as appropriate.

As the SID, I hereby affirm that I have overseen a comprehensive evaluation of the performance of individual Directors and the collective effectiveness of the Board throughout the FY 2024/25. This assessment was conducted in alignment with the principles outlined in the Corporate Governance Guidelines and the Corporate Governance Framework of the Company.

In the discharge of my fiduciary and regulatory responsibilities towards the shareholders, I participated in both the Annual General Meeting and the Extraordinary General Meeting, held on 28 June 2024 and 24 February 2025, respectively.This engagement afforded me valuable insights into the perspectives and concerns of the shareholders, thereby reinforcing the Board's commitment to transparency and accountability.

It remains my steadfast objective to elevate the Company's governance framework in accordance with internationally recognised best practices, thereby ensuring that the institution remains anchored in robust and ethical governance standards.

I am confident that I have fulfilled the responsibilities entrusted to me in my capacity as SID and have diligently executed my duties in service of the Chairman, the Board of Directors, and the Shareholders of HNB Finance PLC, in strict adherence with the Corporate Governance Guidelines and the Terms of Reference governing the role of the SID.



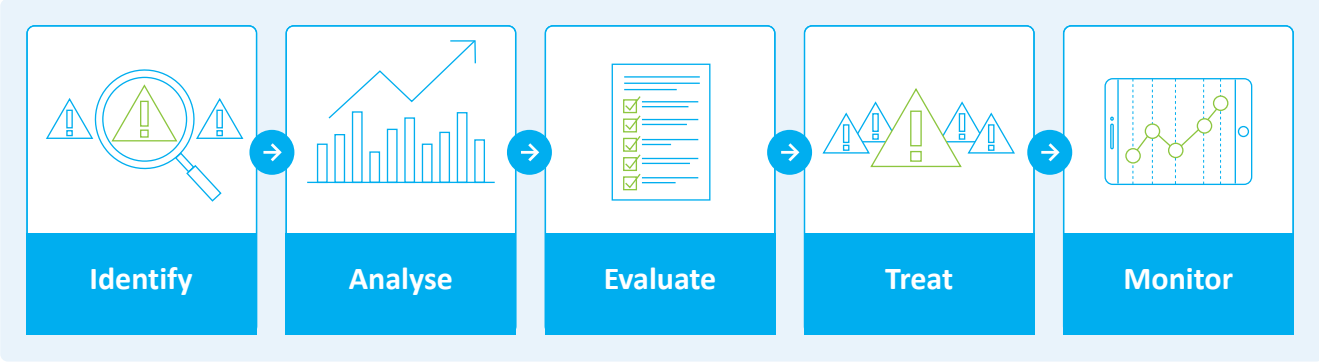
Hasitha Wijesundara
Senior Independent Director

6 June 2025
Colombo, Sri Lanka

Risk Management



Risk Management Review



Sri Lanka's economic conditions began to recover in the latter part of 2023, after a prolonged downturn caused by the COVID-19 pandemic and the 2022 economic crisis. The successful rollout of the IMF-supported reform programme, completion of Domestic Debt Optimisation (DDO), and progress in External Debt Restructuring contributed significantly to restoring macroeconomic stability. These improvements, along with easing inflation and interest rates and renewed political stability, supported a gradual resurgence in economic activity and market confidence.

By 2024, the continued improvement in macroeconomic conditions spurred a tangible recovery across the financial sector. For Licensed Finance Companies (LFCs), this environment provided a more conducive backdrop for credit expansion and business growth. Strengthening economic activity, declining interest rates, and improved borrower repayment capacity collectively supported the gradual revival of lending operations. These factors also contributed to the recovery of Stage 2 and Stage 3 portfolios, as delinquency levels began to ease. In parallel, improved liquidity conditions and reduced funding pressures further enhanced the sector's ability to manage credit risk and maintain asset quality. Despite these gains, legacy risks such as stressed portfolios, credit concentrations, and weakened capital buffers remain. Additionally, global geopolitical tensions and trade-related uncertainties pose external risks that could affect the pace of recovery.

In response to this evolving risk landscape, the Company has taken proactive measures to ensure that growth is both sustainable and resilient. A comprehensive Integrated Risk Management (IRM) Framework has been implemented to support the effective identification, assessment, and management of key risks. This framework includes a well-structured risk appetite, clear policies and procedures, and is underpinned by strong governance and oversight mechanisms. As credit growth accelerates, the IRM Framework plays a critical role in safeguarding portfolio quality, enabling the Company to seize emerging opportunities while maintaining stability in an environment that remains dynamic and uncertain.

RISK MANAGEMENT HIGHLIGHTS AT A GLANCE

- A comprehensive Internal Capital Adequacy Assessment Process was implemented, incorporating three-year capital planning, scenario-based stress testing, and alignment with Board-level strategic priorities.
- A robust Integrated Stress Testing Policy was developed and operationalized to assess resilience across key risk domains.
- A Credit Risk Management Policy was formulated and implemented in compliance with the Finance Business Act Direction No. 02 of 2024.
- The risk-based Credit Scoring Model for all products was revised and deployed via a mobile application to enhance field-level accessibility and operational efficiency.
- A significant improvement in credit quality was achieved, supported by the adoption of multiple prudent measures in managing credit risk.
- Risk and Control Self-Assessments were carried out across all departments, products, and outsourced services to mitigate residual risk and prevent potential financial or reputational losses.
- Scenario analyses were conducted on selected low-frequency, high-impact events to evaluate the Company's preparedness and assess potential impacts.
- Information Security policies and systems were upgraded in alignment with ISO/IEC 27001 standards, including the implementation of multi-factor authentication, advanced encryption, and cyber risk awareness initiatives.

2 PROOF

SIGNIFICANT RISKS IN 2024/25

During 2024, the overall risk continued to evolve amidst a gradually improving macroeconomic environment. While the easing of inflation, lower interest rates, and enhanced political stability supported business recovery and credit growth, the external and internal operating conditions remained challenging. The Company navigated a complex mix of residual risks stemming from the previous economic crisis, coupled with emerging threats including geopolitical tensions, climate-related disruptions, regulatory shifts, and cyber vulnerabilities. This section outlines the key risk factors that influenced the Company's risk profile during 2024/25 and are expected to remain significant in 2025/26, reinforcing the need for agile, forward-looking risk management practices.

Macroeconomic Environment

Sri Lanka's macroeconomic conditions improved in 2024, driven by easing inflation, accommodative monetary policy, and fiscal consolidation. Inflation moved toward the regulator's target of 5%, and real GDP returned to a growth trajectory. However, real GDP remained below pre-pandemic levels, and suppressed real incomes limited consumer spending and repayment capacities. The overall environment reflected a recovering economy, but legacy effects from the crisis period persisted.

Geopolitical Risks

Geopolitical tensions intensified during 2024/25 due to ongoing conflicts in Ukraine and the Middle East, along with escalating trade frictions between major global economies. Global election cycles also increased policy uncertainty, adversely affecting trade and investor sentiment. These global disruptions raised shipping and insurance costs, adversely impacting Sri Lanka's trade volumes and hindering export recovery.

Foreign Exchange Market

The Sri Lankan rupee shifted from depreciation to appreciation against the US dollar in 2024, supported by improved inflows from tourism, remittances, and exports. These contributed in rebuilding Gross Official Reserves. However, liquidity in the FX market remains sensitive to future demand pressures, including relaxation of vehicle import restrictions and potential external debt servicing. The finalisation of the external debt restructuring remains a pivotal determinant for long-term FX stability.

Social and Human Capital Risks

In 2024, a significant outmigration of skilled professionals posed a high risk to the financial services sector. The loss of expertise in systems, cybersecurity, and other specialized functions weakened institutional resilience, increased operational risk, and escalated recruitment and training costs. Licensed Finance Companies (LFCs) now face intensified competition for limited talent, impacting service delivery and long-term capability.

Regulatory Changes

The financial sector experienced several regulatory enhancements aimed at strengthening transparency and resilience. These included the tightening of AML/CFT requirements and the implementation of new directives on Credit Risk Management and Operational Risk Management. New sustainability reporting standards SLFRS S1 and S2 were introduced for implementation starting in January 2025, further integrating ESG considerations into risk oversight.

Climate-Related Financial Risks

Extreme weather events in 2024 disrupted economic activity, affecting both businesses and individuals, and compromising loan repayment capacities. Transition risks also increased, particularly for sectors misaligned with a low-carbon economy. Regulatory, legal, and reputational exposures may intensify if the Company is perceived to be insufficiently aligned with sustainability goals.

Political Risk

Political and policy uncertainties remained high during the early part of 2024 due to national elections. However, a peaceful transition and formation of a stable government significantly improved investor confidence. This was evidenced by a strong surge in the equity market, reflecting optimism around policy continuity and macroeconomic stability.

Credit Risk

Falling interest rates and monetary easing supported modest credit growth in the second half of 2024. However, continued real income compression, tax changes, and elevated costs of living constrained borrowers' debt servicing capacity, keeping Non-Performing Loan (NPL) ratios elevated. Improvements in macroeconomic conditions are expected to gradually ease these pressures.

Sovereign Rating and Debt Restructuring

In December 2024, Sri Lanka's foreign currency rating was upgraded to CCC+ following partial progress in external debt restructuring. However, the country remains in Restricted Default status, pending full resolution with all creditors. Successful completion of debt negotiations is critical to restoring investor confidence and access to international capital.

Cybersecurity and Financial Fraud

The proliferation of digital financial services led to increased cyber threats, particularly phishing and mobile application attacks. Fraudulent activities also rose, driven by socio-economic challenges. The Company is enhancing IT security protocols and user awareness initiatives to mitigate technology-related risks.

Third-Party and Emerging Operational Risks

Risks from outsourced service providers were managed through a centralised registry, contractual monitoring, and periodic on-site reviews. The Company also implemented Bi-Annual Risk and Control Self-Assessments (RCSAs) to identify and mitigate risks emerging from process changes and evolving operational environments.

MANAGING THE MATERIAL RISKS

The table below provides a summary of the definitions, key drivers, measurement and monitoring approaches, and management strategies for material risks.

Category	Definition	Risk Drivers
Liquidity Risk	Liquidity risk is the risk that a company may not be able to meet its financial obligations when due without incurring significant losses or harming its financial position. It includes funding liquidity risk, which is insufficient cash for obligations, and market liquidity risk, which is difficulty in selling assets or offsetting positions due to market disruptions or limited trading activity.	Liquidity risk arises from the Company's obligation to meet various financial outflows, including payments to depositors, disbursements of loans and advances, settlement of borrowings, and fulfillment of investment commitments. It is further exacerbated by potential liquidity shocks stemming from premature withdrawals, concentration of large deposits that may be withdrawn unexpectedly, and a high dependence on external funding sources.
Credit Risk	Credit risk refers to the potential for financial loss arising from the failure of a borrower or counterparty to meet their contractual or financial obligations to the Company. This risk primarily originates from the Company's core lending activities, as well as from its investment and treasury operations, where exposures exist to counterparties with repayment obligations. This risk includes; • Default Risk • Concentration Risk • Recovery Risk	Credit risk arises from a range of internal and external factors. These include prevailing macroeconomic conditions such as inflation, unemployment levels, gross domestic product growth, and interest rate fluctuations. Additional drivers include the concentration of exposures by product type or customer segment, the quality and robustness of credit assessment processes, the Company's defined risk appetite, the borrower's ability to meet repayment obligations, as well as the impact of changes in government taxation policies and broader fiscal or monetary interventions.
Market Risk	Market risk refers to the potential for financial loss arising from changes in market variables such as interest rates, credit spreads, equity prices, foreign exchange rates, commodity prices, and their associated volatilities and correlations.	Market risk arises from fluctuations in market variables that can adversely impact the value of the Company's financial assets and liabilities, as well as its overall earnings. Key sources of market risk include changes in interest rates and volatility in commodity prices, particularly those related to vehicles and gold, which may directly influence the valuation of collateral and associated credit exposures.
ESG Risk	Refers to the potential for financial loss or reputational damage arising from inadequate management of environmental, social, and governance (ESG) factors.	ESG risk arises from the Company's environmental footprint, social and community responsibilities, and ethical governance practices, alongside evolving regulatory frameworks, shifting stakeholder expectations, and indirect exposures such as financed emissions.

	Risk Measurement and Monitoring Framework	Risk Management Strategies	Page References
	Liquidity risk is measured using both stock and flow approaches, encompassing the assessment of balance sheet ratios, cash flow projections, and maturity mismatches. A comprehensive stress testing under a range of shock scenarios is performed to evaluate potential impacts on liquidity. The Treasury Division and Risk Management Department maintain continuous oversight of this risk, operating under the supervision of ALCO. Detailed risk dashboards and analytical reports are regularly submitted to ALCO, ERMC, BIRMC, and the Board of Directors for review and action.	Liquidity risk is managed by the Treasury Division in accordance with the Company's Treasury Policy and Treasury Manual, which establish comprehensive monitoring procedures. Oversight and the Treasury Middle Office (TMO) functions are provided by the Risk Management Department. Capital allocation for liquidity risk is determined under Pillar 2 of the ICAAP framework.	Page 226
	Credit risk is managed through a structured Credit Risk Management Process that incorporates internal scoring models, financial analysis, and credit concentration assessments. Stress testing is conducted across multiple scenarios to evaluate the resilience of the credit portfolio. Ongoing monitoring includes post-disbursement reviews, periodic credit assessments, scenario analysis, monitoring of early warning signals and watch lists, payment behavior tracking, and periodic valuation of collateral. Oversight is provided by the Risk Management Department, with regular reporting submitted to ERMC, BIRMC and the Board of Directors.	The Company maintains a robust Credit Risk Management Policy, supported by continuous monitoring practices that include a comprehensive credit scoring methodology, clearly defined risk acceptance criteria, concentration limits, delegated authority limits, and a systematic loan review mechanism to effectively mitigate credit risk. Capital allocation for credit risk is determined under Pillar 1 of the ICAAP framework, using Standardized Approach.	Page 228
	Market risk, principally driven by interest rate risk and commodity price risk, is measured through repricing gap analysis, sensitivity testing, and stress testing under various scenarios. Interest rate risk is evaluated based on its potential impact on the Company's net interest income, while exposures secured by gold are assessed for sensitivity to adverse movements in market prices. The Risk Management Department and Treasury Division monitor these exposures, with ALCO which is responsible for oversight and periodic reviews. Market risk dashboards, stress testing outcomes, and relevant assessments are submitted to ERMC, BIRMC and the Board of Directors to facilitate informed decision-making.	Market risk is managed by the Treasury Division in accordance with the Treasury Policy and Treasury Manual, with oversight and the Treasury Middle Office function provided by the Risk Management Department. Capital allocation for market risk is determined as zero, while interest rate risk in the banking book is considered under Pillar 2 of the ICAAP framework.	Page 232
	The Company employs a comprehensive framework to assess and monitor environmental, social, and governance exposures across its operations and portfolio. This framework encompasses evaluation of environmental impacts, review of social initiatives, enforcement of robust governance practices, and continuous enhancement of systems to manage both direct and indirect ESG-related risks.	ESG risk is managed through effective oversight at the Board level, with ESG principles integrated into the Company's strategy, operations, and governance. This is further supported by the ESG Policy and Integrated Risk Management Framework Policy, which guide the identification, assessment, and management of ESG risks in line with strategic and regulatory expectations.	Page 236

Category	Definition	Risk Drivers
Operational Risk	Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. This includes legal and compliance risks but excludes strategic and reputational risk. Operational Risk Components; • Compliance Risk • Legal Risk • Business Continuity Management • Conduct Risk	Operational risk arises from day-to-day business activities, system lapses or outages, human error, internal and external fraud, and external events such as natural disasters, cyberattacks, or regulatory changes.
Information and Cyber Risk	Defined as the potential for financial loss, operational disruption, or reputational damage resulting from unauthorised access, data breaches, system failures, or weaknesses in the Company's IT infrastructure and digital services. Components of Information and Cyber Risk; • Information Risk • Cyber Risk • Technology Risk	Information and cyber risk arises from the increasing reliance on information technology systems across operations, digital service channels, and data assets. While this reliance enhances operational efficiency, it simultaneously increases the Company's exposure to cyber threats, unauthorized access, data breaches, and vulnerabilities within IT systems.
Strategic Risk	Strategic risk refers to the potential adverse impact on the Company's performance, sustainability, and long-term objectives arising from ineffective strategic decisions, failure to adapt to changes in the business environment, or missed opportunities.	Strategic risk arises from misalignment with the Company's strategic objectives, developments in the external market environment, ineffective execution of strategic initiatives, and deviations from established performance targets. It also encompasses risks arising from changes in regulatory, technological, or competitive landscapes.
Reputation Risk	Reputational risk refers to the potential adverse impact on the Company's reputation, brand value, and stakeholder confidence arising from actual or perceived failures in governance, business ethics, regulatory compliance, customer service, operational performance, or other business activities.	Reputational risk arises from events that can significantly undermine public perception of the Company's integrity, credibility, and standing as a responsible corporate entity. Such events may result from failures in governance, compliance breaches, or adverse stakeholder interactions, potentially eroding stakeholder trust and adversely affecting the Company's market position and long-term sustainability.

	Risk Measurement and Monitoring Framework	Risk Management Strategies	Page References
	Operational risk is measured through Risk and Control Self-Assessments, Key Risk Indicators, Internal Loss Data tracking, Root Cause Analysis and Scenario Analysis. Identified risks are classified and prioritized based on Basel-defined event types. Compliance risk is addressed through regular compliance checks and audits, the promotion of awareness across the organization, and initiatives aimed at fostering a strong compliance culture. Business continuity and disaster recovery plans are reviewed and tested on an annual basis. The Risk Management Department is responsible for the overall monitoring of operational risk, with dashboards and periodic assessments submitted to ERMC, BIRMC, and the Board of Directors.	Operational risk is managed by the Risk Management Department under the Operational Risk Management Framework, supported by defined policies and procedures. A comprehensive Business Continuity Management framework ensures resilience to disruptions. Capital allocation for operational risk is determined under Pillar 1 of the ICAAP framework, using the Basic Indicator Approach.	Page 233
	Information, cyber, and technology risks are measured and monitored through comprehensive security assessments, real-time threat monitoring, vulnerability assessments, and regular penetration testing. Core tools supporting this framework include Endpoint Detection and Response (EDR), Advanced Threat Prevention solutions, Multi-Factor Authentication (MFA), and the ongoing deployment of Data Loss Prevention (DLP) technologies. The Risk Management Department oversees the monitoring process, with risk dashboards and assessment reports submitted to the ISC, ERMC, BIRMC, and the Board of Directors.	Information and cyber risk is managed in accordance with the Company's Information Security Policies Manual and Information Security Management System (ISMS) Procedures, supported by the regular review and implementation of the Information Security Strategy. Capital allocation for information and cyber risk is determined under Pillar 2 of the ICAAP framework.	Page 235
	Strategic risk is assessed using a structured qualitative scorecard methodology under Pillar 2 of the ICAAP to evaluate long-term risk exposures. The Corporate Planning Division monitors actual performance against strategic and budgetary objectives on a quarterly basis and reports any deviations to the Board Strategic and Investments Review Committee. Additionally, emerging risks and opportunities are continuously tracked to enable timely strategic adjustments.	Strategic risk is managed through active involvement of the Corporate Management, Board Subcommittees, and the Board of Directors, ensuring alignment with the Company's long-term objectives and strategic direction. Capital allocation for strategic risk is determined under Pillar 2 of the ICAAP framework.	Page 235
	Reputational risk is measured using a structured scorecard methodology. It is monitored through continuous stakeholder engagement, media surveillance, and strict adherence to governance policies that uphold ethical standards and transparency in business activities.	Reputational risk is managed by reinforcing a strong tone at the top and upholding the Company's core values and purpose across all levels. The Board approved Code of Conduct and Ethics further supports this by guiding ethical behavior and responsible decisions. Capital for reputational risk is allocated under Pillar 2 of the ICAAP framework.	Page 235

INTEGRATED RISK MANAGEMENT FRAMEWORK (IRM FRAMEWORK)

The Company adopts an Integrated Risk Management (IRM) Framework to manage its business and financial risks in a structured and cohesive manner. This framework enables the Company to develop a consolidated view of its risk profile and to address risks holistically, in alignment with both business objectives and regulatory expectations.

The IRM Framework has been developed based on the directions, rules, and guidelines issued by the Central Bank of Sri Lanka and the Basel Committee on Banking Supervision. It incorporates the internationally recognised Three Lines of Defence model. The framework is embedded into day-to-day operations and supports informed decision-making at all levels, ensuring that risk management remains proactive, adaptive, and responsive to emerging challenges.

Oversight of the risk management framework is vested in the Board Integrated Risk Management Committee (BIRMC), which is responsible for ensuring that robust risk management strategies, policies, and processes are in place to address potential events that could impact the Company's overall performance. The BIRMC sets and reviews policies for managing key risk categories, including credit, market, operational, Information and Cyber Security, and liquidity risks.

The BIRMC operates under a Board-approved Terms of Reference that incorporates the requirements of the Finance Business Act Direction No. 05 of 2021 issued by the Central Bank of Sri Lanka. A detailed summary of the BIRMC's roles and responsibilities is provided in the Board Integrated Risk Management Committee Report on pages 204 to 207 of this Annual Report.

Governance of Risk Management

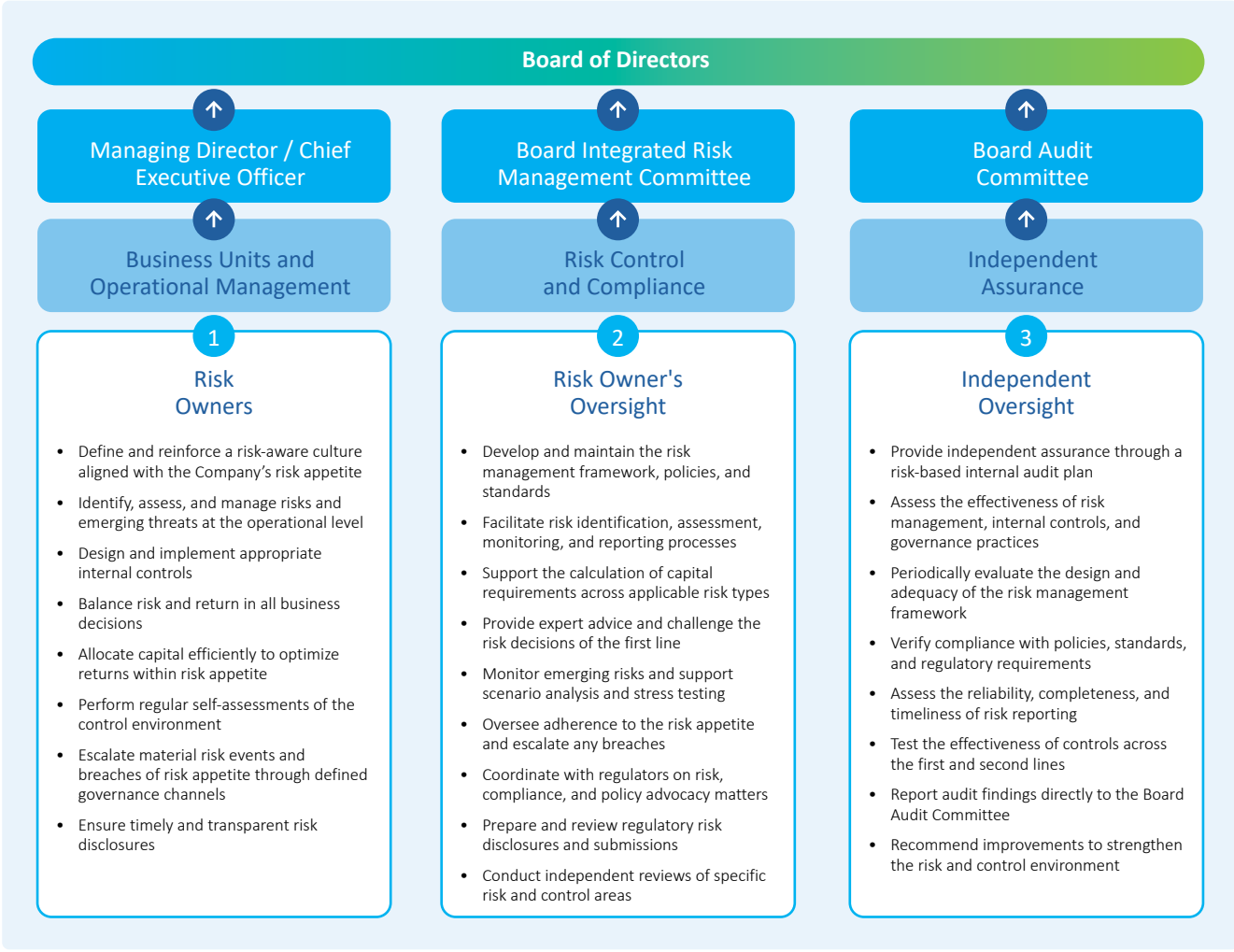
The Company has established a comprehensive risk governance structure, guided by the Board of Directors and supported by a skilled and experienced management team. This structure ensures that risk management is embedded across all levels of the organisation, enabling the Company to operate effectively within its defined risk appetite while achieving strategic objectives.

Risk governance at HNB Finance PLC is built on the internationally recognized Three Lines of Defence model, which clearly delineates responsibilities across business units, oversight functions, and internal assurance providers. This model enhances accountability, transparency, and communication both internally and with external stakeholders while supporting a robust and responsive risk culture.

Under this framework, every employee plays a role in managing risk, with clearly defined responsibilities aligned to their function. Risk management is not limited to specialist departments but is an integral part of day-to-day decision-making and operational execution.

- The **First Line of Defence** comprises business units and operational management. They are responsible for identifying, assessing, and managing risks within their respective areas while ensuring compliance with internal policies and procedures.
- The **Second Line of Defence** consists of independent control functions such as Risk Management and Compliance. These functions establish risk management frameworks, monitor adherence to risk policies, and provide oversight and guidance to the first line.
- The **Third Line of Defence,** Internal Audit, operates independently from management and provides objective assurance on the effectiveness of the Company's risk management, internal controls, and governance processes across the first and second lines.

This structured approach ensures that risk is effectively managed across the enterprise, reinforcing the Company's ability to create sustainable value while maintaining regulatory compliance and stakeholder confidence.



Organisational Structure for Risk Governance

The Company has instituted a well-defined and multi-layered risk governance structure that ensures effective oversight and management of risks across all levels of the organisation. This structure is designed to promote accountability, enhance transparency, and align risk-taking activities with the Company's strategic goals and regulatory obligations.

The Board of Directors holds the ultimate responsibility for establishing the Company's risk management policies and overseeing their effective implementation. In fulfilling this mandate, the Board is supported by a number of specialised Board Subcommittees, each tasked with oversight of key risk areas. These include:

- Board Strategic and Investments Review Committee (BSIRC)
- Board Integrated Risk Management Committee (BIRMC)
- Board Audit Committee (BAC)
- Board Credit Committee (BCC)
- Board Recovery Committee (BRC)

Each Subcommittee focuses on pecific dimensions of risk, enabling a comprehensive and coordinated approach to risk governance.

To operationalise risk strategies and ensure their integration into daily business activities, the Board and its Subcommittees are supported by several Management-Level Committees, including:

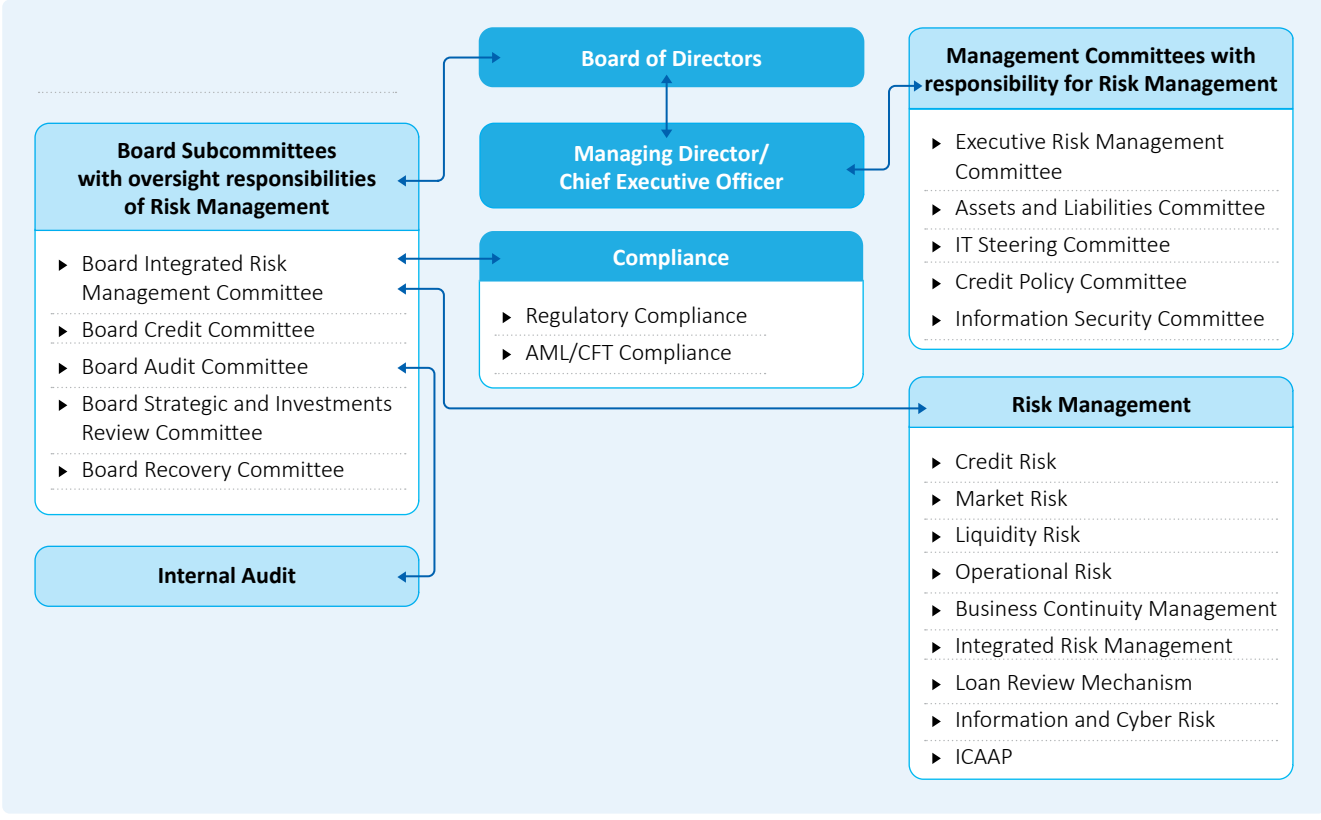
- Assets and Liabilities Committee (ALCO)
- Executive Risk Management Committee (ERMC)
- Credit Policy Committee (CPC)
- IT Steering Committee (ITSC)
- Information Security Committee (ISC)

These committees provide the necessary support for implementing risk policies, monitoring exposures, and responding to emerging threats across the business.

In addition, the Risk Management, Compliance, and Internal Audit departments function as independent

control and assurance units within the governance framework. These functions provide objective oversight, ensure adherence to regulatory and internal standards, and deliver independent assurance on the effectiveness of the Company's risk management practices.

This integrated structure reinforces a culture of risk awareness and enables proactive, informed decision-making throughout the organisation.



Roles and Responsibilities of Board and Committees in relation to Risk Management

Board/Board Subcommittees	Role of Board or Board Subcommittee in relation to Risk Management
Board of Directors	The Board of Directors holds ultimate responsibility for the Company's risk oversight by setting its risk strategy, defining the risk appetite, and ensuring effective governance through sound risk management policies and controls, thereby aligning risk-taking activities with the Company's strategic objectives and safeguarding its financial stability.
Board Strategic and Investments Review Committee (BSIRC)	Guides the Company's strategic direction and ensures alignment between business strategy, performance goals, and risk appetite.
Board Integrated Risk Management Committee (BIRMC)	Oversee the adequacy and effectiveness of the Company's risk management framework to ensure alignment with strategic objectives.
Board Audit Committee (BAC)	Oversee the integrity of financial reporting, internal control systems, and internal and external audit functions.
Board Credit Committee (BCC)	Provides oversight on all credit-related matters, including recommending credit strategy and policy to the Board.
Board Recovery Committee (BRC)	Monitors recovery strategies with a focus on stage 3 exposures and strengthening delinquent loan recoveries.

Management Committees	Role of Committee in relation to Risk Management
Executive Risk Management Committee (ERMC)	The apex management committee responsible for overseeing the effective identification, assessment, and management of enterprise-wide business risks.
Credit Policy Committee (CPC)	Oversees the formulation and implementation of credit risk strategies, including policies, exposure limits, and the credit appraisal, approval, and administration framework.
Assets and Liabilities Committee (ALCO)	Manages liquidity, market, and interest rate risks while optimising the balance sheet structure, pricing strategy, and capital planning.
IT Steering Committee (ITSC)	Oversees the Company's IT strategy, infrastructure, and projects to ensure alignment with business objectives and mitigation of technology-related risks.
Information Security Committee (ISC)	Reviews and recommends measures to strengthen enterprise-wide information security and cyber resilience in line with regulatory and industry standards.

Key Independent Functions within the Risk Governance Structure

As part of the Company's comprehensive risk governance framework, three independent control functions play a critical role in maintaining effective oversight, promoting regulatory compliance, and providing assurance to the Board of Directors and its Committees.

Risk Management Department

The Risk Management Department is responsible for providing independent oversight of the Company's risk exposures and supporting the development of a robust risk culture across the organization. Operating under the strategic direction of the BIRMC, the department is led by the Chief Risk Officer (CRO), who reports directly to the BIRMC. The CRO is tasked with formulating and implementing risk management policies, frameworks, and procedures across all business lines, ensuring that risks are identified, assessed, and mitigated in a proactive and structured manner. The CRO is a standing member of all Management Committees and attends Board-level committees including BIRMC, BCC, BSIRC, BRC, and BAC by invitation.

Compliance Department

The Compliance Department ensures that the Company adheres to applicable laws, regulations, and internal policies governing its operations. Headed by the Head of Compliance, who reports independently to the BIRMC, the department works closely with senior management to identify, assess, monitor, and report on compliance risks. The Head of Compliance is a member of the Executive Risk Management Committee (ERMC) and participates in ALCO, BIRMC, BRPTRC, and BAC meetings by invitation, facilitating regulatory engagement and promoting a strong compliance culture.

Internal Audit Department

The Internal Audit Department provides independent and objective assurance on the effectiveness of the Company's internal controls, risk management processes, and governance systems. Led by the Head of Internal Audit, who reports functionally to the Board Audit Committee (BAC), the department operates in accordance with the Company's Internal Audit Charter and relevant professional standards. The Head of Internal Audit is responsible for executing a risk-based audit plan and evaluating the integrity of operational, financial, and compliance systems. The Head of Internal Audit is a regular invitee to ERMC, BIRMC, and BAC meetings, and ensuring continuous engagement and oversight.

KEY INITIATIVES ADOPTED BY THE COMPANY TO STRENGTHEN RISK MANAGEMENT IN 2024/25

Credit Risk Management

- The Credit Risk Management Policy was formulated and implemented in accordance with Section 4.2(a) of the Finance Business Act Direction No. 02 of 2024 on Credit Risk Management, with the concurrence of the BIRMC and the approval of the Board of Directors.
- Credit risk management strategies were comprehensively reviewed by the BIRMC to ensure the continued quality, stability, and prudence of the Company's loan portfolio.
- The Company's overarching credit strategy was reviewed and formally adopted with the concurrence of the Board Credit Committee (BCC) and the Board Strategic and Investments Review Committee (BSIRC), followed by the approval of the Board of Directors.
- The risk-based Credit Scoring Model was revised based on findings from a detailed assessment of individual models. The enhanced model was subsequently implemented through the workflow system, with extended deployment via a mobile application to support field-level accessibility and efficiency.
- The Policy on Rescheduling and Restructuring was reviewed and updated to align with the requirements stipulated under the Finance Business Act Direction No. 01 of 2020 on Classification and Measurement of Credit Facilities.
- The list of risk-elevated industries was re-evaluated and updated to reflect prevailing macroeconomic conditions, thereby reinforcing prudent risk mitigation practices across credit exposures.
- The scope of the Loan Review Mechanism was significantly enhanced to strengthen post-disbursement monitoring. Identified risks were addressed through appropriate corrective measures to prevent recurrence and improve portfolio resilience.
- The Company proactively engaged with affected customers, closely monitoring their financial exposure and repayment performance, while implementing tailored revival plans to support viable yet distressed borrowers.
- A series of targeted training programs were conducted for relevant staff members, focusing on credit evaluation, credit risk management practices, and credit scoring methodologies, with the objective of enhancing credit origination standards and risk awareness across lending operations.

Market Risk, Liquidity Risk, Capital Management and Risk Governance

- The Integrated Risk Management Framework was reviewed and further strengthened to enhance the oversight of material risks and reinforce the Company's overall risk governance structure.
- The Risk Appetite Framework was revisited and updated to ensure its continued alignment with the Company's strategic objectives, capital planning initiatives, and the evolving risk landscape.
- A comprehensive and forward-looking Internal Capital Adequacy Assessment Process (ICAAP) was implemented, incorporating capital planning over a three-year horizon, advanced stress testing methodologies, and detailed assessments of material risks. The ICAAP was fully integrated into the Company's strategic planning and governance mechanisms and was duly approved by the Board of Directors following internal validation and review by the BIRMC.
- A robust Integrated Stress Testing Policy was developed and executed to comprehensively address key risk domains, including credit, liquidity, market, and operational risks. The policy embeds structured scenario analysis within the ICAAP framework, thereby enhancing the Company's forward-looking capital planning and enabling more informed strategic decision-making.
- Oversight of treasury-related risks was significantly enhanced through improvements made to the Treasury Middle Office function, which now operates as an independent monitoring and control mechanism in line with the Company's defined risk appetite and best practices.
- The Company's liquidity and funding requirements were periodically reviewed, and proactive measures were taken to strengthen contingency funding capabilities, ensuring financial resilience under stressed conditions.
- Continuous monitoring was carried out on the deposit maturity profile, funding composition, cost of funds, and the re-pricing impact on both deposits and borrowings to effectively manage liquidity and interest rate risks.
- Regular sensitivity analyses were conducted to evaluate the impact of re-pricing on the cost of deposits, based on the maturity structure of the deposit base, supporting prudent interest rate risk management.

Operational Risk

- In accordance with Section 4.4(a) of the Finance Business Act Direction No. 04 of 2024 on Operational Risk Management, the Operational Risk Policy was comprehensively reviewed and enhanced. Key areas of improvement included the Operational Risk Management Framework, Risk and Control Self-Assessment (RCSA), RCSA execution processes, Root Cause Analysis (RCA), Scenario Analysis, Risk Appetite and Tolerance, Capital Allocation, and the application of Risk Matrix and Heat Map methodologies.
- The Business Continuity Plan (BCP) Policy was reviewed and further strengthened, with particular enhancements to Recovery Time Objectives (RTOs) and Recovery Point Objectives (RPOs) for critical systems and applications to ensure heightened operational resilience.
- Introduced a Policy on New Product Development to ensure that all new products and services are subject

to a structured risk assessment process, incorporating operational, compliance, reputational, and strategic risk considerations prior to approval and launch.

- The Company conducted its annual BCP testing across all departments, along with Disaster Recovery (DR) drills for IT systems. These exercises covered Critical, Less Critical, and Non-Critical systems to evaluate performance against established RTOs and RPOs under both failover and failback scenarios.
- The Operational Loss Incident Reporting process was streamlined to enhance the identification, documentation, and root cause analysis of incidents, thereby supporting more effective mitigation strategies and control improvements.
- RCSA outcomes were reviewed across all departments, product lines, and outsourced service providers to assess inherent risks and to implement targeted risk mitigation measures aimed at reducing residual risk and potential financial or reputational loss.
- Scenario analyses were conducted on selected low-frequency, high-impact events to evaluate the Company's preparedness and assess the potential impact on critical operations, thereby informing risk management and continuity planning.
- Targeted training sessions were delivered to business and operational teams to strengthen their capabilities in identifying, reporting, and mitigating operational risks, with the objective of embedding a strong risk-aware culture throughout the organisation.

Information and Cyber Risk Management

- The Information Security Policies Manual (ISPM) was comprehensively revised to ensure full alignment with the ISO/IEC 27001 standard: Information Security, Cybersecurity and Privacy Protection – Information Security Management Systems – Requirements. The revisions reflect the Company's commitment to the best international practices in information security governance.
- The procedures of the Information Security Management System (ISMS) were updated to ensure consistency with the revised ISPM and to maintain alignment with global standards in cybersecurity and information risk management.
- An Information Security Committee was formally established, with the approval of its Terms of Reference by the Board, to provide oversight and strategic direction on all matters related to information security and cybersecurity risks.
- The implementation of the Board-approved Information Security Strategy progressed in alignment with the ISPM, ISMS framework, and ISO/IEC 27001 standards. Key milestones achieved during the year included the successful deployment of Multi-Factor Authentication (MFA), advanced encryption protocols, and the rollout of comprehensive staff cybersecurity awareness training. The implementation of Data Loss Prevention (DLP) measures is in its final stage of completion.
- The Company's firewall infrastructure was upgraded to the latest stable version, significantly enhancing perimeter defenses and improving the Company's resilience against emerging and sophisticated cyber threats.

Compliance Risk Management

- Implemented a compliance review process to ensure the accuracy, completeness, and timely submission of statutory returns to the Central Bank of Sri Lanka, thereby upholding regulatory accountability and operational transparency.
- The continuity and effectiveness of outsourcing arrangements were closely monitored to ensure alignment with the Finance Business Act Direction No. 07 of 2018 on Outsourcing of Business Operations, thereby strengthening risk controls over third-party service providers.
- The Related Party Transactions Policy was further strengthened to enhance transparency, improve governance practices, and ensure ongoing compliance with regulatory requirements.
- The Anti-Bribery and Anti-Corruption Policy was established to reinforce the Company's ethical standards, reaffirm its zero-tolerance stance on corruption, and align with international best practices in corporate integrity.
- The Outsourcing Policy Framework was updated to reflect evolving regulatory expectations and to embed more robust risk mitigation measures within all outsourced operational functions.
- The Accessibility Policy was introduced as part of the Company's commitment to inclusivity, ensuring equitable access to financial services and supporting socially responsible service delivery.
- The Compliance Policy was refined to clearly define the Company's regulatory approach and to further embed a strong compliance culture across all levels of the organisation.
- The Annual Compliance Plan was formally approved, and its implementation was closely monitored by the BIRMC to ensure timely completion of initiatives and proactive management of regulatory obligations.
- The Complaint Handling and Redress Policy was enhanced to strengthen customer protection measures and promote more efficient and transparent grievance resolution mechanisms.
- Compliance audits were conducted across branch operations to assess adherence to internal policies and regulatory frameworks, thereby reinforcing operational discipline and institutional accountability.
- Targeted training programs were conducted for staff on Anti-Money Laundering (AML), Countering the Financing of Terrorism (CFT), and Financial Consumer Protection regulations to build regulatory awareness and strengthen compliance capabilities throughout the organisation.

INTEGRATED RISK MANAGEMENT AND CAPITAL MANAGEMENT

Capital risk is defined as the risk of the Company failing to maintain adequate capital either in quantitative or qualitative terms to support its strategic business objectives, absorb unexpected losses, and meet regulatory requirements and market expectations.

The Company adopts a prudent, forward-looking approach to capital management, supported by a comprehensive framework that ensures financial resilience, enables sustainable growth, maintains stakeholder confidence, and ensures full compliance with applicable regulatory capital adequacy requirements. This capital management framework includes the setting of internal capital targets, aligning dividend policies with long-term capital objectives, capital planning, stress testing, and ensuring sufficient liquidity and funding buffers under varying economic conditions.

During the financial year 2024/25, the Company implemented the Internal Capital Adequacy Assessment Process (ICAAP) as part of its commitment to sound capital management. In the absence of specific ICAAP guidelines applicable to Finance Companies, the Company developed its ICAAP framework in line with the Banking Act Direction No. 01 of 2016 and Basel regulatory standards, thereby aligning with international best practices.

The ICAAP framework comprehensively incorporates both Pillar I and Pillar II risks as outlined below:

- **Pillar I Risks:**

  Credit Risk – assessed using the Standardised Approach

  Operational Risk – assessed using the Basic Indicator Approach

  Market Risk – not considered under the Finance Business Act Direction No. 03 of 2018, given that exposure to market risk within the Finance Company sector is deemed minimal. The Company does not currently carry any market risk exposure.

- **Pillar II Risks:**

  The Company has identified and assessed the following material risks under Pillar II: Credit Concentration Risk, Interest Rate Risk in the Banking Book (IRRBB), Liquidity Risk, Reputational Risk, Strategic Risk, Information and Cyber Risk, Legal Risk, and Compliance Risk.

The ICAAP process includes a comprehensive capital planning exercise covering a forward-looking horizon of three years, enabling the Company to anticipate and respond to emerging risks. Additionally, the Company performs stress testing including company-specific and macroeconomic stress scenarios over the projected three-year period to evaluate the resilience of its capital position under adverse conditions.

Further, the ICAAP framework incorporates well-defined management actions and capital triggers that enable proactive response in the event capital levels fall below internally set thresholds.

Through the implementation and ongoing enhancement of the ICAAP, the Company ensures that capital levels remain aligned with its risk profile and growth strategy, thereby strengthening its ability to withstand economic shocks while delivering long-term value to stakeholders. The following table and chart illustrate the composition of the Company's capital in accordance with the regulatory capital adequacy requirements.

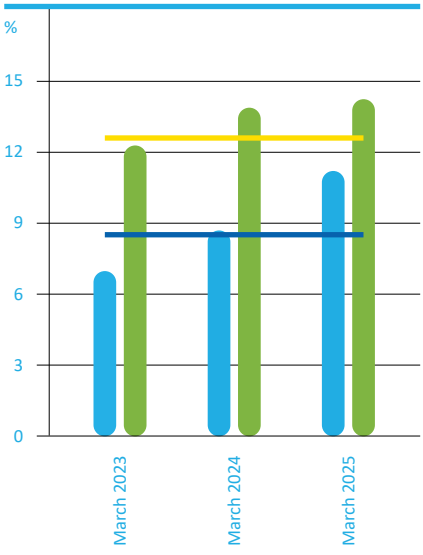
Regulatory Capital Requirements

Components of Capital	Regulatory Capital Requirement (%)	Company's Position as at 31.03.2025		31.03.2024		31.03.2023	
		%	LKR Mn.	%	LKR Mn.	%	LKR Mn.
Tier – 1 (Core) Capital	8.50	11.38	5,798	8.81	3,615	7.08	3,354
Total Capital	12.50	14.44	7,359	14.10	5,784	12.49	5,918

Risk Weighted Assets and Capital Charge

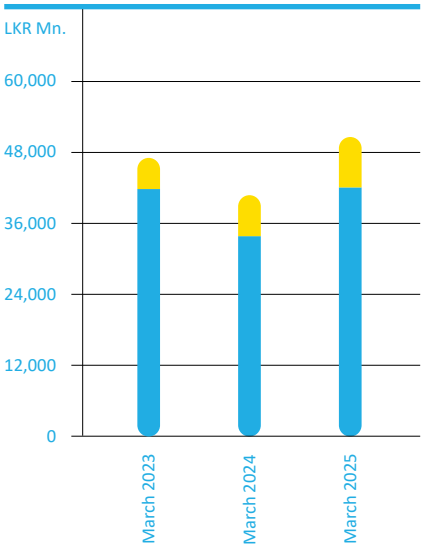
	Risk Weighted Assets			Capital Required		
	31.03.2025 LKR Mn.	31.03.2024 LKR Mn.	31.03.2023 LKR Mn.	31.03.2025 LKR Mn.	31.03.2024 LKR Mn.	31.03.2023 LKR Mn.
Credit Risk	42,400	34,091	42,084	5,300	4,261	5,261
Operational Risk	8,546	6,934	5,308	1,068	867	664
Total	50,946	41,025	47,392	6,368	5,128	5,924

Capital Adequacy



Tier I CAR
Total CAR
Regulatory Requirement (Tier 1 CAR)
Regulatory Requirement (Total CAR)

Risk Weighted Assets

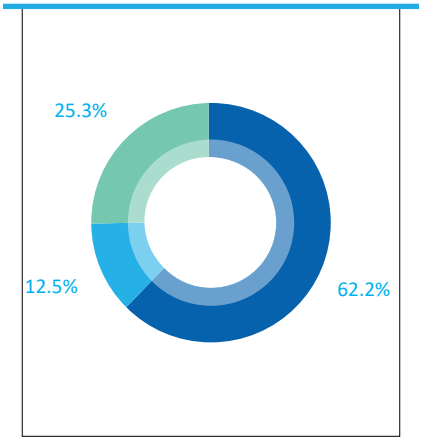


Credit Risk
Operational Risk

Following the amalgamation with Prime Finance PLC and the adverse financial performance during the financial year 2022/23 primarily driven by the broader economic downturn in Sri Lanka, the Company's capital position was significantly impacted. In recognition of the challenges arising from the amalgamation and prevailing economic conditions, the Central Bank of Sri Lanka granted regulatory relief by deferring the requirement to maintain the minimum Core Capital and Total Capital Ratio for a period of three years, effective from 31 May 2022.

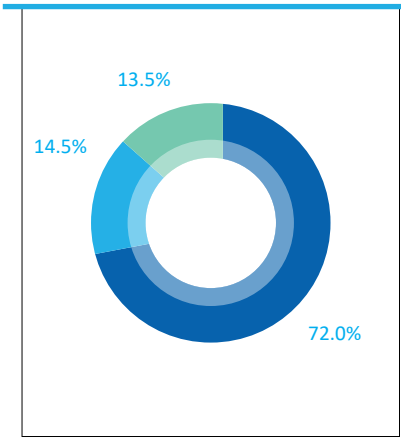
In response, the Company implemented a comprehensive Capital Augmentation Plan aimed at restoring and strengthening its capital adequacy position. As part of this initiative, the Company successfully raised LKR 1,193.1 Mn. in Tier I Capital through a Rights Issue of shares. In parallel, targeted strategies were introduced to enhance internal capital generation. These proactive measures have positioned the Company to achieve a well-capitalised status by 31 March 2025. As at 31 March 2025, the Company's Core Capital Ratio and Total Capital Ratio stood at 11.38% and 14.44%, respectively, compared to the regulatory minimum requirements of 8.50% and 12.50%.

Capital Charge and Buffer – Tier 1 Capital



Credit Risk
Operational Risk
Capital Buffer

Capital Charge and Buffer – Total Capital



Credit Risk
Operational Risk
Capital Buffer

Stress Testing

Stress testing is a critical component of the Company's risk management and capital planning framework, aimed at assessing the potential impact of exceptional but plausible adverse events on capital adequacy, profitability, and liquidity. While traditional risk metrics evaluate exposures under normal conditions, stress testing helps identify vulnerabilities that may emerge during economic or financial shocks. Given the absence of specific stress testing guidelines for Licensed Finance Companies, the Company adopts the principles outlined in the Central Bank of Sri Lanka's guidelines for Licensed Commercial Banks, as well as international standards issued by the Basel Committee on Banking Supervision.

The process involves developing a range of company-specific and macroeconomic stress scenarios across key risk areas. These scenarios are designed to estimate the financial resources, particularly capital and liquidity, needed to withstand extreme conditions. The stress testing framework also incorporates capital planning, management actions, and trigger levels to ensure proactive responses.

The outcomes of the stress tests are reported to the BIRMC and the Board of Directors, supporting sound risk-based decision-making and ensuring the Company remains adequately capitalized under stressed conditions.

The table below outlines the results of stress testing conducted under a moderate stress scenario, reflecting the potential impact on the Company's capital.

Risk Category	Stress Scenarios	Impact on Tier – 1 Capital Adequacy Ratio as at 31 March 2025		
		Moderate Impact	High Impact	Severe Impact
Credit Risk	Increase in the Non-Performing Loans and the respective provisioning	✓		
	Negative shift in the NPL categories and increase in the respective impairment provisions	✓		
	Large Borrower defaults	✓		
	Deterioration in entire portfolio as of SLFRS – 09	✓		
	Additional Impairment Charges for Unsecured portfolio.	✓		
	Overall Credit Quality deterioration (combined Scenario)		✓	
Market Risk	Unexpected fall in Gold Market Price	✓		
Operational Risk	Increase in the Operational Losses in the stress scenario	✓		

LIQUIDITY RISK

The Company has established a sound liquidity risk management framework to ensure its financial resilience and ability to operate effectively under both normal and stressed conditions.

The Treasury Division manages the Company's liquidity risk with the objective of ensuring that funding commitments and deposit withdrawals are met as they become due, while adhering to minimum regulatory requirements and maintaining cost-effective access to market funding. The Company's liquidity strategy is implemented in accordance with the Board-approved Treasury Policy and Treasury Manual, under the oversight of the Company's ALCO. The respective responsibilities of ALCO, the Treasury Division, and the Risk Management Department in managing liquidity risk are as follows:

Department/Committee	Responsibilities in Managing Liquidity Risk
ALCO	Provides oversight of the Company's liquidity strategy by monitoring risk exposures, setting limits and guidelines, reviewing the contractual and behavioral maturity profiles of assets and liabilities, assessing key liquidity ratios and gaps, and evaluating mitigation strategies for effective liquidity risk management.
Treasury Division	Responsible for forecasting the Company's liquidity requirements, ensuring ongoing compliance with regulatory standards, and executing strategies to maintain adequate liquidity levels.
Risk Management Department	Oversee the continuous monitoring of liquidity risk, formulates and updates mitigation strategies, policies, and procedures, conducts stress testing to assess the Company's resilience under adverse conditions, and monitors adherence to regulatory requirements and internal risk appetite limits related to liquidity risk.

The Company maintains an adequate level of unencumbered liquid assets to support its operational and strategic needs. These assets can be readily sold or pledged to meet financial obligations as they fall due. The Treasury Division plays a critical role in the day-to-day management of liquidity risk by projecting cash flow requirements in coordination with the Deposits, Credit, and Recoveries Department, and determining the necessary liquidity levels based on these assessments.

In line with the best international practices, the Company employs a combined stock and flow approach to measure and manage liquidity risk. The stock approach evaluates the Company's static liquidity

position by analysing key balance sheet ratios against the established risk appetite. The flow approach focuses on forecasting and managing cash inflows and outflows over various time horizons, facilitating the identification of potential cash flow mismatches. This integrated approach enhances the Company's ability to manage short-term liquidity requirements, anticipate emerging liquidity risks, and maintain appropriate liquidity buffers.

Contingent Funding Arrangements

To strengthen liquidity risk management framework, the Company has established Contingent Funding Arrangements in line with the requirements outlined in the Board-approved Treasury Policy. The Treasury Division is responsible for maintaining and managing these arrangements, which are designed to ensure access to alternative funding sources during periods of liquidity stress. Oversight of the adequacy and effectiveness of the contingency funding plan is provided by the ALCO. These arrangements are tested annually to confirm that the unutilised portion can be accessed without restriction when required. Regular updates on the status and effectiveness of the contingency funding plan are submitted to the BIRMC and the Board of Directors, ensuring proactive oversight and timely decision-making.

Stress Testing

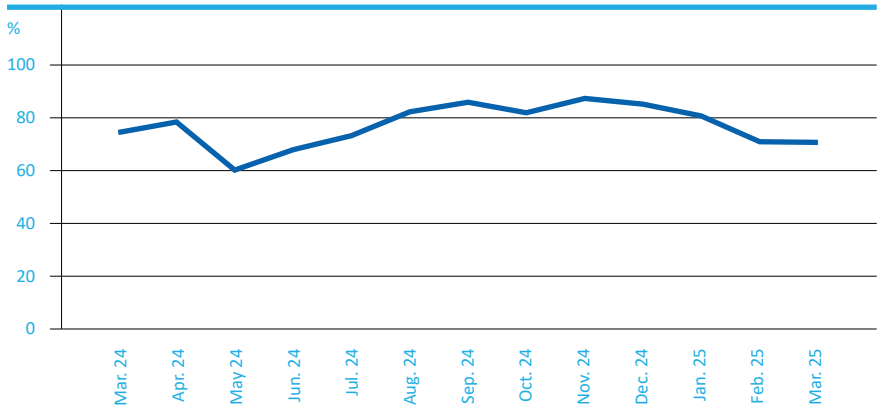
The Company conducts periodic liquidity stress testing to assess its capacity to remain resilient under adverse liquidity conditions. Given the Company's operational profile and funding structure, stress testing plays a critical role in evaluating the potential impact of liquidity shocks on its financial stability. These stress tests are carried out using current balance sheet data and are designed around four distinct scenarios that reflect severe but plausible liquidity events. The results provide insight into the potential impact on the Statutory Liquid Asset Ratio (SLAR) and inform strategic decisions to strengthen the Company's liquidity position.

The outcomes of the stress tests are reported to the BIRMC and the Board of Directors, supporting sound risk-based decision-making and ensuring the Company maintains adequate liquidity under stressed conditions.

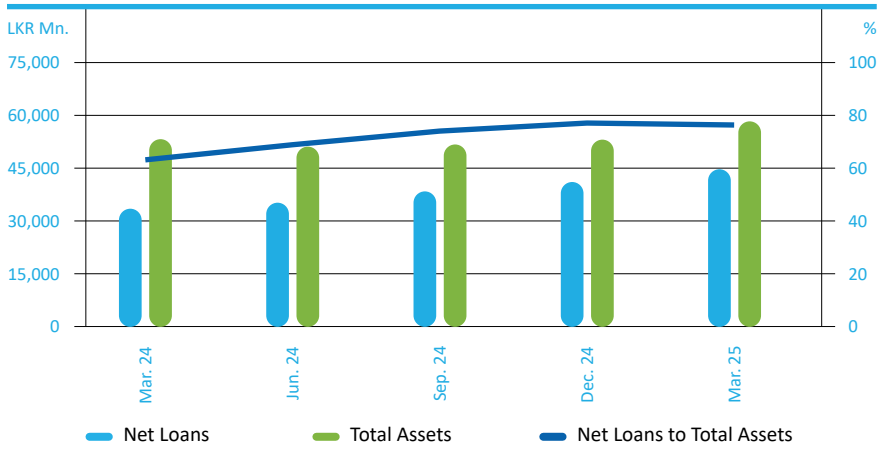
The table below outlines the results of stress testing conducted under a moderate stress scenario, highlighting the potential effect on the Company's SLAR.

Stress Scenarios	Impact on SLAR as at 31 March 2025		
	Moderate Impact	High Impact	Severe Impact
Unexpected fall in the Deposit Base	✓		
Pre-mature withdrawal of Deposits by top 35 customers		✓	
Maturity withdrawal of Top 50 Customers for next three months	✓		
Fall in renewal ratio for next three months	✓		

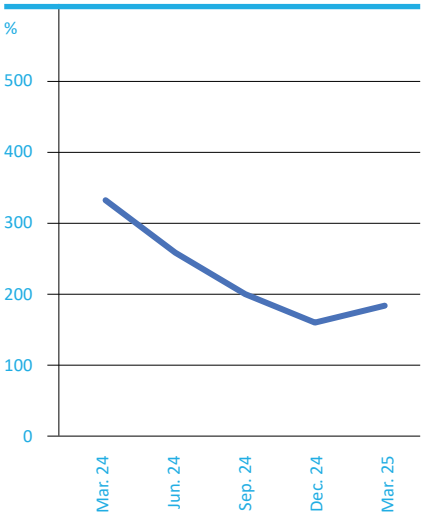
Deposit Renewal Ratio



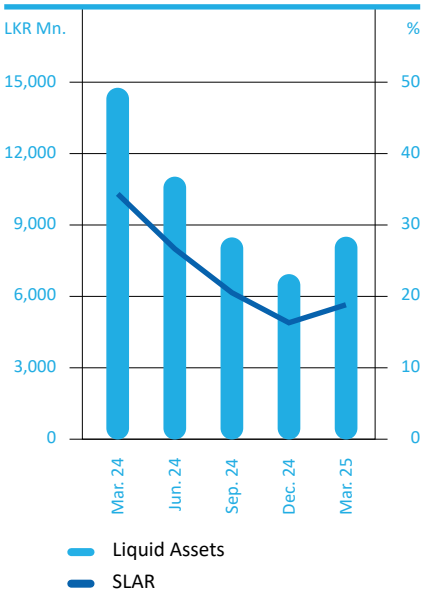
Net Loans to Total Assets



Statutory Liquid Asset Coverage Ratio



Liquid Assets to SLAR



CREDIT RISK

The Company recognizes that the effective management of credit risk is fundamental to financial stability and long-term sustainability. Accordingly, a robust credit risk culture is embedded across the organization, supported by a structured Credit Risk Management framework, Credit Risk Management Policies and controls.

The key objectives of the Company's credit risk management framework are to:

- Establish sound principles and controls that guide credit risk-taking activities.
- Accurately identify, assess, and measure credit risk across all business lines and product portfolios, from individual exposures to the aggregate portfolio level.
- Manage credit risk within the approved risk appetite, while avoiding undesirable concentrations.
- Monitor exposures and ensure compliance with established limits and control mechanisms; and
- Align risk-taking with expected returns, enabling the Company to achieve its risk-reward objectives.

Credit Risk Management Strategy

The Company's Credit Risk Management Strategy is designed to ensure that credit exposures are prudently managed in alignment with its overall risk appetite, regulatory requirements, and strategic objectives. Effective credit risk management is critical to preserving asset quality, maintaining financial stability, and securing the long-term sustainability of the Company.

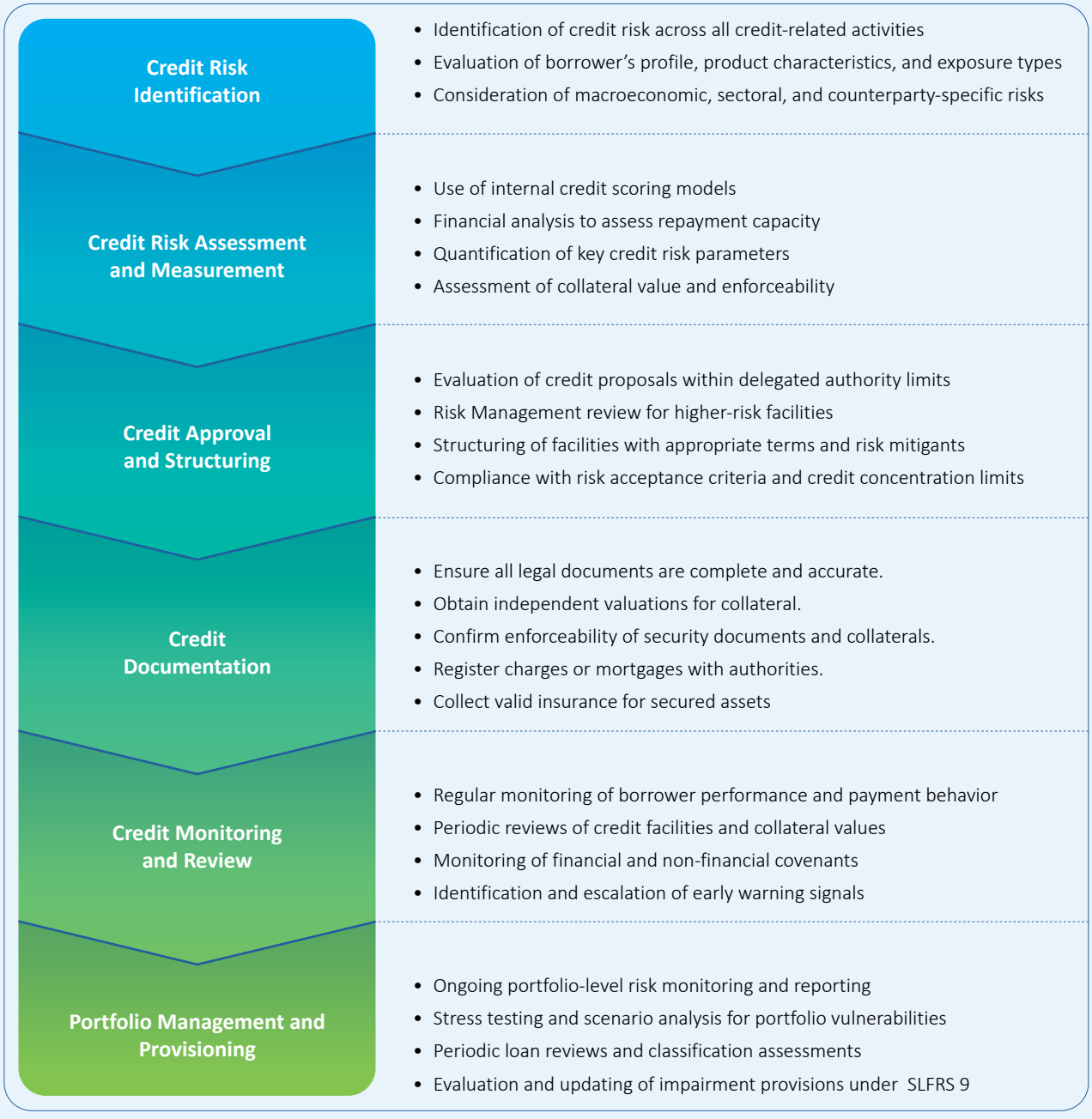
The overarching goal of the credit risk management function is to optimise risk-adjusted returns while ensuring that credit risk exposures remain within the acceptable thresholds set by the Board of Directors. To achieve this, the Company has established a comprehensive set of strategic measures, which are articulated in the Credit Risk Management Policy.

Key elements of the strategy include the establishment of a clear credit risk appetite that defines the level of risk the Company is prepared to undertake, along with credit concentration limits to mitigate excessive exposure to individual borrowers, sectors, or collateral types. Delegation of Authority limits are enforced to ensure accountability and appropriate oversight in credit decision-making, while high-value facilities require clearance from the Risk Management Department to ensure independent and robust risk assessment.

The Company also employs credit scoring models and well-defined risk acceptance criteria at the point of loan origination to evaluate the probability of default. A structured Loan Review Mechanism (LRM) is in place to monitor asset quality and detect early warning signals. Additionally, credit risk is continuously reviewed at both the portfolio and individual exposure level, particularly for large loans, to ensure that emerging risks are identified and proactively addressed.

Credit Risk Management Process

The Company has implemented a robust and systematic Credit Risk Management Process to ensure credit exposures are assessed, monitored, and controlled in line with its risk appetite and regulatory requirements. This process is integral to maintaining a high-quality credit portfolio and supports the Company's commitment to responsible lending. The steps of the process are outlined below:



Managing delinquent loans and impairment process

Maintaining asset quality remains a key objective of the Company's risk management framework. The Recoveries Department exercises close oversight of the lending portfolio to ensure timely identification of credit deterioration and implementation of appropriate remedial actions. The portfolio is managed in accordance with the three-stage impairment model under SLFRS 9:

- **Stage 1** includes performing loans that have not experienced a significant increase in credit risk since initial recognition. These exposures are subject to a 12-month Expected Credit Loss (ECL) assessment, which captures default events that are possible within the next 12 months.
- **Stage 2** includes exposures that have shown a significant increase in credit risk but are not yet credit impaired. These are assessed for Lifetime ECL, representing all possible default events over the expected life of the financial instrument.
- **Stage 3** includes credit-impaired exposures where there is objective evidence of default or significant financial distress. These are also assessed for Lifetime ECL and represent the highest risk category.

The Call Center, is mainly responsible for the Stage 1 portfolio, maintaining regular contact with customers to ensure timely repayments and prevent slippages to higher-risk stages. They proactively engage with customers to uphold repayment discipline and mitigate emerging risks at the earliest stage.

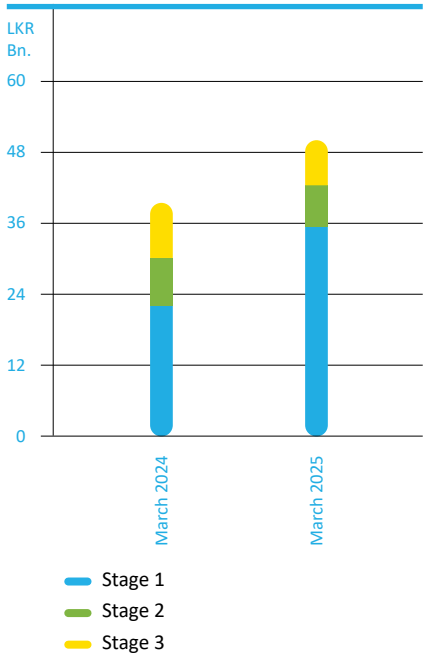
Recovery Officers manage the Stage 2 portfolio, conducting frequent field visits and closely engaging with customers. Their role includes implementing targeted recovery strategies to prevent further deterioration and actively working towards upgrading these accounts to Stage 1 wherever feasible.

The Stage 3 portfolio is handled by a Specialised Recovery Team, which undertakes intensive recovery efforts aimed at maximising collections from non-performing loans. Their strategies may include borrower rehabilitation/ restructuring of facilities, and ongoing engagement with borrowers until recovery matters are resolved. Legal proceedings and collateral liquidation are initiated only as a measure of last resort.

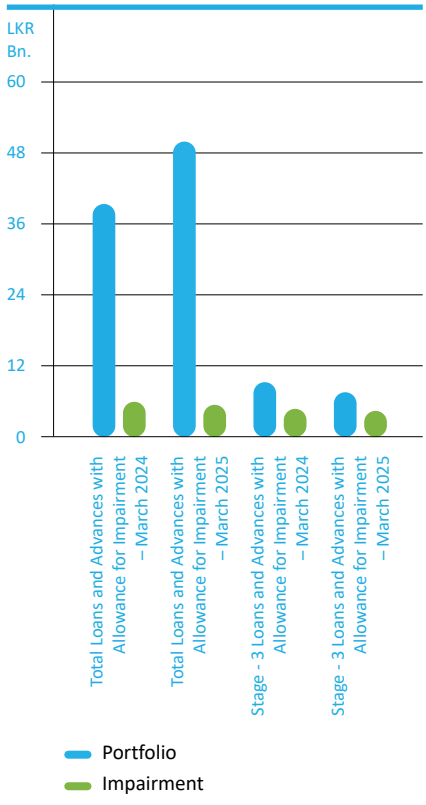
The credit quality of the portfolio improved during FY 2024/25, reflective of the Company's prudent approach to managing credit risk. This improvement was supported by enhanced monitoring, early warning mechanisms, and proactive recovery strategies across all stages of the impairment model. It was further reinforced by a stringently applied Credit Appraisal and Approval process, including the use of a robust Credit Scoring Mechanism, a comprehensive Post-Disbursement Review process, and the implementation of a risk-based Loan Review Mechanism to ensure early identification and mitigation of potential risks.

Impairment charges are calculated in accordance with applicable accounting standards. Individually significant loans are assessed on a case-by-case basis, while the remainder of the portfolio is evaluated collectively by grouping exposures with similar risk characteristics. At each reporting date, the Company determines whether objective evidence of credit impairment exists. The resulting impairment charges are recognised in the Income Statement as credit costs, reflecting the Company's prudent approach to managing asset quality and credit risk.

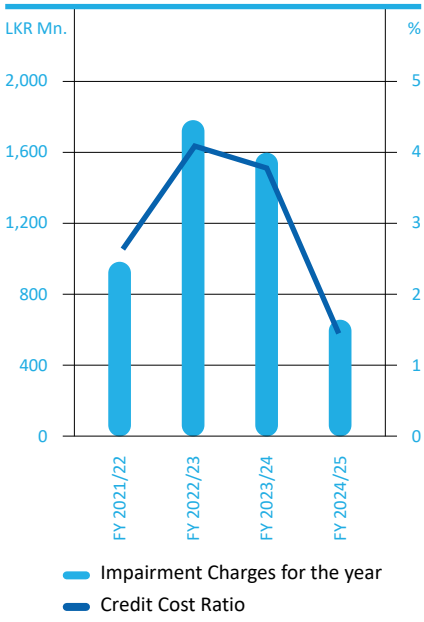
Stage Analysis of Loans and Advances



Loans and Advances with Allowance for Impairment



Impairment Charges and Credit Cost Ratio



Concentration risk

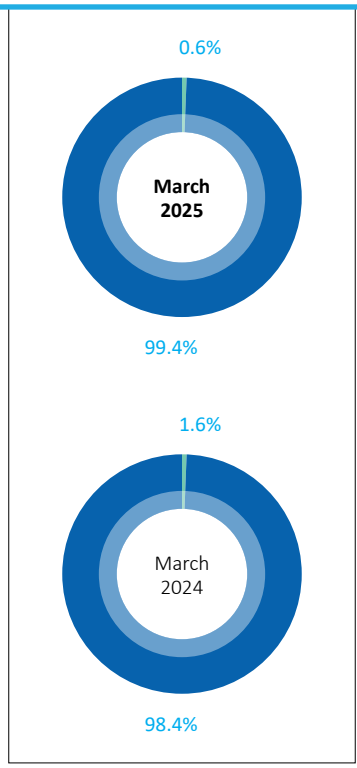
Credit concentration risk refers to the potential for significant losses arising from an uneven distribution of credit exposures across specific borrowers (name concentration), industry sectors, products, or geographic regions. A high level of exposure to any one segment can significantly increase the Company's vulnerability to adverse developments such as sector-specific downturns, borrower defaults, or regional economic disruptions.

To mitigate this risk, the Company adopts a strategic diversification approach, ensuring its lending portfolio is well-distributed across a wide range of industries, geographies, products, and customer segments. The Risk Appetite Statement, approved by the Board of Directors, defines specific exposure limits for counterparties, sectors, and regions. These limits are closely monitored by the Board, the BIRMC, and the ERMC, who also recommend revisions based on market trends and risk outlooks.

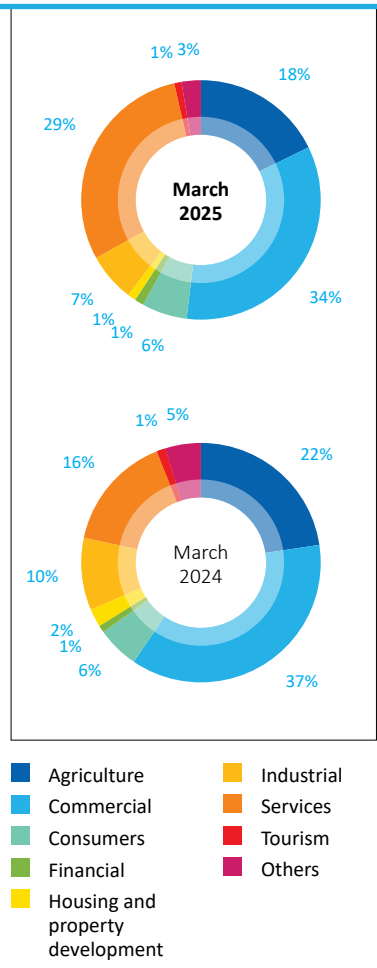
The Risk Management Department conducts regular reviews and detailed analyses to proactively identify concentration risk, including name concentration, and manage exposure to sectors or borrowers that exhibit elevated risk. This is supported by ongoing monitoring and periodic stress testing to assess the portfolio's resilience under adverse scenarios.

Credit concentration risk is also assessed under Pillar 2 of the Company's ICAAP. Based on the results of the Herfindahl-Hirschman Index (HHI), the Company determines the degree of credit concentration and allocates an appropriate capital charge to ensure adequate capital buffers are maintained against this risk.

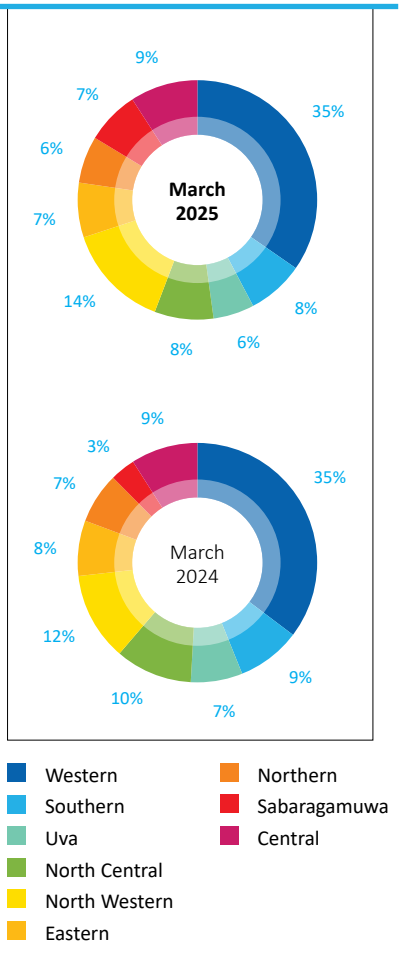
Exposure to Large Borrowers (>1% of Core Capital)



Sector Concentration



Geographical Concentration



MARKET RISK

The Company is primarily exposed to interest rate risk and commodity price risk, with notable sensitivity to movements in gold prices and vehicle values, which directly impact the value of collateral and asset recovery. While the Company's operations are not significantly exposed to trading or speculative positions, these market-driven factors remain critical due to their influence on lending portfolios and customer behavior.

Oversight of market risk is entrusted to the ALCO, which is responsible for monitoring exposures, ensuring alignment with the Company's risk appetite, and recommending appropriate risk mitigation strategies. The Risk Management Department supports this process by conducting periodic sensitivity analyses and stress testing to assess the potential impact of adverse market movements and to evaluate capital adequacy across a range of scenarios.

Interest Rate Risk

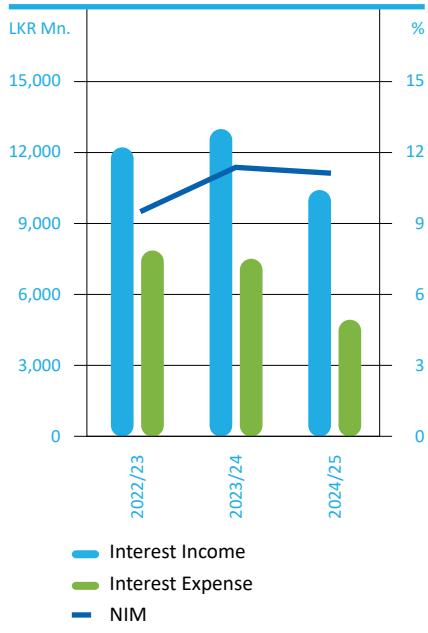
Interest rate risk is a key component of the Company's market risk exposure, arising from adverse and unanticipated movements in market interest rates that could impact the core business activities. It is defined as the potential for loss resulting from unexpected changes in interest rates, which can significantly affect both the Company's profitability (from an earnings perspective) and, to a lesser extent, the market value of equity (from a valuation perspective). Given the nature of the Company's operations, interest rate risk primarily affects earnings rather than the market value of portfolios.

The Company manages interest rate risk through a robust Asset and Liability Management (ALM) framework. The primary method of monitoring is the asset-liability repricing gap analysis, which distributes rate-sensitive assets and liabilities into maturity buckets based on their next repricing date. This allows the Company to identify mismatches and assess the potential impact of interest rate movements on net interest income (NII). Sensitivity analyses and scenario-based stress testing are carried out regularly to evaluate the effect of various interest rate environments on the Company's earnings.

Oversight of interest rate risk is the responsibility of the ALCO, which continuously monitors the interest rate environment, reviews repricing gaps, and evaluates the Company's NII position. ALCO ensures that interest rate exposures remain within the defined risk appetite, and it recommends appropriate adjustments to pricing, product offerings, and funding strategies based on market developments.

During FY 2022/23, the Company's Net Interest Margin (NIM) came under pressure due to the tight monetary policy stance adopted by the Central Bank of Sri Lanka, which led to faster repricing of fixed deposits compared to loans and advances. In response, the Company implemented targeted repricing strategies across its loan book, which contributed to the recovery and improvement of the NIM.

Interest Income, Expense and Net Interest Margin



Commodity Price Risk

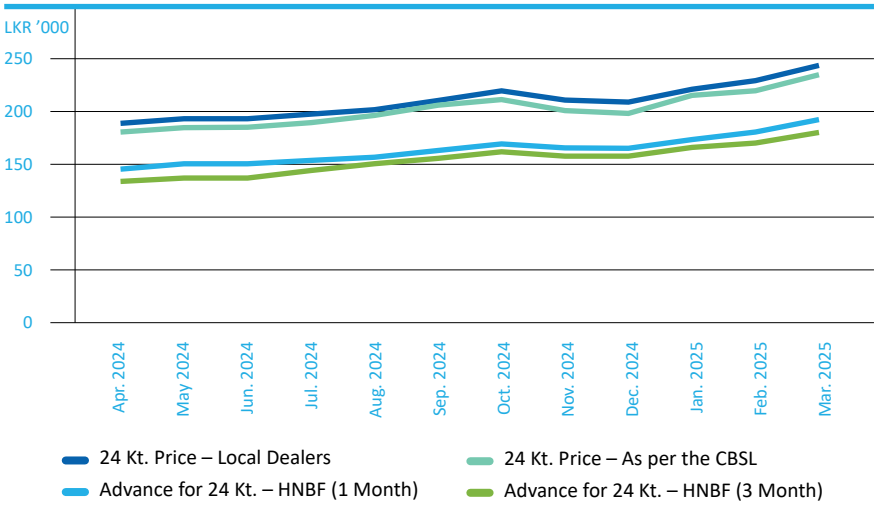
Commodity price risk refers to the potential adverse impact on the Company's financial performance or position resulting from fluctuations in the market prices of commodities. The Company is primarily exposed to commodity price risk through its Gold Loan Portfolio, where the underlying collateral value is directly linked to market movements in gold prices.

Given the inherent volatility of global and local gold prices, significant price drops can affect the loan-to-value (LTV) position of gold-backed advances, increasing the risk of under-collateralisation and potential credit losses. To mitigate this risk, the Company actively manages exposure through prudent LTV ratios, ensuring that lending remains well-collateralised even under stressed market conditions.

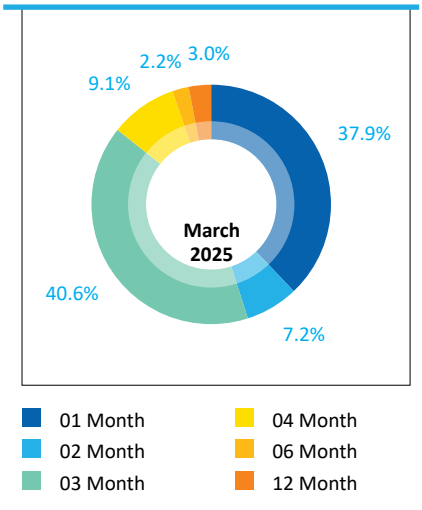
Commodity price risk is further managed through ongoing stress testing based on multiple adverse price scenarios. These tests assess the potential impact on portfolio quality and help guide risk-based decision-making, particularly in setting product terms and risk appetite thresholds.

In response to increased market volatility, the Company has strategically focused on shorter-tenure gold loans, typically with maturities of one to three months. This approach enables quicker portfolio turnover, more frequent revaluation of collateral, and improved responsiveness to changing market conditions.

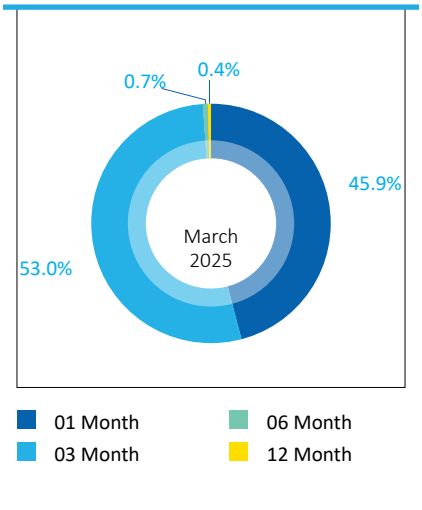
Gold Prices Movements and Advances (24 Kt.)



Gold Loan Tenor Analysis – March 2025



Gold Loan Tenor Analysis – March 2024



OPERATIONAL RISK

The Company has established a comprehensive Operational Risk Management (ORM) Policy designed to manage operational risks in an effective, efficient, and forward-looking manner. The policy outlines a clear governance framework, defines roles and responsibilities, and sets out the methodologies for risk identification, measurement, monitoring, control, and reporting.

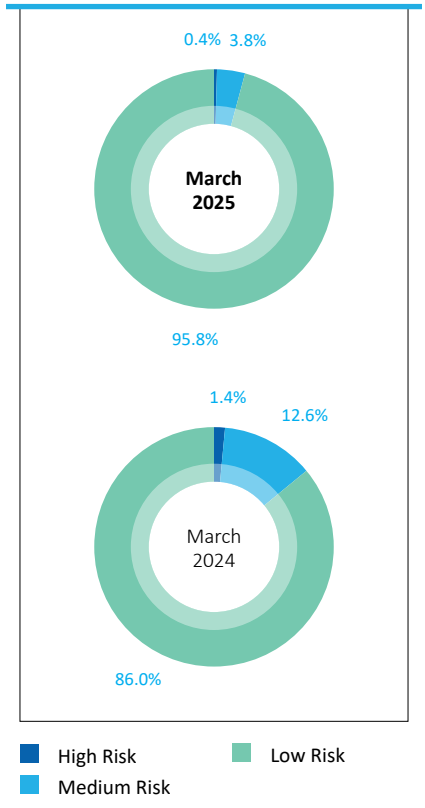
Responsibility for operational risk management lies with the Risk Management Department under the oversight of the BIRMC. The Risk Management Department ensures that operational risk is embedded in the Company's day-to-day operations and that business units are actively involved in identifying and managing their respective risk exposures.

To support this process, the Company employs a range of tools and techniques, including:

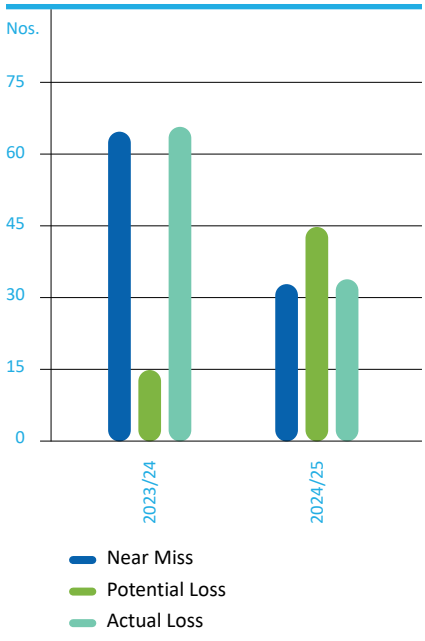
- **Risk and Control Self-Assessment (RCSA**) – The Company conducts RCSAs on a bi-annual basis to assess operational risks and the effectiveness of controls within each business unit. This structured process helps ensure that key risks are identified, evaluated, and managed effectively. Risk mitigation actions arising from the RCSA are followed up quarterly to ensure timely implementation and ongoing risk reduction. The Operational Risk Division reviews and consolidates the results to update the Company's overall operational risk profile.
- **Key Risk Indicators (KRIs)** – KRIs are used as early warning signals to detect potential increases in risk exposure. These indicators are continuously monitored, and their thresholds and triggers are reviewed periodically to align with the Company's risk appetite. This allows timely management intervention to prevent adverse outcomes.

- **Internal Loss Data Capturing and Reporting** – The Company maintains a centralised database to record all operational losses reported by branches and business/support units. These losses are categorized according to Basel's seven event-type classifications. Loss data is analysed to identify trends, support risk assessment, and inform control improvements across the organisation.
- **Risk Review of New Products and Processes** – A formal risk review process is in place for the introduction of new products, services, and processes. This ensures that operational risks are assessed and mitigated before implementation, in line with the Company's risk governance framework.
- **Root Cause Analysis (RCA)** – RCA is conducted following significant operational risk events to identify the underlying causes and prevent recurrence. It supports the enhancement of internal controls and process improvements.
- **Scenario Analysis** – Scenario Analysis is used to assess the impact of hypothetical but plausible operational risk events. It helps evaluate preparedness and contributes to risk capital assessment and strategic planning.

Summary of Risk and Control Self Assesment



Total Loss Events (Event – Wise)



Business Continuity Planning and Disaster Recovery

Business Continuity Planning (BCP) and Disaster Recovery (DR) are integral components of the Company's Operational Risk Management process. A comprehensive BCP framework is in place to ensure resilience and uninterrupted operations in the event of disruptions. The BCP Policy is reviewed formally approved by the Board on an annual basis to ensure its continued relevance and effectiveness.

The Business Continuity Planning Working Committee, chaired by the Managing Director/CEO and with the participation of the Chief Risk Officer (CRO), oversees the implementation and governance of the BCP. The Company has conducted a detailed Business Impact Analysis (BIA) to identify mission-critical business and support functions, define Recovery Time Objectives (RTOs) and Recovery Point Objectives (RPOs), and establish suitable recovery strategies.

BCP and DR tests are conducted annually at designated disaster recovery sites to assess the readiness of all systems and critical functions. A full-scale BCP and DR drill was conducted, during which all systems were operated from disaster recovery infrastructure over an extended period. The outcomes of the drill including test results, issues encountered, lessons learned, and corrective actions taken were reviewed thoroughly and reported to the BIRMC and the Board of Directors.

The entire BCP and DR drill process is independently audited by the Internal Audit Department and reported to the Board Audit Committee to ensure transparency and strengthen governance.

These measures reinforce the Company's ability to respond swiftly and effectively to operational disruptions, safeguarding business continuity and stakeholder confidence.

LEGAL RISK

Legal risk, a component of operational risk, refers to potential losses arising from inadequate or poorly executed contracts, absence of formal agreements, or non-compliance with legal and regulatory requirements. It includes exposure to fines, penalties, litigation costs, and private settlements.

The Company categorizes legal risk into contract risk, regulatory risk, policy risk, and litigation risk. A detailed legal risk review is conducted annually to assess exposures across the business. Legal and compliance teams work closely with business units to ensure contractual soundness and regulatory compliance. Training and oversight mechanisms are in place to support effective risk mitigation.

Capital charges for legal risk are assessed and allocated under Pillar 2 of the ICAAP, reflecting the Company's prudent approach to risk management.

COMPLIANCE RISK

Compliance risk refers to the potential for legal or regulatory sanctions, financial loss, or reputational damage due to non-compliance with laws, regulations, internal policies, or codes of conduct.

The Compliance Department plays a key role in managing this risk, including compliance with Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) requirements. It operates as the second line of defence and reports directly to the BIRMC.

The function supports the business in embedding regulatory compliance, conducting regular monitoring, and promoting awareness through training. The Company's strong compliance culture and Code of Ethics reinforce its commitment to integrity and ethical conduct.

Capital charges for compliance risk are assessed and allocated under Pillar 2 of the ICAAP, reflecting the Company's prudent approach to risk management.

INFORMATION AND CYBER RISK

The Technology Department, in close collaboration with the Information Security Department, holds primary responsibility for the governance and management of Information and Cyber Risks. This includes providing expert guidance to operational units on the implementation of robust system controls, as well as facilitating the identification, evaluation, and mitigation of technology-related threats.

To strengthen its cybersecurity posture, the Company has been enhancing its information security infrastructure. Key initiatives include the deployment of Advanced Threat Prevention (ATP), Endpoint Detection and Response (EDR), Multi-Factor Authentication (MFA), and Mobile Device Management (MDM). Additionally, the Company is in the final stages of implementing Data Loss Prevention (DLP) with Information Rights Management (IRM). These measures are designed to strengthen operational resilience and protect critical information assets.

Capital charges for Information and Cyber Risk are assessed and allocated under Pillar 2 of the ICAAP, reflecting the Company's prudent approach to risk management.

STRATEGIC RISK

The Board of Directors holds ultimate responsibility for overseeing strategic risks. Each year, the Board sets the Company's strategic direction, ensuring alignment with its vision, mission, and core values. A comprehensive three-year strategic plan is formulated and reviewed annually, supporting the continuous refinement of the Company's vision, purpose, and strategic priorities. The approved strategy defines short-term, medium-term, and long-term objectives, which are cascaded into departmental KPIs and operational targets through the annual budget. Senior management is responsible for aligning business unit objectives with these targets and ensuring effective execution across the Company.

The Strategic Planning Department monitors actual performance against strategic and budgetary targets on a quarterly basis and reports deviations to the Board Strategic and Investments Review Committee. Where necessary, corrective actions are recommended to realign performance with strategic goals. The department also tracks external developments to identify emerging risks and opportunities, facilitating timely strategic adjustments.

Strategic risk is assessed using a structured, qualitative scorecard approach, with capital charges allocated under Pillar 2 of the ICAAP, reflecting the Company's prudent approach to managing long-term risk exposures.

REPUTATIONAL RISK

The Company places strong emphasis on maintaining its reputation as a trusted and responsible financial services provider. Over the years, it has built a solid market presence through ethical conduct, sound leadership, prudent risk management, customer-centric practices, and a long-term strategic vision. Protecting and enhancing the Company's reputation remains a key priority, integrated into all levels of decision-making and operational processes.

The management of reputational risk involves continuous stakeholder engagement to understand and address emerging concerns. Feedback is regularly obtained from frontline staff, while traditional and social media platforms are actively monitored to detect and respond to potential threats. A formal procedure is in place to address social media inquiries, posts, and complaints in a timely and appropriate manner.

The Company has also adopted a robust governance framework that supports reputational resilience, including a Code of Ethics, Anti-Bribery and Anti-Corruption Policy, Communication Policy, and Whistleblowing Policy. These are applicable to all employees and promote a culture of accountability, transparency, and ethical behavior.

To quantify reputational risk, a structured scorecard approach is used to assess key risk drivers. Capital charges for reputational risk are allocated under Pillar 2 of the ICAAP, reflecting the Company's commitment to sound and forward-looking risk management.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RISK

The Company adopts a holistic approach to managing ESG risk across its operations and value chain. This includes identifying and mitigating ESG risks both within its internal operations and in its external relationships, particularly within its business portfolio.

Environmental risk management focuses on minimizing the Company's ecological footprint through energy efficiency, responsible resource usage, waste reduction, and active monitoring of its carbon emissions. The Company also supports environmental stewardship through conservation and green initiatives.

On the social front, the Company is committed to inclusive growth and community development. It continues to invest in impactful social programs, upholds ethical business conduct, and promotes progressive human resource practices to strengthen its social license to operate.

In terms of governance, the Company maintains strong ethical standards, transparency, and accountability through its corporate governance framework. This supports stakeholder trust and reinforces long-term value creation.

The Company is also enhancing its systems and processes to better identify, assess, monitor, and manage ESG-related risks and opportunities. This includes recognising the importance of indirect impacts such as financed emissions and aligning its strategic direction with the broader goal of supporting the country's transition to a low-carbon and socially responsible economy.

Financial Reports

238 / Chief Executive Officer's and Chief Financial Officer's responsibility statement
239 / Annual Report of the Board of Directors on the Affairs of the Company
249 / Assurance Report on the Directors' Statement on internal control
251 / Directors' Responsibility Statement on internal control over Financial Reporting
253 / Directors' Responsibility for Financial Reporting
255 / Independent Auditors' Report
259 / Income Statement
260 / Statement of Profit or Loss and Other Comprehensive Income
261 / Statement of Financial Position
262 / Statement of Changes in Equity
264 / Statement of Cash Flows
266 / Notes to the Financial Statements



Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The Financial Statements of HNB Finance PLC (the Company) as at 31 March 2025 is prepared and presented in conformity with the following requirements:

- Sri Lanka Accounting Standards issued by the **Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka),** inclusive of any updates and amendments applicable for the financial year 2024/25;
- **Companies Act No. 07 of 2007,** and amendments thereto;
- **Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;**
- Directions issued to Licensed Finance Companies by the **Central Bank of Sri Lanka (CBSL)** under the **Finance Business Act No. 42 of 2011;**
- **Listing Rules of the Colombo Stock Exchange;**
- **Code of Best Practice on Corporate** Governance issued by CA Sri Lanka

Quarterly the Company presents Interim Financial Statements to shareholders in compliance with the Listing Rules of the Colombo Stock Exchange.

The accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Company. The material accounting policies and estimates that involved a high degree of judgment and complexity were discussed with the Board Audit Committee and external auditors. Comparative information has been reclassified wherever necessary to comply with the current presentation. There are no departures from the prescribed accounting standards in their adoption.

The Board of Directors and the Management of the Company accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to the Financial Statements were made on a prudent and reasonable basis; in order to ensure that the Financial Statements are reflected in a true and fair manner, the form and substance of transactions and the Company's state of affairs is reasonably presented. We also confirm that the Company has adequate resources to continue in operation and have applied the Going Concern basis in preparing these Financial Statements.

To ensure, the Company has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. The Company's Internal Audit Department has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company are consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The Board Audit Committee of the Company meets periodically with the internal audit team and the independent external auditor to review their audit plans, assess the manner in which the auditors are performing their responsibilities, and to discuss their reports on internal controls and financial reporting issues, the details of which are given in the "Board Audit Committee Report" on pages 196 to 198 of this Annual Report.

The financial statements of the Company for the year ended 31 March 2025 were audited by Messrs KPMG, Chartered Accountants, the independent external auditors. Their report is given in pages 255 to 258.

We confirm that the Company has complied with all applicable laws, regulations and prudential requirements and that there are no material litigations that are pending against the Company other than those arising in the normal course of conducting business.



Palitha Abeysekera
Chief Financial Officer



Chaminda Prabhath
Chief Executive Officer

6 June 2025
Colombo

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

The Board of Directors of HNB Finance PLC ("HNBF" or "the Company") has pleasure in presenting this Report to the Shareholders of the Company together with Audited Financial Statements for the Financial Year ended 31 March 2025 and the Independent Auditor's Report on those Financial Statements, conforming to the relevant statutory requirements. 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, Finance Business Act (Corporate Governance) Directions No. 05 of 2021 read together with Finance Companies (Corporate Governance) Directions No. 03 of 2008 (as amended), the Listing Rules of the Colombo Stock Exchange and recommended Best Practices on Corporate Governance. This Financial Statements of the Company were reviewed and approved by the Board of Directors on 6 June 2025. The Annual Report of the Board of Directors on the Affairs of the Company has been expanded to enlarge disclosures on Company's Corporate Governance Practices. A more detailed Report on Corporate Governance forms part of the suite of reports produced by the Company and is included in this Report.

1. ABOUT THE COMPANY

HNB Finance PLC 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 provisions of the Companies Act No. 07 of 2007 on 15 May 2009. The Re-registration Number of the Company is PB 965. Upon listing the Company on the Colombo Stock Exchange in 2020, the status of the Company was changed from a Public Limited Company to a Public Listed Company. Consequently, the Company's registration number was changed to PB 965 PQ. Moreover, the Company is registered under the Finance Leasing Act No. 56 of 2000 to carry out the finance leasing business.

The Company's ordinary shares (both voting and non-voting) and debentures (subordinated, rated, redeemable) are listed on the Colombo Stock Exchange. The Initial Public Offering (IPO) via an Offer for Sale on the Colombo Stock Exchange was oversubscribed by 32% on its opening day of 17 February 2020.

The Company has been affirmed a national long-term rating at A(lka) Stable Outlook by Fitch Ratings Lanka Limited.

HNB Finance PLC amalgamated with Prime Finance PLC on 12 May 2022.

The Registered Office and Head Office of the Company is located at No. 168, Nawala Road, Nugegoda.

2. STATUTORY DISCLOSURES

In terms of Section 168 of the Companies Act No. 7 of 2007, the following information is disclosed in the Annual Report prepared for the year under review.

No.	Disclosure Requirement	Reference to the Companies Act No. 07 of 2007	Disclosure reference for compliance	Page
1.	The nature of the business of the Company	Section 168 (1) (a)	About HNBF	5
2.	Signed Financial Statements of the Company for the accounting period under review	Section 168 (1) (b)	The Financial Statement of the Company for the year ended 31 March 2025	266
3.	Auditor's Report on Financial Statements of the Company	Section 168 (1) (c)	Independent Auditor's Report	255
4.	Changes in Accounting Policies during the accounting period	Section 168 (1) (d)	Changes in material accounting policies	N/A
5.	Particulars of entries in the Interests Register made during the accounting period	Section 168 (1) (e)	Corporate Governance Report – Conflict of Interest	182
6.	Remuneration and other benefits paid to the Directors during the accounting period	Section 168 (1) (f)	Note 11– other expenses Corporate Governance Report	277

No.	Disclosure Requirement	Reference to the Companies Act No. 07 of 2007	Disclosure reference for compliance	Page
7.	Total amount of donations made by the Company during the accounting period	Section 168 (1) (g)	Note 11– other expenses	277
8.	Information on Directorate of the Company at the end of the accounting period and ceased to be directors during the accounting period	Section 168 (1) (h)	Annual Report of the Board of Directors on the Affairs of the Company & Governance Report	239
9.	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)	Note 11– other expenses	277
10.	Auditor's relationship or any interest with the Company	Section 168 (1) (j)	Board Audit Committee Report	196
11.	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 Secretary	Section 168 (1) (k)	Complied With	

3. VISION, MISSION AND CORPORATE CONDUCT

The Company's Vision and Mission are given on page 5 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 Company's Corporate Code of Conduct and Ethics, which has been communicated to employees and received written acknowledgment from them that they have gone through the same. Further, the Corporate Code of Conduct and Ethics is accessible in the Company's HCM System, and a summarised version is available in the intranet.

4. 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, housing financial solutions, other credit facilities, acceptance of fixed deposits, maintenance of savings accounts and value-added services to the finance sector.

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

5. REVIEW OF OPERATIONS

A review of the Company's business and its performance during the twelve-months period with comments on financial results and future developments contained in the Chairman's Message on pages 16 to 19 and the Managing Director/ CEO's Review on pages 20 to 23 and the Capital Reports on pages 72 to 129 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.

6. FUTURE DEVELOPMENTS

An overview of the future development of the Company is given in the Chairman's Message on page 6 Managing Director/CEO's Review on page 16 to 19 and the Capital Reports on pages 72 to 129.

7. 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) promulgated by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the 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 and the Listing Rules of the Colombo Stock Exchange.

The Financial Statements recommended and approved by the Board Audit Committee and the Board of Directors respectively are given on pages 196 to 198.

The Financial Statements of the Company duly signed by the Chief Financial Officer and two Directors on behalf of the Board are given on pages 259 to 265, which form an integral part of the Annual Report of the Board of Directors on the Affairs of the Company.

8. 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 259 to 265 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the amendments thereto, Companies Act No. 7 of 2007, 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 pages 253 to 254 forms an integral part of the Annual Report of the Board of Directors on the affairs of the Company.

9. DIRECTORS' STATEMENT OF INTERNAL CONTROLS

In terms of Section 16 (1) (ix) of Finance Business Act (Corporate Governance) Directions No. 05 of 2021 of the Central Bank of Sri Lanka, 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. The said report is given on pages 251 to 252 of the Annual Report.

The Board has also obtained an assurance report from the External Auditors on the Directors' Statement on Internal Control which is given on pages 249 to 250 of the Annual Report.

10. INTERNAL CONTROLS

The Board confirms the existence of 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.

The Board of Directors during the period under review, upto the date of approval of this Annual Report conducted reviews of the internal controls covering financial, operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence therewith from respective Sub-Committees and KRPs. The Directors' Statement on Internal Control over Financial Reporting is given on pages 251 and 252 of this Annual Report.

11. AUDITOR'S REPORT

The Company's Auditor, Messrs KPMG, Sri Lanka (Chartered Accountants) performed the audit on the Financial Statements for the period ended 31 March 2025 and the Auditor's Report issued thereon is given on page 255 to 258 as required by Section 168 (1) (c) of the Companies Act No. 07 of 2007.

12. ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

The Financial Statements for the period ended 31 March 2025 are prepared in accordance with the Sri Lanka Accounting Standards. The material accounting policies adopted in the preparation of the Financial Statements of the Company are given on pages 266 to 356.

13. REVIEW OF THE FINANCIAL PERFORMANCE DURING THE TWELVE-MONTH PERIOD INCOME

The income of the Company for the period from 1 April 2024 to 31 March 2025 was LKR 13,277,799,039/- (from 1 April 2023 to 31 March 2024 it was LKR 14,908,905,454/-). An analysis of the income is given in Note 5 to the Financial Statements.

14. FINANCIAL RESULTS AND APPROPRIATIONS

The net profit of the Company from 1 April 2024 to 31 March 2025 was LKR 764,513,637/- (from 1 April 2023 to 31 March 2024 it was LKR. 620,988,343/- Details regarding the profit and appropriations of the Company are given below.

	2024/25 LKR	2023/24 LKR
Profit/(loss) before tax	1,420,896,429	566,705,437
Income tax reversal	(656,382,792)	54,282,906
Net profit/(loss)	764,513,637	620,988,343
Retained earnings brought forward	3,708,629,535	3,341,395,002
Profit available for appropriation	3,708,629,535	3,341,395,002

15. RESERVES

The reserves of the Company with the movements during the period are given in Notes to the Financial Statements on pages 325 and 327.

16. TAXATION

The income tax rate applicable to the Company's operations was 30% on profits for the year ended March 2025 (2024- 30%). 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 18% (2024 – 18%). Social Security Contribution Levy (SSCL) on Financial Services at 2.5% w.e.f. 1 October 2022.

17. GOVERNANCE AND STRATEGIC OVERSIGHT

The Financial Year 2024/25 continued with the strength, adaptability, and responsiveness of the Company with governance framework. Amidst a dynamic economic landscape, the Company remained steadfast in its commitment to sustainable growth, guided by HNBF Vision and Values, while diligently balancing the interests of all stakeholders.

The well-established governance structures of HNBF enabled the Board to exercise effective oversight and strategic leadership, particularly in navigating the medium- to long-term implications of prevailing economic developments.

In preparation for the year ahead, the Board conducted its annual strategic review for FY 2025/26 in collaboration with the Senior Management of the Company. This review was undertaken with careful consideration of the current macroeconomic environment, emerging risks, and potential opportunities. Following this process, the Board approved the budget for FY 2025/26.

The Board of Directors

The Board continues to maintain a balanced composition with a diverse mix of skills, expertise, and experience necessary to support the Company's operations as a Licensed Finance Company. A majority of the Board comprises of Non-Executive Directors, each of whom is a distinguished professional in their respective field. A structured and ongoing evaluation process ensures that the Board's collective competencies remain aligned with the evolving strategic needs of the Company.

Board appointments are made through a formal and transparent process, with all Directors assessed for fit and prosperity and subject to approval by the Central Bank of Sri Lanka. The Board Nominations & Governance Committee plays a pivotal role in this process, recommending candidates after evaluating the Board's existing knowledge base, experience, and diversity in relation to the Company's strategic direction and any identified gaps. In line with our commitment to enhancing Board diversity, the Company approved the appointment of a Directress to the Board during FY 2024/25.

To ensure effective deliberation and decision-making, Board meeting agendas and supporting documentation are typically circulated three days in advance. This permits Directors sufficient time to review materials, provide input, and prepare for discussions. The agenda is set by the Company Secretary in consultation with the Chairman, with a deliberate focus on matters critical to the Company's long-term success.

The Board of Directors of the Company as at 31 March 2025, comprised 09 Directors, who possess extensive knowledge and experience in the areas of finance and business. The qualifications and experience of the Directors are given in the "Board of Directors" on pages 138 to 145 of this Annual Report.

Names of the persons who held office as Directors of the Company as of 31 March 2025 in terms of 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 Rajive Dissanayake	29 August 2017	Chairman/Non-Independent, Non-Executive Director
Mr Chaminda Prabhath	29 June 2011	Executive Director/Chief Executive Officer/Managing Director
Mr Hasitha Wijesundara	27 September 2016	Senior Director/Independent, Non-Executive Director
Mr Ruwan Manatunga	15 February 2021	Non-Independent, Non-Executive Director
Mr Lalith Withana	10 September 2021	Independent, Non-Executive Director
Mr Murali Polamarasetty	15 September 2022	Independent, Non-Executive Director
Mr B Premalal	29 November 2022	Non-Independent, Non-Executive Director
Mr Anura Perera	29 January 2024	Non-Independent, Non-Executive Director
Dr Prasad Samarasinghe	20 February 2024	Non-Independent, Non-Executive Director

Note:

Mr Saliya Jayaweera – Independent, Non-Executive Director resigned w.e.f. 5 September 2024.

Mr Ravindra Tissera – Independent, Non-Executive Director was appointed w.e.f. 4 April 2024 and resigned w.e.f. 21 February 2025.

Changes during the year

New appointment during the year and up to the date of this report.

- Mr Ravindra Tissera – appointed as an Independent, Non-Executive Director to the Board of Directors of the Company with effect from 04 April 2024.

Subsequent to the receipt of the fit and propriety approval of the Director of the Department of Central Bank of Sri Lanka, the Company Secretary in terms of Section 10.4 of the Finance Business Act Directions No. 05 of 2021, made an immediate market announcement of the appointment of Mr Ravindra Tissera. This announcement included a brief resume of the newly appointed Director, outlining his professional expertise in relevant functional areas, current directorships and memberships in other companies, and an indication of whether the Director is classified as an Independent or Non-Independent Director.

Resignations during the year and up to the date of this report.

- Mr Saliya Jayaweera who served as an Independent, Non-Executive Director of the Company resigned from the Board with effect from 5 September 2024.
- Mr Ravindra Tissera who served as a Independent, Non-Executive Director of of the Company resigned from the Board with effect from 21 February 2025.

During the financial year under review, in accordance with Rule 9.10.3 of the Listing Rules, the Company immediately made market announcements regarding the changes to the composition of the Board of Directors.

Cessations during the year

There were no cessations during the financial year.

Retirement by rotation and re-election of Directors

In terms of Article 27 of the Articles of Association of the Company, the Directors appointed under Article 26(1) (ii) and 26(1)(iii) are not subject to retirement by rotation.

In the aforesaid context, in compliance with Article 27 of the Articles of Association, Independent, Non-Executive Directors Mr Lalith Withana and Mr Murali Polamarasetty, who were re-appointed at the Annual General Meeting held on 28 June 2024, retire by rotation and being eligible, offer themselves for re-election as Directors at the forthcoming Annual General Meeting of the Company.

The Board Nominations and Governance Committee and the Board have recommended the re-election of the said Directors, subject to the relevant regulatory approval/s issued under the Finance Business Act and Listing Rules of the Colombo Stock Exchange.

Policy on Maximum Number of Directorships held by Directors

The Policy on Directorships held by the Board of Directors of the Company sets forth guidelines governing the additional directorships that can be held by a Director . Further, the Directors of the Company have not exceeded the limits of 20 Directorships or equivalent roles in companies, societies , bodies ,subsidiaries and associates of the Company including alternate Directorships, during the period under review.

18. DIRECTORS' INTERESTS REGISTER AND DIRECTORS' INTERESTS IN CONTRACTS OR PROPOSED CONTRACTS

The Company maintains a Directors' Interests Register in terms of 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 pages 327 to 333 and form an integral part of this Annual Report.

The relevant interests of Directors in the shares of the Company as at 31 March 2025 as recorded in the Interests Register are given in this Report under Directors' Shareholding.

Moreover, the Directors have declared all their material interests in contracts involving the Company and they have abstained from voting on matters in which they were interested.

19. 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" and have abstained from voting on matters in which they were materially interested. This disclosure is given in Note 44 to the Financial Statements, which form an integral part of the Annual Report of the Board of Directors.

As declared by the members of the Board, either the director or close family members of the director has no any material business relationship with the other directors of the Company. The Board of Directors

affirms that all related party transactions are in compliance with the regulations of the Central Bank of Sri Lanka and the Listing Rules of the Colombo Stock Exchange and are fair and in the best interest of the Company.

20. DIRECTORS' REMUNERATION

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 Note 44.2.1 to the Financial Statements on page 332 in this Annual Report under "Directors'" Remuneration".

21. INSURANCE AND INDEMNITY

As authorised by the Articles of Association of the Company and as decided by the Board of Directors, the Company obtained a Directors and Officers Liability Insurance Cover in respect of FY 2024/25.

22. MATERIAL FORESEEABLE RISK FACTORS (AS PER RULE NO. 7.6 (VI) OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE)

Material Foreseeable Risk Factors as applicable to the business operations of the Company are set out in Note 46 to the Financial Statements.

23. RELEVANT INTERESTS OF DIRECTORS IN SHARES

In compliance with Section 200 of the Companies Act, the Board of Directors of the Company 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 2025 and 31 March 2024 are as follows:

	As at 31 March 2025				As at 31 March 2024			
	Ordinary Voting		Ordinary Non-Voting		Ordinary Voting		Ordinary Non-Voting	
Names	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Mr A G R Dissanayake	–	–	–	–	–	–	–	–
Mr P A H D Wijesundara	–	–	–	–	–	–	–	–
Mr Chaminda Prabhath	1,208,333	0.07	–	–	1,000,000	0.07	–	–
Mr R D Manatunga	–	–	–	–	–	–		–
Mr P L P Withana	–	–	–	–	–	–	–	–
Mr M S Polamarasetty	–	–	–	–	–	–	–	–
Mr B Premalal	54,847,507	3.19	–	–	–	–	–	–
Mr P A W Perera	–	–	–	–	–	–	–	–
Dr T K D A P Samarasinghe	–	–	–	–	–	–	–	–
Total	56,055,840	3.26	–	–	1,000,000	0.07	–	–

24. DIRECTORS' INTEREST IN DEBENTURES

There were no debentures registered in the name of any Director as at 31 March 2025.

25. BOARD SUB-COMMITTEES

The Board of Directors while assuming the overall responsibility and accountability for the management of the Company has also appointed Board Sub-Committees to ensure oversight and control over certain affairs of the Company, in compliance with the Finance Business Act (Corporate Governance) Directions No. 05 of 2021 together with the Finance Companies (Corporate Governance) Directions No. 03 of 2008 (as amended) issued by the Central Bank of Sri Lanka, Listing Rules of the Colombo Stock Exchange and on a voluntary basis.

The Composition of the Board Sub-Committees as at 31 March 2025 is as follows,

Committee	Members/Directors
Board Audit Committee	Mr Lalith Withana – Independent, Non-Executive Director (Chairman) Mr Hasitha Wijesundara – Independent, Non-Executive Director Mr Anura Perera – Non-Independent, Non-Executive Director
Board Integrated Risk Management Committee	Mr Murali Polamarasetty – Independent, Non-Executive Director (Chairman) Mr Ruwan Manatunga – Non-Independent, Non-Executive Director Dr Prasad Samarasinghe – Non-Independent, Non-Executive Director
Board Human Resources and Remuneration Committee	Mr Hasitha Wijesundara – Independent, Non-Executive Director (Chairman) Mr Rajive Dissanayake – Non-Independent, Non-Executive Director Mr Lalith Withana – Independent, Non-Executive Director
Board Nominations and Governance Committee	Mr Hasitha Wijesundara – Independent, Non-Executive Director (Chairman) Mr Rajive Dissanayake – Non-Independent, Non-Executive Director Mr B Premalal – Non-Independent, Non-Executive Director Mr Murali Polamarasetty – Independent, Non-Executive Director Mr Lalith Withana – Independent, Non-Executive Director
Board Related Party Transactions Review Committee	Mr Murali Polamarasetty – Independent, Non-Executive Director (Chairman) Mr Hasitha Wijesundara – Independent, Non-Executive Director Mr Lalith Withana – Independent, Non-Executive Director
Board Procurement Committee	Dr Prasad Samarasinghe – Non-Independent, Non-Executive Director (Chairman) Mr Rajive Dissanayake – Non-Independent, Non-Executive Director Mr Anura Perera – Non-Independent, Non-Executive Director
Board Strategic and Investments Review Committee	Mr Rajive Dissanayake – Non-Independent, Non-Executive Director (Chairman) Mr B Premalal – Non-Independent, Non-Executive Director Dr Prasad Samarasinghe – Non-Independent, Non-Executive Director
Board Credit Committee	Mr Hasitha Wijesundara – Independent, Non-Executive Director(Chairman) Mr Ruwan Manatunga – Non-Independent, Non-Executive Director Mr Anura Perera – Non-Independent, Non-Executive Director
Board Recovery Committee	Mr Ruwan Manatunga – Non-Independent, Non-Executive Director (Chairman) Mr Murali Polamarasetty – Independent, Non-Executive Director Mr Anura Perera – Non-Independent, Non-Executive Director

In terms of Rule 9.10.3 of the Listing Rules, the Company made immediate Market Announcements regarding the changes to the compositions of the Board Subcommitees.

26. DIRECTORS' MEETINGS

The number of Directors' meetings of the Board of Directors, Board Audit Committee, Board Integrated Risk Management Committee, Board Human Resources and Remuneration Committee, Board Nominations and Governance Committee, Board Related Party Transactions Review Committee, Board Procurement Committee , Board Strategic and Investments Review Committee, Board Credit Committee and Board Recovery Committee together with the attendance of each Director at these Meetings during the twelve-month period (1 April 2024 to 31 March 2025) is tabulated in the Directors' Attendance at Board and Board Sub-Committee Meetings in the Governance Report in pages 151 in this Annual Report.

27. STATED CAPITAL AND DEBENTURES

The stated capital of the Company as at 31 March 2025 was LKR 1,416,731,755/- consisting of ordinary voting shares of 1,717,501,587 and ordinary non-voting shares of 360,325,000 (FY 2023/24 – 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 2025 was LKR 502 Mn. (2023/24 – LKR 536 Mn.) Subordinated, Listed, Rated, Unsecured, Redeemable Debenture of the Company as at 31 March 2024 was LKR 1,159 Mn. consisting of 11,588,200 debentures at LKR 100/-. These redeemable debentures were fully repaid during the year.

28. SHARE INFORMATION AND SUBSTANTIAL SHAREHOLDING

The shareholding distribution is reflected on pages 370 to 373 as at 31 March 2025. Top 20 voting and non-voting registered shareholders were recorded. Distribution schedule of shareholders, major shareholders, public holding and ratios, and market price information as required by the Listing Rules on the distribution of shareholding with the respective percentages, 20 largest shareholders, public holding and ratios, and market price information are set out on pages 370 to 373 under share information.

29. MAJOR SHAREHOLDERS

Pages 370 to 371 indicate the shareholding analysis of the top 20 voting and non-voting (volume wise) shareholders of the Company, as at 31 March 2025.

30. RATIOS AND MARKET PRICES OF DEBENTURES

Debentures were not traded as at 31 March 2025.

31. 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 2024 to 31 March 2025.

32. PROPERTY PLANT AND EQUIPMENT AND SIGNIFICANT CHANGES IN THE COMPANY'S FIXED ASSETS/MARKET VALUE OF LAND AND BUILDING, 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 137 Mn. (2023/24 Company: LKR 189 Mn). Details are given in Notes 26 and 27 to the Financial Statements.

33. MARKET VALUE OF FREEHOLD PROPERTY

All freehold lands and buildings of the Company were revalued by a professionally qualified Independent Valuer as at 31 March 2025 and brought into the Financial Statements. The details of the freehold properties owned by the Company are given in Note 27 to the Financial Statements.

34. 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.

35. 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.

36. EMPLOYEE SHARE OPTION SCHEMES/EMPLOYEE SHARE PURCHASE SCHEMES

The Company has not implemented any share option/share purchase schemes for its employees.

37. DONATIONS

The Company donated LKR 31,160/- during the year under review.

38. CORPORATE SOCIAL RESPONSIBILITY

The Company has carried out sixteen CSR activities during the year under review.

39. AUDITORS

The Financial Statements for the period ended 31 March 2025 have been audited by Messrs KPMG Sri Lanka (Chartered Accountants) as the Independent Auditors during the year under review and the Auditor's Report issued thereon is given on pages 202 to 205 as required by Section 168 (1) (c) of the Companies Act No. 07 of 2007.

The Auditors have been paid a fee of LKR 6.2 Mn. as audit fee for the period ended 31 March 2025, 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 11 to the financial statements.

40. 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 Board Audit Committee and the Board Integrated Risk Management Committee. Specific steps taken by the Company to manage the risks are detailed in the section on Risk Management Review on page 212 in the Directors' Statement on Internal Controls over Financial Reporting is on pages 251 and 252.

41. 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 146 to 195 of this Annual Report.

42. COMPLIANCE WITH LAWS AND REGULATIONS

The Board of Directors made arrangements to make themselves aware of applicable laws, rules and regulations and are aware of changes particularly to Listing Rules and applicable capital market provisions. An elaboration of the training initiatives is included in the Board Nominations and Governance Committee Report.

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. Moreover, the Board of Directors affirm that the Company during the period under review was not subject to any fine which are material, imposed by the government of Sri Lanka or a regulatory authority. As such, the relevant officers confirm the level of compliance to the Board on a monthly basis.

43. 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.

44. 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. The Company's initiatives towards environmental protection are set out on pages 122 to 129 under natural capital.

45. 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.

46. CONTINGENT LIABILITIES

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

47. EVENTS OCCURRING AFTER THE REPORTING DATE

There are no material events as at the date of the Auditors' Report which require adjustment to or disclosure in the Financial Statements.

48. EQUITABLE TREATMENT FOR STAKEHOLDERS

The Directors declare that the Company has made all endeavours to ensure fair treatment for all stakeholders including Shareholders and Depositors.

49. 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.

50. MINIMUM CAPITAL REQUIREMENT

The level of compliance with the minimum capital requirements is disclosed in page 224 under "Integrated Risk Management and Capital Management" of the Risk Management Review.

51. REGISTER OF DIRECTORS AND SECRETARIES

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

52. ANNUAL GENERAL MEETING

The 15th Annual General Meeting of the Company will be held as a Fully Virtual Meeting, on Monday 30 June 2025 at 02.00 p.m. The Notice of the 15th Annual General Meeting is given on page 380 on behalf of the Board.

53. 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 and the Listing Rules of the Colombo Stock Exchange.

Signed in accordance with the resolution adopted by the Directors

By Order of the Board,



Rajive Dissanayake
Chairman



Chaminda Prabhath
Managing Director/Chief Executive Officer



Manjula Weerasuriya
Company Secretary

6 June 2025
Colombo

Auditors' Assurance Report on the Directors' Statement on internal control

KPMG
(Chartered Accountants)
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Colombo 00300, Sri Lanka.

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TO THE BOARD OF DIRECTORS OF HNB FINANCE PLC

Report on the Directors' Statement on Internal Control

We were engaged by the Board of Directors of HNB Finance PLC ("the Company") to provide assurance on the Director's Statement on Internal Control ("the Statement") included in the Annual Report for the year ended 31st March 2025.

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/Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with Finance Business Act Direction No. 05 of 2021 on Corporate Governance 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 behavior.

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

Our 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 Licensed Finance Companies on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

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

For purposes of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed and 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 the Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Company.

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

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

(b) Reviewed the documentation prepared by the Directors 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) Attended meetings of the Audit Committee at which the annual report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.

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Principals: S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. F.R Ziyard FCMA (UK), FCIT, K. Somasundaram ACMA(UK), R. G. H. Raddella ACA, Ms. D Corea Dharmaratne

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

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

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

The procedures selected depend on our judgment, having regard to our 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.

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included on pages 255 to 259 of this 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 system over the financial reporting of the Company.

Chartered Accountants
Colombo

6 June 2025

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 control 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 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 controls 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, and 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 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 196 to 198.
- 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 adopts Sri Lanka Accounting Standards comprising LKAS and SLFRS and progressive improvements are made to its processes to comply with requirements of recognition, measurement, classification, and disclosure on Financial Instruments. Financial reporting and management information processes will be further strengthened by constant monitoring and adaptation to market realities. The Company reviewed the existing models in use to ascertain the potential implications of the current economic condition and these models are regularly reviewed and validated through independent industry experts to ensure effective financial reporting.
- The Board has reviewed and approved the modified Information Security Policy Manual (ISPM) during the year ended 31 March 2025.
- Comments made by the External Auditors in connection with the internal control system during the financial year 2024/25 were taken into consideration and appropriate steps will be taken to incorporate them where appropriate during the ensuing year.

CONFIRMATION

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed the above Directors' Responsibility Statement on Internal Control over Financial Reporting included in the Annual Report of the Company for the year ended 31 March 2025 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.

STATEMENT ON PRUDENTIAL REQUIREMENTS, REGULATIONS AND LAWS

The Board of HNB Finance PLC presents this report on compliance with prudential requirements, regulations, and laws, pursuant to Section 16 (1) (ix) of the Finance Business Act (Corporate Governance) Direction No. 05 of 2021.

The Board has established adequate internal controls to ensure adherence to statutory and regulatory obligations. The Board affirms that the Company complies with all relevant prudential requirements, regulations, and laws. Furthermore, the Board confirms that there are no regulatory or supervisory concerns regarding lapses in the Company's risk management or non-compliance with the Act, rules, and directions.

By Order of the Board,



Lalith Withana
Audit Committee Chairman



Chaminda Prabhath
Managing Director/CEO



Rajive Dissanayake
Chairman

6 June 2025
Colombo,
Sri Lanka

Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the Company 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 Auditors in relation to Financial Statements is set out in the Report of the Auditors given in page 255 to 258 of the Annual Report.

As per provisions of Sections 150 (1) and 151 of the Companies Act No. 07 of 2007, Directors are responsible to ensure that the Financial Statements are prepared to give a true and fair view of the state of affairs of the Company as at each financial period end and its profit or loss for the financial period then ended and place them before a General Meeting.

The Financial Statements comprise of the Statement of Financial Position as at 31 March 2025, the Statement of Proft or Loss & 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

(i) The appropriate accounting policies have been selected and applied consistently and material departures, if any, have been disclosed and explained,

(ii) reasonable and prudent judgements and estimates have been made: and

(iii) all applicable accounting standards, as relevant, have been complied with.

The Directors are also required to ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

The Directors are also required to take into consideration the potential implications of macroeconomic volatility on the Company's business, operations and financial performance. Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy, the financial position of the Company.

Accordingly, the Board of Directors confirm that the Financial Statements of the Company give a true and fair view of the financial position of the Company as at 31 March 2025.

Financial Statements prepared and presented in this Annual Report have been based on Sri Lanka Accounting Standards (SLFRS/LKAS) 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). In addition, these financial statements comply with the prescribed format issued by the Central Bank of Sri Lanka for the preparation of annual financial statements of licensed finance companies.

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 year which are regularly reviewed by the Board.

This comprises internal reviews, internal audits and the entire system of financial and other controls required to carry on the business of finance business 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 2025 are given on page 251 to 254 in the Annual Report, Directors' Responsibility Statement on Internal Control Over Financial Reporting.

External Auditors' Assurance Report on the Directors' Statement on Internal Control is given in Annual Report pages 249 to 250.

The Directors have taken appropriate steps to ensure that the Company maintain proper books of accounts and review the financial reporting system at their regular Meetings and also through the Board Audit Committee. The report of the Board Audit Committee is given on pages 196 to 198 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 255 to 258 in Annual Report.

The Financial Statements of the Company have been certified by the Chief Financial Officer of the Company, as the officer responsible for their preparation as required by the Section 150 (1) (b) of the Companies Act No. 07 of 2007 and they have also been signed by two Directors and the Company Secretary on 6 June 2025 as required by Sections 150 (1) (c) of the Companies Act.

Further, as required by Sections 166 (1) and 167 (1) of the Companies Act, the Board of Directors has prepared this Annual Report in time and the Annual Report will be published/ hosted in the Company's website and Colombo Stock Exchange website. The link will be shared with the Shareholders enabling them to access the Annual Report electronically. The Company will also ensure 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, all shareholders in each category have been treated equitably in accordance with the original terms of issue.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Company as at the Statement of Financial Position date have been paid or where relevant provided for, except as provided in Note 43 to the Financial Statements covering contingent liabilities.

Accordingly, the Directors are of the view that they have discharged their responsibilities as set out in this Statement.

By Order of the Board,



Manjula Weerasuriya (Ms)
Company Secretary

6 June 2025
Colombo, Sri Lanka

Independent Auditors' Report

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"), which comprise the statement of financial position as at 31 March 2025, and the statements of profit or loss and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including material accounting policies set out on page 266 to 355.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2025, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics for professional Accountants issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Allowance for impairment losses of Loans, Advances and Lease Rentals Receivables

(Refer to note 9 of material 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 has recorded an impairment provision of LKR 4,809 Mn. relating to loans and advances to customers and LKR 680 Mn. relating to lease rentals receivables in the financial statements as at 31 March 2025.

The determination of allowance for 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 judgments over the use of data inputs required. These models are reliant on data and 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.

Significant management judgement is involved in the selection of those parameters and the application of assumptions.

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Accordingly, impairment allowance for loans and advances and lease rentals receivables was considered as a key audit matter due to the significance to the financial statements, management assumption, judgements and estimation uncertainty associated with the impairment allowance calculation.

Our audit procedures included;

- Obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls related to the measurement of allowance for impairment.
- Evaluating the appropriateness of the accounting policies related to ECL and underlying methodology applied based on the requirements of SLFRS 9 with the involvement of our FRM 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 allowance for impairment for such identified individually significant exposures.
- Assessing the appropriateness of identified "risk elevated industries" by the management for the identification of significant increase in credit risk 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.
- Testing the mathematical accuracy of the estimation of allowance for impairment.
- Evaluating the completeness, accuracy and relevance of underlying data used for the calculation of impairment allowance on sample basis by agreeing to the source documents and IT systems.
- Assessing the adequacy and appropriateness of disclosures made in the financial statements with reference to the requirements of relevant accounting standards.

2. IT systems and controls over financial reporting

Risk Description

The Company's key financial accounting and reporting processes are highly dependent on the automated controls over the Company's information systems. Automated accounting procedures and controls over IT environment, which include IT governance, controls over programme changes, access to programmes, data and IT operations, are required to be designed and operated effectively to ensure accurate financial reporting.

System calculations related to interest income/expenses and integrations between business systems and financial reporting systems are key areas that could result in the financial records being materially misstated.

We identified IT systems and controls over financial reporting as a key audit matter because the Company's financial accounting and reporting systems are fundamentally reliant on complex IT systems and control processes which are driven by significant transaction volumes caused by the size of the customer base.

We used our KPMG IT Audit 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 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 changes, access to programmes, data and IT operations, including compensating controls where required.
- Evaluating the design, implementation and operating effectiveness of the IT general controls and IT application controls related to significant accounts and system calculations that are relevant to the Company`s financial reporting activities.
- Assessing the management's evaluation of access rights 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.

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.

KPMG

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 concluded that there is material misstatement of other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional 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.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

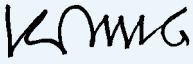
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. 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

6 June 2025

Income Statement

For the year ended 31 March	Note	2025 LKR	2024 LKR
Gross income		13,277,799,039	14,908,905,453
Interest income	5	10,483,993,636	13,090,703,356
Interest expenses	6	(4,978,511,658)	(7,564,777,549)
Net interest income		5,505,481,978	5,525,925,807
Fee and commission income		1,242,884,987	757,334,372
Fee and commission expenses		(349,122,795)	(209,843,432)
Net fee and commission income	7	893,762,192	547,490,940
Net interest, fee and commission income		6,399,244,170	6,073,416,747
Other operating income	8	1,550,920,416	1,060,867,725
Total operating income		7,950,164,586	7,134,284,472
Impairment charges on loans, leases and other advances	9	(660,004,285)	(1,608,311,434)
Net operating income		7,290,160,301	5,525,973,038
Personnel expenses	10	(2,070,545,762)	(1,597,822,026)
Other expenses	11	(3,064,749,413)	(2,911,204,600)
Total operating expenses		(5,135,295,175)	(4,509,026,626)
Operating profit before taxes on financial services		2,154,865,126	1,016,946,412
Taxes on financial services	12	(733,968,697)	(450,240,975)
Profit before income tax expense	13	1,420,896,429	566,705,437
Income tax (charge)/reversal	14	(656,382,792)	54,282,906
Profit for the year		764,513,637	620,988,343
Basic earnings per share	15	0.43	0.35

Figures in brackets indicate deductions

The Notes on pages 266 through 355 form an integral part of these Financial Statements.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March	Note	2025 LKR	2024 LKR
Profit for the year		764,513,637	620,988,343
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Actuarial loss on retirement benefit obligation	35.1	(22,628,356)	(36,806,824)
Deferred tax effect on remeasurements of retirement benefit obligation	29.2	6,788,507	11,042,047
Equity investments at FVOCI – Net change in fair value	22.2	(108,023)	(620,619)
Items that are or may be reclassified subsequently to profit or loss			
Revaluation gain on free hold lands and buildings	27	65,816,880	–
Deferred tax effect on revaluation gain on lands and buildings	29.2	(19,745,064)	–
Other comprehensive expense for the year, net of tax		30,123,944	(26,385,396)
Total comprehensive income for the year		794,637,581	594,602,947

Figures in brackets indicate deductions

The Notes on pages 266 through 355 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 March	Note	2025 LKR	2024 LKR
Assets			
Cash and cash equivalents	17	1,582,022,331	1,133,427,884
Financial assets at amortised cost – Loans and advances to customers	18	19,043,419,761	18,610,669,480
Financial assets at amortised cost – Lease rentals receivables	19	25,700,606,847	14,877,313,121
Financial assets at amortised cost – Loans and advances to others	20	95,241,779	147,629,831
Financial assets measured at FVOCI	22	4,324,073	4,432,096
Financial assets at amortised cost – Debt and other instruments	23	6,982,841,561	13,714,598,974
Other assets	24	1,292,073,600	787,813,162
Investment properties	25	1,409,600,000	1,279,700,000
Intangible assets	26	85,092,793	146,009,666
Property, plant and equipment	27	1,940,496,243	1,896,709,154
Right-of-use assets	28	367,542,225	319,890,535
Deferred tax assets	29	–	539,907,826
Total assets		58,503,261,213	53,458,101,729
Liabilities and equity			
Liabilities			
Financial liabilities at amortised cost – Due to customers	30	42,217,981,305	41,260,879,894
Financial liabilities at amortised cost – Debt issued and other borrowed funds	31	4,767,543,102	4,157,249,111
Current tax liability	32	358,925,300	222,850,871
VAT and SSCL on financial services	33	144,436,066	94,084,254
Other liabilities	34	3,057,129,108	1,717,596,097
Retirement benefit obligation	35	369,880,756	353,707,022
Deferred tax liability	29	400,391	–
Total liabilities		50,916,296,028	47,806,367,249
Equity			
Stated capital	36	1,416,731,755	223,545,481
General reserve	37	82,897,989	82,897,989
Revaluation reserve	39	739,433,326	693,361,510
Other reserves	38	1,639,272,580	1,310,534,498
Retained earnings	40	3,708,629,535	3,341,395,002
Total equity		7,586,965,185	5,651,734,480
Total equity and liabilities		58,503,261,213	53,458,101,729

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.



Palitha Abeysekera
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Approved and signed for and on behalf of the Board of Directors by,



Rajive Dissanayake
Chairman



Chaminda Prabhath
Managing Director/CEO

6 June 2025
Colombo

Statement of Changes in Equity

For the year ended 31 March	Note	Stated capital LKR	General reserves LKR	
Balance as at 1 April 2023		223,545,481	82,897,989	
Profit for the year		–	–	
Other comprehensive income for the year				
Actuarial loss on defined benefit plans	35.1	–	–	
Deferred tax effect on actuarial loss on defined benefit plans	29.2	–	–	
Equity investments at FVOCI – net change in fair value	22.2	–	–	
Total comprehensive (expenses)/income for the year		–	–	
Transfer to statutory reserve		–	–	
Balance as at 31 March 2024		223,545,481	82,897,989	
Balance as at 1 April 2024		223,545,481	82,897,989	
Adjustment due to assessment on surcharge tax	14.4	–	–	
Adjusted balance as at 1 April 2024		223,545,481	82,897,989	
Profit for the year		–	–	
Other comprehensive income for the year				
Actuarial loss on defined benefit plans	35.1	–	–	
Deferred tax effect on actuarial loss on defined benefit plans	29.2	–	–	
Revaluation gains of free hold lands and buildings		–	–	
Deferred tax impact on revaluation reserve	29.2	–	–	
Equity investments at FVOCI – net change in fair value	22.2	–	–	
Total comprehensive income/(expense) for the year		–	–	
Transfer to statutory reserve fund		–	–	
Transfer to regulatory loss allowance reserve		–	–	
Transactions with owners recognised directly in equity contributions by and distributions to owners				
Proceeds from right issue of ordinary shares	36	1,193,186,274	–	
Balance as at 31 March 2025		1,416,731,755	82,897,989	

Figures in brackets indicate deductions.

The Notes on pages 266 through 355 form an integral part of these Financial Statements.

	Other Reserves					
	Statutory reserve fund LKR	Regulatory loss allowance reserve LKR	FVOCI reserve LKR	Revaluation reserve LKR	Retained earnings LKR	Total LKR
	1,184,616,843	–	2,340,605	693,361,510	2,870,369,105	5,057,131,533
	–	–	–	–	620,988,343	620,988,343
	–	–	–	–	(36,806,824)	(36,806,824)
	–	–	–	–	11,042,047	11,042,047
	–	–	(620,619)	–	–	(620,619)
	–	–	(620,619)	–	595,223,566	594,602,947
	124,197,669	–	–	–	(124,197,669)	–
	1,308,814,512	–	1,719,986	693,361,510	3,341,395,002	5,651,734,480
	1,308,814,512	–	1,719,986	693,361,510	3,341,395,002	5,651,734,480
	–	–	–	–	(52,593,150)	(52,593,150)
	1,308,814,512	–	1,719,986	693,361,510	3,288,801,852	5,599,141,330
	–	–	–	–	764,513,637	764,513,637
		–				
	–	–	–	–	(22,628,356)	(22,628,356)
	–	–	–	–	6,788,507	6,788,507
	–	–		65,816,880	–	65,816,880
	–	–	–	(19,745,064)	–	(19,745,064)
	–	–	(108,023)	–	–	(108,023)
	–	–	(108,023)	46,071,816	748,673,789	794,637,581
	152,902,727	–	–	–	(152,902,727)	–
	–	175,943,378	–	–	(175,943,378)	–
	–		–	–	–	1,193,186,274
	1,461,717,239	175,943,378	1,611,963	739,433,326	3,708,629,535	7,586,965,185

Statement of Cash Flows

ACCOUNTING POLICY

The Statement of Cash Flows has been prepared using the "Indirect Method" of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard 7 "Cash Flows Statement." 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.

For the year ended 31 March	Note	2025 LKR	2024 LKR
Cash flows from operating activities			
Profit before tax		1,420,896,429	566,705,437
Adjustments for:			
Interest expenses on borrowings	6	68,800,806	53,234,752
Interest expenses on debentures	6	163,552,900	236,856,373
Interest expenses on subordinated trust fund	6	287,898,630	443,985,754
Interest income on financial assets at amortised cost – Debt and other instruments	5	(763,456,057)	(1,734,829,728)
Dividend income	8	(457,130)	(359,040)
Gain on disposal of property, plant and equipment	8	(1,584,234)	(53,962)
Impairment charge for loans and other assets	9	660,004,285	1,608,311,434
Provision for taxes on financial services	12	733,968,697	450,240,975
Provision for Crop Insurance Levy	11	6,731,387	4,955,103
Amortisation on intangible assets	26.2	49,531,508	64,679,694
Amortisation on goodwill	26.1	19,395,045	19,395,046
Amortisation of right of use assets	28.1	131,112,566	116,640,473
Interest expense from lease liability	34.1.2	53,825,869	48,683,970
Depreciation on property, plant and equipment	27	154,635,493	144,247,627
Provision for retirement benefit obligation	10	75,310,192	85,073,992
Gain from revaluation of investment properties	8	(129,900,000)	(68,045,625)
Termination on right of use asset		(803,601)	(814,984)
Provision for amount payable under *Sip Saviya* scheme		1,200,000	1,200,000
Cash flows from operating activities before working capital changes		2,930,662,785	2,040,107,291
Changes in operating assets and operating liabilities			
Financial assets at amortised cost – Loans and advances to customers		(1,092,754,566)	6,040,880,029
Financial assets at amortised cost – Lease rentals receivables		(10,823,293,727)	(2,525,202,129)
Financial assets at amortised cost – Loans and advances to others		52,388,052	96,904,663
Other assets		(516,384,584)	(140,321,127)
Financial liabilities at amortised cost – Due to customers		957,101,411	(2,474,886,186)
Other liabilities		1,307,582,939	730,631,358
Cash flows generated from operations		(7,184,697,690)	3,768,113,899

For the year ended 31 March	Note	2025 LKR	2024 LKR
Gratuity paid	35	(81,764,814)	(63,592,913)
Income tax paid	32	(34,520,086)	(9,344,479)
Surcharge tax paid	32	(11,029,767)	–
Other taxes paid	33	(671,492,738)	(384,891,980)
Lease liabilities Interest paid		(53,825,869)	(48,683,970)
Crop Insurance Levy paid		(4,575,352)	(1,621,846)
Net cash flows (used in)/generated from operating activities		(8,041,906,316)	3,259,978,712
Cash flows from investing activities			
Purchase of property, plant and equipment	27	(132,616,302)	(164,498,256)
Purchase of intangible assets	26.2	(8,009,680)	(21,431,742)
Acquisition of investment property	25	–	–
Proceeds from sale of property, plant and equipment		1,881,900	579,408
Net of investment in financial assets at amortised cost – Government securities	23.1	8,203,936,483	(3,162,796,422)
Net of investment in financial assets at amortised cost – Repo investments	23.2	(1,784,079,975)	(2,047,909,723)
Financial assets at amortised cost – Treasury bill interest received	23.1	1,075,356,963	1,367,340,796
Dividend income	8	457,130	359,040
Net cash flows generated from/(used in) investing activities		7,356,926,519	(4,028,356,899)
Cash flows from financing activities			
Proceeds from right issue of ordinary shares	36	1,193,186,274	–
Interest payments on debentures	6	(203,582,842)	(255,497,887)
Interest payments on borrowings	6	(490,405,499)	(655,179,513)
Net settlement of debentures issued	31.1	(1,192,070,000)	(33,250,000)
Capital payment on long-term interest bearing loans and borrowings obtained	31.2	5,500,000,000	1,000,000,000
Loans repayments	31.2	(3,523,900,000)	(1,038,800,000)
Lease payments	34.1.2	(149,653,686)	(91,042,418)
Net cash flows generated from/(used in) financing activities		1,133,574,247	(1,703,769,818)
Net increase/(decrease) in cash and cash equivalents		448,594,447	(1,842,148,006)
Cash and cash equivalents at the beginning of the year	17	1,133,427,884	2,975,575,890
Cash and cash equivalents at the end of the year	17	1,582,022,331	1,133,427,884

Figures in brackets indicate deductions

The Notes on pages 266 through 355 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. REPORTING ENTITY

1.1 Domicile and Legal Form

HNB Finance PLC (the "Company") is a public limited liability company incorporated in Sri Lanka on 20 December 1999 and reregistered under the companies act No. 07 of 2007. The Company is a Licensed Finance Company registered under the Finance Business Act No. 42 of 2011.

The registered office of the Company is situated at No. 168, Nawala Road, Nugegoda. The Company is a "Registered Finance Leasing establishment" under the Finance Leasing Act No. 56 of 2000.

The name of the Company was changed from HNB Grameen Finance Limited to HNB Finance Limited on 2 October 2018 and to HNB Finance PLC from 16 September 2020.

The Company got amalgamated with Prime Finance PLC effect from 12 May 2022. The surviving entity upon amalgamation is HNB Finance PLC. The staff strength of the Company as at 31 March 2025 was 1,994 (2024 – 1,962).

1.2 Principal Business Activities

The principal business activities are providing financial services and deposit mobilisation. The Company provides a wide range of services including Leasing, Hire Purchase, Micro Finance, Gold Loans, Property Mortgaged Loans, maintenance of Savings Accounts Deposits and acceptance of Fixed Deposits. There were no significant changes in the nature of principal activities of the Company during the financial period under review.

1.3 Parent Company and Ultimate Parent Company

The Company's Parent and ultimate parent entity is Hatton National Bank PLC which is a Licensed Commercial Bank incorporated in Sri Lanka.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company, which comprise the Statement of Financial Position, Statement of Income and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows, together with Accounting Policies and Notes to the 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 Financial Statements is also in compliance with the requirements of the Finance Business Act no 42 of 2011 and the listing rules of the Colombo Stock Exchange.

2.2 Approval of Financial Statements by Directors

The Financial Statements were authorised for issue by the Board of Directors on 6 June 2025.

2.3 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis except for the following:

- Financial assets are measured fair value through other comprehensive income (FVOCI)
- Liability for defined benefit obligation is measured at the present value of the defined benefit obligation using an actuarial valuation technique
- 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 Financial Statements are presented in Sri Lankan Rupees (LKR), which is the 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 Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

2.6 Offsetting

Financial assets and liabilities are offset, and the net amount presented in the Statement of Financial Position when, and only when, the Company has a legal right to set off the 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.

2.7 Comparative Information

The comparative information is reclassified where ever necessary to conform with the current year's classification in order to provide a better presentation and to be comparable with those of the current year.

As explained in Note 15.2 weighted average number of ordinary shares as at 31 March 2024 has been restated in arriving at Earnings per Share (EPS) for 2024.

2.8 Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards and as per the provisions of the Companies Act No. 07 of 2007. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error, applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

These Financial Statements include the following components.

- A Statement of Financial Position providing the information as at the year-end.
- A Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance Company for the period under review.
- A Statement of Changes in Equity depicting all changes in shareholders' funds during the period under review.
- A Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of entities to utilse those cash flows, and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

2.9 Use of Estimates and Judgements

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standards (SLFRSs/LKASs) requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements are described in the following notes:

2.9.1 Classification and impairment of financial assets

The Company used judgements when assessing of the business model within which the assets are held and assessed whether the contractual terms of the financial assets are solely-payment-of-principal-and-interest (SPPI) on the principal amount of the outstanding.

The Company also uses judgements in estimating the expected credit loss. Judgements are often used 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 which are further explained in Note 46 to the Financial Statements.

The Company uses estimates when determining inputs into the ECL measurement model, including incorporation of forward-looking information.

This includes an element of Management's judgement, in particular for the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, the change of which can result in different levels of allowances.

2.9.2 Going concern

The Management has made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.9.3 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 estimated using observable and unobservable markets.

2.9.4 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.

2.9.5. Fair valuation of investment property

Fair valuation of investment property is determined using an external independent valuer. Valuation of these properties involves significant judgement, that are disclosed in notes to these Financial Statements.

2.9.6 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.

2.9.7 Economic environment

Despite the improvements in the economic indicators, uncertainty remains in the local economic environment impacting the credit worthiness of the corporate and the individuals resulting in non-performing loans and recognition of impairment losses by the Company.

The significant accounting estimates impacted by uncertainties associated with the economic environment predominantly relate to expected credit losses, fair value measurement and the assessment of the recoverable amount of financial assets. The impact of the economic conditions on each of these estimates is discussed further in the relevant notes of these financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

3. MATERIAL ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, unless otherwise indicated. The accounting policies have been consistently applied by the Company.

3.1 Foreign Currency Transactions and Balances

Transactions in foreign currencies are translated to the 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 spot rate of exchange at the reporting 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 spot exchange rate at the date of recognition. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in Statement of Profit or Loss.

4. NEW/AMENDMENTS TO ACCOUNTING STANDARD ISSUED BUT NOT EFFECTIVE AS AT THE REPORTING DATE

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has issued several new accounting standards and amendments/improvements to existing standards. These new standards are set to become effective in the coming years. Early application of these standards are allowed, but the Company has not early adopted the new or amended standards in the preparation of these Financial Statements.

Accordingly, the Company has not applied these standards in preparing these Financial Statements.

(1) SLFRS S1 – General Requirements for Disclosure of Sustainability-related Financial Information

(2) SLFRS S2 – Climate Related Disclosure

NET INTEREST INCOME

ACCOUNTING POLICY

Interest income

Interest income and expense are recognised in profit or loss using the effective interest method. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the assets is not credit-impaired) or to the amortised cost of the liability. However, for financial asset that have become credit-impaired subsequent to initial recognition, interest is calculated by applying the effective interest rate to the net amortised cost of the financial asset.

Effective Interest Rate (EIR)

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. The Company calculates effective interest rate by estimating future cash flows.

The calculation of the effective interest rate considers all transaction costs and fees paid or received where the transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Presentation

Interest income presented in the Statement of Profit or Loss includes,

- Interest on financial assets measured at amortised cost calculated under effective interest method.
- Interest income on lease receivables.
- Interest expense presented in the Statement of Profit or Loss includes,
- Interest on financial liabilities measured at amortised cost.
- Interest expense on lease liabilities.

Lease Recievables

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.

5. INTEREST INCOME

For the year ended 31 March	Note	2025 LKR	2024 LKR
Interest calculated using effective interest method			
Loans and advances to customers		4,864,378,988	7,812,394,385
Loans and advances to others		12,847,853	27,806,005
Lease rentals receivables		4,795,089,381	3,370,419,583
Financial assets at amortised cost – Debt and other instruments		763,456,057	1,734,829,728
Savings deposits	5.1	48,221,357	145,253,655
Total interest income		10,483,993,636	13,090,703,356

5.1 Interest income from savings deposits is derived from savings deposits held in other commercial bank.

6. INTEREST EXPENSE

For the year ended 31 March	2025 LKR	2024 LKR
Deposits from customers	4,404,433,453	6,782,016,699
Debentures issued	163,552,900	236,856,373
Subordinated trust	287,898,630	443,985,754
Other borrowings	122,626,675	101,918,723
Total interest expense	4,978,511,658	7,564,777,549

7. NET FEE AND COMMISSION INCOME

ACCOUNTING POLICY

Fee and commission income, including account servicing fees are recognised upon the performance of the related service. Fee and commission expenses relate mainly to transactions and service fees which are expensed as the services are received.

For the year ended 31 March	Note	2025 LKR	2024 LKR
Gross fee and commission income	7.1	1,242,884,987	757,334,372
Gross fee and commission expenses		(349,122,795)	(209,843,432)
Net fee and commission income		893,762,192	547,490,940

7.1 Disaggregation of fee and commission income

In the following table, fee and commission income from contracts with customers in the scope of SLFRS 15 is disaggregated by major types of services.

For the year ended 31 march	2025 LKR	2024 LKR
Loan and advances related services	700,104,706	461,838,129
Lease related services	295,235,237	31,434,555
Deposits related services	247,545,044	264,061,688
Gross fee and commission income	1,242,884,987	757,334,372

7.2 Performance obligation and revenue recognition policies

The following table provides information about the nature and timing of satisfaction of performance obligations in contracts with customers,including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies under SLFRS 15
Loans & advance related services Lease related services	The Company provides various services to customers including documentation, account management and servicing fees	
Deposit related services	Transaction based fees are charged to customer's account when the transaction takes place	Revenue related to transactions is recognised at the point in time when the transaction takes place.
	Fees for ongoing account management are charged to customer's account on monthly basis.	Revenue from account service and servicing fees is recognised over time as the services are provided.
	Servicing fees are charged on a monthly basis and are based on rates reviewed annually by the Company.	

7.3 Timing of revenue recognition

For the year ended 31 March	2025 LKR	2024 LKR
Services transferred at a point in time	823,079,187	540,821,763
Services transferred over time	419,805,800	216,512,609
Gross fee and commission income	1,242,884,987	757,334,372

8. OTHER OPERATING INCOME

ACCOUNTING POLICY

Rent income and non-operational interest income are accounted on accrual basis.

Dividend income is recognised when the right to receive the payment is established.

Gain on disposal of property, plant and equipment and other non-current assets, including investments held by the Company have been accounted for in the Income Statement after deducting the carrying amount from the net sales proceeds on disposal of such assets. 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.

For the year ended 31 March	Note	2025 LKR	2024 LKR
Rent income		81,534,742	77,249,220
Recovery of loan balance written-off		138,778,890	97,485,051
Profit from disposal of property, plant and equipment		1,584,234	53,962
Dividend income		457,130	359,040
Sundry income		198,987,492	89,080,973
Insurance referral income		196,831,115	103,575,872
Assets registration income		45,757,302	20,697,362
Default interest income		757,089,511	604,320,620
Change in fair value of investment properties	25	129,900,000	68,045,625
Total other operating income		1,550,920,416	1,060,867,725

9. IMPAIRMENT CHARGES ON LOANS, LEASES AND OTHER ADVANCES

ACCOUNTING POLICY

Recognition of ECL

The Company recognises loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Loans and advances to customers
- Lease receivables;
- Loans and advance to others

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

– Debt investment securities that are determined to have low credit risk at the reporting date; and
– Other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the definition of "investment grade". The Company does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to "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 "Stage 2 financial instruments".

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to "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 Company expects to receive);
– Financial assets that are credit impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

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. Restructured financial assets are to be accounted as explained in Note 16.

Definition of Default and Credit Impaired Assets

At each reporting date, the Company generally considers financial assets defaulted as credit impaired (stage 3). A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan or a lease receivable that is past due for a period more than 90 days is 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. For these assets credit adjusted effective interest rate is calculated using estimated future cash flows including ECL. 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 for these assets, a credit adjusted effective interest rate is calculated using estimated future cash flows including ECL.

Presentation of allowance for ECL in the Statement of Financial Position

Loss allowances for ECL are presented in the Statement of Financial Position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Debt instruments measured at FVOCI: no loss allowance is recognised in the Statement of Financial Position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirely or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in "Other operating income" in the Statement of Profit or Loss and OCI. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Reversal of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back to the profit or loss by reducing the impairment allowance accordingly.

Impairment charges for loans leases and advances

For the year ended 31 March	Note	2025 LKR	2024 LKR
Financial assets at amortised cost – Loans and advances to customers	9.1	538,674,559	1,456,806,935
Financial assets at amortised cost – Lease rentals receivables	9.1	121,329,726	151,501,944
Other impairment charges	9.2	–	2,555
Total impairment charges of loans, leases and other advances		660,004,285	1,608,311,434

The Company recognises changes in the impairment provisions of loans and receivables which are assessed as per the SLFRS 9 – Financial Instruments. Loans and advances and the related impairment allowance are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where the loans and advances are secured, this is generally after receipt of any proceeds from the realisation of security.

Accounting judgements, estimates and assumptions used in ECL calculation

The measurement of impairment losses under SLFRS-9 requires judgement across all categories of financial assets, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining ECL allowances and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes of which can result in different levels of allowances. The Company's Expected Credit Loss (ECL) calculations are the outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered for accounting judgements and estimates include:

- the Company's criteria for assessing whether there has been a significant increase in credit risk as a result of which allowances for financial assets should be measured on a Life Time Expected Credit Loss (LTECL) basis
- the segmentation of financial assets when their ECL is assessed on a collective basis
- the selection of an estimation technique or modelling methodology, noting that the modelling of the Company's ECL estimates are complex; and
- the selection of inputs for those models, and the interdependencies between those inputs

Judgements and associated assumptions have been made within the context of the impact of prevailing economic conditions and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. Accordingly, the Company's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates. The following table summarises the key judgements and assumptions used by the company in relation to the ECL model inputs, and the interdependencies between those inputs.

Judgement/Assumption	Description	Considerations for the year ended 31 March 2025
Determining when a Significant Increase in Credit Risk (SICR) has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from Stage 1 to Stage 2. This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from 12 month ECL to life time ECL.	There were no material changes to the policies during the year ended 31 March 2025. The accounting policy with reference to the SICR is given in the Note 46.
Base case economic forecast	The Company derives a forward-looking base case economic scenario which reflects the Company's view of the most likely future macro-economic condition. In this assessment the Company has considered forward looking information ranging from 3-6 years which matches the average tenor of the products.	As at 31 March 2025, the base case assumptions have been updated to reflect the evolving situation with respect to prevailing economic conditions and economic forecasts provided by the Central Bank of Sri Lanka, International Monetary Fund, Asian Development Bank and World Bank.

Judgement/Assumption	Description	Considerations for the year ended 31 March 2025
Probability weighting of each economic scenario (base case, best case and worse case scenarios)	Probability weighting of each economic scenario base case, best case and worst case scenarios is determined by management considering the risks and uncertainties surrounding the base case economic scenario at each measurement date.	The key consideration for probability weightings in the current period is the uncertainties associated with prevailing economic conditions. In addition to the base case forecast, which accounts for the lingering effects of the economic downturn the Company has placed greater emphasis on the worst case scenario in light of the uncertainties associated with economic conditions through there are improvements to the economic indicators. This decision reflects the Company's assessment of the downside risks as the economy shows signs of recovery amidst continuing challenges. It is important to note that the assigned probability weighting carry a high degree of inherent uncertainty. Consequently, the actual outcomes may significantly differ from those projected.

As at 31 March	2025 %	2024 %
Best case	5	5
Base case	25	15
Worst case	70	80

The Company considering the changes to the economic outlook has revisited the weightage assigned to base and worst case scenarios durig the year ended 31 March 2025.

Post model adjustments	Temporary adjustments to the ECL allowance are used in circumstances where it is judged that the existing inputs, assumptions and model techniques do not capture all the risk factors relevant to Company's lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into the current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management overlay may impact the amount of ECL recognised. The uncertainty associated with the prevailing economic conditions and the extent to which the actions of governments, businesses and consumers mitigate the potentially adverse credit outcomes are not fully incorporated into existing ECL models. Accordingly, post model adjustments have been applied to ensure credit provisions are appropriate.	Under the collective assessment customers operating in risk elevated industries including construction and infrastructure development, manufacture of textiles and apparel, sale of building materials, sale of garments, cultural and recreation goods were assessed for lifetime ECL. Exposures outstanding from the borrowers operating in these industries have been downgraded by a stage for the calculation of lifetime ECL. As a result the cumulative impairment on industries identified as risk elevated was LKR 312 Mn. as at 31 March 2025 (2024: LKR 567 Mn.). Tourism industry which has shown an improvement compared to prior year has not been considered as risk elevated industries as at 31 March 2025.

9.1 Impairment charges/(reversals) – On loans and leases

For the year ended 31 March	2025 LKR	2024 LKR
Financial assets at amortised cost – Loans and advances to customers		
Stage 1	(27,783,946)	(495,019,966)
Stage 2	(253,689,343)	(149,956,711)
Stage 3	820,147,848	2,101,783,612
	538,674,559	1,456,806,935
Financial assets at amortised cost – Lease rentals receivables		
Stage 1	85,078,095	50,855,729
Stage 2	(32,582,222)	(252,372,025)
Stage 3	68,833,853	353,018,240
	121,329,726	151,501,944
Total impairment charge for loans and leases	660,004,285	1,608,308,879

9.2 Other impairment

For the year ended 31 March	2025 LKR	2024 LKR
Impairment charge on loans and advances to others	–	2,555
Total impairment charge on loans and advances to others	–	2,555

10. PERSONNEL EXPENSES

ACCOUNTING POLICY

Personnel expenses include salaries, bonuses, terminal benefits and other staff-related expenses.

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 Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

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 Profit/Loss in the periods during which services are rendered by employees.

Employees' Provident Fund (EPF):

The Company and employees contribute 12% and 8% respectively on the salary of each employee to the above-mentioned funds.

Employees' Trust Fund (ETF):

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund.

Defined benefits plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs are deducted.

The calculation is performed every year by a qualified actuary using the projected unit credit method as given in LKAS 19. 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 Company 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 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.

For the year ended 31 March	Note	2025 LKR	2024 LKR
Salaries and bonus		1,651,194,097	1,210,848,638
Other personnel expenses		132,969,021	128,196,278
Employer's contribution to Employees' Provident Fund		168,873,006	138,966,813
Employer's contribution to Employees' Trust Fund		42,199,446	34,736,305
Retirement benefit cost	35.1	75,310,192	85,073,992
		2,070,545,762	1,597,822,026

11. OTHER EXPENSES

ACCOUNTING POLICY

Expenses recognition

Expenses are recognised 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 Income Statement the Directors are of the opinion that the nature of the expenses method present fairly the element of the Company's performance, and hence such presentation method is adopted.

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.

For the year ended 31 March	Note	2025 LKR	2024 LKR
Advertising and related expenses		119,623,444	86,326,713
Auditors remuneration and other chargers		7,034,628	6,217,000
Crop Insurance Levy		6,731,387	4,955,103
Depreciation and amortisation expenses	11.1	354,674,613	344,962,840
Directors emoluments (Board related fees only)		14,726,868	12,979,185
Donations		31,160	24,900
Legal expenses and professional fees		61,873,053	52,432,128
Office administration and establishment expenses		2,500,054,260	2,403,306,731
		3,064,749,413	2,911,204,600

11.1 Depreciation and Amortisation Expenses

For the year ended 31 March	Note	2025 LKR	2024 LKR
Depreciation on property, plant and equipment	27	154,635,493	144,247,627
Amortisation expenses of right of use asset	28	131,112,566	116,640,473
Amortisation expenses of intangible assets	26	68,926,554	84,074,740
		354,674,613	344,962,840

12. TAXES ON FINANCIAL SERVICES

ACCOUNTING POLICY

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 services is recognised as expense in the period it becomes due.

VAT on financial services rate applied is 18%. (2024-18%)

Social Security Contribution Levy

Social Security Contribution Levy (SSCL) shall be paid by any person carrying on the business of supplying financial services, on the liable turnover as per Social Security Contribution Levy Act No.25 of 2022, at the rate of 2.5%, with effect from 1 October 2022. SSCL is payable on 100% of the Value Addition attributable to financial services. The Value Addition attributable to financial services shall be computed for the payment of SSCL on the business of supplying financial services by applying the attributable method referred in to the Value Added Tax Act No. 14 of 2002.

For the year ended 31 March	2025 LKR	2024 LKR
Value added tax on financial services	645,844,802	397,550,143
Social security contribution levy	88,123,895	52,690,832
	733,968,697	450,240,975

13. PROFIT BEFORE INCOME TAX

For the year ended 31 March	2025 LKR	2024 LKR
Profit before tax is stated after charging all the expenses including the followings		
Depreciation on property, plant and equipment	154,635,493	144,247,627
Repairs and maintenance	355,423,924	326,332,987
Right of use assets amortisation	131,112,566	116,640,473
Amortisation of intangible assets	68,926,554	84,074,740
Directors' remuneration	38,663,146	26,014,000
Auditors' remuneration – Audit fees	6,250,000	5,625,000
– Other services	672,000	592,000
Legal charges	39,748,663	36,546,340
Donation	31,160	24,900

14. INCOME TAX EXPENSE

ACCOUNTING POLICY

Tax expense

Tax expence comprises current tax and deferred tax. Income tax and deferred tax expense are recognised in the Profit or Loss except to the extent that it relates to items recognised in the Other Comprehensive Income or directly in Equity.

The Company 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 them under LKAS 37 Provisions, contingent liabilities and contingent assets.

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 Financial Statements and is measured using the tax rates enacted or substantively enacted as at the reporting date.

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 in the initial recognition of goodwill.

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 Profit or Loss.

Withholding Tax on Dividends

Dividend distributed out of taxable profit of the local companies attracts a deduction at source and is not available for set off against the tax liability of the Company. Withholding tax that arises from the distribution of dividends by the Company is recognised at the same time as the liability to pay the related dividend is recognised.

For the year ended 31 March	Note	2025 LKR	2024 LKR
Recognised in the profit or loss			
Income tax on profit on respect of the year	14.1	112,218,575	–
(Over)/Under provision on respect of previous years		(145,676)	9,344,479
Provision for Income tax assessment	32.1	16,958,233	222,850,871
Deferred tax charge/(reversal)	29.2	527,351,660	(286,478,256)
Total income tax charge/(reversal)		656,382,792	54,282,906
Recognised in the other comprehensive income			
Deferred tax charge/(reversal)	29.2	12,956,557	(11,042,047)
		12,956,557	(11,042,047)

14.1 Numerical reconciliation of accounting profit to income tax expense

For the year ended 31 March	Note	2025 LKR	2024 LKR
Accounting profit before income tax expense		1,420,896,429	566,705,437
Add:			
Disallowable expenses		1,777,027,264	2,470,167,337
Deduct:			
Allowable expenses		(1,372,105,747)	(3,692,753,221)
Tax credits			
Tax losses claimed	14.2	(656,026,124)	–
Tax credit from amalgamation	14.3	(795,729,904)	–
Taxable income/(Tax Loss) from business		374,061,918	(655,880,447)
Income tax at 30%		112,218,575	–
Current income tax expense		112,218,575	–

The Company has calculated the provision for income tax at the rate of 30% on profits for the year ended 31 March 2025 (2024 – 30%).

14.2 Accumulated tax losses

For the year ended 31 March	2025 LKR	2024 LKR
Balance as at 1 April	655,880,448	–
Adjustment due to finalisation of previous tax liabilities	145,676	
Tax loss incurred during the year	–	655,880,447
Tax losses utilised during the year	(656,026,124)	
Balance as at 31 March	–	655,880,447

14.3 Tax credit on amalgamation

Tax credit on amalgamation includes the amount claimed out of the tax credit arisen due to the amalgamation of the Company with Prime Finance PLC during the year ended 31 March 2022. The unutilized tax credit related to this is disclosed in note 29.4 to these financial statements.

14.4 Surcharge tax

HNB Finance PLC amalgamated its operation with Prime Finance PLC during the year 2022 with the surviving entity being HNB Finance PLC. During the year ended 31 March 2025, HNB Finance PLC has received surcharge tax assessment in accordance with Surcharge Tax Act No 12 of 2022 as follows.

	Amount LKR
Surcharge tax on profits of HNB Finance PLC	11,029,767
Surcharge tax on profits of Prime Finance PLC	41,563,383
	52,593,150

The surcharge tax act No. 14 of 2022 was certified by the Speaker and published as a Supplement to Part II of the Gazette of the Democratic Socialist Republic of Sri Lanka on 8 April 2022. As per the Statement of Alternative Treatment (SoAT) issued by CA Sri Lanka on 22 April 2022, Surcharge Tax expense which is deemed to be an expenditure for the year of assessment which commenced on 1 April 2020, is recorded as an adjustment to the opening retained earnings reported in the Statement of Changes in Equity as at 1 April 2024. Such adjustment incorporated in the Financial Statement for the current reporting period amounted to LKR 52,593,150/-.

Surcharge tax amounting to LKR 11,029,767 and penalty and interest amounting to LKR 4,632,502 related to the surcharge tax on the profit of HNB Finance PLC was settled in full during the year ended 31 March 2025 and is recognised in profit or loss for the year. Refer note 43.1 to these Financial Statements related to the penalty and interest on the surcharge tax related to the profits of Prime Finance PLC.

15. EARNINGS PER SHARE

ACCOUNTING POLICY

The Company presents basic and diluted earnings per share data for its ordinary shares.

15.1 Basic earnings per share

The calculation of basic earnings per share is based on the Profit attributable to ordinary shareholders for the year divided by the weighted average number of ordinary shares outstanding during the year and is calculated as follows;

For the year ended 31 March	Note	2025	2024 Restated
Net profit attributable to the ordinary shareholders for the year (LKR)		764,513,637	620,988,343
Weighted average number of ordinary shares outstanding during the year	15.2	1,777,259,900	1,773,073,734
Basic earnings per share (LKR)		0.43	0.35

15.2 Movement in ordinary shares

	Outstanding Number of Shares		Weighted Average Number of Shares	
For the year ended 31 March	2025	2024	2025	2024
Number of shares in issue as at 1 April	1,719,580,624	1,719,580,624	1,719,580,624	1,719,580,624
Right issue of ordinary shares	358,245,963	–	57,679,276	–
Number of shares in issue as at 31 March	2,077,826,587	1,719,580,624	1,777,259,900	1,719,580,624
Restatement due to right issue	–	–	–	53,493,110
Weighted average number of ordinary shares as at 31 March	2,077,826,587	1,719,580,624	1,777,259,900	1,773,073,734

Weighted average number of ordinary shares as at 31 March 2024 has been restated based on the no of shares issued for right issue in 2025 as per Sri Lanka Accounting Standard LKAS 33 – "Earnings per Share"

15.3 Diluted earnings per share

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.

There were no potential dilutive ordinary shares outstanding at any time during the year. Therefore, diluted earnings per share is same as basic earnings per share as shown above.

16. FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

Recognition and initial measurement of financial assets

The Company initially recognise loans and advances on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

A financial asset is measured initially at fair value plus, for an item which is not measured at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Classification of financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost or FVOCI. A financial asset is measured at amortised cost if it meets both of the following conditions:

- 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.

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an instrument-by-instrument basis. All other financial assets are classified as measured at FVTPL. In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level and not assessed on instrument-by- instrument basis 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 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 activities

However, information about sales activities is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment of whether contractual cash flows are Solely Payments of Principal and Interest (SPPI)

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instruments. This includes assessing whether the financial asset contains a contractual term that could change the timing or contractual cash flows such that it would not meet this condition. In making the assessment the Company considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse loans); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications of financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Derecognition of financial assets

The Company 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 Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On 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 Company is recognised as a separate asset or liability.

The Company enters into transactions whereby it transfers assets recognised on its Statement of Financial Position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not 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 Company retains all or substantially all of the risks and rewards of ownership of such assets. In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Modification of financial assets

If the terms of a financial asset are modified, then the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is 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 Company plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the 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 Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred, and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Subsequent measurement and gains or losses

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.

Fair value measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as "active" if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e, the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted

price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a financial liability with a demand feature (e.g, a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred. If the modification occur financial assets measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Company first recalculate the gross carrying amount of financial asset using the original effective interest rate of the asset and recognise the resulting adjustment modification gain or loss for floating rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect the current market terms at the time of the modification. Any costs or fees income and fees received as a part of the modification, adjust the gross carrying amount of the modified financial assets 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.

Fair value hierarchy

The Company measures the fair value using the following value hierarchy, which reflects the significance of the inputs used in making the measurement. An analysis of value measurement of financial and non-financial assets and liabilities is provided in Note 48.

Level 1

inputs that are quoted market prices and (unadjusted) in an active market for identical instruments.

When available, the company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active transactions for assets all liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2

Input other than quoted prices include within level 1 that are observable either directly (i.e., as prices) or indirectly, (i.e., derived from prices). this category includes instruments valued using ;

(a) quoted prices in active markets for similar instruments

(b) quoted prices for identical, similar instruments in markets that are considered to be less active or

(c) other valuation techniques in which almost all significant instruments are directly or indirectly observable from market data.

Level 3

Inputs that are unobservable

This category includes all instruments for which the evaluation technique includes inputs not based on observable data, and the unobservable inputs have a significant effect on the instrument's valuation.

This category includes instruments that are valued based on quoted prices of seminar instruments, for which significant observable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rate, bond and equity prices, for exchange rates, expected price volatilities, and corrections.

Observable prices of model input, such as market interest rates are usually available in the market for listed equity securities and Government Securities such as Treasury bills and Treasury bonds. The availability of observable prices and model inputs reduces the need for management judgment and estimation while reducing the uncertainty associated in determining the values."

Designation at Fair Value Through Profit or Loss (FVTPL)

The Company does not have any financial liabilities designated as at FVTPL.

Financial instruments are measured continuously either at fair value or at amortised cost. The material accounting policies outlines the measurement approach for each category of financial instruments, as well as the recognition of income, expenses, and fair value gains and losses. The below table provides an analysis of the carrying amounts of the financial instruments categorised according to the guidelines set forth in Sri Lanka Accounting Standard – SLFRS 9 "Financial Instruments: Recognition and Measurement."

16.1 Classification of financial assets and liabilities as per SLFRS 9 – "Financial Instruments"

As at 31 March 2025	Measured at fair value through other comprehensive income (FVOCI) LKR	Measured at amortised cost LKR	Total LKR
Assets			
Cash and cash equivalents	–	1,582,022,331	1,582,022,331
Financial assets at amortised cost – Loans and advances to customers	–	19,043,419,761	19,043,419,761
Financial assets at amortised cost – Lease rentals receivables	–	25,700,606,847	25,700,606,847
Financial assets at amortised cost – Loans and advances to others	–	95,241,779	95,241,779
Financial assets measured at FVOCI	4,324,073	–	4,324,073
Financial assets at amortised cost – Debt and other instruments	–	6,982,841,561	6,982,841,561
Other financial assets	–	76,415,318	76,415,318
Total financial assets	4,324,073	53,480,547,597	53,484,871,670

	Measured at fair value through profit or loss (FVTPL) LKR	Measured at amortised cost LKR	Total LKR
Liabilities			
Financial liabilities at amortised cost – Due to customers	–	42,217,981,305	42,217,981,305
Financial liabilities at amortised cost – Debt issued and other borrowed funds	–	4,767,543,102	4,767,543,102
Other financial liabilities	–	2,795,198,277	2,795,198,277
Total financial liabilities	–	49,780,722,684	49,780,722,684

As at 31 March 2024	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	–	1,133,427,884	1,133,427,884
Financial assets at amortised cost – Loans and advances to customers	–	18,610,669,480	18,610,669,480
Financial assets at amortised cost – Lease rentals receivables	–	14,877,313,121	14,877,313,121
Financial assets at amortised cost – Loans and advances to others	–	147,629,831	147,629,831
Financial assets measured at FVOCI	4,432,096	–	4,432,096
Financial assets at amortised cost – Debt and other instruments	–	13,714,598,974	13,714,598,974
Other financial assets	–	89,068,816	89,068,816
Total financial assets	4,432,096	48,572,708,106	48,577,140,202

	Financial liabilities measured at fair value through profit or loss (FVTPL) LKR	Financial liabilities measured at amortised cost LKR	Total LKR
Liabilities			
Financial liabilities at amortised cost – Due to customers	–	41,260,879,894	41,260,879,894
Financial liabilities at amortised cost – Debt issued and other borrowed funds	–	4,157,249,111	4,157,249,111
Other financial liabilities		1,540,223,495	1,540,223,495
Total financial liabilities	–	46,958,352,500	46,958,352,500

17. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

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 Company in managing its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

For the year ended 31 March	Note	2025 LKR	2024 LKR
Favorable balances			
Cash in hand		541,691,800	372,903,336
Balances with banks	17.1	1,040,330,531	760,524,548
		1,582,022,331	1,133,427,884
Unfavorable balances			
Bank overdraft		–	–
Cash and cash equivalents		1,582,022,331	1,133,427,884
Net cash and cash equivalents for the cash flow purpose		1,582,022,331	1,133,427,884

17.1 Balance with banks

For the year ended 31 March	2025 LKR	2024 LKR
Fitch Rating		
AA- (lka)	838,968,055	–
A+ (lka)	98,074,412	–
A (lka)	103,149,066	591,905,280
A- (lka)	–	168,514,690
BBB- (lka)	138,998	104,578
	1,040,330,331	760,524,548

18. FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES TO CUSTOMERS

Refer the material accounting policy under Note 16.

For the year ended 31 March	Note	2025 LKR	2024 LKR
Loans and advances to customers	18.1	23,852,883,680	23,473,579,167
Less – Allowance for impairment losses	18.1	(4,809,463,919)	(4,862,909,687)
		19,043,419,761	18,610,669,480

18.1 Financial assets at amortised cost – Loans and advances to customers product wise

For the year ended 31 March	Note	2025 Amortised cost LKR	2025 Impairment LKR	2024 Amortised cost LKR	2024 Impairment LKR
Loans and advances	18.2	14,505,402,846	4,720,335,966	17,525,621,342	4,808,895,632
Gold loans	18.3	8,912,795,365	89,127,953	5,401,405,528	54,014,055
Loans against fixed deposits	18.4	434,685,469	–	546,552,297	–
		23,852,883,680	4,809,463,919	23,473,579,167	4,862,909,687

18.2 Loans and advances

18.2.1 Loans and advances to customers

As at 31 March 2025	Gross loans and advances to customers LKR	Allowance for impairment losses LKR	Net loans and advances to customers LKR
Stage – 1	5,823,594,080	218,839,532	5,604,754,548
Stage – 2	1,682,269,420	228,623,705	1,453,645,715
Stage – 3	6,999,539,346	4,272,872,729	2,726,666,617
	14,505,402,846	4,720,335,966	9,785,066,880

As at 31 March 2024	Gross loans and advances to customers LKR	Allowance for impairment losses LKR	Net loans and advances to customers LKR
Stage – 1	6,291,651,688	279,147,147	6,012,504,541
Stage – 2	3,522,257,761	484,895,093	3,037,362,668
Stage – 3	7,711,711,893	4,044,853,392	3,666,858,501
	17,525,621,342	4,808,895,632	12,716,725,710

18.2.2 Allowance for impairment losses

(a) Allowance for individually assessed portfolio

As at 31 March 2025	Stage -1 LKR	Stage -2 LKR	Stage -3 LKR	Total LKR
Balance as at 1 April 2024	–	–	283,624,547	283,624,547
Reversal for the year	–	–	(20,692,030)	(20,692,030)
Balance as at 31 March 2025	–	–	262,932,517	262,932,517

As at 31 March 2024	Stage -1 LKR	Stage -2 LKR	Stage -3 LKR	Total LKR
Balance as at 1 April 2023	–	–	517,045,619	517,045,619
Reversal for the year	–	–	(233,421,072)	(233,421,072)
Balance as at 31 March 2024	–	–	283,624,547	283,624,547

(b) Allowance for collectively assessed portfolio

As at 31 March 2025	Stage -1 LKR	Stage -2 LKR	Stage -3 LKR	Total LKR
Balance as at 1 April 2024	279,147,147	484,895,093	3,761,228,845	4,525,271,085
(Reversal)/charge for the year	(60,307,615)	(256,271,388)	840,831,694	524,252,691
Amount written off	–	–	(592,120,327)	(592,120,327)
Balance as at 31 March 2025	218,839,532	228,623,705	4,009,940,212	4,457,403,449

As at 31 March 2024	Stage -1 LKR	Stage -2 LKR	Stage -3 LKR	Total LKR
Balance as at 1 April 2023	769,625,804	641,767,546	3,248,890,403	4,660,283,753
Charge/(Reversal) for the year	(490,478,657)	(156,872,453)	2,335,179,735	1,687,828,625
Amount written off	–	–	(1,822,841,293)	(1,822,841,293)
Balance as at 31 March 2024	279,147,147	484,895,093	3,761,228,845	4,525,271,085

No enforcement activity charges were incurred in relation to any write-offs during the reporting period.

18.2.3 Movement in impairment allowance – Loans and Advances

	2025 LKR	2024 LKR
Balance as at 1 April	4,808,895,632	5,177,329,372
Charge for the year	503,560,661	1,454,407,553
Amount written off	(592,120,327)	(1,822,841,293)
Balance as at 31 March	4,720,335,966	4,808,895,632
Allowance for individually assessed portfolio	262,932,517	283,624,547
Allowance for collectively assessed portfolio	4,457,403,449	4,525,271,085
Total	4,720,335,966	4,808,895,632

18.3 Gold Loans

18.3.1 Net receivables on Gold loans

As at 31 March 2025	Gross loans receivable LKR	Allowance for impairment losses LKR	Total net loans receivable LKR
Stage – 1	7,959,703,290	79,597,033	7,880,106,257
Stage – 2	949,778,772	9,497,787	940,280,985
Stage – 3	3,313,303	33,133	3,280,170
	8,912,795,365	89,127,953	8,823,667,412

As at 31 March 2024	Gross loans receivable LKR	Allowance for impairment losses LKR	Total net loans receivable LKR
Stage – 1	4,707,336,403	47,073,364	4,660,263,039
Stage – 2	691,574,267	6,915,742	684,658,525
Stage – 3	2,494,858	24,949	2,469,909
	5,401,405,528	54,014,055	5,347,391,473

18.3.2 Allowance for impairment losses – Gold loans

(a) Movement in impairment allowance

	2025 LKR	2024 LKR
Balance as at 1 April	54,014,055	51,614,673
Charge for the year	35,113,898	2,399,382
Balance as at 31 March	89,127,953	54,014,055

(b) Movement in impairment allowance during the year – Collective assessment (Gold loan)

As at 31 March 2025	Stage -1 LKR	Stage -2 LKR	Stage -3 LKR	Total LKR
Balance as at 1 April 2024	47,073,364	6,915,742	24,949	54,014,055
Charge for the year	32,523,669	2,582,045	8,184	35,113,898
Balance as at 31 March 2025	79,597,033	9,497,787	33,133	89,127,953

As at 31 March 2024	Stage -1 LKR	Stage -2 LKR	Stage -3 LKR	Total LKR
Balance as at 1 April 2023	51,614,673	–	–	51,614,673
Charge/(reversal) for the year	(4,541,309)	6,915,742	24,949	2,399,382
Balance as at 31 March 2024	47,073,364	6,915,742	24,949	54,014,055

18.4 Loans against deposits

As at 31 March	2025 LKR	2024 LKR
Loans against deposits	421,901,629	539,972,865
Interest receivable on loans against deposits	12,783,840	6,579,432
	434,685,469	546,552,297

18.5 Movement in allowance for expected credit losses – Loans and advance to customers

As at 31 March 2025	Stage – 1 12-month ECL LKR	Stage – 2 Lifetime ECL not credit impaired LKR	Stage – 3 Lifetime ECL credit impaired LKR	Total LKR
Balance as at 1 April	326,220,511	491,810,835	4,044,878,342	4,862,909,688
Changes due to loans and advances recognised in opening balance that have been;				
– Transferred from 12 month ECL	(104,266,903)	41,389,357	62,877,546	–
– Transferred from lifetime ECL not credit impaired	41,637,037	(67,587,502)	25,950,465	–
– Transferred from lifetime ECL credit impaired	35,030,157	160,417,637	(195,447,794)	–
– Amount written off	–	–	(592,120,330)	(592,120,330)
New assets originated or purchased	415,735,837			415,735,837
Financial assets derecognised or repaid (excluding write offs)	(197,805,293)	(155,987,256)	(368,371,865)	(722,164,414)
Net remeasurement of loss allowances	(218,114,781)	(231,921,579)	1,295,139,498	845,103,138
Balance as at 31 March	298,436,565	238,121,492	4,272,905,862	4,809,463,919

As at 31 March 2024	Stage-1 12-month ECL LKR	Stage-2 Lifetime ECL not credit impaired LKR	Stage-3 Lifetime ECL credit impaired LKR	Total LKR
Balance as at 1 April	821,240,477	641,767,546	3,765,936,023	5,228,944,046
Changes due to loans and advances recognised in opening balance that have been;				
– Transferred from 12 month ECL	(210,479,872)	210,479,872	–	–
– Transferred from lifetime ECL not credit impaired	26,308,765	(230,765,582)	204,456,817	–
– Transferred from lifetime ECL credit impaired	21,313,526	54,760,802	(76,074,328)	–
– Amount written off	–	–	(1,822,841,293)	(1,822,841,293)
New assets originated or purchased	1,188,897,081	–	–	1,188,897,081
Financial assets derecognised or repaid (excluding write offs)	(407,828,210)	(310,686,801)	(1,233,645,622)	(1,952,160,633)
Net remeasurement of loss allowances	(1,113,231,256)	126,254,998	3,207,046,745	2,220,070,487
Balance as at 31 March	326,220,511	491,810,835	4,044,878,342	4,862,909,688

19. FINANCIAL ASSETS AT AMORTISED COST – LEASE RENTALS RECEIVABLES

ACCOUNTING POLICY

When the Company acts as the lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Company makes an 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.

At the commencement date of a finance lease the Company recognises assets held under finance lease in its statement of financial position and present them as a receivable at an amount equal to the net rentals receivable.

The Company applies the derecognition and impairment requirements in SLFRS 9 to the lease rental receivables.

	Note	2025 LKR	2024 LKR
Rentals receivable		34,654,214,257	21,802,402,105
Unearned lease income		(8,273,118,899)	(5,731,034,316)
Gross rental receivable before charging allowance for impairment losses	19.1	26,381,095,358	16,071,367,789
Allowance for impairment losses	19.2	(680,488,511)	(1,194,054,668)
Total net rentals receivable		25,700,606,847	14,877,313,121

19.1 Lease rentals receivable

As at 31 March 2025	Gross loans receivable LKR	Allowance for impairment losses LKR	Net rentals receivable LKR
Stage – 1	21,362,945,195	240,711,465	21,122,233,730
Stage – 2	4,391,108,994	201,058,497	4,190,050,497
Stage – 3	627,041,169	238,718,549	388,322,620
	26,381,095,358	680,488,511	25,700,606,847

As at 31 March 2024	Gross loans receivable LKR	Allowance for impairment losses LKR	Total net loans receivable LKR
Stage – 1	10,466,013,991	155,633,370	10,310,380,621
Stage – 2	3,966,155,069	233,640,719	3,732,514,350
Stage – 3	1,639,198,729	804,780,579	834,418,150
	16,071,367,789	1,194,054,668	14,877,313,121

19.2 Allowance for impairment losses

(a) Movement in impairment allowance

	2025 LKR	2024 LKR
Balance as at 1 April	1,194,054,668	1,245,438,354
Charge for the year	121,329,726	151,501,944
Amount written off	(634,895,883)	(202,885,630)
Balance as at 31 March	680,488,511	1,194,054,668
Individual impairment	112,500,265	442,439,958
Collective impairment	567,988,246	751,614,710
Total	680,488,511	1,194,054,668

(b) Allowance for Collectively assessed portfolio

As at 31 March 2025	Stage -1 LKR	Stage -2 LKR	Stage -3 LKR	Total LKR
Balance as at 1 April 2024	155,633,370	233,640,719	362,340,621	751,614,710
Charge/(reversal) for the year	85,078,094	(32,582,222)	(229,599,273)	(177,103,401)
Amount written off	–	–	(6,523,063)	(6,523,063)
Balance as at 31 March 2025	240,711,464	201,058,497	126,218,285	567,988,246

No enforcement activity charges were incurred in relation to any write-offs during the reporting period.

As at 31 March 2024	Stage-1 LKR	Stage-2 LKR	Stage-3 LKR	Total LKR
Balance as at 1 April 2023	104,777,641	486,012,744	534,628,609	1,125,418,994
Charge/(reversal) for the year	50,855,729	(252,372,025)	(83,272,667)	(284,788,963)
Amount written off	–	–	(89,015,321)	(89,015,321)
Balance as at 31 March 2024	155,633,370	233,640,719	362,340,621	751,614,710

(c) Allowance for individually assessed portfolio

As at 31 March 2025	Stage -1 LKR	Stage -2 LKR	Stage -3 LKR	Total LKR
Balance as at 1 April 2024	–	–	442,439,958	442,439,958
Charge for the year	–	–	298,433,126	298,433,126
Amount written off	–	–	(628,372,819)	(628,372,819)
Balance as at 31 March 2025	–	–	112,500,265	112,500,265

As at 31 March 2024	Stage-1 LKR	Stage-2 LKR	Stage-3 LKR	Total LKR
Balance as at 1 April 2023	–	–	120,019,360	120,019,360
Charge for the year	–	–	436,290,907	436,290,907
Amount wirtten-off	–	–	(113,870,309)	(113,870,309)
Balance as at 31 March 2024	–	–	442,439,958	442,439,958

19.3 Contractual maturity analysis of lease rentals receivables

As at 31 March 2025	Within one year LKR	1 to 5 years LKR	Over 5 years LKR	Total LKR
Gross rentals receivables	7,352,555,926	27,297,760,879	3,897,451	34,654,214,256
Less: Unearned income	(140,307,601)	(8,131,574,405)	(1,236,893)	(8,273,118,899)
Net rentals receivable before charging allowance for impairment losses	7,212,248,325	19,166,186,474	2,660,558	26,381,095,357
Less : Allowance for impairment losses				(680,488,511)
Total net rental receivable				25,700,606,846

As at 31 March 2024	Within one year LKR	1 to 5 years LKR	Over 5 years LKR	Total LKR
Gross rentals receivables	2,949,418,577	18,186,191,646	666,791,882	21,802,402,105
Less: Unearned income	(109,135,121)	(5,386,892,774)	(235,006,421)	(5,731,034,316)
Net rentals receivable before charging allowance for impairment losses	2,840,283,456	12,799,298,872	431,785,461	16,071,367,789
Less : Allowance for impairment losses				(1,194,054,668)
Total net rental receivable				14,877,313,121

19.4 Movement in allowance for expected credit losses – Lease rentals receivables

As at 31 March 2025	Stage-1 12-month ECL LKR	Stage-2 Lifetime ECL not credit impaired LKR	Stage-3 Lifetime ECL credit impaired LKR	Total LKR
Balance as at 1 April	155,633,370	233,640,719	804,780,579	1,194,054,668
Changes due to loans and advances recognised in opening balance that have been;				
– Transferred from 12 month ECL	(55,700,393)	48,501,005	7,199,388	–
– Transferred from lifetime ECL not credit impaired	27,681,258	(35,366,479)	7,685,221	–
– Transferred from lifetime ECL credit impaired	938,458	11,778,516	(12,716,974)	–
– Amount written off	–	–	(634,895,880)	(634,895,880)
New assets originated or purchased	284,854,580			284,854,580
Financial assets derecognised or repaid (excluding write offs)	(63,068,558)	(103,755,434)	59,335,023	(107,488,969)
Net remeasurement of loss allowances	(109,627,251)	46,260,170	7,331,193	(56,035,888)
Balance as at 31 March	240,711,464	201,058,497	238,718,550	680,488,511

As at 31 March 2024	Stage-1 12-month ECL LKR	Stage-2 Lifetime ECL not credit impaired LKR	Stage-3 Lifetime ECL credit impaired LKR	Total LKR
Balance as at 1 April	104,777,641	486,012,744	654,647,969	1,245,438,354
Changes due to loans and advances recognised in opening balance that have been;				
– Transferred from 12 month ECL	(30,364,549)	30,364,549	–	–
– Transferred from lifetime ECL not credit impaired	64,132,066	(133,128,204)	68,996,138	–
– Transferred from lifetime ECL credit impaired	6,004,403	16,606,811	(22,611,214)	–
– Amount written off	–	–	(202,885,630)	(202,885,630)
New assets originated or purchased	189,793,915	–	–	189,793,915
Financial assets derecognised or repaid (excluding write offs)	(25,026,911)	(168,299,147)	(108,708,556)	(302,034,614)
Net remeasurement of loss allowances	(153,683,195)	2,083,966	415,341,872	263,742,643
Balance as at 31 March	155,633,370	233,640,719	804,780,579	1,194,054,668

20. FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES TO OTHERS

Refer the material accounting policy under Note 16.

As at 31 March	Note	2025 LKR	2024 LKR
Staff loans	20.1	15,240,242	31,204,197
Mortgage loans		80,001,537	116,425,634
		95,241,779	147,629,831

20.1 Staff loans

	2025 LKR	2024 LKR
Balance as at 1 April	31,204,197	63,456,152
Loans granted during the year	–	13,412,000
Recovered during the year	(15,963,955)	(44,520,056)
Write off during the year	–	(1,143,899)
Balance as at 31 March	15,240,242	31,204,197

21. ALLOWANCE FOR IMPAIRMENT LOSSES – LOANS AND ADVANCES, LEASE RENTAL RECEIVABLES

As at 31 March	Note	2025 LKR	2024 LKR
Balance as at 1 April		6,056,964,355	6,475,523,743
Charge for the year – Loans and advances to customers	9.1	538,674,559	1,456,806,935
Charge for the year – Lease rentals receivables	9.1	121,329,726	151,501,944
Other impairment charges	9.3	–	2,555
Written off during the year		(1,227,016,210)	(2,026,870,822)
Balance as at 31 March		5,489,952,430	6,056,964,355

21.1 Movement in impairment allowance

For the year ended 31 March 2025	Note	Collective			Individual	Total
		Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Stage 3 LKR	LKR
(a) Financial assets at amortised cost – Loans and advances to customers						
Balance as at 1 April 2024		326,220,511	491,810,835	3,761,253,794	283,624,547	4,862,909,687
(Reversal)/charge for the year		(27,783,946)	(253,689,343)	840,839,878	(20,692,030)	538,674,559
Amount written off		–	–	(592,120,327)	–	(592,120,327)
Balance as at 31 March 2025	18.2.2	298,436,565	238,121,492	4,009,973,345	262,932,517	4,809,463,919
(b) Financial assets at amortised cost – Lease rentals receivables						
Balance as at 1 April 2024		155,633,370	233,640,719	362,340,621	442,439,958	1,194,054,668
Charge/(reversal) for the year		85,078,095	(32,582,222)	(229,599,274)	298,433,126	121,329,725
Amount written off		–	–	(6,523,063)	(628,372,819)	(634,895,882)
Balance as at 31 March 2025	19.2	240,711,464	201,058,497	126,218,285	112,500,265	680,488,511
Total		539,148,029	439,179,989	4,136,191,630	375,432,782	5,489,952,430

21.2 Product wise impairment analysis

As at 31 March 2025	Note	Collective			Individual	Total
		Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Stage 3 LKR	LKR
Product wise impairment analysis						
Loans and advances to customers	18.2.2	218,839,532	228,623,705	4,009,940,212	262,932,517	4,720,335,966
Gold loans	18.3.2	79,597,033	9,497,787	33,133	–	89,127,953
Lease rental receivables	19.2	240,711,464	201,058,497	126,218,285	112,500,265	680,488,511
Other impairment	20.2	–	–	–	–	–
		539,148,029	439,179,989	4,136,191,630	375,432,782	5,489,952,430

22. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Refer the material accounting policy under Note 16.

As at 31 March	Note	2025 LKR	2024 LKR
Unquoted equity securities	22.1	4,000,000	4,000,000
Quoted equity securities	22.1	324,073	432,096
		4,324,073	4,432,096

22.1 Investments in quoted/unquoted shares

As at 31 March	2025			2024		
	Number of shares	Cost LKR	Fair value LKR	Number of Shares	Cost LKR	Fair value LKR
Credit Information Bureau of Sri Lanka	200	290,200	4,000,000	200	290,200	4,000,000
Standard Credit Lanka Limited	38,458,474	38,458,474	–	38,458,474	38,458,474	–
UB Finance PLC	540,121	12,196,283	324,073	540,121	12,196,283	432,096
		50,944,957	4,324,073		50,944,957	4,432,096

Above investments include both quoted and unquoted equity investments. For quoted investments, fair value is determined using market prices available at the reporting date, as there is an active market. In contrast, unquoted investments valued using the respective net asset values attributable to each investee. In accordance with SLFRS 13 – Fair Value Measurement, the fair valuation of quoted investments is classified as Level 1, while unquoted investments are categorized as Level 3 due to the use of unobservable inputs. The Company designated these investments as FVOCI because these investments represent investments, that Company intends to hold for long-term strategic purposes. No strategic investments were disposals during 2024/25 and there was no transfer of any cumulative gain or loss within equity relating to these investments.

22.2 Fair value movement during the period – FVOCI

As at 31 March	2025 LKR	2024 LKR
Opening fair value	4,432,096	5,052,715
Fair value loss	(108,023)	(620,619)
Closing fair value	4,324,073	4,432,096

22.3 Significant unobservable inputs used in the valuation and their sensitivity – Investments at FVOCI

		Fair value increase (decrease) by	
Input	Change %	2025 LKR	2024 LKR
Net assets per share	+10	432,407	443,210
(LKR 20,000)	-10	(432,407)	(443,210)

23. FINANCIAL ASSETS AT AMORTISED COST – DEBT AND OTHER INSTRUMENTS

Refer the material accounting policy under Note 16.

As at 31 March	Note	2025 LKR	2024 LKR
Sri Lanka government securities	23.1	883,301,197	9,718,883,804
Reverse repurchase agreements	23.2	6,099,328,269	3,995,517,600
Fixed deposits	22.3	212,095	197,570
		6,982,841,561	13,714,598,974

23.1 Sri Lanka government securities

As at 31 March	2025 LKR	2024 LKR
Treasury bills	878,615,069	9,082,551,552
Interest receivable	4,686,128	636,332,252
Sri Lanka Government Securities	883,301,197	9,718,883,804

23.2 Reverse repurchase agreements

ACCOUNTING POLICY

These are loans collateralised by the purchase of Treasury Bills and/or Guaranteed Commercial Papers from the counterparty to whom the loans are granted. The sale by the counterparty is subject to a commitment by the Company to sell back the underlying debt securities to the borrower at a predetermined price. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Refer Note 16 for the accounting policy on accounting for financial assets.

As at 31 March	2025 LKR	2024 LKR
Reverse repurchase agreements	6,099,328,269	4,768,609,282
Provisions for impairment	–	–
Written-off during the year	–	(773,091,682)
Net carrying amount	6,099,328,269	3,995,517,600

The Company has written off the investment in reverse repurchase agreements entered into with Entrust Securities PLC amounting to LKR 773,091,682/- during the financial year 2023/24 and that is still subject to enforcement activity.

23.3 Fixed deposits

As at 31 March	2025 LKR	2024 LKR
Fixed deposits	208,673	193,896
Interest receivable	3,422	3,674
	212,095	197,570

24. OTHER ASSETS

Refer the material accounting policy under Note 16.

As at 31 March	Note	2025 LKR	2024 LKR
Other financial assets		76,415,319	89,068,816
Other non financial assets	24.1	1,215,658,281	698,744,346
		1,292,073,600	787,813,162

24.1 Other non financial assets

As at 31 March	2025 LKR	2024 LKR
Insurance related receivables	499,477,496	278,172,842
Prepayments	82,114,517	37,298,523
Advances	75,418,275	65,344,863
Receivables related to business operations	488,431,533	238,068,718
Other receivables	70,216,460	79,859,400
	1,215,658,281	698,744,346

25. INVESTMENT PROPERTIES

ACCOUNTING POLICY

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.

Basis of measurement

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 Statement of Profit or Loss in the year in which they arise.

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 Statement of Profit or Loss in the year of retirement or disposal.

Subsequent transfers to/from investment property

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development.

Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

For a transfer from investment property to owner occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Company as an owner-occupied property becomes an investment property, the Company, accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the Profit or Loss. When the Company completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the Statement of Profit or Loss.

Determining fair value

External and independent valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, value 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.

As at 31 March	2025 LKR	2024 LKR
Land		
Balance as at 1 April	729,960,069	684,744,123
Transfers during the year	–	7,654,375
Change in fair value for the year	100,836,651	37,561,571
Balance as at 31 March	830,796,720	729,960,069
Building		
Balance as at 1 April	549,739,931	519,255,877
Change in fair value for the year	29,063,349	30,484,054
Balance as at 31 March	578,803,280	549,739,931
Net book value	1,409,600,000	1,279,700,000

25.1 Valuation of investment properties

The Company carries investment properties at fair value. Valuations of below investment properties were carried out as at 31 March 2025 by Ms R M N Priyadarshani, Professional independent valuer who is an associate member of Institute of Valuers of Sri Lanka. The Company earned LKR 81,534,742/- as rental income for the year ended 31 March 2025 (2024: LKR 77,249,220/-).

Location	Significant unobservable Input	Value range LKR '000	Method of valuation	Land extent	No of Buildings	Building extent (Sq. ft.)	Fair value 2025 LKR	Fair value 2024 LKR
No 37, Vihara Mw, Matale	Price per perch for land	900-1,300	Market approach	15P	–	–	**18,000,000**	16,500,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee.	Price per perch for land	70,000-80,000	Market approach	04A-02R-04.0P	–	–	**44,000,000**	41,000,000
No.249, Stanley Thilakarathna Mw, Nugegoda.	Price per perch for land Price per sq.ft. for building	12,400-16,800 16-20	Income approach Income approach	0A-0R-39.60P	1	24,952	**629,902,905** **500,097,095**	533,966,254 471,033,746
No.465/1, Old Police Station Road, Kahathuduwa, Polgasovita.	Price per perch for land Price per sq.ft. for building	500-900 2-6	Income approach Income approach	1A-0R-22.59P	1	20,494	**127,793,815** **78,706,185**	127,793,815 78,706,185
Siyabalawalana village, Katugampola, Giriulla	Price per perch for land	28-32	Market approach	1A-0R-36P	–	–	**5,900,000**	5,500,000
Kalupahana Village, Horana	Price per perch for land	300-700	Market approach	12.85P	–	–	**5,200,000**	5,200,000
Total							1,409,600,000	1,279,700,000

Valuation of investment properties have been classified as a Level 3 valuation as per SLFRS 13 – "Fair Value Measurement".

The Company has incurred LKR 647,852/- as insurance expenses on these properties during the year ended 31 March 2025. (2024: LKR 763,943/-)

25.2 Carrying amounts of revalued investment properties if they were carried at cost less depreciation would be as follows,

As at 31 March	2025		2024	
	Land LKR	Buildings LKR	Land LKR	Buildings LKR
Cost	156,665,156	343,847,202	156,665,156	343,847,202
Accumulated depreciation	–	(143,879,955)	–	(135,283,775)
	156,665,156	199,967,247	156,665,156	208,563,427

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.

25.3 Sensitivity Analysis

Fair values of the investment properties are sensitive to the changes in assumptions used in the valuation as follows,

Location	Significant unobservable input	Sensitivity of fair value to the increase/(decrease) of the input	Impact to the fair value	
			If input is increased by 5% LKR	If input is decreased by 5% LKR
Matale	Price per perch	Increase/(decrease)	60,000	(60,000)
Trincomalee	Price per perch	Increase/(decrease)	3,039	(3,039)
Nugegoda	Price per perch	Increase/(decrease)	795,332	(795,332)
	Price per sq. ft.	Increase/(decrease)	1,002	(1,002)
Kahathuduwa	Price per perch	Increase/(decrease)	34,995	(34,995)
	Price per sq. ft.	Increase/(decrease)	192	(192)
Giriulla	Price per perch	Increase/(decrease)	1,353	(1,353)
Horana	Price per perch	Increase/(decrease)	20,233	(20,233)

26. INTANGIBLE ASSETS

ACCOUNTING POLICY

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 it's carrying value, an impairment loss is recognised. Impairment losses relating to goodwill cannot be revised in future periods.

Other intangible assets

Intangible assets acquired by the Company is measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on an intangible assets are 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.

Intangible assets are 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 intangible assets 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.

As at 31 March	Note	2025 LKR	2024 LKR
Goodwill	26.1	–	19,395,045
Other intangible assets	26.2	85,092,793	126,614,621
		85,092,793	146,009,666

26.1 Goodwill allocated to cash generating unit

As at 31 March	Note	2025 LKR	2024 LKR
Prime Finance PLC		19,395,045	38,790,091
Impairment charge for the year	26.1.1	(19,395,045)	(19,395,046)
		–	19,395,045

26.1.1 Impairment of goodwill

The recoverable value of goodwill has been assessed with reference to the recoverability of the loans and advances portfolio of Prime Finance PLC at each reporting date. Accordingly, average life cycle of the loans and advances portfolio is estimated to be 3 years over which the goodwill will also be impaired.

26.2 Other intangible assets

As at 31 March	Note	2025 LKR	2024 LKR
Cost			
Balance as at 1 April		617,231,992	592,185,933
Additions during the year		4,453,750	25,046,059
Balance as at 31 March		621,685,742	617,231,992
Capital work in progress	26.2.1	13,165,129	9,609,199
		634,850,871	626,841,191
Amortisation			
Balance as at 1 April		500,226,570	435,546,876
Charge for the year		49,531,508	64,679,694
Balance as at 31 March		549,758,078	500,226,570
Net book value	26.3	85,092,793	126,614,621

26.2.1 Capital work in progress

Capital work in progress represents costs incurred by the Company on software developments which are not completed as at the reporting date.

26.3 Other intangible assets by class

As at 31 March	Cost LKR	Accumulated amortisation LKR	Net book value LKR
As at 31 March 2025			
Software	461,944,254	398,847,977	63,096,277
License	159,741,488	150,910,101	8,831,387
Capital work in progress	13,165,129	–	13,165,129
	634,850,871	549,758,078	85,092,793
As at 31 March 2024			
Software	457,490,504	366,052,065	91,438,439
License	159,741,488	134,174,505	25,566,983
Capital work in progress	9,609,199	–	9,609,199
	626,841,191	500,226,570	126,614,621

27. PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICY

Basis of recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and cost of the asset can be reliably measured.

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.

Cost model

The Company applies the cost model to all property, plant and equipment except freehold land and buildings; which records at cost of purchase together with any incidental expenses thereon less any accumulated depreciation and accumulated impairment losses if any.

Revaluation model

The Company applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation of buildings and subsequent accumulated impairment losses.

Freehold land and buildings of the Company is revalued at least once in every three years on a roll over basis to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in other comprehensive income and accumulated in equity, under revaluation 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 profit or loss or debited in the other comprehensive income to the extent of any credit balance existing in the revaluation 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.

Subsequent cost

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

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.

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 Company will obtain ownership by the end of the lease term. Lands are not depreciated.

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is de-recognised. Depreciation methods, useful life values are assessed at the reporting date. The estimated useful lives for the current year are as follows:

	Years
Buildings	40
Motor vehicles	05
Furniture and fittings	05
Computers equipment	05
Machinery and equipment	05
Fixtures and fittings	05
Office Equipment	05
Network accessories	05
Computer software	05

De-recognition

An item of property, plant and equipment is de-recognised 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 Statement of Profit and Loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The Company's corporate assets do not generate separate cash inflows and are 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 (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. 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.

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.

As at 31 March	Land LKR	Building LKR	Furniture and fittings LKR	Office equipment LKR	
Cost/fair value					
Balance as at 1 April 2024	525,588,853	1,085,211,149	132,361,587	368,059,133	
Additions during the year	–	–	6,393,964	30,758,163	
Disposals during the year	–	–	(5,828,821)	(16,604,787)	
Revaluation gain/(losses)	97,519,990	(31,703,110)	–	–	
Depreciation adjustment on revaluations	–	(87,116,880)	–	–	
Balance as at 31 March 2025	623,108,843	966,391,159	132,926,730	382,212,509	
Balance as at 1 April 2023	525,588,853	1,085,211,149	127,457,766	342,276,170	
Additions during the year	–	–	6,320,709	27,352,820	
Disposals during the year	–	–	(1,416,888)	(1,569,857)	
Balance as at 31 March 2024	525,588,853	1,085,211,149	132,361,587	368,059,133	
Accumulated depreciation					
Balance as at 1 April 2024	–	58,077,920	114,806,868	307,714,145	
Charge for the year		29,038,960	7,261,718	22,766,149	
Disposals during the year			(5,828,461)	(16,604,613)	
Depreciation adjustment on revaluations		(87,116,880)			
Balance as at 31 March 2025	–	–	116,240,125	313,875,681	
Balance as at 1 April 2023	–	29,038,960	106,047,435	284,589,666	
Charge for the year	–	29,038,960	10,176,018	24,694,319	
Disposals during the year	–	–	(1,416,585)	(1,569,840)	
Balance as at 31 March 2024	–	58,077,920	114,806,868	307,714,145	
Carrying amount					
As at 31 March 2025	623,108,843	966,391,159	16,686,605	68,336,828	
As at 31 March 2024	525,588,853	1,027,133,229	17,554,719	60,344,988	

	Computer LKR	Motor vehicles LKR	Machinery LKR	Fixtures and fittings LKR	Network accessories LKR	Total LKR
	391,042,437	31,240,035	1,047,018	227,640,229	295,213,148	3,057,403,589
	46,533,012	–	–	38,474,609	10,456,554	132,616,302
	(15,929,909)	–	–	(2,621,806)	(1,303,412)	(42,288,735)
	–	–	–	–	–	65,816,880
	–	–	–	–	–	(87,116,880)
	421,645,540	31,240,035	1,047,018	263,493,032	304,366,290	3,126,431,156
	377,614,965	31,240,035	1,047,018	218,950,418	198,637,106	2,908,023,480
	21,722,219			12,526,466	96,576,042	164,498,256
	(8,294,747)	–	–	(3,836,655)	–	(15,118,147)
	391,042,437	31,240,035	1,047,018	227,640,229	295,213,148	3,057,403,589
	303,348,977	31,211,612	1,047,018	177,234,195	167,253,700	1,160,694,435
	37,853,216	11,000	–	25,623,858	32,080,592	154,635,493
	(15,919,852)	–	–	(2,621,804)	(1,303,405)	(42,278,135)
		–				(87,116,880)
	325,282,341	31,222,612	1,047,018	200,236,249	198,030,887	1,185,934,913
	273,879,735	30,242,696	1,047,018	154,638,599	151,555,400	1,031,039,509
	37,763,871	968,916	–	25,907,243	15,698,300	144,247,627
	(8,294,629)	–	–	(3,311,647)	–	(14,592,701)
	303,348,977	31,211,612	1,047,018	177,234,195	167,253,700	1,160,694,435
	96,363,199	17,423	–	63,256,783	106,335,403	1,940,496,243
	87,693,460	28,423	–	50,406,034	127,959,448	1,896,709,154

27.1 Valuation of land and buildings

The Company carries its land and building at fair value. Valuations of the above land and building were carried out as at 31 March 2025 by Ms R M N Priyadarshani, Professional independent valuer who is an associate member of Institute of Valuers of Sri Lanka.

Location	Unobservable inputs	Value range LKR '000	Method of valuation	Land extent	No of buildings	extent (Sq. ft.)	Revalued amount LKR
No. 94 96/1, Kandy Rd, Kurunegala	Price per perch for land Price per sq.ft for building	6,000 – 8,000 10 – 12	Market approach Market approach	7P	1	5,755	49,348,230 62,151,770
No.46/A, Tangalle Rd, Hambanthota	Price per perch for land Price per sq.ft for building	500 – 800 5 – 7	Income approach Income approach	14P	1	2,508	9,890,610 14,109,390
No.677, William Gopallawa Mw, Kandy	Price per perch for land Price per sq.ft for building	4,000 – 5,000 9 – 12	Market approach Market approach	9P	1	5,400	41,378,175 53,621,825
No.168, Nawala Rd, Nugegoda	Price per perch for land Price per sq.ft for building	9,000 – 12,000 15 – 19	Market approach Market approach	25.9P	1	30,887	284,606,584 555,393,416
No.67/1, Mahinda Place, Kirulapone, Colombo 05	Price per perch for land Price per sq.ft for building	5,000 – 7,000 16 – 20	Market approach Market approach	8P	1	6,305	51,189,464 98,810,536
No.9/10/11, Galle Road, Katubedda, Moratuwa	Price per perch for land	3,000 – 5,000	Market approach	23P	–	–	80,000,000
No.06, Abaya Place, 7th Lane, Anuradapura	Price per perch for land Price per sq.ft for building	4,500 – 4,800 7 – 9	Market approach Market approach	13.52P	1	11,237	60,766,238 112,233,762
No.56, Puttlam Service Mw, Puttlama	Price per perch for land Price per sq.ft for building	1,500 – 2,000 6 – 9	Market approach Market approach	25.6P	1	7,085	45,929,543 70,070,459
Total							1,589,500,002

Valuation of lands and buildings have been classified as a Level 3 valuation as per SLFRS 13- "Fair Value Measurement".

27.2 Carrying amounts of revalued property, plant and equipment if they were carried at cost less depreciation would be as follows,

For the year ended 31 March	2025		2024	
	Land LKR	Buildings LKR	Land LKR	Buildings LKR
Cost	177,226,786	492,976,598	177,226,786	492,976,598
Accumulated depreciation	–	(148,578,490)	–	(136,254,075)
	177,226,786	344,398,108	177,226,786	356,722,523

27.3 Sensitivity Analysis

Fair values of the land and buildings 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)	349,987	(349,987)
	Price per sq. ft	Increase/(decrease)	540	(540)
Hambanthota	Price per perch	Increase/(decrease)	34,826	(34,826)
	Price per sq. ft	Increase/(decrease)	281	(281)
Kandy	Price per perch	Increase/(decrease)	223,424	(223,424)
	Price per sq. ft	Increase/(decrease)	496	(496)
Nugegoda (Nawala Rd)	Price per perch	Increase/(decrease)	549,434	(549,434)
	Price per sq. ft	Increase/(decrease)	899	(899)
Moratuwa	Price per perch	Increase/(decrease)	173,913	(173,913)
Kirulapone	Price per perch	Increase/(decrease)	319,934	(319,934)
	Price per sq. ft	Increase/(decrease)	784	(784)
Anuradhapura	Price per perch	Increase/(decrease)	224,727	(224,727)
	Price per sq. ft	Increase/(decrease)	499	(499)
Puttlama	Price per perch	Increase/(decrease)	89,706	(89,706)
	Price per sq. ft	Increase/(decrease)	494	(494)

27.4 Cost of fully depreciated assets as at the reporting date

As at 31 March	2025 LKR	2024 LKR
Computer	222,464,507	216,755,050
Fixtures and fitting	125,053,467	111,818,438
Furniture and fittings	103,277,940	90,582,917
Motor vehicles	30,325,000	30,325,000
Motor cycles	860,035	860,035
Network accessories	136,724,110	136,804,412
Office equipment	269,350,746	251,051,230
Machinery	1,047,018	1,047,018
	889,102,823	839,244,100

27.5 Details of assets pledged on securities are disclosed in Note 45 to the Financial Statements.

27.6 No borrowing costs were capitalised during the year (2024: Nil)

27.7 There were no idle property, plant and equipment as at 31 March 2025 (2024: Nil)

27.8 There are no restrictions that existed on the title of the property, plant and equipment of the Company as at the reporting date.

28. RIGHT OF USE ASSETS

ACCOUNTING POLICY

At the inception of a contract, the Company assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. To assess whether a contract conveys the right to control the uses of an identified asset, the Company use the definition of a lease as per SLFRS 16.

Company acting as a lessee

At commencement or modification of a contract that contains a lease component, the Company allocates consideration in the contract to each lease component on the basis of its stand-alone price. However, for lease of branches the Company has elected not to separate non-lease component.

The Company 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 Company's incremental borrowing rate.

The Company 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 Company 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 Company's estimate of the amount expected to be payable or if there is a fixed in substance lease payment.

When the lease liability is remeasured as such, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents the right-of-use asset as separate line item in the Statement of Financial Position while the lease liability is presented under other liabilities.

Short term leases and leases of low value assets

The Company elected not to recognise right of-use assets and lease liabilities for lease of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on the straight-line basis.

28.1 Movement of right-of-use assets

For the year ended 31 March	2025 LKR	2024 LKR
Cost		
Balance as at 1 April	798,145,064	676,404,862
Additions during the year	180,050,023	123,435,482
Terminations during the year	(1,285,767)	(1,695,280)
Cost as at 31 March	976,909,320	798,145,064
Accumulated amortisation		
Balance as at 1 April	478,254,529	361,614,056
Charge for the year	131,112,566	116,640,473
Balance as at 31 March	609,367,095	478,254,529
Net book value as at 31 March	367,542,225	319,890,535

Branches of the Company are operated in leased locations. The above right-of-use asset represents the lease right relating to lands and buildings available for the Company's use at those locations.

29. DEFERRED TAX (LIABILITY)/ASSET

29.1 Summary of net deferred tax assets movement

For the year ended 31 March	Note	2025 LKR	2024 LKR
Balance as at 1 April		539,907,826	242,387,523
Amounts reversed during the year	29.2	(540,308,217)	297,520,303
Balance as at 31 March		(400,391)	539,907,826

29.2 Charge/(Reversal) for the year

For the year ended 31 March	2025 LKR	2024 LKR
Recognised in profit or loss	527,351,660	(286,478,256)
Recognised in other comprehensive income for retirement benefit obligation	(6,788,507)	(11,042,047)
Recognised in other comprehensive income on revaluation of Property, Plant an Equipment	19,745,064	–
	540,308,217	(297,520,303)

29.3 Tax effect from temporary differences

Deferred tax assets/ (liabilities)as at the period end is made up as follows.

For the year ended 31 March		2025		2024	
	Note	(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		(954,058,667)	(286,217,600)	(1,014,329,907)	(304,298,972)
On retirement benefit obligation	35	369,880,756	110,964,227	353,707,022	106,112,107
On impairment provision		1,059,081,788	317,724,536	1,228,724,716	368,617,415
On lease liability	34.1.2	375,904,764	112,771,429	337,679,544	101,303,863
On right-of-use assets	28	(367,542,225)	(110,262,668)	(319,890,535)	(95,967,161)
On investment properties		(773,145,625)	(231,943,688)	(643,245,624)	(192,973,687)
On land revaluation reserve – Land		(445,882,057)	(133,764,617)	(328,989,447)	(98,696,834)
On tax losses carried forward		–	–	655,880,447	196,764,134
Unutilised tax credit on amalgamation	29.4	734,426,633	220,327,990	1,530,156,537	459,046,961
		(1,334,633)	(400,391)	1,799,692,753	539,907,826

The Company has calculated the deferred tax asset at the rate of 30% on its temporary differences as at 31 March 2025 (2024: 30%).

29.4 Unutilised tax credit on amalgamation

During the financial year 2021/22, the Company incurred LKR 2,387,189,712/- to acquire Prime Finance PLC which was amalgamated with the Company on 12 May 2022. This amount has been confirmed by the Central Bank of Sri Lanka as expenditure incurred on the amalgamation in accordance with the masterplan for consolidation of non banking financial institutions of Sri Lanka. Accordingly, the Company is entitled to claim this expenditure as qualifying payment in calculating the income tax liability for the future years subject to a maximum of LKR 795,729,904 of the expenditure for a year.

During the years 2021/22, 2022/23 and 2024/25 amount of LKR 1,652,763,079/- has been claimed in calculating the income tax liability inline with the requirements of the Inland Revenue Act. The Company expects to claim the remaining amount over future years.

Accordingly, Company has recognised a deferred tax asset on the remaining amount of LKR 734,426,633/- resulting in a deferred tax asset of LKR 220,327,990 as at 31 March 2025.

30 FINANCIAL LIABILITIES AT AMORTISED COST – DUE TO CUSTOMERS

ACCOUNTING POLICY

Recognition and initial measurement of financial liabilities

The Company initially recognise loans and advances, deposits and debt securities issued on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

A financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue.

Classification of financial liabilities

The Company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

De-recognition of financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or canceled or expire.

Modification of financial liabilities

The Company 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.

Deposits due to customers

Deposits include term deposits and saving deposits. They are stated in the Statement of Financial Position at amount payable. Interest paid/payable on these deposits based on effective interest rate is charged to the Profit or Loss.

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% p.a. 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.

For the year ended 31 March	2025 LKR	2024 LKR
Fixed deposits	38,523,429,770	37,359,910,002
Interest payable on fixed deposits	1,059,566,463	1,320,073,340
	39,582,996,233	38,679,983,342
Savings deposits	2,634,985,072	2,580,896,552
	42,217,981,305	41,260,879,894

31. FINANCIAL LIABILITIES AT AMORTISED COST – DEBT ISSUED AND OTHER BORROWED FUNDS

ACCOUNTING POLICY

These represent the funds borrowed by the Company for long-term funding requirements.

Subsequent to initial recognition debt securities issued are measured at their amortised cost using the effective interest method. Refer the material accounting policy under Note 30.

For the year ended 31 March	Note	2025 LKR	2024 LKR
Redeemable debentures	31.1	502,265,846	1,734,365,788
Borrowings	31.2	4,265,277,256	2,422,883,323
		4,767,543,102	4,157,249,111

31.1 Redeemable debentures

31.1.1 Secured redeemable

For the year ended 31 March	2025 LKR	2024 LKR
Balance as at 1 April	532,000,000	565,250,000
Re-payment during the year	(33,250,000)	(33,250,000)
Balance as at 31 March	498,750,000	532,000,000
Interest payable to debenture holders	3,515,846	4,635,834
Balance as at 31 March	502,265,846	536,635,834

31.1.2 Subordinated, listed, rated, unsecured, redeemable debentures

As at 31 March	2025 LKR	2024 LKR
Balance as at 1 April	1,158,820,000	1,158,820,000
Re-payment during the year	(1,158,820,000)	–
Balance as at 31 March	–	1,158,820,000
Interest payable to debenture holders	–	38,909,954
Total balance as at 31 March	–	1,197,729,954
Total redeemable debentures	502,265,846	1,734,365,788

31.1.3 Redeemable debentures – Capital balances

Year of Issue	Description	Certificate number	Type of debenture	2025 LKR	2024 LKR
2010	Seylan Bank PLC	001	Secured	66,750,000	100,000,000
2010	Seylan Bank PLC	002	Secured	160,000,000	160,000,000
2010	Seylan Bank PLC	003	Secured	160,000,000	160,000,000
2010	Seylan Bank PLC	004	Secured	112,000,000	112,000,000
2019	Subordinated Listed, Rated, Redeemable	001	Unsecured	–	1,158,820,000
				498,750,000	1,690,820,000

The 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.

The unsecured debentures amounting to LKR 1,097,080,000 at a annual interest rate of 13.20% and a debenture amounting to LKR 61,740,000 at a annual interest rate 12.79% were regranted in 2019 and redeemed in December 2024.

Details of the assets pledged against these debentures are disclosed in Note 45.

31.2 Borrowings

For the year ended 31 March		2025 LKR	2024 LKR
Balance as at 1 April		2,422,883,323	2,619,642,329
Loans obtained		5,500,000,000	1,000,000,000
Interest recognised		356,699,432	484,908,369
Repayment	– Capital	(3,523,900,000)	(1,038,800,000)
	– Interest	(490,405,499)	(642,867,375)
Balance as at 31 March		4,265,277,256	2,422,883,323

31.2.1 Details of the capital outstanding of borrowings are as follows;

Lender	Interest rate	Tenor (Years)	2025 LKR	2024 LKR
NDB Syndication – Capital	AWPLR+2.95% (Revised quarterly)	5	200,000	24,099,999
Capital Alliance Income Fund	1 Year T Bill+3% (Revised bi-annually)	5	900,000,000	900,000,000
Capital Alliance Investment Grade Fund	1 Year T Bill+3% (Revised bi-annually)	5	1,100,000,000	1,100,000,000
Capital Alliance Investment Grade Fund	5 Year T Bond +1.4% (Revised annually)	5	1,000,000,000	
Capital Alliance Fixed Income Opportunities Fund	5 Year T Bond +1.4% (Revised annually)	5	1,000,000,000	
			4,000,200,000	2,024,099,999

32. CURRENT TAX LIABILITIES

Refer the material accounting policy under Note 14.

As at 31 March	Note	2025 LKR	2024 LKR
Balance as at 1 April		222,850,871	–
Provision for income tax assessments	32.1	69,551,383	222,850,871
Provision for income tax on taxable profit for the year	14	112,218,576	–
(Over)/under provision during previous years		(145,676)	9,344,479
		404,475,154	232,195,350
Payments made during the year		(45,549,854)	(9,344,479)
Balance as at 31 March		358,925,300	222,850,871

32.1 Provision for income tax assessments

The Inland Revenue Department has issued an assessment for Corporate Income Tax amounting to LKR 222,850,871 for the year of assessment 2019/20. On prudential basis, Management has made a full provision on this assessment during the financial year 2023/24.

Provision for income tax assessments recognised during the year ended 31 March 2025 relates to the provision made in respect of surcharge tax assessment received during the year amounting to LKR 52,593,150 as disclosed in note no 14.4 to the financial statements and LKR 16,958,233 on corporate tax assessment for the year 2020/21 out of where LKR 41,563,383 remain unpaid as at 31 March 2025.

33. VAT AND SSCL ON FINANCIAL SERVICES

Refer the material accounting policy under Note 12.

For the year ended 31 March	2025 LKR	2024 LKR
Balance as at 1 April	94,084,254	28,735,259
Under provision previous year	10,437,428	3,130,104
Provision made during the year	723,531,269	447,110,871
Set off against VAT on FS refunds	(12,124,147)	–
Payment made during the year	(671,492,738)	(384,891,980)
Balance as at 31 March	144,436,066	94,084,254

34 OTHER LIABILITIES

ACCOUNTING POLICY

Refer the material accounting policy under Note 30.

Liabilities are recognised in the Statement of Financial Position when there is a present obligation as a result of a past event, the settlement of which is expected to result in an outflow of resources embodying economic benefits.

Other liabilities are recorded at amounts expected to be payable at the Reporting date.

For the year ended 31 March	Note	2025 LKR	2024 LKR
Other financial liabilities	34.1	2,795,198,277	1,540,223,495
Other non financial liabilities	34.2	261,930,831	177,372,602
		3,057,129,108	1,717,596,097

34.1 Other Financial Liabilities

For the year ended 31 March	Note	2025 LKR	2024 LKR
Other payables	34.1.1	2,419,293,513	1,202,543,951
Lease liabilities	34.1.2	375,904,764	337,679,544
		2,795,198,277	1,540,223,495

34.1.1 Other Payables

For the year ended 31 March	2025 LKR	2024 LKR
Payable to dealers	727,418,186	312,264,952
Insurance premium payables	209,707,340	120,426,833
Other payables	1,250,437,060	417,826,173
EPF/ETF payable	23,055,612	22,045,415
Salary payable	5,141,626	5,206,989
Sundry creditors	203,533,689	324,773,589
	2,419,293,513	1,202,543,951

34.1.2 Movement of lease liabilities

Refer the material accounting policy under Note 28.

Set out below are the carrying amounts of lease liabilities and the movements during the year.

For the year ended 31 March	2025 LKR	2024 LKR
Balance as at 1 April	337,679,544	331,495,380
Additions during the year	137,023,917	99,736,846
Terminations during the year	(803,601)	(2,510,264)
Lease interest for the year	53,825,869	48,683,970
Payments during the year	(151,820,965)	(139,726,388)
Balance as at 31 March	375,904,764	337,679,544
(i) Amount recognised in the profit or loss		
Right of use assets amortisation charge for the period	131,112,566	116,640,473
Lease interest for the period	53,825,869	48,683,970
(ii) Amount recognised in the statement of cash flows		
Lease rental paid	(151,820,965)	(139,726,388)

The total rent expenses recognised for short term lease agreement during the year amounting to LKR 31.5 Mn.

34.1.3 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 2025 by 1% would have (decreased)/increased the lease liability by approximately LKR 7.4 Mn. and LKR 7.2 Mn. respectively. Had the Company increased/(decreased) the discount rate by 1% Company's profit before tax for the year would have (decreased)/increased by approximately LKR 3.5 Mn. and LKR 3.5 Mn. respectively.

34.1.3.1 Maturity analysis – Contractual undiscounted cash flows

For the year ended 31 March	2025 LKR	2024 LKR
Less than one year	3,975,290	34,855,749
Between one and five years	397,635,053	294,628,646
More than 5 years	119,923,433	147,942,358
Total undiscounted lease liability as at 31 March	521,533,776	477,426,753

Lease interest expense disclosed in Note 34.1.2 is included in the profit for the year under interest expense and payments during the year is included under cash flows from financing activities.

34.2 Other non financial liabilities

For the year ended 31 March	Note	2025 LKR	2024 LKR
Other taxes payable		4,196,786	4,910,467
Other payables	34.2.1	257,734,045	172,462,135
		261,930,831	177,372,602

34.2.1 Other Payables

For the year ended 31 March	2025 LKR	2024 LKR
Bills payable	243,850,117	160,197,039
Rent in advance	13,883,928	12,265,096
	257,734,045	172,462,135

35. RETIREMENT BENEFIT OBLIGATION

Refer the material accounting policy under Note 10.

For the year ended 31 March	Note	2025 LKR	2024 LKR
Balance as at 1 April		353,707,022	295,419,119
Total actuarial losses		22,628,356	36,806,824
Add: Expense for the year	35.1	75,310,192	85,073,992
		451,645,570	417,299,935
Less: Benefits paid during the year		(81,764,814)	(63,592,913)
Balance as at 31 March		369,880,756	353,707,022

35.1 Expense for the year

For the year ended 31 March	2025 LKR	2024 LKR
Amounts recognised in profit/(loss) for the year		
Current service cost	36,402,419	32,637,098
Interest cost	38,907,773	52,436,894
	75,310,192	85,073,992
Amounts recognised in other comprehensive income for the year		
Actuarial loss	22,628,356	36,806,824
	97,938,548	121,880,816

For the year ended 31 March	2025 LKR	2024 LKR
Amounts to be recognised in other comprehensive income is made as follows:		
Actuarial (gain)/loss due to changes in assumptions	(8,650,843)	56,571,381
Actuarial loss/(gain) due to changes in experience	31,279,199	(19,764,557)
Total actuarial loss	22,628,356	36,806,824

Retirement benefit obligation is based on the actuarial valuation carried out by Smiles Global (Private) Limited, on 31 March 2025 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:

For the year ended 31 March	2025	2024
Long term interest rate	10.00%	11.00%
Retirement age	60 years	60 years
Future salary increase rate	8.00%	8.5%-10.5%
Staff turnover rate	23.97%	20%-30%

Assumptions regarding future mortality is based on A1967-70 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.

The Company has considered the impact on the defined benefit obligations due to changes in economic factors as a result of the prevailing macroeconomic conditions, with the support of the independent actuarial expert.

Type of assumption	Criteria	Description
Demographic assumptions	Mortality rates	Assumptions regarding future mortality in this valuation are unchanged from the prior valuation and are based on the A1967/70 ultimate mortality table.
	Disability rates	Disability rates are based on the standard permanent total disability due to accident and sickness rates used by the Sri Lankan Insurance Industry.
	Staff withdrawal rates	Withdrawal rates for all employees are considered within the range of 20%-30% per annum. This rate is provided by the Company based on their historical experience. This rate is calculated by taking the number of employees terminated during the year divided by the average number of employees during the year. A rate within the range of 20%-30% per annum has been used in the previous valuation.
Financial assumptions	Discount rate	LKAS 19 requires the risk discount rate to be based on the market yield of high quality Corporate bonds (AA and above) of similar duration to the liability. A long term treasury bond rate of 10% (2024 – 11%) has been used to discount future liabilities taking into consideration the remaining working life of the eligible employees.
	Salary inflation rate	Future salary inflation rate should take into account inflation, internal promotion factors as well as demand and supply of the employment market in which the Company is operating. The salary inflation rate for the Company is taken between the range of 8%-10.50% per annum for all employees based on Company projections. A rate between the range of 8.5%-10.5% per annum has been used in the previous valuation. Month of April has been considered as the salary increment due month.
	Retirement age	Retirement age is based on the following table which is in compliance with the Minimum Retirement Age of Workers Act No 28 of 2021, with the exception of nine staff members with fixed term contracts due to retire on their respective next birthday.

Attained age as at 17 November 2021, the date on which Act is operational	Minimum Retirement Age
Less than 52	60
52	59
53	58
54	57

Present value of defined benefit obligation

In order to illustrate the significance of the salary escalation rate and discount rates assumed in this valuation, a sensitivity analysis has been carried our as follows,

For the year ended 31 March	2025 LKR	2024 LKR
Discount rate		
Decrease by 1%	383,258,158	367,334,450
Increase by 1%	(357,460,316)	(341,109,406)
Salary escalation rate		
Decrease by 1%	(355,531,461)	(339,322,592)
Increase by 1%	385,085,055	369,013,276

35.2 The expected benefit pay out in the future years for retirement gratuity

For the year ended 31 March	2025 LKR	2024 LKR
Within the next 12 months	1,107,332	726,191
Between 1-2 years	–	2,716,002
Between 2-5 years	368,773,425	350,264,829
	369,880,757	353,707,022

The expected benefits are estimated based on the same assumptions used to measure the benefit obligation of Company at the end of the financial year and include benefits attributable to estimated future employee service. The expected future working life time of employee is 4.09 years.

36. STATED CAPITAL

Ordinary shares in the Company are recognised at the amount paid per ordinary share net of directly attributable issue cost.

		Number of ordinary voting shares		Number of ordinary non-voting shares		Total	
	Note	2025	2024	2025	2024	2025	2024
Balance on 31 March 2024		1,421,380,624	1,421,380,624	298,200,000	298,200,000	1,719,580,624	1,719,580,624
Right issue of ordinary shares	36.1	296,120,963	–	62,125,000	–	358,245,963	–
Balance on 31 March 2025		1,717,501,587	1,421,380,624	360,325,000	298,200,000	2,077,826,587	1,719,580,624

	Note	Ordinary voting shares		Ordinary non-voting shares		Total	
		2025 LKR	2024 LKR	2025 LKR	2024 LKR	2025 LKR	2024 LKR
Balance on 31 March 2024		184,779,481	184,779,481	38,766,000	38,766,000	223,545,481	223,545,481
Right issue of ordinary shares	36.1	1,006,811,274	–	186,375,000	–	1,193,186,274	–
Balance on 31 March 2025		1,191,590,755	184,779,481	225,141,000	38,766,000	1,416,731,755	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 Company.

Non-voting ordinary shares

The non-voting shares rank pari passu in respect of all rights with the ordinary shares of Company except voting rights on resolutions passed at general meetings.

36.1 Right issue of ordinary shares

At the Extraordinary General Meeting held on 24 February 2024, shareholders approved the resolution to issue ordinary (voting) shares by way of a rights issue to the existing shareholders of the Company in the proportion of 5 shares for every 24 shares held as at the end of trading on 27 February 2025 at the issue price of LKR 3.40/- per share and non-voting ordinary shares in the proportion of 5 shares for every 24 shares held as at the end of trading on 27 February 2025 at an issue price of LKR 3/- per share. Accordingly, the Company raised LKR 1,193,186,274 through the issue of 358,245,963 shares net of costs related to share isssue.

Disclosures regarding the utilisation of funds as per the objectives stated in the rights issue circular

Objective No	Objective as per circular	Amount allocated as per circular LKR	Proposed date of utilisation as per circular	Amount allocated upon receipts of proceeds LKR (A)	% of Total proceeds	Amount utilised as at 31 March 2025 (B)	% of utilisation aginst allocation (B/A)	Clarification if not fully utilised including where the funds are invested (whether lent to related parties etc.)
1.	Improve the Capital Adequacy Ratio by increasing Tier I Capital base thus strengthening the Total Capital	1,193,186,274	Within 3 months from the date of allotment	1,193,186,274	100	1,193,186,274	100	Not Applicable
2.	Finance the expansion of the loan portfolio						–	The funds has been invested in Government Securities

37. GENERAL RESERVE

	2025 LKR	2024 LKR
Balance as at 1 April 2024	82,897,989	82,897,989
Balance as at 31 March 2025	82,897,989	82,897,989

This is a capital reserve created at the discretion of the Company. The Board of Directors of Company has the authority to determine the utilisation of this reserve at their meetings.

38. OTHER RESERVES

For the year ended 31 March	Note	2025 LKR	2024 LKR
Statutory Reserve Fund	38.1	1,461,717,239	1,308,814,512
Regulatory Loss Allowance Reserve	38.2	175,943,378	–
FVOCI Reserve	38.3	1,611,963	1,719,986
Balance as at 31 March 2025		1,639,272,580	1,310,534,498

38.1 Statutory reserve fund

For the year ended 31 March	2025 LKR	2024 LKR
Balance as at 1 April 2024	1,308,814,512	1,184,616,843
Transferred during the year	152,902,727	124,197,669
Balance as at 31 March 2025	1,461,717,239	1,308,814,512

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.

38.2 Regulatory Loss Allowance Reserve

In terms of the Finance Business Act direction No. 01 of 2020, the company is required to maintain the regulatory loss allowance reserve (RLAR) for the additional loss allowance calculated as the difference between loss allowance calculated in-line with the regulatory loss allowance requirement and the expected credit loss (ECL) recognised in the financial statements. As such, this non-distributable reserve is created during the year ended 31 March 2025.

For the year ended 31 March	2025 LKR	2024 LKR
As at 1 April	–	–
Transfer to regulatory loss allowance reserve	175,943,378	–
as at 31 March	175,943,378	–

38.3 FVOCI Reserve

For the year ended 31 March	2025 LKR	2024 LKR
Balance as at 1 April	1,719,986	2,340,605
Change in fair value for the year	(108,023)	(620,619)
Balance as at 31 March	1,611,963	1,719,986

39. REVALUATION RESERVE

For the year ended 31 March	2025 LKR	2024 LKR
Balance as at 1 April	693,361,510	693,361,510
Revaluation during the year	65,816,880	–
Deferred tax impact on revaluation gain during the year	(19,745,064)	–
Balance as at 31 March	739,433,326	693,361,510

Revaluation reserve represents fair value changes related to land and buildings carried at fair value.

40. RETAINED EARNINGS

As at 31 March	2025 LKR	2024 LKR
Balance as at 1 April	3,341,395,002	2,870,369,105
Charge relating to Surcharge tax	(52,593,150)	–
Adjusted balance as at 1 April 2024	3,288,801,852	2,870,369,105
Profit for the year	764,513,637	620,988,343
Other comprehensive expenses	(15,839,849)	(25,764,777)
Transfer to other reserves	(328,846,105)	(124,197,669)
Balance as at 31 March	3,708,629,535	3,341,395,002

41. CAPITAL COMMITMENTS

No capital expenditure approved by the Board and contracted for remaining at the end of the reporting date.

42. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date, no circumstances have arisen which would require adjustments to or disclosure in these Financial Statements.

43. CONTINGENT LIABILITIES

ACCOUNTING POLICY

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 Financial Statements unless the outflow of resources is remote. Contingent assets are disclosed, where inflow of economic benefit is probable.

There are no material contingent liabilities as at the reporting date that require disclosure in the Financial Statements other than disclosed below.

43.1 Tax assessment – Surcharge tax

The Company received a tax assessments for surcharge tax under the Inland Revenue Act No. 24 of 2017 and the Surcharge Tax Act No. 14 of 2022 on 24 December 2024, in respect of the year of assessment 2020/21. The total amount assessed was LKR. 84,865,302/-, comprising LKR. 52,593,150/- as the principal tax liability, LKR. 8,312,677/- as penalties, and LKR. 23,959,475/- as interest.

As disclosed in Note 14.4 to these financial statement this includes Surcharge Tax on profit of HNB Finance PLC and Prime Finance PLC. However, the Company being dissatisfied with the penalties and interest imposed on the profit of Prime Finance PLC amounting to LKR 27,639,650/- has submitted a formal request for waiver on 10 January 2025.

The Management is in consultation with the company's tax consultant of the opinion that the Company has strong legal grounds, both procedural and substantive, to defend itself against the penalties and interest included in the tax assessment. Accordingly, no provision has been made in the Financial Statements for the year ended 31 March 2025 in respect of the penalties and interest included in the assessment.

44. RELATED PARTY TRANSACTIONS

The Company carries out transactions in the ordinary course of business with parties who are defined as "Related Parties" as per Sri Lanka Accounting Standards (LKAS 24) – Related Party Disclosures. The terms and conditions of such transactions are disclosed in Notes 44.1 and 44.2 to these Financial Statements.

44.1 Transactions with parent company and related companies

During the year ended 31 March 2025 and 2024, the Company has carried out transactions with it's related companies, the details of which are given below. The pricing applicable to such transactions was based on the assessment of risk and pricing model of the Company and was comparable with what was applied to transactions between Company and its unrelated customers.

44.1.1 Transactions with the parent company

For the year ended 31 March	2025 LKR	2024 LKR
Hatton National Bank PLC is the parent and the ultimate controlling party of Company.		
Statement of profit or loss		
Interest income – Savings deposits	32,196,980	95,425,339
Interest income – Fixed deposits	–	–
Interest expense – Borrowings	49,023,070	31,872,587
Interest expense – Bank overdraft	435,574	3,537,047
Other expenses – Bank charges	917,622	1,324,626
Other expenses – ATM charges	88,314	110,781
Statement of financial position		
Cash and cash equivalents – Balances with banks	802,731,345	528,114,979
Debt issued and other borrowed funds – Borrowings		
Balance as at 1 April	–	–
Loan obtained during the year	2,500,000,000	1,000,000,000
Loan repayments made during the year	(2,500,000,000)	(1,000,000,000)
Balance as at 31 March	–	–
Other liabilities	26,598,195	39,447,096
Shares purchased through rights issue	513,473,749	–

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.

HNB PLC has acted as trustee for Subordinated Trust Certificate transaction and as the custodian for Reverse Repurchase agreements.

Above mentioned recurrent related party transactions in aggregately exceed 10% of the Company's gross revenue

44.1.2 Transactions with Prime Lands (Private) Limited

For the year ended 31 March	2025 LKR	2024 LKR
Relationship: *Common Director*		
Statement of profit or loss		
Interest expenses – Savings deposits	9,869	14,448
Rent expenses	3,000,000	1,000,000
Statement of financial position		
Siri Niwahana loan payable	–	5,701,786
Rent payable	500,000	–
Financial liabilities at amortised cost – Due to customers	258,066	250,720
Shares purchased through rights issue	16,583,713	–

44.1.3 Transactions with HNB Assurance PLC

For the year ended 31 March	2025 LKR	2024 LKR
Relationship: *Common control*		
Statement of profit or loss		
Fee income	1,720,527	5,950,625
Interest expense – Savings deposits	1,479	4,641
Interest expense – Fixed deposits	40,500,000	–
Life insurance expense	3,968,007	3,633,905
Statement of financial position		
Financial liabilities at amortised cost – Fixed deposits		
Deposits made during the year	300,000,000	–
Interest accrued	–	–
Balance as at 31 March	300,000,000	–
Financial liabilities at amortised cost – Saving deposits		
Balance as at 1 April	48,651	96,203
Deposits made during the year	1,000	158,389
Interest paid	1,479	4,641
Withdrawals of capital	(1,554)	(210,582)
Balance as at 31 March	49,576	48,651
Fee income receivable	1,148,152	2,034,641
Prepayment balance of life insurance	35,948	–
Other payables – Micro loan insurance premium payable	–	9,266,068

44.1.4 Transactions with HNB General Insurance Limited

For the year ended 31 March	2025 LKR	2024 LKR
Relationship: *Common control*		
Statement of profit or loss		
Fee income	24,446,275	23,600,917
Interest expense – Fixed deposits	6,684,932	–
General insurance expense	40,773,017	35,287,733
Statement of financial position		
Financial liabilities at amortised cost – Fixed Deposits		
Balance as at 1 April	–	–
Deposits made during the year	100,000,000	–
Interest accrued	–	–
Withdrawals of capital	(100,000,000)	–
Balance as at 31 March	–	–
Fee income receivable	3,815,863	16,421,063
Prepayment – General insurance	363,664	13,367,932
Other payables – Insurance premium payable	77,852,197	22,195,922

44.1.5 Transactions with Prime Lands Residencies (Private) Limited

For the year ended 31 March	2025 LKR	2024 LKR
Relationship: *Common Director*		
Statement of profit or loss		
Interest income on lease	927,850	3,871,012
Interest income from loans	–	1,596,260
Rent expenses	20,400,000	20,400,000
Statement of financial position		
Financial assets at amortised cost – Lease rentals receivables	1,611,758	10,137,407
Rent Payable	5,100,000	–

44.1.6 Transactions with Bhoomi Realty Holdings (Private) Limited

For the year ended 31 March	2025 LKR	2024 LKR
Relationship: *Common Director*		
Statement of profit or loss		
Interest income on lease	341,800	799,520
Statement of financial position		
Financial assets at amortised cost – Lease rentals receivables	–	3,742,386

44.1.7 Transactions with Ceylinco General Insurance Limited

For the year ended 31 March	2025 LKR	2024 LKR
Relationship: *Common Director*		
Statement of profit or loss		
Fee income	7,694,529	8,581,597
Insurance expense	38,073,997	29,165,539
Statement of financial position		
Fee income receivable	2,049,764	5,616,531
Other payables – Insurance premium payable lease	53,652,292	15,084,511
Prepayment balance of Suwasampatha Insurance	–	110,393

44.1.8 Transactions with Regent Country Club

For the year ended 31 March	2025 LKR	2024 LKR
Relationship: *Common Director*		
Statement of profit or loss		
Other expenses – Staff motivation expense	256,188	1,043,040

44.1.9 Transactions with HNB Investment Bank (Private) Limited

For the year ended 31 March	2025 LKR	2024 LKR
Relationship: *Common control*		
Statement of profit or loss		
Interest income – Repo investment	252,351,422	334,494,178
Statement of financial position		
Repo investment	2,700,000,000	3,950,000,000

Above mentioned recurrent related party transactions in aggregately exceed 10% of the Company's gross revenue

44.1.10 Transactions with Government of Sri Lanka

For the year ended 31 March	2025 LKR	2024 LKR
Relationship: *Shareholder of the parent company*		
Statement of profit or loss		
Interest income – Debt and other instruments	443,710,839	1,389,269,845
Tax expenses	(869,731,217)	(687,391,428)
Statement of financial position		
Financial assets at amortised cost – Debt and other instruments	883,301,197	9,718,883,804
Tax payable	505,810,612	316,935,125
Tax paid	(721,617,943)	(395,853,304)

Above mentioned recurrent related party transactions in aggregately exceed 10% of the Company's gross revenue

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 2025 was LKR 316.7 Mn. (2024- LKR 275.3 Mn.).

44.2 Transactions with the key management personnel of 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 Company are the members of its Board of Directors and that of its Parent.

44.2.1 Compensation paid to Key Management Personnel of Company

The following represents the compensation paid to Key Management Personnel of Company.

	2025 LKR	2024 LKR
Short-term benefits	38,663,146	26,014,000

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.

	2025 LKR	2024 LKR
Statement of profit or loss		
Interest expense – Saving and fixed deposits	3,196,645	2,377,667
Statement of financial position		
Due to customers – Saving and fixed deposits	27,566,526	13,526,667

44.3 RECURRENT AND NON-RECURRENT RELATED PARTY TRANSACTIONS

Unless otherwise disclosed under the related party transactions section for each respective party, there are no other recurring related party transactions which, in aggregate, exceed 10% of the Company's gross revenue.

45 ASSETS PLEDGED AS SECURITIES AGAINST BORROWINGS AND DEBTS

Nature of assets	Nature of liability	2025 LKR	2024 LKR
Freehold land and building	Redeemable Debentures (Note 31.2.1)	1,589,500,002	1,552,722,082
Freehold land and building	Redeemable Debentures	1,354,500,000	1,228,000,000

46 FINANCIAL RISK MANAGEMENT

46.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational Risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

46.2 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's and the Company's risk management framework. The Board has established the Integrated Risk Management Committee (BIRMC), which is responsible for developing and monitoring the Company's risk management policies and processes. The BIRMC functions under the responsibilities set out in the Board approved terms of reference, which incorporates the requirements of Finance Business Act Direction No. 05 of 2021 issued by the Central Bank of Sri Lanka. The Committee reports regularly to the Board of Directors on its activities. Further, Board Audit Committee, Board Credit Committee and Board Strategic Planning and Investment Committee also focus on different aspects of Risk Management. Management Level Committees, such as Assets and Liabilities Committee, Executive Risk Management Committee and IT Steering Committee, support the BIRMC on implementation of risk strategies of the Company.

The Company's risk management policies are established to identify and analyses the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Audit Committees of the Company is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committees.

46.3 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk arises in the Company's direct lending operations and in its investment/treasury activities, where counterparties have a repayment or other obligations towards the Company.

(a) Allowances for impairment

Credit risk is managed by evaluating the credit worthiness and by periodical review on the credit granted. The Company establishes an allowance for impairment that represents its estimate of expected credit losses in respect of customer receivables. The Company policy on impairment consists of allowance for individual impairment that identified based on specific loss event and a collective impairment established for similar receivables in term of their credit risk on product basis where the loss event have incurred but not yet identified. The collective impairment is determined based on the historical data of payments statistics for similar financial assets.

The key elements of ECL computation for collectively assessed loans are as follows:

Probability of Default (PD):
The probability of default is an estimate of the likelihood of a borrower defaulting on its financial obligations either over the next 12 months (12m PD) or over the remaining lifetime (lifetime PD) of the obligation. A default may only happen at a certain timeover the assessed period, if the facility has not been previously de-recognised and is still in the portfolio. The Company estimates the Probability of Default (PD) based on historical information with regard to delinquency of loans and advances. In this process historical information pertaining to 3-6 years have been used depending on the nature of the product. (Definition of default is given in Note 9)."

Exposure at Default (EAD):
The exposure at default represents the expected exposure in the event of a default. The Company estimates EAD, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdowns of committed facilities. To calculate the EAD for a Stage 1 loan, the Company assesses the possible default events within 12 months.For Stage 2, Stage 3 and Purchase or Originated Credit Impaired (POCI) financial assets, the exposure at default is considered for events over the lifetime of the instruments."

Loss Given Default (LGD):
The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The Company segments its lending portfolio into homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The loss given default is estimated based on historically collected loss data.

Calculation of ECL for individually significant loan
The Company initially assesses Expected Credit Losses (ECL) for each individually significant loan (ISL), selected based on a predefined threshold. If these assets are not found to be impaired through this individual assessment, the Company then aggregates them with loans and advances possessing similar credit risk characteristics for a collective impairment evaluation. The Company calculates ECL for ISL by discounting the estimated expected cashflows at a rate approximating the EIR. A cash shortfall is defined as the difference between the cash flows that are contractually due to the Company and the cash flows that the Company actually expects to receive.

Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company historical experience and expert credit assessment and including forward looking information

- Determining whether credit risk has increased significantly

The assessment of whether credit risk on a financial asset has increased significantly will be one of the critical judgements used in expected credit loss model prescribed in SLFRS 9 – "Financial Instruments". The criteria for determining whether credit risk has increased significantly vary by portfolio and include qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Their qualitative amendments include the exposure towards efficient industries and the impact of the country's economic performance towards those activities.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews.

(b) Collateral held and other credit enhancement

The Company holds collateral and other credit enhancements against certain types of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets. The value of the collateral is capped at the amortised cost of the loan.

For the year ended 31 March	2025		2024	
	Gross loan balance LKR	Security value LKR	Gross loan balance LKR	Security value LKR
Stage 1				
Cash collateral	434,685,469	434,685,469	546,552,297	546,552,297
Gold and precious metals	7,959,678,134	7,959,678,134	4,707,336,405	4,707,336,405
Vehicles and machinery	21,400,382,408	21,400,382,408	10,481,056,709	10,481,056,709
Immovable properties	2,322,496,601	2,322,496,601	1,368,425,744	1,368,425,744
Unsecured	3,558,885,280	–	5,055,813,052	–
Stage 2				
Gold and precious metals	949,778,772	928,416,628	691,574,267	691,574,267
Vehicles and machinery	4,458,964,628	4,458,964,628	3,971,354,761	3,971,354,761
Immovable properties	519,823,220	519,823,220	977,055,843	977,055,843
Unsecured	1,094,590,567	–	2,540,002,225	–
Stage 3				
Gold and precious metals	3,313,303	1,962,254	2,494,858	2,494,858
Vehicles and machinery	710,934,580	710,934,580	1,402,904,763	1,402,904,763
Immovable properties	1,282,271,953	1,282,271,953	1,646,593,704	1,646,593,704
Unsecured	5,633,373,982	–	6,301,412,160	–

Assets obtained by taking possession of collateral

Details of financial and non-financial assets obtained by the Company during the year by taking possession of collateral held as security against loans and advances and held at the year end are shown below

	2025 LKR	2024 LKR
Vehicles	201,036,350	130,424,900

Loan to value ratio

The following tables state the credit exposure from mortgage loans and advances to retail customers by range of Loan to value ratio. LTV is calculated as the ratio of the gross amount of the loan or the amount committed for loan commitments to the value of the collateral. The valuation of the collateral excludes any adjustment for obtaining & selling the collateral. The value of the collateral for mortgage loans is based on the collateral value at origination updated based on land price indices. For credit-impaired loans, the value of collateral is based on the most recent appraisals.

	2025 LKR	2024 LKR
LTV ratio		
Less than 50%	1,158,503,206	1,733,103,456
51-70%	457,388,115	292,240,291
71-90%	47,603,857	203,300,715
91-100%	7,006,387	101,573,040
Above 100%	31,150,108	126,239,024
	1,701,651,673	2,456,456,526
Credit impaired loans		
Less than 50%	698,824,076	586,521,504
51-70%	222,720,622	202,994,992
71-90%	9,082,669	185,584,444
91-100%	5,697,163	99,531,468
Above 100%	11,935,428	102,533,680
	948,259,958	1,177,166,088

(c) Forward looking information

The Company incorporates forward looking information (through economic factor adjustment) into both its assessment as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. When estimating the ECL, the Company considers three economic scenarios (base case, best case and worse case). Quantitative economic factors are based on economic data and forecasts published by Central Bank of Sri Lanka and when such information is not available, forecasts published by International Monetary Fund and World Bank have been used. In its ECL models, the Company relies on a broad range of forward looking information as economic inputs, such as:

Quantitative factors	Qualitative factors
GDP growth	Government policies
Inflation	Status of industry/business
Interest rate	Regulatory impact
Unemployment rate	
Exchange rate	

(d) Sensitivity of factors used to determine impairment provisions

Given the current economic uncertainties and the judgements applied to factors used in determining the expected default of borrowers in future periods. Expected credit losses reported by the company should be considered as a best estimate within a range of possible estimates.

As at 31 March 2025	Sensitivity effect on Statements of Financial Position increase/ (decrease) in impairment provision				Sensitivity effect on income Statement increase/(decrease) in impairment charge
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR	
Change in Probability of Default (PD)					
– Increase by 1%	65,928,649	18,434,405	–	84,363,054	84,363,054
– Decrease by 1%	(65,928,649)	(18,434,405)	–	(84,363,054)	(84,363,054)
Change in Loss Given Default (LGD)					
1% Increase	9,868,973	5,895,571	69,896,408	85,660,952	85,660,952
1% Decrease	(9,868,973)	(5,895,571)	(69,896,408)	(85,660,952)	(85,660,952)
Change in Economic Factor Adjustment (EFA)					
Increase by 1%	2,521,563	1,506,343		4,027,906	4,027,906
Decrease by 1%	(2,521,563)	(1,506,343)		(4,027,906)	(4,027,906)

(e) Write-off policy

The Company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Board of Directors determines that the loan or security is uncollectible. This determination is made after considering information such as occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure as the last resort after considering the legal recoveries. For smaller balance standardized loans, write-off decisions generally are based on a product-specific past due status.

Micro Finance concept works with the peer pressure where members being pressurized by the other members to pay instalments without any defaults. Some loans advance requires guarantees from third parties. There are two types of guarantees obtained by the Company. Immovable assets are taken as securities for high valued loan disbursements. Other Securities such as personal guarantees are taken for Microfinance loan facilities. In this context members will be cross-guarantors each other by which they are pressurized to maintain the non-default of the particular group.

The following table provide an explanation of how significant changes in write-offs of financial instruments during the period contributed to changes in loss allowance.

	2025			2024		
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR
Financial assets at amortised cost – loans and advances to customers						
Write off of loans overdue over 360 days, unsecured and 100% impaired	–	–	(592,120,327)	–	–	(1,823,985,192)
Financial assets at amortised cost – Lease rentals receivables						
Write off of lease receivable overdue over 360 days, and 100% impaired	–	–	(634,895,883)	–	–	(202,885,630)
Financial assets at amortised cost – Debt and other instruments						
Write off of the investment in reverse repurchase agreements entered into with Entrust Securities PLC amounting to LKR 773,091,682/- during the financial year 2023/24	–	–	–	–	–	(773,091,682)

(f) Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to the Board Integrated Risk Management Committee. The Risk Management Department is a separate vertical independent of business units, established to assess the credit risk of credit proposals and submit observations to all approving authorities. Further, the Company implemented the following initiatives to manage credit risk.

1. The Board approved credit and credit risk policy in place which outlines the credit risk management strategy including exposure types, economic sectors/activities, collateral types, duration and loan to value requirements when originating credit.
2. The Board approved risk appetite framework in place covering credit risk.
3. Implementation of risk-based credit-scoring model to evaluate the probability of default at the time of granting the facility.
4. Implementation of Loan review mechanism to identify issues relating to credit initiation and loan structuring, loan approval procedures, assignment of credit score, credit/collateral documentation, and credit monitoring and to take appropriate corrective actions to mitigate the identified risks whilst avoiding repetition.
5. Implementation of Delegation of Authority for credit approvals considering approving authority positions and as well as their expertise.
6. Establishment of an Independent Credit Administration Department to ensure completeness of documentation and covenants,receipt of collateral holdings, and insurance cover in Company's favour, if required, before disbursement of the facility.

(g) Credit quality by class of financial assets

As at 31 March 2025	Current LKR	Overdue LKR	Impaired LKR	Total LKR
Cash and cash equivalents	1,582,022,331	–	–	1,582,022,331
Financial assets at amortised cost – Loans and advances to customers	11,938,091,950	11,914,791,730	(4,809,463,919)	19,043,419,761
Financial assets at amortised cost – Lease rentals receivables	14,967,456,005	11,413,639,353	(680,488,511)	25,700,606,847
Financial assets at amortised cost – Loans and advances to others	92,475,546	2,766,233	–	95,241,779
Financial assets measured at fair value through other comprehensive income	4,324,073	–	–	4,324,073
Financial assets at amortised cost – Debt and other instruments	6,982,841,561	–	–	6,982,841,561
Other financial assets	76,415,318	–	–	76,415,319
Total financial assets	**35,643,626,784**	**23,331,197,316**	**(5,489,952,430)**	**53,484,871,669**

	Overdue				
As at 31 March 2025	Less than 30 Days LKR	30 to 60 days LKR	60 to 90 days LKR	More than 90 days LKR	Total LKR
Financial assets at amortised cost – Loans and advances to customers	2,279,890,890	1,250,253,483	1,381,794,709	7,002,852,649	11,914,791,731
Financial assets at amortised cost – Lease rentals receivables	6,395,489,190	2,831,633,198	1,559,475,796	627,041,169	11,413,639,353
Financial assets at amortised cost – Loans and advances to others	1,887,533	878,700	–	–	2,766,233
	8,677,267,613	4,082,765,381	2,941,270,505	7,629,893,818	23,331,197,317

As at 31 March 2024	Current LKR	Overdue LKR	Impaired LKR	Total LKR
Cash and cash equivalents	1,133,427,884	–	–	1,133,427,884
Financial assets at amortised cost – Loans and advances to customers	10,953,909,285	12,519,669,882	(4,862,909,687)	18,610,669,480
Financial assets at amortised cost – Lease rentals receivables	7,836,855,564	8,234,512,225	(1,194,054,668)	14,877,313,121
Financial assets at amortised cost – Loans and advances to others	144,863,597	2,766,234	–	147,629,831
Financial assets measured at fair value through other comprehensive income	4,432,096	–	–	4,432,096
Financial assets at amortised cost – Debt and other instruments	13,714,598,974	–	–	13,714,598,974
Other financial assets	89,068,816	–	–	89,068,816
Total financial assets	**33,877,156,216**	**20,756,948,341**	**(6,056,964,355)**	**48,577,140,202**

As at 31 March 2024	Overdue				
	Less than 30 Days LKR	30 to 60 days LKR	60 to 90 days LKR	More than 90 days LKR	Total LKR
Financial assets at amortised cost – Loans and advances to customers	1,285,700,228	1,149,082,468	2,373,175,293	7,711,711,893	12,519,669,882
Financial assets at amortised cost – Lease rentals receivables	2,629,158,427	1,764,342,929	2,201,812,140	1,639,198,729	8,234,512,225
Financial assets at amortised cost – Loans and advances to others	1,887,534	878,700	–	–	2,766,234
	3,916,746,189	2,914,304,097	4,574,987,433	9,350,910,622	20,756,948,341

(h) Maximum exposure disclosure of financial assets

The table below represents Company's maximum exposure to credit risk for its recognised and contingent financial instruments as at 31 March 2025, before taking into account any collateral held or other credit risk mitigation. For recognised instruments, the maximum exposure to credit risk is the carrying amount reported in the Statement of Financial Position. For contingent instruments, the maximum exposure to credit risk generally represents the contractual notional amounts.

As at 31 March 2025	Gross carrying amount LKR	Net exposure LKR
Cash and cash equivalents	1,582,022,331	1,582,022,331
Financial assets at amortised cost – Loans and advances to customers	23,852,883,680	19,043,419,761
Financial assets at amortised cost – Lease rentals receivables	26,381,095,357	25,700,606,847
Financial assets at amortised cost – Loans and advances to others	95,241,779	95,241,779
Financial assets measured at FVOCI	4,324,073	4,324,073
Financial assets at amortised cost – Debt and other instruments	6,982,841,561	6,982,841,561
Other financial assets	76,415,318	76,415,319
	58,974,824,100	53,484,871,671

As at 31 March 2024	Gross carrying amount LKR	Net exposure LKR
Cash and cash equivalents	1,133,427,884	1,133,427,884
Financial assets at amortised cost – Loans and advances to customers	23,473,579,167	18,610,669,480
Financial assets at amortised cost – Lease rentals receivables	16,071,367,789	14,877,313,121
Financial assets at amortised cost – Loans and advances to others	147,629,831	147,629,831
Financial assets measured at FVOCI	4,432,096	4,432,096
Financial assets at amortised cost – Debt and other instruments	13,714,598,974	13,714,598,974
Other financial assets	89,068,816	89,068,816
	54,634,104,557	48,577,140,202

(i) Concentration of credit risk

The Company set concentration limits for single borrower/of borrowers, industry sectors, products, collaterals and large borrowers under criteria within the established risk appetite framework to ensure that an acceptable level of risk diversification is maintained on an ongoing basis. These limits are continuously monitored and periodically reviewed by the Executive Risk Management Committee, Board Integrated Risk Management Committee and the Board of Directors.

Concentration by location

Concentration of loans and advances by location is given below.

	Gross carrying amount			
	2025		2024	
Province	LKR	%	LKR	%
Western	17,439,026,855	35	14,010,765,020	35
Southern	3,848,719,397	8	3,416,272,900	9
Uva	2,789,387,874	6	2,771,315,249	7
North Central	4,003,929,946	8	4,126,231,365	10
North Western	7,114,054,861	14	4,735,676,491	12
Eastern	3,718,424,479	7	2,969,330,653	7
Northern	3,195,319,938	6	2,725,170,488	7
Sabaragamuwa	3,618,327,663	7	1,349,675,629	3
Central	4,602,029,803	9	3,588,138,992	9
	50,329,220,816	100	39,692,576,787	100

(j) 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 16 to these financial statements. The renegotiate loans to customers in financial difficulties (referred to as “forbearance activities”) to maximize collection opportunities and minimize risk of default. Under the Company’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 behavior 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.

Concentration by sector

As at 31 March 2025	Agriculture	Commercial	Consumers	Financial
	LKR	LKR	LKR	LKR
Financial assets				
Cash and cash equivalents	–	–	–	1,582,022,331
Financial assets at amortised cost – Loans and advances to customers	6,706,404,684	8,710,990,867	1,780,930,876	123,867,161
Financial assets at amortised cost – Lease rentals receivables	2,237,688,471	8,473,525,836	1,290,049,190	492,502,538
Financial assets at amortised cost – Loans and advances to others	86,282	1,086,314	3,494,474	11,008,550
Financial assets measured at FVOCI	–	–	–	4,324,073
Financial assets at amortised cost	–	–	–	6,982,841,561
Other assets	–	–	–	76,415,318
	8,944,179,437	17,185,603,017	3,074,474,540	9,272,981,532

As at 31 March 2024	Agriculture	Commercial	Consumers	Financial
	LKR	LKR	LKR	LKR
Financial assets				
Cash and cash equivalents	–	–	–	1,133,427,884
Financial assets at amortised cost – Loans and advances to customers	7,462,834,134	9,508,993,430	1,071,176,946	136,285,535
Financial assets at amortised cost – Lease rentals receivables	1,518,911,909	5,112,716,786	1,196,702,287	204,899,902
Financial assets at amortised cost – Loans and advances to others	360,143	2,615,390	6,241,805	26,517,465
Financial assets measured at FVOCI	–	–	–	4,432,096
Financial assets at amortised cost	–	–	–	13,714,598,974
Other assets	–	–	–	89,068,816
	8,982,106,186	14,624,325,606	2,274,121,038	15,309,230,672

Housing and property development LKR	Industrial LKR	Services LKR	Tourism LKR	Others LKR	Total LKR
–	–	–	–	–	1,582,022,331
196,439,634	1,549,949,705	3,645,450,534	84,509,219	1,054,341,000	23,852,883,680
299,439,231	1,749,540,723	11,170,570,097	409,403,764	258,375,508	26,381,095,357
71,358,172	–	8,207,987	–	–	95,241,779
–	–	–	–	–	4,324,073
–	–	–	–	–	6,982,841,561
–	–	–	–	–	76,415,319
567,237,037	3,299,490,428	14,824,228,618	493,912,983	1,312,716,508	58,974,824,100

Housing and property development LKR	Industrial LKR	Services LKR	Tourism LKR	Others LKR	Total LKR
–	–	–	–	–	1,133,427,884
473,228,208	2,184,379,591	1,819,784,960	230,578,020	586,318,343	23,473,579,167
406,501,776	1,685,852,995	4,388,942,262	227,155,319	1,329,684,553	16,071,367,789
96,928,430	667,685	14,298,913	–	–	147,629,831
–	–	–	–	–	4,432,096
–	–	–	–	–	13,714,598,974
–	–	–	–	–	89,068,816
976,658,414	3,870,900,271	6,223,026,135	457,733,339	1,916,002,896	54,634,104,557

46.4 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company uses the maturity analysis of all the financial instruments to manage the liquidity risk.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking the financial position of Company while maintaining regulatory requirements. The treasury manages the liquidity position as per the treasury policies and procedures.

The treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, funding arrangements, to ensure that sufficient liquidity is maintained within the Company.

The liquidity requirements of business units are discussed at ALCO meetings (Assets and Liabilities 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 the Board of Directors on the recommendation of BIRMC and the 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.The Company's main sources of the funding are capital, public deposits and borrowed funds from the banks or using debt instruments.

The Company also uses the maturity analysis of all the financial instruments to manage the liquidity risk. Maturity analysis of financial assets and financial liabilities of the Company indicates that there is sufficient funding available to manage liquidity requirements based on contractual and behavioral patterns.

46.4.1 Liquidity reserves

Components of the company liquid assets portfolio used for the purpose of calculating statutory liquid asset ratio in March 2025 and March 2024 (average balance for the month) is given below.

As at 31 March 2025	2025 LKR '000	2024 LKR '000
Cash in hand	541,670	371,528
Balances in current accounts free from lien	78,890	87,851
Deposits in commercial banks free from lien	957,421	644,110
Sri Lanka Government Treasury Bills and Treasury Bonds, maturing within one year, free from any lien or charge	883,274	9,741,729
Sri Lanka Government securities maturing within one year and free from any lien or charge	6,099,328	3,995,518
	8,560,583	14,840,736

46.4.2 The maturity analysis of financial assets and liabilities based on undiscounted gross inflow and outflow is reflected below.

As at 31 March 2025	Carrying amounts LKR	Gross nominal cash flow LKR	Up to 3 Months LKR	4 to 12 Months LKR	1 to 5 years LKR	More than 5 years LKR
Assets						
Cash and cash equivalents	1,582,022,331	1,582,022,331	1,582,022,331	–	–	–
Financial assets at amortised cost- Loans and advances to customers	19,043,419,761	25,552,216,334	13,513,963,938	7,406,204,159	4,484,803,308	147,244,929
Financial assets at amortised cost- Lease rentals receivables	25,700,606,847	34,637,132,311	932,721,245	6,419,834,682	27,280,678,933	3,897,451
Financial Assets at amortised cost- Loans and advances to others	95,241,779	116,065,775	372,045	2,823,104	82,123,035	30,747,591
Financial assets measured at FVOCI	4,324,073	4,324,073	–	–	4,324,073	–
Financial assets at amortised cost – Debt and other instruments	6,982,841,561	6,982,841,561	6,424,150,320	558,691,241	–	–
Other financial assets	76,415,319	76,415,319	30,049,425	38,796,182	7,569,712	–
	53,484,871,671	68,951,017,704	22,483,279,304	14,426,349,368	31,859,499,061	181,889,971
Liabilities						
Financial liabilities at amortised cost – Due to customers	42,217,981,305	46,599,731,171	13,355,127,221	18,917,709,618	14,326,894,332	–
Financial liabilities at amortised cost- Debt issued and other borrowed funds	4,767,543,102	6,297,543,102	507,875,294	304,167,808	5,153,000,000	332,500,000
Other financial liabilities	2,795,128,277	2,795,128,277	2,364,293,472	60,730,560	283,737,292	86,436,953
	49,780,722,684	53,799,767,820	16,227,295,990	19,282,607,986	19,763,631,622	418,936,953
Liquidity gap related period	–	–	6,255,983,314	(4,856,258,618)	12,095,867,438	(237,046,981)
Liquidity gap cumulative	–	–	6,255,983,314	1,399,724,697	13,495,592,134	13,258,545,153

As at 31 March 2024	Carrying amounts LKR	Gross nominal cash flow LKR	Up to 3 Months LKR	3 to 12 Months LKR	1 to 5 years LKR	More than 5 years LKR
Assets						
Cash and cash equivalents	1,133,427,884	1,133,427,884	1,133,427,884	–	–	
Financial assets at amortised cost- Loans and advances to customers	18,610,669,480	26,428,071,529	8,847,202,683	9,057,058,687	8,229,822,814	293,987,345
Financial Assets at amortised cost- Lease rentals receivables	14,877,313,121	21,802,402,105	638,440,180	2,310,978,397	18,186,191,646	666,791,882
Financial Assets at amortised cost- Loans and advances to others	147,629,831	185,582,524	461,598	6,428,980	102,184,239	76,507,707
Financial assets measured at FVOCI	4,432,096	4,432,096	–	–	4,432,096	–
Financial assets at amortised cost- Debt and other instruments	13,714,598,974	13,714,598,974	13,714,598,974	–	–	–
Other financial assets	89,068,816	89,058,436	32,934,525	36,430,054	19,693,857	–
	48,577,140,202	63,357,573,548	24,367,065,844	11,410,896,118	26,542,324,652	1,037,286,934
Liabilities						
Financial liabilities at amortised cost- Due to customers	41,260,879,894	44,707,026,440	19,822,152,764	12,656,447,711	12,228,425,965	–
Financial liabilities at amortised cost-Debt issued and other borrowed funds	4,157,249,111	5,210,761,362	–	1,510,637,362	3,700,124,000	–
Other financial liabilities	1,540,223,495	1,540,223,495	1,207,158,415	61,649,493	271,415,587	–
	46,958,352,500	51,458,011,297	21,029,311,179	14,228,734,566	16,199,965,552	–
Liquidity gap related period	–	11,899,562,251	3,337,754,665	(2,817,838,448)	10,342,359,099	1,037,286,934
Liquidity gap cumulative	–	–	3,337,754,665	519,916,217	10,862,275,316	11,899,562,251

46.5 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, commodity prices, foreign exchange rates and credit spreads will affect the Company's income or the value of its holding of financial instruments. The objective of the Market risk management is to manage and control market risk exposures within acceptable parameters in order to optimize the return.

(a) Interest rate risk

The interest rate is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments due to changes in market interest rates. The Company manages the interest rate risk against repricing gap limits, which is supplemented by monitoring the sensitivity of the financial assets and liabilities to various rate scenarios. ALCO oversees the interest rate environment and monitors the movement of market interest rates.

46.5.1 Sensitivity Analysis

An analysis of the Company's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows;

	Carrying Value				
As at 31 March 2025	Up to 3 months LKR	4 to 12 months LKR	1 to 5 years LKR	More than 5 years LKR	Total LKR
Interest earning assets					
Cash and cash equivalents	1,582,022,331	–	–	–	1,582,022,331
Financial assets at amortised cost – Debt and other instruments	6,982,841,561	–	–	–	6,982,841,561
Financial assets at amortised cost – Loans and advances to customers	9,544,098,021	5,366,773,091	3,234,902,340	897,646,309	19,043,419,761
Financial assets at amortised cost – Lease rentals receivables	817,779,180	6,168,481,899	18,711,686,096	2,659,672	25,700,606,847
Financial assets at amortised cost – Loans and advances to others	331,918	2,714,925	69,327,034	22,867,902	95,241,779
Total interest earning assets	18,927,073,011	11,537,969,915	22,015,915,470	923,173,883	53,404,132,279
Interest bearing liabilities					
Financial liabilities at amortised cost – Due to customers	12,783,772,178	17,054,871,735	12,379,337,392	–	42,217,981,305
Financial liabilities at amortised cost – Debt issued and other borrowed funds	246,875,294	55,167,808	4,133,000,000	332,500,000	4,767,543,102
Total interest bearing liabilities	13,030,647,472	17,110,039,543	16,512,337,392	332,500,000	46,985,524,407
Gap in interest earning assets and interest bearing liabilities – Net assets/(liabilities)	5,896,425,539	(5,572,069,628)	5,503,578,078	590,673,883	6,418,607,872
Effect on profitability by 1% increase in interest rates- Increase/(decrease) in profits- Annualised effect	58,964,255	(55,720,696)	55,035,781	5,906,739	
Effect on profitability by 1% decrease in interest rates- Increase/(decrease) in profits- Annualised effect	(58,964,255)	55,720,696	(55,035,781)	(5,906,739)	

As at 31 March 2024	Carrying Value				
	Up to 3 months LKR	4 to 12 months LKR	1 to 5 years LKR	More than 5 years LKR	Total LKR
Interest earning assets					
Cash and cash equivalents	1,133,427,884		–	–	1,133,427,884
Financial assets at amortised cost – Debt and other instruments	13,714,598,974		–	–	13,714,598,974
Financial assets at amortised cost – Loans and advances to customers	6,230,207,330	6,377,988,099	5,795,447,923	207,026,128	18,610,669,480
Financial assets at amortised cost – Lease rentals receivables	435,652,659	1,576,943,177	12,409,718,264	454,999,021	14,877,313,121
Financial assets at amortised cost – Loans and advances to others	367,199	5,114,216	81,286,975	60,861,441	147,629,831
Total interest earning assets	21,514,254,046	7,960,045,492	18,286,453,162	722,886,590	48,483,639,290

As at 31 March 2024	Carrying Value				
	Up to 3 months LKR	4 to 12 months LKR	1 to 5 years LKR	More than 5 years LKR	Total LKR
Interest bearing liabilities					
Financial liabilities at amortised cost – Due to customers	18,294,204,056	11,680,852,216	11,285,823,622	–	41,260,879,894
Financial liabilities at amortised cost – Debt issued and other borrowed funds	–	1,205,216,550	2,952,032,561	–	4,157,249,111
Total interest bearing liabilities	18,294,204,056	12,886,068,766	14,237,856,183	–	45,418,129,005
Gap in interest earning assets and interest bearing liabilities- Net assets/ (liabilities)	3,220,049,989	(4,926,023,274)	4,048,596,979	722,886,590	3,065,510,285
Effect on profitability by 1% increase in interest rates- Increase/(decrease) in profits- Annualised effect	32,200,500	(49,260,233)	40,485,970	7,228,866	–
Effect on profitability by 1% decrease in interest rates- Increase/(decrease) in profits- Annualised effect	(32,200,500)	49,260,233	(40,485,970)	(7,228,866)	–

(b) Currency Risk

The Company does not engage in transactions denominated in foreign currencies. Therefore, exposure to currency risk is not significant.

46.6 Operational

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with Company's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks. Operational risks arise from all of Company's operations. Company's objectives is to manage operational risk in order to avoid/mitigate financial losses and damage toompany's reputation with overall cost effectiveness.

Operational Risk Management framework of Company has been defined under the Board approved Operational Risk Management Policy. Company uses Risk and Control Self-Assessment (RCSA), Key Risk Indicators (KRIs), Internal loss data capturing and reporting and risk review of new products and process for identification and management of operational risks.

Compliance with company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The result of Internal Audit reviews are discussed with the Board of Directors with summaries submitted to the Audit Committee and senior management of the Company.

46.7 Capital Management

Company is required to manage its capital taking in to account the need to meet the regulatory requirements as well as the current and future business needs, stakeholder expectation and available options for raising capital. The Company is required to comply with the provisions of the Finance Companies (Capital Funds) Direction No.01 of 2003, Finance Business Act Direction No. 03 of 2018 on Capital Adequacy Requirements and Finance Business Act Direction No. 2 of 2017 on Minimum Core Capital in respect of regulatory capital.

The capital status of Company was weakened during FY 2022/23 due to amalgamation with Prime Finance PLC, deterioration of capital in consequence to losses incurred for the year 2022/2023. However the fiscal year generated profit and portfolio reduction of the company capital status has been stable . Accordingly, the Core Capital Ratio and the Total Capital Ratio of Company as of 31 March 2025 stood at 11.38% and 14.44%, respectively against regulatory minimum of 8.50% and 12.50%. However, the Central Bank of Sri Lanka approved to defer the requirement of maintaining minimum Core Capital and Total Capital Ratio for three years commencing from 31 May 2022 considering amalgamation with Prime Finance PLC. Accordingly, the Company adopted a capital augmentation plan to fulfill the requirements within the timeline permitted by the Central Bank of Sri Lanka.

47. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

As at 31 March 2025	Less than 1 year LKR	More than 1 year LKR	Total LKR
Assets			
Cash and cash equivalents	1,582,022,331	–	1,582,022,331
Financial assets at amortised cost – Loans and advances to customers	15,751,925,648	3,291,494,113	19,043,419,761
Financial assets at amortised cost – Lease rentals receivables	6,986,261,080	18,714,345,768	25,700,606,847
Financial assets at amortised cost – Loans and advances to others	3,046,842	92,194,937	95,241,779
Financial assets measured at FVOCI	–	4,324,073	4,324,073
Financial assets at amortised cost – Debt and other instruments	6,982,841,561	–	6,982,841,561
Other assets	1,186,636,694	105,436,905	1,292,073,600
Investment properties	–	1,409,600,000	1,409,600,000
Intangible assets	–	85,092,793	85,092,793
Property, plant and equipment	–	1,940,496,243	1,940,496,243
Right of use the asset	3,100,298	364,441,928	367,542,225
	32,495,834,454	26,007,426,760	58,503,261,214
Liabilities			
Financial liabilities at amortised cost – Due to customers	29,838,643,913	12,379,337,392	42,217,981,305
Financial liabilities at amortised cost – Debt issued and other borrowed funds	302,043,102	4,465,500,000	4,767,543,102
VAT and SSCL on financial services payable	144,436,066	–	144,436,066
Current tax liability	358,925,300	–	358,925,300
Other liabilities	2,683,145,065	373,984,041	3,057,129,108
Retirement benefit obligation	–	369,880,756	369,880,756
Deferred tax liability	–	400,391	400,391
	33,327,193,449	17,589,102,579	50,916,296,028

As at 31 March 2024	Less than 1 year LKR	More than 1 year LKR	Total LKR
Assets			
Cash and cash equivalents	1,133,427,884	–	1,133,427,884
Financial assets at amortised cost – Loans and advances to customers	13,100,767,215	5,509,902,265	18,610,669,480
Financial assets at amortised cost – Lease rentals receivables	2,299,328,832	12,577,984,289	14,877,313,121
Financial assets at amortised cost – Loans and advances to others	6,625,896	141,003,935	147,629,831
Financial assets measured at FVOCI	–	4,432,096	4,432,096
Financial assets at amortised cost – Debt and other instruments	13,714,598,974	–	13,714,598,974
Other assets	705,075,518	82,737,644	787,813,162
Investment properties	–	1,279,700,000	1,279,700,000
Intangible assets	–	146,009,666	146,009,666
Property, plant and equipment	–	1,896,709,154	1,896,709,154
Right of use the asset	31,987,245	287,903,290	319,890,535
Deferred tax assets	–	539,907,826	539,907,826
	30,991,811,564	22,466,290,165	53,458,101,729
Liabilities			
Financial liabilities at amortised cost – Due to customers	32,340,565,239	8,920,314,655	41,260,879,894
Financial liabilities at amortised cost – Debt issued and other borrowed funds	1,658,499,111	2,498,750,000	4,157,249,111
VAT and SSCL on financial services payable	94,084,254	–	94,084,254
Current tax liability	222,850,871	–	222,850,871
Other liabilities	1,420,289,592	297,306,505	1,717,596,097
Retirement benefit obligation	–	353,707,022	353,707,022
	35,736,289,067	12,070,078,182	47,806,367,249

48 FAIR VALUE MEASUREMENT

48.1 Assets and liabilities measured at fair value

A description of how fair values are determined for assets and liabilities that are recorded at fair value using valuation techniques are summarised below which incorporates the Company's estimate of assumptions that a market participant would make when valuing the instruments.

48.1.1 Financial assets measured at Fair Value through Cther Comprehensive Income

Financial assets measured at FVOCI valued using valuation techniques or pricing models primarily consist of unquoted investment securities.

48.1.2 Property, plant and equipment

The methods used to determine the fair value of freehold land and buildings are explained in Note 27.1. The independent valuers provide the fair value of the Company's freehold land and buildings at least once in every three years.

48.1.3 Investment properties

The independent valuers provide the fair value of the Company's investment properties annually as per Sri Lanka Accounting Standards (LKAS 40)- Investment Properties. Details of the valuations are disclosed in Note 25.1.

48.2 Fair value of financial assets and liabilities not measured at fair value

Fair values of the following assets and liabilities are estimated for the purpose of disclosure as described below.

48.2.1 Financial assets at amortised cost -Loans and advances to customers

The estimated fair value of loans and receivables with a residual maturity of more than one year is the present value of future cash flows expected to be received from such loans and receivables calculated based on interest rates at the reporting date for similar types of loans and receivables.

48.2.2 Financial assets at amortised cost - Debt and other instruments

Financial assets consist of government debt securities. Fair value of government securities with a remaining contractual maturity of less than 1 year approximate to the carrying value.

48.2.3 Financial liabilities at amortised cost - Due to customers

The fair value of customer deposits which are repayable on demand or have a remaining contractual maturity of less than one year approximates to the carrying value of such deposits.

The fair value of customer deposits with a contractual maturity of more than one year is estimated as the present value of future cash flows expected from such deposits calculated based on interest rates at the reporting date for similar types of deposits.

48.2.4 Financial liabilities at amortised cost – Debt securities issued

The fair value of debt securities issued has been determined by discounting the future cash flows by the interest rates prevailing as at the reporting date for similar instruments.

48.3 Fair value of financial assets and liabilities

The following table summarises the carrying amounts and the Company's estimate of fair values of those financial assets and liabilities not presented in the statement of the financial position at fair value. The fair values in the table below may be different from the actual amounts that will be received or paid on the settlement or maturity of the financial instrument.

		Fair value			
As at 31 March 2025	Carrying amount LKR	Level I	Level II	Level III	Total
Financial Assets					
Cash and cash equivalents	1,582,022,331	–	1,582,022,331	–	1,582,022,331
Financial assets at amortised cost – Debt and other instruments					
– Investments in Treasury bills	883,301,197	–	883,301,197	–	883,301,197
– Investments in Fixed deposits	212,095	–	–	212,095	212,095
– Investments in Reverse repurchase agreements	6,099,328,269	–	–	6,099,328,269	6,099,328,269
Financial assets measured at FVOCI	4,324,073	324,073	–	4,000,000	4,324,073
Financial assets at amortised cost – Loans and advances to customers	19,043,419,761	–	–	22,573,887,852	22,573,887,852
Financial assets at amortised cost – Lease rentals receivables	25,700,606,847	–	–	29,959,948,963	29,959,948,963
Financial assets at amortised cost – Loans and advances to others	95,241,779	–	–	85,149,334	85,149,334
Other financial assets	76,415,318	–	–	76,415,318	76,415,318
	53,484,871,670	–	2,465,323,528	58,799,265,904	61,264,589,432
Financial Liabilities					
Financial liabilities at amortised cost – Due to customers	42,217,981,305	–		42,043,897,167	42,043,897,167
Financial liabilities at amortised cost – Debt issued and other borrowed funds	4,767,543,102	–	–	4,767,543,102	4,767,543,102
Other financial liabilities	2,795,198,277	–	–	2,795,198,277	2,795,198,277
	49,780,722,684	–	–	49,606,638,546	49,606,638,546

As at 31 March 2024	Carrying amount LKR	Fair value Level I	Level II	Level III	Total
Financial Assets					
Cash and cash equivalents	1,133,427,884	–	1,133,427,884	–	1,133,427,884
Financial assets at amortised cost – Debt and other instruments					
– Investments in Treasury bills	9,718,883,804	–	9,718,883,804	–	9,718,883,804
– Investments in Fixed deposits	197,570	–	–	197,570	197,570
– Investments in Reverse repurchase agreements	3,995,517,600	–	–	3,995,517,600	3,995,517,600
Financial assets measured at FVOCI	4,432,096	432,096	–	4,000,000	4,432,096
Financial assets at amortised cost – Loans and advances to customers	18,610,669,480	–	–	20,522,088,121	20,522,088,121
Financial assets at amortised cost – Lease rentals receivables	14,877,313,121	–	–	18,875,464,058	18,875,464,058
Financial assets at amortised cost – Loans and advances to others	147,629,831	–	–	131,997,094	131,997,094
Other financial assets	89,068,816	–	–	89,068,816	89,068,816
	48,577,140,202	–	10,852,311,688	43,618,765,355	54,471,077,043
Financial Liabilities					
Financial liabilities at amortised cost – Due to customers	41,260,879,894	–	–	41,092,198,347	41,092,198,347
Financial liabilities at amortised cost – Debt issued and other borrowed funds	4,157,249,111	–	–	4,144,157,086	4,144,157,086
Other financial liabilities	1,540,223,495	–	–	1,540,223,495	1,540,223,495
	46,958,352,500	–	–	46,776,578,928	46,776,578,928

49.SEGMENT REPORTING

An operating segment is a component of the Company that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Chief Operating Decision Maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. The Company has three main segments, namely Finance, Leasing, Gold Loans and Others, based on the business activities that each unit is engaged in for purpose of reviewing the operating results of Company as well as to make decisions about resource allocation.

Management monitors the operating results of its business units separately for the purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the financial statements.

There are no inter-segment transactions occurred during the year.

Income taxes are allocated to specific segments. Other expenses which cannot be directly identified against a particular business segment have been treated as consolidated adjustments.

No revenue from transactions with a single external customer or counter party amounted to 10% or more of Company's total revenue in 2023/24 and 2024/25 financial years.

	Finance		Leasing	
	2025 LKR	2024 LKR	2025 LKR	2024 LKR
Net interest income	2,087,980,395	2,726,970,672	2,446,367,630	1,422,741,624
Net fee and commission income	502,341,024	444,045,107	58,973,567	47,800,392
Other operating income	379,110,897	523,524,070	683,295,394	273,138,063
Total operating income	2,969,432,316	3,694,539,849	3,188,636,591	1,743,680,079
Impairment charges for loan and other losses	(339,787,532)	(1,454,410,108)	(285,103,106)	(151,501,944)
Net operating income	2,629,644,784	2,240,129,740	2,903,533,485	1,592,178,135
Operating profit	20,867,381	279,661,574	747,101,850	145,907,752
Income tax expenses	(9,639,682)	–	(345,123,535)	–
Profit for the Year	11,227,699	279,661,574	401,978,315	145,907,752
Total Assets	18,462,523,923	14,786,878,336	24,792,646,432	16,403,738,043
Total Liabilities	16,068,221,053	13,223,569,736	21,577,424,898	14,669,490,681

	Gold loan		Others		Consolidated	
	2025 LKR	2024 LKR	2025 LKR	2024 LKR	2025 LKR	2024 LKR
	861,981,058	582,581,496	109,152,894	793,632,015	5,505,481,978	5,525,925,807
	271,518,086	55,645,441	60,929,515	–	893,762,192	547,490,940
	274,423,921	111,844,047	214,090,204	152,361,545	1,550,920,416	1,060,867,725
	1,407,923,065	750,070,984	384,172,614	945,993,560	7,950,164,586	7,134,284,472
	(35,113,647)	(2,399,382)	–	–	(660,004,285)	(1,608,311,434)
	1,372,809,418	747,671,602	384,172,614	945,993,560	7,290,160,301	5,525,973,038
	408,075,993	59,746,025	244,851,205	81,390,086	1,420,896,429	566,705,437
	(188,510,615)	–	(113,108,960)	–	(656,382,792)	54,282,906
	219,565,378	59,746,025	131,742,245	81,390,086	764,513,637	620,988,343
	8,511,941,671	5,896,038,365	6,736,149,186	16,371,446,985	58,503,261,213	53,458,101,729
	7,408,074,916	5,272,693,312	5,862,575,161	14,640,613,520	50,916,296,028	47,806,367,249



Supplementary Information

358 / Horizontal Analysis
360 / Vertical Analysis
362 / Quarterly Analysis
368 / Ten Year Statistical Summary
370 / Share Information
374 / Branch Information
377 / GRI Content Index
379 / Corporate Information
380 / Notice of Meeting



Horizontal Analysis

Statement of Financial Position as at 31 March 2025	2025 LKR '000	2025 %	2024 %	2023 %	2022 %	2021 LKR '000
Assets						
Cash and cash equivalents	1,582,022	145.03	25.04	385.36	24.34	645,636
Financial assets at amortised cost- loans and advances to customers	19,043,420	5.36	2.96	44.44	12.39	18,075,473
Financial assets at amortised cost- lease rentals receivables	25,700,607	149.61	44.49	21.44	11.26	10,296,416
Financial assets at amortised cost- loans and advances to others	95,242	(76.53)	(63.62)	(39.73)	(27.25)	405,765
Financial assets measured at fvoci	4,324	62.82	66.88	90.25	–	2,656
Financial assets at amortised cost- debt and other instruments	6,982,841	100.50	293.78	133.62	(13.05)	3,482,765
Other assets	1,292,074	180.38	70.96	47.31	(33.90)	460,829
Current tax asset	–	(100.00)	(100.00)	(100.00)	–	8,393
Investment properties	1,409,600	27.57	15.81	8.96	2.81	1,105,000
Intangible assets	85,093	(66.53)	(42.58)	(17.94)	(9.78)	254,264
Property, plant and equipment	1,940,496	22.04	19.29	18.05	20.37	1,590,029
Right-of-use assets	367,542	42.75	24.24	22.26	(15.54)	257,471
Deferred tax assets	–	(100.00)	250.61	57.41	9.90	153,988
Total assets	58,503,261	59.17	44.56	48.71	14.94	36,755,387
Liabilities and equity						
Liabilities						
Bank overdraft	–	–	100.00	100.00	100.00	–
Financial liabilities at amortised cost – due to customers	42,217,981	50.53	47.11	55.94	12.64	28,046,962
Financial liabilities at amortised cost – debt issued and other borrowed funds	4,767,543	80.82	57.68	67.11	10.21	2,636,573
Current tax liability	358,925	100	100.00	100.00	100.00	–
Vat and sscl on financial services	144,436	136.18	53.63	(53.01)	(58.14)	61,155
Other liabilities	3,057,129	266.15	66.66	16.93	46.26	834,933
Retirement benefit obligation	369,880	31.70	25.94	5.18	3.08	280,858
Deferred tax liability	400	100.00	–	–	–	
Total liabilities	50,916,296	59.81	49.03	55.68	15.42	31,860,481

Statement of Financial Position as at 31 March 2025	2025 LKR '000	2025 %	2024 %	2023 %	2022 %	2021 LKR '000
Equity						
Stated capital	1,416,732	533.76	–	–	–	223,545
General reserve	82,898	–	0.00	–	–	82,898
Statutory reserve fund	1,461,717	33.97	19.96	8.57	7.66	1,091,098
Revaluation reserve	739,433	23.09	15.42	15.42	25.31	600,739
Fvoci reserve	1,612	100.00	100.00	100.00	–	–
Retained earnings	3,708,630	28.03	15.36	(0.91)	11.82	2,896,626
Equity attributable to the equity holders of the parent	7,586,965	55.00	15.46	3.31	11.81	4,894,906
Non-controlling interest	–	–	–	–	–	–
Regulatory loss reserve	175,943	100	–	–	–	–
Total equity	7,586,965	55.00	15.46	3.31	11.81	4,894,906
Total equity and liabilities	58,503,261	59.17	44.56	48.71	14.94	36,755,387

Statement of Profit or Loss for the year ended 31 March 2025	2025 LKR '000	2025 %	2024 %	2023 %	2022 %	2021 LKR
Gross income	13,277,799	85.26	101.86	88.14	3.36	7,167,025
Interest income	10,483,994	61.83	95.25	87.58	(2.10)	6,478,389
Interest expenses	(4,978,512)	41.38	114.82	124.01	(24.66)	(3,521,400)
Net interest income	5,505,482	86.19	71.95	44.19	24.77	2,956,989
Other operating income	1,550,920	735.56	471.54	281.93	173.82	185,615
Total operating income	7,950,165	123.98	88.56	49.00	30.31	3,549,507
Impairment charges	(660,004)	(36.85)	11.64	68.50	(14.00)	(1,045,177)
Total operating expenses	(5,135,295)	99.15	74.86	53.99	14.15	(2,578,580)
Operating profit before taxes on financial services	2,154,865	(3,002.17)	1,469.62	496.48	1,154.51	(74,250)
Tax on financial services	(733,969)	501.33	268.77	45.73	124.32	(122,057)
Profit before income tax expenses	1,420,896	(823.81)	388.75	216.22	359.38	(196,307)
Income tax expenses	(656,383)	(1,002.94)	(25.33)	71.46	(225.71)	72,694
Profit for the year	764,514	(718.47)	602.47	301.35	437.99	(123,613)

Vertical Analysis

Statement of Financial Position as at 31 March 2025	2025 LKR '000	2025 %	2024 %	2023 %	2022 %	2021 %
Assets						
Cash and cash equivalents	1,582,022	2.70	1.52	5.73	1.90	1.76
Financial assets at amortised cost – loans and advances to customers	19,043,420	32.55	35.03	47.77	48.09	49.18
Financial assets at amortised cost – lease rentals receivables	25,700,607	43.93	28.00	22.88	27.12	28.01
Financial assets at amortised cost – loans and advances to others	95,242	0.16	0.28	0.45	0.70	1.10
Financial assets measured at fvoci	4,324	0.01	0.01	0.01	0.01	0.05
Financial assets at amortised cost – debt and other instruments	6,982,841	11.94	25.81	14.89	7.17	9.48
Investment in subsidiary	–	–	–	–	5.63	–
Other assets	1,292,074	2.21	1.48	1.24	0.72	1.25
Current tax asset	–	–	–	–	–	0.02
Investment properties	1,409,600	2.41	2.41	2.20	2.69	3.01
Intangible assets	85,093	0.15	0.27	0.38	0.54	0.69
Property, plant and equipment	1,940,496	3.32	3.57	3.43	4.53	4.33
Right – of – use assets	367,542	0.63	0.60	0.58	0.51	0.70
Deferred tax assets	–	–	1.02	0.44	0.40	0.42
Total assets	58,503,261	100.00	100.00	100.00	100.00	100.00
Liabilities and equity						
Liabilities						
Bank overdraft	–	–	–	0.29	1.53	–
Financial liabilities at amortised cost – due to customers	42,217,981	72.16	77.66	80.02	74.78	76.31
Financial liabilities at amortised cost – debt issued and other borrowed funds	4,767,543	8.15	7.82	8.06	6.88	7.17
Current tax liability	358,925	0.61	0.42	–	0.21	–
Vat and sscl on financial services	144,436	0.25	0.18	0.05	0.06	0.17
Other liabilities	3,057,129	5.23	2.62	1.79	2.89	2.27
Retirement benefit obligation	369,880	0.63	0.67	0.54	0.69	0.76
Deferred tax liability	400	0.001	–	–	–	–
Total liabilities	50,916,296	87.03	89.36	90.75	87.05	86.68

Statement of Financial Position as at 31 March 2025	2025 LKR '000	2025 %	2024 %	2023 %	2022 %	2021 %
Equity						
Stated capital	1,416,732	2.42	0.42	0.41	0.53	0.61
General reserve	82,898	0.14	0.16	0.15	0.20	0.23
Statutory reserve fund	1,461,717	2.50	2.46	2.17	2.78	2.97
Revaluation reserve	739,433	1.26	1.30	1.27	1.78	1.63
Fvoci reserve	1,612	0.00	0.00	0.00	–	–
Retained earnings	3,708,630	6.34	6.29	5.25	7.67	7.88
Equity attributable to the equity holders of the parent	7,586,965	12.97	10.64	9.25	12.95	13.32
Regulatory loss reserve	175,943	0.30	–	–	–	–
Total equity	7,586,965	12.97	10.64	9.25	12.95	13.32
Total equity and liabilities	58,503,261	100.00	100.00	100.00	100.00	100.00

Statement of Profit or Loss for the year ended 31 March 2025	2025 LKR '000	2025 %	2024 %	2023 %	2022 %	2021 %
Gross income	13,277,799	100.00	100.00	100.00	100.00	100.00
Interest income	10,483,994	78.96	87.43	90.12	85.61	90.39
Interest expenses	(4,978,512)	(37.50)	(52.29)	(58.50)	(35.81)	(49.13)
Net interest income	5,505,482	41.46	35.14	31.62	49.80	41.26
Other operating income	1,550,920	11.68	7.33	5.26	6.86	2.59
Total operating income	7,950,165	59.88	46.26	39.22	62.44	49.53
Impairment charges	(660,004)	(4.97)	(8.07)	(13.06)	(12.13)	(14.58)
Total operating expenses	(5,135,295)	(38.68)	(31.17)	(29.45)	(39.73)	(35.98)
Operating profit before taxes on financial services	2,154,865	16.23	7.03	(3.28)	10.57	(1.04)
Tax on financial services	(733,969)	(5.53)	(3.11)	(1.32)	(3.70)	(1.70)
Profit before income tax expenses	1,420,896	10.70	3.92	(4.60)	6.87	(2.74)
Income tax expenses	(656,383)	(4.94)	0.38	0.92	(1.23)	1.01
Profit for the year	764,514	5.76	4.29	(3.68)	5.64	(1.72)

Quarterly Analysis

	2024/25 For the 3 month ended			
Income Statement	31 March 2025	31 December 2024	30 September 2024	30 June 2024
Income	3,730,947,661	3,252,419,371	3,130,824,555	3 ,163,607,452
Interest income	2,689,800,342	2,603,580,396	2,546,007,595	2,644,605,303
Interest expenses	(1,165,973,750)	(1,221,092,406)	(1,184,647,398)	(1,406,798,104)
Net interest income	1,523,826,591	1,382,487,990	1,361,360,198	1,237,807,199
Net fee and commission income	260,367,475	219,391,193	219,371,432	194,632,092
Other operating income	648,795,540	336,899,642	291,354,397	273,870,837
Total operating income	2,432,989,607	1,938,778,826	1,872,086,026	1,706,310,127
Impairment charges for loans, leases and other advanc	(4,987,825)	(222,652,411)	(187,337,339)	(245,026,710)
Net operating income	2,428,001,782	1,716,126,415	1,684,748,687	1,461,283,417
Operating expenses				
Personnel expenses	(533,358,255)	(517,729,403)	(525,984,884)	(493,473,220)
Depreciation of property, plant and equipment	(38,792,358)	(39,030,193)	(39,246,289)	(37,566,653)
Amortisation of intangible assets	(15,309,429)	(15,525,063)	(18,372,245)	(19,719,817)
Other operating expenses	(748,836,621)	(712,629,377)	(689,159,734)	(690,561,634)
Operating profit before tax on financial services	1,091,705,119	431,212,379	411,985,535	219,962,093
Tax on financial services	(280,838,735)	(175,148,323)	(177,827,829)	(100,153,810)
Profit before taxation	810,866,385	256,064,056	234,157,706	119,808,282
Income tax expense profit/(loss) for the period	(503,887,914)	(69,079,577)	(63,705,388)	(19,709,913)
Profit/(loss) for the period	306,978,470	186,984,479	170,452,318	100,098,370
Basic earnings per share (LKR)	0.16	0.11	0.10	0.06

	As at			
Balance Sheet	31 March 2025	31 December 2024	30 September 2024	30 June 2024
Assets				
Cash and cash equivalents	1,582,022,331	1,074,065,298	809,151,253	1,121,572,075
Financial assets at amortised cost – loans and advances to customers	19,043,419,761	18,782,731,453	19,067,025,199	18,508,892,800
Financial assets at amortised cost – lease rentals receivables	25,700,606,847	22,341,628,929	19,372,058,628	16,708,597,531
Financial assets at amortised cost – loans and advances to others	95,241,779	105,037,752	119,219,503	130,873,785
Financial assets measured at fvoci	4,324,073	4,432,096	4,432,096	4,432,096
Financial assets at amortised cost – debt and other instruments	6,982,841,561	5,550,991,062	7,416,321,522	9,751,478,065

	2023/24 For the 3 month ended			
	31 March 2024	31 December 2023	30 September 2023	30 June 2023
	4,162,766,756	3,395,495,770	3,501,252,115	3,849,390,811
	3,275,186,935	3,041,050,186	3,189,749,922	3,584,716,313
	(1,635,101,629)	(1,659,713,897)	(1,932,260,706)	(2,337,701,317)
	1,640,085,305	1,381,336,289	1,257,489,216	1,247,014,996
	288,125,145	114,736,328	95,509,742	49,119,725
	389,611,246	239,709,255	215,992,450	215,554,773
	2,317,821,695	1,735,781,872	1,568,991,409	1,511,689,494
	(762,872,382)	(271,159,557)	(273,241,271)	(301,038,227)
	1,554,949,313	1,464,622,315	1,295,750,139	1,210,651,267
	(485,530,820)	(399,187,878)	(359,752,991)	(353,350,337)
	(35,181,570)	(36,145,840)	(34,368,097)	(38,552,120)
	(3,416,166)	(19,170,050)	(23,813,902)	(18,279,576)
	(695,405,676)	(737,351,503)	(665,965,939)	(603,554,160)
	335,415,082	272,767,043	211,849,210	196,915,074
	(193,829,840)	(110,582,484)	(70,881,596)	(74,947,055)
	141,585,243	162,184,559	140,967,614	121,968,019
	76,271,345	(19,238,403)	(2,750,036)	–
	217,856,588	142,946,156	138,217,578	121,968,019
	0.36	0.23	0.15	0.07

	As at			
	31 March 2024	31 December 2023	30 September 2023	30 June 2023
	1,133,427,884	2,549,905,753	1,047,395,043	2,083,549,544
	18,610,669,480	20,718,855,512	22,055,581,642	22,786,731,479
	14,877,313,120	13,074,076,871	12,195,512,660	11,939,820,925
	147,629,831	182,667,651	195,460,005	216,488,251
	4,432,096	5,052,715	5,052,715	5,052,715
	13,714,598,974	8,193,105,171	8,779,910,823	8,145,542,938

	As at			
Balance Sheet	31 March 2025	31 December 2024	30 September 2024	30 June 2024
Other financial assets	76,415,319	103,718,960	120,014,534	105,167,963
Other non financial assets	1,215,658,281	1,135,782,555	902,103,197	855,294,624
Investment properties	1,409,600,000	1,279,700,000	1,279,700,000	1,279,700,000
Property, plant and equipment	1,940,496,243	1,900,569,693	1,885,351,962	1,869,581,768
Intangible assets	85,092,793	98,379,722	113,859,785	126,469,849
Right-of-use assets	367,542,225	347,243,496	291,766,429	307,412,871
Deferred tax assets	–	539,907,826	539,907,826	539,907,826
Total assets	58,503,261,213	53,264,188,843	51,920,911,934	51,309,381,255
Liabilities				
Bank overdraft	–	–	–	–
Financial liabilities at amortised cost – due to customers	42,217,981,305	40,546,116,838	37,990,644,903	38,167,654,250
Financial liabilities at amortised cost – debt issued and other borrowed funds	4,767,543,102	3,686,784,452	5,430,372,756	5,336,823,778
Other financial liabilities	2,795,198,277	2,013,822,787	1,780,504,072	1,169,125,564
Other non financial liabilities.	261,930,831	172,837,066	112,098,637	239,543,584
Current tax liabilities	503,361,366	389,200,712	339,594,896	298,227,822
Retirement benefit obligation	369,880,756	346,157,342	345,411,503	346,173,398
Deferred tax liability	400,391	–	–	–
Total liabilities	50,916,296,028	47,154,919,196	45,998,626,767	45,557,548,396
Equity				
Stated capital	1,416,731,755	223,545,481	223,545,481	223,545,481
General reserves	82,897,989	82,897,989	82,897,989	82,897,989
Statutory reserve fund	1,461,717,239	1,308,814,512	1,308,814,512	1,308,814,512
Reserves	739,433,326	693,361,510	693,361,510	693,361,510
Fvoci reserve	1,611,963	1,719,987	1,719,987	1,719,987
Retained earnings	3,708,629,535	3,798,930,168	3,611,945,688	3,441,493,380
Regulatory Loss Reserve	175,943,378	–	–	–
Total equity	7,586,965,185	6,109,269,647	5,922,285,166	5,751,832,859
Total equity and liabilities	58,503,261,213	53,264,188,843	51,920,911,934	51,309,381,255
Net asset value per share	4.27	3.55	3.44	3.34

Quarterly Analysis

	As at			
	31 March 2024	31 December 2023	30 September 2023	30 June 2023
	89,068,816	88,627,337	212,879,419	114,379,248
	698,744,346	844,553,109	724,820,304	600,831,311
	1,279,700,000	1,214,640,000	1,214,640,000	1,204,000,000
	146,009,666	1,841,320,889	1,826,244,147	1,844,586,670
	1,896,709,154	165,541,781	166,559,187	188,756,834
	319,890,535	288,744,927	305,860,856	317,394,440
	539,907,827	242,387,523	242,387,523	242,387,523
	53,458,101,729	49,409,479,239	48,972,304,323	49,689,521,878
	–	–	–	–
	41,260,879,894	37,433,833,340	37,301,548,033	38,924,214,925
	4,157,249,111	4,699,594,852	4,609,519,038	3,968,885,696
	1,188,197,502	1,255,862,629	1,132,680,755	1,145,288,711
	529,398,595	224,804,634	305,646,152	161,395,037
	316,935,126	43,173,331	11,433,312	17,461,402
	353,707,022	291,947,165	294,159,903	293,176,555
	–	–	–	–
	47,806,367,250	43,949,215,953	43,654,987,193	44,510,422,326
	223,545,481	223,545,481	223,545,481	223,545,481
	82,897,989	82,897,989	82,897,989	–
	1,308,814,511	1,184,616,843	–	–
	693,361,510	693,361,510	1,877,978,353	1,960,876,342
	1,719,987	2,340,605	2,340,605	2,340,605
	3,341,395,001	3,273,500,858	3,130,554,702	2,992,337,124
	–	–	–	–
	5,651,734,479	5,460,263,286	5,317,317,130	5,179,099,552
	53,458,101,729	49,409,479,239	48,972,304,323	49,689,521,878
	3.29	3.18	3.09	3.01

	Period ended			
Cash Flow Statement	31 March 2025	31 December 2024	30 September 2024	30 June 2024
Net cash from/(Used in) operating	(8,041,906,317)	(7,706,725,851)	(7,981,570,876)	(5,285,787,407)
Net cash flows from/(Used in) investing activities	7,356,926,518	8,699,666,669	6,714,419,067	4,250,214,553
Net cash flows from/(Used in) financing activities	1,133,574,247	(1,052,303,404)	942,875,179	1,023,717,046
Net increase in cash and cash equivalents	448,594,447	(59,362,586)	(324,276,631)	(11,855,809)
Ratios				
Profitability and efficiency ratio				
Net interest margin (%)	11.10	11.15	11.36	11.23
Non-interest income to gross income (%)	18.76	17.15	15.51	14.12
Cost to income (%)	64.59	68.86	70.26	72.74
Liquidity and funding ratio				
Customer deposits to total interest bearing liabilities (%)	89.85	91.67	87.49	87.73
Savings deposits to total deposits (%)	6.25	5.45	6.16	6.45
Loans to deposits (LDR) (%)	119.04	118.22	118.55	109.10
Cost of deposits (%)	11.34	11.66	12.07	15.37
Cost of borrowings (%)	10.83	11.34	11.57	14.49
Cost of funds (%)	11.04	11.38	11.77	15.28
Capitalisation and leverage ratio				
Debt-to-equity ratio (Times)	6.65	7.72	7.77	7.92
Tier-1 regulatory risk – weighted capital adequacy ratio (%)	11.38	7.82	8.33	8.73
Overall regulatory risk – weighted capital adequacy ratio (%)	14.44	11.16	12.43	13.03
Investor information				
Net assets value per share – LKR	3.53	3.37	3.28	3.19
Earnings per share (EPS) – LKR	0.43	0.35	0.33	0.31

Quarterly Analysis

	Period ended			
	31 March 2024	31 December 2023	30 September 2023	30 June 2023
	3,316,317,052	(1,203,506,516)	(1,917,953,964)	(647,127,947)
	(4,036,011,275)	1,165,062,320	259,440,111	445,505,837
	(1,122,453,786)	(387,225,940)	(269,666,995)	(690,404,236)
	1,133,427,881	(425,670,137)	(1,928,180,847)	(892,026,346)
	11.26	11.47	10.92	11.82
	11.13	9.62	8.97	8.28
	68.49	69.03	69.01	68.48
	90.84	88.85	89.00	90.75
	6.26	7.87	8.28	7.93
	95.19	104.94	111.14	107.08
	17.32	18.14	19.16	20.30
	16.89	17.99	19.93	21.76
	17.39	18.24	19.30	20.45
	848.50	804.89	821.00	870.76
	8.16	7.17	6.88	7.20
	13.12	12.60	12.16	12.68
	324.22	317.53	309.22	301.01
	30.13	23.44	15.13	6.92

Ten Year Statistical Summary

For the year ended 31 March	2025	2024	2023	2022
Operating results				
Income	13,277,799,039	14,908,905,452	13,483,773,260	7,408,159,233
Interest income	10,483,993,636	13,090,703,356	12,151,868,943	6,342,351,585
Interest expense	(4,978,511,658)	7,564,777,549	7,888,159,082	2,652,931,302
Non interest income	2,793,805,403	1,818,202,096	1,331,904,317	1,065,807,648
Non interest expense	(1,009,127,080)	(1,818,154,869)	2,067,834,717	1,028,698,524
Operating expense (incl VAT,NBT and DRL)	(5,869,263,872)	(4,959,267,599)	4,148,535,159	3,217,347,957
Profit/(Loss) before income tax	1,420,896,429	566,705,435	(620,755,699)	509,181,450
Income tax on profit	(656,382,792)	54,282,906	124,638,035	91,387,424
Profit/(Loss) after taxation	764,513,637	620,988,341	(496,117,664)	417,794,026
Liabilities and shareholder's funds				
Customer deposits	42,217,981,305	41,260,879,894	43,735,766,080	31,593,426,528
Borrowings	4,767,543,102	4,157,249,111	4,563,981,219	3,553,825,694
Other liabilities	3,930,371,230	1,839,128,208	4,563,981,219	1,626,471,429
Defered tax liabilities	400,391	–	–	–
Shareholders' funds	7,586,965,186	5,651,734,479	5,057,131,532	5,472,881,088
Total	58,503,261,213	53,458,101,729	54,657,280,533	42,246,604,739
Assets				
Loans and receivables to customers (Net)	44,839,268,387	33,635,612,430	38,611,969,379	32,065,428,429
Cash, short term deposits and balances with central bank of sri lanka	8,564,863,892	14,521,898,056	11,270,061,375	3,830,983,399
Property, plant and equipment	1,940,496,244	1,896,709,154	1,876,983,972	1,913,913,679
Deffered tax assets	–	539,907,827	242,387,523	169,231,151
Other assets	3,158,632,691	2,537,845,460	2,655,878,284	4,267,048,081
Total	58,503,261,213	53,458,101,729	54,657,280,533	42,246,604,739
Ratios				
Return on average shareholder funds (%)	11.54	11.60	(9.42)	8.06
Income growth (%)	(10.9)	9.33	82.01	3.36
Rerurn on average assets (%)	1.37	1.15	(1.02)	1.06
Property plant and equipment to shareholders' funds (%)	25.6	33.56	37.12	34.97
Total assets to shareholders' funds (Times)	7.71	9.46	10.81	7.72
Share information				
Earnings per share (LKR)	0.43	0.36	(0.29)	0.24
Dividend per share (LKR)	–	–	–	–
Gross dividends (LKR)	–	–	–	–
Other information				
No of employees	1931	2,004	1,956	1,878
No of branches	79	79	77	70
No of service centres	0	–	0	0

Ten Year Statistical Summary

2021	2020	2019	2018	2017	2016
7,167,025,059	9,170,137,700	8,291,663,723	7,482,548,192	6,234,033,583	4,485,107,633
6,478,389,314	8,105,612,178	7,229,168,801	6,537,663,310	5,327,018,057	3,906,231,603
3,521,400,330	3,719,330,982	2,802,086,025	2,373,460,579	1,465,618,208	995,689,242
689,027,217	1,064,703,650	1,062,494,921	945,987,922	907,097,366	552,297,228
1,141,685,942	1,246,268,191	995,829,256	795,655,675	805,903,349	185,973,091
2,700,637,571	3,545,069,344	3,231,816,948	2,731,867,199	2,336,212,991	1,732,024,360
(196,307,312)	659,647,311	1,261,931,494	1,582,667,779	1,626,380,875	1,544,842,138
(72,694,187)	264,403,871	431,335,672	570,884,458	567,546,689	434,748,933
(123,613,125)	395,243,440	830,595,822	1,011,783,321	1,058,834,186	1,110,093,205
28,046,962,308	27,528,789,668	22,632,141,889	18,821,363,686	14,040,245,231	10,420,418,906
2,636,572,519	3,822,043,053	4,217,579,835	1,178,231,116	1,333,380,268	909,572,460
1,176,946,176	1,591,583,216	1,449,998,346	1,208,903,672	772,847,350	604,790,040
–	–	–	–	16,115,738	49,026,181
4,894,906,257	4,999,721,919	4,629,467,205	4,130,296,294	3,390,204,237	2,392,022,626
36,755,387,260	37,942,137,856	32,929,187,275	25,338,794,768	19,552,792,824	14,375,830,213
28,777,654,805	28,302,570,401	25,470,710,661	19,044,674,591	13,763,766,163	9,138,489,796
4,145,104,204	5,750,108,626	3,874,464,350	3,136,605,336	2,962,784,849	3,105,494,885
1,590,028,807	1,625,569,182	1,420,476,897	1,158,835,158	1,119,409,029	950,441,553
153,987,656	167,121,098	189,768,514	124,848,966	–	–
2,088,611,788	2,096,768,549	1,973,766,852	1,873,830,717	1,706,832,783	1,181,403,979
36,755,387,260	37,942,137,856	32,929,187,274	25,338,794,768	19,552,792,824	14,375,830,213
(2.50)	8.21	18.06	26.91	36.62	60.58
(21.84)	10.59	10.81	20.03	38.99	58.00
(0.33)	1.12	2.85	4.51	6.24	9.08
32.48	32.51	30.68	28.06	33.02	39.73
7.51	7.59	7.11	6.13	5.77	6.01
(0.07)	0.23	0.48	0.59	0.62	0.65
–	–	–	0.23	0.13	–
–	–	–	326,720,318	189,153,868	–
1,851	1,964	1,961	1,746	1,594	1,362
60	48	48	48	48	48
10	21	21	21	21	21

Share Information

List of 20 Major Shareholders – Voting as at 31 March 2025

Name	Number of shares	Percentage
Hatton National Bank PLC (A/C No.1)	875,925,809	51
Seylan Bank PLC/Prime Lands (Pvt) Ltd. (Collateral)	400,000,000	23.29
Prime Lands (Pvt) Ltd.	129,652,288	7.55
Mr P Brahmanage	54,847,507	3.19
Mrs H K S R Perera	52,949,650	3.08
Citizens Development Business Finance PLC/R Ranaweera	7,962,875	0.46
Finco Holdings (Private) Limited	6,500,000	0.38
Mr B T De S Weerasooria	2,872,065	0.17
Mr W A S P De Saram	2,645,633	0.15
Mr K M V J Senarathne	2,521,529	0.15
Dr A S Wijenayaka	2,123,316	0.12
Senkadagala Finance PLC/S Gobinath	2,100,000	0.12
Mr S Sri Anand	1,971,039	0.11
Mr H U P Samantha	1,700,957	0.10
Mr P M S M Bandara	1,698,599	0.10
Miss W P G M Perera	1,601,041	0.09
Mrs G L S Chandrika	1,492,291	0.09
Assetline Finance Ltd/M D N P Fonseka & W H Nawodya	1,370,548	0.08
Mrs R M N Wijesekara	1,300,000	0.08
Mr K R J D Dalpathado	1,294,106	0.08
OTHERS	164,972,334	9.61
TOTAL	1,717,501,587	100

Analysis of Shareholders according to the number of Shares - Voting

As at 31 March 2025

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	101,176	17,723,170	1.03	2	1,451	0.00	101,178	17,724,621	1.03
1001 to 10,000	2,602	8,368,442	0.49	3	24,645	0.00	2,605	8,393,087	0.49
10,001 to 100,000	1,116	39,685,693	2.31	4	79,083	0.00	1,120	39,764,776	2.31
100,001 to 1,000,000	327	85,870,451	5.00	3	483,888	0.03	330	86,354,339	5.03
Over 1,000,000 shares	29	1,561,170,409	90.90	2	4,094,355	0.24	31	1,565,264,764	91.14
	105,250	1,712,818,165	99.73	14	4,683,422	0.27	105,264	1,717,501,587	100.00

As at 31 March 2024

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	100,597	17,528,990	1.24	1	1,000	0.00	100,598	17,529,990	1.24
1001 to 10,000	1,892	5,475,715	0.39	3	18,000	0.00	1,895	5,493,715	0.39
10,001 to 100,000	333	10,796,924	0.76	2	37,000	0.00	335	10,833,924	0.76
100,001 to 1,000,000	54	17,956,822	1.26	3	634,345	0.04	57	18,591,167	1.30
Over 1,000,000 shares	5	1,256,231,828	88.38	1	112,700,000	7.93	6	1,368,931,828	96.31
	102,881	1,307,990,279	92.03	10	113,390,345	7.97	102,891	1,421,380,624	100.00

Categories of Shareholders - Voting

Categories of Shareholders	As at 31 March 2025		As at 31 March 2024	
	Number of Shareholders	Number of Shares	Number of Shareholders	Number of Shares
Individual	105,097	269,987,079	102,817	46,113,371
Institutional	167	1,447,514,508	74	1,375,267,253
	105,264	1,717,501,587	102,891	1,421,380,624

List of 20 Major Shareholders - Non-Voting as at 31 March 2025

Name	Number of shares	Percentage
Seylan Bank PLC. – A/C NO. 3	281,783,333	78.20
Prime Lands (Pvt) Ltd.	39,826,602	11.05
Wealth Guard (Pvt) Ltd.	30,310,223	8.41
Mr D G Wijemanna	1,300,000	0.36
Ms L S R De Silva	500,000	0.14
Miss S R M Fernando	372,396	0.10
Mr T C Dissanayake	249,572	0.07
Mr J J P Shehan	219,500	0.06
Senkadagala Finance PLC/J P M Aravinda	217,145	0.06
Mr S Abishek	213,669	0.06
Senkadagala Finance PLC /S Gobinath	211,000	0.06
Dialog Finance PLC/P B C Kurera	195,642	0.05
Mr V Kugatharsan	150,446	0.04
Mr A P Arumugampillai	150,000	0.04
Mr D F G Dalpethado	143,975	0.04
Mr N Rameshraja	132,045	0.04
Mrs S Umeshwary	113,669	0.03
Aruna Enterprises (Pvt) Limited	113,272	0.03
Mr A Ragupathy	113,272	0.03
Mrs R Ratnajothy	113,272	0.03
Others	3,895,967	1.08
Total	360,325,000	100

Analysis of Shareholders according to the number of Shares - Non-Voting

As at 31 March 2025

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	489	115,191	0.04	0	0	0.00	489	115,191	0.04
1001 to 10,000	201	696,077	0.19	0	0	0.00	201	696,077	0.19
10,001 to 100,000	78	2,424,729	0.67	0	0	0.00	78	2,424,729	0.67
100,001 to 1,000,000	22	3,868,845	1.07	0	0	0.00	22	3,868,845	1.07
Over 1,000,000 shares	4	353,220,158	98.03	0	0	0.00	4	353,220,158	98.03
	794	360,325,000	100.00	0	0	0.00	794	360,325,000	100.00

As at 31 March 2024

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	268	67,378	0.02	0	0	0.00	268	67,378	0.02
1001 to 10,000	115	463,661	0.16	1	5,073	0.00	116	468,734	0.16
10,001 to 100,000	47	1,287,742	0.43	1	23,800	0.01	48	1,311,542	0.44
100,001 to 1,000,000	6	1,016,880	0.34	0	0	0.00	6	1,016,880	0.34
Over 1,000,000 shares	3	295,335,466	99.04	0	0	0.00	3	295,335,466	99.04
	439	298,171,127	99.99	2	28,873	0.01	441	298,200,000	100

Categories of Shareholders – Non-Voting

	As at 31 March 2025		As at 31 March 2024	
	Number of Shareholders	Number of Shares	Number of Shareholders	Number of Shares
Individual	755	6,999,226	417	1,975,743
Institutional	39	353,325,774	24	296,224,257
	794	360,325,000	441	298,200,000

Public holding

- Public Holding percentage of Voting Shares as at 31 March 2025 being 11.80% comprising 105,254 shareholders and
- Public Holding percentage of Non-Voting Shares as at 31 March 2025 being 2.33% comprising 791 shareholders.
- The float adjusted Market Capitalisation as at 31 March 2025 – Ordinary Voting Shares – LKR 6,870,006,348.00
  Ordinary Non-Voting Shares – LKR 1,765,592,500.00
- The Float adjusted market capitalisation of the Company falls within the option 1 of the Rule 7.13.1 (b), of the Listing Rules of the Colombo Stock Exchange and the Company has complied with the minimum public holding requirement applicable under the said option.

The Company's shares were listed on 20 May 2020 on the *Diri Savi* Board of the Colombo Stock Exchange.

Directors and Chief Executive Officer's Shareholding

	As at 31 March 2025		As at 31 March 2024	
Ordinary voting shares	Number of Shares	%	Number of Shares	%
A G R Dissanayake	–	–	–	–
P A H D Wijesundara	–	–	–	–
Mr Chaminda Prabhath	1,208,333	0.07	1,000,000	0.07
Mr R D Manatunga	–	–	–	–
Mr P L P Withana	–	–	–	–
Mr M S Polamarasetty	–	–	–	–
Mr B Premalal	54,847,507	3.19	–	–
Mr P A W Perera	–	–	–	–
Dr T K D A P Samarasinghe	–	–	–	–
Total	56,055,840	3.26	1,000,000	0.07

The Directors of the Company do not hold Non-Voting Shares as at 31 March 2025 and 31 March 2024.

Information on Shares

Market prices for period ended 31 March 2025

	Ordinary Voting Shares		Ordinary Non-Voting Shares	
Categories of Shareholders	As at 31 March 2025	As at 31 March 2024	As at 31 March 2025	As at 31 March 2024
Highest price (LKR)	6.10	6.30	6.00	6.20
Lowest price (LKR)	3.10	4.40	4.10	4.30
Last traded (LKR)	4.00	4.40	4.90	4.80

Market capitalisation as at 31 March 2025

	As at 31 March 2025	As at 31 March 2024
Highest price (LKR)	6,870,006,348	6,254,074,746
Lowest price (LKR)	1,765,592,000	1,431,360,000

The shares of HNB Finance PLC were listed on 20 May 2020 on *Diri Savi* Board of the Colombo Stock Exchange.

Branch Information

CENTRAL PROVINCE

Dambulla
No. 818, Dambulugama Junction,
Dambulla
662117760

Hatton
No. 167, Dickoya Road, Hatton
512117750

Kandy
No. 677, William Gopallawa Mawatha,
Kandy
812117750

Katugastota
No. 280 A, Katugasthota, Kandy
812117770

Matale
No. 19, Kandy Road, Matale
662117750

Nawalapitiya
No. 30/32, Ambagamuwa Road,
Nawalapitiya
542117750

Nuwara Eliya
No. 5, Srimath Jayathilaka Mawatha,
Nuwara Eliya
522117750

Rikillagaskada
No.06, Dibulkumbura Road,
Rikillagaskada
812117760

Walapane
No. 98, Kandy Road,
Walapane
522117760

EASTERN PROVINCE

Ampara
No. 27, Nidahas Mawatha, Ampara
632117750

Batticaloa
No. 39/2, Central Road, Batticaloa
652117750

Dehiattakandiya
No. 08, New Town, Dehiattakandiya
272117760

Kalmunai
No. 114, Main Street, Kalmunai
672117750

Kanthale
No. 58/G, Main Street, Kanthale
262117760

Pottuvil
Main Street, Pottuvil
632117760

Trincomalee
No. 124/02, Main Street, Trincomalee
262117750

NORTH CENTRAL PROVINCE

Anuradhapura
No. 64, Abhaya Place, New Town,
Anuradhapura
252117750

Galenbindunuwewa
No. 87/62, Opposite People's Bank,
Galenbindunuwewa
252117780

Kekirawa
No. 43 Thalawa Road Kekirawa
252117740

Medawachchiya
No. 36, Kandy Road, Madawachchiya
252117760

Nochchiyagama
No. 58, Puttalam Road, Nochchiyagama
252117770

Padaviya
Bandaranayake Mawatha, Padaviya
252117790

Polonnaruwa
No. 57/4, Batticola Road, Polonnaruwa
272117750

NORTH WESTERN PROVINCE

Chilaw
No. G1/F1, New Shopping Complex,
Court Road, Chilaw
322117750

Galgamuwa
No. 349, , Anuradhapura Road, Galgamuwa
372117760

Kuliyapitiya
No. 355, Madampe Road, Kuliyapitiya
372117780

Kurunegala
No. 94, Kandy Road, Kurunegala
372117750

Kurunegala Metro
No. 155, Puttalam Road, Kurunegala,
372117790

Marawila
No. 63, Colombo Road, Marawila,
322117770

Nikaweratiya
No. 227, Puttalam Road, Nikaweratiya
372117770

Norochcholai
Kalpitiya Road, Norochcholai
322117760

Puttalam
No. 44/A, Service Road, Puttalam
322117780

Wennappuwa
No. 153/1C, Chilaw Road,
Dummaladeniya Middle, Wennappuwa
312117760

NORTHERN PROVINCE

Jaffna
No. 149/A, K.K.S. Road, Jaffna
212117750

Kilinochchi
No. 08, Kanakapuran Road,
Uthayanager–East, Kilinochchi
212117780

Mallavi
Thunukkai Road, Mallavi
212117760

Mannar
No. 1st Floor , Our Lady Of Victories Building, Main Street Mannar
232117750

Mullaitivu
Main Street, Mullaitivu.
212117790

Nedunkerni
Oddusudan Junction, Nedunkerni
242117750

Nelliyady
New Market, Main Street, Nelliyady
212117770

Vavuniya
No. 65A/1, 1st Cross Street, Vavuniya
242117760

SABARAGAMUWA PROVINCE

Balangoda
No. 71/C, Old Road, Balangoda
452117760

Embilipitiya
No. 59, Rathnaweera Building, Pallegama, Embilipitiya
472117780

Kegalle
No. 290/28, Main Street, Kegalle
352117750

Rathnapura
No. 298, Kudugalwatta, Main Street, Rathnapura
452117750

UVA PROVINCE

Badulla
No. 11, Bazar Street, Badulla
552117750

Bandarawela
No. 496, Badulla Road, Bandarawela
572117750

Mahiyanganaya
No. 207, Padiyathalawa Road, Mahiyanganaya
552117760

Monaragala
No. 306, Wellawaya Road, Monaragala.
552117770

Welimada
No. 44, Nuwara Eliya Road, Welimada
572117760

SOUTHERN PROVINCE

Ambalangoda
No. 97, Galle Road, Ambalangoda
912117760

Beliatta
No. 51/1, Matara Road, Beliatta
472117770

Galle
No. 48, Olcott Mawatha, Galle
912117750

Ambalanthota
No. 43, Main Street, Ambalanthota
472117750

Matara
No. 386/1/1, Anagarika Darmapala Mawatha,
Pamburana, Matara
412117750

Morawaka
No. 07, Nilwala Building, Morawaka
412117760

Pitigala
No. 290/1A, Elpitiya Road, Pitigala
912117770

Thissamaharamaya
No. 29, Palliyawatta Road, Thissamaharama
472117760

WESTERN PROVINCE

Avissawella
No. 117 B, Rathnapura Road, Avissawella
362117750

Bandaragama
No. 55, Horana Road, Bandaragama
382117750

Borella
No. 61, D.S. Senanayake Mawatha, Colombo 08
112127439

City
No. 67/1, Mahinda Place, High–Level Road, Kirulapone, Colombo 05
112127600

Gampaha
No. 103, Bauddhaloka Mawatha, Gampaha
332117750

Gampaha 2
No. 35A, Queen Mary's Road, Gampaha
332117780

Head office
No. 168, Nawala Road, Nugegoda
112176262

Head office Branch
No. 168, Nawala Road, Nugegoda
112127441

Homagama
No. 62/A, High Level Road, Homagama
112127650

Horana
No. 161, Rathnapura Road, Horana
342117770

Ja–Ela
No. 59/A, Negombo Road, Ja Ela
112127680

Kaduwela
No. 155/2A, Avissawella Road,
Hewagama,
Kaduwela
112127670

Kalutara
No. 427, Galle Road, Kalutara North
342117750

Kiribathgoda
No. 58, Kandy Road, Kiribathgoda
112127610

Maharagama
No. 17, High Level Road, Maharagama
112025460

Mathugama
No. 143, Agalawatta Road, Mathugama
342117760

Moratuwa
No. 597, Galle Road, Rawathawatta,
Moratuwa
112127630

Negombo
No. 58, St. Joseph Street, Negombo
312117750

Nittambuwa
No. 9, Kandy Road, Nittambuwa
332117760

Panadura
No. 31/1, Horana Road, Panadura
342117781

Piliyandala
No. 97, 99/1/2, Horana Road, Piliyandala
112127615

Wattala
No. 420, Negombo Road, Wattala
112127660

GRI Content Index

Statement of use	HNB Finance PLC has reported the information cited in this GRI content index for the period 1 April 2022 to 31 March 2023 with reference to the GRI Standards.
GRI 1 used	GRI 1: Foundation 2021

GRI Standard	Disclosure	Location
GRI 2: General Disclosures 2021	2-1 Organisational details	239,379
	2-2 Entities included in the organisation's sustainability reporting	4
	2-3 Reporting period, frequency and contact point	3
	2-4 Restatements of information	3
	2-5 External assurance	3, 155, 349
	2-6 Activities, value chain and other business relationships	9, 10, 11, 48-49
	2-7 Employees	9, 10, 11, 96-107
	2-8 Workers who are not employees	96-107
	2-9 Governance structure and composition	147-149
	2-10 Nomination and selection of the highest governance body	152
	2-11 Chair of the highest governance body	138
	2-15 Conflicts of interest	155
	2-18 Evaluation of the performance of the highest governance body	152
	2-19 Remuneration policies	179, 187, 192, 199, 244
	2-20 Process to determine remuneration	179, 184, 192, 199, 244
	2-22 Statement on sustainable development strategy	36-41
	2-23 Policy commitments	4
	2-24 Embedding policy commitments	36-41
	2-26 Mechanisms for seeking advice and raising concerns	182
	2-27 Compliance with laws and regulations	–
	2-28 Membership associations	379
	2-29 Approach to stakeholder engagement	25-31
	2-30 Collective bargaining agreements	114
GRI 3: Material Topics 2021	3-1 Process to determine material topics	34-35
	3-2 List of material topics	34-35
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	79
	201-3 Defined benefit plan obligations and other retirement plans	266
GRI 202: Market Presence 2016	202-2 Proportion of senior management hired from the local community	100
GRI 203: Indirect Economic Impacts 2016	203-1 Infrastructure investments and services supported	115-121
	203-2 Significant indirect economic impacts	108-121

GRI Standard	Disclosure	Location
GRI 302: Energy 2016	302-1 Energy consumption within the organisation	124
	302-4 Reduction of energy consumption	124
GRI 303: Water and Effluents 2018	303-3 Water withdrawal	125
	303-5 Water consumption	125
GRI 306: Waste 2020	306-2 Management of significant waste-related impacts	125
	306-3 Waste generated	125
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	96-107
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	96-107
	401-3 Parental leave	96-107
GRI 403: Occupational Health and Safety 2018	403-3 Occupational health services	96-107
	403-5 Worker training on occupational health and safety	96-107
	403-6 Promotion of worker health	96-107
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	96-107
	404-2 Programs for upgrading employee skills and transition assistance programmes	96-107
	404-3 Percentage of employees receiving regular performance and career development reviews	96-107
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	96-107
	405-2 Ratio of basic salary and remuneration of women to men	96-107
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	96-107
GRI 407: Freedom of Association and Collective Bargaining 2016	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	96-107
GRI 408: Child Labor 2016	408-1 Operations and suppliers at significant risk for incidents of child labor	–
GRI 409: Forced or Compulsory Labor 2016	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	–
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programmes	25-31
GRI 417: Marketing and Labeling 2016	417-2 Incidents of non-compliance concerning product and service information and labeling	–
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	–

Corporate Information

NAME OF COMPANY

HNB Finance PLC
(Subsidiary of Hatton National Bank PLC)

NATURE OF BUSINESS

Acceptance of Fixed Deposits and Savings Accounts, providing of Micro Finance Loans, Finance Leasing, Business Loans, Housing Loans, Gold Loans and other value-added services

LEGAL FORM

A public limited liability company incorporated in Sri Lanka under the Companies Act No. 17 of 1982 and re-registered 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 PQ

CENTRAL BANK REGISTRATION NO.

RFC/036

ACCOUNTING YEAR-END

31 March

TAX PAYER IDENTIFICATION NO.

134008555

MEMBERSHIPS

- Lanka Microfinance Practitioners' Association
- The Finance House Association of Sri Lanka
- Credit Information Bureau of Sri Lanka
- Financial Sector Computer Security Incident Response Team
- International Chamber of Commerce
- The Employers' Federation of Ceylon
- Financial Ombudsman, Sri Lanka
- The Sri Lanka Institute of Directors

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

BRANCHES

79

COMPANY SECRETARY

Manjula Weerasuriya
HNB Finance PLC
No. 168, Nawala Road,
Nugegoda, Sri Lanka.
Tel: +94 11 212 7545
Fax: +94 11 217 6263
Email: manjula.we@hnbfinance.lk

EXTERNAL AUDITORS

KPMG Sri Lanka
No. 32A,
Sir Mohamed Macan Markar Mawatha,
Colombo 03,
Sri Lanka.
Tel: +94 11 542 6426

CREDIT RATING

A(lka) Outlook Stable by Fitch Ratings Lanka Limited.

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
- Cargills Bank Limited
- Commercial Bank of Ceylon PLC
- Union Bank of Colombo PLC

Notice of Meeting

Notice is hereby given that the 15th Annual General Meeting of the Shareholders of HNB Finance PLC (the Company) will be held as a fully Virtual Meeting on Monday, 30th day of June 2025 at 2.00pm 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 2025 together with the Report of the Auditors thereon.
3. To re-elect as a Director, Mr Punsisi Lalith Patuwatha Withana, 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 Murali Srinivas Polamarasetty, 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-appoint Messrs. KPMG, Sri Lanka, Chartered Accountants, as the Auditors of the Company for the Financial Year 2025/26 and authorise the Directors to determine their remuneration.
6, To authorise the Board of Directors to determine contributions to charities and other donations for the financial year 2025/26.

Annual Report 2024/25

A QR Code containing the Annual Report information is forwarded herewith.

Corporate Website of HNB Finance PLC:
https://www.hnbfinance.lk/about-us/annual-reports/

Colombo Stock Exchange:

https://cse.lk/pages/company-profile/company-profile. component.html?symbol=HNBF.N0000

By order of the Board of Directors of
HNB FINANCE PLC

Manjula Weerasuriya
Company Secretary,

Colombo, Sri Lanka
6 June 2025

Manner of Holding the 15th Annual General Meeting:

1. The 15th Annual General Meeting (AGM) of HNB Finance PLC (the Company) is to be held by way of a Fully Virtual Meeting in accordance with the Articles of Association of the Company, the prevailing laws and the guidelines issued by the Colombo Stock Exchange.
2. The Chairman, Board of Directors, Deputy Chief Executive Officer, Company Secretary and the representatives of the Company, and others essential for the administration of formalities of the Meeting will assemble at HNB Finance PLC Head Office, No. 168, Nawala Road, Nugegoda. All others, including Shareholders, will participate virtually, following the steps below;
   (a) All Shareholders wishing to participate at the Virtual Meeting must forward the duly completed "Registration Form" for the AGM (attached hereto) via post to the Company Secretary at the registered office of the Company or email to the Company Secretary (hnbf.agm@hnbfinance.lk) or to facsimile number – +94 11 217 6263 not later than 48 hours prior to the Meeting to enable the Company to share the login information.
   (b) All participating Shareholders will have to pre-register themselves online prior to the commencement of the Meeting and will be authenticated to participate. As such all Shareholders must strictly ensure that the details provided in the "Registration Form" shared with the Company Secretary and the online pre-registration are the same.
3. Shareholders who participate the Meeting are required to identify themselves, if they wish to speak at the AGM during the time allotted for comments by Shareholders as directed by the Chairman. At that point, the individual will be required to give his/her name for the purpose of identification as a Shareholder or Proxy.
4. Shareholders are also given the opportunity to forward their queries via post to the Company Secretary at the registered office of the Company or email to the Company Secretary (hnbf.agm@hnbfinance.lk) or to facsimile number- +94 11 217 6263, 48 hours prior to the meeting and your concerns will be addressed as deemed appropriate by the Chairman.
5. Shareholders are encouraged to opt to duly complete the Form of Proxy clearly setting out their preference of vote for the Resolution set out in the Form of Proxy and to appoint one of the Directors of the Company to act on their behalf in order that in the event a Shareholder cannot participate at the Meeting, such Shareholder's vote may be identified and recorded as if such Shareholder was present at the Meeting.

   The duly completed Form of Proxy must reach the Company Secretary (in accordance with the instructions specified therein), not less than 48 hours before the time appointed for the holding of the Meeting so that your proxy could represent you at the AGM and exercise your vote in accordance with your directions.

   As this Meeting will be a "Fully Virtual Meeting" and for the Company's administrative convenience, the Company would very much appreciate and requests all Shareholders to send in their Proxy Forms along with their "Registration Form" to reach the Company, not later than 48 hours prior to the Meeting as this would enable the Company to efficiently make all arrangements for the Virtual Meeting.
6. The Company intends to proceed to hold the Virtual Meeting as planned despite any prevailing situation in the Country. As such in the event any further communications are to be made to the Shareholders of the Company, the same will be made via the Colombo Stock Exchange website (www.cse.lk) and/ or the Company website https://www.hnbfinance.lk/.
7. Contact Company Secretary Department via +94 11 212 7545 by the Shareholders participating at the Virtual Meeting to address any technical difficulties faced in accessing / participating at the Meeting.

**Login details are authorised only for the use by Individual Shareholders /Proxyholders and authorised representatives in the case of corporate/institutional Shareholders. The Company will not be responsible or liable for the misuse of login details and access granted to the Meeting.*

By Order of the Board
HNB FINANCE PLC



Manjula Weerasuriya
Company Secretary

6 June 2025

Form of Proxy

(Voting Shareholders)

HNB FINANCE PLC

I/We*.....

(please indicate full name of the Shareholder/ Company/ Society) holder of NIC No./Company Registration No./Society Registration No. ..... of .....

..... being a shareholder/*shareholders of HNB Finance PLC, hereby appoint Mr/Ms .....

(please indicate full name) holder of NIC No. ..... of .....

..... or failing him/her

Chairman, Mr A G R Dissanayake	of Colombo or failing him
Senior Director, Mr P A H D Wijesundara	of Colombo or failing him
Managing Director/CEO, Mr Chaminda Prabhath	of Colombo or failing him
Director, Mr R D Manatunga	of Colombo or failing him
Director, Mr P L P Withana	of Colombo or failing him
Director, Mr M S Polamarasetty	of the United Kingdom or failing him
Director, Mr B Premalal	of Colombo or failing him
Director, Mr P A W Perera	of Colombo or failing him
Director, Dr T K D A P Samarasinghe	of Colombo or failing him

as my/*our Proxy to represent me/*us and to vote as indicated below on my/*our behalf at the 15th Annual General Meeting of HNB Finance PLC (the "Company") to be held as a fully Virtual Meeting on Monday, 30 June 2025 at 2.00pm and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid meeting.

Please indicate your preference by placing "X" against the resolutions.

	FOR	AGAINST
(1) To receive and consider the Report of the Board of Directors and the Statements of Accounts for the year ended 31 March 2025 together with the Report of the Auditors thereon.		
(2) To re-elect as a Director, Mr Punsisi Lalith Patuwatha Withana, 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 Murali Srinivas Polamarasetty, 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-appoint Messrs KPMG, Sri Lanka, Chartered Accountants, as the Auditors of the Company for the Financial Year 2025/26 and authorise the Directors to determine their remuneration.		
(5) To authorise the Board of Directors to determine contributions to charities and other donations for the financial year 2025/26.		

As witness my/our hand set hereto this ..... day of ..... Two Thousand and Twenty Five.

Signature/s:.....

Note: Instructions as to completion are on the reverse of this form. 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 Shareholder 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 No, 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 AGM.
4. If the Shareholder is a Company or a body corporate, a form of Corporate Representation executed under the Common Seal (if any) in accordance with the Articles of Association or the Constitution should be submitted.
5. Where the Form of Proxy is signed under a Power of Attorney (POA) which has not been registered with the Company, the original POA together with a photocopy of same or a copy certified by a Notary Public must be lodged with the Company along with the Form of Proxy.
6. In the case of Margin Trading Accounts (Slash Accounts), the Form of Proxy should be signed by the respective authorised Fund Manager/Banker with whom the account is maintained.

The Company Secretary,
HNB Finance PLC,
No. 168, Nawala Road,
Nugegoda.

Form of Proxy

(Non–Voting Shareholders)

HNB FINANCE PLC

I/We* .....

(please indicate full name of the Shareholder/Company/Society) holder of NIC No./Company Registration No./Society Registration No. ..... of .....

..... being a shareholder/*shareholders of HNB Finance PLC, hereby appoint Mr/Ms .....

(please indicate full name) holder of NIC No. ..... of .....

..... or failing him/her

Chairman, Mr A G R Dissanayake	of Colombo or failing him Senior
Director, Mr P A H D Wijesundara	of Colombo or failing him
Managing Director/CEO, Mr Chaminda Prabhath	of Colombo or failing him
Director, Mr R D Manatunga	of Colombo or failing him
Director, Mr P L P Withana	of Colombo or failing him
Director, Mr M S Polamarasetty	of the United Kingdom or failing him
Director, Mr B Premalal	of Colombo or failing him
Director, Mr P A W Perera	of Colombo or failing him
Director, Dr T K D A P Samarasinghe	of Colombo or failing him

as my/*our Proxy to represent me/*us at the at the 15th Annual General Meeting of HNB Finance PLC (the "Company") to be held as a fully Virtual Meeting on Monday, 30 June 2025 at 2.00pm and at any adjournment thereof.

As witness my/our hand set hereto this ..... day of ..... Two Thousand and Twenty Five.

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The Company Secretary,
HNB Finance PLC,
No. 168, Nawala Road,
Nugegoda.

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HNB FINANCE

hnbfinance.lk



HNB Finance PLC.
No. 168, Nawala Road, Nugegoda, Sri Lanka.
Tel: +94 11 202 4848 Fax: +94 11 217 6263 Email: info@hnbfinance.lk