



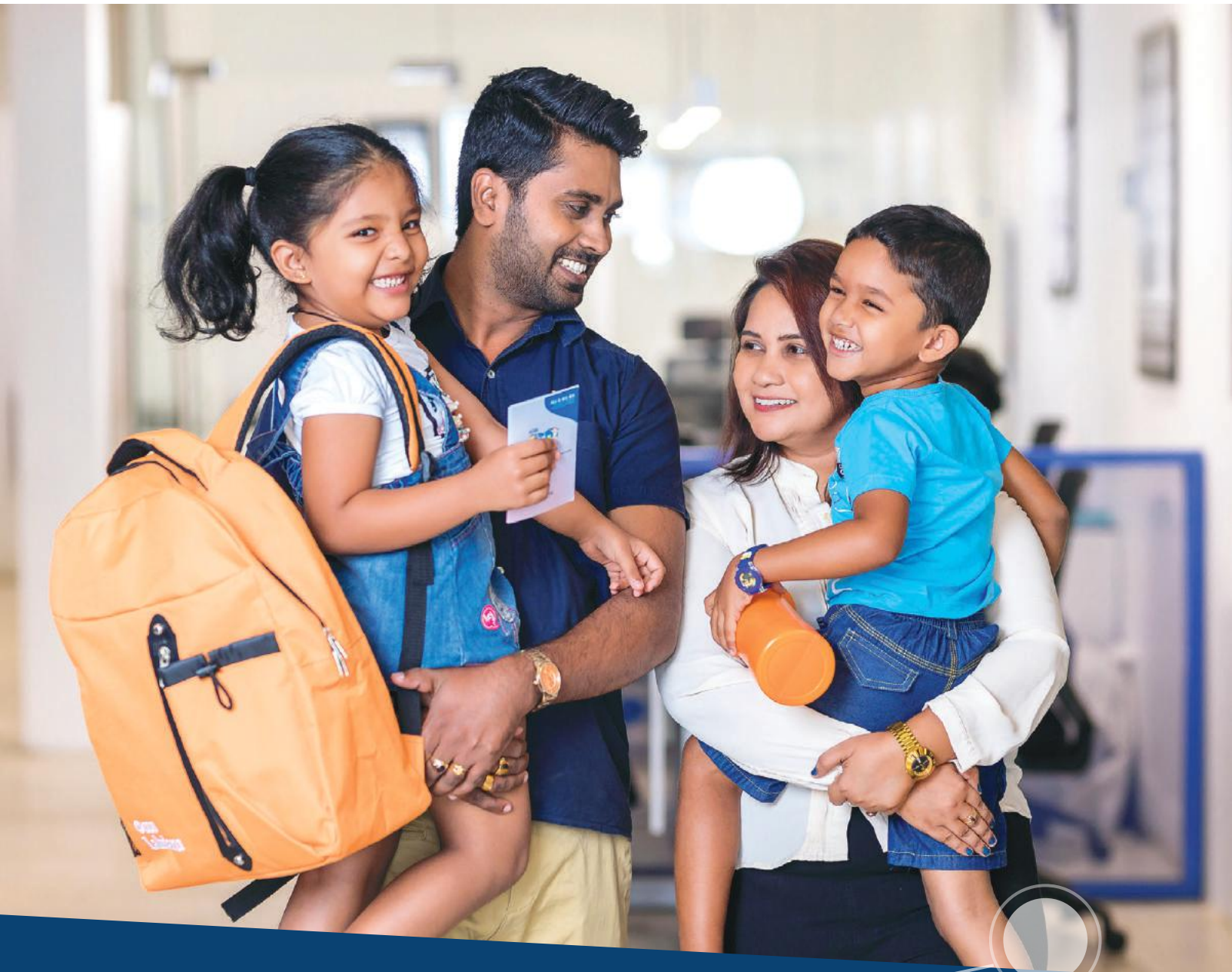
# CONNECTED

**SANASA Development Bank PLC**  
Integrated Annual Report  
2020



## **Connected**

*The prevailing pandemic created a paradox... staying close whilst socially distancing. Within this paradox, SDB bank found opportunities to grow its “connections” with all stakeholders. Our relationships were maintained undiminished with small scale shareholders at grass root levels as well as with large institutional investors and international funding lines. In this the Bank enjoys the advantage of a strong foundational structure and ethos that always promotes the values of empathy and purpose in every aspect of enterprise. As passionately involved as we are with the advancement of stakeholder interests, the opportunities arising out of the “new order” of things make us passionately optimistic for the years ahead.*



# Contents

<b>1</b>	<b>About this Report</b> – 04	<b>This is SDB bank</b> Banking on Us – 06 2020 at a Glance – 10
<b>2</b>	<b>Leadership to Bank on</b>	Chairman’s Message – 14 Chief Executive Officer’s Review – 16 Board of Directors – 20 Corporate Management – 24 Senior Management – 26
<b>3</b>	<b>Our Business Model</b>	Creating Value – 33 Operating Environment – 36 Strategic Direction – 39 Stakeholder Engagement – 40 Materiality – 41
<b>4</b>	<b>Banking on Value Creation</b>	The Achievement of Financial Goals – 44 The Strength of the Institution – 48 The Quality of Manufactured Resources – 49 The Customer as Ambassador – 51 The Passion of our People – 57 The Confidence of Investors – 61 The Power of our Partnerships – 70 The Commitment to Society and Environment – 72
<b>5</b>	<b>Managing our Risks</b>	Managing our Risks – 75
<b>6</b>	<b>Corporate Governance</b>	Message from the Chairman on Corporate Governance – 80 Governance and Compliance – 81 Compliance Status – 85 Report of the Board Integrated Risk Management Committee – 110 Report of the Board Audit Committee – 111 Report of the Board Human Resources and Remuneration Committee – 114 Report of the Board Selection and Nomination Committee – 115 Report of the Board Related Party Transactions Review Committee – 116 Report of the Board Strategic Planning and Plan Implementation Committee – 117 Report of the Board Credit Committee – 118
<b>7</b>	<b>Financial Reports</b>	Financial Calendar – 120 Annual Report of the Board of Directors on the Affairs of the Bank – 121 Directors’ Statement on Internal Control over Financial Reporting – 130 Independent Assurance Report – 132 Chief Executive Officers’ and Chief Financial Officers’ Responsibility Statement – 133 Statement of Directors’ Responsibility for Financial Reporting – 134 Independent Auditors’ Report – 135 Statement of Comprehensive Income – 138 Statement of Financial Position – 139 Statement of Changes in Equity – 140 Statement of Cash Flows – 141 Notes to the Financial Statements – 142
<b>8</b>	<b>Enclosures</b>	Inner Back Cover – Corporate Information
	<b>Supplementary Information</b>	Ten Years at a Glance – 196 Disclosures as per Schedule III of Banking Act No. 1 of 2016, Capital Requirements under Basel III – 199 Sources and Utilisation of Income – 207 Quarterly Performance of the Bank – 208 Abbreviations – 209 Glossary of Terms – 211 24 <sup>th</sup> Annual General Meeting – 215



Online GRI Content Index | Online Branch Network |  
Online Ratio Formulas | Online Event Calendar

# About this Report



Our seventh Integrated Annual Report provides readers with a clear understanding of how we create sustainable value over the short, medium, and long term. Our value creation story discusses our strategy, business model, governance and risk management processes, financial performance, and the future outlook for SANASA Development Bank PLC (“SDB bank” or “the Bank”).

## CUTTING THE CLUTTER

To ensure that we communicate relevant information concisely while comprehensively meeting compliance requirements, our Integrated Annual Report is available in the following formats in addition to the printed report:



## REPORTING PERIOD AND BOUNDARY

This Integrated Report covers material information of SDB bank’s performance for the financial year beginning 1 January 2020 to 31 December 2020. Our most recent report, which is also available on our website, is for the year ended 31 December 2019. We have adopted annual reporting cycle in respect of both financial and sustainability reporting.

We report no restatements of information provided in previous reports, or any significant changes from previous reporting periods in the scope and aspect boundaries, other than those stated in the disclosure provided in the Financial Statements.

## REMAINING IN COMPLIANCE

Following good governance practices, the Board of Directors of SDB bank accepts responsibility for the contents of this Integrated Annual Report.

We have complied with the Sri Lanka Financial Reporting Standards, the Banking Act No. 30 of 1988 and the requirements of the Companies Act No. 07 of 2007 in preparing the Financial Statements for 2020 which are presented on pages 135 to 194.

In producing this Integrated Annual Report we have drawn on concepts, principles, and guidance from the following:

1. The International Integrated Reporting Framework;
2. GRI Standards – “In accordance: core option”; and
3. The United Nations Sustainable Development Goals (SDGs)

We have categorised the capitals to best describe our value creation process following paragraphs 2.10 and 2.17-2.19 of the International <IR> Framework, which provides that organisations preparing an integrated report are not required to adopt the <IR> Framework categorisation of capitals.

## CONTACT FOR FEEDBACK

We welcome your comments and suggestions on this Integrated Annual Report. For feedback and editorial information please contact:

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# *This is SDB bank*

06 Banking on Us  
10 2020 at a Glance

# Banking on Us

## WHO WE ARE

We are a Licensed Specialised Bank registered by the Central Bank of Sri Lanka, under the Banking Act No. 30 of 1988 (as amended by the Banking Act of 1995).

At SDB bank, our strength lies in the robust relationships we nurture with rural and underbanked communities through an extensive network of co-operative societies and Government organisations. Our network comprises 94 branches manned by a workforce of 1,490 dedicated employees across the island.

We foster socio-economic progress by improving financial literacy and inculcating sound financial habits among grassroots communities, even if we will have to witness our customers eventually migrate to mainstream financial institutions that had previously considered them unsuitable.

Our customer base includes:

- Retail customers
- SME customers
- Co-operative societies
- Business banking customers

Our varied product portfolio provides solutions that span areas such as development, personal banking and leasing, while our deposit products encourage these communities to invest and save.

SDB bank is listed on the Main Board of the Colombo Stock Exchange. The Bank has been assigned a National Long-term Rating of BB+(lka) with a stable outlook by Fitch Ratings Lanka Ltd., and the (SL)BBB- with stable outlook by ICRA Lanka Limited.

Our rural focus is reinforced by the direct links the Bank maintains with over 8,500 co-operatives countrywide. Our rapid growth and SME-sector strength have allowed us to secure significant investment from some of the top global development finance institutions along with technical support, positioning us strongly to capitalise on these gains in the year 2020 and in the future.

## OUR JOURNEY

Since its inception, up to end 2020, SDB's assets have grown from approximately LKR 100 Mn. to LKR 129 Bn. During this time, the Bank's geographical footprint has also expanded through LankaPay we offer our customers access to nearly 5,000 ATM points covering grassroots communities across a large portion of the country in addition to our branch network. These achievements were not easily won.

Through the many sociopolitical and economic challenges that dotted this period of time, including 30 years of ethnic strife, recession, and of course the 2004 tsunami and other natural disasters, as well as the COVID-19 pandemic, our services to this underserved segment of society have remained unfazed. In addition, we have focused on improving financial literacy and financial inclusion. Today we are one of the leading financial institutions for individuals, micro and SME businesses, and communities who have no other viable opportunity to realise their aspirations and improve their way of life.

**1997**

SANASA Development Bank Ltd. incorporated with capital of LKR 123 Mn., contributed largely by primary SANASA Societies

**1998**

10th branch opened in Kandy

**1999**

Total assets reached over LKR 100 Mn.

**2006**

10-year development plan initiated

**2007**

- Celebrated 10 years of excellence
- Branch network expanded to 25

**2008**

- Winner of the National Excellence Award
- Total assets increased to LKR 10 Bn.
- Employee cadre expanded to 500

**2009**

- SANASA Group loan scheme introduced
- Share capital increased to LKR 1 Bn., from LKR 123 Mn.
- Branch network expanded to 50

**2010**

- Head Office relocated to new building which is located in Kirulapone
- Ranked as the second best micro finance institution in the World, by Mix Market Global – USA
- Branch network expanded to 75

**2012**

- Introduced debit cards and ATM facilities
- Listed on the Main Board of Colombo Stock Exchange

**2013**

- Total assets increased to LKR 29.7 Bn.



## 2014

- Employee cadre increased to 1,000
- First rights issue of shares oversubscribed
- Issued share capital exceeds LKR 3 Bn.

## 2015

- LKR 60 Bn. asset base
- LKR 4 Bn. debenture and LKR 5 Bn. capital base

## 2016

- LKR 66 Bn. asset base
- LKR 5.5 Bn. capital base
- Tele Collection Unit launched in Malabe
- New logo (SDB bank) launched

## 2017

- LKR 82 Bn. asset base
- LKR 7.3 Bn. capital base
- Celebrated 20 years of excellence
- USD 22 Mn. investment from SBI/FMO and IFC

## 2018

- LKR 96 Bn. asset base
- Awarded the title of "The Fastest Growing MSME Bank in Sri Lanka" by the Global Banking and Finance Review, UK, at the Global Banking and Finance Awards 2018
- Corporate Top Saver launched

## 2019

- LKR 107.8 Bn. asset base
- Tier II Capital injection of USD 18 Mn. from DGGF and BIO
- Digital payment platform "UPay" acquired
- "SDB Mobile" Banking launched
- Business Internet banking with CEFTS and SLIPS connectivity launched targeting SMEs
- Connected to LankaPay ATM network
- New website launched

## 2020

- Highest ever performance of the Bank
- Global Banking and Finance Awards 2020
  - Best CSR Bank in Sri Lanka 2020
  - Banking customer satisfaction and happiness
- Ranked 45th place on the Brand Finance Sri Lanka's 100 most valuable brands Annual List for 2020
- Recognised by International Investor Magazine Awards 2020
- Second Sri Lankan Bank to be verified by the Facebook with Blue tick
- Asian Banking and Finance Awards 2020
  - Rural/Cooperative Bank of the Year – Sri Lanka
  - Financial inclusion initiative of the year – Sri Lanka
  - Digital Wallet Initiative of the Year – Sri Lanka
- First digital rights issue
- Rights issue was oversubscribed
- Loan book exceeded LKR 100 Bn.



## Our Vision

SANASA Development Bank PLC will be the apex Bank of the cooperative sector and a leading partner of national development with a global focus.

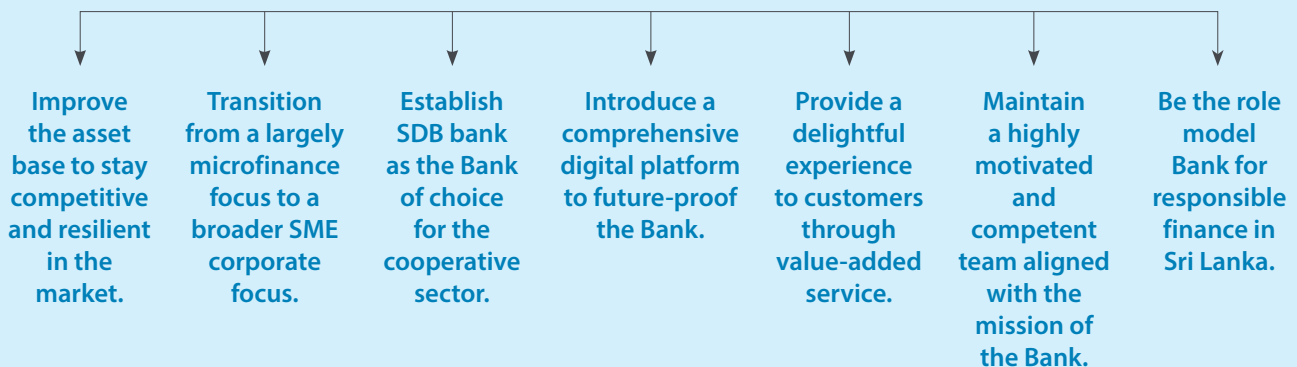
## Our Mission

By providing high quality innovative and competitive financial products and services, offered through the best customer-friendly channels, assisted by cutting edge technologies, with a team of diverse talents working in synergy to provide a total solution to our stakeholders and operating in a culture of learning and continuous value creation, we strive to become the most responsible financial institution in Sri Lanka.

## Our Values



## Our Goals



# 2020 at a Glance



## Financial capital

Profit for the year 2020

**LKR 835 Mn.**

2019 – LKR 253.41 Mn.

Net interest income 2020

**LKR 6.1 Bn.**

2019 – LKR 5.7 Bn.



## Manufactured capital

Digital banking options in 2020:

- LankaQR Code
- Digital signatures
- Digital customer onboarding
- UPay payment app
- SDB Mobile banking app
- Business Internet banking with CEFTS and
- SLIPS connectivity targeting SMEs
- Connected to LankaPay ATM network

Investment in PPE 2020

**LKR 215 Mn.**

2019 – LKR 172 Mn.

Total branch network 2020

**94**

2019 – 94

ATM network 2020

**12**

2019 – 12

Investment in IT equipment and intangible assets 2020

**LKR 310 Mn.**

2019 – LKR 395 Mn.



## Institutional capital

Corporate culture and values

- Values clearly articulated
- Included in induction training
- Regular dissemination throughout the Bank

Organisational knowledge

- Over 20 years of knowledge
- Keen understanding of SMEs
- Products suited to customers
- Strategic Plan

Systems, Processes and IT

- Tablet-based loan approval system
- Digital signatures
- Integration with LankaQR Code
- Loan Originating System
- Mobile Deposit Collection
- Information Dashboard
- Payment platform
- Mobile banking app
- Internet banking
- SDB ATM Switch

Business ethics and integrity

- Governance framework
- Compliance policies
- Endorsement by international investors



## Customer capital

Increasing customer convenience:

- QR Code facility
- Use of digital signatures for loan approvals
- Digital on boarding
- Tablet-computer-based loan approvals
- E-banking security
- ATM switch

Women entrepreneurs educated through *Uththamavi* workshops 2020

**300**

(During Q 1 as workshops were restricted due COVID safety)

2019 – 4,000

- Cooperative sector deposit and loan schemes
- *Uththamavi* Loans for women entrepreneurs
- Product portfolio that caters to people of all ages and occupations
- *Uththamachara* Product for *Ranaviru* families
- *Divi Saviya* product for MSME customers



### Employee capital

New recruits 2020

**50**

2019 – 55

Male : Female equality 2020

**52% : 48%**

2019 – 52% : 48%

Investment in training 2020

**LKR 7.9 Mn.**

2019 – LKR 9.9 Mn.

Initiatives 2020

**Building trust in the Management**

- Town Hall meetings in all regions
- SDBCOM (Email) and New Channel SDB Connect (WhatsApp Group)
- SDB API – the monthly News Letter
- Two HR Leads (Ombudsman) appointed
- HR Together – Monthly regional HR forum

**Management Development Programme (MDP)**

- 360 degree assessments of corporate members
- 12 workshops in 6 months
- METTL – psychometric test
- Individual coaching

**Employee engagement**

- Healthy Life at SDB: 135,000 step challenge/“Power Hour”
- HR Together forum
- “LIFELINE” – Happiness is our choice
- E-learning platform – Better U WhatsApp group
- Digital solutions for enhancing the efficiency.



### Business partner capital

**Purchasing from local suppliers**

**Partnerships to benefit customers**

**Business tie-ups with:**

- Browns & Company PLC
- John Keells Foundation
- Diesel & Motor Engineering PLC
- State Ministry of Defence.
- MILCO Private Limited
- MOU with CA Sri Lanka

**Strategic partnerships and active memberships**



### Investor capital

Net asset value per share 2020

**LKR 108.28**

2019 – LKR 136.20

Market value per share 2020

**LKR 58.10**

2019 – LKR 63.90

Earnings per share – basic 2020

**LKR 11.05**

2019 – LKR 4.50

P/E ratio 2020

**5.26 Times**

2019 – 14.20 Times



### Social and environmental capital

**Programmes were held at branch level for COVID safety**





# *Leadership to Bank on*

- 14 Chairman's Message
- 16 Chief Executive Officer's Review
- 20 Board of Directors
- 24 Corporate Management
- 26 Senior Management

# Chairman's Message



***Our key priority will be to improve efficiencies in reaching the masses with new products, in particular the agriculture sector, and also other local industries, cooperatives and SMEs.***

SANASA Development Bank, which was rebranded as SDB bank in 2019, was created by the SANASA Movement in 1997 as part of a broader vision of building a social order based on cooperative principles and values. The Bank was one of the four pillars that was expected to facilitate the cooperative movement to enter and compete in the market economy as an alternative force, building and strengthening cooperative enterprises and deepening finance to rural communities. The Bank was to serve as the apex financial institution for the cooperative sector. The uniqueness of SDB bank lies in its core cooperative philosophy of utilising finances for social welfare.

SDB bank's rebranding, expansion into market segments such as the SME sector, modernisation and digitisation, has not diminished the original objectives and vision of the Bank, and the Bank's growth strategy remains unchanged. SDB bank continues to maintain a close relationship with the cooperative sector. The Bank is connected to its customers through the SANASA network and about 29% of deposits

originate from this base, which even now, increasing, demonstrating the strength of this connection. However, compared to traditional banks, achieving SDB bank's vision is indeed a challenging task, as SDB bank needs to maintain a balance between social obligations and commercial gains, to retain its unique identity and objectives.

As described by the theme of this year's Annual Report, our deep connections with Sri Lankan society became even more relevant during the financial year 2020. The effects of COVID-19 pushed more families over the poverty line and increased the burden of debt of families and small businesses. Rural communities were placed at a greater disadvantage even with regards to the education of their children. While the more affluent urban populations had the means and the tools to access education for their children, rural families did not. Therefore, we can anticipate a widening education gap in Sri Lanka in the future. Against this backdrop, there is a greater need and greater responsibility on the part of SDB bank, towards our society, to promote



equitable recovery. However, the world is now more complex and complicated and the Bank has no choice but to develop different and innovative solutions by leveraging modern technologies – which the Bank has managed with great success over a very short span of time.

In the context of financial performance, I believe SDB bank has done exceptionally well, as we have achieved our key objectives for the year, despite the unpredictable operating environment. As a respected and trusted enterprise, good governance has always been a non-negotiable aspect of SDB bank and we continued to update our internal controls and governance structures during the year, backed by a professional and multidisciplinary Board. We have also augmented our capital base by LKR 1.5 Bn., through the first digital rights issue in Sri Lanka, which, I must stress, was heavily oversubscribed, demonstrating the trust our shareholders have in the Bank. To prepare for any challenges we may face in the future, we continued our training and development programmes for the year, and maintained our technology investments to enhance our capabilities in digital banking, to expand our services and to stay connected with our stakeholders, and to connect our customers to essential financial services.

Our model of smart people, smart processes and smart solutions will be used to develop better services and low cost solutions for rural populations. We have also remained within our core tenet of sustainable business practices in our growth strategies. While in this Report, we have adopted the UNSDGs to demonstrate our contributions to sustainable development in the country, the concept of sustainable business is not a new concept to the cooperative philosophy, which is at the heart of our business model. In fact, we have set up a new division for sustainable administration of the business. Our investors, both local and international, appreciate our business model and we have strived to create fair returns for our shareholders. It is indeed noteworthy, that despite the global turmoil experienced during the year, SDB bank has declared dividends for our shareholders.

As a key stakeholder of the Bank, both as a shareholder and customer, we are fully committed towards supporting the advancement of the cooperative sector. A separate Board Subcommittee, including the CEO, has been established to develop the cooperative sector. In the current scenario, the cooperative sector plays a prominent role in driving economic recovery from the grassroots and has been recognised as such, by the Government. Currently, we are discussing with the Government, additional means of supporting the cooperative sector.

Meanwhile, SDB bank is actively giving leadership for SME development in the country by chairing the CA SME Task Force. The SME sector contributes to 52% of GDP and accounts for a large share of employment in the country. However, SMEs only account for 5% of exports, which is extremely low. Given the strategic national importance of SMEs, SDB bank has signed a 3-year MOU with the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Association of Accounting Technicians (AAT), to develop the SME sector.

Sri Lanka's SMEs have little, or no formal financial training and poor governance structures, limiting their potential. Many rural SMEs are not registered, do not pay tax, have limited book keeping knowledge and may not even have a bank account. Many also cannot access formal credit due to lack of collateral and financial records. The CA SME Task Force project will supply a professional accountant from ICASL and

AAT, as a mentor, for each SME, free of charge, for one year. SDB bank will nominate suitable SMEs from the Bank's customer base for this programme and will also develop governance frameworks, provide technological support and credit facilities, while liaising with national institutions to facilitate opportunities for these businesses. Five SMEs will be selected to be upgraded into exporters. The Bank has already allocated LKR 500 Mn. for cashflow based lending for the SMEs and has reached out to 100 SMEs, with plans to reach 500 SMEs by the end of three years. SDB bank's close connectivity with these companies will mitigate risks of lending. SDB bank will also be involved in the formation of a proposed national equity fund, and in developing a national SME database, giving leadership to national imperatives.

## PLANS FOR THE FUTURE

In the new financial year, we will continue to strengthen our capital base, improve governance structures, develop technology-based solutions and focus on training from top to bottom, to take SDB bank to the next level of growth.

Our key priority will be to improve efficiencies in reaching the masses with new products, in particular the agriculture sector, and also other local industries, cooperatives and SMEs. Specialised divisions will be set up at the Bank to facilitate this process. Over the next 3-5 years, under SDB bank's long-term growth vision, we will consider entering other countries in Asia, using technology platforms.

Plans are underway to raise LKR 4 Bn. from a special secondary public offering (SPO) in June 2021, which will strengthen our capital base to support our long-term strategy. It should be stressed that despite the national rating downgrade, SDB bank has retained its rating of BBB- from ICRA Lanka and BB+ from Fitch Rating, indicating the financial stability of the Bank, in spite of the macroeconomic disruptions of 2020.

## ACKNOWLEDGEMENTS

I would like to acknowledge Ms Samadanie Kiriwandeniya, the former Chairperson of SDB bank, for her leadership during the transformation of the Bank, and the leader of the SANASA Movement, Dr Kiriwandeniya for his pioneering vision. I also thank the Board of Directors, Management, unions and all our staff for their commitment and dedication, which was instrumental for our success in the current financial year. Under the leadership of the CEO, our officers continued to discharge their duties, sometimes at the risk of their health, to make sure our customers were taken care of, during these difficult times. I also thank our investors for their trust in us and for investing LKR 1.5 Bn. in the Bank, even at times of extreme uncertainty. At SDB bank we stand for long-term value creation that is sustainable and beneficial for all stakeholders, and as we continue to evolve, I look forward to your continued support towards our shared vision.

**Lakshman Abeysekera**  
Chairman

19 March 2021

# Chief Executive Officer's Review



*In addition to enabling business continuity, our digital strategy has facilitated 4.5 times faster growth of the customer acquisition, compared to traditional Banking acquisition, with our UPay customers growing 4.5 times faster than traditional banking customers.*

Although the Sri Lankan economy experienced a significant setback due to the outcomes of COVID-19 during the financial year 2020, I am pleased to report to our shareholders an exceptionally good year for your Bank, particularly in terms of financial performance and also with regards to strategic progress.

SDB bank closed the financial year 2020 on a record net profit of LKR 835 Mn., which is the highest profit of the Bank in its history. This successful conclusion can be directly attributed to effective and well-coordinated teamwork. The entire team understood the need of the hour and united to safeguard the Bank. The Bank received 32,000 applications for credit moratoriums announced by Central Bank of Sri Lanka to help revive the economy impacted due to COVID-19 outbreak, which is over one-fourth of the portfolio

and spent approximately LKR 400 Mn. on extending credit moratoriums to customers, which is a fairly substantial figure for a bank of our size.

## **BUILDING THE RURAL DIGITAL ECONOMY**

As highlighted in our Annual Report's theme, connectivity was the formula for the year, and the decision to invest in a digital business model has proved its worth. During the year, we experienced exponential adoption of digital technologies by Sri Lankans and SDB bank's digital systems became the lifeline for business continuity. Our user-friendly digital solutions ensured continuous connectivity with our customers, who are spread island wide and in some of the most remote parts of the country, and digital platforms were

used to maintain uninterrupted inter-connectivity among staff and Management, while Board meetings were held as scheduled. We also continued our digital expansion plans during the year, while upgrading inhouse capacities and skills to cater to the new normal.

In addition to enabling business continuity, our digital strategy has facilitated 4.5 times faster growth of the customer acquisition, compared to traditional banking acquisition, with our UPay customers growing 4.5 times faster than traditional banking customers. I believe this rate of growth can be accelerated ten-fold by setting up the correct channels. Sri Lanka existing POS network of 85,000 POS machines which facilitate digital payments for the entire country, which took over 30 years to build, is totally inadequate to meet the growing demand. Meanwhile, Sri Lanka's mobile phone penetration is now around 30 Mn., out of which, an estimated 10 Mn. are smart phone users, which is anticipated to grow at an accelerated pace in the new normal of the post-COVID world. The combination of growing demand for convenient, non-contact financial transactions, coupled with increasing smart phone projections, augers a large new, rural market for SDB bank. In this regard, LANKAQR, the national QR Code, introduced by the Central Bank, which is strongly championed by SDB bank, coupled with SDB bank's already extremely popular UPay app, gives SDB bank a unique strategic advantage in Sri Lanka's emerging rural digital economy.

LANKAQR, the national QR Code, has revolutionised digital financial transactions in the country and will pave the way for a rural digital economy. Within a short period of six months, LANKAQR has grown its network to 200,000 island wide merchants with an estimated 500,000 consumers using the LANKAQR Code. Mass scale adoption of LANKAQR will generate multiple benefits for the national economy, including savings on currency printing and lead to a more business friendly, low interest environment. SDB bank's UPay merchant-network also expanded by 3,000 merchants during the year, providing online access to 8,000 merchants for UPay customers. At present SDB bank's digital solutions include Internet banking, which is aimed at SME and cooperative businesses with well over 100 customers, and the UPay payment platform, now coupled with LANKAQR, which is the consumer payment channel. We plan to consolidate our mobile banking version with the more versatile UPay, which has already attracted a loyal customer base. As at the end of the current financial year, UPay customers and debit card customers totalled at around 130,000, each. Consequently, SDB bank is now fairly well integrated into the national digital economy and I believe, has the potential to play a major role in the rural digital economy, to make a significant contribution to the national economy.

## DIFFERENTIATING THE BRAND

The strategic decision in 2019, to relaunch our brand as "SDB bank," and clearly communicate brand values to the market has differentiated the Bank's market perception, which has been critical for growth. Following the relaunch, in our first brand ranking in the Brand Finance 2020 review of Sri Lanka's 100 most valuable brands, we were ranked 45, with a brand valuation of LKR 2.0 Bn., surpassing many of the country's biggest business names and banks. It is noteworthy that we were ranked number one among first time entrants. The brand ranking and valuation were influenced by the rebranding, customer-friendly branch

redesigns, and social media campaigns. The Bank's recent prominent role in national technology events, such as promoting the LANKAQR Code and various other national activities, have also added to the brand value. My appointment as Chairman of the LANKAQR Committee formed by the Central Bank, which is indeed a great honour, is another platform that has enhanced SDB bank's public profile.

## DEVELOPING THE SME SECTOR

We believe the SME sector, which also encompasses the country's cooperative sector, has great potential for growth. SDB bank's heightened brand presence among rural SMEs has positioned the Bank as a serious contender to provide specialised financial and development solutions for this segment, which will also support the advancement of our traditional customer base the cooperative sector.

Sri Lanka's SMEs represent 52% of national GDP but is viewed as a somewhat high-risk market. In this regard, I wish to highlight that in spite of COVID impacts across the economy, SDB bank has contained its NPL figure at 4.5%, which is among the best in the banking industry, indicating the Bank's ability to manage SME related credit risks. The Bank's high-quality credit assessment-procedures and stringent management of recoveries, was a major contributor to our financial performance in 2020. The stability of the Bank is further evidenced in retained the ratings of BBB- from ICRA Lanka and BB+(lka) from Fitch Rating, with a stable outlook, while the sovereign rating and institutional ratings were downgraded.

Currently, rural SMEs are at a low level of digitisation. However, this situation is now changing and over the coming months we plan to expand our footprint in this sector beyond loans and deposits, into retail transactions utilising our digital platforms.

## BUILDING STRATEGIC PARTNERSHIPS

One of our core strategies is "partnerships for growth." During the year, our strategic partnerships with international agencies, the Central Bank of Sri Lanka (CBSL), and corporates, such as Browns, Dimo, Milco and others, have contributed directly towards strengthening the rural agricultural economy. Within six months, the Bank leased 400 tractors to the farming community, which represents 10% of all tractors sold in Sri Lanka, and is a significant achievement for SDB bank.

Our partnership with the Central Bank's SAPP programme is supporting chili farmers in the North Central Province and in 2021 the Bank will receive a USD 40 Mn. credit line from the United States International Development Finance Corporation (DFC) to develop rural SMEs and women entrepreneurs, while the FMO has committed a USD 15 Mn. loan facility for SME development.

In addition, we have partnered with the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) to strengthen the SME sector, not only by channelling credit, but by educating them on business management, through a mentoring programme. In Sri Lanka, 80% of SMEs wind up in five years and family businesses rarely survive beyond two generations. We believe the partnership with CA Sri Lanka will strengthen financial management and governance of SMEs, to allow them to prosper over the long term.

## GEARING FOR GROWTH

On average, SDB bank has sustained a 25% growth in assets, loan book, and equity, within the past 21 months ended 31 December 2020, during my tenure as CEO of SDB bank which is the fastest rate of growth experienced by the Bank. This has been achieved while maintaining asset quality under extremely difficult circumstances. As at 31 December 2020, SDB bank has even surpassed a few other banks with regards to balance sheet size. In addition, a modern digital operating model is being formulated, and a number of measures have been implemented to develop our human capital base. SDB bank's share price meanwhile, has continued to perform well during the year, reflecting the stock market movements. Against this positive backdrop, building the capital base of the Bank, to fuel faster growth, will be the priority in the new financial year. This will also pre-empt anticipated regulatory changes in the near future where a common banking licence might be introduced for both specialised and commercial banks. Currently, Licenced Specialised Banks benefit from a lower capital requirement compared to commercial Banks, but a single licence might eliminate this advantage for SDB bank, unless we are capitalised to face this eventuality. Therefore, we have planned a secondary public offering to raise LKR 4 Bn. in equity, which will boost our capital base from the current LKR 10 Bn., to around LKR 21 Bn. by 2024, inclusive of cumulative profits.

As we gear for growth, we will continue to focus on shrinking the Bank's cost to income ratio, which currently remains at over 60%, to a healthier 48%-49% range. During the year, we made significant gains in reducing our cost of finance, which declined from 12% in January 2020 to 8.3% by December 2020, by renegotiating better terms, managing our balance sheet better and rebalancing the savings to deposit ratio. The DFC credit line will further reduce our cost of finance in 2021.

Our digital strategy to automate internal processes will also support the cost containment drive. End-to-end automation can be expected to generate 20%-30% operational efficiency increases, and profits will be enhanced through internal reengineering for greater cost savings and better staff productivity. The introduction of digital signatures for instance, has enhanced efficiencies significantly by slashing turnaround time from days, to minutes. We have linked up with the Department of Registration of Persons for online verification of identities, which will make the process of opening accounts, much faster.

## OUTLOOK FOR THE NEW FINANCIAL YEAR

We are extremely optimistic of the future. Although banking sector growth is often linked to GDP, I believe banks are integral to economic growth and can promote growth through their policies. Therefore, the economic contraction in 2020/21 will not be a hindrance for growth in the new financial year and I believe we can sustain our growth momentum.

We have set ourselves an ambitious task to grow our balance sheet by 20% within the next 12 months and we are passionate about reaching this objective. To achieve our target, we will focus on SMEs, which is a global and local growth trend. In this regard, COVID-19 has generated an advantage for SDB bank, as larger banks are limiting their exposure in the SME sector due to the relatively high administrative costs associated with smaller loans. SDB bank however, can leverage its well-established digital platforms and deep rural connections to provide highly competitive services for both SMEs and the cooperative sector.

## A WORD OF APPRECIATION

I would like to conclude by thanking the wonderful team at SDB bank for their commitment, dedication, and work during the year, which has been the source of our success, and the Board of Directors for their support. I also appreciate our shareholders who invested in a Rights Issue during these difficult times and our potential investors for their continued confidence in us. I would also like to thank the Central Bank of Sri Lanka, the Colombo Stock Exchange, and the Securities and Exchange Commission for their guidance and support. We face the new year, with confidence knowing we have a winning team behind us, and a strong support system.

Sincerely



**Thilak Piyadigama**  
Chief Executive Officer

19 March 2021



# Board of Directors



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## **1 Mr Lakshman Abeysekera**

*Chairman – Non-Executive,  
Independent Director*

Appointed to the Board in 2013 and appointed as the Chairman with effect from 22 May 2020.

Mr Abeysekera draws from almost three decades of experience in the fields of Accounting, Finance and Management and he is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka as well as a Member of Governing Council of Association of Accounting Technicians of Sri Lanka.

Mr Abeysekera is highly proficient in international trade, shipping, and pharmaceutical sectors across local, public quoted and multinational companies. He presently holds Non-Executive Independent Directorship at People's Insurance PLC.

Mr Abeysekera holds an MBA from the Postgraduate Institute of Management University of Sri Jayewardenepura, he held the positions of Chief Financial Officer at Emerchemie NB (Ceylon) Limited, Senior Accountant at Lankem Ceylon PLC and Accountant at Hoechst (Ceylon) Limited. Further he held the Directorships of Nov-Ex Pharmaceuticals Limited, AAT Sri Lanka and JanRich (Foods) Ltd.

## **2 Prof Sampath Amaratunge**

*Non-Executive, Independent Director*

Appointed to the Board in 2016

Prof Amaratunge is an expert in the field of economics with special reference to rural development and draws from three decades of service as a leading academic in Sri Lanka and he is the current Chairman of University Grants Commission (UGC).

He presently holds Directorships at Citizen Development Business Finance PLC, Laugfs Gas PLC, Raigam Wayamba Salterns PLC and Raigam Southern Salterns PLC. Having published more than 75 articles in international and national refereed journals and proceedings, Prof Amaratunge holds a BA (Hons.) in Economics from the University of Sri Jayewardenepura, MA in Economics from the University of Colombo, and MSc in Economics of Rural Development from the Saga National University and PhD from Kogoshima National University in Japan. Prof Amaratunge was also a recipient of the

prestigious Research Excellence Award in 2002, awarded by Kyushu Society of Rural Economics, Japan, which is in addition to several other local and international awards.

He was a Vice-Chancellor of the University of Sri Jayewardenepura, a Member of the University Grants Commission and Chairman of the Federation of University Teachers Association (FUTA).

## **3 Mr Prabhash Subasinghe**

*Non-Executive, Non-Independent Director*

Appointed to the Board in 2017

A visionary entrepreneur with an established leadership record in diverse industries including rubber, seafood, insurance, and banking.

Mr Subasinghe is also the Managing Director of Ayenka Holdings (Pvt) Ltd, Global Rubber Industries (Pvt) Ltd Global Seafoods (Pvt) Ltd and Global Fisheries (Pvt) Ltd, Chairman of the Sri Lanka Association of Manufacturers and Exporters of Rubber Products, Board Member of Sri Lanka Society of Rubber Industry. Further, he was a Key Advisor for the National Export Strategy. During the past several years he served as a Member of Sri Lanka Exports Development Board (EDB) and from December 2019 – December 2020 he served as the Chairman of EDB – Sri Lanka.

He holds a BSc in Applied Economics and Business Management from Ivy League Cornell University followed by Executive Level education at Harvard, INSEAD and the Center of Creative Leadership Colorado USA. Mr Subasinghe was also the President of the Seafood Exporters Association of Sri Lanka.

## **4 Mr S Lionel Thilakarathne**

*Non-Executive, Non-Independent Director*

Appointed to the Board in 2017

With extensive experience in Project Management and Participatory Project Planning and Implementation in rural areas, Mr Thilakarathne has been actively engaged in implementing many community development programmes in Agriculture and Fisheries. He is also an experienced trainer, having developed a training curriculum and conducted TOT training on establishing Community Governance. He has published three books on Participatory Governance.

Mr Thilakarathne holds a Diploma in Management from the Open University of Sri Lanka. Currently, he is the Chairman of Nikaweratiya SANASA Union LTD Executive Director of Rural Centre for Development, (SANGRAMA) Treasurer of Green Movement of Sri Lanka and Director of Governance Forums of Sri Lanka.

## **5 Mr K G Wijerathne**

*Non-Executive, Non-Independent Director*

Appointed to the Board in 2018

An Executive Director of the SANASA Federation, the apex organisation of SANASA Movement in Sri Lanka, Mr Wijerathne also provides leadership as Chairman of Pahalawewa SANASA Society, Director of Matale District Union, Matale District Co-operative Council and SANASA Travels (Pvt) Ltd. He draws from decades of experience in working at grassroots level with the SANASA Movement.

Mr Wijerathne is an Attorney-at-Law with over 20 years of experience and possesses a LLB Degree and Higher National Diploma in Management from the Open University of Sri Lanka.

He followed a Diploma Course in Co-operative Management at the International Co-operative Institute in Moscow, Insurance Management and Administration Course at the Credit Union National Association USA and the Credit Unions Leadership Training Course at the Association of Asian Confederation of Credit Union in Thailand. Mr Wijerathne is a former Director of the SANASA Insurance Company Limited and General Manager of Matale SANASA DTCCS.

## **6 Mr Chaaminda Kumarasiri**

*Non-Executive, Independent Director*

Appointed to the Board in 2018

A good governance advocate, thought leader, corporate trainer, leadership coach, and management consultant with many years of experience. Mr Kumarasiri holds senior leadership positions in leading local as well as multinational organisations. He is the Founder/CEO of the Human Capital Partner and the Chairman/Principal Consultant of HCP Consulting (Pvt.) Ltd. and Director of Cee Bee Marketing Services (Pvt) Ltd. He is also a regular writer on Financial Literacy, Strategic Management and Leadership for



print media and a sought after resource person for organisational transformation projects and capacity building initiatives.

Mr Kumarasiri counts over 20 years of lecturing and corporate training experience focused on strategic planning, leadership development, organisational transformation, change management, and financial intelligence for business managers and emotional well-being through mindfulness. He is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), the Association of Chartered Certified Accountants (ACCA) – UK, and the Association of Accounting Technicians of Sri Lanka (AAT) and also an Associate Member of the Institute of Certified Management Accountants of Sri Lanka (CMA). He holds a BSc. Accountancy (Special) degree from the University of Sri Jayewardenepura with a First Class and has completed his MBA in Finance at the University of Colombo. He also serves as a Director of Telecommunication Regulatory Commission of Sri Lanka, Member of the Governing Council of The Institute of Chartered Accountants of Sri Lanka; the national body of accountants.

Mr Kumarasiri previously also held the positions of Financial Controller at Bank of Ceylon, Chief Financial Officer at The Lanka Hospitals Corporation PLC, Assistant Vice President at HSBC Securities Services and Senior Manager – Assurance and Advisory Business Services at Ernst & Young including a secondment to the Financial Services Area office of Ernst & Young LLP, New York.

### **7 Mr Prasanna Premaratna**

*Non-Executive, Independent Director*

Appointed to the Board in 2018

Drawing from over 30 years of private and public sector experience as an Agriculturist and Development Banker, Mr Premaratna was heavily invested in the development of Small and Medium Scale Enterprises (SME) across Sri Lanka. As a Development Banker, he was mainly involved in assisting many start-up projects. Mr Premaratna has been appointed as the Chairman of South Asia Partnership of Sri Lanka (SAPSRI) whilst he was serving as a Director since 2010.

Mr Premaratna holds a MSc Degree in Agriculture from Kuban Institute of Agriculture Krasnodar City USSR, a Postgraduate Diploma in Bank Management from the Institute of Bankers of Sri Lanka

and a Postgraduate Executive Diploma in International Relations from the Bandaranaike Centre for International Studies (BCIS) Colombo. He has participated in many local and overseas programmes in Development Banking and agriculture related banking programmes in Europe, South East Asia and Japan. He is a member of the Association of Professional Bankers of Sri Lanka (APB).

Mr Premaratna was a Chairman of the Regional Development Bank of Sri Lanka, Vice President of DFCC Bank and the Chief Executive Officer of DFCC Consulting Private limited. He was also a Pioneer Member of the Management Team of Pelwatte Sugar Industries before moving into the Banking Sector.

### **8 Mr B R A Bandara**

*Non-Executive, Non-Independent Director*

Appointed to the Board in 2019

Anchored to a career spanning across three decades in the co-operative sector, Mr Bandara is the Chairman of Polgahawela SANASA Shareholders Trust Company Ltd and Director of SANASA Printers & Publishers Ltd and Panaliya SANASA Society.

He is also the General Manager of Polgahawela SANASA Societies Union Ltd. Mr Bandara holds a Diploma in Banking and Finance from SANASA Campus Ltd., a Diploma in Business Management from the National Institute of Co-operative Development, a Professional Diploma in Co-operative Management from the Academy of Wayamba Co-operative Rural Bank, a Higher National Diploma in Accountancy from the Technical College Kurunegala, and a Certificate in Banking and Finance from the Institute of Bankers of Sri Lanka.

Mr Bandara has also served as a Director of SANASA Development Bank PLC from 2015 to 2017 and SANASA Producer and Consumer Alliance Limited and the Chairman of Panaliya SANASA Society.

### **9 Ms Dinithi Ratnayake**

*Non-Executive, Non-Independent Director*

Appointed to the Board in 2020

Ms Ratnayake has broad and in-depth knowledge on financial institutions, advisory and transactional banking knowledge and experience, including her strong credit background, and exposure to debt capital markets and International

Risk and Compliance practices. She is well positioned to leverage on her in-depth understanding of the financial institutions landscape both locally and internationally, through years of close association and relationship with banks, financial institutions, and regulators.

Ms Ratnayake is a Senior Banking Professional with over 24 years banking experience, for the most part at Citibank N.A. as a Director, Head of Financial Institutions Group in Sri Lanka. Prior experience includes Retail and Institutional Banking at ANZ Grindlays Bank PLC and Corporate Banking at Seylan Bank PLC.

Ms Ratnayake is a Co-Founder/Director of IDEAology Strategy Consulting (Pvt) Ltd., which provides advisory and strategic and tactical support to financial institutions and public sector entities in Sri Lanka and the Middle East. She is also a Governing Council Member of South Asia Partnership Sri Lanka, a NGO which engages in social development, working towards building empowered communities to achieve sustainable growth.

Ms Ratnayake holds a BSc degree in Computer Science from the University of Houston, Clear Lake and a Master of Arts Degree in Economics from the University of Colombo. She is the representative Director of SBI Emerging Asia Financial Sector Fund PTE. LTD, and Nederlandse Financierings – Maatschappij Voor Ontwikkelingslanden N.V., two major Shareholders of SANASA Development Bank PLC.

### **10 Mr J A Lalith G Jayasinghe**

*Non-Independent, Non-Executive Director*

Appointed to the Board in 2020

Mr J A Lalith G Jayasinghe is the Chairman/ Director of SANASA Printers & Publishers Ltd since 2003. He has over 20 years' experience in working with grassroot level communities particularly working with the SANASA Movement, currently he is a Director of Kegalle SANASA Shareholders Trust Company Ltd and Kegalle District SANASA Societies Union Limited and Chairman of Waldeniya SANASA Society.

Further he served as a Director of SANASA Development Bank PLC from 2015 to 2017. He possesses BA (Hons ) from University of Peradeniya and Diploma in Co-operative Education and Development from National Co-operative Union of India.

# Corporate Management



**Mr Thilak Piyadigama**

*Chief Executive Officer*

MBA (PIM – USJP), Degree from Engineering Council (UK), NDT (Electronic and Telecommunication Engineering – UOM)



**Mr S A Samarakoon**

*Deputy General Manager – Technology and Operations*

MBA (Colombo), BSc Eng (Comp. Sc. & Eng – Moratuwa), C Eng., MIEEE



**Mr H C Lokugeegana**

*Head of Business Banking*

MBA, B.B. Mgt. (HR) Sp., AIB, Dbirm (IBSL), AMIPM, MAAT, ACC Dir. SL, FIB



**Mr Terrance Kumara**

*Chief Financial Officer*

MBA (USQ), FCA, ACMA, MAAT



**Ms Tamarika Rodrigo**

*Deputy General Manager/Company Secretary*

Attorney-at-Law, Notary Public, ACC Dir.SL



**Mr M W S G Silva**

*Head of Human Resources*

MBA B. Ph. (Rome), PG Dip in Labour Studies, National Dip in HR, Certificate in HR



**Mr Udana Asanga Fernando**

*Chief Risk Officer*

MSc. (UoC), BSc. (UoC), Associate Member - CIMA UK, Int. Certificate in Banking Risk and Regulations (GARP)



**Mr K A I D Dayananda**

*Chief Internal Auditor*

CFCA (UK), MBA (Banking Mgt.) Sikkim Manipal India



**Ms P C Liyanage**

*Head of Legal*

LLB, Attorney-at-Law, Notary Public, Commissioner of Oaths, Company Secretary



**Ms P Krishani Enoka**

*Head of Treasury*

MBA (UK) Merit, BSc (Phy. Science) Hons, AIB, Dip. in Treasury Investment and Risk Mgt., Certificate in Treasury and Foreign Currency Operations



**Ms M H Attanayake**

*Head of Credit*

BSc Agri. (Hons), MSc Agri.



**Ms M Y L Muththunga**

*Head of Systems and Operations*

BSc (Hons)



**Mr J P Dinil Perera**

*Chief Digital Officer*

Project Management Professional (PMI), Certified Information Systems Auditor (ISACA), Intermediate Banking Diploma (IBSL)



**Ms K K Champa J Dassanayake**

*Head of SME*

BSc Agri., MSc (Hons), AIB

# Senior Management



**Ms S N T Igalagamage**

*Compliance Officer*

MBA (UK), BSc (Agri-Special) Hons.,  
Dip. in HRM, MIMSL



**Mr Hasitha Samarasinghe**

*Head of Marketing*

MA (UK), BA (UK)



**Mr Theekshana Pandithasekara**

*Head of Retail Banking*

MBA (PIM), PG Dip in Marketing (CIM-UK), Advanced  
Certificate Exe. Mgt (PIM), Chartered Marketer  
(UK MCIM)



**Mr K K S U Kumara**

*Head of Administration*

BSc (Mgt.)



**Mr W T R Prabath**

*Chief Manager – Human Resource Management*

MBA (Honolulu), BSc (Physics – Special) Hons,  
Higher Dip. in Advanced Financial Mgt., Dip. in  
Business Mgt., Dip in Financial Mgt., AUKAP (UK)



**Mr E A L S Edirisuriya**

*Head of Co-operative Development*

Dip. in Finance and Bank Mgt., Investment Advisor  
Certified by CSE.



**Mr P W K J R Chandrasiri**

*Regional Head - Uva and  
Sabaragamuwa Regions*

BSc Mgt. and Administration (Sp. USJP)



**Mr G A S Wimalaratne**

*Regional Head - North and North Central Regions*

BA (Hons) Business Statistics, Postgraduate  
Dip. – Business Statistics



**Mr B W S Premarathne**

*Regional Head – Central Region*

MBA (UK), B. Com (Special), MCIM (UK), MSLIM,  
MAAT, HNDA, Chartered Marketer



**Mr T D Swarnage**

*Regional Head – Western 1 Region*

MBA (Cardiff Metropolitan), BB Mgt. (Kelaniya),  
Intermediate Examination (IBSL)



**Ms U P Champa U Perera**

*Head of Finance*

MBA (UOC), ACA, BSc Accounting (Sp. USJP)



**Mr K B S Kumara**

*Deputy Head of Credit*

BA (Special), Diploma in Microfinance (IBSL)



**Mr B A I Wickramaratne**

*Chief Manager – Internal Audit*

MSc App Fin (USJP), BSc Applied Accounting (Oxford Brookes), FIB (IBSL)



**Mr U K B Aravinda**

*Regional Head – Southern Region*

BSc Business Administration (USJP), CBA (ICASL), MBA



**Mr H M M Herath**

*Chief Manager –*

*Information Technology Infrastructure*

MSc Computer Systems & Networking, BSc Computing & Information Systems, Microsoft Certified Professional, CIW Security Analyst, CISCO Certified Network Associate (CCNA), Microsoft Certified Systems Engineer on Microsoft Windows 2000, Microsoft Certified Systems Administrator, Microsoft Certified Database Administrator on Microsoft SQL Server



**Mr L H T Dhammananda**

*Head of Information Security*

BSc.(Hons) Electric & Electronic Eng. (Peradeniya), CCNA-CISCO (USA), CISSP-ISC12 (USA), PCI Implementer-ISSA, CBCI (UK), ISO



**Mr S H S I Udayangana**

*Head of Recovery*

BBM, Dip. in Banking & Finance, Dip. in Mirco Finance, Dip. in Public Management, Dip. in Small and Medium Enterprises, Dip. in Counselling, CBF, AIB



**Mr M J H Perera**

*Senior Manager – Credit Review*

BSc Business Administration (Sp)



**Mr A M Nimal Chandra**

*Senior Regional Manager – Western 2 Region*

BA



**Mr R S A M B Y Rajakaruna**

*Senior Manager – Human Resources Development*

BA, PGCC (India), Dip. in Psy, ACGC, National Dip in T&D (SLITAD)



**Mr W H M U B Welikumbura**

*Senior Manager – Retail Liabilities*

MBA (Pera), PGDM, MSLIM, BMS, Associate APB



**Mr R A C N Rathnayake**

*Senior Regional Manager – North Western Region*

BSc Accountancy & Finance (SP), Hons, Registered Trainer & Consultant (Ministry of Public Management Reforms)



**Ms N N Edirisinghe**

*Head of Credit Administration*

BSc (Colombo), Intermediate Banking Diploma (IBSL), Certificate in Hire Purchase and Lease Financing (IBSL), ACS



**Mr P Senadeera**

*Senior Branch Manager – Kiribathgoda*

MFE, PG Dip. in Economic Development (Colombo), AIB, DBF (IBSL), Dip in Finance and Bank Management (IBSL), Intermediate Banking Diploma (IBSL), Dip in SME Finance (IBSL), MAAT, ATII (SL)



**Mr D H Gamage**

*Senior Manager – Agriculture Entrepreneurship Development & Micro Finance*

Intermediate Banking Diploma (IBSL), Advanced National Diploma in HRM



**Mr A S Perera**

*Senior Branch Manager – Bandarawela*

BA, Intermediate Banking Diploma (IBSL), National Certificate in Technology (Civil Engineering)



**Mr W V P A Samantha**

*Divisional Head – Leasing Assessment and Approval*

B Com (Special), AIB, DBF (IBSL), MSc App Fin (USJP)



**Mr K H P K Gnanasiri**

*Senior Branch Manager – Uhana*

BA (Special)



**Mr W D S D Mahathanthila**

*Senior Manager – Finance*

PG Dip. in Business & Financial Administration (ICASL), BSc Applied Sciences (Rajarata)



**Mr P K A D S Perera**

*Divisional Head – Co-operative and Corporate Credit Assessment*

AIB, B Com (USJP), DBF (IBSL)



**Mr K Lakshman**

*Senior Branch Manager – Thalgaswala*

Intermediate Examination (IBSL)



**Ms N P D M Priyangani**

*Divisional Head – Retail Credit Assessment and Approval*

MSc, Executive Dip. in Service Management, CBF



**Ms K K Ranganie**  
*Senior Manager – Credit Administration  
 Hub – Karapitiya*  
 HNDA, Intermediate Banking Diploma (IBSL)



**Mr D M S D Dissanayake**  
*Senior Branch Manager – 1st Colombo City*  
 CBF



**Ms A A S Subhashine**  
*Senior Branch Manager – Kalutara*  
 MSc Dip. in Microfinance, Executive Dip. in Service  
 Management, CBF



**Mr T M M R Thennakoon**  
*Senior Branch Manager – Battaramulla*  
 Intermediate Examination (IBSL)



**Mr R A N K D Wijesinghe**  
*Senior Branch Manager – Gampaha*  
 Dip. in SME (IBSL)



**Mr A M P Fernando**  
*Divisional Head –  
 SME Credit Assessment & Approval*  
 Dip. in Credit Management, Dip. in SME Finance,  
 Dip. in Micro Finance, CBF



**Mr R Adikaram**  
*Senior Manager – Information Systems Audit*  
 Executive MSc in Information Security, Dip. in  
 Information Systems Security Control and  
 Audit, Dip. in International Relations, CBF, CISA



**Mr N C Pallegama**  
*Senior Manager – SME*  
 Dip. in SME Finance, CBF, Certificate in Hire Purchase  
 and Leasing



**Mr W S Pushpakumara**  
*Senior Branch Manager – Mawanella*  
 MBA, Dip. in Banking & Finance, Dip. in SME Finance,  
 Dip. in Intermediate Banking, AIB



**Mr S C Wickramaratne**  
Senior Manager – Centralised Operations  
BMS, ACBF, DBF, CBF



**Ms N A D M Neththasinghe**  
Senior Manager – ICBS  
BSc (Business Management), DBF, CBF, AIB



**Mr K D R K Randeniya**  
Senior Regional Manager – Eastern Region  
BBA, Dip. in Management Science, CBF



**Mr T M S K Gunathilaka Banda**  
Senior Branch Manager – Kegalle  
BSc (Business Management), CBF, DBF, Dip. in SME and Finance



**Mr S Pandipperuma**  
Senior Branch Manager – Matara  
BBA (Accounting & Finance), Certified Business Accountant (CBA)



**Ms U G P Ranojani**  
Senior Manager – Legal  
LLB, Attorney at Law, Notary Public



**Ms D N P Madurawala**  
Senior Manager – Retail Assets  
BSc, MFE, CBF, DBF, Certificate in HRM



**Ms C J Meemanage**  
Senior Manager – Internal Audit  
FCA, BSc Finance (Sp), AIB, Dip. in Information System Security Control and Audit (DISSCA)



**Mr V R Beadle**  
Head of Leasing  
Dip in Business Administration (ICFAI University), Affiliate Professional CIM



**Mr K A A C Perera**  
Senior Manager – Sustainable Banking  
MBA(PIM), BA (University of Wisconsin), Advanced Dip in Mgt. Accounting (CIMA), Dip in Conflict Resolution (BCIS), Dip in Journalism (UoC)

**NOT IN PICTURE**

**Ms K V R Jeewanthi**  
Senior Manager – Refinance  
BSc Business Administration (Special) (SJP), PGD in Community Development (Colombo), Intermediate Banking Diploma (IBSL), Micro Finance Facilitator (CGAP)

**Mr J A C K Jayakody**  
Senior Branch Manager – Kuliyaipitiya  
BA, CBF

**Mr R P Thoradeniya**  
Head of Branch Operations  
PGEDBM (IBSL), Intermediate in Banking Diploma, AIB





# *Our Business Model*

- 33 Creating Value
- 36 Operating Environment
- 39 Strategic Direction
- 40 Stakeholder Engagement
- 41 Materiality



# Creating Value

## BUSINESS ACTIVITIES

As a development bank, the primary business activities of SDB bank comprise financial intermediation and maturity transformation. Acting as an intermediary primarily between co-operative societies, the SME sector and retail customers, it mobilises deposits and lends money. The role of maturity transformation involves converting short-term funds sourced from depositors and other sources to medium to long-term development loans as per the requirements of our borrowers.

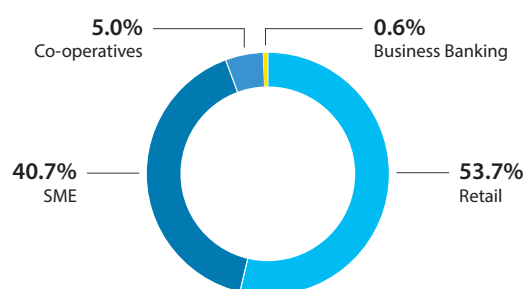
## MARKET SEGMENTS

Retail, SME co-operative and business banking customers are the four key market segments to whom SDB bank provides financial services. A lack of sufficient access to finances is a major impediment for them in realising their potential and contributing to the economic development of the country. The heavy emphasis on collaterals by lending institutions has made it difficult for these sectors to secure required financing. SDB bank maintains close tie up with these four market segments.

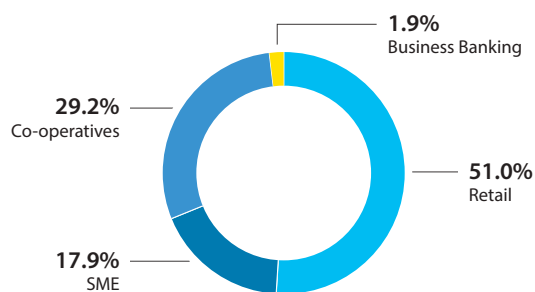
Composition of the business volumes across the three key segments as at 31 December 2020 are given below:

Key business segment	Loans and advances portfolio in 2020 %	Deposit base in 2020 %
Co-operative societies	5	29
SME sector	41	18
Retail customers	54	51
Business Banking	0.6	2

### Loans and advances



### Deposits



## SANASA ECOSYSTEM

Operating on co-operative principles with a success story spanning over 100 years, the SANASA movement is non-partisan and non-political in service to humanity. With a bottom up management style, the SANASA Ecosystem starts at the grassroots level in villages and townships where a few individuals get together to the setting up of primary co-operative societies. Altogether there are over 8,000 such co-operative societies across the country. All co-operative societies in a District/Zone fall under the purview of a district level co-operative society (District Union or Zonal Union). All District/Zonal Unions report to the apex body of the SANASA movement which is the SANASA Federation.

## SDB BANK IN SANASA ECOSYSTEM

With its roots in the SANASA movement, SDB bank is the apex bank for the entire co-operative sector comprising Co-operative Societies, Multi-purpose Co-operative Societies and Primary Thrift and Credit Co-operative Societies. Primary Co-operative Societies are one of the three distinct customer segments the Bank provides its services to.

Monies that SDB bank lends to the co-operative societies are on-lent to their members while excess liquidity in co-operative societies is deposited in SDB bank. While co-operative societies take the responsibility for credit evaluation, post sanction monitoring and recovery in relation to the money on-lent to their members, it is these co-operative societies themselves that are responsible for paying back their borrowings to the SDB bank. In addition, SDB bank funds specific projects and industrial ventures of co-operative societies.

Being a Licensed Specialised Bank, SDB bank also enables the societies to access low-cost re-financing facilities available from the Central Bank of Sri Lanka. As at 31 December 2020, 5% of the total loan portfolio, amounting to LKR 5.2 Bn. and 29% of the deposit base, amounting to LKR 26.3 Bn. were moved to, and from, these societies. The Bank has been able to play a vital role in driving financial inclusion and socio-economic progress among Sri Lanka's grassroots-level communities through its services of lending to and accepting deposits from these co-operative societies.

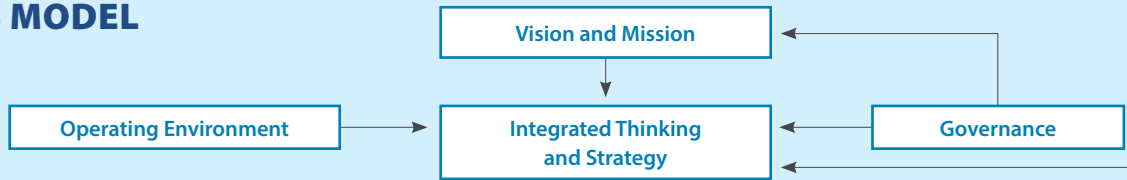
## PROMOTING WOMEN ENTREPRENEURSHIP

With most of the members of the primary co-operative societies comprising females, SDB bank is uniquely positioned to promote women entrepreneurship in the country and in fact plays an important intermediary role. A majority of SDB bank's agreements with most DFIs include a financial covenant that a proportion, varying from 20-30%, of funds provided should be used to support women entrepreneurs.

## SOURCES OF REVENUE

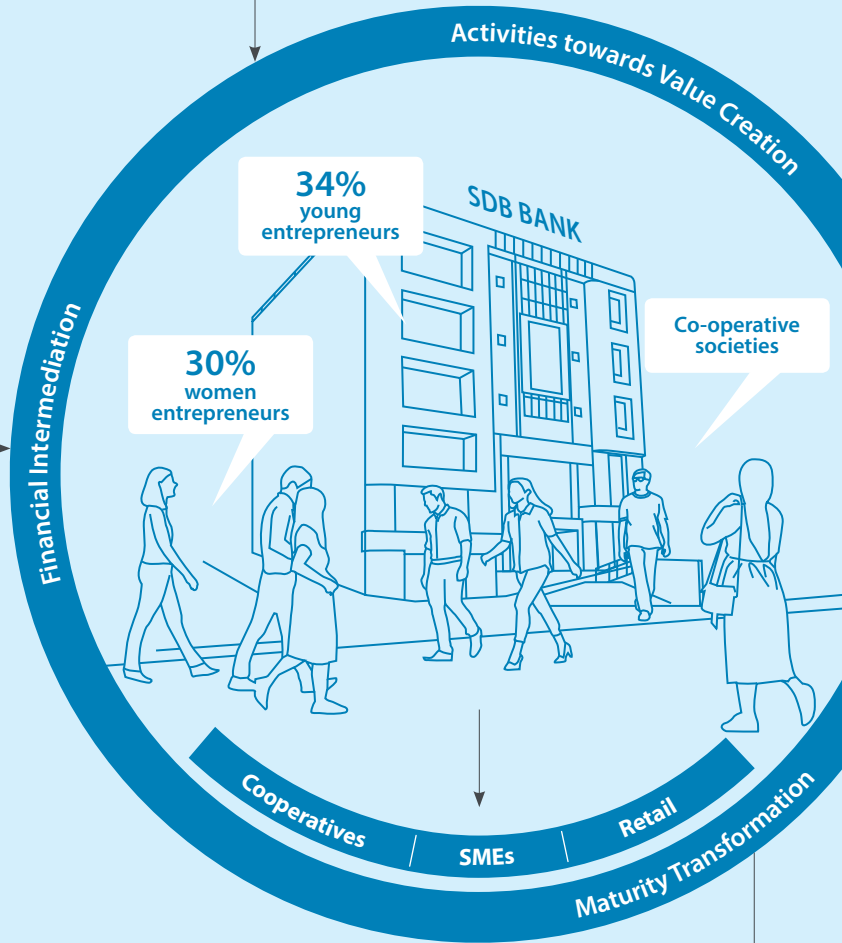
The Bank has reported interest and other income of LKR 16.2 Bn. from LKR 15.5 Bn. for the reporting year. Interest income from loans and advances represents about 90% of the total income, up from 89% in 2019 and 88% in 2018. The balance 10% arose from Treasury income and fee and commission income.

# OUR BUSINESS MODEL

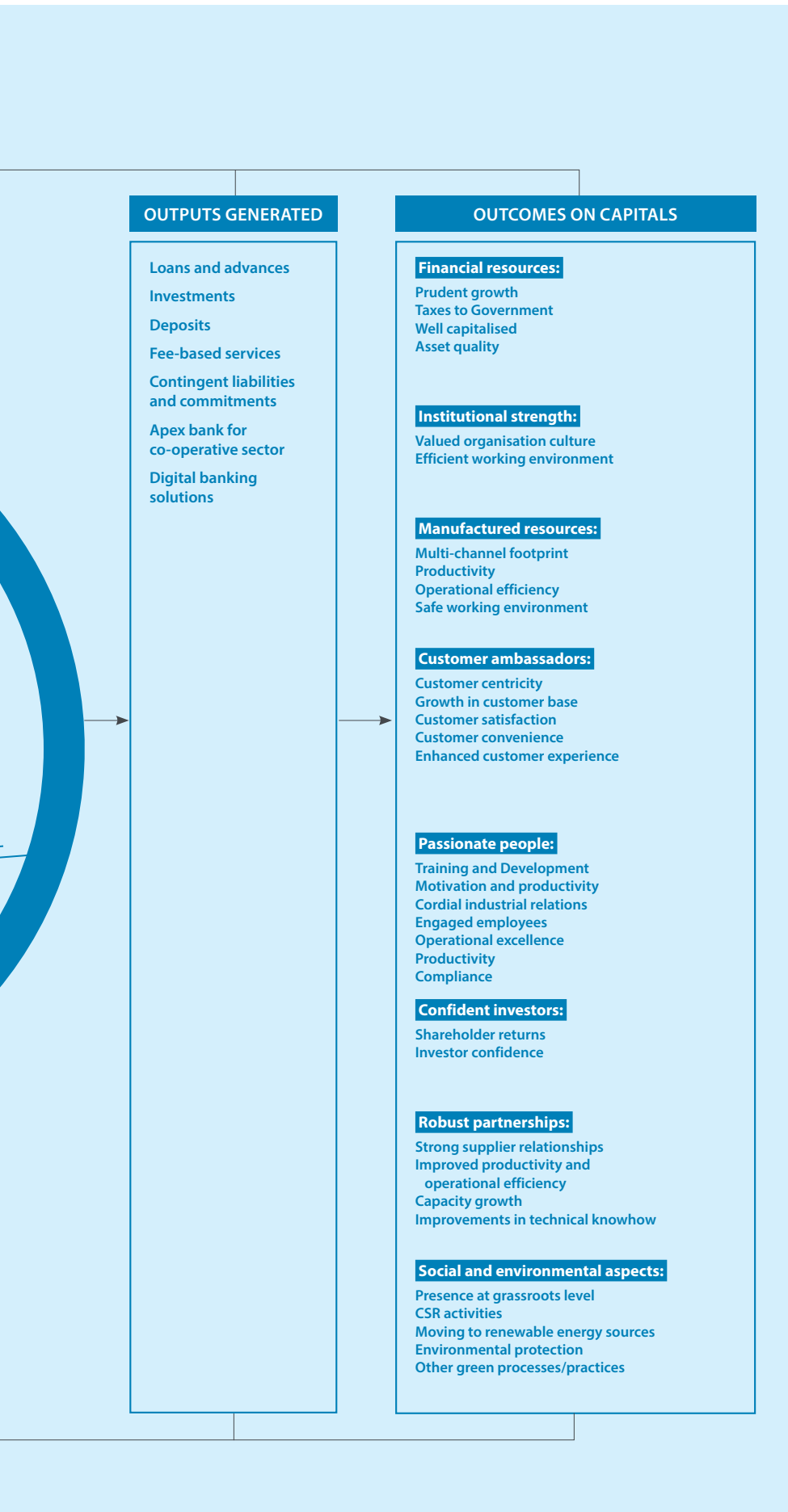


**CAPITAL INPUTS**

- Financial resources:**
  - Total assets
  - Subordinated liabilities
  - Other borrowed funds
  - Customer deposits
  - Financial performance
  - Capital base
- Institutional strength:**
  - Corporate culture and values
  - Organisational knowledge
  - Systems, processes and IT
  - Business ethics and integrity
- Manufactured resources:**
  - Property, plant and equipment
  - Intangible assets
  - Branch network
  - ATM network
  - Digital banking initiatives
- Customer ambassadors:**
  - Number of customers
  - Average length of a relationship
  - Average size of a relationship
  - Cross-sell ratio
  - Customer satisfaction ratio
  - Market share in deposits
  - Customer segments
  - Product portfolio
- Passionate people:**
  - Number of employees
  - Number of new recruits
  - Cumulative service period
  - Institutionalised knowledge
  - Skills and competencies
  - Commitment and innovativeness
- Confident investors:**
  - Shareholders' funds
  - Market capitalisation
  - Net asset value per share
  - Earnings per share
- Robust partnerships:**
  - Suppliers and service providers
  - Number of DFIs associated with
  - Total funding from DFIs
  - Average length of relationships with DFIs
  - Other collaborations
  - Co-creations
- Social and environmental aspects:**
  - Alignment with SGDs
  - Energy consumption
  - Social work



As we strive to create value in the short to long term, while understanding and meeting stakeholder expectations, we continue to monitor and evaluate the results chain (Inputs, Activities, Outputs and Outcomes) and make all necessary adjustments to our strategy in order to stay on course.



## CAPITALS

In addition to the three primary customer segments described above, a number of other stakeholders provides “inputs” for the Bank to undertake its business activities and sustain its value creation and we identify all of them as “capitals” in the integrated reporting parlance.

These include:

- Financial resources
- Institutional strength
- Manufactured resources
- Customer ambassadors
- Passionate people
- Confident investors
- Robust partnerships
- Social and environmental aspects

While these capitals provide the “raw materials” required for our value creation process, the outcome of the process – positive as well as negative – too is manifested in these capitals.

## GEARING AND RISK

Financial intermediation requires and enables the Bank to operate with higher business volumes in comparison with the available capital. The underlying gearing and the maturity transformation expose the Bank to various risks such as credit, market, and operational. This is in addition to the various risks arising from certain emerging global developments that are likely to threaten the banking business model such as new technology, demographic changes leading to behavioural changes in certain stakeholder categories, growing concerns on sustainability etc.

The Bank has deployed a robust risk management framework to manage all such risks underlying our business model.

# Operating Environment

## GLOBAL PERFORMANCE

Global economic growth in 2020, was unavoidably derailed by the COVID-19 pandemic and is predicted to lead to a global recession comparable to the Great Depression and the two World Wars. Although global economic activity started recovering after the initial lockdowns were lifted in the middle of the year, the continued spread of the virus led to more lockdowns later in 2020 and interrupted economic recovery. Projections by the International Monetary Fund (IMF) indicate that the global economy declined by 3.5% in 2020. Advanced economies contracted by 4.9%, while emerging market and developing economies (EMDEs) contracted by 2.4%. However, the performance of EMDEs is primarily due to China's exceptional rebound, whereas the rest of the EMDEs were impacted by continuing outbreaks and slower recoveries.

## GLOBAL OUTLOOK

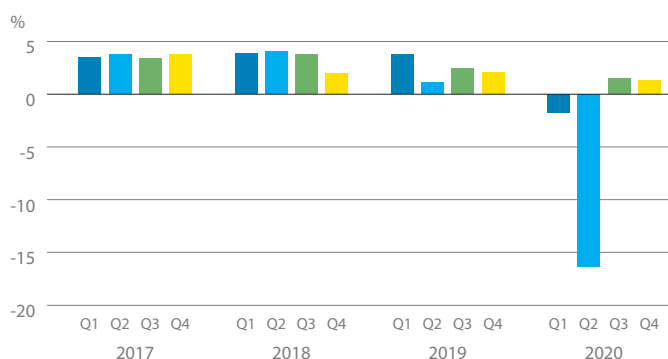
The global outlook for 2021 remains uncertain although multiple vaccines have been produced and the rollout of vaccination campaigns in certain countries have commenced. The IMF projects a 5.5% recovery in the global economy in 2021 but the emergence of new variants of the COVID-19 virus followed by lockdowns and logistical difficulties with vaccine distribution, continue to pose risks to pandemic recovery efforts. Global trade volumes are projected to grow by 8.0% in 2021 with the services trade expected to recover at a slower pace, due to subdued cross-border tourism and business travel until transmission declines across the globe. Inflation is expected to remain subdued during 2021–22, with advanced economies projected to remain at 1.5% and emerging market and developing economies at just over 4.0%, which is lower than the historical average of the group. Major central banks are expected to maintain their current policy stances to support economic recovery, which would result in advanced economies largely remaining at their current levels while EMDEs gradually improve.

## LOCAL PERFORMANCE

Although the economy started to recover from the Easter Sunday attacks in the latter part of 2019, the COVID-19 pandemic brought an abrupt halt to that momentum as the Government took measures to control the spread of the virus. The country experienced capital outflows, exchange rate depreciation, and increased pressure on government finances. This led to the economy shrinking by 16.3% in the second quarter, its largest drop in history. Economic activity returned to positive growth for the first time in the year in the third quarter of 2020, at 1.5% as businesses adapted to the new normal and the Agriculture, Industry, and Services sectors reported positive growth.

The Central Bank of Sri Lanka (CBSL) expects the Sri Lankan economy to have contracted by 3.9% in 2020, whereas the IMF has projected a 4.6% contraction. Although tourism and financial inflows were significantly dampened by the pandemic, the external sector was boosted by workers remittances surpassing USD 7 Bn. The country's official reserves were maintained at USD 5.7 Bn. by the end of the year.

## GDP growth



Source: Central Bank of Sri Lanka

## LOCAL OUTLOOK

The CBSL remains bullish on the Sri Lankan economy in 2021, anticipating a strong growth of approximately 5%-6%. The performance of the country's sovereign bond yields and stock market indices indicates increased confidence from global and domestic investors in the Sri Lankan economy. Moreover, tourism and financial inflows are expected to pick up in 2021 as the country reopens its borders. Lending rates are expected to continue their decline from 2020 as a result of the excess liquidity in the domestic money market. The CBSL has stated that it will continue its accommodative monetary policy stance to continue the momentum in the economy's recovery. Along with the incentives being offered for capital investment, the low interest rate regime currently in place is expected to improve economic growth prospects and support debt consolidation efforts. Furthermore, the CBSL expects inflation to remain with a targeted range of 4-6% over the medium-term, although external factors such as an increase in global petroleum prices or pressures from domestic supply-side factors could pose inflation risks.

## BANKING SECTOR PERFORMANCE

The Sri Lankan banking sector was well positioned in capital and liquidity at the start of 2020 due to the implementation of international best practices and regulatory requirements that required banks to establish buffers to maintain adequate levels of liquidity and capital during turbulent periods.

The Year-on-year rate of asset growth of the banking sector declined in 2020 to 17.1% as at end December 2020 with total assets reaching LKR 14.7 Tn. by end 2020. Loans and advances (net of IIS) accounted for 62% of assets compared to 64.9% in the 2019.

The total value of Loans & Advances of the banking sector decreased to LKR 9.1 Tn. during the month of December 2020. Year-on-year credit growth declined significantly during December 2020, to 11.9% due to settlement of loans to the government and state owned enterprises. Total Loans of the banking sector declined mainly due to decrease in rupee loans. Rupee Loans & Advances (Net of IIS) represented 80.2% of the total loans and advances in 2020 compared to 79.9% in 2019.

Foreign Currency Loans & Advances (Net of IIS) came to 19.8% of the loans and advances of the sector, from 20.1% in 2019. Term loans accounted for 56.9% of total lending in 2019 which had increased to 57.6 in 2020. The construction sector accounted for 16.3% of total loans of the banking sector by December 2020, while consumption loans represented the largest share of lending at 18.3%.

The total NPL of the banking sector decreased by LKR 24.4 Bn. during the month of December 2020. As a result, the gross NPL ratio of the banking sector further decreased to 4.9% as at end December 2020. Total Provisions of the banking sector stood at LKR 274 Bn. as at end December 2020 and the total provision coverage ratio increased to 61.3% as at end December 2020.

Total investments of the banking sector increased to LKR 4.2 Tn. as at end 2020 which is a year on year growth in investments of 40.0% as at end December 2020.

Total Deposits of the banking sector increased to LKR 11.1 Tn. by end December 2020. Year-on-year deposit growth increased to 21.6% as at end December 2020, mainly due to increase in LKR deposits during the month.

Total borrowings of the banking sector decreased to LKR 1.69 Tn. by end 2020. Growth of borrowings decreased Year-on-year to 0.8% as at end December 2020. Total borrowings of the banking sector decreased mainly due to the decrease in FCY borrowings of large banks. The banking sector remained stable and maintained liquidity ratios above the minimum requirements during the year.





# Strategic Direction

We are pleased to report that SDB bank remained on course with its strategic objectives throughout the height of COVID-19 market disruptions in Sri Lanka, and continued to deliver value by connecting with all stakeholders. Investments into ICTs in the recent past, made it possible to transition the Bank's operating model smoothly onto digital platforms, ensuring access to all essential financial services for customers, while enabling the Bank to meet all regulatory compliance requirements.

The Bank's business model revolves around financial intermediation and maturity transformation. It is designed to ensure that we are geared to make the most of future opportunities while mitigating risks. Financial intermediation necessitates and allows the Bank to operate with higher business volumes in comparison with the available capital.

The underlying gearing and maturity transformation expose the Bank to various risks such as credit, market, and operational in addition

to global, local, and industry trends. We have deployed a robust risk management framework to manage all such risks underlying our business model.

Our strategic direction provides focus and structure for internal responsibilities. It also gives employees a common purpose towards which to drive their activities. Aligning with the Sustainable Development Goals. As a responsible corporate citizen with a strong rural presence in Sri Lanka we are able to leverage our strategic direction and core operations towards the socio-economic progress of the communities within which we operate. By aligning them in this manner, we also contribute towards the UN Sustainable Development Goals (SDGs).

By steering the business in alignment with our transformation agenda and the SDGs, we are better able to meet our development mission sustainably while lessening our impact on the environment

## SDG 2 – Zero hunger

We continued to focus on the under-banked and unbanked segments in the agriculture sector, supporting value chains and partnering to offer our customers improved opportunities to further their enterprises.



## SDG 8 – Economic growth

By contributing towards economic growth we also indirectly contribute towards meeting the SDGs of zero hunger and alleviating poverty. This is made possible through our close association with the rural sector and their activities in investment and lending in the microeconomic segment of the market.

## SDG 4 – Quality education

Our CSR initiative, SDB Lakdaru Scholarship Seminars, assist children in under-served rural communities face the Grade 5 scholarship examination by conducting educational seminars in Sinhala and Tamil throughout the country. In 2020, we temporarily halted the programme as schools were closed and children could not assemble, due to the threat of COVID-19 infections.



## SDG 10 – Reduced inequality

In 2020, SDB bank supported this SDG by helping to bridge the urban-rural digital divide at a faster pace than ever before, by connecting cooperative societies and their members, to digital financial services. We also continued to lend to cooperative societies, which contributes towards narrowing the income gap by channelling funds to the grassroots. We also actively participated in distributing Government funds, at concessionary rates, as a way of contributing towards rural development and poverty alleviation.

## SDG 5 – Gender equality and women empowerment

Empowering women in a bid to bridge the gender gap is a key aspect of our transformation agenda. "SDB Uththamavi" is an investment and lending product that provides women entrepreneurs with attractive rates. During the reporting year Bank gave financial support for entrepreneurial activities of women. SDB is an equal opportunity employer with females comprising 48% of the total permanent workforce.



## SDG 12 – Sustainable consumption and production

We are committed to consumption practices that contribute towards reducing, recycling, and reusing resources. This has cut costs in and usage of paper, fuel, and energy. Through these initiatives we have also been able to reduce electronic waste.

## SDG 7 – Affordable and clean energy

While we focus on improving financial literacy and financial inclusion to those who are excluded from mainstream financial services we also encourage them to opt for clean forms of energy. We do so by making such options more affordable and attractive to them through our green leasing products.



## SDG 15 – Life on land

Our contributions towards protecting, restoring and promoting sustainable use of terrestrial ecosystems, halting and reversing land degradation, and halting bio diversity loss has included the planting of trees and the cleaning up of litter.

# Stakeholder Engagement

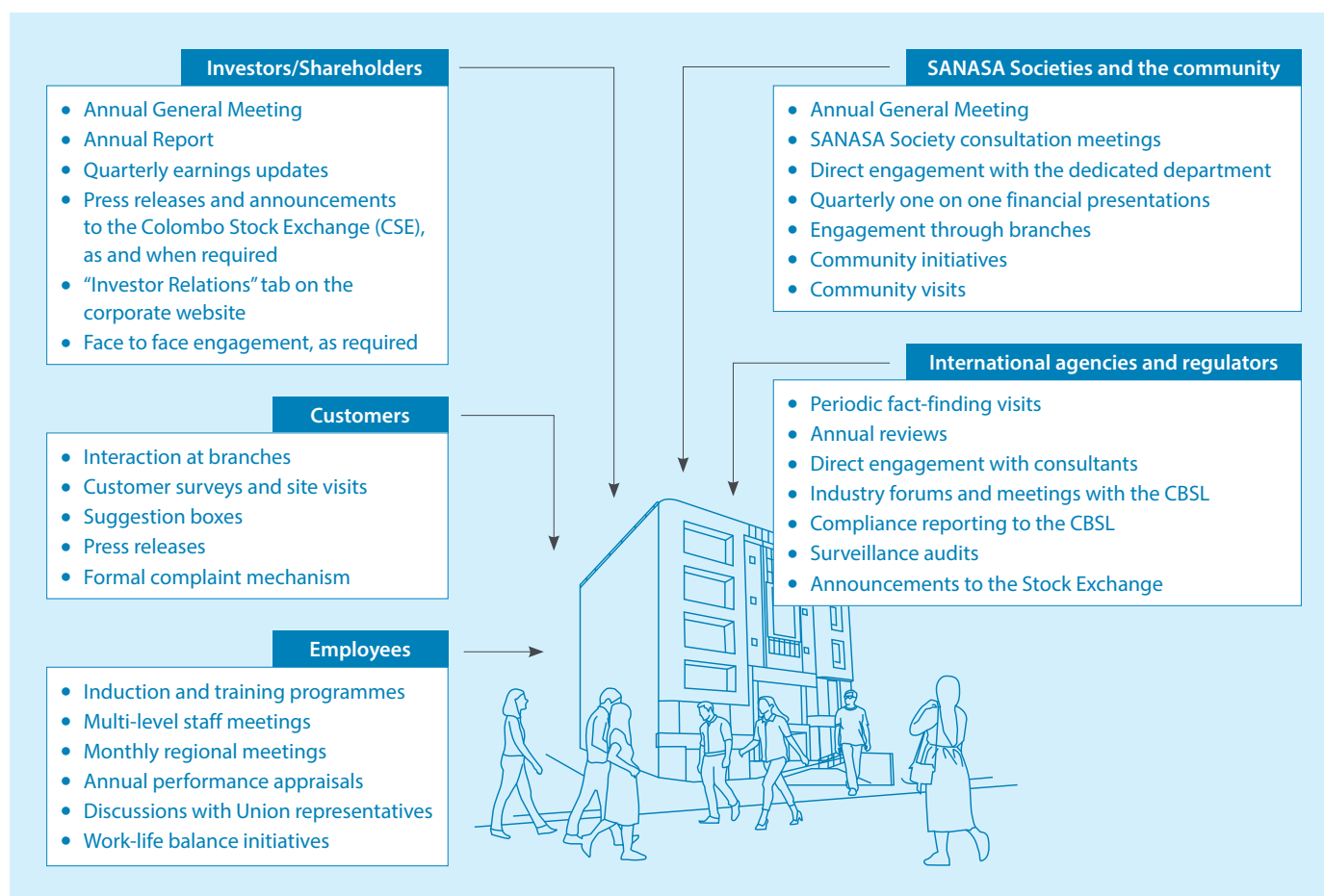
The COVID-19 environment of 2020, caused a dramatic shift in how Sri Lankan financial institutions engaged with both internal and external stakeholders, with digital communications platforms taking the lead, as opposed to traditional communications and physical meetings. SDB bank's strategy of investing in flexible and diverse ICT platforms targeting varied stakeholder groups, made it possible for the Bank to remain connected with exiting stakeholders at all times and also to connect with new customers and other external stakeholders that connected with SDB bank for the first time.

We define stakeholders as an individual, or a group that can be significantly impacted by our actions, products, or services. We remain acutely conscious that our stakeholders' perceptions and behaviour can

significantly impact our licence to operate and meet strategic goals. We use both formal and informal forms of engagement with stakeholders to formulate the Bank's strategy. Their concerns are key considerations in delivering the core purpose of SDB bank.

Stakeholders we engage with are the individuals and entities who can reasonably be expected to be impacted by the Bank's activities, products, services, and financial performance. We also take into consideration the level of impact a stakeholder might reasonably be expected to have on the Bank's ability to successfully implement its strategies.

Mechanisms we use to engage with stakeholders include:

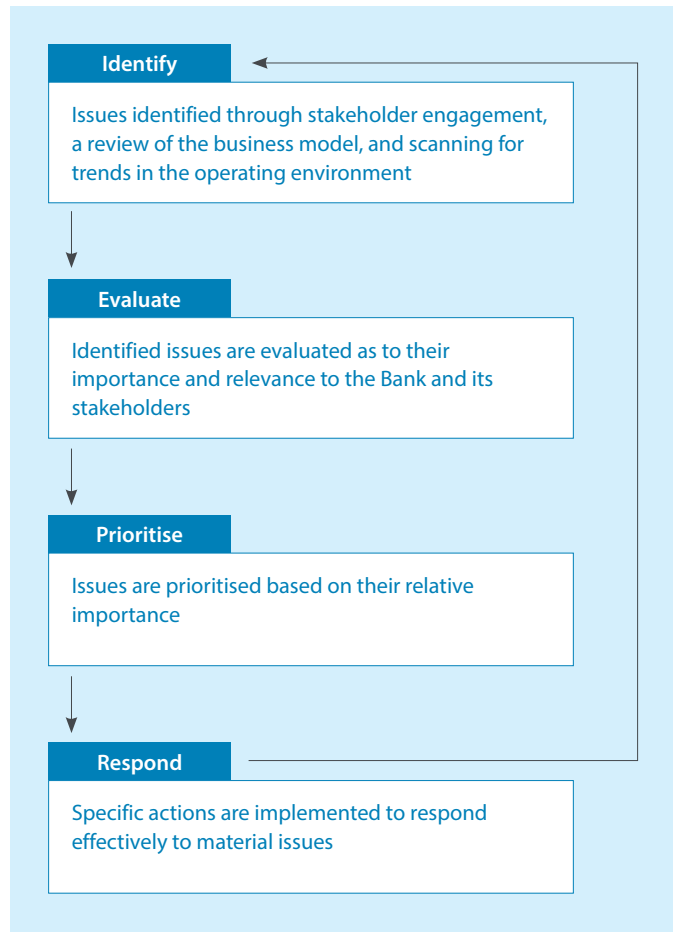


# Materiality

This Integrated Annual Report comprises a discussion around issues and considerations that could have the most impact on the Bank's ability to create value and those that are most critical to SDB bank and its stakeholders. The topics were identified by the Management of the Bank and have been ratified by the Chief Executive Officer. These topics are reviewed continuously to assess their relevance and materiality.

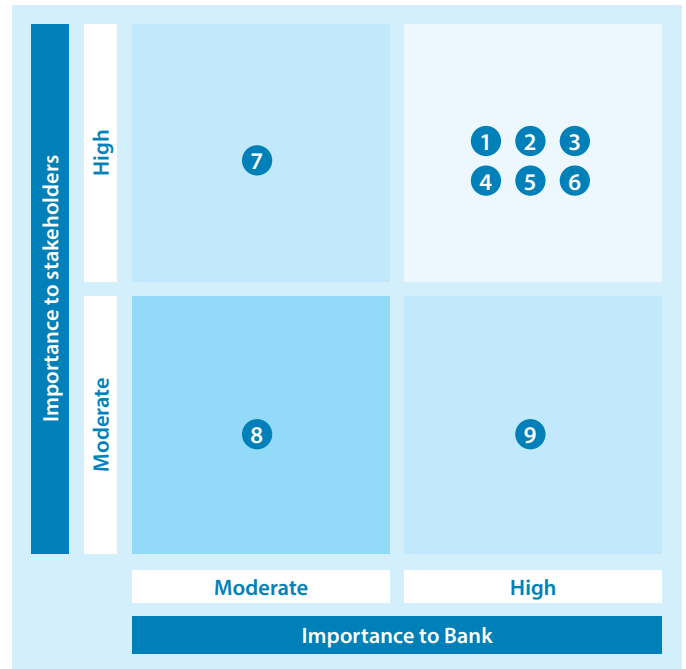
Having reviewed these material topics in 2020, we are of the opinion that these topics continue to remain the most material towards achieving the Bank's strategic objectives. Our value creation strategy continues to focus on delivering value to all our stakeholders just as we, in turn, derive value from them.

The Bank's process for determining material content is an ongoing cycle as shown below:



With the aim of widening the scope of its materiality analysis beyond the topics proposed by the GRI guidelines, every year, the Bank seeks to include topics that are relevant to the banking industry, the Bank's value creation model and the operating landscape.

The sensitivity analysis depicted in the table below illustrates the relevance and relative importance of the topics selected both to the Bank and to its stakeholders.



Material topic	Corresponding GRI topic	Why is it material and topic boundary
<b>1</b> Earnings growth and Profitability	Economic performance	Achieving sustainable growth in earnings is vital to drive shareholder value. The topic boundary is primarily internal, however, the Bank's growth and profitability have a direct impact on its other external stakeholders
<b>2</b> Efficient processes		Improving the efficiency of processes is essential to achieving sustainable profitability and enhancing customer experience. While the effort is internal, the impact of this topic is both internal and external
<b>3</b> Customer Service		Enhancing customer experience and contributing to building a loyal customer base. The topic boundary is both internal and external
<b>4</b> Inclusive lending	Indirect economic impact	Meeting one of the Bank's founding objectives and contributes towards poverty alleviation. The impact of this topic is external and affects the customers and communities the Bank operates in
<b>5</b> Employee value proposition	Employment diversity and equal opportunity	Employees are integral to achieving the Bank's strategic objectives. Retention of employees is crucial to long-term value creation. The topic boundary is internal
<b>6</b> Employee skills development	Training and education	"Quantum Leap" is the programme designed to develop skills required to drive the Bank's transformation agenda. Changing attitudes and nurturing a performance driven culture through skills development is a priority for the Bank. The boundary of the topic is internal
<b>7</b> Responsible lending	Customer privacy, marketing and labelling	As a responsible corporate citizen, the Bank is committed to lending practices which are fair and responsible. This is considered vital to the sustainable creation of shared value. The topic boundary is external and extends to the Bank's customers
<b>8</b> Preserving the environment	Raw materials, Energy, Water, Effluents and Waste emissions	As a financial services provider, the Bank's impact on the external environment is limited. However, it is the policy of the Bank to use natural resources efficiently and minimise its environmental footprint. The topic boundary is internal and external
<b>9</b> Corporate Social Responsibility	Local communities	An important aspect of value creation by the Bank is its contribution to the well-being and socio-economic progress of the communities it interacts with. The topic boundary is external

# *Banking on Value Creation*

- 44 The Achievement of Financial Goals
- 48 The Strength of the Institution
- 49 The Quality of Manufactured Resources
- 51 The Customer as Ambassador
- 57 The Passion of our People
- 61 The Confidence of Investors
- 70 The Power of our Partnerships
- 72 The Commitment to Society and Environment

# The Achievement of Financial Goals

Although the entire global economy almost ground to a halt in 2020 in the wake of the COVID-19 pandemic, and the Sri Lankan economy reported negative GDP growth, we are pleased to report the highest profitability to date by SDB bank, during the financial year under review. While effectively navigating the economic fallout from COVID-19, SDB bank not only successfully concluded the first digital Rights Issue in Sri Lanka, but also recorded the highest deposit base growth and the highest net increase in advances to date, closing the year with a stronger balance sheet and capital position. SDB bank maintained its credit rating unchanged at BB+ from Fitch Rating Lanka and at BBB- from ICRA Lanka.

## FINANCIAL PERFORMANCE

The more conducive tax regime of 2020, coupled with the Bank's emphasis on asset quality management, and expenditure controls, has generated encouraging outcomes, not only towards boosting the bottom line in the short term, but also towards instituting a more disciplined credit risk management framework.

In spite of COVID-19 disruptions to economic activities during 2020, SDB bank continued to grow its business volumes. Total assets of the Bank grew by 20% year-on-year to LKR 129 Bn. fuelled by a LKR 15.9 Bn. growth in advances and a LKR 20.7 Bn. growth in deposits. The loan to deposit ratio for the year improved to 115% from 127% in 2019, while the savings to deposit ratio also improved to 23%, from 22% contributing towards reducing the Bank's cost of finance for 2020, compared to 2019.

Total equity of the Bank increased to LKR 9.9 Bn. as at 31 December 2020, from LKR 7.67 Bn. in 2019, boosted by an additional LKR 1.5 Bn. from our successful Rights Issue in November 2020. The additional capital injection ensured the Bank was in compliance with capital adequacy requirements for the year.

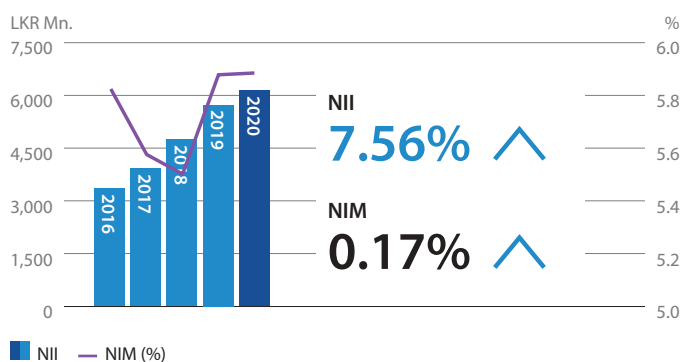
The Bank reported a total comprehensive income of LKR 834.9 Mn. for the year 2020 which reflects an increase of 279% over the previous year, owing to impairment provisioning, effective cost control, debt repayment levy and NBT on financial services. The Bank's total operating profit before impairment and taxes grew by 11% to LKR 2.4 Bn. in 2020, compared to LKR 2.16 Bn. reported in 2019.

## NET INTEREST INCOME (NII)

The declining interest rate trend in financial markets in 2020, coupled with the application of the Effective Interest Rate Method on interest income from lending subject to the moratorium, caused the net interest income (NII) for the year to decline from its potential level.

However, NII increased by LKR 430.6 Mn, to LKR 6.12 Bn, from LKR 5.69 Bn. in 2019. The Bank's lending portfolio coming under the moratorium totalled LKR 20.9 Bn. in 2020. Meanwhile, total interest expenses decreased by 1% to LKR 9.31 Bn. from LKR 9.38 Bn. The net interest margin (NIM) remains same at 5.89%.

### NII and NIM five year trend



## NON-INTEREST INCOME

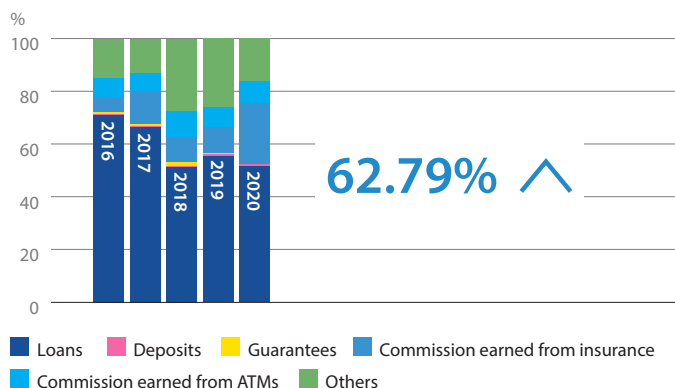
Non-interest income comprises net fee and commission income, net trading income, and other operating income. The net fee and commission income are closely linked to transactional banking volumes, which are a function of economic activity and competition for banking services. Net trading income is a function of trading volumes and market volatility which affects trading spreads. Other operating income consists of other banking activity-related revenue, including gains from sale of property, plant and equipment, dividend income and income derived from the Bank assurance agreements.

Net fee and commission income grew by 63% to reach LKR 376 Mn. from LKR 231 Mn. The growth in net fee and commission income was mainly due to the growth in the gross loan book, of 18% to LKR 103.7 Bn. for the year. In addition, the Bank's investments towards digital transformation to improve access, navigation and usability for all of our customers across our businesses, have also created new incomes in the form of digital fees. The digital fee income from debit cards and UPay transactions increased by LKR 18 Mn. year-on-year, in 2020.

Net gains from trading amounted to a profit of LKR 5.2 Mn., reflecting gains from Government Securities during the year. Gains from financial instruments at fair value through profit or loss increased by 134% to LKR 268.7 Mn. Other operating income reflected a decrease of 39% compared to the previous year.

Total non-interest income increased by 61% to LKR 705 Mn.

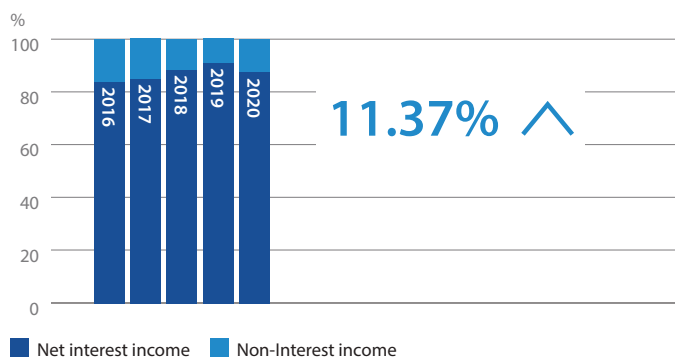
#### Composition of net fee and commission income



#### TOTAL OPERATING INCOME

Total operating income grew by 11% to LKR 6.83 Bn. from LKR 6.14 Bn. Net-Interest Income and non-interest income contributed 90% and 10% respectively, to operating income.

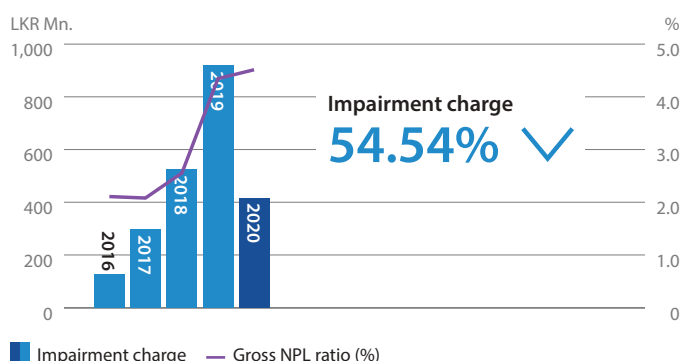
#### Composition of total operating income



#### IMPAIRMENT FOR LOANS AND OTHER LOSSES

SDB bank's impairment charges for 2019 spiked by 75% to LKR 917 Mn. Consequently, the Bank introduced improvements to pre and post credit evaluation protocols and improved collection mechanisms, while also rescheduling and restructuring existing credit facilities in line with customer repayment capacities. These initiatives contained expansion of the gross NPL ratio at 4.5% for 2020, from 4.38% in 2019, despite the highly unfavourable economic environment. In 2020, the Bank also conducted an impairment model revalidation by grouping products based on their risk levels. This exercise had a one-time favourable impact towards reducing impairment provisioning, due to the reclassification of some products.. As a result, the impairment cost for 2020 saw a sharp reduction to LKR 417 Mn.

#### Impairment charge and gross NPL ratio



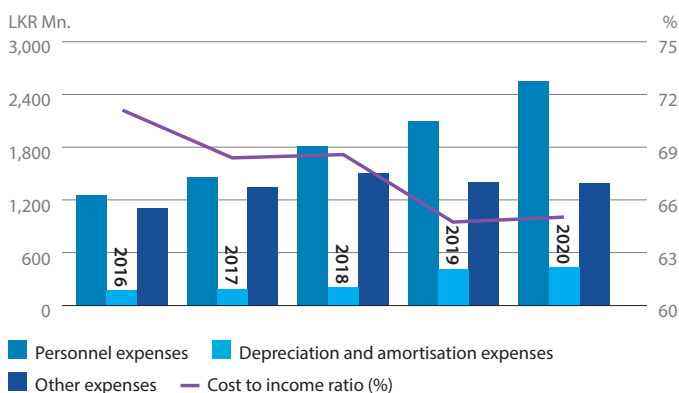
#### EXPOSURES UNDER MORATORIUM

In line with the CBSL circular No. 05 of 2020, moratoriums were granted to eligible customers who were affected by the pandemic, in both interest and capital servicing, as our focus during the year shifted from collections to supporting customers during the crisis and ensuring their resilience and commercial sustainability. Approximately 24% of the Bank's portfolio was under moratorium during the 3rd quarter of 2020 and at the end of the financial year, the loans under moratorium reduced to approximately 20% of the Bank's total portfolio, which was mainly due to settlements of loans. Further, 2% of the Bank's portfolio was under the extended moratorium based on CBSL Circular No. 10 of 2020.

## OPERATING EXPENSES

The Bank's operating expenses comprise personnel expenses, depreciation and amortisation, and "other expenses", which incorporates office administration and establishment expenses. In 2020, against the uncertain environment in the wake of the COVID-19 pandemic, the Bank implemented a stringent cost control strategy to contain costs across all operational aspects, including limiting new recruitments to essential positions. As a result, total expenses were maintained well below the budgeted levels for the year. This cost saving was also supported by lower operational costs due to the work from home model adopted during the COVID-19 restrictions on movements and also the rapid digitisation of internal operations, including facilitating digital signatures, which has significantly reduced administration costs. Total administration expenses for 2020 declined by 1.4% year-on-year to LKR 1.4 Bn. However, personnel expenses, and depreciation and amortisation have increased by 22% and 5%, respectively due to the annual salary increment, increase in staff allowances and new capital expenditure. The Bank's cost-to-income ratio was 64.9% in 2020.

### Operating expenses and cost to income ratio



## TAXATION

The removal of the Nation Building Tax and the Debt Repayment Levy was another contributory factor towards SDB bank's growth in profits in 2020. The total tax (excluding income tax) pay out declined from LKR 664 Mn. to LKR 571 Mn. in 2020. Total income tax expense came to LKR 576.6 Mn. in 2020.

## PROFITABILITY

While the Bank's profitability declined in 2019, due to increased impairment charges and the additional taxes, particularly the debt repayment levy, in 2020, both these elements declined, boosting the bottom line. Profit before tax increased from LKR 585 Mn. in 2019 to LKR 1,413 Mn., which is a growth of 141%. Profit after tax improved by 230% from LKR 253 Mn. to LKR 836 Mn.

Meanwhile, the Bank's return on assets and return on equity improved to 1.19% and 9.51% in 2020, from 0.57% and 3.35% respectively.

## OTHER COMPREHENSIVE INCOME/EXPENSES (OCI)

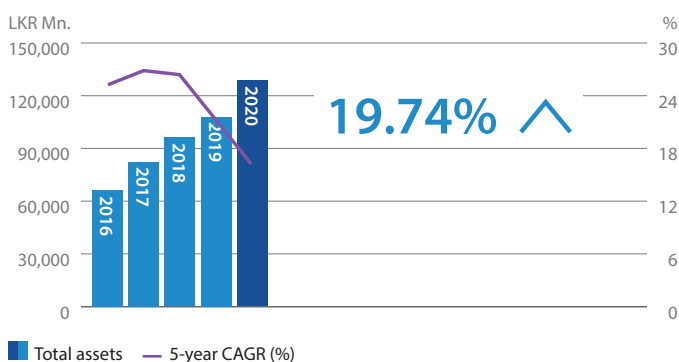
Other comprehensive expenses amounted to LKR 1.33 Mn. from LKR 33.15 Mn. After charging other comprehensive expenses, total comprehensive income for the year was LKR 835 Mn. from LKR 220.25 Mn. in 2019.

## FINANCIAL POSITION ANALYSIS

### TOTAL ASSETS

The Bank's asset base which had crossed the LKR 100 Bn. mark in 2019, expanded by 20% in 2020 to LKR 129 Bn. This growth was fuelled by growth in loans and advances. Cash and cash equivalents and placements with banks recorded an increase against 2019 due to increased money market savings. Investment in financial assets recognised through profit or loss has increased. However, the investment on financial assets classified under amortised cost has decreased.

### Total assets and 5-year CAGR

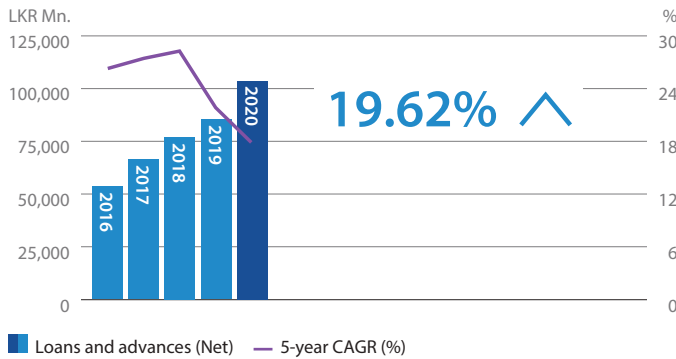




## LOANS AND ADVANCES

Loans and advances represent the largest asset class on the Bank's balance sheet, which accounted for 80% of the total assets. It provides the Bank's biggest source of revenue in the form of interest income, and creates cross-selling opportunities to earn transactional fees and insurance-related revenues. Growing loans and advances within the Bank's accepted risk levels is therefore essential to growing revenue. Total gross advances for the year grew to LKR 103.7 Bn. even under lower economic activities following COVID-19 containment measures and recorded growth rate is 18%.

### Total loans and advances (net) and 5-year CAGR



## ASSET QUALITY

During 2020, the Bank focused on improving asset quality and successfully contained the deterioration trend observed within the past two years, when the NPL ratio spiked from 2.56% in 2018 to 4.38% in 2019. The risk management framework and lending criteria were further streamlined and recovery initiatives were redoubled. These measures have contributed towards curbing NPL expansion in 2020, despite increased upward pressure on the NPL portfolio due to COVID-19 market disruptions. The gross NPL ratio was contained at 4.54%, which is below the industry average of 4.9% for the year.

## TOTAL LIABILITIES

The Bank's total liabilities increased by LKR 19 Bn. on the back of deposit growth, to LKR 119 Bn. Customer deposits grew by 30% and accounted for 78% of total liabilities. The Bank raised LKR 1.5 Bn. by way of a Rights Issue and continued to utilise local, long to medium-term borrowings. Borrowings of the Bank have decreased by 9% from 2019, causing the cost of finance reduce from 9.95% at the start of the year to 8.3% by the end of the year.

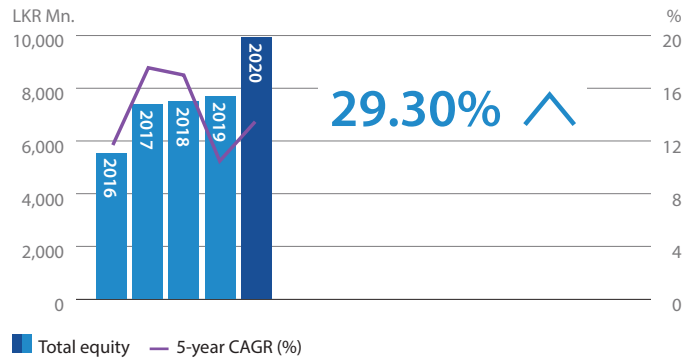
## TOTAL DEPOSITS

SDB bank achieved the highest growth in deposits in 2020 with total deposits growing by LKR 20 Bn. to LKR 89.9 Bn.

## EQUITY AND COMPLIANCE WITH CAPITAL REQUIREMENTS

With the inclusion of LKR 1.5 Bn. through the Rights Issue, SDB was compliant with Basel III capital requirements. This is in addition to the LKR 3.2 Bn. Tier II subordinated debt, raised in 2019. As a result, the Bank's Tier I Capital, Total Tier I Capital and Total Capital Adequacy Ratios as at December 2020 stood at 9.85%, 9.85% and 13.38%, respectively. These ratios stood above the minimum ratios prescribed by Basel III capital requirements.

### Total equity



## LIQUIDITY

The Bank maintained its liquidity position within the approved risk appetite and tolerance limits. Appropriate liquidity buffers were held in line with regulatory, prudential and internal stress testing requirements, taking into account the market conditions. Throughout the year the Bank maintained its statutory Liquid Asset Ratio well above the minimum threshold of 20% prescribed by CBSL. Further, the Bank maintained an average Liquidity Coverage Ratio of 125.21% and Net Stable Funding Ratio of 127.33% which was comfortably in excess of the regulatory minimum requirement of 90% and 100% respectively.

## DIVIDENDS

For two consecutive years, the banking industry of Sri Lanka experienced an unpredictable business climate with increasing regulatory controls. The minimum capital requirements have become more stringent with the adoption of Basel III and the sector also accommodated new accounting standards, while dealing with unexpected market disruptions and a lending moratorium in 2020. However, in March 2020, the Board approved LKR 394 Mn. in dividend payments for 2019. For 2020, the Board of Directors have approved a dividend of LKR 2.25. per share, totalling to LKR 206 Mn.

# The Strength of the Institution

Our institutional capital, in essence, defines who we are and how we operate and includes both tangible and intangible elements such as our organisational knowledge, corporate culture and values, business ethics and integrity, and systems and processes. By proving a guiding framework of ethics, values and experiences, our institutional capital is essential for successful operation as a development bank. During the unexpected emergence of the COVID-19 pandemic in 2020, our long-held values were the basis of our decision making, in ensuring the continued availability of essential financial services and also psychological support, for our customers, and also our employees and other stakeholders. SDB bank's strength also lies in the synergies it derives from the SANASA Federation. This ecosystem allowed us to leverage the strengths of our sister companies in helping grassroots communities.

## ORGANISATIONAL KNOWLEDGE

During the over 100-year period of our existence, we have unwaveringly focused on creating an ecosystem that uplifts lives – using the people's money for the people. Our incorporation in 1997, witnessed the Bank adopting more stringent ethical standards in the conduct of its business internally and in dealing with customers, other stakeholders, and the banking industry which has resulted in a trove of organisational and industry knowledge. It is this knowledge that has allowed us to tailor products and services that are ideally suited to our key customer groups – retail, SME, cooperatives and business banking.

Our comprehensive 2020-2023 Strategic Plan epitomises our organisational knowledge. Supported by organisational realignment it has transformed SDB bank into Sri Lanka's apex cooperative Bank with the aim of achieving commercial banking status in the medium term.

## CORPORATE CULTURE AND VALUES

To fulfil our mandate of objectively and impartially empowering people in grassroots communities we have carefully cultivated an enabling corporate culture. Our values are the building blocks of the SDB bank culture. Integrity is paramount as we demand – and receive – the highest ethical standards of all employees at every level. This is vital as we focus on being inclusive – careful not to discriminate based on any parameter such as ethnicity, religion, gender, language, social status or age. To ensure that our customers receive the best solutions for the many issues that they face in trying to improve their prospects we have also created a culture where innovation is encouraged and nurtured. Our culture and values are embedded in every aspect of its operations.

## BUSINESS ETHICS AND INTEGRITY

At SDB bank we back up corporate culture and values with a robust governance framework which encapsulates the Bank's policies. The framework ensures that the Bank is in compliance with all regulatory and statutory requirements. All employees are made aware of all Bank policies as the latter set the tone for employee behaviour and practice.

Our partnerships with international investors such as SBI Emerging Asia Financial Sector Fund Pte., Ltd., International Finance Corporation and Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO), Stichting Fondsbeheer DGGF Lokaal MKB duly represented by Triple Jump B.V. and Belgian Investment Company for Developing Countries NV/SA-BIO, confirm SDB bank's sound record of good governance and the trust that the international investor community has placed in the Bank.

## SYSTEMS AND PROCESSES

Within the last few years we initiated a range of internal process improvements which focused on transitioning our employees and the Bank, on to a digital, paperless platform. In 2020, this investment proved its worth by ensuring the Bank was equipped to face the unique environment created by the emergence of the COVID-19 pandemic. Our internal digital readiness made it possible for our employees to smoothly transition almost all communications and services on to digital platforms, ensuring the provision of uninterrupted services throughout COVID-19 lockdowns. Throughout the disruptions to normal life, our IT systems made it possible to remain connected to not only our customers and employees, but also all our stakeholders. The information dashboard provided real time data for the Bank's Management and branch employees to make informed decisions at all times.

More than ever before, in 2020, the Bank facilitated the online transition of rural communities, by connecting through digital platforms to bring financial services directly to households. During the year, we further enhanced the digital banking model by facilitating digital signature recognition for internal purposes and also for selected customers for loan approvals. Tablet-based customer screening was introduced for small scale disbursements, based on a rating by field agents, to fast track loan processing. Our mobile app was enhanced further with new features, including the facility to open fixed deposits. Many other internal improvements, such as digital administration of legal files, were implemented to take the Bank close towards a paperless environment and a new leasing module was launched that will go live in 2021.

# The Quality of Manufactured Resources

In the hitherto never before experienced environment of COVID-19, SDB bank's Information Technology (IT) systems were the lifeline that ensured business continuity. The country wide curfews and later regional lockdowns and continuous travel restrictions would have totally disrupted all traditional banking services and activities, if not for the high level of IT preparedness of the Bank, which allowed the Bank to continue the provision of financial services to its diverse, and geographically widespread customers.

Contributing towards nation building, SDB bank is utilising technology to change the way people bank for the better. SDB bank was able to collect deposits from customers in any location and issue receipts immediately by using mobile devices. Following the automation of the loan process for greater expedience and customer convenience a number of new digital initiatives were introduced during the year under review.

## ELECTRONIC SIGNATURE

Electronic signatures were introduced for internal approvals and also for loan approvals for selected customers. While eliminating time lags associated with the collection of manual signatures, particularly from our regional network of branches, the digital signatures have moved the Bank closer towards the more environmentally sustainable, paperless business model envisioned by the Bank.

## ADOPTING COMMON QR CODE FOR UPAY DIGITAL PAYMENT APP

In the first quarter of 2020, SDB bank was one of the first financial institutions to adopt the common QR Code for the country, LANKAQR, which was developed by the national payment network LankaClear. The QR Code was integrated into SDB bank's existing UPay digital payment app, making online payments easier and faster.

Developed by the Central Bank of Sri Lanka (CBSL), LANKAQR is a common Quick Response (QR) code standard, and its adoption by most major financial institutions in Sri Lanka is a progressive step on the path to Sri Lankans fully embracing a digital future of entirely cashless transactions. Apart from offering consumers and merchants the convenience of transacting at any merchant point bearing the

LANKAQR logo, regardless of their bank or payment app, LANKAQR provides merchants with an accurate method to monitor the credit ratings of customers for loan approvals and other financial services.

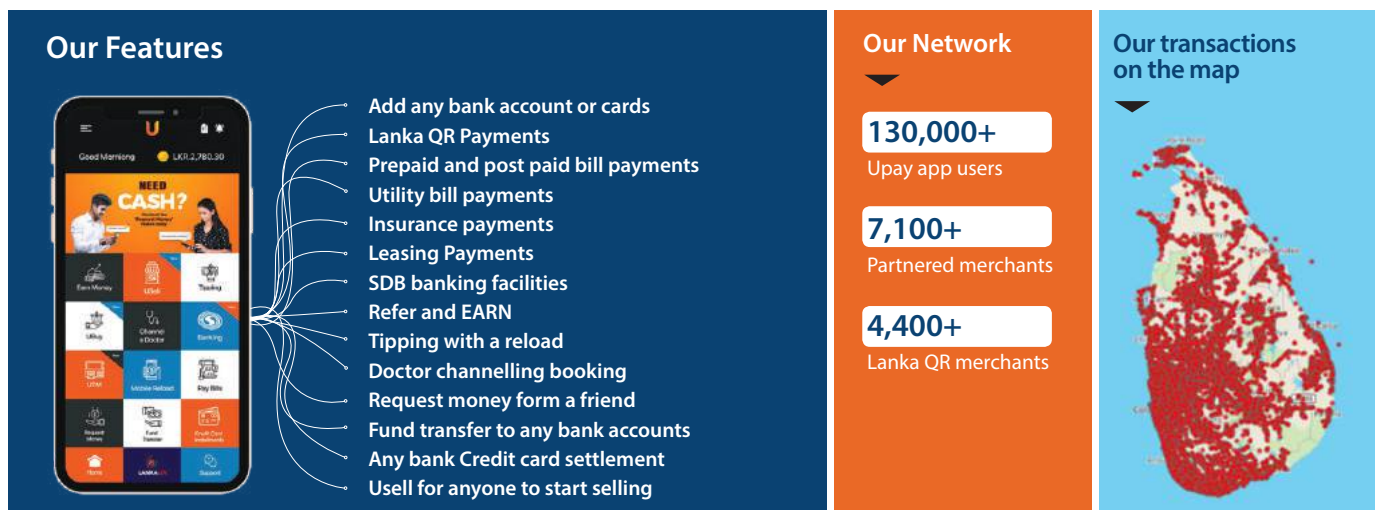
SDB bank was actively involved in the launch of the LANKAQR Code from its inception. The first phase of the *Rata Purama* QR campaign was launched in Matale by the CBSL, with the participation of SDB Bank and other financial institutions and telcos, at the Matale regional office of the CBSL. This was followed by a town wide promotion of LANKAQR followed by a visit to SDB bank's Matale branch by several top CBSL Officials.

SDB bank continued its active role during the second phase of the *Rata Purama* QR campaign as the Bank has actively campaigned to nurture an inclusive digital payment system for all Sri Lankans. LANKAQR, which is the standard for mobile phone and digital payments countrywide, is a key driver of financial inclusion across Sri Lanka. The LankaQR technology reflects SDB bank's UPay platform, which introduced many innovations in the FinTech industry in Sri Lanka, aside from its core offering of anytime, anywhere payments for products services and lifestyle conveniences. Demonstrating SDB bank's commitment, SDB bank's CEO was appointed Chairman of the Working Group of Financial Institutions by CBSL, to lead the LANKA QR project island wide.

The second phase of the *Rata Purama* LANKAQR campaign was launched on 23 January 2021 and all banks in the country have been directed to adopt the LANKAQR Code by 30 September.

## NEW FEATURES TO UPAY

UPay, which was acquired by SDB bank, is a multifaceted digital payment platform for secure bill payments, channel doctors, and top-up mobiles among other transactions. By registering multiple bank accounts and multiple cards to this app, customers simply link their bank accounts and credit/debit cards to the app, which allows them to automate, track and manage all recurring payments to vendors and service providers. The app allows them to seamlessly purchase products or services without having to physically handover cash or swipe a card. New features introduced during the year include, credit card settlements and transferring funds to another account based on a request received.



The latest development to the UPay app will further encourage grassroots communities towards a cashless society, directly contributing to the country's development. We also believe that digital innovations of this nature are important in reaching out to the underbanked population, a goal that's embedded at the very heart of SDB bank. This app also prepares us to meet the oncoming FinTech storm head on.

## **BUSINESS INTERNET BANKING SOLUTION**

Our Business Internet Banking solution is designed to facilitate corporate customers. This customer segment consists of firms, companies, trusts, partnerships, proprietorship concerns and others. Our internet banking platform provides them with a simple dashboard to keep track of their transactions. It also allows multiple users to manage the account. This allows designated officers in an organisation, or group, or company, to keep track of its financial position and transaction history while carrying out day-to-day banking activities including cash transactions, government payments, salary uploads and bulk transfers.

We also provide online assistance to these customers, with many of them attempting online banking for the first time through this platform. Internet banking provides them with 24/7 access to their bank accounts, flexible reporting and an alternative solution to conventional document processing. It is a convenient, comprehensive and highly secure corporate banking solution providing them with instant validation of incoming payments and real-time alerts of transactions. This service is also mobile-ready, meaning that it is able to take users to the next level of convenience.

## **MOBILE BANKING SOLUTION**

Our mobile banking app was further improved in 2020 by including the facility to open fixed deposits through the mobile phone. In the current environment of travel constraints, this new feature will support the Bank's deposit mobilisation drive, while also making it easier and more convenient for rural communities to save money, particularly those further away from physical bank branches.

In a bid to heighten customer convenience and broaden their digital banking experience, we created a mobile banking app that is simple, fast and secure. Combining in-house technological know-how and our in-depth knowledge of the people we serve, we designed the app to provide a seamless, intuitive experience. The app allows customers to carry out a number of essential transactions, such as obtaining information related to their accounts, loans and fixed deposits, from the palm of their hand. It simplifies complicated and tedious banking transactions.

A significant milestone in the Bank's fast-tracked digitalisation programme, the mobile banking app will change the way our customers bank. As recorded by the Department of Census and Statistics while more than one in five households in Sri Lanka own a computer or laptop, two out of every five people between the ages of 5 and 69 are digitally literate – able to use smartphones and/or tablets. As with many other developing countries in the region digital appreciation remains high in Sri Lanka though the availability of technology remains low.

The SDB mobile app allows transactions with own, or third party bank accounts, real-time interbank money transfers and the ability to check account/loan transaction history among others. Customers can obtain a detailed analysis of their transactions and make recurring fund transfers to other banks while creating and saving a payee through "Create Payee". Our mobile app complies with high security standards in mobile banking. Starting from essential customer requirements, we have continued to introduce more features to provide a 360 degree experience for our customers. In addition to the UPay, SDB Business Internet Banking and SDB Mobile app we provide two other digital products namely SDB Debit card and SDB SMS banking.

## **PROPERTY**

SDB bank maintains a profitable mix of owned and rented buildings aided by the Federation's SANASA Engineering. Reflecting our keen focus on digital banking during the year under review, no new branches were opened. However, four branches were renovated, in line with the branding strategy. Our customers continued to enjoy access to our 94-strong branch network and nearly 5,000 ATM points through LankaPay. Our combined physical and digital presence takes us that much closer to the end consumer. Our direct connection with over 8,500 co-operatives will be a key factor in allowing us to make an internationally recognised mark in this sector.

# The Customer as Ambassador

In 2020, SDB bank demonstrated its capabilities in not only meeting customer requirements but also anticipating their unique needs as the socio-economic climate became highly unpredictable in the wake of the COVID-19 pandemic. This was a period of great uncertainty for many of our customers who lost their sources of revenue and needed access to financing. As traditional physical banking systems were inaccessible during periods of travel restrictions, SDB bank was instrumental in encouraging and guiding various customer groups, that were not previously adapted to digital transaction, onto mobile and online banking platforms.

A large number of SDB bank customers are bound by physical boundaries, living from day-to-day and COVID-19 added to their hardships. Much of our work in 2020 was to support and encourage them to retain hope and look towards the future. In addition, we believe protecting our SME-base will contribute towards economic recovery in the post COVID era and we will do our utmost to help them rebuild and recover lost ground.

We classify our customers into four groups to provide more customised financial solutions:

1. SMEs – micro, small, and medium sized enterprises
2. Retail – providing financial services to Individual/retail customers
3. Co-operatives – small clusters of individuals who collaborate with co-operative societies in grassroots communities working together to improve their lives and livelihoods
4. Business banking – these are midscale businesses that do not come under the micro and SME category (that progress from SME to the next level)

Improving the lives of our customers means using every resource at our disposal, including inspiring our customers to act as ambassadors, converting more of their peers in rural, grassroots communities to take on an entrepreneurial outlook and in doing so contribute towards the country's economy.

## THE SME SEGMENT

In 2020, our SME customer base continued to represent 41% of our loan book and 18% of our deposits. This segment was the most vulnerable to COVID-19 market losses and disruptions of value chains, and faced difficulties in repaying loans. Therefore, our key focus was on supporting the continuation of their businesses by extending the Government moratorium and delivering much needed support and financial assistance through our digital platforms. During this difficult period of uncertainty and anxiety, we helped them by ensuring easy access to our financial services through a range of digital services including our mobile banking, UPay, internet banking, and SMS banking facilities. The LANKAQR common QR code was integrated into the UPay app, making online payments easier and faster and new features were added for credit card settlements and fund transfers. The mobile application was enhanced with capability to open fixed deposits online. Digital signatures were implemented to facilitate loans without the requirement for physical signatures. We made it a priority to remain connected with our customers to provide a supportive hand at all times, we guided them on how to respond to this unexpected crisis. We also offer many products and services that are geared to serve this customer

segment and our employees take POS machines right to the doors of these businesses for their convenience. While such services were interrupted in 2020, we have been successful in expanding the digital services for our SME customers. We continued to extend our support for companies in agri-finance, particularly minor export crops such as fruits, vegetables and horticulture. We will continue to focus on improving value chains for five key groups in this segment over the next few years, including SMEs in the tourism and IT sectors. A key aspect of this business support strategy is to build market awareness and business knowledge among our customers to develop sustainable value chains that enable growth and generate wider economic benefits. In this regards, we have partnered with The Institute of Chartered Accountant of Sri Lanka (CA Sri Lanka) to enhance the knowledge of SME customers to build their value chains for the future.

52% of Sri Lanka's population represents SMEs. Out of this, 33% are women. Therefore, we continued to focus on uplifting female entrepreneurs. While our technical training and financial literacy programmes to help them improve their businesses, could not be delivered as scheduled, we hope to continue our programmes in 2021. Our financial literacy programmes will focus on the following Three subject areas:

1. Savings and loans
2. Entrepreneurship
3. Digital banking

## THE RETAIL SEGMENT

Retail customers comprise 54% of our loan book and 51% of our deposits. This customer base consists of six distinct divisions. Such categorisation allows us to provide customer service that is tailored to the needs of each of the following segments. In addition, we focus on some segments of society that are underserved by traditional financial services providers, such as senior citizens, women and veterans. Through our specialised products and services we contribute towards uplifting their lives and provide them with opportunities to be financially independent.

1. General savings
2. Minors
3. Women
4. Youth
5. Senior citizens
6. Veterans

## MINORS

Inculcating a saving habit among the young has been one of our long-term goals and our *Lakdaru* and *Dayada* children's savings accounts encourage children to save for important events in their future. We believe future economic prosperity of the country depends on financially literate, proactive and entrepreneurial generations of youth who can create wealth for the entire nation. Therefore, we are actively taking measures to create a generation of young people who are financially literate, to facilitate the future growth of the national economy. Over the years we have conducted a number of programmes and competitions to encourage thrifty thinking.

## WOMEN

A key objective of the Bank, as a development finance services provider, is to increase women entrepreneurs in Sri Lanka to empower women and families through independent livelihood generation that leads to quality of life improvements for entire families. Therefore, we have introduced programmes that are structured to educate, enable and elevate women to actively contribute to the development of our economy. We place emphasis on supporting female entrepreneurs, particularly in the 35-50 age group. Many face perennial problems such as lack of collateral and businesses registered in a male relative's name instead of their own. Education is the key to this segment's success. While many may not have had much schooling, they have a rich social life within their communities and are able to rally like-minded women in the co-operative and SME segments.

Products such as *Athamaru*, which offers a three month over-the-counter gold loan (as opposed to the one-year period for regular pawning), was launched in 2019 to support women in the low income segment. This facility was a key financial support line for women entrepreneurs during financial difficulties in the 2020 COVID-19 environment that restricted livelihood activities. We also support financial literacy which contributed towards financial inclusion.

Our *Uththamavi* savings product creates avenues for financial independence through savings and also through the creation of investment plans to realise dreams and aspirations, while also enabling loans to support entrepreneurial activities. Modern digital financial platforms have been made available for greater convenience of women users.

## YOUTH

We take pride in contributing towards national development by helping to ensure that the aspirations, hopes, and dreams of a future generation are met through meticulous financial planning and management. Our programmes for Sri Lanka's younger generation of new thinkers and entrepreneurs complement their ambitions for success. We help this customer segment to develop and maintain a strong financial strategy through our SDB *Jawaya* youth savings account. In addition, the modern digital payment platform UPay, which is easy to use and hassle free, has helped young people meet their financial needs for personal requirements, or for entrepreneurial purposes.

## SENIOR CITIZENS

We, as a bank, have identified the growing population of senior citizens and our efforts are to actively transform this segment to support the economy in small but effective ways. With our long history of catering to senior citizens this is an area in which SDB bank has a real competitive advantage. As much as 23% of the loan book and 24% of liability book are from this customer segment. Retired and often lonely, these customers look forward to their monthly visit to the branch to collect their pension. At SDB bank we go all out to make the day memorable for them.

In addition, we also encourage our seniors to take part in entrepreneurial activities. Under normal circumstances, branch employees encourage seniors to think in an entrepreneurial manner.

Many have skills and social connections that would benefit SMEs. Getting involved in entrepreneurial activities would also boost this segment's confidence and sense of self-worth while ensuring that they remained mentally and physically active.

We serve this segment best through SDB *Upahara*. Going forward we plan to organise free health checks for these customers, and increase their loyalty towards the brand.

## VETERANS

Thirty years of ethnic strife came to an end a decade ago but, as a country, we continue to salute the brave men and women who gave up their lives and limbs to safeguard the people. SDB bank has long been focusing its energies on ensuring that veterans and their families are not left behind as this hard won peace gives way to economic development. When a veteran reaches retirement age his or her family's income drops steeply. The dip in income usually coincides with a time in their lives when funds are more essential than ever. We help our veterans to prepare for significant milestones in their lives and of course their own retirement through a range of financial literacy programmes and our *Uththamachara* product.

## THE CO-OPERATIVES SEGMENT

This customer segment comprises 5% of our loan book and 29% of deposits.

Business volumes for this sector are currently at 17% – a number that we hope to grow to 33% over the near future. In preparation for this push we restructured the Co-operative Development Department at SDB bank to promote entrepreneurship among co-operatives. Many co-operatives have ready cash, which they bank with SDB bank and then lend-on. By fostering an entrepreneurial culture within the co-operatives, we hope to drive wealth creation and job creation among grassroots communities. While hospitality and food and beverage type services have flourished among certain entrepreneurial co-operatives, we focused on creating awareness about two other areas – medical and fitness. Laboratory services received a satisfactory level of success but gymnasiums did not receive the kind of take up that we had anticipated, driving us back to the drawing board to study better alternatives. During the year under review, we maintained close contacts with the co-operatives regulators on how to work together to meet common goals.

## WELCOMING EVERYONE

The new branding that was launched in 2019 contributed to cool, orderly interiors, infused with our corporate colours, that present a welcoming appearance to our customers. With every new building agreement, we will be incorporating the new look and feel to ensure that our customers across the country come to associate us as a beacon in the community.

Through our range of products and services we are facilitating overall national economic development, and in the post-COVID era we are contributing directly towards economic recovery and normalisation by supporting businesses, micro enterprises and individuals to return

to financial stability. Following up from 2019, when we installed 100 internet banking kiosks in co-operatives across the country, we used the COVID-19 restrictions on movements in 2020 to fast track digital onboarding of co-operative communities. Our goal is to introduce digital platforms to people from all walks of life with a special focus on rural communities, to improve efficiencies and get them up to speed with global advancements.

## TOWARDS NATION BUILDING

While our main goal is wealth creation, particularly for those in grassroots communities, we also contribute towards nation building through the many initiatives we have launched for our key customer groups. Our transformation agenda is closely aligned with the United Nations Sustainable Development Goals. Sri Lanka initiated the Sustainable Development Act in 2017, which establishes the legal framework to implement the SDGs with improved institutional and policy coherence. Under this Act, the Sustainable Development Council has been established, which formulates related national policies and guides new development projects. This takes on added significance for SDB bank given that, for a majority of our clients, meeting SDGs such as Zero Hunger, Quality Education, and Reduced Inequalities are crucial to the betterment of lives.





Internet penetration in Sri Lanka continued to grow during the year and stood at 50.8% in January 2021 with 10.90 million internet users, according to the Digital 2021: Sri Lanka report. The growing numbers of Internet users have caused changes to lifestyles and how people communicate and conduct transactions, leading to greater demand for digital products and services, including digital financial services. With the launch of a number of digital platforms we are helping to convert grassroots communities into digital bankers, while also providing them with greater convenience and access to financial services. The launch of such innovative products and services has also allowed us to better streamline our operations and business.




New products (initiatives) launched during the year under review include:

1. LankaQR, the common national QR Code for the UPay payment app (Digital inclusion through *Rata Pura* Lanka QR initiative to promote UPay app usage)
2. Enhancing the SDB mobile banking app with the facility to open fixed deposits
3. Facilitation of digital signatures
4. Tablet based customer screening for small credit facilities that fast tracks credit disbursement
5. A new leasing system was introduced and will be fully deployed in 2021
6. Online administration of legal cases



## DELIVERING VALUE TO OUR CUSTOMERS

### SAVINGS PRODUCTS






Product name	Financial inclusion and financial wealth	Financial literacy and social wealth
	<ul style="list-style-type: none"> <li>• Saving for the future</li> <li>• Insurance cover (including government hospitalisation)</li> <li>• Higher interest rate compared to regular savings</li> <li>• Target market is children</li> </ul>	<ul style="list-style-type: none"> <li>• Developing savings habit</li> <li>• Scholarship seminars for children</li> <li>• Seminars for parents on child psychology</li> <li>• Offering valuable, educational gifts for children</li> </ul>
	<ul style="list-style-type: none"> <li>• The best benefits in the market for savings</li> <li>• An investment plan to realise dreams</li> <li>• Loan up to LKR 1 Mn. for entrepreneurs</li> <li>• SDB mobile app facility and bill payments through UPay app</li> <li>• Target market is women</li> </ul>	<ul style="list-style-type: none"> <li>• Provides avenue for financial independence with a helping hand always outstretched in support of the customer</li> </ul>
	<ul style="list-style-type: none"> <li>• Multiple convenient digital banking platforms</li> <li>• A special interest rate of up to 6% per annum</li> <li>• Incentives for account holders who maintain an account balance of LKR 100,000.00 for 24 months</li> <li>• Target market is youth</li> </ul>	<ul style="list-style-type: none"> <li>• Supporting the youth to develop and maintain strong financial strategies</li> </ul>
	<ul style="list-style-type: none"> <li>• Offered highest interest rates to customers</li> <li>• Unlimited withdrawal</li> <li>• Multiple convenient digital banking platforms</li> </ul>	<ul style="list-style-type: none"> <li>• Fostering a culture of saving and financial management in Sri Lanka</li> </ul>

Product name	Financial inclusion and financial wealth	Financial literacy and social wealth
	<ul style="list-style-type: none"> <li>Lump sum deposit ensures a guaranteed return despite interest rate fluctuations</li> <li>Investment certificate can be encashed upon turning 18 years of age</li> </ul>	<ul style="list-style-type: none"> <li>Encouraging saving for a child's significant future aspirations such as higher education, business investments or a wedding</li> </ul>
	<ul style="list-style-type: none"> <li>Higher interest rate compared to standard savings schemes</li> <li>Payment date for monthly investment based on customer preference</li> <li>Target amount and period of investment chosen by customer</li> </ul>	<ul style="list-style-type: none"> <li>Providing financial independence for women</li> <li>Contributes towards a stress-free, financially secure future</li> </ul>
	<ul style="list-style-type: none"> <li>Interest calculated on daily basis based on the day-end balances and credited monthly</li> <li>Multiple convenient digital banking platforms</li> <li>Savings product for who seek higher interest rate</li> </ul>	<ul style="list-style-type: none"> <li>Encouraging enterprising and fast progressing businesses in Sri Lanka to save for the future</li> </ul>








## MAIN FIXED DEPOSIT PRODUCTS

Product name	Financial inclusion and financial wealth	Financial literacy and social wealth
	<ul style="list-style-type: none"> <li>Attractive higher rate of interest</li> <li>Immediate cash back facility of up to 90% of deposits</li> </ul>	<ul style="list-style-type: none"> <li>Inculcating a savings habit</li> </ul>
	<ul style="list-style-type: none"> <li>Attractive interest rate of 15% per annum for to LKR 1.5 Mn. for those over 60 years of age</li> <li>A special interest rate for those over 55 years of age</li> </ul>	



## MAIN LOAN/LEASING PRODUCTS

Product name	Financial inclusion and financial wealth	Financial literacy and social wealth
	<ul style="list-style-type: none"> <li>Customised leasing packages with flexible repayment schemes at competitive rates</li> <li>Attractive discounts on premature settlements</li> <li>Leasing facilities for private and commercial vehicles</li> </ul>	<ul style="list-style-type: none"> <li>Enabling vehicle ownership</li> </ul>
	<ul style="list-style-type: none"> <li>Longer repayment period</li> <li>Flexible approach and fast approval</li> <li>Attractive and competitive low interest rate</li> </ul>	<ul style="list-style-type: none"> <li>Encouraging and enabling home ownership</li> </ul>
	<ul style="list-style-type: none"> <li>Top up facility – after repaying a part of the original Personal Loan</li> <li>Choice of fixed or floating interest rates</li> <li>Processed within a maximum of three working days</li> </ul>	<ul style="list-style-type: none"> <li>Providing funds for emergencies or meeting life goals</li> </ul>
	<ul style="list-style-type: none"> <li>Purchasing options for gold jewellery, gold coins or gold biscuits at competitive interest rates</li> </ul>	<ul style="list-style-type: none"> <li>Encouraging investment in gold</li> </ul>
	<ul style="list-style-type: none"> <li>For <i>Ranaviru</i> families of Army/Navy/Air Force/Police/STF who are Killed in Action (KIA), Missing in Action (MIA) and Disabled in Action (DIA)</li> <li>Loans up to LKR 7 Mn.</li> <li>Repayment period up to 10 years</li> <li>Automatic loan protection cover for all applicants</li> </ul>	<ul style="list-style-type: none"> <li>Seminars aimed at improving financial literacy</li> <li>Entrepreneurship development through <i>Uththamachara</i> loan facility, for combat veterans suffering from disabilities as well as <i>Ranaviru</i> families of diseased/missing military personnel, to support income generating ventures and activities.</li> </ul>



Product name	Financial inclusion and financial wealth	Financial literacy and social wealth
	<ul style="list-style-type: none"> <li>• A three-month gold loan facility</li> <li>• 0% interest rate per annum</li> <li>• Account holders can obtain an advance loan amount of 90% of the total gold value</li> </ul>	<ul style="list-style-type: none"> <li>• Providing low-risk credit transactions for personal or business emergencies</li> </ul>
	<ul style="list-style-type: none"> <li>• For Government and CEB pensioners</li> <li>• Loans up to LKR 3 Mn. without guarantors</li> <li>• Repayment period up to 10 years, and 75 years of age</li> <li>• Our extended support to transfer the pension remittance to the account quickly and conveniently.</li> <li>• A loan protection cover with lowest insurance charge</li> <li>• A competitive interest rate for savings</li> </ul>	<ul style="list-style-type: none"> <li>• Seminars for Government pensioners, veterans and <i>Ranaviru</i> families</li> <li>• Through the loan protection cover dependents are relieved from the debt in the event of the sudden death of the borrower</li> <li>• Solution for an aging population enabling them to rejoin the workforce</li> </ul>
	<ul style="list-style-type: none"> <li>• Maximum advance amount for a Sovereign (8g) 18K/24K of gold</li> <li>• Competitive low interest rates</li> <li>• Ensured accuracy of gold weight and value with the latest equipment</li> <li>• Benchmarked services that guarantee speed, privacy and the highest level of confidentiality</li> </ul>	<ul style="list-style-type: none"> <li>• Secure and confidential monetary assistance in times of need through pawning of gold or gold jewellery for urgent cash on credit</li> </ul>
	<ul style="list-style-type: none"> <li>• Reasonable rate of interest with a suitable grace period</li> <li>• Loan values to suit business requirements with a flexible repayment schedule aligned with income pattern and payment capacity</li> <li>• Business guidance and consultancy services</li> </ul>	<ul style="list-style-type: none"> <li>• Quick access to financing for SMEs that are launching a business or expanding an existing enterprise</li> <li>• Financial literacy and entrepreneurship workshops</li> </ul>
	<ul style="list-style-type: none"> <li>• Loan facilities up to LKR 1 Mn. with two guarantors</li> <li>• Repayment period of up to 5 years for capital financing and up to two years for working capital for applicants who hold 50% or more ownership of a business</li> </ul>	<ul style="list-style-type: none"> <li>• Loan facilities for young male entrepreneurs which help meet diverse business financing needs and drive our local economy forward</li> </ul>
	<ul style="list-style-type: none"> <li>• Microfinance loans</li> <li>• SME loans</li> <li>• Personal loans of up to LKR 10 Mn.</li> <li>• Insurance benefits for those obtaining a loan</li> </ul>	<ul style="list-style-type: none"> <li>• Financial independence</li> </ul>
	<ul style="list-style-type: none"> <li>• Loans for any recognised business holder, from LKR 50,000.00 upwards</li> <li>• Loan facilities from LKR 250,000.00 up to One Million to fulfil production or business needs of societies/ associations</li> <li>• SDB <i>Divi Saviya</i> Leasing Facility (Up to LKR 500,000.00) <ul style="list-style-type: none"> <li>– Hand Tractor</li> <li>– Motor Bicycle</li> <li>– Three Wheelers (Brand New/Used)</li> </ul> </li> <li>• Repayment Period up to 3 years</li> <li>• Providing technical knowledge and business consultation</li> <li>• Fully fledged online banking experience with Business Internet Banking</li> <li>• Fund transfer facilities via SDB Mobile App</li> <li>• Enabling the acceptance of digital transactions through UPay App's digital solutions</li> <li>• Quick and hassle free loan facilities from the island wide branch network</li> </ul>	<ul style="list-style-type: none"> <li>• To develop an existing business</li> <li>• To purchase new machinery and equipment</li> <li>• To upgrade to new technology</li> <li>• For any other business need such as the development of packaging or distribution infrastructure</li> </ul>

## CO-OPERATIVE PRODUCTS

Product name	Financial inclusion and financial wealth	Financial literacy and social wealth
<b>Loans for Society</b>	<ul style="list-style-type: none"> <li>Unsecured loans up to LKR 2 Mn. at prevailing interest rates</li> <li>Repayment period up to three years in monthly instalments, with a 3-month grace period.</li> </ul>	<ul style="list-style-type: none"> <li>Supporting SANASA Primary Societies which lack sufficient funding to increase assets and in turn develop and support smaller, dependent societies</li> </ul>
<b>Loans for Members Agricultural loan</b>	<ul style="list-style-type: none"> <li>Repayment period of one year at prevailing interest rates, with a maximum of a 6-month grace period</li> <li>Repayment can be made monthly, or as a bullet repayment</li> <li>Loan amount depends on the capacity of the society, and can go up to LKR 20 Mn. with no collateral</li> </ul>	<ul style="list-style-type: none"> <li>Meeting demand for urgent working capital to improve growing crops, raising livestock, and improving operations of small to medium-scale plantations/farms</li> </ul>
<b>Equipment/ Machinery loan</b>	<ul style="list-style-type: none"> <li>Repayment period of three years in monthly instalments at prevailing interest rates</li> <li>Loan amount depends on the capacity of the society, and can go up to LKR 20 Mn. with no collateral</li> </ul>	<ul style="list-style-type: none"> <li>Helping members to preserve the income of their business by spreading out the cost of equipment or machinery over a 3-year period</li> </ul>
<b>Export/Import loan</b>	<ul style="list-style-type: none"> <li>Repayment period of one year at prevailing interest rates, with a 3-month grace period</li> <li>Repayment can be made monthly, or as a bullet repayment</li> <li>Loan amount depends on the capacity of the society</li> </ul>	<ul style="list-style-type: none"> <li>Empowering members through their respective co-operative/society</li> <li>Supporting members in their endeavour to contribute to the national economy</li> </ul>
<b>Tech loan</b>	<ul style="list-style-type: none"> <li>Repayment period of three years in monthly instalments at prevailing interest rates</li> <li>Loan amount depends on the capacity of the society, and can go up to LKR 20 Mn. with no collateral</li> </ul>	<ul style="list-style-type: none"> <li>Empowering members of co-operatives with the opportunity to invest in computers, laptops and other equipment, to join in the global digital revolution and not be left behind</li> </ul>
 <b>SDB Co-operative Top Saver</b>	<ul style="list-style-type: none"> <li>Highest interest rate of up to 10% for savings</li> <li>Interest calculated on daily basis based on the day-end balances and credited monthly</li> <li>Loan facilities against savings balances with ability to avail up to 80% of the deposit for a one year loan renewal period</li> </ul>	<ul style="list-style-type: none"> <li>Encouraging enterprising and fast progressing businesses in Sri Lanka to save for milestones and a brighter future</li> </ul>
<b>SANASA Co-operative/ NGO Savings</b>		<ul style="list-style-type: none"> <li>Helping accelerate the progress of the rural economy, the SANASA co-operative/NGO savings account aims to connect rural co-operative societies and NGOs as significant contributors to the national economy, thereby nurturing financial equality and stability across Sri Lanka</li> </ul>
<b>Sahanya</b>	<ul style="list-style-type: none"> <li>Special interest rates</li> <li>Special bonus interest of 40% of the cumulative interest paid when required minimum balance of LKR 100,000.00 is maintained during a period of one year</li> <li>60% cash back loan facilities</li> </ul>	<ul style="list-style-type: none"> <li>Adds value to community causes and reduces financial service costs for societies</li> </ul>
 <b>SDB Samupa Saviya</b>	<ul style="list-style-type: none"> <li>Additional 0.25% interest for fixed deposits</li> <li>Coverage for entire co-operative segment (including society employees)</li> </ul>	<ul style="list-style-type: none"> <li>Capacity building training programmes and thrift month financial literacy programmes were scheduled, but could not be held in 2020 due to restrictions on travel and gatherings in the COVID-19 environment.</li> </ul>

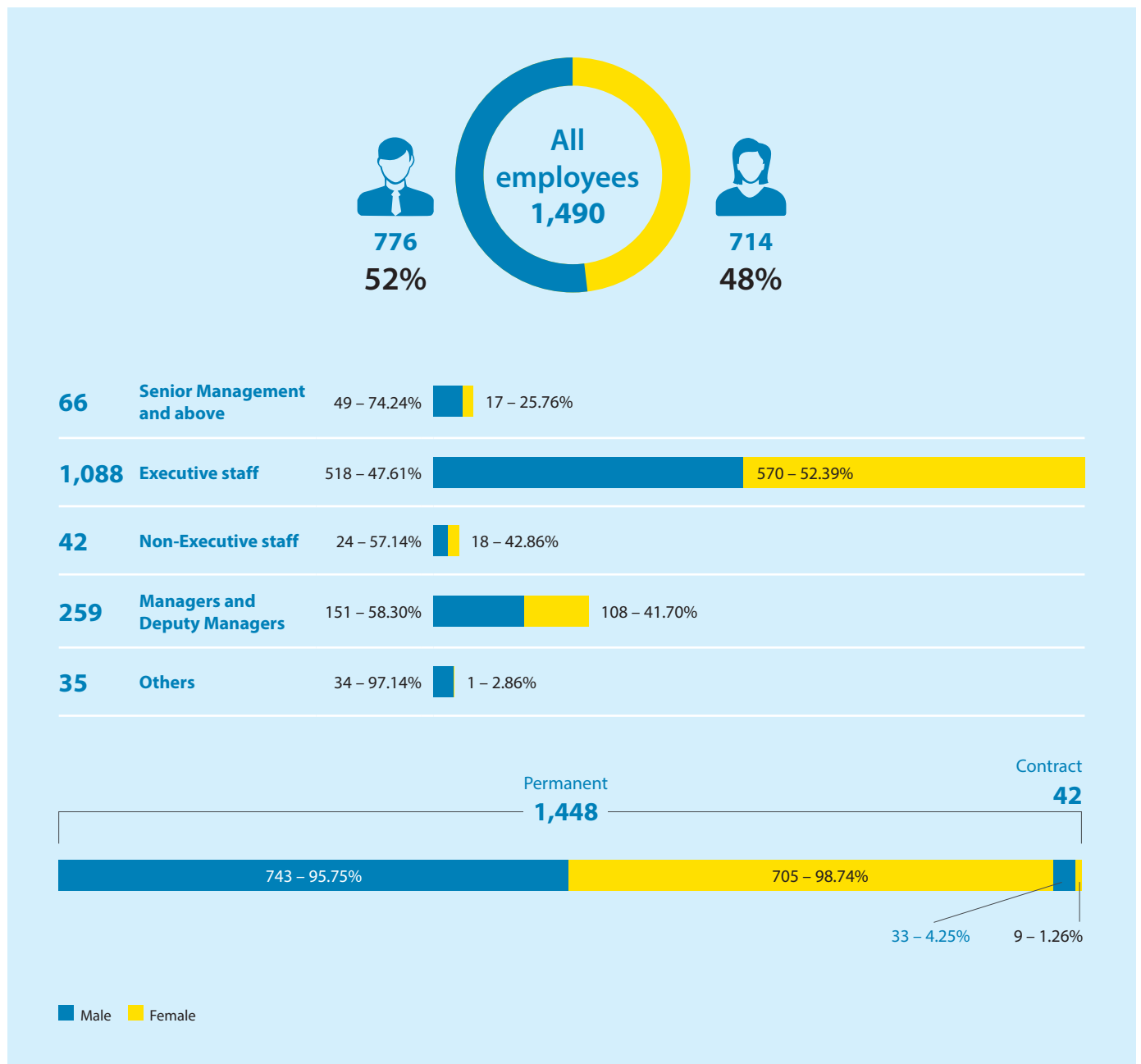
# The Passion of our People

Although the COVID-19 pandemic caused massive socio-economic disruptions across the country, we are proud to record that our workforce of 1,490 SDB employees scattered across the island hit-the-ground-running and ensured availability of all our services to our customers. Adapting overnight to the work-from-home model, the dedication of our staff was instrumental to SDB bank's exceptional performance in 2020.

With a nearly equal 50-50 split in terms of gender across the Bank and over 97% being permanent employees, our people are as diverse as the customers they serve and solidly committed to changing the lives and lifestyles of our customers for the better. As we enter uncharted

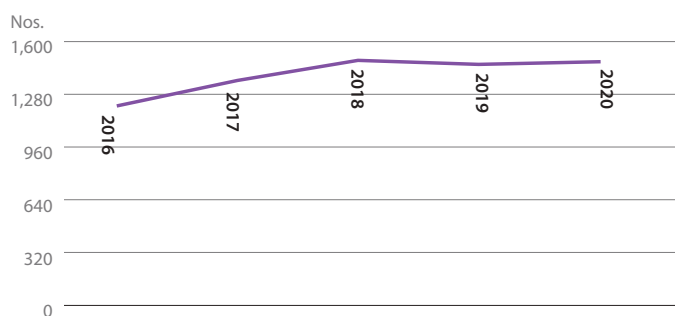
territory in which a large proportion of our customer demographic was impacted by the COVID-19 outbreak, our people ensured that our customers received the financial solutions they need and want. They continued to serve with commitment and compassion – ever ready to go the extra mile.

Our Human Resources (HR) Department, oversees recruitment, assists with workforce planning and strategy, drives the employee engagement strategy, facilitates learning and development along with succession planning, looks after the employee welfare and contributes to management decision-making through reporting and analytics.



As at December 2020, the Bank had 1,490 employees. Growth in the number of employees is as follows:

#### Growth of employment – Total number of employees



## TRAINING AND DEVELOPMENT

While the envisaged training calendar could not be implemented as planned, due to restriction on travel and gatherings in the COVID-19 environment, we are pleased to report that many of our planned training events were successfully conducted through online platforms. Nearly 45% of the technical training events for the year were held online, via Zoom and a six month coaching programme for the Corporate Management team of 25 managers and the CEO, was held during the year.

Our training and development strategy focused on technical aspects and the development of soft skills – all with the goal of meeting the needs of our key market segments: SME, Retail, Co-operative and Business Banking. During 2020, we also identified the need for specialised training in management development for succession planning and to support the Bank with the correct leadership skills required in the Bank’s journey of transformation. The types of training opportunities we provide for our employees are threefold: internal and external training and international interactions.

Technical training involves educating employees on how to identify the creditworthiness of businesses, potential areas of improvement, and prospects for income generation. Soft skills development includes how to empower customers and engender their long-term trust in the Bank.

Overall, we invested LKR 7.9 Mn. in training and development, providing employees with 11,284 hours of training across 88 sessions, covering many technical areas of banking and also in management skills development.

## EMPLOYEE ENGAGEMENT AND CULTURE

We are constantly striving to strengthen cooperation and engagement among our growing workforce, and following the survey conducted under the Great Place to Work programme in 2019, we commenced deployment of a more targeted and comprehensive employee engagement strategy in 2020. As our workforce is scattered across the island, and in some cases in far flung locations, the frequency and intensity of communications between the Head Office and branches was not uniform, which impacted the level of trust in the Management. Therefore, we launched an island wide programme to enhance communications and trust between the Management and all staff, among all our branches. The Corporate Management team reached out to the regional branches and engaged with regional staff, to address their concerns and receive feedback, and also clearly communicated the 2020 business plan of the Bank.

Another significant improvement was the appointment of an HR representative at all 94 SDB branches and establishing a Human Resource Committee with all 94 HR representatives attending, in addition to the central HR Team from the SDB Head Office. The forum is called “HRtogether” which implies that HR is a concern of every Team Leader and we have to do it together. Due to the extensive representation, the committee is able to discuss concerns specific to each branch and to develop solutions in a transparent and cooperative manner.

We shared information among teams through digital platforms such as Whatsapp and emails and ensured continuous and clear lines of communication were always open. Other forms of communication mechanisms included:

- Bank circulars
- Staff notice board
- Managers’ forums

Every year, we organise formal and informal employee events on a regional basis to improve engagement levels and cross-functional relationships. These events often combine environmental or social volunteering which serve the dual purpose of helping SDB bank to give back to the communities and environment within which it operates while also providing avenues for employees to engage informally with each other and the grassroots communities they serve. In turn such Corporate Social Responsibility projects contribute to our employees’ own feelings of self confidence and self worth.

While staff engagement events could not be held as scheduled due to Covid-19 restrictions, we continued to engage our staff through online platforms. For instance, the BetterU Whatsapp Group, which is a healthy-living platform, was utilised to convey vital health and welfare information from expert sources to our staff.

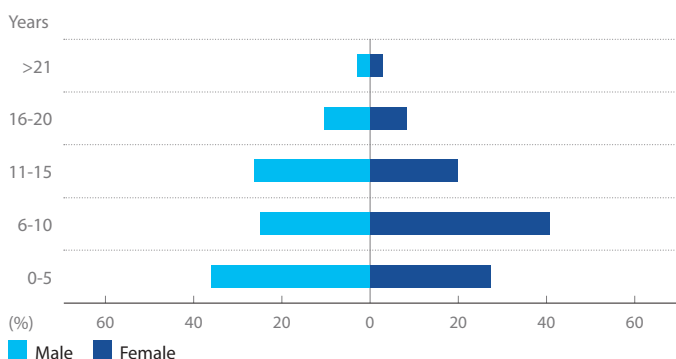
Other staff engagement programmes such as the Speech craft programme and LIFELINE – a programme to improve the quality of life were also continued online.

## EMPLOYEE RECRUITMENT AND RETENTION

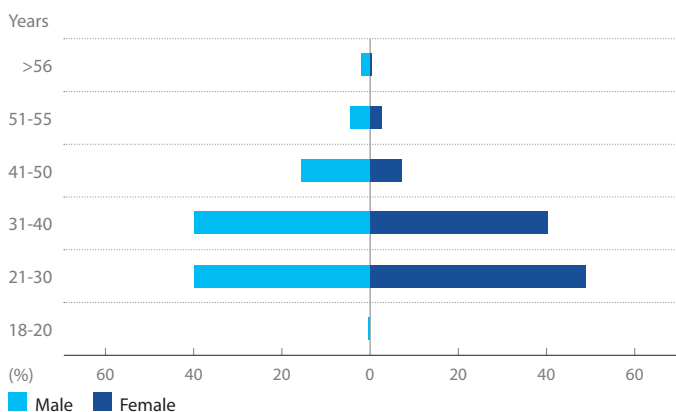
While we rely on an experienced, skilled, and dedicated team of employees at all levels, our perennial problem has always been attracting employees for higher-level positions as SDB bank's position as one of the best micro-finance organisations in the country is not known to many. With current employees standing as examples and guardians of an enabling and empowering culture, the awards we have won, and the high-level employees that the Bank has attracted recently, the truth about SDB bank is becoming better known. We are now beginning to attract many high-quality candidates for higher levels. Attracting potential employees for other positions has never been a challenge.

We remain appreciative and supportive of our existing employee cadre – a true asset and the secret to our success. Although we are seen as a small organisation, our employee packages are above market average. Our employee retention levels remain relatively strong having continuous employment with the Bank. We take care to balance the retention and development of internal talent with a healthy infusion of external talent to ensure that our employee cadre remains diverse, holding a range of different perspectives and viewpoints which reflect those of our customers and contribute to the innovation for which SDB bank is becoming known.

### Years of service pyramid of staff by gender



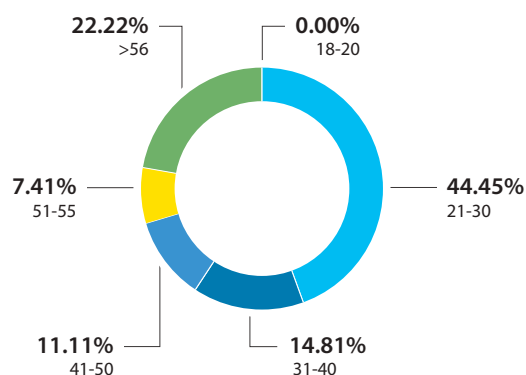
### Age-wise pyramid of staff by gender



## Employee turnover by grade and gender

Grade	Total number of employees	Total %	Male %	Female %
Senior Management and above	1	0.07	0.07	0.00
Executive staff	18	1.21	0.81	0.40
Non-Executive staff	1	0.07	0.07	0.00
Managers and Deputy Managers	6	0.40	0.20	0.20
Others	1	0.07	0.07	0.00
<b>Total</b>	<b>27</b>	<b>1.81</b>	<b>1.21</b>	<b>0.60</b>

## Employee turnover by age



## PERFORMANCE MANAGEMENT

Performance evaluations of employees have hitherto taken place annually and are measured against three dimensions of employment:

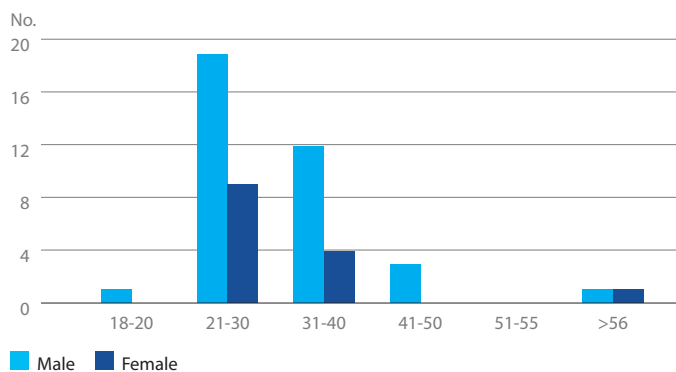
- Business targets or key performance indicators
- Behavioural attributes
- Value propositions

The biannual performance reviews introduced in 2018, which linked performance with incentives, training and career advancement has proved to be good for driving employee engagement. We will be looking to improve this process further.

SDB bank is an equal opportunities employer, treating all its people and prospective employees with impartiality, irrespective of gender, age, race, or religion. This applies across all our processes from recruitment to career development and progression. We have also created provided profiles for key management roles so that we are able to groom employees to meet the expectations that the role requires. Each employee will now also be screened by Head of HR.

For managerial level positions and above the CEO will also assess them to ensure that all levels, all new hires with potential to be groomed for leadership positions. This will ensure that we are focused on the long-term.

### Employee recruitment by age and gender



### BENEFITS PROVIDED TO EMPLOYEES

Every year we enhance our employee benefits. In 2020, with the emergence of Covid, we made further improvements to our employee welfare facilities by adding a reimbursement mechanism for non-hospitalised COVID-19 confinements. This scheme will reimburse LKR 7,500 per day, up to 10 days, if an employee is diagnosed COVID positive but is not hospitalised. The Bank also conducted PCR tests for SDB branch employees, at the Bank's cost and provided dry ration packages for staff in quarantine.

Other, existing benefits for employees includes:

- 21 days of annual leave
- Comprehensive medical insurance
- Employer's contribution to EPF 14% (where minimum requirement is 12%)
- Medical leave of 14 days
- Unutilised annual leave of up to 7 days which can be carried forward
- Membership in the Welfare Society
- Special leave for critical illnesses

- Female employees with infants allowed feeding breaks during the first year
- Educational support: Honorarium payments for completion of banking exams a reimbursement of professional membership subscriptions
- Two years no pay leave for those who are pursuing their higher education abroad, subject to a signed bond between the employee and the employer

### INDUSTRIAL RELATIONS

Freedom of association – which covers three aspects: namely an employee's right to join or leave groups voluntarily, the group's right to take action collectively in the interests of its members, and the association's right to accept or decline membership based on certain criteria, have long been recognised and respected by SDB. As an organisation Bank has made every endeavour to maintain industrial peace in the Bank.

### FUTURE OUTLOOK

During 2020, HR Policies were reviewed against the dramatic macro changes of the year, including the imperative towards a work-from-home culture. The HR policies were revised to include flexible and remote working procedures, which will be introduced in 2021, formalising a more flexible and modern employment framework for SDB to face any future challenges.

Looking beyond 2020, we will continue to emphasise development of human resources as a core component of the Bank's transformation agenda. This includes investing in developing a highly skilled, professional and performance oriented team, across the wide extent of the SDB branch network, and also developing a leadership pipeline to sustain transformation and growth momentum into the future. Coaching, mentoring and counselling will be introduced, in addition to formal training, to nurture talent and leadership in line with corporate objectives. These actions will go a long way towards ensuring that employees at all levels pull together to meet the Bank's goals. The traditional performance assessment through setting annual goals, will be replaced by a more proactive dynamic performance management process that will enable real time measures of performance on a continuous basis. These initiatives will drive the internal transformation essential for the sustainable growth of the Bank.

# The Confidence of Investors

Investor relations consists of a dialogue between the Bank and the financial markets, of information that helps the investment community, make judgements on the Bank's market value vis-a-vis the potential and sustainability of the Bank. The feedback received from investors and the market also provides valuable insight to the Bank in strategic decision-making.

The Bank's active investor engagement enables the market to make sound decisions on their current and probable future shareholdings and investments in other securities.

At SDB bank, the Annual General Meeting is the primary platform for communicating the Bank's performance while the Annual Report gives detailed, yet succinct information on its activities, use of its different forms of capital and its responsible social capital involvement. In addition, the Bank has one-on-one interactions with significant investors and other publications through the Colombo Stock Exchange.

Through these avenues of contact, the Bank helps investors to gain a balanced view of its operating results, financial position, liquidity and cash flow through their Financial Statements. Furthermore, available disclosures help investors get a reasonable understanding of the Bank's strategic direction, governance, risk management, and the future business prospects.

It is expected that through sharing these many facets of information, current and potential investors will appreciate the value of the Bank and build and strengthen their relationship with the Bank.

Accountability, transparency, and good governance are at the forefront of the Bank's operations and the emphasis placed on these aspects in our communications with our investors give them the confidence that the operations are being conducted in line with best practices from around the world.

Our investor relations programme is designed to achieve the following:

- A competitive price for the Bank's shares;
- A healthy level of transactions of the Bank's shares on the Stock Exchange;
- Easier and cheaper access to capital in the future; and
- Reduced volatility in the share price through maintaining a loyal group of investors.

At SDB bank, we believe that successful investor relations are achieved through regular exchange of information with the market and is therefore integral to our communication strategy.

## SDB BANK SECURITIES

### TYPES

- Quoted ordinary shares
- Debentures

### LISTING DETAILS

#### QUOTED ORDINARY SHARES

Listed exchange	: Colombo Stock Exchange (CSE) Main Board
Sector	: Banks Finance and Insurance
Quoted date	: 31 May 2012
Code-ISIN	: LK0412N00003
Stock symbol	: SDB.N000

### DEBENTURES

Type	Code	ISIN	Par value LKR	Coupon rate (Per annum) %	Credit rating
B	SDB-BD- 31/12/20-C2337-10	LK0412D23394	100	10.00	A+(SO)
D	SDB-BD- 31/12/20-C2339-10.30	LK0412D23378	100	10.30	A-(SO)

### CREDIT RATINGS

The Bank has obtained credit ratings from Fitch Ratings Lanka Ltd., and ICRA Lanka Limited. The ratings take into consideration the Bank's performance, asset quality, capitalisation, liquidity and market position among others.

Rating entity	Rating
Fitch Ratings Lanka Ltd.	BB+(lka) with Stable outlook
ICRA Lanka Limited	(SL)BBB with Stable outlook

### USEFUL LINKS FOR INVESTORS

Information	Link (website)
SANASA Development Bank PLC	<a href="http://www.sdb.lk">www.sdb.lk</a>
Colombo Stock Exchange	<a href="http://www.cse.lk">www.cse.lk</a>
Central Bank of Sri Lanka	<a href="http://www.cbsl.gov.lk">www.cbsl.gov.lk</a>
Fitch Ratings Lanka Ltd.	<a href="http://www.fitchratings.com">www.fitchratings.com</a>
ICRA Lanka Limited	<a href="http://www.icralanka.com">www.icralanka.com</a>

## HOW WE CREATE VALUE TO OUR INVESTORS



## SHARES AND SHAREHOLDERS' ANALYSIS

### SHARE OWNERSHIP COMPOSITION

Share range	31 December 2020				31 December 2019			
	Number of shareholders	Percentage	Number of shares	Percentage	Number of shareholders	Percentage	Number of shares	Percentage
1 – 1,000	36,493	93.93	4,854,384	5.30	35,813	95.49	4,358,723	7.74
1,001 – 10,000	1,796	4.62	5,545,897	6.06	1,312	3.49	3,684,299	6.54
10,001 – 100,000	498	1.28	14,298,993	15.61	341	0.91	10,200,329	18.12
100,001 – 1,000,000	52	0.13	12,073,058	13.18	32	0.09	7,634,895	13.56
1,000,001 – and above	14	0.04	54,803,700	59.85	8	0.02	30,430,006	54.04
	<b>38,853</b>	<b>100.00</b>	<b>91,576,032</b>	<b>100.00</b>	<b>37,506</b>	<b>100.00</b>	<b>56,308,252</b>	<b>100.00</b>

### ANALYSIS OF SHAREHOLDERS

#### RESIDENT/NON-RESIDENT

	31 December 2020				31 December 2019			
	Number of shareholders	Percentage	Number of shares	Percentage	Number of shareholders	Percentage	Number of shares	Percentage
Resident	38,836	99.96	73,443,013	80.20	37,491	99.96	43,684,393	77.58
Non-resident	17	0.04	18,133,019	19.80	15	0.04	12,623,859	22.42
<b>Total</b>	<b>38,853</b>	<b>100.00</b>	<b>91,576,032</b>	<b>100.00</b>	<b>37,506</b>	<b>100.00</b>	<b>56,308,252</b>	<b>100.00</b>



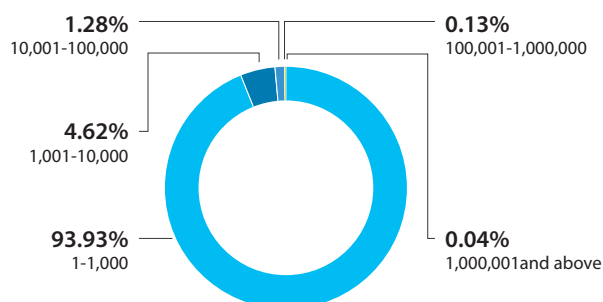
## INDIVIDUAL/INSTITUTIONAL

	31 December 2020				31 December 2019			
	Number of shareholders	Percentage	Number of shares	Percentage	Number of shareholders	Percentage	Number of shares	Percentage
Individual	35,232	90.68	21,038,441	22.97	33,901	90.39	9,735,164	17.29
Institutional	3,621	9.32	70,537,591	77.03	3,605	9.61	46,573,088	82.71
<b>Total</b>	<b>38,853</b>	<b>100.00</b>	<b>91,576,032</b>	<b>100.00</b>	<b>37,506</b>	<b>100.00</b>	<b>56,308,252</b>	<b>100.00</b>

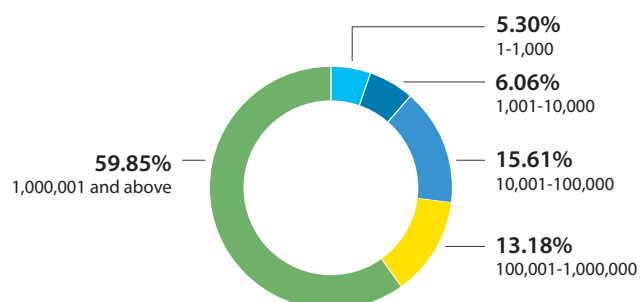
## INSTITUTIONAL SUBANALYSIS

	31 December 2020				31 December 2019			
	Number of shareholders	Percentage	Number of shares	Percentage	Number of shareholders	Percentage	Number of shares	Percentage
Foreign	3	0.008	17,457,384	19.06	4	0.011	12,308,428	21.87
Local and other institutions	56	0.144	33,993,892	37.12	46	0.122	18,681,731	33.18
SANASA Federation								
Acc 1	1	0.003	780,970	0.85	1	0.002	720,024	1.27
Acc 2			30,846	0.03			28,439	0.05
SANASA Societies	3,401	8.754	10,077,736	11.00	3,394	9.049	8,176,835	14.52
SANASA Unions	34	0.088	1,946,819	2.13	34	0.091	1,241,252	2.20
MPCCS	21	0.054	169,837	0.19	21	0.056	156,595	0.28
Trust companies	105	0.270	6,080,107	6.64	105	0.279	5,259,784	9.34
<b>Total</b>	<b>3,621</b>	<b>9.321</b>	<b>70,537,591</b>	<b>77.02</b>	<b>3,605</b>	<b>9.610</b>	<b>46,573,088</b>	<b>82.71</b>

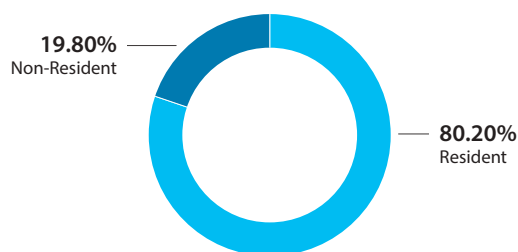
Share ownership composition by number of shareholders



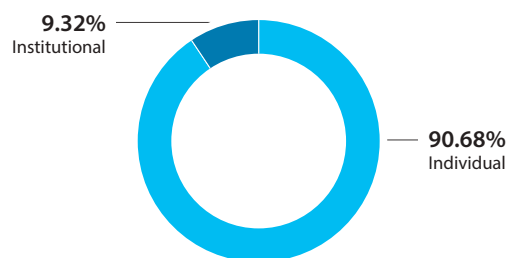
Share ownership composition by number of shares



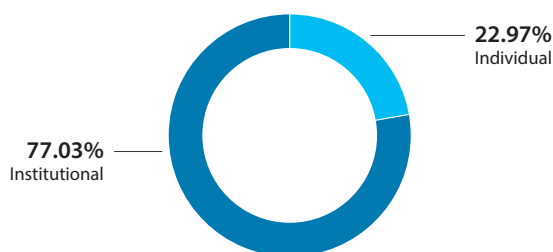
Resident/Non-resident shareholding by number of shares



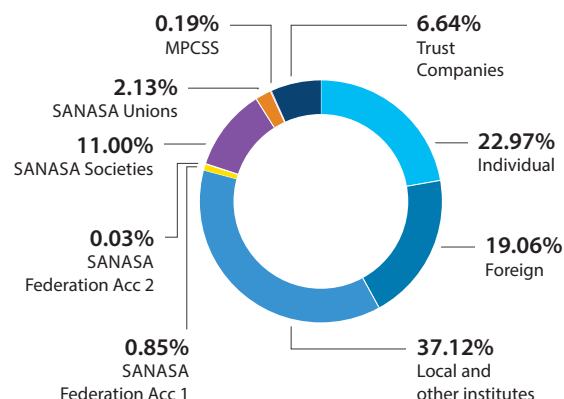
Individual/Institutional shareholding by number of shareholders



## Individual/Institutional shareholding by number of shares



## Individual shareholding and Institutional sub analysis shareholding by number of shares



## TOP TWENTY SHAREHOLDERS

No.	Name of the shareholder	31 December 2020		31 December 2019	
		Number of shares	Percentage	Number of shares	Percentage
1.	Seylan Bank PLC/Senthilvel Holdings (Pvt) Ltd.	11,777,293	12.86	6,952,168	12.34
2.	Ayenka Holdings (Pvt) Ltd.	11,434,399	12.49	7,028,043	12.48
3.	Nederlandse Financierings – Maatschappij Voor Ontwikkelingslanden N.V.	9,157,603	10.00	2,242,504	3.98
4.	CB NY S/A International Finance Corporation	5,414,163	5.91	4,991,644	8.86
5.	SBI Emerging Asia Financial Sector Fund PTE. LTD.	2,885,618	3.15	5,045,636	8.96
6.	People's Leasing & Finance PLC	2,271,260	2.48	2,094,012	3.72
7.	Alliance Finance Company PLC	2,066,310	2.26	39,836	0.07
8.	People's Leasing & Finance PLC/L P Hapangama	1,753,000	1.91	-	-
9.	Sampath Bank PLC/Dr T Senthilvel	1,664,710	1.82	871,885	1.55
10.	SANASA Life Insurance Company Ltd. (Life)	1,481,692	1.62	910,708	1.62
11.	Commercial Bank of Ceylon PLC/Ayenka Holdings (Pvt) Ltd.	1,320,554	1.44	-	-
12.	Kegalle SANASA Shareholders Trust Company Limited	1,247,746	1.36	1,039,330	1.85
13.	SANASA Life Insurance Company Ltd (General)	1,204,934	1.32	125,961	0.22
14.	SANASA General Insurance Company Limited	1,124,418	1.23	1,036,669	1.84
15.	Polgahawela SANASA Societies Union Ltd.	820,098	0.89	387,314	0.69
16.	SANASA Federation Ltd.	780,970	0.85	720,024	1.28
17.	Hatton National Bank PLC /Mr Gerad Shamil Niranjan Peris	515,619	0.56	-	-
18.	Sampath Bank PLC/Mr Arunasalam Sithampalam	464,981	0.51	224,333	0.40
19.	Hambanthota DTCCS Union Ltd.	416,782	0.46	384,257	0.68
20.	Dialog Finance PLC /M M Fuad	402,250	0.44	-	-
	<b>Total</b>	<b>58,204,400</b>	<b>63.56</b>	<b>34,094,324</b>	<b>60.54</b>

	31 December 2020		31 December 2019	
	Number of shares	Percentage	Number of shares	Percentage
Total number of shares registered	83,142,467	90.79	48,763,197	86.60
Total number of shares unregistered	8,433,565	9.21	7,545,055	13.40
<b>Total number of shares issued</b>	<b>91,576,032</b>	<b>100.00</b>	56,308,252	100.00
Shares held by Directors and CEO	389,737	0.42	199,450	0.35
Shares held by institutions	70,537,591	77.03	46,573,088	82.71
Balance held by public	20,648,704	22.55	9,535,714	16.94
<b>Total number of shares issued</b>	<b>91,576,032</b>	<b>100.00</b>	56,308,252	100.00
Shares held by public	78,431,342	85.65	56,107,533	99.64
Shares held by Directors, CEO and related parties	13,144,690	14.35	200,719	0.36
<b>Total</b>	<b>91,576,032</b>	<b>100.00</b>	56,308,252	100.00

## MARKET CAPITALISATION AND MINIMUM PUBLIC HOLDING

	31 December 2020
Market capitalisation (LKR)	5,320,567,459
Public holding (%)	85.65
Float adjusted market capitalisation	4,556,860,970
Number of shareholders representing public holding	38,846
Required minimum public holding percentage under option 4 of Rule 7.13.1 (a) of the Listing Rules of the CSE (%)	10

The minimum public holding percentage of the Bank as at 31 December 2020 complied with option 4 of Rule 7.13.1(a) of the Listing Rules of the CSE.

## DIRECTORS' AND CEO'S SHAREHOLDING

Name	31 December 2020		31 December 2019	
	Number of Shares	Percentage	Number of Shares	Percentage
Mr P Subasinghe (Director)	112,815	0.1232	69,341	0.1231
Mr K G Wijerathne (Director)	126	0.0001	117	0.0002
Mr Prasanna Premaratna (Director)	1,500	0.0016	-	-
Mr B R A Bandara (Director)	11,000	0.0120	3,791	0.0067
Mr Thilak Piyadigama (CEO)	264,296	0.2886	120,416	0.2139
<b>Total</b>	<b>389,737</b>	<b>0.4255</b>	193,665	0.3439

## SHARE TRADING DETAILS

### MARKET SHARE TRADING

	2020	2019	2018	2017	2016
Number of transactions	3,070,021	1,197,205	885,657	981,977	1,056,849
Number of shares traded (Mn.)	21,349	9,855	6,001	8,468	7,196
Annual turnover (LKR Mn.)	396,881.51	171,407.96	200,068.84	220,591.24	176,935.45
Average daily turnover (LKR Mn.)	3,217.17	711.23	833.62	915.43	737.23

## SDB BANK SHARE TRADING

	2020	2019	2018	2017	2016
Number of transactions	18,745	3,065	4,392	5,981	10,940
Number of shares traded	31,698,795	9,548,518	11,169,042	4,830,202	5,649,252
Value of shares traded (LKR Mn.)	1,122.86	579.51	1,199.97	500.47	725.61
Average daily turnover (LKR Mn.)	5.35	2.51	5.06	2.08	3.02

## MARKET CAPITALISATION DETAILS

### CSE AND BANKING INDUSTRY MARKET CAPITALISATION

	2020	2019	2018	2017	2016
CSE market capitalisation (LKR Bn.)	2,960.65	2,851.31	2,839.44	2,899.29	2,745.00
S & P SL20 (31/12)	2,638.10	2,936.96	3,135.18	3,671.72	3,496.44
All share price index (31/12)	6,774.22	6,129.21	6,052.37	6,369.26	6,228.26
Banking, and finance and insurance sector market capitalisation (LKR Bn.)	318.89	757.32	784.24	769.97	653.86

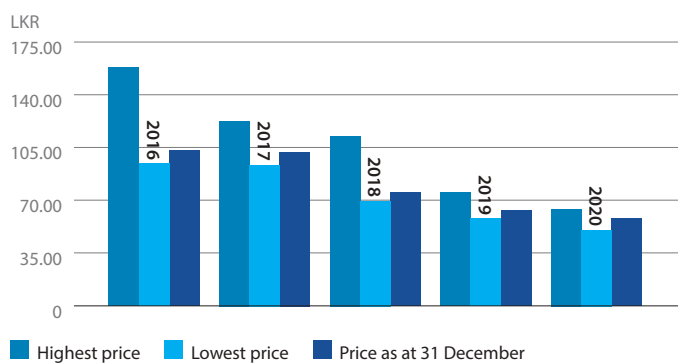
### SDB BANK CAPITALISATION

	2020	2019	2018	2017	2016
CSE market capitalisation (LKR Bn.)	2,960.65	2,851.31	2,839.44	2,899.29	2,745.00
SDB bank market capitalisation (LKR Bn.)	5.32	3.59	4.22	5.58	4.36
Increase/decrease in market capitalisation of SDB bank (%)	48	-15	-24	28	-31
SDB bank market capitalisation as a percentage of CSE market capitalisation (%)	0.18	0.13	0.15	0.19	0.16
Market capitalisation rank of SDB bank	108	117	91	83	96

### SHARE PRICE MOVEMENT

	2020	2019	2018	2017	2016	2015
Highest price (LKR)	65.00	75.00	112.90	122.50	158.80	176.00
Lowest price (LKR)	43.80	58.00	70.00	93.80	95.20	91.00
Price as at 31 December (LKR)	58.10	63.90	75.00	101.90	103.70	157.10

### SDB bank share price movement trend



## DIVIDENDS

A dividend is a distribution of reward, from a portion of the Bank's earnings, and is paid to the ordinary shareholders annually. The amount declared and paid each year varies in relation to the earnings of the Bank. It strikes a balance between a fair return to the shareholders for their investment and the business requirements to maintain the sustainability of the Bank.

Dividends are decided and managed by the Bank's Board of Directors and they are approved by the shareholders through the exercise of their voting rights.

Year	Profit for the year (LKR Mn.)	Total cash dividend paid/to be paid (LKR Mn.)	Total dividend per share (LKR)	Dividend payout ratio (%)	Dividend yield (%)
2016	403.72	131.24	7.50	78.13	7.23
2017	507.82	136.94	6.00	60.79	5.89
2018	356.95	–	–	–	–
2019	253.41	114.02	7.00	155.55	10.95
<b>2020 (To be paid)</b>	<b>836.29</b>	<b>206.05</b>	<b>2.25</b>	<b>3.87</b>	<b>20.36</b>

## VALUE CREATION TO SHAREHOLDERS CSE MARKET

	2020	2019	2018	2017	2016
Market price-earnings ratio (PER) (Times)	<b>11.25</b>	10.83	9.65	10.60	12.37
Market price to book value (PBV) (Times)	<b>1.13</b>	1.14	1.18	1.31	1.42
Market dividend yield (DY) (%)	<b>2.66</b>	3.17	3.09	3.19	2.75

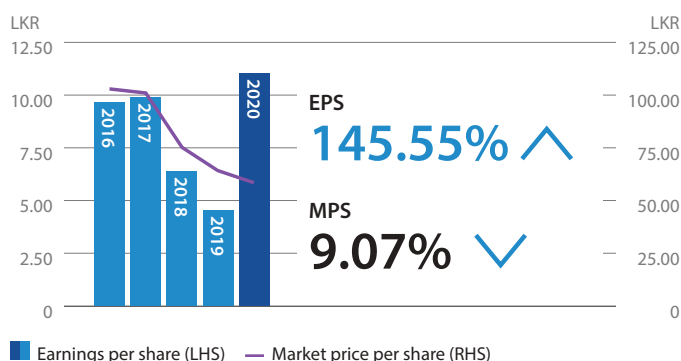
## BANKING INDUSTRY

	2020	2019	2018	2017	2016
Market price-earnings ratio (PER) (Times)	<b>5.18</b>	5.57	5.38	6.61	7.04
Market price to book value (PBV) (Times)	<b>0.56</b>	0.84	0.92	1.07	1.15
Market dividend yield (DY) (%)	<b>2.30</b>	2.70	2.80	2.50	3.30

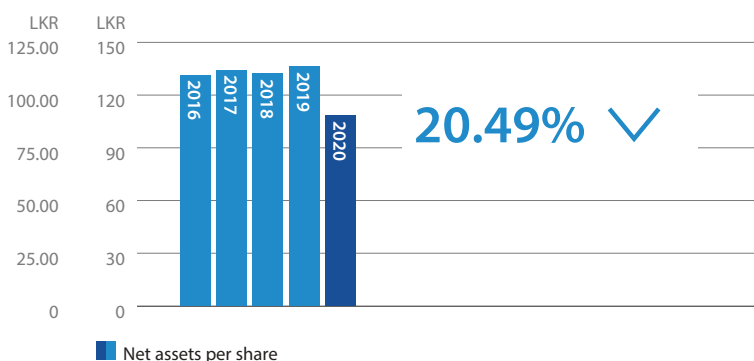
## SDB BANK

	2020	2019	2018	2017	2016
Net asset value per share (LKR)	<b>108.28</b>	136.20	132.28	133.83	131.22
Basic earnings per share (LKR)	<b>11.05</b>	4.50	6.34	9.87	9.60
Dividend per share (LKR)	<b>2.25</b>	7.00	–	6.00	7.50
Market price per share as at 31 December (LKR)	<b>58.10</b>	63.90	75.00	101.90	103.70
Price-earnings ratio (PER) (Times)	<b>5.26</b>	14.20	11.83	10.32	10.80
Price to book value (PBV) (Times)	<b>0.54</b>	0.47	0.57	0.76	0.79
Dividend yield (DY) (%)	<b>3.87</b>	10.95	–	5.89	7.23
Dividend payout (%)	<b>20.36</b>	155.55	–	60.79	78.13
Number of shares millions	<b>91.57</b>	56.31	56.31	54.78	42.06
Number of shareholders	<b>38,853</b>	37,506	37,648	38,283	39,374
Total equity (LKR Mn.)	<b>9,916.17</b>	7,668.98	7,448.73	7,331.16	5,519.28
Stated capital (LKR Mn.)	<b>7,727.94</b>	5,921.54	5,921.54	5,758.69	4,062.96
Debt to equity (Times)	<b>11.74</b>	12.77	11.83	10.09	10.75
Interest cover (Times)	<b>1.61</b>	1.06	1.08	1.11	1.13
Return on equity (%)	<b>9.51</b>	3.35	4.83	7.90	7.46
Quick assets ratio (%)	<b>0.64</b>	0.59	0.65	0.63	0.65

## Earnings and market price per share



## Net assets per share



## OTHER INFORMATION FOR ORDINARY SHAREHOLDERS

### RECORD OF SCRIP ISSUE

Year	New proportion	Old proportion	Number of shares listed	Date listed
2017	1	22.8533333333	2,279,147	12 June 2017
2018	1	35.3754159668	1,529,385	5 June 2018
2020	1	11.8140022617	4,742,436	27 July 2020

### RECORD OF RIGHT ISSUE

Code	Code	Close price LKR	Highest price LKR	Lowest price LKR	Turnover LKR	Number of shares	Trades
2014	SDB.R0000	15.00	24.00	10.70	31,153,089.00	2,191,458	1,717
2020	SDB.R0000	53.60	54.00	53.00	37,269,441.70	702,197	154

Date of allotment	Number of shares provisionally allotted	Consideration per share LKR	Final allotment number of shares	Amount raised LKR	Proportion	Date issued
18 November 2014	12,587,661	80.00	12,587,661	1,007,012,880.00	1:2	30 December 2014
30 November 2020	30,525,344	50.00	30,525,344	1,526,267,200.00	1:2	4 December 2020

### UTILISATION OF FUNDS RAISED THROUGH RIGHT ISSUE 2014

Objective Number	Objective as per circular	Amount allocated as per circular in LKR	Proposed date of utilisation as per circular	Amount allocated from proceeds in LKR	Percentage of total proceeds	Amounts utilised in LKR	Percentage of utilisation against allocation
1.	To increase the Bank's capital base and to finance portfolio growth whilst strengthening the balance sheet.	1,007,012,880.00	Nine months from the date of allotment	1,007,012,880.00	100	1,007,012,880.00	100

## UTILISATION OF FUNDS RAISED THROUGH RIGHTS ISSUE 2020

Objective number	Objective as per circular	Amount allocated as per circular in LKR	Proposed date of utilisation as per circular	Amount allocated from proceeds in LKR	Percentage of total proceeds	Amounts utilised in LKR	Percentage of utilisation against allocation
1.	To further strengthen the equity base of the Bank and thereby improve the Capital Adequacy	1,526,267,200	–	1,526,267,200	100	1,526,267,200	100
2.	To Part finance the growth in the loan portfolio of the Bank	1,526,267,200	Before the end of Second Quarter of Financial Year 2021	1,526,267,200	100	1,526,267,200	100

## VALUE CREATION FOR DEBENTURE HOLDERS

### BASIC INFORMATION OF THE DEBENTURES

	Type B	Type D
Tenure	5 years	5 years
Issue date	31 December 2015	31 December 2015
Maturity date	31 December 2020	31 December 2020
Frequency of interest payable	Semi-annual	Semi-annual
Market value	Not traded	Not traded

### OTHER INFORMATION OF THE DEBENTURES

	2020				2019			
	Balance as at 31 December LKR '000	Coupon rate %	Annual effective rate %	Interest rate comparable Government Securities %	Balance as at 31 December LKR '000	Coupon rate %	Annual effective rate %	Interest rate comparable Government Securities %
Type B	422,851	10.00	10.25	6.65	422,906	10.00	10.25	9.72
Type D	591,049	10.30	10.57	6.65	591,128	10.30	10.57	9.72

## UTILISATION OF FUNDS RAISED THROUGH DEBENTURE ISSUE

Objective Number	Objective as per prospectus	Amount allocated as per prospectus in LKR	Proposed date of utilisation as per prospectus	Amount allocated from proceeds in LKR	Percentage of total proceeds	Amounts utilised in LKR	Percentage of utilisation against allocation
1.	To raise medium term funds to manage assets and liability mismatch and to minimise the interest rate risk	–	–	–	–	–	100
2.	To finance the budgeted lending portfolio (approximately 90% as loans and the balance as leasing) and to minimise the mismatch in funding exposure	964,560,000.00	In the ordinary course business within the next 12 months from the date of allotment	868,104,000.00 for loans and 96,456,000.00 for leasing	100	964,560,000.00	100

# The Power of our Partnerships

Just as the relationships we share with our business partners are mutually beneficial, we ensure that they remain professional, transparent, and fair at all times. Being deeply rooted in the rural community, we have a deep understanding of the needs of our customers and are able to proactively provide solutions for them while working as business partners.

## STRATEGIC PARTNERSHIPS

In 2020, despite the disruptions from COVID-19, we continued to establish high quality strategic partnerships that contribute towards the Bank's growth and service objectives.

- We partnered with the Institute of Chartered Accountants of Sri Lanka (ICASL), in the SME Task force, which is a mentoring programme for micro, small and medium enterprises. The ICASL has called for 1,000 chartered accountants to volunteers as mentors to help develop Sri Lanka's SMEs by educating entrepreneurs on financial principles, accounting concepts and sound financial management. SDB bank is putting forward both mentoring and financial support for SMEs and also micro enterprises through this programme. SDB bank will also provide access to credit to SMEs and micros to help grow these businesses sustainably. The partnership will also expand SDB bank's customer portfolio over the next few months.
- To support the country's dairy industry, we entered into a partnership with MILCO Pvt Ltd, the manufacturers of the popular Highland brand of dairy products. SDB bank will be providing financial support for 1,000 dairy farmers from the MILCO farming network in the North Central Province, in Anuradhapura and Polonnaruwa, using the Bank's own funds. As most traditional commercial bank's will not support such vulnerable communities, this partnership is a national contribution by SDB bank to support dairy farmers and to help develop the country's dairy industry. However, the project is also of great strategic value given the potential for the dairy industry's growth in Sri Lanka. As members of the MILCO network, the selected farmers have a secure market for their dairy products and have a fairly good capacity to repay SDB bank's credit.
- Already, in 2021, we have partnered with the Sri Lanka Institute of Marketing (SLIM) in the SLIM all island, agri-SME support project, called SLIM Agri-Saviya. SDB bank is a banking partner to provide financial services for agricultural SMEs, which are often underserved and marginalised by traditional commercial banks, due to the high vulnerability of these SMEs to natural disasters and extreme weather.
- In 2019, we successfully raised USD 10 Mn. From Stichting Fondsbeheer DGGF Lokaal MKB duly represented by Triple Jump B.V. and USD 8 Mn. From the Belgian Investment Company for Developing Countries (BIO) through an issuance of unlisted subordinated five-year term debt with a non-viability conversion under Tier 2 Capital of the Bank. Both debts are subject to compliance with the conditions stipulated in the Banking Act Director No. 1 of 2016 on capital requirements under BASEL III guidelines published by the Central Bank and are due to be repaid in 2024.
- To explore opportunities in the global co-operative arena we have relationships with International Cooperative Alliance (ICA), Asian Confederation of Credit Unions (ACCU), International Raiffeisen Union (IRU) and Centre for International Cooperation in Agricultural Banking (CICAB).

- Since 1978, we have also been partnered by Rabo Bank of the Netherlands, The World Council of Credit Unions and other world co-operative associates for the roll-out of various development programmes. Internationally SANASA Federation is connected with all world co-operative federations and is a member of all international and regional co-operative bodies.

## PARTNERSHIPS TO BENEFIT CUSTOMERS

Ongoing partnerships to benefit our customers, were continued and expanded in 2020, including the agreement with the Central Bank of Sri Lanka (CBSL) under the Smallholder Agribusiness Partnership Programme (SAPP). The refinancing scheme is an initiative to enhance production levels, productivity, quality, and value-addition of agricultural products. Set to further boost the country's agricultural sector, the project includes the joint efforts of CBSL, the Presidential Secretariat, International Fund for Agricultural Development (IFAD) and SAPP, along with SDB bank. During the current year, we disbursed concessionary funding for turmeric farmers in the Uva Province and chilli farmers in the North Central Province to meet national demand growth for these items. We also extended concessionary funds to dairy farmers under the SAPP refinancing scheme.

Our partnership with DIMO from 2019, was continued, to offer special leasing facilities for Mahindra tractors. This partnership benefits the agricultural sector, particularly smallholder farmers in need of leasing tractors. Through this partnership we were able to offer customers a range of benefits including leasing facilities of up to 85% of the value of the tractor, which is not usually available in the market, and the flexibility to make payments either monthly or seasonally, which is very important for rural farmers.

The agreement with Brown & Company PLC from 2018, was also maintained, to offer financing solutions for the brand new TAFE and Massey Ferguson four wheel tractors.

We retained our partnership with the Ministry of Defence to support women entrepreneurs and youth, which is aimed at increasing their participation in the workforce. We also continued to support our retired soldiers, who leave the armed forces at a young age of around 40 years, by providing access to credit, through the *Uththamachara* credit line, to start and develop their own enterprises. This credit line has allowed retired personnel to develop their own livelihoods and maintain their independence.

## PROCUREMENT POLICY

In line with our Vision to be "A Leading Partner of National Development," we have strong partnerships with local suppliers in order to further economic development in the areas and communities within which we operate. For this reason, wherever possible, we also partner with members of the SANASA Federation to procure the products and services that we need in order to fulfil our Mission.

As depicted below, our level of dependency on business partners varies from critical to ad hoc.



## CRITICAL OPERATIONS

Business critical services remain a key focus to the Management of SDB bank.

- Utility services providers
- Travel and transport
- Software support
- Material suppliers

Providers of electricity, telecommunication, and software systems support ensure the smooth functioning of our business. As we have limited capacity to influence or switch such suppliers easily without incurring hefty costs in the case of most services, we take precautions to build long-standing relationships with them. This contributes towards ensuring that our expectations are met.

## ONGOING SUPPORT

Covering a wide variety of services that allow us to operate at an optimum, on a daily basis, these suppliers range from large corporates to SMEs and individuals.

- Maintenance
- Software suppliers
- Material suppliers
- Staff welfare
- Waste management
- Debt collection agencies

Some of the many sustainability challenges they face are identified below:

Business partners	Material aspects
Maintenance service providers	Labour practices
Health and safety of workers	Effluents and waste
Travel and transport providers	Emissions
Material suppliers	Responsible sourcing, human rights of workers
Waste management service providers	Effluents and waste

We maintain regular dialogue with these business partners about areas of concern, working towards resolving identified issues and encouraging the adoption of best practices.

## INFREQUENT ENGAGEMENT

While we deal with the following business partners in an ad hoc or infrequent manner, nevertheless, we take pains to ensure that relationships remain strong as their services are of great importance to SDB bank.

- Premises providers
- Contractors
- Professional service providers

As with all supplier groups, we require compliance with all applicable regulations.

# The Commitment to Society and Environment

Despite the restrictions on physical meetings and travel during much of 2020, SDB bank remained connected and in communication with all its rural stakeholder groups. SDB bank has an interdependent relationship with Sri Lankan communities where community goodwill provides us with a legitimate licence to operate, and in turn, communities depend on us for the improvement of their lives and livelihoods.

Just as we derive value from and deliver value to society, we are also a part of the value creation cycle that relates to the environment. Safeguarding our natural resources for future generations, while also encouraging and educating our stakeholders to do the same, ensures the long term sustainability of our operations.

## CONTRIBUTING TOWARDS THE SDGS

The United Nations Sustainable Development Goals (SDGs) have become relevant in the post-COVID environment, where the Corona Virus has disrupted the country's value chains that support employments and enterprises, leading to increased financial insecurity. While the full socio-economic impact of COVID-19 is still unquantified, many small businesses have lost markets overnight while thousands of migrant workers have also lost employments, leaving many families facing an uncertain future. Therefore, supporting the SDG's will also make significant contributions towards COVID recovery in Sri Lanka.

### 1 END POVERTY



- Disbursed LKR 20.54 Bn. to SME segment including SMEs and micro-enterprises across the island

### 2 ZERO HUNGER



- Central Bank of Sri Lanka – Smallholder Agribusiness Partnerships Programme – Financing 1000 chili growers in North central province
- Financing Dairy farmers with the partnership agreement entered into with MILCO Private Limited
- MOU With DIMO and Browns to finance Agri farmers
- MOU with CA Sri Lanka to enhance capacity of SMEs
- MOU with John Keells Holdings PLC to offer special leasing facilities for Mahindra tractors for smallholders
- Financing and support for value chains in agriculture sector
- Smallholder Agribusiness Partnership Programme (SAPP), an initiative to enhance production levels, productivity, quality, and value-addition of agricultural products

### 4 QUALITY EDUCATION



- Education programs through *Lakdaru* seminars at branch level
- Gold Sponsor of the “41st National Conference of Chartered Accountants”
- SDB virtual library
- SDB News Letter & Smart Idea competition
- 360 degree evaluation and coaching

### 5 GENDER EQUALITY



- *Uththamavi* loan scheme for empowering women
- “*Uththamavi* Investment Account” designed especially for women to enjoy a higher interest rate and realise life's objectives step by step. It paves the way for the account holder to realise the aspirations to own a house, and meet expenses

### 7 AFFORDABLE AND CLEAN ENERGY



- Green Leasing for electric and hybrid vehicles

### 8 ECONOMIC GROWTH



- Introduced mobile banking to grassroots communities and created awareness
- Installed internet banking kiosks in over 100 cooperatives across Sri Lanka

## 10 REDUCED INEQUALITIES



- In partnership with the State Ministry of Defence launched the “*Neelaritha Project*” to support retired war veterans into becoming agro-veterans
- Disbursed LKR 35.37 Bn. to senior citizens and war heroes and their families
- Introduced mobile banking to grassroots communities and created awareness
- Installed internet banking kiosks in over 100 co-operatives across Sri Lanka

## 12 RESPONSIBLE CONSUMPTION AND PRODUCTION



- donation of electric buggy car to Mulleriyawa Base Hospital

## 15 LIFE ON LAND



- donation of LKR 5 Mn. to COVID-19 – Relief Fund
- In addition to the initiatives outlined above, we also undertook the following initiatives in our commitment to the community
- Staff/bank joint donation of electric buggy car to Mulleriyawa Base Hospital

## OTHER COMMUNITY EVENTS

As we create value for the society and the environment, so they too create value for the Bank. The networks that have sprung up between the Bank and each stakeholder group enhances the well-being of the individual, the community and the Bank itself.

- LKR 5 Mn. donation to COVID-19 relief fund
- SANASA *Nelum Mal Poojawa* was organised by the SANASA Federation and the SANASA Movement with the sponsorship of SDB bank for the 19th time. The main objective of this event is to bless Sri Lankan citizens, SANASA members and SDB bank customers with a healthy and prosperous new year.
- SDB bank’s annual blood donation programme 2019, held at the Head Office lobby drew a large number of donors.
- Women’s Day – held number of events under *Uththamavi* to support and celebrate women entrepreneurs.
- Sinhala and Tamil New Year celebrations that centre on cultivating thrifty habits.
- CA National Conference sponsor.
- AAT conference sponsor.



*Managing  
our Risks*

# Managing our Risks

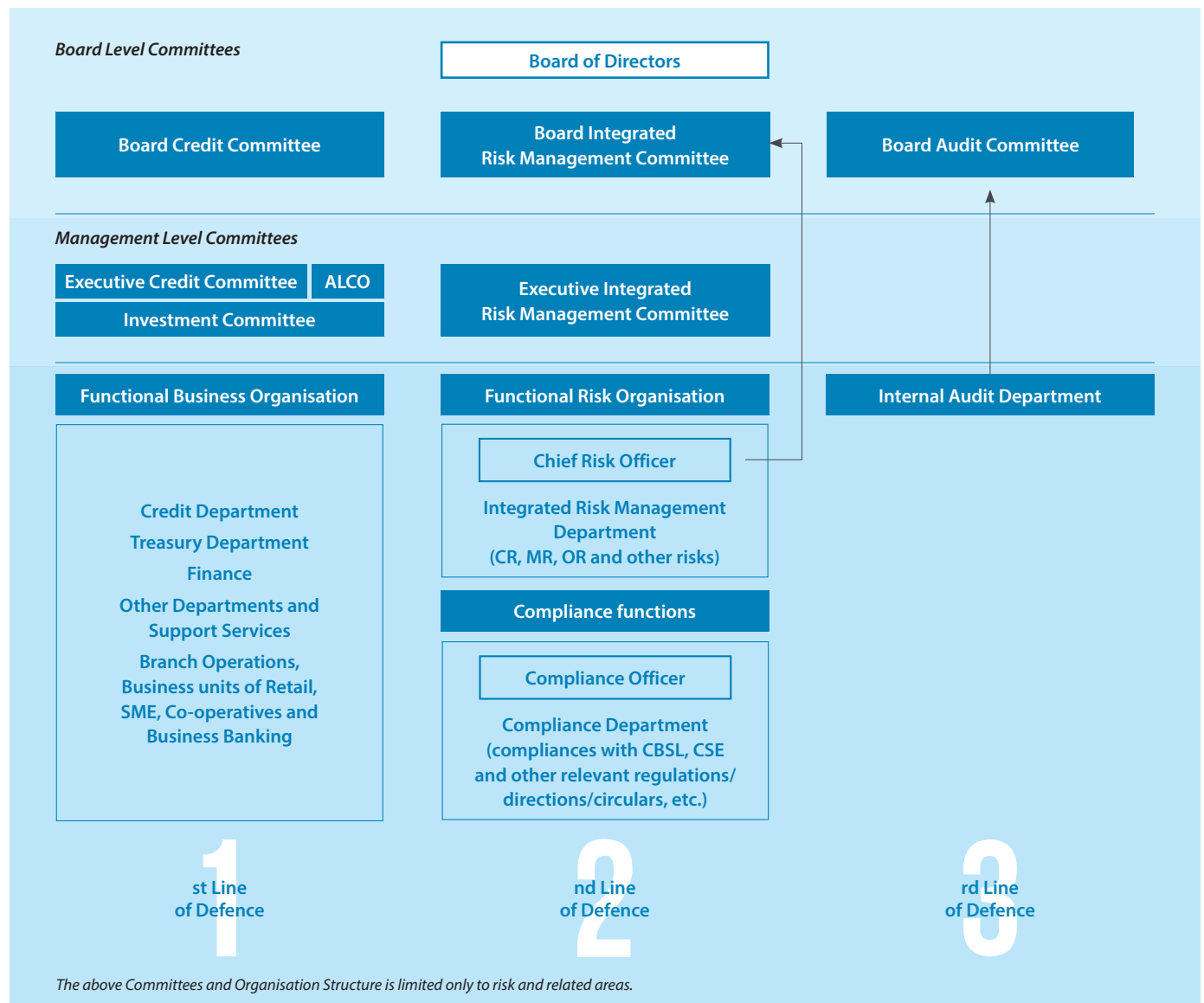
The financial year 2020-21 will be recorded as one of the most challenging periods in the history of Sri Lanka and the entire world, due to the sudden emergence of the global Corona Virus pandemic. While exerting unparalleled pressure on all economic and financial systems, the COVID-19 pandemic also presented a unique opportunity to test the effectiveness and responsiveness of the prevalent risk management systems of the country's banking sector. In this regard, it is encouraging to note that SDB bank's risk management system has proved its resilience and flexibility by remaining a reliable and resilient mechanism in responding to the dynamic macro risk environment of 2020.

SDB bank has adopted an integrated approach to risk management based on policy frameworks approved by the Board of Directors, governance structures and tools and techniques to identify, measure, mitigate and manage all risk exposures. The Board of Directors has the ultimate responsibility to provide oversight on managing risk. It formulates policy and sets the risk parameters. The Board Integrated Risk Management Committee (BIRMC) assists the Board of Directors in this regard.

The responsibility for implementing the risk management framework lies with the Executive Integrated Risk Management Committee (EIRMC) who reviews the Bank's credit, market, liquidity and operational risk indicators as well as its internal capital adequacy levels. The Chief Risk Officer has a triple reporting responsibility to the EIRMC, the Operational Risk Management Committee and the BIRMC.

## APPROACH TO RISK MANAGEMENT

Having recognised the importance of risk management to the effective running of the Bank, the Board of Directors has approved a risk management policy that is designed to help identify, measure, manage and report all material risks. Relevant procedures have been built around these policies which are communicated throughout the Bank to assist business units in the discharge of their duties and in dealing with customers. The Bank adopts the internationally recognised Three Lines of Defence governance model where transparency and accountability are practised through clear segregation of duties.



The First Line of Defence (functions that own and manage risks) comprising finance and other support functions, is involved in identifying, managing, and reporting of risks at all levels. The intention is to manage specific risks at the source as effectively as possible.

The Second Line of Defence (functions that oversee risk and compliance) is the centralised oversight of the First Line of Defence by the risk management and compliance.

The Third Line of Defence (independent assurance) comprises internal and external audits that provide unaffiliated opinions on the strength and effectiveness of controls.

In order to embed a risk awareness culture across the organisation, ongoing training programmes are conducted and various communiques are issued continuously. During the year, several training programmes were conducted to strengthen the operational risk reporting and data capture. Risk consciousness is an integral part of the Bank's induction programmes and consists of several mandatory training modules for all employees. In addition, a risk reporting process at multiple levels in the organisation, lends weight to its importance in the functions of the Bank.

## RISK APPETITE

The risk appetite of the Bank is articulated through a clear set of indicators, with limits and triggers, relating to the key risks the Bank is exposed to. This set of guidelines is reviewed and updated regularly by the Board of Directors in keeping with the strategic objectives and the corporate plan for the year.

The following are the Bank's key risk appetite indicators, along with actual performance results for the year.

Key Risk Indicators	As at 31 December 2020 %	Internal limit
<b>Credit risk</b>		
Gross non-performing loans ratio	4.54	<4.0
Top twenty exposures/ Total loans	3.4	<10.0
<b>Market risk</b>		
Earnings at risk ratio	-1.8	(+/-) 15.0
Economic value of equity ratio	-1.1	(+/-) 2.0
<b>Liquidity</b>		
SLAR	21.57	>20.0
LCR	125.21	>100.0

## RISK REPORTING

An integral part of risk management is regular reporting of those factors relating to the exposures that have been identified. These reports are sent to the Board of Directors, the relevant department heads, Operational Risk Management Committee and the EIRMC by the Chief Risk Officer

Risk exposure	Risk reports
Credit risk	Number of NPL value by sector, geography and product relative to the provision coverage
Market risk	Impact of rate shifts on the Bank's economic value of equity and the earnings Trading book value and return against limits
Liquidity risk	Liquidity allocation Cash flow forecasts Analysis of regulatory and internal cash flow maturities Stressed cash flow analysis
Operational risk	Summary of operational loss events by business unit
Strategic and reputational risk	Key budgetary ratios Scorecard based questionnaires to assess reputation risk across the Bank

## STRESS TESTING

The Bank conducts regular stress testing to identify potential impacts that fluctuations in market variables and other risk factors could have on the Bank's risk profile. Stresses in the Bank's credit, market, liquidity, are evaluated with reference to capital and earnings positions. The Board Integrated Risk Management Committee (BIRMC) conducts regular reviews of the stress testing outcomes, including the major assumptions that underpin them. The following table shows examples of stress factors that need to be tested to determine their impact on the capital adequacy ratio (CAR), net interest margin (NIM) and profitability.

	Credit risk	Concentration risk	Interest rate risk	Liquidity risk
Stress scenario	Increase in NPL ratio	Increase in HHI (Herfindahl-Hirschman index) values across lending counterparties and sector	Movement in interest rates	Liquidity stress scenarios
	Shifts in NPL categories			

## EXTERNAL DRIVERS OF RISK

While risk exposures shown above are to a great degree controllable by the Bank, there are external factors, the outcomes of which, the Bank is unable to influence. Given the environment in which a bank operates, economic conditions in the country, government policy, regulatory changes and climate change are some of those aspects which can have an effect on the Bank's profitability and ability to comply with laws and regulations.

During the year under review, the following external drivers had an impact on the Bank's overall risk profile.

## MACROECONOMIC CONDITIONS

Sri Lanka experienced the largest economic contraction of -16.3%, in the second quarter of 2020, due to the full effect of the COVID-19 containments measures in March-April 2020. A second wave of COVID outbreak in the last quarter of 2020 again derailed economic recovery. Despite interventions by the Central Bank of Sri Lanka (CBSL) and the Government stimulus programmes the CBSL estimates the Sri Lankan economy to have contracted by 3.9% in 2020.

## POLITICAL ENVIRONMENT

The instability of the political environment of 2019 stemming from Presidential elections, was almost entirely corrected in 2020. However, the country could not benefit from this more stable political environment due to the country-wide disruption of economic activities following the COVID-19 pandemic.

## CLIMATE CHANGE

Sri Lanka was ranked sixth on 2020 Global Climate Risk Index, from number two in 2019. Despite the slight improvement in the ranking the Bank is aware of the high risk of doing business in vulnerable industries and has taken the necessary precautions where needed.

## CREDIT RISK

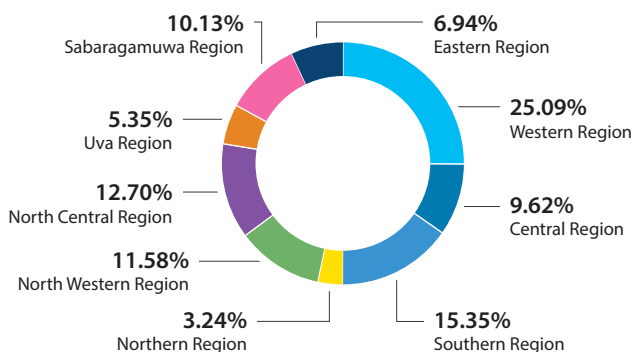
The Bank's underlying business model requires the extension of credit to individuals and businesses to enable them to fund their occupations and other personal needs. Credit risk relates to the potential losses that can arise when customers are unable to discharge their obligations for the repayment of loans and advances taken by them.

SDB bank has in place the Board Credit Committee which is charged with the responsibility of implementing the Bank's credit risk management framework. A Board approved Credit Risk Management policy outlines the responsibilities, tools and techniques for credit risk identification, measurement, mitigation and management. Key aspects, amongst others, of the Bank's credit policy include pre-credit sanctioning criteria, delegated approval authority, due diligence, collateral management and post-credit monitoring. The framework is reviewed and updated regularly based on evolving best practices as well as emerging risks and opportunities.

## CONCENTRATION RISK

Concentration risk is the potential for a loss in value of the loan portfolio when an individual or group of exposures move together in an unfavourable direction. The implication of concentration risk is that it can generate such a significant loss when recovery is unlikely. The exposures can be geographical or sector wise. The goal of credit risk management is to maximise a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters

### Region wise portfolio



## MARKET RISK

Market risk refers to the risk of losses in the Bank's trading book due to changes in equity prices, interest rates, credit spreads, foreign-exchange rates, commodity prices, and other indicators whose values are set in a public market.

### HOW SDB BANK MANAGES MARKET RISK

The Bank's main market risk exposure relates to interest rate changes in the trading portfolio of Government securities. The Bank has set limits for trading book exposures and is marked to market daily and measured against the set limits.

## INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

Fluctuations in interest rates affect the yields on the lending book for facilities on floating rates, cost of funds, and consequently the Bank's profitability. The Assets and Liabilities Management Committee (ALCO) is responsible for monitoring the Bank's IRRBB exposure. It reviews the impact of interest rate risk on the banking book as well as net interest margin, funding mismatches and the cumulative rate sensitive gap. The Committee also undertakes stress tests on the net interest margin (NIM) and the equity, under different interest rate scenarios.

A comprehensive set of policies is in place to govern all aspects of market risk. These policies are reviewed and updated regularly in view of emerging market risks.

## EQUITY RISK

Equity risk relates to potential losses in earnings resulting from adverse fluctuations of the share prices.

## LIQUIDITY RISK

Liquidity risk relates to the possibility that the Bank will be unable to meet its financial obligations by settling them in cash or being able to convert a security or hard asset to cash without a loss of capital and/or income in the process. The ALCO is responsible for managing the Bank's liquidity risk. The Committee regularly reviews the Bank's cash flow positions, projections, funding capabilities and pricing decisions to ensure internal targets and regulatory liquidity requirements are met.

### LIQUIDITY RISK PERFORMANCE IN 2020

During the year, the Bank maintained its liquidity ratios well within the internal limits and above regulatory minimums specified by the Central Bank of Sri Lanka (CBSL). An analysis of the funding profile of the Bank, shows that the deposits are distributed amongst a range of customers and other sources where a few do not control a large percentage of the total.

The Bank also has in place a Contingency Plan to bridge any unexpected liquidity shortfalls. In the event of liquidity stress, Treasury is able to borrow 80% against Treasury Securities as repo borrowings through Bank approved primary dealers.

## OPERATIONAL RISK

Operational risk is the potential loss resulting from inadequate or failed internal processes, people and systems or from external events. The Operational Risk Management Unit (ORMU) is responsible for administering the evaluation, to defined operational risk parameters, of all key business units on their exposure. This is a mechanism that enables business units to identify and assess their own risks and introduce measures to improve risk control. The Bank also maintains an Operational Risk Loss Data Base in line with Basel guidelines. Processes are also in place to capture all operational loss events which are then categorised in accordance with the guidelines.

## LEGAL RISK

"Legal risk is the risk of financial or reputational loss that can result from lack of awareness or misunderstanding of, ambiguity in, or reckless indifference to, the way law and regulation apply to your business, its relationships, processes, products and services." – Whalley, M. 2016.

All legal documents executed on behalf of the Bank are vetted by the Legal Department of the Bank. Services of external lawyers are obtained whenever required. Internal processes described in previous sections, relating to compliance with regulatory provisions, are in place to mitigate potential losses and harm to the Organisation.

## STRATEGIC RISK

Strategic risk relates to the possibility that the strategic direction the Bank is taking does not lead to the desired outcome or results in losses. This may be due to external or internal factors which are responded to inadequately or ineffectively. SDB bank in formulating its medium-term strategic plan has put in place performance indicators and set milestones in terms of achieving the required outcomes. The Board of Directors plays an active role through adopting relevant policies, monitoring progress through a number of reporting formats and helping the Bank maintain its focus on the end goals.

## CAPITAL MANAGEMENT

The Internal Capital Adequacy Assessment Process (ICAAP) which complies with Basel requirements, outlines the process for assessing overall capital adequacy in relation to the Bank's risk profile. The implementation of this framework ensures that the Bank possesses sufficient capital to cover its material risk exposures.

	Regulatory requirement %	2020 %	2019 %
Tier 1	(Minimum requirement – 2020 – 8.00%, 2019 – 8.50%)	9.85	9.43
Total Capital	(Minimum requirement – 2020 – 12.00%, 2019 – 12.50%)	13.38	14.80



# *Corporate Governance*

- 80 Message from the Chairman on Corporate Governance
- 81 Governance and Compliance
- 85 Compliance Status
- 110 Report of the Board Integrated Risk Management Committee
- 111 Report of the Board Audit Committee
- 114 Report of the Board Human Resources and Remuneration Committee
- 115 Report of the Board Selection and Nomination Committee
- 116 Report of the Board Related Party Transactions Review Committee
- 117 Report of the Board Strategic Planning and Plan Implementation Committee
- 118 Report of the Board Credit Committee

# Message from the Chairman on Corporate Governance

## Dear Stakeholders

Sound corporate governance practices form the bedrock of sustainable value creation and the Board of Directors of SDB bank is committed to maintaining the highest standards of transparency, integrity, and accountability. This commitment has enhanced credibility and stakeholder confidence in the Organisation, enabling us to attract new investors and remain resilient in the face of industry vulnerabilities and economic stress.

The Bank's corporate governance framework embodies clearly defined governance structures, comprehensive policy frameworks and strong business ethics, setting the tone for employee conduct. The framework has been designed to comply with all regulatory and statutory requirements of the CBSL, CSE and the SEC. In addition, the Bank has also embraced several voluntary frameworks and industry best practices in setting up its governance, risk management and corporate reporting frameworks.

The collective industry acumen, depth of skills and diversity of experience of Board of Directors have enriched Board discussions and will be a key driver of the Bank's strategic transformation over the next few years. The Bank's ability to attract international investors and employee confidence on the Bank's mission, providing renewed vigour and enthusiasm to our team. In 2020 the Board met 17 times and key areas of focus included implementation of the transformation strategies.

The reports on pages 81 to 109 describe the Bank's corporate governance practices and compliance to the Banking Act Direction No. 12 of 2007 and subsequent amendments thereto for Licensed Specialised Banks in Sri Lanka by the CBSL and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission (SEC) of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in 2017.

I wish to confirm that all the findings of the "Factual Findings Report" of the External Auditors in relation to compliance with Corporate Governance Direction issued by the Central Bank of Sri Lanka (CBSL) have been incorporated to this Report.

I further confirm that all prudential requirements, regulations, laws and internal controls are complied with and measures have been taken to rectify all material non-compliances as and when it is identified.

As required by the Code of Best Practice on Corporate Governance issued jointly by the Securities Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka in 2017, I hereby confirm that, I am not aware of any material misstatement of any of the provisions of the internal Code of Business Conduct and Ethics by any Director or Key Management Personnel of the Bank.



**Lakshman Abeysekera**  
*Chairman*

19 March 2021  
Colombo, Sri Lanka

# Governance and Compliance

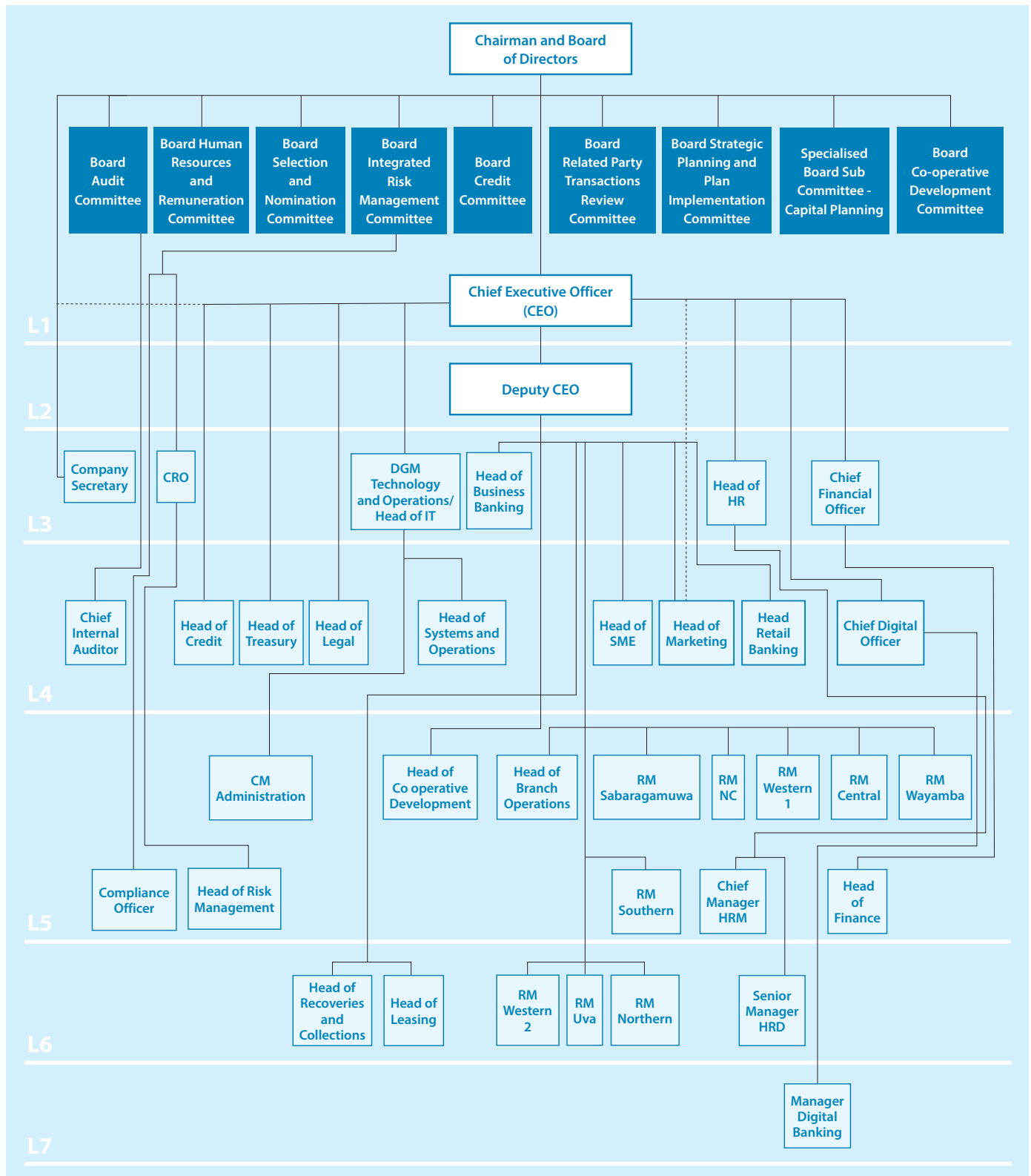
## APPROACH TO CORPORATE GOVERNANCE

SDB bank's Board of Directors holds apex responsibility for implementing sound governance structures and formulating policy frameworks, thereby effectively setting the tone at the top. Governance practices are reviewed and updated regularly to reflect regulatory changes, emerging risks and opportunities and internal changes. The Bank's ethical conduct is embodied in the oath of the SANASA Movement, which is based on the co-operative principles of empowerment, equal opportunity, and collective participation in decision-making. The Bank's Governance Framework has been developed to comply with several external and internal steering instruments, as listed below:

External instruments	Internal instruments
Companies Act No. 07 of 2007	Articles of Association of the Bank
Banking Act No. 30 of 1988 and amendments thereto	Board-approved policies on all major operational aspects, customer Charter
Banking Act Direction No. 12 of 2007 of the Central Bank of Sri Lanka on "Corporate Governance for Licensed Specialised Banks in Sri Lanka" and amendments thereto	Policy for secrecy of information, Related Party Policy, credit and other internal manuals
Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka (a Voluntary Code)	Integrated Risk Management Procedures Code of Conduct and Ethics for Directors
Listing Rules of the Colombo Stock Exchange	Disclosure policy, Communication policy
Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 and amendments thereto	Processes for internal controls
Financial Transactions Reporting Act No. 06 of 2006 Prevention of Money Laundering Act No. 05 of 2006 Convention on the Suppression of Terrorist Financing Act No. 25 of 2005	Compliance Charter, Compliance Policy and procedure manual for Know Your Customer and customer Due Diligence lead to prevention of money laundering and terrorist financing
Inland Revenue Act No. 24 of 2017	Internal circulars on operational practices

## GOVERNANCE STRUCTURE

The Board of Directors holds ultimate accountability and responsibility for the affairs of the Bank. The Board is led by an Independent, Non-Executive Chairman. The Board is supported by nine subcommittees, which provide oversight and in-depth focus on specific areas, enabling the Board to dedicate sufficient time and focus to broader issues within its scope. The Bank's governance structure is graphically illustrated below;



## **BOARD EFFECTIVENESS**

### **BOARD COMPOSITION**

The Board comprises ten Directors, all of whom operate in a Non-Executive capacity while four are Independent. The Board of Directors submits annual declarations of independence to this effect. Directors are luminaries in the fields of academics, rural development, administration, entrepreneurship and co-operatives enhancing the overall effectiveness of decision-making. Please refer pages 20 to 23 for detailed profiles of Board members. During the period under review, Ms Dinithi Ratnayake and Mr J A L G Jayasinghe were appointed as Directors in 2020. Ms Samadanie Kiriwadeniya who was the Chairman – Non-Executive, Non-Independent Director was retired in 2020.

### **DIVERSITY OF SKILLS**

The Board combines diverse industry insights, skills and experience and therefore is able to assess matters from varying perspectives, enhancing the depth and effectiveness of discussions. Directors bring together academic, entrepreneurial, rural development and corporate perspectives and represent major shareholders, individuals from the SANASA Movement and professionals from the banking industry. There is also sufficient financial acumen on the Board, with two Directors holding membership in professional accountancy bodies and several Directors holding MBAs from reputed universities.

### **CHAIRMAN AND CEO**

The Role of Chairman and CEO has been separated ensuring balance of power and authority. The Chairman is a Non-Executive Director and is responsible for setting the Board's annual work plan and agenda, ensuring that meetings are conducted effectively, with participation from all members and monitoring the overall effectiveness of the Board. The CEO's responsibilities include, implementing strategy, monitoring and reporting the Company's performance to the Board among others.

### **APPOINTMENT TO THE BOARD**

A transparent procedure is in place for the appointment of new Directors to the Board. In the event of a vacancy, nominations are made through the Board Selection and Nominations Subcommittee (BS & NC). An affidavit of authenticity is required from the nominated person and the details communicated to the CBSL for Fit and propriety approval. Appointments are thereafter communicated to the CSE and shareholders through press releases. These communications include a brief résumé of the Director disclosing relevant expertise, key appointments, shareholding and whether he is independent or not. SDB bank has no discriminatory criteria for disqualification of nominees however BS & NC calls for nominations as per the criteria laid down by the Banking Act.

### **BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE**

The Bank's remuneration for the Board of Directors and the Key Management Personnel are determined based on a formal Remuneration Policy and is designed to attract and motivate professionals and high-performers. The BHRRC is responsible for providing guidance to the Board on the remuneration of Board of Directors and Senior Management within agreed terms of reference and in accordance with the remuneration policies of the Bank.

## **BOARD ACCESS TO INFORMATION**

Directors have unfettered access to the Bank's Management Team, who are invited for Board meetings depending on the agenda. The Management makes regular presentations to the Board to ensure that Directors are kept abreast of emerging changes in the operating landscape. Access to independent professional advice is also made available and coordinated through the Company Secretary. Directors attend seminars conducted by the Sri Lanka Institute of Directors and forums organised by the CBSL.

### **BOARD MEETINGS**

The Board convenes regularly and met 17 times in 2020; details of meeting attendance are given in the Annual Report of the Board of Directors on the Affairs of the Company on pages 126 and 127. Notices of all Board meetings are given at least seven days prior to the holding of the meeting, thereby ensuring adequate time for members to prepare. Meeting agendas and Board papers are circulated to all Board members prior to the meeting. Directors are supplied with comprehensive and timely information that is required to discharge their duties effectively.

### **SELF-APPRAISAL**

The Board and individual Directors are assessed annually for their performance and effectiveness. Each Director carries out a self-assessment of his/her individual performance as well as the collective effectiveness of the Board based on the requirements of the Securities and Exchange Commission (SEC) and CA Sri Lanka. Factors considered include Board composition, access to information, team dynamics and training opportunities among others. Going further, members of the subcommittees also assess their performance effectiveness annually.

### **BOARD SUBCOMMITTEES**

The Board of Directors of the Bank formed mandatory Board Subcommittees and voluntary Board Subcommittees to assist the Board. The composition of both mandatory and voluntary Board Subcommittees, as at 31 December 2020 is given in the Annual Report of the Board of Directors on the Affairs of the Company on page 126.

### **ACCOUNTABILITY AND AUDIT**

The Board is responsible for presenting a balanced and accurate assessment of its financial performance and position. The Bank's Financial Statements are prepared in accordance with the Sri Lanka Financial Reporting Standards laid down by the Institute of Chartered Accountants of Sri Lanka. Furthermore, the Company's Annual Report conforms to the GRI Standard on sustainability reporting, prescribed by the Global Reporting Initiative and the Integrated Reporting Framework published by the International Integrated Reporting Council. Directors' responsibility with regards to Financial Statements is given on page 134 of this Annual Report.

## **RISK MANAGEMENT**

The Board is responsible for formulating the measures, tools, processes and policies to ensure that the Bank's risk exposures are managed within defined parameters. The Board Integrated Risk Management Committee assists the Board in the discharge of its duties related to risk management. The Bank's risk management framework has been formulated to comply with the requirements of the Banking Act and Guidelines of the CBSL. Detailed disclosures on the Company's key risk exposures and how they were managed during the year are given on pages 75 to 78 of this Report.

## **EXTERNAL AUDIT**

The Board Audit Committee makes recommendations to the Board regarding the appointment, service period, audit fee and engagement period of External Auditors. The Board has adopted a policy of rotating External Auditors every five years. Auditors submit Annual Statement confirming independence as required by the Companies Act No. 07 of 2007. Non-audit services are not provided by the External Auditors.

## **ETHICS**

The ethical conduct of the Bank's employees is underpinned on the following:

- The SDB bank Code of Conduct: The Code sets out the ethical behaviour expected from employees in dealing with other stakeholders and in their day-to-day operations, as well as administrative and grievance procedures. The Code of Conduct has been formulated in line with the Monetary Board's Customer Charter and the Secrecy Provision in the Banking Act. All employees are provided with a copy of the SDB bank Code of Conduct upon recruitment.
- Whistle-blowing Policy: The Bank has a Board-approved Whistle-blowing Policy that enables any person, including a member of staff to report unlawful or unethical behaviour while ensuring that their anonymity is preserved.

# Compliance Status

## COMPLIANCE WITH THE PROVISIONS OF THE BANKING ACT DIRECTION NO. 12 OF 2007 OF THE CENTRAL BANK OF SRI LANKA

Guideline	Function of the Board	Level of compliance	Complied/Not complied
3 (1) (i)	The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following:		
	(a) Ensure that the Board-approved strategic objectives and corporate values are communicated throughout the Bank.	Strategic objectives and corporate values were approved by the Board of Directors for 2020-2023 and communicated to all employees through town hall meetings covering all employees and staff and frequent meetings with the Corporate and Senior Managers.	Complied with
	(b) Overall business strategy including the overall risk policy and risk management procedures and mechanisms with measurable goals.	The Bank's current Strategic Plan includes measurable goals and there is a Board-approved risk management policy which defines risk-related procedures and tools for identification, measurement and management of risk exposures.	Complied with
	(c) Identify the principal risks and ensure implementation of appropriate system to manage the risk prudently.	The Board has delegated its risk-related functions to a dedicated committee, namely the Board Integrated Risk Management Committee (BIRMC) and its findings are submitted on a quarterly basis to the main Board for review.	Complied with
	(d) A policy of communication is available with all stakeholders, including depositors, creditors, shareholders and borrowers.	Board-approved Communication Policy is in place.	Complied with
	(e) Reviewed the adequacy and the integrity of the Bank's internal control systems and management information system.	The Board reviews the adequacy and the integrity of the Bank's internal control system by way of internal audit reports submitted to the Board through the Audit Committee on a monthly basis, which is also assured by the External Auditor.	Complied with
		Board Audit Committee (BAC) and the Board have reviewed the adequacy and the integrity of the Bank's management information system.	Complied with
	(f) Identified and designated Key Management Personnel, as defined in the Central Bank Guidelines.	Based on Corporate Governance Direction issued by the Central Bank of Sri Lanka (CBSL), the Board has designated Key Management Personnel (KMP) of the Bank.	Complied with
	(g) Defined the areas of authority and key responsibilities for the Board of Directors themselves and for the Key Management Personnel.	Areas of authority and key responsibilities of the KMPs are included in their Job Descriptions (JDs).	Complied with
		Areas of authority and key responsibilities of the Board of Directors (BOD) are defined in the Articles of Association.	
	(h) Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel that is consistent with Board policy.	Board has exercised appropriate oversight of the affairs of the Bank by KMPs through the Chief Executive Officer (CEO) and when the need arises they are called upon by the Board to explain matters relating to their areas.	Complied with
	(i) Periodically assess the effectiveness of the Board of Directors own governance policies including –		
		(a) The selection, nomination, and election of Directors and Key Management Personnel.	A transparent procedure for selecting and appointing new Directors upon the recommendation of the Board Selection and Nominations Committee and a policy of selection, appointment, and remuneration of the KMPs are in place.

Guideline	Function of the Board	Level of compliance	Complied/Not complied
	(b) The management of conflicts of interests.	Directors' interests are disclosed to the Board and Directors who have a particular interest in a matter that is being discussed abstained from voting in such a situation and he/she is not counted for the quorum.	Complied with
	(c) The determination of weaknesses and implementation of changes where necessary.	Determination of weaknesses of BODs has been identified through the self-evaluation process for 2020.	Complied with
	(j) Ensure that the Bank has a succession plan for Key Management Personnel.	Committee has developed a succession plan and procedure for appointing Independent Non-Executive Directors in place of retiring Directors of the Bank. A succession plan for KMPs are available. Furthermore, one to one succession plan for certain KMPs is available with the Board.	Complied with
	(k) Ensure that the Board has scheduled regular meetings with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Board meets the KMPs at Board committees to review policies and monitor progress towards corporate objectives at performance review meetings. When the need arises they are called upon by the Board to explain matters relating to their areas.	Complied with
	(l) Understand the regulatory environment and that the Bank maintains a relationship with regulators.	All the new regulations and directions issued by regulators and non-compliances are reported to the BOD by the Compliance Officer for their understanding of the regulatory environment.  Awareness programmes are conducted on an ongoing basis.	Complied with
	(m) Process in place for hiring and oversight of External Auditors.	The Board selects External Auditors with the recommendation of the BAC, which holds responsibility for overseeing their activities.	Complied with
3 (1) (ii)	The Board has appointed the Chairman and the Chief Executive Officer (CEO) and defined the functions and responsibilities of the Chairman and the CEO in line with Direction No. 3 (5).	Appointment of the Chairman and the CEO is done by the Board and functions are defined as per Direction No. 3 (5).	Complied with
3 (1) (iii)	The Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.	17 meetings were held during the year.	Complied with
3 (1) (iv)	The Board has a procedure in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	A Board-approved procedure is in place allowing all Directors to include matters and proposals in the agenda for regular Board meetings.	Complied with
3 (1) (v)	The Board has given notice of at least seven days for a regular Board meeting to provide all Directors an opportunity to attend. And for all other Board meetings, notice has been given.	Directors are notified of Board meetings more than seven days in advance.	Complied with
3 (1) (vi)	The Board has taken required action on Directors who have not attended at least two-third of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the Directors' meetings through an alternate Director, however, is acceptable as attendance.	Such a situation did not arise during the year.	Complied with



Guideline	Function of the Board	Level of compliance	Complied/Not complied
3 (1) (vii)	The Board has appointed a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	The Company Secretary is an Attorney-at-Law who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988.	Complied with
3 (1) (viii)	All Directors to have access to advice and services of the Company Secretary.	All the Directors are free to access the Company Secretary for her advice and services.	Complied with
3 (1) (ix)	The Company Secretary maintains the minutes of Board meetings and there is a process for the Directors to inspect such minutes.	The minutes of Board meetings are maintained by the Company Secretary; and during each Board meeting the Board of Directors approves the minutes of the previous Board meeting.	Complied with
3 (1) (x)	The minutes of a Board meeting contain or refer to the following: (a) A summary of data and information used by the Board in its deliberations; (b) The matters considered by the Board; (c) The fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) The matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) The understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (f) The decisions and Board resolutions.	Minutes of the Board meetings contain all the necessary information required under the direction.	Complied with
3 (1) (xi)	There are procedures agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.	A Board-approved procedure is in place to seek independent professional advice when necessary, with the cost borne by the Bank.	Complied with
3 (1) (xii)	There is a procedure to determine, report, resolve, and to take appropriate action relating to Directors avoiding conflicts of interests, or the appearance of conflicts of interest. A Director has abstained from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern, in which a Director has substantial interest, is interested and he/she shall not be in the quorum for the relevant agenda item at the Board meeting.	There is a provision in the Related Party Transactions Policy to determine, report, resolve, and to take appropriate actions relating to Directors to avoid conflicts of interest, or the appearance of conflicts of interest.	Complied with
3 (1) (xiii)	The Board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the Bank is firmly under its authority.	A formal schedule of matters specifically reserved for the Board is in place.	Complied with
3 (1) (xiv)	The Board has forthwith informed the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action, if it considers that the procedures to identify when the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.	This situation did not arise during the year.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not complied
3 (1) (xv)	The Board shall ensure that the Bank capitalised at levels as required by the Monetary Board.	The Bank was fully compliant with the Capital Adequacy Requirements during the year.	Complied with
3 (1) (xvi)	The Board shall publish, in the Bank's Annual Report, an Annual Corporate Governance Report setting out the compliance with Direction No. 3 of these directions.	This Report serves this purpose.	Complied with
3 (1) (xvii)	The Board adopts a scheme of self-assessment to be undertaken by each Director annually, and maintains records of such assessments.	Board has a scheme of self-assessment of Directors and the Company Secretary maintains records of such evaluations.	Complied with
<b>3 (2) THE BOARD'S COMPOSITION</b>			
3 (2) (i)	The Board comprises not less than 7 and not more than 13 Directors.	The Board comprised ten Directors as at 31 December 2020.	Complied with
3 (2) (ii)	The total period of service of a Director other than a Director who holds the position of CEO, does not exceed nine years.	The Chairman who had completed nine years of service in the Board retired during the year 2020. None of the other Directors has completed nine years of service in the Board.	Complied with
3 (2) (iii)	The number of Executive Directors, including the CEO does not exceed one-third of the number of Directors of the Board.	The Board comprises solely of Non-Executive Directors; the CEO is not a Board member.	Complied with
3 (2) (iv)	The Board has at least three independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher.	Board comprises four Independent Non-Executive Directors.	Complied with
3 (2) (v)	In the event an Alternate Director was appointed to represent an Independent Director, the person so appointed meets the criteria that apply to the Independent Director.	This situation did not arise during the financial year 2020.	Complied with
3 (2) (vi)	The Bank has a process for appointing Independent Directors.	A procedure is in place for appointing Independent Directors by the Board upon the recommendation of the Board Selection and Nominations Committee.	Complied with
3 (2) (vii)	The stipulated quorum of the Bank includes more than 50% of the Directors and out of this quorum more than 50% should include Non-Executive Directors.	Every meeting during the year was consistent with the required quorum and composition.	Complied with
3 (2) (viii)	The Bank discloses the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the Annual Corporate Governance Report.	The composition of the Board has been disclosed under Annual Report of the Board of Directors on the Affairs of the Bank on pages 124 and 125 of this Annual Report.	Complied with
3 (2) (ix)	There shall be procedure for the appointment of new Directors to the Board.	A procedure for appointing new Directors with the recommendation of the Board Selection and Nominations Committee is in place.	Complied with
3 (2) (x)	All Directors appointed to fill a casual vacancy are subject to election by shareholders at the first General Meeting after their appointment.	Appointment of Directors is done according to the Bank's Articles of Association.	Complied with
3 (2) (xi)	If a Director resigns or is removed from office, the Board – (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Directors' resignation/removal and the reason for such resignations are duly informed to the CBSL and Colombo Stock Exchange.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not complied
3 (2) (xii)	There is a process to identify whether a Director or an employee of a bank is appointed, elected, or nominated as a Director of another bank.	Directors provide annual declarations regarding their employment or directorships in other banks; None of the present Directors of the Bank acts as Director of another bank. The Letter of Appointment and the Code of Conduct issued to the employees explicitly prevent employees from accepting any directorship of other banks without the prior permission from the Bank.	Complied with
<b>3 (3)</b>	<b>CRITERIA TO ASSESS THE FITNESS AND PROPRIETY OF DIRECTORS</b>		
3 (3) (i)	The age of a person who serves as Director does not exceed 70 years.	Declarations given by Directors at the time of appointment indicate the date of birth. The age is monitored accordingly.	Complied with
3 (3) (ii)	No person shall hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.	As per the declaration made by Directors, none of the Directors is holding Directorship in more than 20 companies.	Complied with
<b>3 (4)</b>	<b>MANAGEMENT FUNCTIONS DELEGATED BY THE BOARD</b>		
3 (4) (i)	The delegation arrangements have been approved by the Board.	The Board is empowered by the Articles of Association to delegate its powers to the CEO upon such terms and conditions and with such restrictions as the Board may think fit.	Complied with
3 (4) (ii)	The Board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	The Board has delegated its authority to KMPs through CEO subject to final responsibility being retained with them.	Complied with
3 (4) (iii)	The Board reviews the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	The delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Bank.	Complied with
<b>3 (5)</b>	<b>THE CHAIRMAN AND CEO</b>		
3 (5) (i)	The roles of Chairman and CEO is separate and not performed by the same individual.	Roles of Chairman and CEO are held by two different individuals that carry out different functions.	Complied with
3 (5) (ii)	The Chairman is a Non-Executive Director. In the case where the Chairman is not an Independent Director, the Board designates an Independent Director as the Senior Director with suitably documented Terms of Reference. The designation of the Senior Director is disclosed in the Bank's Annual Report.	The Chairman is Non-Executive, Independent Director. This is disclosed under the "Annual Report of the Board of Directors on the Affairs of the Company" and "Board of Directors".	Complied with
3 (5) (iii)	The Board has a process to identify and disclose in its Corporate Governance Report, which shall be a part of its Annual Report, relationship, if any, between the Chairman and the CEO and Board members and the nature of any relationships including among members of the Board.	There is a process to obtain an annual declaration from each Director about relationships, if any, between the Chairman and the CEO and Board members and its nature. If there is any relationship, it is disclosed in the Corporate Governance Report in the Annual Report.	Complied with
3 (5) (iv)	The Board has a self-evaluation process where the Chairman – (a) Provides leadership to the Board; (b) Ensures that the Board works effectively and discharges its responsibilities; and (c) Ensures that all key and appropriate issues are discussed by the Board in a timely manner.	A scheme of self-assessment process for the BOD is in place.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not complied
3 (5) (v)	A formal agenda approved by the Chairman is circulated by the Company Secretary.	The Agenda for each Board meeting is prepared by the Company Secretary, which is approved by the Chairman.	Complied with
3 (5) (vi)	The Chairman ensures, through timely submission that all Directors are properly briefed on issues arising at Board meetings.	The Chairman ensures that the Directors receive adequate information in a timely manner and Directors are properly briefed on issues arising at the Board meeting.  The minutes of the previous month's meetings are distributed to the Board members in advance and tabled at the next Board meeting for approval.	Complied with
3 (5) (vii)	The Board has a self-evaluation process that encourages all Directors to make a full and active contribution to the Board's affairs and the Chairman takes the lead to act in the best interest of the Bank.	A scheme of self-assessment process for the BOD is in place which covers the requirement.	Complied with
3 (5) (viii)	The Board has a self-evaluation process that assesses the contribution of Non-Executive Directors.	Assessment process covers the contribution of Non-Executive Directors as well.  All the Directors are Non-Executive.	Complied with
3 (5) (ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	The Chairman is a Non-Executive Director and has not engaged in any activities involving direct supervision of KMPs or any other executive duties during the financial year 2020.	Complied with
3 (5) (x)	There is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	AGM of the Bank is the main platform through which the Board maintains effective communication with shareholders and further, the communication policy of the Bank is evidence that there is a process in this regard.	Complied with
3 (5) (xi)	The CEO functions as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	The CEO functions as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Complied with
<b>3 (6)</b>	<b>BOARD-APPOINTED COMMITTEES</b>		
3 (6) (i)	The Bank has established at least four Board committees as set out in Direction 3 (6) (ii), 3 (6) (iii), 3 (6) (iv), and 3 (6) (v) of these Directions. The committee reports are addressed directly to the Board. The Board presents in its Annual Report, a report on each committee on its duties, roles, and performance.	Following committees have been established and they directly report to the Board and minutes of the same are discussed and ratified at the main Board meeting:  (1) Board Audit Committee (BAC) (2) Board Human Resources and Remuneration Committee (BHRRC) (3) Board Selection and Nomination Committee (BSNC) (4) Board Integrated Risk Management Committee (BIRMC) (5) Board Credit Committee (BCC) (6) Board Related Party Transactions Review Committee (BRPTRC) (7) Board Strategic Plan and Plan Implementation Committee (8) Specialised Board Subcommittee – Capital Planning (9) Board Co-operative Development Committee  This is disclosed under the Annual Report of the Board of Directors on the Affairs of the Bank	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not complied
3 (6) (ii)	Board Audit Committee		
(a)	The Chairman of the Committee is an Independent Non-Executive Director and possesses qualifications and related experience.	The Chairman is an Independent Non-Executive Director who is a qualified Chartered Accountant.	Complied with
(b)	All members of the Committee are Non-Executive Directors.	All members are Non-Executive Directors.	Complied with
(c)	The Committee has made recommendations on matters in connection with – <ul style="list-style-type: none"> <li>(i) The appointment of the External Auditors for audit services to be provided in compliance with the relevant statutes;</li> <li>(ii) The implementation of the Central Bank guidelines issued to Auditors from time to time;</li> <li>(iii) The application of the relevant accounting standards; and</li> <li>(iv) The service period, audit fee and any resignation or dismissal of the Auditors; provided that the engagement of the Audit partner shall not exceed five years, and that 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.</li> </ul>	The Committee makes recommendations regarding those matters.	Complied with
(d)	The Committee has obtained representations from the External Auditor on their independence, and that the audit is carried out in accordance with SLAuS.	External Auditors are independent since they report directly to the BAC. The Report on the Financial Statements of the Bank for the year 2020 indicates that the audit is carried out in accordance with SLAuS.	Complied with
(e)	The Committee has implemented a policy on the engagement of an External Auditor to provide non-audit services in accordance with relevant regulations.	Committee has implemented a policy in this regard.	Complied with
(f)	The Committee has discussed and finalised the nature and scope of the audit, with the External Auditors in accordance with SLAuS before the audit commences.	Committee has discussed and finalised the Audit Plan 2020, nature and scope of the audit and deliverables, with the External Auditors in accordance with SLAuS before the audit commences.	Complied with
(g)	The Committee has a process to review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its annual report, accounts, and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following: <ul style="list-style-type: none"> <li>(i) Major judgemental areas;</li> <li>(ii) Any changes in accounting policies and practices;</li> <li>(iii) The going concern assumption;</li> <li>(iv) The compliance with relevant accounting standards and other legal requirements; and</li> <li>(v) In respect of the Annual Financial Statements the significant adjustments arising from the audit.</li> </ul>	BAC reviews the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, when the Annual Financial Statements and other accounts are submitted to the BAC by the CFO.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not complied
(h)	The Committee has met the External Auditors relating to any issue in the absence of the Executive Management with relation to the audit.	Committee has met the External Auditors in the absence of the Executive Management during the year.	Complied with
(i)	The Committee has reviewed the External Auditors' Management Letter and the Management's response thereto.	BAC reviews the External Auditors' Management Letter and Management response at the meeting.	Complied with
(j)	The Committee shall take the following steps with regard to the internal audit function of the Bank:		
(i)	Review the adequacy of the scope, functions, and resources of the Internal Audit Department, and satisfy itself that the Department has the necessary authority to carry out its work;	The Committee reviews the adequacy of the scope, functions, and resources of the Internal Audit Department.	Complied with
(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 Department;	The Committee reviewed the internal audit programmes, and progress of internal audit function for the year 2020 and was discussed at BAC.	Complied with
(iii)	Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;	BAC has evaluated the performance of the head of internal audit and senior staff members for the year 2020.	Complied with
(iv)	Recommend any appointment or termination of the head, senior staff members, and outsourced service providers to the internal audit function;	Appointment, termination, or transfers of the head, senior staff and outsourced service providers of the internal audit function are recommended by the BAC.	Complied with
(v)	The Committee is appraised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	There were no outsourced service providers or resignations of senior staff members of the Internal Audit Department during the period.	Complied with
(vi)	The internal audit function is independent of the activities it audits.	Internal Audit Department is independent since they report directly to the BAC and is not involved in any operational activities of the Bank. Its functions are performed with impartial proficiency and due professional care.	Complied with
(k)	The minutes to determine whether the Committee has considered major findings of internal investigations and Management's responses thereto.	The Committee has reviewed all the findings and advised the internal investigation officers for appropriate actions.	Complied with
(l)	Ensure that whether the Committee has had at least two meetings with the External Auditors without the Executive Directors being present.	There are no Executive Directors in the Board and they have met two occasions with the External Auditors.	Complied with
(m)	The Terms of Reference of the Committee to ensure that there is –	The Board approved Terms of Reference (ToR) of the Committee addresses all those matters.	Complied with
	(i) Explicit authority to investigate into any matter within its Terms of Reference;		
	(ii) The resources which it needs to do so;		
	(iii) Full access to information; and		
	(iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.		

Guideline	Function of the Board	Level of compliance	Complied/Not complied
	(n) The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties.	During the year 2020, BAC has held 17 regular meetings and its minutes are maintained by the Company Secretary.	Complied with
	(o) The Board has disclosed in the Annual Report, (i) Details of the activities of the Audit Committee; (ii) The number of Audit Committee meetings held in the year; and (iii) Details of attendance of each Individual Director at such meetings.	This information is disclosed in the Annual Report under the following headings: (i) "Report of the Board Audit Committee". (ii) and (iii) "Annual Report of the Board of Directors on the Affairs of the Company".	Complied with
	(p) The Secretary of the Committee is the Company Secretary or the head of the internal audit function.	The Secretary of the Committee is the Chief Internal Auditor.	Complied with
	(q) The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditors.	This requirement has been documented in the "Whistle-blowing" policy and approved by the Board.	Complied with
3 (6) (iii)	The following rules apply in relation to the Human Resources and Remuneration Committee:		
	(a) The Committee has implemented a policy to determine the remuneration (salaries, allowances, and other financial payments) relating to Directors, CEO and Key Management Personnel of the Bank by review of the "Terms of Reference" and minutes.	BHRRC has implemented a policy to determine the remuneration of Directors. Committee has implemented a policy to determine the remuneration relating to CEO and KMPs of the Bank.	Complied with
	(b) The goals and targets for the Directors, CEO and the Key Management Personnel are documented.	Goals and targets of CEO and KMPs are reviewed by the BHRRC. No Executive Directors are available in the Board.	Complied with
	(c) The Committee has considered evaluations of the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determines the basis for revising remuneration, benefits, and other payments of performance-based incentives.	The Bank has a process to review and evaluate the performance of CEO and KMPs by the BHRRC/BAC or BIRMC. Accordingly, the Committee has considered evaluations of the performance of the CEO and Key Management Personnel against the set targets and goals.	Complied with
	(d) The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	CEO is present at all meetings other than when matters relating to the CEO are discussed.	Complied with
3 (6) (iv)	The following rules apply in relation to the Nomination Committee:		
	(a) The Committee has implemented a procedure to select/appoint new Directors, CEO, and Key Management Personnel.	Board has a policy and procedure for the selection, appointment, and remuneration of the Directors, CEO and KMPs.	Complied with
	(b) The Committee has considered and recommended (or not recommended) re-election of current Directors.	Duly recommended.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not complied
	(c) The Committee has set the criteria such as qualifications, experience, and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the Key Management Personnel, by review of job descriptions.	<p>Criteria such as qualifications, experience, and key attributes required for eligibility for appointment or promotion to the post of CEO are submitted at the Selection and Nomination Committee.</p> <p>Criteria for KMPs are included in their job descriptions approved by the BHRR Committee.</p> <p>These job descriptions are submitted at the Selection and Nominations Committee for their review.</p>	Complied with
	(d) The Committee has obtained from the Directors, CEO, and Key Management Personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction No. 3 (3) and as set out in the Statutes.	Signed declarations are obtained from Directors, CEO and KMPs that they are fit and proper persons to hold the office.	Complied with
	(e) The Committee has considered a formal succession plan for the retiring Directors and Key Management Personnel.	<p>The Committee has developed a succession plan and procedure for appointing Independent Non-Executive Directors in place of retiring Directors of the Bank.</p> <p>The Bank has developed a succession plan for KMPs. For certain positions one to one succession plan is available.</p>	Complied with
	(f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	<p>The Committee is chaired by an Independent Director, and the majority of the members are also Independent Directors.</p> <p>The CEO participates only on invitation.</p>	Complied with
3 (6) (v)	The following rules apply in relation to the Board Integrated Risk Management Committee (BIRMC):		
	(a) The Committee shall consist of at least three Non-Executive Directors, CEO, and Key Management Personnel supervising broad risk categories, i.e. credit, market, liquidity, operational, and strategic risks, and work within the framework of the authority and responsibility assigned to the Committee.	<p>At present BIRMC consists of three Non-Executive Directors.</p> <p>The Committee includes CEO and KMPs supervising broad risk categories, i.e. credit, market, liquidity, operational, and strategic risks as members of the Committee.</p>	Complied with
	(b) The Committee has a process to assess all risks, i.e. credit, market, liquidity, operational, and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and Group basis.	Credit, market, operational, and strategic risks are evaluated on a monthly basis by the Executive Integrated Risk Management Committee and minutes are submitted to BIRMC on a quarterly basis.	Complied with
	(c) The Committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the Credit Committee and the Asset and Liability Committee, and report any risk indicators periodically.	The Committee has reviewed the effectiveness of management level committees such as the Credit Committee and the Asset and Liability Committee.	Complied with
	(d) The Committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	The BIRMC reviews risk indicators which have exceeded the defined limits.	Complied with
	(e) The Committee has met at least quarterly.	Committee has met eleven times during 2020.	Complied with



Guideline	Function of the Board	Level of compliance	Complied/Not complied
	(f) The Committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	Disciplinary actions to be taken against officers responsible for failure to identify specific risk is discussed at the Committee and it is incorporated into the disciplinary procedure manual.	Complied with
	(g) The Committee submits a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	All the risk assessment reports are reviewed by the Committee and the Committee will take actions to submit a risk assessment report for the next Board meeting.	Complied with
	(h) The Committee has established a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls, and approved policies on all areas of business operations and that there is a dedicated Compliance Officer selected from Key Management Personnel to carry out the compliance function and report to the Committee periodically.	Compliance function is in place to ensure that the Bank complies with all relevant regulations, rules, and guidelines. A dedicated senior officer has been appointed by the Bank in this regard who has designated as a KMP. The Compliance Officer submits a monthly compliance report to the Board and Related Party Transactions Report on a monthly basis to the main Board.	Complied with

### 3 (7) RELATED PARTY TRANSACTIONS

3 (7) (i)	<p>There is an established and documented process by the Board to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:</p> <p>(a) Any of the Bank's subsidiary companies;</p> <p>(b) Any of the Bank's associate companies;</p> <p>(c) Any of the Directors of the Bank;</p> <p>(d) Any of the Bank's Key Management Personnel;</p> <p>(e) A close relation of any of the Bank's Directors or Key Management Personnel;</p> <p>(f) A shareholder owning a material interest in the Bank;</p> <p>(g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest.</p>	<p>There is a Board approved "Related Party Transactions Policy" which defines guidelines on related parties and avoiding any conflicts of interest with said parties that may arise from such transactions of the Bank.</p> <p>Transactions with related parties are done strictly according to the Board approved Related Party Transactions Policy and are reported to the Board on a monthly basis.</p> <p>Further, the Related Party Transactions Review Committee (RPTRC) is a subcommittee of the Board and is responsible for making decisions over related party transactions other than day-to-day normal business activities.</p>	Complied with
3 (7) (ii)	<p>There is a process to identify and report the following types of transactions as transactions with related parties that are covered by this direction.</p> <p>(a) The grant of any type of accommodation, as defined in the Monetary Board's directions on maximum amount of accommodation.</p> <p>(b) The creation of any liabilities of the Bank in the form of deposits, borrowings, and investments.</p> <p>(c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank.</p> <p>(d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential, or otherwise sensitive information that may give benefits to such related parties,</p>	<p>There is a Board approved "Related Party Transactions Policy" which defines guidelines on related parties and avoiding any conflicts of interests with said parties that may arise from such transactions of the Bank.</p> <p>Bank has an established process of reporting of related party transactions with regard to related entities to the Board of Directors on a monthly basis.</p>	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not complied
3 (7) (iii)	<p>The Board has a process to ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i), in a manner that would grant such parties “more favourable treatment” than that accorded to other constituents of the Bank carrying on the same business.</p> <p>(a) Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the Bank’s regulatory capital, as determined by the Board.</p> <p>(b) Charging of a lower rate of interest than the Bank’s best lending rate or paying more than the Bank’s deposit rate for a comparable transaction with an unrelated comparable counterparty.</p> <p>(c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;</p> <p>(d) Providing services to or receiving services from a related party without an evaluation procedure;</p> <p>(e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential, or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</p>	<p>The Board approved “Related Party Transactions Policy” is in place. It defines related parties and types of related party transactions and the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties “more favourable treatment” than that accorded to other constituents of the Bank carrying on the same business.</p> <p>The Bank modified the system to enable the effective identification of related party transactions and to ensure that there are no favourable treatments offered to such related parties than that accorded to other constituents of the Bank carrying on the same business.</p> <p>Monitoring is being carried out covering all the products of the Bank to ensure that the Bank does not offer “more favourable treatment” to related parties.</p> <p>However, this process needs to be strengthened, implementing a mechanism to get a “pop up” when the name or other identifying data of a related party is entered into systems of the Bank.</p>	Complied with
3 (7) (iv)	<p>The Bank has a process for granting accommodation to any of its Directors and Key Management Personnel, and that such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary Board as well.</p>	<p>This requirement is documented in the Board approved Related Party Transactions Policy.</p>	Complied with
3 (7) (v)	<p>(a) The Bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, that steps have been taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.</p>	<p>No such matters were pending as at 31 December 2020.</p>	Complied with
	<p>(b) Where such security is not provided by the period as provided in Direction 3 (7) (v) (a) above, has the Bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.</p>	<p>No such matters are outstanding as at 31 December 2020.</p>	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not complied
	(c) There is a process to identify any Director who fails to comply with the above subdirections, be deemed to have vacated the office of Director and has the Bank disclose such fact to the public.	Such a situation did not occur during 2020.	Complied with
	(d) Process in place to ensure Clause 3 (7) (v) (c) does not apply to any Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.	Such a situation did not occur during 2020.	Complied with
3 (7) (vi)	There is a process in place to identify when the Bank grants any accommodation or “more favourable treatment” relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.	No favourable treatments were given to the employees under any category other than staff benefit schemes approved by the Board of Directors.	Complied with
3 (7) (vii)	There is a process to obtain prior approval from the Monetary Board for any accommodation granted by the Bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary Board and any remission without such approval is void and has no effect.	Not applicable due to the reasons mentioned in 3 (7) (v) and 3 (7) (vi) above.	Complied with
<b>3 (8) DISCLOSURES</b>			
3 (8) (i)	The Board ensures that the Board has disclosed: (a) Annual Audited Financial Statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English. (b) Quarterly Financial Statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Annual Audited Financial Statements including basis of preparation and presentation and statement of compliance is disclosed in the Annual Report 2020 and such Audited Financial Statements and quarterly Financial Statements have been published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with
3 (8) (ii)	The Board has made the following minimum disclosures in the Annual Report: (a) The 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. (b) The report by the Board on the Bank’s internal control mechanism that confirms that the financial reporting system has been designed to provide 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.	Specific disclosures are available on page 134 of this Annual Report under “Statement of Directors Responsibility for Financial Reporting”.  Specific disclosures are available on pages 130 and 131 of this Annual Report under “Directors’ Statement on Internal Control over Financial Reporting”.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not complied														
(c)	The Board has obtained the assurance report issued by the Auditors under "Sri Lanka Standards on Assurance Engagements SLSAE – 3050 – Assurance reports for banks on Directors Statement on Internal Control" referred to in Direction 3 (8) (ii) (b) above.	Board has obtained the Assurance Report issued by the Auditors under "Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Reports for Banks on Directors' Statement on Internal Control" and included on page 132 of this Annual Report.	Complied with														
(d)	Details of Directors, including names, qualifications, age, experience fulfilling the requirements of the guideline, fitness and propriety, transactions with the Bank, and the total of fees/remuneration paid by the Bank.	Details on the same are disclosed under heading "Board of Directors".  Fees and transactions with the Bank has been disclosed in this report under Direction 3 (8) (ii) (f).	Complied with														
(e)	Total net accommodation as defined in Direction 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	Disclosures of accommodation outstanding as of balance sheet date to related parties are made under Notes to the Financial Statements in the Annual Report. Net accommodations granted to each category of related parties and its percentage as a Bank capital is as follows:	Complied with														
		<table border="1"> <thead> <tr> <th>Category of related party</th> <th>Balance LKR Mn.</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Board of Directors</td> <td>30.27</td> <td>0.31</td> </tr> <tr> <td>Corporate Management</td> <td>146.92</td> <td>1.48</td> </tr> <tr> <td>Related Companies</td> <td>31.06</td> <td>0.31</td> </tr> </tbody> </table> <p><i>Spouses and other family members of related parties – NIL</i></p>	Category of related party	Balance LKR Mn.	%	Board of Directors	30.27	0.31	Corporate Management	146.92	1.48	Related Companies	31.06	0.31			
Category of related party	Balance LKR Mn.	%															
Board of Directors	30.27	0.31															
Corporate Management	146.92	1.48															
Related Companies	31.06	0.31															
(f)	The aggregate values of remuneration paid by the Bank to its Key Management Personnel and Directors, and the aggregate values of the transactions of the Bank with its Key Management Personnel and Directors, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	Disclosure of remuneration paid by the Bank to its KMPs and Directors and other transactions with KMPs and Directors are disclosed below.	Complied with														
		<table border="1"> <thead> <tr> <th rowspan="2">Category of KMP</th> <th colspan="2">Balance as at 31 December 2020 LKR Mn.</th> <th rowspan="2">Remuneration fees paid during the year LKR Mn.</th> </tr> <tr> <th>Deposits</th> <th>Loan outstanding</th> </tr> </thead> <tbody> <tr> <td>Board of Directors</td> <td>-</td> <td>-</td> <td>30.27</td> </tr> <tr> <td>Corporate Management (AGM Grade and above)</td> <td>42.27</td> <td>33.62</td> <td>113.30</td> </tr> </tbody> </table>	Category of KMP	Balance as at 31 December 2020 LKR Mn.		Remuneration fees paid during the year LKR Mn.	Deposits	Loan outstanding	Board of Directors	-	-	30.27	Corporate Management (AGM Grade and above)	42.27	33.62	113.30	
Category of KMP	Balance as at 31 December 2020 LKR Mn.			Remuneration fees paid during the year LKR Mn.													
	Deposits	Loan outstanding															
Board of Directors	-	-	30.27														
Corporate Management (AGM Grade and above)	42.27	33.62	113.30														
(g)	Board has confirmed in its Annual Corporate Governance Report that all the findings of the "Factual Findings Report" of Auditors issued under "Sri Lanka Related Services Practice Statement 4750" have been incorporated in the Annual Corporate Governance Report.	Board has confirmed in the Annual Corporate Governance Report that all the findings of the "Factual Findings Report" of Auditors issued under "Sri Lanka Related Services Practice Statement 4750" have been incorporated in Annual Corporate Governance Report.	Complied with														
(h)	A report setting out details of the compliance with prudential requirements, regulations, laws, and internal controls and measures taken to rectify any material non-compliance.	This aspect is covered by the "Board of Directors on the affairs of the Company" on pages 121 to 129 of this Annual Report.	Complied with														
(i)	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	No such direction was issued by the Monetary Board during the year.	Complied with														

## COMPLIANCE WITH THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE

Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2020
<b>A. DIRECTORS</b>			
<b>A.1 THE BOARD</b>			
The Bank should be headed by a Board, which should direct, lead, and control the Bank			
All Directors of the Bank function in a Non-Executive capacity. The Board consists of professionals in the fields of Banking, Accounting, Rural Development, Management, and Economics. All Directors possess the skills, experience, and knowledge combined with a high sense of integrity and independent judgement. The Board gives leadership in setting the strategic direction and establishing a sound control framework for the successful functioning of the Bank. The Board's composition reflects sound balance of independence and anchors shareholder commitment.			
1. Board meetings	A.1.1	The Board should meet regularly. At least once a quarter.	The Board meets regularly on a monthly basis. During the year the Board met 17 times.
2. Board responsibilities	A.1.2	Board should provide an entrepreneurial leadership within a framework of prudent and effective controls.	The Board is responsible to the shareholders for creating and delivering sustainable shareholder value through the management of business. The Board has provided strategic direction in vision statement, mission statement and the annual budget.
3. Compliance with laws and access to independent professional advice	A.1.3	The Board collectively and Directors individually must act in accordance with rules and regulations.	The Board collectively as well the Directors individually, recognise their duties to comply with laws of the country which are applicable to the Bank. A procedure has been put in place for Directors to seek independent professional advice, in furtherance of their duties, at the Bank's expense. This will be coordinated through the Board Secretary, as and when it is requested.
4. Board secretary	A.1.4	All Directors should have access to the advice and services of secretary.	All Directors have access to the Board Secretary. Further, she provides the Board with support and advice relating to corporate governance matters, Board procedures and applicable rules and regulations.
5. Independent judgement	A.1.5	All Directors should bring an independent judgement to bear on issues of strategy.	Directors are responsible for bringing independent and objective judgement, and scrutinising the decisions taken by the Corporate Management led by the CEO, on issues of strategy, performance, resource utilisation, and business conduct.
6. Dedication of adequate time and effort by the Board and Board Committees	A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company.	"The Chairman and members of the Board have dedicated adequate time for the fulfilment of their duties as Directors of the Bank. In addition to attending Board meetings, they have attended subcommittee meetings and also have made decisions via circular resolution where necessary. Papers relating to the Board meetings are sent well in advance allowing sufficient time for preparation."
7. Training for new Directors	A.1.7	Every Director should get an appropriate training.	The Board of Directors recognises the need for continuous training and expansion of knowledge and undertakes such professional development as they consider necessary in assisting them to carry out their duties as Directors.

Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2020
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## A.2 CHAIRMAN AND CEO

There should be a clear division of responsibilities between the Chairman and the Chief Executive Officer to ensure a balance of power and authority, in such a way that any individual has no unfettered powers of decisions. The roles of the Chairman and the Chief Executive Officer are functioning separately at SDB. The Chairman's main responsibility is to lead, direct, and manage the work of the Board to ensure that it operates effectively and fully discharges its legal and regulatory responsibilities. CEO is responsible for the day-to-day operations of the Bank.

1. Division of responsibilities of the Chairman and the MD/CEO	A.2.1	A decision to combine the posts of Chairman and the CEO in one person should be justified and highlighted in the Annual Report.	The roles of the Chairman and the Chief Executive Officer have been segregated, ensuring an appropriate balance of power.
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## A.3 CHAIRMAN'S ROLE

The Chairman should lead and manage the Board, ensuring that it discharges its legal and regulatory responsibilities effectively and fully and preserves order and facilitates the effective discharge of the Board function.

1. Role of the Chairman	A.3.1	The Chairman should conduct Board proceedings in a proper manner and ensure an effective discharge of the Board functions.	The Chairman leads the Board ensuring effectiveness in all aspects of its role. The Chairman of SDB bank is a Non-Executive Director, elected by the Board. The Chairman's role encompasses –  Ensuring that the new Board members are given appropriate induction, covering terms of appointment, duties and responsibilities.
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## A.4 FINANCIAL ACUMEN

The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance. The Board is equipped with members having sufficient financial acumen and knowledge.

1. Availability of sufficient financial acumen and knowledge	A.4.1	The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	There is sufficient financial acumen on the Board, gained from leading large private and public enterprises coupled with academic and professional backgrounds. The details of their qualifications and experiences have been listed in the Annual Report under "Board of Directors".
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## A.5 BOARD BALANCE

It is preferable for the Board to have balance of Executive and Non-Executive Directors such that no individual or a small group of individuals can dominate the Board's decision-taking.

1. Presence of Non-Executive Directors	A.5.1	The Board should include at least two Non-Executive Directors or a number equalling to 1/3 of all Directors whichever is higher and in the event of CEO and Chairman is same the majority should consisted with Non-Executives.	All Directors are Non-Executive Directors. The requirement as per the direction has been complied throughout 2020.
2. Independent Directors	A.5.2	Two or 1/3 of Non-Executive Directors out of all, should be Independent Directors.	Board comprises four Independent, Non-Executive Directors.
3. Criteria to evaluate Independence of Non-Executive Directors	A.5.3	For a Director to be deemed as "Independent", such Director should be independent from management and free of any business or other relationships that could materially interfere.	Comply with independency criteria.
4. Signed declaration of independence by the Non-Executive Directors	A.5.4	Each Non-Executive Director should submit a signed and dated declaration annually of his/her independence.	There is a declaration of Independence signed by all Non-Executive Directors.

Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2020
5. Determination of independence of the Directors by the Board	A.5.5	The Board should make a determination annually as to the independence or Non-Independence of each Non-Executive Director.	The Board has determined that the submission of declaration/s by the Non-Executive Directors, as to their independence, as fair representation and will continue to evaluate their submission annually.
6. Appointment of Alternate Director	A.5.6	If an Alternate Director is appointed by a Non-Executive Director such Alternate Director should not be an Executive of the Bank.	No Alternate Director was appointed during the year 2020.
7. Senior Independent Directors	A.5.7	In the event the Chairman and CEO is the same person, the Board should appoint one of the Independent Non-Executive Directors to be the "Senior Independent Director" and disclose this appointment in Annual Report.	Roles of the Chairman and the CEO are held by two different individuals that carry out different functions.
8. Confidential discussion with the Senior Independent Director	A.5.8	The Senior Independent Director should make himself available for confidential discussions with other Directors.	The roles of the Chairman and the CEO are segregated.
9. Meeting of Non-Executive Directors	A.5.9	The Chairman should hold meetings with the Non-Executive Directors only, without the Executive Directors being present, as necessary and at least once each year.	All Directors are Non-Executive Directors and meet on a monthly basis.
10. Recording of concerns in Board minutes	A.5.10	Where Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should ensure their concerns are recorded in the Board minutes.	Concerns of Directors have been duly recorded in Board minutes.

## A.6 SUPPLY OF INFORMATION

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

1. Information to the Board by the Management	A.6.1	Management has the responsibility to provide the information appropriately and timely to the Board. But information volunteered by Management is not always enough and Directors should make further inquiries where necessary.	The Board was provided with timely and appropriate information by the Management by way of Board papers and proposals. The Board sought additional information as and when necessary. Members of the Corporate Management made presentations on issues of importance whenever clarification was sought by the Board. The Chairman ensured that all Directors were briefed on issues arising at Board meetings.
2. Adequate time for effective Board meetings	A.6.2	The minutes, agenda, and papers required for a Board meeting should ordinarily be provided to Directors at least seven days before.	The Board papers were circulated to the Directors at least a week before the respective Board meetings by giving an adequate time for Directors to study the papers and prepare for a meaningful discussion at the meeting.

## A.7 APPOINTMENTS TO THE BOARD

There should be a formal and transparent procedure for the appointment of new Directors to the Board.

1. Nomination Committee	A.7.1	A Nomination Committee should be established to make recommendations to the Board on selection of new Directors. The Chairman and members of the Committee should be disclosed in the Annual Report.	The Nomination Committee made recommendations to the Board on all new Board appointments. The Terms of Reference of the Committee was formally approved by the Board and Chairman and members are disclosed in the Annual Report under "Report of the Board Selection and Nomination Committee (BS & NC)".
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Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2020
2. Assessment of Board composition by the Nomination Committee	A.7.2	The Nomination Committee or in the absence of Nomination Committee, the Board as a whole should annually assess Board composition.	The Nomination Committee carried out continuous review of the structure, size and composition (including the skills, knowledge, experience and independence required for Directors) of the Board to address and challenge adequately key risks and decisions that confront or may confront the Board and makes recommendations to the Board with regard to any changes.
3. Disclosure of details of new Directors to shareholders	A.7.3	Upon the appointment of a new Director, the Company should forthwith disclose relevant particulars to shareholders.	New appointments of Directors are disclosed through the CSE as well as at the AGM.

#### A.8 RE-ELECTION

All Directors should submit themselves for re-election at regular intervals and at least once in every three years.

1. Appointment of Non-Executive Directors	A.8.1	Non-Executive Directors should be appointed for specified terms subject to re-election and to the provisions of Companies Act relating to the removal of Directors and their reappointment should not be automatic.	Articles of Association of the Bank requires, each Director other than the CEO and any nominee Director, to retire by rotation once in every three years and is required to stand for re-election by the shareholders at the Annual General Meeting. The proposed re-election of Directors is subject to prior review.
2. Election of Directors by the shareholders	A.8.2	All Directors including the Chairman of the Board should be subject to election by shareholders at the first opportunity after their appointment and re-election thereafter at intervals of no more than three years.	Complied with.

#### A.9 APPRAISAL OF BOARD PERFORMANCE

The Board should periodically appraise its own performance against the pre-set targets in order to ensure that the Board responsibilities are satisfactorily discharged.

1. Appraisal of Board performance	A.9.1	The Board should annually appraise itself on its performance in the discharge of its key responsibilities as set out in A.1.2.	Self-assessments for Board of Directors were done for the year 2020.
2. Annual self-evaluation of the Board and its committees	A.9.2	The Board also should undertake an annual self-evaluation of its own performance and that of its committees.	There is a self-performance evaluation procedure for the Board of Directors of the Bank.
3. Disclosure of the method of appraisal of Board and Board Subcommittee performance	A.9.3	The Board should state how such evaluation was done in the Annual Report.	Refer the "Board of Directors" in the Annual Report.

#### A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS

Details in respect of each Director should be disclosed in the Annual Report for the benefit of the shareholders.

1. Details in respect of Directors	A.10.1	The Annual Report of the Company should disclose details regarding Directors.	Details of the Directors are given in the Annual Report under "Board of Directors" and "Annual Report of the Board of Directors on the Affairs of the Company".
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Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2020
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## A.11 APPRAISAL OF THE CEO

The Board of Directors should at least annually assess the performance of the Chief Executive Officer.

1. Targets for MD/CEO	A.11.1	At the commencement of every fiscal year the Board in consultation with the CEO should set objectives for the Company.	CEO's performance objectives are aligned with business objectives of the Bank. The performance targets for the CEO are set at the commencement of every year by the Board.
2. Evaluation of the performance of the MD/CEO	A.11.2	The performance of CEO should be evaluated by the Board at the end of each fiscal year to ascertain whether the targets have been achieved.	Bank has a process to review and evaluate the performance of the CEO at the Board Human Resources and Remuneration Committee.

## B. DIRECTORS' REMUNERATION

### B.1 REMUNERATION PROCEDURES

The Bank should have a formal and transparent procedure for developing policy on Executive remuneration and fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her remuneration.

1. HR and Remuneration Committee	B.1.1	To avoid potential conflicts of interest, the Board of Directors should set up a Remuneration Committee to make recommendations to the Board.	The HR and Remuneration Committee is responsible for assisting the Board with regard to the remuneration policy of the Directors and KMPs, and for making all relevant disclosures.
2. Composition of the HR and Remuneration Committee	B.1.2 and B.1.3	Remuneration Committees should consist exclusively of Non-Executive Directors, and should have a Chairman who should be appointed by the Board and the Chairman and members of the Committee should be stated in the Annual Report.	All Committee members are Non-Executive Directors and the Chairman is appointed by the Board. Composition of the Committee is given in the Annual Report under "Report of the Board Human Resources and Remuneration Committee".
3. Remuneration of the Non-Executive Directors	B.1.4	The Board as a whole or as required by the Articles of Association the shareholders should determine the remuneration of Non-Executive Directors.	Remuneration of Non-Executive Directors is determined by the Board Human Resources and Remuneration Committee.
4. Consultation of the Chairman and access to professional advice	B.1.5	The Remuneration Committee should consult the Chairman and CEO about its proposals relating to the remuneration of other Executive Directors and have access to other professional advice.	Inputs of the Chairman is obtained by his involvement as a member of the said subcommittee and access is available to obtain professional advice, if necessary.

### B.2 LEVEL AND MAKE UP OF REMUNERATION

The level of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Bank successfully. A proportion of Executive Directors remuneration should be structured to link rewards to the corporate and individual performance.

1. Level and make up of the remuneration of Executive Directors	B.2.1	The Remuneration Committee should provide the packages needed to attract, retain, and motivate Executive Directors.	The Board is mindful of the fact that the remuneration of Executive and the Non-Executive Directors should reflect the market expectations and is sufficient enough to attract and retain the quality of Directors needed to run the Bank.
2. Comparison of remuneration with other companies	B.2.2	The Remuneration Committee should judge where to position the level of remuneration of the Company relative to other companies.	The Remuneration Committee in deciding the remuneration of the Directors (including the compensation package of the CEO) takes into consideration the level of remuneration paid by the other comparable companies, performance and risk factors.

Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2020
3. Comparison of remuneration with other companies in the Group	B.2.3	The Remuneration Committee should be sensitive to remuneration and employment conditions.	Please refer the above comment under B.2.2.
4. Performance – related payment to Executive Directors	B.2.4	The performance-related elements of remuneration of Executive Directors should be designed and tailored to align their interests with those of the Company and main stakeholders and to give these Directors appropriate incentives to perform at the highest levels.	The Bank does not have Executive Directors.
5. Executive share options	B.2.5	Executive share options should not be offered at a discount.	Such a share option scheme is not in practice in the Bank.
6. Deciding the Executive Directors' remuneration	B.2.6	In designing schemes for performance-related remuneration, Remuneration Committee should follow the relevant SEC regulations.	The Bank does not have Executive Directors.
7. Early termination of Directors	B.2.7	Remuneration Committee should consider what compensation commitments, their Directors' contracts of service, if any, entail in the event of early termination.	Compensation on early termination will be discussed on a case-by-case basis considering the relevant facts.
8. Early termination not included in the initial contract	B.2.8	Where the initial contract does not explicitly provide for compensation commitments, remuneration committees should, within legal constraints, tailor their approach in early termination cases to the relevant circumstances.	Compensation on early termination will be discussed on a case-by-case basis by the Remuneration Committee.
9. Remuneration of the Non-Executive Directors	B.2.9	Levels of remuneration for Non-Executive Directors should reflect the time commitment and responsibilities of their roles, taking into consideration market practices.	The level of remuneration of Non-Executive Directors reflect the time commitment and responsibility of their role taking into consideration market practices.

### B.3 DISCLOSURE OF REMUNERATION

The Bank should disclose the Remuneration Policy and the details of remuneration of the Board as a whole.

1. Disclosure of remuneration	B.3.1	The Annual Report should set out the names of Directors comprising the Remuneration Committee, contain a Statement of Remuneration Policy and set out the aggregate remuneration paid to Directors.	Refer Note 38 to the Financial Statements relating to Related Party Transactions included in the Annual Report for remuneration of Directors, and "Report of the Board Human Resources and Remuneration Committee" for composition of the Remuneration Committee with names.
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## C. RELATIONS WITH SHAREHOLDERS

### C.1 CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING AND CONDUCT OF GENERAL MEETINGS.

Boards should use the AGM to communicate with shareholders.

1. Encourage their participation	C.1.1	Companies should count all proxy votes and should indicate the level of proxies lodged in each resolution, and the balance for and withheld after it has been dealt with on a show of hands, except where a poll is called.	The Bank has a mechanism to record all proxy votes and proxy votes lodged on each resolution.
2. Separate resolution for all separate issues	C.1.2	Companies should propose a separate resolution at the AGM on each substantially separate issue and should in particular propose a resolution at the AGM relating to the adoption of the report and accounts.	Bank proposes a separate resolution at the AGM on each substantially separate issue.

Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2020
3. Availability of all Board Subcommittees Chairman at the AGM	C.1.3	The Chairman of the Board should arrange for the Chairman of the Audit, Remuneration, and Nomination Committees to be available to answer questions at the AGM if so requested by the Chairman.	The Board which includes the Chairman of the Audit, Remuneration, Nomination, and Integrated Risk Management Committees are present at the AGM to answer any questions.
4. Adequate notice of the AGM	C.1.4	Companies should arrange for the Notice of the AGM and related papers to be sent to shareholders as determined by statute, before the Meeting.	Bank gives notice of the AGM and related papers to the shareholders 15 working days prior to the Meeting date.
5. Procedures of voting at General Meetings	C.1.5	Companies should circulate with every Notice of General Meeting, a summary of the procedures governing voting at General Meetings.	Voting procedures at General Meetings are circulated to the shareholders along with the Annual Report.

## C.2 COMMUNICATION WITH SHAREHOLDERS

The Board should implement effective communication with shareholders.

1. Dissemination of timely information	C.2.1	There should be a channel to reach all shareholders of the Company in order to disseminate timely information.	All the financial information of the Bank could be reached through newspapers and website by stakeholders.
2. Policy and methodology for communication with shareholders	C.2.2	The Company should disclose the policy and methodology for communication with shareholders.	Communication with shareholders is done through individual letters, through inquiries from Company Secretary Department, Annual Report, Bank Facebook page and Bank website.
3. Implementation of communication policy and methodology	C.2.3	The Company should disclose how they implement the above policy and methodology.	A Board-approved communication policy is in place.
4. Contact person for communication	C.2.4	The Company should disclose the contact person for such communication.	Following is the contact number of person to be contacted – The Company Secretary – 011 283 2590
5. Awareness of Directors on major issues and concerns of shareholders	C.2.5	There should be a process to make all Directors aware of major issues and concerns of shareholders, and this process has to be disclosed by the Company.	Non-Executive Directors are selected by the shareholders at the AGMs. Shareholders can inform their concerns through those Directors to discuss at Board meetings.  Moreover shareholders can direct the concerns to the Company Secretary via above given contact number to discuss at Board meetings.
6. The contact person in relation to shareholders' matters	C.2.6	The Company should decide the person to contact relating to shareholders matters. The relevant person with statutory responsibilities is the Company Secretary or in his/her absence should be a member of the Board of Directors.	Following is the contact number of person to be contacted relating to shareholders' matters. Company Secretary – 011 283 2590
7. The process of responding to shareholder matters	C.2.7	The process for responding to shareholder matters should be formulated by the Board and disclosed.	Answering the shareholders' matters is done by Company Secretary/through the above contact numbers and at the AGM.

## C.3 MAJOR AND MATERIAL TRANSACTIONS

Directors should disclose to shareholders all proposed material transactions which would materially alter the net asset position of the Bank, if entered into.

1. Major transactions	C.3.1	Prior to a company engaging in or committing to a "Major related party transaction" with a related party, Directors should disclose to shareholders the purpose and all relevant material facts and obtain shareholders' approval by ordinary resolution.	During 2020, there were no major transactions that took place as defined by Section 185 of the Companies Act No. 07 of 2007 which materially affects Bank's net asset base.
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Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2020
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## D. ACCOUNTABILITY AND AUDIT

### D.1 FINANCIAL REPORTING

The Board should present a balanced and understandable assessment of the Company's financial position, performance, and prospects.

1. Statutory and regulatory reporting	D.1.1	The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators.	SDB bank has reported a true and fair view of its position and performance for the year ended 31 December 2020. In the preparation of quarterly and annual financial statements, SDB bank has strictly complied with the requirements of the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 and amendments thereto, and are prepared and presented in conformity with Sri Lanka Accounting Standards. SDB bank has complied with the reporting requirements prescribed by the regulatory authorities such as the Central Bank of Sri Lanka, the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka.
2. Directors' Report in the Annual Report	D.1.2	The Directors' Report which forms a part of the Annual Report, should contain a declaration by the Directors stating that Bank's operations are in line with statutory requirements.	The "Annual Report of the Board of Directors on the Affairs of the Company" given in the Annual Report covers all areas of this section.
3. Statement of Directors' and Auditor's responsibility for the Financial Statements	D.1.3	The Annual Report should contain a statement setting out the responsibilities of the Board on preparation and presentation of Financial Statements, and a Statement of Internal Control.	This requirement is satisfied by the "Statement of Directors' Responsibility for Financial Reporting" and "Directors' Statement on Internal Control over Financial Reporting" given in the Annual Report. Statement of Internal Control is also given in the Annual Report.
4. Management Discussion and Analysis	D.1.4	Annual Report should contain a "Management Discussion and Analysis".	The Annual Report contains "Management Discussion and Analysis".
5. Declaration by the Board that the business is a going concern	D.1.5	The Directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary.	This is given in the "Annual Report of the Board of Directors on the affairs of the Company" in the Annual Report.
6. Summoning an EGM to notify serious loss of capital	D.1.6	In the event the net assets of the Company fall below 50% of the value of the Company's shareholders' funds, the Directors shall forthwith summon an EGM of the Company to notify shareholders of the position and remedial actions.	Such a situation has not arisen during the period.
7. Disclosure of Related Party Transactions	D.1.6	The Board should adequately disclose the related party transactions in its Annual Report.	Related party transaction details are given in the Annual Report.

Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2020
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## D.2 INTERNAL CONTROL

The Board should have a sound system of internal controls to safeguard shareholders' investments and the Bank's assets.

1. Annual evaluation of the internal controls system	D.2.1	The Directors should at least annually, conduct a review of the risks facing the Company and the effectiveness of the system of internal control.	<p>The Board is responsible for establishing a sound framework of internal controls and monitoring its effectiveness on a continuous basis. The system of internal controls was evaluated by the Audit Committee in the year 2020. Risk has been reviewed by BIRMC quarterly.</p> <p>The Board of Directors was satisfied with the effectiveness of the system of internal controls, which is evidenced through the "Independent Assurance Report to the Board of Directors of SANASA Development Bank PLC" given in the Annual Report under "Directors' Statement on Internal Control over Financial Reporting".</p>
2. Need for internal audit function	D.2.2	Companies should have an internal audit function.	The Bank has a separate Internal Audit Department. The Board of Directors reviews the internal control function once a year.
3. Reviews of the process and effectiveness of risk management and internal controls	D.2.3	The Board should require the Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls and to document to the Board and Board takes the responsibility for the disclosures on internal controls.	Complied with. Directors' certification on effectiveness of risk management and internal control is given in the Annual Report.
4. Sound system of internal control and its content	D.2.4	Directors should follow the said guidance on responsibilities in maintaining a sound system of internal control.	Complied with. Directors' certification on effectiveness of risk management and internal control is given in the Annual Report.

## D.3 AUDIT COMMITTEE

The Board should have formal and transparent arrangements for selecting and applying the accounting policies, financial reporting and internal control principles, and maintaining an appropriate relationship with the Bank's External Auditor.

1. Composition of the Audit Committee	D.3.1	The Audit Committee should comprised of a minimum of two Independent Non-Executive Directors or exclusively by Non-Executive Directors, a majority of whom should be independent, whichever is higher.	Complied with. (Please refer the composition of Audit Committee in the Annual Report.)
2. Review of objectivity of the External Auditor	D.3.2	The duties of the Audit Committee should include keeping under review the scope and results of the audit and its effectiveness, and the independence and objectivity of the Auditors.	The Audit Committee ensures the independence and objectivity of External Auditors.
3. Terms of reference of the Audit Committee	D.3.3	The Audit Committee should have a written Terms of Reference.	Bank has written Terms of Reference for Audit Committee which addresses requirements of the code.

Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2020
4. Disclosures of the Audit committee	D.3.4	The names of the Directors of the Audit Committee, determination of the independence of the Auditors and its basis should be disclosed in the Annual Report.	The names of the members of the Audit Committee are given in the Annual Report.  The Committee ensures the rotation of External Audit Engagement Partner once in every five years. The External Auditor has provided an Independent confirmation in compliance with the "Guidelines for Appointment of Auditors of Listed Companies" issued by SEC.

#### D.4 CODE OF BUSINESS CONDUCT AND ETHICS

The Bank should develop a Code of Business Conduct and Ethics for Directors and members of the Senior Management Team.

1. Code of Business Conduct and Ethics	D.4.1	Companies must disclose whether they have a Code of Business Conduct and Ethics for Directors and Key Management Personnel and if there is such a Code, make an affirmative declaration in the Annual Report.	The Bank has developed a Code of Business Conduct and Ethics for all employees, which addresses conflicts of interest, corporate opportunities, confidentiality of information, 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 behaviour etc.
2. Affirmation by the Chairman that there is no violation of the Code of Conduct and Ethics	D.4.2	The Chairman must affirm in the Company's Annual Report that he is not aware of any violation of any of the provisions of the Code of Business Conduct and Ethics.	Please refer the "Chairman's Statement on Corporate Governance" for details.

#### D.5 CORPORATE GOVERNANCE DISCLOSURES

The Bank should disclose the extent of adoption of best practice in corporate governance.

1. Disclosure of Corporate Governance	D.5.1	The Directors should include in the Company's Annual Report a Corporate Governance Report, setting out the manner in which Company has complied with the principles and provisions of this Code.	This requirement is met through the presentation of this Report.
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### E. INSTITUTIONAL INVESTORS

#### E.1 SHAREHOLDERS' VOTING

Institutional shareholders are required to make considered use of their votes and encouraged to ensure their voting intentions are translated into practice.

1. Institutional shareholders	E.1.1	A listed company should conduct a regular and structured dialogue with shareholders based on a mutual understanding of objectives.	Annual General Meeting is used to have an effective dialogue with the shareholders on matters which are relevant and of concern.
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#### E.2 EVALUATION OF GOVERNANCE DISCLOSURES

1. Evaluation of governance disclosures	E.2.1	When evaluating Company's governance arrangements, particularly those relating to Board structure and composition, institutional investors are encouraged to give due weight to all relevant factors drawn to their attention.	Institutional investors' concerns are addressed as and when raised.
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Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2020
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## F. OTHER INVESTORS

### F.1 INVESTING/DIVESTING DECISION

1. Individual shareholders	F.1.1	Individual shareholders, investing directly in shares of companies should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.	Information is readily available for individual shareholders investing directly in shares of the Company to encourage and carry out adequate analysis.
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### F.2 Shareholder Voting

2. Individual shareholders' voting	F.2.1	Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights.	All individual shareholders are given an opportunity to participate at Annual General Meetings and exercise their voting rights by sending individual invitations and newspaper notices.
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## G. SUSTAINABILITY REPORTING

### G.1 PRINCIPLES OF SUSTAINABILITY REPORTING

1. Principle 1 – Economic sustainability	G.1.1	Principle of economic sustainability governance recognises how organisations take responsibility for impacts of their strategies, decisions and activities on economic performance and corporate responsibility in their sphere of influence and how this is integrated through the organisation.	The Bank considers its regional influence and its impact when planning its strategies, activities and decisions on economic performance for economic sustainability governance.
2. Principle 2 – The environment	G.1.2	Environmental governance of an organisation should adopt an integrated approach that takes into consideration economic, social, health, and environmental implications of their decisions and activities.	Bank has taken into consideration integrated approach on direct and indirect economic, social, health, and environmental implications when taking decisions on pollution prevention, protection of environment and restoration of natural resources.
3. Principle 3 – Labour practice	G.1.3	Labour practices governance of an organisation encompasses all policies and practices relating to work performed by or on behalf of the organisation.	All practices and policies are formulated to have a present working environment in the organisation.
4. Principle 4 – Society	G.1.4	Society governance encompasses support for and building a relationship with the community and striving for sustainable development including responsible public policy participation, fair competition and responsible community development.	Development including responsible public policies encompass support for a building for a relationship with the community.
5. Principle 5 – Product responsibility	G.1.5	Product responsibility governance includes manufacturing quality products and distributing them and ensuring that the products are safe for the consumers and the environment.	Bank develops banking products to ensure the safety and fair contractual practices and its data protection and privacy.
6. Stakeholder identification, engagement and effective communication	G.1.6	Internal and external stakeholder groups should be identified in relation to the Company's sphere of influence, impact, and implication. Communication should be proactive and transparent.	Communication with the stakeholders is cordial and include past performance and existing economic, social, and environmental issues.
7. Principle 7 – Formalisation of sustainability report	G.1.7	Sustainability reporting and disclosure should be formalised as part of the Company's reporting process and take place on a regular basis.	Sustainability reporting is based on local and global standards providing credible account of the Bank's economic, social, and environmental impact.

# Report of the Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee (BIRMC) is vested by the Board with the role of defining the risk appetite of the Bank, and ensuring that Bank operates within its designated tolerance for risk at all times. The BIRMC is also responsible for ensuring that a robust governance structure is in place so that all existing and emerging risks are mitigated in a timely and effective manner. Any bank is exposed to various risks when it operates in a dynamic environment. The BIRMC is further responsible for the continuous development of a culture of risk awareness within the Bank and staff are aware of the latest risks. The BIRMC also appraises the performance of the Chief Risk Officer and Compliance Officer ensures that the staff of the Risk Department are suitably skilled and experienced to carry out their duties effectively.

## COMPOSITION OF THE COMMITTEE

The BIRMC comprised the following Directors and members:

- Prof Sampath Amaratunge – Chairman (BIRMC), Independent, Non-Executive Director
- Mr Chaaminda Kumarasiri – Independent, Non-Executive Director
- Mr B R A Bandara – Non-Independent, Non-Executive Director

Mr Prabhash Subasinghe – Non-Independent, Non-Executive Director served as a member of the Committee and resigned from 27 February 2020. Mr Lakshman Abeysekera was appointed to the Committee on 27 February 2020 and resigned on 26 May 2020. The committee takes this opportunity to place on record the appreciation for the valuable services rendered by Director Mr Prabhash Subasinghe and Mr Lakshman Abeysekera as members of the Committee.

The Company Secretary acts as the Secretary to the committee.

## TERM OF REFERENCE (TOR) OF THE COMMITTEE

The BIRMC was established by the Board of Directors in compliance with the direction issued by the Central Bank of Sri Lanka on Corporate Governance for Licensed Specialised Banks.

The composition and the scope of the work of the Committee are in conformity with the above directions. The Board of Directors has approved the ToR as per the above directions.

The major function of the BIRMC is to manage and review the overall risk profile of the Bank which includes the following responsibilities:

1. The Committee shall assess all risks i.e. credit, market, liquidity, operational risks of the Bank on a monthly basis through appropriate risk indicators.
2. The Committee shall review the adequacy and effectiveness of all management level committees.
3. The Committee shall take prompt and corrective action to mitigate the effects of specific risk when such risk is beyond the prudential levels decided by the Committee.

4. The Committee shall establish a compliance function to assess the Bank compliance with laws, regulations, regularity authorities, internal controls, and approved policies in all areas of business operations. A dedicated Compliance Officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.

## COMMITTEE ACTIVITIES DURING THE YEAR

During the year under review several value additions and procedures were introduced by the Committee to further strengthen the risk management process of the Bank. The Bank-wide operational risk goals were approved by the Committee during the year, enabling the Bank to report and mitigate high level operational risk incidents. The Committee also reviewed and approved changes to internal limits for credit and integrated risk indicators in line with the risk appetite of the Bank. The committee convened several meetings to discuss the risk arisen out of COVID-19 pandemic situation and mitigating such risk.

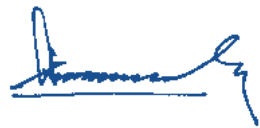
The BIRMC reviewed the quarterly internal capital adequacy calculations and methodology and future projections. The Bank's Internal Capital Adequacy Assessment Process report submitted to the regulator was reviewed by the Committee. All assumptions and methodologies used in stress testing as well as three-year capital projections were reviewed.

The Committee also reviewed the significant risks arising from credit, market, liquidity and operational areas in addition to reviewing the effectiveness and efficiency of Key Management Committee meetings held during the year.

## MEETINGS

The BIRMC met eleven times during the year under review. The attendance of the Committee members at the meetings of the Committee is tabled on page 127. The minutes of meetings are regularly forwarded to the Board together with detailed key risk indicators, stress testing reports and forecasts. All key risk indicators and potential risks were discussed and reviewed at each meeting and appropriate mitigatory measures taken where necessary.

For and on behalf of the Board Integrated Risk Management Committee,



**Prof Sampath Amaratunge**  
Chairman  
Board Integrated Risk Management Committee

19 March 2021  
Colombo, Sri Lanka



# Report of the Board Audit Committee

## COMPOSITION OF THE COMMITTEE

The Board Audit Committee ("BAC") appointed by and responsible to the Board of Directors ("the Board") comprises two (02) Non-Executive, Independent Directors, and one (01) Non-Independent, Non-Executive Director.

The following members serve in the Board Audit Committee (BAC):

- Mr Chaaminda Kumarasiri – Chairman (BAC), Independent, Non-Executive Director
- Prof Sampath Amaratunge – Independent, Non-Executive Director
- Mr K G Wijerathne – Non-Independent, Non-Executive Director

The Chairman of the BAC Mr Chaaminda Kumarasiri is an Independent Non-Executive Director. Brief profiles of Mr Chaaminda Kumarasiri and other members of the BAC are given on pages 20 to 23 in the Annual Report.

Mr Lakshman Abeysekera – Independent, Non-Executive Director served as the Chairman of the BAC and resigned from the Committee on 26 May 2020. Mr Chaaminda Kumarasiri was appointed as the Chairman of BAC on 26 May 2020.

The Committee take this opportunity to place on record the appreciation for the valuable service rendered by Mr Lakshman Abeysekera as the Chairman of BAC.

The Chief Internal Auditor functions as the Secretary to the BAC.

## TERMS OF REFERENCE

The BAC was functioned as per the Terms of Reference approved by the Board of Directors. The Board reviews the Terms of Reference once a year and/or when necessary and it ensures that new developments are adequately addressed. The Committee is responsible to the Board of Directors and reports on its activities regularly. The BAC also assists the Board in its general oversight of financial reporting, internal controls, and functions relating to internal and external audits.

## REGULATORY COMPLIANCE

The roles and functions of the BAC are regulated by the Banking Act Direction No. 12 of 2007, the mandatory Code of Corporate Governance for Licensed Specialised Banks in Sri Lanka, issued by the Central Bank of Sri Lanka, the Rules on Corporate Governance as per the Section 7.10 of Listing Rules issued by the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchanges Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

## DUTIES AND ROLE OF THE BOARD AUDIT COMMITTEE

The BAC is responsible for:

- Reviewing financial information of the Bank in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure;

- Reporting to the Board on the quality and acceptability of the Bank's accounting policies and practices;
- Assessing the reasonableness of the underlying assumptions for estimates and judgements made in preparing the Financial Statements;
- Reviewing the accounting and financial reporting, risk management processes and regulatory compliance;
- Reviewing of the Financial Statements (including interim financial statements) prior to publication to ensure compliance with statutory provisions, accounting standards and accounting policies;
- Reviewing internal audit reports and liaising with Corporate Management in taking precautionary measures to minimise control weaknesses, procedure violations and frauds;
- Assessing the independence and reviewing the adequacy of the scope, functions and resources of the Internal Audit Department, including the appointment of the Chief Internal Auditor (CIA) and the performance of the CIA and senior staff members of the Internal Audit Department;
- Overseeing the appointment, compensation, resignation, dismissal of the External Auditor, including review of the external audit, its scope, cost and effectiveness and monitoring of the External Auditor's independence;
- Reviewing adequacy and effectiveness of the Bank's systems of internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with the applicable accounting standards and the regulatory requirements;
- Engaging independent advisors on specialised functions where it is deemed necessary.

## MEETINGS

For the purpose of discharging its duties, the BAC met seventeen (17) times during the year. Attendance of the Committee members of each of these meetings is given in the table in page 127 of the Annual Report. The minutes of the meetings have been regularly reported to the Board of Directors. Chief Internal Auditor and Chief Financial Officer have attended meetings on invitation and Chief Executive Officer and the relevant Senior Management/Officers in other grades are also participated in the meetings on invitation. On the invitation of the Committee, the Engagement Partner and the Senior Officers of the Banks External Auditors, Messrs Ernst & Young attended for six (06) Committee meetings during the year. In four (04) out of seventeen (17) meetings, it has been discussed and recommended the Quarterly and Annual Financial Statements for the Board approval. The Committee met the Chief Internal Auditor without the presence of Management in several occasions to assess the independence and other confidential matters. The BAC met the External Auditors in six (06) occasions during the year and in which two (02) occasions were without the presence of the CEO and the Management to ensure that there was no limitations of scope in relation to the External Audit and to allow for full disclosure of any incident which could have had a negative impact on the effectiveness on the external audits. It was concluded that there was no cause for concern.

## FINANCIAL REPORTING

The Committee, as part of its responsibility to oversee the Bank's financial reporting process on behalf of the Board of Directors, has reviewed and discussed with the Management and the External Auditors with regard to the interim and the Annual Financial Statements prior to their release for publication. The review included the quality and acceptability of accounting policies and practices, the clarity of the disclosures and the extent of compliance with Sri Lanka Accounting Standards (SLFRS and LKAS), the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 and amendments thereto and other relevant financial and governance reporting requirements. To facilitate their review, the BAC considered reports from the Chief Financial Officer and also reports from the External Auditors on the outcome of their review of the annual audit.

The BAC continuously monitored the implementation of the Sri Lanka Financial Reporting Standard – SLFRS 9 “Financial Instruments” issued by The Institute of Chartered Accountants of Sri Lanka which became effective from 1 January 2018. The Impairment Model was re-validated during 2020 and independently validated by the External Auditors.

The committee also closely monitored the training and awareness session on SLFRS 9 “Financial Instruments” conducted to the Board of Directors and the Senior Management during 2020.

As part of the BAC's responsibilities, notably its review of financial results, reports from Internal and External Audits, the Bank's Accounting Policies, as well as the Annual Financial Statements; the BAC took cognisance of the Key Audit Matters as reported in the Independent Auditors' Report. In addition, the Committee reviewed Management's judgements on significant Accounting and External reporting requirements and obtained External Auditor's agreement with the treatment thereof.

## INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

The Bank is required to comply with Section 3 (8) (ii) (b) of the Banking Act Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks issued by the Central Bank of Sri Lanka and assessed the adequacy and effectiveness of internal control over financial reporting as of 31 December 2020.

The above was conducted based on the criteria set out in the Guidance for Directors of Banks on “The Directors' Statement of Internal Control”, issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in 2010.

The Bank's assessment was concentrated on processes documented by the respective process owners with the guidance of the Bank's Internal Audit and External Auditors. Based on Internal Auditors' and External Auditors' assessments, the Board has concluded that, as of 31 December 2020, the Bank's internal control over financial reporting is effective. Directors' Report on the Bank's Internal Control over Financial Reporting is provided on pages 130 and 131 in the Annual Report. The Bank's External Auditors have reviewed the effectiveness of the Bank's internal control over financial reporting and have 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 over financial reporting of the Bank. External Auditor's Report on the Bank's Internal Control over Financial Reporting is provided on page 132 of the Annual Report.

## ANNUAL CORPORATE GOVERNANCE REPORT

As required by Section 3 (8) (ii) (g) of the Banking Act Direction No. 12 of 2007, on Corporate Governance for Licensed Specialised Banks issued by the Central Bank of Sri Lanka, the Annual Corporate Governance Report for 2020 is provided on pages 85 to 109 in the Annual Report. The External Auditors of the Bank have performed procedures set-out in Sri Lanka Related Services Practice Statement 4750 issued by The Institute of Chartered Accountants of Sri Lanka (SLRSPS 4750), to meet the compliance requirement of the corporate governance directive. Their findings presented in their report addressed to the Board are consistent with the matters disclosed above and did not identify any inconsistencies to those reported by the Board on pages 85 to 109.

## EXTERNAL AUDIT

With regard to the external audit function of the Bank, the role played by the BAC was as follows:

- Conducting the annual evaluation of the independence and objectivity of the External Auditor and the effectiveness of the audit process.
- Met with the External Auditors to discuss their audit approach and procedure, including matters relating to the scope of the audit and Auditor's independence.
- Reviewed the Audited Financial Statements with the External Auditor who is responsible for expressing an opinion on its conformity with the Sri Lanka Accounting Standards.
- Reviewed the Key Audit Matters (KAM) Report and Management Letters issued by the External Auditor together with Management responses thereto.
- Reviewed the non-audit services provided by the External Auditor and was of the view that such services were not within the category of services identified as prohibited under –
  - a. The guidelines issued by the Central Bank of Sri Lanka, for External Auditors, relating to their statutory duties in terms of Section 39 of the Banking Act No. 30 of 1988 and amendments thereto.
  - b. The Guideline for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka.
- Reviewed the independent confirmation issued by the External Auditor as required by the Companies Act No. 07 of 2007, confirming that they do not have any relationship or interest in the Company, which may have a bearing on their independence within the meaning of the Code of Conduct and Ethics of The Institute of Chartered Accountants of Sri Lanka.

The BAC has recommended to the Board of Directors that Messrs Ernst & Young, Chartered Accountants, be reappointed for the financial year ending 31 December 2021 subject to the approval of shareholders at the Annual General Meeting.

## INTERNAL AUDIT

The BAC monitored and reviewed the scope, extent and effectiveness of the activities of the Bank's Internal Audit Department. This included reviewing of updates on audit activities and achievements against the Internal Audit Plan, advising Corporate Management to take precautionary measures on significant audit findings and assessment of resource requirements including succession planning of the Internal Audit Department. The BAC had necessary interactions with the Chief Internal Auditor throughout the year.

During the year, BAC reviewed the Internal Audit Plan and monitored the progress of same on regular basis.

The Committee reviewed the performance appraisal of the Chief Internal Auditor and other senior staff members of the Internal Audit Department.

The Internal Audit Department conducts continuous monitoring over the selected types of transactions using data streaming software. This initiative has helped Internal Audit Department to improve its pro-activeness.

Audit findings presented in the reports are prioritised based on the level of risks. The Committee followed up on internal audit recommendations with the Corporate Management regularly. Internal audit reports were made available to examiners of the Central Bank of Sri Lanka and External Auditors, when requested by them.

The BAC reviewed the process over recognition of interest income by the bank on the Moratorium loans granted under the COVID-19 relief scheme of the Central Bank of Sri Lanka.

Along with the significant findings, the Internal Audit Department has engaged in sharing and providing knowledge through audit exit meetings to the Bank's staff for better control awareness and identifying early warning signals. In keeping with BAC recommendations, the internal audit has also provided inputs to the Corporate Management for effective control and prevention of frauds.

## INTERNAL AUDIT CHARTER AND INTERNAL AUDIT MANUAL

The internal audit function is governed by the Internal Audit Charter which defines the Vision, Scope, Independence and the Authority. The Internal Audit Charter and the Internal Audit Manual were reviewed/revised and approved by the BAC and the Board.

## WHISTLE BLOWING

SANASA Development Bank's Whistle-blowing Policy is intended to serve as a channel of fraud risk management. The policy allows any team member who has a legitimate concern on an existing or potential "wrong doing", by any person within the Bank, to come forward voluntarily, and bring such concerns to the notice of an independent/ designated authority. Concerns raised are investigated and the identity of the person raising the concern is kept confidential, even anonymous complaints are looked at. A process has been established to track such whistle blowing and take necessary actions.

## REPORTING TO THE BOARD

The minutes of the BAC meetings are tabled at the Board meetings enabling all Board members to have access to them.

## PROFESSIONAL ADVICE

The BAC has the authority to seek external professional advice on matters within its purview; and consultations are obtained when need arises.

## BOARD AUDIT COMMITTEE EVALUATION

The annual evaluation of the BAC was conducted by the Board of Directors during the year and concluded that its performance was effective.

On behalf of the Board Audit Committee (BAC),



**Chaaminda Kumarasiri**  
*Chairman*  
Board Audit Committee (BAC)

19 March 2021  
Colombo, Sri Lanka

# Report of the Board Human Resources and Remuneration Committee

Board Human Resources and Remuneration Committee (BHRRC) of SDB bank was established under the Terms of Reference approved by the Board of Directors of the Bank. Its primary responsibility is to establish the conceptual framework on establishing Remuneration Policy and other key policies related to Human Resources Management and Development.

## COMPOSITION OF BHRRC

The Board Human Resources and Remuneration Committee consists of five (05) Non-Executive Directors appended below:

- Mr Chaaminda Kumarasiri – Chairman (BHRRC), Independent, Non-Executive Director
- Mr Lakshman Abeysekera – Chairman, Independent, Non-Executive Director
- Ms Dinithi Ratnayake – Non-Independent, Non-Executive Director (Appointed to the BHRRC w.e.f. 26 May 2020)
- Mr J A Lalith G Jayasinghe – Non-Independent, Non-Executive Director (Appointed to the BHRRC w.e.f. 21 August 2020)
- Mr Prasanna Premaratna – Independent, Non-Executive Director (Appointed to the BHRRC w.e.f. 18 September 2020)

Ms Samadanie Kiriwandeniya, Non-Independent, Non-Executive Director served as a member of the Committee until retired from the Board on 22 May 2020. The committee take this opportunity to place on record the appreciation for the valuable services rendered by Ms Samadanie Kiriwandeniya as a member of the Committee.

Company Secretary of the Bank serves as the Secretary to the Committee based on the approved Terms of Reference of the Committee. Attendance of the Committee meetings is mandatory for the Chief Executive Officer and the Head of Human Resources, except when matters relating to those two positions are discussed.

## COMMITTEE MEETINGS OF BHRRC

The Committee held eighteen (18) Board Human Resources and Remuneration Committee meetings during the year under review to endorse proposals related to a wide array of aspects relating to the Human Resources Function of the Bank. The Committee has been able to continuously direct the HRM functions of the Bank to align with its strategic direction while complying with the regulatory and statutory framework of the Bank.

## SCOPE AND RESPONSIBILITIES

The Board Human Resources and Remuneration Committee is vested in assisting the Board to discharge its responsibilities in the following areas:

- Guide the implementation of Human Resource Management and Human Resource Development functions of the Bank
- Provide guidance to ensure that HR policies and strategies are aligned with the strategic direction of the Bank

- Provide the necessary direction for fostering performance culture within the Bank
- Ensure conformity of Bank's HR policies and practices with labour laws, Central Bank regulations and other applicable standards

## KEY HR INITIATIVES DURING THE YEAR

During the year, the Committee, comprehensively reviewed the performance of the Key Management Personnel (KMP) of the Bank for the year 2019 against the set goals and targets. They also set goals and targets for KMPs for 2020 in line with the strategic vision and direction of the Bank in 2020.

The Committee acknowledges that in addition to effective strategic planning and talent management, cultivating a work environment that supports and sustains a culture of superior performance that drives success both current and in the future is essential and thus approved a performance-linked bonus plan for all staff according to the overall achievement of Bank level profit target, a rewarding incentive scheme for sales personnel and a performance-based variable pay plan for support staff.

The Committee approved a comprehensive framework for the Human Resource Management and Development process. Upon the recommendation of the Corporate Management, three Management Positions were parallelly transferred and designated as new positions; Head of Business Banking, Head of Risk Management, and Chief Digital Officer. Further, Head of SME was promoted to the AGM grade and her remuneration was approved by the BHRRC.

The Committee also approved few new recruitments to some of the key positions such as Chief Risk Officer, Head of Marketing, Head of Retail Banking, Head of Branch Operation and Senior Manager – Sustainable Banking.

Further Committee recommended the amendments to the Promotion Policy and Staff Loan Policy, for the approval of the Board.

For and on behalf of the Board Human Resources and Remuneration Committee,



**Chaaminda Kumarasiri**  
Chairman

Board Human Resources and Remuneration Committee

19 March 2021  
Colombo, Sri Lanka

# Report of the Board Selection and Nomination Committee

The Board Selection and Nomination Committee (BS & NC) carried out its activities during the year within the scope of its Terms of Reference in conformity with the directions of Banking Act Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks in Sri Lanka (as amended) and the Code of Best Practice on Corporate Governance (2017) jointly issued by Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

## COMPOSITION OF THE BS & NC

The Board Selection and Nomination Committee comprises four (04) Non-Executive Directors (of which a majority are Independent) appointed by the Board of Directors of the Bank. During the year 2020, the following Directors served on the BS & NC:

- Mr Lakshman Abeysekera – Chairman (BS & NC), Independent, Non-Executive Director
- Prof Sampath Amaratunge – Independent, Non-Executive Director
- Mr Chaaminda Kumarasiri – Independent, Non-Executive Director (Appointed to the BS & NC w.e.f. 26 May 2020)
- Ms Dinithi Ratnayake – Non-Independent, Non-Executive Director (Appointed to the BS & NC w.e.f. 26 May 2020)

Ms Samadanie Kiriwandeniya, Non-Independent, Non-Executive Director served as a member of the Committee until retired from the Board on 22 May 2020. The committee take this opportunity to place on record the appreciation for the valuable services rendered by Ms Samadanie Kiriwandeniya as a member of the Committee.

The Company Secretary functions as the Secretary to the BS & NC.

## PRIMARY OBJECTIVES OF THE BS & NC

The BS & NC was established to assist the Board of Directors in fulfilling its role and responsibilities with regard to the selection and appointment of Independent Directors, election and re-election of Non-Independent Directors, and appointment of Chief Executive Officer and other Key Management Personnel of the Bank.

## RESPONSIBILITIES OF THE BS & NC

The BS & NC is responsible for reviewing the composition of the Board and Board Subcommittees with a view to ensure that they are properly constituted and well-balanced in terms of experience, expertise, skills and diversity. Further, the BS & NC is mandated:

- To ensure the implementation of the Board approved policy and procedure in selection and nominations of new Directors and Key Management Personnel of the Bank and to make recommendations regarding such appointments.
- To recommend the re-appointment/re-election of current Directors considering the performance and contribution made by such Directors towards the overall discharge of responsibilities of the Board.
- To review and determine the criteria such as qualifications, experience and key attributes, required for the eligibility for appointment of CEO and appointment/promotion for other Key Management Positions.
- To ensure that the Directors, CEO, and other Key Management Personnel are fit and proper persons to hold such positions as required by the Banking Act and applicable statutes.

- To consider from time to time the requirements of additional/new skills and expertise at the Board level and make suitable recommendation to the Board, to mobilise such skills and expertise.
- To put in place a proper Succession Plan for retiring Directors and Key Management Personnel with a view to ensure the uninterrupted and smooth functioning of all aspects of the Bank's operations and decision-making process in the long run and business continuing in unforeseen situations.

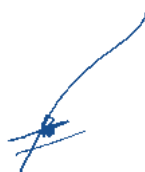
The Terms of Reference of the Board Selection and Nomination Committee was adopted by the Board in 2012 and it was further reviewed and refined in 2020.

## MEETINGS OF THE BS & NC AND ITS EFFECTIVENESS

The Committee met eight (08) times during the year under review and it focused mainly on the following:

- Board composition – Identified the skills required and recommended the appointment of two new Directors with expertise in Banking, HR and Co-operative aspects.
- Re-election of Directors – The Board Selection and Nomination Committee assessed the contribution made by the Directors who were retiring by rotation and made its recommendation to the Board to be submitted for re-election, by the shareholders at the AGM. Board Selection and Nomination Committee also recommended suitable Directors to fill the vacancies in place of retiring Directors.
- Filling the skills gaps in the Key Management Team – The Board Selection and Nomination Committee continuously reviewed the required skills and experience at the top management level and made recommendations to the Board with regard to the appointment of Key Management Personnel.
- Succession Plan – The Board Selection and Nomination Committee along with the Chief Executive Officer of the Bank reviewed and analysed the expertise required and available at Corporate and Senior Management level and specially discussed the Succession Plan for Key Management Personnel's with a view to identify and develop potential candidates for such posts. Reviewed and discussed the process and overall methodology for a succession plan and a contingency plan for Key Management Personnel.
- Job grading – Parallel to the job evaluation and grading exercise carried out, the Board Selection and Nomination Committee evaluated candidates and elected to fill the posts of Chief Digital Officer, Head of Business Banking and Head of Risk. Head of SME was promoted to the AGM grade.

For and on behalf of the Board Selection and Nomination Committee,



**Lakshman Abeysekera**  
Chairman  
Board Selection and Nomination Committee

19 March 2021  
Colombo, Sri Lanka

# Report of the Board Related Party Transactions Review Committee

The Board of Directors of the Bank constituted a Board Related Party Transactions Review Committee (BRPTRC) voluntarily in July 2014 further to the provisions contained in Section 9 of the Listing Rules of the Colombo Stock Exchange (CSE) ensure compliance with the Rules pertaining to Related Party Transactions as set out in the Listing Rules of the CSE, which required mandatory compliance from 1 January 2016. The composition and scope of the work of the Committee are in conformity with the provisions of the said Section in the Listing Rules.

## COMPOSITION OF BRPTRC

During the year 2020, the Committee consisted of three Independent, Non-Executive Directors as appended below:

- Mr Chaaminda Kumarasiri – Chairman (BRPTRC), Independent, Non-Executive Director
- Prof Sampath Amaratunge – Independent, Non-Executive Director
- Mr Prasanna Premaratna – Independent, Non-Executive Director

The Company Secretary is functioning as the Secretary to the Committee as per the approved Terms and Reference of the Committee.

## TERMS OF REFERENCE OF THE COMMITTEE

The Terms of Reference (ToR) of the Board Related Party Transactions Review Committee was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee reviewed the ToR in December 2020. The Committee carries out the following duties and responsibilities:

- All transactions with related parties of the Bank in order to ensure that related parties are treated on par with other shareholders of the Bank;
- Implementing regulations relating to related parties issued by Central Bank of Sri Lanka and Securities and Exchange Commission of Sri Lanka;
- Ensure that the interests of shareholders as a whole are taken into account by a listed entity when entering into related party transactions; and
- Ensure that there is a safeguard to prevent of taking advantage of their positions by Directors, Key Management Personnel or substantial shareholders.

## COMMITTEE MEETINGS OF BRPTRC

The Committee met four (4) times during the year under review and the attendance of Committee members at meetings is stated in the table on page 127 of the Annual Report. Attendance of Committee meetings is compulsory for Chief Executive Officer, Compliance Officer, and Chief Risk Officer except when matters related to those positions are discussed.

The proceedings of the Committee meetings are formally documented and have been regularly reported to the Board of Directors. The Board of Directors take due consideration of the comments/observations made by the Committee, when decisions are made.

## OBJECTIVE OF THE COMMITTEE

In carrying out the duties of the Committee, the Committee avoids “Conflicts of Interest” which may arise from any transaction of the Bank with any person particularly with related parties, ensure arm’s-length dealings with related parties whilst also ensuring adherence to the Corporate Governance Directions which requires the Bank to avoid engaging in transactions with related parties in a manner that would grant such parties “more favourable treatment” than accorded to other constituents of the Bank carrying on the same business, in line with the security requirements as stated in the Banking Act Directions and in compliance with the approval procedure set out in the Banking Act.

## SUMMARY OF ACTIVITIES

During the year the Committee reviewed transactions relating to the procurement of goods and services carried out by the Bank with various related parties on an “arm’s-length” basis.

The Committee noted that the Bank has not entered into any transactions as contemplated in Section 9.1.1 and 9.1.2 of the Listing Rules of the CSE and that accordingly there are no disclosures to be made in this regard in accordance with Section 9.3.2 (a) and 9.3.2 (b) of the Listing Rules of the CSE.

The Committee has reviewed the related party transactions of the Bank during the period of 1 January 2020 to 31 December 2020 and has thus complied with the rules pertaining to related party transactions as set out in Section 9 of the Listing Rules of the CSE.

For and on behalf of the Board Related Party Transactions Review Committee,



**Chaaminda Kumarasiri**

*Chairman*

Board Related Party Transactions Review Committee

19 March 2021  
Colombo, Sri Lanka

# Report of the Board Strategic Planning and Plan Implementation Committee

In the year 2015, the Board established the Board Strategic Planning and Plan Implementation Committee (BSP and PI). The main objective of this Committee is to assist the Board to effectively undertake its responsibility in setting and modifying the strategic business direction of the Bank and to increase profits and brand equity in a sustainable, appropriate, and a responsible manner.

The ICT Strategy, Marketing Strategy, and Operational Strategy of the Bank were identified as three main sections that fall under the scrutiny of the Committee.

## COMPOSITION OF BSP AND PI

BSP & PI comprises five (05) Non-Executive Directors, appointed by the Board of Directors. During the year 2020, the following Directors served on BSP and PI:

- Mr Lakshman Abeysekera – Chairman (BSP & PI), Independent, Non-Executive Director – (Appointed as Chairman w.e.f. 26 May 2020)
- Mr Prabhash Subasinghe – Non-Independent, Non-Executive Director
- Mr Chaaminda Kumarasiri – Independent, Non-Executive Director – (Appointed to the BSP & PI w.e.f. 26 May 2020)
- Ms Dinithi Ratnayake – Non-Independent, Non-Executive Director – (Appointed to the BSP & PI w.e.f. 26 May 2020)
- Mr Prasanna Premaratna – Independent, Non-Executive Director – (Appointed to the BSP & PI w.e.f. 18 September 2020)

Ms Samadanie Kiriwandeniya, Non-Independent, Non-Executive Director served as the Chairperson of the Committee until retired from the Board on 22 May 2020 and Prof Samapth Amaratunge – Independent, Non-Executive Director served as a member of the Committee and resigned on 26 May 2020.

The committee take this opportunity to place on record the appreciation for the valuable services rendered by Ms Samadanie Kiriwandeniya and Prof Sampath Amaratunge.

Company Secretary of the Bank serves as the Secretary to the Committee based on the approved ToR of the Committee.

## MEETINGS OF BSP & PI

The Committee met four (04) times during the period under review and during the year Committee deliberated followings and suggested recommendations for implementation of;

- Mid-year Review of Budget 2020
- Strategic Plan 2020-2022
- Budget 2021
- Business Strategies 2020
- Marketing Budget and Plan 2020

## THE SCOPE OF TOR

- In depth revision of the performance of the Bank on the strategic goals laid down in the Corporate Plan of the Bank, reviewing strategic and technical plans developed by the Management to achieve Business Development Goals of the Bank, identify areas to be improved, taking into account the new market opportunities and threats, strategic goals of the Bank and the Bank's internal strengths and limitations.
- Examine the overall Marketing Strategy of the Bank and recommend the business development plans presented by the Corporate Management for the approval of the Board. In-depth analysis of the strategic issues related to business expansion, identified by the Board and the Bank's business promotion plans, vis-a-vis benefits, risks, and strategic and financial implications on the organisation and the brand.
- Guide the Corporate Management and the Board on potential business expansion opportunities, especially in new markets and new technological platforms.

For and on behalf of the Board Strategic Planning and Plan Implementation Committee.

**Mr Lakshman Abeysekera**

*Chairman*

Board Strategic Planning and Plan Implementation Committee

19 March 2021

Colombo, Sri Lanka

# Report of the Board Credit Committee

The main income generation activity of the Bank is its lending operation. It has employed capital funds of its shareholders as well as deposits mobilised from its depositors to engage in this exercise. Therefore, it has cast a considerable responsibility on the Board of Directors of the Bank to employ these funds with the highest degree of prudence to ensure the safety of the funds and maximum profitability to the Bank.

The Board Credit Committee (BCC) is established to formulate the policies, strategies and directions in the Bank's credit operation and be the forerunner to the Board of Directors for it to take the necessary strategic decisions.

The membership of the Board Credit Committee comprised of four (04) Non-Executive Directors who meet at least 10 times annually to deliberate on issues under its purview:

## COMPOSITION OF THE BCC

During the year 2020, the following Directors served on the BCC:

- Mr Prasanna Premaratna – Chairman (BCC), Independent, Non-Executive Director
- Mr Lionel Thilakarathne – Non-Independent, Non-Executive Director
- Ms Dinithi Ratnayake – Non-Independent, Non-Executive Director (Appointed to the BCC w.e.f. 27 February 2020)
- Mr Prabhash Subasinghe – Non-Independent, Non-Executive Director (Appointed to the BCC w.e.f. 18 December 2020)

Ms Samadanie Kiriwandeniya, Non-Independent, Non-Executive Director served as a member of the Committee until retired from the Board on 22 May 2020. The committee take this opportunity to place on record the appreciation for the valuable services rendered by Ms Samadanie Kiriwandeniya as a member of the Committee.

Company Secretary is functioning as the Secretary of the Committee. Chief Executive Officer, Head of Credit, Head of Recovery and Collection, shall attend the meetings and Chief Risk Officer, Head of Co-operative Development, Head of Legal, Head of SME, Deputy Head of Credit, Head of Co-operative Credit Assessment shall attend the meetings by invitation to assist them and to provide expert knowledge on different areas of issues.

The main areas falling under the purview of the Board Credit Committee are as follows and it is empowered to:

- Formulate the Credit Policy and Recovery Policy of the Bank and review and recommend timely changes for the approval of the Board of Directors
- Monitor the credit growth/performance of the Bank vis-à-vis the annual budget forecasts and previous year's performance
- Analytically appraise credit proposals and recommend to the Board of Directors for approval
- Evaluate the market potential in the prevailing COVID-19 pandemic situation together with inherent risks attached and provide appropriate guidelines
- Monitor the interest rate behaviour in the market and the internal and external factors affecting such fluctuations

- Monitor the portfolio mix to ensure sectoral exposure, collateral diversification, term diversification and lending to priority sectors
- Provide relevant directions to ensure adherence to statutory and regulatory compliance requirements
- Ascertain the quality of the credit portfolio by monitoring credit collections and delinquent loan recoveries
- Evaluate and afford interest concessions where appropriate, for full and final settlements of hard-core loans and write-offs of loan capitals whenever it deems necessary and recommend to the Board of Directors
- Apart from the aforesaid, the Board Credit Committee has the prerogative to call for any other information or special report relating to the Credit Operation of the Bank, if it deems necessary for its scrutiny

The Committee met fifteen (15) times, during the year under review to discuss the normal scope of work and the proceedings of the Committee meetings have been reported to the Board of Directors.

During the meetings held in 2020 the Committee carried out following activities:

- Reviewed and agreed on the revised Terms of Reference of the Committee and recommended for approval of the Board of Directors
- Reviewed and approved the lending guidelines for Licensed Finance Companies.
- Reviewed and recommended the Credit Policy Manual, Recovery and Collection Policy and Procedure Manual for the approval of the Board of Directors.
- Reviewed and approved credit proposals comprising new facilities, annual review of revolving facilities, changes to terms and conditions of facilities already approved and interest rate concessions given to past due facilities
- Reviewed the progress of Recovery Department on the implementation of action plans approved by Board Credit Committee on the handling of non-performing loan facilities
- Reviewed the Top 20 watch list customers and Top 20 NPL customers list and advised the Management on recoveries
- Reviewed performance of pawning, SDB *athamaru* and safety locker as fee based income

For and on behalf of the Board Credit Committee,



**Prasanna Premaratna**  
Chairman  
Board Credit Committee

19 March 2021  
Colombo, Sri Lanka





# *Financial Reports*

- 120 Financial Calendar
- 121 Annual Report of the Board of Directors on the Affairs of the Bank
- 130 Directors' Statement on Internal Control over Financial Reporting
- 132 Independent Assurance Report
- 133 Chief Executive Officers' and Chief Financial Officers' Responsibility Statement
- 134 Statement of Directors' Responsibility for Financial Reporting
- 135 Independent Auditors' Report
- 138 Statement of Comprehensive Income
- 139 Statement of Financial Position
- 140 Statement of Changes in Equity
- 141 Statement of Cash Flows
- 142 Notes to the Financial Statements

# Financial Calendar

## FINANCIAL CALENDAR – 2020

Annual General Meeting		
24th Annual General Meeting		To be held on 28 May 2021
23rd Annual General Meeting		Held on 15 July 2020
Annual Financial Statements*		
Annual Financial Statements 2020		Signed on 19 March 2021
Annual Financial Statements 2019		Signed on 26 February 2020
Interim Financial Statements**	Date released to the CSE	Date published to the newspapers (In Sinhala, English, Tamil)
4th Quarter 2019	27 February 2020	19 June 2020
1st Quarter 2020	15 May 2020	26 June 2020
2nd Quarter 2020	5 August 2020	28 August 2020
3rd Quarter 2020	19 October 2020	29 October 2020
4th Quarter 2020	25 February 2021	30 March 2021

## PROPOSED FINANCIAL CALENDAR – 2021

Annual General Meeting		
25th Annual General Meeting		To be held on or before 31 May 2022
Annual Financial Statements*		
Annual Financial Statements 2021		To be signed in March 2022
Interim Financial Statements**	Date to be released to the CSE	Date to be published to the newspapers (In Sinhala, English, Tamil)
1st Quarter 2021	15 May 2021	31 May 2021
2nd Quarter 2021	15 August 2021	31 August 2021
3rd Quarter 2021	15 November 2021	30 November 2021
4th Quarter 2021	28 February 2022	31 March 2022

\* According to the Rule 7.5 of the Listing Rules of the CSE, the Audited Financial Statements should be published in accordance with Sri Lanka Accounting Standards and the Annual Report should be sent to the shareholders and the CSE within five months from the close of the year.

\*\* As per Listing Rule 7.4 a(i) of the CSE, Interim Financial Statements should be prepared on a quarterly basis and as soon as the figures have been approved by the BOD of the Entity and in any event not later than forty five (45) days from the end of the first, second and third quarters and two (2) months from the end of the fourth quarter.

\*\*\* As per the Banking Act Direction No. 12 of 2007, under Section 3 (8) (i) – Corporate Governance for Licensed Specialised Banks in Sri Lanka, The Board shall ensure that: (a) Annual Audited Financial Statements and Quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.

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

## GENERAL

The Directors have pleasure in presenting to the shareholders the Annual Report of the SANASA Development Bank PLC together with the Audited Financial Statements for the year ended 31 December 2020 and the Auditors' Report on those Financial Statements conforming to all relevant statutory requirements. This Report provides the information as required by the Companies Act No. 07 of 2007, Banking Act No. 30 of 1988 and amendments thereto and the Directions issued thereunder including the Banking Act Direction No. 12 of 2007 on "Corporate Governance for Licensed Specialised Banks in Sri Lanka" and subsequent amendments thereto, the Listing Rules of the Colombo Stock Exchange (the CSE) and the recommended best practices.

The Financial Statements of the Bank for the year ended 31 December 2020, including the comparatives for 2019 were approved and authorised for issue by the Board of Directors on 19 March 2021 in accordance with the Resolution of the Directors. The appropriate number of copies of the Annual Report will be submitted to the CSE and to the Sri Lanka Accounting and Auditing Standards Monitoring Board within the statutory deadlines.

SANASA Development Bank PLC ("The Bank") is a Licensed Specialised Bank registered under the Banking Act No. 30 of 1988 and was incorporated as a Public Limited Liability Company in Sri Lanka on 6 August 1997 under the Companies Act No. 17 of 1982. The Bank was re-registered as per the requirements of the Companies Act No. 07 of 2007 ("Companies Act") on 30 October 2007. The re-registration Number of the Bank is PB 62 PQ. The Registered Office as well as the Head Office of the Bank is at No. 12, Edmonton Road, Kirulapone, Colombo 6, Sri Lanka.

The ordinary voting shares of the Bank are listed on the Main Board of the Colombo Stock Exchange since May 2012. The Senior, Rated Guaranteed Debentures issued by the Bank are also listed on the CSE. The Bank has been assigned a National Long-term Rating of BB+(lka) with a stable outlook by Fitch Ratings Lanka Ltd., and the (SL)BBB- with stable outlook by ICRA Lanka Limited.

## VISION, MISSION, GOALS, VALUES, AND CORPORATE CONDUCT

The Bank's Vision and Mission statements are exhibited on page 9 of the Annual Report.

The business activities of the Bank are conducted in keeping with the highest level of ethical standards in achieving its Vision and Mission.

The Bank issues a copy of its Code of Ethics to each and every staff member and all employees are required to abide by the Bank's Code of Conduct.

## PRINCIPAL BUSINESS ACTIVITIES

The principal activities of the Bank include accepting deposits at competitive rates of interest and the investment of these deposits in community-based lending programmes, with special focus on

Co-operative Societies, their members and other micro enterprises, issuing of local and International Debit Cards. The Bank's range of products includes Special Deposits, Credit, Pawning, Leasing and Refinance Loan Schemes.

At the end of 2020 the Bank has established 94 delivery points (94 at the end of 2019) across all districts of the country.

## REVIEW OF OPERATIONS

The "Chairman's Message" on pages 14 and 15, the "Chief Executive Officer's Review" on pages 16 to 18, and the "Banking on value creation" on pages 33 to 35, together with the Audited Financial Statements provide an overall review of business performance and the state of affairs of the Bank together with important events that took place during the year as required by the Section 168 of the Companies Act No. 07 of 2007 and the recommended best accounting practices.

## FUTURE DEVELOPMENTS

The Bank intends expanding its network of delivery channels by employing client-focused strategy with effective Management of Capital, Liquidity, and Risks. Please refer sections on "Chairman's Message" on pages 14 and 15, "Chief Executive Officer's Review" on pages 16 to 18 and "Banking on Value Creation" on pages 33 to 35 for initiatives taken in this regard.

## FINANCIAL STATEMENTS

The Financial Statements of the Bank have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and they comply with the requirements of Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988. The Financial Statements of the Bank for the year ended 31 December 2020 duly signed by the Chief Financial Officer and Chief Executive Officer, two Directors of the Bank and the Company Secretary are given on pages 135 to 194, which form an integral part of the Annual Report of the Board of Directors.

## DIRECTOR'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the Financial Statements of the Bank, which reflect a true and fair view of the financial position and performance of the Bank. The Directors are of the view that the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes thereto appearing on pages 135 to 194 have been prepared in conformity with the requirements of the SLFRSs and LKASs as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Companies Act No. 07 of 2007. Further, these Financial Statements also comply with the requirements of the Banking Act No. 30 of 1988 and amendments thereto and the Listing Rules of the Colombo Stock Exchange. The "Statement of Directors' Responsibility" appearing on page 134 forms an integral part of this Report.

## AUDITORS' REPORT

The External Auditors of the Bank are Messrs Ernst & Young, Chartered Accountants. Messrs Ernst & Young, Chartered Accountants carried out the Audit on the Financial Statements of the Bank for the year ended 31 December 2020 and their report on these Financial Statements, as required by the Section 168 (1) (c) of the Companies Act is given on pages 135 to 137 of this Annual Report. The Auditors' remuneration details are stated in Note 11 to the Financial Statements on page 158.

As per the knowledge of the Directors the Auditors are independent and do not have any relationships or any interest in contracts with the Bank.

## SIGNIFICANT ACCOUNTING POLICIES

The Significant Accounting Policies adopted in the preparation of the Financial Statements are given on pages 142 to 154 and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

## GOING CONCERN

The Directors have made an assessment of the Bank'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 Directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern, such as restrictions or plans to curtail operations.

## FINANCIAL RESULTS AND APPROPRIATIONS

### GROSS INCOME

The gross income of the Bank for 2020 was LKR 16.16 Bn. (2019: LKR 15.52 Bn.). An analysis of the gross income is given in Note 3, 4, 5, 6 and 7 to the Financial Statements on pages 155 and 156.

### PROFITS AND APPROPRIATIONS

The net profit before tax of the Bank amounted to LKR 1,412 Mn. in 2020 (2019: LKR 585Mn.) and this has an increase by 141% when compared to 2019. Further, the net profit after tax of the Bank amounted to LKR 836 Mn. in 2020 (2019: LKR 253 Mn.) and this was a increase of 230% when compared to 2019. A detailed breakup of profits and appropriations of the Bank is given below:

Description	2020 LKR	2019 LKR
<b>Profit for the year</b>		
Profit for the year ended 31 December after payment of all operating expenses and provision for depreciation and contingencies	1,412,930,083	585,827,440
Less: Taxation	(576,642,736)	(332,422,344)
<b>Net profit after tax</b>	<b>836,287,347</b>	253,405,096
<b>Other Comprehensive Income (OCI)</b>		
Actuarial gain/(losses) on defined benefit plans	(1,854,991)	(41,587,781)
Gains/(losses) on remeasuring available-for-sale financial assets	-	(3,209,534)
Deferred tax relating to other comprehensive income	519,397	11,644,579
<b>Total comprehensive income for the year</b>	<b>834,951,754</b>	220,252,360
Unappropriated profit brought forward from previous year	1,472,502,282	1,264,920,177
<b>Balance available before adjustment</b>	<b>2,307,454,036</b>	1,485,172,537
<b>Appropriations</b>		
Transfer to statutory reserve fund	(41,727,392)	(12,670,255)
<b>Dividend</b>		
Final cash dividend – 2019 (LKR 2.00 per share)	(114,022,069)	-
Final scrip dividend – 2019 (LKR 5.00 per share)	(280,135,695)	-
Unappropriated balance carried forward as at 31 December	1,871,568,880	1,472,502,282

## TAXATION

Based on the Circular No. SEC/2020/03 dated 19 May 2020 issued by Department of Inland Revenue, income tax rate applicable for the banking sector has been reduced to 24% with effect from 1 January 2020. However, as the said amendment is yet to be enacted, both income tax and deferred tax provisions were calculated at the rate of 28% for the year ended 31 December 2020 (2019 - 28%). Details of tax payments are given in Note 12 to the Financial Statements on pages 158 and 159.

The Bank has also provided deferred taxation on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standard – LKAS 12 “Income Taxes”. Details of deferred tax provisions made are given in Note 12.2 to the Financial Statements on pages 158 and 159.

The Bank is liable for VAT on financial services at 15% in 2020 (2019: 15%) and NBT on financial services has been abolished with effect from 1 December 2019 (Before December 2019 – 2%).

With effect from 1 January 2020, the Debt Repayment Levy (DRL) was abolished by the Government (2019: 7%) and from 1 April 2013, the Bank is liable for Crop Insurance Levy at 1% which is payable to the National Insurance Trust Fund Board.

## STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments (including all taxes, duties and levies payable by the Bank) due to the Government, other regulatory institutions and related to the employees have been made on time or where relevant provided for.

## RESERVES

A summary of the Bank’s reserves position is as given below:

As at 31 December	2020 LKR	2019 LKR
Statutory reserve fund	270,009,116	228,281,724
Other reserves	27,605,349	27,605,349
Retained profits	1,890,620,504	1,491,553,906

Information on the movement of reserves is given in the Statement of Changes in Equity on page 140 and in Notes 33, 34 and 35 to the Financial Statements on pages 175 and 176.

## CAPITAL EXPENDITURE

The total capital expenditure on acquisition of property, plant and equipment of the Bank amounted to LKR 214,731,711.00 (2019: LKR 171,644,938.00). Details are given in Note 21 to the Financial Statements.

## CAPITAL COMMITMENTS

The contracted and approved capital expenditure as at the date of the reporting is given in Note 21 to the Financial Statements.

## PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND LEASEHOLD PROPERTY

Information on property, plant and equipment and leasehold property of the Bank are given in Note 21 to the Financial Statements on pages 166 and 167 Particulars of intangible assets are given in Note 24 to the Financial Statements on page 168.

Investment properties of the Bank are disclosed in accordance with Sri Lanka Accounting Standard – LKAS 40 “Investment Property”. Specific information on extent, location of the land and buildings held by the Bank are given under Note 23 to the Financial Statements on page 168.

## STATED CAPITAL

The stated capital of the Bank as at 31 December 2020 amounted to LKR 7,727,941,021 consisting of 91,576,032 ordinary voting shares (2019: LKR 5,921,538,126 consisting of 56,308,252 ordinary voting shares).

## DEBT CAPITAL

The Bank has issued Rated Guaranteed Redeemable Debentures of LKR 100.00 each in 2015 which are guaranteed by Sampath Bank PLC and Seylan Bank PLC to the total outstanding value of LKR 1,013,899,072.00 as at 31 December 2020 (2019: LKR 1,014,034,248.00), which are listed on the Colombo Stock Exchange. The details of the debentures outstanding as at 31 December 2020 are given in Note 28 to the Financial Statements.

## SHARE INFORMATION

Information in relation to earnings, net assets, dividends and market value per share etc., is given on pages 66 and 67 Information on the trading of shares and movement in the number of shares represented by the stated capital is given in the section on “The Confidence of Investors” on pages 61 to 69 to this Report.

Details on shareholding distribution, share ownership composition and substantial shareholding are as follows:

## DISTRIBUTION SCHEDULE OF SHAREHOLDINGS

Shareholder	As at 31 December 2020		As at 31 December 2019	
	Number of shareholders	Number of shares	Number of shareholders	Number of shares
Individual	35,232	21,038,441	33,901	9,735,164
<b>Institution</b>				
Foreign	3	17,457,384	4	12,308,428
Local and other institutions	56	33,993,892	46	18,681,731
SANASA Federation				
Acc 1	1	780,970	1	720,024
Acc 2		30,846		28,439
SANASA Societies	3401	10,077,736	3,394	8,176,835
SANASA Unions	34	1,946,819	34	1,241,252
MPCCS	21	169,837	21	156,595
Trust companies	105	6,080,107	105	5,259,784
<b>Total</b>	<b>38,853</b>	<b>91,576,032</b>	<b>37,506</b>	<b>56,308,252</b>

## COMPOSITION OF SHARE OWNERSHIP

	31 December 2020				31 December 2019			
	Number of shareholders	Percentage	Number of shares	Percentage	Number of shareholders	Percentage	Number of shares	Percentage
1 – 1,000	36,493	93.93	4,854,384	5.30	35,813	95.49	4,358,723	7.74
1,001 – 10,000	1,796	4.62	5,545,897	6.06	1,312	3.49	3,684,299	6.54
10,001 – 100,000	498	1.28	14,298,993	15.61	341	0.91	10,200,329	18.12
100,001 – 1,000,000	52	0.13	12,073,058	13.18	32	0.09	7,634,895	13.56
1,000,001 – and above	14	0.04	54,803,700	59.85	8	0.02	30,430,006	54.04
	<b>38,853</b>	<b>100</b>	<b>91,576,032</b>	<b>100</b>	<b>37,506</b>	<b>100</b>	<b>56,308,252</b>	<b>100</b>

## SUBSTANTIAL SHAREHOLDINGS

Names of the twenty largest shareholders, with their respective shareholdings and percentage holdings as at 31 December 2020 with their comparative shareholding as at 31 December 2019 are as follows:

No.	Shareholder name	31 December 2020		31 December 2019	
		Number of shares	%	Number of shares	%
1.	Seylan Bank PLC/Senthilverl Holdings (Pvt) Ltd.	11,777,293	12.86	6,952,168	12.34
2.	Ayenka Holdings (Pvt) Ltd.	11,434,399	12.49	7,028,043	12.48
3.	Nederlandse Financierings – Maatschappij Voor Ontwikkelingslanden N.V.	9,157,603	10.00	2,242,504	3.98
4.	CB NY S/A International Finance Corporation	5,414,163	5.91	4,991,644	8.86
5.	SBI Emerging Asia Financial Sector Fund PTE.LTD	2,885,618	3.15	5,045,636	8.96
6.	People's Leasing & Finance PLC	2,271,260	2.48	2,094,012	3.72
7.	Alliance Finance Company PLC	2,066,310	2.26	39,836	0.07
8.	People's Leasing & Finance PLC/L P Hapangama	1,753,000	1.91	-	-
9.	Sampath Bank PLC/Dr T Senthilverl	1,664,710	1.82	871,885	1.55
10.	SANASA Life Insurance Company Ltd. (Life)	1,481,692	1.62	910,708	1.62
11.	Commercial Bank of Ceylon PLC/Ayenka Holdings (PVT) Ltd.	1,320,554	1.44	-	-
12.	Kegalle SANASA Shareholders Trust Company Limited	1,247,746	1.36	1,039,330	1.85
13.	SANASA Life Insurance Company Ltd. (General)	1,204,934	1.32	125,961	0.22
14.	SANASA General Insurance Company Limited	1,124,418	1.23	1,036,669	1.84
15.	Polgahawela SANASA Societies Union Ltd	820,098	0.89	387,314	0.69
16.	SANASA Federation Limited	780,970	0.85	720,024	1.28
17.	Hatton National Bank PLC/Mr Gerad Shamil Niranjana Peris	515,619	0.56	-	-
18.	Sampath Bank PLC /Mr Arunasalam Sithampalam	464,981	0.51	224,333	0.40
19.	Hambanthota DTCCS Union Ltd	416,782	0.46	384,257	0.68
20.	Dialog Finance PLC/M M Fuad	402,250	0.44	-	-

## EQUITABLE TREATMENT TO SHAREHOLDERS

The Bank has at all times ensured that all shareholders are treated equitably.

## INFORMATION ON THE DIRECTORS OF THE BANK

The Board of Directors of the Bank consists of 10 (2019: 9) Directors with wide financial and commercial knowledge and experience. The names of the Directors of the Bank as at 31 December 2020 are given below as

per Section 168 (1) (h) of the Companies Act. Their brief profiles appear on pages 20 to 23 of the Annual Report.

The classification of Directors into Executive Director (ED), Non-Executive Director (NED) and Independent Director (ID), Non-Independent Director (NID) is given against the names as per Listing Rules and Corporate Governance Rules of Colombo Stock Exchange and Banking Act Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka.

Name of the Director	Executive/ Non-Executive Status	Independent/ Non-Independent Status
1. Mr Lakshman Abeysekera	Non-Executive	Independent
2. Prof Sampath Amaratunge	Non-Executive	Independent
3. Mr Prabhask Subasinghe	Non-Executive	Non-Independent
4. Mr K G Wijerathne	Non-Executive	Non-Independent
5. Mr Lionel Thilakarathne	Non-Executive	Non-Independent
6. Mr Chaaminda Kumarasiri	Non-Executive	Independent
7. Mr Prasanna Premaratna	Non-Executive	Independent
8. Mr B R A Bandara	Non-Executive	Non-Independent
9. Ms Dinithi Ratnayake	Non-Executive	Non-Independent
10. Mr J A Lalith G Jayasinghe	Non-Executive	Non-Independent

#### New appointments made during 2020

1. Ms Dinithi Ratnayake (Appointed w.e.f. 17 February 2020)	Non-Executive	Non-Independent
2. Mr J A Lalith G Jayasinghe (Appointed w.e.f. 19 August 2020)	Non-Executive	Non-Independent

#### Resignations/Retirements during 2020

1. Ms Samadanie Kiriwadeniya (Retired w.e.f. 22 May 2020)	Non-Executive	Non-Independent
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With the resignation of the Director Mr A P J de Vette who represented SBI-FMO, Ms Dinithi Ratnayake was appointed as a Director of the Bank w.e.f. 17 February 2020 who possesses more than 24 years' experience in banking with in-depth knowledge in finance institutions, advisory and transactional banking including strong credit background, and exposure to debt capital markets and international risk and compliance practices.

Further, at the 23rd AGM held on 15 July 2020 Director Mr K G Wijerathne who represented the SANASA Federation Ltd. and Director Mr B R A Bandara who represented the Polgahawela SANASA Societies Union Ltd were re-elected and Mr Lalith G. Jayasinghe who represented Kegalle SANASA Shareholders Trust Company Ltd. who has experience in HR and Co-operative aspects was elected as Non-Executive, Non-Independent Directors of the Bank.

#### RETIREMENT BY ROTATION AND RE-ELECTION/ REAPPOINTMENT OF DIRECTORS

- In terms of Article 6 (4) (i) of the Articles of Association, one-third of the aggregate of Non-Executive Directors (excluding the Independent Directors) shall retire by rotation at each Annual General Meeting. Article 6 (4) provides that the Directors to retire by rotation at an AGM shall be those who (being subject to retirement by rotation), have been longest in office, since their last election or appointment.
- The Board recommended the re-election of Director, Mr Prabhask Subasinghe after considering the contents of the Affidavit submitted by him and all other related issues.
- Director who completed 70 years.  
In terms of the Banking Act Direction No. 12 of 2007 (Corporate Governance for Licensed Specialised Banks in Sri Lanka), the Directors who attained the age of 70 years shall retire.  
Director Mr K G Wijerathne who was elected to the Board on 22 May 2018 will attained the age of 70 years on 29 June 2021 and shall retire at the 24th Annual General Meeting.

#### BOARD SUBCOMMITTEES

The Board of Directors of the Bank formed four mandatory Board Subcommittees namely, The Board Selection and Nomination Committee, The Board Human Resources and Remuneration Committee, The Board Integrated Risk Management Committee and The Board Audit Committee as required by the Banking Act Direction No. 12 of 2007 on "Corporate Governance for Licensed Specialised Banks in Sri Lanka" issued by the CBSL.

The Board formed a Board Related Party Transactions Review Committee in 2014 to assist the Board in reviewing all related party transactions carried out by the Bank by early adopting the Code of Best Practice on Related Party Transactions as issued by the Securities and Exchange Commission of Sri Lanka (the SEC) which became mandatory from 1 January 2016.

The Board of Directors also has formed four other voluntary Board Subcommittees to assist the Board. These committees play a critical role in order to ensure that the activities of the Bank at all times are conducted with the highest ethical standards and in the best interest of all its stakeholders. The Terms of Reference of these Subcommittees confirm to the recommendations made by various regulatory bodies, such as the Central Bank of Sri Lanka, The Institute of Chartered Accountants of Sri Lanka, the Securities and Exchange Commission of Sri Lanka, and the Colombo Stock Exchange.

The composition of both mandatory and voluntary Board Subcommittees, as at 31 December 2020 and the details of the attendance by Directors at meetings are tabulated on page 127 while the reports of these Subcommittees are found on pages 110 to 118 in this Report.

## BOARD SUBCOMMITTEES AND ITS COMPOSITION

Committee	Mandate	Composition
Board Integrated Risk Management Committee	Quarterly	Prof S Amaratunge (Chairman – BIRMC) Mr C Kumarasiri Mr B R A Bandara
Board Audit Committee	Monthly	Mr C Kumarasiri (Chairman – BAC) Prof S Amaratunge Mr K G Wijerathne
Board Human Resources and Remuneration Committee	At least six times annually	Mr C Kumarasiri (Chairman – BHRRC) Mr L Abeysekera (Chairman) Mr P Premaratna Ms D Ratnayake Mr J A L G Jayasinghe
Board Selection and Nomination Committee	If and when it is required	Mr L Abeysekera (Chairman – BS and NC/Chairman) Prof S Amaratunge Mr C Kumarasiri Ms D Ratnayake
Board Related Party Transactions Review Committee	Quarterly	Mr C Kumarasiri (Chairman – BRPTRC) Prof S Amaratunge Mr P Premaratna
Board Credit Committee	At least 10 times annually	Mr P Premaratna (Chairman – BCC) Mr S L Thilakarathne Ms D Ratnayake Mr P Subasinghe
Board Strategic Planning and Plan Implementation Committee	Quarterly	Mr L Abeysekera (Chairman – BSP and PI/Chairman) Mr P Subasinghe Mr C Kumarasiri Mr P Premaratna Ms D Ratnayake
Board Co-operative Development Committee	Quarterly	Mr K G Wijerathne (Chairman – BCDC) Mr S L Thilakarathne Mr B R A Bandara Mr P Premaratna Mr J A L G Jayasinghe
Specialised Board Subcommittee – Capital Planning	If and when it is required	Ms D Ratnayake (Chairman – SBCP) Mr C Kumarasiri Mr S L Thilakarathne

## DIRECTOR'S MEETINGS

Details of the meetings of the Board of Directors which comprises with Board meetings, Board Audit Committee meetings, Board Selection and Nomination Committee meetings, Board Human Resources and Remuneration Committee meetings, Board Credit Committee meetings, Board Integrated Risk Management Committee meetings,

Board Strategic Planning and Plan Implementation Committee meetings, Board Related Party Transactions Review Committee meetings, Board Co-operative Development Committee meetings and Specialised Board Subcommittee – Capital Planning Meetings and the attendance of Directors at these meetings are given below:



Name	Board meeting	Board Credit Committee (BCC)	Board Audit Committee (BAC)	Board Human Resources and Remuneration Committee (BHRRRC)	Board Integrated Risk Management Committee (BIRMC)	Board Selection and Nomination Committee (BS and NC)	Board Strategic Planning and Plan Implementation Committee (BSP and PI)	Board Related Party transactions Review Committee (BRPTRC)	Board Co-operative Development Committee (BCDC)	Specialised Board Subcommittee – Capital Planning (SBCP)	Total
Ms S Kiriwandiya	7/17	5/15		9/18		3/8	2/4				26/62
Mr L Abeysekera	17/17	9/15	7/17	18/18	2/11	7/8	4/4		4/7	1/3*	69/98
Prof S Amaratunge	16/17		16/17	1/18*	10/11	7/8	3/4*	4/4			57/79
Mr P Subasinghe	14/17	1/15*		1/18*	0/11		3/4				19/65
Mr L Thilakarathne	15/17	13/15					2/4*		7/7	3/3	40/46
Mr K G Wijerathne	16/17		16/17				3/4*		7/7		42/45
Mr C Kumarasiri	16/17	1/15*	17/17	18/18	11/11	5/8	3/4	4/4	1/7*	3/3	79/104
Mr P Premaratna	17/17	15/15		4/18			4/4	4/4	7/7		51/65
Mr B R A Bandara	17/17				11/11		3/4*		7/7		38/39
Ms D Ratnayake	16/17	13/15		9/18		5/8	3/4		1/7*	3/3	50/72
Mr J A L G Jayasinghe	7/17			4/18			2/4*		3/7		16/46

\* Directors' attendance for the subcommittee meetings by Invitation.

#### Ms M S Kiriwandiya – Former Chairperson

Retired from Board, BCC, BSP and PI, BHRRRC and BS and NC w.e.f. 22 May 2020.

#### Mr L Abeysekera – Chairman

Appointed as the Chairman w.e.f. – 22 May 2020.

Appointed to the BIRMC w.e.f. – 27 February 2020 and Resigned from the BIRMC w.e.f. – 26 May 2020.

Appointed to the BCC w.e.f. – 26 May 2020 and Resigned from the BCC w.e.f. – 18 December 2020.

Appointed as the Chairman of BSP and PI w.e.f. – 26 May 2020

Resigned from the BAC w.e.f. – 26 May 2020.

Resigned from the BCDC w.e.f. – 22 December 2020.

#### Director, Prof S Amaratunge

Resigned from the BSP and PI w.e.f. – 26 May 2020.

#### Director, Mr P Subasinghe

Appointed to the BCC w.e.f. – 18 December 2020

Resigned from the BIRMC w.e.f. – 27 February 2020.

#### Director, Mr L Thilakarathne

Appointed to the SBCP w.e.f. – 1 July 2020.

#### Director, Mr C Kumarasiri

Appointed as the Chairman of BAC w.e.f. – 26 May 2020.

Appointed to the BS and NC w.e.f. – 26 May 2020.

Appointed to the SBCP w.e.f. – 1 July 2020.

#### Director, Mr P Premaratna

Appointed to the BCDC w.e.f. – 26 May 2020.

Appointed to the BHRRRC, BSP and PI w.e.f. – 18 September 2020.

#### Director, Ms D Ratnayake

Appointed to the Board on 17 February 2020.

Appointed to the BS and NC and BHRRRC w.e.f. – 26 May 2020

Appointed to the SBCP w.e.f. – 1 July 2020 and appointed as Chairman of SBCP w.e.f. – 18 December 2020.

#### Director, Mr J A L G Jayasinghe

Appointed to the Board w.e.f. – 19 August 2020.

Appointed to the BCDC and BHRRRC w.e.f. – 21 August 2020.

## DISCLOSURE OF DIRECTORS' DEALING IN SHARES

Individual ordinary voting shareholdings of persons who were Directors of the Bank at any time during the financial year are as follows:

### NUMBER OF SHARES

Name of the Director	As at 31 December 2020	As at 31 December 2019
Ms S Kiriwandiya	–	5,785
Mr L Abeysekera	–	–
Prof S Amaratunge	–	–
Mr P Subasinghe	112,815	69,341
Mr L Thilakarathne	–	–
Mr K G Wijerathne	126	117
Mr C Kumarasiri	–	–
Mr P Premaratna	1,500	–
Mr B R A Bandara	11,000	3,791
Ms D Ratnayake	–	–
Mr J A L G Jayasinghe	–	–

### DIRECTORS' SHAREHOLDING PERCENTAGE

	As at 31 December 2020 %	As at 31 December 2019 %
Directors	0.14	0.14
Public	85.65	99.64
CEO and related parties	14.21	0.22

## **DIRECTORS' STATEMENT OF INTERNAL CONTROL – BANK**

The Bank maintains Directors' Interests Register as required under the provisions of Section 168 (1) (e) of the Companies Act No. 07 of 2007. The Directors of the Bank have disclosed their interests in contracts or proposed contracts, in terms of Section 192 (1) and 192 (2) of the Companies Act. These interests have been recorded in the Interests' Register which is available for inspection in terms of the provisions of the Companies Act. As a practice, Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Bank.

## **DIRECTORS' REMUNERATION**

As required under the Section 168 (1) (f) of the Companies Act No. 07 of 2007, Directors' remuneration and other benefits in respect of the Bank for the financial year ended 31 December 2020 are given in Note 11 to the Financial Statements on page 158.

## **RELATED PARTY TRANSACTIONS**

Directors have disclosed transactions if any, that could be classified as related party transactions in terms of Sri Lanka Accounting Standards – LKAS 24 "Related Party Disclosures" which is adopted in preparation of the Financial Statements. Those transactions are given in Note 38 to the Financial Statements which form an integral part of the Annual Report of the Board of Directors.

Bank has also complied with the requirement of the Code of Best Practice 2017 issued by The Institute of Chartered Accountants of Sri Lanka, Listing Rules of Colombo Stock Exchange (CSE) and with all disclosure requirements stipulated thereunder.

## **DIRECTORS' AND INSURANCE**

The Bank has, during the financial year, paid an insurance premium in respect of an insurance policy for the benefit of the Bank and the Directors, Secretaries, Officers and certain employees of the Bank as defined in the Insurance Policy. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy, including the nature of the liability insured against and the amount of the premium.

## **ENVIRONMENTAL PROTECTION**

To the best of knowledge of the Board, the Bank has complied with the relevant environmental laws and regulations. The Bank has not engaged in any activity that is harmful or hazardous to the environment.

## **EVENTS AFTER THE REPORTING PERIOD**

No event of material significance that require adjustments to the Financial Statements, has occurred subsequent to the reporting period, other than those disclosed in Note 37 to the Financial Statements on page 177.

## **APPOINTMENT OF AUDITORS AND THEIR REMUNERATION**

The Bank's Auditors during the period under review were Messrs Ernst & Young, Chartered Accountants. Audit fees and reimbursement of expenses paid to Ernst & Young during the year under review by the Bank amounted to LKR 2,636,914.00 (2019: LKR 2,650,752.00). Further LKR 1,070,000.00 (2019: LKR 820,000.00) were paid by the Bank for audit-related and non-audit services including reimbursement of expenses. Details of the audit fees paid are given on Note 11 to the Financial Statements on page 158.

Based on the declaration provided by Messrs Ernst & Young, and as far as the Directors are aware, the Auditors do not have any relationship or interest with the Bank that in our judgement, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), applicable on the date of this Report.

The retiring Auditors, Messrs Ernst & Young, have expressed their willingness to continue in office. Hence they may come up for re-election at the Annual General Meeting, with the recommendation of Board Audit Committee and the Board of Directors. In accordance with the Companies Act, a resolution proposing the re-appointment of Messrs Ernst & Young, Chartered Accountants, as Auditors is being proposed at the Annual General Meeting.

## **INFORMATION ON RATIOS, MARKET PRICES OF SHARES AND CREDIT RATINGS**

Information that requires disclosures as per Rule 7.6 (xi) of the Listing Rule of the CSE are given in the Section on "The Confidence of Investors" on pages 61 to 69.

## **RISK MANAGEMENT AND INTERNAL CONTROL**

The Bank has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Bank. The Directors continuously review this process through the Board Integrated Risk Management Committee. Specific steps taken by the Bank in managing both banking and non-banking risks are detailed in the Section on "Managing Risks" on pages 75 to 78 and in Note 44 to the Financial Statements on pages 184 to 194.

The Directors have taken reasonable steps open to them to safeguard the assets of the Bank and to prevent and detect frauds and any other irregularities. For this purpose the Directors have instituted effective and comprehensive systems of Internal controls for identifying, recording, evaluating, and managing the significant risks faced by the Bank throughout the year and it is being under regular review of the Board of Directors. This comprises internal reviews, Internal Audit and the whole system of financial and other controls required to carry on the operations in an orderly manner, safeguard the assets, prevent and detect the frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records.

## BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Board has issued a report on the internal control mechanism of the Bank as per Section 3 (8) (ii) (b) of Banking Act Direction No. 12 of 2007 on Corporate Governance. The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The above report, which forms an integral part of the Annual Report of the Board of Directors, is given on pages 130 and 131.

The Board has obtained an assurance report from the External Auditors on Directors' Statement on Internal Control which is given on page 132 of the Annual Report.

## OUTSTANDING LITIGATIONS

In the opinion of the Directors and the Bank's Lawyers, pending litigation against the Bank disclosed in Note 36.2 of the Financial Statements given on pages 176 and 177 will not have a material impact on the financial position of the Bank or its future operations.

## CORPORATE GOVERNANCE

Directors' declarations:

- i. The Bank complied with all applicable laws and regulations in conducting its business and have not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provisions in various laws and regulations, confirm compliance in each quarter to the Board Integrated Risk Management Committee;
- ii. The Directors have declared all material interests in contracts involving the Bank and refrained from voting on matters in which they were materially interested;
- iii. All endeavours have been made to ensure that shareholders in each category have been treated equitably in accordance with the original Terms of Issue;
- iv. The business is a going concern with supporting assumptions or qualifications as necessary, and that the Board of Directors has reviewed the Bank's Corporate/Business Plans and is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Bank are prepared based on the going concern assumption; and
- v. They have conducted a review of internal controls covering financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and proper adherence. The measures taken and the extent to which the Bank has complied with the Code of Best Practice on Corporate Governance issued by the CA Sri Lanka and the SEC, the CSE and the CBSL are given on pages 80 to 109.

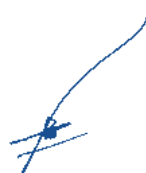
## ANNUAL GENERAL MEETING AND THE NOTICE OF MEETING

The 24th Annual General Meeting of the Bank will be held at the Board Room of SANASA Development Bank PLC, No. 12, Edmonton Road, Kirulapone, Colombo 06 through an "online-virtual" platform by using "audio-visual" tools on 28 May 2021 at 9.00 am.

## ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

As required by Section 168 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors hereby acknowledges the contents of this Annual Report.

For and on behalf of the Board of Directors,



**Lakshman Abeysekera**  
*Chairman*



**Tamarika Rodrigo**  
*Company Secretary*

19 March 2021  
Colombo, Sri Lanka

# Directors' Statement on Internal Control over Financial Reporting

## RESPONSIBILITY

In line with the Section 3 (8) (ii) (b) of the Banking Act Direction No. 12 of 2007, the Board of Directors presents this report on Internal Control over Financial Reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at SANASA Development Bank PLC ("the Bank"). In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatements of financial information and records or against financial losses or frauds.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls over financial reporting as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Control, issued by The Institute of Chartered Accountants of Sri Lanka. The Board has assessed the Internal Controls over Financial Reporting taking into account the principles for the assessment of internal control system as given in that guidance.

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

The Management assists the Board in the implementation of policies and procedures on risk through designing and implementing suitable internal controls to mitigate risks faced by the Bank.

## KEY FEATURES OF THE PROCESS ADOPTED IN APPLYING AND REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various appointed committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank verifies for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis through the application of Risk Based Audit Procedures (RBAP). Audits are carried out on head office functions, regional offices, and branches in accordance with the annual Risk Based Audit Plan approved by the Board Audit Committee (BAC). The frequency of which is determined by the level of risk assessed, to provide an independent and objective report. Findings of the Internal Audit Department are submitted to the BAC for review at their periodic meetings. The BAC also reviews and updates on the scope and the adequacy of the internal audit function against the approved audit plan.
- The BAC reviews internal control issues identified by the Internal Audit Department, the External Auditors, regulatory authorities, including Key Audit Matters (KAM) given by the External Auditors: and evaluates the adequacy and effectiveness of the risk management and internal control systems. The minutes of the BAC meetings are forwarded to the Board on a periodic basis. Further, details of the activities undertaken by the BAC of the Bank are set out in the Board Audit Committee Report (BAC).
- The Board Integrated Risk Management Committee (BIRMC) was established to assist the Board to oversee the overall risk management of the principal areas of the Bank. The Executive Integrated Risk Management Committee (EIRMC) which includes representation from all key business, operating and control units of the Bank to assist BIRMC to execute the assigned functions as per the ToR.

- Operational committees have also been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Assets and Liability Management Committee, Investment Committee, the Information Technology Steering Committee, and the Operational Risk Management Committee.
- In assessing the internal control system over financial reporting, the process owners of the Bank collate all the procedures and controls to ensure that the Financial Statements of the Bank provide accurate information. These in turn were reviewed by the Internal Audit Department for suitability of the design and effectiveness on an ongoing basis, throughout the year.

The Internal Audit Department conducts continuous monitoring over the selected types of transactions using data streaming software. This initiative has helped Internal Audit Department to improve its pro-activeness.

The BAC continuously monitored the implementation of the Sri Lanka Financial Reporting Standard – SLFRS 9 “Financial Instruments” issued by The Institute of Chartered Accountants of Sri Lanka which became effective from 1 January 2018. The impairment model was re-validated during 2020 and independently validated by the External Auditors.

The Board Audit Committee also closely monitored the training and awareness session on SLFRS 9 “Financial Instruments” conducted to the Board and the Senior Management during 2020.

Comments made by the External Auditors in connection with the internal control system over financial reporting in previous years have been reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the External Auditors during the year, in connection with the internal control system over financial reporting will be dealt with in future.

## CONFIRMATION

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

## REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors, Messrs Ernst & Young have reviewed the above Directors' Statement on Internal Control over Financial Reporting included in the Annual Report of the Bank for the year ended 31 December 2020 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 Controls over Financial Reporting of the Bank. Their Report on the Statement of Internal Controls over Financial Reporting is given in the Auditors' Report of this Annual Report.

By Order of the Board,

**Chaaminda Kumarasiri**  
Chairman  
Board Audit Committee (BAC)

**Prof Sampath Amaratunge**  
Chairman  
Board Integrated Risk Management Committee (BIRMC)

**Lakshman Abeysekera**  
Chairman – SANASA Development Bank PLC

19 March 2021  
Colombo, Sri Lanka

# Independent Assurance Report



**EY**

Building a better  
working world

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AdeS/TP

## INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF SANASA DEVELOPMENT BANK PLC

### REPORT ON THE DIRECTOR'S STATEMENT ON INTERNAL CONTROL

We were engaged by the Board of Directors of SANASA Development Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2020.

### MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

### OUR INDEPENDENCE AND QUALITY CONTROL

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

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

### OUR RESPONSIBILITIES AND COMPLIANCE WITH SLSAE 3050 (REVISED)

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 Bank.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by the institute of Chartered Accountants of Sri Lanka.

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

### SUMMARY OF WORK PERFORMED

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for Directors; and appropriately reflected the process the Directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

The procedures performed were limited primarily to inquiries of bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3050 (Revised) does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 (Revised) 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 judgement, having regard to our understanding of the nature of the Bank, 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 in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Bank.

19 March 2021  
Colombo

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA  
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA A A J R Perera ACA ACMA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principal G B Goudian ACMA T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

# Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The Financial Statements of SANASA Development Bank PLC (Bank) as at 31 December 2020 are prepared in compliance with the requirements of the following:

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka);
- Companies Act No. 07 of 2007 (Companies Act);
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
- Banking Act No. 30 of 1988 and amendments thereto;
- Listing Rules of the Colombo Stock Exchange;
- Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka, the Securities and Exchange Commission of Sri Lanka; and
- Section 3 (8) (ii) of the Banking Act Direction No. 12 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka.

The formats used in the preparation of the Financial Statements and disclosures made comply with the formats prescribed by the Central Bank of Sri Lanka, which is also in compliance with the disclosure requirements of the Sri Lanka Accounting Standard (LKAS 1) "Presentation of Financial Statements".

The accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Bank. The significant accounting policies and estimates that involve a high degree of judgement and complexity were discussed with the Audit Committee and External Auditors. Comparative information has been restated wherever necessary to comply with the current presentation and material departures, if any, have been disclosed and explained in the Notes to the Financial Statements.

The estimates and judgements relating to the Financial Statements were made on a prudent and reasonable basis; in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and that the Bank's state of affairs is reasonably presented. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal controls and procedures for safeguarding assets, preventing and detecting frauds and/or errors as well as other irregularities which are reviewed, evaluated and updated on an ongoing basis. Our Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

We confirm, compliance with Section 3 (8) (ii) of the Banking Act Direction No. 12 of 2007 on Corporate Governance (Internal Control Over Financial Reporting – ICOFR) issued by the Central Bank of Sri Lanka as of 26 December 2007 and that the Bank's Internal Controls over Financial Reporting is adequate and effective. The Annual Report of the Directors on pages 121 to 129 has briefly covered the Bank's Internal Control over Financial Reporting. In addition, Directors' Statement on Internal Control over Financial Reporting is provided on pages 130 and 131. The Bank's External Auditors, Messrs Ernst & Young, have audited the effectiveness of the Bank's Internal Controls over Financial Reporting and have given an unqualified opinion on page 132 of this Annual Report.

The Financial Statements of the Bank were audited by Messrs Ernst & Young, Chartered Accountants, the independent External Auditors. Their report is given on pages 135 to 194 of this Annual Report.

The Audit Committee of the Bank meets periodically with the Internal Auditors and the Independent External Auditors to review the manner in which these Auditors are performing their responsibilities and to discuss issues relating to auditing, internal controls and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance. The Audit Committee report is given on pages 111 to 113.

The Audit Committee approves the audit and non-audit services provided by Messrs Ernst & Young, in order to ensure that the provision of such services does not impair Messrs Ernst & Young's independence.

We confirm that to the best of our knowledge:

- The Bank has complied with all applicable laws, regulations and prudential requirements;
- There are no material non-compliances; and
- There are no material litigations that are pending against the Bank other than those disclosed in Note 36.2 to the Financial Statements in the Annual Report.



**Thilak Piyadigama**  
Chief Executive Officer



**Terrance Kumara**  
Chief Financial Officer

19 March 2021  
Colombo, Sri Lanka

# Statement of Directors' Responsibility for Financial Reporting

The responsibilities of the Directors in relation to the Financial Statements of the Bank prepared in accordance with the provisions of the Companies Act No. 07 of 2007 are set out in the following statement. The responsibilities of the External Auditors in relation to the Financial Statements are set out in the Report of the Auditors given on pages 135 to 137 of the Annual Report.

As per the provisions of Sections 150 (1), 151, 152 and 153 (1) and (2) of the Companies Act No. 07 of 2007 the Directors are required to prepare Financial Statements that give a true and fair view of the financial position of the Bank for each financial year and place them before the Annual General Meeting. The Financial Statements comprise the Statement of Financial Position as at end of the financial year, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and Notes thereto.

The Financial Statements are prepared by Chief Financial Officer under the supervision of Chief Executive Officer. The Directors confirm that the Financial Statements of the Bank give a true and fair view of:

1. The state of affairs of the Bank as at 31 December 2020; and
2. The financial performance of the Bank for the financial year ended 31 December 2020.

The Board of Directors accepts the responsibility of the integrity and objectivity of the Financial Statements presented in this Annual Report. The Directors confirm that in preparing these Financial Statements;

1. The appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
2. Judgements and estimates have been made which are reasonable and prudent; and
3. All applicable Accounting Standards, as relevant, have been complied with.

The Directors are also required to ensure that the Bank has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

Further, the Directors have a responsibility to ensure that the Bank has maintained sufficient accounting records to disclose, with reasonable accuracy the financial position of the Bank. The Financial Statements prepared and presented in this Report are consistent with the underlying books of account and are in conformity with the requirements of Sri Lanka Accounting Standards (SLFRS) which came into effect from 1 January 2012, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, the Listing Rules of Colombo Stock Exchange (CSE) and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC).

In addition, these Financial Statements comply with the prescribed format issued by the Central Bank of Sri Lanka for the preparation of annual financial statements of Licensed Specialised Banks.

The Directors have also instituted effective and comprehensive systems of Internal Control for identifying, recording, evaluating and managing the significant risks faced by the Bank throughout the year and it is being under regular review of the Board of Directors. This comprises

internal reviews, internal audit and the whole system of financial and other controls required to carry on the business of banking in an orderly manner, safeguard its assets, prevent and detect frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31 December 2020 are given in pages 130 and 131 of the Annual Report, "Directors Statement on Internal Control over Financial Reporting". External Auditors' Assurance Report on the "Directors Statement on Internal Control" is given on page 132 of the Annual Report.

The Directors have taken appropriate steps to ensure that the Bank maintain proper books of accounts and review the financial reporting system directly by them at their regular meetings and also through the Board Audit Committee. The report of the said Committee is given on pages 111 to 113 in the Annual Report. The Board of Directors also approves the Interim Financial Statements prior to their release following a review and recommendation by the Board Audit Committee.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

Directors are required to prepare the Financial Statements and to provide the Bank's External Auditors, Messrs Ernst & Young, Chartered Accountants, with every opportunity to carry out whatever reviews and sample checks on the system of internal control they may consider appropriate and necessary for expressing their independent audit opinion on the Financial Statements.

The Financial Statements of the Bank have been certified by the Chief Financial Officer of the Bank, the officer responsible for their preparation, as required by Sections 150 (1) (b) and 152 (1) (b) of the Companies Act. Also the Financial Statements of the Bank have been signed by two Directors and the Company Secretary of the Bank on 19 March 2021 as required by Sections 150 (1) (c) and 152 (1) (c) of the Companies Act.

Further, as required by the Section 56 (2) of the Companies Act No.07 of 2007, the Directors have confirmed that the Bank, based on the information available, satisfies the Solvency test immediately after the distribution of Dividends, in accordance with the Section 57 of the Companies Act No 07 of 2007, and has obtained a Certificate from the Auditors, prior to declaring a final Dividend of LKR 2.25 per share for this year to be paid in June 2021.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Bank as at the Statement of Financial Position date have been paid or where relevant provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board,



**Tamarika Rodrigo**  
Company Secretary

19 March 2021  
Colombo, Sri Lanka



# Independent Auditors' Report



Building a better  
working world

Ernst & Young  
Chartered Accountants  
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AdeS/TP/JJ

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SANASA DEVELOPMENT BANK PLC REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### OPINION

We have audited the Financial Statements of SANASA Development Bank PLC ("the Bank"), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Financial Statements gives a true and fair view of the financial position of the Bank as at 31 December 2020, 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 *Auditors' responsibilities for the audit of the*

*Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the Financial Statements of the current period. These matters were addressed in the context of the 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditors' responsibilities for the audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the Financial Statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying Financial Statements.

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment allowance for loans and receivables to other customers carried at amortised cost</b></p> <p>As described in Note(s) 17, impairment allowance for loans and receivables to other customers carried at amortised cost is determined in accordance with Sri Lanka Accounting Standard – SLFRS 9 Financial Instruments (SLFRS 9).</p> <p>This was a key audit matter due to:</p> <ul style="list-style-type: none"> <li>materiality of the reported impairment allowance which involved complex manual calculations; and</li> <li>the degree of assumptions, judgments and estimation uncertainty associated with the calculations.</li> </ul>	<p>We assessed the alignment of the Bank's expected credit loss model computations and underlying methodology with the requirements of SLFRS 9 with consideration of COVID-19 impacts and related industry responses based on the best available information up to the date of our report. Our audit procedures included amongst others the following:</p> <ul style="list-style-type: none"> <li>We evaluated the design, implementation and operating effectiveness of controls over estimation of impairment, which included assessing the level of oversight, review and approval of provision for credit impairment policies and procedures by the Board and Management</li> <li>We checked the completeness and accuracy of the underlying data used in the computations by agreeing significant details to source documents and accounting records of the Bank</li> <li>We checked the underlying manual calculations</li> <li>In addition to the above, the following procedures were performed:</li> </ul> <p><b>For a sample of loans and receivables assessed on an individual basis for impairment:</b></p> <ul style="list-style-type: none"> <li>Assessing the reasonableness and timeliness of internal credit quality assessments based on the borrower's particular circumstances determined by Management; and</li> <li>Evaluating the associated reasonability of the provisions made with particular focus on the impact of COVID-19 on high risk industries, strategic responsive actions taken, collateral values, and the value and timing of recoveries</li> </ul>

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Principal G B Goudian ACMA T P M Ruberu FCMA FCCA

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Key audit matter	How our audit addressed the key audit matter
<p>Key areas of significant judgments, estimates and assumptions used by management in the assessment of the impairment allowance included the following;</p> <ul style="list-style-type: none"> <li>the probable impacts of COVID-19 and related industry responses (e.g. Government stimulus packages and debt moratorium relief measures granted by the Bank);</li> <li>the determination on whether or not customer contracts have been substantially modified due to such COVID-19 related stimulus and relief measures granted and related effects on the amount of interest income recognised on affected loans and receivables and</li> <li>forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impacts from COVID-19 that may impact future expected credit losses.</li> </ul>	<p><b>For loans and receivables assessed on a collective basis for impairment:</b></p> <ul style="list-style-type: none"> <li>Assessing the reasonability of assumptions and estimates used by Management including the reasonableness of forward-looking information and scenarios</li> <li>As relevant, the basis for and data used by Management to determine overlays in consideration of the probable effects of the COVID-19 pandemic</li> <li>Assessing the reasonableness of the assumptions used to develop the model, test checked the data and calculations</li> </ul> <p><b>For loans and advances affected by government stimulus and debt moratorium relief measures granted</b></p> <ul style="list-style-type: none"> <li>Assessing the reasonableness of judgments, calculations and data used to determine whether customer contracts have been substantially modified or not and to determine the resulting accounting implications; and</li> <li>Evaluating the reasonability of the interest income recognised on such affected loans and receivables</li> <li>We assessed the adequacy of the related Financial Statement disclosures set out in notes 8,17 &amp; 44</li> </ul>
<p><b>IT systems and controls relevant to financial reporting</b></p> <p>The Bank uses multiple IT systems in its operations. The COVID-19 pandemic necessitated the Bank to adapt various operating processes and procedures including modification of relevant controls to mitigate the resulting risks.</p> <p>IT systems and controls relevant to financial reporting was a key audit matter due to:</p> <ul style="list-style-type: none"> <li>A changed working environment of increased remote access</li> <li>The Bank's financial reporting process being heavily dependent on information derived from its IT systems and</li> <li>Key Financial Statement disclosures involving the use of multiple system – generated reports, collation and spreadsheet – based calculations</li> </ul>	<p>Our audit procedures included the following,</p> <ul style="list-style-type: none"> <li>Understanding the changes made to security monitoring procedures over IT systems relevant to financial reporting, given the increase in remote access</li> <li>Understanding and evaluating the design and operating effectiveness of key automated, IT dependent and manual controls implemented by Management over generation of multiple system reports and collation of required information in calculating the significant information for Financial Statements disclosures</li> <li>Checking the source data of the reports used to generate significant disclosures for accuracy and completeness</li> <li>Checking the underlying calculations and the reasonableness of classifications made by Management</li> <li>Assessing the reasonability of Management's general ledger reconciliation procedures which includes cross checking to system reports and source data where relevant</li> </ul>

**OTHER INFORMATION INCLUDED IN THE BANK'S 2020 ANNUAL REPORT**

Management is responsible for the other information. Other information consists of the information included in the Bank's 2020 Annual Report, other than the Financial Statements and our auditors' report thereon. The Bank's 2020 Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the Financial Statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

## RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

## AUDITORS' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.
- 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Bank 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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditors' report is 2097.



19 March 2021  
Colombo

# Statement of Comprehensive Income

For the year ended 31 December	Note	2020 LKR	2019 LKR
Interest income		15,442,002,803	15,079,323,806
Interest expenses		(9,314,576,405)	(9,382,528,920)
<b>Net interest income</b>	3	<b>6,127,426,398</b>	5,696,794,886
Fee and commission income		390,619,231	237,656,461
Fee and commission expenses		(14,334,115)	(6,506,626)
<b>Net fee and commission income</b>	4	<b>376,285,116</b>	231,149,835
Net gains/(losses) from trading	5	5,228,460	1,264,727
Net fair value gains/(losses) of financial assets at fair value through profit or loss	6	268,709,636	114,889,449
Net other operating income	7	55,227,102	90,968,785
<b>Total operating income</b>		<b>6,832,876,712</b>	6,135,067,682
Impairment for loans and other losses	8	(417,038,505)	(917,433,506)
<b>Net operating income</b>		<b>6,415,838,207</b>	5,217,634,176
Personnel expenses	9	(2,576,773,302)	(2,116,347,930)
Depreciation and amortisation expenses	10	(454,568,998)	(431,192,597)
Other expenses	11	(1,400,538,554)	(1,420,073,045)
<b>Operating profit before value added tax (VAT) and nation building tax (NBT) on financial services</b>		<b>1,983,957,352</b>	1,250,020,604
Value added tax (VAT) on financial services		(571,027,269)	(386,522,109)
Nation building tax (NBT) on financial services		-	(51,106,360)
Debt repayment levy (DRL)		-	(226,564,695)
<b>Operating profit/(loss) after VAT and NBT on financial services</b>		<b>1,412,930,083</b>	585,827,440
<b>Profit before tax</b>		<b>1,412,930,083</b>	585,827,440
Tax expenses	12	(576,642,736)	(332,422,344)
<b>Profit for the year</b>		<b>836,287,347</b>	253,405,096
<b>Other comprehensive income</b>			
<b>Other comprehensive income/(expenses) not to be reclassified to profit or loss</b>			
Actuarial losses on defined benefit plans	30.1.2	(1,854,991)	(41,587,781)
Deferred tax relating to defined benefit plans	12.2.1	519,397	11,644,579
Loss arising on re-measuring investments in equity instruments designated at fair value through other comprehensive income	19.1.1	-	(3,209,534)
<b>Other comprehensive income for the year net of tax</b>		<b>(1,335,594)</b>	(33,152,736)
<b>Total comprehensive income for the year</b>		<b>834,951,754</b>	220,252,360
<b>Earnings per share on profit</b>			
Basic/diluted earnings per share – (LKR)	13	11.05	4.50

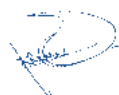
The Accounting Policies and Notes on pages 142 through 194 form an integral part of the Financial Statements.

# Statement of Financial Position

As at 31 December	Note	2020 LKR	2019 LKR
<b>Assets</b>			
Cash and cash equivalents	14	9,640,915,936	2,429,790,570
Placements with banks	15	2,823,628,452	5,628,094,545
Financial assets fair value through profit or loss	16	4,600,457,930	3,527,310,141
Financial assets at amortised cost			
– loans and receivables to other customers	17	102,662,268,716	85,823,334,862
– debt and other instruments	18	5,244,005,218	6,998,924,881
Financial assets measured at fair value through other comprehensive income	19	56,938,514	56,938,514
Investment in subsidiary	20	6,163,100	–
Property, plant and equipment	21	661,694,541	645,231,444
Right-of-use assets	22	689,646,206	651,270,748
Investment properties	23	20,222,570	21,278,600
Intangible assets	24	395,123,333	308,444,541
Deferred tax assets	12.2	231,672,525	232,481,661
Other assets	25	2,026,987,076	1,460,523,822
<b>Total assets</b>		<b>129,059,724,118</b>	<b>107,783,624,329</b>
<b>Liabilities</b>			
Due to other customers	26	93,271,727,185	72,431,923,465
Other borrowings	27	18,090,499,974	20,299,717,968
Debt securities issued	28	1,013,899,072	1,014,034,248
Subordinated term debts	29	4,052,630,214	4,210,565,525
Retirement benefit obligation	30	571,382,319	479,575,300
Current tax liabilities		274,214,765	187,069,978
Other liabilities	31	1,869,194,600	1,491,758,740
<b>Total liabilities</b>		<b>119,143,548,128</b>	<b>100,114,645,224</b>
<b>Equity</b>			
Stated capital	32	7,727,941,021	5,921,538,126
Statutory reserve fund	33	270,009,116	228,281,724
Retained earnings	34	1,890,620,504	1,491,553,906
Other reserves	35	27,605,349	27,605,349
<b>Total equity</b>		<b>9,916,175,990</b>	<b>7,668,979,105</b>
<b>Total equity and liabilities</b>		<b>129,059,724,118</b>	<b>107,783,624,329</b>
<b>Contingent liabilities and commitments</b>	36	<b>194,553,577</b>	<b>177,752,357</b>

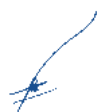
## Certification

I certify these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

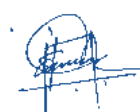


**Terrance Kumara**  
Chief Financial Officer


The Board of Directors is responsible for these Financial Statements.  
Signed for and on behalf of the Board by;



**Lakshman Abeysekera**  
Chairman



**Chaaminda Kumarasiri**  
Director



**Thilak Piyadigama**  
Chief Executive Officer



**Tamarika Rodrigo**  
Company Secretary

The Accounting Policies and Notes on pages 142 through 194 form an integral part of the Financial Statements.

19 March 2021  
Colombo

# Statement of Changes in Equity

For the year ended 31 December	Stated capital		Reserves			
	Ordinary voting shares	Statutory reserve fund	Retained earnings	Available for sale reserve/Fair value through OCI	General reserves	Total equity
	LKR	LKR	LKR	LKR	LKR	LKR
<b>Opening Balance as at 31 December 2019</b>	5,921,538,126	215,611,469	1,280,762,267	(15,842,090)	46,656,973	7,448,726,745
Profit for the year	-	-	253,405,096	-	-	253,405,096
Other comprehensive income (net of tax)	-	-	(29,943,202)	(3,209,534)	-	(33,152,736)
<b>Total comprehensive income for the year</b>	-	-	223,461,894	(3,209,534)	-	220,252,360
<b>Transactions with equity holders, recognised directly in equity</b>						
Transfer to statutory reserve fund	-	12,670,255	(12,670,255)	-	-	-
<b>Total transaction with equity holders</b>	-	12,670,255	(12,670,255)	-	-	-
<b>Closing balance as at 31 December 2019</b>	5,921,538,126	228,281,724	1,491,553,906	(19,051,624)	46,656,973	7,668,979,105
Opening balance as at 1 January 2020	5,921,538,126	228,281,724	1,491,553,906	(19,051,624)	46,656,973	7,668,979,105
Profit for the year	-	-	836,287,347	-	-	836,287,347
Other comprehensive income (net of tax)	-	-	(1,335,594)	-	-	(1,335,594)
<b>Total comprehensive income for the year</b>	-	-	834,951,754	-	-	834,951,754
<b>Transactions with equity holders, recognised directly in equity</b>						
Rights issue	1,526,267,201	-	-	-	-	1,526,267,201
Dividends to equity holders						
Scrip dividend – 2019	280,135,695	-	(280,135,695)	-	-	-
Cash dividend – 2019	-	-	(114,022,069)	-	-	(114,022,069)
Transfer to statutory reserve fund	-	41,727,392	(41,727,392)	-	-	-
	1,806,402,895	41,727,392	(435,885,156)	-	-	1,412,245,131
<b>Closing balance as at 31 December 2020</b>	<b>7,727,941,021</b>	<b>270,009,116</b>	<b>1,890,620,504</b>	<b>(19,051,624)</b>	<b>46,656,973</b>	<b>9,916,175,990</b>

## STATUTORY RESERVE FUND

Every licensed specialised bank has to make a provision not less than 5% out of profit after tax to the statutory reserve fund. Such provision should be made annually as stipulated by the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995 until the said Reserve Fund is equal to 50% of the Equity Capital of the Bank. Thereafter, the Bank has to make a provision not less than 2% out of profit after tax to the Statutory Reserve Fund until the said Fund is equal to the Equity Capital of the Bank.

## GENERAL RESERVE

The general reserve is created after provisioning for a statutory reserve fund and interim dividend payments for the respective shareholders, this reserve will be used by the Bank for the future capitalisation purposes of the Bank.

## AVAILABLE FOR SALE/FAIR VALUE THROUGH OCI RESERVE

The available for sale/Fair value through OCI reserve consists of fair value adjustment made to unquoted equity investment.

The Accounting Policies and Notes on pages 142 through 194 from an integral part of the Financial Statements.

# Statement of Cash Flows

For the year ended 31 December	Note	2020 LKR	2019 LKR
<b>Cash flows from/(used in) operating activities</b>			
Interest received		13,826,069,617	14,898,176,741
Fee and commission received		371,105,945	216,362,778
Receipts from other operating activities		(537,936,192)	(221,855,717)
Interest payment		(9,374,607,193)	(9,546,853,352)
Cash payment to employees		(2,356,032,878)	(2,134,949,329)
Payments to suppliers and other operating activities		(1,127,087,699)	(1,601,603,518)
Fee and commission expenses		(14,334,115)	(6,506,626)
VAT and NBT on financial services		(571,027,269)	(437,628,469)
<b>Operating profit before changes in operating assets</b>		<b>216,150,216</b>	<b>1,165,142,508</b>
<b>(Increase)/decrease in operating assets</b>			
Funds advanced to customers		(15,761,587,125)	(9,169,985,133)
Other short-term securities		588,710,505	(719,925,694)
<b>Increase/(decrease) in operating liabilities</b>			
Deposits from customers		20,724,939,448	5,121,426,361
<b>Net cash from operating activities before income tax</b>		<b>5,768,213,043</b>	<b>(3,603,341,958)</b>
Income tax paid		(582,397,559)	(316,666,487)
<b>Net cash from operating activities</b>		<b>5,185,815,484</b>	<b>(3,920,008,445)</b>
<b>Cash flows from/(used in) investing activities</b>			
Dividend received	7	320,000	240,800
(Increase)/decrease in dealing securities		(799,209,693)	(3,265,052,634)
(Increase)/decrease in treasury bonds and other investments		(1,629,228,669)	(2,932,143,523)
Proceeds from sale of property, plant and equipment		8,178,027	14,467,863
Purchase of property, plant and equipment	21	(214,731,711)	(171,644,938)
Purchase of intangible assets	24	(153,652,601)	(323,857,065)
Net cash flow from acquisition of investment in subsidiary	20	(6,163,100)	-
<b>Net cash from/(used in) investing activities</b>		<b>(2,794,487,747)</b>	<b>(6,677,989,497)</b>
<b>Cash flows from/(used in) financing activities</b>			
Proceeds from issuance/allotment of shares		1,526,267,201	-
Dividend paid	34	(114,022,069)	-
Repayment of long-term borrowing		(20,270,734,411)	(15,195,146,100)
Interest paid on subordinated debt		(455,970,984)	(283,958,008)
Increase/(decrease) in borrowing		18,534,311,975	20,375,878,347
Funds received/(utilised) during the period		42,000	-
<b>Net cash flow from/(used in) financing activities</b>		<b>(780,106,290)</b>	<b>4,896,774,239</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,611,221,448</b>	<b>(5,701,223,703)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	14.3	<b>10,914,678,681</b>	<b>16,615,902,384</b>
<b>Cash and cash equivalents at the end of the year</b>	14.3	<b>12,525,900,129</b>	<b>10,914,678,682</b>

The Accounting Policies and Notes on pages 142 through 194 form an integral part of the Financial Statements.

# Notes to the Financial Statements

## 1 CORPORATE INFORMATION

### 1.1 GENERAL

SANASA Development Bank PLC (“the Bank”) is a Licensed Specialised Bank established under the Banking Act No. 30 of 1988. It is a limited liability company, incorporated and domiciled in Sri Lanka. The registered office of the Bank is located at No. 12, Edmonton Road, Colombo 6. The Bank has a primary listing on the Colombo Stock Exchange.

### 1.2 PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

#### 1.2.1 BANK

SANASA Development Bank PLC provides a comprehensive range of financial services encompassing Development Banking, Corporate Banking, Personal Banking, Corporate and Trade Finance, Leasing and other Associated Activities.

#### 1.2.2 SUBSIDIARY

Payment Services (Private) Limited is a fully-owned subsidiary of the Bank, that was acquired on 26 May 2020. It was engaged in the business of providing online payment solutions on the web and mobile platforms under the brand name “Upay”. The subsidiary’s assets, liabilities, equity, income, expenses and cash flows does not have a material effect on the Consolidated Financial Statements of the Group. Therefore, the subsidiary has been deemed immaterial and has not been consolidated when preparing and presenting the Financial Statements of the Group.

### 1.3 PARENT ENTITY AND ULTIMATE PARENT ENTITY

The Bank does not have an identifiable parent of its own.

### 1.4 DATE OF AUTHORISATION OF ISSUE

The Financial Statements for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Directors on 19 March 2021.

## 2 ACCOUNTING POLICIES

### 2.1 BASIS OF PREPARATION

The Financial Statements have been prepared on a historical cost basis, except for the financial assets measured at fair value through profit or loss and financial assets recognised through other comprehensive income.

#### 2.1.1 STATEMENT OF COMPLIANCE

The Financial Statements of the Bank which comprise of the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flow and significant accounting policies and notes have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the requirements of the Companies Act No. 7 of 2007. The presentation of the Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988 and amendments thereto.

### 2.1.2 PRESENTATION OF FINANCIAL STATEMENTS

The assets and liabilities of the Bank presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 44.

### 2.1.3 FUNCTIONAL AND PRESENTATION CURRENCY

The Financial Statements of the Bank are presented in Sri Lankan Rupees which is the currency of the primary economic environment in which the Bank operates. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise. There was no change in the Group’s presentation and functional currency during the year under review.

### 2.1.4 MATERIALITY AND AGGREGATION

In compliance with Sri Lanka Accounting Standard - LKAS 1 (Presentation of Financial Statements), each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately unless they are immaterial. Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Profit or Loss unless required or permitted by an Accounting Standard.

### 2.1.5 COMPARATIVE INFORMATION

The comparative information is re-classified wherever necessary to conform to the current year’s classification in order to provide a better presentation.

### 2.1.6 STATEMENT OF CASH FLOWS

The Cash Flow Statement has been prepared by using the direct method in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash flows), whereby gross cash receipts and gross cash payments of operating activities, finance activities and investing activities have been recognised. Cash and cash equivalents comprise of short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents include cash in hand, balances with banks, placements with banks (less than 3 months) and reverse repurchased agreements.

### 2.2 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Bank’s accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the Financial Statements. The most significant uses of judgment and estimates are as follows:



### 2.2.1 GOING CONCERN

The Bank's Management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, Management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis. The Directors have considered the potential downsides that the COVID - 19 pandemic could bring to business operations of the Group, in making this assessment.

### 2.2.2 FAIR VALUE OF FINANCIAL INSTRUMENTS

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more detail in Note 41.

### 2.2.3 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The Bank's accounting policies provide scope for assets and liabilities to be classified, at inception into different accounting categories. The classification of financial instruments is given in Note 40, "Analysis of Financial Instruments by Measurement Basis".

### 2.2.4 IMPAIRMENT LOSSES ON LOANS AND ADVANCES

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgment. These estimates are driven by a number of factors and the changes of these factors can result in different levels of adjustments.

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the income statement. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found to be impaired have been provided for the impairment loss on loans and advances as disclosed in Note 8 and Note 17. All individually not insignificant loans and advances and unimpaired individual significant customers are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to Expected Credit Loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, remaining maturity, customer identification number, etc.)

The Bank's expected credit loss (ECL) calculation under SLFRS 9 requires management to make judgments and estimates with regard to the following;

- Criteria for assessing if there has been a significant increase in credit risk and therefore impairment for financial assets should be measured on a Lifetime Expected Credit Loss (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary. Furthermore, the procedure followed in the impairment calculations due to the COVID-19 outbreak have been described in Note 44.2.2 to the Financial Statement.

### 2.2.5 IMPAIRMENT OF OTHER FINANCIAL ASSETS

The Bank reviews its debt securities classified as FVOCI/ amortised cost at each reporting date to assess whether they are impaired. Objective evidence that a debt security held at FVOCI/amortised cost is impaired includes among other things significant financial difficulty of the issuer, a breach of contract such as a default or delinquency in interest or principal payment etc. Equity instruments classified as FVOCI are not subjective for impairment assessment.

### 2.2.6 DEFERRED TAX ASSETS

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised and impairment allowances which will be recovered in the foreseeable future. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. Details of the deferred tax assets are disclosed in Note 12.2 to the Financial Statement.

### 2.2.7 TAXATION

The Bank is subject to income taxes and other taxes including VAT on financial services. Significant judgment was required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to the interpretation of the applicability of tax laws, at the time of preparation of these Financial Statements.

The Bank recognised assets and liabilities for current deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income.

## 2.2.8 DEFINED BENEFIT PLAN

The cost of the defined benefit plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, salary increment rate, age of retirement, and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The assumptions used for valuation is disclosed in more detail in Note 30.1.3.

## 2.2.9 USEFUL LIFETIME OF THE PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The Bank reviews the residual values, useful lives and methods of depreciation of assets as at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

## 2.2.10 COMMITMENTS AND CONTINGENCIES

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote. Details of commitments and contingencies are given in Note 36.

## 2.2.11 CLASSIFICATION OF INVESTMENT PROPERTIES

Management requires using its judgment to determine whether a property qualifies as an investment property. The Bank has developed criteria so it can exercise its judgment consistently. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Bank are accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a standalone asset are accounted for as property, plant and equipment. The Bank assesses on an annual basis, the accounting classification of its properties taking into consideration the current use of such properties. Details of investment properties are given in Note 23.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.3.1 FOREIGN CURRENCY TRANSACTIONS AND BALANCES

The Financial Statements are presented in Sri Lankan Rupees (LKR). Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are taken to "Other operating income" in the income statement.

## 2.3.2 FINANCIAL INSTRUMENTS

### 2.3.2.1 INITIAL RECOGNITION, CLASSIFICATION AND SUBSEQUENT MEASUREMENT

#### (A) DATE OF RECOGNITION

All financial assets and liabilities with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

#### (B) INITIAL MEASUREMENT OF FINANCIAL INSTRUMENTS

The classification of financial instruments at initial recognition depends on the cash flow characteristics and the business model for managing the instruments. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

#### "DAY 1" PROFIT OR LOSS

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the bank immediately recognises the difference between the transaction price and fair value ("Day 1" profit or loss) in "Net operating income". In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

#### (C) CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL INSTRUMENTS

##### (I) FINANCIAL ASSETS

The Bank classifies its financial assets into the following measurement categories:

- Financial assets at amortised cost
- Financial assets at fair value through profit or loss (FVTPL)
- Financial assets measured at fair value through other comprehensive income (FVOCI)

The classification depends on the Bank's business model for managing financial assets and the contractual terms of the financial assets' cash flows. The Bank classifies its financial liabilities at amortised cost unless it has designated liabilities at fair value through profit.

#### **A. FINANCIAL ASSETS MEASURED AT AMORTISED COST**

Placements, loans and receivables to other customers and debt and other instruments are measured at amortised cost where they have:

- Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and profits on the principal amount outstanding; and
- Are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. The measurement of credit impairment is based on the three-stage expected credit loss model described below in Note 2.3.2.3 impairment of financial assets.

#### **B. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

Financial assets fair value through profit or loss comprise:

- Financial investments - for trading;
- Instruments with contractual terms that do not represent solely payments of principal and profit.

Financial instruments held at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in the statement of profit or loss as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the statement of profit or loss as they arise.

Where a financial asset is measured at fair value, a credit valuation adjustment is included to reflect the credit worthiness of the counterparty, representing the movement in fair value attributable to changes in credit risk.

#### **FINANCIAL INVESTMENTS – FOR TRADING**

A financial investment is classified as financial assets recognised through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.

Government securities quoted equities and investment in unit trust securities are classified as financial assets recognised through profit or loss and recognised at fair value. Refer Note 16.

#### **FINANCIAL INSTRUMENTS DESIGNATED AS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS**

Upon initial recognition, financial instruments may be designated as measured at fair value through profit or loss. A financial asset may only be designated at fair value through profit or loss if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis. The Bank does not designate any financial instruments under this category.

#### **C. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

Investment in equity instruments that are neither trading financial assets recognised through profit or loss, nor contingent consideration recognised by the Bank in a business combination to which SLFRS 3 “Business Combination” applies, are measured at fair value through other comprehensive income, where an irrevocable election has been made by Management due to long-term nature of investment. For portfolios where Management does not consider an irrevocable election of adopting fair value through other comprehensive income, by default such investments shall be measured at fair value through profit and loss.

Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognised in profit or loss.

#### **(II) FINANCIAL LIABILITIES**

The initial and subsequent measurement of financial liabilities depends on their classification as described below:

At the inception the Bank determines the classification of its financial liabilities. Accordingly, financial liabilities are classified as;

- Financial liabilities at amortised cost
- Financial liabilities at Fair Value through Profit or Loss (FVTPL)
  - Financial liabilities held for trading
  - Financial liabilities designated at fair value through profit or loss

The subsequent measurement of financial liabilities depends on their classification.

#### **A. FINANCIAL LIABILITIES AT AMORTISED COST**

Financial instruments issued by the Bank that are not designated at fair value through profit or loss, are classified as liabilities at amortised cost under “due to customers and other borrowings” as appropriate, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of own equity shares at amortised cost using EIR method.

After initial recognition, such financial liabilities are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are integral part of the EIR. The EIR amortisation is included in “interest expenses” in the income statement. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

This category consists of due to other customers, other borrowings, debt securities issued and subordinated term debts.

#### **B. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)**

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are fair value, and changes therein recognised in profit or loss.

Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of the portfolio that is managed together for short-term profit or position taking. This category includes derivative financial instruments entered in to by the Bank which are not designated as hedging instruments in the hedge relationships as defined by the Sri Lanka Accounting Standards - LKAS 39 on "Financial Instruments: Recognition and Measurements". Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

The Bank does not have any financial liabilities under this category.

### 2.3.2.2 DE-RECOGNITION OF FINANCIAL INSTRUMENTS

#### (A) FINANCIAL ASSETS

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition. The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its rights to receive cash flows from the asset or it retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass – through" arrangement.
- The Bank has transferred substantially all risks and rewards of the asset, or the Bank has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a "pass – through" arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

#### B. FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

### 2.3.2.3 IMPAIRMENT OF FINANCIAL ASSETS

The Bank applies a three-stage approach to measuring Expected Credit Losses (ECLs) for the following categories of financial assets (debt instruments) that are not measured at fair value through profit or loss:

- Instruments measured at amortised cost and fair value through other comprehensive income;
- Loans and receivables to other customers; and
- Financial guarantee contracts

ECL is not recognised on equity instruments.

Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

#### Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Bank determines 12 month ECL from customers who are not significantly credit deteriorated (i.e. less than 30 days past due).

#### Stage 2: Lifetime ECL – not Credit Impaired

Credit facilities, where contractual payments of a customer are more than 30 days past due, other than the credit facilities categorised under Stage 3 below, subject to the rebuttable presumption as stated in SLFRS 9. All restructured loans, which are restructured up to two times (other than upgraded restructured facilities, satisfactory performing period of a minimum 90 days considered subsequent to the due date of the first capital and/or interest instalment post-restructure). Underperforming credit facilities/exposures.

#### Stage 3: Lifetime ECL – Credit Impaired

Credit facilities where contractual payments of a customer are more than 90 days past due or three instalments in arrears, subject to the rebuttable presumption as stated in SLFRS 9. All restructured loans, which are restructured more than twice. All rescheduled loans, other than credit facilities/exposures (other than upgraded restructured facilities, satisfactory performing period of a minimum 90 days considered subsequent to the due date of the first capital and/or interest instalment post-restructure). All credit facilities/customers classified as non-performing as per CBSL directions. Non-performing credit facilities/customers.

### DETERMINING THE STAGE FOR IMPAIRMENT

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Bank considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for impairment loss reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Bank's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for impairment loss for these financial assets is based on a 12-months ECL.

When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the statement of profit or loss.

The Bank assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

#### MEASUREMENT OF ECLS

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective rate. The cash shortfall is the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank 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 discounted by the effective rate.
- Undrawn commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.
- Financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

For further details on how the Bank calculates ECLs including the use of forward looking information, refer to the impairment assessment section in Note 44.

ECLs are recognised using a provision for impairment loss account in statement of profit and loss. The Bank recognises the provision charge in statement of profit or loss, with no reduction in the carrying amount of the asset in the statement of financial position.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows.

**PD:** The probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

**EAD:** The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of capital and financing income, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued financing income from missed payments.

**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 Bank would expect to receive, including the realisation of any collateral.

Procedure followed in the ECL calculations due to COVID-19 outbreak is detailed in Note 44 to the Financial Statements.

#### 2.3.2.4 CRITICAL ACCOUNTING ASSUMPTIONS AND ESTIMATES APPLICABLE FOR FINANCIAL INSTRUMENTS

The application of the Bank's accounting policies requires the use of judgments, estimates and assumptions. If different assumptions or estimates were applied, the resulting values would change, impacting the net assets and income of the Bank.

Assumptions made at each reporting date are based on best estimates at that date. Although the Bank has internal control systems in place to ensure that estimates are reliably measured, actual amounts may differ from those estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The accounting policies which are most sensitive to the use of judgment, estimates and assumptions are specified below.

##### (A) FAIR VALUE MEASUREMENT

A significant portion of financial instruments are carried on the statement of financial position at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Bank has immediate access. An adjustment for credit risk is also incorporated into the fair value as appropriate.

Fair value for a net open position that is a financial liability quoted in an active market is the current offer price, and for a financial asset the bid price, multiplied by the number of units of the instrument held or issued.

Where no active market exists for a particular asset or liability, the Bank uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

#### **(B) IMPAIRMENT CHARGES ON LOANS AND RECEIVABLES TO OTHER CUSTOMERS**

Judgment is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss for loans and receivables to other customers. In estimating these cash flows, the Bank makes judgments about the customer's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

A collective assessment of impairment takes into account data from the advance portfolio (such as credit quality, levels of arrears, credit utilisation, advances to collateral ratios etc.), and concentrations of risk and economic data (including levels of unemployment, inflation, GDP growth rate, country risk and the performance of different individual groups). The impairment loss on loans and receivables to other customers is disclosed in more detail in Note 17.

#### **2.3.2.5 DETERMINATION OF FAIR VALUE**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy,

described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 –	Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 –	Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 –	Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Financial Statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The disclosure of fair value of financial instruments is disclosed in Note 41.

#### **2.3.2.6 COLLATERAL VALUATION**

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent values and audited Financial Statements.

#### **COLLATERAL REPOSSESSED**

The Bank's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

#### **2.3.2.7 OFFSETTING FINANCIAL INSTRUMENTS**

Financial Assets and Liabilities are offset, and the net amount is presented in the Balance Sheet when the Bank has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### **2.3.3 REPURCHASE AND REVERSE REPURCHASE AGREEMENTS**

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "repurchase agreements", reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or replace the securities, the Bank reclassifies those securities in its statement of financial position to

“Financial assets held-for-trading pledged as collateral” or to “Financial investments available-for-sale pledged as collateral”, as appropriate. Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within “reverse repurchase agreements”, reflecting the transaction’s economic substance as a loan by the Bank.

The difference between the purchase and resale prices is recorded in “Net interest income” and is accrued over the life of the agreement using the EIR. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within “Financial liabilities held-for-trading” and measured at fair value with any gains or losses included in “Net operating income”.

### 2.3.4 SECURITIES LENDING AND BORROWING

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability. Securities borrowed are not recognised on the statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in “Net operating income”.

### 2.3.5 LEASES

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

#### 2.3.5.1 BANK AS THE LESSOR

When the Bank acts as a lessor, it determines at least inception whether each lease is a finance lease or an operating lease. To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset.

#### OPERATING LEASES

Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

#### FINANCE LEASES

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as “Finance Leases”. Amounts receivable under finance leases are included under “loans and receivables to customers” in the statement of financial position after deduction of initial rentals received, unearned lease income and the accumulated impairment losses. When assets are

held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods reflect a constant periodic rate of return.

#### 2.3.5.2 BANK AS THE LESSEE

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

#### RIGHT-OF-USE ASSETS

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right of use assets are depreciated on a straight-line basis over the lease term over the range of 1 to 10 years. The right-of-use assets is presented in Note 22.

#### LEASE LIABILITIES

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. Lease liabilities are presented in Note 31.

### 2.3.6 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand and balances with Banks on demand or with an original maturity of three months or less.

### 2.3.7 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year.

Property and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with LKAS 16 on Property, plant and equipment. Initially property and equipment are measured at cost.

#### 2.3.7.1 BASIS OF RECOGNITION AND MEASUREMENT COST MODEL

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its costs. Costs include expenditure that is directly attributable to the acquisition of the asset and cost is incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located

and capitalised borrowing costs. Purchase of software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

When parts of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The Bank applies the cost model to property, plant and equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

### 2.3.7.2 SUBSEQUENT COST

These are costs that are recognised in the carrying amount of an item, if it is probable that the future economic benefits embodied within that part will flow to the Bank and it can be reliably measured.

### 2.3.7.3 REPAIRS AND MAINTENANCE

Repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Bank and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

### 2.3.7.4 CAPITAL WORK IN PROGRESS

Capital work in progress is stated at cost. It would be transferred to the relevant asset when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by Management. Capital work in progress is stated at cost less any accumulated impairment losses.

### 2.3.7.5 BORROWING COSTS

As per LKAS 23 on "Borrowing Costs", the Bank capitalises the borrowing costs that are directly attributable to acquisition, construction or production of qualifying assets as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur.

### 2.3.7.6 DE-RECOGNITION

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in "other operating income" in the income statement in the year the asset is derecognised.

### 2.3.7.7 DEPRECIATION

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

The class of assets	Useful life
Buildings	20 years
Computer hardware	3 years
Machinery and equipment	5 years
Motor vehicles	4 years
Furniture and fittings	5 years

### 2.3.8 INVESTMENT PROPERTIES

Properties held to earn rental income have been classified as investment properties. Investment properties initially recognised at cost. After initial recognition the Bank uses the cost method to measure all of its investment property in according with requirements in LKAS 16 "Property, plant and equipment".

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 income statement in the year of retirement or disposal.

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.

Depreciation is calculated using the straight-line method to write down the cost of investment property to their residual values over their estimated useful lives. The estimated useful lives are as follows:

The class of assets	Useful life
Buildings	20 years

### 2.3.9 ASSET CLASSIFIED AS HELD FOR SALE

Non-current assets are classified as investments - "held for sale" when their carrying amounts will be recovered principally through sale, they are available for sale in their present condition and their sale is highly probable. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell, except for those assets and liabilities that are not within the scope of the measurement requirements of SLFRS 5 - "Non-current Assets Held for Sale and Discontinued Operations" such as deferred taxes, financial instruments, investment properties, insurance contracts and assets and liabilities arising from employee benefits.



### 2.3.10 INTANGIBLE ASSETS

The Bank's intangible assets include the value of computer software.

#### 2.3.10.1 BASIS OF RECOGNITION

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank in accordance with LKAS 38 on "Intangible Assets".

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses if any.

#### 2.3.10.2 SUBSEQUENT EXPENDITURE

Subsequent expenditure on intangible asset is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

#### 2.3.10.3 USEFUL ECONOMIC LIFE, AMORTISATION AND IMPAIRMENT

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

#### AMORTISATION

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual value over their estimated useful life as follows:

The class of intangible assets	Useful life
Computer software	7 years

The unamortised balances of intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in profit or loss to the extent that they are no longer probable of being recovered from the expected future benefits.

#### 2.3.10.4 DERECOGNITION

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition of the asset, (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit or loss in the year the asset is derecognised.

### 2.3.11 IMPAIRMENT OF NON-FINANCIAL ASSETS

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

### 2.3.12 FINANCIAL GUARANTEES

In the ordinary course of business, the Bank gives financial guarantees, consisting of Bank guarantees. Bank guarantees are initially recognised in the Financial Statements (within "other liabilities") at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in the income statement, and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the income statement in "Credit loss expense". The premium received is recognised in the income statement in "Net fees and commission income" on a straight-line basis over the life of the guarantee.

### 2.3.13 PROVISIONS

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

### 2.3.14 RETIREMENT BENEFIT OBLIGATIONS

#### 2.3.14.1 DEFINED BENEFIT PLAN- GRATUITY

Based on LKAS 19 on "Employee Benefits", the Bank has adopted the actuarial valuation method for employee benefit liability an actuarial valuation is carried out every year to ascertain the liability. A separate fund is not maintained for this purpose.

The principal assumptions, which have the most significant effects on the valuation, are the rate of discount, rate of increase in salary, rate of turnover at the selected ages, rate of disability, death benefits and expenses.

The liability is measured on an actuarial basis using the projected unit credit method, adjusted for unrecognised actuarial gains and losses. The defined benefit plan liability is discounted using rates equivalent to the market yields at the date of statement of financial position that are denominated in the currency in which benefits will be paid, and that have a maturity approximating to the terms of the related pension liability.

The Bank 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 income statement.

#### **2.3.14.2 DEFINED CONTRIBUTION PLAN – EMPLOYEES' PROVIDENT FUND AND EMPLOYEES' TRUST FUND**

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective Statutes and Regulations. The Bank contributes a minimum 12% and 3%.

#### **2.3.15 RECOGNITION OF INCOME AND EXPENSES**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

##### **2.3.15.1 INTEREST AND SIMILAR INCOME AND EXPENSE**

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as "Other operating income". However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

##### **2.3.15.2 FEE AND COMMISSION INCOME**

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

###### ***FEE INCOME EARNED FROM SERVICES THAT ARE PROVIDED OVER A CERTAIN PERIOD OF TIME***

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

###### ***FEE INCOME FROM PROVIDING TRANSACTION SERVICES***

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

##### **2.3.15.3 DIVIDEND INCOME**

Dividend income is recognised when the Bank's right to receive the payment is established.

##### **2.3.15.4 NET GAIN/(LOSS) FROM FINANCIAL INSTRUMENTS**

Net gain/(loss) from financial investments include capital gain/(loss) from trading and fair value gain/loss of financial investments at fair value through profit or loss.

##### **2.3.15.5 OTHER OPERATING INCOME**

Income earned on other sources, which are not directly related to the normal operations of the Bank are recognised as other operating income on accrual basis, such as gains on disposal of property, plant and equipment and foreign exchange gain/(loss).

#### **2.3.16 TAXES**

##### **2.3.16.1 CURRENT TAX**

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

### 2.3.16.2 DEFERRED TAX

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date. Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the income statement. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### 2.3.16.3 VALUE ADDED TAX (VAT) ON FINANCIAL SERVICES

VAT on financial services is calculated in accordance with the Value Added Tax Act No.14 of 2002 and subsequent amendments thereto. The base for the computation of Value Added Tax on financial services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees' computed on prescribed rate. The VAT on financial services rate applied in 2020 is 15% (2019 - 15%).

### 2.3.16.4 WITHHOLDING TAX ON DIVIDENDS

Liability of withholding tax on dividend distributed by the Bank arises based on the declaration produced by the receiver of such dividend. If not no withholding liability exists.

### 2.3.16.5 ECONOMIC SERVICE CHARGE (ESC)

As per the provisions of Economic Service Charge Act No. 13 of 2006 and subsequent amendments thereto, the ESC is calculated on liable turnover. Currently, the ESC is payable at 0.5% and is deductible from the income tax payable. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the two subsequent years. This tax was abolished by the government with effect from 1 January 2020.

### 2.3.16.6 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, CIL is payable at 1% of the profit after tax.

### 2.3.16.7 NATION BUILDING TAX (NBT) ON FINANCIAL SERVICES

According to the Nation Building Tax Act, No. 09 of 2009 and subsequent amendments thereto, Nation Building Tax should be paid on the liable turnover with effect from 1 January 2014. NBT on financial services is calculated based on the value addition used for the purpose of VAT on financial services. The NBT rate applied up to 30 November 2019 is 2% and it was abolished with effect from 1 December 2019 by the Government.

### 2.3.16.8 DEBTS REPAYMENTS LEVY (DRL)

DRL on financial services is calculated based on the total value addition used for the purpose of VAT on financial services in accordance with the Finance Act No. 35 of 2018 from 1 October 2018. The DRL rate applied in 2019 is 7%. This tax was abolished by the Government with effect from 1 January 2020.

### 2.3.17 GRANTS

Grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

### 2.3.18 DIVIDENDS ON ORDINARY SHARES

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the reporting date.

### 2.3.19 EQUITY RESERVES

The reserves recorded in equity on the Bank's statement of financial position include:

"Available-for-sale/fair value through OCI" reserve which comprises changes in fair value of fair value through other comprehensive income investments.

### 2.3.20 SEGMENT REPORTING

A segment is a distinguishable component of the Bank that is engaged in providing services (Business segments) or in providing services within a particular economic environment (Geographical segment) which is subject to risks and rewards that are different from those of other segments.

In accordance with the SLFRS 8 on “Segmental Reporting”, segmental information is presented in respect of the Bank based on Bank’s Management and internal reporting structure.

The Bank’s segmental reporting is based on the following operating segments.

• Banking:	Individual customers’ deposits and consumer financing, equipment financing, home and property financing
• Leasing:	Lease and hire purchase facility customers
• Treasury:	Placements of funds with other banks and financial institutions, equity investments
• Pawning:	Pawning advances to customers

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss of respective segment.

## 2.4 SRI LANKA ACCOUNTING STANDARDS NOT YET EFFECTIVE AS AT 31 DECEMBER 2020

The following new Sri Lanka Accounting Standards/amendments which have been issued by the Institute of Chartered Accountants of Sri Lanka is effective for annual periods beginning on or after 1 January 2021.

### SLFRS 17 (INSURANCE CONTRACTS)

SLFRS 17 “Insurance Contracts”, is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosures. Once effective, SLFRS 17 replaces existing SLFRS 4 “Insurance contracts”. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

SLFRS 17 is effective for reporting periods beginning on or after 1 January 2021. Early application permitted, if the entity is applying SLFRS 16 and SLFRS 15 on or before the date in which it first applies SLFRS 17. This standard is not applicable to the Bank.

### AMENDMENTS TO SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 AND SLFRS 16 – INTEREST RATE BENCHMARK REFORM (PHASE 1 AND 2)

The amendments to SLFRS 9 and LKAS 39 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/ or amount of benchmark-based cash flows of the hedged item or the hedging instrument. IBOR reforms Phase 2 include number of reliefs and additional disclosures. Amendments supports companies in applying SLFRS when changes are made to contractual cash flows or hedging relationships because of the reform. These amendments are effective for the annual reporting periods beginning on or after 1 January 2021. The Bank is in the process of evaluating the impact of this amendment on Financial Statements.

### 3 NET INTEREST INCOME

	2020 LKR	2019 LKR
<b>Interest income</b>		
Cash and cash equivalents	231,274,070	89,311,724
Placements with banks	307,023,206	760,109,685
Financial assets at amortised cost		
– Loans and receivables to other customers	14,485,392,470	13,839,972,079
– Debt and other instruments*	410,448,333	382,677,549
Financial assets - fair value through profit or loss*	7,864,724	7,252,770
<b>Total interest income</b>	<b>15,442,002,803</b>	<b>15,079,323,806</b>

\*Interest income earned from financial assets fair value through profit or loss classified under interest income on debt and other instruments in 31 December 2019 has been reclassified to interest income from financial assets -fair value through profit or loss and comparative figure in this Financial Statements is amended.

	2020 LKR	2019 LKR
<b>Interest expenses</b>		
Financial liabilities at amortised cost		
– Due to other customers	6,945,937,783	7,051,780,733
– Due to debt securities holders	98,141,850	98,141,850
– Other borrowers	1,730,533,552	1,891,915,771
– Subordinated term debt*	469,159,865	297,446,074
– Finance cost of lease liability	70,803,354	43,244,491
<b>Total interest expenses</b>	<b>9,314,576,405</b>	<b>9,382,528,920</b>
<b>Net interest income</b>	<b>6,127,426,398</b>	<b>5,696,794,886</b>

\*Interest expense of subordinated term debt classified under interest expense of other borrowers in 31 December 2019 has been reclassified to interest expense of subordinated term debt and comparative figure in this Financial Statements is amended.

#### 3.1 NET INTEREST INCOME FROM SRI LANKA GOVERNMENT SECURITIES

	2020 LKR	2019 LKR
Net interest income from Sri Lanka Government Securities	381,193,368	325,074,604
<b>Total</b>	<b>381,193,368</b>	<b>325,074,604</b>

### 4 NET FEE AND COMMISSION INCOME

	2020 LKR	2019 LKR
Fee and commission income	390,619,231	237,656,461
Fee and commission expenses	(14,334,115)	(6,506,626)
<b>Net fee and commission income</b>	<b>376,285,116</b>	<b>231,149,835</b>

**4.1 NET FEE AND COMMISSION EARNED FROM**

	2020 LKR	2019 LKR
Loans	194,798,290	128,412,167
Deposits	1,897,389	1,591,602
Guarantees	1,284,435	1,885,322
Commission earned from insurance	86,849,822	21,692,391
Commission earned from ATM	30,724,671	17,724,505
Others	60,730,510	59,843,848
<b>Net fee and commission income</b>	<b>376,285,116</b>	<b>231,149,835</b>

**5 NET GAIN/(LOSS) FROM TRADING**

	2020 LKR	2019 LKR
Quoted equities	(97,180)	-
Sri Lanka Government Securities – Treasury bills and treasury bonds	5,325,640	1,264,727
<b>Total</b>	<b>5,228,460</b>	<b>1,264,727</b>

**6 NET FAIR VALUE GAIN/(LOSS) FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	2020 LKR	2019 LKR
Sri Lanka Government Securities – Treasury bills and treasury bonds	12,304	(58,050)
Unit trust	268,514,699	114,947,499
Quoted equities	182,633	-
<b>Total</b>	<b>268,709,636</b>	<b>114,889,449</b>

**7 NET OTHER OPERATING INCOME**

	2020 LKR	2019 LKR
Gain on sale of property, plant and equipment	1,580,852	12,055,221
Dividend income	320,000	240,800
Account maintenance fees	50,179,417	75,675,472
Other income	3,146,834	2,997,292
<b>Other operating income</b>	<b>55,227,102</b>	<b>90,968,785</b>

**8 IMPAIRMENT FOR LOANS AND OTHER LOSSES****8.1 BALANCES WITH BANKS**

	2020 LKR	2019 LKR
Stage 1	4,535,663	(267,938)
<b>Total</b>	<b>4,535,663</b>	<b>(267,938)</b>

**8.2 PLACEMENTS WITH BANKS**

	2020 LKR	2019 LKR
Stage 1	(2,453,603)	(4,848,662)
<b>Total</b>	<b>(2,453,603)</b>	<b>(4,848,662)</b>

**8.3 FINANCIAL ASSETS AT AMORTISED COST – LOANS AND RECEIVABLES TO CUSTOMERS**

	2020 LKR	2019 LKR
Stage 1	111,825,493	231,986,335
Stage 2	(9,875,249)	(105,851,634)
Stage 3	313,598,341	795,892,983
<b>Total</b>	<b>415,548,585</b>	<b>922,027,684</b>

**8.4 DEBT AND OTHER INSTRUMENTS**

	2020 LKR	2019 LKR
Stage 1	(592,140)	522,422
<b>Total</b>	<b>(592,140)</b>	<b>522,422</b>
<b>Total</b>	<b>417,038,505</b>	<b>917,433,506</b>

**9 PERSONNEL EXPENSES**

	2020 LKR	2019 LKR
Salary and bonus	1,890,344,858	1,518,776,089
Contributions to defined contribution plans – EPF	230,132,935	202,665,907
– ETF	49,314,204	43,427,993
Contributions to defined benefit plans	99,882,738	92,127,811
Overtime	6,635,881	7,282,232
Staff welfare	33,477,284	29,112,351
Staff allowances	144,167,534	104,383,718
Others	122,817,867	118,571,829
<b>Total</b>	<b>2,576,773,302</b>	<b>2,116,347,930</b>

**10 DEPRECIATION AND AMORTISATION EXPENSES**

	2020 LKR	2019 LKR
Depreciation of property, plant and equipment	197,608,455	228,739,345
Amortisation of Right of use assets	188,930,704	182,256,972
Depreciation of investment property	1,056,030	1,056,030
Amortisation of intangible assets	66,973,809	19,140,249
<b>Total</b>	<b>454,568,998</b>	<b>431,192,596</b>

**11 OTHER EXPENSES**

	2020 LKR	2019 LKR
Directors' emoluments	31,230,800	22,346,444
Auditors' remunerations	4,712,636	4,195,864
Professional and legal expenses	9,144,841	6,752,497
Office administration and establishment expenses	1,355,450,277	1,386,778,240
<b>Total</b>	<b>1,400,538,554</b>	<b>1,420,073,045</b>

**11.1** Directors' emoluments include fees paid to Non-executive Directors.

**12 TAX EXPENSE**

	2020 LKR	2019 LKR
<b>Current tax expense</b>		
Income tax for the year	559,977,858	452,640,558
Adjustment in respect of current income tax of prior periods	15,336,343	31,203,942
Deferred taxation charge/(reversal)	1,328,535	(151,422,156)
<b>Total</b>	<b>576,642,736</b>	<b>332,422,344</b>

**12.1 RECONCILIATION OF TAX EXPENSES**

	2020 LKR	2019 LKR
<b>Profit before tax</b>	<b>1,412,930,083</b>	<b>585,827,440</b>
Income tax for the period (Accounting profit @ 28%)	395,620,423	164,031,683
Income exempt from tax/or not taxable	(920,738)	(3,442,886)
Add: Tax effect of expenses that are not deductible for tax purposes	457,011,082	538,933,025
Less: Tax effect of expenses that are deductible for tax purposes	(451,869,016)	(288,309,630)
Add: Tax impact on leasing loss	160,136,108	41,428,366
<b>Tax expense for the period</b>	<b>559,977,858</b>	<b>452,640,558</b>
Adjustment in respect of current income tax of prior periods	15,336,343	31,203,942
Deferred taxation charge	1,328,535	(151,422,156)
<b>At the effective income tax rate of 40.94% (2019 : 56.74%)</b>	<b>576,642,736</b>	<b>332,422,344</b>

**12.2 DEFERRED TAX ASSETS, LIABILITIES AND INCOME TAX RELATES TO THE FOLLOWINGS:**

	Statement of financial position		Statement of comprehensive income	
	2020 LKR	2019 LKR	2020 LKR	2019 LKR
<b>Deferred tax liability</b>				
Capital allowances for property, plant and equipment	45,319,503	50,479,669	(5,160,166)	34,841,965
Capital allowances for leased assets	111,998,871	100,495,732	11,503,139	(47,722,595)
	<b>157,318,374</b>	<b>150,975,401</b>	<b>6,342,973</b>	<b>(12,880,630)</b>



For the year ended 31 December

	Statement of financial position		Statement of comprehensive income	
	2020 LKR	2019 LKR	2020 LKR	2019 LKR
<b>Deferred tax assets</b>				
Defined benefit plans	157,165,127	131,762,557	(25,402,570)	(32,403,311)
Impairment allowance	215,680,737	244,367,815	28,687,078	(110,456,104)
Right to use assets	16,145,034	7,326,690	(8,818,344)	(7,326,690)
	388,990,898	383,457,062	(5,533,836)	(150,186,105)
<b>Deferred taxation charge/(reversal)</b>			809,137	(163,066,735)
<b>Net deferred tax liability/assets</b>	(231,672,525)	(232,481,661)		

### 12.2.1 COMPOSITION OF DEFERRED TAX CHARGE

	2020 LKR	2019 LKR
Impact on income tax expense	1,328,535	(151,422,156)
Impact on other comprehensive income	(519,397)	(11,644,579)
<b>Total impact</b>	809,137	(163,066,735)

### 12.3 NEW AMENDMENTS TO INCOME TAX LAW

Based on the Circular No. SEC/2020/03 dated 19 May 2020 issued by Department of Inland Revenue, income tax rate applicable for the Banking sector has been reduced to 24% with effect from 1 January 2020. However, as the said amendment is yet to be enacted, both income tax and deferred tax provisions were calculated at the rate of 28% for the year ended 31 December 2020.

If the Bank considered the revised rate of 24% announced by the government in the computation of current and deferred tax, the income tax charge recognised in the profit and loss would have decreased by LKR 81 Mn. and the profitability of the year would be LKR 915 Mn.

## 13 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary shareholders (after deducting preference share dividends, if any) by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a scrip dividend.

	2020 LKR	2019 LKR
Net profit for the period	836,287,347	253,405,096
Profit attributable to ordinary shareholders	836,287,347	253,405,096

	2020 Number	2019 Number
Weighted average number of ordinary shares in issue	75,700,321	56,308,252
	75,700,321	56,308,252
<b>Basic/diluted earnings per ordinary share</b>	11.05	4.50

The subordinated term debts detailed in Note 29 are resulted for anti-diluted earnings per share.

**14 CASH AND CASH EQUIVALENTS**

	2020 LKR	2019 LKR
Cash in hand	442,568,346	272,317,628
Balances with banks	9,203,236,671	2,157,826,360
Less : Impairment	(4,889,081)	(353,418)
<b>Carrying value after impairment</b>	<b>9,640,915,936</b>	<b>2,429,790,570</b>

**14.1 ANALYSIS OF CASH AND CASH EQUIVALENTS BASED ON EXPOSURE TO CREDIT RISK**

	Stage 1	
	2020 LKR	2019 LKR
Cash and cash equivalents	9,645,805,017	2,430,143,988
Less: Impairment	(4,889,081)	(353,418)
<b>Carrying value after impairment</b>	<b>9,640,915,936</b>	<b>2,429,790,570</b>

**14.2 STAGE WISE CLASSIFICATION OF IMPAIRMENT ALLOWANCES OF CASH AND CASH EQUIVALENTS**

	Stage 1	
	2020 LKR	2019 LKR
<b>Opening balance as at 1 January</b>	<b>353,418</b>	621,356
Charges/(write back) to income statement	4,535,663	(267,938)
<b>Closing balance as at 31 December</b>	<b>4,889,081</b>	353,418

**14.3 CASH AND CASH EQUIVALENTS FOR CASH FLOW STATEMENT**

	2020 LKR	2019 LKR
Cash and cash equivalents	9,640,915,936	2,429,790,570
Repurchase agreement	1,678,514,330	4,332,653,659
Fixed deposits less than 3 months	1,206,469,863	4,152,234,452
<b>Total</b>	<b>12,525,900,129</b>	<b>10,914,678,681</b>

**15 PLACEMENTS WITH BANKS**

	2020 LKR	2019 LKR
Placements with Banks	2,823,798,280	5,630,717,976
Less: Impairment	(169,828)	(2,623,431)
<b>Carrying value after impairment</b>	<b>2,823,628,452</b>	<b>5,628,094,545</b>

**15.1 ANALYSIS OF PLACEMENTS WITH BANKS BASED ON EXPOSURE TO CREDIT RISK**

	Stage 1	
	2020 LKR	2019 LKR
Placements with banks	2,823,798,280	5,630,717,976
Less: Impairment allowance for placement	(169,828)	(2,623,431)
<b>Carrying value after impairment</b>	<b>2,823,628,452</b>	<b>5,628,094,545</b>

**15.2 STAGE WISE CLASSIFICATION OF IMPAIRMENT ALLOWANCES OF PLACEMENTS WITH BANKS**

	Stage 1	
	2020 LKR	2019 LKR
Opening balance as at 1 January	2,623,431	7,472,093
Charges/(write back) to income statement	(2,453,603)	(4,848,662)
<b>Closing balance as at 31 December</b>	<b>169,828</b>	<b>2,623,431</b>

**16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	2020 LKR	2019 LKR
Sri Lanka Government Securities – Treasury bills and Treasury bonds	7,628,946	46,519,350
Unit Trust	4,586,196,193	3,480,790,791
Quoted Equities (Note 16.1)	6,632,792	–
<b>Total</b>	<b>4,600,457,930</b>	<b>3,527,310,141</b>

**16.1 QUOTED EQUITIES**

	2020		2019	
	Number of shares	Market value LKR	Number of shares	Market value LKR
Commercial Bank of Ceylon PLC	7,500	606,750	–	–
Sampath Bank PLC	5,000	678,000	–	–
Hatton National Bank PLC	6,000	759,000	–	–
DFCC Bank PLC	20,000	1,306,000	–	–
John Keels Holdings PLC	5,200	777,920	–	–
Richard Pieris and Company PLC	33,431	498,122	–	–
Access Engineering PLC	40,000	984,000	–	–
Tokyo Cement Company (Lanka) PLC	15,000	1,023,000	–	–
		6,632,792		–

**17 FINANCIAL ASSETS AT AMORTISED COST – LOANS AND RECEIVABLES TO OTHER CUSTOMERS**

	2020 LKR	2019 LKR
Gross loans and receivables (Note 17.1)	105,975,283,350	88,720,800,911
Less: Individual impairment	(1,132,358,785)	(891,669,149)
Collective impairment	(2,180,655,849)	(2,005,796,900)
<b>Net loans and receivables</b>	<b>102,662,268,716</b>	<b>85,823,334,862</b>

**17.1 ANALYSIS OF LOANS AND RECEIVABLES TO OTHER CUSTOMERS BASED ON EXPOSURE TO CREDIT RISK**

	2020			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
<b>Individual impairment loans</b>				
Term loans	–	–	2,254,914,468	2,254,914,468
Leasing	–	–	495,117,862	495,117,862
<b>Collective impairment loans</b>				
Pawning	2,332,753,070	57,538,316	1,547,355	2,391,838,740
Cash margin	4,355,333,082	440,956,245	7,352,414	4,803,641,741
Staff loans	1,367,230,779	–	3,831,428	1,371,062,206
<b>Term loans</b>				
Business	1,444,229,174	68,695,224	292,777,428	1,805,701,826
Co-operative	2,921,781,840	40,810,944	167,580,282	3,130,173,066
Housing	2,607,489,772	446,356,367	226,462,312	3,280,308,450
Personal	11,429,091,118	59,912,131	404,769,767	11,893,773,016
Fixed and floating	25,359,626,981	714,812,380	1,594,202,626	27,668,641,988
SME	12,699,608,362	125,122,198	933,595,333	13,758,325,892
Upahara	24,326,579,966	25,453,790	32,755,833	24,384,789,589
Lease rentals receivables	6,806,798,551	1,557,455,093	372,740,860	8,736,994,504
<b>Gross loans and receivables</b>	<b>95,650,522,696</b>	<b>3,537,112,688</b>	<b>6,787,647,966</b>	<b>105,975,283,350</b>
Less: Impairment allowance	(662,089,944)	(154,078,607)	(2,496,846,083)	(3,313,014,634)
<b>Net loans and receivables</b>	<b>94,988,432,752</b>	<b>3,383,034,080</b>	<b>4,290,801,883</b>	<b>102,662,268,716</b>
<b>2019</b>				
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
<b>Individual impairment loans</b>				
Term loans	–	–	2,429,448,220	2,429,448,220
Leasing	–	–	347,461,848	347,461,848
<b>Collective impairment loans</b>				
Pawning	1,659,484,155	30,675,731	22,012,069	1,712,171,954
Cash margin	4,645,118,340	793,272,466	4,963,166	5,443,353,971
Staff loans	1,252,923,774	4,610,333	22,812,160	1,280,346,267
<b>Term loans</b>				
Business	10,338,753,420	238,259,107	898,766,510	11,475,779,037
Co-operative	2,100,930,848	101,685,565	82,598,336	2,285,214,749
Housing	2,638,550,309	456,060,240	221,438,389	3,316,048,938
Personal	51,175,819,323	923,660,778	1,888,639,373	53,988,119,475
Lease rentals receivables	4,398,092,872	1,774,794,840	269,968,740	6,442,856,452
<b>Gross loans and receivables</b>	<b>78,209,673,042</b>	<b>4,323,019,060</b>	<b>6,188,108,809</b>	<b>88,720,800,911</b>
Less: Impairment allowance	(550,264,452)	(163,953,856)	(2,183,247,741)	(2,897,466,049)
<b>Net loans and receivables</b>	<b>77,659,408,590</b>	<b>4,159,065,203</b>	<b>4,004,861,069</b>	<b>85,823,334,862</b>

**17.2 GROSS LOANS AND RECEIVABLES ANALYSIS BY PRODUCT**

	2020 LKR	2019 LKR
<b>Loans and receivables</b>		
Pawning	2,391,838,740	1,712,171,954
Cash margin	4,803,641,741	5,443,353,971
Staff loans	1,371,062,206	1,280,346,267
<b>Term loans</b>		
Business	2,370,290,386	13,255,022,223
Co-operative	3,456,889,798	2,775,250,944
Housing	3,459,462,932	3,416,424,007
Personal	11,978,621,714	54,047,913,244
Fixed and floating	27,716,929,759	-
SME	14,775,622,413	-
Upahara	24,418,811,294	-
Lease rentals receivable (Note 17.2.1)	9,232,112,366	6,790,318,300
<b>Gross total</b>	<b>105,975,283,350</b>	<b>88,720,800,911</b>

**17.2.1 LEASE RENTALS RECEIVABLE**

	2020 LKR	2019 LKR
Gross lease receivable within one year	5,219,365,506	3,779,379,642
Unearned income on rentals receivable	(1,439,705,604)	(1,162,403,578)
<b>Gross lease receivable within one year</b>	<b>3,779,659,902</b>	<b>2,616,976,064</b>
Gross lease receivable after one year	6,874,727,831	5,219,997,382
Unearned income on rentals receivable	(1,422,275,366)	(1,046,655,146)
<b>Gross lease receivable after one year</b>	<b>5,452,452,465</b>	<b>4,173,342,236</b>
<b>Total gross lease receivable</b>	<b>9,232,112,366</b>	<b>6,790,318,300</b>

**17.3 GROSS LOANS AND RECEIVABLES ANALYSIS BY CURRENCY**

	2020 LKR	2019 LKR
Sri Lankan Rupee	105,975,283,350	88,720,800,911
<b>Gross total</b>	<b>105,975,283,350</b>	<b>88,720,800,911</b>

**17.4 ANALYSIS OF LOANS AND RECEIVABLES TO OTHER CUSTOMERS BASED ON EXPOSURE TO CREDIT RISK**

	2020 LKR	2019 LKR
<b>Stage 1</b>		
<b>Opening balance as at 1 January</b>	<b>550,264,452</b>	<b>318,278,117</b>
Charges/(write back) to income statement	111,825,493	231,986,335
<b>Closing balance as at 31 December</b>	<b>662,089,944</b>	<b>550,264,452</b>
<b>Stage 2</b>		
<b>Opening balance as at 1 January</b>	<b>163,953,856</b>	<b>269,805,490</b>
Charges/(write back) to income statement	(9,875,249)	(105,851,634)
<b>Closing balance as at 31 December</b>	<b>154,078,607</b>	<b>163,953,856</b>

For the year ended 31 December

	2020 LKR	2019 LKR
<b>Stage 3</b>		
<b>Opening balance as at 1 January</b>	<b>2,183,247,741</b>	1,387,354,758
Charges/(write back) to income statement	313,598,341	795,892,983
<b>Closing balance as at 31 December</b>	<b>2,496,846,083</b>	2,183,247,741

## 17.5 MOVEMENT IN INDIVIDUAL AND COLLECTIVE IMPAIRMENT

	Individual impairment LKR	Collective impairment LKR	Total Impairment LKR
Opening balance as at 1 January 2019	350,360,455	1,625,077,910	1,975,438,365
Charge/(write back) to income statement	541,308,694	380,718,990	922,027,684
Recovery/(write-off) during the year	-	-	-
<b>Closing balance as at 31 December 2019</b>	<b>891,669,149</b>	<b>2,005,796,900</b>	<b>2,897,466,049</b>
<b>Opening balance as at 1 January 2020</b>	<b>891,669,149</b>	<b>2,005,796,900</b>	<b>2,897,466,049</b>
Charge/(write back) to income statement	240,689,636	174,858,950	415,548,586
Recovery/(write-off) during the year	-	-	-
<b>Closing balance as at 31 December 2020</b>	<b>1,132,358,785</b>	<b>2,180,655,849</b>	<b>3,313,014,634</b>

**17.6** Based on the impairment model revalidation, product segmentation has been re-organised after evaluating the credit risk characteristics of loan facilities. Analysis of loans and advances, commitments, contingencies and impairment mentioned in Note 17.1 and 17.2 has disclosed the product segmentation as at 31 December 2020, after validating the impairment model. The Bank estimated Expected Credit Loss (ECL) as at 31 December 2020, based on the Probability of Default (PD), Loss Given Default (LGD) and Economic Factor Adjustment (EFA) computed as at 31 December 2020, after revalidating the impairment model.

## 18 FINANCIAL ASSETS AT AMORTISED COST – DEBT AND OTHER INSTRUMENTS

	2020 LKR	2019 LKR
Debentures	54,315,068	93,473,535
Repurchase agreement	1,678,514,330	4,332,653,659
Treasury bill	3,259,652,440	1,771,722,268
Commercial papers	251,635,274	801,779,452
Less: Impairment	(111,894)	(704,033)
<b>Carrying value after impairment</b>	<b>5,244,005,218</b>	<b>6,998,924,881</b>

### 18.1 ANALYSIS OF DEBT AND OTHER INSTRUMENTS BASED ON EXPOSURE TO CREDIT RISK

	Stage 1	
	2020 LKR	2019 LKR
Debentures	54,315,068	93,473,535
Repurchase agreement	1,678,514,330	4,332,653,659
Treasury bill	3,259,652,440	1,771,722,268
Commercial papers	251,635,274	801,779,452
Less: Impairment allowance	(111,894)	(704,033)
<b>Carrying value after impairment</b>	<b>5,244,005,218</b>	<b>6,998,924,881</b>

**18.2 STAGE WISE CLASSIFICATION OF IMPAIRMENT ALLOWANCES OF DEBT AND OTHER INSTRUMENTS**

	Stage 1	
	2020 LKR	2019 LKR
<b>Opening balance as at 1 January</b>	<b>704,033</b>	181,611
Charges/(write back) to income statement	(592,140)	522,422
<b>Closing balance as at 31 December</b>	<b>111,894</b>	704,033

**19 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	2020 LKR	2019 LKR
Unquoted equity securities ( Note 19.1)	<b>56,938,514</b>	56,938,514
<b>Financial assets measured at fair value through other comprehensive income</b>	<b>56,938,514</b>	56,938,514

**19.1 UNQUOTED EQUITY SECURITIES**

	2020		2019	
	Number of shares	Amount LKR	Number of shares	Amount LKR
SANASA Insurance Company Limited	7,590,494	75,904,944	7,590,494	75,904,944
Credit Information Bureau of Sri Lanka	100	10,000	100	10,000
Consorzio Etimos S.C.	2	75,194	2	75,194
Loss from mark to market valuation as at 31 December market value		(19,051,624)		(19,051,624)
		<b>56,938,514</b>		56,938,514

**19.1.1 MOVEMENT IN UNQUOTED EQUITY SECURITIES**

	2020 LKR	2019 LKR
<b>Opening Balance as at 1 January</b>	<b>56,938,514</b>	60,148,048
Investments made during the year	-	-
Disposal during the year	-	-
Loss from mark to market valuation	-	(3,209,534)
<b>Closing balance as at 31 December</b>	<b>56,938,514</b>	56,938,514

**19.1.2 VALUATION OF UNQUOTED EQUITY SECURITIES**

Type	Level	Method of valuation	Significant unobservable inputs	Sensitivity of fair value to unobservable inputs
Unquoted share investment	Level 3	Market approach – Price to book value of comparable peer companies	Medium price to book value – liquidity discount	Positively correlated sensitivity
			Regulatory non-compliance adjustment	Positively correlated sensitivity

**20 INVESTMENT IN SUBSIDIARY**

	2020 LKR	2019 LKR
Unquoted equity investments	<b>6,163,100</b>	-
	<b>6,163,100</b>	-

## 20.1 VALUATION OF UNQUOTED EQUITY SECURITIES

Investment in Subsidiary includes the investment made by the Bank in Payment Services (Private) Limited, amounting to LKR 6,163,100/-. Payment Services (Private) Limited was the operator of Upay digital solution App prior to purchase of this App by Sanasa Development Bank PLC on 10 June 2019. With this acquisition, Payment Services (Private) Limited has become a fully owned subsidiary of Sanasa Development Bank PLC, with effect from 26 May 2020. Since this investment is immaterial, Bank does not prepare the consolidated Financial Statements.

## 21 PROPERTY, PLANT AND EQUIPMENT

2020	Land and buildings LKR	Leasehold properties LKR	Computer hardware LKR	Machinery and equipment LKR	Furniture and fittings LKR	Motor vehicles LKR	Total LKR
<b>Cost</b>							
Opening balance as at 1 January 2020	251,979,214	-	833,329,077	527,663,533	399,672,470	162,806,153	2,175,450,447
Additions	-	-	156,320,640	28,307,773	29,478,399	624,900	214,731,711
Disposals	-	-	(6,396,595)	(5,694,452)	(14,955,074)	(3,937,519)	(30,983,640)
<b>Closing balance as at 31 December 2020</b>	<b>251,979,214</b>	<b>-</b>	<b>983,253,122</b>	<b>550,276,854</b>	<b>414,195,794</b>	<b>159,493,534</b>	<b>2,359,198,519</b>
<b>Less: Accumulated depreciation</b>							
Opening balance as at 1 January 2020	35,470,471	-	679,183,494	432,520,517	258,215,416	124,829,105	1,530,219,002
Charge for the year	1,804,029	-	87,767,502	39,069,904	53,648,060	15,318,959	197,608,455
Disposals	-	-	(7,176,713)	(5,249,347)	(13,959,908)	(3,937,513)	(30,323,481)
<b>Closing balance as at 31 December 2020</b>	<b>37,274,500</b>	<b>-</b>	<b>759,774,284</b>	<b>466,341,075</b>	<b>297,903,568</b>	<b>136,210,551</b>	<b>1,697,503,977</b>
<b>2019</b>							
	Land and buildings LKR	Leasehold properties LKR	Computer hardware LKR	Machinery and equipment LKR	Furniture and fittings LKR	Motor vehicles LKR	Total LKR
<b>Cost</b>							
Opening balance as at 1 January 2019	251,979,214	590,000	770,392,814	502,015,293	375,412,047	155,821,731	2,056,211,099
Additions	-	-	70,837,633	33,733,536	42,058,542	25,015,227	171,644,938
Disposals	-	(590,000)	(7,901,370)	(8,085,296)	(17,798,119)	(18,030,805)	(52,405,590)
<b>Closing balance as at 31 December 2019</b>	<b>251,979,214</b>	<b>-</b>	<b>833,329,077</b>	<b>527,663,533</b>	<b>399,672,470</b>	<b>162,806,153</b>	<b>2,175,450,447</b>
<b>Less: Accumulated depreciation</b>							
Opening balance as at 1 January 2019	31,597,097	590,000	578,596,828	394,948,782	222,178,506	123,561,393	1,351,472,606
Charge for the year	3,873,373	-	108,488,036	44,865,376	53,138,582	18,373,979	228,739,345
Disposals	-	(590,000)	(7,901,370)	(7,293,641)	(17,101,672)	(17,106,267)	(49,992,949)
<b>Closing balance as at 31 December 2019</b>	<b>35,470,471</b>	<b>-</b>	<b>679,183,494</b>	<b>432,520,517</b>	<b>258,215,416</b>	<b>124,829,105</b>	<b>1,530,219,002</b>
	Land and buildings LKR	Leasehold properties LKR	Computer hardware LKR	Machinery and equipment LKR	Furniture and fittings LKR	Motor vehicles LKR	Total LKR
Net book value as at 31 December 2020	214,704,713	-	223,478,838	83,935,780	116,292,227	23,282,983	661,694,541
Net book value as at 31 December 2019	216,508,744	-	154,145,583	95,143,016	141,457,054	37,977,048	645,231,444



For the year ended 31 December

## 21.1 FREEHOLD LAND AND BUILDINGS

The details of the Land and Buildings owned by the Bank are as follows:

Location/Address	Extent		As at 31 December 2020		As at 31 December 2019	
			Cost		Cost	
	Land (Purchase)	Building (Square feet)	Land LKR	Building LKR	Land LKR	Building LKR
No. 14, Edmonton Road, Kirulapone	17.85	–	38,999,000	–	38,999,000	–
No. 12/01, Edmonton Road, Kirulapone	18.05	–	46,799,000	–	46,799,000	–
A1, SANASA Housing Project, Toppass, Nuwara Eliya	14	1,200	400,000	2,100,000	400,000	2,100,000
No. 145, Rathnapura Road, Horana	13	5,956	20,539,000	6,500,000	20,539,000	6,500,000
No. 63A, Matara Road, Akuressa	14	3,728	14,423,820	8,975,180	14,423,820	8,975,180
No. 255, Sunnysaid Garden, Karapitiya	18.50	5,992	9,250,000	20,833,360	9,250,000	20,833,360
No. 342, Main Street, Kegalle	13.25	5,580	34,760,400	14,118,600	34,760,400	14,118,600
No. 6/176, Walauwatta, Kegalle	20	–	16,639,000	–	16,639,000	–
No. 5/176, Walauwatta, Kegalle	12	1,334	8,400,000	1,250,000	8,400,000	1,250,000
SANASA Campus Ltd, Paragammana, Hettimulla, Kegalle	320	2,600	1,002,912	4,568,824	1,002,912	4,568,824
60/65, Sahasapura Scheme, Baseline Mawatha, Borella	–	1,006	–	2,420,118	–	2,420,118
			<b>191,213,132</b>	<b>60,766,082</b>	191,213,132	60,766,082

**21.2** During the financial year, the Bank acquired property, plant and equipment to the aggregate value of LKR 214,731,711/- (2019 – LKR 171,644,938/-). Cash payments amounting to LKR 214,731,711/- (2019 – LKR 171,644,938/-) were made during the year for purchase of property, plant and equipment.

**21.3** Property, plant and equipment includes fully depreciated assets having a gross carrying amounts of LKR 1,489,104,298.04/- (2019 – LKR 1,267,939,427/-)

**21.4** There were no restrictions on the title of the property, plant and equipment as at 31 December 2020.

**21.5** There were no idle property, plant and equipment as at 31 December 2020.

## 22 RIGHT OF USE ASSETS

	2020 LKR	2019 LKR
<b>Cost</b>		
Opening balance as at 1 January /Day 1 impact from the adoption of SLFRS 16	833,527,720	585,725,102
Additions and improvements during the year	227,306,162	247,802,618
Closing balance as at 31 December	1,060,833,882	833,527,720
<b>Less: Accumulated amortisation</b>		
Opening balance as at 1 January	182,256,972	–
Amortisation expenses for the year	188,930,704	182,256,972
Closing balance as at 31 December	371,187,676	182,256,972
<b>Net book value as at 31 December</b>	<b>689,646,206</b>	<b>651,270,748</b>

## 23 INVESTMENT PROPERTIES

	2020 LKR	2019 LKR
<b>Cost</b>		
Opening balance as at 1 January	35,359,000	35,359,000
Additions	-	-
Closing balance as at 31 December	35,359,000	35,359,000
<b>Less: Accumulated depreciation</b>		
Opening balance as at 1 January	14,080,400	13,024,370
Charge for the year	1,056,030	1,056,030
Closing balance as at 31 December	15,136,430	14,080,400
<b>Net book value as at 31 December</b>	<b>20,222,570</b>	<b>21,278,600</b>

### 23.1 THE DETAILS OF THE INVESTMENT PROPERTIES OWNED BY THE BANK ARE AS FOLLOWS:

Location/Address	Extent		31 December 2020 Cost		31 December 2019 Cost	
	Land (Purchase)	Building (Square feet)	Land LKR	Building LKR	Land LKR	Building LKR
No. 6 A/176, Walauwatta, Kegalle	28	8,233.5	14,238,400	21,120,600	14,238,400	21,120,600
			14,238,400	21,120,600	14,238,400	21,120,600

**23.2** There were no direct operating expenses arising from investment property that generated retain income and that did not generate material rental income.

**23.3** Assets classified as investment properties include land and building located in Kegalle. Market value (Level 3) of the above asset is LKR 68,861,600/-. Valuation was carried out by H A V S Indrajith independent Professional Valuer on 8 July 2020. Market comparable method is used for value the property and rate per perch is LKR 1,000,000/-.

## 24 INTANGIBLE ASSETS

	2020 LKR	2019 LKR
<b>Cost</b>		
Opening balance as at 1 January	535,786,769	211,929,704
Additions	153,652,601	323,857,065
Closing balance as at 31 December	689,439,370	535,786,769
<b>Less: Accumulated amortisation</b>		
Opening balance as at 1 January	227,342,228	208,201,979
Charge for the year	66,973,809	19,140,249
Closing balance as at 31 December	294,316,037	227,342,228
<b>Net book value as at 31 December</b>	<b>395,123,333</b>	<b>308,444,541</b>

**24.1** There were no idle Intangible assets as at 31 December 2020.

**24.2** There were no restrictions on the title of the intangible assets as at 31 December 2020.

**25 OTHER ASSETS**

	2020 LKR	2019 LKR
Postage legal and other charges receivable	83,460,055	74,976,255
Prepaid staff cost	821,576,375	718,181,850
Deposits, prepayments and other receivables	982,002,736	586,153,879
Inventory	139,947,910	81,211,838
<b>Total</b>	<b>2,026,987,076</b>	<b>1,460,523,822</b>

**26 DUE TO OTHER CUSTOMERS**

	2020 LKR	2019 LKR
Total amount due to other customers	93,271,727,185	72,431,923,465
<b>Total</b>	<b>93,271,727,185</b>	<b>72,431,923,465</b>

**26.1 ANALYSIS OF DUE TO OTHER CUSTOMERS**

	2020 LKR	2019 LKR
<b>By product</b>		
Savings deposits	21,159,867,045	15,540,255,346
Fixed deposits	72,111,860,140	56,891,668,119
<b>Total</b>	<b>93,271,727,185</b>	<b>72,431,923,465</b>
	2020 LKR	2019 LKR
<b>By currency</b>		
Sri Lanka Rupee	93,271,727,185	72,431,923,465
<b>Total</b>	<b>93,271,727,185</b>	<b>72,431,923,465</b>

**27 OTHER BORROWINGS**

	Note	2020 LKR	2019 LKR
Money market borrowings	27.1	751,685,519	–
Term loan	27.2	13,827,169,416	16,735,146,458
Securitised borrowings	27.3	752,415,249	1,322,982,880
Refinance borrowing	27.4	2,759,229,790	2,241,588,630
<b>Total</b>		<b>18,090,499,974</b>	<b>20,299,717,968</b>

**27.1 MONEY MARKET BORROWINGS**

	2020 LKR	2019 LKR
National Development Bank PLC	250,854,918	–
Sampath Bank PLC	500,830,601	–
	<b>751,685,519</b>	<b>–</b>

**27.2 DETAILS OF TERM LOANS**

Institution	Fixed/ Floating	Tenure (Months)	2020 LKR	2019 LKR
National Savings Bank	Floating	48	–	207,769,764
National Savings Bank	Floating	48	832,400,000	1,332,800,000
Sampath Bank PLC	Floating	60	–	58,409,645
Sampath Bank PLC	Floating	60	–	58,409,645
Sampath Bank PLC	Floating	60	100,096,320	200,375,404
Sampath Bank PLC	Floating	60	116,785,715	217,076,694
Sampath Bank PLC	Floating	60	1,468,489,180	1,870,318,174
Seylan Bank PLC	Floating	48	281,688,026	407,168,242
Seylan Bank PLC	Floating	60	411,289,537	617,216,681
Seylan Bank PLC	Floating	48	554,086,580	810,352,488
Seylan Bank PLC	Floating	60	800,617,196	1,003,945,205
Seylan Bank PLC	Floating	60	400,428,751	501,972,603
Seylan Bank PLC	Floating	36	751,170,126	–
Seylan Bank PLC	Fixed	31	1,004,207,650	–
Seylan Bank PLC	Fixed	34	500,075,137	–
DFCC Bank	Floating	48	198,094,025	323,578,596
DFCC Bank	Floating	48	239,637,002	364,832,444
Peoples Bank	Floating	60	–	357,154,938
Peoples Bank	Floating	3	–	504,238,356
Peoples Bank	Floating	3	–	500,160,137
Peoples Bank	Fixed	90	1,000,414,208	–
MCB Bank Ltd	Floating	60	41,258,397	91,379,307
HNB Bank PLC	Floating	48	62,739,268	313,329,431
HNB Bank PLC	Floating	48	719,032,787	1,094,441,610
NDB Bank PLC	Fixed	1	–	150,749,589
NDB Bank PLC	Fixed	1	–	301,499,178
NDB Bank PLC	Fixed	1	–	150,562,192
NDB Bank PLC	Fixed	1	–	100,374,795
NDB Bank PLC	Fixed	1	–	300,090,411
Bank of Ceylon	Floating	60	1,113,153,928	1,403,234,192
Nations Trust Bank PLC	Floating	48	688,880,007	940,066,488
Cargill's Bank	Floating	90	801,040,437	–
The International Finance Corporation (IFC)	Fixed	60	1,343,174,011	1,889,186,294
The Netherlands Development Finance Company (FMO)	Floating	52	398,411,132	664,453,956
			<b>13,827,169,416</b>	<b>16,735,146,458</b>

**27.2.1 MOVEMENT IN TERM LOANS**

	Opening balance as at 1 January 2020 LKR	Obtained during year LKR	Repayment LKR	Closing balance as at 31 December 2020 LKR
National Savings Bank	1,540,500,000	–	(708,100,000)	832,400,000
Sampath Bank PLC	2,399,882,667	–	(716,612,000)	1,683,270,667
Seylan Bank PLC	3,330,625,006	3,500,000,000	(2,135,972,992)	4,694,652,014
Peoples Bank	1,355,248,857	2,000,000,000	(2,355,248,858)	999,999,999
MCB Bank Ltd	91,350,000	–	(50,100,000)	41,250,000
HNB Bank PLC	1,406,360,000	–	(624,960,000)	781,400,000
NDB Bank PLC	1,000,000,000	6,600,000,000	(7,600,000,000)	–
DFCC Bank	687,499,990	–	(250,000,008)	437,499,982
Bank of Ceylon	1,400,000,000	–	(288,000,000)	1,112,000,000
Nations Trust Bank	937,498,000	–	(250,008,000)	687,490,000
Cargill's Bank	–	800,000,000	–	800,000,000
FMO	661,093,398	–	(264,437,359)	396,656,039
IFC	1,813,000,005	–	(517,999,995)	1,295,000,010
Interest Payable	112,088,534	–	–	65,550,705
	<b>16,735,146,458</b>	<b>12,900,000,000</b>	<b>(15,761,439,212)</b>	<b>13,827,169,416</b>

**27.3 SECURITISED BORROWINGS**

	2020 LKR	2019 LKR
Trust 2	–	373,969,439
Trust 3	752,415,249	949,013,441
<b>Total</b>	<b>752,415,249</b>	<b>1,322,982,880</b>

**27.4 REFINANCE BORROWINGS**

	2020 LKR	2019 LKR
SANASA Federation (Refinance of <i>Athwela</i> Loans)	54,200,000	54,200,000
Central Bank of Sri Lanka ( <i>Susahana</i> )	80,827	80,827
Asian Development Bank ( <i>Dasuna</i> )	19,658	19,658
Borrowings under Refinance of <i>Jayatha</i>	296,114,047	475,435,470
Borrowing under <i>Awakaning North</i>	–	145,825
Borrowing under <i>Saubagya</i>	970,783,726	1,231,893,619
Borrowing under SPENDP	–	72,000
Borrowing – Refinance Smile III	422,652,400	439,890,700
Borrowing – Refinance Sepi	1,200,000	1,900,000
Borrowing – <i>Suwashakthi</i> Loan	10,913,251	2,616,328
Borrowing – <i>Athwela</i> (READ)	8,495,001	21,118,334
Borrowing – <i>Kapruka Ayojana</i>	15,349,335	14,215,870
Borrowing – SAPP 4P Youth Loan	22,739,170	–
Borrowing – <i>Saubagya</i> COVID-19	918,051,417	–
Borrowing – SAPP RF Income Loan	3,108,337	–
Borrowing – SAPP 4P Agri Loan	35,522,621	–
	<b>2,759,229,790</b>	<b>2,241,588,630</b>

**27.4.1 MATURITY ANALYSIS OF REFINANCE BORROWINGS**

	2020 LKR	2019 LKR
Due within one year	1,299,259,312	845,552,922
1-5 years	1,455,234,378	1,377,200,599
After 5 years	4,736,100	18,705,800
	<b>2,759,229,790</b>	<b>2,241,459,321</b>

**27.5 SECURITIES AND TERMS OF BORROWINGS**

Interest rate ranging for above borrowings 0% to 12.40% per annum.

Bank has pledged from the lease portfolio sum of LKR 974,849,643/- (2019 – LKR 1,222,145,124/-) for the securitised borrowings.

Bank has pledged from the loan portfolio sum of LKR 4,700,438,624/- (2019 – LKR 5,571,629,344/-) for other borrowings.

**28 DEBT SECURITY ISSUED**

	2020 LKR	2019 LKR
Debentures	1,013,899,072	1,014,034,248
<b>Total</b>	<b>1,013,899,072</b>	<b>1,014,034,248</b>

**28.1 TYPES OF DEBENTURES (FIXED)**

(i) Rated Guaranteed Redeemable Debentures of LKR 100 each – Guaranteed by Sampath Bank PLC. The debentures are quoted on the Colombo Stock Exchange. (Rated (SL)A+ (SO) with a Stable Outlook by ICRA Lanka Limited)

Type	Interest payable frequency	Issue date	Maturity date	Annual effective rate (AER) %	Face value LKR	Interest payable LKR	Balance LKR
B	Semi Annually	31 December 2015	31 December 2020	10.25	402,610,000	20,240,503	422,850,503

(ii) Rated Guaranteed Redeemable Debentures of LKR 100 each – Guaranteed by Seylan Bank PLC. The debentures are quoted on the Colombo Stock Exchange. (Rated (SL)A- (SO) with a Stable Outlook by ICRA Lanka Limited)

Type	Interest payable frequency	Issue date	Maturity date	Annual effective rate (AER) %	Face value LKR	Interest payable LKR	Balance LKR
D	Semi Annually	31 December 2015	31 December 2020	10.57	561,950,000	29,098,569	591,048,569
					964,560,000	49,339,072	1,013,899,072

\*The debenture value presented in this financial statements was matured and fully paid off on 3 January 2021. The total payment amount was LKR 1,013,899,072/-

**29 SUBORDINATED TERM DEBTS**

	2020 LKR	2019 LKR
Subordinated term debts	4,052,630,214	4,210,565,525
<b>Total</b>	<b>4,052,630,214</b>	<b>4,210,565,525</b>

**29.1 DETAILS OF SUBORDINATED TERM DEBTS**

Investor	Tenor/Repayment	Interest Rate	2020 LKR	2019 LKR
FMO	Repayment or conversion after 66 months	6-month T-bill rate + 550 basis points Payable per annum	103,911,945	316,124,625
SBI-FMO	Repayment or conversion after 66 months	6-month T-bill rate + 450 basis points Payable per annum	700,083,977	705,239,278
DGGF	Repayment or conversion after 60 months	6-month T-bill rate+700 basis points Payable per annum	1,766,631,730	1,768,988,516
BIO	Repayment or conversion after 60 months	6-month LIBOR + 550 basis points Payable per annum	1,522,742,899	1,453,890,011
Less: Initial transaction cost			(40,740,336)	(33,676,905)
<b>Total</b>			<b>4,052,630,214</b>	<b>4,210,565,525</b>

**30 RETIREMENT BENEFIT OBLIGATION****30.1 DEFINED BENEFIT LIABILITY**

	2020 LKR	2019 LKR
Defined benefit liability (Note 30.1.1)	571,382,319	479,575,300
<b>Total</b>	<b>571,382,319</b>	<b>479,575,300</b>

**30.1.1 MOVEMENT IN DEFINED BENEFIT OBLIGATION**

	2020 LKR	2019 LKR
Opening balance as at 1 January	479,575,300	354,854,450
Net benefit expense (Note 30.1.2)	101,737,729	133,715,592
Benefit paid	(9,930,710)	(8,994,741)
<b>Closing balance as at 31 December</b>	<b>571,382,319</b>	<b>479,575,300</b>

**30.1.2 NET BENEFIT EXPENSE**

	2020 LKR	2019 LKR
Interest cost	49,156,468	43,647,097
Current service cost	50,726,270	48,480,714
	99,882,738	92,127,811
<b>Amounts recognised in the other comprehensive income</b>		
Actuarial gain/(loss) on obligations	1,854,991	41,587,781
<b>Total expense for the year</b>	<b>101,737,729</b>	<b>133,715,592</b>

For the year ended 31 December

### 30.1.3 THE PRINCIPAL FINANCIAL ASSUMPTIONS USED ARE AS FOLLOWS:

Messrs. Piyal S Goonetilleke Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity on 31 December 2020. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

	2020	2019
Long term interest rate (%)	7.90	10.25
Future salary increase rate (%)	5.90	7.75
Retirement age (years)	55	55

Mortality – GA 1983 Mortality Table issued by the Institute of Actuaries London. The weighted average duration of the defined benefit plan obligation at the end of the reporting period is 8.9 years.

### 30.2 SENSITIVITY ANALYSIS ON DISCOUNTING RATE AND SALARY INCREMENT RATE TO STATEMENT OF FINANCIAL POSITION AND COMPREHENSIVE INCOME

Assumption	Rate change	2020		2019	
		Impact to financial position-increment/(reduction) of liability	Impact to Comprehensive Income-Charged/(reversal)	Impact to financial position increment/(reduction) of liability	Impact to comprehensive income-charged/(reversal)
Discount rate	1+	(42,970,663)	(42,970,663)	(35,226,669)	(35,226,669)
Discount rate	1-	49,433,619	49,433,619	40,392,239	40,392,239
Salary increment rate	1+	48,274,568	48,274,568	39,697,560	39,697,560
Salary increment rate	1-	(42,740,293)	(42,740,293)	(35,236,014)	(35,236,014)

### 30.3 THE EXPECTED BENEFIT PAYOUT IN THE FUTURE YEARS OF RETIREMENT GRATUITY

	2020 LKR	2019 LKR
Within next 12 months	51,215,732	44,481,682
Between 2 and 5 years	280,212,360	342,084,695
Beyond 5 years	413,682,631	350,405,795

## 31 OTHER LIABILITY

	2020 LKR	2019 LKR
Special purpose project funds	399,455,755	405,698,608
Lease liability (Note 31.1)	654,139,519	591,658,015
Accruals and other payables	815,599,326	494,402,117
<b>Total</b>	<b>1,869,194,600</b>	<b>1,491,758,740</b>

### 31.1 MOVEMENT IN LEASE LIABILITIES

	2020 LKR	2019 LKR
Opening balance as at 1 January/Effect of adoption of SLFRS 16 as at 1 January	591,658,015	472,702,962
Additions	199,964,762	239,253,218
Accretion of interest	70,803,354	43,244,491
Payments during the year	(208,286,613)	(163,542,656)
<b>Closing balance as at 31 December</b>	<b>654,139,519</b>	<b>591,658,015</b>



For the year ended 31 December

### 31.2 MATURITY ANALYSIS OF LEASE LIABILITIES

	2020 LKR	2019 LKR
Less than 1 year	71,920,305	9,731,499
Between 1 and 5 years	322,912,470	345,051,391
More than 5 years	259,306,744	236,875,125
<b>Total lease liabilities as at 31 December</b>	<b>654,139,519</b>	<b>591,658,015</b>

### 32 STATED CAPITAL

	2020 LKR	2019 LKR
Ordinary shares – Issued and fully paid	7,727,941,021	5,921,538,126
<b>Total</b>	<b>7,727,941,021</b>	<b>5,921,538,126</b>

#### 32.1 DETAILS OF ORDINARY SHARES ISSUED AND FULLY PAID

	Value		Number of shares	
	2020 LKR	2019 LKR	2020 LKR	2019 LKR
Balance as at 1 January	5,921,538,126	5,921,538,126	56,308,252	56,308,252
Rights issue	1,526,267,201	–	30,525,344	–
Scrip dividend	280,135,695	–	4,742,436	–
<b>Balance as at 31 December</b>	<b>7,727,941,022</b>	<b>5,921,538,126</b>	<b>91,576,032</b>	<b>56,308,252</b>

#### RIGHTS ISSUE

30,525,344 ordinary shares of the Bank had been listed/allotted w.e.f. 4 December 2020, pursuant to the Rights issue 2020 in the proportion of 1: 2 at the consideration of LKR 50/-.

#### SCRIP DIVIDEND

4,742,436 ordinary shares of the Bank had been listed w.e.f. 27 July 2020, pursuant to a Scrip dividend 2019 in the proportion of 1: 11.8140022617.

### 33 STATUTORY RESERVE FUND

	2020 LKR	2019 LKR
Opening balance as at 1 January	228,281,724	215,611,469
Transfer during the period	41,727,392	12,670,255
<b>Closing balance as at 31 December</b>	<b>270,009,115</b>	<b>228,281,724</b>

## 34 RETAINED EARNINGS

	2020 LKR	2019 LKR
Opening balance as at 1 January	1,491,553,906	1,280,762,267
Profit for the year	834,951,754	223,461,894
Transfers to other reserves	(41,727,392)	(12,670,255)
Scrip dividend	(280,135,695)	-
Cash dividend	(114,022,069)	-
<b>Closing balance as at 31 December</b>	<b>1,890,620,504</b>	<b>1,491,553,906</b>
<b>Dividend per share</b>	<b>-</b>	<b>7.00</b>

## 35 OTHER RESERVES

2020	Opening balance as at 1 January 2020 LKR	Movement/ transfers LKR	Closing balance as at 31 December 2020 LKR
General reserve	46,656,973	-	46,656,973
Available for sale/fair value through OCI reserve	(19,051,624)	-	(19,051,624)
<b>Total</b>	<b>27,605,349</b>	<b>-</b>	<b>27,605,349</b>
2019	Opening balance as at 1 January 2019 LKR	Movement/ transfers LKR	Closing balance as at 31 December 2019 LKR
General reserve	46,656,973	-	46,656,973
Available-for-sale/fair value through OCI reserve	(15,842,090)	(3,209,534)	(19,051,624)
<b>Total</b>	<b>30,814,883</b>	<b>(3,209,534)</b>	<b>27,605,349</b>

## 36 CONTINGENT LIABILITIES AND COMMITMENTS

### 36.1 BANK GUARANTEES

	2020 LKR	2019 LKR
Bank guarantees	194,553,577	177,752,357
<b>Total</b>	<b>194,553,577</b>	<b>177,752,357</b>

### 36.2 LITIGATION AGAINST THE BANK

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At the year end, the Bank had several unresolved legal claims.

Following cases are filed against the Bank:

Legal status	Case numbers
<b>1. Cases filed against the Bank with respect to mortgaged property and title of property</b>	
– District courts	L 17/11, DMR 496/15, M/10238, MB/1935 6940/P, 218/L, 7628/T DMB/0124/08, L/528, 371/L
<b>2. Cases filed against the Bank to restraining the payment of Bank Guarantee Bonds</b>	
– District Court	2440/M
<b>3. Appeals filed by the customers against the court orders delivered favour to Bank</b>	
– District Court	DMB/005/16
– High Court Civil Appeal	HCCA/82/2017 (F)
<b>4. Cases filed by customers to obtain injunction orders to restraining the auction of property mortgaged</b>	
– Commercial High Court	CHC/629/19/MR
– Supreme Court	CHC/955/18
<b>5. Cases filed against the Bank over the repossession of vehicles</b>	
– District Court	SPL/2321
<b>6. Cases filed against the Bank over the loan facilities to claiming right for the ceased assets by the guarantors</b>	
– District Court	207/CL, 31/18 CL, 17615/M/17 17613/M/17, 13/17/CL, 53/CL 551/CL, 552/CL, 553/CL
<b>7. Cases filed against the Bank by the employees and former Directors</b>	
– District Court	DMR/4015/17, 6495/SPL
– Labour Tribunal	LT/BT/344/2017 LT/JF/163/2020, LT/13/61/2020
<b>8. Cases filed against the Bank by other parties</b>	
– District Court	M/10933/20, M/10972/20

Other than those disclosed above there are no cases filed against the Bank which would have material impact on the financial position of the Bank.

### 37 EVENTS OCCURRING AFTER THE REPORTING DATE

There are no material events after the reporting date that require adjustments to or disclosure in the Financial Statements.

### 38 RELATED PARTY DISCLOSURE

The Bank carries out transaction in the ordinary course of business with the parties who are defined as related parties in the Sri Lanka Accounting Standard – LKAS 24 on “Related Party Disclosures”, the details of which are reported below: The Bank carries out transactions in the ordinary course of business on an arm’s length basis at commercial rates with related parties who are defined as LKAS 24 “Related Party Disclosures”.

#### 38.1 TRANSACTIONS WITH OTHER RELATED PARTIES

According to the LKAS 24, FMO consider as a related party (Significant investor) and all transaction with FMO are given below:

	2020 LKR	2019 LKR
Interest and capital repayment	649,117,778	526,112,499
Reimbursement of expenses	5,663,516	889,181

### 38.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL (KMP)

Key management personnel include: the Chairman, the Board of Directors, and Chief Executive Officer, Deputy Chief Executive Officer of the Bank. Transactions with close family members of key management personnel are also taken into account in the transactions with key management personnel. The Same term, including interest/commission rates and security, as for comparable transaction with person of a similar standing or, where applicable, with the employees. The transaction did not involve more than the normal risk of repayment or present other unfavorable features.

#### 38.2.1 KEY MANAGEMENT PERSONNEL COMPENSATION

	2020 LKR	2019 LKR
Short-term employee benefits	63,519,749	50,627,995
Post employment benefits	-	2,100,000

#### 38.2.2 OTHER TRANSACTIONS (LOANS AND RECEIVABLES) WITH KEY MANAGEMENT PERSONNEL – BALANCE OUTSTANDING

	2020 LKR	2019 LKR
Granting	749,000	-
Repayments	(105,955)	(427,240)
<b>Closing balance as at 31 December*</b>	-	1,601,943
Interest income	89,519	253,941

\* Chairperson and Deputy Chief Executive Officer resigned on 22 May 2020 and 05 December 2020 respectively.

#### 38.2.3 DEPOSITS AND INVESTMENT FROM KEY MANAGEMENT PERSONNEL – BALANCE OUTSTANDING

	2020 LKR	2019 LKR
Deposits accepted and renewed during the period	63,662,770	39,587,156
Balance as at 31 December	16,406,022	16,630,438
Interest expenses	492,435	349,401

#### 38.2.4 OTHER PAYMENT TO KEY MANAGEMENT PERSONNEL

	2020 LKR	2019 LKR
Cash dividend	458,601	-

#### 38.2.5 SHAREHOLDINGS BY KEY MANAGEMENT PERSONNEL

	2020 Number	2019 Number
Number of shares held by KMP	377,111	199,450

#### 38.2.6 TERMS AND CONDITIONS OF TRANSACTION WITH RELATED PARTIES

All related party transaction are carried out in the normal course of business and transacted at normal business terms. Transaction from related parties are made on terms equivalent to those that prevail in arm's length transaction and comparable with those that would have been charged from unrelated companies. All related party outstanding balances at the year – end are secured and are to be settled in cash.

### 39 ASSETS PLEDGED

Bank has pledged from the lease portfolio sum of LKR 974,849,643/- (2019 – LKR 1,222,145,124/-) for the securitised borrowings.

Bank has pledged from the loan portfolio sum of LKR 4,700,438,624/- (2019 – LKR 5,571,629,344/-) for other borrowings.

## 40 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 December 2020	Amortised cost LKR	FVTPL LKR	FVTOCI LKR	Total LKR
<b>Financial assets</b>				
Cash and cash equivalents	9,640,915,936	–	–	9,640,915,936
Placements with banks	2,823,628,452	–	–	2,823,628,452
Financial assets at fair value through profit or loss	–	4,600,457,930	–	4,600,457,930
<b>Financial assets at amortised cost</b>				
– Loans and receivables to other customers	102,662,268,716	–	–	102,662,268,716
– Debt and other instruments	5,244,005,218	–	–	5,244,005,218
Financial assets measured at fair value through other comprehensive income	–	–	56,938,514	56,938,514
<b>Total financial assets</b>	<b>120,370,818,323</b>	<b>4,600,457,930</b>	<b>56,938,514</b>	<b>125,028,214,767</b>
<b>Financial liabilities</b>				
Due to other customers	93,271,727,185	–	–	93,271,727,185
Other borrowings	18,090,499,974	–	–	18,090,499,974
Debt securities issued	1,013,899,072	–	–	1,013,899,072
Subordinated term debts	4,052,630,214	–	–	4,052,630,214
<b>Total financial liabilities</b>	<b>116,428,756,446</b>	<b>–</b>	<b>–</b>	<b>116,428,756,446</b>

As at 31 December 2019	Amortised cost LKR	FVTPL LKR	FVTOCI LKR	Total LKR
<b>Financial assets</b>				
Cash and cash equivalents	2,429,790,570	–	–	2,429,790,570
Placements with banks	5,628,094,545	–	–	5,628,094,545
Financial assets at fair value through profit or loss	–	3,527,310,141	–	3,527,310,141
<b>Financial assets at amortised cost</b>				
– Loans and receivables to other customers	85,823,334,862	–	–	85,823,334,862
– Debt and other instruments	6,998,924,881	–	–	6,998,924,881
Financial assets measured at fair value through other comprehensive income	–	–	56,938,514	56,938,514
<b>Total financial assets</b>	<b>100,880,144,858</b>	<b>3,527,310,141</b>	<b>56,938,514</b>	<b>104,464,393,512</b>
<b>Financial liabilities</b>				
Due to other customers	72,431,923,465	–	–	72,431,923,465
Other borrowings	20,299,717,968	–	–	20,299,717,968
Debt securities issued	1,014,034,248	–	–	1,014,034,248
Subordinated term debts	4,210,565,525	–	–	4,210,565,525
<b>Total financial liabilities</b>	<b>97,956,241,206</b>	<b>–</b>	<b>–</b>	<b>97,956,241,206</b>

## 41 FAIR VALUE OF FINANCIAL INSTRUMENTS

### 41.1 FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE

The following is a description of how fair values are determined for financial instrument that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumption that a market participant would make when valuing the instrument.

## FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (OCI)

Fair value through OCI valued using valuation techniques or pricing models primary consist of unquoted.

## FAIR VALUE THROUGH PROFIT AND LOSS (FVTPL)

Quoted equities, Sri Lanka Government securities (Treasury bills and bonds) and unit trust are included in financial assets fair value through profit or loss. Government securities are measured using average yield published by Central Bank of Sri Lanka. Quoted equities are valued using market price in active markets as at the reporting date. Unit trusts are measured using market price in markets that are not active.

### 41.2 DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1 : Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 : Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3 : Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

#### 41.2.1 ANALYSIS OF FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE BY LEVEL OF FAIR VALUE HIERARCHY

	As at 31 December 2020			
	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR
<b>Financial assets fair value through profit or loss</b>				
Sri Lanka Government securities – Treasury bonds	–	7,628,946	–	7,628,946
Unit trusts	–	4,586,196,193	–	4,586,196,193
Quoted equities	6,632,792	–	–	6,632,792
<b>Fair value through other comprehensive income</b>				
Unquoted equity securities	–	–	56,938,514	56,938,514
<b>Total</b>	<b>6,632,792</b>	<b>4,593,825,138</b>	<b>56,938,514</b>	<b>4,657,396,444</b>

	As at 31 December 2019			
	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR
<b>Financial assets fair value through profit or loss</b>				
Sri Lanka Government securities – Treasury bonds	–	46,519,350	–	46,519,350
Unit trusts	–	3,480,790,791	–	3,480,790,791
<b>Fair value through other comprehensive income</b>				
Unquoted equity securities	–	–	56,938,514	56,938,514
<b>Total</b>	<b>–</b>	<b>3,527,310,141</b>	<b>56,938,514</b>	<b>3,584,248,655</b>

The following table shows the total gains/(losses) recognised in profit or loss during the year relating to assets and liabilities held at the year end.

	2020 LKR	2019 LKR
<b>Net gain/(loss) from trading</b>	<b>5,228,460</b>	<b>1,264,727</b>
<b>Net fair value gain/(loss) of financial assets at fair value through profit or loss</b>		
Sri Lanka Government securities – Treasury bonds	12,304	(58,050)
Unit trusts	268,514,699	114,947,499
Quoted equities	182,633	–
<b>Total gain/(loss)</b>	<b>273,938,096</b>	<b>116,154,176</b>

### 41.3 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES NOT CARRIED AT FAIR VALUE

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	Level	As at 31 December 2020	
		Carrying Value LKR	Fair Value LKR
<b>Financial assets</b>			
Cash and cash equivalents	Note*	9,640,915,936	9,640,915,936
Placements with banks	Note*	2,823,628,452	2,823,628,452
<b>Financial assets at amortised cost</b>			
– Loans and receivables to other customers	2	102,662,268,716	105,094,237,121
– Debt and other instruments	Note*	5,244,005,218	5,244,005,218
<b>Total financial assets</b>		<b>120,370,818,323</b>	<b>122,802,786,727</b>
<b>Financial liabilities</b>			
Due to other customers	2	93,271,727,185	87,925,863,557
Other borrowings	2	18,090,499,974	19,001,914,274
Debt securities issued	Note*	1,013,899,072	1,013,899,072
Subordinated term debts	Note*	4,052,630,214	4,052,630,214
<b>Total financial liabilities</b>		<b>116,428,756,446</b>	<b>111,994,307,118</b>
<b>As at 31 December 2019</b>			
	Level	Carrying value LKR	Fair value LKR
<b>Financial assets</b>			
Cash and cash equivalents	Note*	2,429,790,570	2,429,790,570
Placements with banks	Note*	5,628,094,545	5,628,094,545
<b>Financial assets at amortised cost</b>			
– Loans and receivables to other customers	2	85,823,334,862	92,356,556,375
– Debt and other instruments	Note*	6,998,924,881	6,998,924,881
<b>Total financial assets</b>		<b>100,880,144,857</b>	<b>107,413,366,371</b>
<b>Financial liabilities</b>			
Due to other customers	2	72,431,923,465	66,969,704,982
Other borrowings	2	20,299,717,968	21,651,988,374
Debt securities issued	Note*	1,014,034,248	1,014,034,248
Subordinated term debts	Note*	4,210,565,525	4,210,565,525
<b>Total financial liabilities</b>		<b>97,956,241,206</b>	<b>93,846,293,129</b>

Note\*

#### **Fair value of financial assets and liabilities not carried at fair value**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements:

#### **Assets for which fair value approximates carrying value**

For financial assets and financial liabilities that have a short-term maturity (less than a year) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity. Loans and advances to customers with a variable rate are also considered to be carried at fair value.

#### **Fixed rate financial instruments**

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing interest rates of the Bank.

## 42 SEGMENT REPORTING

	As at 31 December 2020				
	Banking LKR	Leasing LKR	Treasury LKR	Pawning LKR	Total LKR
Interest income	12,942,523,491	1,252,832,925	956,610,333	290,036,054	15,442,002,803
Interest expenses	(7,447,209,106)	(710,337,562)	(962,713,617)	(194,316,120)	(9,314,576,405)
<b>Net interest income</b>	<b>5,495,314,385</b>	<b>542,495,363</b>	<b>(6,103,283)</b>	<b>95,719,934</b>	<b>6,127,426,398</b>
Fee and commission income	373,272,363	17,346,869	-	-	390,619,231
Fee and commission expenses	(13,085,938)	(1,248,177)	-	-	(14,334,115)
<b>Net fee and commission income</b>	<b>360,186,424</b>	<b>16,098,692</b>	<b>-</b>	<b>-</b>	<b>376,285,116</b>
Net gains/(losses) from trading	-	-	5,228,460	-	5,228,460
Net fair value gain/(loss) of financial assets at fair value through profit or loss	-	-	268,709,636	-	268,709,636
Net other operating income	54,907,102	-	320,000	-	55,227,102
<b>Total operating income</b>	<b>5,910,407,911</b>	<b>558,594,054</b>	<b>268,154,812</b>	<b>95,719,933</b>	<b>6,832,876,712</b>
Impairment for loans and other losses	(265,963,204)	(152,531,672)	(1,489,920)	2,946,291	(417,038,505)
<b>Net operating income</b>	<b>5,644,444,707</b>	<b>406,062,382</b>	<b>266,664,891</b>	<b>98,666,224</b>	<b>6,415,838,207</b>
Depreciation and amortisation expenses	(405,187,739)	(38,648,045)	(160,864)	(10,572,351)	(454,568,998)
<b>Segment result</b>	<b>5,239,256,968</b>	<b>367,414,338</b>	<b>266,504,028</b>	<b>88,093,873</b>	<b>5,961,269,209</b>
Un-allocated expenses					(3,977,311,856)
Value Added Tax (VAT) on financial services					(571,027,269)
<b>Profit before tax</b>					<b>1,412,930,083</b>
Tax expenses					(576,642,736)
<b>Profit for the year</b>					<b>836,287,347</b>
<b>Other comprehensive income</b>					
Other comprehensive income for the year net of tax					(1,335,594)
<b>Total comprehensive income for the year</b>					<b>834,951,754</b>
Segment assets	91,542,138,779	8,731,568,940	22,365,946,051	2,388,560,997	125,028,214,767
Un-allocated assets					4,031,509,351
<b>Total assets</b>	<b>91,542,138,779</b>	<b>8,731,568,940</b>	<b>22,365,946,051</b>	<b>2,388,560,997</b>	<b>129,059,724,118</b>
<b>Segment liabilities</b>	<b>87,233,551,545</b>	<b>8,320,602,723</b>	<b>21,313,254,570</b>	<b>2,276,139,291</b>	<b>119,143,548,129</b>
Total equity	-	-	-	-	9,916,175,990
<b>Total liabilities</b>	<b>87,233,551,545</b>	<b>8,320,602,723</b>	<b>21,313,254,570</b>	<b>2,276,139,291</b>	<b>129,059,724,118</b>
Addition to non-current assets	328,481,810	31,331,599	-	8,570,904	368,384,313



	As at 31 December 2019				
	Banking LKR	Leasing LKR	Treasury LKR	Pawning LKR	Total LKR
Interest income	12,509,868,962	1,090,964,365	1,239,351,727	239,138,751	15,079,323,806
Interest expenses	(6,977,189,168)	(573,254,531)	(1,674,257,285)	(157,827,936)	(9,382,528,920)
<b>Net interest income</b>	<b>5,532,679,794</b>	<b>517,709,835</b>	<b>(434,905,559)</b>	<b>81,310,816</b>	<b>5,696,794,886</b>
Fee and commission income	201,937,822	35,718,639	–	–	237,656,461
Fee and commission expenses	(6,012,622)	(494,004)	–	–	(6,506,626)
<b>Net fee and commission income</b>	<b>195,925,201</b>	<b>35,224,634</b>	<b>–</b>	<b>–</b>	<b>231,149,835</b>
Net gain/(loss) from trading			1,264,727		1,264,727
Net fair value gain/(loss) of financial assets at fair value through profit or loss	–	–	114,889,449	–	114,889,449
Net other operating income	90,727,985	–	240,800	–	90,968,785
<b>Total operating income</b>	<b>5,819,332,979</b>	<b>552,934,468</b>	<b>(318,510,583)</b>	<b>81,310,815</b>	<b>6,135,067,682</b>
Impairment for loans and other losses	(809,523,806)	(112,639,820)	4,594,178	135,942	(917,433,506)
<b>Net operating income</b>	<b>5,009,809,173</b>	<b>440,294,648</b>	<b>(313,916,405)</b>	<b>81,446,757</b>	<b>5,217,634,176</b>
Depreciation and amortisation expenses	(390,191,470)	(32,058,616)	(116,161)	(8,826,350)	(431,192,597)
<b>Segment result</b>	<b>4,619,617,703</b>	<b>408,236,032</b>	<b>(314,032,566)</b>	<b>72,620,405</b>	<b>4,786,441,579</b>
Un-allocated expenses					(3,536,420,975)
Value Added Tax (VAT) on financial services					(386,522,109)
Nation Building Tax (NBT) on financial services					(51,106,360)
Debt repayment levy					(226,564,695)
<b>Profit before tax</b>					<b>585,827,440</b>
Tax expenses					(332,422,344)
<b>Profit for the year</b>					<b>253,405,096</b>
<b>Other comprehensive income</b>					
Other comprehensive income for the year net of tax					(33,152,736)
<b>Total comprehensive income for the year</b>					<b>220,252,360</b>
Segment assets	77,683,515,936	6,382,574,185	18,641,058,651	1,757,244,741	104,464,393,513
Un-allocated assets					3,319,230,816
<b>Total assets</b>	<b>77,683,515,936</b>	<b>6,382,574,185</b>	<b>18,641,058,651</b>	<b>1,757,244,741</b>	<b>107,783,624,329</b>
Segment liabilities	74,448,885,176	6,116,812,903	17,864,871,567	1,684,075,578	100,114,645,224
Total equity	–	–	–	–	7,668,979,105
<b>Total liabilities</b>	<b>74,448,885,176</b>	<b>6,116,812,903</b>	<b>17,864,871,567</b>	<b>1,684,075,578</b>	<b>107,783,624,329</b>
Addition to non-current assets	448,506,665	36,849,865	–	10,145,473	495,502,003

## 43 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table shows an analysis of assets and liabilities according to when they are expected to be recovered or settled:

	As at 31 December 2020			As at 31 December 2019		
	Within 12 months LKR	After 12 months LKR	Total LKR	Within 12 months LKR	After 12 months LKR	Total LKR
<b>Assets</b>						
Cash and cash equivalents	9,640,915,936	-	9,640,915,936	2,429,790,570	-	2,429,790,570
Placements with banks	1,330,428,452	1,493,200,000	2,823,628,452	4,177,742,545	1,450,352,000	5,628,094,545
Financial assets fair value through profit or loss	4,600,457,931	-	4,600,457,931	3,527,310,141	-	3,527,310,141
Financial assets at amortised cost						
– Loans and receivables to other customers	22,986,258,718	79,676,009,998	102,662,268,716	18,200,097,573	67,623,237,289	85,823,334,862
– Debt and other instruments	5,244,005,218	-	5,244,005,218	6,948,924,881	50,000,000	6,998,924,881
Financial assets measured at fair value through other comprehensive income	-	56,938,514	56,938,514	-	56,938,514	56,938,514
Investment in subsidiary	-	6,163,100	6,163,100	-	-	-
Property, plant and equipment	-	661,694,541	661,694,541	-	645,231,444	645,231,444
Right of use assets	75,496,546	614,149,660	689,646,206	11,907,855	639,362,893	651,270,748
Investment properties	-	20,222,570	20,222,570	-	21,278,600	21,278,600
Intangible assets	-	395,123,333	395,123,333	-	308,444,541	308,444,541
Deferred tax assets	231,672,525	-	231,672,525	-	232,481,661	232,481,661
Other assets	2,026,987,076	-	2,026,987,076	1,460,523,822	-	1,460,523,822
<b>Total assets</b>	<b>46,136,222,402</b>	<b>82,923,501,716</b>	<b>129,059,724,118</b>	<b>36,756,297,388</b>	<b>71,027,326,942</b>	<b>107,783,624,329</b>
<b>Liabilities</b>						
Due to other customers	64,578,026,248	28,693,700,937	93,271,727,185	51,618,024,041	20,813,899,425	72,431,923,466
Other borrowings	10,025,936,138	8,064,563,836	18,090,499,974	8,444,199,647	11,855,518,321	20,299,717,968
Debt securities issued	1,013,899,072	-	1,013,899,072	1,014,034,248	-	1,014,034,248
Subordinated term debts	16,369,215	4,036,260,999	4,052,630,214	10,243,764	4,200,321,761	4,210,565,527
Retirement benefit obligation	-	571,382,319	571,382,319	-	479,575,300	479,575,300
Current tax liabilities	274,214,765	-	274,214,765	187,069,978	-	187,069,977
Other liabilities	1,286,975,386	582,219,214	1,869,194,600	909,832,224	581,926,516	1,491,758,740
<b>Total liabilities</b>	<b>77,195,420,824</b>	<b>41,948,127,305</b>	<b>119,143,548,128</b>	<b>62,183,403,902</b>	<b>37,349,314,806</b>	<b>100,114,645,225</b>
<b>Net asset/(liability)</b>	<b>(31,059,198,421)</b>	<b>40,975,374,411</b>	<b>9,916,175,990</b>	<b>(25,427,106,514)</b>	<b>33,678,012,136</b>	<b>7,668,979,104</b>

## 44 RISK MANAGEMENT

### 44.1 INTRODUCTION

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk and operational risk.

The independent risk control process does include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

## **RISK MANAGEMENT STRUCTURE**

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Board has appointed the Board subcommittee which has the responsibility to monitor the overall risk process within the Bank.

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Risk Committee is responsible for managing risk decisions and monitoring risk levels and reports on a quarterly basis.

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with the Risk Committee to ensure that procedures are compliant with the overall framework.

The Risk management Unit is responsible for monitoring compliance with risk principles, policies and limits across the Bank. This unit responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on periodically, where necessary, to the Risk Committee and the relevant actions are taken to address exceptions and any areas of weakness.

Bank's treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

The Bank's policy is that risk management processes throughout the Bank are audited annually by the Internal Audit function, which examines both adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with Management and reports its findings and recommendations to the Audit Committee.

## **RISK MEASUREMENT AND REPORTING SYSTEMS**

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors, the Risk Committee and the head of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior Management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board subcommittee receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. A daily briefing is given to the CEO and all other relevant members of the Bank on the utilisation of market limits, proprietary investments, liquidity and any other risk developments.

## **RISK MITIGATION**

As part of its overall risk management, the Bank uses several strategies and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks and exposures arising from forecast transactions. In accordance with the Bank's policy, the risk profile of the Bank is assessed by the appropriate level of seniority within the Bank. The Bank actively uses collateral to reduce its credit risks.

## **EXCESSIVE RISK CONCENTRATION**

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

## THE IMPACT OF COVID-19 ON THE BUSINESS/OPERATIONS AND RISK MANAGEMENT OF THE BANK

The COVID-19 pandemic has had a direct impact on economic activities both locally and globally, while pandemic-related uncertainties have affected the overall business landscape of the country. Sri Lanka's efforts to gradually revive its economic activities subsequent to the countrywide lock-down, have been once again impeded by the emergence of the second wave of the pandemic; which has forced lock-downs in selected areas and provinces with mobility restrictions being imposed to control a possible community spread.

Subsequent to the COVID-19 outbreak in Sri Lanka, the Bank had strictly adhered to the guidelines and directions issued by the Government and the Central Bank of Sri Lanka (CBSL) when conducting its business operations. The Bank provided relief for affected businesses and individuals, in line with the directions issued by CBSL. Such relief measures include, offering concessionary rates of interest to eligible loan products (debt moratorium), deferment of repayment terms of credit facilities, and waiving off selected fees and charges. Based on the Guidance Notes on Accounting Considerations of the COVID-19 Outbreak issued by the CA Sri Lanka, concessionary rates on the Equal Monthly Instalment loans given under Government's debt moratorium relief packages have been considered under substantial modification methodology and new EIR has been computed after considering the modified tenor. This new EIR applied to calculate the interest income in these Financial Statements.

When assessing the expected credit losses, the Bank considered the potential impact of the COVID-19 outbreak based on the available information and has made provisions as management overlays to counter the future possible deteriorations in credit quality. However, due to the uncertainty of the pandemic-ridden business environment, actual losses may differ from the amount provided.

### 44.2 CREDIT RISK

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk evaluation system, which assigns each counterparty a risk. The credit quality review process aims to allow the Bank to assess the potential losses a result of the risks to which it is exposed and take corrective action.

### CREDIT-RELATED COMMITMENTS RISKS

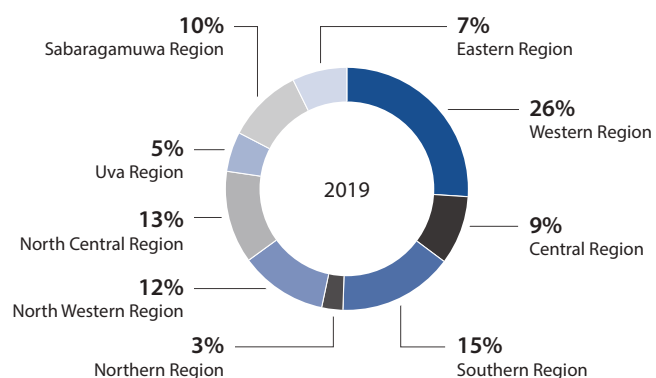
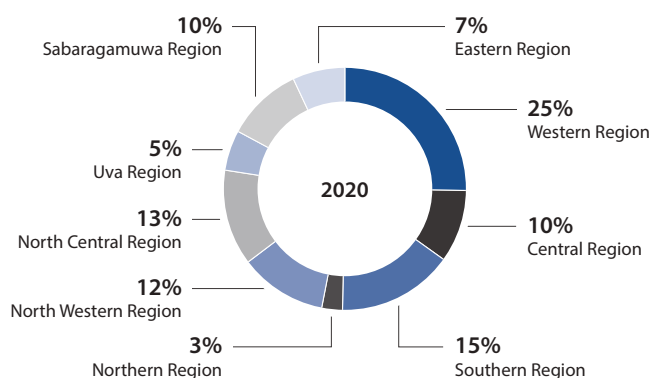
The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements.

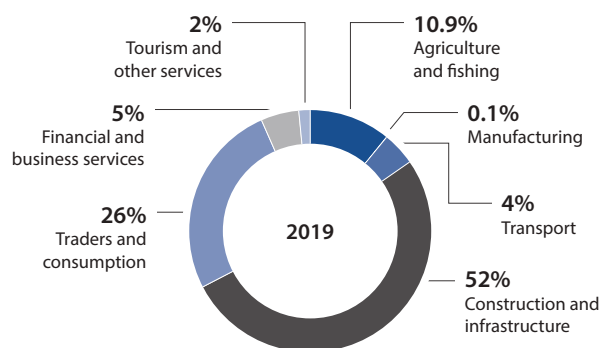
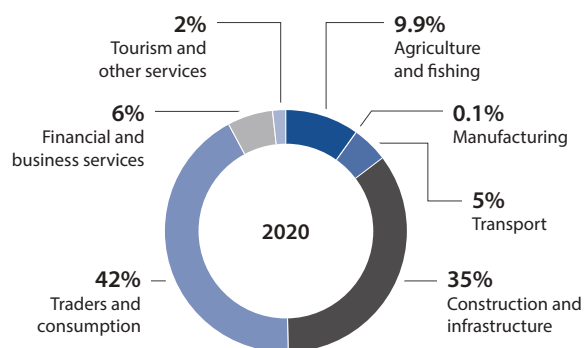
The Bank's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2020 was LKR 466.51 Mn.

The following table shows the maximum exposure to credit risk for the components of the statement of financial position, by geography of counterparty and by industry before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

## Geographical analysis



## Industry analysis



## COLLATERAL AND OTHER CREDIT ENHANCEMENTS

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- Cash or securities
- Real estate properties
- Mortgages over residential properties
- Movable assets – Motor vehicle
- Gold

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

#### 44.2.1 MAXIMUM EXPOSURE CREDIT RISK BY CLASS OF FINANCIAL ASSETS

	As at 31 December 2020		As at 31 December 2019	
	Maximum exposure to credit risk LKR	Net exposure LKR	Maximum exposure to credit risk LKR	Net exposure LKR
Cash and cash equivalents	9,640,915,936	9,640,915,936	2,429,790,570	2,429,790,570
Placements with banks	2,823,628,452	2,823,628,452	5,628,094,545	5,628,094,545
Financial assets fair value through profit or loss	4,600,457,930	4,600,457,930	3,527,310,141	3,527,310,141
Financial assets at amortised cost				
– Loans and receivables to other customers	105,975,283,350	78,249,415,928	88,720,800,911	74,451,537,819
– Debt and other instruments	5,244,005,218	3,565,490,888	6,998,924,881	2,666,271,222
<b>Total</b>	<b>128,284,290,887</b>	<b>98,879,909,135</b>	<b>107,304,921,048</b>	<b>88,703,004,297</b>

#### CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS

	As at 31 December 2020			Total LKR
	Neither past due nor impaired LKR	Past due but not impaired LKR	Individually impaired LKR	
Cash and cash equivalents	9,640,915,936	–	–	9,640,915,936
Placements with banks	2,823,628,452	–	–	2,823,628,452
Financial assets fair value through profit or loss	4,600,457,930	–	–	4,600,457,930
Financial assets at amortised cost				
– Loans and receivables to other customers	88,430,044,611	14,795,206,409	2,750,032,330	105,975,283,350
– Debt and other instruments	5,244,005,218	–	–	5,244,005,218
<b>Total</b>	<b>110,739,052,148</b>	<b>14,795,206,409</b>	<b>2,750,032,330</b>	<b>128,284,290,887</b>

	As at 31 December 2019			Total LKR
	Neither past due nor impaired LKR	Past due but not impaired LKR	Individually impaired LKR	
Cash and cash equivalents	2,429,790,570	–	–	2,429,790,570
Placements with banks	5,628,094,545	–	–	5,628,094,545
Financial assets fair value through profit or loss	3,527,310,141	–	–	3,527,310,141
Financial assets at amortised cost				
– Loans and receivables to other customers	71,008,197,804	14,935,693,040	2,776,910,068	88,720,800,912
– Debt and other instruments	6,998,924,881	–	–	6,998,924,881
<b>Total</b>	<b>89,592,317,942</b>	<b>14,935,693,040</b>	<b>2,776,910,068</b>	<b>107,304,921,049</b>

	As at 31 December 2020 Past due but not impaired				Total LKR
	Less than 30 days LKR	31 to 60 days LKR	61 to 90 days LKR	More than 90 days LKR	
Loans and receivables to other customers (without impairment)	7,220,478,085	3,206,339,561	330,773,126	4,037,615,637	14,795,206,409

	As at 31 December 2019 Past due but not impaired				Total LKR
	Less than 30 days LKR	31 to 60 days LKR	61 to 90 days LKR	More than 90 days LKR	
Loans and receivables to other customers (without impairment)	7,201,475,238	3,784,482,626	538,536,434	3,411,198,742	14,935,693,040

#### 44.2.2 IMPAIRMENT ASSESSMENT

##### DEFINITION OF DEFAULT AND CURE

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past or three instalments in arrears due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events (among others) include;

- When contractual payments of a customer are more than 30 days past due;
- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments;
- When the value of collateral is significantly reduced and/or realisability of collateral is doubtful. Limits shall be set and documented by licensed banks;
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants etc.;
- When the customer is deceased/insolvent;
- When the Bank is unable to contact or find the customer;

It is the Bank's policy to consider a financial instrument as "cured" and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

##### PROBABILITY OF DEFAULT (PD) ESTIMATION PROCESS

Probability of Default is the estimate of the likelihood of default over a given time horizon. A default may only happen at a time horizon if the facility has not been previously derecognised and is still in the portfolio.

An early exit (EE) may occur in case of default unless the facility reverts to performing without significant modification of the contractual terms. The marginal probability of default for the period is then adjusted from the probability that an early exit occurred during the previous periods.

##### 12 MONTHS PD

This is the estimated probability of default occurring within the next 12 months.

The 12 month PD is applied for the "Current" and "1-30 days" buckets since there is no significant deterioration in credit risk.

##### LIFETIME PD

This is the estimated probability of default occurring over the remaining life of the financial instrument.

The lifetime PD is applied for the "31-60 days" and "61-90 days" buckets since there is a significant deterioration in credit risk.

The PD for the "Above 90 days" category is 100% since there is objective evidence of impairment as the default has occurred.

## EXPOSURE AT DEFAULT (EAD)

The exposure at default represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both client's ability to increase its exposure while approaching default and potential early repayments too.

These components will all need to be estimated based on past experience and future expectations, for sections of the portfolio that are segmented so that they have similar credit characteristics.

## LOSS GIVEN DEFAULT (LGD)

Loss given default is the magnitude of likely loss on exposure, and is expressed as a percentage of exposure. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

For each year, closed contracts which have crossed the "Above 90 days" at-least once in their lifetime are considered. LGD will factor in all cash flows subsequent to the point of default until the full settlement of the loan.

Virtually closed contracts are also be added to this data set. Virtually closed contracts are active loans which have been long outstanding. A contract is determined to be virtually closed at the point the Bank determines that the cash flows have dried up.

## SIGNIFICANT INCREASE IN CREDIT RISK

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account having been restructured. In certain cases, the Bank may also consider that events as a significant increase in credit risk as opposed to a default.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the following in the categorisation of credit facilities/exposures in to stages for computation of expected credit loss.

### STAGE 1

- All credit facilities, which are not categorised under Stages 2 or 3 below

### STAGE 2

- Credit facilities, where contractual payments of a customer are more than 30 days past due, other than the credit facilities categorised under Stage 3 below, subject to the rebuttable presumption as stated in SLFRS 9
- All restructured loans, which are restructured up to two times (other than upgraded restructured facilities, satisfactory performing period of a minimum 90 days considered subsequent to the due date of the first capital and/or interest instalment post-restructure)
- Under-performing credit facilities/exposures

### STAGE 3

- Credit facilities where contractual payments of a customer are more than 90 days past due or 3 instalments in arrears, subject to the rebuttable presumption as stated in SLFRS 9
- All restructured loans, which are restructured more than twice
- All rescheduled loans (other than upgraded restructured facilities, satisfactory performing period of a minimum 90 days considered subsequent to the due date of the 1st capital and/or interest instalment post-restructure)
- All credit facilities/customers classified as non-performing as per CBSL Directions
- Non-performing credit facilities/customers



## GROUPING FINANCIAL ASSETS MEASURED ON A COLLECTIVE BASIS

As explained in Note 2.3.2.3 dependent on the factors below, the Bank calculates ECLs either on a collective or an individual basis.

An individual impairment assessment is performed for exposures over the individually significant threshold of LKR 5 Mn. for which there is objective evidence of expected loss based on the current status of the customer, i.e. based on whether customer is performing, non-performing, rescheduled or watch-listed.

Exposures that are assessed for individual impairment and for which an impairment provision has been recognised are not included in the collective assessment of impairment. If it is determined that no objective evidence of expected loss exists for an individually assessed exposure, or assessed for objective evidence and there is no requirement for individual impairment, whether significant or not, this is included in a group of exposures with similar credit risk characteristics that are collectively assessed for impairment under the relevant bucket.

A collective assessment is performed for exposures as follows:

- Exposures that have not been individually assessed i.e. falling below the individually significant threshold
- Exposures that have been assessed for objective evidence of incurred loss and were found to have no such evidence of expected loss
- Exposures that have been individually assessed and were found not to be impaired on an individual basis based on the cash flow estimation

The Bank groups these exposure in to homogeneous portfolios to extent possible so as ensure that data point available for meaningful calculations.

For accounting purposes, the Bank used (prior to 2018) an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment
- Where the Bank grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter bankruptcy or other financial reorganisation
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans

This approach differs from the expected loss model used for regulatory capital purposes in accordance with Basel III.

## INDIVIDUALLY ASSESSED ALLOWANCES

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis, include any overdue payments of interests or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

## COLLECTIVELY ASSESSED ALLOWANCES

Allowances are assessed collectively for losses on loans and advances and other debt investments that are not individually significant (including residential mortgages and unsecured consumer lending) and for individually significant loans and advances that have been assessed individually and found not to be impaired. The Bank generally bases its analyses on historical experience.

The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, loan to collateral ratios and expected receipts and recoveries once impaired). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy. Financial guarantees and letters of credit are assessed and provisions are made in a similar manner as for loans.

## THE IMPACT OF COVID-19 ON IMPAIRMENT ASSESSMENT

CA Sri Lanka issued certain guidelines in the application of certain provisions in SLFRS 9 "Financial Instruments", considering the insufficiency of information, uncertainty relating to borrowers repayment ability, resource constraints and various government relief measures as a result of the pandemic, though the circumstances require reassessment of all the factors for the preparation of Financial Statements for the reporting on 31 December 2020 Financial Statements and thereon. Accordingly, the Bank identified tourism sector and transportation sector as risk elevated industry. The Bank reviewed the customer exposures subject to the said industry and provide additional provisions by shifting buckets. Furthermore, on Economic Factor Adjustment, weightages are assigned to qualitative factors as at 31 December 2020.

## COMMITMENTS AND GUARANTEES

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank. Financial Statement has separately disclosed the Bank's maximum credit risk exposure for commitments and guarantees.

## 44.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, Management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In accordance with the Bank's policy the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, to reflect market conditions. Liquid assets consist of cash, short-term Bank deposits and treasury bills available for immediate sale.

The Bank stresses the importance of term accounts and savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of customer savings accounts, together with term funding with a remaining term to maturity.

## ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	As at 31 December 2020								Total LKR
	Less than 7 Days LKR	7-30 Days LKR	1-3 Months LKR	3-12 Month LKR	1-3 Years LKR	3-5 Years LKR	Over 5 Years LKR		
<b>Financial assets</b>									
Cash and cash equivalents	9,640,915,936	-	-	-	-	-	-	-	9,640,915,936
Investments	357,803,497	3,199,836,573	7,524,200,755	26,970,267	-	2,035,084,138	-	-	13,143,895,230
Loans and receivables to other customers	2,664,314,944	3,723,664,975	3,857,452,612	20,280,143,387	32,635,677,665	21,707,804,459	31,781,916,292	-	116,650,974,334
<b>Total financial assets</b>	<b>12,663,034,377</b>	<b>6,923,501,547</b>	<b>11,381,653,367</b>	<b>20,307,113,655</b>	<b>32,635,677,665</b>	<b>23,742,888,598</b>	<b>31,781,916,292</b>	<b>-</b>	<b>139,435,785,500</b>
<b>Financial liabilities</b>									
Due to other customers	3,582,958,337	6,215,514,264	14,758,474,547	41,851,590,839	18,940,913,000	6,497,675,055	5,660,668,351	-	97,507,794,394
Other borrowings	22,415,249	2,136,659,490	3,436,787,879	5,236,814,751	7,497,272,471	1,208,776,549	4,963,355	-	19,543,689,745
Debt securities issued	1,013,899,072	-	-	-	-	-	-	-	1,013,899,072
Subordinated term debts	-	-	43,004,273	320,965,299	1,446,567,116	3,439,470,915	-	-	5,250,007,602
<b>Total financial liabilities</b>	<b>4,619,272,659</b>	<b>8,352,173,755</b>	<b>18,238,266,699</b>	<b>47,409,370,889</b>	<b>27,884,752,587</b>	<b>11,145,922,518</b>	<b>5,665,631,706</b>	<b>-</b>	<b>123,315,390,813</b>
<b>Net Financial assets/ (liabilities)</b>	<b>8,043,761,718</b>	<b>(1,428,672,207)</b>	<b>(6,856,613,332)</b>	<b>(27,102,257,235)</b>	<b>4,750,925,078</b>	<b>12,596,966,079</b>	<b>26,116,284,585</b>	<b>-</b>	<b>16,120,394,687</b>

	As at 31 December 2019							Total LKR
	Less than 7 Days LKR	7-30 Days LKR	1-3 Months LKR	3-12 Month LKR	1-3 Years LKR	3-5 Years LKR	Over 5 Years LKR	
<b>Financial assets</b>								
Cash and cash equivalents	2,429,790,570	-	-	-	-	-	-	2,429,790,570
Investments	1,361,134,010	6,758,727,196	6,545,608,637	70,869,472	55,625,000	1,977,374,902	-	16,769,339,217
Loans and receivables to other customers	1,497,786,878	2,335,054,001	3,452,678,744	17,283,911,199	26,605,051,230	18,194,066,707	29,417,331,304	98,785,880,063
<b>Total financial assets</b>	<b>5,288,711,458</b>	<b>9,093,781,197</b>	<b>9,998,287,382</b>	<b>17,354,780,671</b>	<b>26,660,676,230</b>	<b>20,171,441,609</b>	<b>29,417,331,304</b>	<b>117,985,009,850</b>
<b>Financial liabilities</b>								
Due to other customers	2,712,403,307	4,888,405,210	12,755,524,393	32,944,756,647	13,385,221,583	5,329,197,253	4,197,664,703	76,213,173,096
Other borrowings	15,000,000	1,892,506,764	1,586,610,576	2,888,491,149	7,856,291,191	10,479,601,943	23,195,192	24,741,696,814
Debt securities issued	-	-	-	1,013,630,925	-	-	-	1,013,630,925
Subordinated term debts	-	-	27,073,979	2,371,080,750	5,541,681,836	-	-	7,939,836,565
<b>Total financial liabilities</b>	<b>2,727,403,307</b>	<b>6,780,911,974</b>	<b>14,342,134,969</b>	<b>36,846,878,721</b>	<b>21,241,512,774</b>	<b>15,808,799,196</b>	<b>4,220,859,895</b>	<b>109,908,337,400</b>
<b>Net financial assets/ (liabilities)</b>	<b>2,561,308,151</b>	<b>2,312,869,223</b>	<b>(4,343,847,587)</b>	<b>(19,492,098,050)</b>	<b>5,419,163,456</b>	<b>4,362,642,413</b>	<b>25,196,471,409</b>	<b>8,076,672,450</b>

#### 44.4 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. The Bank classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately. The market risk for the portfolio is managed and monitored using sensitivity analyses.

#### 44.5 INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The table below analyses the Bank's interest rate risk exposure on financial assets and liabilities.

The Bank's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

Asset or liability	Interest rate sensitivity assets and liabilities as at 31 December 2020						Total LKR
	Carrying amount LKR	On demand LKR	1-3 Months LKR	3-12 Months LKR	over 1 Year LKR	Non-interest LKR	
Cash and cash equivalents	9,640,915,936	301,070,137	-	-	-	9,339,845,799	9,640,915,936
Placements with banks	2,823,628,452	-	1,200,000,000	130,428,452	1,493,200,000	-	2,823,628,452
Financial assets fair value through profit or loss	4,600,457,930	1,584,558,343	3,015,772,330	127,258	-	-	4,600,457,931
Loans and receivables to other customers	102,662,268,716	5,560,567,289	3,357,810,307	14,067,881,123	74,969,877,689	4,706,132,309	102,662,268,716
Debt and other instruments	5,244,005,218	2,342,260,002	2,880,525,900	21,219,316	-	-	5,244,005,218
<b>Interest bearing assets</b>	<b>124,971,276,253</b>	<b>9,788,455,770</b>	<b>10,454,108,537</b>	<b>14,219,656,149</b>	<b>76,463,077,689</b>	<b>14,045,978,108</b>	<b>124,971,276,254</b>
Due to other customers	93,271,727,185	9,040,551,929	13,616,893,260	41,920,581,059	28,693,700,937	-	93,271,727,185
Other borrowings	18,090,499,974	2,083,616,623	3,226,777,534	4,715,541,980	8,064,563,836	-	18,090,499,974
Debt securities issued	1,013,899,072	964,560,000	-	49,339,072	-	-	1,013,899,072
Subordinated term debts	4,052,630,214	-	-	16,369,215	4,036,260,999	-	4,052,630,214
<b>Interest bearing liabilities</b>	<b>116,428,756,446</b>	<b>12,088,728,552</b>	<b>16,843,670,795</b>	<b>46,701,831,327</b>	<b>40,794,525,773</b>	<b>-</b>	<b>116,428,756,446</b>
<b>Interest rate sensitivity gap</b>	<b>8,542,519,807</b>	<b>(2,300,272,782)</b>	<b>(6,389,562,257)</b>	<b>(32,482,175,177)</b>	<b>35,668,551,916</b>	<b>14,045,978,108</b>	<b>8,542,519,808</b>

	If market interest rate go up by 1% effect to interest Income	If market interest rate drop by 1% effect to interest Income
Effect on rate sensitive assets	1,249,712,763	(1,249,712,763)
Effect on rate sensitive liabilities	(1,164,287,564)	1,164,287,564
Sensitivity of profit or loss	85,425,198	(85,425,198)

Asset or liability	Interest rate sensitivity assets and liabilities as at 31 December 2019						
	Carrying amount LKR	On demand LKR	1-3 Months LKR	3-12 Months LKR	over 1 Year LKR	Non-interest LKR	Total LKR
Cash and cash equivalents	2,429,790,570	301,666,356	-	-	-	2,128,124,214	2,429,790,570
Placements with banks	5,628,094,545	1,500,000,000	2,600,000,000	77,742,545	1,450,352,000	-	5,628,094,545
Financial assets fair value through profit or loss	3,527,310,141	1,201,481,867	2,325,448,774	379,500	-	-	3,527,310,141
Loans and receivables to other customers	85,823,334,862	3,291,228,229	2,964,786,201	11,944,083,143	63,729,040,814	3,894,196,475	85,823,334,862
Debt and other instruments	6,998,924,881	2,915,851,982	3,957,838,592	75,234,306	50,000,000	-	6,998,924,881
<b>Interest bearing assets</b>	104,407,454,999	9,210,228,434	11,848,073,567	12,097,439,494	65,229,392,814	6,022,320,689	104,407,454,999
Due to other customers	72,431,923,465	6,904,761,138	11,587,431,644	33,125,831,259	20,813,899,424	-	72,431,923,465
Other borrowings	20,299,717,968	1,903,296,614	1,564,984,548	4,975,918,485	11,855,518,321	-	20,299,717,968
Debt securities issued	1,014,034,248	-	-	1,014,034,248	-	-	1,014,034,248
Subordinated term debts	4,210,565,525	-	-	10,243,764	4,200,321,761	-	4,210,565,525
<b>Interest bearing liabilities</b>	97,956,241,206	8,808,057,752	13,152,416,192	39,126,027,756	36,869,739,506	-	97,956,241,206
<b>Interest rate sensitivity gap</b>	6,451,213,793	402,170,682	(1,304,342,625)	(27,028,588,261)	28,359,653,308	6,022,320,689	6,451,213,793

	If market interest rate go up by 1% effect to interest Income	If market interest rate drop by 1% effect to interest Income
Effect on rate sensitive assets	1,044,074,550	(1,044,074,550)
Effect on rate sensitive liabilities	(979,562,412)	979,562,412
<b>Sensitivity of profit or loss</b>	64,512,138	(64,512,138)

#### 44.6 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Bank doesn't have material currency risk.

#### 44.7 EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks.

### 45 CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Sri Lanka.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

#### CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management policy are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

# *Supplementary Information*

- 196 Ten Years at a Glance
- 199 Disclosures as per Schedule III of Banking Act No. 1 of 2016,  
Capital Requirements under Basel III
- 207 Sources and Utilisation of Income
- 208 Quarterly Performance of the Bank
- 209 Abbreviations
- 211 Glossary of Terms
- 215 24<sup>th</sup> Annual General Meeting

- Online GRI Content Index
- Online Branch Network
- Online Ratio Formulas
- Online Event Calendar

# Ten Years at a Glance

## STATEMENT OF COMPREHENSIVE INCOME

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	(Restated) LKR '000	(Restated in 2012 – Bank LKR '000
Interest income	15,442,003	15,079,324	13,146,787	10,829,333	8,177,187	6,609,248	4,850,170	4,389,385	3,782,126	3,017,607
Interest expenses	(9,314,576)	(9,382,529)	(8,423,758)	(6,941,841)	(4,846,840)	(3,240,875)	(2,400,763)	(2,525,580)	(1,879,248)	(1,200,514)
<b>Net interest income</b>	<b>6,127,426</b>	<b>5,696,795</b>	<b>4,723,029</b>	<b>3,887,493</b>	<b>3,330,347</b>	<b>3,368,374</b>	<b>2,449,406</b>	<b>1,863,805</b>	<b>1,902,878</b>	<b>1,817,094</b>
Fee and commission income	390,619	237,656	196,762	278,770	212,540	217,475	164,626	122,423	71,767	73,908
Fee and commission expenses	(14,334)	(6,507)	(4,397)	(3,511)	(9,596)	(2,966)	(2,283)	(2,272)	(496)	(258)
<b>Net fee and commission income</b>	<b>376,285</b>	<b>231,150</b>	<b>192,365</b>	<b>275,258</b>	<b>202,944</b>	<b>214,510</b>	<b>162,343</b>	<b>120,151</b>	<b>71,271</b>	<b>73,650</b>
Net gains/(losses) from trading	5,228	1,265	-	-	-	-	-	-	-	-
Net gains/(losses) from financial instruments at fair value through profit or loss	268,710	114,889	280,172	211,759	17,351	5,095	53,942	102,444	(10,661)	(48,790)
Other operating income	55,227	90,969	20,811	50,845	40,046	52,027	168,428	63,289	52,012	22,145
<b>Total operating income</b>	<b>6,832,877</b>	<b>6,135,068</b>	<b>5,216,378</b>	<b>4,425,356</b>	<b>3,590,687</b>	<b>3,640,005</b>	<b>2,834,119</b>	<b>2,149,689</b>	<b>2,015,500</b>	<b>1,864,099</b>
Impairment for loans and other losses	(417,039)	(917,434)	(525,844)	(293,537)	(125,044)	(49,594)	(204,390)	(324,621)	(60,866)	(27,231)
<b>Net operating income</b>	<b>6,415,838</b>	<b>5,217,634</b>	<b>4,690,534</b>	<b>4,131,819</b>	<b>3,465,643</b>	<b>3,590,410</b>	<b>2,629,730</b>	<b>1,825,068</b>	<b>1,954,634</b>	<b>1,836,868</b>
Personnel expenses	(2,576,773)	(2,116,348)	(1,827,073)	(1,474,146)	(1,266,115)	(1,114,754)	(767,848)	(540,777)	(447,637)	(399,026)
Depreciation and amortisation expenses	(454,569)	(431,193)	(224,260)	(191,577)	(176,032)	(148,829)	(147,918)	(164,925)	(212,210)	(176,091)
Other expenses	(1,400,539)	(1,420,073)	(1,526,132)	(1,364,051)	(1,113,816)	(942,628)	(772,510)	(703,625)	(681,625)	(570,170)
<b>Operating profit before value added tax (VAT), nation building tax (NBT) and debt repayment levy (DRL) on financial services</b>	<b>1,983,957</b>	<b>1,250,021</b>	<b>1,113,068</b>	<b>1,102,045</b>	<b>909,680</b>	<b>1,384,199</b>	<b>941,454</b>	<b>415,741</b>	<b>613,162</b>	<b>691,581</b>
Value added tax (VAT) on financial services*	(571,027)	(386,522)	(362,941)	(300,962)	(292,254)	(273,641)	(190,275)	(82,382)	(96,665)	(110,086)
Nation building tax (NBT) on financial services	-	(51,106)	(52,703)	(48,482)	-	-	-	-	-	-
Debt repayment levy (DRL)	-	(226,565)	(53,282)	-	-	-	-	-	-	-
<b>Operating profit after VAT, NBT and DRL on financial services</b>	<b>1,412,930</b>	<b>585,827</b>	<b>644,142</b>	<b>752,601</b>	<b>617,425</b>	<b>1,110,559</b>	<b>751,179</b>	<b>333,359</b>	<b>516,497</b>	<b>581,495</b>
<b>Profit before tax</b>	<b>1,412,930</b>	<b>585,827</b>	<b>644,142</b>	<b>752,601</b>	<b>617,425</b>	<b>1,110,559</b>	<b>751,179</b>	<b>333,359</b>	<b>516,497</b>	<b>581,495</b>
Tax expenses	(576,643)	(332,422)	(287,192)	(244,778)	(213,704)	(389,984)	(246,732)	(85,175)	(175,781)	(199,453)
<b>Profit for the year</b>	<b>836,287</b>	<b>253,405</b>	<b>356,950</b>	<b>507,824</b>	<b>403,722</b>	<b>720,575</b>	<b>504,447</b>	<b>248,184</b>	<b>340,716</b>	<b>382,042</b>

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	(Restated) LKR '000	(Restated in 2012 – Bank LKR '000
<b>Other comprehensive income</b>										
Actuarial Gains/(losses) on defined benefit plans	(1,855)	(41,588)	(45,995)	2,885	(49,639)	(2,688)	(27,091)	(5,464)	12,733	(1,865)
Deferred tax relating to defined benefit plans	519	11,645	12,879	(808)	13,899	753	7,586	1,530	(4,188)	–
Gains/(losses) on remeasuring financial assets measured at fair value through other comprehensive income	–	(3,210)	(3,388)	–	(12,454)	–	–	1,973	(27,621)	–
<b>Other comprehensive income for the year net of tax</b>	<b>(1,336)</b>	<b>(33,153)</b>	<b>(36,505)</b>	<b>2,077</b>	<b>(48,194)</b>	<b>(1,935)</b>	<b>(19,506)</b>	<b>(1,961)</b>	<b>(19,077)</b>	<b>(1,865)</b>
<b>Total comprehensive income for the year</b>	<b>834,952</b>	<b>220,252</b>	<b>320,445</b>	<b>509,901</b>	<b>355,528</b>	<b>718,639</b>	<b>484,941</b>	<b>246,222</b>	<b>321,639</b>	<b>380,177</b>
<b>Basic earnings per share on profit (LKR)</b>	<b>11.05</b>	<b>4.50</b>	<b>6.34</b>	<b>9.87</b>	<b>9.60</b>	<b>17.90</b>	<b>13.36</b>	<b>9.39</b>	<b>13.73</b>	<b>15.78</b>

\* NBT on financial service expense is included in VAT on financial services expense up to the year 2016 and it is separately recorded after the year 2017 onwards.

## STATEMENT OF FINANCIAL POSITION

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	(Restated in 2013) LKR '000	(Restated in 2013 – Bank) LKR '000
<b>Assets</b>										
Cash and cash equivalents	9,640,916	2,429,791	4,171,939	1,190,390	1,044,725	5,057,791	661,651	399,385	503,541	419,998
Placements with banks	2,823,628	5,628,095	9,528,426	6,014,704	6,919,027	4,757,401	2,223,162	2,530,598	2,070,307	1,603,884
Financial assets fair value through profit or loss	4,600,458	3,527,310	146,103	4,473,806	244,911	–	–	1,210,673	184,419	245,981
Other financial asset classified under loans and receivables	–	–	–	1,479,950	1,503,539	1,926,055	4,164,273	1,701,091	470,099	349,575
Financial assets at amortised cost – loans and receivables to other customers	102,662,269	85,823,335	77,507,021	66,687,416	53,632,539	45,830,499	32,060,498	22,116,645	19,712,033	16,602,735
Financial assets at amortised cost – debt and other instruments	5,244,005	6,998,925	3,405,600	–	–	–	–	–	–	–
Financial assets measured at fair value through other comprehensive income	56,939	56,939	60,148	–	–	–	–	–	–	–

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	(Restated in 2013) LKR '000	(Restated in 2013 – Bank) LKR '000
Financial investments – available for sale	–	–	–	63,536	566,935	79,679	29,734	165,699	171,696	29,980
Financial investments – held to maturity	–	–	–	599,551	492,268	1,192,440	298,545	443,408	709,365	960,263
Investments in subsidiaries	6,163	–	–	–	–	–	–	–	–	200
Asset classified as held for sale	–	–	–	37,175	37,175	37,175	–	–	–	–
Property, plant and equipment	661,695	645,231	704,738	726,473	637,263	549,172	513,592	506,771	603,233	629,070
Right-of-use assets	689,646	651,271	–	–	–	–	–	–	–	–
Investment properties	20,223	21,279	22,335	23,391	24,447	25,503	26,559	27,615	28,671	29,727
Intangible assets	395,123	308,445	3,728	8,148	16,938	47,141	77,344	107,744	127,677	151,692
Deferred tax assets	231,673	232,482	69,415	–	–	–	–	40,081	–	–
Other assets	2,026,987	1,460,524	1,198,314	1,070,175	913,030	787,138	517,187	482,895	318,516	336,617
<b>Total assets</b>	<b>129,059,724</b>	<b>107,783,624</b>	<b>96,817,767</b>	<b>82,374,713</b>	<b>66,032,799</b>	<b>60,289,994</b>	<b>40,572,547</b>	<b>29,732,605</b>	<b>24,899,556</b>	<b>21,359,722</b>
<b>Liabilities</b>										
Due to other customers	93,271,727	72,431,923	67,474,822	59,904,734	45,691,758	43,023,393	30,249,434	23,594,768	18,947,514	15,756,918
Other borrowings	18,090,500	20,299,718	15,420,968	8,827,610	9,482,950	6,600,339	4,602,233	1,878,643	1,557,329	1,538,767
Debt securities issued	1,013,899	1,014,034	4,198,548	4,189,812	4,182,653	3,979,111	–	–	–	–
Subordinated term debts	4,052,630	4,210,566	1,008,028	1,004,355	–	–	–	–	–	–
Retirement benefit obligation	571,382	479,575	354,854	257,476	212,494	127,307	108,056	67,706	52,571	55,306
Current tax liabilities	274,215	187,070	143,988	32,153	23,110	260,733	113,192	–	70,561	44,014
Deferred tax liabilities	–	–	–	58,000	46,629	66,411	53,513	46,005	24,122	18,433
Other liabilities	1,869,195	1,491,759	767,833	769,413	873,924	935,350	750,144	765,237	987,558	756,891
<b>Total liabilities</b>	<b>119,143,548</b>	<b>100,114,645</b>	<b>89,369,040</b>	<b>75,043,553</b>	<b>60,513,519</b>	<b>54,992,643</b>	<b>35,876,573</b>	<b>26,352,358</b>	<b>21,639,655</b>	<b>18,170,328</b>
<b>Equity</b>										
Stated capital	7,727,941	5,921,538	5,921,538	5,758,689	4,062,962	3,794,095	3,533,545	2,526,532	2,526,532	2,427,532
Statutory reserve fund	270,009	228,282	215,611	197,764	172,373	154,596	118,664	94,417	82,106	65,070
Retained earnings	1,890,621	1,491,554	1,280,762	1,340,504	1,249,742	1,302,003	997,107	489,355	433,926	575,288
Other reserves	27,605	27,605	30,815	34,203	34,203	46,657	46,657	269,943	217,337	121,504
<b>Total equity</b>	<b>9,916,176</b>	<b>7,668,979</b>	<b>7,448,727</b>	<b>7,331,160</b>	<b>5,519,280</b>	<b>5,297,351</b>	<b>4,695,974</b>	<b>3,380,247</b>	<b>3,259,901</b>	<b>3,189,394</b>
<b>Total equity and liabilities</b>	<b>129,059,724</b>	<b>107,783,624</b>	<b>96,817,767</b>	<b>82,374,713</b>	<b>66,032,799</b>	<b>60,289,994</b>	<b>40,572,547</b>	<b>29,732,605</b>	<b>24,899,556</b>	<b>21,359,722</b>
<b>Contingent liabilities and commitments</b>										
	194,554	177,752	182,986	166,260	148,030	136,574	129,507	144,378	143,214	141,262
<b>Other information</b>										
Number of accounts (CIF numbers)	1,442,788	1,384,175	1,310,198	1,230,406	1,131,355	1,068,345	992,782	903,476	858,454	697,227
Number of customer centres	94	94	94	91	88	87	82	82	81	79
Number of employees	1,490	1,475	1,504	1,363	1,248	1,198	1,004	856	823	884



# Disclosures as per Pillar III of Banking Act No. 1 of 2016, Capital Requirements under Basel III

## TEMPLATE 1

### KEY REGULATORY RATIOS – CAPITAL AND LIQUIDITY

Item	As at 31 December 2020	As at 31 December 2019
<b>Regulatory capital (LKR '000)</b>		
Common Equity Tier I (CET I) capital	9,295,294	7,146,580
Tier I capital	9,295,294	7,146,580
Total capital	12,634,452	11,208,615
<b>Regulatory capital ratio (%)</b>		
Common Equity Tier I capital ratio (Minimum requirement – 2020: 6.50%, 2019: 7.00%)	9.85	9.43
Tier I capital ratio (Minimum requirement – 2020: 8.00%, 2019: 8.50%)	9.85	9.43
Total capital ratio (Minimum requirement – 2020: 12.00%, 2019: 12.50%)	13.38	14.80
<b>Leverage ratio (%) (Minimum requirement – 3%)</b>	7.17	6.61
<b>Regulatory liquidity</b>		
Statutory liquid assets (LKR '000)	18,886,169	14,831,478
Statutory liquid assets ratio (Minimum requirement – 20%)		
Domestic banking unit (%)	21.57	21.74
Off-shore banking unit (%)	–	–
Total stock of high-quality liquid assets (LKR '000)	6,796,184	5,822,317
Liquidity coverage ratio (%) (Minimum requirement – 2020: 100%, 2019: 100%)		
Rupee (%)	125.21	123.77
All currency (%)	125.21	123.77
Net stable funding ratio (%) (Minimum requirement – 100%)	127.33	130.09

## TEMPLATE 2

### BASEL III COMPUTATION OF CAPITAL RATIOS

Item	Amount (LKR '000)	
	As at 31 December 2020	As at 31 December 2019
<b>Common Equity Tier I (CET I) capital after adjustments</b>	9,295,294	7,146,580
<b>Common Equity Tier I (CET I) capital</b>	9,925,440	7,687,506
Equity capital (stated capital)/assigned capital	7,727,941	5,921,538
Reserve fund	270,096	228,282
Published retained earnings/(accumulated retained losses)	1,899,797	1,510,081
Published accumulated other comprehensive income (OCI)	–	–
General and other disclosed reserves	27,605	27,605
Unpublished current year's profit/(losses) and gains reflected in OCI	–	–
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–
<b>Total adjustments to CET 1 capital</b>	630,146	540,926
Goodwill (net)	–	–
Intangible assets (net)	395,123	308,445
Deferred tax assets (net)	231,673	232,482
Investments in the capital of banking and financial institutions	3,350	–
<b>Additional Tier I (AT I) capital after adjustments</b>	–	–
<b>Additional Tier I (AT I) capital</b>	–	–

Item	Amount (LKR '000)	
	As at 31 December 2020	As at 31 December 2019
Qualifying additional Tier I capital instruments	–	–
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–
<b>Total adjustments to AT I capital</b>	–	–
Investment in own shares	–	–
Others	–	–
<b>Tier II capital after adjustments</b>	<b>3,339,158</b>	4,062,035
<b>Tier II capital</b>	<b>3,389,158</b>	4,112,035
Qualifying Tier II capital instruments	<b>2,650,029</b>	3,479,793
Revaluation gains	–	–
Loan loss provisions	<b>739,129</b>	632,241
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–
<b>Total adjustments to Tier II</b>	<b>50,000</b>	50,000
Investment in own shares	–	–
Investments in the capital of banking and financial institutions	<b>50,000</b>	50,000
<b>CET I capital</b>	<b>9,295,294</b>	7,146,580
<b>Total Tier I capital</b>	<b>9,295,294</b>	7,146,580
<b>Total capital</b>	<b>12,634,452</b>	11,208,615
<b>Total risk weighted assets (RWA)</b>	<b>94,408,504</b>	75,757,837
RWAs for credit risk (Templates 7 and 8)	<b>87,119,345</b>	69,464,792
RWAs for market risk (Template 9)	<b>9,478</b>	6,013
RWAs for operational risk (Template 10)	<b>7,279,682</b>	6,287,032
<b>CET I capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)</b>	<b>9.85</b>	9.43
of which: capital conservation buffer (%)	–	–
of which: countercyclical buffer (%)	–	–
of which: capital surcharge on D-SIBs (%)	–	–
<b>Total Tier I capital ratio (%)</b>	<b>9.85</b>	9.43
<b>Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)</b>	<b>13.38</b>	14.80
of which: capital conservation buffer (%)	–	–
of which: countercyclical buffer (%)	–	–
of which: capital surcharge on D-SIBs (%)	–	–

### TEMPLATE 3 COMPUTATION OF LEVERAGE RATIO

Item	Amount (LKR '000)	
	As at 31 December 2020	As at 31 December 2019
<b>Tier I capital</b>	<b>9,295,294</b>	7,146,580
<b>Total exposures</b>	<b>129,595,216</b>	108,121,304
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	<b>128,429,579</b>	107,242,698
Derivative exposures	-	-
Securities financing transaction exposures	-	-
Other off-balance sheet exposures	<b>1,165,637</b>	878,606
<b>Basel III leverage ratio (%) (Tier I/total exposure)</b>	<b>7.17</b>	6.61

### TEMPLATE 4 BASEL III COMPUTATION OF LIQUIDITY COVERAGE RATIO

Item	Amount (LKR '000)			
	As at 31 December 2020		As at 31 December 2019	
	Total un-weighted value	Total weighted value	Total un-weighted value	Total weighted value
<b>Total stock of high-quality liquid assets (HQLA)</b>	<b>7,180,610</b>	<b>6,796,184</b>	5,860,411	5,822,317
Total adjusted Level 1 assets	<b>4,625,431</b>	<b>4,625,431</b>	3,882,941	3,882,941
Level 1 assets	<b>4,625,431</b>	<b>4,625,431</b>	4,141,468	4,141,468
Total adjusted Level 2A assets	<b>2,551,896</b>	<b>2,169,111</b>	1,977,469	1,680,849
Level 2A assets	<b>2,551,896</b>	<b>2,169,111</b>	1,977,469	1,680,849
Total adjusted Level 2B assets	<b>3,283</b>	<b>1,642</b>	-	-
Level 2B assets	<b>3,283</b>	<b>1,642</b>	-	-
<b>Total cash outflows</b>	<b>92,187,662</b>	<b>17,782,685</b>	69,964,170	11,844,994
Deposits	<b>60,915,388</b>	<b>6,091,539</b>	48,834,924	4,883,492
Unsecured wholesale funding	<b>28,673,618</b>	<b>10,190,426</b>	19,676,689	6,341,099
Secured funding transactions	<b>22,415</b>	<b>22,415</b>	66,862	66,862
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	<b>2,576,240</b>	<b>1,478,305</b>	1,385,694	553,541
Additional requirements	-	-	-	-
<b>Total cash inflows</b>	<b>21,421,994</b>	<b>12,354,809</b>	15,453,640	7,140,921
Maturing secured lending transactions backed by collateral	<b>4,755,726</b>	<b>362,037</b>	4,625,498	282,028
Committed facilities	<b>1,850,000</b>	-	1,600,000	-
Other inflows by counterparty which are maturing within 30 days	<b>12,804,867</b>	<b>10,987,072</b>	7,728,142	6,108,893
Operational deposits	-	-	-	-
Other cash inflows	<b>2,011,400</b>	<b>1,005,700</b>	1,500,000	750,000
<b>Liquidity coverage ratio (%) (stock of high quality liquid assets/ total net cash outflows over the next 30 calendar days) * 100</b>		<b>125.21</b>		123.77

## TEMPLATE 5

### MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

Description of the capital instrument	Stated capital	Subordinated term debt (2016)	Subordinated term debt (2016)	Subordinated term debt (2019)	Subordinated term debt (2019)
Issuer	SANASA Development Bank PLC	SBI FMO Emerging Asia Financial Sector Fund PTE. LTD	Nederlandse inancierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)	Stichting Fondsbeheer DGGF Lokaal MKB duly represented by Triple Jump B.V.	Belgian Investment Company for Developing Countries NV/SA – (BIO)
Unique identifier	LK0412N00003	N/A	N/A	N/A	N/A
Governing Law of the instrument	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations, Banking Act Directions	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations, Banking Act Directions	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations, Banking Act Directions	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations, Banking Act Directions
Original date of issuance (agreement signed date for subordinated term debts)	May 2012 to May 2018	December 2016	December 2016	March 2019	September 2019
Par value of instrument (LKR)	100	N/A	N/A	N/A	N/A
Perpetual or dated	Perpetual	Dated	Dated	Dated	Dated
Original maturity date, if applicable	N/A	December 2021	December 2021	March 2024	September 2024
Amount recognised in regulatory capital (in LKR '000 as at 31 December 2020)	5,921,538	216,169	97,134	1,200,617	1,136,109
Accounting classification (equity/liability)	Equity	Liability	Liability	Liability	Liability
<b>Issuer call subject to prior supervisory approval</b>					
Optional call date, contingent call dates and redemption amount (LKR '000)	N/A	N/A	N/A	N/A	N/A
Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
<b>Coupons/Dividends</b>					
Fixed or floating dividend/coupon	Floating dividend	Floating coupon	Floating coupon	Floating coupon	Floating coupon
Coupon rate and any related index (%)	N/A	6 months T-bill rate + 450bps	6 months T-bill rate + 550bps	6 months T-bill Rate + 700bps	6 months LIBOR + 550bps
Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative	Cumulative	Cumulative
<b>Convertible or non-convertible</b>	Non-convertible	Convertible	Convertible	Convertible or write-off	Convertible
If convertible, conversion trigger(s)	N/A	N/A	N/A	Conversion trigger(s) applicable as per Banking Act Direction No. 1 of 2016	Conversion trigger(s) applicable as per Banking Act Direction No. 1 of 2016
If convertible, fully or partially	N/A	Fully or partially subject to a maximum of 15% of the issued share capital	Fully or partially subject to a maximum of 15% of the issued share capital	Fully or partially subject to a maximum of 15% of the issued share capital	Fully or partially subject to a maximum of 15% of the issued share capital
If convertible, mandatory or optional	N/A	Optional	Optional	Mandatory upon the occurrence of a trigger event	Mandatory upon the occurrence of a trigger event
If convertible, conversion rate	N/A	LKR 140 or 1.1 x of book value per share which ever is lower in the event if Bank issues new shares to any new investor	LKR 140 or 1.1 x of book value per share which ever is lower in the event if Bank issues new shares to any new investor	Simple average of the daily volume weighted average price (VWAP) of an ordinary voting share of the borrower as published by the Colombo Stock Exchange during the three (3) months period, immediately preceding the date of the trigger event	Simple average of the daily volume weighted average price (VWAP) of an ordinary voting share of the borrower as published by the Colombo Stock Exchange during the three (3) months period, immediately preceding the date of the trigger event

N/A – not applicable

## TEMPLATE 6

### SUMMARY DISCUSSION ON ADEQUACY/ MEETING CURRENT AND FUTURE CAPITAL REQUIREMENTS

#### OVERVIEW

A proper “capital management process” is vital in ensuring the long-term stability of the business, the capital adequacy ratio is a measure used to determine whether the Bank has sufficient capital to withstand unexpected losses arising from various risks during the course of the business. Therefore, it acts as a layer of cushion in absorbing potential losses arising from the course of the business and safeguarding the depositors’ funds. At present, capital adequacy position of the banks are computed based on banking Act Direction No. 01 of 2016 and subsequent amendments thereto issued by Central Bank of Sri Lanka. SANASA Development Bank has continued to maintain capital adequacy ratios at healthy levels by keeping a significant margin over and above the regulatory minimum requirements.

## CAPITAL MANAGEMENT PROCESS

In order to comply with the new Basel III guidelines, SANASA Development Bank’s capital management process is under supervision of Board Strategic Planning Committee. The three year (2020-2022) capital management plan rolled out has been integrated with the Internal Capital Adequacy Assessment Process (ICAAP) as well as the Bank’s Strategic Plan. Efforts have taken to comply with the Basel III regulations saw the Bank increases its capital levels by issuing Basel III compliant Tier - II debt instruments. Steps were also taken to optimise the capital ratios by rebalancing the risk-weighted assets (RWA).

#### Moving forward

Moving forward with the capital management plan, the Bank will execute specific medium-term and long-term strategies to raise both Tier I and Tier II capital in line with Basel III minimum regulatory requirements. In addition, timely actions have been identified and will be executed during the coming years to optimise the risk-weighted assets for the purpose of improving the capital allocation of the Bank.

## TEMPLATE 7

### CREDIT RISK UNDER STANDARDISED APPROACH – CREDIT RISK EXPOSURES AND CREDIT RISK MITIGATION (CRM) EFFECTS

Asset class	Amount (LKR '000) as at 31 December 2020					
	Exposures before credit conversion factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density (%)	
	On- balance sheet amount	Off-balance sheet amount	On- balance sheet amount	Off-balance sheet amount	RWA	RWA density (%)
Claims on Central Government and CBSL	4,922,786	-	4,922,786	-	-	0
Claims on foreign sovereigns and their central banks	-	-	-	-	-	-
Claims on public sector entities	-	-	-	-	-	-
Claims on official entities and multilateral development banks	-	-	-	-	-	-
Claims on banks exposures	11,877,165	-	11,877,165	-	2,375,433	20
Claims on financial institutions	-	-	-	-	-	-
Claims on corporates	4,899,252	-	4,899,252	-	1,105,295	23
Retail claims	94,093,781	-	89,457,817	-	73,413,993	82
Claims secured by residential property	4,939,379	-	4,939,379	-	2,934,156	59
Claims secured by commercial real estate	-	-	-	-	-	-
Non-performing assets (NPAs)	2,338,200	-	2,338,200	-	2,074,958	89
Higher-risk categories	-	-	-	-	-	-
Cash items and ther assets	5,163,387	1,165,637	5,163,387	524,453	5,215,509	92
<b>Total</b>	<b>128,233,949</b>	<b>1,165,637</b>	<b>123,597,986</b>	<b>524,453</b>	<b>87,119,345</b>	<b>70</b>

#### Note:

(i) NPAs – As per Banking Act Directions on classification of loans and advances, income recognition and provisioning.

(ii) RWA density – Total RWA/exposures post CCF and CRM.

## TEMPLATE 8

### CREDIT RISK UNDER STANDARDISED APPROACH – EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS

Description	Risk weight	Amount (LKR '000) as at 31 December 2020 (Post CCF & CRM)								Total credit exposures amount
		0%	20%	50%	60%	75%	100%	150%	>150%	
Asset classes										
Claims on Central Government and CBSL	4,922,786	-	-	-	-	-	-	-	-	4,922,786
Claims on foreign sovereigns and their central banks	-	-	-	-	-	-	-	-	-	-
Claims on public sector entities	-	-	-	-	-	-	-	-	-	-
Claims on official entities and multilateral development banks	-	-	-	-	-	-	-	-	-	-
Claims on banks exposures	-	11,877,165	-	-	-	-	-	-	-	11,877,165
Claims on financial institutions	-	-	-	-	-	-	-	-	-	-
Claims on corporates	-	4,586,196	250,000	-	-	63,056	-	-	-	4,899,252
Retail claims	132,706	2,153,062	-	-	56,754,675	30,417,374	-	-	-	89,457,817
Claims secured by residential property	-	-	4,010,446	-	-	928,933	-	-	-	4,939,379
Claims secured by commercial real estate	-	-	-	-	-	-	-	-	-	-
Non-performing assets (NPAs)	-	-	571,578	-	-	1,721,527	45,095	-	-	2,338,200
Higher-risk categories	-	-	-	-	-	-	-	-	-	-
Cash items and other assets	442,503	37,284	-	-	-	5,208,053	-	-	-	5,687,839
<b>Total</b>	<b>5,497,995</b>	<b>18,653,707</b>	<b>4,832,024</b>	<b>-</b>	<b>56,754,675</b>	<b>38,338,942</b>	<b>45,095</b>	<b>-</b>	<b>-</b>	<b>124,122,439</b>

## TEMPLATE 9

### MARKET RISK UNDER STANDARDISED MEASUREMENT METHOD

Item	RWA amount (LKR '000) As at 31 December 2020
<b>(a) RWA for interest rate risk</b>	-
General interest rate risk	-
(i) Net long or short position	-
(ii) Horizontal disallowance	-
(iii) Vertical disallowance	-
(iv) Options	-
Specific interest rate risk	-
<b>(b) RWA for equity</b>	<b>1,185</b>
(i) General equity risk	<b>1,021</b>
(ii) Specific equity risk	<b>164</b>
<b>(c) RWA for foreign exchange and gold</b>	<b>-</b>
<b>Capital charge for market risk {(a) + (b) + (c)} * CAR</b>	<b>9,478</b>

## TEMPLATE 10

### OPERATIONAL RISK UNDER BASIC INDICATOR APPROACH

Business lines	Capital charge factor	Gross income (LKR '000) as at 31 December 2020			Amount (LKR '000)
		1 <sup>st</sup> year	2 <sup>nd</sup> year	3 <sup>rd</sup> year	
<b>The basic indicator approach</b>	15%	<b>6,845,384</b>	<b>6,146,960</b>	<b>5,206,861</b>	
<b>Capital charges for operational risk (LKR '000)</b>					
The basic indicator approach					909,960
<b>Risk-weighted amount for operational risk (LKR '000)</b>					
The basic indicator approach					7,279,682

## TEMPLATE 11

### DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES AND MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES

## TEMPLATE 12

### EXPLANATION FOR DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY REPORTING

Item	Amount (LKR '000 as at 31 December 2020)					
	a	b	c	d	e	
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory reporting	Subject to credit risk framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital	
<b>Assets</b>						
Cash and cash equivalents	9,640,916	9,627,795	9,638,252	–	–	Impairment of financial assets under SLFRS 9.
Placements with banks	2,823,628	2,718,699	2,718,699	–	–	Interest receivable on placements with banks is classified as other assets in regulatory reporting. Impairment of financial assets under SLFRS 9.
Financial assets fair value through profit or loss	4,600,458	4,850,331	4,836,150	14,180		In regulatory reporting these investments are classified as investments – trading account. Interest receivable on these investments is classified as other assets in regulatory reporting.
Financial assets at amortised cost						
– Loans and receivables to other customers	102,662,269	103,400,139	101,371,360	–	(739,129)	In regulatory reporting loans and receivables to customers arrived after netting off CBSL time based provisions. However, in published financial statements loans and receivables to customers arrived after netting off impairment allowances as per SLFRS 9.
– Debt and other instruments	5,244,005	4,972,786	4,922,786	–	50,000	Interest receivable on debt and other instruments is classified as other assets in regulatory reporting. Impairment of financial assets under SLFRS 9.
Financial assets measured at fair value through other comprehensive income						
Investment in subsidiaries	6,163	6,163	6,163	–	–	
Property, plant and equipment	661,695	658,813	661,695	–	–	
Right-of-use assets	689,646	–	–	–	–	In regulatory reporting Right-of-use asset as per SLFRS 16 is not recognised.
Investment properties	20,223	20,223	20,223	–	–	

Item	Amount (LKR '000 as at 31 December 2020)					
	a	b	c	d	e	
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory reporting	Subject to credit risk framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital	
Intangible assets	395,123	395,123			395,123	
Deferred tax assets	231,673	212,052	–	–	231,641	In regulatory reporting deferred tax assets are recorded in other assets.
Other assets	2,026,987	1,482,283	4,001,683	–		The difference is due to recognition of interest receivable on investments in regulatory reporting and SLFRS 9 adjustments.
<b>Total assets</b>	<b>129,059,724</b>	<b>128,401,346</b>	<b>128,233,948</b>	<b>14,180</b>	<b>(62,365)</b>	
<b>Liabilities</b>						
Due to banks						
Due to other customers	93,271,727	89,965,479	–	–	–	Interest payable on deposits are stated under other liabilities in regulatory reporting.
Other borrowings	18,090,500	18,018,748	–	–	–	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Debt securities issued	1,013,899	964,560	–	–	–	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Subordinated term debts	4,052,630	4,036,261	–	–	–	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Retirement benefit obligations	571,382	571,235	–	–	–	
Current tax liabilities	274,215	187,849	–	–	–	Taxes are computed based on different profits under each reporting method.
Other liabilities	1,869,195	4,761,158	–	–	–	Interest payable on borrowings and deposits added to the other liabilities in regulatory reporting.
<b>Total liabilities</b>	<b>119,143,548</b>	<b>118,505,290</b>	<b>–</b>	<b>–</b>	<b>–</b>	
<b>Off-balance sheet liabilities</b>						
Guarantees	194,554	194,554	194,554			
Undrawn loan commitments		971,084	971,084	–	–	
<b>Shareholders' equity</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	
Equity capital (stated capital)/assigned capital	7,727,941	7,727,941				
of which amount eligible for CET I	7,727,941	7,727,941	–	–	–	
of which amount eligible for AT I	–	–	–	–	–	
Retained earnings	1,890,621	1,912,228	–	–	–	Due to differences which arise in profits computed in regulatory reporting and SLFRSs.
Accumulated other comprehensive income	(19,052)	–	–	–	–	
Other reserves	316,666	255,887	–	–	–	
<b>Total shareholders' equity</b>	<b>9,916,176</b>	<b>9,896,056</b>	<b>–</b>	<b>–</b>	<b>–</b>	



# Sources and Utilisation of Income

## SOURCES OF INCOME

For the year ended 31 December	2020 LKR '000	2019 LKR '000	2018 LKR '000	2017 LKR '000	2016 LKR '000
Interest	14,485,392	13,839,972	11,985,315	9,757,778	7,229,388
Investments	956,610	1,239,352	1,161,472	1,071,555	947,799
Commission and other	705,450	438,273	493,349	537,863	260,340
<b>Total</b>	<b>16,147,453</b>	<b>15,517,597</b>	<b>13,640,136</b>	<b>11,367,196</b>	<b>8,437,527</b>

## UTILISATION OF INCOME

For the year ended 31 December	2020 LKR '000	2019 LKR '000	2018 LKR '000	2017 LKR '000	2016 LKR '000
<b>Employees</b>					
Salaries and other payments to staff	2,576,773	2,116,348	1,827,073	1,474,146	1,266,115
<b>Suppliers</b>					
Interest paid	9,314,576	9,382,529	8,423,758	6,941,841	4,846,840
Other expenses	2,272,146	2,768,699	2,276,236	1,849,165	1,414,892
	11,586,722	12,151,228	10,699,994	8,791,006	6,261,732
Net income before government taxes	1,983,957	1,250,021	1,113,069	1,102,044	909,680
<b>Government</b>					
Income tax, VAT on FS, NBT and DRL	1,147,670	996,616	756,118	594,221	505,958
<b>Shareholders</b>					
Dividends		-	-	136,947	131,249
Retained profit	836,287	253,405	356,950	370,876	272,473
	836,287	253,405	356,950	507,823	403,722
<b>Total</b>	<b>16,147,453</b>	<b>15,517,597</b>	<b>13,640,136</b>	<b>11,367,196</b>	<b>8,437,527</b>

# Quarterly Performance of the Bank

	2020				2019			
	31 December	30 September	30 June	31 March	31 December	30 September	30 June	31 March
<b>Regulatory capital adequacy ratio</b>								
Common equity Tier I capital ratio (%)	9.85	8.15	8.28	8.81	9.43	9.98	10.24	10.87
Tier I capital ratio (%)	9.85	8.15	8.28	8.81	9.43	9.98	10.24	10.87
Total capital ratio (%)	13.38	12.04	12.76	13.75	14.80	13.81	14.21	12.32
Leverage ratio (%)	7.17	5.89	6.02	6.23	6.61	7.12	7.38	7.74
<b>Regulatory liquidity</b>								
Statutory liquid asset (LKR Mn.)	18,886	17,687	17,058	14,188	14,831	14,750	13,962	13,624
Statutory liquid asset ratio (%)	21.57	21.71	22.71	21.57	21.74	21.96	20.74	20.67
Total stock of high quality liquid assets (LKR Mn.)	6,796	5,706	5,881	6,213	5,822	4,574.00	2,553.00	4,091.00
Liquidity coverage ratio (%)	125.21	105.87	102.12	136.22	123.77	164.41	111.56	162.90
Net stable funding ratio (%)	127.33	128.13	130.58	130.56	130.09	125.82	111.70	129.94
<b>Asset quality</b>								
Gross non-performing advances ratio (%)	4.54	4.53	4.72	4.93	4.38	4.21	3.69	3.25
Net non-performing advances ratio (%)	1.79	1.78	2.19	2.26	1.87	2.23	0.61	0.46
<b>Profitability</b>								
Interest margin (%)	5.89	5.79	6.09	6.22	5.88	5.74	5.78	5.81
Return on assets (%)	1.19	1.25	1.10	0.66	0.57	0.31	0.64	0.52
Return on equity (%)	9.51	11.50	9.75	5.47	3.35	1.72	4.03	2.56
<b>Share information</b>								
Market value per share (LKR)	58.10	56.10	60.50	47.00	63.90	61.10	60.00	60.00
Highest price per share for the period (LKR)	65.00	65.00	62.50	63.90	65.80	74.00	67.90	75.00
Lowest price per share for the period (LKR)	50.50	50.70	43.80	45.00	59.30	59.50	58.00	60.00
<b>Debenture information</b>								
Debt to equity ratio (Times)	11.74	13.83	13.09	12.96	12.77	12.36	11.75	11.58
Interest cover (Times)	1.61	1.57	1.12	1.07	1.06	1.03	1.07	1.06
Quick assets ratio (Times)	0.64	0.50	0.63	0.65	0.59	0.68	0.67	0.63
Interest rate for comparable Government security (%)								
Type A	-	-	-	-	-	-	-	-
Type B	6.65	6.69	6.62	9.27	9.72	10.22	9.88	10.91
Type C	-	-	-	-	-	-	-	-
Type D	6.65	6.69	6.62	9.27	9.72	10.22	9.88	10.91

# Abbreviations

<b>A</b>		<b>CO2e</b>	Carbon Dioxide Equivalent, is a standard unit for measuring carbon footprints	<b>H</b>	
AC	Air Conditioner	<b>CRIB</b>	Credit Information Bureau of Sri Lanka	HO	Head Office
ACA	Associate Chartered Accountant	<b>CRMU</b>	Credit Risk Management Unit	<b>HQLA</b>	High Quality Liquid Assets
ADB	Asian Development Bank	<b>CRRF</b>	Credit Risk Review Function	HR	Human Resources
AFS	Available for Sale	<b>CSE</b>	Colombo Stock Exchange	<b>HRD</b>	Human Resources Development
AGM	Assistant General Manager/Annual General Meeting (as appropriate)	<b>CSR</b>	Corporate Social Responsibility	<b>HTM</b>	Held to Maturity
ALCO	Assets and Liability Management Committee	<b>CA</b>	Chartered Accountants	<b>I</b>	
AML	Anti-Money Laundering	<b>CAGR</b>	Compound Annual Growth Rate	<b>IBSL</b>	Institute of Bankers of Sri Lanka
AT I	Additional Tier I	<b>D</b>		<b>ICAAP</b>	Internal Capital Adequacy Assessment Process
ATM	Automated Teller Machine	<b>DFI</b>	Development Financial Institutions	<b>ICASL</b>	Institute of Chartered Accountants of Sri Lanka
<b>AWPLR</b>	Average Weighted Prime Lending Rate	<b>DGM</b>	Deputy General Manager	<b>ICC</b>	International Chamber of Commerce
<b>B</b>		<b>DMS</b>	Document Management System/ Delinquency Monitoring System	<b>ICOFR</b>	Internal Control Over Financial Reporting
BAC	Board Audit Committee	<b>DPS</b>	Dividend per Share	<b>ICT</b>	Information and Communications Technology
BCP	Business Continuity Plan	<b>DRP</b>	Disaster Recovery Plan	<b>IFA</b>	Investment Fund Account
BIA	Business Impact Analysis	<b>DGGF</b>	Dutch Good Growth Fund (Stichting foundsbeheer DGGF lokaal MKB)	<b>IFRS</b>	International Financial Reporting Standards
<b>BIRMC</b>	Board Integrated Risk Management Committee	<b>DRL</b>	Debt Repayment Levy	<b>IIRC</b>	International Integrated Reporting Council
BIS	Bank for International Settlements	<b>DFC</b>	US International Development Finance Corporation	<b>IND</b>	Independent Director
BIO	Belgian Investment Company for Developing Countries NV/SA	<b>E</b>		<b>IRMC</b>	Integrated Risk Management Committee
Bn.	Billions	<b>EAR</b>	Earnings at Risk	<b>IRMU</b>	Integrated Risk Management Unit
BNO	Bank Notes Operation	<b>EIR</b>	Effective Interest Rate	<b>ISMS</b>	Information Security Management System
BOD	Board of Directors BRPTRC Board Related Party Transaction Review Committee	<b>EPF</b>	Employees' Provident Fund	<b>ISO</b>	International Organization for Standardization
BRC	Business Registration Certificate	<b>EPS</b>	Earnings per Share	<b>IT</b>	Information Technology
BSS	Baseline Standard	<b>ERM</b>	Enterprise Risk Management	<b>K</b>	
<b>BRPTRC</b>	Board Related Party Transactions Committee	<b>ESC</b>	Economic Service Charges	kg	Kilograms
<b>BHRRC</b>	Board Human Resources and Remuneration Committee	<b>ESOP</b>	Employee Share Option Plan	km	Kilometre
<b>BS and NC</b>	Board Selection and Nomination Committee	<b>ETF</b>	Employees' Trust Fund	<b>KMP</b>	Key Management Personnel
BCC	Board Credit Committee	<b>EUR</b>	Euro	<b>KPI</b>	Key Performance Indicator
<b>BSP and PI</b>	Board Strategic Plan and Implementation Committee	<b>EVA</b>	Economic Value Addition	<b>KRI</b>	Key Risk Indicators
<b>C</b>		<b>EWS</b>	Early Warning Signals	<b>kWh</b>	Kilowatt-hour
CAR	Capital Adequacy Ratio	<b>F</b>		<b>KYC</b>	Know Your Customer
CASL	Chartered Accountants of Sri Lanka (ICASL)	<b>FSVAT</b>	Financial Services Value Added Tax	<b>L</b>	
CBSL	Central Bank of Sri Lanka	<b>FMO</b>	Financierings – Maatschappij Voor Ontwikkelingslanden N.V.	<b>LCB</b>	Local Commercial Bank
CCB	Capital Conservation Buffer	<b>G</b>		<b>LCR</b>	Liquidity Coverage Ratio
CEO	Chief Executive Officer	<b>GDP</b>	Gross Domestic Product	<b>LGD</b>	Loss Given Default
<b>CET 1</b>	Common Equity Tier I	<b>GHG</b>	Green House Gas	<b>LKAS</b>	Sri Lanka Accounting Standards
CFO	Chief Financial Officer	<b>GL</b>	General Ledger	<b>LTV</b>	Ratio Loan to Value Ratio
		<b>GRI</b>	Global Reporting Initiative	<b>LIBOR</b>	London Inter Bank offered Rate
		<b>GRO</b>	Group Risk Officer		

**M**

<b>m3</b>	Cubic meter
<b>MIS</b>	Management Information Systems
<b>MoM</b>	Month on Month
<b>Mn.</b>	Millions
<b>MSME</b>	Micro, Small and Medium Scale Entrepreneur
<b>MW</b>	Megawatt

**N**

<b>N/A</b>	Not Applicable
<b>NBT</b>	Nation Building Tax
<b>NED</b>	Non-Executive Director
<b>NIC</b>	National Identity Card
<b>NID</b>	Non-Independent Director
<b>NII</b>	Net Interest Income
<b>NIM</b>	Net Interest Margin
<b>NPA</b>	Non-Performing Assets
<b>NPL</b>	Non-Performing Loans

**O**

<b>OBS</b>	Off-Balance Sheet
<b>OCI</b>	Other Comprehensive Income
<b>ORMU</b>	Operational Risk Management Unit
<b>OTC</b>	Over-the-Counter

**P**

<b>p.a.</b>	Per Annum
<b>P/E</b>	Price Earnings Ratio
<b>PAT</b>	Profit After Tax
<b>PBT</b>	Profit Before Tax
<b>PD</b>	Probability of Default
<b>PoS</b>	Point of Sale

**Q**

<b>Q&amp;A</b>	Question and Answer
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**R**

<b>RCSA</b>	Risk and Control Self Assessments
<b>RMU</b>	Risk Management Unit
<b>ROA</b>	Return on Assets
<b>ROCE</b>	Return on Capital Employed
<b>ROE</b>	Return on Equity
<b>RPT</b>	Related Party Transaction
<b>RPTRC</b>	Related Party Transactions Review Committee
<b>RSA</b>	Rate Sensitive Assets
<b>RSL</b>	Rate Sensitive Liabilities
<b>RWA</b>	Risk Weighted Assets

**S**

<b>SAFA</b>	South Asian Federation of Accountants
<b>SBU</b>	Strategic Business Unit
<b>SDF</b>	Standing Deposit Facility
<b>SEC</b>	Securities and Exchange Commission of Sri Lanka
<b>SLA</b>	Statutory Liquid Assets
<b>SLAR</b>	Statutory Liquid Asset Ratio
<b>SLAS</b>	Sri Lanka Accounting Standards
<b>SLDB</b>	Sri Lanka Development Bonds
<b>SLF</b>	Standing Lending Facility
<b>SLFRS</b>	Sri Lanka Financial Reporting Standards
<b>SLIBOR</b>	Sri Lanka Inter Bank Offered Rate
<b>SLIPS</b>	Sri Lanka Interbank Payments System
<b>SME</b>	Small and Medium Enterprises
<b>SMS</b>	Short Message Service
<b>SREP</b>	Supervisory Review Process
<b>SWIFT</b>	Society for Worldwide Interbank Financial Telecommunication
<b>SBCP</b>	Specialised Board Subcommittee Capital Planning

**T**

<b>Tn.</b>	Trillion
<b>ToR</b>	Terms of Reference
<b>TRWCR</b>	Total Risk Weighted Capital Ratio
<b>TT</b>	Telegraphic Transfer

**V**

<b>VAR</b>	Value at Risk
<b>VAT</b>	Value Added Tax

**W**

<b>WHT</b>	Withholding Tax
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**Y**

<b>YoY</b>	Year on Year
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# Glossary of Terms

## A

### ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

### ACTUARIAL ASSUMPTIONS

An entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing post-employment benefits.

### ACCRUAL BASIS

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

### AMORTISATION

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

### AMORTISED COST

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or uncollectability.

### ASSET AND LIABILITY COMMITTEE (ALCO)

A Risk Management Committee in a bank that generally comprises the senior-management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the Bank's forecast and strategic balance sheet allocations.

### AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

### AVERAGE WEIGHTED DEPOSIT RATE (AWDR)

AWDR is calculated by the Central Bank monthly based on the weighted average of all outstanding interest-bearing deposits of commercial banks and the corresponding interest rates.

### AVERAGE WEIGHTED PRIME LENDING RATE (AWPLR)

AWPLR is calculated by the Central Bank weekly based on commercial banks lending rates offered to their prime customers during the week.

## B

### BASEL II

The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in the form of the "International Convergence of Capital Measurement and Capital Standards".

### BASEL III

The BCBS issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

## C

### CAPITAL ADEQUACY RATIO

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

### CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### CASH FLOWS

Cash flows are inflows and outflows of cash and cash equivalents.

### CASH GENERATING UNIT (CGU)

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

### COLLECTIVELY ASSESSED LOAN IMPAIRMENT PROVISIONS

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically assets within the consumer banking business are assessed on a portfolio basis.

### COMMITMENT TO EXTEND CREDIT

Credit facilities available to clients either in the form of loans, bankers' acceptances and other on-balance sheet financing or through off-balance sheet products such as guarantees.

### COMMITMENTS

Credit facilities approved but not yet utilised by the clients as at the reporting date.

## CONTINGENCIES

A condition or situation, the ultimate outcome of which (gain or loss) will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

## CONTRACTUAL MATURITY

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

## CONTROL

An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

## CORPORATE GOVERNANCE

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

## COST TO INCOME RATIO

Operating expenses excluding impairment charge for loans and other losses as a percentage of total operating income

## CREDIT RATING

An evaluation of a corporate's ability to repay its obligations or likelihood of not defaulting, carried out by an independent rating agency.

## CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and other banks and investment debt securities

## CUSTOMER DEPOSITS

Money deposited by account holders. Such funds are recorded as liabilities.

## D

### DEFERRED TAX

Sum set aside in the financial statements for taxation that may become payable/receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rules and accounting conventions.

### DEPRECIATION

The systematic allocation of the depreciable amount of an asset over its useful life.

## DERIVATIVES

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g. an interest rate), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

## DISCOUNT RATE

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

## DIVIDEND YIELD

Dividend earned per share as a percentage of its market value.

## E

### EARNINGS PER SHARE (EPS)

Profit attributable to ordinary shareholders, divided by the number of ordinary shares in issue.

## ECONOMIC VALUE ADDED (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

## EFFECTIVE INTEREST RATE (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

## EFFECTIVE TAX RATE (ETR)

Provision for taxation excluding deferred tax divided by the profit before taxation.

## EQUITY INSTRUMENT

Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

## EQUITY METHOD

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

## EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue

## EXPECTED LOSS (EL)

A regulatory calculation of the amount expected to be lost on an exposure using a 12 month time horizon and downturn loss estimates. EL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

## EXPOSURE

A claim, contingent claim or position which carries a risk of financial loss.

## EXPECTED CREDIT LOSSES (ECLs)

ECLs are probability-weighted estimate of the present value of cash shortfalls (i.e. the weighted average credit losses, with respective risks of defaults occurring in a given time period used as the weights). ECL measurements are unbiased (i.e. neutral, not conservative and not biased towards optimism or pessimism) and are determined by evaluating a range of possible outcomes

## F

### FAIR VALUE

Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

## FINANCE LEASE

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of the asset under lease.

## FINANCIAL ASSET OR FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as "at fair value through profit or loss".

## FINANCIAL GUARANTEE CONTRACT

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

## FINANCIAL INSTRUMENT

Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

## FINANCIAL RISK

The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates or credit rating or credit index or other variable provided in the case of a non-financial variable that the variable is not specific to the party to the contract.

## FIRM COMMITMENT

A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

## FOREIGN EXCHANGE INCOME

The gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the reporting date at prevailing rates which differ from those rates in force at inception or on the previous reporting date. Foreign exchange income also arises from trading in foreign currencies.

## G

### GLOBAL REPORTING INITIATIVE (GRI)

GRI is a leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

## GOING CONCERN

The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

## GROSS DIVIDENDS

The portion of profit inclusive of tax withheld distributed to shareholders.

## GROUP

A Group is a parent and all its subsidiaries.

## GUARANTEES

Primarily represent irrevocable assurances that a bank will make payments in the event that its customer cannot meet his/her financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

**H****HELD-TO-MATURITY INVESTMENTS**

Non derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

**HIGH QUALITY LIQUID ASSETS (HQLA)**

HQLA are assets that can be easily and immediately converted into cash at little or no loss of value, that can be readily sold or used as collateral to obtain funds in a range of stress scenarios and are unencumbered, i.e. without legal, regulatory or operational impediments.

**I****IMPAIRED LOANS**

Loans where the Bank does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

**IMPAIRMENT**

This occurs when recoverable amount of an asset is less than its carrying amount.

**IMPAIRMENT ALLOWANCES**

Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio) respectively.

**IMPAIRMENT PROVISIONS**

Impairment provisions are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

**INDIVIDUALLY SIGNIFICANT LOANS**

Exposures which are above a certain threshold decided by the Bank's Management which should be assessed for objective evidence, measurement, and recognition of impairment on an individual basis.

**INDIVIDUALLY SIGNIFICANT LOAN IMPAIRMENT PROVISIONS**

Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the corporate banking business of the Group are assessed individually.

**INTANGIBLE ASSET**

An identifiable non-monetary asset without physical substance held for use in the production/supply of goods/services or for rental to others or for administrative purposes.

**INTEREST COVER**

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

**INTEREST MARGIN**

Net interest income as a percentage of average interest earning assets.

**INTEREST RATE RISK**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

**INTEREST SPREAD**

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

**INVESTMENT PROPERTIES**

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

**K****KEY MANAGEMENT PERSONNEL**

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

**L****LIQUID ASSETS**

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange and Treasury Bills.

**LEVERAGE RATIO**

The leverage ratio measures a bank's core capital (Capital measure) to its total assets (Exposure measure). The ratio uses capital to judge how leveraged a bank is in relation to its consolidated assets.

**LIQUIDITY COVERAGE RATIO (LCR)**

Banks are required to maintain an adequate level of unencumbered High Quality Liquid Assets (HQLA) that can be converted into cash to meet their liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress scenario. LCR is computed by dividing the stock of HQLA by the total net cash outflows over the next 30 calendar days.

**LIQUIDITY RISK**

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

**LOANS AND RECEIVABLES**

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intended to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

**LOSS GIVEN DEFAULT (LGD)**

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

**M****MARKET CAPITALISATION**

Number of ordinary shares in issue multiplied by the market value of each share at the year end.

**MARKET RISK**

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

**MATERIALITY**

The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of financial statements.

**N****NET ASSET VALUE PER SHARE**

Shareholders' funds divided by the number of ordinary shares in issue.

**NET-INTEREST INCOME**

The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter bank borrowings.

**NET STABLE FUNDING RATIO**

NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. The amount of available and required stable funding are calibrated to reflect the presumed degree of stability of liabilities and liquidity of assets.

**NON-CONTROLLING INTEREST**

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly to a parent.

**O****OPERATIONAL RISK**

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

**P****POWER**

The Power is the existing rights that give the current ability to direct the relevant activities.

**PRICE EARNINGS RATIO (P/E RATIO)**

The current market price of the share is divided by the earnings per share of the Bank.

**PROBABILITY OF DEFAULT (PD)**

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

**PRUDENCE**

Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

**R****RELEVANT ACTIVITIES**

Relevant activities are activities of the investee that significantly affect the investee's returns.

**REPURCHASE AGREEMENT**

This is a contract to sell and subsequently repurchase Government Securities at a given price on a specified future date.

**RETURN ON AVERAGE ASSETS (ROAA)**

Profit after tax expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

**RETURN ON AVERAGE EQUITY (ROAE)**

Profit after tax less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

**REVENUE RESERVE**

Reserves set aside for future distribution and investment.

**REVERSE REPURCHASE AGREEMENT**

Transaction involving the purchase of Government Securities by a bank or dealer and resale back to the seller at a given price on a specific future date.

**RIGHTS ISSUE**

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

**RISK-WEIGHTED ASSETS**

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per rupee among all types of assets. The risk inherent in off-balance sheet instruments is also recognised, first by adjusting notional values to balance sheet (or credit) equivalents and then by applying appropriate risk weighting factors.

**S****SEGMENT REPORTING**

Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealings, property and insurance.

**SEGMENTAL ANALYSIS**

Analysis of financial information by segments of an enterprise specifically-the different industries and the different geographical areas in which it operates.

**SHAREHOLDERS' FUNDS**

Shareholders' funds consist of stated capital, statutory reserves, capital and revenue reserves.

**SINGLE BORROWER LIMIT**

30% of Tier II Capital.

**SPECIFIC IMPAIRMENT PROVISIONS**

Impairment is measured individually for loans that are individually significant to the Bank.

**STATUTORY RESERVE FUND**

Reserve created as per the provisions of the Banking Act No. 30 of 1988.

**SUBSTANCE OVER FORM**

The consideration that the accounting treatment and the presentation in financial statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

**T****TIER I CAPITAL**

Consists of the sum total of paid up ordinary shares, non-cumulative, non-redeemable preference shares, share premium, statutory reserve fund, published retained profits, general and other reserves, less goodwill.

**TIER II CAPITAL**

Consists of the sum total of revaluation reserves, general provisions, hybrid capital instruments and approved subordinated debentures.

**TRANSACTION COSTS**

Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

**TOTAL CAPITAL**

Total capital is the sum of Tier I capital and Tier II capital.

**U****UNIT TRUST**

An undertaking formed to invest in securities under the terms of a trust deed

**USEFUL LIFE**

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

**V****VALUE ADDED**

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

**Y****YIELD TO MATURITY**

Discount rate which the present value of future cash flows would equal the security's current price.



# 24<sup>th</sup> Annual General Meeting

## AGENDA

### DATE

28 May 2021

### VENUE

"Board Room" SANASA Development Bank PLC,  
No.12, Edmonton Road, Kirulapone, Colombo 06.

### TIME

9.00am – 9.05am	Twenty-fourth Annual General Meeting call to order
9.05am – 9.10am	Notice of Meeting – Company Secretary
9.10am – 9.25am	Confirmation of the Minutes of 23rd Annual General Meeting held on 15 July 2020 and Extraordinary General Meeting held on 26 October 2020
9.25am – 9.50am	To pass General Resolutions
9.50am – 9.55am	Address by the Chairman
9.55am – 10.00am	Vote of Thanks – Chief Executive Officer



# Corporate Information

## NAME OF COMPANY

SANASA Development Bank PLC

## LEGAL FORM

A Public Quoted Company with Limited Liability incorporated under the Companies Act No.17 of 1982 on 6 August 1997 and re-registered under Companies Act No. 07 of 2007 and registered as a Licensed Specialised Bank by Central Bank of Sri Lanka under the Banking Act No. 30 of 1988 (as amended by the Banking Amendment Act of 1995) and approved Credit Agency under the Mortgage (Amendment) Act No. 53 of 1949 and Trust Receipt Ordinance No 12 of 1947.

## DATE OF INCORPORATION

06 August 1997

## COMPANY REGISTRATION NUMBER

PB 62 PQ

## CENTRAL BANK REGISTRATION NUMBER

Central Bank License No. 6 (Under Banking Act No. 30 of 1988 on 21 August 1997)

## ACCOUNTING YEAR END

31 December

## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Address:  
No. 12, Edmonton Road,  
Kirulapone,  
Colombo 06

Tele : + 94 112 832 500  
Fax : + 94 112 514 256  
Email : comsec@sdb.lk  
Web : www.sdb.lk

## COLOMBO STOCK EXCHANGE LISTING

The ordinary voting shares of the Company were quoted on the Main Board of the Colombo Stock Exchange (CSE) on 31 May 2012

## CHIEF EXECUTIVE OFFICER

Mr Thilak Piyadigama

## COMPLIANCE OFFICER

Ms S N T Igalagamage

## COMPANY SECRETARY

Ms Tamarika Rodrigo

## AUDITORS

Messrs Ernst & Young  
Chartered Accountants  
No. 201, De Seram Place  
P O Box 101, Colombo 10

## BANKERS

People's Bank  
Bank of Ceylon  
NDB Bank PLC  
Nations Trust Bank PLC  
Hatton National Bank PLC  
Sampath Bank PLC

## BOARD OF DIRECTORS

Ms Samadanie Kiriwandeniya  
(Chairperson) Retired from the Board on 22 May 2020  
Mr Lakshman Abeysekera (Chairman)  
Prof Sampath Amaratunge (Director)  
Mr Prabhash Subasinghe (Director)  
Mr Lionel Thilakarathne (Director)  
Mr K G Wijerathne (Director)  
Mr Chaaminda Kumarasiri (Director)  
Mr Prasanna Premaratna (Director)  
Mr B R A Bandara (Director)  
Ms Dinithi Ratnayake (Director)  
Mr J A Lalith G Jayasinghe (Director)

## BOARD SUBCOMMITTEE DIRECTORS

## BOARD AUDIT COMMITTEE

Mr Chaaminda Kumarasiri  
(Chairman – BAC)  
Prof Sampath Amaratunge  
(Director)  
Mr K G Wijerathne (Director)

## BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE

Mr Chaaminda Kumarasiri  
(Chairman – BHRRC)  
Ms Samadanie Kiriwandeniya  
(Chairperson) Retired from the Board on 22 May 2020  
Mr Lakshman Abeysekera (Chairman)  
Mr Prasanna Premaratna (Director)  
Ms Dinithi Ratnayake (Director)  
Mr J A Lalith G Jayasinghe (Director)

## BOARD CREDIT COMMITTEE

Mr Prasanna Premaratna  
(Chairman – BCC)  
Ms Samadanie Kiriwandeniya  
(Chairperson) Retired from the Board on 22 May 2020  
Mr Lionel Thilakarathne (Director)  
Mr Prabhash Subasinghe (Director)  
Ms Dinithi Ratnayake (Director)

## BOARD SELECTION AND NOMINATION COMMITTEE

Mr Lakshman Abeysekera  
(Chairman – BS and NC)  
Ms Samadanie Kiriwandeniya  
(Chairperson) Retired from the Board on 22 May 2020  
Prof Sampath Amaratunge (Director)  
Mr Chaaminda Kumarasiri (Director)  
Ms Dinithi Ratnayake (Director)

## BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

Prof Sampath Amaratunge  
(Chairman – BIRMC)  
Mr Chaaminda Kumarasiri (Director)  
Mr B R A Bandara (Director)

## BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

Mr Chaaminda Kumarasiri  
(Chairman – BRPTRC)  
Prof Sampath Amaratunge (Director)  
Mr Prasanna Premaratna (Director)

## BOARD STRATEGIC PLANNING AND PLAN IMPLEMENTATION COMMITTEE

Ms Samadanie Kiriwandeniya  
(Chairperson) Retired from the Board on 22 May 2020  
Mr Lakshman Abeysekera  
(Chairman – BSP and PI)  
Mr Prabhash Subasinghe (Director)  
Mr Chaaminda Kumarasiri (Director)  
Mr Prasanna Premaratna (Director)  
Ms Dinithi Ratnayake (Director)

## BOARD CO-OPERATIVE DEVELOPMENT COMMITTEE

Mr K G Wijerathne (Chairman – BCDC)  
Mr Lionel Thilakarathne (Director)  
Mr B R A Bandara (Director)  
Mr Prasanna Premaratna (Director)  
Mr J A Lalith G Jayasinghe (Director)

## SPECIALISED BOARD SUB COMMITTEE CAPITAL PLANNING

Ms Dinithi Ratnayake  
(Chairperson – SBCP)  
Mr Chaaminda Kumarasiri (Director)  
Mr Lionel Thilakarathne (Director)

## MEMBERSHIP IN ASSOCIATIONS

Leasing Association of Sri Lanka  
Association of Professional Bankers' of Sri Lanka  
The Ceylon Chamber of Commerce  
Employers' Federation of Ceylon  
The Association of Banking Sector Risk Professionals in Sri Lanka  
Association of Compliance Officers of Banks in Sri Lanka  
Sri Lanka Banks' Association (Guarantee) Limited  
The Financial Ombudsman Sri Lanka (Guarantee) Limited

## CREDIT RATING

BB+(lka) with Stable outlook  
by Fitch Ratings Lanka Ltd.  
(SL)BBB- with Stable outlook  
by ICRA Lanka Limited



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In the new age of social distancing, SDB bank has managed the remarkable task of drawing its communities closer and getting closer to their hearts. We stood by them throughout the difficult times.

Supporting the men, women, and families in our community, the small businesses and cooperatives, and in particular the financially marginalised, was for us, the greatest achievement of the year.

We also brought our partners in business closer to us and worked together to find solutions that were practical, affordable, and considerate.

We have created a closely knit SDB community, driven by the shared objective of a better future for all – staying connected, one for all and all for one.

[www.sdb.lk](http://www.sdb.lk)