

A blue-toned illustration depicting various professions: a woman in a lab coat, a man in a uniform, a man in a hard hat, a woman with a plant, and a man with a bicycle. The background features a large, faint circular graphic.

Power of Purpose

Power of Purpose

Founded with a strong purpose we have always been driven by a strong sense of stakeholder responsibility.

Our business model is anchored on the vision to help accelerate sustainable and inclusive development for all. We have always focused on the long-term, which requires us to rethink and transform to deliver business with purpose.

Forging ahead with a wide arc of foresight we are geared to empower a rural digital Sri Lanka, which has embraced digitalization. This will be a key driver to expand our reach exponentially. As we progress towards our strategic aspirations strengthened by a multitude of partnerships, we power growth in the SME sector - the nation's most promising stakeholder group that will drive economic revival and prosperity.

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Chairman's Message

Positioned as a "Development Bank for the masses".

Financing the micro and SME sectors, whilst encouraging entrepreneurship among individuals and enterprises, especially women entrepreneurs has been our key priority.



Chief Executive Officer's Review

A Development Bank that promotes local value addition by empowering the SME sector

SDB bank distinguishes itself by its core purpose, operational excellence, and technology-centric growth.

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About us

Stepping into 25 years

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). Incorporated in 1997 and listed on the Main Board of the Colombo Stock Exchange, we have consistently strengthened our value proposition to our stakeholders over the years with the aim of delivering innovative and competitive banking solutions. Our product portfolio consists of development products, personal banking and leasing and deposit products catering to retail customers, SMEs, Co-operative societies and Business banking customers.

Fortified by a network of 94 branches and 1,433 employees, the Bank has always been committed to fostering financial literacy and inclusivity at grass-root level. Our long-term relationships with cooperatives spread across the island has been a source of support in taking our products to the rural community as we work towards our goal of becoming the apex bank of the cooperative sector and a leading partner of national progress.



The Bank originated through the Sanasa Movement, which was initially established as a thrift and cooperative society in 1978 when nearly 40% of Sri Lanka's population lived below the poverty line. Since 1997, the Bank has been reaching out to the bottom of the pyramid segment of the country through a membership network of nearly one million.

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 R 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

2021

- Highest ever profit of the Bank
- Awards**
- Global Banking and Finance Awards for the 'Best SME bank' and the 'Best bank for social media' in 2021
 - Ranked 43rd place on the Brand Finance Sri Lanka's 100 most valuable brands Annual List for 2021
 - SDB bank Placed Among Top-50 in LMD's Inaugural Edition of 'Most Awarded'
 - Honored at the National Business Excellence Award 2021, receiving the Merit Award in the Banking Sector
 - Honored that the effort to empower women in the workplace has been rewarded at the first CIMA Women Friendly Workplace.
- Successfully recorded yet another over-subscription at its Secondary Public Offering
 - Received USD 40 Mn loan facility from US International Development Finance Corporation (DFC) to nurture SMEs and female entrepreneurship
 - Hosted Asia Pacific Chapter of the Global Alliance for Banking on Values
 - SDB bank's rating upgraded to BBB with a Stable Outlook by ICRA Lanka



Looking ahead to

2022

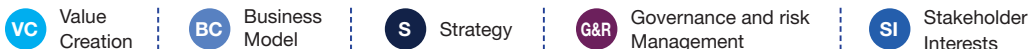
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years.

About the Report

This is the 8th Integrated Annual Report of SDB Development Bank PLC (“SDB bank” or “the Bank”) which has been prepared to demonstrate the financial as well as non-financial aspects of the Bank’s performance during 2021. Prepared in accordance with the Integrated Reporting Framework, the report aims to deliver a balanced review of how the Bank created sustainable value for all its stakeholders.

The integrated report’s scope and boundary covers the following aspects of our Bank for the Year 1st January 2021 to 31st December 2021.



Financial and Non-financial Reporting Boundary

Covers the core business operations of the Bank: SME, Retail, Co-operatives and Business Banking

MATERIALITY AND MATERIAL MATTERS

We have adopted the principle of materiality in determining the content to be included in this Report. Accordingly, the aspects which are most material to the Bank in the short, medium and long term have been filtered through a systematic process as showcased on pages 45 to 47 and disclosed within this report.

Financial Reporting	Non-financial Reporting	Corporate Governance	Sustainability Reporting
<ul style="list-style-type: none"> Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka Companies Act No. 07 of 2007 Banking Act No. 30 of 1988 and amendments thereto Listing Rules of the Colombo Stock Exchange (CSE) 	<ul style="list-style-type: none"> International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC) 	<ul style="list-style-type: none"> Code of Best Practice for Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka 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 Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 and amendments thereto. 	<ul style="list-style-type: none"> Global Reporting Initiative (GRI) Standards - ‘In Accordance Core’, issued by Global Sustainability Standards Board United Nations Sustainable Development Goals (SDGs)

REPORTING CHANGES

We have enhanced the presentation and content of the report via the following improvements,

- Showcasing our strategic priorities
- Demonstrating how the six capitals have led to value creation and achievement of our objectives in line with stakeholder expectations
- Greater connectivity through navigation icons

We report no restatements of information provided in the previous reports other than those stated in the

disclosure provided in the Financial Statements.

APPROVAL

The Bank’s external auditor, Messrs Ernst & Young, has provided assurance on its audited Annual Financial Statements and reviewed the accuracy of the financial information that appears in this report. The external auditor’s report is available on page 153. The Management and Board of Directors have reviewed the non-financial performance, strategy and risk information in this report and are confident that they provide a fair and balanced view of material issues.

Navigating the Report



Financial Capital



Social and Relationship Capital



Manufactured Capital



Human Capital



Natural Capital



Intellectual Capital

Strategic Priorities



Customer Centricity



Excellence in digital technology



Building a high performing team



Stability, Governance and sustainable growth



Digital Version



sdb.lk

A Dedicated website for Annual Report and Integrated Reporting Information

Feedback

We welcome your comments and inquiries on this report. Please contact:

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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 BANK

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 Strategic Pillars

Customer Centricity	Excellence in digital technology	Building a high performing team	Stability, Governance and sustainable growth
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Our Values

To foster and maintain the highest ethical standards at all levels of the Bank and its agencies in dealing with customers, stakeholders and competitors.	To be innovative and demand-driven in providing financial services.	To be courteous and professional in all business dealings.	To avoid discrimination on the grounds of religion, sex, ethnicity, social status and language.	To refrain from extending financial services for unethical and illegal pursuits.
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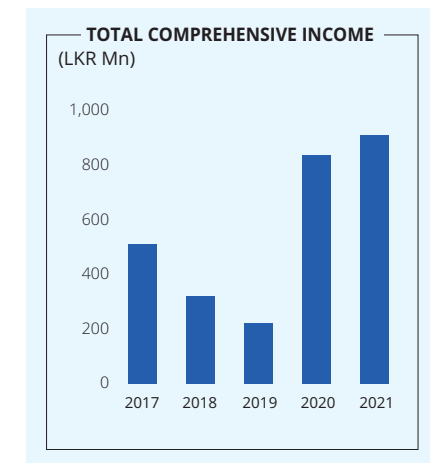
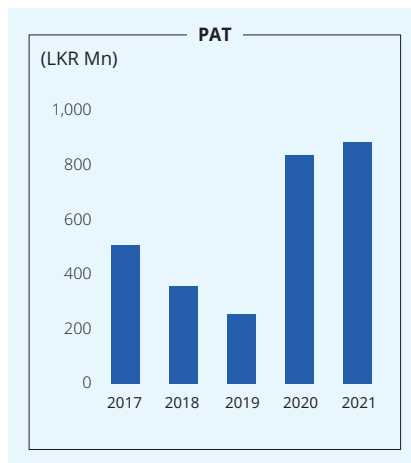
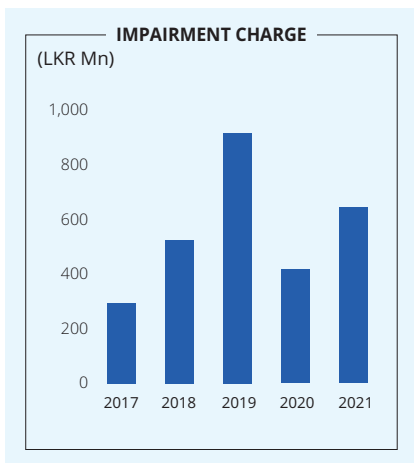
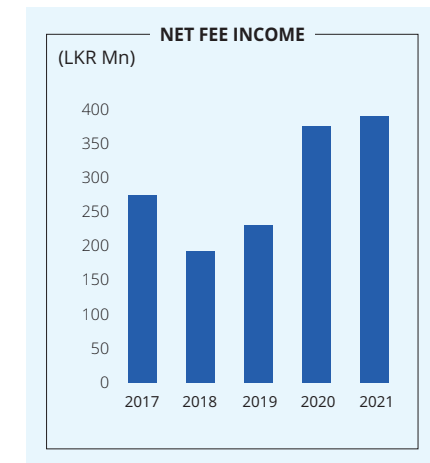
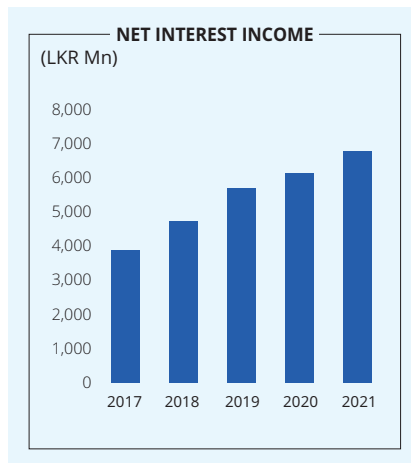
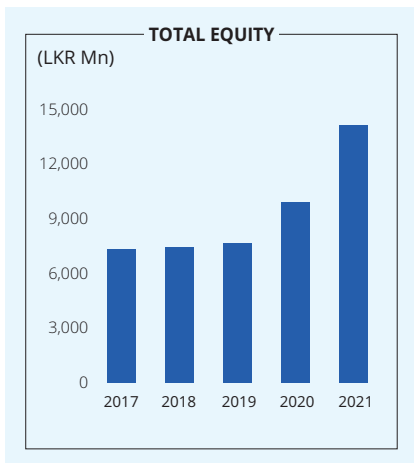
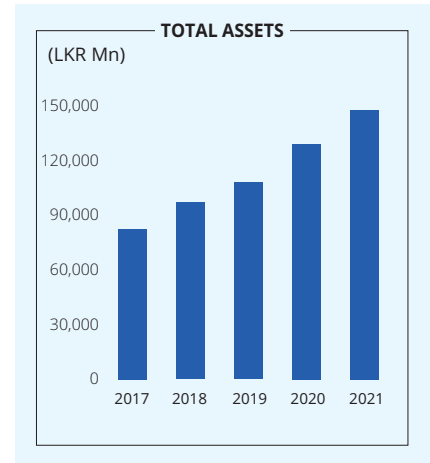
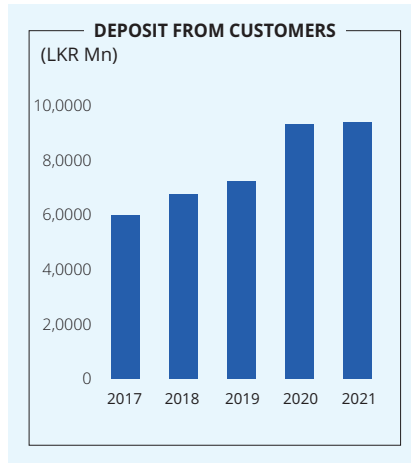
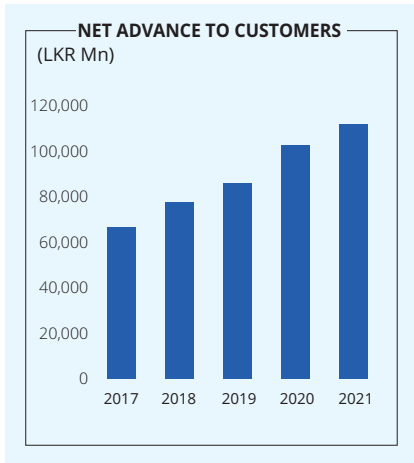
Our Goals

Improve the asset base to stay competitive and resilient in the market.	Transition from a largely micro finance focus to a broader SME corporate focus.	Establish SDB as the Bank of the choice for the cooperative sector.	Introduce a comprehensive digital platform to future proof the Bank.	Provide a delightful experience to customers through value added service.	Maintain a highly motivated and competent team aligned with the mission of the Bank.	Role model Bank for responsible finance in Sri Lanka.
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Financial Highlights








For the year ended 31st December	2021 LKR	2020 LKR	Change
Financial performance			
Gross Income	15,477,595,919	16,161,787,233	-4%
Interest income	14,792,068,260	15,442,002,803	-4%
Interest expenses	8,018,419,381	9,314,576,405	14%
Profit before tax	1,329,807,786	1,412,930,083	-6%
Profit after tax	883,278,171	836,287,347	6%
Total comprehensive income	909,346,727	834,951,754	9%
Financial position at the year end			
Net advance to customers	111,891,255,620	102,662,268,716	8.99%
Deposit from customers	93,902,939,217	93,271,727,185	0.68%
Total assets	147,818,916,074	129,059,724,118	14.54%
Total equity	14,129,696,531	9,916,175,990	42.49%
Growth in advances	8.99%	19.62%	-54.18%
Growth in deposits	0.68%	28.77%	-97.65%
Investor information			
		2021	2020
Earnings per share (LKR)		7.63	11.05
Net assets per share (LKR)		87.93	108.28
Market value per share (LKR) (as at 31 December)		43.00	58.10
Price earning ratio (times)		5.63	5.26
Ratios			
Net interest margin - %		5.47	5.89
Return on assets (ROA) - %		0.96	1.19
Return on equity (ROE) - %		7.35	9.51
Gross non-performing advance ratio - %		4.42	4.54
Net non-performing advance ratio - %		1.49	1.79
Statutory ratios			
Common Equity Tier 1 ratio %- minimum requirement - 6.5%		13.16	9.85
Tier 1 ratio % - minimum requirement - 8%		13.16	9.85
Total capital ratio % - minimum requirement - 12%		15.78	13.38
Liquidity coverage ratio % - minimum requirement - 100%		134.82	125.21
Net stable funding ratio % - minimum requirement - 100%		137.61	127.33
Statutory liquid assets ratio % - minimum requirement - 20%		22.37	21.57

A Snapshot of the Bank





Our Products






SAVINGS

	<p>Financial inclusion and financial wealth</p>	<ul style="list-style-type: none"> • Saving for the future • Insurance cover (including government hospitalisation) • 2% higher interest rate compared to regular savings 	<p>Financial literacy and social wealth</p>	<ul style="list-style-type: none"> • Developing savings habit • Scholarship seminars for children • Seminars for parents on child psychology • Offering valuable, educational gifts for children
	<p>Financial inclusion and financial wealth</p>	<ul style="list-style-type: none"> • The best benefits in the market for savings • An investment plan to realise dreams • Loan up to LKR 1 Mn for entrepreneurs, especially for women • SDB mobile app facility and bill payments through UPAY App 	<p>Financial literacy and social wealth</p>	<ul style="list-style-type: none"> • Provides avenue for financial independence with a helping hand always outstretched in support of the customer
	<p>Financial inclusion and financial wealth</p>	<ul style="list-style-type: none"> • Multiple convenient digital banking platforms • Attractive interest rate • Incentives for account holders who maintain an account balance of LKR 100,000 for 24 months 	<p>Financial literacy and social wealth</p>	<ul style="list-style-type: none"> • Supporting the youth to develop and maintain strong financial strategies
	<p>Financial inclusion and financial wealth</p>	<ul style="list-style-type: none"> • Offered highest interest rates to customers • Unlimited withdrawal • Multiple convenient digital banking platforms 	<p>Financial literacy and social wealth</p>	<ul style="list-style-type: none"> • Fostering a culture of saving and financial management in Sri Lanka
	<p>Financial inclusion and financial wealth</p>	<ul style="list-style-type: none"> • Lump sum deposit ensures a guaranteed return despite interest rate fluctuations • Investment certificate can be encashed upon turning 18 years of age 	<p>Financial literacy and social wealth</p>	<ul style="list-style-type: none"> • Encouraging saving for a child's significant future aspirations such as higher education, business investments or a wedding
	<p>Financial inclusion and financial wealth</p>	<ul style="list-style-type: none"> • Higher interest rate compared to standard savings schemes • Payment date for monthly investment based on customer preference • Target amount and period of investment chosen by customer, especially for women 	<p>Financial literacy and social wealth</p>	<ul style="list-style-type: none"> • Providing financial independence for women • Contributes towards a stress-free, financially secure future
	<p>Financial inclusion and financial wealth</p>	<ul style="list-style-type: none"> • Highest interest rate for corporates • Interest calculated on daily basis based on the day-end balances and credited monthly • Multiple convenient digital banking platforms 	<p>Financial literacy and social wealth</p>	<ul style="list-style-type: none"> • Encouraging enterprising and fast progressing businesses in Sri Lanka to save for the future

FIXED DEPOSITS








 Fixed Deposits	Financial inclusion and financial wealth	<ul style="list-style-type: none"> • Attractive higher rate of interest • Immediate cash back facility of up to 90% of deposits 	Financial literacy and social wealth	<ul style="list-style-type: none"> • Inculcating a savings habit
 Fixed Deposits Upahara	Financial inclusion and financial wealth	<ul style="list-style-type: none"> • Attractive interest rate of 15% per annum for to LKR 1.5 Mn. for those over 60 years of age • A special interest rate for those over 55 years of age 	Financial literacy and social wealth	<ul style="list-style-type: none"> • Provides avenue for financial independence with a helping hand always outstretched in support of the customer

LOANS


 Housing Loan	Financial inclusion and financial wealth	<ul style="list-style-type: none"> • Longer repayment period • Flexible approach and fast approval • Attractive and competitive interest rate 	Financial literacy and social wealth	<ul style="list-style-type: none"> • Encouraging and enabling home ownership
 Personal Loan	Financial inclusion and financial wealth	<ul style="list-style-type: none"> • Top up facility – after repaying a part of the original Personal Loan • Choice of fixed or floating interest rates • Processed within a maximum of three working days 	Financial literacy and social wealth	<ul style="list-style-type: none"> • Providing funds for emergencies or meeting life goals
 Ranmini	Financial inclusion and financial wealth	<ul style="list-style-type: none"> • Purchasing options for gold jewellery, gold coins or gold biscuits at competitive interest rates 	Financial literacy and social wealth	<ul style="list-style-type: none"> • Encouraging investment in gold
 Uththamachara	Financial inclusion and financial wealth	<ul style="list-style-type: none"> • For Ranaviru families of Army/Navy/Air Force/Police/STF who are Killed in Action (KIA), Missing in Action (MIA) and Disabled in Action (DIA) • Loans up to LKR 7 Mn. • Repayment period up to 10 years • Automatic loan protection cover for all applicants 	Financial literacy and social wealth	<ul style="list-style-type: none"> • Seminars aimed at improving financial literacy • Entrepreneurship development through Uththamachara loan facility, for combat veterans suffering from disabilities as well as Ranaviru families of diseased/missing military personnel, to support income generating ventures and activities
 Athamaru	Financial inclusion and financial wealth	<ul style="list-style-type: none"> • A three-month gold loan facility • 0% interest rate per annum • Account holders can obtain an advance loan amount of 90% of the total gold value 	Financial literacy and social wealth	<ul style="list-style-type: none"> • Providing low-risk credit transactions for personal or business emergencies

Our Products

LOANS


	<p>Financial inclusion and financial wealth</p>	<ul style="list-style-type: none"> • For Government and CEB Pensioners • Loans up to LKR 3 Mn without guarantors • Repayment period up to 10 years, and 75 years of age • Our extended support to transfer the pension remittance to the account quickly and conveniently. • A loan protection cover with lowest insurance charge • A competitive interest rate 	<p>Financial literacy and social wealth</p>	<ul style="list-style-type: none"> • Seminars for Government pensioners, veterans and Ranaviru families • Through the loan protection cover dependents are relieved from the debt in the event of the sudden death of the borrower • Solution for an aging population enabling them to re-join the work force
	<p>Financial inclusion and financial wealth</p>	<ul style="list-style-type: none"> • Maximum advance amount for a Sovereign (8g) 18K/24K of gold • Competitive interest rates • Ensured accuracy of gold weight and value with the latest equipment • Benchmarked services that guarantee speed, privacy and the highest level of confidentiality 	<p>Financial literacy and social wealth</p>	<ul style="list-style-type: none"> • Secure and confidential monetary assistance in times of need through pawning of gold or gold jewellery for urgent cash on credit
	<p>Financial inclusion and financial wealth</p>	<ul style="list-style-type: none"> • Reasonable rate of interest with a suitable grace period • Loan values to suit business requirements with a flexible repayment schedule aligned with income pattern and payment capacity • Business guidance and consultancy services 	<p>Financial literacy and social wealth</p>	<ul style="list-style-type: none"> • Quick access to financing for SMEs that are launching a business or expanding an existing enterprise • Financial literacy and entrepreneurship workshops
	<p>Financial inclusion and financial wealth</p>	<ul style="list-style-type: none"> • Loan facilities up to LKR 1 Mn. with two guarantors • 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 	<p>Financial literacy and social wealth</p>	<ul style="list-style-type: none"> • Loan facilities for young male entrepreneurs which help meet diverse business financing needs and drive our local economy forward
	<p>Financial inclusion and financial wealth</p>	<ul style="list-style-type: none"> • Microfinance loans • SME loans, especially for women • Personal loans of up to LKR 10 Mn. • Insurance benefits for those obtaining a loan 	<p>Financial literacy and social wealth</p>	<ul style="list-style-type: none"> • Financial independence
	<p>Financial inclusion and financial wealth</p>	<ul style="list-style-type: none"> • Customised leasing packages to suit commercial requirements with flexible repayment schemes at competitive rates • Attractive discounts on premature settlements • Easy accessibility to leasing facilities through island-wide branch network 	<p>Financial literacy and social wealth</p>	<ul style="list-style-type: none"> • Providing SMEs with the option to lease registered and unregistered vehicles, machinery and equipment to further their businesses
	<p>Financial inclusion and financial wealth</p>	<ul style="list-style-type: none"> • To develop an existing business • To purchase new machinery and equipment • To upgrade to new technology • For any other business need such as the development of packaging or distribution infrastructure 	<p>Financial literacy and social wealth</p>	<ul style="list-style-type: none"> • To develop an existing business • To purchase new machinery and equipment • To upgrade to new technology • For any other business need such as the development of packaging or distribution infrastructure

CO-OPERATIVE PRODUCTS

Loans for Society	Financial inclusion and financial wealth	<ul style="list-style-type: none"> Unsecured loans up to LKR 2 Mn. at prevailing interest rates Repayment period up to three years in monthly installments, with a 3-month grace period. 	Financial literacy and social wealth	<ul style="list-style-type: none"> Supporting SANASA Primary Societies which lack sufficient funding to increase assets and in turn develop and support smaller, dependent societies
Loans for Members Agricultural loan	Financial inclusion and financial wealth	<ul style="list-style-type: none"> Repayment period of one year at prevailing interest rates, with a maximum of a 6-month grace period Repayment can be made monthly, or as a bullet repayment Loan amount depends on the capacity of the society and can go up to LKR 20 Mn with no collateral 	Financial literacy and social wealth	<ul style="list-style-type: none"> Meeting demand for urgent working capital to improve growing crops, raising livestock, and improving operations of small to medium-scale plantations/farms
Equipment/Machinery loan	Financial inclusion and financial wealth	<ul style="list-style-type: none"> Repayment period of three years in monthly installments at prevailing interest rates Loan amount depends on the capacity of the society, and can go up to LKR 20 Mn. with no collateral 	Financial literacy and social wealth	<ul style="list-style-type: none"> Helping members to preserve the income of their business by spreading out the cost of equipment or machinery over a 3-year period
Export/Import loan	Financial inclusion and financial wealth	<ul style="list-style-type: none"> Repayment period of one year at prevailing interest rates, with a 3-month grace period Repayment can be made monthly, or as a bullet repayment Loan amount depends on the capacity of the society 	Financial literacy and social wealth	<ul style="list-style-type: none"> Empowering members through their respective cooperative/society Supporting members in their endeavour to contribute to the national economy
Tech loan	Financial inclusion and financial wealth	<ul style="list-style-type: none"> Repayment period of three years in monthly installments at prevailing interest rates Loan amount depends on the capacity of the society, and can go up to LKR 20 Mn. with no collateral 	Financial literacy and social wealth	<ul style="list-style-type: none"> Empowering members of cooperatives with the opportunity to invest in computers, laptops and other equipment, to join in the global digital revolution and not be left behind
 SDB Co-operative Top Saver	Financial inclusion and financial wealth	<ul style="list-style-type: none"> Highest interest rate of up to 10% for savings Interest calculated on daily basis based on the day-end balances and credited monthly Loan facilities against savings balances with ability to avail up to 80% of the deposit for a one year loan renewal period 	Financial literacy and social wealth	<ul style="list-style-type: none"> Encouraging enterprising and fast progressing businesses in Sri Lanka to save for milestones and a brighter future
SANASA Co-operative/ NGO Savings	Financial inclusion and financial wealth		Financial literacy and social wealth	<ul style="list-style-type: none"> Helping accelerate the progress of the rural economy, the SANASA co-op/NGO savings account aims to connect rural cooperative societies and NGOs as significant contributors to the national economy, thereby nurturing financial equality and stability across Sri Lanka

Our Products

CO-OPERATIVE PRODUCTS

<p>Sahanya</p>	<p>Financial inclusion and financial wealth</p>	<ul style="list-style-type: none"> • Special interest rates • Special bonus interest of 40% of the cumulative interest paid when required minimum balance of LKR 100,000 is maintained during a period of one year • 60% cash back loan facilities 	<p>Financial literacy and social wealth</p>	<ul style="list-style-type: none"> • Adds value to community causes and reduces financial service costs for societies
<p> Samupa Saviya</p>	<p>Financial inclusion and financial wealth</p>	<ul style="list-style-type: none"> • Additional 0.25% interest for fixed deposits • Coverage for entire cooperative segment (including society employees) 	<p>Financial literacy and social wealth</p>	<ul style="list-style-type: none"> • Capacity building training programmes and thrift month financial literacy programmes

Leading the way as a steadfast partner of national development

OUR LEADERSHIP

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Positioned as a “Development Bank for the masses.”

Financing the micro and SME sectors, whilst encouraging entrepreneurship among individuals and enterprises, especially women entrepreneurs has been our key priority.



Chairman's Message

Dear Stakeholders,

The year 2021 was a momentous year for Sanasa Development Bank PLC (SDB bank) as it completed 24 years of operations. On behalf of the Board of Directors, I am pleased to present to you the Integrated Annual Report and Audited Financial Statements for the Financial Year 2021.

The Annual Report - 2021 themed 'Power of Purpose' resonates the Bank's evolutionary journey guided by the philosophy of serving the rural masses encompassing cooperative principles which has led the way to create a powerful and purposeful culture of greater responsibility and broader impact. Over the years the Bank has stood steadfast with its stakeholders whilst guiding and helping customers towards their development and financial aspirations. Today, we look back on our history with pride and look forward to the future with optimism as the Bank progresses to the next phase of growth by infusing value to all stakeholders.

CONTEXT TO PERFORMANCE

The financial year 2021 was an exceptionally turbulent one as Sri Lanka's economy remained under pressure with the effects of the pandemic compounding the pre-existing vulnerabilities and severely hampering economic activity. Within this context, the banking sector played a critical role in anchoring financial stability and creating an environment to support the economy. The financial services sector drove credit expansion in a low interest environment amidst the challenges of subdued economic activity and emerged as a key contributor to the overall growth in the services sector. However, despite these efforts Sri Lanka's economic recovery was put on the balance by rising inflation and pressure on the exchange rates due to the country's fast depleting foreign exchange reserves. The Sri Lankan Rupee continued on a deteriorating path against the US Dollar before being brought under control by the Central Bank intervention in September 2021. Towards the latter part of the financial year the rupee depreciated substantially, subsequent to the decision to allow greater flexibility in

the exchange rate. While the government imposed a series of fiscal and monetary policy measures to set the economy back on track, surmounting debt obligations coupled with the sharp drop in tourism earnings and worker remittances resulted in a rapid erosion of the country's gross foreign reserves.

It is inevitable that the current domestic and global developments will pose considerable challenges and lingering effects on the economy and the banking sector. SDB bank, is to a great degree safeguarded against external vulnerabilities due its unique positioning as a domestic development bank serving individuals and businesses engaged in catering to the domestic demand.

A PURPOSE DRIVEN BANK

The Sanasa Development Bank PLC was created by the SANASA Movement in 1997 to strengthen the collective vision of self-reliance embraced by one million people who were committed to build a social order based on cooperative principles and values. Envisioned by its founders under the leadership of Dr P A Kiriwandeniya, the Bank's foundation was built on the development interventions of the SANASA Movement. By setting the infrastructure of the Bank to serve as the apex Financial Institution for the cooperative sector, it's unique business model has guided the Bank to success over it's evolutionary journey in an increasingly challenging operating landscape.

SDB bank's performance in 2021 demonstrated the innate strengths and resilience of the Bank's robust foundation.

A notable milestone in the last year was the Secondary Public Offering (SPO) with 68 Mn new ordinary voting shares being issued with the objective of strengthening the capital base by raising LKR 3.5 Bn. This offering was the execution of the second phase of the Bank's plans to power its growth trajectory, the first of which was its rights issue in 2020 when it raised LKR 1.5 Bn. The capital raised from the SPO will be

used to fuel the Bank's strategic growth plans for the next 3-4 years, which includes growing its loan portfolio targeting SMEs, promoting female entrepreneurship and introducing digital banking services to Sri Lanka's rural entrepreneurs.

It is heartening to note that the Bank over the recent years has successfully attracted strong international institutional investors with an ethos of sustainability who have placed tremendous confidence in its unique business model. This unique shareholding structure has been one of the cornerstones in our journey of success and will be a key defining critical success factor in the future growth trajectory of the Bank.

Our investment in digital business infrastructure over the last five years positioned us favourably to face the challenges posed by COVID-19. The Bank was able to navigate through extended periods of lockdown and challenges faced in the post pandemic business landscape by continuing to deliver banking services to our clients through our digital channels. Our team has been upskilled enabling them to adapt to a transformed banking environment by aligning to remote working arrangements in a digitized setting.

GOVERNANCE

Good leadership is a key imperative in withstanding the challenges of the business landscape to deliver superior performance. The Board remains committed to maintaining the highest standards of good governance and transparency. We are committed to a set of values which espouse to create a strong ethical corporate culture. We believe in continuous improvement in the Governance structures to remain on top in an evolving industry. Periodic reviews are carried out to ensure the processes remain robust and current.

ESG AND RESPONSIBLE BANKING

As a responsible bank, we are committed to balancing profitability with social and environmental well-being. We strongly believe that the future growth of the

Chairman's Message

“We believe that our strategic path ahead will focus on serving the SME segment of the country which is considered a vital link in the development of the economy. In the year 2020 we set up a dedicated SME development unit. This has enabled us to gain traction within this segment.”

Bank relies on our ability to mitigate Environmental, Social and Governance (ESG) risks.

Taking the ESG mandate forward we hope to scale up our environmental initiatives to a national scale by focusing on preserving our forests, water resources and the environment. We hope to further enhance our social governance framework by continuing to focus our attention on our core principles of ensuring the well-being of the community, our clients, staff and all partners.

STRATEGIC DIRECTION

The FY 2021 was a challenging year, and the year ahead poses even more formidable challenges. We remain resolute and determined in our strategic direction in moving forward with the transformation program set in motion in 2019. Our strategic path ahead will be an extension of this plan.

As a Bank focused on wealth creation at the grass root level, we aim to be positioned as a “Development Bank for the Masses”, focusing on cooperatives, regional enterprise development and livelihood development. This unique positioning will set us apart from the rest of our competitors, as we aim to bridge a much-needed market gap at the national level as a hybrid Development Bank to suit the contemporary business setting.

We believe that our strategic path ahead will focus on serving the SME segment of the country which is considered a vital link in the development of the economy. In the year 2020 we set up a dedicated SME development unit. This has enabled us to gain traction within this segment. However, we feel that we need to focus on improving the size and scale of the SME clientele that we desire to serve. We will continue to serve the micro-businesses and cooperatives which we recognize as SMEs due to the nature of their business, to help them grow and evolve with the Bank. We believe that there is much potential which we could harness within the cooperative segment.

Over the years, SDB bank has been in the forefront of financing the micro and SME sectors and encouraging entrepreneurship among individuals and enterprises especially women entrepreneurs. Further, by providing much needed technical expertise we hope to enable the sector to move forward as well-governed businesses inculcating best business practices. We hope to provide services beyond mere financing by offering capacity building and technical expertise.

Key segments that we aim to focus on are SME's engaged in export oriented Agri businesses. Strengthening their business models and setting in place the foundation will enable these enterprises to be competitive to make progress in export markets. This would set the foundation for an export driven economy. We have also focused on Business Banking and value chain financing which will connect these enterprises to potential buyers.

Our transformation journey through digitization of processes and delivery of services using digital channels has enabled us to position ourselves as a future-ready, digitally driven Bank. Digitalization has been recognized as a key strategic enabler to enhance our reach and take banking to the masses. This has been our guiding rationale as we set in motion an ambitious digitalization program which will help us move upstream, aiming the next level of the SME businesses. This positioning has enabled us to enhance our reach within the masses, thus achieving the dual goals of financial and digital inclusivity. We envisage digital means as one of the primary delivery methods which will be further augmented by the unique relationship-based approach complemented by the touch and feel element of traditional banking.

The IT and BPM Industry is another thrust area of growth which has tremendous potential in generating revenue to the country. We have in partnership with ICTA developed a credit evaluation platform which has defined lending parameters and credit guidelines for Banks in evaluating credit proposals to provide seed capital and credit lines. Thus, SDB bank will play a pivotal role in the IT sector through

capacity development by offering technical expertise to Accountants and Bankers in collaboration with the SME Task Force set up by the Institute of Chartered Accountants of Sri Lanka.

People and capacity development will be a key area of focus under our Smart people, Smart products and Smart processes strategic agenda.

Sustainability is the bedrock of our philosophy. We hope to be an active player together with our investor community in contributing towards ESG objectives at a national level with special emphasis on tree planting and clean water. We also hope to enhance our focus on the ESG sphere by paying greater attention to fair trading, people and governance, which have been guiding tenets of the cooperative movement. As we maintain a close relationship with our international debt and equity capital providers such as FMO, BIO and IFC we will continue to rely on their technical assistance, guidance and expertise on governance, ESG and market research which will place us in good stead.

ACKNOWLEDGEMENTS

As I relinquish my duties as the Chairman of the SDB bank I wish to take this opportunity to express my sincere appreciation to my fellow members who served on the Board over the last nine years with me. I thank you for your valued contributions and strategic direction in steering the Bank towards transformational progress. I wish to thank

the Corporate Management Team and the SDB bank family for the support and cooperation extended to me during the last few years. I acknowledge Mrs Samadanie Kiriwandeniya the former Chairperson of the SDB bank for her leadership and Dr P A Kiriwandeniya for his pioneering initiative of spearheading the SANASA movement and the Bank. I extend my sincere gratitude to our investors, lenders, business partners, customers for their trust and confidence placed in the Bank.

I warmly welcome the incoming Chairperson of SDB bank, Mrs Dinithi Ratnayake and wish the Bank continued success in charting the strategic course of SDB bank towards greater heights of success.



Lakshman Abeysekera

Chairman

A man with short, graying hair, wearing a dark suit, white shirt, and a dark tie with light blue polka dots, stands in an office environment. He has his hands clasped in front of him and is looking directly at the camera. The background is a blurred office space with large windows and modern furniture.

A Development Bank that promotes local value addition by empowering the SME sector

**SDB bank distinguishes
itself by its core purpose,
operational excellence, and
technology-centric growth.**

Chief Executive Officer's Review

The COVID-19 pandemic and its wide-ranging impact dominated the local operating landscape of 2021. Against this backdrop SDB bank forged ahead with resilience playing a vital role in strengthening its socio-economic relevance via extending financial support to businesses and individuals. The Bank performed admirably under challenging conditions by delivering a stable performance whilst strengthening its Balance Sheet and capital position.

KEY PERFORMANCE HIGHLIGHTS

Despite the pandemic induced disruptions, the Bank skillfully managed elevated risks and recorded a Total Comprehensive Income of LKR 909 Mn for the year ended 31st December 2021. Net interest income, which accounted for 91.09% of the total operating income rose by 10.55% reaching LKR 6.77 Bn from LKR 6.12 Bn reported in 2020. Net fee and commission income, comprising of fees related to loans and advances, debit cards, insurance-related services and electronic channels, increased to LKR 390 Mn in 2021 from LKR 390.6 Mn reported in 2020. The Bank's impairment charge, made in line with IFRS guidelines amounted to LKR 643.7 Mn, an increase of 54.3% over the previous year. The increased impairment charge reflects the prudent approach adopted for provisioning based on the prevailing challenging macro-economic developments on a local and global scale. Along these lines, we have also established a robust collection process focused on remedial management and rehabilitation of our customers who are facing financial distress.

Total operating expenses for the year amounted to LKR 4.91 Bn denoting an increase of 11% over the previous year's record of LKR 487.52 Mn mainly driven by the rise in personnel expenses. Inflationary pressure as well as the rise in other cost items led to an increase in the cost to income ratio which stood at 66.24% for the financial year 2021, compared to

64.93% recorded in the previous year. Total tax expenses recorded a year-on-year decrease of 13.79% mainly as a result of the reduction in VAT on financial services and income tax rates.

Total assets of the Bank grew by 14.54% during the year, reaching LKR 147.81 Bn as at year end. The expansion of the loans and advances portfolio coupled with the investment of excess liquidity in Government securities and term deposits with Banks contributed towards this growth. Total deposit growth was encouraging, and it continued to be the single most significant source of funding for the Bank, accounting for 63.53% of the total assets as of year-end, reflecting the trust earned by SDB over its 24 years in operation. The Bank's customer-base predominantly consists of SME's, Cooperatives and individuals with whom we are closely connected and deliver financial solutions. The resilience and strength demonstrated by the Bank stems from its granular customer portfolio which withstood the dynamic environment with strength.

The Bank over the years has demonstrated its innate resilience and strong fundamentals in performing under adversity by adapting swiftly to external challenges. By embracing digitally driven working modalities, we delivered an uninterrupted service to our customers during intermittent lockdowns. Our focus on digitising the processes enabled us to provide a strong and customer-centric service platform in a seamless manner.

DRIVING FINANCIAL INCLUSIVITY

We remain focused on driving local value addition by empowering the potential of the SME sector. As a Bank that is focused on development, we believe that encouraging local production and value addition is the need of the hour and the Bank is well positioned to contribute to this national priority. Driving financial inclusivity has been one of the key objectives of the Bank over

the years and our investments in building the required digital infrastructure has paid off in driving greater penetration into the rural economy and communities.

Recognising the pivotal role played by women in driving our economy and empowering women entrepreneurship was a key focus area of our strategy. During the FY2021 we drove greater traction in this space by ensuring that women entrepreneurs are supported in multiple ways to elevate them to the next level and enrich their contribution to the economy of Sri Lanka. We allocated almost 40% of the USD 40 Mn credit line received from the United States International Development Finance Corporation towards women entrepreneurship development; a commitment which will ultimately benefit the economy.

As we pursue greater financial inclusivity amongst the rural masses, we are guided by a strong sense of purpose that transcends beyond the profit motive. This has enabled SDB bank to connect with our customers deeply in creating greater stakeholder wealth and through this strategy we envision to enable rural development and greater financial inclusivity. In order to build the capacity of the SME segment we offer a gamut of value additions, such as awareness-building programmes on various business aspects, from value chain enhancements to financial management. To elevate these knowledge-sharing initiatives, we have formed strategic partnerships with organisations such as the Institute of Chartered Accountants of Sri Lanka to mentor and support SMEs.

DIGITAL EXCELLENCE

SDB bank distinguishes itself from the market by its core purpose, operational excellence and technology-centric growth. We have empowered customers with multiple digital transaction solutions and value-added services that has taken digital technology to the masses.

Chief Executive Officer's Review

“As we pursue greater financial inclusivity amongst the rural masses, we are guided by a strong sense of purpose that transcends beyond the profit motive. This has enabled SDB bank to connect with our customers deeply in creating greater stakeholder wealth. Through this strategy we envision to enable rural development and greater financial inclusivity.”

Driving digital inclusivity amongst the rural masses is one of our key strategic priorities. Our investments over the years in this sphere continue to progress by paying off our investment. Digitization and digital platforms will continue to be a core area of focus in our business strategy.

Working in tandem with the Central Bank of Sri Lanka (CBSL) the Bank played a significant role in driving LankaQR; an efficient and secure payment solution launched by CBSL to digitally empower Sri Lanka. This together with our very own revolutionary multi-functional mobile wallet, UPAY app was a successful initiative to drive technology adoption rates.

INTEGRATING SUSTAINABILITY

The developments in the last two years have clearly highlighted the inter-dependency that exists between businesses, communities, and eco-systems. As a socially responsible bank we are deeply conscious of the environmental and social impact. Therefore, we have taken a holistic approach to business decisions allowing us to deliver inclusive socio-economic growth that caters to current and future generations. The Sustainability Framework outlines the Bank's journey towards becoming a more sustainable Bank which aligns with the Bank's priorities as well as key principles that contribute to positive social and environmental progress. This Framework is governed by enhanced sustainability in the governance structure consisting of new roles that are critical to execute our sustainability strategies.

A PEOPLE-ORIENTED BANK

As a people-oriented Bank our work revolves around creating value for people and is simultaneously driven by people. In line with our transformation into the new era of banking, we are focused on providing greater opportunities for employees to leverage their skills and competencies. Our efforts in retraining, re-skilling and re-deploying resources on a continuous basis

aims at improving optimisation, competency and efficiencies to deliver customer-centric services whilst concurrently gearing our workforce to be future-ready..

WAY FORWARD

We are cognisant of the economic challenges faced by the nation stemming from the foreign exchange crisis and the urgent need for economic reforms. There is a clear and urgent need to stimulate local production and value addition, which we believe will reduce the country's dependency on imports for consumption and eventually contribute towards higher exports. In this backdrop, we as a Development Bank is well positioned to support this national need in driving sustainable value addition across industries, especially in boosting the contribution of SMEs.

Although the environment continues to be challenging, we see a myriad of opportunities for the Bank. As the nation moves ahead with a focus on developing the SME sector, we envision to harness the value and potential so that SME's will add greater value to the economy. As a Development Bank we are strengthened by the support extended by our diverse equity investors with the requisite capacity to drive growth and offer technical assistance in the areas of focus. We will continue the momentum in driving digitization of our processes to transform the Bank as a future-ready bank.

A NOTE OF APPRECIATION

As we end the FY 2021 on a strong note, we remain resolute and energized to commence the next phase of our journey of transformative growth. I would like to take this opportunity to thank the Chairman and the Board of Directors who have helped in providing strategic direction in steering our efforts towards this transformation journey which has delivered the results we witness today. I wish to offer my sincere gratitude to the dedicated SDB team who collectively

spearheaded the operations of the Bank during a challenging phase to deliver exceptional results. I also wish to extend my deepest gratitude to all our stakeholders, customers, shareholders, business partners and regulators for their continuous trust and loyalty.

As we move to greater heights towards the next frontier of growth, we strive to create value for all our stakeholders by placing greater emphasis on the intrinsic potential of our stakeholders to generate sustainable value creation today and beyond.



Niranjan Thangarajah
Acting Chief Executive Officer

Board of Directors



01.
MR LAKSHMAN ABEYSEKERA
Chairman - Non-Executive,
Independent Director

02.
MS DINITHI RATNAYAKE
Non-Executive,
Non - Independent Director

03.
PROF SAMPATH AMARATUNGE
Non-Executive,
Independent Director

04.
MR PRABHASH SUBASINGHE
Non - Executive,
Non - Independent Director

05.
MR S LIONEL THILAKARATHNE
Non-Executive,
Non-Independent Director

06.
MR CHAAMINDA KUMARASIRI
Non-Executive,
Independent Director

07.
MR PRASANNA PREMARATNA
Non-Executive,
Independent Director

08.
MR B R A BANDARA
Non-Executive,
Non-Independent Director

**09.****MR J A LALITH G JAYASINGHE**Non-Executive,
Non-Independent Director**10.****MR THUSANTHA WIJEMANNA**Non-Executive,
Independent Director**11.****MR S H SARATH NANDASIRI**Non- Executive,
Non - Independent Director**12.****MR CONRAD DIAS**Non - Executive,
Non - Independent Director**13.****MR NAVEENDRA SOORIYARACHCHI**Non- Executive,
Non - Independent Director

Board of Directors

1.

MR LAKSHMAN ABEYSEKERA

Chairman - Non-Executive, Independent Director

Appointed to the Board in 2013 and appointed as the Chairman w.e.f. 22nd 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 the 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 and JanRich (Foods) Ltd. Further he is the Chairman of CA Sri Lanka SME - Task Force.

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 and AAT Sri Lanka.

2.

MS DINITHI RATNAYAKE

Non-Executive, Non - Independent Director

Appointed to the Board in 2020

Ms Ratnayake possesses a broad and In-depth knowledge on financial institutions. She has a strong credit background, and exposure to debt capital markets and International Risk and Compliance Practices.

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, an 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 represents SBI Emerging Asia Financial Sector Fund PTE. LTD and Nederlandse Financierings - Maatschappij Voor Ontwikkelingslanden N.V.

3.

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.

Since January 2020 he serves as the chairman of University Grants Commission (UGC). He presently holds Directorships at Citizen Development Business Finance PLC, Laugfs Gas PLC, Raigam Wayamba Salterns PLC, Southern Salt Company (Pvt) Ltd, Raigam Wayamba Cereals (Pvt) Ltd. Further, Prof. S Amaratunge is a Director of Payment Services Private Limited which is a fully owned subsidiary of SDB bank.

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.

In the year 2021 Snr. Prof. Sampath Amaratunge was awarded with "The Order of the Rising Sun" conferred by His Majesty the Emperor of Japan on foreign nationals who have made distinguished contributions to enhancing friendly relations with Japan.

He was twice appointed as the Vice-Chancellor of the University of Sri Jayewardenepura and former Chairman of the Federation of University Teachers Association (FUTA).

4.

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 the Managing Director of Global Rubber Industries (Pvt) Ltd., Global Seafoods (Pvt) Ltd. and Global Fisheries (Pvt) Ltd, Ayenka Holdings (Pvt) Ltd.

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.

He served as the Board Member of Sri Lanka Society of Rubber Industry and held the position of Key Advisor for the National Export Strategy. During the past several years he served as the Chairman of the Sri Lanka Export Development Board (SLEDB), Chairman of the Sri Lanka Association of Manufacturers and Exporters of Rubber Products and the President of the Seafood Exporters Association Sri Lanka.

5.**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., Director of Governance Forums of Sri Lanka, Executive Director of Rural Centre for Development (SANGRAMA) and Treasurer of Green Movement of Sri Lanka.

6.**MR CHAAMINDA KUMARASIRI**
Non-Executive, Independent Director

Appointed to the Board in 2018

A good Governance advocate, Thought Leader, Senior Chartered Accountant, Corporate Trainer, Leadership Coach, Management Consultant and a Business Advisor with a proven track record in the corporate world, holding senior leadership positions in leading local entities and multinationals.

He is the Founder/President of Asia Pacific Institute of Money and Entrepreneurship Development, the Founder / CEO of the Human Capital Partner, the Chairman/ Principal Consultant of H C P Consulting (Pvt.) Ltd. and a Commission Member of Telecommunications Regulatory Commission of Sri Lanka. He also serves on the International Panel on Accounting Education (IPAE), as the only representative from the entire South Asia. He is also a regular writer on Financial Literacy,

Entrepreneurship, Strategic Management and Leadership for print media and business journals.

Mr Kumarasiri counts over 22 years of lecturing and corporate training experience and has trained over 100,000 individuals over the years. He possesses an array of professional and academic qualifications with numerous awards and medallions. He is a Fellow member of The Institute of Chartered Accountants of Sri Lanka, The Association of Chartered Certified Accountants - UK and The Association of Accounting Technician of Sri Lanka. He is also an Associate member of The Institute of Certified Management Accountants of Sri Lanka. He has obtained a B.Sc. Accountancy (Special) Degree from the University of Sri Jayawardenepura with a First Class honours and holds an MBA in Finance from the University of Colombo.

He previously 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, 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. He has also served as a Governing Council Member of the Institute of Chartered Accountants of Sri Lanka; the national body of accountants.

7.**MR PRASANNA PREMARATNA**
Non-Executive, Independent Director

Appointed to the Board in 2018.

A Senior Banker who has more than 30 years of private and public sector experience in Agriculture and Development Banking in Sri Lanka and abroad. Mr Premaratna heavily focused on the development of Small and Medium Scale Enterprises (SME) across Sri Lanka. He was mainly involved in assisting many start-up projects in the manufacturing, Agriculture and Export oriented sectors.

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 life member of the Association of Professional Bankers of Sri Lanka (APB).

Mr Premaratna held the position of 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 a Pioneer Member of the Management Team of Pelwatte Sugar Industries before moving into the Banking Sector. He is the current Chairman of South Asia Partnership, Sri Lanka (SAPSRI).

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 cooperative sector, Mr Bandara is the Chairman of Polgahawela SANASA Shareholders Trust Company Ltd, Director of SANASA Printers & Publishers Ltd since 2005, Director of Panaliya Sanasa Society and Director of Payment Services Private Limited which is a fully owned subsidiary of SDB bank. He is also the General Manager of Polgahawela SANASA Societies Union Ltd.

Mr Bandara holds a Diploma in Banking & 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 Banking Academy of Wayamba Co-operative Rural Bank Union, 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.

Board of Directors

Mr Bandara has also served as a Director of SANASA Development Bank PLC (2015 to 2017), SANASA Producer and Consumer Alliance Limited, Polgahawela SANASA Shareholders Trust Company Ltd. (2012 - 2020) and also he has served as the Chairman of Panaliya Sanasa Society.

9.

MR J A LALITH G JAYASINGHE Non-Executive, Non-Independent Director

Appointed to the Board in 2020

He has over 20 years' experience in working with grass root level communities particularly working with the SANASA Movement.

Mr Jayasinghe is the Chairman / Director of SANASA Printers & Publishers Ltd since 2003. He is a Director of Kegalle SANASA Shareholders Trust Company Ltd, Kegalle District SANASA Societies Union Limited and Chairman of Waldeniya Sanasa Society. He serves as a Labour officer at the Department of Labour more than 24 years and has experience in solving the industrial dispute.

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

Mr Jayasinghe had served as a Union Leader and served as a Secretary of Labour officers' Association of Government Service (2014 - 2016).

10.

MR THUSANTHA WIJEMANNA Non-Executive, Independent Director

Appointed to the Board in 2021.

Mr Thusantha Wijemanna is an Attorney - at- Law of the Supreme Court of Sri Lanka and a Notary Public with over 20 years of experience in the Banking Industry.

Mr Thusantha Wijemanna Presently holds Directorships at The Swadeshi Industrial Works PLC, Swadeshi Marketing (Pvt.) Ltd, Swadeshi Chemicals (Pvt.) Ltd, Ceylon Plastics Ltd and Payment Services Private Limited which is a fully owned subsidiary of SDB bank. Further, he is a Council Member of the Open University of Sri Lanka and also member of the Board of Management of the Lakshman Kadiragamar Institute of International Relations and Strategic Studies (LKI) and Resource person of Bandaranaike International Diplomatic Training Institute.

He holds the degree of Bachelor of laws (LLB) (First Class Hons.) from University of Colombo and Master of Laws (LLM) from University of London. He is a Commonwealth and Chevening Scholar of the United Kingdom, a Research Fellow at the Institute of Advanced Legal Studies in London and an Alumni of Asian Institute of Management (AIM) in Manila.

He was the Chairman of National Institute of Business Management (NIBM) and his last assignment was as Director General of the SAARC Arbitration Council (SARCO) in Islamabad, Pakistan. Prior to that, he was Legal Advisor to Ministry of External Affairs in Colombo, Assistant Legal Advisor in Ministry of Foreign Affairs, General Counsel & Secretary to the Board of DFCC Bank and Company Secretary/Chief Legal Officer of Sampath Bank PLC. He was also a Commissioner of Sri Lanka Law Commission.

11.

MR S H SARATH NANDASIRI Non-Executive, Non-Independent Director

Appointed to the Board in 2021.

Mr S H Sarath Nandasiri possesses over 20 years' experience in the field of Credit and also he has experience in working with Rural Community particularly working with SANASA Movement.

Presently he holds the position as General Manager of Kegalle Sanasa District Union Ltd.

He possesses B. Com (Hons) from University of Peradeniya, Diploma in Credit Management (IBSL), Higher Diploma in Micro Finance and Certificate in Leasing Operations (CBSL).

He has held the positions of Manager - Sales and Branch Manager and senior Manager responsibilities in the fields of Credit and Recoveries in several financial institutions.

12.

MR CONRAD DIAS Non-Executive, Non-Independent Director

Appointed to the Board in 2021.

Mr Conrad Dias experience spans over three decades and is a visionary leader in business technology and his C-Level experience spans over twenty years.

He is a fintech enthusiast who innovated many financial technology products and solutions. He is the founder of iPay, a revolutionary platform beyond payments and of OYES, another fintech platform that makes everyday a payday.

His thought leadership on technology and contribution in the field of ICT to the industry, society and in LOLC Group was recognized by many local and international awards including the Prestigious Computer Society of Sri Lanka CIO of the year 2016 and Chartered Management Institute of Sri Lanka Professional Excellence Award 2017. He was inducted to the Global CIO Hall of Fame 2020 of IDG CIO 100, the only Sri Lankan to get this accolade.

Presently he holds Directorships at LOLC Holdings PLC, LOLC Finance PLC, LOLC Technology Services Limited and LOLC Technologies Limited.

Mr Conrad Dias holds Masters in Business Administration (MBA) from the University of Leicester UK and Fellow Membership of the Chartered Management Accountants UK (FCMA), Chartered Global Management Accountants (CGMA - USA), Certified

Management Accountants of Sri Lanka (FCMA) and the British Computer Society (FBCS).

Mr Dias served as a Managing Director / CEO at LOLC Technologies Limited, Managing Director of Vanik Asset Management Limited, Director / General Manager of Vanik Corporate Service Limited, Group Head of Information Technology at Hirdaramani Group of Companies.

Mr Sooriyarachchi has served as a Director in CBC Finance Ltd and CBC Tech Solutions Ltd, the Leasing and IT subsidiaries of Commercial Bank and is an Independent Non-Executive Director of Durdans Medical and Surgical Hospital (Pvt.) Ltd.

He represents BIO (Belgian Investment Company for Developing Countries SA/NV), a major Shareholder of SANASA Development Bank PLC.

13.

MR NAVEENDRA SOORIYARACHCHI

Non- Executive, Non - Independent Director

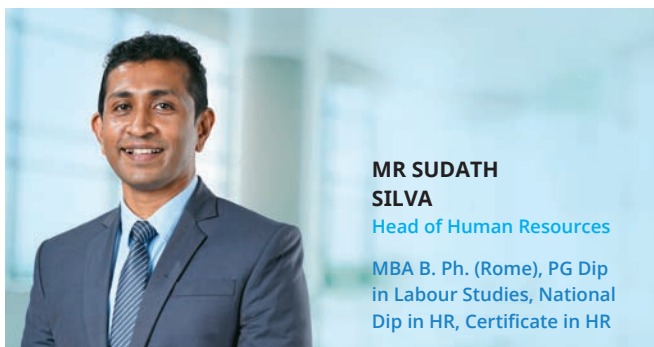
Appointed to the Board in 2021.

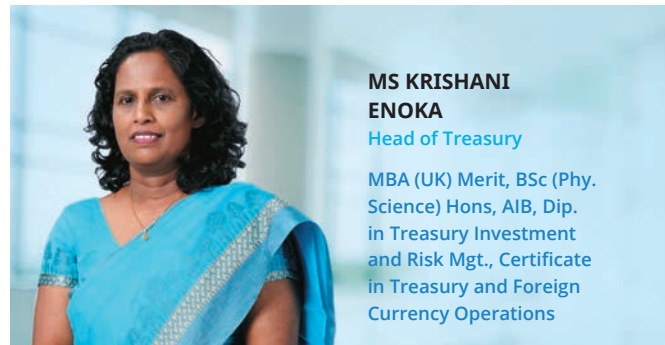
A distinguished banker with a strong credit background, Mr Naveendra Sooriyarachchi has a broad and in-depth knowledge on SMI Finance, Project Finance, Trade Finance, Corporate Banking and Investment Banking, built over an eminent 40-year career in banking.

Mr Sooriyarachchi has held Key Corporate Management positions at Commercial Bank of Ceylon PLC. As the Deputy General Manager-Corporate Banking, he was instrumental in steering Commercial Bank to win the 'Best Trade Finance Bank in Sri Lanka' award of the 'Asian Banker' consecutively in 2019 and 2020 as well as the 'Best Corporate Bank in Sri Lanka' award of International Finance (UK) in 2019.

Mr Sooriyarachchi was also responsible for the initiation of Investment Banking Operations at Commercial Bank after studying Investment Banking at the Boston University, USA on a Fulbright Scholarship. During this period, he has also served as a consultant in the Capital Markets Division, Asia Department of the IFC (International Finance Corporation), Washington. He also has a Master's degree in Business Administration & Finance from the University of Colombo and is an Associate of the Institute of Bankers, Sri Lanka (IBSL).

Corporate Management





Chief Managers





Senior Management



MR JAYALAL PERERA
Senior Manager – Credit Review
B.Sc. Business Administration (Sp)



MR A M NIMAL CHANDRA
Senior Regional Manager – Western 2 Region
BA



MS K V R JEEWANTHI
Senior Manager – Refinance
MBA (UK), BSc Business Administration (Sp. USJP), PGD in Community Development (UOC), Associate Member IBSL, CGAP Trainer, Microfinance Facilitator



MR BIMAL RAJAKARUNA
Senior Manager – Human Resources Development
B.A., PGCC (India), Dip. in Psy, ACGC, National Dip in T&D (SLITAD)



MR UDENA WELIKUMBURA
Head of Liabilities
MBA (Pera), PGDM, MSLIM, BMS, Associate APB



MR CHAMINDA RATHNAYAKE
Senior Regional Manager – North Western Region
B.Sc. Accountancy & Finance (SP.) Hons, Registered Trainer & Consultant (Ministry of Public Management Reforms)



MS NUSHIKA EDIRISINGHE
Senior Manager – Credit Administration
B Sc (Colombo), Intermediate Banking Diploma (IBSL), Certificate in Hire Purchase and Lease Financing (IBSL), ACS



MR PIYAL SENADHEERA
Senior Branch Manager – Gampaha
MFE, PG. Dip. In Economic Development (Colombo), AIB, DBF (IBSL), Dip in Finance & Bank Management (IBSL), Intermediate Banking Diploma (IBSL), Dip.in SME Finance (IBSL), MAAT, ATII (SL)



MR DHAMMIKA GAMAGE
Senior Manager – Agriculture Entrepreneurship Development & Micro Finance
Intermediate Banking Diploma (IBSL), Advanced National Diploma in HRM

**MR SUJEEWA PERERA**

Senior Branch Manager – Bandarawela Branch BA., Intermediate Banking Diploma (IBSL), National Certificate in Technology (Civil Engineering)

**MR W V P A SAMANTHA**

Divisional Head – Leasing Assessment & Approval
B Com (Special), AIB, DBF (IBSL), M Sc App Fin (USJP)

**MR PRADEEP GNANASIRI**

Senior Branch Manager – Uhana Branch BA (Special)

**MR SEMERA MAHATHANTHILA**

Senior Manager – Compliance
PG. Dip. in Business & Financial Administration (ICASL), B Sc Applied Sciences (Rajarata)

**MR SUJEEWA PERERA**

Divisional Head Cooperative & Corporate Credit Assessment
AIB, B Com (USJP), DBF (IBSL)

**MS DENUKA PRIYANGANI**

Divisional Head – Retail Credit Assessment & Approval
MSc, Executive Dip.in Service Management, CBF.

**MS K K RANGANI**

Senior Manager – Credit Administration Hub-Karapitiya
HNDA, Intermediate Banking Diploma (IBSL)

**MR SANJEEWA DISSANAYAKE**

Senior Branch Manager – 1st Colombo City Branch
CBF

**MS SHASHIKALA SUBHASHINI**

Senior Branch Manager – Kaluthara Branch
MSc, Dip.in Micro Finance , Executive Dip.in Service Management, CBF

Senior Management



MR MAHINDA THENNAKOON
Senior Branch Manager – Battaramulla Branch
Intermediate Examination (IBSL)



MR NISHANTHA WIJESINGHE
Senior Branch Manager – Negombo Branch
Dip.in SME(IBSL)



MR PRIYANKARA FERNANDO
Divisional Head – SME Credit Assessment
Dip.in Credit Management, Dip.in SME
Finance, Dip.in Micro Finance, CBF



MR RAJEEVA ADHIKARAM
Senior Manager – Information System Audit
Dip.in Information Systems Security Control &
Audit, Dip.in international Relations, CBF, CISA.
Executive MSc in Information Security



MR NISHAN PALLEGAMA
Senior Manager – SME
Dip.in SME Finance, CB, Certificate in Hire
Purchase & Leasing



MR SANJEEWA PUSHPAKUMARA
Senior Branch Manager – Kegalle
MBA, Dip.in Banking & Finance, Dip.in SME
Finance, Dip.in Intermediate Banking, AIB.



MR SASIKA WICKRAMARATHNE
Senior Manager – Centralized Operations
BMS, ACBF, DBF, CBF.



MS MANORI NETHTHASINGHE
Senior Manager – ICBS
BSc (Business Management), DBF, CBF, AIB.



MR RANJITH RANDENIYA
Senior Regional Manager – Eastern Region
BBA, Dip.in Management Science, CBF.



MR SARATH GUNATHILAKA BANDA
Senior Branch Manager – Mawanella
BSc. (Business Management), CBF, DBF, Dip.in
SME & Finance



MR SADARA PANDIPPERUMA
Senior Branch Manager – Matara
BBA(Accounting & Finance), Certified Business
Accounts (CBA)



MS U G P RANOJANI
Senior Manager – Legal
LLB, Attorney at Law, Notary Public



MS NILUPAMA MADURAWALA
Senior Manager – SME
BSc, MFE, CBF, DBF, Certificate in HRM



MS CHATHURIKA MEEMANAGE
Senior Manager – Internal Audit
FCA, BSc Finance (Sp), AIB, Dip. in Information
System Security Control and Audit (DISSCA)



MR RANJEEV BEADLE
Head of Leasing and Retail Assets
Dip in Business Administration
(ICFAI University), Affiliate Professional CIM



MR ADHEESHA 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

MR CHINTHAKA JAYAKODY
Senior Branch Manager – Kuliypitiya
BA, CBF.

A powerful and purposeful culture of greater responsibility and broader impact.



OUR VALUE CREATION STORY

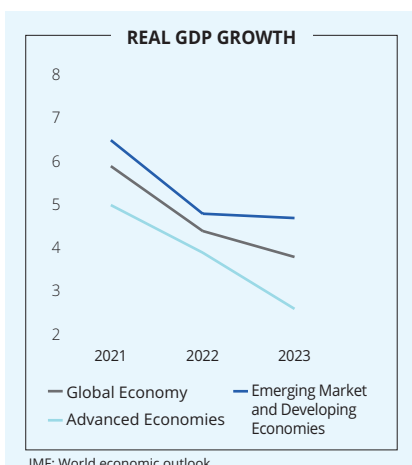
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Operating Environment

GLOBAL ECONOMY

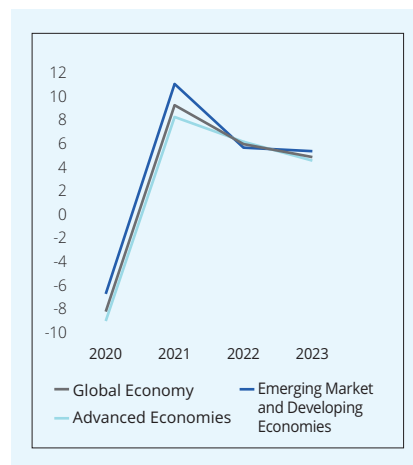
The global economy continued on a path of recovery from the disruptions triggered by the COVID-19 pandemic in 2020. The IMF estimates a global growth of 5.9% for 2021 which is expected to average at 4.4% in 2022 due to recurring waves of the pandemic, continuous supply chain disruptions and lack of proper policy support. Other global risks such as the slowdown in China's real estate sector, climate change, geopolitical tensions and social unrest could also tilt these predictions downward.

As the global vaccination programme continues at a rapid pace across advanced economies, emerging economies are still struggling with vaccine distribution. However, on a positive note even though transmissibility still remains at very high levels, the severity of the virus seems to be gradually lessening. While the return to pre-pandemic levels of economic growth is still largely dependent on the vaccine rollout, international collaboration will be essential to maintain access to liquidity and facilitate debt restructuring where necessary. Monetary policy measures may have to continue on a tightening path while fiscal policies will need to prioritize health and social well-being with greater focus on the worst affected.



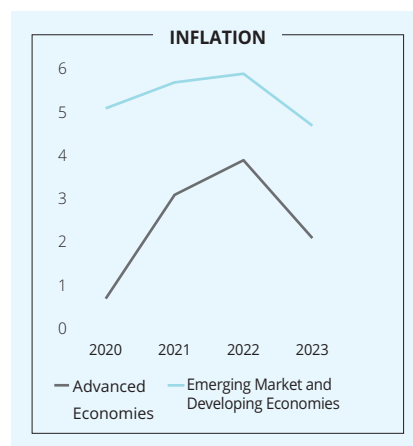
TRADE VOLUMES

Trade volumes regained strength, growing by 9.3% in 2021 after declining by 8.2% in 2020 as a result of the pandemic. Trade growth is projected to moderate to 6% in 2022 and 4.9% in 2023 assuming the pandemic spread eases, causing lesser disruptions to supply chain activity.



INFLATION

Inflation remained elevated throughout the second half of 2021, due to several factors of varying significance across regions. Fossil fuel prices almost doubled during the past year, pushing energy costs higher leading to greater inflation predominantly in the European region. Rising food prices, ongoing supply chain disruptions, land-side constraints, and high demand for goods also led to broadening price pressures. Amidst these pressures inflation in advanced economies increased to 3.1% while emerging market and developing economies reached 5.7% during 2021.



SRI LANKAN ECONOMY

OVERVIEW

The Sri Lankan economy experienced a strong rebound during the early part of 2021 supported by the pro-growth policy decisions of the Central Bank of Sri Lanka and the Government's efforts to curb the spread of the virus. Monetary and fiscal policy measures including debt moratoriums and concessions for sectors most affected by the pandemic, increased spending on mobilizing resources to effectively deploy the vaccination programme and strengthening the COVID-19 treatment facilities across the country positively contributed towards this revival. Greater reliance on technological solutions enabled efficiency and productivity of businesses which was also a primary contributor towards this economic growth.

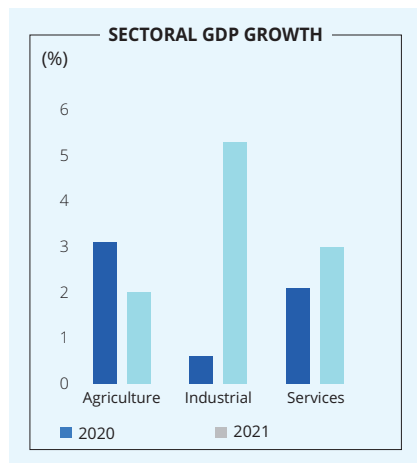
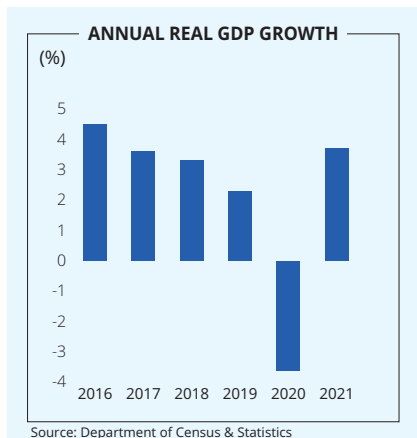
However, with the re-emergence of the pandemic the country had to go through yet another series of lockdowns which dampened this growth momentum. At this point even though the Government took the decision to selectively impose restrictions, allowing certain sectors to function as usual, overall economic activity experienced a slowdown with people exercising self-restraint to avoid contracting the virus. Concerns regarding depleting foreign exchange reserves position remained a critical issue, causing a significant impact on the imports of essential goods, fuel and overall supply chain activity. Amidst growing concerns regarding repayment of the country's debt burden the sovereign rating was downgraded to Caa2 from Caa1 by Moody's, followed by Fitch Ratings which downgraded the sovereign to CC.

GDP AND SECTOR CONTRIBUTIONS

Real GDP experienced a growth of 1.8% during the fourth quarter of 2021, after recording a contraction of 1.5% during the third quarter. Provisional estimates indicate a GDP growth of 3.7% for the year 2021, compared to the 3.6% contraction reported

Operating Environment

in 2020. All three major economic activities- Services, Industry and Agriculture recorded moderate positive growth rates of 3%, 5.3% and 2% respectively.



IMPORTS AND EXPORTS

The export sector stepped onto a path towards revival during the latter part of 2020 demonstrating faster than anticipated recovery in almost all sub-sectors, including industrial, agricultural, and mineral exports. While the country experienced a setback during the third quarter of 2021 the support provided by the local Government in terms of policy stimulus and accelerated vaccination rollouts, coupled with the growth momentum in advanced economies enabled businesses to get back on track.

In response to the growing balance of payments deficit and unfavourable foreign exchange reserve position the Government continued to control imports. However, despite the restrictions imposed, import expenditure grew alongside rising oil prices and recovery in demand. The trade deficit expanded to USD 8.1 Bn with the increase in expenditure on imports, compared to USD 6 Bn for the same period in 2020, leading to a widening of the external current account.

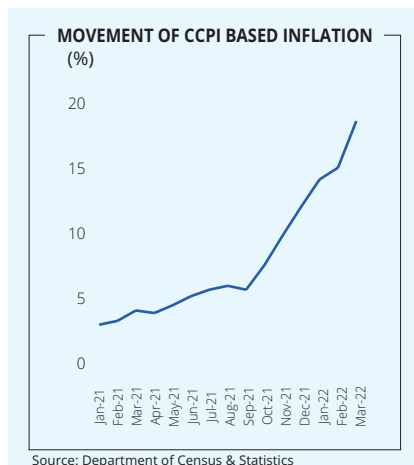
LABOUR MARKET

Since the onset of the pandemic in April 2020 the country's unemployment rate has remained above 5%. However, as a result of the effective vaccine rollout the local labour market index improved during 2021 in comparison to the previous year. Accordingly, the labour force, which is the economically active population, increased

by 0.95% to 8.515Mn in the first half of 2021 from 8.435Mn recorded in the first half of 2020.

INFLATION

Both NCPI and CCPI recorded upward movements during 2021 mainly driven by high food inflation and some acceleration in non-food Inflation. Supply chain disruptions and production shortages, rise in the global commodity prices, depreciation of the exchange rate and import restrictions contributed towards the hike in inflationary pressures on the economy. Thus, headline inflation as measured by the CCPI (2013=100), surpassed the desired benchmark range of 4% - 6% and stood at 12.1% by the end of December 2021.



EXCHANGE RATE

The Sri Lankan rupee depreciated considerably during the first quarter of

2021 due to inadequate inflows to the domestic foreign exchange market amidst large outflows. The exchange rate increased to LKR 200.75 per USD at end December 2021 from LKR 186.65 per USD at end December 2020 marking an overall rupee depreciation of 7.6%.

NATIONAL DEBT

The Sri Lankan Government's renewed focus on infrastructure projects coupled with the higher level of imports in comparison to exports and government spending exceeding revenue, intensified the foreign debt exposure of the country. Sri Lanka's outstanding foreign debt stood at USD 50.7 Bn as at December 2021 with the requirement to repay around USD 4Bn within the next year. As at March 2022 the country's foreign reserves stood at USD 1.93Bn. Even though Sri Lanka had an impeccable record of paying its dues since gaining independence in 1948, recent events have eroded the country's fiscal position raising serious concerns over the country's debt serviceability.

During 2021 the Government together with CBSL initiated various strategies including installing systems to monitor forex flows and strengthen compliance with repatriation and conversion regulations, pursuing efforts to attract foreign investments into Government Securities, preparing the entire country for the resumption of tourism and introducing appropriate tax adjustments to promote domestic value addition of exports and ensure conversion of export earnings. However, these measures taken to remain current on external indebtedness are no longer tenable, and the CBSL announced that it would temporarily suspend the foreign currency debt repayments and consider restructuring the country's debt obligations to restore debt sustainability.

Banking industry

OVERVIEW

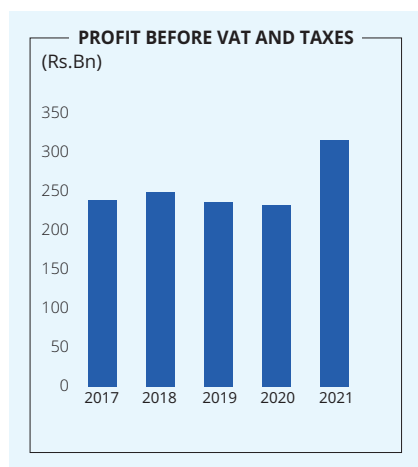
The Banking sector demonstrated its resilience during 2021 closing the year with strong results amidst challenging global and local macroeconomic conditions caused by the pandemic. Assets of the sector grew in

tandem with increasing profitability. While the deteriorating foreign currency position, changes in the regulatory environment and growing concerns over credit quality exerted pressure throughout the year the sector remained stable in the face of these challenges.

At the same time a positive change was witnessed in terms of the progress of digital banking. With changing consumer behaviour and the increasing need to serve customers remotely and efficiently, banks increasingly embraced technology to remodel their operations to provide better value and quality

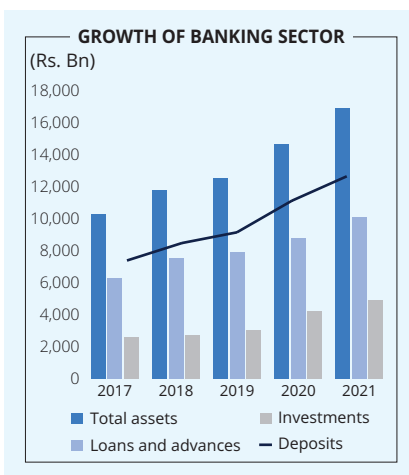
PROFITABILITY

Profitability of the banking sector increased by 36.1% in 2021 compared to the previous year recording a profit before tax of LKR 316.2 Bn. With higher profits the sector ROA before tax and ROE rose to 1.6% (1.4%:2020) and 14.5% (11.4%:2020) respectively, as at December 2021.



ASSET GROWTH

Backed by a healthy credit appetite the banking sector asset growth improved during 2021 reaching LKR 16.9Tn as at year end. This denotes an increase of 15.4% during the year.



ASSET QUALITY

Asset quality remained under the spotlight with increasing non-performing loans. NPLs increased by LKR 20.0 Bn to LKR 468.1 Bn as at end December 2021 from LKR 448.1 Bn recorded as at end 2020. However, with the growth in credit levels experienced during 2021, the Gross NPL ratio decreased slightly to 4.5% by end December 2021 compared to 4.9% recorded as at end December 2020.

Although there is a possibility that NPLs may rise upon cessation of the moratoriums granted, most Banks have prudently increased their impairment provisions during the past two years and have already absorbed a substantial portion of the potential impairment charges on loans under moratorium.

CAPITAL AND LIQUIDITY

The banking sector continued to operate with adequate levels of capital, liquidity and provision coverage ratios during the year to comfortably absorb any adverse shocks. Despite the relaxation provided to drawdown the Capital Conservation Buffer (CCB) by 100 basis points for Domestic Systematically Important Banks (D-SIBs) and 50 basis points for non-D-SIBs, the banking sector remained largely in compliance with the required Capital Adequacy Ratios without drawing down the CCB.

REGULATORY CHANGES AFFECTING THE BANKING SECTOR IN 2021

- Extension of the debt moratoria offered to SMEs and affected sectors

- Extension of the grace period of "Saubagya" COVID-19 Renaissance facility
- Restrictions on pursuing repossession and litigation on non-performing loans as means of recovery
- Discontinuation of late payment fees on credit cards and other credit facilities
- SDFR and SLFR increased by 50 basis points to 5.00% and 6.00% respectively, resulting in the automatic increase in the Bank rate to 9.00%
- SRR increased by 2.00 percentage points to 4.00% to be effective from the reserve maintenance period commencing from 1st September 2021

OUTLOOK



The ongoing pandemic will need to be managed efficiently to ensure strong recovery of the key economic sectors of Sri Lanka in 2022. With COVID-19 variants and resulting complications spilling over to the forthcoming year, Sri Lanka's tourism industry may undergo another downward trend, resulting in a further deterioration of the country's foreign reserves. Amidst measures to stabilise the economy from the effects of the pandemic, efforts of the Government towards creating an export-oriented production economy and diversifying economic activities with the support of domestic and foreign investors are expected to help sustain the growth momentum of the Sri Lankan economy over the medium term and enhance its resilience.



The banking sector is likely to face prolonged pressure in 2022 with the prevailing foreign currency situation and other macro-economic stresses. While the sector may get affected by the impending debt restructuring, additional capital infusions may not be necessary in the short term. However, the outcome of the deteriorating economic conditions on the asset quality would remain a significant risk. Thus, the sector needs to remain conscious of the direct and indirect impacts of economic slowdown and stand prepared to face any potential negative impacts that could impact overall performance.



Stakeholder Needs and Expectations




STAKEHOLDER NEEDS AND EXPECTATIONS

Building trust-based relationships with our stakeholders is crucial to the Bank's ability to deliver on its strategic objectives and create sustainable value. Especially in the wake of the pandemic with the resulting disruptions in the operating environment and changing consumer behaviour, effective engagement enabled us to identify emerging risks and opportunities and respond proactively. Common and dedicated channels are in place to interact with our stakeholders to listen to and understand their concerns and deliver meaningful value.




 INVESTORS/SHAREHOLDERS	
NEEDS AND EXPECTATIONS <ul style="list-style-type: none"> Financial performance and position Shareholder returns Strategy and business continuity Transparent reporting and disclosure Sound governance 	RELEVANT MATERIAL MATTERS <ul style="list-style-type: none"> Earnings growth and profitability
ENGAGEMENT CHANNELS <ul style="list-style-type: none"> Annual general meeting Annual report Quarterly earnings update Press releases and announcements to the Colombo 	QUALITY OF RELATIONSHIP <p>STRONG</p>
STOCK EXCHANGE (CSE) <ul style="list-style-type: none"> Corporate website Face to face engagement Investor forum 	OUR RESPONSE <ul style="list-style-type: none"> Timely release of relevant information Strategies to deliver sustained value Comprehensive governance and risk management structures Maintaining sustainable return on investment
KEY OBJECTIVES AND METRICS <ul style="list-style-type: none"> Growth in NAV per share Dividends paid and dividend cover Return on Equity and Return on Assets 	

 CUSTOMERS	
NEEDS AND EXPECTATIONS <ul style="list-style-type: none"> Customer service Ease of access Benefits and rewards Migration to digital channels Borrowing cost Stable returns Customer privacy Debt moratorium Brand visibility 	RELEVANT MATERIAL MATTERS <ul style="list-style-type: none"> Efficient processes Customer service Inclusive lending Responsible lending
ENGAGEMENT CHANNELS <ul style="list-style-type: none"> Interaction at branches Customer surveys Suggestion boxes Press releases Formal complaint mechanism Corporate website Social media General correspondence 	QUALITY OF RELATIONSHIP <p>STRONG</p>
KEY OBJECTIVES AND METRICS <ul style="list-style-type: none"> Customer satisfaction ratings Customer complaints 	OUR RESPONSE <ul style="list-style-type: none"> Digital banking solutions Efficient complaint resolution Extensive network for customer inclusiveness Enhancing data security for customer privacy Effective communication and marketing Provision of moratoriums and concessions in line with CBSL regulations Campaign to enhance brand equity 

 EMPLOYEES	
NEEDS AND EXPECTATIONS	RELEVANT MATERIAL MATTERS
<ul style="list-style-type: none"> • Career progression • Fair remuneration and benefits • Training and development • Health and well being • Work life balance 	<ul style="list-style-type: none"> • Efficient processes • Employee value proposition • Employee skill development
ENGAGEMENT CHANNELS	QUALITY OF RELATIONSHIP
<ul style="list-style-type: none"> • Induction and training programmes • Multi-level staff meetings • Monthly regional meetings • Annual performance appraisals • Discussions with Union representatives • Work-life balance initiatives 	<p>STRONG</p>
KEY OBJECTIVES AND METRICS	OUR RESPONSE
<ul style="list-style-type: none"> • Employee turnover • Diverse employee base 	<ul style="list-style-type: none"> • Remuneration and rewards in line with market rates • Performance based incentives • Provide relevant training opportunities to upskill staff • Structured grievance handling mechanism • Open door policy • Strict adherence to health and safety protocols • Creating platforms for staff engagement <p></p>

 SANASA SOCIETIES AND THE COMMUNITY	
NEEDS AND EXPECTATIONS	RELEVANT MATERIAL MATTERS
<ul style="list-style-type: none"> • Fair and responsible lending practices • Community empowerment • Livelihood development • Brand visibility • Financial literacy • Environmental consciousness 	<ul style="list-style-type: none"> • Inclusive lending • Responsible lending • Corporate social responsibility • Preserving the environment
ENGAGEMENT CHANNELS	QUALITY OF RELATIONSHIP
<ul style="list-style-type: none"> • Annual general meeting • SANASA society consultation meetings • Direct engagement with dedicated department • Quarterly one on one financial presentations • Engagement through branches • Community development initiatives • Community visits 	<p>STRONG</p>
KEY OBJECTIVES AND METRICS	OUR RESPONSE
<ul style="list-style-type: none"> • Financing of sustainable development • Socio economic transformation 	<ul style="list-style-type: none"> • CSR initiatives to generate positive change • Providing financial advisory services to enhance financial literacy • Community engagement • Efficient use of resources <p> </p>

Stakeholder Needs and Expectations

 INTERNATIONAL AGENCIES AND REGULATORS	
NEEDS AND EXPECTATIONS <ul style="list-style-type: none"> • Compliance with regulations • Supporting SMEs and economic growth • Submission of statutory reports and payments 	RELEVANT MATERIAL MATTERS <ul style="list-style-type: none"> • Corporate social responsibility
ENGAGEMENT CHANNELS <ul style="list-style-type: none"> • Periodic fact-finding visits • Annual reviews • Direct engagement with consultants • Industry forums and meetings with CBSL and other regulators 	QUALITY OF RELATIONSHIP <div style="text-align: center;">  <p>STRONG</p> </div>
KEY OBJECTIVES AND METRICS <ul style="list-style-type: none"> • Effective delivery of compliance • Tax contributions • Maintenance of capital requirements 	OUR RESPONSE <ul style="list-style-type: none"> • Compliance with statutory regulations • Lending to micro, small and medium entrepreneurs to promote innovation • Provision of timely and accurate reports <div style="text-align: right;">  </div>



Financial Capital



Social and Relationship Capital



Manufactured Capital



Human Capital



Natural Capital



Investor Relations



Intellectual Capital

Material Matters

MATERIAL MATTERS

We consider an issue to be material if it can potentially impact the Bank's financial performance and sustainability and our ability to generate value for our stakeholders. Material issues are identified based on the feedback received through ongoing stakeholder engagement, changes in the operating landscape and global trends which impact the Bank's operations. Material topics are reassessed on an annual basis to evaluate their relevance and to ensure that the significant economic, social and environmental aspects that impact the Bank are addressed proactively.

The Bank's material issues represent internal and external factors and the below mentioned topics were prioritized in alignment with the relevant SDGs during 2021. There were no restatements or significant changes in the list of material topics and topic boundaries compared to the previous year.

PROCESS FOR DETERMINING MATERIAL MATTERS

Identify

Issues identified through stakeholder engagement, a review of the business model, and scanning for trends in the operating environment

Evaluate

Identified issues are evaluated as to their importance and relevance to the Bank and its stakeholders

Prioritise
















Issues are prioritised based on their relative importance

Respond

Specific actions are implemented to respond effectively to material issues

Material Matters

	Material Topic	Prioritisation		Topic Boundary	Stakeholders impacted	Strategic relevance	SDGs	Page Reference
		Impact on Stakeholder	Impact on the Bank					
1	<p>Earnings growth and profitability</p> <p>These are key facets in creating sustainable value for our stakeholders and securing the trust of our customers.</p>	H	H	Internal	• Shareholders			Financial capital -page 70
2	<p>Efficient processes</p> <p>Continuous process improvements are essential to provide an enhanced user experience while facilitating productivity and cost efficiencies.</p>	H	H	Internal/ External	• Employees • Customers	  	  	Manufactured capital- page 82 Intellectual Capital 91
3	<p>Customer service</p> <p>This is a key strategic priority as a loyal customer base will strengthen our positioning in the Banking industry.</p>	H	H	Internal/ External	• Customers			Social and relationship capital- page 74
4	<p>Inclusive lending</p> <p>We aim to uplift financial literacy from grass-root level and offer our products and services to alleviate poverty.</p>	H	H	External	• Customers • Government • SANASA Societies • Community		  	Social and relationship capital - page 74
5	<p>Employee value proposition</p> <p>Dedicated resources nurture our value creation process and thus retaining this talent is crucial to ensure sustainability.</p>	H	H	Internal	• Employees		 	Human capital- page 84
6	<p>Employee skill development</p> <p>Having a skilled and competent workforce gives us a competitive edge while driving growth. Thus, we place high emphasis on providing continuous learning opportunities for our staff.</p>	H	H	Internal	• Employees		 	Human capital- page 84

	Material Topic	Prioritisation		Topic Boundary	Stakeholders impacted	Strategic relevance	SDGs	Page Reference
		Impact on Stakeholder	Impact on the Bank					
7	Responsible lending The Bank is committed to lending practices which are fair and responsible as we balance the interests of our depositors and lenders and effectively manage associated risks.	H	M	External	<ul style="list-style-type: none"> • Customers • SANASA Societies • Community 	 	  	Social and relationship capital- page 74
8	Preserving the environment We aim to minimize our environmental impact by encouraging the efficient use resources across all functions.	M	M	Internal/ External	<ul style="list-style-type: none"> • Community 		   	Natural capital- page 88
9	Corporate social responsibility SDB believes in contributing towards the upliftment of society and ensuring economic progress among the communities it is engaged with.	M	H	External	<ul style="list-style-type: none"> • SANASA Societies • Community • International agencies • regulators 		   	Social and relationship capital- page 74



Customer Centricity



Building a high performing team



Excellence in digital technology



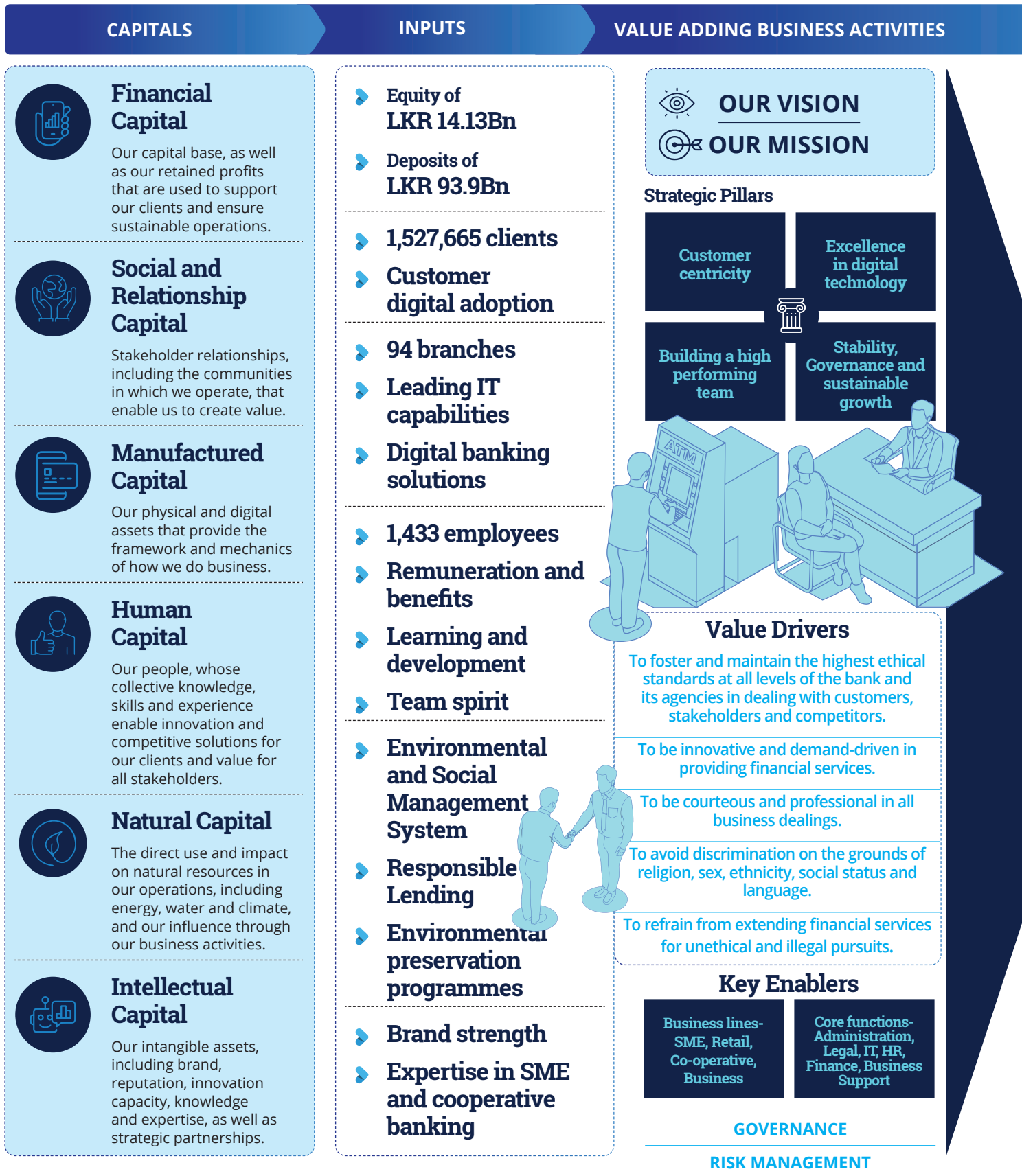
Stability, Governance and sustainable growth

H - High

M - Medium

L - Low

Our Value Creation Model



OUTPUTS

- ▶ PAT: LKR 883Mn
- ▶ ROE: 7.35%
- ▶ EPS: LKR 7.63

- ▶ ATMs: 13

- ▶ Benefits paid: LKR 2.3Bn
- ▶ Training hours: 20,024 hrs

- ▶ Staff promotions: 53

Brand Value:

Fitch/ICRA rating BB+(lka) stable outlook and (SL)BBB with stable outlook,

Awards:

Global Banking and Finance Awards for the 'Best SME bank' and the 'Best bank for social media' in 2021

Ranked 43rd place on the Brand Finance Sri Lanka's 100 most valuable brands Annual List for 2021

SDB bank Placed Among Top-50 in LMD's Inaugural Edition of 'Most Awarded'

Honored at the National Business Excellence Award 2021, receiving the Merit Award in the Banking Sector

Honored that the effort to empower women in the workplace has been rewarded at the first CIMA Women Friendly Workplace.

VALUE CREATED

Shareholders

- ▶ Prudent growth
- ▶ NAV per share
- ▶ Gross dividend

**Customers**

- ▶ Multi-channel footprint
- ▶ Operational efficiency
- ▶ Customer satisfaction and convenience
- ▶ Debt moratorium and other concessions for COVID-19 affected segments

**Employees**

- ▶ Valued organizational culture
- ▶ Efficient and safe working environment
- ▶ Engaged employees
- ▶ Career progression
- ▶ Empowerment

**Government and regulators**

- ▶ Taxes paid LKR 1.07Bn
- ▶ Compliance with regulatory requirements

Communities

- ▶ Financial inclusion
- ▶ Improvements in quality of life

**Environment**

- ▶ Over 36,279 trees saved through paper recycling/digitization



Delivering on Our Strategic Ambitions



Customer Centricity

Objective

Our customer centric approach aims to improve the relationship with our audience, create loyalty and develop a sustainable business. Moreover, it fuels the customers' desire to feel part of something bigger than simply the product. Hence, the customer centric product approach of SDB bank has been broadly divided into three major segments; SME, Retail and Co-operative to cater masses of the population and the Business banking segment to look after the mid-sized corporations, which is a sub segment of SME banking vertical. Further, to provide superior customer service, leasing and pawning business units have been carved out separately. These two business units will provide additional support to the growth expectations of SME and Retail market segments.

HIGHLIGHTS OF 2021

Investments in upgrading and relocating branches
Numerous customer education and awareness programs targeting SME and agriculture
Digital on-boarding of Deposit customers
Introduce digital signatures for loan processing for customers
Cash disbursement in rural areas using M-Teller
Cash collection at customer door step using palmtop banking devices

CAPITALS IMPACTED



MATERIAL MATTERS

Efficient processes

Customer service

WAY FORWARD

SME segment: Increase focus on micro and small businesses through SDB bank's branch network and serve medium scale entities via a proposed dedicated SME/Business banking unit

Retail segment: Focus on growth of government pensioners and housewives segments, invest in more on private sector employees, migrant workers, minors and students, and maintain current growth levels of public sector employees

Co-operative segment: Total deposit base of the segment to increase to 40% of the total deposit base by 2025, establish an agency banking platform with cooperative societies by 2023



Excellence in digital technology

Objective

The core of the Digital Strategy consists of two inter-related “Digital Transformation Pathways” that shape SDB’s digital strategy: “Digitization” and “Digitalization.” Digitization is the process of converting physical information into digital formats. It is commonly driven by technologies which focus on enhancing efficiency by automation of existing processes. Digitalization is the use of digital technologies to change an organization’s business model, including creating new or improved ways of delivering services, and improving the quality of what is delivered. These two pathways would describe how SDB will transform itself, and within each of these pathways is a series of objectives articulating what we want to achieve by 2025.

HIGHLIGHTS OF 2021

Core Banking system upgrade – Fiserv Version 15.1

Leasing system upgrade – Scier e-financials

Implementation of the Data Loss Prevention and Classification System

CAPITALS IMPACTED



MATERIAL MATTERS

Efficient processes

WAY FORWARD

Use digital technologies to optimize and streamline current policy and programme delivery models

Use digital technologies to experiment with new digital development partners and build platforms for the digital cocreation of solutions

Improve digital partnership, engagement, and advocacy journeys

Unleash knowledge within SDB

Use the power of SDB’s data - Strengthen data quality, usage, and availability to remain the most trusted development partner, and combine and apply existing data for better solutions

Use digital technologies to increase SDB’s cost effectiveness and efficiency

Delivering on Our Strategic Ambitions



Building a high performing team

Objective

Human resource management capabilities are important for attracting, selecting, retaining, motivating and developing the workforce in an organization. As we look forward towards post pandemic revival, SDB bank's core focus will be on nurturing and developing a high performing work force that will help the Bank to continue contributing to the national cause by uplifting the economy of the country in a sustainable manner. This strategic move has become highly important as a source of competitive advantage in today's competitive business environment.

HIGHLIGHTS OF 2021

Increased flexibility for employees to work from home

Executed increments in compensation to all staff under the collective agreement finalized and signed for year 2021-2023

Engagement and training shifted to digital platforms wherever possible

Adherence to safety guidelines issued by the health authorities

CAPITALS IMPACTED



MATERIAL MATTERS

Efficient processes

Employee value

WAY FORWARD

Maximize our investment in training to up-skill employees to suit new levels of banking skills which are required to drive our strategy

Continue to focus on improving health and safety facilities to keep up with guidelines issued by the health authorities

Recognize the importance of maintaining an appropriate work life balance and take steps to improve this aspect

Establish a diverse and inclusive workplace to achieve gains in the form of business results, innovation, and decision-making

Maintain cordial industrial relationships with trade unions and other pressure groups



Stability, Governance and sustainable growth

Objective

Stability is one of the key objectives of SDB bank. A stable bank is capable of mobilizing money in terms of debt and equity without materially affecting the sustainable growth agenda even during economic shocks and stressful circumstances.

Effective governance mechanism is critical and the primary objective of the governance system of SDB is to safeguard the stakeholders' interest which determines the allocation of authority and responsibilities by which the business and affairs of SDB is carried out by its Board and Senior Management.

HIGHLIGHTS OF 2021

Establishing a dedicated ESMS unit
Strengthened IT and cyber security risk frameworks
Ensured continuous and uninterrupted service throughout the COVID-19 lockdowns
Further strengthened the Bank's Capital base with LKR 3.5 Bn core capital infusion
Milestone achieved in Balance Sheet strength by surpassing LKR 125 Bn in the assets book

CAPITALS IMPACTED



MATERIAL MATTERS

- Earnings growth and profitability
- Responsible lending
- Preserving the environment
- Corporate social responsibility

WAY FORWARD

Contributing towards island-wide socio-economic empowerment with an unimpaired YoY Credit growth on par with the industry growth average

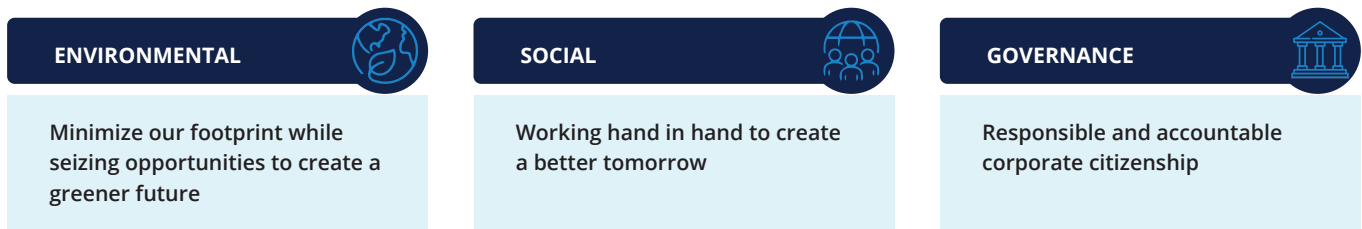
Nurture a savings culture in the country's most underserved communities

Integration of ESG aspects to Bank's overall strategy, core business activities and daily operations

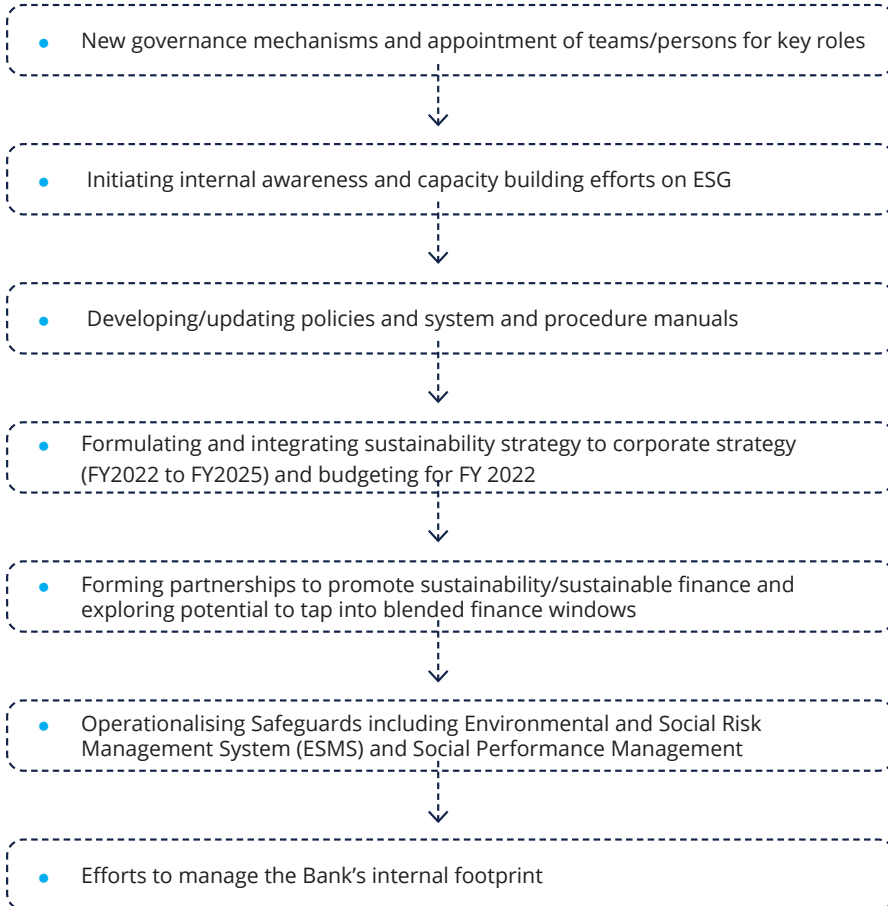
Active engagement with Development Financial Institutions in operationalising the sustainability agenda

Approach to Sustainability

SDB bank has always aimed to incorporate environmental, social and governance (ESG) considerations into its business operations and decision making. During the year under review, the Bank placed special emphasis on formulating a holistic ESG framework which aims to deliver triple bottom value through sustainable economic growth, fostering social development, and investing in environmental sustainability. To ensure effective implementation and monitoring of the framework a dedicated Senior Manager on Sustainable Banking was appointed on the 01st of February 2021. The bank is also among the first financial institutions in Sri Lanka to set up a board level committee on sustainability, having set-up an Advisory Council in April 2021, which was later elevated to a Board Subcommittee on Sustainability on 29th October 2021.



Key initiatives taken during 2021 to integrate sustainability into the Bank's performance



GOVERNANCE MECHANISMS

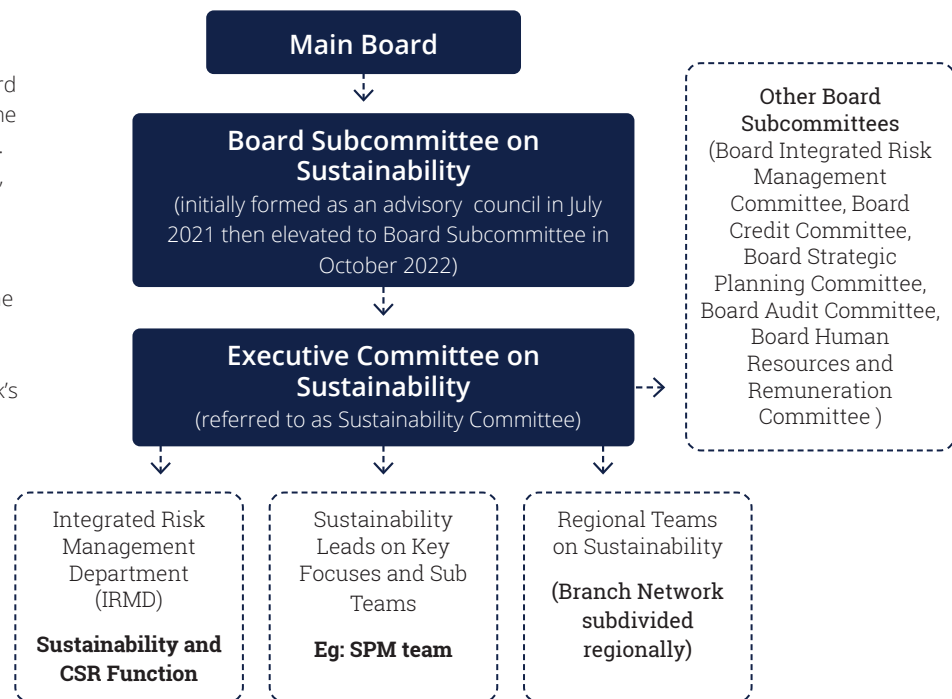
In April 2021, SDB bank introduced changes to its governance mechanisms to integrate ESG considerations to decision making and performance management. Accordingly, two new governance committees were formed.

The Executive Committee on Sustainability headed by the CEO first convened on the 07th of June 2021 and as at the year end, the committee had met 7 times (monthly meetings), where planning and implementation of 7 sustainability focus areas were reviewed.

The first meeting of the Advisory Council on Sustainability was held on the 22nd of July 2021 and as at year end, the Council had convened 3 times. The Council had reviewed the efficacy of bank's safeguards, specifically on the Customer Protection Principles. To further enhance bank's performance in this regard, the Council had authorized the conduct of a Social Performance Audit (Accompanied SPI4 Self-Assessment) based on the result of which, an action plan will be drawn for FY2022 and beyond. The Council also deliberated on bank's strategy and target setting.

Committee	Representation	Scope
Advisory Council on Sustainability (elevated to a Board Subcommittee in October 2021)	Selected representatives from the Board of Directors and Executive Management, with provision to invite external experts on sustainability	Deliberate on high-level policies and strategies relating to sustainability (including safeguards, net zero strategy and developing foresight and capacity to manage climate and nature related financial risks) and to support the Executive Management Level Sustainability Committee with guidance and endorsement on proposed plans of action
Executive Committee on Sustainability	Representatives from the Executive Management and Functional Management, including Regional Managers of the bank's branch network and business line heads.	Operationalize management systems and key sustainability focuses of the bank, which include: Environmental and Social Risk Management System (ESMS); Social Performance Management (SPM); Sustainable and Inclusive Finance (SIF); Operational Footprint (OPF); Operational Resilience and Excellence (OPR); Sustainable Brand, Culture and CSR (SBCR); and Integrated Strategy and Reporting (ISR)

In October 2021, the Advisory Council on Sustainability was elevated to a Board Subcommittee on Sustainability. This Board Subcommittee on Sustainability met for the first time on the 27th of January 2022. Ms. Dinithi Ratnayake, Non-Executive Director, was appointed as the Chairperson of the Advisory Council on Sustainability and subsequently as the Chairperson of the Board Subcommittee on Sustainability. The Chairperson of the Board Subcommittee is responsible to update the Board of Directors on a quarterly basis on the Bank's sustainability performance. Integration of ESG considerations into the functions of the other Board Subcommittees is also envisaged.



In order to drive action on the sustainability focuses, select members of the Executive Management were appointed as Leads for each focus area.

Sustainability Management Focus	Leads
Environmental and Social Risk Management (ESMS) in Lending Activities	Udana Fernando - Chief Risk Officer
Social Performance Management (including Customer Protection Principles)	Rajitha Thoradeniya - Head of Branch Operations
Sustainable and Inclusive Finance	Niranjana Thangarajah - Acting CEO/ DCEO/ Head of Business
Operational Footprint	Lakmini Muththunga Head of Operations and Sarath Kumara Head of Administration
Operational Resilience and Excellence	Udana Fernando - Chief Risk Officer
Sustainability Culture, Brand and CSR	Sudath Silva Head of HR and Hasitha Samarasinghe - Head of Marketing
Integrated Strategy and Reporting	Terrance Kumara - Chief Financial Officer

Approach to Sustainability

In addition, the Bank commenced forming regional level teams headed by Regional Managers to drive the agenda within the bank's branch network. Capacity building program for the Southern Regional team was held in December 2021.

INTERNAL AWARENESS

Awareness and sensitization on ESG was conducted for the control functions of the Bank (Internal Audit, HR, Integrated Risk Management and Compliance Departments) while basic awareness on ESG was provided to the Central Credit and Credit Administration Hubs (Credit Assessment Team). Through these sessions clarity was provided in terms of the specific role to be played relating to Environmental and Social Risk Management and Social Performance Management.

The Bank also launched the Sri Lanka Banks' Association's Sustainable Banking Initiative (SLBA SBI)'s e-Learning Platform within the bank on the 29th of July 2021. The pilot implementation conducted with the control functions of the bank was concluded during September 2021 and this training will be gradually extended to the entire staff.

Furthermore, to raise awareness on ESG the following programs were initiated during the year.

- Sustainability Dialogues featuring national and international experts on sustainability. Representatives of the Board Subcommittee on Sustainability, Executive Committee on Sustainability, Regional and Branch team members attend this dialogue. The first such dialogue was conducted with Dr. Ananda Mallawatantri, Country Director for IUCN and Chairman of Evaluation Panel of the Ceylon Chamber of Commerce's Best Corporate Citizen Sustainability Awards on 26th August 2021. The keynote focused on Best Practices in Sustainability in Sri Lanka.
- Awareness sessions on "Opportunities in Solar Financing" with the support of Hayleys Solar, a leading EPC in

solar PV installations in Sri Lanka. Further capacity building programs on renewables financing are planned to be conducted with the support of International Renewable Energy Agency (IRENA).

- The "Sustainable Loan Challenge" was launched in August 2021 with the aim of promoting awareness and engagement amongst branch staff on sustainable finance. A cash reward was offered to the winning branch that successfully structured and disbursed a loan that creates significant positive impact in contributing to multiple Sustainable Development Goals (SDGs)

while ensuring that safeguards are met and where the entire loan process is handled digitally.

- Programs were conducted to further enhance the knowledge of credit officers on Environmental and Social Risk Management System (ESMS) and to answer queries of the teams that had arisen as the ESMS was rolled out.

POLICIES AND MANUALS

In line with the changes made to the ESG governance framework, the Bank had to ensure its related policies and manuals were revised and updated. The key policies and manuals updated were:

Policy/Manual	Status
The Environmental and Social Risk Management System manual	The revised ESMS Policy and Procedure Manual was adopted by the Board of Directors on the 25th of June 2021. This revision was implemented as an interim measure. Post full consultation with all the investors the manual will be further refined and finalized.
Credit Policy	Credit Circulars were developed and communicated to integrate the ESMS procedures with the credit process.
Integrated Sustainability Policy	The Bank had identified 7 sustainability focus areas. Environmental and Social Risk Management System (ESMS); Social Performance Management (SPM); Sustainable and Inclusive Finance (SIF); Operational Footprint (OPF); Operational Resilience and Excellence (OPR); Sustainable Brand, Culture and CSR (SBCR); and Integrated Strategy and Reporting (ISR). These focuses along with its other climate and nature commitments are to be codified in an Integrated Sustainability Policy, for which stakeholder consultations are currently underway, including discussions with the Bank's Development Finance Institutional investors.
Exclusion Criteria	Bank's exclusion criteria prior to September 2021 adhered to the IFC exclusion list. In September 2021, SDB bank adopted a harmonized exclusion list that adhered to its current and prospective investors including the European DFIs, ADB and the UN. Bank informed all staff about this new Exclusion Criteria and operationalized the Exclusion Screening and the Environmental and Social Due Diligence and Risk Categorization from Q4 2021 onwards.

SUSTAINABILITY STRATEGY AND BUDGET

The Bank commenced management level deliberation to incorporate ESG aspects to its 3-year corporate strategy (2022 – 2025). The preliminary results from this exercise informed the operational plan and the budget for FY2022. This is to be further refined as the strategy is to be further refined with the input of the Bank's key stakeholders.

The strategy will incorporate the Bank's social goals on financial inclusion including women empowerment, financing for sustainable agriculture and smallholders, supporting MSMEs and cooperatives and advancing the digital economy and digital inclusion.

PARTNERSHIPS AND ACCESSING SUSTAINABLE FINANCE WINDOWS

One of the key pillars of bank's corporate strategy is creating partnerships for growth. Extending the focus towards partnerships for sustainable development, the Bank has engaged with UN agencies, development partners and other likeminded private sector companies to promote sustainable development. Such partnerships included an MoU with Hayleys Fentons to jointly promote renewable energy, energy efficiency and green building solutions. Bank had also held discussions with UNDP BIOFIN programme and with National Cleaner Production Center to advance sustainable finance solutions.

In July 2021, the bank jointly organized an Independent Dialogue in support of the UN Food Systems Summit together with Sri Lanka Banks' Association's Sustainable Banking Initiative and the Sri Lanka Agri-preneurs' Forum. In November 2021, the bank hosted the Asia Pacific chapter meeting of the Global Alliance for Banking on Values.

OPERATIONALISING SAFEGUARDS

The Bank commenced operationalising the Environmental and Social Risk Management System (ESMS) in September 2021 with exclusion screening and Environmental and Social Due Diligence assessments for non-retail loans. Client relationship officers who engage with clients and conduct field inspections feed in the finding to a rating tool, which classifies loan facilities to low, medium and high-risk categories. Those high-risk loan facilities where the exposure to client exceeds LKR30mn are reviewed by the Senior Manager – Sustainable Banking, who conducts enhanced due diligence including through further field assessments.

With regards to Social Performance Management, the Bank has set up an SPM team and is currently addressing gaps that had been identified during a Customer Protection Principles (Smart Campaign) Audit conducted previously. It is also integrating social performance management considerations during the strategy, operational plan and budget preparation for the upcoming planning cycle. The Bank had selected an external auditor for an Accompanied SPI4 Self-Assessment by December 2021. Through this audit, bank will develop an action plan to be implemented from June 2022.

MANAGING THE BANK'S INTERNAL FOOTPRINT

The Bank remained committed to minimize the adverse impacts of its operations and contribute towards preserving the environment through:

- Heavy focus on digitalization
- Promoting renewable energy
- Sustainability projects aimed at preserving the environment

Further detail on the initiatives taken to minimize the environmental footprint is set out in the Natural Capital section.

Managing our Risks

RISK LANDSCAPE IN 2021

The financial year 2021 was one of the most challenging periods in the history of Sri Lanka as the pandemic continued to maintain its grip and elevate risks and vulnerabilities of businesses as well as individuals. These challenges were compounded by volatile macroeconomic conditions stemming from the country's foreign exchange crisis, weakening fiscal position, escalating inflation levels and sovereign rating downgrade. However, while exerting pressure on 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. Accordingly, SDB bank continued to invest in enhancing its risk management framework and methodologies to enhance its capabilities and strengthen its ability to minimize downside risks and seize opportunities for growth. The main challenges during the year under review was stemming out from the existing and prevailing risks associated with the potential credit portfolio stress with the phasing out of the support and forbearance measures of the Government and CBSL on COVID impacted borrowers, risks associated with increased demand and usage of digital products and services with management of overall ICT risks, risks associated with COVID lockdowns, infections on staff impacting business continuity, remote working arrangements, and liquidity risk. Furthermore, the Environmental, Social and Governance, risk has become a vital component of Enterprise-wide business and risk management.

APPROACH TO RISK MANAGEMENT

SDB bank understands the importance of comprehensive risk management across every facet of the business and for all stakeholders. While providing our customers the assurance that we will continue to provide the best value for them, it safeguards our investors and helps protect and enhance their return on investment. Additionally, it provides the

necessary support for our regulators in terms of establishing industry growth.

The Bank adopts 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 material risk exposures. The Bank has in place Board approved Integrated Risk Management Policy, Credit Risk Management Policy, Operational Risk Policy, Asset & Liability Management Policy, Investment Policy, IT security Policy, Compliance Policy in supporting its risk management. The Board of Directors has the ultimate responsibility to provide oversight on managing risks. 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 reporting responsibility to the EIRMC and the BIRMC.

KEY INITIATIVES DURING 2021

The key initiatives taken in terms of risk management and governance during the period under review were;

- **Raising of Tier-I core capital**

In line with the Banks' capital adequacy and capital augmentation plan, it raised LKR 1.5 Bn in Tier-I core capital by way of a Rights Issue in 2020 and a further LKR 3.5 Bn in October 2021 through a Secondary Public Offering. The Bank successfully raised capital even at a very challenging time due to the COVID pandemic and market disruptions. While this enabled the Bank to have capital buffers to absorb unforeseen losses over and above the minimum regulatory thresholds, it further helped the Bank to grow the lending portfolio and to

reduce maturity gaps in the Banks' Balance Sheet by extending the maturity profile of liabilities vis-à-vis medium to long term assets.

- **Introduced and/or Enhanced counterparty risk classification methodology**

A robust internal credit rating framework is vital for effective credit risk management. Internal credit ratings are being extensively used for decision making across the entire credit process from loan origination to post sanction monitoring. Generally, credit approval authorization structure is based on the borrower/ transaction rating and level of exposure. While the Bank had developed risk rating models/ scorecards previously due to various constraints the scorecards had not been implemented for use in credit decisions and follow-up activities. IRM Dept. conducted a validation of the existing scorecards which did not meet the minimum expectations. As such a new/ revised scorecards were developed for Retail, SME, Non-Bank Financial and Micro-Finance Institutional borrowers for implementation. Furthermore, risk rating models would bring about a level of consistency in its credit decisions while minimizing the subjective element of the decision makers' in the process.

- **Introduced a Risk based pricing methodology**

Due to the Banks' business model, granularity and homogeneous nature of portfolio in terms of different products, a loan pricing methodology was implemented in the second half of 2021 at a product level. The pricing methodology inbuilt weighted average cost of funds, cost of credit risk by way of impairment charges, and a liquidity premium to arrive at a hurdle rate for each product. This would enable the pricing of the loans taking in to account the risk reward dynamics at a product level.

- **Expanded coverage of Operational Risk**

In the period under review the Risk

Management Department introduced an expanded Board approved Operational Risk Management Framework with a wider coverage of potential operational loss identification through Risk and Control Self-Assessments, Infrastructure Health and Security Standards and data base to capture operational risk incidents including IT risk incidents.

- Environmental and Social Risk Management

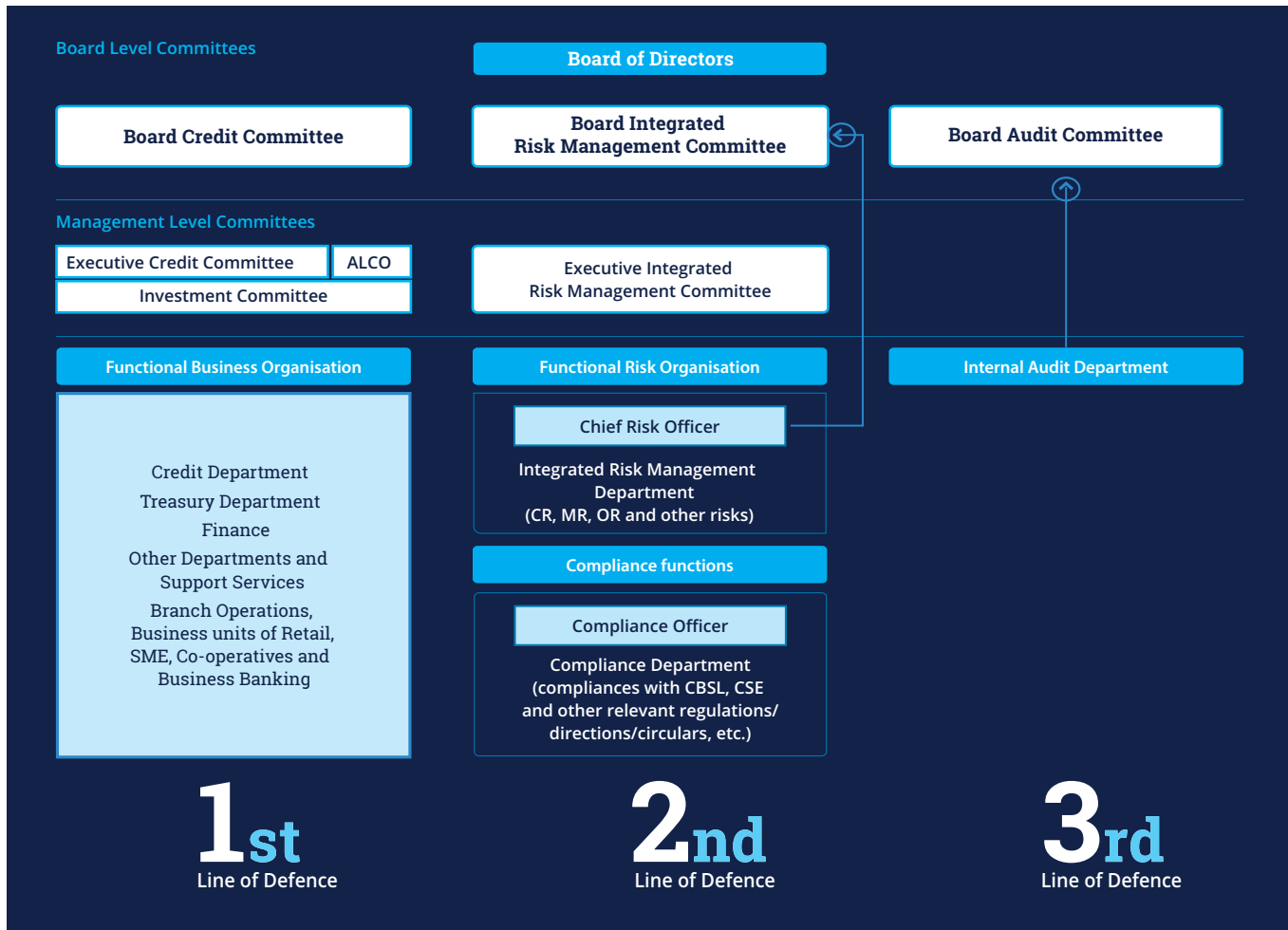
The Bank introduced a Board approved Environmental and Social Risk Management System and a Procedure to ensure that the Bank would not take any exposures which are harmful to the environment and society. As an initial step the Bank introduced an Exclusion List and a Negative List for Industry sectors and Borrower types considering the environmental and social impact, where the Bank would not take new exposures and any existing exposures to be phased out over a period of time. Furthermore, any proposed new exposures

for SME and Corporate clients above a pre-defined threshold would be subject to Environmental and Social Due Diligence to identify and quantify the risks associated with the exposures.

RISK GOVERNANCE

The Bank's risk governance structure is based on the three lines of defence model with clear segregation of the stewardship of risk.

3 lines of defence	
01	Functions that own and manage risks Comprises of finance and other support functions, 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
02	Functions that oversee risk and compliance Centralised oversight of the First Line of Defence by the Risk Management and Compliance Departments
03	Independent assurance Comprises internal and external audits that provide unaffiliated opinions on the adequacy of the overall risk management and internal control processes



Managing our Risks

RISK CULTURE

High levels of risk awareness is key to establishing financial stability of the Bank and strengthens business line growth strategies. In order to embed a risk awareness culture across the organisation, training programmes are conducted on an ongoing basis and various communiques are issued continuously. During the year, several training programmes were conducted to strengthen the operational risk reporting and data capture functions. 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

Risk appetite refers to the amount of risk the Bank is willing to take in achieving its strategic objectives and ensuring maintenance of the desired risk profile. 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 emerging developments, strategic objectives and the corporate plan for the year. Following are the Bank's key risk appetite indicators, along with actual performance results for the year.

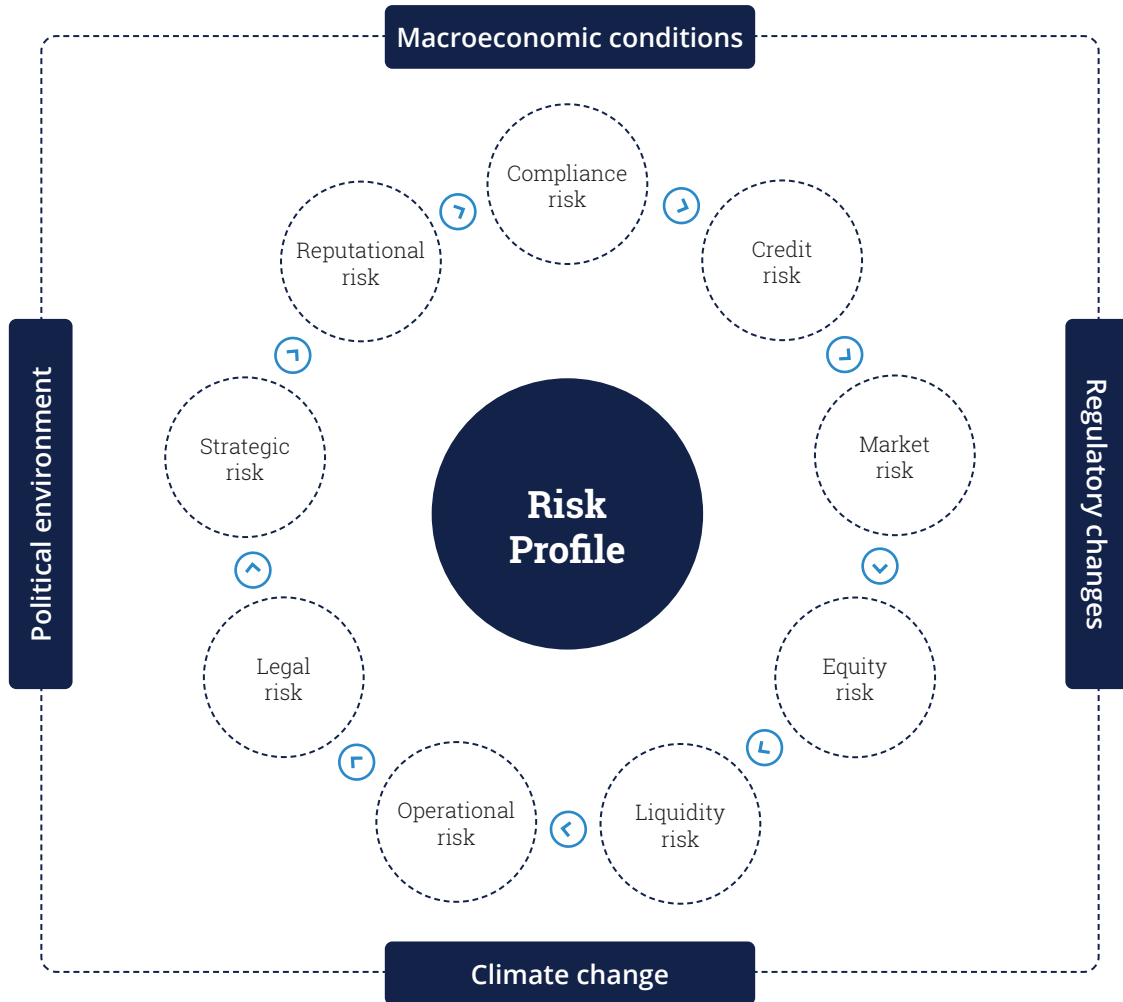
RISK REPORTING

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, EIRMC and the BIRMC by the Chief Risk Officer.

RISK PROFILING

We determine our key risks through a review process that analyses the risks faced by SDB, in relation to our strategy and long-term aspirations, reputation and delivery of business plans, in the context of the external and internal environment. Internal risks are managed systematically on a proactive basis while external risks are monitored on an ongoing basis to assess potential impacts on our operations.

Risk Category	Key Risk Indicator	Internal Limit	Dec 2021	Dec 2020
Credit Risk				
Portfolio Quality	Gross NPA	5%	4.42%	4.54%
	Net NPA		1.49%	1.79%
	Provision Cover	> 50%	73.52%	69.45%
Concentration Risk	Single Borrower Limit	< 10%	3.09%	4.57%
	Group Borrower Limit	< 15%	3.44%	4.92%
Liquidity	Liquid Assets Ratio	22%	22.37%	21.57%
	Liquidity Coverage	> 100%	134.82%	125.21%
	Net Stable Funding ratio	> 100%	137.61%	127.33%
Strategic & Solvency	Capital Adequacy- CET-I	> 7.5%	13.16%	9.85%
	Capital Adequacy- Total	>12.5%	15.78%	13.38%



Macroeconomic conditions	Political environment	Climate change	Regulatory changes	Emerging Risks
<p>Even though businesses began to showcase their adaptability and resilience in the face of the recurring waves of the pandemic, Sri Lanka's government finances and overall economic conditions worsened during the year fueled by the foreign currency shortage, elevated inflation and downgrade of the sovereign rating.</p>	<p>The growing instability of the political environment following the pandemic induced disruptions and looming macroeconomic stresses amplified the downside risks to many sectors, straining resources at national, entity and individual levels.</p>	<p>Risks arising from climate change including unpredictable weather patterns and natural disasters continue to rank among the most significant risks the world is currently facing. The Bank is aware of the high risk of doing business in vulnerable industries and has taken the necessary precautions where needed.</p>	<p>The CBSL implemented various monetary policy measures to safeguard borrowers, strengthen the economy, alleviate external sector risks and support the banking sector. Furthermore, directions were issued from time to time to prevent excess volatility and outflow in the foreign exchange market which had a significant impact on banking operations.</p>	<p>The rapid growth in digitalization of the banking products and services and adaptation of the latest technology poses new and emerging risks in terms of IT and Cyber security threats and vulnerabilities.</p>

Managing our Risks

CREDIT RISK

RISK DESCRIPTION

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.

RISK MANAGEMENT

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.

RISK PERFORMANCE

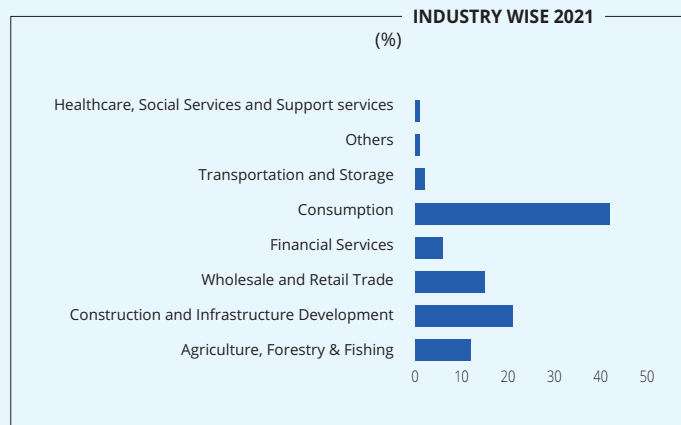
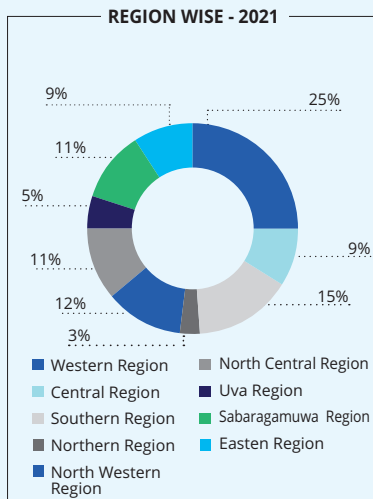
Default risk:

Maximum Credit Exposures

	Amount LKR	%
Placement with the Bank	15,108,410,169	10.36
Financial assets at amortised cost – Loans and advances to customers	111,891,255,620	80.65
Financial assets at amortised cost – Debt and other financial instruments	12,031,310,910	8.65
Financial assets measured at fair value through other comprehensive income	56,938,514	0.04

Key Risk Indicator	2021	2020
Gross NPL	4.42%	4.54%
Net NPL	1.49%	1.79%
Provision Cover	73.52%	69.45%
Stage-3 (Credit Impaired) Loans & Advances (LKR)	7,416,660,997	6,787,647,962
Total Loans & Advances (LKR)	115,786,982,202	105,975,283,350
Stage 3 to Total Loans & Advances	6.41%	6.40%
Impairment Provisions (LKR)	3,895,726,582	3,313,014,634
Impairment Provisions as a % of Total Advances	3.36%	3.13%

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



MARKET RISK

RISK DESCRIPTION

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.

RISK MANAGEMENT

Interest Rate 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 and measured against the set limits.

Foreign exchange rate risk: Foreign exchange rate risk can be termed as possibility of adverse impact to the Bank's capital or earnings due to fluctuations in the market exchange rates. This risk arises due to holding of assets or liabilities in foreign currencies.

The Bank holds two-dollar denominated FDs with Bank of Ceylon. These two deposits have been placed from the proceeds from the Subordinated Term Loan of USD 8 Mn received from Belgian Investment Company for Developing Countries (BIO) and USD 40 Mn, unsecured senior term loan received from United States International Development Finance Corporation (DFC). To mitigate the foreign currency risk, without converting these into Sri Lankan Rupees (LKR), these two loans are kept as two Fixed deposits, matching the dollar repayment schedule of the lender with Bank of Ceylon. The Bank borrows LKR term loans on the strength of dollar deposits, which is used to finance its loan portfolio growth, which can be repaid from Bank's LKR collection and all dollar borrowing interest repayments can be serviced from USD fixed deposit interest and capital repayment can be made from USD fixed deposit maturity proceeds. This synthetic hedging structure enables the bank to operate smoothly under more volatile economic conditions. Other than these two foreign currency denominated FDs and borrowings, the Bank does not have any exposure to foreign currency in terms of assets and liabilities as of 31st December 2021.

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

Managing our Risks

LIQUIDITY RISK

RISK DESCRIPTION

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.

RISK MANAGEMENT

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.

RISK PERFORMANCE

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.

Statutory Liquidity Risk Ratios

	Limit	Dec 2021	Dec 2020
Liquid Asset Ratio	>22%	22.37%	21.57%
Liquidity Coverage Ratio	>100%	134.82%	125.21%
Net Stable Funds Ratio	>100%	137.61%	127.33%

Liquidity Ratios under Stock approach

	Dec 2021	Dec 2020
Loans to customer deposits	119%	110%
Net loans to total assets	75.69%	79.55%
Liquid assets to short-term liabilities	25.86%	25.90%

INTEREST RATE RISK IN THE BANKING BOOK (IRRBB):

RISK DESCRIPTION

Interest rate risk in the banking book (IRRBB) refers more generally to the current or prospective risk to both Bank's capital and earnings arising from adverse movements in interest rates, which affect the Banks' banking book exposures.

RISK MANAGEMENT

The Bank uses two perspectives are used by the Bank when measuring IRRBB:

- Earning perspective: impact due to mismatches in re-pricing of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL), which will have an impact on the Bank's Net Interest Income (NII) over a defined short to mid- term horizon (usually one year)
- Economic value perspective: The sensitivity of a Bank's economic or market value of equity (EVE) to fluctuations in interest rates particularly, is an important consideration of shareholders, management, and supervisors.

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.

RISK PERFORMANCE

Interest Rate sensitivity gap analysis on the Banking Book

Description	Up to 30 Day	1-3 Months	3-6 Months	6-12 Months	Above 12 Months
Interest Sensitive Assets	15,156,953	24,958,290	14,762,219	49,389,435	39,682,704
Interest Sensitive Liabilities	13,229,164	15,201,238	28,644,928	28,456,074	25,756,211
Gap	1,927,788	9,757,052	(13,882,709)	20,933,361	13,926,493
Cum. Gap	1,927,788	11,684,840	(2,197,869)	18,735,492	32,661,984

NII Impact

Rate Change	Up to 30 Day	1-3 Months	3-6 Months	6-12 Months
+1.50%	28,370	121,963	(130,150)	78,500
-1.50%	(28,370)	(121,963)	130,150	(78,500)

OPERATIONAL RISK**RISK DESCRIPTION**

Operational risk is the potential loss resulting from inadequate or failed internal processes, people and systems or from external events.

RISK MANAGEMENT

The risk department together with operations units 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.

IT RISK**RISK DESCRIPTION**

IT risk is the business risk associated with use, ownership, operation, and adoption of IT within the Bank. IT risks are part of the overall operational risks due to IT-related events such as system interruptions / failures, errors, frauds through system manipulations, cyberattacks, obsolescence in applications. With the high adoption of IT related business model and digital channels there are heightened risk and emerging risk associated with IT. There are challenges to identify and quantify with uncertainty of the likelihood of occurrence and the impact or magnitude of IT related risk incidents.

RISK MANAGEMENT

The Bank has identified IT and digital risk as a key area to be focused on and appropriate resources to be allocated in managing risks. The Bank has developed policies and procedures for management of IT risks which would be implemented to ensure that the Bank is not exposed to undue risks. IRMD has used the Risk & Control Self-Assessment (RCSA) for IT risk identification and assessment, and would continuously track and monitor the potential risk incidents and the control effectiveness. Results of independent audit findings (both internal and external), analysis of information security incidents, external loss data and information are also employed for IT risk identification and assessment purposes. Regular risk reporting is done to the EIRMC and BIRMC on IT related risks.

Managing our Risks

LEGAL RISK

RISK DESCRIPTION

"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.

RISK MANAGEMENT

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 Bank.

STRATEGIC RISK

RISK DESCRIPTION

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.

RISK MANAGEMENT

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.

REPUTATIONAL RISK

RISK DESCRIPTION

Reputational risk is the risk of losing public trust or tarnishing of the Bank's image in the public eye. It could arise from environmental, social, regulatory, or operational risk factors.

RISK MANAGEMENT

Events that could lead to reputational risk are closely monitored, utilising an early warning system that includes inputs from frontline staff, media reports, and internal and external market survey results. Though all policies and standards relating to the conduct of the Bank's business have been promulgated through internal communication and training, a specific policy was established to take action in case of an event which may affect the reputation. The Bank has a zero tolerance for knowingly engaging in any business, activity, or association where foreseeable reputational damage has not been considered and mitigated. While there is a level of risk in every aspect of business activity, appropriate consideration of potential harm to the Bank's good name is a part of all business decisions. The complaint management process and the whistle-blowing process of the Bank include a set of key tools to recognize and manage reputational risk. Based on the operational risk incidents, any risks which could lead to reputational damage are presented to the Board and suitable measures are taken by the Bank to mitigate and control such risks.

COMPLIANCE RISK

RISK DESCRIPTION

Compliance from a banking perspective can be defined as acting in accordance with a law, rule, regulation or a standard. Basel Committee on Banking Supervision in 2005 defines “compliance risk” as “the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules related self-regulatory organisation standards, and Codes of Conduct applicable to its banking activities”.

RISK MANAGEMENT

Bank’s governing principles on compliance ensure that compliance starts from top, emphasizing standards of honesty and integrity and holding itself to high standards when carrying on business at all times strive to observe the spirit as well as the letter of the law. Further, it sets compliance as an integral part of the Bank’s business activities and part of the culture of the Organisation and at all times will be observing proper standards of market conduct, managing conflicts of interest, treating customers fairly, and ensuring the suitability of customer advice. The Compliance Governance Structure of the Bank has been set up to manage the compliance risk of the Bank independently.

The Compliance Officer independently reports to the Board Integrated Risk Management Committee through which the Board of Directors of the Bank are updated on compliance matters frequently. The Bank’s Board of Directors are responsible for overseeing the management of the Bank’s compliance risk. Accordingly, the Board has delegated its powers to the Board Integrated Risk Management Committee which takes appropriate action to establish a permanent, independent and effective compliance function in the Bank, ensure that compliance issues are resolved effectively and expeditiously by the Senior Management of the Bank with the assistance of the compliance function and assess the extent to which the Bank is managing its compliance risk effectively. The Bank’s Corporate/ Senior Management is responsible for the effective management of the Bank’s compliance risk and an independent robust compliance culture has been established within the Bank with processes and workflows designed with the required checks and balances to facilitate compliance. The compliance function works closely with the business and operational units to ensure consistent management of compliance risk. The Compliance Policy defines how this key risk is identified, monitored and managed by the Bank in a structured manner. The Bank’s culture and the Code of Ethics too play a key role in managing this risk.

STRESS TESTING

Stress testing is a tool that is used to assess the sensitivity of the current and potential risk profile relative to the Bank’s risk appetite. As a part of the Internal Capital Adequacy Assessment Process (ICAAP) under Pillar II 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.

Managing our Risks

Impact on Capital Adequacy Ratio for Different Stress Levels

Particular	Description	Minor	Moderate	Major
Credit Quality- Increase in NPL	Type One deals with the increase in the Non-Performing Loans (NPLs) and the respective provisioning	15.46%	14.97%	13.36%
Credit Quality- Asset downgrade	Type Two deals with the negative shift in the NPL categories and hence the increase in respective provisioning	14.96%	14.39%	13.51%
Credit Concentration Risk - HHI	% Increase in HHI under stress	15.53%	15.48%	15.44%
IRRBB EAR and EVE	Impact of changes in interest rates on the Banks' Economic Value of Equity through changes in the economic value of assets and liabilities to assess the immediate impact of changes in interest rates on Banks' earnings through changes in its Net Interest Income (NII)	15.32%	14.90%	14.70%
Liquidity Risk	Withdrawal of a percentage of the deposits from the bank within a period of three months and Rollover of loans to a period greater than three months	15.78%	15.75%	15.70%
Financial Crisis	Multiple scenarios	14.96%	14.37%	13.43%

CAPITAL ADEQUACY AND ICAAP FRAMEWORK

In line with the Basel requirements and as prescribed in the ICAAP framework, the Bank uses internal models to assess and quantify the risk profile, to stress test risk drivers and to assess capital requirements to support them. Internal limits which are more stringent than the regulatory requirements provide early warnings with regard to capital adequacy.

ICAAP supports the regulatory review process providing valuable inputs for evaluating the required capital in line with future business plans. It integrates strategic focus and risk management plans with the capital plan in a meaningful manner with inputs from Senior Management, Management Committees,

Board Committees and the Board and also takes into account potential risk of capital being inadequate under stressed conditions. The ICAAP process also identifies gaps in managing qualitative and quantitative aspects of reputational risk and strategic risk. The Bank is compliant with both regulatory and its own prudential requirements of capital adequacy.

Capital Adequacy Ratio

Capital Ratio	Regulatory (Minimum)	Dec 2021	Dec 2020
CET 1	6.5%	13.16	9.85
Tier 1	8%	13.16	9.85
Total	12%	15.78	13.38

Valuing the entrepreneurial spirit of the micro and SME sectors.



HOW WE PERFORMED

Financial Capital	<u>70</u>
Social and Relationship Capital	<u>74</u>
Manufactured Capital	<u>82</u>
Human Capital	<u>84</u>
Natural Capital	<u>88</u>
Intellectual Capital	<u>91</u>

Financial Capital

SDB bank delivered healthy financial results and ended the year by recording the highest ever profit the Bank has recorded in its 25-year history.

OVERVIEW

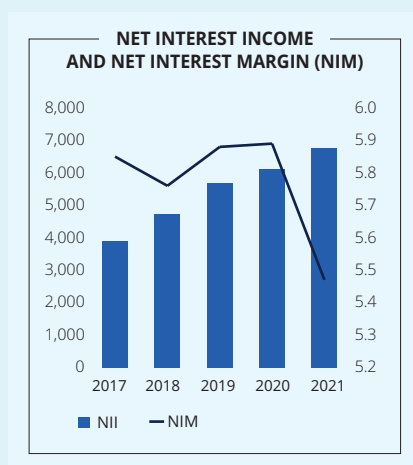
This achievement enabled the Bank to prove its ability to withstand extreme pressure due to the prolonged economic slowdown caused by the continuation of the COVID-19 pandemic for the second consecutive year. Despite the challenges encountered due to the volatile interest rate environment and the weak credit appetite from the market, SDB bank continued to demonstrate its resilience. The robust business strategies to quickly realign its operations in line with the rapidly evolving external environment coupled with prudent lending practices are behind the success of the strong results produced during the financial year 2021.

ANALYSIS OF THE STATEMENT OF PROFIT AND LOSS

NET INTEREST INCOME

Interest Income, which accounted for 95% of the gross income of LKR 15.4 Bn, shrunk by 4.21% to LKR 14.79 Bn for the year from LKR 15.44 Bn reported in 2020. The main reasons for this contraction were the lower interest rate environment that prevailed during most of the year and the weak credit demand attributed to the pandemic induced economic downturn.

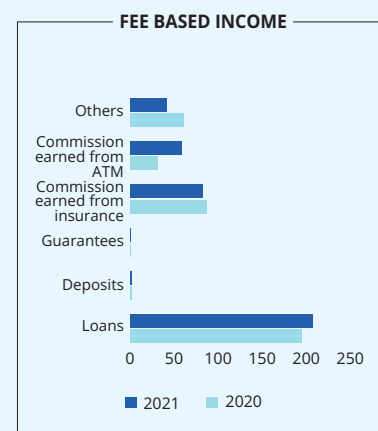
Interest expenses, which accounted for 54.21% of the interest income, decreased to LKR 8.01 Bn. during the year from LKR 9.31 Bn. reported in 2020, recording a reduction of interest expense by 13.92%. This change in the composition of the deposit portfolio, coupled with the lower interest rate regime that prevailed for most of the year, contributed to lowering interest expenses. The Bank recorded a 5.57% year on year growth in its overall Savings portfolio while recording a decline in relatively costly term deposits.



Moreover, with the decrease in interest expenses making up for the decline in interest income, net interest income improved to LKR 6.77 Bn. from LKR 6.12 Bn. reported in 2020, recording a growth of 10.55%, accounting for 91.09% of the total operating income. However, due to the pressure on interest income, the Bank's Net Interest Margin reported a marginal drop of 42bps to 5.47% from 5.89% reported in 2020.

FEE-BASED INCOME

Net fee and commission income, comprising fees related to loans and advances, Debit cards, Insurance-related services and electronic channels, increased to LKR 390 Mn in 2021 from LKR 376 Mn reported in 2020. This year-on-year growth was driven by a substantial increase in fee-based revenues generated from lending-related transactions, the sizable improvement in debit card business volumes and higher volumes of online transactions made through SDB bank's digital products in last year.



OTHER INCOME

The total other income of the Bank amounted to LKR 271.85 Mn. for the year compared to LKR 329.16 Mn. reported in 2020 and recorded a drop of 17.41%. This was due to the reduction of the unit trusts portfolio by 88.85% during the year under review, which was the main contributor to other income in 2020. Though the government securities portfolio has shown substantial growth in 2021, the yield is relatively lower than the unit trusts portfolio.

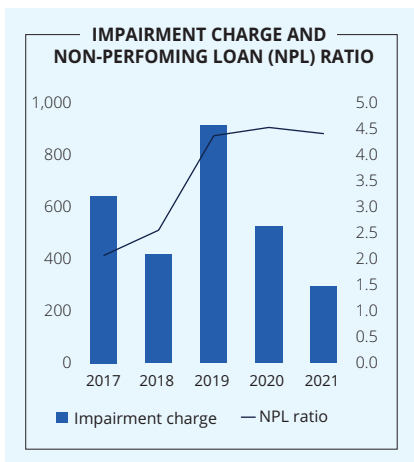
TOTAL OPERATING INCOME

Consequent to the improvements in net interest income and net fee and commission income, partly offset by the negative growth in other revenue, total operating income grew to LKR 7.43 Bn. from LKR 6.83 Bn. reported in 2020 by LKR 602.97 Mn. or 8.82% in 2021

IMPAIRMENT CHARGES

The Bank recognized a total impairment charge of LKR 643.7 Mn for 2021 compared to LKR 417.03 Mn in 2020, pointing to a 54.3% increase year-on-year. During the current year, the Bank recognized

LKR 646.81 Bn, a charge against loans and advances and LKR 3.14 Mn, a reversal against other financial instruments.



The Bank made a substantial provision after reviewing the prevailing challenging macroeconomic conditions at the global and local levels. Individually Significant Customers were carefully evaluated, and appropriate provisioning was made considering the severity of the pandemic impact on each customer's business.

As a means of factoring the long-term impact of COVID-19 on the client's ability to repay loans, the Bank re-assessed the risk profiles of its customers to determine if they should be moved to lifetime expected credit losses (Stage 2) from the 12-month expected credit losses (Stage 1) under collective impairment. Based on this assessment, customers were transferred to Stage 2 in circumstances where their business models appeared to be affected by the pandemic's prolonged economic consequences. Accordingly, all individually significant unimpaired customers under moratorium for an extended period have been classified at least under stage 2 or moved to the next delinquency bucket on a prudent basis.

Meanwhile, the Bank continued to recognise customers operating in risk elevated industries as Stage 2 during the year under review. The Bank has identified industries such as tourism, imports businesses, construction (including condominiums), agriculture including agri-chemicals, transport and store, personal

other consumption needs etc., as industries carrying an increased credit risk.

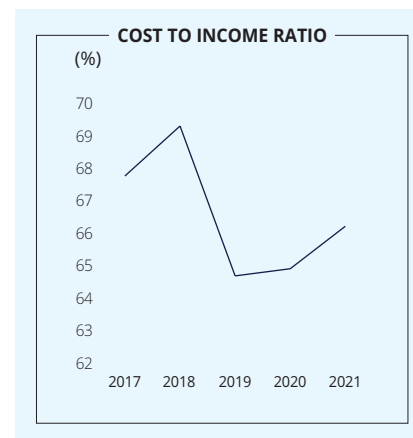
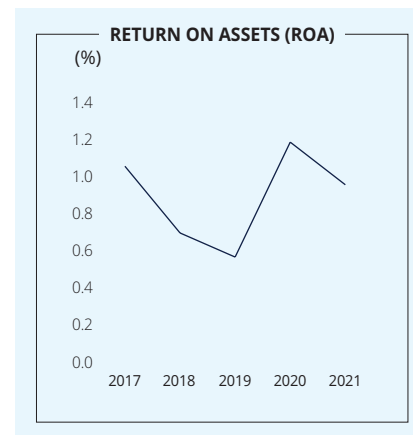
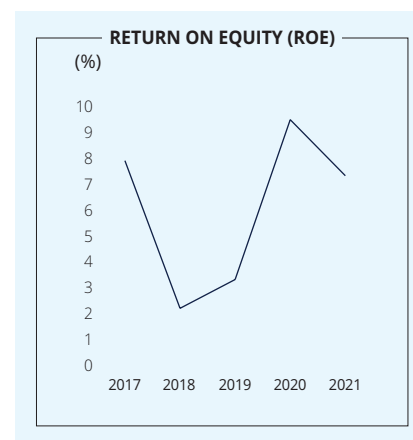
In addition, the Bank increased the loan loss provision for moratorium loans classified under Stage 1 and Stage 2 as an allowance for an overlay to capture potential non-payment of loans upon the expiry of moratoriums. The Bank has also assessed the impact of macroeconomic variables that could elevate the credit risk of the loan portfolio and considered the potential impact of these variables in the calculation of the provision for impairment. As a result of all the above factors, the Bank's Stage 1 and Stage 2 provision charges increased to LKR 468.75 Mn from LKR 154.07Mn reported in 2020 by LKR 314.67 Mn or 204% in 2021.

Meanwhile, the impairment charge of Stage 3 loan balances decreased marginally by LKR 3.9 Mn in 2021 despite an overall LKR 629 Mn increase in Stage 3 loan balances. The annual review of the loss rates and the re-measurement of impairment provision for some Stage 3 customers were the main reasons for the marginal decrease in impairment charge against Stage 3 customers. These increases/decreases together contributed to higher impairment provision under the expected credit loss model.

OPERATING EXPENSES

Total operating expenses for the year amounted to LKR 4.91 Bn. It compared to LKR 4.43 Bn. reported in 2020 and recorded an increase of LKR 487.52 Mn. or 11.00%. This was mainly a result of the increase in personnel expenses (excluding bonus) by 8.81% to LKR 2.54 Bn. from LKR 2.35 Bn. for 2020, following the signing of the new collective agreement effective from January 01, 2021, with the Ceylon Bank Employees Union and the salary increases granted to the entire staff cadre. In addition, other operating expenses for the year too increased by 31.97% to LKR 1.84 Bn. from LKR 1.40 Bn for 2020. The Bank re-assessed the retirement benefit liability considering the revision of the 'Minimum Retirement Age under the Workers Act No. 28 of 2021'. This re-assessment resulted in a net reversal of liability, immediately reversed to the Statement of Profit or Loss.

It is considered a change to the plan in compliance with the Sri Lanka Accounting Standard' LKAS 19 - Employee Benefits'. The Cost to income ratio increased by 130 bps and stood at 66.24% for FY 2021 compared to 64.93% in the previous year, led by the inflationary pressure and increase in other cost items.



Financial Capital

TAXATION

The reduction in VAT on financial services and income tax expenses are directly correlated to the change in profitability for the year. Total tax expenses for the year under review were LKR 989.45 Mn against the LKR 1.14 Bn recorded for the previous year, reflecting a YoY decrease of 13.79%. Meanwhile, the reduction in corporate income tax rate by 4% from 28% to 24% had a positive impact on the income tax charge of the year. In 2020, income tax and deferred tax were calculated at 28%, as the legislation was not substantively enacted at the time of publication of the financial statements 2020. The rate reduction was subsequently introduced from the year of assessment 2020/21, which led the Bank to reverse LKR 59.2 Mn worth of income tax during the current financial year based on the previous year's rate differential.

In the Budget Proposals 2022, the Government has proposed to impose a surcharge tax of 25% on individuals or companies with a taxable income over LKR 2,000 Mn for the year of assessment 2020/2021. However, this proposal has not yet been substantively enacted. SDB bank has not recognised any provision in 2021 financial statements against the proposed surcharge tax.

PROFITABILITY

SDB bank reported a Profit Before Tax (PBT) of LKR 1.32 Bn in FY 2021, which decreased marginally by 5.88% against LKR 1.41 Bn recorded in 2020. Profit After Tax (PAT) for the year under review also grew by 5.62% to LKR 883.27 Mn from LKR 836.27 Mn registered in the previous year.

As a result of the new share issue concluded via the secondary public offer, the Return on Average Shareholders' Equity (after-tax) decreased by 216 bps to 7.35% as of December 31 2021, 9.51% reported at the end of the year 2020. Return on Average Assets (before tax) also decreased to 0.96% as of December 31 2021, against the 1.19% reported for 2020.

OTHER COMPREHENSIVE INCOME

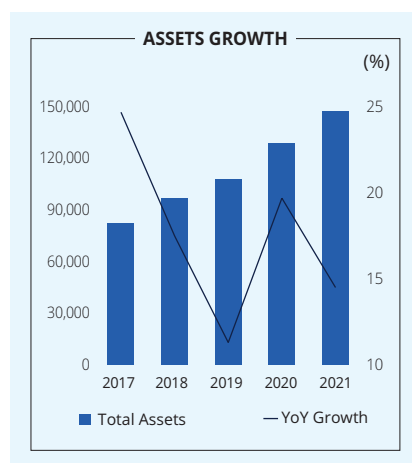
Other comprehensive income of the Bank reported a profit of LKR 26.06 Mn. During the year, as against the loss of LKR 1.33 Mn. reported in 2020, primarily due to reassessment of the retirement benefit liability, considering the revision of the 'Minimum Retirement Age under the Workers Act No. 28 of 2021'. This re-assessment resulted in a net reversal of liability, immediately reversed to the Statement of Profit or Loss. It is considered a change to the plan in compliance with the Sri Lanka Accounting Standard' LKAS 19 - Employee Benefits'.

Accordingly, the total comprehensive income of the Bank for the year 2021 increased to LKR 909.34 Mn. from LKR 834.95 Mn. reported in 2020, a positive growth of 8.91%.

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

ASSETS

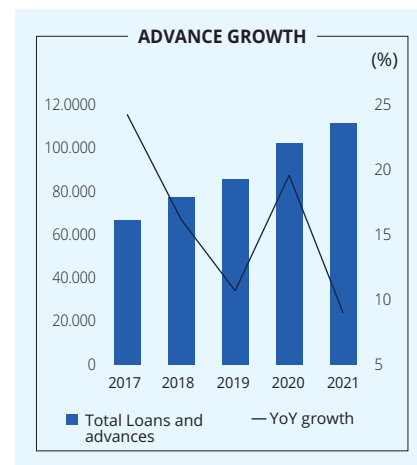
Total assets of the Bank grew by a healthy 14.54% during the year to reach LKR 147.81 Bn. from LKR 129.05 Bn. at the previous year's end. This growth is well over the industry growth of 16.5%. This was due to the growth in loans and advances portfolio and the excess liquidity invested in Government securities and term deposits with banks.



LOANS AND ADVANCES TO CUSTOMERS

Having adopted a cautious approach towards credit growth over the first half

of the year, the Bank has witnessed credit growth picking up with economic activity improving towards the latter part of 2021.



Bank net loans and advances increased by 9.26% to LKR 115.78 Bn in 2021. Loan growth was primarily funded by external borrowings and fresh equity raised through the secondary public offering. Accordingly, loans and advances portfolio accounted for 75.69% of Total Assets compared to 79.55% in 2020.

The Bank continued to extend concessions and accommodate moratorium requests from the borrowers affected by the Easter Sunday attack and the COVID-19 pandemic. However, loans and advances under moratoria were reduced from LKR 24.79 Bn. as of December 31, 2020, to LKR 7.5 Bn. by the end of 2021, with specific sectors gradually coming out of the Government granted forbearance measures.

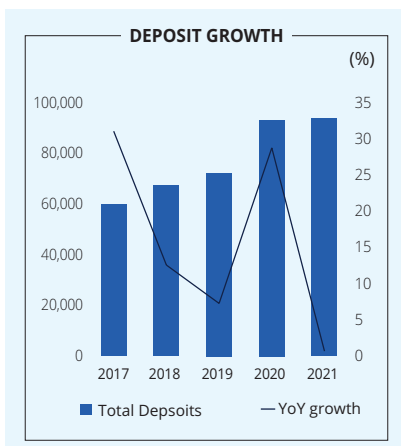
ASSET QUALITY

Asset quality has remained a key focus for the SDB bank and is a crucial determinant of the sustainability of the Bank's operations. Despite challenges within the economy, the robust risk management framework helped the Bank end the year with improvements in gross and net NPL ratios at 4.42% and 1.49%, respectively, in 2021, compared to 4.54% and 1.79% in the previous year. The industry averages of gross and net NPL ratios remained at 4.8% and 2%, respectively, as of 2021.

Cumulative impairment provisions for loans and advances as a percentage of the total loans and advances portfolio at the end of the year increased to 3.36% compared to 3.13% in the previous year. In addition, both the impaired loans (stage 3) ratio and the impairment (Stage 3) to Stage 3 Loans Ratio too improved to 4.13% (2020: 4.15%) and 36.98% (2020: 36.79%), respectively, by the end of 2021. These ratios are based on the proposed regulatory provisions under the Banking Act Direction of No. 13 of 2021, issued by the Central Bank of Sri Lanka, which became effective from January 01, 2022. The improvements in the above ratios were consequent of the application of management overlays to reflect the risks associated with customers subject to individual impairment.

DEPOSITS AND LIABILITIES

Customer deposits continued to be the single most significant source of funding for the Bank, accounting for 63.53% of the total assets as of December 31, 2021. The Bank's deposit book reported LKR 93.9 Bn as of December 31 2021, with a year-on-year growth of 0.68%, driven mainly by savings accounts. SDB bank's Savings deposits to Total deposits ratio experienced a marginal increase of 110 bps to reach 23.79% at the end of the year. At the same time, low-interest rates experienced reduced the attractiveness of term deposits, leading to a 0.76% negative growth compared to the previous year. Overall, the total deposit portfolio of the Bank grew by LKR 631 Mn to reach LKR 93.9 Bn at the end of December 31 2021, compared to LKR 93.2 Bn reported at the end of December 31 2020.



In September 2021, the Bank raised USD 40 Mn worth of Senior, Unsecured Term loan from the United States International Development Finance Corporation (DFC). To mitigate the foreign currency risk, the Bank placed this amount in a USD term deposit with the Bank of Ceylon and borrowed LKR 7.2 Bn on the strength of that deposit to finance the lending operations. The net increase in these two transactions resulted in a 123% increase in borrowings from debt security holders. In the meantime, the Bank also settled some loan facilities taken in prior years.

Due to the increase in retirement age following the new regulation and the rise in discount rate in line with the rise in market rates, the Bank's liability on its retirement benefit obligation was increased slightly in 2021.

CAPITAL

The Bank is guided by its Internal Capital Adequacy Assessment Plan (ICAAP) in maintaining capital corresponding with its current and projected business volumes. Accordingly, in August 2021 the Bank successfully concluded the second phase of its capital augmentation plan by raising LKR 3.5 Bn worth of core capital via a secondary public offer. As a result, the number of issued shares as of the reporting date increased to 160,698,832 from 91,576,032 reported on December 31 2020. The total equity of the Bank increased by LKR 4.21 Bn during the year to reach LKR 14.12 Bn at the end of 2021.

SDB bank maintained all its capital ratios well above the regulatory requirements throughout the year. As of December 31 2021, the Bank's CET 1, Tier I and Total capital ratios were at 13.16%, 13.16% and 15.78%, compared to 9.85%, 9.85% and 13.38%, respectively, at the end of 2020.

Since the proposed surcharge tax, which had not been enacted in Parliament at the time of reporting, the potential impact has not been accounted for. The Bank anticipates it to impact the Bank's capital in the coming year subject to the enactment of the tax mentioned above.

LIQUIDITY

At a time of unprecedented volatility such as what we currently experience, excess liquidity provides a high level of comfort to the Bank. It enables the Bank to benefit from the upturn envisaged in credit demand in the years ahead. Given its importance, a review of liquidity is a permanent item on the agenda in the Assets-Liability Committee (ALCO) meetings of the Bank.

Liquid assets ratios of the Bank were 22.37% as of the end of 2021, compared to the statutory minimum requirement of 20%. Available stable funding based on definitions prescribed by the CBSL stood at LKR 116 Bn. as of December 31, 2021, leading to a Net Stable Funding Ratio (NSFR) of 137.61%, comfortably above the statutory minimum of 100%. Demonstrating the availability of unencumbered high-quality liquid assets at the disposal of the Bank, the Liquidity Coverage Ratio stood at 134.82% as of December 31, 2021, as against the statutory minimum of 100%.

Social and Relationship Capital

We maintain strong stakeholder relationships with our customers, suppliers, business partners, regulator, suppliers, and local communities. These ties help our business thrive in a responsible and sustainable way and build our corporate reputation. We value these ties and consider it as an important part of our ecosystem. Thus, we continued to be a source of stability for our customers and clients during challenging times and supported the communities in which we work and live to reinforce these relationships.

VALUE DELIVERED

Catered to 1,527,665 new customers	1 new products launched
Relocation of Ambalangoda branch to increase accessibility	
LKR 1.78 Bn payments to suppliers	

KEY TAKEAWAYS FOR 2022

Bring in more efficiency and productivity to the HR processes through digitalization and process re-engineering.

Priority to be given to performance management and human resource optimization by driving capacity planning mechanisms across the Bank.

Management Development programs to be continued in order to strengthen the management team and develop the succession plan.

Enhance our focus on contributing towards the UN Sustainable Development Goals.

LINK TO MATERIAL ISSUES

Customer service
Inclusive lending
Responsible lending
Corporate social responsibility

SDG FOCUS UNDER SOCIAL AND RELATIONSHIP CAPITAL



No poverty

Empowering low income earning customer segments by providing protection micro and small facilities.



Zero hunger

Promoting collaboration between the financial sector and agriculture sector actors towards sustainable food systems.



Good health and well-being

Launch of a loan scheme aimed to provide enhanced access to clean water for the community.



Decent Work and Economic Growth

Supporting SMEs to build up their enterprises which in return supports economic growth.



Reduced inequality

With strong roots across Sri Lanka's rural and urban communities the Bank provides inclusive financing



Sustainable cities and communities

- Contributing to development of agriculture
- Empowering regional development.

**SDG FOCUS UNDER
SOCIAL AND RELATIONSHIP CAPITAL**



**Responsible
consumption
and production**

**Meeting compliance requirements
before offering products to
customers and readily meeting
information requirements.**



**Partnerships to
achieve goals**

**Strengthening local and global
partnerships to uplift the national
economy while creating positive
societal and environmental impacts
island wide.**

BUILDING CUSTOMER LOYALTY

SDB bank over its journey of nearly two and a half decades has played an important role in terms of providing targeted financial assistance to those who most need it. During the year under review most of our customers faced increasing hardships as the economic pressures triggered by the COVID-19 pandemic affected their lives and livelihoods. Thus, as a Bank that promotes empathy and inclusivity, we remained well poised to serve all our customers and provide them with financial solutions that best suit their needs.

KEY CUSTOMER SEGMENTS

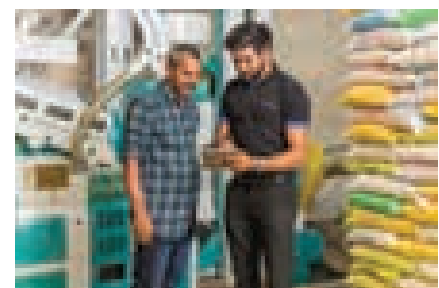


SMALL & MEDIUM ENTERPRISES (SME)

SMEs make up a large part of the Sri Lankan economy with over one million SMEs accounting for approximately 75% of all businesses. This segment continued to be one of the most adversely affected by the pandemic and therefore we continued to offer financial assistance to support the businesses at grass-root level. Between both the CBSL mandated schemes and the Bank initiated schemes for COVID-19 relief loans, the Bank disbursed a total of LKR 1,096 Mn to affected businesses during 2021 under Soubagya COVID-19 reference scheme.

VALUE ADDITIONS

- Expansion of digital services for SME customers
- Greater support given to agri-finance companies
- Improvements in value chain activities
- Increased focus on uplifting female entrepreneurship
- Initiatives to improve financial literacy



RETAIL

Our retail customers are categorized into six groups, namely, General Savings, Minors, Women, Youth, Senior Citizens and Veterans. We offer specialized products for each of these segments some of which are under-served by traditional financial service providers, with the motive of supporting them to uplift their lives. This targeted approach allows us to differentiate our value proposition, build customer loyalty and augment our brand value.

Social and Relationship Capital

GENERAL SAVINGS

The Bank offers a range of general savings products to foster a culture of savings and prudent financial management. Equipped with multiple convenient digital platforms and high interest rates, these products are an attractive savings channel easily accessible for customers.

WOMEN

The Bank remains committed to women's empowerment and has established several products that support women's health and well-being, career advancement, education, access to finance, and financial independence. Our *Uththamavi* savings and investment products as well as *Athamaru*-over the counter gold loans aim to lend a helping hand to women to realise their dreams and aspirations.

SENIOR CITIZENS

SDB accounts for a long history of paying homage to senior citizens. Our *Upahara* savings and loan products aim to support the ageing population while encouraging them to take part in entrepreneurial activities. The loans are offered at attractive rates with repayment over 10 years and equipped with a loan protection cover to safeguard dependents in the event of sudden demise of the borrower.

CO-OPERATIVES

The cooperative society network has been the primary funding source of SDB over the past years accounting for approximately 30% of its total deposit base. When SDB was established in 1997 as the main credit institution for the SANASA movement, the SANASA society network provided the initial seed capital required. SDB's cooperative model is a unique financial model fortified by its heritage linked to the cooperative movement to foster sustainable economic

MINORS

Building a financially literate future generation is crucial towards facilitating sustainable economic growth. Thus, we aim to inculcate the savings habit from a very young age and have introduced two savings accounts specially for minors- *Lakdaru* and *Dayada*.

YOUTH

Assisting the young generation to fulfill their career goals and aspirations is a key element of our growth agenda. The *SDB Jawaya* youth savings and loan products offering special interest rates aim to support the youth to develop and maintain strong financial strategies. The products are easily accessible via multiple digital platforms for the convenience of the young clients.

VETERANS

We remain grateful to the selfless sacrifice made by the brave men and women who fought through 30 years of war to save our nation. Thus, SDB continues to provide financial assistance and guidance to these veterans and their families to support them through their retirement.

development through providing credit to the rural poor.

The segment functions under the guidance of the Government's Co-operative Department. Thus, we strive to build a good rapport and continuously engage with them via various workshops, training programmes meetings and discussions.

While maintaining strong ties with the SANASA organizations, we also work closely with non- cooperative societies as

we build our presence across the island. In addition to the SANASA movement we are also working towards establishing a transactional banking platform with 50% of the Multipurpose Co-operative Societies across the country.

A core area of focus of the segment is entrepreneurship development and with the support of development finance institutions we are working to promote sustainable agri-prenuership among agri-cooperatives. In the ensuing year we hope to introduce a new product targeting agriculture societies.

Key Strategies

- Become the preferred bank of the cooperative sector
- Double our business volumes in 3 years
- Promote entrepreneurship among cooperative societies
- Promote digital services among cooperatives to bring technology to grass-root level

SDB is the only bank in Sri Lanka which has a separate Board Sub-committee for cooperative development that directs and guides the segments activities to ensure alignment with the Bank's purpose and vision.

Around 70%-80% of the country's population is rural and cooperative societies still function using very traditional mechanisms. Despite the rapid increase in demand for digital products and services after the onset of the pandemic, rural areas remain reluctant to adopt digital channels for a variety of reasons. As a Bank that takes care of the cooperative sector, we have developed several digital solutions to enhance the efficiency and effectiveness of their banking operations including, internet banking facilities as well as debit cards to members of these societies.

BUSINESS BANKING

This is a relatively new segment that was introduced in 2020 which aims to cater to larger corporates. Through this segment we provide a suite of products for businesses of all sizes across multiple industries in support of their growth and sustenance. During 2020 as well as 2021 the segment picked up at a slower than anticipated pace due to the impact of the pandemic and resultant unfavourable macro-economic conditions. However, during this sluggish phase we concentrated on strengthening our team, to prepare them to provide an efficient and better service to customers in the ensuing year we hope to aggressively

grow our business with this process well established.

Partnering with large manufacturing organisations mainly involved in agriculture exports is a key aspect of our growth plan as we hope to facilitate higher production which will in turn support economic growth. As a development Bank we have also partnered with sustainable development projects and energy projects and look forward to enhancing our contribution within this space. While most of our products are digitalized, which allows customers to transact at their fingertips, we hope to promote the use of internet banking among our customer base to reduce manpower and manual involvement as we expand our reach and diversify our portfolio across multiple sectors.

ACCESSIBILITY

Customer convenience and accessibility is key to retaining existing clients and acquiring new customers in the new normal. Through 2021, we remained focused on supporting the everyday financial needs of all our clients and our teams continued to serve individuals and businesses through our island-wide network of 94 branches and 13 ATMs.

PRODUCT RESPONSIBILITY

Product responsibility and marketing integrity is key to gaining customer confidence. The Bank strives to be ethical in its product design, adhering to all necessary compliance requirements before introducing a new product to its customers. SDB bank recognizes that modern customers are not only concerned with quality and service but also wish to be well-informed before making a purchase or starting a business relationship with a corporate entity. Therefore, information on fees and charges, product features, terms and conditions are clearly communicated to clients through branch staff. Product related information is also readily available through our corporate website. There were no instances of non-compliance concerning product and service information or marketing communications during the year.

CUSTOMER PRIVACY

SDB bank considers the privacy of its customers to be of utmost importance. To aid in its efforts to safeguard customers' privacy, the Bank utilises the latest digital technology to secure its systems and processes and banking transactions. With the upgrade of the core banking system to the latest version as well as enhancements made to the security of our digital payment application during the year under review, customer privacy has been further strengthened.

STRENGTHENING OUR PARTNERSHIPS

Key to our ability to provide efficient banking services is our ability to sustainably procure goods and services that are compliant with regulations, quality and safety standards, and procured from suppliers who align with our strategic objectives and have the ability to service our facilities and ensure product availability. Additionally, we have also formed strategic alliances with several business partners who support the growth of our Bank and strive to maintain healthy and long-term relationships founded on trust and confidence.

 Mobile apps	Web www.sdb.lk	 Social media presence
 Contact center	 ATMs	 Branches

SERVICE EXCELLENCE

Superior customer service is a strategic priority of the Bank as we strive to position ourselves as the Bank of the masses. Structured mechanisms are in place to evaluate customer satisfaction and results of these surveys provide vital inputs in product development, customer relationship management and overall strategy formulation.

The Bank implemented a process for handling customer complaints and grievances at various levels. The process includes resolution mechanism, escalation, and the turnaround time to ensure

superior customer service maintained throughout the network. Further, the Bank operates a 24x7 call center where customer complaints are addressed, recorded and passed on to the central complaints handling unit for quick resolution.

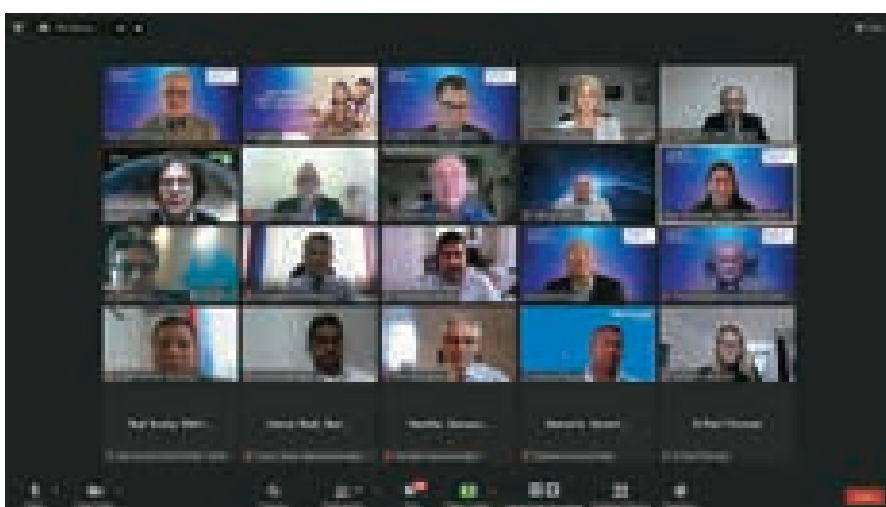
Customer complaints arising from product, process and service related issues are categorized and promptly addressed to ensure non-repetition of such instances.

Regular training is conducted for branch staff to ensure customers are served promptly and the matters are attended to without any delay.

Social and Relationship Capital

Partnership	Value added
Local partnerships	
Institute of Chartered Accountants of Sri Lanka	<p>SME task force: a mentoring programme for micro, small and medium enterprises involving over 1000 chartered accountants volunteering as mentors and financial educators to develop the local SMEs. SDB contributes by providing financial guidance and stands ready to provide access to credit facilities in support of the growth of these SMEs. A range of opportunities will be made available to SDB bank's SME-sector customers through this program, from access to new markets, and technology updates, to exploring innovative business avenues. Consequently, this partnership will expand the Bank's customer base and increase its overall market presence.</p> <p>Furthermore, this unique collaborative development program will work to ensure that the island's entrepreneurs, whether from small villages or busy townships, are presented with the best opportunities to advance their businesses, be export-ready, and support the national economy.</p>
MILCO (Pvt) Ltd	<p>SDB bank has entered into this partnership to support the country's dairy industry and provide financial assistance to dairy farmers from the MILCO farming network in the North Central Province. Given the heightened demand for local dairy products and the industry's potential for growth, this comes as a strategic and timely move.</p> <p>The initiative has received considerable strength through the harnessing of SDB bank's extensive reach countrywide and its strong SME ties. While the Bank's Polonnaruwa branch has approved 100-plus loans a similar loan volume has been continuously disbursed across numerous parts of the country via other branches in advancing this initiative.</p>
Sri Lanka Banks' Association's Sustainable Banking Initiative (SLBA SBI)	The Bank remains active within the Sri Lanka Banks' Association's Sustainable Banking Initiative (SLBA SBI) with Mr Adheesha Perera, Sector Manager - Sustainable Banking representing SDB bank as a Core Group Member of the initiative.
Global partnerships	
<p>The Bank is currently engaged with the international cooperation section of EU in Sri Lanka, through which preliminary discussions are underway with AgriFI, an EU blended finance window, for a long-term funding facility for sustainable agriculture for smallholder farmers. The Bank also held preliminary discussions with EU and FMO on a blended finance facility for ICT start-ups in Sri Lanka along with NDB Capital.</p> <p>Further in pursuit of opportunities in the global cooperative arena the Bank has established relationships with the International Cooperative Alliance, Asian Confederation of Credit Unions (ACCU), International Raiffeisen Union (IRU) and Center for International Cooperation in Agriculture Banking (CICAB).</p>	

SAPP, IFAD, and MILCO	DIMO
<p>SDB bank reinforced its partnership with Smallholder Agribusiness Partnerships Programme), IFAD (International Fund For Agricultural Development), and MILCO aimed towards uplifting small-scale dairy entrepreneurs and boosting national milk production, with a loan awarding ceremony for its entrepreneur participants.</p> <p>The event titled 'The Credit Disbursement & Grant Awarding Ceremony of SAPP Youth Entrepreneurs' hosted in Aralaganwila, Polonnaruwa, brought together youth entrepreneurs engaged in dairy farming from the surrounding locale.</p> <p>The technical know-how and financial literacy afforded by SAPP to dairy-based youth entrepreneurs across the initiative, complemented by SDB bank and MILCO's involvement as the financial facilities provider and marketplace facilitator respectively is set to strengthen their enterprises and boost national milk production considerably.</p> <p>Leveraging the enhanced access created by MILCO to the island's considerable rural dairy farmer segment and SME network, the collective efforts of SDB bank, SAPP, and IFAD have allowed for the disbursement of loans to a large number of dairy farmers as a start, with a LKR 1 Bn loan volume expected to be given in the near future to dairy farming entrepreneurs who supply milk to MILCO.</p>	<p>SDB renewed its MOU with DIMO aimed towards uplifting the Sri Lankan agriculture sector by offering financial solutions and equipment financing for agricultural mechanization.</p> <p>By extending the MOU, SDB bank is geared to offer A to Z leasing solutions on agricultural equipment sold by DIMO.</p> <p>DIMO is recognized as the authorized agent for Mahindra & Swaraj Tractors as well as CLAAS & LOVOL Combine Harvesters in Sri Lanka.</p> <p>DIMO joined hands with SDB bank as part of the 'SDB/DIMO LEASE PROMOTION' in an effort to offer greater conveniences to farming communities and boost the agriculture sector island wide.</p> <p>The 2-year MOU offers the lowest down payments in the market along with competitive pricing and promises a significant rise in productivity across both small-scale and industrial farms, through the use of state-of-the-art agricultural machinery and equipment.</p> <p>For both harvesters and tractors, SDB bank offers leasing facilities with a minimum down payment from the total invoice value, carrying a maximum tenor of 4 years involving 8 seasonal payments and 5 years spread across 10 seasonal payments respectively. SDB bank's leasing solutions provide farmers numerous benefits including hassle-free registration documentation, competitive pricing plus the lowest down payments market wide.</p>



CONNECTING ENTERPRISES

In rallying the environmentally and socially conscious Banks and financial institutions in the region, SDB bank was the proud host of the Annual Meeting of the Asia Pacific Chapter of the Global Alliance for Banking on Values, on the 16th and 17th of November 2021. The Global Alliance for Banking on Values (GABV), founded in 2009, is a network of banking leaders from around the world committed to advancing positive change in the banking sector. The collective goal of the GABV is to change the banking system so that it is more transparent, supports economic, social and environmental sustainability, and is composed of a diverse range of banking institutions serving the real economy. The Alliance connects banks, banking cooperatives and credit unions, microfinance institutions and community

Social and Relationship Capital

development banks and supports their work towards positive systemic change within financial systems. Its members share a unified vision to use finance to deliver sustainable economic, social and environmental development, with a focus on helping individuals fulfill their potential and build stronger communities.

This year's regional gathering conducted virtually due to the ongoing pandemic, provided the platform for member institutions to share insights on the post-COVID-19 strategies that they have adopted to support people and businesses to remain resilient and catalyze a sustainable recovery.

With over half a million people driven into poverty by the Covid 19 pandemic in Sri Lanka according to the estimates of the World Bank and with the Government of Sri Lanka being constrained due to the lack of fiscal space to invest in economic recovery, the dialogue served to highlight the importance of the financial sector in mobilizing sustainable finance in emerging economies like Sri Lanka and the need for international cooperation to re-orient capital to where it is most needed. Yvette Fernando - Deputy Governor of the Central Bank of Sri Lanka and Thilak Piyadigama, former CEO of SDB bank made presentations at this regional meeting on Sri Lanka's progress on sustainable finance and digital finance that served to further enhance Sri Lanka's position amongst international financiers.

MEMBERSHIPS 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

OTHER VENDORS AND SERVICE PROVIDERS

We work with more than 400 registered vendors and service providers who play a vital role in the smooth operation of our value creation process and therefore, we continuously focus on maintaining a healthy relationship with them. To ensure a relationship built on trust and confidence we require all our vendors and service providers to comply with local regulations and meet our expected level of service standards. In line with our vision to be a leading partner of national development, we have established strong ties with local suppliers in order to support economic development and empower the communities we operate in. Therefore, wherever possible we partner with members of the SANASA Federation to obtain the products and services needed to continue our operations.

Critical services	Utility service providers, travel and transport, software support, material suppliers
Ongoing support	Maintenance, software suppliers, staff welfare, waste management, debt collection agencies
Infrequent engagement	Landlords, contractors, professional service providers

UPLIFTING THE COMMUNITY

One of the ways we ensure our growth is sustainable is by sharing our success with the communities in which we work and live. We invest significant time and money to help address issues facing our local communities and society at large and commit all of our business activities and operations to the task. The Bank's extensive reach and deep-rooted relationships with communities around the country enables it to drive meaningful change among the most underprivileged levels of society.

APPROACH TO CSR

The Banks CSR activities are governed by its Environment, Social and Governance (ESG) framework which ensures alignment to the Bank's overall CSR vision and strategy. Our community development efforts are directed towards capacity building, nurturing SMEs and female entrepreneurship as well as improving the quality of life.

CAPACITY BUILDING

Supporting the UN Food Systems Summit, the Bank organized an independent dialogue together with SLBA SBI and Sri Lanka Agri-preneurs' Forum to promote collaboration between the financial sector and agriculture sector actors towards sustainable food systems.



NURTURING SME'S AND FEMALE ENTREPRENEURSHIP



Extending a helping hand during one of the most crucial times for the local economy, the United States International Development Finance Corporation (DFC) finalised the official handing over of a USD 40 Mn (LKR 8 Bn) term loan facility to SDB bank to support Small and Medium Enterprises (SMEs), particularly female-owned ventures in September 2021.

DFC is known for providing access to finance to over 10 Mn SME and microfinance borrowers in low-income and lower-middle-income countries worldwide and initiating over 800 projects around the world. Offering innovative financial solutions through debt financing, political risk insurance, equity investment and private equity investment funds, the corporation is focused on mobilising capital to solve critical development challenges.

SDB bank's progressive approach to development and its keen focus on financial empowerment and SME development, including the upliftment of women entrepreneurs, led the Bank to be selected for the loan by the DFC. The Bank's comprehensive product portfolio targeting women entrepreneurs, including unique female investment schemes and general SME loan offerings, are testaments to its commitment to uplifting this critical group of entrepreneurs.

40% of the loan facility will be used exclusively for women enterprises, while 60% will be allocated to SMEs in general. The facility also includes a series of value additions, including a Capacity Development Programme to provide SDB bank's employees access to modern technology. This digital empowerment will result in more value passed on to customers to help

them grow and build enterprises with the help of technological advancements.

SDB bank is renowned for its unwavering support provided to Sri Lanka's SME sector, which it endorses to be the engine of economic growth and community upliftment in the country. The DFC loan will help SME entrepreneurs realize their financial ambitions and support the financial empowerment of female entrepreneurs.

The impact of the loan will spread to needy communities across the island and help SDB bank provide a gamut of financial opportunities that create jobs, uplift social wellbeing and help Sri Lankans to enjoy a better quality of life.

SPECIAL PROJECTS

Launch of a new personal loan to increase community access to water



Positioned as a pioneering financial services solutions provider across multiple communities and stakeholders, SDB bank recently introduced its latest loan scheme aimed at providing enhanced access to clean water for the community.

The new loan was curated by SDB bank in partnership with the National Water Supply and Drainage Board (NWSDB) and is targeted to all NWSDB customers seeking to ensure enhanced access to clean water for their homes. The loan covers all water connection related expenses, including the provision of water supply; the purchase of water tanks, pipelines, fittings and other equipment; construction or repaired works for bathrooms, kitchens and other related spaces, infrastructure for agricultural endeavours, and any other legally accepted enhancements to uplift the living standards of community members. It is offered under the Bank's Personal Loan and *Divi Saviya* loan products, with the minimum loan

amount being LKR 50,000/-. Customers can apply for the loan from selected SDB bank branch locations island wide.

Launch of the 360° Corporate Campaign



Since its inception 24 years ago, SDB bank has been continually driven by its core intention of helping people from all walks of life to stand on their feet. The Bank recently unveiled an island-wide campaign, aptly themed #WhereYouAreValued, highlighting its commitment to uplift the SME sector and the community at large.

SDB bank positions itself as a future-ready bank, providing holistic, 360-degree support to its customers. Identifying, understanding and being empathetic to the needs of small to medium-scaled customers, the bank offers a range of comprehensive platforms and products to cater to their specific needs by looking at their true potential and enable them to be more competitive.

#WhereYouAreValued perfectly defines SDB bank, where every customer is valued for their potential and not their worth.

Manufactured Capital

Our manufactured capital comprises of the Bank's physical infrastructure and equipment and software that facilitate functionality. Branch premises, equipment, IT hardware and software are all part of our Manufactured Capital. Investments in manufactured capital support our ability to deliver financial services and foster relationships across the island.

VALUE DELIVERED

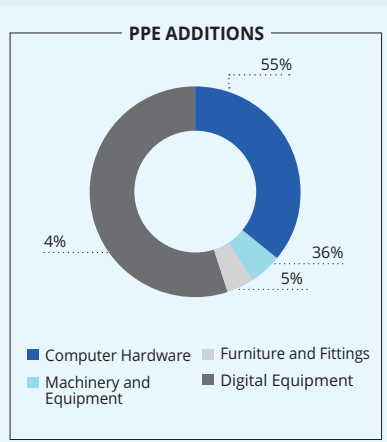
1 Branch Relocation	1 Branch Refurbishment
LKR 496 Mn investment in Property, Plant and Equipment (PPE)	

KEY TAKEAWAYS FOR 2022

- Revamping branches in line with brand guidelines of the Bank
- Restructuring the SME and Business Banking Model
- Introducing new products
- Continuous focus on process automation
- Upgrading of core banking and learning systems
- Emphasizing the Bank's digital platforms as an enabler to Banking Operations
- Continuous focus on employee empowerment and engagement

PROPERTY PLANT AND EQUIPMENT

The monetized value of our property, plant and equipment (PPE) amounted to LKR 952 Mn representing around 1% of the total assets of the Bank. PPE includes land and buildings, leasehold properties, computer hardware, machinery and equipment, furniture and fittings as well as motor vehicles. During the year a total investment of LKR 496Mn was made on PPE compared to LKR 215Mn during 2020, representing a growth of 131%. Note 25 of the financial statements provides details of the movement of the PPE of the Bank during the year ended 31st December 2021.



LINK TO MATERIAL ISSUES

Efficient processes

SDG FOCUS UNDER HUMAN CAPITAL



Decent work and economic growth

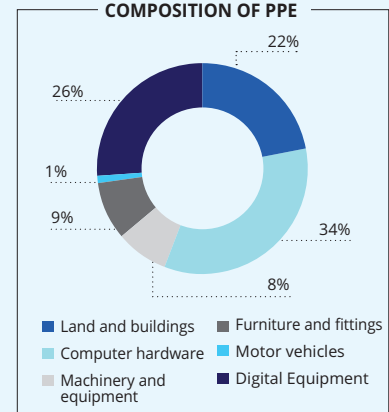
Island-wide branch network provides employment opportunities across the country.



Industry, innovation and infrastructure

- Quality, reliable and sustainable infrastructure to support economic development.
- Provision of financial services and affordable credit to small-scale industrial and other enterprises.

COMPOSITION OF PPE



OUR BRANCH NETWORK

SDB bank holds a favorable mix of owned and leased buildings. Through its network of 94 branches island wide, the Bank provides a comprehensive range of financial services to its Retail, SME, Co-operative and Business banking clients across the country.

SDB bank's Ambalangoda branch was relocated to its new premises situated at No. 6/A, New Road, Ambalangoda, during April 2021 with the objective of providing a more convenient and efficient service to its customers.

The Bank's Gampaha branch which has been serving the area for nearly 10 years was extensively refurbished and re-opened at the same location in December 2021 and is now equipped with more sophisticated facilities, ready to cater to the evolving needs of customers.



Ambalangoda Branch opening



Gampaha Branch opening

94 Branches

13 ATM

8 Regional Office

North Western Region

- Kurunegala
- Anamadawa
- Chilaw
- Giriulla
- Kuliyaipitiya
- Maho
- Narammala
- Wariyapola
- Wennappuwa

North Central Region

- Anuradhapura
- Polonnaruwa
- Thambuththegama
- Medawachchiya
- Aralaganvila
- Galenbindunuwewa
- Nochchiyagama
- Padaviya
- Kekirawa
- Thalawa

Western 01 Region

- Colombo City
- Aluthgama
- Baththaramulla
- Dehiwala
- Dematagoda
- Horana
- Kaduwela
- Kaluthara
- Kirulapone
- Maharagama
- Malabe
- Mathugama
- Moratuwa
- Panadura
- Piliyandala

Southern Region

- Akuressa
- Amabalangoda
- Ambalangoda
- Angunakolapalassa
- Deniyaya
- Elpitiya
- Galle
- Karapitiya
- Katuwana
- Mathara
- Thalgaswala
- Thissamaharama
- Yakkalamulla

Western 02 Region

- Gampaha
- Negombo
- Kiribathgoda
- Ekala
- Mahabage

Eastern Region

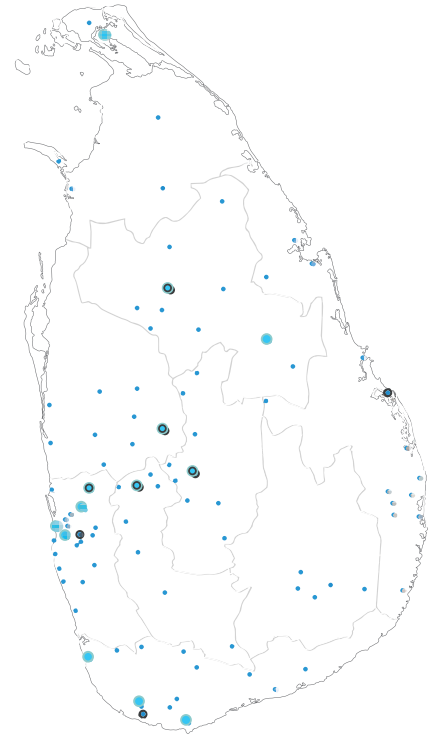
- Ampara
- Dehiathakandiya
- Samanthurei
- Uhana
- Batticaloa
- Higurana
- Kalawanchikudy
- Pothuvil
- Valachchenai
- Akkarepaththu
- Kalmunai
- Kanthale
- Muthur
- Trincomalee

Uva Region

- Buttala
- Badulla
- Bandarawela
- Monaragala
- Siyambalanduwa

Northern Region

- Chunnakam
- Jaffna
- Kilinochchi
- Mannar
- Vavnia
- Nanatan



Central Region

- Dambulla
- Galewela
- Gampola
- Hatharaliyadda
- Kandy
- Mathale
- NuwaraEliya
- Pilimathalawa
- Rikillagaskada

Sabaragamuwa Region

- Kegalle
- Embilipitiya
- Rathnapura
- Warakapola
- Ruwanwella
- Rambukkana
- Deraniyagala
- Mawanella

ATM Locations

- Gampaha
- Kurunegala
- Anuradhapura
- Jaffna
- Kandy
- Mathara
- Ambalangoda
- Ekala
- Kegalle
- Karapitiya
- Polonnaruwa
- Kirulapona
- Colombo City

BANKING PLATFORMS

SDB bank's internet banking platform is designed to provide convenience to corporate customers consisting of companies, trusts, partnerships, proprietorships and others. The platform incorporates a simple dashboard for customers to keep track of transactions and allows multiple users to manage the account to carry out day to day banking activities including cash transactions, government payments, salary uploads and bulk transfers. It is a convenient and highly secure banking solution which provides instant validation of incoming payments and real-time alerts of transactions.





The Bank also offers its customers the convenience of banking through its mobile application, which is simple, fast and secure. Combining in-house technological know-how and an in-depth understanding of customer requirements, the app is designed to provide a smooth and user-friendly experience. The app allows transactions with own or third-party bank accounts, real time money transfers and the ability to check account/loan transaction history.

Customers are also able to carry out transactions via the UPAY app as well as via the SMS banking option.

Human Capital

The COVID-19 pandemic has proven the fact that our people are our greatest asset. Their engagement, experience and skills are essential to the Bank’s sustainability and value creation. Our priority therefore remains to protect our employees’ safety and well-being, invest in their professional development, and ensure job security. While we remain conscious of the present need to manage costs in the short term, we understand the importance of having the right talent now more than ever to weather the rough waters and position SDB for sustainable growth in the future.

STRATEGIC HR OBJECTIVES

 Operational excellence	 Engagement and development
 Technical development	 Industrial harmony

KEY TAKEAWAYS FOR 2022

Bring in more efficiency and productivity to the HR processes through digitalization and process re-engineering.

Priority to be given to performance management and human resource optimization by driving capacity planning mechanisms across the Bank.

Management Development programs to be continued in order to strengthen the management team and develop the succession plan.

Enhance our focus on contributing towards the UN Sustainable Development Goals.

LINK TO MATERIAL ISSUES

Efficient processes
Employee value proposition
Employee skill development

SDG FOCUS UNDER HUMAN CAPITAL



Quality Education

- LKR **15.3 Mn** in training
- Provision of special leave for overseas education
- Honorariums



Gender Equality

- 48%** female representation in the workforce
- Equal opportunity employer



Decent Work and Economic Growth

- Measures to keep staff member safe and healthy
- Motivational sessions

OUR TEAM

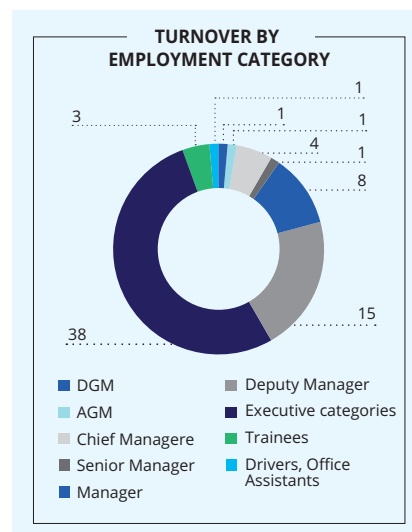
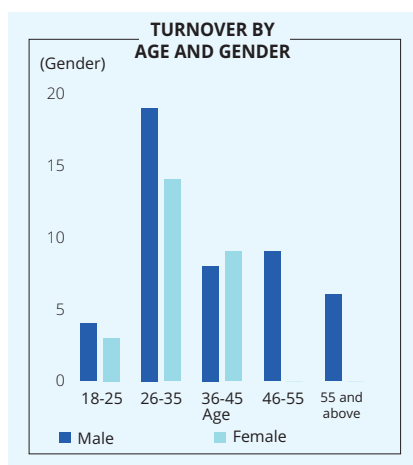
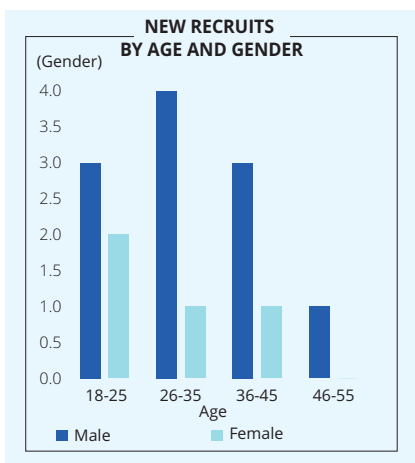
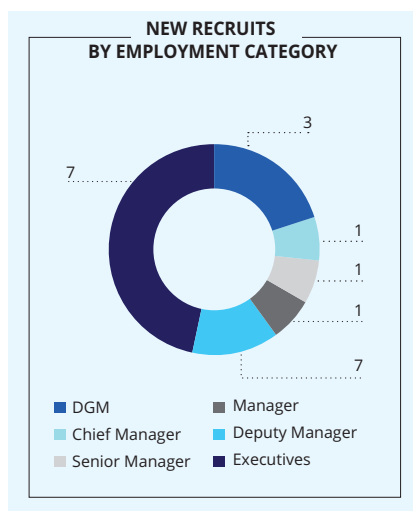
Category	Male	Female	Total
By contract			
Permanent	732	688	1420
Contract	10	03	13
By staff category			
DGM	06	01	07
AGM	01	05	06
Chief Manager	12	02	14
Senior Manager	27	09	36
Manager	49	18	67
Deputy Manager	119	108	227
Executives	494	547	1041
Trainees	-	-	-
Office assistants	21	01	22

All categories indicated above are on full-time basis.

RECRUITMENT AND RETENTION

We continued to attract some of the best talent in the country, welcoming a total of 15 new recruits during the year. 67% (10) of new recruits were below the age of 35, while 33% (5) of our new recruits were between the ages of 35 and 55. 27% (4) of total new recruits were female.

Efforts to retain and develop our team continued through the year and we had 07 employees completing 25 years of service which is a reflection of their loyalty to SDB.



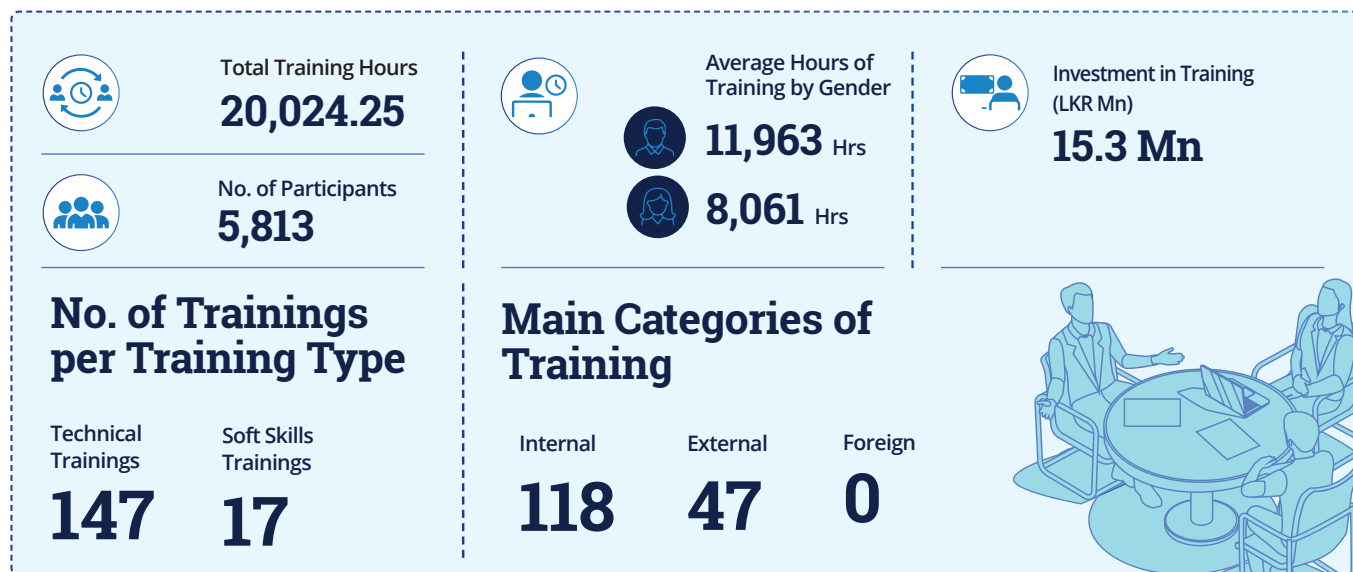
BUILDING TALENT

We have a strong culture of people development with a range of structured learning and development programmes that equip our workforce at various levels with the skills required to perform at their best. Training and development programs are designed based on the discussions held with the Divisional Heads and Corporate Management team to identify the skills gaps of our employees and align organizational goals with individual goals.

The two main areas of focus during 2021 were technical trainings and management development trainings. A dedicated person in charge of each of these training arms was appointed to ensure our people are equipped with the right skills and expertise to serve our customers better and support the overall growth of the business.

Management development has been a key area of focus for the past two years as we develop the succession plan for our key management positions. Recognizing the potential talent that we hold within the Bank to be groomed to leadership positions, during 2021 we initiated the management development program for our Leadership Team. These training sessions are not just workshops but interactive sessions involving external certified coaches who provide tailor-made training and leadership guidance to develop our key talent.

Human Capital



In order to attract and retain the right talent, SDB bank benchmarks its remuneration practices against the local industry standards. In addition to fair remuneration, the Bank provides an array of benefits to its permanent employees as outlined below.

- Medical insurance
- Employer’s contribution to EPF-14% (above the minimum requirement of 12%)
- Membership in the Welfare Society
- 21 days annual leave, 14 days medical leave, carry forward 7 days of unutilised annual leave, maternity leave and special leave for critical illnesses
- 2 years of no pay leave for employees pursuing higher education opportunities abroad, subject to a signed bond
- Provision of feeding breaks for female employees with infants during the first year.
- Professional membership subscription reimbursements
- Honorariums for completion of banking exams
- Financial assistance on higher education; Masters Degree etc.

REWARDS AND RECOGNITION

Employee rewards and recognitions are decided based on the performance evaluations which are carried out on a bi-annual basis. Performance of the employees is measured against three dimensions, namely, business targets or key performance indicators, behavioral attributes and value propositions. Guided by these elements we recognized and rewarded our top performers and progressed on our journey of developing a strong performance driven culture while staying true to our values. Until last year we followed a hybrid mechanism for our performance evaluations with certain elements being conducted manually. However, during 2021 we tied up with MintHRM to upgrade our HR systems and systemise the complete process.

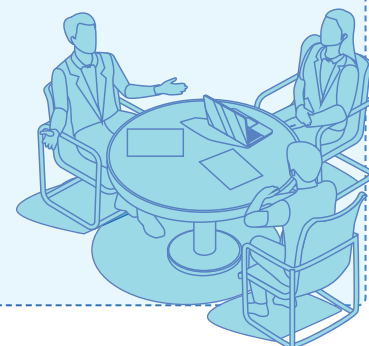
Annual bonuses and increments, promotions, commendation letters, career development opportunities, educational assistance programs and talent recognition programs were carried out during the year to acknowledge and appreciate the genuine effort behind our progressive performance.

HEALTH AND SAFETY

As we navigated the challenges of the pandemic for the second consecutive year ensuring both the physical and mental health of our employees remained a top

priority. All COVID-19 related health and safety practices implemented during the previous year including hand-washing and temperature checks, frequent disinfecting of office premises, remote working and maintaining social distance continued to be in place and swift actions were taken to contain the spread and ensure the health and safety of all employees.

Negotiations were carried out with our insurance provider to extend the insurance limits to cover COVID-19 related expenses and the Bank introduced a special scheme to reimburse any costs exceeding the insurance limits of employees. During 2021 we also introduced new travel schemes and reimbursement mechanisms that were previously not covered by the Banks policies to support our staff through the difficult times. While intermediate care facilities were arranged for our infected employees, we also tied up with “Ayubo Life” a 24-hour hotline enabling our staff to call and obtain medical advice and be guided through the process of recovery. Furthermore, we distributed goodie bags including dry rations and other essential items to our staff who were infected and a dedicated HR personnel was appointed to be in constant contact with them to make them feel cared for.



Additionally, a contract was signed with our insurer to launch a Mega Medical Camp which aims to provide medical screening for our entire workforce on a regular basis.

GRIEVANCE HANDLING

Grievances that arise due to various reasons such as unfair treatment, sexual harassment, lack of proper communication, the impact of financial difficulties, influences of the external environment are handled through a structured grievance handling mechanism. A comprehensive policy has been established and is in practice to provide a reliable channel for all employees/officers of the Bank to raise their concerns in confidence and ensure that their grievances are handled speedily and effectively.

STAFF ENGAGEMENT

Continuous engagement with our employees allows us to strengthen employee relations whilst facilitating a culture of camaraderie. We strongly believe that if we look after our people, they will reciprocally look after the business. Accordingly, via formal and informal engagement channels we took every effort to keep our staff motivated and happy and feel connected to the Bank's purpose.

We also have in place a highly connected HR network with a representative from each branch acting as an HR lead. A monthly forum termed 'HRtogether' is held with the presence of these representatives, and this serves as an useful platform to discuss employee related matters and develop solutions in a transparent manner. Through this mechanism we have been able to efficiently communicate across all teams and strengthen the level of engagement among our staff.

The Bank is also working towards gaining certification as a Great Place to Work. We have concluded the first survey through which we have identified the key areas for

development and taken necessary action. The second survey was to be carried out during 2021 but the challenges posed by the pandemic stood in the way. Thus, we hope to complete the next phase in 2022 and position ourselves as an employer of choice that fosters a dynamic, innovative and open workspace that enables employees to thrive and excel in their careers.

Below are some of the key initiatives taken to serve many interest groups and improve the work-life balance of our people.

Gender Parity

We are committed to increasing female participation in the workforce and strive to attract and retain female employees by having in place policies that encourage and empower women in the workplace.



Male

52%



Female

48%

Practices

- A corporate culture that promotes diversity and inclusiveness.
- Facilitation of equal employment opportunities to the employees and applicants with zero discrimination on the grounds of gender identity or expression.
- Female representation in Corporate Management

Recognized as one of the most women friendly workplaces in Sri Lanka by the CIMA-SAITAM awards 2021.



Below are some of the key initiatives taken to serve many interest groups and improve the work-life balance of our people.

Our objectives	Programs conducted
<ul style="list-style-type: none"> • Reduce monotony and release stress • Foster a happy work environment • Provide an in-depth understanding of life • Improve leadership skills, negotiation, problem-solving and critical thinking skills • Create a healthy workforce • Encourage creativity and innovation 	LIFELINE POWER HOUR SDB Ape Gedara SDB Api e-Magazine Pick a Book Corporate and Pick a Book Junior Seasonal events (Bakmaha, Carols, Bakthi Gee etc.)
Groom our employees to be the future leaders of the Bank	LIVE MDP LIVE MDP for DM's Business English with a Smile

Natural Capital

As a financial institution, our biggest impact on the natural capital stems from our financing activities. The operationalising of the Environmental and Social Risk Management Framework to assess and manage the impacts from our lending portfolio from September 2021 is a significant milestone in terms of the Bank’s ESG commitments. The Bank also made significant strides in building its renewable energy financing portfolio during the year.

Recognizing that the Bank needs to lead by example, the year under review saw the Bank conducting pilot assessments to install solar PV rooftop systems in its branch network and commencing a pilot project to convert its owned Horana branch building to a green building.

As a responsible financial institution, environmental consciousness permeates all our operations, and we ensure strict compliance with all related environment laws and regulations as we endeavour to contribute positively to our environment.

VALUE DELIVERED

Over LKR 300 Mn Funding Pipeline Developed in Renewable Energy Financing	Over 70% of customer transactions both in terms of volume and amount conducted digitally	2,267,432 paper (A4) saved from Process Improvements
5,319 Kg of Paper Recycled	3,210 Kg of e-Waste handed over to CEA approved Waste Management Company	Feasibility study underway to install 85 Kw of Solar PV Rooftop Installations in 4 branches

KEY TAKEAWAYS FOR 2022

- Expand our digital footprint with the aspiration of creating a paperless office and gain recognition as a digital pace-setter in local banking sector.
- Concentrate on increasing the use of renewable energy sources.
- Increase our focus on lending to the renewable energy sector.
- Continue our environmental preservation efforts.

LINK TO MATERIAL ISSUES

Preserving the environment

SDG FOCUS UNDER NATURAL CAPITAL



Affordable and Clean Energy

Inculcating an energy conservation culture and implementing energy conservation measures across all branches.



Responsible Consumption and Production

Managing the direct environmental impact of our operations, promoting resource conservation and responsible waste management.



Climate Action

Conducting awareness sessions and sustainability dialogues on climate change mitigation.



Life on Land

Contributing towards environment and biodiversity conservation through our commitment to reforestation projects.

MANAGING OUR ENVIRONMENTAL IMPACTS

Through the new governance mechanism set-up on sustainability, the Bank regularly reviews the progress on managing the internal environmental footprint and the environmental impacts from its financing activities. The Bank also remains active within the Sri Lanka Banks' Association's Sustainable Banking Initiative (SLBA SBI) with Senior Manager – Sustainable Banking representing SDB bank as a Core Group Member of the initiative.

RESPONSIBLE LENDING

As a financial intermediary we understand the importance of extending environmental consciousness beyond our organisation to reach our customers and communities. Thus, our commitment to preserving the environment is reflected through our responsible lending protocols which include a mandatory environmental and social screening process. The process requires clients to comply with all regulations and specific criteria in relation to environmental and social aspects. High risk facilities identified through the branches are escalated to the Senior Manager – Sustainable Banking who reviews such facilities. Identified concerns are discussed with the borrower and mitigation mechanisms are formulated and incorporated to the terms and conditions of the facility as per the requirement.

Environmental and Social Management System (ESMS) architecture

ESMS Framework

ESMS Policy and Procedure Manual

Defines our stance and responsibility towards the environment and society and the objectives of our ESMS

Exclusion criteria

A harmonized exclusion list has been prepared and communicated to all staff by way of a Credit Circular. This includes a set of instructions to be followed to screen lending activities

Risk Categorization and Due Diligence

The ESMS classifies the E&S risks and their potential impacts

GREEN FINANCING

One of the key focus areas relating to sustainable finance during the year was renewable energy financing. SDB bank partnered with Hayleys Fentons in August 2021 to promote sustainable energy and green building solutions facilitating a fresh direction involving new markets for both entities.

The initiative marks an expansion of SDB bank's banking and financial services portfolio, with the Bank now offering loan and lease facilities for sustainable energy and sustainable built environment solutions to their diverse customer base across Micro, Small & Medium Enterprises (MSME), Business Banking, Retail, Leasing and Co-operative segments.

Fentons Limited, is set to offer their solar PV installation services plus energy efficiency and green building solutions to SDB bank's customers island-wide, drawing on the Bank's network of 94 branches.

As part of this initiative, SDB bank will provide attractive financing propositions for solar PV systems across their varied customer segments. SDB bank's SME, Co-operative and high net worth clients will be able to avail structured financial solutions from the Bank, in support of their bids for CEB tenders involving utility scale projects such as those tendered in the Ground Mounted Solar segment.

The partnership will further allow the Bank to contribute strongly to Sri Lanka's goal of sourcing 70% of the island's electricity requirement through renewable energy by 2030.

MINIMIZING WASTE

Continuing the momentum of the preceding year, the Bank further strengthened its commitment towards minimizing waste and focused on optimizing its resource consumption by leveraging its digital capabilities. As a result of the Bank's digitalization efforts, over 70% of customer transactions, in terms of both transaction volume and transaction amount were conducted digitally.

In December 2020, the Bank had launched a Digital Savings Account Opening and Customer On-boarding workflow, as a result of which, approximately 4 pages are saved from each account opening (2 pages from mandate and 2 from supporting document photocopies – NIC and Proof of Address). During FY2021, the Bank had processed 30,264 digital savings account openings, resulting in 121,056 A4 pages being saved.

In April 2021, the Bank also commenced the Digital Loan Processing Workflow, with e-KYC. With loan security documentation, the processing of a loan could take up to 20 A4 pages. Communications with the client including final offer letter and term sheets could add further 5 pages to a loan file. With the digital loan process, the paper use in the process is avoided. In FY2021, 1,000 digital loans were processed, leading to a saving of approx. 20,000 A4 pages saved. Further this process has eliminated the need for customers to travel to the Bank and has made the process more efficient. As lesser physical documentation is being produced the process has created savings in terms of space and has led to an overall reduction in energy consumption.

Through Bank's credit re-engineering process, the paper use in the manual loan processing workflow was also rationalized, with 20 pages saved from each loan file processed. Loan rescheduling process was also improved to reduce the use of paper by one page from the process. As a result of these initiatives, the paper saving has been 1,930,700 A4 pages in FY 2021.

With the Bank's thrust towards the digital strategy, there have been significant co-benefits that have been realized in terms of environmental performance. One such development was the introduction of e-signatures from November 2020 onwards. During FY 2021, the number of documents that had been approved through Adobe Sign e-signatures stood at 48,919 documents. As each document, on average, constitutes about 4 pages, the paper saving from internal approvals being conducted through e-signatures was approximately 195,676 pages.



Natural Capital

ENERGY PRESERVATION

Several initiatives have been taken to propagate environmental sustainability across our network and reduce the consumption of energy.

With the intention to source a larger share of its electricity consumption through renewables, the Bank floated a tender for 85 Kw of Solar PV Rooftop Installations for four of its branches (Horana, Ambalangoda, Gampaha and Dehiwala) in September 2021. The installations are expected to be completed by mid-2022. With the experience of this pilot project, the Bank intends to explore solar PV rooftops for branches that are scheduled for renovation/relocation in FY2022.

Currently, SDB bank owns four buildings. As another pilot project, the Bank commenced feasibility studies to convert the Horana Branch building, which is one of its own buildings, to a green building that is in line with the Green Building Council of Sri Lanka's GreenSL rating. To this end, a detailed air conditioning assessment was conducted for the Horana Branch in August 2021 by a consultant firm, Co-energi, based on which the Bank intends to invest on revamping the A/C system for the building.

Additionally, measures have been taken to switch from florescent lighting at the Head Office to LED lighting.



WATER MANAGEMENT

The Bank's water usage is primarily for sanitary and drinking purposes and we consider water preservation as a top priority. As part of the Bank's initiative to convert the Horana Branch to a Green Building, the Bank is also assessing feasibility of installing a rainwater harvesting system.



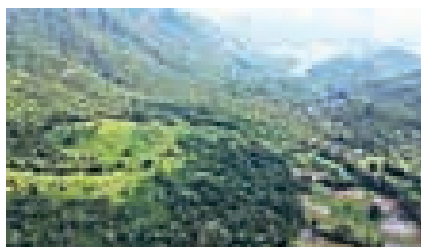
OUR CONTRIBUTION TO THE PLANET

SDB bank strongly believes in the importance of conserving the environment for future generations and business sustainability. Thus, the Bank makes a conscious and collective effort to protect and promote environmental and bio-diversity conservation.

Increasing deforestation has threatened Sri Lanka's rich biodiversity, natural habitats, and the balance of the eco-system, and is among the most crucial environmental concerns faced by the country today. Acknowledging its duty as a responsible corporate citizen, the Bank is currently finalizing a forest restoration pilot project using an agro-forestry model. This emerges as a flagship initiative of the Bank in celebration of its 25th anniversary falling in 2022.

The Bank is already engaged in financing agro-forestry with the support of Smallholder Agri-business Partnerships

Program (SAPP). This new pilot project will take the Bank's agro-forestry financing a step further in exploring landscape finance model to restore degraded land in buffer zones of Sri Lanka's protected areas.



25 hectare of land adjoining the Victoria, Randenigala and Rantembe (VRR) Sanctuary that had been degraded as a result of illegal chena cultivation over the past two decades was identified by the bank through field visits conducted in 2021 for the bank's forest restoration pilot project

Intellectual Capital

Our intellectual capital comprises intangibles such as brand equity, governance framework, internal controls and procedures and the knowledge and experience of our employees. Our intellectual capital distinguishes our service offering and provides us a significant competitive edge in the long run. Thus, we take measures to continuously enhance our intellectual capital as we strengthen our position in the industry.

LINK TO MATERIAL ISSUES

Efficient processes

Employee skill development

SDG FOCUS UNDER HUMAN CAPITAL



**Quality
education**

Continue to grow the Intellectual Capital by improving the skills and knowledge of our Human Capital



**Decent work
and economic
growth**

Improve systems and processes to facilitate efficient operations and add value to key stakeholders

VALUE DELIVERED

LKR 17 Mn spent on system upgrades and another USD 373,754 to be incurred in FY 2022

LKR 78 Mn spent on marketing campaigns to increase brand awareness

Improved turnaround time of our service provision across all product segments

KEY TAKEAWAYS FOR 2022

Continue the momentum to establish ourselves as the Bank for SMEs in the country.

Enhance the stability of our digital banking platform.

Integrate new initiatives to the UPAY app and re-establish the platform to give a faster and efficient service to customers.

Upgrading of core banking system (completion stage)

Process automation for smooth running of operations

Enhance brand equity further

OUR LEGACY

We hold a proud legacy of almost two and a half decades and the brand built along this journey with the knowledge and expertise of our Team is our strongest intellectual capital asset. Operating in a highly competitive industry where change is continuous the knowledge and skills of our employees is one of the key strengths which give us a competitive edge. Hence continuous investment is made in upgrading the skills of our staff through comprehensive and relevant training and development programmes. As discussed in detail in our human capital report we carried out technical trainings as well as leadership development training programmes to elevate our staff and keep them up to date.

Our Board of Directors as well as the Top Management comprise of highly experienced and reputed professionals with a wide range of industry expertise adding value to the businesses. The Bank has established several committees which oversee the effective and efficient functioning of specific areas. These committees consist of cross-functional representation, blending varied expertise

Intellectual Capital

and dynamic views to one platform which serves as an effective mechanism in enhancing the Bank's tacit knowledge and intellectual capital.

The key initiatives taken to increase brand visibility during 2021 are as follows.

- Producing and amplifying digital contents in social media channels to build the brand and grow awareness
- Search Engine Optimization (SEO) to ensure brand visibility and discoverability
- To enhance the brand image of the Bank, 1st phase of the corporate campaign conducted from Oct to Dec 2021
- Mini campaigns and video films on special days like Women's Day, Independence day etc
- Branch branding and opening day activations to enhance the brand visibility

Brand achievements

As of 2021, SDB bank ranked 43rd as the "Most Valued Sri Lankan Brand" by Brand Finance Awards, denoting its brand value as LKR 2,315 Mn.

SOCIAL MEDIA PRESENCE

The Bank has a strong social media presence on Facebook, Instagram, LinkedIn and YouTube platforms. Digital media growth and presence have been enhanced throughout the year 2021 due to wider reach, engagement, and visitor counts.

- Monthly average engagement – **260k**
- Monthly average reach - **6.48 Mn**

The sdb.lk website visitors went up by 56% in 2021 compared to the previous year and the site maintained 1st rank in google.lk for the key word 'SME Loan'.

CORPORATE CULTURE AND VALUES

A strong value system backed by sound corporate governance, values, policies and procedures ensure our business operations are ethical, transparent and drives inclusive and responsible value creation. All new recruits are taken through a comprehensive

induction programme that creates awareness of the Bank's corporate values and behavioral expectations and rewards and recognition mechanisms are in place to further encourage employees of the Bank to live and drive the values in their day-to-day operations. Further our culture is such that employees are free to express their diverse opinions and voice their concerns.

INNOVATION AND DIGITALIZATION

Our digital transformation agenda

*Re-define digital delivery models

Use digital technologies to optimize and streamline current policy and programme delivery models to include digital options that all stakeholders find easy to access, simple to understand, and are timely and of high quality.

*Enhance digital co-creation and collaboration models

Use digital technologies to experiment with new digital development partners and build platforms for the digital co-creation of solutions. Through this we expect to learn from - and be informed by - those we work with.

*Improve digital partnership, engagement, and advocacy journeys

Improve partner relations and advocacy efforts through digital technology, increase digital and social media marketing and improve communications.

The COVID-19 pandemic led to a surge in e-commerce and accelerated digital transformation. As social distancing became the new normal, businesses and consumers increasingly went digital, providing and purchasing more goods and services online. The current industry trend is to build and transfer all operating processes to agile and lean operating models through deploying technology such as Robotic Process Automation (RPA) and workflow automation.

SDB bank which had already embarked on a path towards digitalization even prior to the pandemic, fast-tracked its transformative digital strategy to harness the potential of digital banking with the aim of enhancing the performance of the

Bank through better customer relationship management, cost reduction and increased process efficiencies. During the year, we invested LKR 17 Mn on upgrading our information technology platforms, (another USD 373,754 to be incurred in 2022) increasing the value of our IT assets. The key upgrades to our digital infrastructure are as follows.

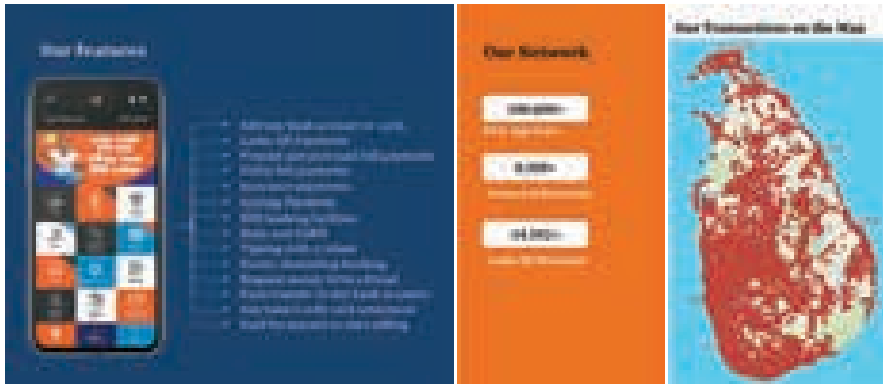
UPGRADING OUR CORE SYSTEMS

SDB bank upgraded its core banking system to the latest running version 15.1 making its mark as the first bank in the country to incorporate the new version. Through this upgrade we hope to harness significant process efficiencies and better service standards.

UPAY APPLICATION ENHANCEMENTS

UPAY is SDB bank's e-wallet enabling people to connect with SDB bank as well as any other local bank to carry out transactions online. Furthermore, it functions as a multi-faceted digital platform for secure bill payments, channeling doctors, credit card settlements etc. Customers can link multiple bank accounts and multiple cards to the app allowing them to track and manage their recurring payments to vendors. During the year, several new features were added to the application to enhance its security standards. Additionally, a UPAY hel-pdesk was launched to guide users through the application to ensure seamless transaction processing.

SDB bank also continued its active role during the second phase of the *Rata Purama QR* campaign to promote the adoption of LankaQR. The LankaQR technology is reflected within the Bank's UPAY platform aside from its core offering of cashless anytime, anywhere payments for products and services. At present UPAY is the largest LankaQR app in Sri Lanka based on the volume of transactions carried out.



DATA LOSS PREVENTION AND CLASSIFICATION PROTOCOLS

Data loss prevention is a mandatory requirement to protect internal data. Once implemented it classifies data automatically to a said policy and protects sharing of them according to policies that is set. SDB bank has invested in state-of-the-art and industry leading products such as Titus and McAfee to carry out this automation and also has hired PWC consultancy to carry out the data mapping process

E-SIGNATURE

SDB bank has introduced Electronic signatures for the loan application and origination process. This initiative significantly reduces the time lag associated with obtaining manual signatures and has enhanced our turnaround time in terms of loan disbursement across all our product segments. Furthermore, this initiative has taken us closer towards adopting a more environmentally sustainable paperless business model.

AWARDS AND RECOGNITION

- Global Banking and Finance Awards for the 'Best SME bank' and the 'Best bank for social media' in 2021
- SDB bank ranked 43rd place as the "Most Valued Sri Lankan Brand" by Brand Finance Awards 2021
- SDB bank was honored in that their effort to empower women in the workplace has been rewarded at the first CIMA Women Friendly Workplace.
- SDB bank Placed Among Top-50 in LMD's Inaugural Edition of 'Most Awarded'

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 Organization, 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 2021 the Board met 20 times and key areas of focus included implementation of the transformation strategies.

The reports on pages 95 to 126 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

11 April 2022
Colombo, Sri Lanka

Governance and Compliance

THE BANK'S 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 cooperative 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:

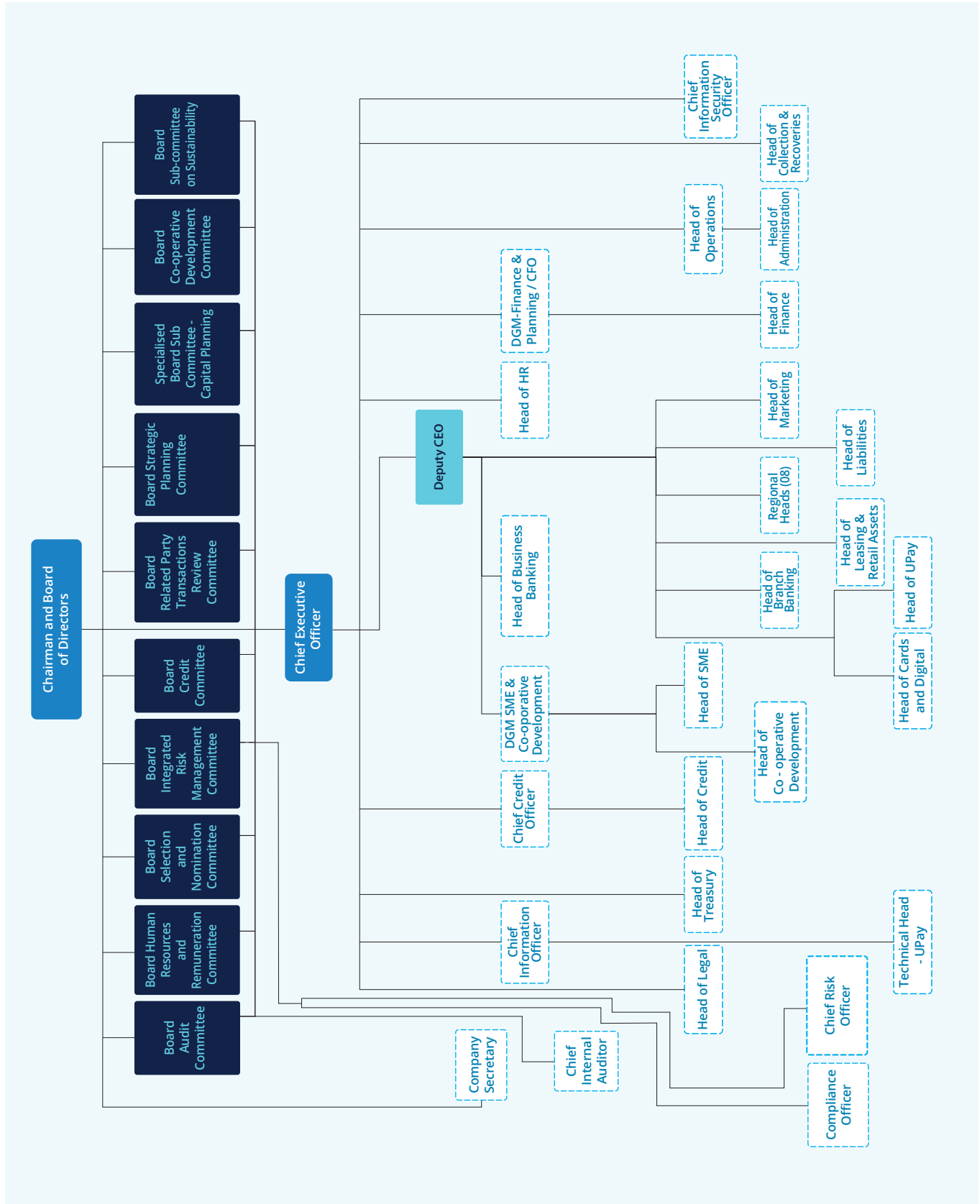
External instruments	Internal instruments
Companies Act No. 07 of 2007	Articles of Association of the Bank
Banking Act No. 30 of 1988 and amendments thereto	Board-approved policies on all major operational aspects, customer Charter
Banking Act Direction No. 12 of 2007 of the Central Bank of Sri Lanka 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
Road-map for Sustainable Finance in Sri Lanka	Governance Framework on Sustainability
Recommendations from Task Force on Climate-Related Financial Disclosures (TCFD)	
Developing Body of Knowledge from Task Force on Nature-Related Disclosures (TNFD)	

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 ten 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;

Governance and Compliance

LEADERSHIP TEAM STRUCTURE SANASA DEVELOPMENT BANK PLC



BOARD EFFECTIVENESS**BOARD COMPOSITION**

The Board comprises of thirteen Directors, all of whom operate in a Non-Executive capacity while five 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 cooperatives enhancing the overall effectiveness of decision-making. Please refer pages 26 to 29 for detailed profiles of Board members. During the period under review, Mr Thusantha Wijemanna, Mr Sarath Nandasiri, Mr Conrad Dias and Mr Naveendra Sooriyarachchi were appointed as Directors in 2021. Mr K. G. Wijerathne Non-Independent, Non Executive Director was retired in 2021.

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 have 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 Nomination Subcommittee (BS and 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 resume 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, the BS and 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 20 times in 2021; details of meeting attendance are given in the Annual Report of the Board of Directors on the Affairs of

the Company on page 144. Notices of all Board meetings (except Emergency 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 2021 is given in the Annual Report of the Board of Directors on the Affairs of the Company on pages 142 to 144.

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

Governance and Compliance

regards to Financial Statements is given on page 152 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 58 to 68 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.

SUSTAINABILITY

A new Board Subcommittee that was set-up during the FY2021 is the Board Subcommittee on Sustainability. Aligning with the recommendations of the Roadmap for Sustainable Finance and the Sri Lanka Banks' Association's Sustainable Banking Initiative, the bank introduced this governance framework to integrate ESG in bank's decision making and performance management. This Subcommittee will review the integrated strategy, risk management and metrics and targets on sustainability including on TCFD and TNFD standards.

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 2020-2022 and communicated to all employees through town hall meetings covering all employees and frequent meetings with the Corporate and Senior Managers. Strategic objectives and corporate values approved by the Board of Directors for 2022-2025 are scheduled to be communicated among the staff.	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.	A 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
		The 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. Accordingly the officers holding the Assistant General Manager or above positions and Compliance Officer, Head of Marketing and Head of Collection and Recoveries are designated as KMPs.	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). Areas of authority and key responsibilities of the Board of Directors (BOD) are defined in the Articles of Association.	Complied with

Compliance Status

Guideline	Function of the Board	Level of compliance	Complied/ Not complied
	(h) Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel that is consistent with Board policy.	The 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.	Complied with
	(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 2021.	Complied with
	(j) Ensure that the Bank has a succession plan for Key Management Personnel.	The Bank has a succession plan for KMPs. It is under review to meet the emerging requirements of the Bank.	
	(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.	The Board meets the KMPs 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 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 through 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 Chairperson/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.	20 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

Guideline	Function of the Board	Level of compliance	Complied/ Not complied
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
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 are 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

Compliance Status

Guideline	Function of the Board	Level of compliance	Complied/ Not complied
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.	Such type of situation did not arise during the year.	Complied with
3 (1) (xv)	The Board shall ensure that the Bank is 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.	The Board has a scheme of self-assessment of Directors and the Company Secretary maintains records of such evaluations.	Complied with
3 (2)	The Board's Composition:		
3 (2) (i)	The Board comprises not less than 7 and not more than 13 Directors.	The Board comprised of thirteen Directors as at 31 December 2021.	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.	None of the Directors has completed nine years of service in the Board during the year 2021.	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.	The Board comprised of four Independent Non-Executive Directors up to 22.04.2021 and subsequently, the number of independent Non Executive Directors increased to five.	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.	Such situation did not arise during the financial year 2021.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/ Not complied
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 "Board of Directors" on pages 26 and 29 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 Nomination 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
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
3 (3)	Criteria to assess the fitness and propriety of Directors		
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
3 (4)	Management functions delegated by the Board		

Compliance Status

Guideline	Function of the Board	Level of compliance	Complied/ Not complied
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 the 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
3 (5)	The Chairman and CEO		
3 (5) (i)	The roles of Chairman and CEO are 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 a 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
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

Guideline	Function of the Board	Level of compliance	Complied/ Not complied
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 2021.	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
3 (6)	Board-appointed Committees		
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 Planning Committee (8) Specialized Board Sub Committee - Capital Planning (9) Board Co-operative Development Committee (10) Board Sub Committee on Sustainability This is disclosed under the "Annual Report of the Board of Directors".	Complied with
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 –	The Committee makes recommendations regarding those matters.	Complied with

Compliance Status

Guideline	Function of the Board	Level of compliance	Complied/ Not complied
	<ul style="list-style-type: none"> (i) The appointment of the External Auditors for audit services to be provided in compliance with the relevant statutes; (ii) The implementation of the Central Bank guidelines issued to Auditors from time to time; (iii) The application of the relevant accounting standards; and (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. 		
	(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 2021 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.	The 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.	The Committee has discussed and finalised the Audit Plan 2021, nature and scope of the audit and deliverables, with the External Auditors in accordance with SLAuS before the audit commences.	Complied with
	<p>(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:</p> <ul style="list-style-type: none"> (i) Major judgmental areas; (ii) Any changes in accounting policies and practices; (iii) The going concern assumption; and (iv) The compliance with relevant accounting standards and other legal requirements; and (v) In respect of the Annual Financial Statements the significant adjustments arising from the audit. 	The 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
	(h) The Committee has met the External Auditors relating to any issue in the absence of the Executive Management with relation to the audit.	The 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.	The BAC reviews the External Auditors' Management Letter and Management, response at the meeting.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/ Not complied
	(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 2021 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;	The BAC has evaluated the performance of the Head of Internal Audit and senior staff members for the year 2021.	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 on the Board and the Committee met on 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.		

Compliance Status

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 2021, the BAC held 26 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.	The BHRRC has implemented a policy to determine the remuneration of Directors. The 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 on 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.	The CEO is present at all meetings other than when matters relating to the CEO are discussed.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/ Not complied
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.	The Board has a policy and procedure for the selection and appointment 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
	(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.	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. Criteria for KMPs are included in their job descriptions approved by the BHRR committee. These job descriptions are submitted at the Nomination Committee for their review.	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.	The Committee has developed a succession plan and procedure for appointing Independent Non-Executive Directors in place of retiring Directors of the Bank. The Bank has a succession plan for KMPs. It is under review to meet the emerging requirements of the Bank.	
	(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.	The Committee is chaired by an Independent Director, and the majority of the members are also Independent Directors. The CEO participates only on invitation.	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.	At present the BIRMC consists of three Non-Executive Directors. The Committee includes CEO and KMPs supervising broad risk categories, i.e. credit, market, liquidity, operational, and strategic risks as members of the Committee.	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 the BIRMC on a quarterly basis.	Complied with

Compliance Status

Guideline	Function of the Board	Level of compliance	Complied/ Not complied
	(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.	The Committee met eight times during 2021.	Complied with
	(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)	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: (a) Any of the Bank's subsidiary companies; (b) Any of the Bank's associate companies; (c) Any of the Directors of the Bank; (d) Any of the Bank's Key Management Personnel; (e) A close relation of any of the Bank's Directors or Key Management Personnel; (f) A shareholder owning a material interest in the Bank; (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.	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. 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. 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.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/ Not complied
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>The Bank has an established process of reporting related party transactions with regard to related entities to the Board of Directors on a monthly basis.</p>	Complied with
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 counter-party.</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>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>(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>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

Compliance Status

Guideline	Function of the Board	Level of compliance	Complied/ Not complied
3 (7) (iv)	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.	This requirement is documented in the Board approved Related Party Transactions Policy.	Complied with
3 (7) (v)	(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.	No such matters were pending as at 31 December 2021.	Complied with
	(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.	No such matters are outstanding as at 31 December 2021.	Complied with
	(c) There is a process to identify any Director who fails to comply with the above sub directions, 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 2021.	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 2021.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/ Not complied
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 treatment was 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
3 (8)	Disclosures		
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 the basis of preparation and presentation and statement of compliance is disclosed in the Annual Report 2021 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.	Specific disclosures are available on page 152 of this Annual Report under “Statement of Directors Responsibility for Financial Reporting”.	Complied with
	(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 pages 148 and 149 of this Annual Report under “Directors’ Statement on Internal Control over Financial Reporting”.	Complied with

Compliance Status

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.	The 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 150 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: <table border="1" data-bbox="776 877 1339 1010"> <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>32.68</td> <td>0.23</td> </tr> <tr> <td>Corporate Management</td> <td>170.82</td> <td>1.21</td> </tr> <tr> <td>Related Companies</td> <td>19.03</td> <td>0.13</td> </tr> </tbody> </table> Spouses and other family members of related parties – NIL	Category of related party	Balance (LKR Mn.)	%	Board of Directors	32.68	0.23	Corporate Management	170.82	1.21	Related Companies	19.03	0.13	Complied with		
Category of related party	Balance (LKR Mn.)	%															
Board of Directors	32.68	0.23															
Corporate Management	170.82	1.21															
Related Companies	19.03	0.13															
(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 KMP and Directors and other transactions with KMPs and Directors are disclosed below. <table border="1" data-bbox="776 1178 1474 1373"> <thead> <tr> <th rowspan="2">Category of KMP</th> <th colspan="2">Balance as at 31 December 2021 (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>32.68</td> </tr> <tr> <td>"Corporate management (AGM grade and above)"</td> <td>16.34</td> <td>51.26</td> <td>119.57</td> </tr> </tbody> </table>	Category of KMP	Balance as at 31 December 2021 (LKR Mn.)		Remuneration fees paid during the year (LKR Mn.)	Deposits	Loan outstanding	Board of Directors	-	-	32.68	"Corporate management (AGM grade and above)"	16.34	51.26	119.57	Complied with
Category of KMP	Balance as at 31 December 2021 (LKR Mn.)			Remuneration fees paid during the year (LKR Mn.)													
	Deposits	Loan outstanding															
Board of Directors	-	-	32.68														
"Corporate management (AGM grade and above)"	16.34	51.26	119.57														
(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.	The 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 138 to 147 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 2021
A. DIRECTORS			
A.1. The Board			
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 20 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 fulfillment 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."

Compliance Status

Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2021
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.
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.
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.
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".
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 equaling to 1/3 of all Directors whichever is higher and in the event of CEO and Chairman is same the majority should be consistent with Non-Executives.	All Directors are Non-Executive Directors. The requirement as per the direction has been complied throughout 2021.
2. Independent Directors	A.5.2	Two or 1/3 of Non-Executive Directors out of all, should be Independent Directors.	Board comprises five Independent, Non-Executive Directors.

Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2021
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.	Compliant with independence 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.	A declaration of Independence is signed by all Non-Executive Directors.
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 2021.
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 and held by two different individuals.
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.
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Compliance Status

Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2021
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)".
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 2021.

Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2021
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".
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.

Compliance Status

Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2021
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.	Input 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.
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.

Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2021
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 42 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.
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.	The Bank proposes a separate resolution at the AGM on each substantially separate issue.
3. Availability of all Board Subcommittee Chairmen 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	The Company should arrange for the Notice of the AGM and related papers to be sent to shareholders as determined by statute, before the meeting.	The 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	The Company 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 accessed through newspapers and the Bank's 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's Facebook page and Bank's Website.

Compliance Status

Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2021
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 2832 590
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 the 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 2832 590
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 2021, 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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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 2021 and at the end of each month of 2021. In the preparation of quarterly and annual financial statements, SDB bank had 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.
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Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2021
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 a "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.
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.	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 2021. Risk has been reviewed by BIRMC quarterly. 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".
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.

Compliance Status

Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2021
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 comprise 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.
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.

Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2021
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.
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.
E.2 Evaluation of governance disclosures			
1. Evaluation of Governance Disclosures	E.2.1	When evaluating the 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.
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.
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 the opportunity to participate at Annual General Meetings and exercise their voting rights by sending individual invitations and newspaper notices.
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 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.	The Bank has taken into consideration an 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.

Compliance Status

Corporate governance principle	CA Sri Lanka code reference	Description of the requirement	SDB's extent of compliance in 2021
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 BIRMC

The BIRMC comprised the following Directors and members:

Prof Sampath Amaratunge - Chairman (BIRMC), Independent, Non-Executive Director

Mr Lakshman Abeysekera - Chairman - Independent, Non – Executive Director (Appointed to the BIRMC w.e.f 31 May 2021)

Mr Chaaminda Kumarasiri - Independent, Non-Executive Director

Mr B R A Bandara - Non-Independent, Non-Executive Director

Mr Conrad Dias - Non-Independent, Non-Executive Director (Appointed to the BIRMC w.e.f 26 November 2021)

The Chief Executive Officer and Chief Risk Officer are members of the committee and Company Secretary acts as the secretary of the meeting.

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 eight (08) times during the year under review. The attendance of the Committee members at the meetings of the Committee is tabled on page 144. 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

11 April 2022
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 J A Lalith G Jayasinghe – Non-Independent, Non-Executive Director (Appointed to the BAC w.e.f 31 May 2021)

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 26 to 29 in the Annual Report.

Mr K G Wijerathne – Non Independent, Non - Executive Director served as a member of the BAC until retired from the Board on 28.05.2021. We take this opportunity to place on record the committees appreciation for the valuable service rendered by Mr K G Wijerathne as a member of the committee.

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 Exchange 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 twenty six (26) times during the year. Attendance of the Committee members of each of these meetings is given in the table in page 144 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 normally 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 or the Senior Officers of the Bank's External Auditors, Messrs Ernst & Young attended for six (06) Committee meetings during the year. In five (05) out of twenty six (26) meetings, it has been discussed and recommended the Quarterly and Annual Financial Statements for the Board approval. The Committee met 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.

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 Accounting Standards SLFRS 9 "Financial Instruments" issued by The Institute of Chartered Accountants of Sri Lanka which became effective from 1 January 2018. The Management is further enhancing internal control around identification of Risk Elevated Industries, accounting for facilities under moratorium, introducing appropriate internal controls when determining the

current fair values of the collaterals obtained against the customer facilities and revisiting Economic Factor Adjustments in connection with the current economic circumstances as appropriately.

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 2021.

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 2021, 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 148 and 149 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 150 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 2021 is provided on pages 94 to 126 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 94 to 126.

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.

Report of the Board Audit Committee

- 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
 - 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.
 - 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 2022 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.

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 Manual and the Internal Audit Charter were reviewed/ revised and approved by the BAC and the Board respectively.

WHISTLE BLOWING

SANASA Development Bank's Whistle-blowing Policy is intended to serve as a channel of fraud risk management. The policy allows any 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. This procedure is being monitored by the BAC.

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)

11 April 2022
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 THE BHRRC

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

Mr Thusantha Wijemanna - Chairman (BHRRC), Independent, Non-Executive Director (Appointed as the Chairman of BHRRC w.e.f. 30 July 2021)

Mr Chaaminda Kumarasiri – Independent, Non-Executive Director

Mr Prasanna Premaratna - Independent, Non-Executive Director

Mr J A Lalith G Jayasinghe - Non-Independent, Non-Executive Director

Mr Naveendra Sooriyarachchi - Non-Independent, Non-Executive Director (Appointed to the BHRRC w.e.f 26 November 2021)

Mr Chaaminda Kumarasiri, Independent, Non – Executive Director served as the Chairman of the Committee till 30.07.2021. Prof Sampath Amaratunge – Independent, Non-Executive Director served as a member of the BHRRC and Resigned from the Committee on 23.04.2021. Ms Dinithi Ratnayake, Non- Independent, Non- Executive Director served as a member of the BHRRC and Resigned from the Committee on 26.11.2021. We take this opportunity to place on record the Committees appreciation for the valuable services rendered by Director Prof Sampath Amaratunge & Ms Dinithi Ratnayake as members 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 being 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 a 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 2020 against the set

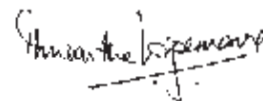
goals and targets. BHRRC also set goals and targets for KMPs for 2021 in line with the strategic vision and direction of the Bank in 2021 and Mid-Year review was conducted to ensure the performance of the KMPs are aligned with the Budget.

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, Committee also approved remuneration of the new DCEO, CIO and CISO during the Year.

Further the Committee recommended the new Collective Agreement for the year 2021-2023 and the amended HR Policy of the Bank was also approved by the Committee

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



Thusantha Wijemanna
Chairman
Board Human Resources and
Remuneration Committee

11 April 2022
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 Practices 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 five (05) Non-Executive Directors (of which a majority are Independent) appointed by the Board of Directors of the Bank. During the year, 2021 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

Ms Dinithi Ratnayake – Non - Independent, Non-Executive Director

Mr Thusantha Wijemanna - Independent, Non-Executive Director (Appointed to the BS&NC w.e.f 23 April 2021)

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 requirement 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 2021.

MEETINGS OF THE BS & NC AND ITS EFFECTIVENESS

The Committee met eleven (11) times during the year under review and it focused mainly on the following:

- Board composition – Identified the skills required and recommended the appointment of four new Directors with expertise in Law & Banking, Credit IT 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 Deputy Chief Executive Officer, Chief Information Officer and Chief Information Security Officer.

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



Lakshman Abeysekera

Chairman
Board Selection and Nomination
Committee

11 April 2022
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 THE BRPTRC

During the year 2021, 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 2021. 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 in 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 on a quarterly basis during the year under review and the attendance of Committee members at meetings is stated in the table on page 144 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 “arms-length” basis.

The Committee also considered and reviewed loans granted to SANASA Societies and other related parties of the Bank.

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 2021 to 31 December 2021 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

11 April 2022
Colombo, Sri Lanka

Report of the Board Strategic Planning Committee

In the year 2015, the Board established the Board Strategic Planning Committee (BSPC). 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 THE COMMITTEE BSPC

BSPC comprises six (06) Non-Executive Directors, appointed by the Board of Directors. During the year, 2021 the following Directors served on BSPC.

Ms Dinithi Ratnayake – Chairperson (BSPC) Non-Independent, Non-Executive Director– (Appointed as Chairperson of BSPC w.e.f 29.01.2021)

Mr Lakshman Abeysekera –Chairman-Independent, Non-Executive Director

Mr Prabhash Subasinghe – Non-Independent, Non-Executive Director

Mr Chaaminda Kumarasiri - Independent, Non-Executive Director

Mr Prasanna Premaratna - Independent, Non-Executive Director

Mr Conrad Dias - Non-Independent, Non-Executive Director (Appointed to the BSPC w.e.f. 26 November 2021)

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

MEETINGS OF BSPC

The Committee met four (04) times during the year. Committee reviewed the SDB

strategies 2020 & 2021 and developed bank's strategy for 2021 – 2023.

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 Committee.



Dinithi Ratnayake
Chairperson
Board Strategic Planning Committee

11 April 2022
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 six (06) Non-Executive Directors who meet at least 10 times annually to deliberate on issues under its purview:

COMPOSITION OF THE BCC

During the year 2021, the following Directors served on the BCC:

Mr Prasanna Premaratna – Chairman (BCC), Independent, Non-Executive Director

Mr Prabhath Subasinghe - Non-Independent, Non-Executive Director

Mr Lionel Thilakarathne – Non-Independent, Non-Executive Director

Ms Dinithi Ratnayake - Non-Independent, Non-Executive Director

Mr Thusantha Wijemanna - Independent, Non-Executive Director (Appointed to the BCC w.e.f 23 April 2021)

Mr Naveendra Sooriyarachchi - Non-Independent, Non-Executive Director (Appointed to the BCC w.e.f 26 November 2021)

Company Secretary is functioning as the Secretary of the Committee. Chief Executive Officer, Deputy 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

COMMITTEE MEETINGS OF BCC

The Committee met Twelve (12) 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 2021 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 Micro Finance Institutes
- Reviewed and recommended the delegation authority
- Reviewed and recommended the Recovery & Collection Policy & 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, Activation of Inactivate Accounts, SME & Business Banking Pipelines and Safety Locker as fee based income
- Reviewed the Top 25 loan customer details and advised the Management

For and on behalf of the Board Credit Committee,



Prasanna Premaratna
Chairman
Board Credit Committee

11 April 2022
Colombo, Sri Lanka

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Financial Calendar

FINANCIAL CALENDAR - 2021

Annual General Meeting

25th Annual General Meeting	To be held on 30 May 2022
24th Annual General Meeting	Held on 28 May 2021

Annual Financial Statements*

Annual Financial Statements 2021	Signed on 11 April 2022
Annual Financial Statements 2020	Signed on 19 March 2021

Interim Financial Statements**	Date released to the CSE	Date published to the newspapers (In Sinhala, English, Tamil)
4th Quarter 2020	25 February 2021	30 March 2021
1st Quarter 2021	07 May 2021	25 May 2021
2nd Quarter 2021	13 August 2021	31 August 2021
3rd Quarter 2021	15 November 2021	30 November 2021
4th Quarter 2021	25 February 2022	31 March 2022

PROPOSED FINANCIAL CALENDAR - 2022

Annual General Meeting

26th Annual General Meeting	To be held on or before 31 May 2023
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Annual Financial Statements*

Annual Financial Statements 2022	To be signed in March 2023
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Interim Financial Statements**	Date to be released to the CSE	Date to be published to the newspapers (In Sinhala, English, Tamil)
1st Quarter 2022	15 May 2022	31 May 2022
2nd Quarter 2022	15 August 2022	31 August 2022
3rd Quarter 2022	15 November 2022	30 November 2022
4th Quarter 2022	28 February 2023	31 March 2023

* 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.

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 2021 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 2021, including the comparatives for 2020 were approved and authorised for issue by the Board of Directors on 11 April 2022 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 reregistered 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 07 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 conduct 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 Re-finance Loan Schemes.

At the end of 2021 the Bank has established 94 delivery points (94 at the end of 2020) across all districts of the country.

REVIEW OF OPERATIONS

The "Chairman's Message" on pages 16 to 19, the "Acting Chief Executive Officer's Review" on pages 20 to 23, and the "Our Value Creation Model" on pages 48 to 49, 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 16 to 19, "Acting Chief Executive Officer's Review" on pages 20 to 23 and "Our Value Creation Model" on pages 48 to 49 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 2021 duly signed by the Chief Financial Officer and Deputy Acting Chief Executive Officer, two Directors of the Bank and the Company Secretary are given on pages 153 to 241, 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 153 to 241 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 152 forms an integral part of this Report.

AUDITORS' REPORT

The External Auditors' of the Bank are Messrs Ernst and 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 2021 and their report on these Financial Statements, as required by the Section 168 (1) (c) of the Companies Act is given on pages 153 to 155 of this Annual Report. The Auditors' remuneration details are stated in Note 15 to the Financial Statements on page 188.

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 164 to 179 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 2021 was LKR 15.47 Bn. (2020: LKR 16.16 Bn.). An analysis of the gross income is given in Note 6 to the Financial Statements on pages 180.

PROFITS AND APPROPRIATIONS

The net profit before tax of the Bank amounted to LKR 1,329 Mn. in 2021 (2020: LKR 1,412 Mn.) and this has a decrease by 5.87% when compared to 2020. Further, the net profit after tax of the Bank

amounted to LKR 883 Mn. in 2021 (2020: LKR 836 Mn.) and this was an increase of 5.6% when compared to 2020. A detailed breakup of profits and appropriations of the Bank is given below:

	2021	2020
Description	LKR	LKR
Profit for the year		
Profit for the year ended 31 December after payment of all operating expenses and provision for depreciation and contingencies	1,329,807,786	1,412,930,083
Less: Taxation	(446,529,614)	(576,642,736)
Net profit after tax	883,278,172	836,287,347
Other Comprehensive Income (OCI)		
Actuarial gain/(losses) on defined benefit plans	34,300,730	(1,854,991)
Deferred tax relating to other comprehensive income	(8,232,175)	519,397
Total comprehensive income for the year	909,346,727	834,951,754
Unappropriated profit brought forward from previous year	1,871,568,880	1,472,502,282
Balance available before adjustment	2,780,915,607	2,307,454,036
Appropriations		
Transfer to statutory reserve fund	(44,163,909)	(41,727,392)
Dividend		
Final cash dividend - 2019 (LKR 2.00 per share)	-	(114,022,069)
Final scrip dividend - 2019 (LKR 5.00 per share)	-	(280,135,695)
Final cash dividend - 2020 (LKR 2.25 per share)	(206,046,072)	-
Other transactions - SPO Share Issue Cost	(49,761,369)	
Other transaction	157,055	
Unappropriated balance carried forward as at 31 December	2,481,101,312	1,871,568,880

TAXATION

As per the Inland Revenue Act. No. 10 of 2021, income tax rate applicable for the Banking sector has been reduced to 24%. Since the said amendment was not enacted, as at 31 December 2020, both income tax and deferred tax provisions were calculated at the rate of 28% for the year ended 31st December 2020. However, the said amendment was subsequently enacted on 13 May 2021 with retrospective effect from the year of assessment 2020/2021. The impact on the income tax expense for the year ended 31 December 2020 and on the deferred tax assets/ liabilities as of 31 December 2020 has been considered in the tax expense for

the year ended 31 December 2021. Details of tax payments are given in Note 16 to the Financial Statements on pages 188 to 190.

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 16.2 to the Financial Statements on page 190.

The Bank is liable for VAT on financial services at 15% in 2021 (2020: 15%) and Crop Insurance levy at 1% in 2021 (2020: 1%).

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

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	2021	2020
	LKR	LKR
Statutory reserve fund	314,173,025	270,009,116
Other reserves	27,605,349	27,605,349
Retained profits	2,500,152,936	1,890,620,504

Information on the movement of reserves is given in the Statement of Changes in Equity on page 158 and in Notes 37, 38 and 39 to the Financial Statements on pages 215 and 216.

CAPITAL EXPENDITURE

The total capital expenditure on acquisition of property, plant and equipment of the Bank amounted to LKR 495,986,096 (2020: LKR 214,731,711). Details are given in Note 25 to the Financial Statements.

CAPITAL COMMITMENTS

The contracted and approved capital expenditure as at the date of the reporting is given in Note 40 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 25 to the Financial Statements on pages 200 to 203. Particulars of intangible assets are given in Note 28 to the Financial Statements on pages 205 to 206.

Investment properties of the Bank are disclosed in accordance with Sri Lanka Accounting Standard – 40 "Investment Property". Specific information on extent, location of the land and buildings held by the Bank are given under Note 27 to the Financial Statements on pages 204 to 205.

STATED CAPITAL

The stated capital of the Bank as at 31 December 2021 amounted to LKR 11,287,765,221 consisting of 160,698,832 ordinary voting shares (2020 : LKR 7,727,941,021 consisting of 91,576,032 ordinary voting shares).

Distribution schedule of shareholdings

Shareholder	As at 31 December 2021		As at 31 December 2020	
	Number of shareholders	Number of shares	Number of shareholders	Number of shares
Individual	35,340	25,838,048	35,232	21,038,441
Institution				
Foreign	5	37,040,674	3	17,457,384
Local and other institutions	73	76,112,080	56	33,993,892
SANASA Federation				
Acc 1		780,970		780,970
Acc 2	1	30,846	1	30,846
SANASA Societies	3403	10,183,736	3401	10,077,736
SANASA Unions	35	3,321,619	34	1,946,819
MPCCS	24	1,242,737	21	169,837
Trust companies	105	6,148,122	105	6,080,107
Total	38,986	160,698,832	38,853	91,576,032

DEBT CAPITAL

The Bank has issued Rated Guaranteed Redeemable Debentures of LKR 100 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 and it was fully paid off on 3 January 2021. The details of the debentures outstanding as at 31 December 2020 are given in Note 32 to the Financial Statements.

SHARE INFORMATION

Information in relation to earnings, net assets, dividends and market value per share etc., is given on pages 261 to 263. Information on the trading of shares and movement in the number of shares represented by the stated capital is given in the section on "Investor Relations" on pages 256 to 266 to this Report.

Details on Shareholding Distribution, Share Ownership Composition and Substantial Shareholding are as follows:

			31 December 2021				31 December 2020			
			Number of Shareholders	%	Number of Shares	%	Number of Shareholders	%	Number of Shares	%
1	-	1,000	36,602	93.88	4,909,114	3.06	36,493	93.93	4,854,384	5.30
1,001	-	10,000	1,798	4.61	5,626,142	3.50	1,796	4.62	5,545,897	6.06
10,001	-	100,000	494	1.27	15,471,176	9.63	498	1.28	14,298,993	15.61
100,001	-	1,000,000	74	0.19	20,864,228	12.98	52	0.13	12,073,058	13.18
1,000,001	-	and above	18	0.05	113,828,172	70.83	14	0.04	54,803,700	59.85
			38,986	100	160,698,832	100	38,853	100	91,576,032	100

SUBSTANTIAL SHAREHOLDINGS

Names of the twenty largest shareholders, with their respective shareholdings and percentage holdings as at 31 December 2021 with their Comparative Shareholding as at 31 December 2020 are as follows:

No.	Shareholder name	31 December 2021 (Amalgamated)		31 December 2020 (Amalgamated)	
		Number of shares	%	Number of shares	%
01.	ICONIC Property Twenty Three (Private) Limited	24,104,800	15.0000	-	-
02.	Nederlandse Financierings - Maatschappij Voor Ontwikkelingslanden N.V	17,609,503	10.9581	9,157,603	10.0000
03.	Ayenka Holdings (Private) Ltd.	17,604,953	10.9553	12,754,953	13.9282
04.	Belgian Investment Company for Developing Countries SA/NV	16,069,800	9.9999	-	-
05.	Senthilverl Holdings (Pvt) Ltd	14,413,060	8.9690	11,778,002	12.8615
06.	SANASA Life Insurance Company Ltd	4,624,426	2.8777	2,686,626	2.9338
07.	Alliance Finance Company PLC	3,516,310	2.1881	2,066,310	2.2564
08.	SBI Emerging Asia Financial Sector Fund PTE.LTD	2,885,618	1.7957	2,885,618	3.1511
09.	Peoples Leasing & Finance PLC/ L.P.Hapangama	2,627,722	1.6352	1,753,000	1.9143
10.	People's Leasing & Finance PLC	2,271,260	1.4134	2,271,260	2.4802
11.	Dr T Senthilverl	1,793,823	1.1163	1,958,402	2.1385
12.	Bank of Ceylon A/C Ceybank Unit Trust	1,539,241	0.9578	-	-
13.	Phoenix Ventures (Private) Ltd	1,509,200	0.9391	-	-
14.	Kegalle SANASA Shareholders Trust Company Limited	1,260,246	0.7842	1,247,746	1.3625
15.	SANASA General Insurance Company Limited	1,124,418	0.6997	1,124,418	1.2279
16.	Polgahawela SANASA Societies Union Ltd	1,014,098	0.6311	820,098	0.8955
17.	Nikawaratiya Thrift & Credit Co-operative Society Union Ltd	992,849	0.6178	2,049	0.0022
18.	Bingiriya Multi-Purpose Co-operative Society Ltd	970,900	0.6042	-	-
19.	DFCC Bank PLC / J N Lanka Holdings Company (Pvt) Ltd	959,788	0.5973	-	-
20.	SANASA Federation Limited	811,816	0.5052	811,816	0.8865

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 Thirteen (2020: Ten) Directors with wide financial and commercial knowledge and experience. The names of the Directors of the Bank as at 31 December 2021 are given below as per Section 168 (1) (h) of the Companies Act. Their brief profiles appear on pages 24 to 29 of the Annual Report.

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

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.

No:	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 Prabhash Subasinghe	Non-Executive	Non-Independent
4.	Mr Lionel Thilakarathne	Non-Executive	Non-Independent
5.	Mr Chaaminda Kumarasiri	Non-Executive	Independent
6.	Mr Prasanna Premaratna	Non-Executive	Independent
7.	Mr B R A Bandara	Non-Executive	Non-Independent
8.	Ms Dinithi Ratnayake	Non-Executive	Non-Independent
9.	Mr J A Lalith G Jayasinghe	Non-Executive	Non-Independent
10.	Mr Thusantha Wijemanna	Non-Executive	Independent
11.	Mr S H Sarath Nandasiri	Non-Executive	Non-Independent
12.	Mr Conrad Dias	Non-Executive	Non-Independent
13.	Mr Naveendra Sooriyarachchi	Non-Executive	Non-Independent

New appointments made during 2021

1.	Mr Thusantha Wijemanna (Appointed w.e.f. 23 April 2021)	Non-Executive	Independent
2.	Mr S H Sarath Nandasiri (Appointed w.e.f. 25 June 2021)	Non-Executive	Non-Independent
3.	Mr Conrad Dias (Appointed w.e.f. 29 October 2021)	Non-Executive	Non-Independent
4.	Mr Naveendra Sooriyarachchi (Appointed w.e.f. 26 November 2021)	Non-Executive	Non-Independent

Resignations/Retirements during 2021

1.	Mr K G Wijerathne (Retired w.e.f. 28 May 2021)	Non-Executive	Non-Independent
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Further, at the 24th AGM held on 28 May 2021 Director Mr Prabhash Subasinghe who represented the Ayenka Holdings Private Limited was re-elected as Non-Executive, Non-Independent Director and Director Mr S H Sarath Nandasiri who represented SANASA Federation Ltd who has experience in Credit and Co-operative aspects was elected as a Non-Executive, Non-Independent Director of the Bank.

RETIREMENT BY ROTATION AND RE-ELECTION/ RE-APPOINTMENT OF DIRECTORS

- i. In terms of Article 6 (4) (i) of the Articles of Association, the following directors shall retire at the Annual General Meeting and are eligible for re-election
- I. Mr Lionel Thilakarathne
 - II. Mr J A Lalith G Jayasinghe
 - iii. Mr B R A Bandara
- In terms of Article 6(4)(ii) Mr Conrad Dias who filled a casual vacancy during

the year shall resign at the Annual General Meeting and eligible for re-election.

- ii. The Board recommended the re-election of following Directors.
- I. Mr B R A Bandara
 - II. Mr Lalith G Jayasinghe
 - iii. Conrad Dias
- Chairman Mr Lakshman Abeysekera shall retire on 29 April 2022, on completion of nine years (09) as per Banking Act Direction No. 3 (2) (II) (A).
- iii. Directors 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,

as attained the age of 70 years on 29 June 2021, retired 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 five 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, and the Colombo Stock Exchange.

The composition of both mandatory and voluntary Board Subcommittees, as at 31 December 2021 and the details of the attendance by Directors at meetings are tabulated on pages 144 to 145 while the reports of these subcommittees are found on pages 127 to 135 in this Report.

Committee	Mandate	Composition
Board Integrated Risk Management Committee	Quarterly	Prof S Amaratunge (Chairman - BIRMC) Mr L Abeysekera (Chairman) Mr C Kumarasiri Mr B R A Bandara Mr C Dias
Board Audit Committee	Monthly	Mr C Kumarasiri (Chairman - BAC) Prof S Amaratunge Mr J A L G Jayasinghe
Board Human Resources and Remuneration Committee	At least 6 times annually	Mr T Wijemanna (Chairman - BHRRC) Mr C Kumarasiri Mr P Premaratna Mr J A L G Jayasinghe Mr N Sooriyarachchi
Board Selection and Nomination Committee	If and when it is required	Mr L Abeysekera (Chairman - BS & NC/ Chairman) Prof S Amaratunge Mr C Kumarasiri Ms D Ratnayake Mr T Wijemanna
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 P Subasinghe Mr S L Thilakarathne Ms D Ratnayake Mr T Wijemanna Mr N Sooriyarachchi
Board Strategic Planning Committee	Quarterly	Ms D Ratnayake (Chairperson - BSPC) Mr L Abeysekera (Chairman) Mr P Subasinghe Mr C Kumarasiri Mr P Premaratna Mr C Dias

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

Committee	Mandate	Composition
Board Co-operative Development Committee	Quarterly	Mr J A L G Jayasinghe (Chairman - BCDC) Prof S Amaratunge Mr S L Thilakarathne Mr P Premaratna Mr B R A Bandara Mr S H S Nandasiri
Specialized Board Subcommittee - Capital Planning	If and when it is required	Ms D Ratnayake (Chairperson - SBCP) Mr S L Thilakarathne Mr C Kumarasiri
Board Subcommittee on Sustainability	Monthly for a period of First six months and thereafter quarterly	Ms D Ratnayake (Chairperson - BSCS) Mr L Abeysekera (Chairman) Mr C Kumarasiri (Director) Mr P Premaratna (Director)

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 Committee Meetings, Board Related Party Transactions Review Committee Meetings, Board Co-operative Development Committee Meetings and Specialized Board Subcommittee - Capital Planning Meetings and Board Subcommittee on Sustainability 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 (BHRRC)	Board Selection and Nomination Committee (BS & NC)	Board Strategic Planning Committee (BSPC)	Board Co-operative Development Committee (BCDC)	Specialized Board Subcommittee - Capital Planning (SBCP)	Total
Mr L Abeysekera	20/20		8/26*		11/11	4/4	4/6*	9/9*	56/76
Prof S Amaratunge	20/20		26/26	8/18	11/11		5/6		70/81
Mr P Subasinghe	16/20	7/12	1/26*			1/4		6/9*	31/71
Mr L Thilakarathne	19/20	11/12					6/6	9/9	45/47
Mr K G Wijerathne	5/20		9/26				2/6		16/52
Mr C Kumarasiri	20/20		26/26	18/18	11/11	4/4	1/6*	8/9	88/94
Mr P Premaratna	19/20	12/12		18/18	3/11*	3/4	6/6		61/71
Mr B R A Bandara	20/20						6/6		26/26
Ms D Ratnayake	20/20	11/12	5/26*	17/18	11/11	4/4	2/6*	9/9	79/106
Mr J A L G Jayasinghe	20/20		16/26	18/18			6/6		60/70
Mr T Wijemanna	15/20	8/12	2/26	10/18	9/11				44/87
Mr S Nandasiri	14/20						3/6		17/26
Mr C Dias	7/20		1/26*		2/11*	1/4			11/61
Mr N Sooriyarachchi	5/20	0/12							5/32

* Directors' attendance for the subcommittee meetings by Invitation.

**Board Sub Committee on Sustainability was formally constituted w.e.f. 29.10.2021 and there were no meetings held during 2021.

Name of member	Board Integrated Risk Management Committee								Total
	Dates of meetings								
	18.02.2021	16.03.2021	13.05.2021	28.05.2021	19.08.2021	07.09.2021	30.12.2021	30.12.2021 (Performance Evaluation)	
Prof S Amaratunge (Chairman - BIRMC)	P	P	P	P	P	P	P	P	8/8
Mr L Abeysekera	N/A	N/A	N/A	N/A	P	P	P	P	4/8
Mr C Kumarasiri	P	P	P	P	P	P	P	P	8/8
Mr B R A Bandara	P	P	P	P	P	P	P	P	8/8
Mr C Dias	N/A	N/A	N/A	N/A	N/A	N/A	Ex	Ex	-

Name of member	Board Related Party Transactions Review Committee				Total
	Dates of meetings				
	19.03.2021	15.06.2021	14.09.2021	07.12.2021	
Mr C Kumarasiri (Chairman - BRPTRC)	P	P	P	P	4/4
Prof S Amaratunge	P	P	P	P	4/4
Mr P Premaratna	P	P	P	P	4/4

*P - Present *Ex - Excused

Director, Mr K G Wijerathne

Retired from Board, BAC & BCDC w.e.f. -28 May 2021.

Chairman, Mr L Abeysekera

Resigned from the BHRRRC w.e.f. - 08 January 2021
Appointed to the BIRMC w.e.f. - 31 May 2021

Director, Prof S Amaratunge

Appointed to the BHRRRC w.e.f. - 08 January 2021
Appointed to the BCDC w.e.f. - 23 April 2021
Resigned from BHRRRC w.e.f. - 23 April 2021

Director, Mr C Kumarasiri

Resigned from the Chairmanship of BHRRRC w.e.f. - 30 July 2021

Director, Ms D Ratnayake

Appointed as the Chairperson of BSPC w.e.f. - 29 January 2021
Resigned from the BHRRRC w.e.f. -26 November 2021

Director, Mr J A L G Jayasinghe

Appointed as the Chairman of BCDC and Member of BAC w.e.f - 31 May 2021

Director, Mr T Wijemanna

Appointed to the Board, BS & NC, BCC and BHRRRC w.e.f - 23 April 2021
Appointed as the Chairman of BHRRRC w.e.f. - 30 July 2021

Director, Mr S H S Nandasiri

Appointed to the Board and BCDC w.e.f - 25 June 2021

Director, Mr C Dias

Appointed to the Board w.e.f - 29 October 2021
Appointed to the BSPC and BIRMC w.e.f - 26 November 2021

Director, Mr N Sooriyarachchi

Appointed to the Board, BCC & BHRRRC w.e.f - 26 November 2021

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 2021	As at 31 December 2020
Mr L Abeysekera	-	-
Prof S Amaratunge	-	-
Mr P Subasinghe	112,815	112,815
Mr L Thilakarathne	-	-
Mr K G Wijerathne (Retired w.e.f. 28 May 2021)	-	126
Mr C Kumarasiri	-	-
Mr P Premaratna	1,500	1,500
Mr B R A Bandara	11,000	11,000
Ms D Ratnayake	-	-
Mr J A L G Jayasinghe	2,038	-
Mr T Wijemanna	-	-
Mr S H S Nandasiri	-	-
Mr C Dias	-	-
Mr N Sooriyarachchi	-	-

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

Directors' shareholding percentage

	As at 31 December 2021	As at 31 December 2020
	%	%
Directors	0.08	0.14
Public	88.68	85.65
CEO and related parties	11.24	14.21

DIRECTORS' STATEMENT OF INTERNAL CONTROL

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 2021 are given in Note 15 to the Financial Statements on page 188.

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 42 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 OFFICERS' 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 41 to the Financial Statements on page 218.

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 2,464,000 (2020: LKR 2,636,914). Further LKR 921,334 (2020: LKR 1,070,000) 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 15 to the Financial Statements on page 188.

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 "Investor Relations" on pages 256 to 266.

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 our Risks" on pages 58 to 68 and in Note 48 to the Financial Statements on pages 227 to 241.

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 148 and 149.

The Board has obtained an assurance report from the External Auditors on Directors' Statement on Internal Control which is given on page 150 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 40.2 of the Financial Statements given on pages 216 and 217 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 99 to 126.

ANNUAL GENERAL MEETING AND THE NOTICE OF MEETING

The 25th 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 30 May 2022 at 10.00 a.m.

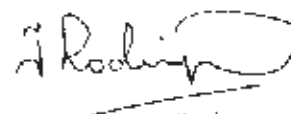
ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

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

11 April 2022
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 recognizes 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 control 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 the 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 and the Information Technology Steering 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 BAC continuously monitored the implementation of the Sri Lanka Accounting Standards – SLFRS 9 "Financial Instruments" issued by The Institute of

Chartered Accountants of Sri Lanka which became effective from 1 January 2018. The management is further enhancing internal controls around identification of Risk Elevated Industries, accounting for facilities under moratorium, introducing appropriate internal controls when determining the current fair values of the collaterals obtained against the customer facilities and revisiting Economic Factor Adjustments in connection with the current economic circumstances as appropriately.

In connection with the internal controls around privilege user access monitoring process, the Bank relied on the specific work carried out by the Internal Audit Department as third line of defense due to the inadequacies noted in the first and second level lines of defenses. However, the Bank is taking further steps to enhance the required internal controls around Privilege Access Management (PAM) that includes monitoring of privilege access and also to introduce an IT based solution for better monitoring and management.

Comments made by the External Auditors in connection with 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

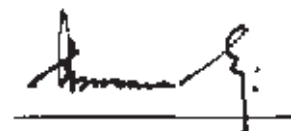
Report of the Bank for the year ended 31 December 2021 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the Internal Control over Financial Reporting of the Bank. Their Report on the Statement of Internal Control over Financial Reporting is given in 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.

11 April 2022
Colombo, Sri Lanka

Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The Financial Statements of SANASA Development Bank PLC (The Bank) as at 31 December 2021 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 138 to 147 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 148 and 149. 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 150 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 153 to 155 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 128 to 130.

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 40.2 to the Financial Statements in the Annual Report.



Niranjan Thangarajah
Acting Chief Executive Officer



Terrance Kumara
Chief Financial Officer

11 April 2022
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 Auditor in relation to the Financial Statements are set out in the Report of the Auditors given on pages 153 to 156 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 2021; and
2. The financial performance of the Bank for the financial year ended 31 December 2021.

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 2021 are given in pages 148 and 149 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 150 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 128 to 130 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 Auditor, 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.

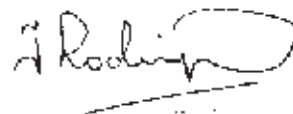
The Financial Statements of the Bank have been certified by the Chief Financial Officer of the Bank, the officer responsible for their preparation, as required by Sections 150 (1) (b) and 152 (1) (b) of the Companies Act. Also the Financial Statements of the Bank have been signed by two Directors, Acting Chief Executive Officer and Company Secretary of the Bank on April 11, 2022 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 Dividend, in accordance with the section 57 of the Companies Act No. 07 of 2007, and in the process of obtaining a Certificate from the Auditors, prior to declaring a final Dividend of LKR 1.50 per share for FY 2021, to be paid in June 2022.

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

11 April 2022
Colombo, Sri Lanka

Independent Auditors' Report



Ernst & Young
Chartered Accountants
201, De Saram Place
P.O. Box 101
Colombo 10, Sri Lanka
Tel: +94 11 246 3500
Fax (Gen): +94 11 269 7369
Fax (Tax): +94 11 957 8180
Email: ey@lka.ey.com
ey.com

SPF/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 2021, 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 of the Bank gives a true and fair view of the financial position of the Bank as

at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

BASIS FOR OPINION

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the 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 Auditor's 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>Provision for credit impairment for loans and receivables to other customers carried at amortised cost</p> <p>Provision for credit impairment for loans and receivables to other customers carried at amortised cost as stated in Note 12 & 21 respectively is in accordance with the accounting policies described in Note 2.12 & 3.2.</p> <p>This was a key audit matter due to: materiality of the reported provision for credit impairment which involved complex calculations; and degree of management judgement, significance of assumptions and level of estimation uncertainty associated with its measurement.</p> <p>Key areas of significant judgements, estimates and assumptions used by the management in the assessment of the provision for credit impairment included the following:</p> <ul style="list-style-type: none"> management overlays to incorporate the probable ongoing impacts of COVID-19 and related industry responses such as government stimulus packages and debt moratorium relief measures granted by the Bank; the incorporation of forward-looking information to reflect current and anticipated future external factors, including judgements related to the ongoing impact of COVID-19, both in the multiple economic scenarios and the probability weighting determined for each of these scenarios. 	<p>We assessed the alignment of the Bank's provision for credit impairment computations and underlying methodology including consideration of COVID 19 impacts and related industry responses with its accounting policies, 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"> 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. We checked the completeness and accuracy of the underlying data used in the impairment computation by agreeing details to relevant source documents and accounting records of the Bank. We also checked the underlying calculations. In addition to the above, the following procedures were performed: <p>For loans and receivables assessed on an individual basis for impairment:</p> <ul style="list-style-type: none"> We assessed the reasonableness and timeliness of Management's internal assessments of credit quality based on the borrower's particular circumstances We evaluated the reasonableness of key inputs used in the provision for credit impairment made with particular focus on the ongoing impact of COVID-19. Such evaluations were carried out considering value and timing of cash flow forecasts, elevated risk industries, status of recovery action and collateral values <p>For financial assets assessed on a collective basis for impairment:</p> <ul style="list-style-type: none"> We tested the key calculations used in the provision for credit impairment. We assessed whether judgements, estimates and assumptions used by the Management in the underlying methodology and the management overlays were reasonable. Our testing included evaluating the reasonableness of forward-looking information used, economic scenarios considered, and probability weighting assigned to each of those scenarios <ul style="list-style-type: none"> We assessed the adequacy of the related financial statement disclosures set out in notes 12,21 and 48.

Partners: H.R.A. Jayasinghe FCA FCMA, P.N. de Silva FCA FCMA, M.S.K. de Silva FCA, W.R.H. de Silva FCA ACMA, M.S.V. de Silva FCA, M.S.F.R.M. Fernando FCA ACMA, N.Y.R. Fernando FCA, W.K.B. Fernando FCA FCMA, M.A.H. Fernando FCA, P.N. Gamage FCA ACMA, S.P.A. Gunawardena FCA FCMA, A.H.M.H. H.A., P.K. Induranga FCA FCMA, H.B. Jayasinghe FCA, A.G. Jayasinghe FCA FCMA, S.P. Jayasinghe FCA, A.A.P. Perera FCA ACMA, M.S.P.V.R.H. Sadasivam FCA, M.A. Sathyanarayanan FCA, S.H. Wijesinghe FCA FCMA, C.A. Wijesinghe FCA ACMA

Chartered Accountants: S.B. Jayasinghe ACMA, M.S. Jayasinghe FCA FCMA, L.L. Jayasinghe FCA, T.M. Jayasinghe FCA FCMA

A member firm of Ernst & Young Global Limited

Independent Auditors' Report

Key audit matter	How our audit addressed the key audit matter
<p>Information Technology (IT) systems and controls over financial reporting</p> <p>A significant part of the Bank's financial reporting process is primarily reliant on multiple IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets.</p> <p>During the year, the Bank implemented a new IT system for Lease Receivables. The change of IT system involved the migration of operational and financial data from the previous systems to the new system. As such, ensuring the integrity of financial data being migrated was critical for accurate financial reporting.</p> <p>Accordingly, IT systems and related internal controls over financial reporting was considered a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> - We obtained an understanding of the internal control environment of the processes relating to financial reporting and related disclosures. - We identified and test checked relevant controls of key IT systems related to the Bank's financial reporting process. - We involved our internal specialized resources to evaluate the design and operating effectiveness of IT controls, including those related to user access and change management. - We checked key source data of the reports used to generate key disclosures for accuracy and completeness, including review of the general ledger reconciliations. - In respect of the new IT system, we considered the Bank's processes and project governance over the implementation as carried out by a third party. We also involved our internal specialised resources to test-check the data migration process. - We also obtained a high-level understanding, primarily through inquiry, of the cybersecurity risks affecting the bank and the actions taken to address these risks. Further, we checked changes if any have been made to security monitoring procedures, given the increase in remote workers including the bank's monitoring on remote workers activities.

OTHER INFORMATION INCLUDED IN THE BANK'S 2021 ANNUAL REPORT

Management is responsible for the other information. Other information consists of the information included in the Bank's 2021 Annual Report, other than the financial statements and our auditor's report thereon. The Bank's 2021 Annual Report is expected to be made available to us after the date of this auditor's 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered

material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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.

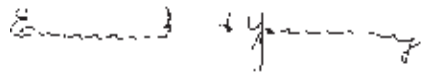
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and

are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2199.



11 April 2022
Colombo

Statement of Comprehensive Income

Year ended 31 December		2021	2020
	Note	LKR	LKR
Gross Income	6	15,477,595,919	16,161,787,232
Interest income		14,792,068,260	15,442,002,803
Less: Interest expenses		(8,018,419,381)	(9,314,576,405)
Net interest income	7	6,773,648,879	6,127,426,398
Fee and commission income		413,674,505	390,619,231
Less: Fee and commission expenses		(23,327,270)	(14,334,115)
Net fee and commission income	8	390,347,235	376,285,116
Net gain/(loss) from trading	9	4,143,851	5,228,460
Net fair value gain/(loss) of financial assets at fair value through profit or loss	10	234,933,928	268,709,636
Net other operating income	11	32,775,375	55,227,102
Total operating income		7,435,849,268	6,832,876,712
Less: Impairment for loans and other losses	12	(643,708,493)	(417,038,505)
Net operating income		6,792,140,775	6,415,838,207
Less: Operating expenses			
Personnel expenses	13	(2,542,695,499)	(2,576,773,302)
Depreciation and amortisation expenses	14	(528,446,574)	(454,568,998)
Other expenses	15	(1,848,265,092)	(1,400,538,554)
Operating profit before Value Added Tax (VAT) on financial services		1,872,733,610	1,983,957,352
Less: Value Added Tax (VAT) on financial services		(542,925,824)	(571,027,269)
Operating profit/(loss) after VAT on financial services		1,329,807,786	1,412,930,083
Profit before tax		1,329,807,786	1,412,930,083
Less: Tax expenses	16	(446,529,614)	(576,642,736)
Profit for the year		883,278,171	836,287,347
Other Comprehensive Income			
Other Comprehensive Income/(Expenses) not to be reclassified to profit or loss			
Actuarial gain/(loss) on defined benefit plans	34.1.2	34,300,730	(1,854,991)
Deferred tax relating to defined benefit plans	16.2.1	(8,232,175)	519,397
Other Comprehensive Income for the year net of tax		26,068,555	(1,335,594)
Total Comprehensive Income for the year		909,346,727	834,951,754
Earnings per share on profit			
Basic/diluted earnings per share - (LKR)	17	7.63	11.05
Dividend per share: Gross (LKR)		-	2.25

The Accounting Policies and Notes on pages 160 through 241 from an integral part of the Financial Statements.

Statement of Financial Position

As at 31 December		2021	2020
	Note	LKR	LKR
Assets			
Cash and cash equivalents	18	3,117,485,469	9,640,915,936
Placements with banks	19	15,108,410,169	2,823,628,452
Financial assets fair value through profit or loss	20	727,786,716	4,600,457,930
Financial assets at amortised cost			
- Loans and receivables to other customers	21	111,891,255,620	102,662,268,716
- Debt and other instruments	22	12,031,301,910	5,244,005,218
Financial assets measured at fair value through other comprehensive income	23	56,938,514	56,938,514
Investment in subsidiary	24	6,163,100	6,163,100
Property, plant and equipment	25	952,103,710	661,694,541
Right of use assets	26	565,476,533	689,646,206
Investment properties	27	19,166,540	20,222,570
Intangible assets	28	338,933,246	395,123,333
Deferred tax assets	16.2	299,448,116	231,672,525
Other assets	29	2,704,446,431	2,026,987,076
Total assets		147,818,916,074	129,059,724,118
Liabilities			
Due to other customers	30	93,902,939,217	93,271,727,185
Other borrowings	31	33,569,838,263	18,090,499,974
Debt securities issued	32	-	1,013,899,072
Subordinated term debts	33	3,752,578,405	4,052,630,214
Retirement benefit obligation	34	571,664,850	571,382,319
Current tax liabilities		293,249,746	274,214,765
Other liabilities	35	1,598,949,062	1,869,194,600
Total liabilities		133,689,219,543	119,143,548,128
Equity			
Stated capital	36	11,287,765,221	7,727,941,021
Statutory reserve fund	37	314,173,025	270,009,116
Retained earnings	38	2,500,152,936	1,890,620,504
Other reserves	39	27,605,349	27,605,349
Total equity		14,129,696,531	9,916,175,990
Total equity and liabilities		147,818,916,074	129,059,724,118
Contingent liabilities and commitments	40	203,139,397	194,553,577

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.

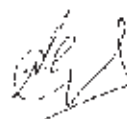
Signed for and on behalf of the Board by:



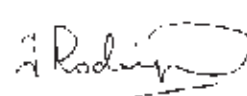
Lakshman Abeysekera
Chairman



Chaaminda Kumarasiri
Director



Niranjan Thangarajah
Acting Chief Executive Officer



Tamarika Rodrigo
Company Secretary

The Accounting Policies and Notes on pages 160 through 241 from an integral part of the Financial Statements.

11 April 2022
Colombo

Statement of Changes In Equity

Year ended 31 December	Stated capital		Reserves			Total equity
	Ordinary voting shares	Statutory reserve fund	Retained earnings	Available for sale reserve/ Fair value through OCI	General reserves	
	LKR	LKR	LKR	LKR	LKR	LKR
Opening balance as at 31 December 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)
Total comprehensive income for the year	-	-	834,951,754	-	-	834,951,754
Transactions with equity holders, recognised directly in equity						
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)	-	-	-
Total transaction with equity holders	1,806,402,895	41,727,392	(435,885,156)	-	-	1,412,245,131
Closing balance as at 31 December 2020	7,727,941,021	270,009,116	1,890,620,504	(19,051,624)	46,656,973	9,916,175,990
Opening balance as at 1 January 2021	7,727,941,021	270,009,116	1,890,620,504	(19,051,624)	46,656,973	9,916,175,990
Profit for the year	-	-	883,278,171	-	-	883,278,171
Other comprehensive income (net of tax)	-	-	26,068,555	-	-	26,068,555
Total comprehensive income for the year	-	-	909,346,726	-	-	909,346,726
Transactions with equity holders, recognised directly in equity						
Share issue	3,559,824,200	-	-	-	-	3,559,824,200
Dividend to equity holders						
Cash dividend - 2020	-	-	(206,046,072)	-	-	(206,046,072)
Transfer to statutory reserve fund	-	44,163,909	(44,163,909)	-	-	-
Other transactions - SPO share issue cost	-	-	(49,761,369)	-	-	(49,761,369)
Other transactions	-	-	157,055	-	-	157,055
	3,559,824,200	44,163,909	(299,814,294)	-	-	3,304,173,814
Closing balance as at 31 December 2021	11,287,765,221	314,173,025	2,500,152,936	(19,051,624)	46,656,973	14,129,696,531

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 share holders, 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 is consist of fair value adjustment made to unquoted equity investment.

The Accounting Policies and Notes on pages 160 through 241 from an integral part of the Financial Statements.

Statement of Cash Flows

Year ended 31 December		2021	2020
	Note	LKR	LKR
Cash flows from /(used in) operating activities			
Interest received		14,761,484,144	13,826,069,617
Fee and commission received		395,622,852	371,105,945
Receipts from other operating activities*		24,959,170	54,907,102
Interest payment		(8,250,076,980)	(9,374,607,193)
Cash payment to employees		(2,486,618,208)	(2,356,032,878)
Payments to suppliers and other operating activities**		(1,784,985,520)	(1,031,027,353)
Fee and commission expenses		(23,327,270)	(14,334,115)
Operating profit before changes in operating assets		2,637,058,188	1,476,081,126
(Increase)/decrease in operating assets			
Funds advanced to customers		(10,042,760,437)	(15,761,587,125)
Net (increase)/ decrease in other short term securities		204,596,351	588,710,505
Net (increase)/ decrease in other assets*		(851,801,460)	(592,843,295)
Increase/(decrease) in operating liabilities			
Deposits from customers		865,404,384	20,724,939,448
Net increase/ (decrease) in other liabilities**		(101,978,235)	(96,060,347)
Net cash from operating activities before taxes		(7,289,481,209)	6,339,240,312
VAT on financial services paid ***		(569,797,396)	(571,027,269)
Income tax paid		(503,497,967)	(582,397,559)
Net cash from operating activities		(8,362,776,572)	5,185,815,484
Cash flows from /(used in) investing activities			
Dividend received	11	7,816,205	320,000
(Increase)/decrease in dealing securities		4,111,748,993	(799,209,693)
(Increase)/decrease in treasury bonds and other investments		(16,411,467,172)	(1,629,228,669)
Proceeds from sale of property, plant and equipment		413,267	8,178,027
Purchase of property, plant and equipment	25	(495,986,096)	(214,731,711)
Purchase of intangible assets	28	(16,916,563)	(153,652,601)
Net cash flow from acquisition of investment in subsidiaries		-	(6,163,100)
Net cash from/(used in) investing activities		(12,804,391,364)	(2,794,487,747)
Cash flows from/(used in) financing activities			
Proceeds from Issuance/allotment of shares		3,510,062,831	1,526,267,201
Dividend paid	38	(206,046,072)	(114,022,069)
Repayment of long term borrowing		(27,091,975,807)	(20,270,734,411)
Interest paid on subordinated debt		(356,089,167)	(455,970,984)
Increase/(decrease) in borrowing		41,654,949,198	18,534,311,975
Funds received/(utilized) during the period		(1,955,584)	42,000
Net cash flow from/(used in) financing activities		17,508,945,399	(780,106,290)
Net increase/(decrease) in cash and cash equivalents		(3,658,222,537)	1,611,221,448
Cash and cash equivalents at the beginning of the year	18.3	12,525,900,129	10,914,678,681
Cash and cash equivalents at the end of the year	18.3	8,867,677,592	12,525,900,129

*Changes in other assets classified under receipts from other operating activities has been reclassified to net (increase)/decrease in other assets and comparative figure in these Financial Statements is amended.

**Changes in other liabilities classified under payments on other operating activities has been reclassified to net increase/(decrease) in other liabilities and comparative figure in these Financial Statements is amended.

*** VAT on FS paid presented under cash flows from operating activities has been reclassified and presented under tax paid and comparative figure in these Financial Statements is amended.

The Accounting Policies and Notes on pages 160 through 241 from 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 Specialized Bank established under the Banking Act No. 30 of 1988 and its amendment there to. 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

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.

1.3 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.

1.4 PARENT ENTITY AND ULTIMATE PARENT ENTITY

The Bank does not have an identifiable parent of its own.

2. BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

The Financial Statements of the Bank which comprise the Statement of Financial Position, Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and 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 and provide appropriate disclosures as required by the Listing Rules of the CSE.

The formats used in the preparation and presentation of the Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the CBSL in the Circular No. 02 of 2019 on “Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks”. The Bank also publish annual and quarterly financial information and other disclosures in the Press and the Website in compliance with Section 4.2 of the aforementioned Circular.

2.2 RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors is responsible for the Financial Statements of the Bank as per Sri Lanka Accounting Standards and the provisions of the Companies Act No. 7 of 2007.

The Board of Directors acknowledges their responsibility

for financial statements as set out in the “Annual Report of the Board of Directors on the Affairs of the Company”, “Statement of Directors’ Responsibility for Financial Reporting” and the certification on the Statement of Financial Position.

2.3 DATE OF AUTHORIZATION OF ISSUE

The financial statements for the year ended 31 December 2021 were authorized for issue in accordance with a resolution of the Directors on 11 April 2022.

2.4 BASIS OF MEASUREMENT

The Financial Statements of the Bank have been prepared on the historical cost basis, except for the following material items in the Statement of Financial Position:

- Financial assets held at fair value through other comprehensive income (FVOCI) are measured at fair value (Note 23)
- Financial assets recognised through profit or loss (FVPL) are measured at fair value (Note 20)
- Liabilities for defined benefit obligations are recognised at the present value of the defined benefit obligation less the fair value of the plan assets (Note 34)

2.5 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 unless otherwise indicated. There was no change in the Bank’s presentation and functional currency during the year under review.

2.6 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. No adjustments have been made for inflationary factors affecting the Financial Statements.

An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the Note 48 to the Financial Statements.

2.7 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.

2.8 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. The details of such reclassifications are presented in Note 49 to the Financial Statements

2.9 STATEMENT OF CASH FLOWS

The Statement of Cash Flows 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, financing activities and investing activities have been recognised. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents include cash in hand, balances with banks, placements with banks (less than 3 months), money at call and short notice, net of unfavourable local bank balances.

2.10 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Financial Statements of the Bank in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Bank are described in the respective notes.

2.11 GOING CONCERN

The Directors have made an assessment of the Bank's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. With the COVID - 19 pandemic continuing for the second consecutive year, it is likely that the uncertainties created by the pandemic will remain for a prolonged period of time. The Directors have considered the potential downsides that the COVID-19 pandemic could bring to the business operations of the Bank, in making this assessment. Furthermore, the Board is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Bank. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.12 IMPAIRMENT LOSSES ON LOANS AND ADVANCES

The measurement of impairment losses under Sri Lanka Accounting Standards - SLFRS 9 (Financial Instruments) across all categories of financial assets requires judgement. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the Statement of Profit or Loss. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. Loans and advances that have been assessed individually and found to be not impaired and all individually insignificant loans and advances are then assessed

Notes to the Financial Statements

collectively, by categorising them into groups of assets with similar risk characteristics, to determine the expected credit loss on such loans and advances.

The expected credit loss (ECL) calculation under SLFRS 9 requires management to make judgments and estimates with regard to the following.

- The Bank's criteria for assessing if there has been a significant increase in credit risk and so impairment for financial assets should be measured on a lifetime ECL basis
- Development of ECL models, including various formulas and the choice of inputs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary. The above assumptions and judgments are discussed in detail under Note 3.2.6 to the Financial Statements.

In response to the ongoing COVID-19 pandemic and the Bank's expectations of economic impacts, key assumptions used in the Bank's calculation of ECL have been revised. The economic scenarios and forward-looking macroeconomic assumptions underpinning the collective provision calculation are outlined in Note 3.2.6.6, while the impact on changing the weightages of different macro-economic scenarios during the year are given in Note 48.2.1. (f). As at the reporting date, the expected impacts of COVID-19 have been captured via the modelled outcome as well as a separate

management overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts of COVID-19. Although the credit model inputs and assumptions, including forward-looking macroeconomic assumptions were revised in response to the COVID-19 pandemic, the fundamental credit model mechanics and methodology underpinning the Bank's calculation of ECL have remained consistent with prior periods.

The Bank continued to extend the moratorium for eligible borrowers as directed by the Central Bank of Sri Lanka during the year 2021. All individually significant customers who were under moratorium for a prolonged period of time have been classified at least under stage 2 on a prudent basis when calculating the impairment provisions. Furthermore, a case-by-case analysis has been conducted on the most significant exposures and have been classified as stage 3 when the circumstances demand so. The exposures which are not individually significant have been moved to stage 2 based on the industry risk of the underlying borrowers.

The additional provisions booked as an allowance for overlay for moratorium loans as at 31st December 2020 were further increased during the year covering both individually significant and other loans and advances. This is over and above the impairment provisions derived from the Bank's impairment model after classifying these loans into stages as per the Bank's classification criteria for moratorium loans.

A breakdown of the loans and advances of the Bank classified under stage 2 is given in Note 48.2.1.(g). Sensitivity of the individually significant loan

impairment to recovery cash flows is given in Note 48.2.1.(c) while sensitivity of collective impairment provision to the staging of the loans and advances is disclosed in Note 48.2.1. (d).

2.13 IMPAIRMENT OF OTHER FINANCIAL ASSETS

The Bank reviews its debt securities classified as FVOCI/amortised cost at each reporting date. Objective evidence that a debt security held at FVOCI/ amortised cost is impaired/having an increased credit risk includes, among other things, significant financial difficulty of the issuer, a breach of contract such as a default or delinquency in interest or principal payments etc. Management judgement has been involved in determining whether there is significant increase in credit risk of these instruments or these instruments are impaired as at the reporting date.

Equity instruments classified as FVOCI are not subjective for impairment assessment.

2.14 FAIR VALUE OF FINANCIAL INSTRUMENTS

The determination of fair values of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The valuation of financial instruments is described in more detail in Note 3.2.10.

The Bank measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is given in Note 45.

2.15 FINANCIAL ASSETS AND LIABILITIES CLASSIFICATION

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 44, 'Analysis of Financial Instruments by Measurement Basis'. COVID-19 pandemic has resulted in significant volatility in the financial markets. However, the Bank did not require to reclassify any of its financial assets during the years ended 31st December 2021 and 2020 as a result of the significant volatility created by the pandemic.

2.16 TAXATION

The Bank is subject to income tax and judgment is 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 applicable tax laws, at the time of preparation of these Financial Statements.

The details of deferred tax computation is given in Note 16 to the Financial Statements.

2.17 DEFINED BENEFIT PLANS

The cost of the defined benefit plans and the present value of their obligations are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and possible future pension increases if any. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka government bonds with maturities corresponding to the

expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rate and expected future salary increase rates of the Bank.

2.18 PROPERTY, PLANT AND EQUIPMENT

The Bank applies 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.

2.19 USEFUL LIFETIME OF THE PROPERTY, PLANT AND EQUIPMENT

The Bank reviews the residual values, useful lives and methods of depreciation of property, plant and equipment 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.

2.20 COMMITMENTS AND CONTINGENCIES

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote. Details of commitments and contingencies are given in Note 40.

2.21 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.

2.22 SLFRS 16 – LEASES

The Bank uses its judgment to determine whether an operating lease contract qualifies for recognition of right-of-use assets. It also uses judgement in the determination of the discount rate in the calculation of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. As the Bank cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate to measure the lease liability. The incremental borrowing rate is the rate of interest that the Bank would have to pay, to borrow an amount similar to the value of the lease asset, over a similar term and with similar security in similar economic environment. Further, the Bank applies judgement in evaluating whether it is reasonably certain to renew or terminate the lease at the end of the lease term. That is, it considers all relevant factors that create an economic benefit for it to exercise, either the renewal or termination option.

Notes to the Financial Statements

3. GENERAL ACCOUNTING POLICIES

3.1 FOREIGN CURRENCY

TRANSACTIONS AND BALANCES

All foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions were affected.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Sri Lankan Rupees using the spot foreign exchange rate ruling at that date and all differences arising on non-trading activities are taken to 'Other operating income' in the Statement of Profit or Loss. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the rate of exchange prevailing at the end of the reporting period.

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items in foreign currency measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange differences arising on the settlement or reporting of monetary items at rates different from those which were initially recorded are dealt with in the Statement of Profit or Loss. However, foreign currency differences arising on equity instruments classified as fair value through other comprehensive income, financial liabilities designated as a hedge of a net investment in a foreign operation,

or qualifying cash flow hedges are recognised in other comprehensive income.

3.2 FINANCIAL INSTRUMENTS - INITIAL RECOGNITION, CLASSIFICATION AND SUBSEQUENT MEASUREMENT

3.2.1 DATE OF RECOGNITION

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 depositors when funds are transferred to the Bank.

3.2.2 INITIAL MEASUREMENT OF FINANCIAL INSTRUMENTS

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 3.2.3.1(a) and 3.2.3.1 (b). Financial instruments are initially measured at their fair value.

Except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

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.

3.2.2.1 '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 recognises the difference between the transaction price and fair value ('Day 1' profit or loss) in the Statement of Profit or Loss over the tenor of the financial instrument using the effective interest rate method. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Statement of Profit or Loss when the inputs become observable, or when the instrument is derecognised.

The "Day 1 loss" arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) in "Interest income" and "Personnel expenses" over the remaining service period of the employees or tenure of the loan whichever is shorter.

3.2.3 MEASUREMENT CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost, as explained in Note 3.2.3.1
- FVOCI as explained in Notes 3.2.3.5 and 3.2.3.6
- FVPL

The Bank classifies and measures its derivative and trading portfolio

at FVPL as explained in Notes 3.2.3.2 and 3.2.3.3. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 3.2.3.4.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, derivative instruments or the fair value designation is applied, as explained in Notes 3.2.3.2, 3.2.3.3, 3.2.3.4 and 3.2.3.7.

3.2.3.1 LOANS AND ADVANCES TO CUSTOMERS, DEBT AND OTHER SECURITIES, REVERSE REPURCHASE AGREEMENTS

The Bank only measures loans and advances to customers, debt and other securities and reverse repurchase agreements at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective of collecting contractual cash flows
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

3.2.3.1 (A) BUSINESS MODEL ASSESSMENT

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher

level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

3.2.3.1 (B) THE SPPI TEST

As a second step of its classification process the Bank assesses the contractual terms of financial instruments to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if

there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

3.2.3.2 DERIVATIVES RECORDED AT FAIR VALUE THROUGH PROFIT OR LOSS

A derivative is a financial instrument or other contract with all three of the following characteristics:

Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e. the 'underlying').

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

Notes to the Financial Statements

The Bank does not have any derivative instruments as at reporting date.

3.2.3.2 (A) EMBEDDED DERIVATIVES

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way, similar to a stand-alone derivative.

An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a nonfinancial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Derivatives embedded in liabilities and non-financial host contracts, are treated as separate derivatives and recorded at fair value if they meet the definition of a derivative (as defined above), their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the income statement. Derivatives embedded in financial assets are no longer separated. Instead, they are classified based on the business model and SPPI assessments as outlined in Notes 3.2.3.1 (a) and 3.2.3.1 (b).

3.2.3.3 FINANCIAL ASSETS OR FINANCIAL LIABILITIES HELD FOR TRADING

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest income from financial assets held for trading is recorded under net interest income while dividend income is recorded in net trading income when the right to payment has been established. Included in this classification are debt securities and equity investments that have been acquired principally for the purpose of selling or repurchasing in the near term. The Bank does not have any financial liabilities classified as held for trading as at 31st December 2021.

3.2.3.4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under SLFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that

would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis

Or

- The liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

Or

- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit or loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the "Own credit reserve" through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being integral parts of the instrument.

3.2.3.5 DEBT INSTRUMENTS AT FVOCI

The Bank applies this category for debt instruments when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

These instruments largely comprise government securities.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

The ECL calculation for debt instruments at FVOCI is explained in Note 3.2.6.5. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

3.2.3.6 EQUITY INSTRUMENTS AT FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments at FVOCI when they meet the definition of equity under Sri Lanka Accounting Standard - LKAS 32 (Financial Instruments: Presentation) and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the

payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

3.2.3.7 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS, DUE TO BANKS, DUE TO DEPOSITORS, OTHER BORROWERS AND DEBT SECURITIES HOLDERS

After initial measurement, securities sold under repurchase agreements, due to banks, due to depositors, due to other borrowers and due to debt securities holders are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue of funds and costs that are an integral part of the EIR. The Bank does not have compound financial instruments which contains both liability and equity components and require separation as at the date of the issue.

3.2.4 RECLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank may acquire, dispose of, or terminates a business line (change in business model). When the Bank reclassifies its financial assets it applies the reclassification prospectively from the reclassification date without restating any previously recognised gains, losses (including impairment gains or losses) or interest. Financial liabilities are never reclassified.

When a financial asset is reclassified out of the amortised cost measurement category and into the fair value through profit or loss measurement category,

its fair value is measured at the reclassification date. Any gain or loss arising from the difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss.

When a financial asset is reclassified out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

When a financial asset is reclassified out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from the difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

When a financial asset is reclassified out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

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When a financial asset is reclassified out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

When a financial asset is reclassified out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

The Bank did not reclassify any of its financial assets in 2021.

3.2.5 DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

3.2.5.1 DERECOGNITION DUE TO SUBSTANTIAL MODIFICATION OF TERMS AND CONDITIONS

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as stage 1 for ECL measurement purposes, unless the new loan is deemed to be credit impaired at the date of inception.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature

- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

3.2.5.2 DERECOGNITION OTHER THAN FOR SUBSTANTIAL MODIFICATION

3.2.5.2 (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 financial 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 contractual rights to receive cash flows from the financial 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

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but

assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset

Or

- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which 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 the Bank could be required to pay.

3.2.5.2 (B) FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a 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.

3.2.6 IMPAIRMENT ALLOWANCE FOR FINANCIAL ASSETS

3.2.6.1 OVERVIEW OF THE ECL PRINCIPLES

The Bank has been recording impairment (expected credit losses) for all loans, debt & other financial instruments not held at FVPL. Equity instruments are not subject to impairment under SLFRS 9.

The ECL impairment is based on the credit losses expected to arise over

the life of the asset [the lifetime expected credit loss or (LTECL)], when there is a significant increase in credit risk since origination. In all other instances, the impairment is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 3.2.6.1(b).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The policy for grouping financial assets measured on a collective basis is explained in Note 3.2.6.4. The details of individual assessment of ECLs are given in Note 3.2.6.3.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 3.2.6.1 (b). Based on the above process, the Bank categorises its loans into 'stage 1', 'stage 2', 'stage 3' and 'originated credit impaired', as described below:

- Stage 1: When loans are first recognised, the Bank recognises an impairment based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from stage 2.

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an impairment for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from stage 3.
- Stage 3: Loans considered credit-impaired [as outlined in Note 3.2.6.1 (a)]. The Bank records an impairment for the LTECLs.
- Originated credit impaired: Originated credit impaired assets are financial assets that are credit impaired on initial recognition. They are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. The Bank did not have originated credit impaired loans as at 31st December 2021 and 2020.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

3.2.6.1 (A) DEFINITION OF DEFAULT AND CURE

The Bank considers a financial instrument as defaulted and therefore stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether an

Notes to the Financial Statements

individually significant 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 include:

- Reasonable and supportable forecasts of future economic conditions show a direct negative impact on the performance of a customer/ group of customers
- A significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/ group of customers
- The value of collateral is significantly reduced and/ or reliability of collateral is doubtful
- The borrower is subject to litigation that significantly affects the performance of the credit facility

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 material default criteria have been presented and the borrower is no longer considered as non-performing in accordance with the Directives of the Central Bank.

Once cured, the decision whether to classify an asset as stage 2 or stage 1 largely depends on the days past due, at the time of the cure. The corresponding reduction in ECL is recognised under "Impairment charge/reversal" in Note 12 to the financial statements.

The Bank's criterion for 'cure' for rescheduled/restructured loans is more stringent than ordinary loans and is explained in Note 3.2.6.10.

3.2.6.1 (B) 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 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have a significantly increased credit risk when it is past due for more than 30 days.

The Bank also applies secondary qualitative methods for triggering a significant increase in credit risk, such as restructuring of an asset while the asset is less than 30 days past due. Further, rescheduled loans will remain in stage 2 for at least one year from the date of Rechedulment even if such loans become less than 30 days past due. In certain cases, the Bank may also consider that events explained in Note 3.2.6.1 (a) are significant increase in credit risk as opposed to a default, for customers who are considered as individually significant.

Since March 2020, The Bank is focused on supporting customers who are experiencing financial difficulties because of the COVID-19 pandemic and has offered a range of industry-wide financial assistance measures including the debt moratorium initiated by the Central Bank of Sri Lanka. All individually significant customers who were under moratorium for a prolonged period of time have been classified at least under Stage 2 or move to next bucket on a prudent basis when calculating the impairment provisions. Furthermore, a case-by-case analysis has been conducted

on the most significant exposures and have been classified as stage 2 or stage 3 when the circumstances demand so. The exposures which are not individually significant have been moved to stage 2 or next bucket based on the industry risk of the underlying borrowers. The Bank has identified industries such as tourism, imports businesses, construction (including condominiums), agriculture including agri-chemicals, transport and storing, personal other consumption needs, etc. as industries carrying an increased credit risk. Accordingly, exposures outstanding from the borrowers operating in these industries have been classified as stage 2. An analysis of the loans classified under stage 2 is given in Note 48.

3.2.6.2 THE CALCULATION OF ECL

The Bank calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfall (the base case, best case and the worst case), discounted at an approximation to the EIR. Each of these is associated with different loss rates. The assessment of multiple scenarios incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

Key elements of the ECL calculations are outlined below:

- 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. The concept of PD is further explained in Note 3.2.6.4(a).

- 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 principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 3.2.6.4(b).
- 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 lender would expect to receive, including the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 3.2.6.4(c).

3.2.6.3 CALCULATION OF ECLS FOR INDIVIDUALLY SIGNIFICANT LOANS

The Bank first assesses ECLs individually for financial assets that are individually significant to the Bank. In the event the Bank determines that such assets are not impaired, moves in to a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. However, assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The criteria used to determine whether individually significant customer is in default is discussed in Note 3.2.6.1 (a).

If the asset is impaired, the amount of the loss is measured by discounting the expected future cash flows of a financial asset at

its original effective interest rate and comparing the resultant present value with the financial asset's current carrying amount. In determining the expected future cash flows, the Bank takes in to account the base case, the best case and the worst case scenarios considering various modes of settlement of the impaired credit facilities. The impairment on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment is only released when there is reasonable and objective evidence of a reduction in the established loss estimate. Interest on impaired assets continues to be recognised through the unwinding of the discount.

When ECLs are determined for individually significant financial assets, following factors are considered:

- Aggregate exposure to the customer including any undrawn exposures;
- The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flows to service debt obligations;
- The amount and timing of expected receipts and recoveries;
- The realisable value of security (or other credit mitigants) and likelihood of successful repossession;

3.2.6.4 GROUPING FINANCIAL ASSETS MEASURED ON A COLLECTIVE BASIS

The Bank calculates ECLs either on a collective or an individual basis. Asset classes where the Bank calculates ECL on an individual basis include:

- All customers whose exposure is more than or equal to the internal threshold for classifying them as individually significant. However, if the customer is determined to be not impaired such customers are moved back to collective ECL calculation.
- The treasury, trading and interbank relationships (such as Due from banks, debt and other instruments at amortised cost/ FVOCI)

For all other asset classes, the Bank calculates ECL on a collective basis. The Bank categorises these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, as described below:

- Product type
- Type of collateral

3.2.6.4 (A) PD ESTIMATION PROCESS

PD estimation for loans and advances under SLFRS 9 is largely based on the Days Past Due (DPD) of the customers which is common for most banks in the country at present.

Accordingly, exposures are categorised among 5 groups based on the DPD as follows.

- Zero days past due
- 1 - 30 days past due
- 31 - 60 days past due
- 61 - 90 days past due
- Above 90 days past due

Notes to the Financial Statements

The movement of the customers into adverse DPD categories are tracked at each account level over the periods and it is used to estimate the amount of loans that will eventually be written off.

However, for loans granted to banks, debt and other financial instruments classified as amortised cost/FVOCI, the Bank relies on external credit ratings in determining their respective PDs. Due to limited stage movements in loan portfolios under moratorium schemes, the Bank has used additional assessments of SICR as explained in Note 3.2.6.1(b) to build an allowance for overlay to better reflect the portfolio position.

3.2.6.4 (B) EXPOSURE AT DEFAULT

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a stage 1 loan, the Bank assesses the possible default events within 12 months. However, if a stage 1 loan that is expected to default within the 12 months from the balance sheet date is also expected to cure and subsequently default again, then all linked default events are considered. For stage 2 and stage 3 financial assets and credit impaired financial assets at origination, events over the lifetime of the instruments are considered. The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The SLFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

3.2.6.4 (C) LOSS GIVEN DEFAULT

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.

For financial investments other than loans and advances, the Bank uses the LGD rates specified by the regulator in the Basel III guidelines when calculating the ECL as per SLFRS 9.

3.2.6.5 DEBT INSTRUMENTS MEASURED AT FVOCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the impairment that would arise if the assets were measured at amortised cost is recognised in

OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

3.2.6.6 FORWARD LOOKING INFORMATION

The COVID-19 pandemic has significantly impacted the local and global economies. The economic environment remains uncertain and future impairment charges may be impacted depending on the longevity of the pandemic and related containment measures.

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs. The inputs and models used for calculating ECLs may not always capture all characteristics of the market as at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

In 2021, the Bank assessed the values of the key macro-economic variables in the impairment calculation model including the GDP growth rate, unemployment rate, interest rate, exchange rate etc. These values have been determined based on the most recent forecasts available as at the date of the calculation.

To reflect these uncertainties in the calculation of expected credit losses, the Bank also revisited the weightages assigned for multiple economic scenarios during the year. Weightages assigned for each scenario is given below along with the weightages used in 2020.

	Base case	Best case	Worst case
2020	30%	30%	40%
2021	30%	30%	40%

To ensure completeness and accuracy, the Bank obtains the above data primarily from the Central Bank of Sri Lanka (CBSL). Other third party sources such as World Bank and International Monetary Fund etc is also used when CBSL data is not available.

3.2.6.7 COLLATERAL VALUATION

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible.

The collateral comes in various forms, such as cash, securities, guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and to fall in line with the CBSL directives.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuation specialists.

3.2.6.8 COLLATERAL REPOSSESSED

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to the relevant asset category at the lower of the repossessed value or the carrying value of the original secured asset. The Bank did not transfer any repossessed assets to its property, plant and equipment during the years ended 31st December 2021 and 2020.

3.2.6.9 WRITE-OFFS

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. For individual customers, the Bank has a policy of writing off the gross carrying amount when the financial asset is past due for many years, based on historical experience of recoveries of similar assets.

If the amount to be written off is greater than the accumulated impairment, the difference is first treated as an addition to the impairment that is then applied against the gross carrying amount. Any subsequent recoveries are credited to the statement of profit or loss.

3.2.6.10 RESCHEDULED AND RESTRUCTURED LOANS

The Bank sometimes makes concessions or modifications to the original terms of loans in response to the borrower's financial difficulties, rather than taking possession of the collateral. The Bank considers a loan as rescheduled/restructured, when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit and Risk Departments. Reschedulement/restructure may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor rescheduled/ restructured loans to ensure that future payments are likely to occur.

When the Bank reschedule/restructure a loan facility of a customer, the entire portfolio of the customer is classified as minimum stage 2 at the modification date. The Bank also considers whether such assets should be classified as stage 3. Rescheduled customers will remain in stage 3/stage 2 for at least one year even the rescheduled loan facility becomes a performing loan in terms of CBSL Directives. Restructured loans are upgraded to stage 1 by the Bank's Risk Department based on their independent evaluation of the customers. If the upgraded rescheduled/restructured loans become past due (for more than 30 days) on a later date, loss allowance reverts to being measured at an amount equal to life time expected credit losses. Details of restructured/rescheduled loans are disclosed in Note 48.2.1 (i). If modifications are substantial, the loan is derecognised, as explained in Note 3.2.5.1.

3.2.6.11 RELIEF MEASURES TO ASSIST COVID-19 AFFECTED BUSINESSES AND INDIVIDUALS BY CBSL

Central Bank of Sri Lanka provided financial assistance to disrupted industry sectors and the affected businesses/individuals in the form of a debt moratorium through licensed banks/financial institutions, since the inception of the pandemic. The Bank actively involved in providing assistance to affected customers under these moratorium schemes. Accordingly, moratorium was extended for the customers who continued to experience cash flow difficulties during the year 2021. As per the 4th wave of the CBSL moratorium, capital and interest repayments were deferred until 30th June 2022 for the eligible borrowers in the tourism sector while for the other borrowers, capital and interest repayments were deferred until 31st December 2021. The Bank

Notes to the Financial Statements

concluded that these modifications were not substantial to derecognise the original loans and therefore it continued to recognise the original loans in its financial statements. The Bank continued to recognise interest at the rate of one-year treasury bill rate + 1% on the deferred capital during the period of deferment. Accordingly, the Bank did not require to recognise any modification losses during the year.

However, when calculating the expected credit losses, the Bank classified all individually significant customers who were under moratorium for a prolonged period of time under stage 2 or move to next bucket on a prudent basis. Furthermore, a case-by-case analysis has been conducted on the most significant exposures and have been classified as stage 2 or stage 3 when the circumstances demand so. Further, an additional provision has been recognised in the Financial Statements as at 31st December 2021 as an allowance for overlay on account of all customers eligible for the 4th phase of the CBSL moratorium, assuming some of these customers would subsequently move to next bucket and stage 2 upon completion of the moratorium. This is over and above the impairment provisions derived from the Bank's impairment model after classifying these loans into stages as per the Bank's classification criteria for moratorium loans.

3.2.7 OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position only when the Bank has a legal right to set-off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on

a net basis only when permitted under LKASs/SLFRSs or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

3.2.8 HEDGE ACCOUNTING

The Bank designates certain derivatives as either:

- Hedges of fair value of recognised assets, liabilities or firm commitments (fair value hedge);
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge); or
- Hedges of net investments in foreign operations (net investment hedges)

Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Bank documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Bank did not designate any derivative as a hedging instrument during the years ended 31st December 2021 and 2020.

3.2.9 AMORTISED COST MEASUREMENT

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition,

minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.2.10 FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument (Level 01 valuation). A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability (Level 01 valuation) nor based on a valuation technique that uses only data

from observable markets (Level 02 valuation), then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

A fair value measurement of a nonfinancial asset considers 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 recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.3 LEASES

At inception of a contract, the Bank assesses whether the contract is, or contains a lease. A contract is,

or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank considers whether:

- The contract involves the use of an identified asset. This may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Bank has right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- The Bank has right to direct the use of the asset. The Bank has this right when it has the decision making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either;
- The Bank has the right to operate the asset;

or

- The Bank designed the asset in a way that predetermines how and for what purpose it will be used.

3.3.1 BANK AS THE LESSEE

The Bank recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease

liability adjusted for any lease payments made on or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying assets or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use asset is subsequently depreciated using straight line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The estimated useful lives of right of use assets are determined based on the tenor of rent agreements.

In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Banks' incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments such as Bank changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

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The Bank presents right of use assets under Note 26 to the financial statements while the corresponding lease liability is presented in Note 35, 'Other Liabilities'.

3.3.2 SHORT TERM LEASES AND LEASES OF LOW VALUE ASSETS

The Bank has elected not to recognise right-of-use assets and lease liabilities for short term leases (that have a lease term of 12 months or less) and leases of low value assets. The Bank recognises lease payments associated with these leases as an expense on a straight line basis over the lease term.

3.3.3 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. If this is the case, then the lease is a finance lease. If not it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the assets.

When the Bank is the lessor under a finance lease contract, the amounts due under the leases, after deduction of unearned interest income, are included in Note 21, 'Loans and advances'. Interest income receivable is recognised in 'Net interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

The Bank recognises lease payments received under operating leases as income on a straight line basis over the lease term as part of other income.

3.4 FIDUCIARY ASSETS

The Bank provides fiduciary services that result in the holding of assets on behalf of its customers. Assets held in fiduciary capacity are not reported in the Financial Statements, as they are not assets of the Bank.

3.5 PROVISIONS

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking in to account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured as the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract. The expense relating to any provision is presented in the Statement of Profit or Loss net of any reimbursement.

3.6 OPERATIONAL RISK EVENTS

Provisions for operational risk events are recognised for losses incurred by the Bank which do not

relate directly to the amounts of principal outstanding for loans and advances. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

3.7 IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3.8 OTHER TAXES

3.8.1 VALUE ADDED TAX (VAT)

VAT on financial services is calculated in accordance with Value Added Tax (VAT) Act No. 14 of 2002 and subsequent amendments thereto. The base for the computation of value added tax on financial services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits, non-cash benefits & provisions relating to terminal benefits.

3.9 REGULATORY PROVISIONS**3.9.1 DEPOSIT INSURANCE AND LIQUIDITY SUPPORT SCHEME**

All Licensed Commercial Banks were required to insure their deposit liabilities in the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" in terms of the Banking Act Direction No. 5 of 2010, issued on 27th September 2010. This was subsequently replaced by the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulations No. 2 of 2021, dated 06th August 2021. The Bank's total capital ratio as at 31st December 2020 did not exceed 14% and accordingly the Bank paid a premium of 0.125% of the eligible deposits as deposit insurance premium, during the year ended 31st December 2021.

3.9.2 CROP INSURANCE LEVY

In terms of the Finance Act No. 12 of 2013, all institutions under the purview of Banking Act No. 30 of 1988, Finance Business Act No. 42 of 2011 and Regulation of Insurance Industry Act No. 43 of 2000 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund effective from 1st April 2013.

4. NEW ACCOUNTING STANDARDS ISSUED DURING THE YEAR/CHANGES TO ALREADY EXISTING ACCOUNTING STANDARDS, BUT NOT EFFECTIVE AS OF 31ST DECEMBER 2021

The Bank has consistently applied the Accounting Policies as set out in Notes to all periods presented in these Financial Statements. Further, the Bank has not early adopted any other accounting standard, interpretation or amendment that has been issued but not effective.

4.1 AMENDMENTS TO SLFRS 16 LEASES: COVID-19-RELATED RENT CONCESSIONS BEYOND JUNE 30, 2021

On December 4, 2020 CA Sri Lanka issued COVID-19-Related Rent Concessions amendment to SLFRS 16 Leases. The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under SLFRS 16, if the change was not a lease modification. The amendment was intended to apply until June 30, 2021 but as the impact of the COVID-19 pandemic is continuing, on June 28, 2021, CA Sri Lanka extended the period of application of the practical expedient upto June 30, 2022. The amendment applies to annual reporting periods beginning on or after April 01, 2021. However, the amendments to Sri Lanka Accounting Standard - SLFRS 16 (Leases): COVID-19 Related Rent Concessions, did not have a material impact on the Financial Statements of the Bank.

4.2 AMENDMENTS TO SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 AND SLFRS 16 - INTEREST RATE BENCHMARK REFORM (PHASE 1 & 2) - ("IBOR REFORM")

Working Groups in different jurisdictions have recommended robust, alternative Risk-free rates (RFRs) to transition away from existing interbank offered rates (IBORs). The RFR benchmarks are overnight whereas current use of IBOR is largely in term rates.

IBOR REFORMS PHASE 1

On January 15, 2021 CA Sri Lanka issued amendments to SLFRS 9, LKAS 39 and SLFRS 7 due to IBOR reform (Phase 1). A summary of Phase 1 amendments are as follows: Highly Probable Requirement: According to SLFRS 9 and LKAS 39, when a forecast transaction is designated as a hedged item, that transaction must be highly probable to occur. By the Phase 1 amendments, when determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

- Prospective assessments: A hedging relationship qualifies for hedge accounting only if there is an economic relationship between the hedged item and the hedging instrument (described in SLFRS 9) or the hedge is expected to be highly effective in achieving off-setting (described in LKAS 39). An entity must demonstrate such prospective assessments on a regular basis. By the Phase 1 amendments, when performing prospective assessments, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the IBOR reform.
- LKAS 39 retrospective assessment: To apply hedge accounting under LKAS 39, an entity must demonstrate that the actual results of the hedge are within a range of 80% - 125%. This requirement is commonly known as the 'LKAS 39 retrospective assessment'. By the Phase 1 amendments, an entity is not required to undertake the LKAS

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39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other LKAS 39 hedge accounting requirements, including the prospective assessment.

- Separately identifiable risk components: While there are some differences between SLFRS 9 and LKAS 39 regarding designation of risk components, both Standards require a risk component (or a portion) to be separately identifiable to be eligible for hedge accounting. An entity may designate an item in its entirety or a component of an item as a hedged item in a hedging relationship. SLFRS 9 and LKAS 39 require the component to be separately identifiable to qualify as a hedged item. By the Phase 1 amendments, for hedges of non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

BOR REFORM PHASE 2

In addition to Phase 1 amendments, CA Sri Lanka also issued amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 due to IBOR Reform. The Phase 2 amendments provide temporary reliefs which address the financial reporting effects when an IBOR is replaced with an alternative RFR. The amendments include the following practical expedients.

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The effective date of both IBOR reform Phase 1 and Phase 2 amendments is for annual reporting periods beginning on or after January 01, 2021 in the Sri Lankan context.

However, the regulatory authorities and public and private sector working groups in several jurisdictions have been discussing the alternatives to IBORs but there is still uncertainty over when these alternative rates will be available and how the reforms will impact specific financial products and services.

5. ACCOUNTING STANDARDS/ CBSL DIRECTIVES ISSUED BUT NOT YET EFFECTIVE AS AT 31ST DECEMBER 2021

5.1 ACCOUNTING STANDARDS ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

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 1st January 2022/2023.

Accounting Standard	Description	Effective Date	Assessment of the Impact on the Bank
Sri Lanka Accounting Standard - SLFRS 17 (Insurance Contracts)	SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace SLFRS 4 (Insurance Contracts).	1st January 2023	
SLFRS 3 - Business Combinations	The amendment intends to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.	1st January 2022	No material impact on the Financial Statements of the Bank
LKAS 37 - Provisions, Contingent Liabilities and Contingent Assets	Amendment specifies the costs that an entity needs to include when assessing whether a contract is onerous or loss-making.	1st January 2022	
LKAS 16 - Property, Plant and Equipment	Amendment prohibits entities from deducting any proceeds from selling items produced, while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management, from the cost of an item of property, plant and equipment.	1st January 2022	

5.2 BANKING ACT DIRECTIONS ISSUED BY THE CENTRAL BANK OF SRI LANKA

The Central Bank of Sri Lanka issued the Banking Act Direction No. 13 of 2021 (Classification, recognition and measurement of credit facilities in Licensed Banks) and Banking Act Direction No. 14 of 2021 (Classification, recognition and measurement of Financial

Assets other than credit facilities in Licensed Banks) with the intention of harmonizing regulatory reporting framework with the Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments) and establishing consistent and prudent practices in the banking industry. These Directives are effective from 1st January 2022.

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6. GROSS INCOME

ACCOUNTING POLICY

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. Specific recognition criteria that must be met before recognising revenue is discussed under Note 7 - Net Interest Income, Note 8 - Fee and Commission Income, Note 9 - Net Gain/(Loss) from Trading, Note 10 -Net Fair Value Gain/(Loss) from Financial Assets at Fair Value through Profit or Loss and Note 11 -Net Other Operating Income.

		2021	2020
	Note	LKR	LKR
Interest income	7	14,792,068,260	15,442,002,803
Fee and commission income	8	413,674,505	390,619,231
Net Gain/(Loss) from Trading	9	4,143,851	5,228,460
Net Fair Value Gain/(Loss) from Financial Assets at Fair Value through Profit or Loss	10	234,933,928	268,709,636
Net Other Operating Income	11	32,775,375	55,227,102
		15,477,595,919	16,161,787,232

7. NET INTEREST INCOME

ACCOUNTING POLICY

Recognition of Interest Income

The Bank recognises interest income for all financial instruments measured at amortised cost, interest-bearing financial assets measured at FVOCI and FVPL using the effective interest rate (EIR) method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the Statement of Financial Position with an increase or reduction in interest income. The adjustment is subsequently amortised through interest and similar income in the Income Statement.

When a financial asset becomes credit-impaired (as set out in Note 3.2.6.1) and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

	2021	2020
	LKR	LKR
Interest income		
Cash and cash equivalents	353,266,188	231,274,070
Placements with banks	388,596,398	307,023,206
Financial assets at amortised cost:		
-Loans and receivables to other customers	13,601,107,574	14,485,392,470
-Debt and other instruments	438,243,852	410,448,333
Financial assets - fair value through profit or loss	10,854,248	7,864,724
Total interest income	14,792,068,260	15,442,002,803
Interest expenses		
Financial liabilities at amortised cost:		
-Due to other customers	6,037,659,774	6,945,937,783
-Due to debt securities holders	-	98,141,850
-Other borrowers	1,586,497,396	1,730,533,552
-Subordinated term debt	364,958,782	469,159,865
-Finance cost of lease liability	29,303,429	70,803,354
Total interest expenses	8,018,419,381	9,314,576,405
Net interest income	6,773,648,879	6,127,426,398
7.1 Net interest income from Sri Lanka Government securities		
Net interest income from Sri Lanka Government securities	422,102,364	381,193,368
	422,102,364	381,193,368

8. NET FEE AND COMMISSION INCOME

ACCOUNTING POLICY

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 professional fees, trade service fees, commission income and asset management fees etc. 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 effective interest rate of 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.

Other Fee and Commission Expense

Other fee and commission expense relate mainly to transactions and services fees which are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

Notes to the Financial Statements

	2021	2020
	LKR	LKR
Fee and commission income	413,674,505	390,619,231
Fee and commission expenses	(23,327,270)	(14,334,115)
Net fee and commission income	390,347,235	376,285,116

8.1 NET FEE AND COMMISSION EARNED FROM

	2021	2020
	LKR	LKR
Loans	206,889,270	194,798,290
Deposits	1,579,818	1,897,389
Guarantees	1,179,123	1,284,435
Commission earned from insurance	82,006,283	86,849,822
Commission earned from ATM	57,995,068	30,724,671
Others	40,697,673	60,730,510
Net fee and commission income	390,347,235	376,285,116

9. NET GAIN/(LOSS) FROM TRADING

ACCOUNTING POLICY

Net gain/(loss) from trading includes all the capital gain/(loss) from financial assets measured at fair value through profit or loss.

	2021	2020
	LKR	LKR
Equity securities	3,154,695	(97,180)
Sri Lanka Government securities - Treasury bills and treasury bonds	989,156	5,325,640
	4,143,851	5,228,460

10. NET FAIR VALUE GAIN/(LOSS) FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

ACCOUNTING POLICY

Net fair value gain/(loss) from financial assets measured at fair value through profit or loss includes all the gains and losses from changes in fair value from financial assets measured at fair value through profit or loss.

	2021	2020
	LKR	LKR
Sri Lanka Government securities - Treasury bills and treasury bonds	(199,254)	12,304
Unit trust	236,201,322	268,514,699
Quoted Equities	(1,068,140)	182,633
Total	234,933,928	268,709,636

11. NET OTHER OPERATING INCOME**ACCOUNTING POLICY**

Income earned on other sources, which are not directly related to the normal operations of the Bank are recognised as other operating income, such as gains on disposal of property, plant and equipment, dividend income and foreign exchange gains/(losses).

Gains/(losses) arising from disposal of property, plant and equipment are recorded after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

Dividend income from investments in quoted and non quoted shares are recognised when the Bank's right to receive the payment is established.

Foreign exchange gain/(loss) includes gain/(loss) arising from revaluation of foreign currency assets/ liabilities.

	2021	2020
	LKR	LKR
Gain on sale of property, plant and equipment	285,630	1,580,852
Dividend income	7,816,205	320,000
Other income*	24,673,540	53,326,251
Other operating income	32,775,375	55,227,102

*Other income classified under account maintenance fee has been reclassified to other income and comparative figure in these Financial Statement is amended.

12. IMPAIRMENT FOR LOANS AND OTHER LOSSES**ACCOUNTING POLICY**

The accounting policies adopted in determining the impairment allowance for financial assets including loans and advances are given in Note 3.2.6 to the Financial Statements.

12.1 BALANCES WITH BANKS

	2021	2020
	LKR	LKR
Stage 1	(3,424,250)	4,535,663
Total	(3,424,250)	4,535,663

Notes to the Financial Statements

12.2 PLACEMENTS WITH BANKS

	2021	2020
	LKR	LKR
Stage 1	384,565	(2,453,603)
Total	384,565	(2,453,603)

12.3 FINANCIAL ASSETS AT AMORISED COST - LOANS AND RECEIVABLES TO CUSTOMERS

	2021	2020
	LKR	LKR
Stage 1	22,453,866	111,825,493
Stage 2	314,674,950	(9,875,249)
Stage 3	309,689,723	313,598,341
Total	646,818,539	415,548,585

12.4 DEBT AND OTHER INSTRUMENTS

	2021	2020
	LKR	LKR
Stage 1	(70,362)	(592,140)
Total	(70,362)	(592,140)
Total	643,708,493	417,038,505

12.5 IMPACT OF COVID-19 AND THE MEASUREMENT OF EXPECTED CREDIT LOSSES

The Bank evaluated the long term impact of COVID -19 on the economy when calculating the impairment provisions as at 31st December 2021. Accordingly, as mentioned in Note 3.2.6.1 (b), all individually significant unimpaired customers who were under moratorium for a prolonged period of time have been classified at least under stage 2 or move to then next bucket on a prudent basis. The exposures which are not individually significant have been moved to stage 2 based on the industry risk of the underlying borrowers. The Bank has identified industries such as tourism, imports businesses, construction (including condominiums), agriculture including agri-chemicals, transport and storing, personal other consumption needs etc. as industries carrying an increased credit risk.

Further, as explained in Note 3.2.6.11 an additional provision has been recognised in the Financial Statements as at 31st December 2021 as an allowance for overlay on account of all customers eligible for the 4th phase of the CBSL moratorium, assuming some of these customers would subsequently move to stage 2 or next bucket upon completion of the moratorium. This is over and above the impairment provisions derived from the Bank's impairment model, after classifying these loans into stages as per the Group's classification criteria for moratorium loans.

To reflect the pandemic related uncertainties in the calculation of expected credit losses, the Bank also revisited the weightages assigned for multiple economic scenarios during the year. This has further explained in Note 3.2.6.6 while the impact of changing the probability weightages are disclosed in Note 48.2.1 (e).

The Bank carefully evaluated its individually significant customers in the light of the pandemic and where necessary cash flows have been extended considering the possible delays in resurgence of the customers' business model/security realisation process.

The Bank increased the impairment provisions for other financial instruments, by adjusting the loss rate to reflect current market trends and other applicable macroeconomic factors.

13. PERSONNEL EXPENSES

ACCOUNTING POLICY

Short Term Employee Benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods, as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

The contribution payable by the employer to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under 'Personnel expenses' as and when they become due. Unpaid contributions are recorded as a liability under 'Other liabilities' in Note 35.

The Bank contributes 3% of the salary of each employee to the Employees' Trust Fund and 14% on the salary of each employee to the Employees' Provident Fund. The above expenses are identified as contributions to "Defined Contribution Plans" as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Accordingly, staff gratuity and the Employees' Provident Fund of the Bank were considered as defined benefit plans as per Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

Gratuity

In compliance with the Gratuity Act No. 12 of 1983, provision is made in the accounts from the first year of service, for gratuity payable to employees.

An actuarial valuation is carried out at every year end to ascertain the full liability under gratuity.

The gratuity liability is not externally funded.

The Bank determines the interest expense on this defined benefit liability by applying the discount rate used to measure the defined benefit liability at the beginning of the annual period. The discount rate is the yield at the reporting date on government bonds (10 years) that have maturity dates approximating to the terms of the Bank's obligations.

The increase in gratuity liabilities attributable to the services provided by employees during the year ended 31st December 2021 (current service cost) has been recognised in the Statement of Profit or Loss under 'Personnel expenses' together with the net interest expense. The Bank recognises the total actuarial gain/loss that arise in calculating the Bank's obligation in respect of gratuity in other comprehensive income during the period in which it occurs.

The demographic assumptions underlying the valuation are retirement age (60 years), early withdrawals from service and retirement on medical grounds etc.

Employees' Provident Fund

Employees' Provident Fund is an approved private provident fund which has been set up to meet the provident fund liabilities of the Bank to which the Bank and employees contribute 14% and 8% respectively on the salary of each employee.

Notes to the Financial Statements

	2021		2020
	LKR		LKR
Salary and bonus	1,773,485,334		1,890,344,858
Contributions to defined contribution plans	- EPF	248,959,789	230,132,935
	- ETF	53,355,401	49,314,204
Contributions to defined benefit plans	62,744,973		99,882,738
Overtime	7,558,820		6,635,881
Staff welfare	37,528,650		33,477,284
Staff allowances	146,939,683		144,167,534
Others	212,122,849		122,817,867
Total	2,542,695,499		2,576,773,302

14. DEPRECIATION AND AMORTISATION EXPENSES

ACCOUNTING POLICY

Depreciation of Property, Plant and Equipment

The Bank provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates, on a straight-line basis, over the periods appropriate to the estimated useful lives, based on the pattern in which the asset's future economic benefits are expected to be consumed by the Bank.

Improvements to leasehold properties are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term. Freehold lands are not depreciated.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Asset category	Useful Life (Years)		Depreciation Rate per Annum (%)	
	2021	2020	2021	2020
Buildings	20	20	5	5
Computer hardware*	5	3	20	33.33
Machinery and equipment	5	5	20	20
Motor vehicles	4	4	25	25
Furniture and fitting	5	5	20	20
Digital Equipment*	5	3	20	33.33

*After experiencing and evaluating the useful lives of the existing computer and digital equipment and the Bank's replacement cycle, the Bank changed its estimated useful lives of computer and Digital Equipment to 5 years with effect from June 2021 in line with LKAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. The effect of the change in this estimate has been recognized prospectively. As per LKAS 8, Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate.

Amortisation of Intangible Assets

Intangible assets, except for goodwill, are amortised on a straight-line basis in the Statement of Profit or Loss from the date when the asset is available for use, over the best estimate of its useful economic life, based on a pattern in which the asset's economic benefits are consumed by the Bank. The Bank assumes that there is no residual value for its intangible assets.

Asset category	Useful Life (Years)		Amortization Rate per Annum (%)	
	2021	2020	2021	2020
Computer software	3 - 7	3 - 7	14 - 33.33	14 - 33.33

Investment properties

Properties held to earn rental income have been classified as investment properties. Investment properties initially recognized 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:

Asset category	Useful Life (Years)		Depreciation Rate per Annum (%)	
	2021	2020	2021	2020
Building	20	20	5	5

Amortisation of Right-of-Use Assets

The right of use assets are depreciated using a straight-line method from the commencement date to the earlier of the end of the useful life of the right of use assets or the end of the lease term. The estimated useful lives of right of use assets are determined on the same basis as renewal of rent agreements.

Changes in Estimates

Depreciation/amortisation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate. During the year ended 31st December 2021, the Bank conducted an operational efficiency review and estimates were revised accordingly.

	2021	2020
	LKR	LKR
Depreciation of property, plant and equipment	204,035,234	197,608,455
Amortisation of Right of use assets	250,248,661	188,930,704
Depreciation of investment property	1,056,030	1,056,030
Amortisation of intangible assets	73,106,649	66,973,809
Total	528,446,574	454,568,998

Notes to the Financial Statements

15. OTHER EXPENSES

ACCOUNTING POLICY

Other expenses are recognised in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. Provisions in respect of other expenses are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

	2021	2020
	LKR	LKR
Directors' emoluments	32,680,000	31,230,800
Auditors' remunerations	4,800,000	4,712,636
Professional and legal expenses	5,948,423	9,144,841
Office administration and establishment expenses	1,804,836,669	1,355,450,277
Total	1,848,265,092	1,400,538,554

15.1 Directors' emoluments include fees paid to Non-executive Directors.

16. TAX EXPENSE

ACCOUNTING POLICY

As per Sri Lanka Accounting Standard - LKAS 12 (Income Taxes), tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the Statement of Profit or Loss, except to the extent it relates to items recognised directly in equity or other comprehensive income in which case it is recognised in equity or in other comprehensive income.

Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year, using the tax rates and tax laws enacted or substantively enacted on the reporting date and any adjustment to tax payable in respect of prior years. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 and the amendments thereto at the rates specified in Note 16.3.

Deferred Taxation

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognised for all deductible temporary differences, carried forward unused tax credits and unused tax losses (if any), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward unused tax credits and unused tax losses can be utilised except:
- Where the deferred tax asset relating to the deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting 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 reporting date.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction. Details of deferred tax liabilities/(assets) is given in Note 16.2 to the Financial Statements respectively.

	2021	2020
	LKR	LKR
Current tax expense		
Income tax for the year	544,649,022	559,977,858
Adjustment in respect of current income tax of prior periods	(22,111,641)	15,336,343
Deferred taxation charge /(reversal)	(76,007,767)	1,328,535
Total	446,529,614	576,642,736

16.1 RECONCILIATION OF TAX EXPENSES

	2021	2020
	LKR	LKR
Profit before tax	1,329,807,786	1,412,930,083
Income tax for the period (Accounting profit at 2021-24%, 2020-28%)	319,153,869	395,620,423
Income exempt from tax /or not taxable	(2,185,340)	(920,738)
Add: Tax effect of expenses that are not deductible for tax purposes	436,650,769	457,011,082
Less: Tax effect of expenses that are deductible for tax purposes	(323,293,554)	(451,869,016)
Add: Tax impact on leasing loss	114,323,280	160,136,108
Tax expense for the year	544,649,022	559,977,859
Adjustment in respect of current income tax of prior period - 2020	(59,261,206)	15,336,343
Adjustment in respect of current income tax of prior periods - 2016/2017	37,149,565	-
Deferred taxation charge	(76,007,767)	1,328,535
At the effective income tax rate of 33.42% (2020 : 40.81%)	446,529,614	576,642,737

Notes to the Financial Statements

16.2 DEFERRED TAX ASSETS, LIABILITIES AND INCOME TAX RELATES TO THE FOLLOWINGS:

	Statement of Financial Position		Statement of Comprehensive Income	
	2021	2020	2021	2020
	LKR	LKR	LKR	LKR
Deferred tax liability				
Capital allowances for property, plant and equipment	55,688,942	45,319,503	10,369,440	(5,160,166)
Capital allowances for leased assets	54,585,795	111,998,871	(57,413,077)	11,503,139
	110,274,737	157,318,374	(47,043,637)	6,342,973
Deferred tax assets				
Defined benefit plans	130,440,753	157,165,127	26,724,375	(25,402,570)
Impairment allowance	259,367,074	215,680,737	(43,686,337)	28,687,078
Right to use assets	19,915,026	16,145,034	(3,769,992)	(8,818,344)
	409,722,853	388,990,898	(20,731,955)	(5,533,836)
Deferred taxation charge/(reversal)			(67,775,592)	809,137
Net deferred tax liability /(asset)	(299,448,116)	(231,672,525)		
16.2.1 COMPOSITION OF DEFERRED TAX CHARGE				
Impact on income tax expense			(76,007,767)	1,328,535
Impact on other comprehensive income			8,232,175	(519,397)
Impact on comprehensive income			(67,775,592)	809,137

16.3 CHANGE OF THE INCOME TAX RATE FROM 28% TO 24% AND OTHER AMENDMENTS

The Bank applied the revised rate of 24% and other amendments in line with the Inland Revenue Amendment Act No. 10 of 2021 to calculate the income tax and deferred tax assets/liabilities as at 31st December 2021. Although these amendments were effective from 1st January 2020, both income tax and deferred tax assets/liabilities for the comparative period have been calculated at the rate of 28% and other amendments were not considered on the basis that they were not legally enacted in 2020.

- 16.4** Bank applied the revised rate of 24% to compute the deferred tax as at 31st December 2021 which resulted in Rs. 67.7 Mn impact (reversal) on total comprehensive income. If Bank applied the rate 28% to compute the deferred tax, impact on comprehensive income would change to Rs. 81.7 Mn (reversal).

16.5 SURCHARGE TAX

The Government of Sri Lanka in its Budget proposals 2022 has proposed a one-time tax, to be called as 'Surcharge Tax' at the rate of 25% to be imposed on companies earned a taxable income in excess of Rs 2,000 Mn for the Year of Assessment 2020/2021. If the aggregate taxable income of a group of companies exceeds Rs 2,000 Mn, each company of the group of companies will be liable for surcharge tax. The proposed tax shall be deemed to be an expenditure in the Financial Statements of 2020.

The Bill introducing the proposed tax was published on 7th February 2022. Accordingly, the proposed tax has not been substantively enacted by the end of the reporting period. Therefore, the Financial Statements have not been adjusted to reflect the consequences of this proposal.

17. EARNINGS PER SHARE**ACCOUNTING POLICY**

The Bank presents basic and diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary equity shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting both the profit attributable to the ordinary equity shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, if any.

	2021	2020
	LKR	LKR
Net profit for the year	883,278,171	836,287,347
Profit attributable to ordinary shareholders	883,278,171	836,287,347

	2021	2020
	Number	Number
Weighted average number of ordinary shares in issue	115,816,356	75,700,321
	115,816,356	75,700,321
Basic/diluted earnings per ordinary share	7.63	11.05

The subordinated term debts detailed in Note 33 are resulted for anti-diluted earnings per share.

18. CASH AND CASH EQUIVALENTS**ACCOUNTING POLICY**

Cash and cash equivalents comprise cash in hand, balances with banks, money at call and short notice that are subject to an insignificant risk of changes in their value. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position. All cash and cash equivalent balances held by the Bank were available for use.

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and short term deposits as defined above and placements with banks (less than 3 months).

	2021	2020
	LKR	LKR
Cash in hand	416,944,204	442,568,346
Balances with banks	2,702,006,096	9,203,236,671
Less : Impairment	(1,464,831)	(4,889,081)
Carrying value after impairment	3,117,485,469	9,640,915,936

18.1 ANALYSIS OF CASH AND CASH EQUIVALENTS BASED ON EXPOSURE TO CREDIT RISK

	Stage I	
	2021	2020
	LKR	LKR
Cash and cash equivalents	3,118,950,300	9,645,805,017
Less : Impairment	(1,464,831)	(4,889,081)
Carrying value after impairment	3,117,485,469	9,640,915,936

Notes to the Financial Statements

18.2 STAGE WISE CLASSIFICATION OF IMPAIRMENT ALLOWANCES OF CASH AND CASH EQUIVALENTS

	Stage I	
	2021	2020
	LKR	LKR
Opening balance as at 1 January	4,889,081	353,418
Charges/(write back) to income statement	(3,424,250)	4,535,663
Closing balance as at 31 December	1,464,831	4,889,081

18.3 CASH AND CASH EQUIVALENTS FOR CASH FLOW STATEMENT

	2021	2020
	LKR	LKR
Cash and cash equivalents	3,117,485,469	9,640,915,936
Repurchase agreement	500,191,781	1,678,514,330
Fixed deposits less than 3 months	5,250,000,342	1,206,469,863
	8,867,677,592	12,525,900,129

19. PLACEMENTS WITH BANKS

ACCOUNTING POLICY

Placements with Banks net of impairment allowance includes money at call and short term investments that are subject to an insignificant risk of changes in the fair value, and are used by the Bank in the management of its short term commitments.

	2021	2020
	LKR	LKR
Placements with banks	15,108,964,561	2,823,798,280
Less: Impairment	(554,393)	(169,828)
Carrying value after impairment	15,108,410,169	2,823,628,452

19.1 ANALYSIS OF PLACEMENTS WITH BANKS BASED ON EXPOSURE TO CREDIT RISK

	Stage 1	
	2021	2020
	LKR	LKR
Placements with banks	15,108,964,561	2,823,798,280
Less : Impairment allowance for placement	(554,393)	(169,828)
Carrying value after impairment	15,108,410,169	2,823,628,452

19.2 STAGE WISE CLASSIFICATION OF IMPAIRMENT ALLOWANCES OF PLACEMENTS WITH BANKS

	Stage 1	
	2021	2020
	LKR	LKR
Opening balance as at 1 January	169,828	2,623,431
Charges/(write back) to income statement	384,565	(2,453,603)
Closing balance as at 31 December	554,393	169,828

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**ACCOUNTING POLICY**

The accounting policies pertaining to “Financial Assets Recognised through Profit or Loss - Measured at Fair Value” are given in Note 3.2.3.4 to the Financial Statements.

	2021	2020
	LKR	LKR
Sri Lanka Government securities - Treasury bills and Treasury bonds	199,369,000	7,628,946
Unit trust	511,471,916	4,586,196,193
Quoted Equities (Note 20.1)	16,945,800	6,632,792
Total	727,786,716	4,600,457,930

20.1 QUOTED EQUITIES

	2021		2020	
	No. of Shares	Market Value	No. of Shares	Market Value
		LKR		LKR
Commercial Bank of Ceylon PLC	7,671	608,310	7,500	606,750
Sampath Bank PLC	60,000	3,126,000	5,000	678,000
Hatton National Bank PLC	6,154	830,790	6,000	759,000
DFCC Bank PLC	-	-	20,000	1,306,000
John Keels Holdings PLC	20,200	3,030,000	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	21,000	1,043,700	15,000	1,023,000
Hemas Holdings PLC	50,000	3,345,000	-	-
Chevron Lubricants Lanka PLC	1,500	169,500	-	-
Hayleys PLC	18,000	2,340,000	-	-
Dialog Axiata PLC	225,000	2,452,500	-	-
		16,945,800		6,632,792

21. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES TO OTHER CUSTOMERS**ACCOUNTING POLICY**

The key accounting policies pertaining to financial instruments including “Loans and Advances” are given in Notes 3.2 to the Financial Statements.

	2021	2020
	LKR	LKR
Gross loans and receivables (Note 21.1)	115,786,982,202	105,975,283,350
Less: Individual impairment	(1,419,421,300)	(1,132,358,785)
Collective impairment	(2,476,305,282)	(2,180,655,849)
Net loans and receivables	111,891,255,620	102,662,268,716

Notes to the Financial Statements

21.1 ANALYSIS OF LOANS AND RECEIVABLES TO OTHER CUSTOMERS BASED ON EXPOSURE TO CREDIT RISK

	2021			
	Stage 1	Stage 2	Stage 3	Total
	LKR	LKR	LKR	LKR
Individual impairment loans				
Term loan	-	-	2,638,234,277	2,638,234,277
Leasing	-	-	723,979,593	723,979,593
Collective impairment loans				
Pawning	2,965,247,383	41,202,309	9,616,670	3,016,066,362
Cash margin	4,761,472,609	701,595,453	713,867	5,463,781,929
Staff loans	1,832,971,312	10,174,432	5,910,601	1,849,056,346
Term loans				
Business	2,046,309,908	307,458,426	195,580,616	2,549,348,951
Co-operative	2,226,534,709	72,521,231	228,827,872	2,527,883,812
Housing	2,603,552,896	262,516,143	210,430,152	3,076,499,191
Personal	480,225,955	67,154,254	348,161,662	895,541,872
Fixed and floating	26,215,201,472	614,717,919	1,681,294,950	28,511,214,341
SME	12,339,277,747	1,682,155,699	945,535,195	14,966,968,640
Upahara	39,847,222,282	68,431,243	39,015,749	39,954,669,274
Lease rentals receivables	7,591,014,047	1,633,363,775	389,359,793	9,613,737,616
Gross loans and receivables	102,909,030,320	5,461,290,885	7,416,660,997	115,786,982,202
Less : Impairment allowance	(684,543,810)	(468,753,557)	(2,742,429,214)	(3,895,726,582)
Net loans and receivables	102,224,486,510	4,992,537,327	4,674,231,782	111,891,255,620

	2020			
	Stage 1	Stage 2	Stage 3	Total
	LKR	LKR	LKR	LKR
Individual impairment loans				
Term loans	-	-	2,254,914,468	2,254,914,468
Leasing	-	-	495,117,862	495,117,862
Collective impairment loans				
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
Term loans				
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
Gross loans and receivables	95,650,522,696	3,537,112,688	6,787,647,966	105,975,283,350
Less : Impairment allowance	(662,089,944)	(154,078,607)	(2,496,846,083)	(3,313,014,634)
Net loans and receivables	94,988,432,752	3,383,034,080	4,290,801,883	102,662,268,716

21.2 GROSS LOANS AND RECEIVABLES ANALYSIS BY PRODUCT

	2021	2020
	LKR	LKR
Loans and receivables		
Pawning	3,016,066,362	2,391,838,740
Cash margin	5,463,781,929	4,803,641,741
Staff loans	1,849,080,347	1,371,062,206
Term loans		
Business	3,106,066,902	2,370,290,386
Co-operative	2,921,501,412	3,456,889,798
Housing	3,240,516,454	3,459,462,932
Personal	929,694,563	11,978,621,714
Fixed and floating	28,570,581,370	27,716,929,759
SME	16,176,786,759	14,775,622,413
Upahara	40,175,188,895	24,418,811,294
Lease rentals receivable (Note 21.2.1)	10,337,717,209	9,232,112,366
Gross total	115,786,982,202	105,975,283,350

21.2.1 LEASE RENTALS RECEIVABLE

	2021	2020
	LKR	LKR
Gross lease receivable within one year	2,314,819,306	5,219,365,506
Unearned income on rentals receivable	(1,393,925,835)	(1,439,705,604)
Gross lease receivable within one year	920,893,471	3,779,659,902
Gross lease receivable after one year	11,221,970,243	6,874,727,831
Unearned income on rentals receivable	(1,805,146,505)	(1,422,275,366)
Gross lease receivable after one year	9,416,823,738	5,452,452,465
Total gross lease receivable	10,337,717,209	9,232,112,366

21.3 GROSS LOANS AND RECEIVABLES ANALYSIS BY CURRENCY

	2021	2020
	LKR	LKR
Sri Lankan Rupee	115,786,982,202	105,975,283,350
Gross total	115,786,982,202	105,975,283,350

Notes to the Financial Statements

21.4 GROSS LOANS AND RECEIVABLES ANALYSIS BY INDUSTRY

	2021		2020	
	LKR	%	LKR	%
Agriculture, Forestry & Fishing	13,382,265,090	11.56%	10,577,054,332	10.00%
Manufacturing	90,661,668	0.08%	96,267,772	0.09%
Tourism	419,991,071	0.36%	461,911,284	0.44%
Construction and Infrastructure Development	24,409,409,708	21.08%	36,573,006,600	34.49%
Real Estate & Property Development	989,376,952	4.05%	1,038,456,073	2.84%
House & Land Purchasing	473,352,233	1.94%	454,459,489	1.24%
Housing Repairs & Renovations	9,281,601,343	38.02%	13,906,908,711	38.03%
Housing Constructions	11,795,502,779	48.32%	19,639,268,528	53.70%
Business Premises Purchasing	1,137,832	0.00%	3,285,085	0.01%
Business Premises Repairs & Renovations	1,684,946,369	6.90%	1,438,548,466	3.93%
Commercial Constructions	75,715	0.00%	45,395	0.00%
Others	15,479,175	0.06%	13,259,591	0.04%
Leasing	167,937,310	0.69%	78,775,262	0.22%
Wholesale and Retail Trade	17,466,056,352	15.08%	13,133,842,174	12.39%
Financial Services	6,821,145,076	5.89%	6,451,337,430	6.09%
Consumption	49,154,043,724	42.45%	31,905,774,024	30.11%
Transportation and Storage	2,639,693,298	2.28%	5,269,653,320	4.97%
Information Technology and Communication	32,398,001	0.03%	41,952,869	0.04%
Professional, Scientific and Technical Activities	23,179,151	0.02%	17,249,020	0.02%
Arts, Entertainment and Recreation	86,677	0.00%	-	0.00%
Education	114,683,894	0.10%	129,579,817	0.12%
Healthcare, Social Services and Support services	1,233,368,491	1.07%	1,317,654,706	1.24%
	115,786,982,202	100.00%	105,975,283,350	100.00%

21.4.1 As per the requirement of Central Bank of Sri Lanka (CBSL), a minimum of 10% of the loans and advances shall be granted to the agriculture sector. The Bank has complied with the said requirement as at 31st December 2021 and 31st December 2020.

21.5 ANALYSIS OF LOANS AND RECEIVABLES TO OTHER CUSTOMERS BASED ON EXPOSURE TO CREDIT RISK

	2021	2020
	LKR	LKR
Stage 1		
Opening balance as at 1 January	662,089,944	550,264,452
Charges/(write back) to income statement	22,453,866	111,825,493
Closing balance as at 31 December	684,543,810	662,089,944
Stage 2		
Opening balance as at 1 January	154,078,607	163,953,856
Charges/(write back) to income statement	314,674,950	(9,875,249)
Closing balance as at 31 December	468,753,557	154,078,607
Stage 3		
Opening balance as at 1 January	2,496,846,083	2,183,247,741
Charges/(write back) to income statement	309,689,723	313,598,341
Write - off during the year	(64,106,591)	-
Closing balance as at 31 December	2,742,429,214	2,496,846,083

21.6 MOVEMENT IN INDIVIDUAL AND COLLECTIVE IMPAIRMENT

	Individual impairment	Collective impairment	Total impairment
	LKR	LKR	LKR
Opening balance as at 1 January 2020	891,669,149	2,005,796,900	2,897,466,049
Charge/(write back) to income statement	240,689,636	174,858,950	415,548,586
Recovery/(write-off) during the year	-	-	-
Closing balance as at 31 December 2020	1,132,358,785	2,180,655,849	3,313,014,634
Opening balance as at 1 January 2021	1,132,358,785	2,180,655,849	3,313,014,634
Charge/(write back) to income statement	287,062,516	359,756,024	646,818,540
Recovery/(write-off) during the year	-	(64,106,591)	(64,106,591)
Closing balance as at 31 December 2021	1,419,421,300	2,476,305,282	3,895,726,582

21.7 Based on the impairment model revalidation, product segmentation has been re-organized after evaluating the credit risk characteristics of loan facilities. Analysis of loans and advances, commitments, contingencies mentioned in Note 48 has disclosed the product segmentation as at 31st December 2021 and 2020, after validating the impairment model. The Bank estimated Expected Credit Loss (ECL) as at December 31, 2021, based on the Probability of Default (PD), Loss Given Default (LGD) and Economic Factor Adjustment (EFA) computed as at December 31, 2021, after validating the impairment model.

21.8 The Bank evaluated the long term impact of COVID -19 on the economy when calculating the impairment provisions as at 31st December 2021. This has been further elaborated under Note 48 to the Financial Statements.

Notes to the Financial Statements

22. FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS

ACCOUNTING POLICY

The accounting policies pertaining to financial instruments including "Debt and Other Instruments" are given in Note 3.2 to the Financial Statements.

	2021	2020
	LKR	LKR
Debtentures		
Repurchase agreement	101,283,629	54,315,068
Treasury bill	500,191,781	1,678,514,330
Commercial papers	11,186,344,146	3,259,652,440
Treasury bonds	-	251,635,274
Less: Impairment	243,523,886	-
Carrying value after impairment	(41,532)	(111,894)
	12,031,301,910	5,244,005,218

22.1 ANALYSIS OF DEBT AND OTHER INSTRUMENTS BASED ON EXPOSURE TO CREDIT RISK

	Stage 1	
	2021	2020
	LKR	LKR
Debtentures		
Repurchase agreement	101,283,629	54,315,068
Treasury bill	500,191,781	1,678,514,330
Commercial papers	11,186,344,146	3,259,652,440
Treasury bonds	-	251,635,274
Less : Impairment allowance	243,523,886	-
Carrying value after impairment	(41,532)	(111,894)
	12,031,301,910	5,244,005,218

22.2 STAGE WISE CLASSIFICATION OF IMPAIRMENT ALLOWANCES OF DEBT AND OTHER INSTRUMENTS

	Stage 1	
	2021	2020
	LKR	LKR
Opening balance as at 1 January	111,894	704,033
Charges/(write back) to income statement	(70,362)	(592,139)
Closing balance as at 31 December	41,532	111,894

23. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ACCOUNTING POLICY

The accounting policies pertaining to “Financial Assets – Fair Value Through Other Comprehensive Income” are given in Notes 3.2.3.5 & 3.2.3.6 to the Financial Statements.

	2021	2020
	LKR	LKR
Unquoted equity securities (Note 23.1)	56,938,514	56,938,514
Financial assets measured at fair value through other comprehensive income	56,938,514	56,938,514

23.1 UNQUOTED EQUITY SECURITIES

	2021		2020	
	Number of shares No.	Amount LKR	Number of shares No.	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 share valuation as at 31 December		(19,051,624)		(19,051,624)
		56,938,514		56,938,514

23.1.2 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

24 INVESTMENT IN SUBSIDIARIES

ACCOUNTING POLICY

The accounting policies for “Investment in Subsidiaries” are given in Notes 1.3 to the Financial Statements.

	2021	2020
	LKR	LKR
Unquoted equity investments	6,163,100	6,163,100
	6,163,100	6,163,100

- 24.1** Investment in Subsidiary includes the investment made by the Bank in Payment Services (Private) Limited, amounting to Rs.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 10th June 2019. With this acquisition, Payment Services (Private) Limited has become a fully owned subsidiary of Sanasa Development Bank PLC, with effect from 26th May 2020. Since this investment is immaterial, the Bank does not prepare consolidated Financial Statements.

Notes to the Financial Statements

25. PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICY

RECOGNITION

Property, plant and equipment are tangible items that are held for use in the production or supply of services, for rental to others or for administrative purposes and are expected to be used during more than one period. The Bank applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment) in accounting for these assets. Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Bank and the cost of the asset can be reliably measured.

MEASUREMENT

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of an item of property, plant and equipment. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable for bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment. When parts of an item of property or equipment have different useful lives, they are accounted as separate items (major components) of property, plant and equipment.

COST MODEL

The Bank applies 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

Subsequent Cost

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Bank and its cost can be reliably measured. The costs of day to day servicing of property, plant and equipment are charged to the Statement of Profit or Loss as incurred.

Derecognition

The carrying amount of an item of property, plant and equipment is derecognised or disposal when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of property, plant and equipment is included in the Statement of Profit or Loss when the item is derecognised. When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspection is derecognised.

Capital Work in Progress

These are expenses of capital nature directly incurred in the construction of buildings, major plant, machinery and system development, awaiting capitalisation. Capital work-in-progress would be transferred to the relevant asset when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard - LKAS 23 (Borrowing Costs). A qualifying asset is an asset which takes substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Depreciation Rates and useful Life

Rates of depreciation for each category of property, plant and equipment are given in Note 14, 'Depreciation and Amortisation Expenses'.

2021	Land and buildings	Computer hardware	Machinery and equipment	Furniture and fittings	Motor vehicles	Digital Equipment	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Cost							
Opening balance as at 1 January	251,979,214	983,253,122	550,276,854	414,195,794	159,493,534	-	2,359,198,519
Additions	-	177,529,029	24,314,387	20,589,396	-	273,553,285	495,986,096
Disposals	-	(3,329,338)	(2,774,454)	(9,963,302)	(578,306)	-	(16,645,400)
Closing balance as at 31 December	251,979,214	1,157,452,813	571,816,787	424,821,888	158,915,227	273,553,285	2,838,539,214
Less: Accumulated depreciation							
Opening balance as at 1 January	37,274,501	759,774,284	466,341,075	297,903,568	136,210,551	-	1,697,503,979
Charge for the year	3,088,450	73,139,247	34,404,523	50,244,329	14,332,853	28,825,832	204,035,234
Disposals	-	(2,443,194)	(2,711,941)	(9,369,266)	(579,307)	-	(15,103,709)
Closing balance as at 31 December	40,362,951	830,470,337	498,033,657	338,778,631	149,964,097	28,825,832	1,886,435,504

Notes to the Financial Statements

2020	Land and buildings	Computer hardware	Machinery and equipment	Furniture and fittings	Motor vehicles	Digital Equipment	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR

Cost

Opening balance as at 1 January	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)

Closing balance as at 31

December	251,979,214	983,253,122	550,276,854	414,195,794	159,493,534	-	2,359,198,519
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Less:

Accumulated depreciation

Opening balance as at 1 January	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)

Closing balance as at 31

December	37,274,501	759,774,284	466,341,075	297,903,568	136,210,551	-	1,697,503,977
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	Land and buildings	Computer hardware	Machinery and equipment	Furniture and fittings	Motor vehicles	Digital Equipment	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR

Net book

value as at 31

December 2021	211,616,263	326,982,476	73,783,130	86,043,258	8,951,131	244,727,453	952,103,710
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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
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25.1 FREEHOLD LAND AND BUILDINGS

The details of the land and buildings owned by the Bank are as follows:

Location/Address	As at 31 December 2021			As at 31 December 2020			
	Extent		No of buildings	Cost		Cost	
	Land	Building		Land	Building	Land	Building
(Purches)	(Square feet)		LKR	LKR	LKR	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	1	400,000	2,100,000	400,000	2,100,000
No. 145, Rathnapura Road, Horana	13	5,956	1	20,539,000	6,500,000	20,539,000	6,500,000
No. 63A, Matara Road, Akuressa	14	3,728	1	14,423,820	8,975,180	14,423,820	8,975,180
No. 255, Sunnysaid Garden, Karapitiya	18.50	5,992	1	9,250,000	20,833,360	9,250,000	20,833,360
No. 342, Main Street, Kegalle	13.25	5,580	1	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	1	8,400,000	1,250,000	8,400,000	1,250,000
SANASA Campus Ltd, Paragammana, Hettimulla, Kegalle	320	2,600	1	1,002,912	4,568,824	1,002,912	4,568,824
60/65, Sahasapura Scheme, Baseline Mw. Borella	-	1,006	1	-	2,420,118	-	2,420,118
				191,213,132	60,766,082	191,213,132	60,766,082

- 25.2** During the financial year, the Bank acquired property, plant and equipment to the aggregate value of LKR 495,986,096/- (2020 - LKR 214,731,711/-). Cash payments amounting to LKR 495,986,096/- (2020 - LKR 214,731,711/-) were made during the year for purchase of property, plant and equipment.
- 25.3** Property, plant and equipment includes fully depreciated assets having a gross carrying amounts of LKR 1,620,924,106/- (2020 - LKR 1,489,104,298/-)
- 25.4** There were no restrictions on the title of the property, plant and equipment as at 31 December 2021.
- 25.5** There were no idle property, plant and equipment as at 31 December 2021.
- 25.6** A valuation was carried out on Property located in No. 6/176, Walauwatta, Kegalle and No. 5/176, Walauwatta, Kegalle . Market value (Level 3) of the above asset is LKR 38,400,000 /-. Valuation was carried out by E M P A G N I B Ekanayake independent Professional Valuer on 30th June 2021. Market comparable method is used for value the property and rate per perch is Rs. 1,200,000/-.

Notes to the Financial Statements

26. RIGHT OF USE ASSETS

ACCOUNTING POLICY

Right-of-use assets are presented in the statement of financial position (refer the accounting policy in Note 3.3). Right to use assets are depreciated on a straight line basis over the lease term.

	2021	2020
	LKR	LKR
Cost		
Opening balance as at 1 January	1,060,833,882	833,527,720
Additions and improvements during the year	126,078,989	227,306,162
Closing balance as at 31 December	1,186,912,871	1,060,833,882
Less: Accumulated amortisation		
Opening balance as at 1 January	371,187,676	182,256,972
Amortisation expenses for the year	250,248,661	188,930,704
Closing balance as at 31 December	621,436,337	371,187,676
Net book value as at 31 December	565,476,533	689,646,206

27. INVESTMENT PROPERTIES

ACCOUNTING POLICY

The accounting policies for "Investment Properties" are given in Notes 14 to the Financial Statements.

	2021	2020
	LKR	LKR
Cost		
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
Less: Accumulated depreciation		
Opening balance as at 1 January	15,136,430	14,080,400
Charge for the year	1,056,030	1,056,030
Closing balance as at 31 December	16,192,460	15,136,430
Net book value as at 31 December	19,166,540	20,222,570

27.1 THE DETAILS OF THE INVESTMENT PROPERTIES OWNED BY THE BANK ARE AS FOLLOWS:

Location/Address (Purchases)	Extent		No of Buildings	As at 31 December 2021 Cost		As at 31 December 2020 Cost	
	Land	Building		Land	Building	Land	Building
	(Purchases)	(Square feet)		LKR	LKR	LKR	LKR
No.6 A/176, Walauwatta, Kegalle	28	8,233.5	1	14,238,400	21,120,600	14,238,400	21,120,600
				14,238,400	21,120,600	14,238,400	21,120,600

- 27.1** There were no direct operating expenses arising from investment property that generated retain income and that did not generate material rental income.
- 27.2** Assets classified as investment properties include land and building located in Kegalle. Market value (Level 3) of the above asset is LKR 33,600,000 /-. Valuation was carried out by E M P A G N I B Ekanayake independent Professional Valuer on 30th June 2021. Market comparable method is used for value the property and rate per perch is Rs. 1,200,000/-.

28. INTANGIBLE ASSETS

ACCOUNTING POLICY

Recognition

An intangible asset is an identifiable non-monetary asset without physical substance, held for use in the production or supply of goods or services, for rental to others or for administrative purposes. An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. An intangible asset is initially measured at cost. Expenditure incurred on an intangible item that was initially recognised as an expense by the Bank in previous annual Financial Statements or interim Financial Statements are not recognised as part of the cost of an intangible asset at a later date.

Computer Software

Cost of purchased licenses and all computer software costs incurred, licensed for use by the Bank, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category 'Intangible assets' and carried at cost less accumulated amortisation and any accumulated impairment losses.

Goodwill

Goodwill, if any that arises upon the acquisition of subsidiaries is included in intangible assets.

Subsequent Expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred. Goodwill is measured at cost less accumulated impairment losses.

Derecognition of Intangible Assets

The carrying amount of an item of intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of intangible asset is included in the Statement of Profit or Loss when the item is derecognised.

There were no restrictions on the title of the intangible assets as at the reporting date. Further, there were no items pledged as securities for liabilities.

Rates of amortisation for computer software and licenses are given in Note 14, 'Depreciation and Amortisation Expenses'.

Notes to the Financial Statements

	2021	2020
	LKR	LKR
Cost		
Opening balance as at 1 January	689,439,370	535,786,769
Additions	16,916,563	153,652,601
Closing balance as at 31 December	706,355,933	689,439,370
Less: Accumulated amortisation		
Opening balance as at 1 January	294,316,037	227,342,228
Charge for the year	73,106,649	66,973,809
Disposal		
Closing balance as at 31 December	367,422,686	294,316,037
Net book value as at 31 December	338,933,246	395,123,333

28.1 There were no idle intangible assets as at 31 December 2021.

28.2 There were no restrictions on the title of the intangible assets as at 31 December 2021.

29. OTHER ASSETS

	2021	2020
	LKR	LKR
Postage legal and other charges receivable	73,147,602	83,460,055
Prepaid staff cost	975,005,866	821,576,375
Deposits, prepayments and other receivables	1,595,863,409	982,002,736
Inventory	60,429,553	139,947,910
Total	2,704,446,431	2,026,987,076

30. DUE TO OTHER CUSTOMERS

ACCOUNTING POLICY

The accounting policies pertaining to "Due to Depositors" are given in Note 3.2.3.7 to the Financial Statements.

	2021	2020
	LKR	LKR
Total amount due to other customers	93,902,939,217	93,271,727,185
Total	93,902,939,217	93,271,727,185

30.1 ANALYSIS OF DUE TO OTHER CUSTOMERS

	2021	2020
	LKR	LKR
By product		
Savings deposits	22,338,016,473	21,159,867,045
Fixed deposits	71,564,922,744	72,111,860,140
Total	93,902,939,217	93,271,727,185

	2021	2020
	LKR	LKR
By currency		
Sri Lanka Rupee	93,902,939,217	93,271,727,185
Total	93,902,939,217	93,271,727,185

31. OTHER BORROWINGS

ACCOUNTING POLICY

The accounting policies pertaining to "Other Borrowings" are given in Note 3.2.3.7 to the Financial Statements.

	2021	2020
	LKR	LKR
Money market Borrowings (31.1)	-	751,685,519
Term loans (Note 31.2)	30,797,616,891	13,827,169,416
Securitized borrowings (Note 31.3)	489,000,000	752,415,249
Refinance borrowing (Note 31.4)	2,283,221,372	2,759,229,790
Total	33,569,838,263	18,090,499,974

31.1 MONEY MARKET BORROWINGS

	2021	2020
	LKR	LKR
National Development Bank PLC	-	250,854,918
Sampath Bank PLC	-	500,830,601
	-	751,685,519

Notes to the Financial Statements

31.2 DETAILS OF TERM LOANS

Institution	Fixed/Floating	Tenure (Months)	2021	2020
			LKR	LKR
National Savings Bank	Floating	48	332,000,000	832,400,000
Sampath Bank PLC	Floating	60	-	100,096,320
Sampath Bank PLC	Floating	60	16,655,798	116,785,715
Sampath Bank PLC	Floating	60	1,068,406,064	1,468,489,180
Seylan Bank PLC	Floating	48	205,751,589	281,688,026
Seylan Bank PLC	Floating	48	156,479,388	411,289,537
Seylan Bank PLC	Floating	47	298,362,338	554,086,580
Seylan Bank PLC	Floating	60	600,061,863	800,617,196
Seylan Bank PLC	Floating	60	300,201,780	400,428,751
Seylan Bank PLC	Floating	36	417,185,759	751,170,126
Seylan Bank PLC	Fixed	1	1,501,047,945	1,004,207,650
Seylan Bank PLC	Fixed	1	1,503,493,151	500,075,137
Seylan Bank PLC	Fixed	1	501,164,384	-
DFCC Bank	Floating	48	-	198,094,025
DFCC Bank	Floating	48	73,031,961	239,637,002
DFCC Bank	Floating	48	114,613,521	-
Peoples Bank	Fixed	3	-	1,000,414,208
MCB Bank Ltd.	Floating	60	-	41,258,397
HNB Bank PLC	Floating	48	-	62,739,268
HNB Bank PLC	Floating	48	343,932,140	719,032,787
HNB Bank PLC	Floating	36	1,500,763,448	-
HNB Bank PLC	Floating	60	637,811,938	-
HNB Bank PLC	Floating	48	875,861,937	-
HNB Bank PLC	Fixed	1	1,001,922,192	-
NDB Bank PLC	Fixed	3	1,003,813,699	-
Bank of Ceylon	Floating	60	824,782,913	1,113,153,928
Bank of Ceylon	Floating	12-81	4,357,698,206	-
Bank of Ceylon	Floating	15-81	2,845,562,251	-
Nations Trust Bank PLC	Floating	48	438,153,205	688,880,007
Cargills Bank	Floating	3	803,686,575	801,040,437
The International Finance Corporation (IFC)	Fixed	60	806,172,049	1,343,174,011
The Netherlands Development Finance Company (FMO)	Floating	52	225,264,516	398,411,132
United States International Development Finance Corporation (DFC)	Fixed	81	8,043,736,280	-
			30,797,616,891	13,827,169,417

31.2.1 MOVEMENT IN TERM LOANS

	Opening Balance As at 1 January 2021	Obtained during year	Repayment	Closing balance as at 31 December 2021
	LKR	LKR	LKR	LKR
National Savings Bank	832,400,000	-	(500,400,000)	332,000,000
Sampath Bank PLC	1,683,270,667	-	(599,976,000)	1,083,294,667
Seylan Bank PLC	4,694,652,014	13,000,000,000	(12,219,303,992)	5,475,348,022
Peoples Bank	999,999,999	-	(999,999,999)	-
MCB Bank Ltd.	41,250,000	-	(41,250,000)	-
HNB Bank PLC	781,400,000	4,750,000,000	(1,175,080,000)	4,356,320,000
NDB Bank PLC	-	4,000,000,000	(3,000,000,000)	1,000,000,000
DFCC Bank	437,499,982	-	(250,000,008)	187,499,974
Bank of Ceylon	1,112,000,000	7,750,000,000	(851,078,627)	8,010,921,373
Nations Trust Bank	687,490,000	-	(250,008,000)	437,482,000
Cargills Bank	800,000,000	800,000,000	(800,000,000)	800,000,000
FMO	396,656,039	-	(172,818,680)	223,837,359
IFC	1,295,000,010	-	(517,999,995)	777,000,016
DFC	-	8,030,000,000	-	8,030,000,000
Interest payable	65,550,705	-	-	83,913,482
	13,827,169,416	38,330,000,000	(21,377,915,301)	30,797,616,891

31.3 SECURITISED BORROWINGS

	2021	2020
	LKR	LKR
Trust	489,000,000	752,415,249
Total	489,000,000	752,415,249

Notes to the Financial Statements

31.4 REFINANCE BORROWINGS

	2021	2020
	LKR	LKR
SANASA Federation (Refinance of Athwela Loans)	54,200,000	54,200,000
Central Bank of Sri Lanka (Susahana)	-	80,827
Asian Development Bank (Dasuna)	-	19,658
Borrowings under Refinance of Jayatha	111,551,528	296,114,047
Borrowing under Saubagya	1,030,583,130	970,783,726
Borrowing - Refinance Smile III	403,806,950	422,652,400
Borrowing - Refinance Sepi	625,000	1,200,000
Borrowing - Suwashakthi Loan	32,326,586	10,913,251
Borrowing - Athwela (READ)	1,175,000	8,495,001
Borrowing - Kapruka Ayojana	16,026,675	15,349,335
Borrowing - SAPP 4P Youth Loan	62,607,777	22,739,170
Borrowing - Saubagya Covid 19	474,112,373	918,051,417
Borrowing - SAPP RF Income Loan	3,766,678	3,108,337
Borrowing - SAPP 4P Agri Loan	35,402,841	35,522,621
Borrowing - SAPP RF Youth Loan	57,036,833	-
	2,283,221,372	2,759,229,790

31.4.1 MATURITY ANALYSIS OF REFINANCE BORROWINGS

	2021	2020
	LKR	LKR
Due within one year	1,181,561,501	1,299,259,312
1-5 years	1,093,047,621	1,455,234,378
After 5 years	8,612,250	4,736,100
	2,283,221,372	2,759,229,790

31.5 SECURITIES AND TERMS OF BORROWINGS

Interest rate ranging for above borrowings 0% to 14.84% per annum.

Bank has pledged from the lease portfolio sum of LKR 655,455,469/- (2020 - LKR 974,849,643/-) for the securitised borrowings.

Bank has pledged from the loan portfolios sum of LKR 2,768,619,114/- (2020 - LKR 4,700,438,624/-) for other borrowings.

32. DEBT SECURITY ISSUED

	2021	2020
	LKR	LKR
Debentures*	-	1,013,899,072
Total	-	1,013,899,072

32.1 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	Interest payable	Balance
					LKR	LKR	LKR
B	Semi Annually	31 December 2015	31 December 2020	10.25	-	-	-

(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	Interest payable	Balance
					LKR	LKR	LKR
D	Semi Annually	31 December 2015	31 December 2020	10.57	-	-	-

*The debenture value presented in this financial statement is fully paid off on 3rd January 2021. Paid of amount is Rs. 1,013,899,072/-

33. SUBORDINATED TERM DEBTS

	2021	2020
	LKR	LKR
Subordinated term debts	3,752,578,405	4,052,630,214
Total	3,752,578,405	4,052,630,214

33.1 DETAILS OF SUBORDINATED TERM DEBTS

Investor	Tenor/Repayment	Interest Rate	2021	2020
			LKR	LKR
FMO	Repayment or conversion after 66 months	6-month T-bill rate + 550 basis points Payable per annum	-	103,911,945
SBI	Repayment or conversion after 66 months	6-month T-bill rate + 450 basis points Payable per annum	371,355,419	700,083,977
DGGF	Repayment or conversion after 60 months	6-month T-bill rate+700 basis points Payable per annum	1,769,143,999	1,766,631,730
BIO	Repayment or conversion after 60 months	6-month LIBOR + 550 basis points Payable per annum	1,637,121,105	1,522,742,899
Less: Initial transaction cost			(25,042,118)	(40,740,336)
			3,752,578,405	4,052,630,214

The Bank complied with all foreign borrowing covenants as at 31st December 2021, despite the covenants breach reported in Statutory Liquid Asset Ratio (SLAR) upto April 2021 and Capital Adequacy Ratio (CAR) upto July 2021 for The Dutch Good Growth Fund (DGGF). With the completion of the Secondary Public Offer and the improved liquidity position the breaches in SLAR and CAR were now rectified. The DGGF had issued a waiver letter for these breaches.

Notes to the Financial Statements

34. RETIREMENT BENEFIT OBLIGATION

34.1 DEFINED BENEFIT LIABILITY

	2021	2020
	LKR	LKR
Defined benefit liability (Note 34.1.1)	571,664,850	571,382,319
Total	571,664,850	571,382,319

34.1.1 MOVEMENT IN DEFINED BENEFIT OBLIGATION

	2021	2020
	LKR	LKR
Opening balance as at 1 January	571,382,319	479,575,300
Net benefit expense (Note 34.1.2)	28,444,243	101,737,729
Benefit paid	(28,161,713)	(9,930,709)
Closing balance as at 31 December	571,664,849	571,382,319

34.1.2 NET BENEFIT EXPENSE

	2021	2020
	LKR	LKR
Amounts recognised in profit and loss		
Interest cost	45,139,203	49,156,468
Current service cost	56,392,669	50,726,270
Impact due to the change in the retirement age (Note 34.14)	(38,786,899)	-
	62,744,973	99,882,738
Amounts recognised in the other comprehensive income		
Experience (gain)/loss	7,536,093	(21,138,711)
(Gain) loss due to changes in assumptions	(41,836,823)	22,993,702
	(34,300,730)	1,854,991
Total expense for the year	28,444,243	101,737,729

34.1.3 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 2021. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

	2021	2020
Long term interest rate (%)	11.70	7.90
Future salary increase rate (%)	9.00	5.90
Retirement age (years)	60	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 11.2 years (2020 - 8.9 years)

34.1.4 The Retirement Benefit Plan of the Bank was amended due to the increase in retirement age enacted by the Minimum Retirement Age of Workers Act No. 28 Of 2021 as follows;

As on 17 November 2021, employees who have attained the age of	Retirement age
Less than 52 years	60 years
53 years	59 years
54 years	58 years
55 years	57 years

34.2 SENSITIVITY ANALYSIS ON DISCOUNTING RATE AND SALARY INCREMENT RATE TO STATEMENT OF FINANCIAL POSITION AND COMPREHENSIVE INCOME

Assumption	Rate change	2021		2020	
		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+	(51,497,395)	(51,497,395)	(42,970,663)	(42,970,663)
Discount rate	1-	60,365,275	60,365,275	49,433,619	49,433,619
Salary increment rate	1+	59,987,657	59,987,657	48,274,568	48,274,568
Salary increment rate	1-	(52,050,935)	(52,050,935)	(42,740,293)	(42,740,293)

34.3 THE EXPECTED BENEFIT PAYOUT IN THE FUTURE YEARS OF RETIREMENT GRATUITY

	2021	2020
	LKR	LKR
Within next 12 months	41,010,563	51,215,732
Between 2 and 5 years	221,789,351	280,212,360
Beyond 5 years	544,565,845	413,682,631

35. OTHER LIABILITY

	2021	2020
	LKR	LKR
Special purpose project funds	397,500,172	399,455,755
Lease liability (Note 35.1)	576,200,703	654,139,519
Accruals and other payables	625,248,187	815,599,326
Total	1,598,949,062	1,869,194,600

35.1 MOVEMENT IN LEASE LIABILITIES

	2021	2020
	LKR	LKR
Opening balance as at 1 January/Effect of adoption of SLFRS 16 as at 1 January	654,139,519	591,658,015
Additions	98,967,389	199,964,762
Accretion of interest	80,782,127	70,803,354
Payments during the year	(257,688,331)	(208,286,613)
Closing balance as at 31 December	576,200,703	654,139,519

Notes to the Financial Statements

35.2 MATURITY ANALYSIS OF LEASE LIABILITIES

	2021	2020
	LKR	LKR
Less than 1 year	22,105,382	71,920,305
Between 1 and 5 years	253,829,303	322,912,470
More than 5 years	300,266,016	259,306,744
Total lease liabilities as at 31 December	576,200,702	654,139,519

36. STATED CAPITAL

	2021	2020
	LKR	LKR
Ordinary shares - Issued and fully paid	11,287,765,221	7,727,941,021
Total	11,287,765,221	7,727,941,021

36.1 DETAILS OF ORDINARY SHARES ISSUED AND FULLY PAID

	Value		Number of shares	
	2021	2020	2021	2020
	LKR	LKR	No.	No.
Opening balance as at 1 January	7,727,941,021	5,921,538,126	91,576,032	56,308,252
Rights issue	-	1,526,267,201	-	30,525,344
Scrip dividend	-	280,135,695	-	4,742,436
Secondary public offering	3,559,824,200	-	69,122,800	-
	11,287,765,221	7,727,941,021	160,698,832	91,576,032

36.2 INFORMATION OF RIGHTS ISSUE AND SECONDARY PUBLIC OFFER OF ORDINARY VOTING SHARES

36.2.1 RIGHTS ISSUE DECEMBER 2020

Rights Issue/ Secondary Public Offer	Date of allotment	No. of shares provisionally allotted	Consideration per share (LKR)	Final allotment (No. of shares)	Amount raised (LKR)	Proportion	Date issued/listed
Rights Issue	30 November 2020	30,525,344	50	30,525,344	1,526,267,200	1:2	04 December 2020

36.2.1.1 UTILIZATION OF FUNDS RAISED THROUGH RIGHTS ISSUE IN DECEMBER 2020

Objective No.	Objective as per Circular	Amount allocated as per Circular in LKR	Proposed date of utilization as per Circular	Amount allocated from proceeds in LKR	% of total proceeds	Amounts utilized in LKR	% utilization 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

36.2.2 SECONDARY PUBLIC OFFER (SPO) OF ORDINARY SHARES IN AUGUST 2021

Rights Issue/Secondary Public Offer	Consideration per share (LKR)	Final allotment (No. of shares)	Amount raised (LKR)	Date listed
SPO	52	69,122,800	3,559,824,200	25 August 2021

36.2.2.1 UTILIZATION OF FUNDS RAISED THROUGH SECONDARY PUBLIC OFFER (SPO) OF ORDINARY SHARES IN AUGUST 2021

Objective No.	Objective as per Prospectus	Amount allocated as per Prospectus in LKR	Proposed date of utilization as per Prospectus	Amount allocated from proceeds in LKR	% of total proceeds	Amounts utilized in LKR	% utilization against allocation
1	Further strengthen the Equity Base of the Bank and thereby improve Tier I Capital Adequacy requirements stipulated under Basel III guidelines of the Central Bank of Sri Lanka (CBSL).	4,532,000,000	Upon the allotment of new shares	3,559,824,200	100	3,559,824,200	100
2	Part finance the growth in the loan portfolio of the Bank.	4,532,000,000	Before the end of FY 2022 based on the anticipated demand for credit.	3,559,824,200	100	3,559,824,200	100

37. STATUTORY RESERVE FUND

	2021	2020
	LKR	LKR
Opening balance as at 1 January	270,009,116	228,281,724
Transfer during the period	44,163,909	41,727,392
Closing balance as at 31 December	314,173,025	270,009,116

38. RETAINED EARNINGS

	2021	2020
	LKR	LKR
Opening balance as at 1 January	1,890,620,504	1,491,553,906
Profit for the year	909,346,727	834,951,754
Transfers to other reserves	(44,163,909)	(41,727,392)
Scrip dividend	-	(280,135,695)
Cash dividend	(206,046,072)	(114,022,069)
Other transactions - SPO share issue cost	(49,761,369)	-
Other transactions	157,055	-
Closing balance as at 31 December	2,500,152,936	1,890,620,504
Dividend per share	-	2.25

Notes to the Financial Statements

39. OTHER RESERVES

2021	Opening balance as at 1 January 2021	Movement/transfers	Closing balance as at 31 December 2021
	LKR	LKR	LKR
General reserve	46,656,973	-	46,656,973
Available for sale/fair value through OCI reserve	(19,051,624)	-	(19,051,624)
Total	27,605,349	-	27,605,349

2020	Opening balance as at 1 January 2020	Movement/transfers	Closing balance as at 31 December 2020
	LKR	LKR	LKR
General reserve	46,656,973	-	46,656,973
Available for sale/fair value through OCI reserve	(19,051,624)	-	(19,051,624)
Total	27,605,349	-	27,605,349

40. CONTINGENT LIABILITIES AND COMMITMENTS

ACCOUNTING POLICY

The accounting policies pertaining to "Commitments and Contingencies" are given in Note 2.20 to the Financial Statements.

40.1 BANK GUARANTEES

	2021	2020
	LKR	LKR
Bank guarantees	203,139,397	194,553,577
Total	203,139,397	194,553,577

40.2 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
1. Cases filed against the Bank with respect to mortgaged property and title of property.	
- District courts	L 17/11, DMR 496/15, M/10238, MB/1935 6940/P, 218/L , 7628/T, 798/T DMB/0124/08, L/528, 371/L, L/577
2. Cases filed against the Bank to restraining the payment of Bank Guarantee Bonds	T/1459
- District Court	2440/M
3. Appeals filed by the customers against the court orders delivered favor to Bank	
- District Court	DMB /005/16
- High Court Civil Appeal	HCCA/82/2017 (F) SP/HCCA/GA/93/2019 WP/HCCA/COL/LA/03/2021 WP/HCCA/COL/01/2019 (F)
4. Appeals filed by the Bank against the court orders delivered favor to customers	
- Supreme Court	SC/HC/LA/83/2019
- High Court Civil Appeal	WP/HCCA/COL/21/2021 (RA)
5. Cases filed by customers to obtain injunction orders to restraining the auction of property mortgaged	
- Commercial High Court	CHC/629/19/MR, CHC/955/18
- District Court	DSP/275/20, DSP/03/2021, DSP/112/2021, DSP/51/2021
- Commercial High Court	CHC/99/2021/MR
6. Cases filed against the Bank over the repossession of vehicles	
- District Court	SPL/2321 SPL/358
7. Cases filed against the Bank over the loan facilities to claiming right for the ceased assets by the guarantors	
- District Court	207/CL, 31/18 CL, 17615/M/17 17613/M/17, 13/17/CL, 53/CL 551/CL, 552/CL, 553/CL
8. Cases filed against the Bank by the employees and former directors	
- District Court	DMR/4015/17 , 6495/SPL
- Labour Tribunal	LT/BT/344/2017, DSP/430/2021 LT/JF/163/2020, LT/13/61/2020 LT/PN/25/19/ 2021
9. Cases filed against the Bank by other parties	
- District Court	M/10933/20, M/10972/20

Other than those disclosed above there is no case filed against the Bank which would have material impact on the financial position of the Bank.

Notes to the Financial Statements

41. EVENTS OCCURRING AFTER THE REPORTING DATE

ACCOUNTING POLICY

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue. No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements.

42. 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"

42.1 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:

	2021	2020
	LKR	LKR
Interest and capital repayment	596,297,953	649,117,778
Reimbursement of expenses	1,018,879	5,663,516

42.2 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.

42.2.1 KEY MANAGEMENT PERSONNEL COMPENSATION

	2021	2020
	LKR	LKR
Short term employee benefits	61,933,651	63,519,749
Post employment benefits	-	-

42.2.2 OTHER TRANSACTIONS (LOANS AND RECEIVABLES) WITH KEY MANAGEMENT PERSONNEL - BALANCE OUTSTANDING

	2021	2020
	LKR	LKR
Granting	12,600,000	749,000
Repayments	(166,819)	(105,955)
Closing balance as at 31 December	12,433,181	-
Interest income	125,386	89,519

42.2.3 DEPOSITS AND INVESTMENT FROM KEY MANAGEMENT PERSONNEL - BALANCE OUTSTANDING

	2021	2020
	LKR	LKR
Deposits accepted and renewed during the period	30,870,307	63,662,770
Balance as at 31 December	7,290,360	16,406,022
Interest Expenses	483,199	492,435

42.2.4 OTHER PAYMENT TO KEY MANAGEMENT PERSONNEL

	2021	2020
	LKR	LKR
Cash dividend	876,625	458,601

42.2.5 SHAREHOLDINGS BY KEY MANAGEMENT PERSONNEL

	2021	2020
	Number	Number
Number of shares held by KMP	585,749	377,111

*Mr. Thilak Piyadigama served as the CEO of the Bank until 22.02.2022

42.2.6 TERM 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.

42.2.7 RECURRENT AND NON-RECURRENT RELATED PARTY TRANSACTIONS

The Bank did not have any transactions where the aggregate value of the non-recurrent Related Party Transactions exceeds 10% of the Equity or 5% of the Total Assets, whichever is lower.

The Bank did not have any transactions where the aggregate value of the recurrent Related Party Transactions exceeds 10% of the gross income of the Bank.

43. ASSETS PLEDGED

Bank has pledged from the lease portfolio sum of LKR 655,455,469/- (2020 - LKR 974,849,643/-) for the securitised borrowings.

Bank has pledged from the loan portfolios sum of LKR 2,768,619,114/- (2020 - LKR 4,700,438,624/-) for other borrowings.

Notes to the Financial Statements

44. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 December 2021	Amortised cost	FVTPL	FVTOCI	Total
	LKR	LKR	LKR	LKR
Financial assets				
Cash and cash equivalents	3,117,485,469	-	-	3,117,485,469
Placements with banks	15,108,410,169	-	-	15,108,410,169
Financial assets at fair value through profit or loss	-	727,786,716	-	727,786,716
Financial assets at amortised cost				
- Loans and receivables to other customers	111,891,255,620	-	-	111,891,255,620
- Debt and other instruments	12,031,301,910	-	-	12,031,301,910
Financial assets measured at fair value through other comprehensive income	-	-	56,938,514	56,938,514
Total financial assets	142,148,453,168	727,786,716	56,938,514	142,933,178,398
Financial liabilities				
Due to other customers	93,902,939,217	-	-	93,902,939,217
Other borrowings	33,569,838,263	-	-	33,569,838,263
Debt securities issued	-	-	-	-
Subordinated term debts	3,752,578,405	-	-	3,752,578,405
Total financial liabilities	131,225,355,885	-	-	131,225,355,885

As at 31 December 2020	Amortised cost	FVTPL	FVTOCI	Total
	LKR	LKR	LKR	LKR
Financial assets				
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
Financial assets at amortised cost				
- 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
Total financial assets	120,370,818,323	4,600,457,930	56,938,514	125,028,214,766
Financial liabilities				
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
Total financial liabilities	116,428,756,445	-	-	116,428,756,445

45. FAIR VALUE OF FINANCIAL INSTRUMENTS**45.1 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.

45.2 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

45.2.1 ANALYSIS OF FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE BY LEVEL OF FAIR VALUE HIERARCHY

	As at 31 December 2021			
	Level 1	Level 2	Level 3	Total
	LKR	LKR	LKR	LKR
Financial assets fair value through profit or loss				
Sri Lanka Government securities- Treasury bonds	-	199,369,000	-	199,369,000
Unit trusts	-	511,471,916	-	511,471,916
Quoted Equities	16,945,800	-	-	16,945,800
Fair Value through other comprehensive income				
Unquoted equity securities	-	-	56,938,514	56,938,514
	16,945,800	710,840,916	56,938,514	784,725,230

Notes to the Financial Statements

	As at 31 December 2020			
	Level 1	Level 2	Level 3	Total
	LKR	LKR	LKR	LKR
Financial assets fair value through profit or loss				
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
Fair Value through other comprehensive income				
Unquoted equity securities	-	-	56,938,514	56,938,514
	6,632,792	4,593,825,139	56,938,514	4,657,396,445

The following table shows the total gain/(loss) recognised in profit or loss during the year relating to assets and liabilities held at the year end.

	2021	2020
	LKR	LKR
Net gain/(loss) from trading	4,143,851	5,228,460
Net fair value gain/(loss) of financial assets at fair value through profit or loss		
Sri Lanka Government securities- Treasury bonds	(199,254)	12,304
Unit trusts	236,201,322	268,514,699
Quoted equities	(1,068,140)	182,633
Total gain/(loss)	239,077,780	273,938,096

45.3 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.

	As at 31 December 2021		
	Level	Carrying value	Fair value
		LKR	LKR
Financial assets			
Cash and cash equivalents	Note*	3,117,485,469	3,117,485,469
Placements with banks	Note*	15,108,410,169	15,108,410,169
Financial assets at amortised cost			
- Loans and receivables to other customers	2	111,891,255,620	111,957,861,296
- Debt and other instruments	Note*	12,031,301,910	12,031,301,910
Total financial assets		142,148,453,168	142,215,058,845
Financial liabilities			
Due to other customers	2	93,902,939,217	94,665,950,027
Other borrowings	2	33,569,838,263	33,717,032,630
Subordinated term debts	Note*	3,752,578,405	3,752,578,405
Total financial liabilities		131,225,355,885	132,135,561,062

	As at 31 December 2020		
	Level	Carrying value	Fair value
		LKR	LKR
Financial assets			
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
Financial assets at amortised cost			
- 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
Total financial assets		120,370,818,322	122,802,786,727
Financial liabilities			
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
Total financial liabilities		116,428,756,445	111,994,307,117

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.

46. SEGMENT REPORTING

ACCOUNTING POLICY

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses, which in certain respects, are measured differently from operating profits or losses in the Financial Statements. Taxes are managed at an entity level and are not allocated to operating segments. Including revenue and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

An operating segment is a component of the Bank that engages in business activities from which it may earn revenue and incur expenses.

Interest income is reported net as management primarily relies on net interest income as a performance measure, not the gross income and expense.

Revenue from transactions with a single external customer or counterparty did not exceed 10% or more of the Bank's total revenue in 2021 or 2020.

Notes to the Financial Statements

The following table presents income, profit, total assets, total liabilities and cash flows of the Bank's operating segments.

	As at 31 December 2021				Total
	Banking	Leasing	Treasury	Pawning	
	LKR	LKR	LKR	LKR	
Interest income	11,624,102,519	1,704,445,939	1,190,960,686	272,559,116	14,792,068,260
Add: Inter-segment interest income	860,376,938	-	2,975,358,911	-	3,835,735,848
Total interest income	12,484,479,457	1,704,445,939	4,166,319,597	272,559,116	18,627,804,109
Interest expenses	(5,144,469,602)	(502,458,411)	(2,215,350,489)	(156,140,879)	(8,018,419,381)
Add: Inter-segment interest expense	(2,975,358,911)	-	(860,376,938)	-	(3,835,735,848)
Total interest expense	(8,119,828,513)	(502,458,411)	(3,075,727,427)	(156,140,879)	(11,854,155,230)
Net interest income	4,364,650,945	1,201,987,528	1,090,592,170	116,418,237	6,773,648,879
Fee and commission income	390,576,995	23,097,510	-	-	413,674,505
Fee and commission expenses	(21,251,631)	(2,075,639)	-	-	(23,327,270)
Net fee and commission income	369,325,364	21,021,872	-	-	390,347,235
Net gain/(loss) from trading	-	-	4,143,851	-	4,143,851
Net fair value gain/(loss) of financial assets at fair value through profit or loss	-	-	234,933,928	-	234,933,928
Net other operating income	24,959,170	-	7,816,205	-	32,775,375
Total operating income	4,758,935,477	1,223,009,398	1,337,486,153	116,418,236	7,435,849,268
Impairment for loans and other losses	(495,374,350)	(149,075,449)	3,110,046	(2,368,740)	(643,708,493)
Net operating income	4,263,561,127	1,073,933,949	1,340,596,199	114,049,496	6,792,140,775
Depreciation and amortisation expenses	(468,251,053)	(45,733,904)	(249,631)	(14,211,986)	(528,446,574)
Segment result	3,795,310,074	1,028,200,045	1,340,346,569	99,837,510	6,263,694,201
Un-allocated expenses					(4,390,960,590)
Value Added Tax (VAT) on financial services					(542,925,824)
Profit before tax					1,329,807,786
Tax expenses					(446,529,614)
Profit for the year					883,278,171
Other comprehensive income					
Other comprehensive income for the year net of tax					26,068,555
Total comprehensive income for the year					909,346,726
Segment assets	99,192,543,454	9,688,098,408	31,041,922,778	3,010,613,757	142,933,178,397
Un-allocated assets	-	-	-	-	4,885,737,677
Total assets	99,192,543,454	9,688,098,408	31,041,922,778	3,010,613,757	147,818,916,074
Segment liabilities	83,669,702,180	8,171,988,341	39,308,052,285	2,539,476,736	133,689,219,542
Total equity	-	-	-	-	14,129,696,532
Total liabilities	83,669,702,180	8,171,988,341	39,308,052,285	2,539,476,736	147,818,916,074
Addition to non-current assets	454,692,540	44,409,649	-	13,800,469	512,902,658

	As at 31 December 2020*					
	Banking	Leasing	Treasury	Pawning	Total	
	LKR	LKR	LKR	LKR	LKR	
Interest income	12,942,523,491	1,252,832,925	956,610,333	290,036,054	15,442,002,803	
Add: Inter-segment interest income	1,294,664,318	-	2,904,302,702	-	4,198,967,019	
Total interest income	14,237,187,809	1,252,832,925	3,860,913,035	290,036,054	19,640,969,823	
Interest expenses	(6,011,922,879)	(573,435,576)	(2,572,352,001)	(156,865,949)	(9,314,576,405)	
Add: Inter-segment interest expense	(2,904,302,702)	-	(1,294,664,318)	-	(4,198,967,019)	
Total interest expense	(8,916,225,581)	(573,435,576)	(3,867,016,318)	(156,865,949)	(13,513,543,424)	
Net interest income	5,320,962,228	679,397,349	(6,103,283)	133,170,104	6,127,426,398	
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)	
Net fee and commission income	360,186,424	16,098,692	-	-	376,285,116	
Net gain/(loss) 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	
Total operating income	5,736,055,754	695,496,040	268,154,813	133,170,103	6,832,876,712	
Impairment for loans and other losses	(265,963,204)	(152,531,672)	(1,489,920)	2,946,291	(417,038,505)	
Net operating income	5,470,092,550	542,964,369	266,664,892	136,116,394	6,415,838,207	
Depreciation and amortisation expenses	(405,187,739)	(38,648,045)	(160,864)	(10,572,351)	(454,568,998)	
Segment result	5,064,904,811	504,316,324	266,504,028	125,544,042	5,961,269,209	
Un-allocated expenses					(3,977,311,856)	
Value Added Tax (VAT) on financial services					(571,027,269)	
Profit before tax					1,412,930,083	
Tax expenses					(576,642,736)	
Profit for the year					836,287,347	
Other comprehensive income						
Other comprehensive income for the year net of tax					(1,335,594)	
Total comprehensive income for the year					834,951,754	
Segment assets	91,542,138,779	8,731,568,940	22,365,946,051	2,388,560,994	125,028,214,767	
Un-allocated assets	-	-	-	-	4,031,509,351	
Total assets	91,542,138,779	8,731,568,940	22,365,946,051	2,388,560,994	129,059,724,118	
Segment liabilities	87,233,551,545	8,320,602,723	21,313,254,570	2,276,139,291	119,143,548,129	
Total equity	-	-	-	-	9,916,175,990	
Total liabilities	87,233,551,545	8,320,602,723	21,313,254,570	2,276,139,291	129,059,724,118	
Addition to non-current assets	328,481,810	31,331,599	-	8,570,904	368,384,313	

* Inter segment interest income and interest expense have been adjusted to net interest income in Treasury and Banking segments for the year ended 31st December 2021 and comparative figure in this Financial Statements is amended.

Notes to the Financial Statements

47. 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 2021			As at 31 December 2020		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
	LKR	LKR	LKR	LKR	LKR	LKR
Assets						
Cash and cash equivalents	3,117,485,468	-	3,117,485,468	9,640,915,936	-	9,640,915,936
Placements with banks	6,201,801,835	8,906,608,333	15,108,410,169	1,330,428,452	1,493,200,000	2,823,628,452
Financial assets fair value through profit or loss	727,786,716	-	727,786,716	4,600,457,931	-	4,600,457,931
Financial assets at amortised cost						
- Loans and receivables to other customers	26,528,999,254	85,362,256,365	111,891,255,619	22,986,258,718	79,676,009,998	102,662,268,716
- Debt and other instruments	11,693,171,975	338,129,935	12,031,301,910	5,244,005,218	-	5,244,005,218
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	-	6,163,100	6,163,100
Property, plant and equipment	-	952,103,711	952,103,711	-	661,694,541	661,694,541
Right of use assets	22,636,097	542,840,437	565,476,534	75,496,546	614,149,660	689,646,206
Investment properties	-	19,166,540	19,166,540	-	20,222,570	20,222,570
Intangible assets	-	338,933,246	338,933,246	-	395,123,333	395,123,333
Deferred tax assets	299,448,116	-	299,448,116	231,672,525	-	231,672,525
Other assets	2,704,446,430	-	2,704,446,430	2,026,987,076	-	2,026,987,076
Total assets	51,295,775,892	96,523,140,181	147,818,916,073	46,136,222,402	82,923,501,716	129,059,724,118
Liabilities						
Due to other customers	64,584,214,777	29,318,724,439	93,902,939,217	64,578,026,248	28,693,700,937	93,271,727,185
Other borrowings	15,863,818,461	17,706,019,801	33,569,838,262	10,025,936,138	8,064,563,836	18,090,499,974
Debt securities issued	-	-	-	1,013,899,072	-	1,013,899,072
Subordinated term debts	414,620,523	3,337,957,882	3,752,578,405	16,369,215	4,036,260,999	4,052,630,214
Retirement benefit obligation	-	571,664,850	571,664,850	-	571,382,319	571,382,319
Current tax liabilities	293,249,746	-	293,249,746	274,214,765	-	274,214,765
Other liabilities	1,047,318,537	551,630,528	1,598,949,065	1,286,975,386	582,219,214	1,869,194,600
Total liabilities	82,203,222,044	51,485,997,499	133,689,219,543	77,195,420,824	41,948,127,305	119,143,548,128
Net asset/(liability)	(30,907,446,152)	45,037,142,682	14,129,696,530	(31,059,198,421)	40,975,374,411	9,916,175,990

48. RISK MANAGEMENT**48.1 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 continuous profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is mainly exposed to Credit Risk, Liquidity Risk, Market Risk and Operational Risk which has been disclosed in this note as summarised below:

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Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has delegated its authority to Board Integrated Risk Management Committee (BIRMC) which is responsible for developing and monitoring Bank's risk management policies. The Committee comprises of Non - Executive Directors. Meetings of BIRMC are held regularly, and the Board of Directors are duly updated of its activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls and to monitor adherence to established limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, continuously updates and maintains a disciplined and constructive control environment, in which all employees are assigned and made to understand their respective roles and responsibilities.

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Integrated Risk Management Unit

The business units (i.e. Credit Departments, Branches, Regional Offices, Treasury etc.) have primary responsibility for Risk Management. The Integrated Risk Management Unit, which has no responsibility for profit or volume targets, acts as the 2nd line of defense and reports to the Chief Risk Officer (CRO) who in turn directly reports to the BIRMC.

Asset/Liability Management Committee (ALCO)

ALCO is chaired by the Chief Executive Officer and has representatives from Treasury Department, Credit Departments, Marketing Department, Finance Department, Risk Department and Business Department. The Chief Financial Officer and the Chief Risk Officer are also members of the ALCO. The Committee meets regularly to monitor and manage the assets & liabilities of the Bank and overall liquidity position to keep the Bank's liquidity at healthy levels, whilst satisfying regulatory requirements.

Risk Measurement and Reporting

The Bank's risks are measured using appropriate techniques based on the type of risk and industry best practices. The Bank also carries out Stress Testing to identify the effect of extreme events/worst case scenarios in most of the major types of risks and the results are reported to Board Integrated Risk Management Committee (BIRMC) on a periodic basis. Monitoring and controlling risks are primarily performed based on policies, limits and thresholds 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 (Risk Appetite).

The Bank's risk measurement and reporting functions were further strengthened during the year amidst the COVID-19 pandemic. The credit risk of the Bank's loan book increased as the loan repayments were impacted by the lockdowns and movement restrictions imposed locally and globally from 2020. Similarly, market risk too increased due to significant volatility in financial markets locally as well as globally. The operational risks too increased owing to the work from home arrangements, conducting branch operations with limited staff, etc. during the lockdown periods.

In this back drop, the Bank took additional measures to ensure that the risks caused by the pandemic are adequately managed. Continuous reviews of the limits, policies and performance were carried out during the period. Some of these include;

- Reviewed risk elevated industries in the context of COVID-19 pandemic.
- Assessed the impact of the COVID-19 lockdowns and moratoriums (payment holidays) on the portfolio staging.
- Closely monitoring of the repayments of moratorium customers at the expiration of payment holidays.
- Used of a range of additional stress tests to assess the impact on Bank's performance and capital.
- Strengthened Cyber Security Management in light of the increase in use of digital platforms.
- Ensured adequate liquidity resources were held to meet Bank's obligations, given the uncertainties caused by the pandemic.

Risk Mitigation

As part of its overall risk management, the Bank obtains various types of collaterals to mitigate the risk. Details such as nature of the collateral that could be accepted, required security margin etc. are clearly defined in the Credit Policy of the Bank and any deviations require specific approval. However, respective approving authorities would take into account the availability of security only as the secondary source of repayment.

48.2 CREDIT RISK

Credit risk is the risk of financial loss to the Bank, if a borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances and investments in debt securities. In addition to the credit risk from direct funding exposures, the Bank would also be exposed to indirect liabilities such as guarantees, which would carry credit risk.

The Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector concentration risks) to ensure stringent Credit Risk Management.

48.2.1 ASSESSMENT OF EXPECTED CREDIT LOSSES

48.2.1 (A) ANALYSIS OF THE TOTAL AMORTISED COST FOR EXPECTED CREDIT LOSSES

As at 31st December	2021					2020
	Note	Stage 1	Stage 2	Stage3	Total	Total
		LKR	LKR	LKR	LKR	LKR
Cash and cash equivalents	18	3,118,950,300	-	-	3,118,950,300	9,645,805,017
Placements with banks	19	15,108,964,561	-	-	15,108,964,561	2,823,798,280
Financial assets at amortised cost						
- Loans and receivables to other customers	21	102,909,030,320	5,461,290,885	7,416,660,997	115,786,982,202	105,975,283,350
- Debt and other instruments	22	12,031,301,910	-	-	12,031,301,910	5,244,117,112
Credit related commitments & contingencies	40	203,139,397	-	-	203,139,397	194,553,577
Total allowance for expected credit losses		133,371,386,488	5,461,290,885	7,416,660,997	146,249,338,370	123,883,557,336

48.2.1 (B) MOVEMENT OF THE TOTAL ALLOWANCE FOR EXPECTED CREDIT LOSSES DURING THE PERIOD

	Note	2021	2020
		LKR	LKR
Balance as at 1st January		3,313,014,634	2,897,466,049
Net charge for the year		646,818,540	415,548,586
Write-off during the year	21.6	(64,106,591)	-
Balance as at 31st December		3,895,726,582	3,313,014,634

The methodology used in the determination of expected credit losses is explained in Note 3.2.6 to financial statements. As explained in the said Note, the Bank has made allowances for overlays where required to address the uncertainties and potential implications of COVID-19.

48.2.1 (C) SENSITIVITY ANALYSIS: IMPACT OF EXTENDING THE RECOVERY CASH FLOWS BY FURTHER ONE YEAR FOR INDIVIDUALLY SIGNIFICANT IMPAIRED LOANS

Had the Bank further extended the recovery cash flows by one year, only for instances where cash flow is forecasted based on collateral realisation, the cumulative impairment provision for individually significant impaired loans would have increased by Rs 253.73 Mn (2020: Rs 219.97 Mn).

48.2.1 (D) SENSITIVITY ANALYSIS: IMPACT OF STAGING OF LOANS AND ADVANCES ON COLLECTIVE IMPAIRMENT

If all loans and advances currently in stage 2, were moved to stage 1, the ECL provision of the Bank as at 31st December 2021 would have reduced by approximately 66% (2020 - 62%). The total loans and advances in stage 2 as at 31st December 2021 amounts to Rs 5.4 Bn of the Bank.

If all loans and advances currently in stage 1, were moved to stage 2, the ECL provision of the Bank as at 31st December 2021 would have further increased by approximately 944% (2020 - 957%). The total loans and advances in stage 1 as at 31st December 2021 amounts to Rs 102 Bn of the Bank. The management believes that a movement of the entire stage 1 loan portfolio to stage 2 is highly unlikely.

Notes to the Financial Statements

48.2.1 (E) SENSITIVITY ANALYSIS: IMPACT ON COLLECTIVE IMPAIRMENT (LOANS & ADVANCES, CREDIT RELATED COMMITMENT & CONTINGENCIES) DUE TO CHANGES IN PROBABILITY DEFAULT (PDS) AND LOSS GIVEN DEFAULT (LGDS)

	2021				
	Sensitivity effect on Statement on Financial Position Increase/(Decrease) in impairment provision				Sensitivity effect on Income Statement
	Stage 1	Stage 2	Stage 3	Total	Total
	LKR	LKR	LKR	LKR	LKR
PD 1% increase across all age buckets	48,727,686	17,426,394	-	66,154,080	66,154,080
PD 1% decrease across all age buckets	(48,727,686)	(17,426,394)	-	(66,154,080)	(66,154,080)
LGD 5% increase	108,594,659	71,446,339	201,814,439	381,855,436	381,855,436
LGD 5% decrease	(108,594,659)	(71,446,339)	(201,814,439)	(381,855,436)	(381,855,436)

48.2.1 (F) SENSITIVITY ANALYSIS: IMPACT ON COLLECTIVE IMPAIRMENT (LOANS & ADVANCES, CREDIT RELATED COMMITMENT & CONTINGENCIES) DUE TO CHANGES IN FORWARD LOOKING INFORMATION

The Bank calculates expected credit losses based on three probability-weighted scenarios. The weightages used by the Bank as at 31st December 2021 are disclosed in Note 3.2.6.6 along with the weightages used in 2020. During the year, due to the uncertainties created by COVID-19 pandemic, the Bank increased the weightage assigned to the worst case scenario by 5%, decreasing the weightage of the base case scenario by the same amount. Accordingly, the Bank's impairment provision increased by approximately Rs 7.9 Mn during the year.

A further 20% increase in the worst case scenario with a similar decrease in the base case scenario would have increased the collective impairment provision of the Bank by approximately Rs 39 Mn as at 31st December 2021.

Following table also summarizes the key economic indicators (GDP, Unemployment) used in estimating economic factor adjustment and impact on their changes.

As at 31 December 2021								
Key drivers	ECL scenario	Assigned Weightings	2021	2022	2023	2024	2025	Long term rate
		%	%	%	%	%	%	%
GDP growth	Base case	30	3.01	3.98	4.49	5.00	5.03	5.03
	Best case	30	4.74	5.18	6.29	6.93	7.09	7.09
	Worst case	40	-1.98	-0.75	0.40	1.48	0.38	0.38
Unemployment rate	Base case	30	5.83	5.84	5.84	5.83	5.81	5.81
	Best case	30	5.76	5.74	5.71	5.67	5.63	5.63
	Worst case	40	5.89	5.94	5.98	6.00	6.01	6.01

Since the beginning of the year, as the Bank has reassessed the key economic indicators used in its ECL models, the expected GDP growth rate over the next few years has been revised downwards, given the slowdown of economy. Unemployment also follow a similar trend. Central Bank base rates have also been revised downwards for the short term, as part of the governmental response. Long-term expectations remain unchanged.

48.2.1 (G) BREAKDOWN OF LOANS CLASSIFIED UNDER STAGE 2

Loans classified under the stage 2 includes contractually past due loans and loans which have been shifted to stage 2 based on the criteria specified in the Note 3.2.6.1(a).

As at 31 December	2021				2020
	Not Contractually Past Due 0 - 30 Days	Contractually Past Due		Total	Total
31 - 60 Days		61 - 90 Days	LKR		
	LKR	LKR	LKR	LKR	LKR
Term Loans	1,418,030,870	1,656,924,045	-	3,074,954,915	1,481,163,034
Pawning	23,064,336	15,872,453	2,265,519	41,202,309	57,538,316
Cash margin	550,526,994	100,060,075	51,008,384	701,595,453	440,956,245
Staff loans	3,516,907	6,657,525	-	10,174,432	-
Lease rentals receivable	131,364,150	1,501,999,626	-	1,633,363,775	1,557,455,093
	2,126,503,258	3,281,513,724	53,273,903	5,461,290,885	3,537,112,688

48.2.1 (H) OVERVIEW OF RESCHEDULED/RESTRUCTURED LOANS & ADVANCES

	Amortised Cost			Impairment for ECL			Net Carrying Value
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	
	LKR	LKR	LKR	LKR	LKR	LKR	LKR
2021	410,240,920	695,208,115	1,105,449,035	48,197,394	217,615,734	265,813,128	839,635,907
2020	245,537,083	2,190,475,925	2,436,013,008	25,060,597	633,685,080	658,745,677	1,777,267,331

48.2.1 (I) OVERVIEW OF RESCHEDULED/RESTRUCTURED LOANS & ADVANCES UPGRADED DURING THE YEAR

The Bank upgrades rescheduled/restructured loans from stage 3/stage 2 to stage 1 as per the upgrading policy described in Note 3.2.6.10 of the Financial Statements. During the year the Bank upgraded Rs 390 Mn worth of rescheduled/restructured loans to stage 1. Due to this upgrade, the impairment provision against these loans decreased from Rs 33.8 Mn as at 31st December 2020 to Rs 8.8 Mn as at 31st December 2021

48.2.1 (J) LOANS & ADVANCES ELIGIBLE FOR COVID-19 DEBT MORATORIUM

The Bank made an additional provision of approximately Rs 39 Mn against moratorium loans by the way of an allowance for overlay. The Bank made this additional provision, anticipating that some of the moratorium loans would move from current classification to stage 2 and stage 3 once the moratorium lapses.

The current moratorium for the tourism sector will continue until 30th June 2022. Meanwhile, moratorium for other sectors expired on 31st December 2021.

48.2.1 (K) MANAGEMENT OVERLAYS ON ECL ALLOWANCE

The Bank's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the Bank operates could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. Bank expects that post-model and other judgmental adjustments will be applied for the foreseeable future. Post-model adjustments and management overlays made in estimating the reported ECL as at 31 December are set out in the following table.

Notes to the Financial Statements

	As at 31 December 2021					
	LKR					Judgmental adjustments as a % of total ECL
	Modelled ECL	Judgmental adjustments for moratorium loans and risk elevated industries			Total ECL	
Post-model adjustments		Management overlays	Total judgements adjustments			
Pawning	2,787,041	-	-	-	2,787,041	-
Cash margin	3,290,836	-	-	-	3,290,836	-
Term loans						
Business	510,887,259	6,506,716	11,074,255	17,580,971	528,468,230	3%
Co-operative	152,563,909	956,512	2,149,128	3,105,640	155,669,549	2%
Housing	181,154,646	544,473	1,770,834	2,315,307	183,469,953	1%
Personal	205,416,110	6,869,854	10,228,621	17,098,475	222,514,585	8%
Fixed and floating	776,060,464	15,873,899	42,019,798	57,893,697	833,954,160	7%
SME	1,147,080,200	53,307,642	107,708,483	161,016,125	1,308,096,326	12%
Upahara	37,015,838	-	-	-	37,015,838	-
Lease rentals receivable	599,618,801	4,942,714	15,898,549	20,841,262	620,460,063	3%
	3,615,875,105	89,001,810	190,849,668	279,851,477	3,895,726,582	

The Bank is in the process of implementing internal scorecard system for analyzing credit risk of financial assets starting from next financial year.

The Bank does not have significant amount of financial assets that are written off but are still subject to enforcement activity.

48.2.2 RISKS ON CREDIT-RELATED COMMITMENTS

The Bank makes available to its customers, guarantees that may require the Bank to make payments on behalf of customers and enters into commitments to extend credit lines to secure their liquidity needs.

48.2.3 COLLATERAL AND OTHER CREDIT ENHANCEMENTS

48.2.3 (A) NET EXPOSURE TO CREDIT RISK

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The main types of collateral obtained are as follows:

For commercial lending: charges over real estate properties, cash, inventory and trade receivables, shares etc.

For retail lending: mortgages over residential properties, motor vehicles, gold etc.

Management monitors the market value of collateral and will request additional collateral if the market values are not sufficient in accordance with the underlying agreement. It is the Bank's policy to dispose repossessed properties in an orderly manner. The proceeds are used to recover the outstanding claim.

There was no change in the Bank's collateral policy during the year. Further, the Bank did not observe any significant deterioration in the quality of the collaterals and other credit enhancements during the reporting period.

The Bank does not provide for any allowances for ECL against financial assets secured by cash/deposits held within the Bank. Further, no allowance for ECL has been recognised for government securities denominated in Sri Lankan rupees, other financial assets secured by government guarantees, treasury bills and treasury bonds. Except for the above, Bank has recognised ECL for all other financial assets classified at amortised cost and debt instruments at FVOCI.

The following table shows the maximum exposure and net exposure (net of fair value of any collaterals held) to credit risk by class of financial asset, before netting off impairment for expected credit losses.

As at 31 December		2021		2020	
	Note	Maximum Exposure to Credit Risk	Net Exposure	Maximum Exposure to Credit Risk	Net Exposure
		LKR	LKR	LKR	LKR
Cash and cash equivalents	18	3,117,485,469	3,117,485,469	9,640,915,936	9,640,915,936
Placements with banks	19	15,108,410,169	15,108,410,169	2,823,628,452	2,823,628,452
Financial assets fair value through profit or loss	20	727,786,716	727,786,716	4,600,457,930	4,600,457,930
Financial assets at amortised cost					
- Loans and receivables to other customers*	21	111,891,255,620	81,840,596,571	102,662,268,716	78,249,415,928
- Debt and other instruments	22	12,031,301,910	11,531,110,129	5,244,005,218	3,565,490,888
Financial assets measured at fair value through other comprehensive income	23	56,938,514	56,938,514	56,938,514	56,938,514
Other assets		4,885,737,676	4,885,737,676	4,031,509,352	4,031,509,352
		147,818,916,074	117,268,065,245	129,059,724,118	102,968,357,000

* Approximately 10% and 5% (2020: 11% and 4%) of the total loans & advances of the Bank are secured against immovable property and cash/deposits held within the Bank respectively. Further 11% (2020: 11%) of the loans & advances are secured against other securities including movable property, gold, lease receivables, etc. Approximately 51% (2020: 51%) of stage 3 loans & advances of the Bank are secured against immovable property and cash/deposits held within the Bank.

The Bank holds 53% of Uphara & Uthathamachara, SME and Personal loans, out of its total lending portfolio. 65% of this portfolio is salary/pensioned based. 9% of loan accounts are covered through collateral like properties. And also Uphara and Uththamachara loan portfolio is 100% backed by insurance coverage.

48.2.3 (B) OFFSETTING FINANCIAL ASSETS & LIABILITIES

Financial assets and financial liabilities are offset and the net amount is presented in the Statement of Financial Position when the Bank has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

48.2.3 (C) FINANCIAL ASSETS & LIABILITIES NOT SUBJECT TO OFFSETTING

Amounts that do not qualify for offsetting include netting arrangements that only permit outstanding transactions with the same counterparty to be offset in an event of default or occurrence of other predetermined events. Such netting arrangements include repurchase arrangements and other similar secured lending and borrowing arrangements.

Notes to the Financial Statements

48.2.4 STAGE-WISE MOVEMENT OF LOANS & ADVANCES AND COMMITMENTS & CONTINGENCIES

48.2.4. (A) STAGE-WISE MOVEMENT OF GROSS CARRYING VALUES OF LOANS AND ADVANCES

Changes in the gross carrying amount of loans and advances during the period that contributed to the changes in impairment provision is given below:

	Stage 1	Stage 2	Stage 3	Total
	Subject to 12-month ECL	Subject to Lifetime ECL but not Credit Impaired	Subject to Lifetime ECL Credit Impaired	
	LKR	LKR	LKR	LKR
Balance as at 1st January 2020	78,209,673,041	4,323,019,060	6,188,108,810	88,720,800,911
Current stage of new financial assets originated	49,124,830,818	744,228,284	167,751,955	50,036,811,058
Changes in the gross carrying amount				-
- Transfer to stage 1	(3,352,056,933)	1,734,000,001	699,050,078	(919,006,855)
- Transfer to stage 2	106,431,825	(26,008,815)	1,492,568	81,915,578
- Transfer to stage 3	(16,950,800)	(21,340,510)	44,904,425	6,613,115
Financial assets that have been derecognised	(28,421,405,254)	(3,216,785,332)	(313,659,870)	(31,951,850,456)
Balance as at 31st December 2020	95,650,522,695	3,537,112,688	6,787,647,967	105,975,283,350
Balance as at 1st January 2021	95,650,522,695	3,537,112,688	6,787,647,967	105,975,283,350
Current stage of new financial assets originated	50,232,253,886	1,686,589,605	375,093,694	52,293,937,185
Changes in the gross carrying amount				-
- Transfer to stage 1	(10,998,867,854)	1,368,147,212	1,353,667,275	(8,277,053,367)
- Transfer to stage 2	(484,772,574)	(100,628,800)	(22,356,039)	(607,757,413)
- Transfer to stage 3	(465,193,998)	(92,222,225)	(415,780,325)	(973,196,548)
Financial assets that have been derecognised	(31,024,911,835)	(937,707,595)	(596,766,431)	(32,559,385,861)
Write-off during the year	-	-	(64,845,144)	(64,845,144)
Balance as at 31st December 2021	102,909,030,320	5,461,290,885	7,416,660,997	115,786,982,201

48.2.4. (B) STAGE-WISE MOVEMENT OF IMPAIRMENT FOR LOANS AND ADVANCES

More information about the significant changes in the impairment for loans and advances during the period is provided in the table below:

	Stage 1	Stage 2	Stage 3	Total
	Subject to 12-month ECL	Subject to Lifetime ECL but not Credit Impaired	Subject to Lifetime ECL Credit Impaired	
	LKR	LKR	LKR	LKR
Balance as at 1st January 2020	550,264,452	163,898,145	2,183,303,452	2,897,466,049
Net impairment charge for the year due to :				
New financial assets originated	247,343,540	17,979,395	33,573,100	298,896,035
Changes in the impairment amount				
- Transfer to stage 1	(172,060,116)	(47,901,070)	(84,128,202)	(304,089,389)
- Transfer to stage 2	47,553,859	(14,828,509)	402,189,799	434,915,149
- Transfer to stage 3	104,894,646	53,626,595	50,614,624	209,135,865
Financial assets that have been derecognised	(115,906,435)	(18,695,948)	(88,706,691)	(223,309,075)
Write-off during the year	-	-	-	-
Balance as at 31st December 2020	662,089,944	154,078,607	2,496,846,083	3,313,014,634
Balance as at 1st January 2021	662,089,944	154,078,607	2,496,846,083	3,313,014,634
Net impairment charge for the year due to :				
New financial assets originated	257,602,083	140,023,613	59,263,178	456,888,875
Changes in the impairment amount				
- Transfer to stage 1	(53,292,777)	(52,793,427)	(96,500,609)	(202,586,813)
- Transfer to stage 2	(214,614,969)	165,133,746	495,317,220	445,835,997
- Transfer to stage 3	151,513,504	84,217,082	37,103,975	272,834,561
Financial assets that have been derecognised	(118,753,975)	(21,906,064)	(184,908,271)	(325,568,310)
Write-off during the year	-	-	(64,692,361)	(64,692,361)
Balance as at 31st December 2021	684,543,810	468,753,557	2,742,429,215	3,895,726,582

48.2.4. (C) STAGE-WISE MOVEMENT OF GROSS CARRYING VALUES OF OTHER FINANCIAL ASSETS

The Bank did not observe any significant stage movements in other financial assets, which includes cash and cash equivalents, placements with banks, debt and other instruments at amortised cost and debt instruments at fair value through other comprehensive income.

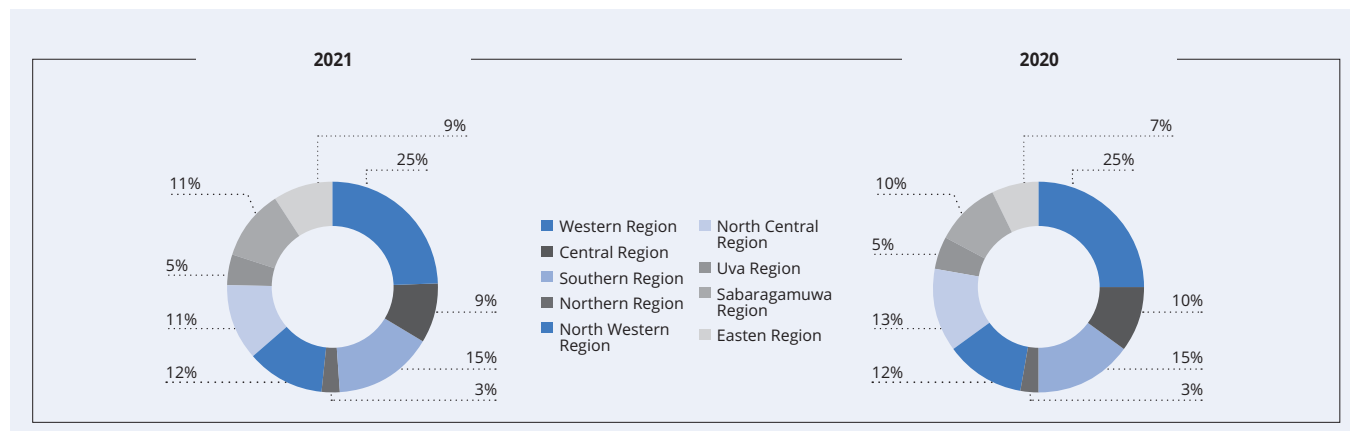
48.2.5 ANALYSIS OF RISK CONCENTRATION

The following tables show the exposure to credit risk for the Financial Assets, including geography of counterparty and industry.

Notes to the Financial Statements

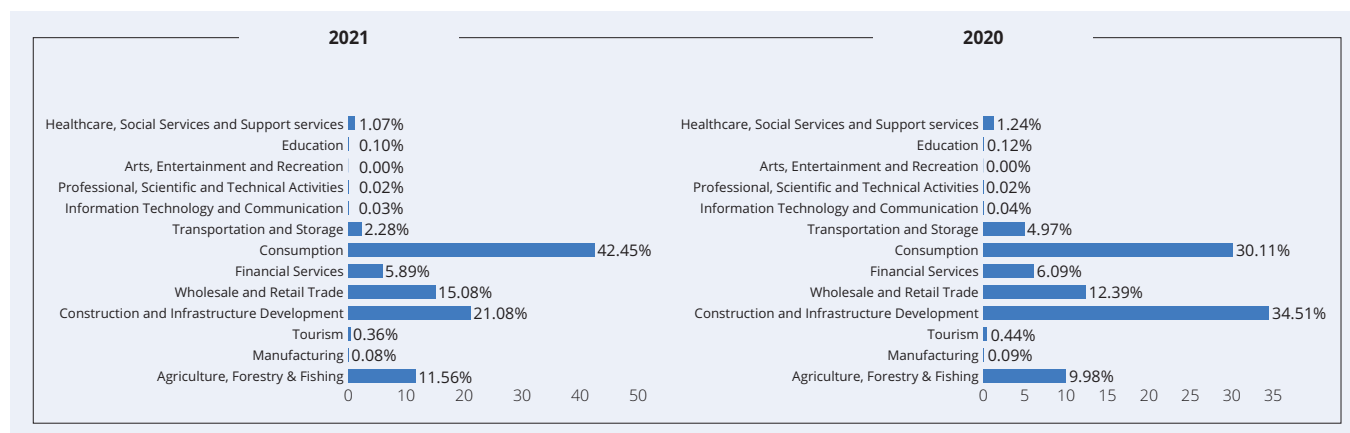
48.2.5.1 GEOGRAPHICAL DISTRIBUTION

Gross advance portfolio - Geographical wise is as follows :



48.2.5.2 INDUSTRY ANALYSIS

Gross advance portfolio - Industry wise is as follows :



48.2.6 COMMITMENTS AND CONTINGENCIES

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognised in the Statement of Financial Position, they do contain credit risk and are, therefore, part of the overall risk of the Bank.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank should have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the Statement of Financial Position. The Bank's maximum credit risk exposure for commitments and contingencies are disclosed in the Note No. 40.

Bank does not recognize a loss allowance for financial guarantee contracts as these contracts are fully backed by a Bank deposit (Savings or fixed deposit)

48.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is the risk that the Bank will encounter difficulties in meeting its financial commitments that are settled by delivering cash or another financial asset. Hence, the Bank may 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 continuously managing assets with liquidity in mind and 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 assumed to be easily liquidated in the event of an unforeseen interruption of expected cash flow. The Bank also has committed lines of credit that could be utilised 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 specific to the Bank. The most important of this is to maintain the required ratio of liquid assets to liabilities, to meet the regulatory requirement (20%). Liquid assets consist of cash, short-term bank deposits and liquid debt securities including government securities. Further the Statutory Liquid Assets Ratio of the Bank for the month of December 2021 is as follows.

48.3.1 STATUTORY LIQUID ASSETS RATIO (SLAR)

	2021	2020
	%	%
Statutory Liquid Assets Ratio (SLAR)	22.37	21.57

48.3.2 LOANS & ADVANCES TO DEPOSITS (DUE TO BANKS AND DUE TO DEPOSITORS) RATIO

The Bank is aware of the importance of deposits as a source of funds for its lending operations. This is monitored using the following ratio, which compares loans & advances to deposits.

Loans and advances to deposits ratio as at 31st December 2021: 125% (2020: 115%)

48.3.3 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The tables below summarise the maturity profile of the expected undiscounted cash flows of the Bank's financial assets and financial liabilities as at 31st December 2021. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the tables do not reflect the expected cash flows indicated by its deposit retention history based on the behavioural pattern.

Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Financial Liabilities

	As at 31 December 2021							
	Less than 7 days	7-30 days	1-3 months	3-12 months	1-3 years	3-5 years	Over 5 years	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Financial assets								
Cash and cash equivalents	3,117,485,469	-	-	-	-	-	-	3,117,485,469
Investments	55,890,825	6,055,431,849	10,519,949,827	1,981,062,844	5,135,981,298	4,193,953,904	-	27,942,270,545
Loans and receivables to other customers	2,635,505,434	3,561,704,241	4,177,038,661	19,930,696,862	31,993,585,151	26,649,450,656	35,982,632,261	124,930,613,266
Total financial assets	5,808,881,728	9,617,136,090	14,696,988,488	21,911,759,705	37,129,566,448	30,843,404,560	35,982,632,261	155,990,369,281
Financial liabilities								
Due to other customers	3,385,285,605	6,142,480,358	13,917,291,162	45,352,748,514	18,545,355,826	6,610,482,796	6,055,269,647	100,008,913,908
Other borrowings	-	5,289,599,022	3,592,854,813	8,163,146,247	11,773,889,200	4,907,011,731	2,370,250,672	36,096,752,204
Debt securities issued	-	-	-	-	-	-	-	-
Subordinated term debts	-	-	45,148,334	712,025,446	3,934,667,241	-	-	4,691,841,021
Total financial liabilities	3,385,285,605	11,432,079,380	17,555,294,310	54,227,920,207	34,253,192,787	11,517,494,527	8,425,520,318	140,797,507,134
Net financial assets/(liabilities)	2,423,596,123	(1,814,943,290)	(2,858,305,822)	(32,316,160,502)	2,875,653,662	19,325,910,033	27,557,111,943	15,192,862,147

Notes to the Financial Statements

	As at 31 December 2020							
	Less than 7 days	7-30 days	1-3 months	3-12 months	1-3 years	3-5 years	Over 5 years	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Financial assets								
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
Total financial assets	12,663,034,377	6,923,501,548	11,381,653,367	20,307,113,655	32,635,677,665	23,742,888,597	31,781,916,292	139,435,785,500
Financial liabilities								
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	97,507,794,393
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
Total financial liabilities	4,619,272,659	8,352,173,755	18,238,266,699	47,409,370,889	27,884,752,587	11,145,922,518	5,665,631,706	123,315,390,813
Net financial assets/ (liabilities)	8,043,761,718	(1,428,672,207)	(6,856,613,332)	(27,102,257,235)	4,750,925,078	12,596,966,079	26,116,284,585	16,120,394,687

Financial guarantees contracts issued by the Bank has short term maturity period (maximum period of one year) as at 31st December 2021 and 31st December 2020.

48.4 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 such as interest rates, foreign exchange rates, commodity prices and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately.

Market risk limits are set and continuously reviewed by the risk department and treasury department of the Bank. As a part of its established market risk management process, the risk department and treasury department also monitors early signs of possible changes in market conditions such as : anticipated and actual changes to interest rates; scio economic factors driving mortgage prepayment behaviors; and economic and geopolitical factors driving currency and equity price movement. Those two departments are take adequate actions to mangle market risk when necessary.

48.4.1 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 Bank's policy is to continuously monitor positions on a daily basis and use periodic interest re-pricing strategies to ensure positions are maintained within prudential levels.

The following tables demonstrate the sensitivity of the Bank's Statement of Profit or Loss for the year ended 31st December 2021 and 31st December 2020 to a reasonable possible change in interest rates, with all other variables held constant.

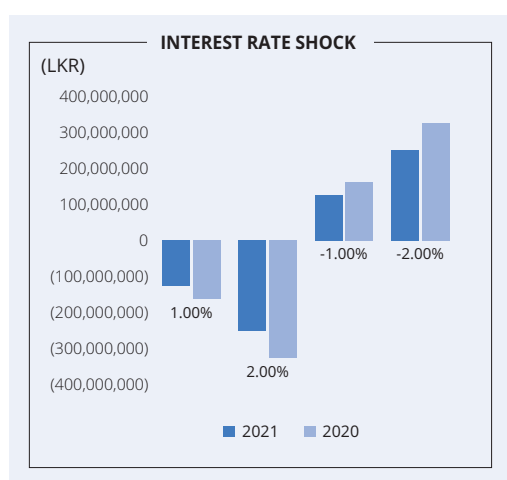
The below computation is based on the rate sensitive assets and liabilities which are to be matured or re-priced within one year.

Rate Sensitive Assets (RSA) & Rate Sensitive Liabilities (RSL)

	2021	2020
	LKR	LKR
Rate Sensitive Assets (RSA)	96,099,085,594	81,778,585,728
Rate Sensitive Liabilities (RSL)	108,695,564,206	98,100,138,929
GAP (RSA - RSL)	(12,596,478,611)	(16,321,553,201)

Impact on Statement of Profit or Loss due to Interest Rate Shocks

	2021	2020
	LKR	LKR
Interest Rate Shock		
1.00%	(125,964,786)	(163,215,532)
2.00%	(251,929,572)	(326,431,064)
-1.00%	125,964,786	163,215,532
-2.00%	251,929,572	326,431,064

Impact on Statement of Profit or Loss due to interest rate shocks**Interest Rate Sensitivity Analysis**

The tables below analyse 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 2021						
	Carrying amount	On demand	1-3 months	3-12 months	Over 1 year	Non interest sensitive	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Cash and cash equivalents	3,117,485,469	2,589,361,905	-	-	-	528,123,564	3,117,485,469
Placements with banks	15,108,410,169	1,850,000,000	3,400,000,000	951,801,835	8,906,608,333	-	15,108,410,169
Financial assets fair value through profit or loss	727,786,716	247,516,509	471,079,807	9,190,400	-	-	727,786,716
Loans and receivables to other customers	111,891,255,620	5,520,093,685	3,720,649,444	17,288,256,125	85,362,256,365	-	111,891,255,619
Debt and other instruments	12,031,301,910	3,431,822,350	6,751,713,367	1,509,636,258	338,129,935	-	12,031,301,910
Interest bearing assets	142,876,239,884	13,638,794,449	14,343,442,618	19,758,884,619	94,606,994,634	528,123,564	142,876,239,884
Due to other customers	93,902,939,217	8,950,346,506	13,073,849,507	42,560,018,764	29,318,724,439	-	93,902,939,217
Other borrowings	33,569,838,263	5,176,536,222	3,007,546,310	7,679,735,930	17,706,019,802	-	33,569,838,263
Debt securities issued	-	-	-	-	-	-	-
Subordinated term debts	3,752,578,405	-	-	414,620,523	3,337,957,882	-	3,752,578,405
Interest bearing liabilities	131,225,355,885	14,126,882,728	16,081,395,817	50,654,375,217	50,362,702,123	-	131,225,355,885
Interest rate sensitivity gap	11,650,884,000	(488,088,279)	(1,737,953,199)	(30,895,490,598)	44,244,292,511	528,123,564	11,650,883,999

Notes to the Financial Statements

Asset or liability	Interest rate sensitivity assets and liabilities as at 31 December 2020						
	Carrying amount	On demand	1-3 months	3-12 months	Over 1 year	Non interest sensitive	Total
	LKR	LKR	LKR	LKR	LKR	LKR	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
Interest bearing assets	124,971,276,252	9,788,455,771	10,454,108,537	14,219,656,149	76,463,077,689	14,045,978,108	124,971,276,253
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
Interest bearing liabilities	116,428,756,445	12,088,728,552	16,843,670,794	46,701,831,326	40,794,525,772	-	116,428,756,446
Interest rate sensitivity gap	8,542,519,807	(2,300,272,781)	(6,389,562,257)	(32,482,175,177)	35,668,551,917	14,045,978,108	8,542,519,808

48.4.2 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.

The Bank has two dollar denominated borrowings, granted by Belgian Investment Company for Developing Countries (BIO), USD 8Mn and The United States International Development Finance Corporation (DFC), USD 40Mn as at 31st December 2021. These two borrowings are placed as two dollar denominated deposits with the Bank of Ceylon matching the capital repayment schedules of the loans.

Loan granted by BIO will be matured in December 2024. Therefore, the dollar fixed deposit was taken for the same maturity to cover the capital repayments i.e USD 8Mn to be made at the maturity.

DFC loan will be matured in June 2028 and the dollar fixed deposits hedged against this loan will be matured at each installment repayment date.

48.4.3 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. The market value of the Bank's equity portfolio as of 31st December 2021 is Rs 16,945,800/- (2020: Rs 6,632,792/-).

48.5 OPERATIONAL RISK

Operational risk is the risk of losses arising from failed internal processes, systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. Strategic and Reputational Risks are not covered in Operational Risk.

Operational Risks of the Bank are mitigated and managed through a Board approved Operational Risk Management Policy control framework which consists of monitoring and responding to potential risks such as segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, Business Continuity Planning etc. Operational Risk Management Unit reports to Chief Risk Officer and the Board Integrated Risk Management Committee which maintains a high level overall supervision of managing Operational Risks of the Bank.

48.6 CAPITAL MANAGEMENT

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.

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 to enhance 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 monitor the credit growth carefully.

As mentioned in the Note 36.2, the Bank raised capital via a Rights Issues and Secondary Public Offer (SPO) to strengthen the capital ratios of the Bank

Regulatory capital	Actual 2021	Required 2021	Actual 2020	Required 2020
	LKR	LKR	LKR	LKR
Common Equity Tier 1 Capital	13,491,315,167	6,663,647,862	9,295,293,980	6,136,552,776
Total Tier 1 Capital	13,491,315,167	8,201,412,753	9,295,293,980	7,552,680,340
Tier 2 Capital Instruments	2,682,798,898	2,040,551,434	3,339,158,243	2,994,525,487
Total Capital	16,174,114,065	10,241,964,187	12,634,452,222	10,547,205,826
Total Risk Weighted Assets	102,517,659,414	-	94,408,504,000	-
Common Equity Tier 1 Capital Ratio %	13.16%	6.50%	9.85%	6.50%
Total Tier 1 Capital Ratio %	13.16%	8.00%	9.85%	8.00%
Total Capital Ratio %	15.78%	12.00%	13.38%	12.00%

49 COMPARATIVE INFORMATION

The comparative information has been reclassified wherever necessary to conform to the current year's presentation and details are given below.

49.1 STATEMENT OF PROFIT OR LOSS

Other income classified under account maintenance fee has been reclassified to other income and comparative figure in these financial statement is amended.

49.2 STATEMENT OF FINANCIAL POSITION

There were no reclassifications during the year.

49.3 STATEMENT OF CASH FLOW

Changes in other assets which were previously reported under receipts from other operating activities have been reclassified to changes in other assets and comparative figure in this Financial Statements is amended.

Changes in other liabilities which were previously reported under payments on other operating activities have been reclassified to changes in other liabilities and comparative figure in this Financial Statements is amended.

VAT on FS paid presented under cash flows from operating activities in 31 December 2020 has been reclassified and presented under tax paid and comparative figure in these Financial Statements is amended.

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Ten Years at a Glance

STATEMENT OF COMPREHENSIVE INCOME

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000
										Restated
Interest income	14,792,068	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
Interest expenses	(8,018,419)	(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)
Net interest income	6,773,649	6,127,426	5,696,795	4,723,029	3,887,493	3,330,347	3,368,374	2,449,406	1,863,805	1,902,878
Fee and commission income	413,675	390,619	237,656	196,762	278,770	212,540	217,475	164,626	122,423	71,767
Fee and commission expenses	(23,327)	(14,334)	(6,507)	(4,397)	(3,511)	(9,596)	(2,966)	(2,283)	(2,272)	(496)
Net fee and commission income	390,347	376,285	231,150	192,365	275,258	202,944	214,510	162,343	120,151	71,271
Net gains/(losses) from trading	4,144	5,228	1,265	-	-	-	-	-	-	-
Net gains/(losses) from financial instruments at fair value through profit or loss	234,934	268,710	114,889	280,172	211,759	17,351	5,095	53,942	102,444	(10,661)
Other operating income	32,775	55,227	90,969	20,811	50,845	40,046	52,027	168,428	63,289	52,012
Total operating income	7,435,849	6,832,877	6,135,068	5,216,378	4,425,356	3,590,687	3,640,005	2,834,119	2,149,689	2,015,500
Impairment for loans and other losses	(643,708)	(417,039)	(917,434)	(525,844)	(293,537)	(125,044)	(49,594)	(204,390)	(324,621)	(60,866)
Net operating income	6,792,141	6,415,838	5,217,634	4,690,534	4,131,819	3,465,643	3,590,410	2,629,730	1,825,068	1,954,634
Personnel expenses	(2,542,695)	(2,576,773)	(2,116,348)	(1,827,073)	(1,474,146)	(1,266,115)	(1,114,754)	(767,848)	(540,777)	(447,637)
Depreciation and amortisation expenses	(528,447)	(454,569)	(431,193)	(224,260)	(191,577)	(176,032)	(148,829)	(147,918)	(164,925)	(212,210)
Other expenses	(1,848,265)	(1,400,539)	(1,420,073)	(1,526,132)	(1,364,051)	(1,113,816)	(942,628)	(772,510)	(703,625)	(681,625)
Operating profit before value added tax (VAT), nation building tax (NBT) and debt repayment levy (DRL) on financial services	1,872,734	1,983,957	1,250,021	1,113,068	1,102,045	909,680	1,384,199	941,454	415,741	613,162
Value added tax (VAT) on financial services	(542,926)	(571,027)	(386,522)	(362,941)	(300,962)	(292,254)	(273,641)	(190,275)	(82,382)	(96,665)
Nation Building Tax (NBT) on financial services	-	-	(51,106)	(52,703)	(48,482)	-	-	-	-	-
Debt repayment levy (DRL) on financial services	-	-	(226,565)	(53,282)	-	-	-	-	-	-
Operating profit after VAT, NBT and DRL on financial services	1,329,808	1,412,930	585,827	644,142	752,601	617,425	1,110,559	751,179	333,359	516,497
Profit before tax	1,329,808	1,412,930	585,827	644,142	752,601	617,425	1,110,559	751,179	333,359	516,497
Tax expenses	(446,530)	(576,643)	(332,422)	(287,192)	(244,778)	(213,704)	(389,984)	(246,732)	(85,175)	(175,781)
Profit for the year	883,278	836,287	253,405	356,950	507,824	403,722	720,575	504,447	248,184	340,716

Ten Years at a Glance

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000
										Restated
Other comprehensive income										
Actuarial gains/(losses) on defined benefit plans	34,301	(1,855)	(41,588)	(45,995)	2,885	(49,639)	(2,688)	(27,091)	(5,464)	12,733
Deferred tax relating to defined benefit plans	(8,232)	519	11,645	12,879	(808)	13,899	753	7,586	1,530	(4,188)
Gains/(losses) on re-measuring financial assets measured at fair value through other comprehensive income	-	-	(3,210)	(3,388)	-	(12,454)	-	-	1,973	(27,621)
Other comprehensive income for the year net of tax	26,069	(1,336)	(33,153)	(36,505)	2,077	(48,194)	(1,935)	(19,506)	(1,961)	(19,077)
Total comprehensive income for the year	909,347	834,952	220,252	320,445	509,901	355,528	718,639	484,941	246,222	321,639
Basic earnings per share on profit (LKR)	7.63	11.05	4.50	6.34	9.87	9.60	17.90	13.36	9.39	13.73

* NBT on financial service expense is included in VAT on financial services expense up to 2016 and it is separately recorded after 2017.

STATEMENT OF FINANCIAL POSITION

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000
										Restated
Assets										
Cash and cash equivalents	3,117,485	9,640,916	2,429,791	4,171,939	1,190,390	1,044,725	5,057,791	661,651	399,385	503,541
Placements with banks	15,108,410	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
Financial assets fair value through profit or loss	727,787	4,600,458	3,527,310	146,103	4,473,806	244,911	-	-	1,210,673	184,419
Other financial asset classified under loans and receivable		-	-	-	1,479,950	1,503,539	1,926,055	4,164,273	1,701,091	470,099
Financial assets at amortised cost - loans and receivables to other customers	111,891,256	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
Financial assets at amortised cost - debt and other instruments	12,031,302	5,244,005	6,998,925	3,405,600	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	56,939	56,939	56,939	60,148	-	-	-	-	-	-
Financial investments - available-for-sale		-	-	-	63,536	566,935	79,679	29,734	165,699	171,696

- Supplementary Information -

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000	LKR' 000
										Restated
Financial investments - held-to-maturity		-	-	-	599,551	492,268	1,192,440	298,545	443,408	709,365
Investments in subsidiaries	6,163	6,163	-	-	-	-	-	-	-	-
Asset classified as held for sale		-	-	-	37,175	37,175	37,175	-	-	-
Property, plant and equipment	952,104	661,695	645,231	704,738	726,473	637,263	549,172	513,592	506,771	603,233
Right of use assets	565,477	689,646	651,271	-	-	-	-	-	-	-
Investment properties	19,167	20,223	21,279	22,335	23,391	24,447	25,503	26,559	27,615	28,671
Intangible assets	338,933	395,123	308,445	3,728	8,148	16,938	47,141	77,344	107,744	127,677
Deferred tax assets	299,448	231,673	232,482	69,415	-	-	-	-	40,081	-
Other assets	2,704,446	2,026,987	1,460,524	1,198,314	1,070,175	913,030	787,138	517,187	482,895	318,516
Total assets	147,818,916	129,059,724	107,783,624	96,817,767	82,374,713	66,032,799	60,289,994	40,572,547	29,732,605	24,899,556
Liabilities										
Due to other customers	93,902,939	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
Other borrowings	33,569,838	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
Debt securities issued	-	1,013,899	1,014,034	4,198,548	4,189,812	4,182,653	3,979,111	-	-	-
Subordinated term debts	3,752,578	4,052,630	4,210,566	1,008,028	1,004,355	-	-	-	-	-
Retirement benefit obligation	571,665	571,382	479,575	354,854	257,476	212,494	127,307	108,056	67,706	52,571
Current tax liabilities	293,250	274,215	187,070	143,988	32,153	23,110	260,733	113,192	-	70,561
Deferred tax liabilities	-	-	-	-	58,000	46,629	66,411	53,513	46,005	24,122
Other liabilities	1,598,949	1,869,195	1,491,759	767,833	769,413	873,924	935,350	750,144	765,237	987,558
Total liabilities	133,689,220	119,143,548	100,114,645	89,369,040	75,043,553	60,513,519	54,992,643	35,876,573	26,352,358	21,639,655
Equity										
Stated capital	11,287,765	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
Statutory reserve fund	314,173	270,009	228,282	215,611	197,764	172,373	154,596	118,664	94,417	82,106
Retained earnings	2,500,153	1,890,621	1,491,554	1,280,762	1,340,504	1,249,742	1,302,003	997,107	489,355	433,926
Other reserves	27,605	27,605	27,605	30,815	34,203	34,203	46,657	46,657	269,943	217,337
Total equity	14,129,697	9,916,176	7,668,979	7,448,727	7,331,160	5,519,280	5,297,351	4,695,974	3,380,247	3,259,901
Total equity and liabilities	147,818,916	129,059,724	107,783,624	96,817,767	82,374,713	66,032,799	60,289,994	40,572,547	29,732,605	24,899,556
Contingent liabilities and commitments	203,139	194,554	177,752	182,986	166,260	148,030	136,574	129,507	144,378	143,214
Other information										
Number of accounts (CIF numbers)	1,527,665	1,442,788	1,384,175	1,310,198	1,230,406	1,131,355	1,068,345	992,782	903,476	858,454
Number of customer centers	94	94	94	94	91	88	87	82	82	81
Number of employees	1433	1490	1,475	1,504	1,363	1,248	1,198	1,004	856	823

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 2021	As at 31 December 2020
Regulatory capital (LKR'000)		
Common Equity Tier 1 (CET I) capital	13,491,315	9,295,294
Tier 1 capital	13,491,315	9,295,294
Total capital	16,174,114	12,634,452
Regulatory capital ratio (%)		
Common Equity Tier 1 capital ratio (Minimum requirement - 2021: 6.50%, 2020: 6.50%)	13.16	9.85
Tier 1 Capital Ratio (Minimum requirement - 2021: 8.00%, 2020: 8.00%)	13.16	9.85
Total capital ratio (Minimum requirement - 2021: 12.00%, 2020: 12.00%)	15.78	13.38
Leverage ratio (%) (Minimum requirement - 3%)	9.11	7.17
Regulatory liquidity		
Statutory liquid assets (LKR' 000)	20,694,877	18,886,169
Statutory liquid assets ratio (Minimum requirement - 20%)		
Domestic banking unit (%)	22.37	21.57
Off-shore banking unit (%)	-	-
Total stock of high-quality liquid assets (LKR' 000)	12,782,663	6,796,184
Liquidity coverage ratio (%) (Minimum requirement - 2021: 100%, 2020 - 90%)		
Rupee (%)	134.82	125.21
All currency (%)	134.82	125.21
Net stable funding ratio (%) (Minimum requirement - 100%)	137.61	127.33

TEMPLATE 2

BASEL III COMPUTATION OF CAPITAL RATIOS

Item	Amount (LKR' 000)	
	As at 31 December 2021	As at 31 December 2020
Common Equity Tier 1 (CET1) capital after adjustments	13,491,315	9,295,294
Common Equity Tier 1 (CET1) capital	14,129,697	9,925,440
Equity capital (stated capital) /assigned capital	11,287,765	7,727,941
Reserve fund	314,173	270,096
Published retained earnings/(accumulated retained losses)	2,500,153	1,899,797
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	-	-
Total adjustments to CET1 capital	638,381	630,146
Goodwill (net)	-	-
Intangible assets (net)	338,933	395,123
Deferred tax assets (net)	299,448	231,673
Investments in the capital of banking and financial institutions	-	3,350
Additional Tier 1 (AT1) capital after adjustments	-	-
Additional Tier 1 (AT1) capital	-	-

Item	Amount (LKR' 000)	
	As at 31 December 2021	As at 31 December 2020
Qualifying additional Tier 1 capital Instruments	-	-
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
Total adjustments to AT1 capital	-	-
Investment in own shares	-	-
Others	-	-
Tier 2 capital after adjustments	2,682,799	3,339,158
Tier 2 capital	2,682,799	3,389,158
Qualifying Tier 2 capital instruments	1,763,878	2,650,029
Revaluation gains	-	-
Loan loss provisions	918,921	739,129
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
Total adjustments to Tier 2	-	50,000
Investment in own shares	-	-
Investments in the capital of banking and financial institutions	-	50,000
CET 1 capital	13,491,315	9,295,294
Total Tier 1 capital	13,491,315	9,295,294
Total capital	16,174,114	12,634,452
Total risk weighted assets (RWA)	102,517,659	94,408,504
RWAs for credit risk (Template 7 and 8)	94,318,069	87,119,345
RWAs for market risk (Template 9)	25,975	9,478
RWAs for operational risk (Template 10)	8,173,615	7,279,682
CET 1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	13.16	9.85
of which: capital conservation buffer (%)	-	-
of which: countercyclical buffer (%)	-	-
of which: capital surcharge on D-SIBs (%)	-	-
Total Tier 1 capital ratio (%)	13.16	9.85
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	15.78	13.38
of which: capital conservation buffer (%)	-	-
of which: countercyclical buffer (%)	-	-
of which: capital surcharge on D-SIBs (%)	-	-

Disclosures as per Pillar III of Banking Act No. 1 of 2016, Capital Requirements under Basel III

TEMPLATE 3

COMPUTATION OF LEVERAGE RATIO

Item	Amount (LKR' 000)	
	As at 31 December 2021	As at 31 December 2020
Tier 1 capital	13,491,315	9,295,294
Total exposures	148,090,672	129,595,216
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	147,180,535	128,429,579
Derivative exposures	-	-
Securities financing transaction exposures	-	-
Other off-balance sheet exposures	910,137	1,165,637
Basel III leverage ratio (%) (Tier 1/total exposure)	9.11	7.17

TEMPLATE 4

BASEL III COMPUTATION OF LIQUIDITY COVERAGE RATIO

Item	Amount (LKR' 000)			
	As at 31 December 2021		As at 31 December 2020	
	Total un-weighted value	Total weighted value	Total un-weighted value	Total weighted value
Total stock of high-quality liquid assets (HQLA)	12,833,982	12,782,663	7,180,610	6,796,184
Total adjusted level 1 assets	12,520,743	12,520,743	4,625,431	4,625,431
Level 1 assets	12,520,743	12,520,743	4,625,431	4,625,431
Total adjusted level 2A assets	300,858	255,730	2,551,896	2,169,111
Level 2A assets	300,858	255,730	2,551,896	2,169,111
Total adjusted level 2B assets	12,381	6,190	3,283	1,642
Level 2B assets	12,381	6,190	3,283	1,642
Total cash outflows	95,959,343	16,449,004	92,187,662	17,782,685
Deposits	66,115,337	6,611,534	60,915,388	6,091,539
Unsecured wholesale funding	28,163,505	9,019,801	28,673,618	10,190,426
Secured funding transactions	27,140	27,140	22,415	22,415
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	1,653,361	790,530	2,576,240	1,478,305
Additional requirements	-	-	-	-
Total cash inflows	14,580,754	6,967,439	21,421,994	12,354,809
Maturing secured lending transactions backed by collateral	3,196,417	51,190	4,755,726	362,037
Committed facilities	2,100,000	-	1,850,000	-
Other inflows by counterparty which are maturing within 30 days	9,109,337	6,828,748	12,804,867	10,987,072
Operational deposits	-	-	-	-
Other cash inflows	175,000	87,500	2,011,400	1,005,700
Liquidity coverage ratio (%) (stock of high quality liquid assets/total net cash outflows over the next 30 calendar days) * 100		134.82		125.21

TEMPLATE 5

MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

Description of the capital instrument	Stated capital	Subordinated term debt (2016)	Subordinated term debt (2019)	Subordinated term debt (2019)
Issuer	Sanasa Development Bank PLC	SBI Emerging Asia Financial Sector Fund PTE. LTD	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
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
Original date of issuance (agreement signed date for subordinated term debts)	May 2012 to August 2021	December 2016	March 2019	September 2019
Par value of instrument (LKR)	100	N/A	N/A	N/A
Perpetual or dated	Perpetual	Dated	Dated	Dated
Original maturity date, if applicable	N/A	December 2021	March 2024	September 2024
Amount recognised in regulatory capital (in LKR '000 as at 31st December 2021)	11,287,765	68,623	849,217	846,039
Accounting classification (equity/liability)	Equity	Liability	Liability	Liability
Issuer call subject to prior supervisory approval				
Optional call date, contingent call dates and redemption amount (LKR '000)	N/A	N/A	N/A	N/A
Subsequent call dates, if applicable	N/A	N/A	N/A	N/A
Coupons/Dividends				
Fixed or floating dividend/coupon	Floating dividend	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 + 700bps	6 months LIBOR + 550bps
Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative	Cumulative
Convertible or non-convertible				
If convertible, conversion trigger(s)	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
If convertible, mandatory or optional	N/A	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	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

Disclosures as per Pillar III of Banking Act No. 1 of 2016, Capital Requirements under Basel III

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 optimize 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 optimize the risk weighted assets for the purpose of improving the capital allocation of the Bank.

TEMPLATE 7

CREDIT RISK UNDER STANDARDIZED APPROACH - CREDIT RISK EXPOSURES AND CREDIT RISK MITIGATION (CRM) EFFECTS

Item	Amount (LKR' 000) as at 31 December 2021					
	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	11,834,035	-	11,834,035	-	-	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	17,505,858	-	17,505,858	-	3,502,541	20%
Claims on financial institutions	-	-	-	-	-	-
Claims on corporates	574,329	-	574,329	-	165,151	29%
Retail claims	103,877,580	-	98,545,032	-	80,228,233	81%
Claims secured by residential property	5,061,303	-	5,061,303	-	2,303,481	46%
Claims secured by commercial real estate	-	-	-	-	-	-
Non-performing assets (NPAs)	2,543,272	-	2,543,272	-	2,223,912	87%
Higher-risk categories	-	-	-	-	-	-
Cash items and other assets	5,945,336	910,137	5,945,336	394,127	5,894,752	93%
Total	147,341,713	910,137	142,009,165	394,127	94,318,069	66%

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 STANDARDIZED APPROACH - EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS**

Description	Amount (LKR' 000) as at 31 December 2021 (Post CCF & CRM)										
	Risk weight	0%	20%	35%	50%	60%	75%	100%	150%	>150%	Total credit exposures amount
Claims on Central Government and CBSL		11,834,035	-	-	-	-	-	-	-	-	11,834,035
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		-	17,501,293	-	4,565	-	-	-	-	-	17,505,858
Claims on financial institutions		-	-	-	-	-	-	-	-	-	-
Claims on corporates		-	511,472	-	-	-	-	62,857	-	-	574,329
Retail claims		172,924	2,722,194	-	-	-	63,864,482	31,785,432	-	-	98,545,032
Claims secured by residential property		-	-	4,242,804	-	-	-	818,499	-	-	5,061,303
Claims secured by commercial real estate		-	-	-	-	-	-	-	-	-	-
Non-performing assets (NPAs)		-	-	-	685,491	-	-	1,811,012	46,769	-	2,543,272
Higher-risk categories		-	-	-	-	-	-	-	-	-	-
Cash items and other assets		416,878	34,791	-	-	-	-	5,887,794	-	-	6,339,463
Total		12,423,837	20,769,750	4,242,805	690,056	-	63,864,482	40,365,594	46,769	-	142,403,293

TEMPLATE 9**MARKET RISK UNDER STANDARDISED MEASUREMENT METHOD**

Item	RWA amount (LKR' 000) As at 31 December 2021
(a) RWA for interest rate risk	-
General interest rate risk	-
(i) Net long or short position	-
(ii) Horizontal disallowance	-
(iii) Vertical disallowance	-
(iv) Options	-
Specific interest rate risk	-
(b) RWA for equity	3,247
(i) General equity risk	2,628
(ii) Specific equity risk	619
(c) RWA for foreign exchange and gold	-
Capital charge for market risk $\{(a) + (b) + (c)\} * CAR$	25,975

Disclosures as per Pillar III of Banking Act No. 1 of 2016, Capital Requirements under Basel III

TEMPLATE 10

OPERATIONAL RISK UNDER BASIC INDICATOR APPROACH

Business lines	Capital charge factor	Gross income (LKR' 000) as at 31 December 2021			Amount (LKR' 000)
		1st Year	2nd Year	3rd Year	
The basic indicator approach	15%	7,458,891	6,845,630	6,129,518	
Capital charges for operational risk (LKR' 000)					
The basic indicator approach					1,021,702
Risk-weighted amount for operational risk (LKR' 000)					
The basic indicator approach					8,173,615

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 2021)					
	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	
Assets						
Cash and cash equivalents	3,117,485	3,117,216	3,117,216	-	-	Impairment of financial assets under SLFRS 9.
Placements with banks	15,108,410	14,851,274	14,851,274	-	-	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	727,787	718,596	515,792	202,804		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	111,891,256	112,979,154	111,482,155	-	(918,921)	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	12,031,302	11,934,035	11,934,035	-	-	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	56,939	56,939	56,939	-	-	
Investment in subsidiaries	6,163	6,163	6,163	-	-	
Property, plant and equipment	952,104	952,104	952,104	-	-	

Item	Amount (LKR '000 as at 31 December 2021)					
	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	
Right of use assets	565,477	-	-	-	-	In regulatory reporting Right of use asset as per SLFRS 16 is not recognised.
Investment properties	19,167	19,167	19,167	-	-	
Intangible assets	338,933	338,933			338,933	
Differed tax assets	299,448	271,914	-	-	299,448	In regulatory reporting differed tax assets are recorded in other assets.
Other assets	2,704,446	2,209,939	4,406,869	-		The difference is due to recognition of interest receivable on investments in regulatory reporting and SLFRS 9 adjustments.
Total assets	147,818,916	147,455,433	147,341,713	202,804	(280,539)	
Liabilities						
Due to banks						
Due to other customers	93,902,939	90,817,025	-	-	-	Interest payable on deposits are stated under other liabilities in regulatory reporting.
Other borrowings	33,569,838	25,435,189	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Subordinated term debts	3,752,578	11,729,788	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Retirement benefit obligations	571,665	647,972	-	-	-	
Current tax liabilities	293,250	303,236	-	-	-	Taxes are computed based on different profits under each reporting method.
Other liabilities	1,598,949	4,345,409	-	-	-	Interest payable on borrowing and deposits added to the other liabilities in regulatory reporting.
Total liabilities	133,689,220	133,278,619	-	-	-	
Off-balance sheet liabilities						
Guarantees	203,139	203,139	203,139			
Undrawn loan commitments	-	706,998	706,998	-	-	
Shareholders' equity						
Equity capital (stated capital)/ assigned capital	11,287,765	11,235,844				
of which amount eligible for CET 1	11,287,765	11,235,844	-	-	-	
of which amount eligible for AT 1	-	-	-	-	-	
Retained earnings	2,500,153	2,596,995	-	-	-	Due to differences which arise in profits computed in regulatory reporting and SLFRSs.
Accumulated other comprehensive income	(19,052)	-	-	-	-	
Other reserves	360,830	343,976	-	-	-	
Total shareholders' equity	14,129,697	14,176,814	-	-	-	
			-	-	-	

Sources and Utilisation of Income

SOURCES OF INCOME

For the year ended 31 December	2021	2020	2019	2018	2017
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Interest	13,601,108	14,485,392	13,839,972	11,985,315	9,757,778
Investments	1,190,961	956,610	1,239,352	1,161,472	1,071,555
Commission and other	662,200	705,450	438,273	493,349	537,863
Total	15,454,269	16,147,453	15,517,597	13,640,136	11,367,196

UTILISATION OF INCOME

For the year ended 31 December	2021	2020	2019	2018	2017
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Employees					
Salaries and other payments to staff	2,542,695	2,576,773	2,116,348	1,827,073	1,474,146
Suppliers					
Interest paid	8,018,419	9,314,576	9,382,529	8,423,758	6,941,841
Other expenses	3,020,420	2,272,146	2,768,699	2,276,236	1,849,165
	11,038,840	11,586,722	12,151,228	10,699,994	8,791,006
Net income before government taxes	1,872,734	1,983,957	1,250,021	1,113,069	1,102,044
Government					
Income tax, VAT on FS, NBT and DRL	989,455	1,147,670	996,616	756,118	594,221
Shareholders					
Dividends	241,050	206,047	114,020	-	136,947
Retained profit	642,228	630,241	139,385	356,950	370,876
	883,278	836,287	253,405	356,950	507,823
Total	15,454,269	16,147,453	15,517,597	13,640,136	11,367,196

Quarterly Performance of the Bank

	2021				2020			
	31 December	30 September	30 June	31 March	31 December	30 September	30 June	31 March
Regulatory capital adequacy ratio								
Common equity Tier 1 capital ratio (%)	13.16	12.41	9.32	9.44	9.85	8.15	8.28	8.81
Tier 1 capital ratio (%)	13.16	12.41	9.32	9.44	9.85	8.15	8.28	8.81
Total capital ratio (%)	15.78	15.15	12.36	12.71	13.38	12.04	12.76	13.75
Leverage ratio (%)	9.11	8.62	6.70	6.83	7.17	5.89	6.02	6.23
Regulatory liquidity								
Statutory liquid asset (LKR Mn)	20,695	21,781	21,644	18,908	18,886	17,687	17,058	14,188
Statutory liquid asset ratio (%)	22.37	22.76	22.53	20.70	21.57	21.71	22.71	21.57
Total stock of high quality liquid assets (LKR Mn)	12,783	9,855	11,579	6,651	6,796	5,706	5,881	6,213
Liquidity coverage ratio (%)	134.82	182.86	131.33	152.36	125.21	105.87	102.12	136.22
Net stable funding ratio (%)	137.61	130.82	130.19	126.47	127.33	128.13	130.58	130.56
Asset quality								
Gross non-performing advances ratio (%)	4.42	4.78	4.77	4.47	4.54	4.53	4.72	4.93
Net non-performing advances ratio (%)	1.49	1.76	1.87	1.71	1.79	1.78	2.19	2.26
Impaired Loans (Stage 3) Ratio (%)	4.13	4.60	-	-	-	-	-	-
Impairment (Stage 3) to Stage 3 Loans Ratio (%)	36.98	34.19	-	-	-	-	-	-
Profitability								
Interest margin (%)	5.47	5.34	5.44	5.71	5.89	5.79	6.09	6.22
Return on assets (%)	0.96	1.02	0.97	1.03	1.19	1.25	1.10	0.66
Return on equity (%)	7.35	8.36	9.98	12.00	9.51	11.50	9.75	5.47
Share information								
Market value per share (LKR)	43.00	50.90	50.30	56.80	58.10	56.10	60.50	47.00
Highest price per share for the period (LKR)	55.80	56.00	58.00	68.50	65.00	65.00	62.50	63.90
Lowest price per share for the period (LKR)	42.00	49.80	50.00	53.50	50.50	50.70	43.80	45.00
Debenture Information								
Debt to equity ratio (times)	-	-	-	-	11.74	13.83	13.09	12.96
Interest cover (Times)	-	-	-	-	1.61	1.57	1.12	1.07
Quick assets ratio (Times)	-	-	-	-	0.64	0.50	0.63	0.65
Interest rate for comparable government security (%)								
Type A	-	-	-	-	-	-	-	-
Type B	-	-	-	-	6.65	6.69	6.62	9.27
Type C	-	-	-	-	-	-	-	-
Type D	-	-	-	-	6.65	6.69	6.62	9.27

Investor Relations

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

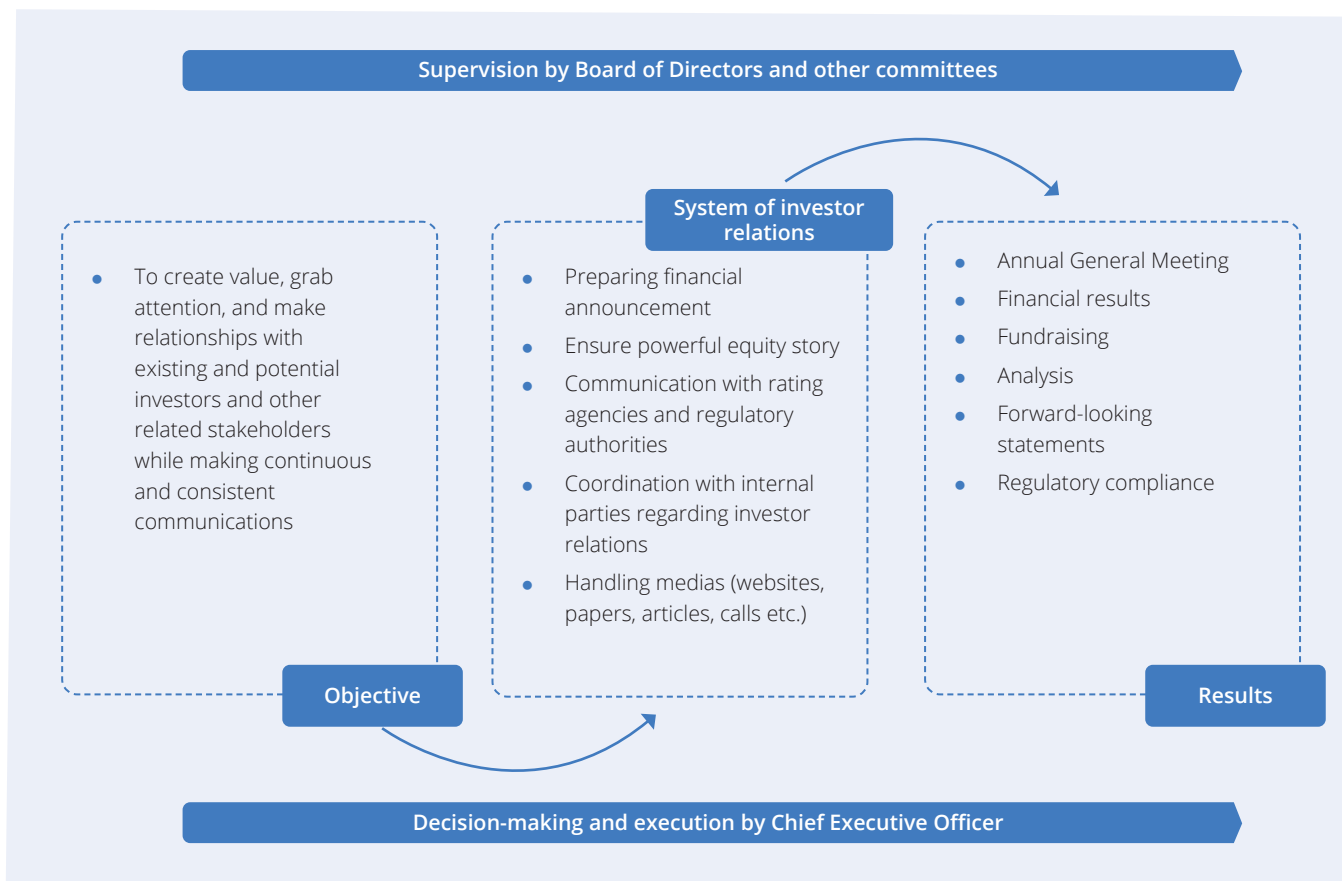
The Bank has obtained credit ratings from Fitch Ratings Lanka Ltd., and ICRA Lanka Limited. The ratings take into consideration the Bank's performance, asset quality, capitalisation, liquidity and market position among others.

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)
SDB Bank	www.sdb.lk
Colombo Stock Exchange	www.cse.lk
Central Bank of Sri Lanka	www.cbsl.gov.lk
Fitch Ratings Lanka Ltd.	www.fitchratings.com
ICRA Lanka Limited	www.icralanka.com

HOW WE CREATE VALUE TO OUR INVESTORS



SHARES AND SHAREHOLDERS' ANALYSIS

SHARE OWNERSHIP COMPOSITION

Share range	31 December 2021				31 December 2020			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
1 - 1,000	36,602	93.88	4,909,114	3.06	36,493	93.93	4,854,384	5.30
1,001 - 10,000	1,798	4.61	5,626,142	3.50	1,796	4.62	5,545,897	6.06
10,001 - 100,000	494	1.27	15,471,176	9.63	498	1.28	14,298,993	15.61
100,001 - 1,000,000	74	0.19	20,864,228	12.98	52	0.13	12,073,058	13.18
1,000,001 - and above	18	0.05	113,828,172	70.83	14	0.04	54,803,700	59.85
	38,986	100.00	160,698,832	100.00	38,853	100.00	91,576,032	100.00

ANALYSIS OF SHAREHOLDERS

Resident/Non-resident

	31 December 2021				31 December 2020			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Resident	38,963	99.94	122,758,572	76.39	38,836	99.96	73,443,013	80.20
Non-resident	23	0.06	37,940,260	23.61	17	0.04	18,133,019	19.80
Total	38,986	100.00	160,698,832	100.00	38,853	100.00	91,576,032	100.00

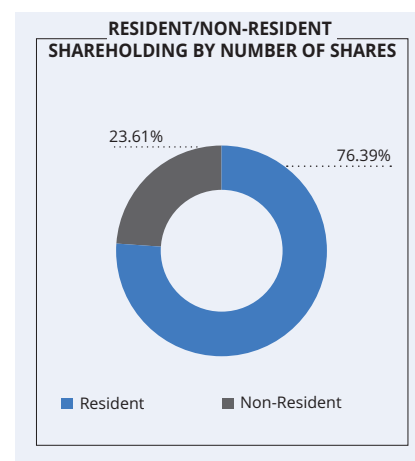
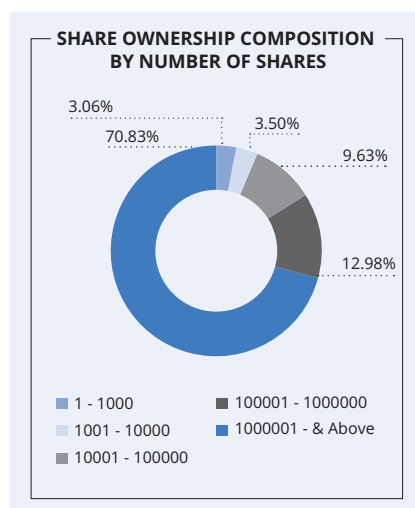
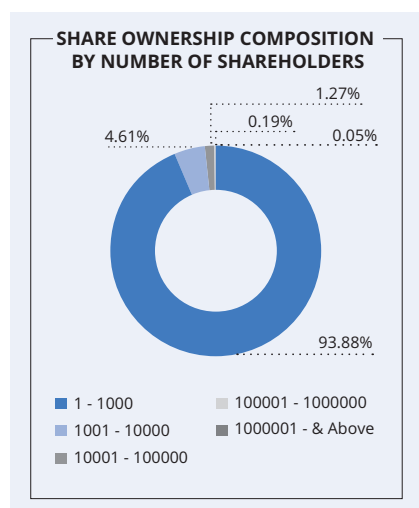
Investor Relations

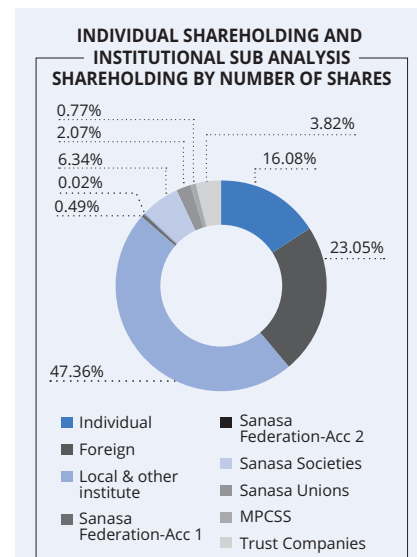
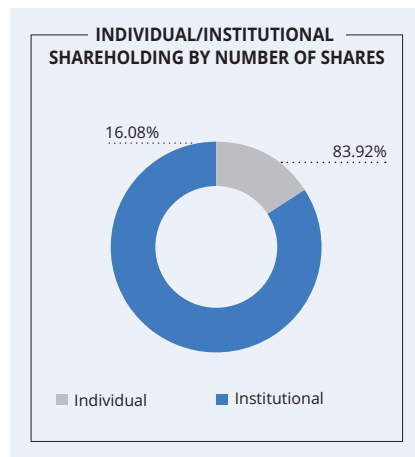
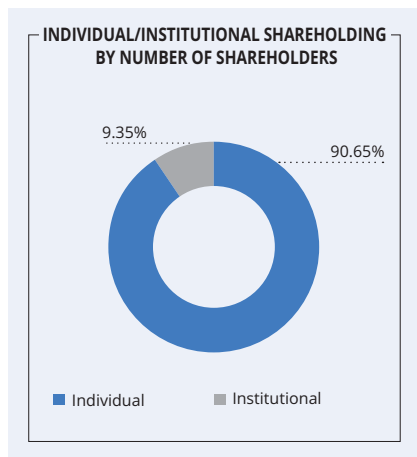
Individual/ Institutional

	31 December 2021				31 December 2020			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Individual	35,340	90.65	25,838,048	16.08	35,232	90.68	21,038,441	22.97
Institutional	3,646	9.35	134,860,784	83.92	3,621	9.32	70,537,591	77.03
Total	38,986	100.00	160,698,832	100.00	38,853	100.00	91,576,032	100.00

Institutional sub analysis

	31 December 2021				31 December 2020			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Foreign	5	0.013	37,040,674	23.05	3	0.008	17,457,384	19.06
Local and other institutions	73	0.187	76,112,080	47.36	56	0.144	33,993,892	37.12
Sanasa federation								
Acc 1			780,970	0.49			780,970	0.85
Acc 2	1	0.003	30,846	0.02	1	0.003	30,846	0.03
Sanasa societies	3,403	8.729	10,183,736	6.34	3,401	8.754	10,077,736	11.00
Sanasa unions	35	0.090	3,321,619	2.07	34	0.088	1,946,819	2.13
MPPCS	24	0.062	1,242,737	0.77	21	0.054	169,837	0.19
Trust companies	105	0.270	6,148,122	3.82	105	0.270	6,080,107	6.64
Total	3,646	9.354	134,860,784	83.92	3,621	9.321	70,537,591	77.02





Top twenty shareholders (Amalgamated Shareholdings)

No.	Shareholder name	31 December 2021 (Amalgamated)		31 December 2020 (Amalgamated)	
		Number of shares	%	Number of shares	%
01.	ICONIC Property Twenty Three (Private) Limited	24,104,800	15.0000	-	-
02.	Nederlandse Financierings - Maatschappij Voor Ontwikkelingslanden N.V	17,609,503	10.9581	9,157,603	10.0000
03.	Ayenka Holdings (Private) Ltd.	17,604,953	10.9553	12,754,953	13.9282
04.	Belgian Investment Company for Developing Countries SA/NV	16,069,800	9.9999	-	-
05.	Senthilverl Holdings (Pvt) Ltd	14,413,060	8.9690	11,778,002	12.8615
06.	SANASA Life Insurance Company Ltd	4,624,426	2.8777	2,686,626	2.9338
07.	Alliance Finance Company PLC	3,516,310	2.1881	2,066,310	2.2564
08.	SBI Emerging Asia Financial Sector Fund PTE.LTD	2,885,618	1.7957	2,885,618	3.1511
09.	Peoples Leasing & Finance PLC/ L.P.Hapangama	2,627,722	1.6352	1,753,000	1.9143
10.	People's Leasing & Finance PLC	2,271,260	1.4134	2,271,260	2.4802
11.	Dr T Senthilverl	1,793,823	1.1163	1,958,402	2.1385
12.	Bank of Ceylon A/C Ceybank Unit Trust	1,539,241	0.9578	-	-
13.	Phoenix Ventures (Private) Ltd	1,509,200	0.9391	-	-
14.	Kegalle SANASA Shareholders Trust Company Limited	1,260,246	0.7842	1,247,746	1.3625
15.	SANASA General Insurance Company Limited	1,124,418	0.6997	1,124,418	1.2279
16.	Polgahawela SANASA Societies Union Ltd	1,014,098	0.6311	820,098	0.8955
17.	Nikawaratiya Thrift & Credit Co-operative Society Union Ltd	992,849	0.6178	2,049	0.0022
18.	Bingiriya Multi-Purpose Co-operative Society Ltd	970,900	0.6042	-	-
19.	DFCC Bank PLC / J N Lanka Holdings Company (Pvt) Ltd	959,788	0.5973	-	-
20.	SANASA Federation Limited	811,816	0.5052	811,816	0.8865
	Total	117,703,831	73.2451	51,317,901	56.0386

Note

This table contains the amalgamated total shareholding of each shareholder

Investor Relations

	31 December 2021		31 December 2020	
	No. of shares	%	No. of shares	%
Total number of shares registered	152,315,824	94.78	83,142,467	90.79
Total number of shares unregistered	8,383,008	5.22	8,433,565	9.21
Total number of shares issued	160,698,832	100.00	91,576,032	100.00
Shares held by Directors and CEO	585,749	0.37	389,737	0.42
Shares held by institutions	134,860,784	83.92	70,537,591	77.03
Balance held by public	25,252,299	15.71	20,648,704	22.55
Total number of shares issued	160,698,832	100.00	91,576,032	100
Shares held by public	142,508,130	88.68	78,431,342	85.65
Shares held by Directors, CEO and related parties	18,190,702	11.32	13,144,690	14.35
Total	160,698,832	100.00	91,576,032	100.00

Market capitalisation and minimum public holding

	31 December 2021
Market capitalisation (LKR)	6,910,049,776
Public holding percentage	88.68%
Float adjusted market capitalization	6,127,849,590
Number of shareholders representing public holding	38,978
Required minimum public holding percentage under option 4 of rule 7.13.1 (a) of the Listing Rules of the CSE	7.5%

The minimum public holding percentage of the Bank as at 31 December 2021 complied with option 4 of rule 7.13.1(a) of the Listing Rules of the CSE.

Directors' and CEO's shareholding

	31 December 2021		31 December 2020	
	No. of shares	%	No. of shares	%
Mr P Subasinghe (Director)	112,815	0.0702	112,815	0.1232
Mr P Premaratna (Director)	1500	0.0009	1,500	0.0016
Mr B R A Bandara (Director)	11,000	0.0068	11,000	0.0120
Mr J A L G Jayasinghe	2038	0.0013	-	-
Mr T Piyadigama (CEO)	458,396	0.2853	264,296	0.2886
Total	585,749	0.3645	389,611	0.4254

SHARE TRADING DETAILS

Market share trading

	2021	2020	2019	2018	2017
Number of transactions	8,131,508	3,070,021	1,197,205	885,657	981,977
Number of shares traded (Mn)	59,772	21,349	9,855	6,001	8,468
Annual turnover (LKR Mn)	1,173,157.12	396,881.51	171,407.96	200,068.84	220,591.24
Average daily turnover (LKR Mn.)	4,888.15	3,217.17	711.23	833.62	915.43

SDB Bank share trading

	2021	2020	2019	2018	2017
Number of transactions	18,546	18,746	3,065	4,392	5,981
Number of shares traded	32,484,591	32,129,795	9,548,518	11,169,042	4,830,202
Value of shares traded (LKR Mn.)	1,700.43	1,147.86	579.51	1,199.97	500.47
Average daily turnover (LKR Mn.)	7.08	5.35	2.51	5.06	2.08

MARKET CAPITALISATION DETAILS**CSE and banking industry market capitalisation**

	2021	2020	2019	2018	2017
CSE market capitalisation (LKR Bn.)	5489.16	2,960.65	2,851.31	2,839.44	2,899.29
S & P SL20 (31/12)	4,233.25	2,638.10	2,936.96	3,135.18	3,671.72
All share price index (31/12)	12,226.01	6,774.22	6,129.21	6,052.37	6,369.26
Banking, and finance and insurance sector market capitalisation (LKR Bn.)	343.54	318.89	757.32	784.24	769.97

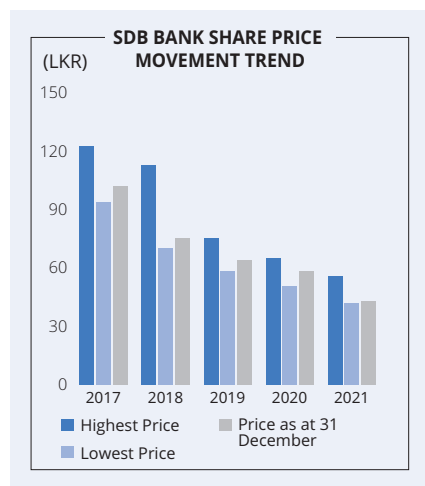
SDB Bank capitalisation

	2021	2020	2019	2018	2017
CSE market capitalisation (LKR Bn.)	5489.16	2,960.65	2,851.31	2,839.45	2,899.29
SDB Bank market capitalisation (LKR Bn.)	6.91	5.32	3.59	4.22	5.58
Increase/decrease in market capitalisation of SDB Bank (%)	29	48	(15)	(24)	28
SDB Bank market capitalisation as a % of CSE market capitalisation (%)	0.13	0.18	0.13	0.15	0.19
Market capitalisation rank of SDB Bank	115	108	117	91	83

SHARE PRICE MOVEMENT

	2021	2020	2019	2018	2017
Highest price (LKR)	68.50	65.00	75.00	112.90	122.50
Lowest price (LKR)	42.00	43.80	58.00	70.00	93.80
Price as at 31 December (LKR)	43.00	58.10	63.90	75.00	101.90

Investor Relations



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 (%)
2017	507.82	136.94	60.79	60.79	5.89
2018	356.95	-	-	-	-
2019	253.41	114.02	7.00	155.55	10.95
2020	836.29	206.05	2.25	20.36	3.87
2021 (to be paid)	909.35	241.05	1.50	19.66	3.49

Value creation to shareholders

CSE market

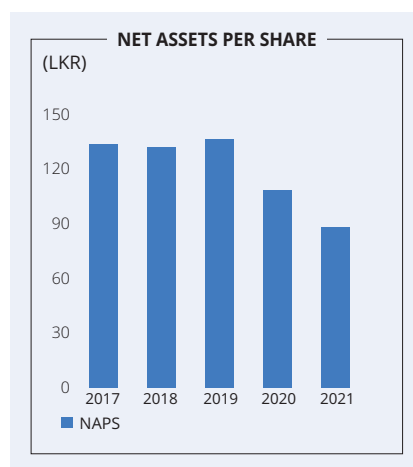
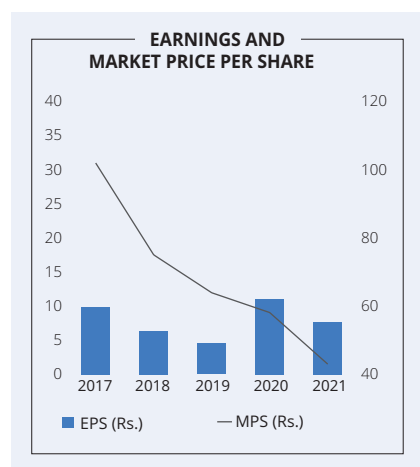
	2021	2020	2019	2018	2017
Market price-earnings ratio (PER) (Times)	13.63	11.25	10.83	9.65	10.60
Market price to book value (PBV) (Times)	1.67	1.14	1.14	1.18	1.31
Market dividend yield (DY) (%)	2.17	2.17	3.17	3.09	3.19

Banking industry

	2021	2020	2019	2018	2017
Market price-earnings ratio (PER) (Times)	4.19	5.18	5.57	5.38	6.61
Market price to book value (PBV) (Times)	0.47	0.56	0.84	0.92	1.07
Market dividend yield (DY) (%)	3.5	2.30	2.70	2.80	2.50

SDB Bank

	2021	2020	2019	2018	2017
Net asset value per share (LKR)	87.93	108.28	136.20	132.28	133.83
Basic earnings per share (LKR)	7.63	11.05	4.50	6.34	9.87
Dividend per share (LKR)	1.50	2.25	7	-	6.00
Market price per share as at 31 December (LKR)	43.00	58.10	63.90	75.00	101.90
Price-earnings ratio (PER) (Times)	5.63	5.26	14.20	11.83	10.32
Price to book value (PBV) (Times)	0.49	0.54	0.47	0.57	0.76
Dividend yield (DY) (%)	3.49	3.87	10.95	-	5.89
Dividend payout (%)	19.66	20.36	155.55	-	60.79
Number of shares (No. Mn.)	160.69	91.57	56.31	56.31	54.78
Number of shareholders	38,986	38,853	37,506	37,648	38,283
Total equity (LKR Mn.)	14,129.70	9,916.17	7,668.98	7,448.73	7,331.16
Stated capital (LKR Mn.)	11,287.76	7,727.94	5,921.54	5,921.54	5,758.69
Debt to equity (Times)	9.28	11.74	12.77	11.83	10.09
Interest cover (Times)	1.84	1.61	1.06	1.08	1.11
Return on equity (%)	7.35	9.51	3.35	4.83	7.90
Quick assets ratio (%)	0.62	0.64	0.59	0.65	0.63

**OTHER INFORMATION FOR ORDINARY SHAREHOLDERS****Record of scrip issue**

Year	New proportion	Old proportion	No. 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

Investor Relations

Record of rights issue

Year	Code	Close price LKR	Highest price LKR	Lowest price LKR	Turnover LKR	No. 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

Record of rights issue

Date of allotment	No. of shares provisionally allotted	Consideration per share LKR	Final allotment no. of shares	Amount raised LKR	Proportion	Date issued
18 November 2014	12,587,661	80.00	12,587,661	1,007,012,880	1:2	30 December 2014
30 November 2020	30,525,344	50.00	30,525,344	1,526,267,200	1:2	4 December 2020

Utilisation of funds raised through rights issue - 2014

Objective No.	Objective as per circular	Amount allocated as per circular in LKR	Proposed date of utilisation as per circular	Amount allocated from proceeds in LKR	% of total proceeds	Amounts utilised in LKR	% 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	Nine months from the date of allotment	1,007,012,880	100	1,007,012,880	100

Utilization of funds raised through Rights Issue - December 2020

Objective No.	Objective as per Circular	Amount allocated as per Circular in LKR	Proposed date of utilization as per Circular	Amount allocated from proceeds in LKR	% of total proceeds	Amounts utilized in LKR	% utilization against allocation
1	To further strengthen the equity base of the Bank and thereby improve the Capital Adequacy	1,526,267,200.00	-	1,526,267,200.00	100	1,526,267,200.00	100
2	To part finance the growth in the loan portfolio of the Bank	1,526,267,200.00	Before the end of Second Quarter of Financial Year 2021	1,526,267,200.00	100	1,526,267,200.00	100

Record of Secondary Public Offer (SPO)

Secondary Public Offer (SPO) of Ordinary Shares in August 2021

Rights Issue/Secondary Public Offer	Consideration per share (LKR)	Final allotment (No. of shares)	Amount raised (LKR)	Date listed
SPO	51.50	69,122,800	3,559,824,200	25 August 2021

Utilization of funds raised through SPO - August 2021

Objective No.	Objective as per Prospectus	Amount allocated as per Prospectus in LKR	Proposed date of utilization as per Prospectus	Amount allocated from proceeds in LKR	% of total proceeds	Amounts utilized in LKR	% utilization against allocation
1	Further strengthen the Equity Base of the Bank and thereby improve Tier I Capital Adequacy requirements stipulated under Basel III guidelines of the Central Bank of Sri Lanka (CBSL).	4,532,000,000	Upon the allotment of new shares	3,559,824,200	100	3,559,824,200	100
2	Part finance the growth in the loan portfolio of the Bank.	4,532,000,000	Before the end of FY 2022 based on the anticipated demand for credit.	3,559,824,200	100	3,559,824,200	100

Investor Relations

VALUE CREATION FOR DEBENTURE HOLDERS

Basic information of the debentures

	Type B	Type D
Tenure	5 years	5 years
Issue date	31.12. 2015	31.12. 2015
Maturity date	31.12. 2020	31.12. 2020
Frequency of interest payable	Semi-annual	Semi-annual
Market value	Not traded	Not traded

Other information of the debentures

	2021				2020			
	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
Type D	-	-	-	-	591,049	10.30	10.57	6.65

The debenture value presented as at 31 December 2020 was matured and fully paid off on 3 January 2021.

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	% of total proceeds	Amounts utilised in LKR	% 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	In the ordinary course business within the next 12 months from the date of allotment	868,104,000 for loans and 96,456,000 for leasing	100	964,560,000	100

Abbreviations

A		C		E	
AC	Air Conditioner	CAR	Capital Adequacy Ratio	ESC	Economic Service Charges
ACA	Chartered Accountant	CASL	Chartered Accountants of Sri Lanka (ICASL)	ESOP	Employee Share Option Plan
ADB	Asian Development Bank	CBSL	Central Bank of Sri Lanka	ESG	Environmental, Social, and Governance
AFS	Available for Sale	CCB	Capital Conservation Buffer	ETF	Employees' Trust Fund
AGM	Assistant General Manager/ Annual General Meeting (as appropriate)	CEO	Chief Executive Officer	EUR	Euro
ALCO	Assets and Liability Management Committee	CET 1	Common Equity Tier I	EVA	Economic Value Addition
AML	Anti-Money Laundering	CFO	Chief Financial Officer	EWS	Early Warning Signals
AT I	Additional Tier I	CO2e	Carbon Dioxide Equivalent, is a standard unit for measuring carbon footprints	F	
ATM	Automated Teller Machine	CRIB	Credit Information Bureau of Sri Lanka	FSVAT	Financial Services Value Added Tax
AWPLR	Average Weighted Prime Lending Rate	CRMU	Credit Risk Management Unit	FMO	Financierings – Maatschappij Voor Ontwikkelingslanden N.V.
B		CRRF	Credit Risk Review Function	G	
BAC	Board Audit Committee	CSE	Colombo Stock Exchange	GDP	Gross Domestic Product
BCP	Business Continuity Plan	CSR	Corporate Social Responsibility	GHG	Green House Gas
BIA	Business Impact Analysis	CA	Chartered Accountants	GL	General Ledger
BIRMC	Board Integrated Risk Management Committee	CAGR	Compound Annual Growth Rate	GRI	Global Reporting Initiative
BIS	Bank for International Settlements	D		H	
BIO	Belgian Investment Company for Developing Countries NV/SA	DFI	Development Financial Institutions	HO	Head Office
Bn.	Billions	DGM	Deputy General Manager	HQLA	High Quality Liquid Assets
BNO	Bank Notes Operation	DMS	Document Management System/Delinquency Monitoring System	HR	Human Resources
BOD	Board of Directors	DPS	Dividend per Share	HRD	Human Resources Development
BRPTRC	Board Related Party Transaction Review Committee	DRP	Disaster Recovery Plan	HTM	Held to Maturity
BRC	Business Registration Certificate	DGGF	Dutch Good Growth Fund (Stichting foundsbeheer DGGF lokaal MKB)	I	
BSS	Baseline Standard	DRL	Debt Repayment Levy	IBSL	Institute of Bankers of Sri Lanka
BHRRC	Board Human Resources and Remuneration Committee	DFC	US International Development Finance Corporation	ICAAP	Internal Capital Adequacy Assessment Process
BS and NC	Board Selection and Nomination Committee	D-SIBs	Domestic Systemically Important Banks	ICASL	Institute of Chartered Accountants of Sri Lanka
BCC	Board Credit Committee	E		ICC	International Chamber of Commerce
BSP and PI	Board Strategic Plan and Implementation Committee	EAR	Earnings at Risk	ICOFR	Internal Control Over Financial Reporting
		EIR	Effective Interest Rate	ICT	Information and Communications Technology
		EPF	Employees' Provident Fund	IFA	Investment Fund Account
		EPS	Earnings per Share	IFRS	International Financial Reporting Standards
		ERM	Enterprise Risk Management		

Abbreviations

I		N		S	
IIRC	International Integrated Reporting Council	NIM	Net Interest Margin	SLAS	Sri Lanka Accounting Standards
IND	Independent Director	NPA	Non-Performing Assets	SLDB	Sri Lanka Development Bonds
IRMC	Integrated Risk Management Committee	NPL	Non-Performing Loans	SLF	Standing Lending Facility
IRMU	Integrated Risk Management Unit	O		SLFRS	Sri Lanka Financial Reporting Standards
ISMS	Information Security Management System	OBS	Off-Balance Sheet	SLIBOR	Sri Lanka Inter Bank Offered Rate
ISO	International Organization for Standardization	OCI	Other Comprehensive Income	SLIPS	Sri Lanka Interbank Payments System
IT	Information Technology	ORMU	Operational Risk Management Unit	SME	Small and Medium Enterprises
K		OTC	Over-the-Counter	SMS	Short Message Service
kg	Kilograms	P		SREP	Supervisory Review Process
km	Kilometre	p.a.	Per Annum	SWIFT	Society for Worldwide Interbank Financial Telecommunication
KMP	Key Management Personnel	P/E	Price Earnings Ratio	SBCP	Specialised Board Subcommittee Capital Planning
KPI	Key Performance Indicator	PAT	Profit After Tax	SDFR	Standing Deposit Facility Rate
KRI	Key Risk Indicators	PBT	Profit Before Tax	SLFR	Standing Lending Facility Rate
kWh	Kilowatt-hour	PD	Probability of Default	SRR	Statutory Reserve Ratio
KYC	Know Your Customer	PoS	Point of Sale	SDGs	Sustainable Development Goals
L		Q		SLBA	Sri Lanka Banks Association
LCB	Local Commercial Bank	Q&A	Question and Answer	SEO	Search engine optimization
LCR	Liquidity Coverage Ratio	R		T	
LGD	Loss Given Default	RCSA	Risk and Control Self Assessments	Tn.	Trillion
LKAS	Sri Lanka Accounting Standards	RMU	Risk Management Unit	ToR	Terms of Reference
LTV	Ratio Loan to Value Ratio	ROA	Return on Assets	TRWCR	Total Risk Weighted Capital Ratio
LIBOR	London Inter Bank offered Rate	ROCE	Return on Capital Employed	TT	Telegraphic Transfer
M		ROE	Return on Equity	V	
m3	Cubic meter	RPT	Related Party Transaction	VAR	Value at Risk
MIS	Management Information Systems	RPTRC	Related Party Transactions Review Committee	VAT	Value Added Tax
MoM	Month on Month	RSA	Rate Sensitive Assets	W	
Mn.	Millions	RSL	Rate Sensitive Liabilities	WHT	Withholding Tax
MSME	Micro, Small and Medium Scale Entrepreneur	RWA	Risk Weighted Assets	Y	
MW	Megawatt	RPA	Robotic Process Automation	YoY	Year on Year
N		S			
N/A	Not Applicable	SAFA	South Asian Federation of Accountants		
NBT	Nation Building Tax	SBU	Strategic Business Unit		
NED	Non-Executive Director	SDF	Standing Deposit Facility		
NIC	National Identity Card	SEC	Securities and Exchange Commission of Sri Lanka		
NID	Non-Independent Director	SLA	Statutory Liquid Assets		
NII	Net Interest Income	SLAR	Statutory Liquid Asset Ratio		

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.

ACCURAL 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.

BASIS POINT (BP)

One hundredth of a percentage point, i.e. 100bp equals 1%, used in quoting movements in interest rates, security yields, etc.

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.

Glossary of Terms

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**HEDGING**

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (Interest rate, Prices and Commodities, etc.

HELD-TO-MATURITY INVESTMENTS

Non derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

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.

Glossary of Terms

INDIVIDUALLY SIGNIFICANT LOAN IMPAIRMENT PROVISIONS

Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Bank. Typically assets within the corporate banking business of the Bank 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.

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.

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.

Glossary of Terms

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.

25th Annual General Meeting

AGENDA

DATE

30 May 2022

VENUE

“Board Room” SANASA Development Bank PLC,
No.12, Edmonton Road, Kirulapone, Colombo 06.

TIME

10.00am – 10.05am	Twenty-fifth Annual General Meeting call to order
10.05am – 10.10am	Notice of Meeting – Company Secretary
10.10am – 10.25am	Confirmation of the Minutes of 24th Annual General Meeting and Extraordinary General Meeting held on 28 May 2021
10.25am – 10.50am	To pass General Resolutions
10.50am – 10.55am	Address by the Chairperson
10.55am – 11.00am	Vote of Thanks – Acting 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 Specialized 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 Aug 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
E mail : comsec@sdb.lk
Web Page : 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

ACTING CHIEF EXECUTIVE OFFICER

Mr Niranjan Thangarajah

COMPLIANCE OFFICER

Ms S N T Igalagama

COMPANY SECRETARY

Ms Tamarika Rodrigo

AUDITORS

Messers 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

Mr Lakshman Abeysekera (Chairman)
Prof Sampath Amaratunge (Director)
Mr Prabhath Subasinghe (Director)
Mr S Lionel Thilakarathne (Director)
Mr Chaaminda Kumarasiri (Director)
Mr Prasanna Premaratna (Director)
Mr B R A Bandara (Director)
Ms Dinithi Ratnayake (Director)
Mr J A L G Jayasinghe (Director)
Mr Thusantha Wijemanna (Director)
Mr Sarath Nandasiri (Director)
Mr Conrad Dias (Director)
Mr Naveendra Sooriyarachchi (Director)

BOARD SUBCOMMITTEE DIRECTORS

Board Audit Committee

Mr Chaaminda Kumarasiri (Chairman-BAC)
Prof Sampath Amaratunge (Director)
Mr J A L G Jayasinghe (Director)

Board Human Resources and Remuneration Committee

Mr Thusantha Wijemanna (Chairman-BHRC)
Mr Chaaminda Kumarasiri (Director)
Mr Prasanna Premaratna (Director)
Mr J A L G Jayasinghe (Director)
Mr Naveendra Sooriyarachchi (Director)

Board Credit Committee

Mr Prasanna Premaratna (Chairman - BCC)
Mr S Lionel Thilakarathne (Director)
Ms Dinithi Ratnayake (Director)
Mr Thusantha Wijemanna (Director)
Mr Naveendra Sooriyarachchi (Director)

Board Selection and Nomination Committee

Mr Lakshman Abeysekera (Chairman - BS & NC)
Prof Sampath Amaratunge (Director)
Mr Chaaminda Kumarasiri (Director)
Ms Dinithi Ratnayake (Director)
Mr Thusantha Wijemanna (Director)

Board Integrated Risk Management Committee

Prof Sampath Amaratunge (Chairman - BIRMC)
Mr Lakshman Abeysekera (Chairman)
Mr Chaaminda Kumarasiri (Director)
Mr B R A Bandara (Director)
Mr Conrad Dias (Director)

Board Related Party Transactions Review Committee

Mr Chaaminda Kumarasiri
(Chairman - BRPTRC)
Prof Sampath Amaratunge (Director)
Mr Prasanna Premaratna (Director)

Board Strategic Planning Committee

Ms Dinithi Ratnayake (Chairperson - BSPC)
Mr Lakshman Abeysekera (Chairman)
Mr Prabhath Subasinghe (Director)
Mr Chaaminda Kumarasiri (Director)
Mr Prasanna Premaratna (Director)
Mr Conrad Dias (Director)

Board Co-operative Development Committee

Mr J A L G Jayasinghe (Chairman - BCDC)
Prof S Amaratunge (Director)
Mr S Lionel Thilakarathne (Director)
Mr Prasanna Premaratna (Director)
Mr B R A Bandara (Director)
Mr Sarath Nandasiri (Director)

Specialized Board Sub Committee - Capital Planning

Ms Dinithi Ratnayake (Chairperson - SBCP)
Mr S Lionel Thilakarathne (Director)
Mr Chaaminda Kumarasiri (Director)

Board Sub Committee on Sustainability

Ms Dinithi Ratnayake
(Chairperson - BSCS)
Mr Lakshman Abeysekera (Chairman)
Mr Chaaminda Kumarasiri (Director)
Mr Prasanna Premaratna (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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